

**CAMBODIA: SOUTHERN ECONOMIC CORRIDOR TOWNS DEVELOPMENT  
PROJECT – PILOT PROGRAM FOR CLIMATE RESILIENCE (PPCR)**

**COMMENTS MATRIX**

<b>No.</b>	<b>Comments</b>	<b>Response</b>
<b>United Kingdom</b>		
1	<p>General comment:</p> <p>Thanks so much for sending through this substantial and well written proposal. Whilst we agree that it is strong in many aspects including the detail on gender and on thorough analysis of the impacts of climate change on infrastructure and various sectors, we have some fundamental concerns we would like to raise before we can approve.</p>	<p>Thank you for your comments. We appreciate your concern and hope that the explanations provided below will adequately address these concerns and enable you to give your endorsement and approval for the project</p>
2	<p>On the reference in the ADB project document to <b><i>involuntary re-settlements</i></b>, there is little in the document we could see to explain the rationale for this or how the significant social and political risks associated with it will be mitigated. Is this planned because areas are vulnerable to climate impacts or to make way for economic expansion? Presumably the ADB has a policy on this, how is it being implemented and monitored? We understand previous re-settlement projects the ADB have been involved with in Cambodia have been associated with land disputes, what lessons have been learnt from this and how will the ADB set a positive example through this project?</p>	<p>The ADB implements an integrated safeguards policy for the environment, involuntary resettlement and indigenous people in all its projects. This Safeguard Policy Statement (SPS) is aimed to:</p> <ul style="list-style-type: none"> <li>• Avoid adverse impacts of projects on the environment and affected people, where possible;</li> <li>• Minimize, mitigate, and/or compensate for adverse project impacts on the environment and affected people when avoidance is not possible; and</li> <li>• Help borrowers/clients to strengthen their safeguard systems and develop the capacity to manage environmental and social risks.</li> </ul> <p>In the case of involuntary resettlements, Resettlement Plans (RPs) are prepared especially if subprojects will involve land acquisition and resettlement (LAR), RPs are drafted in consultation with the affected communities and are endorsed by the Interministerial Resettlement Committee and the relevant provincial government.</p> <p>In relation to this project, project information has been disclosed to affected persons throughout the project preparation and the RPs were drafted in accordance with ADB’s SPS and Cambodian laws and regulations. These documents have been published on the ADB website. A grievance redress mechanism has also been put in place for the project to help facilitate resolution of complaints regarding any project performance, if any. Internal monitoring of RP implementation by the executing agency, along with external monitoring by an independent external monitor (possibly UN-Habitat), have been integrated into the overall project cycle. No civil works will begin until the RP is successfully implemented as per the action plan.</p> <p>Example of positive resettlement experiences of ADB in Cambodia: Loan 1945-CAM: GMS Cambodia Roads Improvement project. A full resettlement plan was prepared, which included measures that significantly reduced potential adverse impacts on affected persons and a cut-off date for affected persons who were unavoidably absent</p>

No.	Comments	Response
		<p>and not identified during the Detailed Measurement Survey (DMS) to make their claims to ownership or use of land. A replacement cost study (RCS) was also undertaken to determine valuations for all affected structures, land, and other assets. Consultations with and full disclosure to affected persons and their local representatives and authorities on the potential impacts of the project, their rights and the mechanism by which they can assert their rights and address their grievances were undertaken throughout the implementation period.</p> <p>Please refer to <u>Annex 1</u> of this comments matrix for “Examples of Improvements in Institutional Capacities, Procedures and Communications for Implementing the Resettlement Program” involving the Cambodia Railway Rehabilitation Project (ADB Loan 2288).</p>
3	<p>3.1. On the risks associated with such a large <b>infrastructure programme of unsustainable management and of corruption.</b></p> <p>3.2 It seems from the document that a relatively inexperienced Ministry with low capacity, especially at the subnational level, is in charge of delivering this and it isn't clear what the arrangements are for longer term operation and maintenance of this infrastructure beyond the life of the project. Are there arrangements for this to be mainstreamed into the Governments own budget?</p> <p>3.3. The capacity building parts are a little confusing, how does the PMU relate to Ministry capacity, is the project building capacity of permanent civil servants as well as project staff?</p> <p>3.4 Large infrastructure programmes inherently carry corruption risks, whilst the ADB document outlines the procedures and regulations that will be followed these will need to be continually monitored to ensure compliance, especially as the document acknowledges that the Ministry involved is fairly inexperienced at procurement, especially at the subnational level</p>	<p>3.1. In comparison with other infrastructure subsectors like roads or railways, the investments under this project are relatively small.</p> <p>3.2 The Ministry of Public Works and Transport (MPWT) has been counterpart to numerous infrastructure projects of ADB and is one of the more experienced executing agencies in Cambodia. Since the MPWT has “deconcentrated” units at the subnational levels, it is expected that with the guidance and firm hand of the national level MPWT the project can be implemented effectively.</p> <p>Operation and maintenance is a responsibility of the MPWT, and the loan agreement will ensure that the MPWT will have budget for this. In the case of revenue-earning subprojects (solid waste management; waste water treatment), it is expected that the revenues can cover the operation and maintenance costs. Please refer to paragraph 29 of the main project document (RRP), page 7.</p> <p>3.3 The capacity building will be implemented by a separate and especially dedicated consultant team. It will strengthen capacities of the PMU and PIU staff, and other local civil servants. A detailed description of the capacity development program is available in the Project Administration Manual (PAM), pages 91-95, which is also disclosed and published by ADB.</p> <p>3.4 ADB, through its Cambodia Resident Mission (CARM) and its headquarter-based task officers, supervises all steps of the procurement process to minimize the corruption risk. Please refer to <u>Annexes 2 and 3</u> of this comments matrix for illustrations of (i) Public Financial Management Reform, and (ii) governance and anticorruption measures. The MPWT is one of the more experienced organizations in Cambodia in terms of procurement capacity. A separate procurement capacity assessment has been made which classified the overall risk levels as low.</p>

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4	<p>3.5 While the climate change analysis is extremely thorough at a detailed level in terms of analysing the impacts on infrastructure, it's not obvious how this analysis has been applied to the bigger picture of the choice of investing heavily in economic growth and population expansion in areas that are highly climate vulnerable.</p> <p>3.6 It may be that this has been considered but this issue could be brought out more clearly in the documents, given that part of the role of PPCR is to enable these larger strategic and transformational decisions to be made, and not just to climate 'proof' existing plans.</p>	<p>3.5 The choice of investments in the specific towns has been driven by their geographical and economic importance in the Southern Economic Corridor (SEC) in Cambodia. The GMS countries have decided on a strategic policy and investment program that reinforces the economic importance of these corridors, of their towns and of the hinterlands.</p> <p>The urban expansion in Neak Loeung is a positive development. The proposed flood protection measures will help the town of Neak Loeung grow through urbanization. Land value will also tend to increase once it is no longer susceptible to floods. Since the town is located on the shore of the Mekong, urban development measures need to address how to mitigate and ultimately eliminate flooding and climate impacts. In this regard, PPCR is supporting the strategic transformation of Neak Loeung, and this transformation means that it will stimulate urbanization and growth of the town beyond its current possibilities. Thus the proposed intervention is relevant beyond climate "proofing" since it increases the buildable urban land and offers new investment opportunities in land development which did not exist prior to the project.</p> <p>3.6 The above statement has been added to the Form 3, page 6.</p>
<b>Germany</b>		
1	<p><b>General comment:</b></p> <p>We would like to congratulate the Royal Government of Cambodia for presenting a very well written proposal. It draws a picture of planned interventions, which certainly have the potential to improve climate resilience and contribute to capacity building on different levels. Its selection of sectors (water supply, municipal infrastructure and services, urban sector development, waste management) and themes appears highly sensible. We particularly appreciate the program approval request making detailed statements "on cooperation / coordination", "on participation", "on gender" and "on learning", which sets this proposal apart from previous proposals. We would however encourage, as we have done a number of times before,</p>	<p>Thank you for your positive assessment. This is much appreciated.</p>

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	<p>going a step further and reflecting the good intentions outlined under these headings by corresponding indicators in the design and monitoring framework. Linked to this, we are concerned that the project may not benefit the poor to the extent intended.</p> <p><b>We have no major objections to the implementation of the project. We however would like to see our recommendations (see bold highlights below) incorporated during project implementation.</b></p>	<p>We conclude that your recommendations can be attended during project implementation.</p>
2	<p>The project document states under the heading D. Poverty and Social Analysis: “Through the implementation of the subprojects, the project will improve the living environment and health status of the urban residents, especially of the poor.” However, this is not reflected in the project indicators. This is somewhat surprising, as the indicators make very detailed statements on the number of beneficiaries. There might even be a certain risk that the non-poor will receive a distinctly higher share of benefits: one indicator reads “the impact of the subproject will be that the population will increase rapidly as the land will become attractive for building”. Land becoming attractive for building typically benefits the non-poor more than the poor.</p> <p><b>We therefore recommend including indicators that reflect the improvement of the living environment and health status of the poor. (See also the recommendation below on poverty data.)</b></p>	<p>Cambodia’s statistical information is very weak, so we will establish better indicators</p> <p>We think that the the landowners (poor and non-poor) in the Neak Loeung subproject area will benefit from a substantial increase in land value. Poorer land owners will be able to make the most of it if they pursue a joint strategy and approach to the possible commercialization and later sale of land. During project preparation this aspects of land value increase has been considered and been discussed with the residents in project area. They are conscious about the need to have a united approach in dealing with the expected land conversion from agricultural use to buildable land which is likely to happen. The current owners may sell the raw land or they may become partners in development initiatives. The subproject beneficiaries are very positive about the subproject and see very clearly its benefits.</p> <p>We will include, as suggested, additional indicators on improvement of the living environment and health status of the residents (poor and non-poor).</p>
3	<p><b>On Participation:</b></p> <p>The proposal highlights that during project formulation, various consultation workshops and activities were done with the project</p>	

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	<p>stakeholders. These include amongst others household surveys for the preparation of the Project's Poverty and Social Analysis (PSA).</p> <p>Effective poverty alleviation requires a targeted orientation of development activities towards the poor. With this goal, since 2005 the Cambodian Ministry of Planning (MOP) has developed standardised and participatory procedures for the systematic identification of poor households ("IDPoor Procedures"). It has been supported by Germany through GIZ in this matter since 2005. The overall objective of the Support to the Identification of Poor Households (IDPoor) Programme is: "The data on poor households, systematically collected under the management of the MOP and available for rural and urban areas of Cambodia, is used as the primary means for targeting beneficiaries of government and non-governmental targeted poverty alleviation interventions."</p> <p><b>These procedures and data could be used as the basis of indicators that reflect the improvement of the living environment and health status of the poor. We encourage an active cooperation between the PPCR, MOP and GIZ to ensure existing poverty monitoring data are used to the maximum extent possible as the basis for key programme indicators.</b></p>	<p>We have taken note of the MOP website:</p> <p><a href="http://www.mop.gov.kh/Projects/IDPoor/tabid/154/Default.aspx">http://www.mop.gov.kh/Projects/IDPoor/tabid/154/Default.aspx</a></p> <p>We have noted that the data is from 2004, thus a bit dated. ADB's management has suggested during the Management Review Meeting on 11 September to look for more updated information if available. We will follow your suggestion to attempt an extrapolation.</p> <p>We appreciate your suggestion to use to the maximum the available poverty baseline data.</p>
4	<p><b>On Gender:</b></p> <p>It is highly commendable that an effort has been made to reflect gender issues in the proposal. Women have been identified as particularly vulnerable to the negative impacts of climate change in Cambodia. We very much welcome the Gender Action Plan (GAP) as a priority reference document during the project implementation. However, in the design and monitoring</p>	<p>The project will have employment benefits during construction, and through new opportunities (for instance in solid waste management) which are attributable to the project. The aim of the project to involve women more in planning and decision making of the PMU and PIUs will also represent an impact attributable to the project.</p>

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	<p>framework gender is reflected only in indicators that are either not attributable to the project (“employment opportunities for women will increase ... (nationally)”), or only target project staff (“staff quota of 30% female in PMU and PIU”) and hired workers (“30% of construction workers to be hired ... female”).</p> <p>Similar to our recommendation regarding poverty indicators above, <b>we therefore recommend using more ambitious indicators with regard to gender, which measure the actual impact of the project interventions on women.</b></p>	<p>We agree with your suggestion to add indicators on measure the actual impact of project interventions on women. We assume that we can only extrapolate health benefits and reduction in water-borne diseases as gender benefits from climate resilience.</p> <p>For instance:</p> <ul style="list-style-type: none"> <li>– % of households without toilets decreased from 6.3% (2008) to 0.0% (2015)</li> <li>– % of houses with sewerage connection increased from 23% (2008) to 50% (2015)</li> <li>– % of houses with access to garbage collection increased from 58.6% (2009) to 80.0% (2015)</li> </ul>
5	<p><b>Synergies with German Climate Change Related Engagement in the Country / Region</b></p> <p>The project proposal mentions that Germany does not support urban investment programs in Cambodia. However, the German contribution to the Mekong River Commission’s (MRC’s) Flood Management and Mitigation Programme (FMMP), implemented by GIZ, and GIZ’s work on integrating flood risk reduction measures into formal local government development plans have generated a wealth of data and tools on flood risk management, ready to be taken up and developed further by the PPCR. Germany is also supporting MRC’s Climate Change and Adaptation Initiative (CCAI) through GIZ, continuing to some extent to provide advisory services related to flood management.</p> <p>In addition to the support provided to MRC, GIZ has implemented or is still implementing a wide range of projects and activities deemed necessary to prevent and manage floods, especially in cities. Examples in Asia are: early warning on flooding</p>	<p>We appreciate your information on other GIZ projects, and will modify the reference in Form 3 and in the Linked document accordingly:</p> <p>The German contribution to the Mekong River Commission’s (MRC’s) Flood Management and Mitigation Programme (FMMP), implemented by GIZ, and GIZ’s work on integrating flood risk reduction measures into formal local government development plans have generated a wealth of data and tools on flood risk management, ready to be taken up and developed further by the PPCR. Germany is also supporting MRC’s Climate Change and Adaptation Initiative (CCAI) through GIZ, continuing to some extent to provide advisory services related to flood management.</p> <p>In addition to the support provided to MRC, GIZ has implemented or is still implementing a wide range of projects and activities deemed necessary to prevent and manage floods, especially in cities. Examples in Asia are: early warning on flooding in regional cities in Leyte, Philippines; flood management in Mindanao, Philippines; participatory flood prevention and management in Chennai, India; study on innovative risk reduction and management for business continuity in Bangkok (2011). Furthermore, GIZ is developing and implementing concepts and tools (e.g. risk analysis, climate sensitive urban planning) aiming at disaster and climate resilient cities.</p> <p>During project implementation the EA will explore synergies with the German supported projects, which are implemented by GIZ.</p>

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	<p>in regional cities in Leyte, Philippines; flood management in Mindanao, Philippines; participatory flood prevention and management in Chennai, India; study on innovative risk reduction and management for business continuity in Bangkok (2011). Furthermore, GIZ is developing and implementing concepts and tools (e.g. risk analysis, climate sensitive urban planning) aiming at disaster and climate resilient cities.</p> <p><b>We recommend exploring synergies with the German supported projects, which are implemented by GIZ. GIZ will be happy to offer a conceptual exchange on experiences made in implementing those projects.</b></p>	<p>We appreciate GIZ's offer to assist the project team during project implementation through knowledge sharing of relevant experiences from other projects.</p>
<b>Japan</b>		
1	<p>During the construction stage of the project, there will be on-going projects funded by other donors in each area. Please have consultations with other donors in order to avoid duplication and overlapping as well as to promote smooth implementation of the each project.</p>	<p>Thank you for pointing this out. The project team has undertaken intensive donor consultations during project preparation, and has learnt that no other donor was undertaking similar initiatives. It is intended to maintain such donor consultation also during the ensuing implementation phase.</p>
<b>USA</b>		
1	<p>1.1 We appreciate the work the Government of Cambodia and the ADB are undertaking to improve coordination among entities working on development on the ground in Cambodia. Specifically, coordination with UFPF and the work to develop capacity of local entities to further the sustainability of the project seem like very worthwhile efforts.</p> <p>1.2 In the summary climate resilience measures report, figures 3&amp;4 are helpful to break out which elements are the base projects and how the projects are adjusted to account for climate change. Thank you for including those.</p> <p>1.3 It is unclear, however, what the cost estimates for ongoing operation and maintenance of the projects are</p>	<p>1.1 ADB has tried to pool funds from various sources.</p> <p>1.2 The investment figures do contain annual operation and maintenance (O&amp;M) costs. The feasibility studies have a table for estimated annual O&amp;M which provides some details like O&amp;M for subcomponents like earthworks, buildings, WWTP, pump stations, etc. The percentage varies between 2% to 5% while in others, unit costs are used. The financial sustainability analysis specifies that the Government needs to commit to allot annual budget for O&amp;M.</p> <p>1.3 The loan covenants contain specifically the provision that the executing agency will be responsible for O&amp;M costs, and that it will work with the local authorities to maximize revenue collection from</p>

<b>No.</b>	<b>Comments</b>	<b>Response</b>
	<p>and whether the Provincial Department of Public Works and Transport and the Municipalities are prepared to integrate these costs into their budgets.</p> <p>1.4 We are prepared to support the project so long as clarity is provided subsequently on this question.</p>	<p>revenue earning subprojects to pay for O&amp;M.</p> <p>1.4 ADB will appreciate your support.</p>



## Annex 1

### Examples of Improvements in Institutional Capacities, Procedures and Communications for Implementing the Resettlement Program

#### Loan 2288-CAM: Railway Rehabilitation Project

##### Consultation & Disclosure Process

- IRC and local authorities now have stronger institutional capacities and know-how to carry out consultation and disclosure in a more participatory and transparent manner.
- Apart from the usual information leaflets disseminated to the AHs, more user-friendly posters in local language have been produced.
- More meetings are being conducted at household level or through small groups as compared to the common practice of holding large public meetings.
- For Affected Households (AHs) who refused to sign the contract (which relates to compensation payment), they were not provided a copy of the proposed contract. In 2011, it has been agreed that the AHs who refuse to sign their contract will now get a copy of the proposed contract for their reference. Also, AHs are being informed that they may later follow up with the IRC should they decide to sign the contract and about the grievance procedure should the AHs confirm that they do not want to sign the contract.
- A draft communication strategy for the Inter-Ministerial Resettlement Committee (IRC) has been prepared which aims to improve the internal and external communications (i.e., selected IRC communication focal point, trained IRC members to respond to public and media inquiries, IRC producing AH-friendly information materials and posters for dissemination, and an improved IRC webpage).

##### Grievance Procedures

- IRC and local authorities now have stronger institutional capacities and know-how to handle grievances.
- IRC and local officials now have more familiarity with ADB's safeguards policy and a grievance registry has been set up for proper recording and monitoring. Access to grievance redress is more accessible to AHs. The grievance redress mechanism is now functional and responsive to complaints and requests from AHs<sup>1</sup>.
- Posters and training pamphlets are now available and accessible to local authorities for guidance and reference.

##### Income Restoration

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<sup>1</sup> As of 29 February 2012, a total of 104 letters<sup>1</sup> were received from 501 households affected by the Project and other households affected by the Boueng Kak Lake Development. About 78% of the complaints/requests have been responded to. Many of these are outside the scope of the Resettlement Plan, including (i) households requesting for more compensation beyond replacement cost (e.g. \$8,000 to build a new house); (ii) a plot of land in cases of those who are partially affected or not affected and are not entitled; and (iii) requests for compensation from households affected by the Boueng Kak Lake development which is not within the project's corridor of impact—and these cases are considered by IRC as closed. These cases were only closed when all issues raised were responded to by the government's resettlement committee, and only after these households had either accepted the decision, or chosen not to respond within 30 days after receiving the resettlement committee's response.

- There is now a clearer understanding and greater appreciation of the need for a suitable and sustainable Income restoration program for the affected households
- The income restoration program has been expanded and the Enhanced Income Restoration Program (EIRP) will provide AHs training in financial management and support community development and livelihood activities.
- IRC has provided unallocated land for home gardening and livestock raising in Sihanoukville at no cost to AHs to support the EIRP.
- A qualified EIRP coordinator and community development expert is now on board. Twelve self-help groups have been formed in the relocation sites, and more will be formed as part of the program. More community development experts will be mobilized.

### **Project Monitoring and Coordination**

- Progress of resettlement activities and outstanding issues are now discussed on a regular basis through conduct of monthly meetings (IRC, ADB, AusAID, MPWT).
- A Relocation Site Photomapping and Tracking System has been set up to (i) closely monitor physical relocation/movement of households, (ii) identify changes in socio-economic conditions during transition period, and (iii) identify poorest and vulnerable households requiring special assistance.
- On the provision of basic services in the relocation site, IRC has improved its coordination with other ministries such as the Ministry of Agriculture and Rural Development to install community water pond in the Battambang relocation site, and Electricite de Cambodge on the installation of electricity connection in Sihanoukville.

## Annex 2

### Briefing on Public Financial Management Reform

#### I. Background

1. The Public Financial Management (PFM) system is being developed, but is still inadequate to achieve accountability in public expenditures. The Royal Government of Cambodia launched a comprehensive Public Financial Management Reform Program (PFMRP)<sup>2</sup> in 2004. It is a multi-platform reform program to be completed by 2015. Each platform builds on achievements and outcomes from the previous ones. Platform 1 aimed to achieve credibility of budget. Platform 2 aims to increase financial accountability. Platform 3 will align budget and policy priorities, and Platform 4 will increase effective program performance accountability. Good progress has been made in budget preparation and execution, revenue performance and forecasting, harmonized budget classification and chart of accounts, better cash management, and an introduction of a Medium Term Expenditure Framework (MTEF) under Platform 1. Payment arrears were eliminated under Platform 1 and these have not resurfaced.

2. Platform 2, which was launched in 2008, has made gradual gains in strengthening financial management and accounting systems, internal control and accountability systems, and internal audit capacity in government line ministries.

3. The procurement assessment, drawing on procurement diagnostic studies, indicates limited recent progress. Significant domestically financed procurements occur through non-competitive and informal procedures. While the Public Procurement Law (January 2012) and an Anti-Corruption Law (2010) strengthen sanctions, but these laws have just been adopted. The risk remains if these laws are not strictly applied. To date, the government's SOPs, Procurement Manual, and Financial Management Manual for Externally Assisted Projects have been applied for the ADB financed projects.

4. There has also been gradual progress in strengthening capacity of the National Audit Authority (NAA), which was established in 2002 following the adoption of the Law on Audit in 2000 (with support from an ADB TA). The implementation of the financial management information system (FMIS), which is to focus on the national treasury, will be critical for the remaining period of Platform 2. The FMIS is expected to improve budget management, accuracy and transparency in budget transactions, lines of accountability, and the use of government systems.

5. The PFM system affects the governance environment fundamentally. It provides the foundation for efficient and effective use of limited public resources, promotes transparency and accountability in public spending, and provides links between the development strategy and policy with budgetary allocations to achieve socioeconomic objectives.

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<sup>2</sup> Royal Government of Cambodia. *Public Financial Management Reform Program—Strengthening Governance Through Enhanced Public Financial Management*. Phnom Penh. 2004.

II. ADB Support

A. Grant 0133-CAM: Public Financial Management for Rural Development Program, (Subprogram 1)

<b>Grant No.</b>	0133
<b>Grant Title</b>	CAM: Public Financial Management for Rural Development Program (Subprogram 1)
<b>Date of Approval</b>	04 December 2008
<b>Orig. Closing Date</b>	30 September 2012
<b>Current Closing Date</b>	30 December 2012
<b>Description</b>	<p>The Project supports the rolling out of the PFMRP Platform 2 to rural development ministries<sup>3</sup>.</p> <p>The Project has four major components:  <b>Component 1:</b> Improve PFM capacity in rural development sector ministries.  <b>Component 2:</b> Strengthen internal audit in the Ministry of Economy and Finance (MEF) and rural sector development ministries.  <b>Component 3:</b> Strengthen debt management capacity within MEF.  <b>Component 4:</b> Strengthen effectiveness of the National Audit Authority (NAA), especially in the area of externally aided projects.</p>
<b>Achievements</b>	See below.

B. Loan 2674(SF)/G0221/G0222: Public Financial Management for Rural Development Program (Subprogram 2)

<b>Loan No.</b>	Loan 2674(SF)/G0221/G0222
<b>Loan Title</b>	Public Financial Management for Rural Dev Program (Subprogram 2)
<b>Date of Approval</b>	30 September 2010
<b>Orig. Closing Date</b>	30 September 2014
<b>Current Closing Date</b>	
<b>Description</b>	<p>The Program's objective is to support the rolling out of PFMRP Platform 2's activities to the three rural development ministries.</p> <p>The Subprogram 2 builds on the initial gains under the Subprogram 1. Subprogram 2 has similar components as Subprogram 1, except it has added a new component to improve efficiency and effectiveness in the public sector reform.</p> <p><b>Implementation of PFMRDP 2 has just started in early 2012. It has been delegated to CARM effective on 2 July 2012.</b></p>
<b>Accumulated Progress: PFMRDP 1 and PFMRDP 2</b>	<p><b>Strengthening public expenditure accountability through establishment of audit institutions and processes</b></p> <p>Since 2009, ADB has been supporting institutional development for the NAA and internal audits, including internal audits in the Ministry of Economy and Finance; and the three rural development ministries (MAFF; Ministry of Rural Development; and Ministry of Water Resources</p>

<sup>3</sup> Ministries of Agriculture, Forestry and Fisheries; Rural Development; and Water Resources and Meteorology.

and Meteorology) under the ADB financed Public Financial Management for Rural Development Programs, Sub-programs 1 and 2 (PFMRDP 1 and PFMRDP 2).

**Strengthening procurement and financial management system for management of externally assisted projects/programs:** The ADB has supported the preparation of a Procurement Manual, which is an associated document of the Standard Operating Procedures (SOPs) and the Financial Management Manual for Externally Assisted Projects, which were issued by a government's Sub-decree in 2005. Further, the ADB assisted in updating the SOPs and these associated documents which were approved by a government Sub-decree (May 2012).

**Strengthening public debt management:** ADB has supported the Ministry of Economy and Finance's Department for Investment and Cooperation in public debt management. Key achievements include adoptions of a Sub-decree on Public Debt Management (2011), and a Medium Term Debt Management Strategy 2011-2018. On-going support includes the implementation of a Debt Management and Financial Analysis System (DMFAS) of the United Nations Conference on Trade and Development (UNCTAD), and capacity development for debt management focused on analysis and risk management function.

**On-going support to further deepen the accountability framework through strengthening of country system:** The PFMRDP 1 trained over 2,600 government staff on financial management including on accounting, financial reporting, international accounting standard, and on internal and external audits.

**The on-going PFMRDP 2** is supporting the PFM system development in MEF (procurement, internal audit, and public debt management) and three rural development ministries; procurement; internal and external audits; debt management; monitoring and evaluation; and capacity building for civil servants.

**Strengthening capacity for management for development results (MfDR):** For the Royal Government of Cambodia to advance its efforts in MfDR, the ADB has supported the followings:

- design a M&E system for an agriculture sector, which included an operating manual;
- trained officials from rural development ministries on MfRD;
- supported government's officials' participation in the Regional Meetings on MfDR; and
- promoted MfDR in the sectors where ADB has been active.

ADB will continue to assist in developing and deepening M&E system and framework for rural development ministries to monitor the implementation of planning documents and sector development plans.

## Annex 3

### CAMBODIA BRIEF ON GOVERNANCE AND ANTI-CORRUPTION INITIATIVES

ADB Cambodia Resident Mission  
24 August 2012

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- 1. Background.** Cambodia's history indicates extended periods of conflict followed by the recent emergence of a state with fragile democratic and governance underpinnings. Efforts at governance reform have not always been matched with adequate political backup and resources, resulting in reforms that are slow and somewhat lacking in coherence. Despite continuing weak revenue-raising ability of the government and consequent high dependency on external funding, Cambodia has experienced strong economic growth and poverty reduction for most of the past decade. However, the private sector continues to rank "corruption" as the principal concern in Cambodia's business environment.
- 2. Government policy and strategy.** The Royal Government of Cambodia's (RGC) Rectangular Strategy and successive Socio-Economic Development Plans- the National Strategic Development Plan (NSDP) 2006–2010 and NSDP Update 2009-2013- have underlined the need to improve the governance environment through effective implementation of the Governance Action Plan (GAP) I and II.<sup>4</sup> GAP I and II stress five cross-cutting reform areas: (i) public administrative reform and anti-corruption; (ii) legal and judicial reform; (iii) decentralization, de-concentration and police affairs; (iv) economic and finance reform; (v) social development (including poverty reduction, food security, education, health, rural development); and (iv) reforms in three sectors: armed force reform; land policy; natural resource management.
- 3. Accountability mechanisms.** The RGC has made major progress toward establishing accountability and oversight mechanisms. The Law on Audit was adopted in 2000 and the National Audit Authority (NAA) was set up in 2002 as the supreme audit institution in Cambodia. The NAA audits public accounts annually. Internal audit departments have been established in 26 line ministries/agencies and are producing audit reports. The gradual development of internal and external auditing capacity has contributed to enhance budgetary accountability.
- 4.** The adoption of the new Criminal Code in late 2009 paved the way for the promulgation of the Anti-Corruption Law in 2010. The Anti-Corruption Unit (ACU) has been established under the Anti-Corruption Law and is partially operational. The ACU has had some initial successes: a number of senior officials have been arrested and prosecuted, including court officials and police officers. In addition, most senior government and elected officials have declared their assets.
- 5.** A Law on Access to Public Information is under preparation and considerable efforts have been made to get citizens involved in local service delivery and to participate in policy deliberations. A law guaranteeing press freedom has been adopted,

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<sup>4</sup> In 2001, the Royal Government of Cambodia approved a Governance Action Plan (GAP I) to promote multi- and cross-sectoral governance reforms and on the basis of experience gained, GAP II 2005 was formulated and is under implementation.

and the media regularly reports incidents of corruption and other public policy issues. The institutions working as corruption watchdogs such as the ACU, the NAA, the Ministry of National Assembly-Senate Relations and Inspection (MONASRI) have been strengthened.

6. Cambodia joined the Asian Development Bank-Organization for Economic Cooperation and Development (ADB-OECD) Anti-Corruption Initiative and Action Plan for Asia and the Pacific in 2003. It has adopted the United Nations Convention Against Corruption (UNCAC), and is a signatory to the MOU on Preventing and Combating Corruption.

7. **Procurement.** The Public Procurement Law (January 2012) and the Anti-Corruption Law (2010) strengthen sanctions, but these laws have just been adopted. Nevertheless, these laws provide good prospects of tangible progress in procurement practices during the next few years. In addition, the RGC's Standard Operating Procedures (SOPs), Procurement Manual (PM), and Financial Management Manual for Externally Assisted Projects have been applied to projects financed by ADB and the World Bank. These have recently been updated under ADB support and have been applied to include all externally-financed projects in future.

8. **Recent progress.** Cambodia has made good progress in reforms in public financial management (PFM) – from a low base – to put in place an accountability framework for public expenditures, and in the Deconcentration and Decentralization (D&D) reforms to further strengthen the effectiveness of coordination between the central and sub-national levels, promote local democratic development and improve public service delivery. Some achievements have also been made in the implementation of public administrative reform, but further development is required in areas relating to public service delivery, human resources management, capacity development and compensation reform. Legal and judicial reform is also being implemented, but there is concern at the speed and depth of this reform.

9. A Survey of Public Opinion by the **International Republican Institute** (November-December 2011) indicated that 15% respondents believed that all government officials are corrupt, 28% believed that most officials are corrupt, while 29% believed that almost no officials are corrupt. The survey also indicated that 45% believed that the government is committed to cracking down on corruption and eliminating bribery, while 42% indicated that the government is somewhat committed to addressing corruption related issues.

10. **A Survey on Corruption and Cambodian Households**, which was carried out in 2010 by PACT (an international advocacy NGO) indicated that almost 70% of the respondents (up from less than 30% in 2005) believed that the government is committed to addressing corruption.

11. **CPA Historical Scores.** The most comprehensive picture of the status of governance in Cambodia undertaken by ADB on a regular annual basis is the Country Performance Assessment (CPA), which supports the results-based allocation of ADF resources and informs the debt sustainability analysis. Cluster D on public sector management and institutions (criteria 12 to 16) covers the key indicators relating to governance. The table shows a steady improvement in the overall score of this cluster from 2.8 in 2005 to 3.8 in 2011. In particular, improvements have been observed in the

following key indicators: the legal basis for secure property and contract rights (from 2.5 to 3.0); the predictability, transparency, and impartiality of laws (from 2.5 to 3.5); a comprehensive and credible budget (from 3.0 to 4.5); effective financial management systems (from 3.0 to 4.5); merit and ethics in public administration (from 2.0 to 3.5); the accountability of the executive to oversight institutions and of public employees for their performance (from 2.0 to 4.0); and state capture by narrow vested interests (from 2.0 to 3.5).

Country Performance Assessment Rating Sheet - Governance							
2005-2011							
Critical/Key Indicators	2005	2006	2007	2008	2009	2010	2011
<b>D. Public Sector Management and Institutions</b>	<b>2.8</b>	<b>2.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>
<b>12. Property Rights and Rule-based Governance (20.0%)</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>3.0</b>	<b>3.5</b>	<b>3.5</b>
a. Legal basis for secure property and contract rights (33.3%)	2.5	2.0	2.0	2.0	3.0	3.0	3.0
b. Predictability, transparency, and impartiality of laws and regulations affecting economic activity, and their enforcement by the legal and judicial system (33.3%)	2.5	2.5	2.5	2.5	3.0	3.5	3.5
c. Crime and violence as an impediment to economic activity (33.3%)	3.0	2.5	2.5	2.5	3.0	3.5	3.5
<b>13. Quality of Budgetary and Financial Management (20%)</b>	<b>3.0</b>	<b>3.0</b>	<b>3.5</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
a. Comprehensive and credible budget, linked to policy priorities (33.3%)	3.0	3.5	3.5	4.0	4.0	4.0	4.5
b. Effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way (33.3%)	3.0	3.5	3.5	4.0	4.0	4.0	4.5
c. Timely and accurate accounting and fiscal reporting, including timely and audited public accounts and effective arrangements for follow up (33.3%)	2.5	2.5	3.5	3.5	3.5	3.5	3.5
<b>14. Efficiency of Revenue Mobilization (20.0%)</b>	<b>3.5</b>	<b>3.5</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
a. Tax policy (50.0%)	3.5	3.5	4.0	4.0	4.0	4.0	4.0
b. Tax administration (50.0%)	3.0	3.5	3.5	3.5	4.0	4.0	4.0
<b>15. Quality of Public Administration (20%)</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>3.0</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>
a. Policy coordination and responsiveness (25.0%)	3.0	3.0	3.0	3.5	3.5	3.5	4.0
b. Service delivery and operational efficiency (25.0%)	2.0	2.0	2.0	2.5	3.5	4.0	4.0
c. Merit and ethics (25.0%)	2.0	2.0	2.0	2.5	3.0	3.5	3.5
d. Pay adequacy and management of the wage bill (25.0%)	2.5	2.5	2.5	3.0	3.0	3.0	3.0
<b>16. Transparency, Accountability, and Corruption in the Public Sector</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>3.0</b>	<b>3.0</b>	<b>3.5</b>	<b>4.0</b>
a. Accountability of the executive to oversight institutions and of public employees for their performance (33.3%)	2.0	2.0	2.0	3.0	3.0	3.5	4.0
b. Access of civil society to information on public affairs (33.3%)	3.5	3.0	3.0	3.0	3.5	3.5	4.0
c. State capture by narrow vested interests (33.3%)	2.0	2.5	2.5	3.0	3.0	3.5	3.5

Source: ADB calculations

12. **Recent and on-going ADB governance support.** ADB has promoted good governance in Cambodia since the resumption of operations in the early 1990s through support for legal and institutional development, procurement, auditing, budgeting, financial management and accounting, economic policy and development management, and project management capacities. ADB has supported:

- (i) implementation of the Government's PFM reform program through the **PFM for Rural Development Program Cluster** (subprogram 1, 2008; and subprogram 2, 2010) by fostering greater accountability in public expenditures in rural development ministries (budget preparation and execution, accounting, financial management and reporting, internal control and audit, and procurement), capacity building for debt management (development of legal framework and strategy for public debt management) and institutional development of the NAA;



- (ii) D&D to promote local democratic development and accountability for public service delivery, through two **Commune Council Development Projects**, and an ongoing **technical assistance (TA) to support functional reassignments and fiscal decentralization**, which are major components of the National Program for Sub-National Democratic Development, 2009-2019 and its 3-year Implementation Plan 2011-2013;
- (iii) economic and financial governance through TAs on capacity development for economic policy and development management,<sup>5</sup> and financial sector governance<sup>6</sup> through the implementation of economic policy and financial sector reforms;
- (iv) introduction of the Good Governance Frameworks (GGFs)<sup>7</sup> to promote accountability at the project level, and promotion of stakeholders' vigilance through grievance redress mechanisms, tightening project procurement,<sup>8</sup> monitoring and evaluation, and conducting joint OAI<sup>9</sup> and NAA investigations of irregularities in ADB financed projects; and
- (v) implementation of the Law on Commercial Disputes through training to support the formation of the National Arbitration Center to mediate commercial disputes.

13. ADB carried out a governance risk assessment in the rural development sector in 2007<sup>10</sup>, focused on PFM, procurement and anti-corruption risks. A similar assessment was also carried out for the water resources sector.<sup>11</sup> These assessments resulted in the adoption of GGFs in all ADB projects and programs in Cambodia since 2007.

14. **Governance in the CPS 2011-2013.** The CPS 2011-2013 identifies governance as a critical driver of change, stating explicitly that: *“The CPS will give priority to governance activities needed to improve efficiency in public service delivery. In addition to the public sector management interventions, ADB plans to support the Law on Anti-Corruption by strengthening the capacity of the newly established Anti-Corruption Unit to carry out its mandate under the law. ADB will improve sector governance by strengthening PFM capacity, aligning with emerging D&D systems, and providing institutional development.*

15. *Risk mitigation measures will be introduced for all ADB-financed projects consistent with ADB’s Second Governance and Anticorruption Action Plan (2006) and its implementation guidelines”.*<sup>12</sup>

<sup>5</sup> TA 7226: (CAM) *Technical Assistance to Cambodia for Capacity Development for National Economic Policy Analysis and Development Management Phase 3* approved on 12 January 2009 for \$150,000 TASF and \$500,000 from the PRC Regional Cooperation and Poverty Reduction Fund.

<sup>6</sup> ADB. 2011. *Report and Recommendation to the President to the Board of Directors on a Proposed Policy-based Lending and Technical Assistance Grant to the Kingdom of Cambodia: Third Financial Sector Program (Programmatic Approach)– Subprogram 1.* Manila.

<sup>7</sup> Good governance frameworks were introduced to ADB financed projects in Cambodia in 2007 to mitigate fiduciary risks in financial management and internal control, procurement, complaints and remedies mechanisms, and sanctions. ADB has reviewed lessons learned to ensure high standards of governance during project implementation, and plans to replace GGFs with sector and project Risk Assessments and Risk Management Plans aligned with the GACAP II framework.

<sup>8</sup> Including updating the Government’s Standard Operating Procedures (SOPs), and its associated Procurement Manual, and Financial Management Manual for externally financed projects.

<sup>9</sup> Office of Anti-Corruption and Integrity, ADB.

<sup>10</sup> ADB. 2007. *Governance Risk Assessment: Cambodia: Ministry of Rural Development.* Manila.

<sup>11</sup> ADB. 2007. *Governance Risk Assessment: Cambodia: Ministry of Water Resources and Meteorology.* Manila.

<sup>12</sup> ADB. 2011. *Cambodia Country Partnership Strategy, 2011-2013.* Manila.

16. In line with the Guidelines for Implementing the Second Governance and Anti-Corruption Action Plan (GACAP II),<sup>13</sup> ADB, in close collaboration and consultation with the government, carried out a Country Governance Risk Assessment and Risk Management Plan (RAMP)<sup>14</sup> to provide inputs into the CPS 2011-2013. As a follow up to this country level RAMP and in line with the cascading approach of GACAP II, sector and project level RAMPs have been initiated for the education sector.<sup>15</sup> A RAMP will shortly be carried out for the transport sector. All ADB financed projects/programs have included the good governance frameworks/RAMPs since 2007.

17. **Promoting governance of PPPs.** The Cambodia CPS 2011-2013 confirms ADB's commitment to advancing public-private partnerships (PPPs) in Cambodia. A small-scale policy and advisory technical assistance (S-PATA) is presently being implemented to: (i) advise the Government on improving the PPP policy, legal and regulatory enabling environment; (ii) strengthen public sector institutional capacity to develop and catalyze pilot PPPs; and (iii) help establish a Project Development Facility (PDF) to help the Government to prepare competitively-bid, bankable PPP pilot projects. It is clear that the weak governance environment has constrained the development of transparent and effective PPPs in Cambodia, and a clear policy, legal and regulatory framework and the strengthening of institutional capacity within government agencies would help address this constraint and greatly enhance governance in the PPP arena.

18. **Future ADB Support.** ADB will continue to promote governance reform through strengthening country systems, including support for the implementation of the PFM reform program to further deepen budget accountability, the D&D reform program to focus policy dialogue, fiscal and financial arrangements at sub-national levels, and develop a Sub-national Investment Facility (SNIF) under the CPS 2011-2013. Jointly with JICA, ADB also plans to support capacity building on public procurement to implement new procurement regulations based on the Procurement Law and the revised SOPs, Procurement Manual, and Financial Management Manual for Externally-Assisted Projects/Programs.

19. There is also a window of opportunity to capitalize on the momentum of political will and public expectations following the approval of the Anti-Corruption Law and assist the ACU in building public awareness, strengthening enforcement, and implementing action plans. Accordingly, a TA project is planned in 2012 to support the ACU to implement the Anti-Corruption Law, in close coordination with other development partners.

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<sup>13</sup> ADB. 2008. *Guidelines for Implementing the ADB's Second Governance Action Plan (GACPA II)*. Manila.

<sup>14</sup> ADB. 2011. *Cambodia: Country Governance Risk Assessment Report and Risk Management Plan*. Manila.

<sup>15</sup> ADB. 2011. *Governance Risk Assessment and Risk Management Plan: Third Education Sector Development (Cambodia)*. (Draft)