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PROJECT PERFORMANCE ASSESSMENT REPORT



KINGDOM OF CAMBODIA

# Public Financial Management and Accountability Project

**Report No. 109439**

OCTOBER 31, 2016

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and Development / The World Bank  
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**PROJECT PERFORMANCE ASSESSMENT REPORT**

**KINGDOM OF CAMBODIA**

**PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY PROJECT  
(IDA-HW410, TF-54547)**

**October 31, 2016**

*Human Development and Economic Management  
Independent Evaluation Group*

## Currency Equivalents (annual averages)

*Currency Unit = Cambodian Riel (CR)*

2006	US\$1.00	CR 4,065.04
2007	US\$1.00	CR 4,044.98
2008	US\$1.00	CR 3,944.93
2009	US\$1.00	CR 4,115.06
2010	US\$1.00	CR 4,183.93
2011	US\$1.00	CR 4,034.02
2012	US\$1.00	CR 4,068.02
2013	US\$1.00	CR 3,978.04
2014	US\$1.00	CR 4,000.00

## Abbreviations and Acronyms

ADB	Asian Development Bank
ASYCUDA	Automated System for Customs Data
COA	Chart of Accounts
DCDM	Department of Cooperation and Debt Management
DFID	Department for International Development
DI	Department of Investment
DIA	Department of Internal Audit
EAP	External Advisory Panel
EU	European Union
FAD	Fiscal Affairs Department
FMIS	Financial Management Information System
GDNT	General Department of National Treasury
GDP	Gross Domestic Product
GFS	Government Financial Statistics
IDA	International Development Association
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
FMIS	Financial Management Information System
ICB	International Competitive Bidding
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
IMF	International Monetary Fund
INT	World Bank Integrity Vice Presidency
IPA	Independent Procurement Agency
IPSAS	International Public Sector Accounting Standards
ISR	Implementation Supervision Report
IT	information technology
ITD	Information Technology Department
MDG	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
M&E	Monitoring and Evaluation
MEF	Ministry of Economy and Finance
MTR	Mid-Term Review
NAA	National Audit Authority

NPV	Net Present Value
PAD	Project Appraisal Document
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMAP	Public Financial Management and Accountability Project
PFMRP	Public Financial Management Reform Program
POC	Priority Operating Cost
PPAR	Project Performance Assessment Report
PRGO	Poverty Reduction and Growth Operation
RGC	Royal Government of Cambodia
SDR	Special Drawing Rights
SIDA	Swedish International Development Agency
TCAP	Technical Cooperation and Assistance Program
TSA	Treasury Single Account
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development

## **Fiscal Year**

Government: January 1 – December 31

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## Principal Ratings

### Cambodia Public Financial Management and Accountability Project

	<b>ICR*</b>	<b>ICR Review*</b>	<b>PPAR</b>
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Unsatisfactory
Risk to development outcome	Moderate	Moderate	Significant
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	Unsatisfactory
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	Moderately Satisfactory

\* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

## Key Staff Responsible

### Cambodia Public Financial Management and Accountability Project

<b>Project</b>	<b>Task manager/leader</b>	<b>Division chief/ sector director</b>	<b>Country director</b>
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**IEG Mission: Improving World Bank Group development results through excellence in evaluation.**

### **About this Report**

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

### **About the IEG Rating System for Public Sector Evaluations**

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: <http://worldbank.org/ieg>).

**Outcome:** The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Risk to Development Outcome:** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

**Bank Performance:** The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Borrower Performance:** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

## Preface

This Project Performance Assessment Report (PPAR) evaluates the Cambodia Public Financial Management and Accountability Project. The project was approved by the Board on June 27, 2006, and declared effective a year later on June 29, 2007. The International Development Association (IDA) grant of US\$14.0 million was supplemented by cofinancing of a multi-donor trust fund (MDTF) of US\$14.8 million, which was approved and became effective on August 11, 2005. The borrower committed US\$1.5 million to the reform program. Against the total project financing envelope of US\$30.3 million, US\$24.5 million were spent—an equivalent of 81 percent. The project was restructured five times to accommodate an International Procurement Agency, make amendments for new disbursement categories, and extend the closing date. The project development objective, however, was never changed.

The project development objective, as specified in the financing agreement of the operation, was “to strengthen the mobilization and management of the Recipient's public resources, its human resources, and its audit capacity in order to improve service delivery and reduce corruption.”

This report presents findings based on a review of the project appraisal documents, the Implementation Completion and Results Reports, Implementation Completion and Results Reviews, Aide Memoires, International Monetary Fund (IMF) and World Bank reports, and other relevant materials, including a number of publically available studies carried out by various donors. An IEG mission visited Phnom Penh between January 11 and January 21, 2016, to interview government officials, the staff of the World Bank, staff of the IMF, and other development partners and stakeholders. Bank staff members, donor representatives, and other information providers were also interviewed at the Washington, DC, headquarters and by telephone. Appendix F provides a list of persons interviewed.

The assessment aims to review whether and how the operation achieved its intended objectives. The report provides additional evidence and analysis of relevant and comparative data for a more complete picture of the outcomes and the factors that influenced them. By covering the period of 2013–16, it offers an opportunity for broader lessons and a longer time perspective, as well as reflection on the sustainability of policy reforms and the long-term factors that facilitated outcomes.

This assessment is part of a larger body of public sector/governance evaluations in East Asia and Africa that will feed into a synthesis report to draw lessons on cross-country experience. The reports provide a dedicated appendix on the design, implementation, and utilization of financial management information systems, which have been at the core of the reform programs.

Following standard Independent Evaluation Group (IEG) procedures, a copy of the draft report was circulated to the relevant government officials and agencies for their review and feedback. Comments were received in track-change form and are carefully reflected in the report (the correspondence is attached in Appendix G).

## Summary

The World Bank extended support to Cambodia through the Public Financial Management and Accountability Project (PFMAP) during a time when 30 percent of the population lived below the poverty line, human development indicators were discouraging, and public services were largely inaccessible and lacked adequate quality. In this context, sound economic management and the effective and accountable use of public resources were paramount in order to improve economic and social improvements. However, many important institutions of governance and public sector management, were destroyed by the ultra-radical Khmer Rouge regime, and only just started to be rebuilt. Public financial management was largely dysfunctional, posed significant fiduciary risks and oversight institutions were unfit to point out systemic problems and corruption. Further, resource mobilization was among the weakest in the region, undermining aggregate fiscal sustainability. The PFMAP aimed to address many of these ailments through strengthening the mobilization and utilization of public resources, bolstering accountability institutions, and developing the capacity of the civil service.

The project oversaw a difficult relationship with the government. It became effective shortly after the World Bank's Integrity Department found sufficient evidence to substantiate allegations of fraud and corruption in seven unrelated projects. To continue engagement, and minimize fiduciary risks, the Bank appointed an Independent Procurement Agency (IPA) to handle procurement of its entire portfolio, and the PFMAP was used as a vehicle for financing it. While this was not part of the original project design and was perceived to be counter to project capacity building objectives the IPA consumed almost half of the project's IDA resources. The Bank ultimately suspended its lending to Cambodia entirely in 2011, after the already tense relationship was further aggravated over a land settlement dispute. Project resources spent on the IPA were never recovered to pursue original project objectives, and repurposing of project resources was never formalized by means of restructuring.

The project was implemented during a period of rapid economic growth, which averaged about 7 percent between 2006 and 2014. Revenue as a share of GDP grew from a low of about 10.8 percent in the mid-2000s to an estimated 14.9 percent in 2013. Consequently, the fiscal envelope available to government almost quadrupled (from US\$650 million to US\$2,270 million). The project made some contribution to this progress through support of tax administration, but no major changes were introduced with regard to types of taxes and rates. The shift in GDP composition and progress in the formalization of the economy have been key external contributory factors to this achievement.

The project has facilitated a more enabling environment for financial and human resource management, but it failed to make the planned inroads. Most prominently, the FMIS contract award collapsed after five years of failed procurement. The project did not procure and implement an FMIS, and at project end, none of the expected benefits in expenditure management from such a system had materialized. The experience did, however, inform a revised design, procurement, and implementation strategy, which eventually led to good progress in FMIS implementation in the follow-up operation. The current reform momentum may however be undermined, because of uncertainties regarding continued financing for

reforms. It is important that there remains continued technical and financial support at this critical development juncture. Other contributions to expenditure management were made, such as the consolidation of a treasury single account and an updated accounts code structure that reflects international standards. However, public financial management continues to be lacking across a number of important dimensions, as is ultimately reflected in poor strategic allocation of resources and operational efficiency.

The project supported a Merit-Based Pay Initiative pilot to strengthen human resource management. While there were some design problems, initial progress was considered encouraging. This initiative was however abruptly terminated in mid-course due to high-level political interventions. The follow-up program (Priority Operating Costs) had much less government ownership, lost most performance-related dimensions, and eventually this program was also terminated. There have recently been positive developments with public administrative reforms based on the principles of the original Merit-Based Pay Initiative within the Ministry of Civil Service, but are yet to permeate the entire civil service. Incentive schemes have not been commensurate with general salary increases, and there currently appears to be little room for further salary increases, given concerns about expenditure composition.

The project dropped support to the National Audit Authority (NAA) entirely and very limited attribution to strengthened external audit capacity can be made. The project did however maintain capacity building efforts for internal audits. Internal audit units were established, audit plans drawn up, and practical compliance audits conducted. The project also supported financial reporting, which is a critical input for both internal and external audits, and thus factors into overall audit capacity. However, poor quality and comprehensiveness of financial reports diminish their usefulness to the legislative.

Efficacy reflects achievements in revenue generation and provision of an enabling environment for public finance and human resource management reform. While this is a noteworthy achievement, the project did not meet the expectations presented at the outset as it fell short of actually translating public finance and human resource reforms into improved outcomes, and contributed to improved audit capacity only at the margins. While efficacy in revenue generation is rated substantial, it was rated modest for improved expenditure management, human resource management, and strengthened audit capacity.

The overall risk to development outcome is considered significant. Revenue targets have been met and are unlikely to be reversed. Gains in public finance and administrative service reform are grounded in sufficient capacity and ownership to be sustainable and progress since project end has matured. The follow-up operation funded by a new multi-donor trust fund (MDTF) has allowed the procurement and implementation of a narrower, treasury-centric FMIS. However, there is currently no external funding for rolling out and expanding the scope of the system. The ongoing MDTF will close in 2016, and its replenishment has not been secured. While the project was able to establish many of the preconditions needed to pursue PFM reforms and build the necessary capacity, this progress could be lost if the momentum is not maintained and the implementation of the platform does not proceed in a timely manner. Furthermore, as long as the rollout of the FMIS to at least some line ministries has not been completed, the risk that it will be resisted and delayed may be quite significant, as is that of development of parallel systems. In addition, Program Based

Budgeting, as piloted in 25 key ministries, has led to a proliferation of transactions, which has become excessively burdensome to transaction managers and thus a risk to budget management.

Considerable progress with regards to a Treasury Single Account has been made, but important risks remain. Large advances to line ministries for capital projects and programs constitute a major leakage as funds are deposited into commercial banks outside the purview of the treasury. This reintroduces idle balances and undermines the effectiveness of the FMIS.

While the operation contributed to some positive returns, there were major efficiency concerns. Most notably, almost 30 percent of the project (about 40 percent of the International Development Association [IDA] grant) funds were spent on an IPA, which did not contribute to the project objectives, and was viewed as undermining long-term capacity building efforts in procurement. In combination with excessively low procurement thresholds, disbursement rates suffered resulting in virtually no support to PFMRP for an entire year. Further, there was inefficient use of time and resources during FMIS implementation. The process was initiated in 2007, and procurement eventually failed in 2012, which is a long time, even for a complex, two-stage international competitive bidding process. While valuable lessons have been learned, and government capacity has been built throughout the process, this could have been achieved through other, more efficient means. Another inefficient use of project resources was related to the abandonment of the Merit-Based Pay Initiative and its replacement by the Priority Operating Cost (POC) scheme, which enjoyed much less ownership, had limited performance elements, and was eventually abandoned too. Lastly, the closing date was extended for a cumulative period of 22 months. The economic and financial net present value estimates from the project appraisal document (PAD) are based assumptions that have most likely failed to materialize.

The unsatisfactory overall project outcome is driven by a negligible efficiency rating and modest efficacy for three out of four objectives. Relevance of objectives and design were rated substantial and modest respectively.

Bank engagement was considered unsatisfactory, despite extensive analytical background work and close alignment with the government reform program. Major shortcomings included weaknesses in various dimensions of project design (such as FMIS) and the introduction of the IPA, which was inconsistent with the project objectives. These factors delayed effectiveness, hindered implementation, and caused inefficiencies that could have been avoided or mitigated. There were strengths and weaknesses in implementation. On the upside, an External Advisory Panel diligently provided updates on progress, and lessons were learned from the failed FMIS design and procurement, and eventually applied. On the downside, Implementation Supervision Reports (ISRs) were inadequate for reporting on project status and lacked candor; the team failed to restructure the project despite major changes pertaining to the objective and overall project logic; and there was insufficient management oversight of the project.

Borrower performance was rated moderately satisfactory. Government ownership and commitment varied across components. Senior management showed strong ownership of the PFM analytical work and the follow-up reform program. However, there were shortcomings,

including policy reversals. Government decided to withdraw from the NAA component shortly after the legal agreement was signed, there was a lack of traction on procurement and continued negotiated contracts, and the Merit-Based Pay Initiative pilot was abruptly cancelled, despite ownership in the Ministry of Economy and Finance and preliminary positive feedback. Implementing agency performance was strong, showing commitment, despite difficult circumstances. Notable is that the Ministry of Finance remained committed to FMIS implementation, despite a long period of failed procurement and no results.

The project offers a number of important lessons, some specific to Cambodia and others that are broader and generalizable. These are summarized below:

- **Mitigating measures for fiduciary risks can exacerbate the challenge of government capacity and ownership.** If an IPA is charged with procurement, it is important to build parallel institutional capacity and make provisions for an exit strategy as country systems can be reengaged only if fiduciary risks have credibly been mitigated. Including transfer of know-how in the IPA terms of reference may be desirable. Conservative prior review thresholds should be revised upwards to reflect engagement of the IPA and allow for more expedited project implementation.
- **Complex PFM operations may require regular reorientation of activities** based on results and lessons learned during implementation. This requires a comprehensive results framework, proactive supervision, candid and complete ISRs, openness to learn from failure, and management willing to take action. The inclusion of an External Advisory Panel provided much needed in-depth situational analysis, which helped address key operational bottlenecks. A mid-term review (MTR) should be an integral part of design, and operations should be restructured and objectives revisited as needed to reflect activities being funded.
- **Project design** should reflect carefully client capacity and a credible timeframe for implementation. Excessive project complexity with multiple implementing arrangements can dilute focus, and lead to suboptimal outcomes. Peer reviewers and other feedback providers at the appraisal stage may point to critical risks and provide important tacit knowledge. While a phased approach was taken in Cambodia, the original design was still viewed as overly complex and ambitious given capacity realities. To manage expectations and protect project performance it is important that changes are reflected in objectives when critical components and activities are dropped.
- **Previous relevant experience in FMIS design, procurement, and implementation should be carefully drawn on** when supporting an FMIS reform program. The World Bank has supported similar projects in numerous countries since 1984, and this experience offers a rich set of lessons. Issues that eventually led to the collapse of the tender in this project could have been preempted. Similarly, it is important to learn from failure. Both the Bank and the government learned from the failed attempt and drew on it extensively during the revised tender. This has facilitated the current expedited progress. However, failing faster would have been desirable. Once it became clear that the design and procurement strategy were unsuitable, the team could have revisited the engagement and saved valuable time and resources.

- **Lessons pertaining to FMIS design, procurement, and implementation** include (i) high-level sponsorship, end-user involvement, and interagency coordination is critical for FMIS design and implementation; (ii) involving end-user departments in the design of functional requirements and system specifications is essential; (iii) FMIS implementation needs to be phased; (iv) it may not be necessary to deploy the system across all spending units to start with; (v) precise systems specifications in tender documents are critical; (vi) indicating resource availability in the bid is important; (vii) the setting up and staffing of the supporting organization is critical for the long-term operational sustainability of the system; (viii) technical expertise in the design and implementation phases as well as a resident and proactive task team leader are important factors for success; and (ix) it is important to maintain FMIS implementation momentum.
- The introduction of sophisticated budgeting techniques, such as program based budgeting, should be sequenced only after a fully functioning FMIS is in place and approaches need to be complimentary.





# 1. Background and Context

1.1 This Project Performance Assessment Report (PPAR) reviews the World Bank's Public Financial Management and Accountability Project (PFMAP) in Cambodia. The project was approved on June 27, 2006, became effective on June 29, 2007, and closed on November 15, 2013, 22 months behind schedule. The World Bank, through the International Development Association (IDA), provided a grant of US\$14.0 million, which was supplemented by cofinancing through a multi-donor trust fund (MDTF) of US\$14.8 million. The borrower committed US\$1.5 million. Against the total project financing envelope of US\$30.3 million, US\$24.5 million were disbursed.

1.2 **Poverty and Social Outcomes.** Cambodia was one of the poorest countries in the world, with about 30 percent of the population living below US\$1.90 a day. Human development indicators were similarly dismal. In 2005 the infant mortality rate<sup>1</sup> of the lowest income quintile was 156, with 52.4 percent of children stunted. Just over half of children were fully immunized (56.4 percent), and skilled birth attendants were only available to about 20.8 percent of the bottom quintile. Population growth was around 1.5 percent, and contraceptive prevalence among women of the poorest quintile was very low, at 13 percent. (Cambodia, National Institute of Public Health, National Institute of Statistics, and ORC Macro 2006; World Bank 2012, 2015)

1.3 **Economic and Fiscal Management.** In this context, sound economic management and the effective and accountable use of public resources were paramount in order to improve economic and social improvements. However, many important institutions of governance and public sector management, were destroyed by the ultra-radical Khmer Rouge regime, and only just started to be rebuilt. Public financial management was largely dysfunctional. Poor budget execution and cash management and the public financial control system posed significant fiduciary risks, and oversight institutions were unfit to point out systemic issues in public finance and corruption. Poor resource allocation and insufficient policy-based budgeting weakened the effectiveness of public spending. Bottlenecks in PFM were already recognized as a major binding constraint on Cambodia's development in the early 2000s and the IMF, UNDP, ADB, DFID, and the Netherlands launched the Technical Cooperation Assistance Program (TCAP) in mid-2001 to support early PFM and financial sector reform. This was however seen as largely ineffective, in part due to lacking political will and a dysfunctional civil service. (World Bank 2003, IMF 2004)

1.4 Further, resource mobilization was among the weakest in the region, undermining aggregate fiscal sustainability. At the same time however, the country was growing at a rapid pace. By 2006 growth was estimated at 10.8 percent, and has averaged about 7 percent since. This was accompanied by a shift in gross domestic product (GDP) composition, away from traditional agriculture, and toward cash crops, industry, and services, in parallel with greater formalization of the economy. This shift was commensurate with public revenue

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<sup>1</sup> Under-five mortality rate is the probability per 1,000 that a newborn baby will die before reaching age five.

performance,<sup>2</sup> increased economic opportunities, and a rapid reduction in poverty. Further, the expanded fiscal space meant increased resource availability for public services.

**1.5 World Bank Engagement.** In response to the need for an updated and comprehensive analysis of public expenditure policy and management, the World Bank undertook a participatory Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER), which assessed Cambodia's PFM system as profoundly weak with high costs in terms of allocative and operational efficiency, and high levels of fiduciary risk to public funds. The IFAPER became the basis for the Public Financial Management Reform Program (RGC 2004), which adopted a sequenced reform approach consisting of four platforms. The World Bank subsequently supported the PFMRP through the Public Financial Management and Accountability Project, which became effective in 2007. The objective was "to strengthen the mobilization and management of the Recipient's public resources, its human resources, and its audit capacity in order to improve service delivery and reduce corruption" (World Bank 2007, Schedule 1 p. 5). The project was designed to improve revenue, financial management, and accountability institutions. Central to the financial management goal was the design, procurement, and implementation of a Financial Management Information System (FMIS) and its supporting environment. The project was also designed to support the National Audit Authority (NAA) in an effort to strengthen oversight institutions and to pilot and institutionalize a Merit-Based Pay Initiative to strengthen the ineffective civil service. The project underwent a number of changes, most notably the introduction of an Independent Procurement Agency (IPA) as a safeguard measure to address mounting fiduciary concerns. Other changes included dropping the external audit component and support to oil and gas management, supplementing the salary structure through the Priority Operating Cost (POC) scheme, with a lesser focus on performance than originally envisaged, and narrowing the scope of the FMIS.

**1.6** In parallel with this operation, the Bank financed 14 other projects between 2005 and 2011, committing US\$292.3 million in total<sup>3</sup> (see appendix A). The relationship between the Bank and the government, however, was strained following a series of corruption episodes and subsequent investigations from the World Bank's Integrity Department (INT) in the mid-2000s. To continue engagement, and minimize fiduciary risks, the Bank appointed an IPA to handle procurement of the entire portfolio (see box 1.1 for more details). The fragile relationship with the government further deteriorated in 2011 after disputes over a resettlement program. After this, the Bank completely disengaged, and no projects have been approved since. The Bank is currently considering reengagement and an interim Country Engagement Note is being prepared. In the meantime, a Bank-managed MDTF was approved to continue support in critical public financial management (PFM) reform areas, most notably in FMIS procurement and implementation. The Country Engagement Note has not made any specific allocations to assist the country in the FMIS rollout.

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<sup>2</sup> Revenue as a share of GDP has grown from a low of about 10.8 percent in the mid-2000s to an estimated 14.9 percent in 2013. Consequently, the fiscal envelope available to government almost quadrupled (from US\$650 million to US\$2,270 million).

<sup>3</sup> This compares to US\$318 million in the Lao People's Democratic Republic over the same period.

### **Box 1.1 The Introduction of an Independent Procurement Agency.**

Cambodia was subject to a number of investigations by the World Bank's Integrity Department (INT) that found sufficient evidence to substantiate allegations of fraud and corruption in seven projects<sup>4</sup>. The estimated cost of the 43 contracts with financial irregularities was US\$11.9 million. All affected projects were suspended with immediate effect. The World Bank and the government decided on a set of actions for lifting suspensions, including engaging an IPA to carry out all procurement under the ongoing projects to mitigate the risks for further procedural non-compliance, fraud and corruption. The PFMAP was viewed as the most appropriate vehicle to finance the IPA and nearly half of IDA project resources, amounting to US\$6.7 million, were used to cover its administrative costs. The government initially resisted this diversion of resources, but was given assurances of reimbursement via additional project financing to enable the project to finance the activities in its original scope. The additional financing however never materialized, and the objective of the project was never restructured to reflect the repurposing of its funds.

While it was argued that a zero tolerance for corruption necessitated an IPA to maintain any Bank engagement, it was opposed by technical staff who maintained that it would stifle implementation and undermine capacity building objectives of the Bank. Indeed, portfolio disbursement dropped after the IPA was instituted (and prior review thresholds were kept excessively low), procurement capacity remained undeveloped, and a major challenge to the Bank became how to design an exit strategy from continuing dependence on the IPA.

From this, the following lessons emerge:

- Mitigating fiduciary risks through the introduction of an IPA can exacerbate the challenge of government capacity and ownership.
- If an IPA is necessary, it is important to build parallel institutional capacity and make provisions for an exit strategy. This is important as country systems can be reengaged only if fiduciary risks have credibly been mitigated and procurement capacity has been built.
- Part of the TOR of the IPA should be to transfer know-how and help build local capacity.
- Prior review thresholds should adequately reflect country procurement capacity and fiduciary risks. With an IPA in place, risks ought to be mitigated and thresholds should be revised upwards accordingly to allow for more expedited project implementation.

*Source:* Various INT press releases (May 28, 2006; June 4, 2006; June 6, 2006; and June 18, 2006); IEG interviews; World Bank project documents.

<sup>4</sup> Findings include (1) strong indications of corruption in the Biodiversity and Protected Areas Management Project; (2) nine contracts affected by fraud, collusion and corruption in the Flood Emergency and Rehabilitation Project; (3) conflict of interest in one contract and corruption in three contracts in the Agricultural Productivity Improvement Project; (4) evidence of misprocurement in the Forestry Concession Management and Control Pilot Project; (5) misprocurement in 17 contracts in the Land Management and Administration Project; (6) misprocurement in 6 contracts in the Provincial and Rural Infrastructure Project; and (7) misprocurement in 7 contracts in the Provincial and Peri-Urban Water Supply and Sanitation Project. The cost of these across 43 contracts was estimated at US\$11.9 million.

## 2. Objectives, Design, and Implementation Experience

### Objectives

2.1 According to the financing agreement (World Bank 2007, Schedule 1, p. 5), the objective of the project is “to strengthen the mobilization and management of the Recipient's public resources, its human resources, and its audit capacity in order to improve service delivery and reduce corruption.” This assessment uses the project development objective (PDO) according to the financing agreement, as it is the legally binding document and captures the essence of the objective stipulated in the appraisal document. The report distinguishes between (i) strengthening the mobilization of public resources; (ii) improving the management of public resources; (iii) strengthening the management of human resources; and (iv) improving audit capacity. The reference to improved service delivery and reduced corruption is considered to be part of the higher-level objectives to which the project contributes. This also reflects the project logic of the design and results framework and the intent of the project objectives as outlined in the PAD.

2.2 According to the project appraisal document (World Bank 2006, p. 6) the PDO is framed somewhat differently: “to improve public financial management by strengthening: (a) the mobilization of public resources (as measured by increases in tax and nontax revenues as a percentage of GDP and accountable stewardship of oil revenue); (b) the management of public resources (as measured by more predictable and reliable budget implementation and reduced fiduciary risk); (c) the management of human resources (as measured by the number of civil servants motivated by effective incentive levels and managed by meritocratic procedures); and (d) external audit capacity (as measured by the extent of audit coverage in line with international audit standards and number of audit reports submitted to the National Assembly).” As metric in this PDO are explicitly stated, they are used to infer progress.

### Design

2.3 **Component 1: Revenue Management** (appraisal, US\$3.1 million; actual, US\$1.2 million). This component would support modernization of the revenue administration (tax and nontax revenues), developing policy and strengthening institutional arrangements for transparent oil and gas revenue management, and improving Ministry of Economy and Finance (MEF) operations in sequestration of revenue and smoothing of revenue and cash flows to the budget within the context of fiscal and macroeconomic management.

2.4 *Subcomponent 1.1: Modernization of Revenue Administration.* This subcomponent would support the modernization of the tax department, which would include the implementation of the functional reorganization, strategic planning and capacity development, strengthening of core tax administration functions, and improvement in accountability arrangements. Nontax revenue policy and administration would also be supported in selected areas.

2.5 *Subcomponent 1.2: Transparent Oil and Gas Revenue Management.* This subcomponent would develop policy and strengthen institutional arrangements for transparent oil and gas revenue management, including improving MEF operations in sequestration and smoothing of revenue flows to the budget. The oil revenue policy and

management subcomponent would focus on the Extractive Industries Transparency Initiative principles and engagement. In addition, it would provide technical assistance in oil fund and taxation policy, negotiations with oil companies (including a legal perspective), and revenue management, as well as technical aspects of oil and gas extraction.

**2.6 Component 2: Budget Formulation** (appraisal, US\$1.4 million; actual, US\$2.2 million). This component would support the recipient's capacity to formulate and integrate its budget, including: (a) improving budget coverage by capturing off-budget revenues and expenditures; (b) strengthening the control over expenditures, especially the formulation of wage and capital budgets; (c) developing a medium-term macro-fiscal framework, including revenue-forecasting capacity; (d) strengthening debt forecasting, financing analysis, and payment management; (e) redesigning the budget and accounts classification system; (f) piloting a program-based budget structure; (g) redesigning the budget formulation process and calendar; (h) budget policy formulation; (i) development of an integrated budget formulation information system; and (j) expenditure-tracking techniques.

**2.7 Component 3: Budget Execution** (appraisal, US\$10.6 million; actual, US\$2.4 million). This component aimed at designing and implementing an FMIS, strengthening treasury systems and procedures, and supporting the government's procurement function.

**2.8 Subcomponent 3.1: Financial Management Information System.** Specific activities included: (a) technical guidance on quality assessment of an FMIS framework and procedures; (b) technical advice on appropriate policy, system design, and content, taking into account capacity and technology constraints and including a program of phased rollout; (c) information technology system software and hardware, including testing and quality assurance; (d) building sustainable capacity in MEF to operate the FMIS and use the reports that it will generate; and (e) training and capacity development in line agencies as appropriate, to allow use of system-generated information.

**2.9 Subcomponent 3.2: Treasury Systems and Procedures.** Specific activities included: (a) streamlining budget-execution processes; (b) increasing payments to and from government through the banking system in terms of tax collections and government payments to civil servants and contractors; (c) designing and implementing measures to improve budget discipline by limiting accumulation of payment arrears; and (d) streamlining and improving the transparency of key business processes.

**2.10 Subcomponent 3.3: Procurement.** This subcomponent would support the development of improved arrangements for processing of procurement actions in order to improve transparency, economy, and efficiency, streamline spending processes, and enable greater fiscal deconcentration. Specific measures included: (a) further developing the legal and regulatory framework, including a new procurement law; (b) development and dissemination of harmonized procurement procedures and documents; (c) further deconcentrating procurement to line ministries and provinces consistent with their capacity, while ensuring that adequate processes are in place, including effective oversight; (d) carrying out a capacity-building program for MEF, procuring entities, and contractors; and (e) developing an information and performance monitoring system in public procurement.

2.11 **Component 4: Capacity Development** (appraisal, US\$5.9 million; actual, US\$10.5 million). The operation had four separate subcomponents dealing with capacity development:

2.12 *Subcomponent 4.1: Internal Audit.* Strengthen the recipient's capacity to carry out internal audits, including establishing arrangements for managing internal audit standards and reviews.

2.13 *Subcomponent 4.2: Performance and Organizational Management.* Strengthen MEF's overall capacity, including: (a) assessing and reorganizing MEF's institutional structure; and (c) strengthening the Reform Committee Secretariat's capacity to implement the project, including the development and implementation of a communication strategy.

2.14 *Subcomponent 4.3: Program Management.* Support for the Reform Committee Secretariat in managing the Public Financial Reform Program (PFMRP), including the cost of the chief technical advisor, office management, and annual retreats and workshops.

2.15 *Subcomponent 4.4: Training.* Training and study tours to support the PFMRP and based on the agreed PFMRP capacity development strategy under preparation by MEF.

2.16 **Component 5: Merit-Based Pay Initiative** (appraisal, US\$7.8 million; actual, US\$1.6 million). The project would assist the government in piloting a civil service reform to institutionalize a pay enhancement program based on (1) the government's agreement to pay an increasing share of the cost over time, eventually assuming the full cost of the initiative; and (2) selection of participants based on merit according to agreed criteria, with a mechanism to remove nonperformers according to agreed criteria.

2.17 **Component 6: Building the Oversight Capacity of Cambodia's National Audit Authority** (appraisal, US\$1.5 million; actual, US\$0.0 million). This component aimed at strengthening the NAA's ability to conduct effective audits and deliver relevant and timely reports to the public. The component was split into two subcomponents:

2.18 *Subcomponent 6.1:* The NAA would be supported in developing an appropriate organizational structure, personnel requirements and skill profiles, systems for management audit personnel, and codes of conduct and appropriate methods.

2.19 *Subcomponent 6.2: Enhancement and Development of Auditing Methodologies, Standards, and Capacity.* This subcomponent would provide the NAA with technical assistance and training to continue the development of public sector auditing standards in conjunction with the National Accounting Council of Cambodia and appropriate audit methodologies.

2.20 An overview of planned and actual expenditures by component is provided in table 2.1. A more detailed discussion of implementation and costs is provided in the implementation section below.

**Table 2.1 Planned and Actual Expenditures by Component (US\$ million)**

	<b>Component</b>	<b>Apprais ed Total</b>	<b>Actual IDA</b>	<b>Actual MDTF</b>	<b>Actual Govt.</b>	<b>Actual Total</b>	<b>Actual/ budget (%)</b>	<b>Share of Total (%)</b>
1	Revenue management	3.1	0.5	0.7	0.0	1.2	38	4.9
2	Budget formulation	1.4	0.9	1.3	0.0	2.2	160	8.9
3	Budget execution	10.6	1.0	1.4	0.0	2.4	22	9.8
4	Capacity development	5.8	5.3	5.2	0.0	10.5	170	42.7
5	Merit-Based Pay Initiative	7.8	0.8	0.8	0.1	1.7	22	6.9
6	NAA	1.5	0.0	0.8	0.0	0.0	0	0.0
	IPA	0	6.7	0	0.0	6.7	n/a	27.2
	<b>Total</b>	<b>30.3</b>	<b>15.1</b>	<b>9.5</b>	<b>0.1</b>	<b>24.6</b>	<b>81</b>	<b>100</b>

Source: World Bank 2006 and disbursement tables from supervision team

## Project Implementation

2.21 The project was approved by the Board on June 27, 2006, and declared effective a year later on June 29, 2007. The IDA grant of US\$14.0 million was supplemented by cofinancing of an MDTF of US\$14.8 million, which was approved and became effective on August 11, 2005.<sup>5</sup> The borrower committed US\$1.5 million to the reform program and agreed to provide contributions in kind and MEF staff, which is why no project implementation unit was needed. Against the total project financing envelope of US\$30.3 million, US\$24.5 million were spent—equivalent to 81 percent. IDA disbursements (US\$15.1 million) exceeded the initial commitment amounts because of exchange rate gains following the appreciation of the Special Drawing Rights (SDR) in relation to the dollar. The MDTF disbursed US\$9.5 million, and shortfalls were attributed to the failed FMIS procurement, cancellation of the Merit-Based Pay Initiative, and dropping support to the NAA. The financing available to the MDTF was also reduced by US\$1.2 million when the U.K. Department for International Development (DFID) left the MDTF when it closed its Cambodia country program in October 2011, and the undisbursed funds were refunded. The borrower contributed only US\$0.1 million in counterpart funding, a fraction of the US\$1.5 million agreed upon at appraisal.

2.22 The project was restructured five times to make provisions for new expenditure items or extend the closing date.<sup>6</sup> The financing agreement related to the IDA financing was amended on October 19, 2007, to reallocate funds and add a new disbursement category to

<sup>5</sup> The MDTF was funded by the Australian Agency for International Development (AUSAID), UK's Department for International Development (DFID), the European Commission (EC), and the Swedish International Development Cooperation Agency (SIDA), as well as by the government. It was approved prior to the IDA grant, and was thus not subject to the same effectiveness conditions.

<sup>6</sup> It was however never taken to the board to reflect major changes in project design including dropping critical components or repurposing project financing for an IPA.

accommodate the IPA. In July 2009 it was amended again to reallocate proceeds further and extend financing for the IPA. The project was restructured for a third time on July 20, 2011, to reflect that the government had dropped the Merit-Based Pay Initiative and replaced it with the POC scheme. The key associated outcome target was accordingly revised to “POC designed for MEF and line ministries, POC implementation, review and evaluation.” Financing allocations were revised again, allowing for an increased allotment for the IPA. Changes in financing allocations are reflected in table 2.1. Subsequently, the project completion date was extended twice, with a cumulative extension period of 22 months. It was first extended on November 7, 2011, from January 15, 2012, to January 15, 2013, in order to allow the recipient to continue implementing project activities without interruption, and to agree with development partners on a further extension of the MDTF parent trust fund. The second extension was on November 1, 2012, from January 15, 2013, to November 15, 2013, the actual closing date, to allow the project to complete key activities such as the finalization of the uniform account code structure and activities related to FMIS system procurement. There were three approved budget revisions of the MDTF, in April 2010, September 2010, and June 2011 to accommodate changes regarding the POC and reallocated expenditure items across categories. Further, in 2011 the MDTF closing date was extended to July 31, 2012.

2.23 There were other significant changes to the operation that were reported during Implementation Supervision Reports (ISRs), but not reflected in the amendments. These include the operation effectively dropping the subcomponent of increased nontax revenue and the associated outcome indicator when it became apparent that the extraction of oil reserves was unfeasible. Further, the project effectively dropped the component supporting the National Audit Office due to insufficient commitment from the government. Other major changes include making provisions for an IPA (see box 1.1), scaling down FMIS support, and the change from the Merit-Based Pay Initiative to POC, both of which were eventually abandoned. While these included major revisions in the components, and a de facto change in objective no level 1 restructuring was undertaken and thus changes were never formalized or presented to the Board meaning that expectations of project delivery were never adjusted to reflect realities in implementation. A level 1 restructuring of this project was reportedly discouraged. At the same time however, 12 other projects went to the board between 2007 and 2011, also including additional financing for another project (see World Bank portfolio in Cambodia appendix A). A timeline of the major events is provided in table 2.2 below.

2.24 The project was subject to frequent supervision and there was regular dialogue with government and development partners, led by field-based Bank staff. Over the lifecycle of the project, nine ISRs were prepared and filed. A mid-term review was apparently planned and undertaken (even though the dates of the review vary in the ISRs, and there is no record of an aide memoire from such a mission. The task team indicated that the mid-2009 supervision mission was actually a mid-term review), but fell short of expected norms in terms of scope, analysis, and reorientation. The project design called for periodic project reviews by an EAP, which produced detailed progress reports in 2007, 2010, and 2012, and a separate evaluation for the Merit-Based Pay Initiative was commissioned. There were frequent meetings with the PFM donor coordination group, resulting in a relatively harmonized engagement over the early years.



**Table 2.2 Timeline of Major Events, Analytical Work, and Project Dates**

<i>Year</i>	<i>Economic and sector work &amp; events</i>	<i>PFMRP</i>	<i>IDA program</i>	<i>MDTF</i>
2003	First IFAPER			
2005		Merit-Based Pay Initiative starts Jul 2005		Set up of trust fund (US\$14.7 m)
2006			PFMAP approved (US\$14.0 m)	
2007	First EAP report		PFMAP effective	
2008	Elections	End of stage I, move to Stage II in December	Dropped components on external audit and oil and gas revenue management	
2009	Second EAP report			
2010		Cancellation of Merit-Based Pay Initiative in December 2010		Budget revision in April and June
2011	Second IFAPER	Creation of POC	Restructuring (including POC and IPA) First extension to January 2013	Budget revision, and extension to July 2012
2012	Third EAP report	End of POC	Second extension to November 2013	MDTF closed
2013	Elections		IDA closes November 2013	
2014				PFM modernization project approved (new MDTF)

*Sources:* Trust Fund Implementation Completion Memorandum (ICM) and IEG.

**2.25 Introduction of an IPA.** Following evidence of corruption found in seven Bank-financed projects in 2006 (in which PFMAP was not implicated), and as part of remedial measures designed to mitigate the risk of misprocurement in Bank-financed projects, in 2007 the government and the Bank agreed to engage an IPA to handle procurement for all Bank-supported projects in Cambodia, including the PFMAP, with some exceptions—most notably FMIS procurement (more information is provided in box 1.1).

**2.26** Financial management and fiduciary compliance under this operation were satisfactory. Financial covenants were complied with and the interim unaudited financial reports were submitted regularly and on time to the Bank.

2.27 **FMIS implementation experience.** The scope of the proposed FMIS was very ambitious. The project team tried to evaluate the risks, drawing on major analytical tools used at the time. While these analyses constituted an important first step, they were insufficiently detailed to reveal significant risks in the proposed implementation strategy.

2.28 The FMIS description in the PAD was formulated too broadly and in generic terms. It did not give a full description of even the high-level functional processes that would be the subject of the FMIS. It did not specify the primary information flows or what agencies would be part of the implementation. While the interfaces between the FMIS and other systems were named, it was not specified what was expected and what information would need to be transferred between the systems. This generalized approach was also adopted in the functional specifications developed for the FMIS tender and as such making it difficult for bidders to develop an adequate understanding of expectations, which resulted in very expensive proposals. The tenders of this first bid ranged from US\$28.0 to US\$35.0 million, but the budget available was no more than US\$12.0 million, which was probably unrealistic, given the original scope.

2.29 In addition, the deployment strategy was problematic. In an effort to reduce the complexity and scope of the FMIS, it was envisaged to cover only the MEF departments, the Phnom Penh treasury, four-to-six provincial treasuries, and two line ministries. Even if such a comprehensive development of the system were to be successful, it would not cover all government budget transactions, and therefore the reports produced by the system would be incomplete, and thus not very useful for either fiscal management or accounting. Such a strategy would therefore have all the disadvantages of a very complex development plan without yielding consolidated results.

2.30 Further, FMIS implementation arrangements were not sequenced, and there was no prioritization between modules. The simultaneous implementation of all modules, as proposed in this project, was unrealistic, placed great strains on the capacity available, and complicated systems procurement.

2.31 Finally, important prerequisites for FMIS implementation were not in place. This includes insufficient progress toward a uniform account code structure, institutional arrangements for the banking of government funds, and a treasury single account. While work on the Chart of Accounts (COA) and the treasury single account (TSA) were envisaged as part of the project, these had not been finalized before the issue of the first tender for the FMIS and details of critical items such as the structure of the COA could not be included in the systems specifications for the FMIS.

2.32 While the FMIS was envisioned as the primary vehicle for financial management reform, one that would control aggregate spending, prioritize expenditure across programs and projects, assist with decentralization and accounting, and achieve greater transparency, none of the functional departments within the MEF or the line ministries was engaged in the FMIS design. This led to misalignment of system capacity with functional requirements and to a lack of ownership and understanding of the proposed system. The Information Technology Department (ITD) in the MEF was entrusted with the design and implementation

of the system, which meant that the FMIS was perceived as an information technology (IT) project rather than a comprehensive financial management solution.

2.33 The procurement process for the system began in 2007. But the high bids received forced the team to look for alternative implementation strategies and phasing of systems implementation. This had to be negotiated with the selected contractor. When agreement could not be reached, the procurement was declared unsuccessful and was terminated in January 2012. This is a very long time to process a procurement transaction, even for a two-stage international competitive bid (ICB). The reasons for this failure include the following:

- The scope of the FMIS was ambitious at the design stage, and it became substantially more complex at the time of bidding with the inclusion of extensive requirements without any prioritization. Further, at the time of the issuance of the bid, there was ambiguity regarding requirements (functionality, sequencing, and numbers of users).
- Uncertainty of the funding for the project and uncertainty of overall bid price. The bidding processes, methodology and modality were not cleared and frequently changed.
- Cooperation between the MEF's project management team and the World Bank's project management team was ineffective. Stakeholders noted hierarchies and long decision making processes for approvals as problematic.

2.34 Other reasons for the slow progress on implementation was constrained by a difficult change management experience within MEF, with different departments competing for roles and influence while other departments were not sufficiently motivated to participate.

2.35 The challenges and weaknesses in Bank engagement were carefully documented by the task team (see 2013 Cambodia FMIS matrix) and lessons learned from the failed first procurement informed the revised design, procurement, and implementation strategy for a second FMIS tender. Under a second MDTF, the Bank pursued a strategy in which: (i) implementation modules first cater to core budget execution processes and processing of payments and receipts transactions across government before going on to other noncore elements; (ii) a treasury-centric system was implemented first, followed by a focus on decentralizing the system to spending units with a view to capture payment/receipt transactions at treasury offices.

## **Relevance of Objectives**

2.36 All four project objectives were substantially relevant at the time of the design and implementation, and remain critical to the government's ability to delivery services and curtail corruption today.

2.37 **Revenue generation.** At the time of project approval, Cambodia's fiscal revenues, especially tax revenues, were among the lowest in the world. At 10.8 percent of GDP, revenue performance was well below that of peer countries in the region and among low-income developing countries. The Country Policy and Institutional Assessment indicator of

efficiency of revenue mobilization rating<sup>7</sup> in 2006 was 3.0, just below the low-income country average of 3.1. Vietnam, in comparison, was rated 3.5 (World Bank 2015). To ensure medium-term macro sustainability and greater fiscal space for higher levels of public spending, Cambodia would have to increase revenue performance. Given the low levels in 2006, this was a feasible priority.

**2.38 Management of public resources.** The 2003 Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) (World Bank and ADB 2003) pointed to significant weaknesses in budget management, execution, and procurement, which not only undermined allocative and operational efficiency, but also bears significant fiduciary risks. Investing in a financial system used by all government accounting and budgeting entities for the day-to-day performance of government functions was thus critical. Effective management and utilization of public resources was especially important given Cambodia’s tight financing constraints, high levels of poverty, and rapidly growing demands in service delivery.

**2.39 Management of human resources.** There were a number of serious problems affecting the civil service, including low pay, low skills, widespread absenteeism, and low organizational capacity. The 2003 IFAPER (p.96) notes that “the most pressing issue facing the Cambodian civil service is undoubtedly the low level of pay for most civil servants, in relation not only to wage levels outside the service, but also to the cost of living.” This was also reflected in the Country Policy and Institutional Assessment score for public sector management and institutions, where Cambodia ranked in the fourth-lowest quintile among developing countries. To attract, motivate, and retain skilled staff was considered a high-priority reform agenda. While limiting the size of the workforce and controlling personnel expenditures were also considered important, there was room for growth, and the reform emphasis was on civil service capacity and skill retention.

**2.40 Audit capacity.** Corruption was widely perceived as endemic, and oversight institutions were viewed as unable to perform their delegated mandate due to both capacity and financial constraints. Given the aforementioned fiduciary risks created by inadequate checks and balances and insufficient internal controls in the public finance systems, investing in the national audit capacity was necessary.

**2.41** Further, the objectives were relevant to the government’s evolving development strategies, such as the National Strategic Development Plan 2006–10, the 2009–13 update, and the National Strategic Development Plan 2014–18. For all these, good governance—consisting of fighting corruption, legal and judiciary reform, public administration reform, and decentralization—is central. The National Strategic Development Plan 2006 (Cambodia, Ministry of Planning 2006, p. 4) notes that the rectangular strategy “is presented in a figurative form with its core related to good governance surrounded by the overall environment in which it takes place and four strategic growth rectangles.” It is also important to note that the project and objectives were designed in close alignment with the government’s PFMRP and its consolidated action plan. It was particularly closely aligned to

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<sup>7</sup> Efficiency of revenue mobilization assesses the overall pattern of revenue mobilization—not only the de facto tax structure, but also revenue from all sources as actually collected.

the four platforms of a more credible budget, effective financial accountability, policy-based linkages, and effective program performance accountability.

2.42 Relevance to Bank strategy during project implementation and at closing can also be considered high. The Bank's Country Assistance Strategy 2004–08 was formulated to implement the Rectangular Strategy, and focused on improving governance and combating corruption as the country's central development challenges. Weak governance was considered the primary obstacle to poverty reduction and aid effectiveness in Cambodia. The strategy's pillar 1 is set as “removing the governance constraints to attaining the Cambodia MDGs,” and one of the core objectives of this pillar (objective 3) was to improve the government's public financial management, considered as a foundation for reducing corruption and providing better pro-poor service delivery. The strategy was extended after 2008 through the Country Assistance Strategy Progress Report (World Bank 2008a), and Cambodia and the Bank are now in the process of developing a Country Engagement Note. Furthermore, reflecting the continued relevance to the current Bank strategy, in November 2013 the Bank approved a follow-up project supporting continued PFM reform (Public Financial Management Modernization Project). Underlining the above, the latest International Monetary Fund (IMF) Article IV consultation (IMF 2015) further highlights the need to sustain PFM reforms as part of fiscal consolidation.

2.43 While these objectives were important and aligned with government and Bank strategy, they were considered over ambitious. In PFM alone, activities to be financed included strengthening the legal framework, the macro-fiscal framework and revenue forecasting, installation of commitments and payments systems including an FMIS, cash management, consolidation of bank accounts, the reduction of payments arrears, procurement, redesigning the accounting and budget classification system, introduction of internal audit to line ministries, and piloting program based budgeting. Such reforms can take years of sustained efforts, and it is unlikely that the entire reform program could be achieved in a sustainable fashion within the stipulated time period (five years) especially considering capacity realities and the dysfunctional civil service and PFM system at the time. The financing envelope of US\$30 million was also unlikely to have been adequate, given project scope. FMIS bids alone ranged between US\$ 28-35 million.

2.44 There are now some indications that the high priority given to PFM issues by development partners has somewhat diminished. The MDTF that cofinanced the PFMAP and the follow-up operation has few prospects of replenishment, and it remains unclear whether funding for the rollout of the FMIS will be available. The proposed interim strategy has made no explicit allocation for such a project and it is not in the country lending program, despite the apparent need and considerable progress in the last two years. Aside from specific assistance funded by the IMF and a few donors, the only notable programmed financing source for PFM reform is through sectoral budget support from the European Union (EU), which has increased its allocations but it is unclear whether this will be able to maintain the momentum in the continued rollout of the FMIS and for what these funds would be used. Similarly, it is unclear how and whether there will be continued support for civil service reform.

2.45 Given the above, relevance of objectives is considered **substantial**. Risks remain in terms of financing availability for FMIS rollout. This is reflected in more depth in chapter 4.

### **Relevance of Design**

2.46 The chain of logic according to the original design was strong. The four PDOs were clear and closely mapped to the components, except capacity building, which was designed as a cross-cutting theme. The logical framework for “strengthened mobilization of public resources” is robust, because improved revenue administration and broadening of the tax base is likely to translate into increased revenue generation. More attention could have been given to tax policy, and it is important to recognize that factors outside of the operation are likely to play a key role, as discussed in more depth under efficacy of objective 1. Second, “strengthened management of public resources” was credibly supported through engagement in budget formulation and execution. The introduction of a Merit-Based Pay Initiative plausibly feeds into a human resource management reform. Finally, supporting institutional arrangements of the NAA and assisting the development of auditing methodologies and standards is likely to increase the oversight capacity of the NAA. Overall, component design had a solid footing in analytical work, following recommendations of the extensive 2003 IFAPER (World Bank and ADB 2003).

2.47 At times, objectives lacked clear metrics and observable outcome targets to show the levels of ambition and the desired progress being sought. The causal chains linking the activities supported by the project to the intermediate and final outcomes were reasonably clear in principle, but without specific and attributable outcome targets, it is not possible to ascertain if the outcomes are achievable under the resource envelope of this operation. With respect to PDO indicators (as modified in the first ISR, which dropped the oil revenue goals), the following was observed:

- The result for “strengthened mobilization of public resources” is robust, because improved revenue administration and broadening the tax base is likely to translate into increased revenue generation. The target of 11.9 percent is realistic. However, it is important to recognize that external factors may influence this result (as discussed extensively in chapter 3.1).
- The two targets for “strengthened management of public resources” (that is, outturn for non-salary expenditure and reduction in price differential) were relevant and related. However, project design would have also benefited from the inclusion of measures such as the coverage of off-budget expenditures or the elimination of arrears. Similarly, the share of public expenditure not subject to competitive bidding would have been a better measure of improved fiduciary management. Finally, the public investment program is not covered by the indicators.
- The introduction of the Merit-Based Pay Initiative and POC could plausibly strengthen the management of human resources (PDO 3). However, the measure and target of human resource management is especially weak and does not capture “improved productivity, performance, and conditions of service for skilled

personnel.” The inclusion of outcome indicators such as the reduction of absenteeism or turnover of staff would have improved the results framework.

- Strengthening the capacity of the NAA is an output-oriented objective and appropriately reflected by measures and targets of audit coverage and regular financial statements. These do, however, lack a quality dimension.

2.48 The introduction of the IPA three months after project effectiveness undermined the strong causal chain, since it did not map to any of the PDOs. Instead, it was argued to have ran counter to the project’s objectives, because it deflected from institution building and created segmentation between World Bank–funded projects and the rest of public expenditures. As such the PPAR is in alignment with the ICR, which noted that “the use of the IPA was not compatible with the broader objective of strengthening a national procurement system and institutional capacity.” (World Bank 2014, p.7) In reference to a World Bank fiduciary supervision mission, an ADB governance report noted that the IPA “significantly reduced government capacity...reduced ownership of the process and led to aid ineffectiveness”. (ADB 2012, p. 6) A World Bank presentation on the IPA implementation experience<sup>8</sup> concluded that it led to an “erosion of procurement capacity of project implementation agencies and government staff.” (Use of Independent Procurement Agents: The Case of Cambodia) This activity ended-up accounting for almost half of the IDA grant and 27 percent of total project finances. As such the IPA was a tax necessitated by fiduciary concerns, even though it was inconsistent with the PDOs, which weakened the overall logic of project design. The relationship of components to objectives is mapped out in table 2.3.

**Table 2.3 Project Components Mapped to Relevant PDO**

<i>Component</i>	<i>PDO1</i>	<i>PDO2</i>	<i>PDO3</i>	<i>PDO4</i>	<i>None</i>
1. Revenue management	✓				
2. Budget formulation		✓			
3. Budget execution		✓			
4. Capacity development	✓	✓	✓	✓	
5. Merit-Based Pay Initiative			✓		
6. National Audit Authority				✓	
7. IPA					✓

*Source:* IEG.

2.49 A number of subcomponents were dropped during project implementation, weakening the results framework, especially since the project was not restructured and the yardstick/objectives remained the same. Oil-revenue management was central to improved revenue management, but it was dropped when it became apparent that extraction was not feasible. As this was central to the revenue management, dropping this sub-component weakened the project logic, without appropriate restructuring. The FMIS was substantially narrowed in scope weakening the project logic. By the same token, the abandonment of the Merit-Based Pay Initiative was downsized to the POC, which did not carry with it the same

<sup>8</sup> The presentation is publicly available at this [link](#).

incentive structures, thus weakening the link of the intervention to the objective of strengthened human resource management. This approach was subsequently also abandoned.

2.50 Project design was closely aligned to an innovative and sequenced platform approach. While this is recognized, the approach was ambitious, involving a large set of activities, and may not have been optimal given very low country capacity (as discussed under relevance of objectives). A recent guidance for sequencing reform (Diamond 2012) notes that because the platform approach is wide in scope, it necessarily requires a longer time period for their completion and is probably only viable in low risk countries. In direct reference to the Cambodia platform approach a 2009 IMF working paper points to a number of weaknesses including overloading of activities: “Platform 1 included 27 activities (of which 14 activities were considered necessary to prepare the ground for Platforms 2–4) and more than 250 specific actions. Such a wide range of activities would constitute a challenging task even in a country with a much higher capacity than Cambodia. Moreover, some of the activities selected for the first platform (e.g., piloting performance-based budgeting) seem questionable in relation to the country’s weak capacity and low level of development”. (Allen 2009, p.19) Other weaknesses highlighted in the paper include insufficient emphasis on institutional constraints, an unrealistic time horizon, poor prioritization, micromanagement, and skewed incentives.

2.51 It is arguable whether the Specific Investment Loan was an appropriate instrument choice. An Adaptable Program Loan was rejected in the PAD, but it would have had the advantage of providing phased support for a long-term program with room for better preparation of key activities such as the FMIS and to initiate priority activities so as not to overburden initial project implementation. At the same time, the project design was strengthened by the parallel implementation of a development policy operation series, which would have contributed to achievements of PDOs.

2.52 Finally, assessment of external factors and risk to the results appears to be limited. For example, the fiduciary risk environment could have been better understood, with mitigating actions taken during appraisal. As it turns out, almost immediately after the project became effective in 2007, the corruption risk became so eminent that the World Bank turned to an IPA. Similarly, the risk pertaining to the cancelation of complementary budget support was not discussed.

2.53 As noted later in this document (chapter 9) the results framework was a relatively weak part of the design. One issue is that intermediate outputs listed were incomplete. As recognized in the Implementation Completion and Results Report (World Bank 2014, p.16), component activities cover a number of outputs that constitute intermediate results. The most important of these should have been included in the results framework to strengthen the chain of logic. The most striking example concerns the large Financial Management Information Systems (FMIS) component, for which the project design does not include attributable intermediate outcomes.

2.54 Relevance of design is rated **modest**, reflecting, on the one hand, a strong project logic at outset, which was however fundamentally undermined by the inclusion of the IPA and by dropping important components in due course.



### 3. Achievement of the Objectives

3.1 The PFM operation under review is a hybrid—it falls between a traditional project in terms of how the financing is provided, and a sector-wide approach from the standpoint of supporting a coherent program owned by government and supported by development partners. This review treats the operation as a standard project supported by a strategy, according to IEG guidelines. This implies that assessment of efficacy is based on outcomes that can be associated with or attributed to the operation. Capacity building was a cross-cutting theme that was present in all objectives, but has not been assessed separately. Instead, it is reflected in the various objectives as needed.

3.2 The overall intervention logic used for assessing the project is summarized in figure 3.1. Project inputs are reflected in contributing factors that affect respective stages in the budget cycle. PFM outcomes considered are fiscal discipline, strategic allocation of resources, and operational efficiency. While this pertains most directly to the objectives of management of public resources and improved audit capacity, it also has relevance to resource mobilization and management of the civil service.

**Figure 3.1 Intervention Logic: From Contributing Factors to Budget Cycle and PFM Outcomes**



Source: Schiavo-Campo and Tommasi (1999); Andrews (2010); adapted by IEG.

3.3 An overview of progress in the budget cycle according to PEFA indicators is provided in appendix C, which clusters dimensions by (i) strategic budgeting; (ii) budget preparation; (iii) resource management; (iv) internal control and management; (v) accounting and reporting; and (vi) external evaluation (following Andrews 2010). Numerals are used to

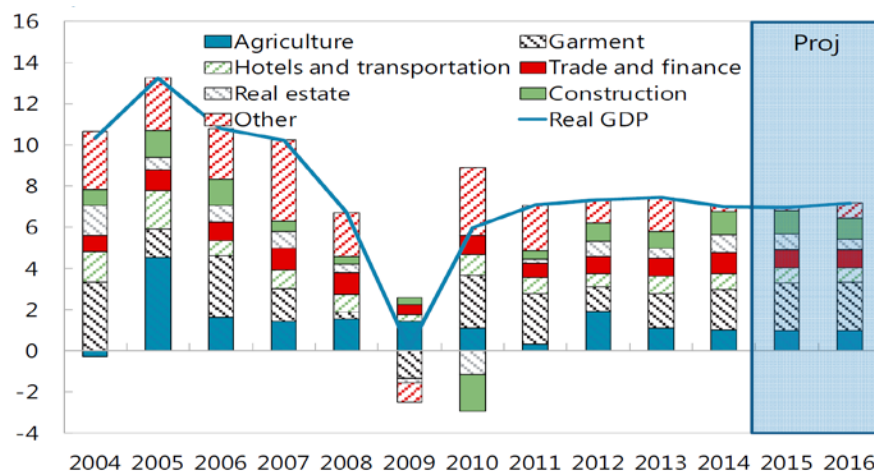
allow averaging out across dimensions.<sup>9</sup> There is some overlap across dimensions, because some dimensions contribute across clusters.

## Objective 1: Strengthen the Mobilization of Public Resources

3.4 By the outset of the project in the mid-2000s, the government’s ability to fund needed social and infrastructure investment was severely constrained by lack of adequate fiscal space. This lack was the product of a number of factors, including the high share of the wage bill in public expenditures and inefficiencies brought about by the lack of capacity and by corruption. The most important limitation, however, was revenue, which at 10.8 percent of GDP in 2005 was among the lowest in the world. Since then the situation has changed rapidly. An average annual GDP growth of 7 percent between 2006 and 2014 has almost doubled real GDP, despite a temporary slowdown in 2009 brought about by the financial crisis. Furthermore, tax collection has become more effective, and the tax base broader, and revenue was projected to have increased by 70 percent by 2015, to about 17.5 percent of GDP.

3.5 The main drivers of economic growth have been the garment, construction, tourism, and agriculture sectors. More generally there has been a structural change in GDP, away from traditional agriculture, toward cash crops, industry, and services, in parallel with greater formalization of the economy. Figure 3.1 displays GDP growth and its components since 2004.

**Figure 3.2 Growth and Contributing Factors (percent of GDP)**



Source: Cambodia: 2015 Article IV Consultation (IMF 2015).

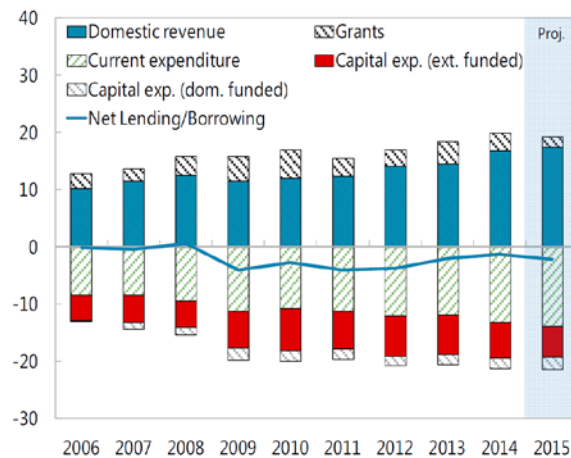
3.6 GDP composition has been relatively stable during the past 10 years, with a certain amount of volatility in industry, a somewhat increased share for services, and a slight diminishing of the importance of agriculture. The level of formality within the economy has also increased moderately, as reflected in increased formal employment—up from about 15

<sup>9</sup> Numerical scores are applied to allow for averaging. The PEFA score “A” is given the highest value of “4,” and the PEFA score “D” is given the lowest value of “1.”

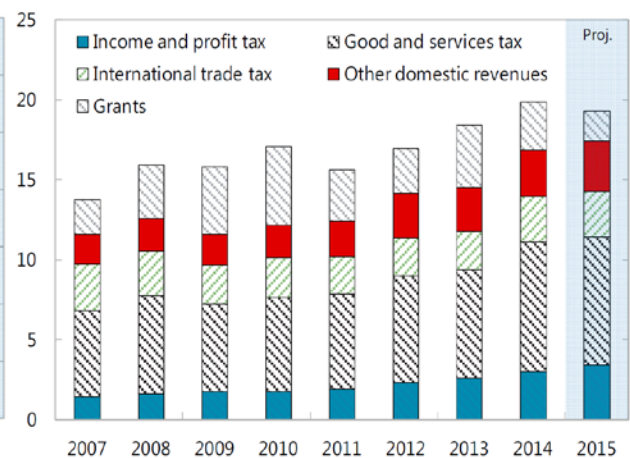
percent of the workforce to 17 percent. Given the relatively more capital-intensive nature of formal activities, this growth in formal employment is underlined by a shift in the economy away from informal production, and thus toward an expanding tax base.

3.7 The evolution of fiscal revenues has been steady and continuous. Figures 3.3 and 3.4 summarize the evolution of fiscal balance and fiscal revenue and their main components. Tax revenue increases are attributable to a more than doubling of income and profit tax, tax on goods and services (including a 10 percent value added tax), and other domestic revenues. Tax on international trade, however, have remained a constant share of GDP. Overall, even though the gap with comparator countries has been narrowed considerably, tax collection in Cambodia remains below the level of other regional low-income countries.<sup>10</sup>

**Figure 3.3 Fiscal Balance (percent of GDP)**



**Figure 3.4 Fiscal Revenue (percent of GDP)**



Source: Cambodia: 2015 Article IV Consultation (IMF 2015).

### Factors Determining Improved Tax Collection

3.8 This objective of the project was to strengthen the mobilization of public resources. The PDO indicator, retrofitted into the project monitoring and evaluation (M&E) at the time the first ISR was prepared, was: “increases in tax and nontax revenues as a percentage of GDP, and accountable stewardship of oil revenue.” The above analysis demonstrates that this goal has been achieved and exceeded since the project closed. More specifically, as discussed elsewhere, lack of progress in the petroleum sector meant that any support to this area would be delayed until its viability could be confirmed—and this remains uncertain. Progress on revenue targets is presented in table 3.1.

<sup>10</sup> For example, Vietnam, Lao PDR, and the average of Bangladesh, Bhutan, Mongolia, and Nepal. In the case of Vietnam, the narrowing of the gap is explained by a significant fall in tax collection (over 5 percentage points of GDP since 2009).

**Table 3.1 Progress in Tax, Nontax, and Revenue (as percent of GDP)**

Indicator	Revenue as % GDP	Tax as % GDP	Nontax as % GDP
2005 Baseline	10.3	7.6	2.2
End target	11.9	9.2	2.6
2013	14.9	11.7	1.8
2014 (estimate)	16.9	13.9	n/a
2015 (projected)	17.5	14.4	n/a

*Sources:* World Bank 2014 and IMF (2015).

*Note:* Total revenue figure not fully consistent between the IMF and the ICR; the former is 0.4 percent of GDP lower. The difference is minor. Tax revenue figures are consistent.

3.9 The following explanatory factors are the main contributors to improved domestic resource mobilization:

- **No new sources of revenue.** The petroleum sector might have provided additional revenues to the economy, but so far it has not, and other nontraditional sources have not been developed during the past decade.
- **The introduction of new taxes.** Since fundamental changes in tax policy were introduced in the 1990s (including a 10 percent value added tax in 1999), taxation has remained quite stable in terms of types of taxes and rates. The only exceptions concern the introduction of an accommodation tax in 2006 and an immovable property tax in 2011 (both of which make minor contributions to revenue). Furthermore, according to information provided to IEG, taxes are not scheduled to be revisited until the latter part of the present decade. The only exception concerns the further removal of external tariffs among Association of Southeast Asian Nations members, which is projected to result in loss of revenue and will require compensatory measures. In summary, the increase in fiscal revenue is not attributable to new taxes or changes in rates.
- **Changing structure of the economy.** There is evidence that the types of structural changes and growth experienced by the Cambodian economy result in increased tax revenue relative to GDP, especially when starting from a low base. A 2007 IMF study concludes that “structural factors such as per capita GDP, share of agriculture in GDP (negatively), and trade openness<sup>11</sup> are strong determinants of revenue performance.” However, it appears that these factors alone only explain some of the gains experienced by Cambodia—there is insufficient basis for estimating how much.
- **Policy and institution reform.** The low levels of tax collection in the early 2000s (one of the lowest in the world, World Bank 2006, p. 2) reflected low administrative efficiency and inadequate systems. The aim of the program supported by the project was to increase tax revenue through greater compliance brought about by enhanced

<sup>11</sup> With export and import to GDP ratios (according to World Development Indicator data) averaging 60 percent and 65 percent between 2006 and 2014, Cambodia can be considered an open economy.

tax administration. These improvements, the details of which are discussed below, would appear to have contributed to the attainment of the PDO indicator. The detail of the activities undertaken and attribution to various factors is discussed below.

### **Progress under the Program**

3.10 The program underpinning the project included policy and institutional reforms as well as capacity building. The consensus among both government officials and Bank staff interviewed by IEG, reinforced by evidence from documentation, is that there were important reforms upstream from the project that paved the way for the subsequent improvements in tax collections by increasing transparency and limiting leakages. In terms of World Bank instruments, two complementary operations supported this objective: the project under review in this document and the first Poverty Reduction and Growth Operation (PRGO1), approved on July 17, 2007. These operations shared the objective of improving resource mobilization and had a similar goal of increasing tax with respect to GDP.

3.11 Specifically, the following reforms were important:

- ***Processing of customs declarations through ASYCUDA (Automated System for Customs Data)***. While the intention was to expedite customs clearance and reduce physical inspection, this measure may have also helped the collection of import duties. Trade reform was not part of the project reviewed here, but was supported by PRGO1.
- ***Mandatory use of bank accounts for revenues and payments***. The prior action under PRGO1 was to “increase reliance on the banking system for tax and customs payments, and for RGC payments to creditors and civil servants via transfer and/or check.” This was achieved by: (a) mandating that all customs and excise duties be paid by check at the National Bank of Cambodia in Phnom Penh and Sihanoukville (adopted in December 2004; effective September 1, 2006, with a clarifying instruction in March 2007); and (b) launching the pilot program to pay civil servants—nearly 300 staff in MEF and the Ministry of Health—by transfer to private commercial bank accounts, beginning in August 2006. This reform was thus initiated before the project was approved, but supported through the same MDTF.
- ***Establishment of TSA***. The TSA was established in 2003. Initially there were thousands of individual accounts managed by various branches of government. As implementation improved over time, this was reduced to one account, under the purview of the treasury. This helped establish a consolidated approach for collecting revenues and avoiding leakages and off-budget activities.
- ***The macro fiscal framework and forecasting ability*** of MEF saw significant improvement by 2009. MEF succeeded in developing a credible medium-term macro-fiscal framework (EAP report 2009). Further progress can be seen in 2014 EAP report, which indicated that the General Department of Economic and Public Finance Policy (GDEPPF) had developed a macro-revenue forecasting model. Further, regular economic outlook and update reports (for 2012–2014 and 2013–2015) were developed.

3.12 According to the 2015 PEFA (PEFA 2015, p. 80), the implementation of the last two measures is incomplete. The assessment notes that there are still significant unreported extra-budgetary operations (C score for PI-7), which are supported by “possible non-declaration of nontax revenues and unauthorized opening of bank accounts.”

3.13 The MEF, outside the project, also implemented incentives for tax inspectors in the form of a share of recovery as a result of enforcement to improve tax collection. As discussed further below, this approach may have been at the expense of a worsening investment climate. Nevertheless, it is not inconsistent with similar measures taken elsewhere and has contributed to results.

### **Project Contribution**

3.14 The project aimed to support the modernization of the Tax Department, including strengthening of core tax administration functions and improvements in accountability arrangements, improvements in nontax revenue policy and administration, and oil revenue management. Oil management was dropped from the project because commercial viability proved elusive, even though some work in this area may have continued under the overall program.

3.15 The ICR (World Bank 2014) reiterates a list of broad areas within the purview of the project through improved tax administration and broadening of the tax base. Without providing additional information or specifying how the project intervened in these areas, it lists other contributions (p. 16): “The use of banking system for tax payments was promoted. Circulars on measures to collect revenue information were developed. Self-assessed regime on property tax, tax auditing, and collection of tax arrears was initiated. In addition, nontax revenue and property taxes and associated decrees were introduced and the medium-term revenue mobilization strategy 2014-2018 was developed.” The impression that support to this objective provided by the project was limited is further reinforced by the 2012 EAP report, which fails to mention the project, stating instead that “Numerous tax advisors from the U.S. Treasury, ADB and from JICA (long-term advisor) have assisted the General Department of Taxation.”

3.16 The PDO indicator for this objective was an increase of revenue in relation to GDP, which was fully met. However, as explained above, this result is only partially attributable to the operation. There was no intermediate outcome indicator associated with this objective. PEFA indicators may act as a proxy instead, and relevant dimensions are summarized in table 3.2.

3.17 Despite the progress shown in overall tax collection, the PEFA assessments reflect lack of progress or regression across the indicators. It should be noted that even though the PEFA report dates are 2010 and 2015, they are based on data collected during 2007–08 and 2013–14. The interval closely matches the period during which the project was implemented, and therefore these results may be associated with the effectiveness of actions supported by the project.

**Table 3.2 PEFA Assessment of Tax Inflows**

<i>PEFA indicators (inflows)</i>	<i>2010</i>	<i>2015</i>	<i>Comparability</i>
PI-13 Transparency of taxpayer obligations and liabilities	B	C+	no
PI-13 (i) Clarity and comprehensiveness of tax liabilities	B	C	no
PI-13 (ii) Taxpayer access to information on tax liabilities and administrative procedures.	B	B	yes
PI-13 (iii) Existence and functioning of a tax appeals mechanism.	C	C	yes
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	D+	no
PI-14 (i) Controls in the taxpayer registration system.	C	D	no
PI-14 (ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	C	C	yes
PI-14 (iii) Planning and monitoring of tax audit and fraud investigation programs.	C	C	yes
PI-15 Effectiveness in collection of tax payments	D+	D+	yes
PI-15 (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	D	yes
PI-15 (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	B	yes
PI-15 (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	C	C	yes

*Sources:* PEFA 2010, 2015.

3.18 One indicator (PI-13) also has a bearing on the investment climate and can be seen through the findings of a 2014 Investment Climate Assessment (World Bank and ADB 2015).<sup>12</sup> This assessment, based on a survey of firms undertaken in 2012, concludes that taxes are becoming an increasing constraint (ranked fourth-highest). More recent evidence provided to the IEG mission suggests that tax administration is also seen by businesses as lacking in transparency and accountability. Even though these perception surveys have limitations, they tend to reinforce the PEFA findings and underline the need for further improvements in tax administration.

### **Assessment**

3.19 The project supported an important objective. It was largely attained though follow-up of reforms started prior to project approval, the government's own efforts, technical assistance by development partners (notably the IMF), and limited financing by the operation. The IEG assessment was unable to confirm whether the same level of progress

<sup>12</sup> [The Cambodia Investment Climate Assessment 2014 \(World Bank and ADB 2015\).](#)

would have been achieved without the project. This is partially due to the dispersed nature of the support that was funded, as well as the involvement of other actors and exogenous factors, most notably structural changes in the economy.<sup>13</sup> Notwithstanding the above, this objective is rated **substantial**, reflecting high achievements in terms of revenue collection, but less progress in related institutional reform areas.

## **Objective 2: Improve the Management of Public Resources**

3.20 Public financial management was perceived as a major bottleneck for the effective delivery of services. It was also seen as carrying significant fiduciary risks. The 2003 IFAPER (World Bank and ADB 2003) noted a number of major shortcomings, including the consequences of the cash-based payment system on budget execution, deficient accounting and reporting, poor budgeting and planning, insufficient capacity of the oversight institutions, and inadequate procurement practices. This cumulated in poor allocative and operational efficiency, as evidenced by the PEFA indicators at the time. The dimensions concerning control over spending, control over taxes, accounting and reporting, and internal as well as external control procedures were reflected as important shortcomings, with the majority of indicators scoring C or below.

3.21 Following the 2003 IFAPER, the government set in motion the Public Financial Reform Program (December 2004), which was a strategic vision for PFM policy reform and contained a two-phase implementation plan in order to address the aforementioned deficiencies. This effort was supported by the MDTF (2005) and the PFMAP (2006), which followed the structure of the government reform program closely. This donor engagement was designed in close collaboration across development partners, but was not strictly speaking a sector wide approach. Coordination mechanisms weakened over time, and support outside this mechanism was increasingly provided by others, including the IMF, the Asian Development Bank (ADB), and bilateral partners.

3.22 The intervention logic conceptualized for assessing efficacy stipulates that various inputs (including support to the legislative, human, and organizational capacity and FMIS) contribute to the various stages in the budget cycle, which subsequently impacts fiscal discipline, strategic allocation of resources, and operational efficiency. Progress in the budget cycle and final outcomes are measured in keeping with project indicators, or other sources, including PEFA indicators. The latter are clustered around the various stages of the budget cycle, in accordance with Schiavo-Campo and Tommasi (1999) and Andrews (2010), and are enumerated to allow for averaging across dimensions (summarized in appendix C). This section first summarizes the World Bank and development partners' contribution to the PFM reform program, gives an overview of various outputs that support has contributed to, and infers potential impact on the more medium/long-term PFM outcomes.

### **Project Inputs to the PFM Reform Program**

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<sup>13</sup> Petroleum is an area where the project would have contributed in a key, well-defined area (to which most of the financing for resource mobilization was allocated). This support was abandoned once it became clear that this sector's development was slower than anticipated.



3.23 The operation made provisions through three components: (i) budget formulation, (ii) budget execution, and (iii) capacity building. Through these components a number of activities were to be financed, including strengthening the legal framework, the macro-fiscal framework and revenue forecasting, debt management, installation of commitments and payments systems including an FMIS, cash management, consolidation of bank accounts, the reduction of payment arrears, procurement, redesigning the accounting and budget classification system, introduction of internal audit to line ministries, piloting program-based budgeting, and providing training.

### **Project Contribution**

3.24 **Legal framework.** The annual draft budget law and the budget settlement law are prepared on the basis of the Law on State Budget System, which was promulgated on May 13, 2008. Various sub-decrees have since been issued, including the critical decree that only state public accountants are authorized to handle treasury funds (Article 72), which makes the General Department of National Treasury (GDNT) the sole institution in charge of paying suppliers and personnel. It was further stipulated that annual financial statements should include (i) a trial balance; (ii) status of budget revenue; (iii) status of budgetary expenditures; (iv) status of operations recorded in special accounts; and (v) income statements (Article 113), and that all revenues should be fully recorded and not used to directly offset expenditures.<sup>14</sup> The target of a legal framework for the supply of data to MEF is considered met.

3.25 **Uniform account code structure.** According to the EAP report in 2012, the following activities had been completed: adoption of a budget classification and COA based on international standards such as International Public Sector Accounting Standards (IPSAS), Classification of the Functions of Government, and Government Finance Statistics (GFS). The IMF provided considerable technical assistance in this area. The 2015 PEFA notes that the COA from 2007 was updated and revised in accordance with international standards in 2013, and it produces statistics largely consistent with GFS 2001.<sup>15</sup> The functional classification has been used to illustrate the purpose of the expenditures by sector or subsector, and program budgeting has been introduced on a pilot basis, covering eight line ministries in 2014.<sup>16</sup> However, while administrative and economic categories were being used during budget formulation and reporting, functional and program budget reporting were not yet implemented. Table 3.3 provides an overview of the budget classification status.

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<sup>14</sup> For more details, see [PEFA 2015](#).

<sup>15</sup> See the [IMF Government Financial Statistics Manual \(IMF 2001\)](#).

<sup>16</sup> In a 2014 speech, the minister of finance reported that some building blocks were in place and would be built upon between 2015 and 2018. “We have been gradually preparing for this through starting execute budget strategic plan and program budget pilot since in 2008 and we have also prepared for implementing full program budgeting in ten ministries in 2015. Next, we will persuade other line ministries-institutions to voluntarily implement full program budgeting and strongly expect that all ministries-institutions are capable to implement the full program budgeting by 2018.” ([Workshop on Program Budgeting and Budget Entity for Line Ministries, October 16, 2014](#))

**Table 3.3 Overview of the Classification of the 2014 Budget**

<b>Category</b>	<b>Budget formulation</b>	<b>Budget reporting</b>	<b>Remarks</b>
Administrative	yes	yes	37 votes for central government budget entities 24 votes for provinces and capital city
Economic	yes	yes	Coding structure is largely consistent with GFS and produces GFS-compliant information by means of a bridge table.
Functional	(yes)	no	Only using 4 sectors/functions; that is not classification of the functions of government compliant.
Program	(yes)	no	Program classification used partially for 8 pilot ministries only.

*Source:* PEFA 2015.

**3.26 Program Based Budgeting (PBB)** has been piloted and is currently implemented in 25 key line ministries (out of a total of 40). The implementation of Program Based Budgeting as done in Cambodia has however led to a proliferation of transactions that has become unmanageable and a risk to budget management and execution. This is so because of a breakdown of programs and sub-programs into a very large number of activities and budgetary controls have been placed at the activity level (rather than sub-program level), meaning that budgetary allocations and spending have to be made at this level. With an estimate of about 10,000 activities across government, this is unmanageable, even with a functioning FMIS. This is particularly unsuitable in an environment of a treasury centric FMIS as implemented in Cambodia as it is not possible for the line ministries to enter their transactions directly in the system, and the FAD department is over loaded with transaction data entry.

**3.27 Budget comprehensiveness.** Off-budget revenues and expenditures remain a problem, despite being considered largely eliminated by the latest EAP report. The PEFA 2015 estimates that unreported extra-budgetary expenditure made up between 5 and 10 percent of total government expenditure, excluding externally financed projects, which also remained mostly off-budget. Given that aid has made up a significant share of the total expenditure (up to 30 percent), this undermines the government's ability to plan and allocate resources efficiently.

**3.28 Procurement.** The procurement authority was successfully devolved following an effort to promote economy, efficiency, and transparency. A procurement law was drafted, and written into law in 2012. While Bank comments were not fully taken on board, this still provided for a sufficiently adequate legislative base. However, implementation was partial, because implementation decrees have not been completed. Actual procurement practices have not improved much. In particular, the use of competitive procurement methods still lags, and no independent procurement complaints mechanism has been set up (PEFA 2015). While the General Department of Public Procurement conducted annual procurement audits at line ministries and performance reports were submitted to the MEF, there is scant evidence of recommendations or action plans to improve procurement practice.

3.29 Improvements in procurement were to be measured through the reduction in the price differential between the market price and what the government pays. The baseline was 20 percent, and the target was 15 percent. However, the indicator was not tracked but given interviews with key stakeholders and the fact that the bulk of procurement in terms of value (public works, water, and rural development) continues to be done through direct contracting this was unlikely to have been met.

3.30 There is some indication that the IPA has helped build confidence and experience among bidders on World Bank projects, and raise expectations that government tenders can be won without corruption. However, the PEFA provided no evidence of a positive impact on country procurement systems generally. The important sub-decree 105, was enacted in 2006, and thus before project inception or the IPA.

3.31 **TSA.** Significant progress has been made with regards to the TSA. In 2006, a year prior to project effectiveness, 234 accounts the TSA were closed or consolidated. By 2009 the number of accounts held outside the TSA was further reduced to 90, all at the sub-national level (EAP 2009), and by 2012 all commercial bank accounts that contained government monies were closed. There is strict control on the opening of new accounts, which can only be done through written approval from the MEF. In 2015, there were 1,037 live accounts with the National Bank of Cambodia, most of which appear to be project accounts opened at the request of development partners. An internal assessment found that no government bank accounts operated outside TSA, except for bank accounts for execution of donor projects, managed by project implementing agents at line ministries. The TSA coverage has been extended to all municipalities/provinces, and the daily consolidated total is known and used as an input to cash management (see PI-17(ii)). Almost all revenue is collected through revenue accounts held at the National Bank of Cambodia and/or commercial banks. On instructions from the GDNT, commercial banks transfer deposits to the TSA (national or provincial) on a daily basis. The respective PEFA indicator (PI-15(ii)) scored a B, reflecting that tax revenues are transferred to the TSA at least weekly (PEFA 2015).

3.32 However, in keeping with current policy, large amounts of money are advanced to line ministries to deal with capital projects and programs to be undertaken during the course of the fiscal year. These advances are deposited by the treasury in commercial bank accounts opened by the line ministries, who seek authorization from the FAD/DI prior to the transfer of the advance to the commercial bank. However, after the advance account has been set up and the specified amount is transferred by the treasury into the bank account owned by the line ministry, the ministry can transact expenditures against this advance without reference to the controlling departments FAD or DI. This may create idle balance problems as such funds are placed in commercial banks outside the TSA and control of the treasury.

3.33 **Revenue and cash management.** Guidelines for cash management were developed and promulgated in 2013. Significant inroads have been made regarding revenue predictability, in part owing to forecasting assistance from the IMF. In recent years, deviation from budget was at around 5 percent, warranting PEFA scores in the vicinity of an A or B. Cash outflow forecasts also have improved and are prepared and updated quarterly on the basis of actual past cash flows and reforecasts for the remainder of the year. Forecasts,

however, are rarely based on agency procurement plans, which are not sufficiently developed. Overall cash balances are monitored daily by the Cash Management Technical Committee. Reflecting progress, the respective PEFA indicator improved from C to B between the 2010 and the 2015 assessments. The indicator for quarterly outturn for non-salary expenditure as a percentage of the budget can be considered met. It increased from Q1, 7 percent; Q2, 18 percent; Q3, 45 percent; and Q4, 70 percent to Q1, 13 percent; Q2, 37 percent; Q3, 62 percent; Q4, 100 percent in 2012, coming close to the target of Q1, 15 percent; Q2, 40 percent; Q3, 70 percent; and Q4, 90 percent.

**3.34 Financial Management Information System.** The largest intervention area of the project was the FMIS, which covered about 30 percent of project financing. Further leverage to streamlining budget execution processes was also provided through a prior action under the PRGO, which became effective in January 2007.<sup>17</sup> However, because of factors discussed in section 2 and appendix B,<sup>18</sup> the original FMIS tender was unsuccessful, and following five years of failed procurement the contract awards finally collapsed in 2012. The project team used the lessons learned from the failed procurement experience to develop a revised design, procurement, and implementation strategy, after which progress seemed imminent. However, the project did not contribute to the actual procurement of the system and implementation work, which was done under the follow-up operation. **Progress to date:** By early 2016, a treasury-centric FMIS was procured under a subsequent MDTF, and the general ledger and budget allocation modules were implemented in a number of departments (treasury, budget, fiscal, investment, and cooperation and debt management) and rolled out to all provincial treasuries. Since then, all in-year budget changes (such as transfers) were performed directly in the FMIS. By the end of 2015, some departments (fiscal, investment, and cooperation and debt management) had started entering expenditure transactions directly into the FMIS. This means that core functionality in the FMIS related to budget execution has been implemented. End users in participating departments have started using the system for the performance of their day-to-day work, and key revisions in the way they perform their business processes have been implemented. Achievement of this milestone enables full implementation of comprehensive transaction processing, including all steps from Procure to Pay (P2P) and report-generation facilities. A key feature of the change that has taken place is that several departments have now turned to the FMIS to perform their day-to-day operational tasks, instead of using separate, stand-alone processes and systems for this purpose. By the end of 2015, an average of about 200 transactions per day were processed through the system by various users. This confirms that the end users are using the system on a daily basis for the performance of their day-to-day functions. Further, the budget department has loaded the detailed budget data for line ministries and subordinate departments into the system. While this progress is mostly attributable to the implementation of the follow-up MDTF, the PFMAP contributed by developing an adequate design and implementation strategy. Further,

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<sup>17</sup> See [PRGO Program Documents](#).

<sup>18</sup> These factors include scope that was too ambitious (work ranged from upstream budget preparation and analysis systems to a comprehensive, fully functioning accounting systems); specifications that were too generic, and not bound by a resource constraint; implementation arrangements that were not sequenced; there was no prioritization of modules, which overburdened country capacity; and preconditions for FMIS implementation were not given at the time.

both the Bank and the government learned procurement lessons during the failure of the original tender that have facilitated progress since.

3.35 While significant progress has been achieved and a treasury-centric FMIS is functional, the achievement of the indicator “FMIS implemented across central ministries” is mostly attributable to the follow-up operation.

### Outcomes

3.36 **Strategic allocation of resources.** Integrated policy, planning, and budgeting is fundamentally about having expenditure programs that are driven by policy priorities and disciplined by budget realities. Significant inroads have been made in some of these dimensions, especially strategic budgeting and budget preparation. Improved revenue predictability has allowed medium-term expenditure frameworks to be based on a more reliable resource envelope.<sup>19</sup> These frameworks also have been institutionalized, and advanced budgeting methods have been piloted.

3.37 However, strategic budgeting continues to be undermined by a number of factors. The variance in expenditure composition is excessively large, at around 30 percent since 2011 (PEFA 2015), indicating that the budget is not a useful statement of policy intent and that progress in credibility of the budget at the budget head level is still lacking. Table 3.4 gives an overview by budget head.

**Table 3.4 Variance in Budgeted and Actual Expenditure by Budget Head (percent)**

<b>Budget head</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Education, Youth, and Sport	12.1	9.6	7.3
National Defense	1.4	3.7	3.3
Public Health	2.7	1.6	1.0
Interior – Security	0.3	5.0	3.3
Social Affairs and Veteran	8.7	2.2	4.8
Council of Ministers	112.2	11.5	11.4
National Assembly	1.1	0.1	2.9
Agriculture, Forestry and Fishery	1.5	9.8	29.3
Economy and Finance	134.9	24.8	12.6
Rural Development	206.5	154.0	224.3
Labor and Vocational Training	20.9	6.6	10.7
Foreign Affairs and Int'l Cooperation	6.6	2.8	3.0
Urbanization and Construction	5.4	24.9	30.9
Interior Administration	39.2	-	-
National Election Committee	-	2.94	15.4
Reserve earmarked	54.7	39.6	72.2
Provincial	31.5	34.0	16.2
Other 23 ministries	110.1	87.2	66.2
Total expenditure allocated (Variance PI-2)	37.9	25.4	30.4

Source: PEFA 2015.

<sup>19</sup> Also, annual debt sustainability analyses rendered the budgeting responsible.

3.38 The failed FMIS procurement has delayed progress in strengthening commitment controls. The PEFA scores that reflect effectiveness of internal controls remained stagnant at a C for the dimensions of expenditure commitment controls, comprehensiveness, and compliance (see appendix C). While this carries risks with regard to the accumulation of arrears, it also means that it is difficult for government to enforce the implementation of the annual budget law. In other words, even if budgets are made available according to the strategic plan, there is no guarantee that funds would indeed be spent on these programs/activities/items.

3.39 Another issue undermining strategic allocation of resources is the insufficiently comprehensive budget, as noted above. While this has been addressed in the reform program, 5–10 percent of government expenditures are estimated to be off-budget. An effort has been made to integrate donor funds into the budget and planning, with limited success, mostly with partners providing concessional lending. Given that wages and interest make up a large share of the remainder, government has effectively little flexibility in reallocating expenditures to priority areas, at least in the short to medium term.

3.40 **Operational efficiency.** Operational efficiency of the public financial management system has improved in some areas. As mentioned above, a TSA was gradually introduced, and the use of commercial bank accounts was reduced.<sup>20</sup> Prior to the TSA, large amounts of government funds remained in commercial banks, outside the central bank and outside the control of the treasury. This meant that there was no access to these funds, and government had to resort to deficit financing through overdrafts from the central bank to meet its cash requirements (another example of such a situation is Zambia). Further, efficiency gains were also achieved by transitioning from a cash-based system to bank accounts. While many of these changes had been initiated prior to the project, it was the same MDTF that supported the initiative, and the project was important in helping the government transition.

3.41 On the downside, there are a number of inefficiencies in public expenditure management. There remain significant arrears, which drive up average prices, are a source for operational inefficiencies, and generally reflect poor fiscal management. The 2012 EAP report notes that there “are still serious noncompliance and tax arrears problems and also still significant arrears in nontax revenues. Further, actual expenditure arrears continue to be underreported due to the system of batching multiple invoices into single payment orders.” The 2015 PEFA estimates arrears between 20 and 25 percent of total expenditure over the period of 2011–13, and thus scores the dimension as D. The majority of this is however related to debt interest and penalties arising from loans to the old regime (see table 3.5). Factoring out debt service arrears, which are stock and not flow, shows that expenditure payment arrears remained at about 7.5 percent. By comparison the 2003 IFAPER 2003 estimated arrears at 7.8 percent of total spending<sup>21</sup>. While the EAP assessments have reported progress, 7.6 percent still constitutes a high percentage of total expenditures. In

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<sup>20</sup> Donor funds still largely use commercial banks.

<sup>21</sup> This figure is likely to be underestimated since it covers only payment orders that have been charged against Treasury off-setting accounts and does not capture arrears to many of the smaller companies in the form of payment orders nor does it capture arrears arising from unauthorized commitments made by spending agencies.

addition to the problem of arrears, the PEFA notes that the process within line ministries before the payment order is approved and sent to the GDNT is cumbersome and can take a long time. It should be noted that the limited functionality of the treasury system at the time was unable to handle the tracking of expenditures by due date. Current progress in FMIS implementation gives confidence that this issue may be resolved, and the risk of continued accumulation of arrears can be managed through improved internal controls.<sup>22</sup>

**Table 3.5 Breakdown of Expenditure Payment Arrears**

	2011	2012	2013
Total expenditure (riel, billions)	7,461	8,157	8,390
Stock of payment orders over 60 days at year end,	321	494	471
Salaries unpaid at end of year	249	272	157
Debt service arrears	1,143	1,143	1,143
Total expenditure arrears (riel, billions)	1,713	1,909	1,771
As a percentage of total expenditure	23.0	23.4	21.1
Net change	n/a	+11%	-7%

*Source:* PEFA 2015.

3.42 Substantial public spending (nearly 8 percent of GDP) takes place through the public procurement system. It was 9.5 percent of GDP in 2013, 7.9 percent in 2014, and is projected to be 7.7 percent in 2015. A well-functioning procurement system should ensure that money is used effectively for achieving efficiency in acquiring inputs and value for money in delivery of programs and services by the government. However, as discussed above, competitive procurement rules and regulations are not adhered to for important transactions. The PEFA notes competitive processes, public access, and the complaint mechanisms as problematic. No information was available on price differentials, which was the relevant indicator.

3.43 Further, deficiencies in the internal control system, limited effectiveness of oversight institutions, and limited citizen engagement due to opaque processes reinforce the view that much could be done to improve efficiency in the use of public resources. Support to audit institutions is discussed in more detail below.

### Assessment

3.44 There has been moderate progress toward the objective of strengthening the management of public resources, as evidenced by developments in the PEFA scores (see table 3.6 for aggregates and appendix C for a breakdown). Expected benefits from implementing an FMIS have not yet materialized as the contract failed under the project, and procurement and implementation have only recently begun under the follow up operation. The contribution of the project to the FMIS was through an eventual adequate design, procurement, and implementation strategy (as evidenced by good progress in the follow-up operation).

<sup>22</sup> Arrears are currently defined as payment orders that are older than 90 days after receipt by GDNT. This target has recently been reduced to 60 days. The internationally accepted definition of arrears is amounts unpaid more than 30 days from the date the invoice is received.

3.45 Some progress was achieved in aggregate budget credibility, mostly due to sufficient revenue performance and credible (aggregate only) expenditure outturns compared to the original budget. However, there remain reservations about the PFM system’s ability to foster strategic allocation of resources and operational efficiency. On balance, the management of public resources has been rated **modest**.

**Table 3.6 Enumerated PEFA Scores by Stage in Budget Cycle**

<i>Dimension</i>	<i>2010</i>	<i>2015</i>	<i>2010-15</i>
Strategic budgeting	2.8	2.5	↓
Budget preparation	2.9	2.9	=
Resource management	2.0	1.9	↓
Internal control, audit	2.3	2.3	=
Accounting and reporting	2.0	2.1	↑
External accountability	2.4	2.3	↓

*Source:* PEFA 2015; PEFA 2010; IEG calculation (see appendix C for more detail).

Numbers 1-4 reflect averaging out D-A scores, with D scoring the lowest).

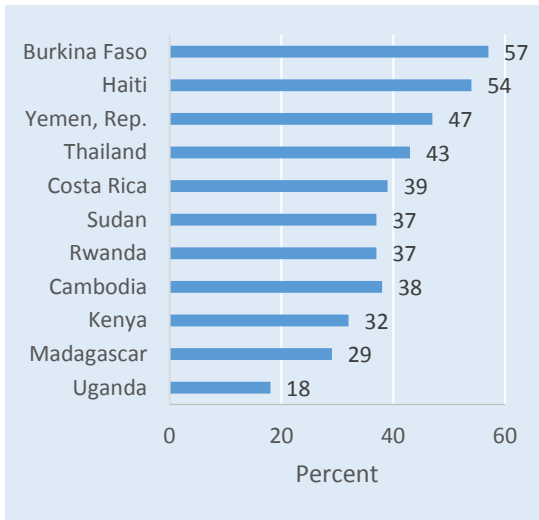
*Note:* When sub-dimensions were not comparable, they were not used for calculating averages.

### **Objective 3: Strengthen the Management of Human Resources**

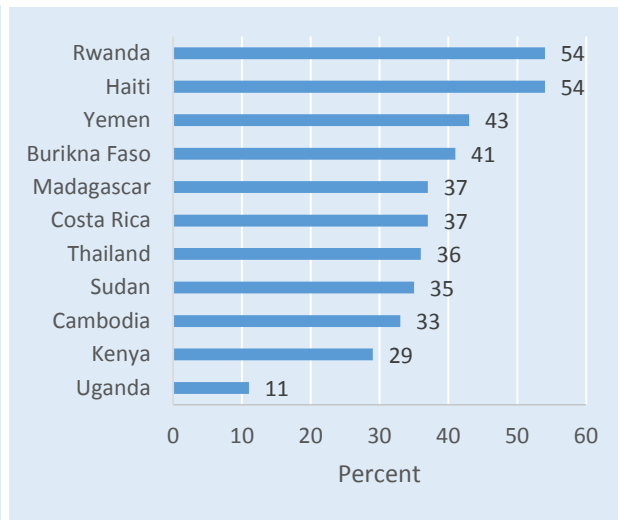
3.46 A well-functioning civil service is central to a government’s ability to deliver services and its commitment to poverty reduction. Cambodia’s civil service was considered dysfunctional and was beset by low pay and low skills, and thus low capacity. Further, the low level of salaries was seen as corrupting civil servants. The IFAPER 2003 notes that “comprehensive civil service reform will have to be accelerated in the short term and carried out over the medium term if the government’s vision of poverty reduction is to become reality” (World Bank and ADB 2003). The wage bill and number of civil servants at the time were comparable to or below peer countries (see figures 3.4 and 3.5), meaning that in an environment of strong economic growth that broadened the revenue base, there was sufficient space for reform.



**Figure 3.5 Wage Bill as a Share of Current Expenditures**



**Figure 3.6 Wage Bill as Share of Total Revenues**



Source: World Bank (2003).

### Project Inputs

3.47 The World Bank helped the government design and implement a civil service reform pilot. A Merit-Based Pay Initiative (MBPI) was set up with the objective of institutionalizing a pay enhancement program, where the selection of participants would be based on merit, and nonperformers could be removed. A common set of agreed criteria was set up, and the government agreed to pay an increasing share of the program cost over time. Significant resources were invested into capacity building, and political momentum was generated in the implementing agencies during the process. When the MBPI was abruptly abandoned in 2010, due to high level political interventions the Bank instead supported Priority Operating Costs, a program that in essence supplemented salaries and was fully donor financed. It was designed as an interim measure until a more permanent compensation program could be adopted. This program was terminated in 2012.

### Progress

3.48 While the MBPI approach was considered innovative and farsighted a number of design issues were noted: “(i) in the MEF the initiative was never linked—as originally intended—to a functional review, detailed job descriptions, selection criteria, performance appraisal criteria, and training requirements. Since none of these linkages have occurred, the scheme was never the merit-based arrangement intended; (ii) the MBPI was not implemented in the context of an agreed fiscal framework, which would have enabled the government to take on a larger share of its financing. The scheme’s expansion therefore constituted a fiscal risk; (iii) the selection criteria for receiving pay increases required staff to be designated as working on reform programs. This compromised the principle of equity within the same grade and led to resentment within the civil service; and (iv) a lack of adequate ownership by the Council on Administrative Reform (CAR) and its Secretariat undermined its sustainability” (Girishankar and others (2011)). It was piloted in the MEF and later expanded

to four ministries. Despite design issues, it was considered largely successful by the 2012 EAP report, as well as an independent evaluation. The latter concluded that it has been “significant in motivating personnel to work harder, for longer hours, and with some enthusiasm” (Kinder 2010). Select survey responses of upper and middle managers are given in the table below. It is noted that there were some shortcomings with regard to the transparent and merit-based selection process. Job descriptions were prepared, but at times with insufficient rigor. The evaluation did not, however, find evidence of pay-sharing, or use of the allowance for potential rent-seeking or fraud.

**Table 3.7 Merit-Based Pay Initiative Evaluation: Select Survey Responses**

Question	Yes	No
Do you work harder now than before you received the Merit-Based Pay Initiative allowance?	49	1
Do you work more hours now than before you received the Merit-Based Pay Initiative allowance?	28	2
Do you think the Merit-Based Pay Initiative is fair?	47	2
Has the Merit-Based Pay Initiative contributed to achievements of the PFMRP in your department?	48	0
Are you happy with your pay and allowances?	41	10
Have you thought about leaving the civil service?	9	40
Has your performance been appraised?	40	10

*Source:* Kinder 2010.

3.49 After the MBPI was abruptly cancelled, it was replaced by the POC, under which about 550 staff were funded. Nunberg and Taliencio (2012), however, note that the “POC lacked larger objectives such as fundamental civil service pay and management reform as the Merit-Based Pay Initiative had. Government framed POC as a short-term mechanism until a more substantial medium-term pay and employment reform could be put in place.”

3.50 Notable progress has been made in paying salaries on time, which has positive motivational implications for the civil service, and was possibly the single most important contribution of this objective. Salary payments improved from a 60–90–day delay before PFMRP to within the week of each worked month by 2014. Over the lifetime of the PFMRP, salaries were gradually channeled through the banking system. Currently all 190,000 civil servants are paid in this manner, with the exception of the military, police, judiciary, and parliament. Further, a hotline was set up to assist in the transition period. Salaries are now paid on time, there are fewer opportunities for corruption, and taxes are deducted directly at the source.

3.51 Despite the cancellation of the Merit-Based Pay Initiative and closure of POC, the government clearly recognizes the importance of incentive mechanisms in the salary structure, and some key reforms introduced under the Merit-Based Pay Initiative now form a

part of the revived civil service reform agenda.<sup>23</sup> The manager of the personnel department in the Ministry of Economy and Finance, who was in charge of the Merit-Based Pay Initiative and benefited from considerable training, was appointed secretary of state at the Ministry of Civil Service, established in 2013, and continues to champion the reform agenda. Much of the essence of the Merit-Based Pay Initiative is being carried forward and is—in part—being implemented in the Ministry of Civil Service. The experience with the Merit-Based Pay Initiative helped in designing and implementing the current reform program. One stakeholder noted: “it was easier to implement [the current reform program], as people were already familiar with the concepts. It was also easier to persuade the MEF and PM because of the positive previous experience.” Public administration reform is part of the Rectangular Strategy, and a working group on compensation reform was established with members of the MEF, the Ministry of Interior, and National Defense. The reform follows three principles: (1) fairness, (2) consistency, and (3) national budget affordability. Incentive systems are based on activities and outcome as defined in performance agreements at the beginning of the year. Bonuses are paid against delivered results. Mission interviews suggest that in the Ministry of Civil Service, this mechanism appears to be working reasonably well. While the MEF has agreed to finance this incentive pilot, it has not yet adopted it for its own staff. Whether this initiative can build the political momentum necessary across government is yet to be seen. The indicator that civil servants are increasingly managed according to merit- and performance-based criteria (World Bank 2011a), however, is still considered as largely unmet.

3.52 Pay levels increased from less than US\$50 per month in 2005, but continue to be low, at around US\$100 per month in 2012 for the lowest-level civil servants, due to slow progress in compensation reform. The project targeted to increase pay levels to between US\$150 and US\$600 per month using the merit-based pay system, by 2012. Since then, the salary structure has improved significantly (see table 11), but it is unlikely that it is yet sufficient to attract and retain the requisite skills or to avoid absenteeism. Further, recent increases across the civil service do not yet follow merit-based pay principles, and any pay rises are unlikely to be attributable to the project.

3.53 Since project close, under the 2015-2018 Public Administrative Reform there have been a number of developments including issuance of regulations to strengthen human resource management, an effort to develop civil service capacity, and remuneration reform including contractive staff.

**Table 3.8 Cambodia Salary Structure (Riels)**

<i>Sector</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<b>Administration and others</b>	344,000	424,000	552,800	700,500
<b>Teacher</b>	402,800	550,000	652,800	800,500
<b>Health</b>	360,000	550,000	652,800	800,500
<b>Police</b>	379,930	460,930	628,270	784,730

<sup>23</sup> Elements of the Merit-Based Pay Initiative carried forward include job descriptions, employment evaluation, and performance management.

<b>Military</b>	315,990	396,990	582,430	733,730
<b>Capital/Provincial Council</b>	800,000	800,000	800,000	870,000
<b>District/Khan Council</b>	500,000	500,000	500,000	650,000
<b>Sangkat/Commune Council</b>	100,000	200,000	360,000	480,000
<b>Chief of Village</b>	60,000	120,000	160,000	200,000
<b>Vice Chief of Village</b>	50,000	100,000	140,000	160,000
<b>Member of Village</b>	40,000	80,000	120,000	140,000

*Source:* Provided by Government.

### Assessment

3.54 A Merit-Based Pay Initiative was set up, evaluated as successful, but terminated in response to high level political pressures. The POC program was set up as an interim arrangement, and disbursed until 2012. However, it did not maintain the same performance focus and there was significantly less government ownership of the POC. While salaries have increased—mostly after the evaluation period—they remain insufficiently competitive in comparison with the private sector, and increases are unlikely to be attributable to the program. Incentive schemes have also not been commensurate with general salary increases, and there is currently little room for further salary increases, given concerns about expenditure composition. The IMF notes that further public wage increases should be contingent on fiscal performance and accompanied by broad civil service reform (see IMF 2015). Nevertheless, there have been notable positive—but narrow—developments with public administrative reforms within the Ministry of Civil Service, but these have remained within the ministry and have not permeated the entire civil service. The indicator “civil servants motivated by an effective incentive levels and managed by meritocratic procedures (improved productivity, performance, and conditions of service for skilled personnel)” is, at best, only partially achieved. Further, according to the PAD (World Bank 2006), success was to be measured by government willingness to take over paying for the Merit-Based Pay Initiative, which it did not. Given the above, achievement of this objective is rated **modest**. Strong advocates for reform within the Ministry of Civil Service, a positive experience (and familiarity) with the Merit-Based Pay Initiative by the Ministry of Finance and some line ministries, and recognition and support for reform by donors, including the IMF, provide optimism about further progress in the near future.

### Objective 4: Improve the Audit Capacity

3.55 The National Audit Authority (NAA) is the supreme audit institution, responsible for holding the executive branch of government to account. It is charged with reviewing budget settlement statements and presents its findings to the National Assembly and the Senate.

3.56 The role of internal audits is to independently examine and evaluate the system of internal controls to provide reasonable assurance of the achievement of operational objectives, accuracy of financial reports, and compliance with all applicable laws and regulations. A high-risk assessment can trigger an audit from the NAA.

## Project Inputs

3.57 The project design made provisions for building the oversight capacity of the NAA and allocated about 5 percent of project financing toward institutional capacity building. The component was dropped, however, because of insufficient support from the borrower, and all proceeds were reallocated. However, the Bank did support financial reporting through reviewing international public sector accounting standards through components 2 and 3, which affects the ability of the NAA to review financial transactions, and some limited attribution to NAA outcomes can be inferred. Also, provisions for internal audit support were made through establishing arrangements for managing internal audit standards and reviews and training. This section is organized by external and internal audit, where both outputs and outcomes are discussed.

## Progress in External Audit

3.58 At project inception, financial statements were rudimentary and incomplete, with essential information missing. In particular, trial balances were not included as part of the Budget Settlement Report submitted to the National Assembly. Financial statements were submitted very late. The 2007 draft Budget Settlement Report was submitted to the National Assembly more than 15 months after the end of the fiscal year, in contrast with a good practice benchmark of 6 months. Finally, financial statements were not presented in a consistent format over time. The PEFA 2010 noted that no national or international accounting standards were in use. This undermined Cambodia's audit capacity. The lack of quality and depth in financial statements made it difficult to scrutinize expenditure items. Also, late submission to the audit office made subsequent audits immaterial, as they were prepared late and findings would bear little relevance to current parliamentary debates. Further, delayed audit reports would weaken the accountability of controlling officers, who would typically have moved on to new positions during the time of hearing.

3.59 The timeliness of financial statements reported to the NAA has improved considerably. Provinces have become more diligent in the submission of their reports, allowing the GDNT to consolidate earlier. At the same time, there have been marked improvements in the submission of audit reports to the legislature. The relatively fast turnaround from submission of financial statements of the vote holder to the audit reports to the legislature is an improvement from the status quo and strengthens the accountability chain. Attribution to the project is however limited. Table 3.8 summarizes the respective PEFA indicators.

**Table 3.9 Timeliness of Financial Statements and Audit Reports**

Dimension	2010	2015	2015 Justification
PI-25(ii) Timeliness of submission of the financial statements	C	B	Submitted to NAA within ten months of year end
PI-26(ii) Timeliness of submission of audit reports to legislature	C	A	Audit reports submitted to legislature within four months of receipt

Source: PEFA (2015).

3.60 However, financial statements are incomplete, which inhibits the NAA's ability to perform a comprehensive audit. Statements as of 2013 do not show financial assets, bank

account balances, or liabilities. Furthermore, the scope of expenditures audited by the NAA is limited to just over half, with insufficient focus on systemic issues. Poor financial reporting and the limited scope of audits performed calls into question the quality and reliability of audit reports received by the legislative and undermines the progress that was made with regards to timeliness. The table below summarizes these developments.

**Table 3.10 Completeness of Financial Statements and Scope of Audits Performed**

<b>Dimension</b>	<b>2010</b>	<b>2015</b>	<b>2015 Justification</b>
PI-25(i) Completeness of financial statements	D	D	Essential information (including bank balances) is missing
PI-26(i) Scope/nature of audit performed	D	C	50-60% of total expenditure is covered

*Source:* PEFA (2015).

3.61 The PDO indicator of audit coverage of at least 50 percent of government expenditures (equivalent to a low C score in PEFA) has been met, albeit without any Bank support to the NAA. Audited expenditures are prioritized in accordance with the risk rating from internal audits. The indicator of annual financial statements audit report published has been met, though the reports published are summaries, and the last available report on the website is from 2012. The relevant PEFA indicators are summarized in appendix C, table C.6, and show that annual reporting and the government's audit capacity remain weak.

### **Progress in Internal Audit**

3.62 The Department of Internal Audit (DIA) was established in 2004 and made operational in 2005 following the separation of the audit and inspection functions. Before that, there was a unit in the MEF that monitored compliance through periodic on-the-spot visits, which were external to line ministries and did not follow a standard internal audit system. In particular, with the view to delegating greater expenditure management to line ministries, building up internal audit capacity in line ministries was critical. Today there remains an Inspectorate General Department in MEF, which also examines financial management processes in the line ministries. Its role and relationship with internal audit departments are not clear.<sup>24</sup>

3.63 There has been an effort to establish the internal audit unit as an integrated part of government financial operations. As part of the PFM reform program, arrangements were made for managing the internal audit function and establishing a cadre, including a capacity development program. An internal audit manual was drawn up, based on international audit standards.

<sup>24</sup> The role and relationship between the inspection and internal audit is being reviewed by the MEF. A draft on job segregation among two bodies is being prepared, although the sub-decree No.40 delegates power to head of ministries and institutions to determine the job, role and relation of the two bodies.

3.64 By 2015, 28 of 29 line ministries have established their respective IA.<sup>25</sup> The MEF achieved 80-90% of its internal audit plan. The PEFA 2015 estimates that approximately 57 percent of the line ministries achieved 50 percent of their internal audit plans. Generally, the extent of practical compliance with the applicable rules and regulations has been evaluated. Since 2010 capacity for system audit has been built, which is now estimated to take about 50 percent of staff time and provides for a more comprehensive picture. Every year the MEF's IA reports are submitted to the minister and the NAA. By mid-2016, the response to recommendations made in 2015 was considered satisfactory at a 90 percent rate. Procurement and internal control are a focus area reports reflect those finding.

3.65 At line ministries, audit departments produced a strategic audit plan and submitted their audit reports to their concerned ministers and to the NAA. The PEFA 2015 estimates that 73 percent of line ministries submitted audit reports to their ministers and 22 percent of them submitted such reports to the NAA. The indicator of each internal audit unit producing at least six reports to the responsible minister can be considered met. However, line ministries are not required by law to also submit their audit reports to the MEF, which receives a C score in the latest PEFA assessment. Further inroads regarding the quality of internal audits were made, and there have been better records of follow-up activities of previous audit recommendations. The 2015 PEFA notes that a fair degree of action is taken by many managers on major issues, but often with delay. It notes that the DIA receives a satisfactory response on recommendations in 60–70 percent of cases within a year. For line ministries, however, only 25 percent of audited units reported that the recommendations provided were followed. A summary of the relevant PEFA scores can be found in appendix C, table C.3, which shows that procurement and internal controls are very weak and the dimensions score mostly C or below.

### Assessment

3.66 Audit capacity has been built to a limited extent in some institutions, but important shortcomings remain. While the timeliness of financial statements and audit reports to the legislative branch has improved, the quality and scope of these reports is insufficient to provide an adequate base for their effective oversight function. Further, the project dropped the component related to the NAA, and there is thus no in-depth discussion of its capacity, as it would not be attributable. The project did support financial reporting, the quality of which did not however improve markedly. The 2015 PEFA notes the lack of any effective and independent external audit as a key shortcoming. The indicator 'strengthened external audit as measured by extent of audit coverage in line with international standards' cannot be considered as met. More progress was achieved in developing internal audit capacity, and on balance improved the objective of improved audit capacity is rated **modest**.

## 4. Efficiency

4.1 The operation has contributed to some positive returns, most notably through assisting the client in its transition from cash-based payments. Over the project period,

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<sup>25</sup> Internal audits for state owned enterprises are being created and no baselines or targets have been set up.

190,000 civil servants were gradually brought into the banking system with reduced lead times, fewer opportunities for corruption, and deduction of taxes directly at the source. The introduction of a TSA and associated reduction of idle balances would also have generated efficiency gains to government finances. No estimate of idle balances over the evaluation period was available.<sup>26</sup>

4.2 However, there were many efficiency shortcomings in use of project resources during project implementation. Most notably, almost half of IDA resources were spent on the administrative expense an IPA, which did not contribute to the project objectives (as discussed extensively under Relevance of Design). It lacked ownership by the MEF, and was cancelled at project closure because the government viewed it as not vital for—or as undermining—its long-term capacity building in procurement (as also noted in the ICR; World Bank 2014).

4.3 The FMIS procurement and implementation was inefficient. The process was initiated in 2007, and procurement eventually failed in 2012, which is a long time, even for a complex, two-stage ICB process. While valuable lessons have been learned from this failed procurement, and procurement capacity in government has been built during the process, this could have been achieved through other, more efficient means. Also, the procurement process could have been cancelled sooner, once it became evident that the original design was unlikely to succeed.

4.4 Another inefficient use of project resources was related to the abandonment of the Merit-Based Pay Initiative, which was considered successful during implementation but cancelled following internal political disagreements. The follow on program, POC, had little to no government ownership and lost most of the performance dimensions that made the MBPI stand out. It was entirely donor funded and not extended by the government after project closure. The MBPI did not translated into a comprehensive civil service reform, as set out during appraisal. It did however leave a mark and built some institutional and human capacity as is discussed in more depth under objective 4 above.

4.5 Finally, the closing date was extended for a cumulative period of 22 months, and MDTF resources were not fully utilized, reducing overall project efficiency.

4.6 The PAD estimates the economic and financial net present value (NPV) at US\$165 million (64 percent) and US\$273 million (138 percent), respectively. (World Bank 2006, p. 84) The economic NPV estimation was based on the elimination of supplier arrears, which would contribute to a more competitive procurement process and less risk exposure faced by the suppliers. The calculation estimates a 10 percentage point reduction in price differential in public procurement to market price. The 2015 PEFA estimates that considerable arrears and inefficiencies in procurement remain. While no information was available on price differentials, it is unlikely that these would have improved considering the above, and there was specific feedback by well-informed counterparts who stated that price differentials were probably still well above 20 percent. Further, the NPV estimate is based on greater

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<sup>26</sup> It should be noted that efficiency gains to country systems that may have accrued due to interventions (e.g. TSA, or reduction of arrears) are a matter of efficacy as per OPCS guidelines.



compliance due to enhanced tax administration and reduction in the leakage of expenditure. While revenue as a percentage of GDP improved, attribution to tax administration is partial and expenditure management remains problematic. The actual financial rate of return was not calculated in the ICR.

4.7 Major efficiency concerns with regard to the IPA, FMIS procurement and implementation, investments in pay reform that did not materialize, and various implementation delays render achievement of this dimension **negligible**.

## 5. Outcome Rating

5.1 The relevance of objectives was substantial, despite undue optimism in light of the available time and project resources. Relevance of design was rated modest, reflecting a credible analytical base, but at the same time, the results framework was fundamentally undermined by the inclusion of the IPA. The operation was relatively successful in the achievement of one out of four objectives—that of revenue mobilization, despite modest gains in institutional reforms. Achievements in managing public resources, managing human resources, and improving audit capacity were rated modest. While they did set the stage for ongoing reform, they fell short of expectations for end-of-project outcomes. In addition, the efficiency in the use of project resources was negligible.

5.2 The project supported two higher-level objectives related to reduced corruption and improved service delivery. There is no evidence of significant progress between 2006 and 2014 in either area. With respect to the former, Transparency International perception surveys continue to classify Cambodia as one of the most corrupt countries in the world.<sup>27</sup> Similarly, a broader IEG study of governance and anticorruption efforts issued in 2011 denotes modest progress (Girishankar and others 2011).<sup>28</sup> There is a similar narrative in the case of public service delivery. According to the 2011 IFAPER (World Bank 2011b),<sup>29</sup> this activity has been hampered by delays in civil service reform (according to interviews conducted by IEG, this remains the case).

5.3 Reflecting the substantial relevance of objectives, modest relevance of design, modest efficacy on three objectives, negligible efficiency, and limited evidence of progress against higher-level objectives, the overall outcome is rated **unsatisfactory**.

## 6. Risk to Development Outcome

6.1 The follow-up operation funded by a new MDTF has allowed sustaining activities initiated under the project, notably the implementation of a narrower FMIS, focusing on the treasury. However, there is currently no external funding for the scaling-up of the FMIS, and its implementation may be limited. The ongoing (new) MDTF will close in 2016, and its replenishment has not been secured. The Bank's proposed lending does not plan to fund PFM

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<sup>27</sup> [Transparency International](#).

<sup>28</sup> [Cambodia: World Bank Country-Level Engagement on Governance and Anticorruption](#).

<sup>29</sup> [Cambodia - More efficient government spending for strong and inclusive growth: integrated fiduciary assessment and public expenditure review](#).

in the next two years. The largest remaining source of funding for PFM appears to be the EU, but this would be done through sector budget support, which is not earmarked and may be allocated for other priorities. While the project was able to establish many of the preconditions needed to pursue PFM reforms and build some necessary capacity, this would be lost if the momentum is not maintained and the implementation of the third platform does not proceed in a timely manner. Furthermore, as long as the rollout of the FMIS to at least some line ministries has not been completed, the risk that it will be resisted and delayed may be quite significant, as is the risk that there will be development of parallel systems that are not fully compatible—as apparently is already the case. The absence of specific and sufficient funding by development partners in the foreseeable future further exacerbates this risk.

6.2 In addition, Program Based Budgeting as piloted in 25 key ministries has become a risk to budget management and execution causing a proliferation of transaction that has becomes unmanageable for the treasury effectively suffocating budget management.

6.3 The project supported the implementation of a TSA, and there is strict control on the opening of new accounts, which can only be done through written approval from the MEF. This progress however, is undermined by leakages reintroducing idle balances, and undermining the effectiveness of the FMIS and fiduciary safeguards. Large amounts of money are advanced to line ministries to deal with capital projects and programs, which are deposited by the treasury in commercial bank accounts opened by the line ministries.<sup>30</sup> However, after the advance account has been set up and the specified amount is transferred by the treasury into the bank account owned by the line ministry, the ministry can transact expenditures against this advance without reference to the controlling departments FAD or DI. The line ministry will keep records of all transactions against the advance and forward them to the FAD/DI/GDNT at the time of settlement of the advance. FAD/DI/ GDNT will enter these in the system, and the expenditure will be recognized on an ex post basis. The problems with this approach are the following: (1) large amounts of government funds sit in commercial banks outside the TSA at the central bank and thus outside the control of the treasury; and (2) expenditure transactions against the advance accounts are not processed through the FMIS system on an ex-ante basis, and they will therefore not be subject to ex-ante budget or commitment control by the FAD and DI prior to expenditure, as is the case with direct expenditures paid by the treasury. Budget execution reports may show these advances as expenditures, while they were not actually spent, but would merely have been transferred to line ministry accounts in commercial banks.

6.4 Similar issues exist with civil service reform. While the wage increase constitutes a step in the right direction as long as affordability is ensured, a coherent public administration reform program remains to be adopted and implemented, and funding for this has not been secured, even though the Bank and development partners see it as a priority.

6.5 The target for increased revenue has been achieved and is unlikely to be reversed in the absence of external factors (notably a regional or worldwide economic crisis). However,

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<sup>30</sup> These seek an authorization from the FAD/DI prior to the transfer of the advance to the commercial bank. The transfer breaks down the amount of the advance according to the COA (by line item).

Cambodia is member of ASEAN, which is implementing reforms to abolish intra-regional tariffs. As a result, there may be a shortfall in revenue that will have to be made up through other means currently under consideration, with the help of the Bank. Furthermore, the risk of an unfavorable impact on the investment climate should not be underestimated.

6.6 At the same time, many narrow achievements under the project, which were limited in most areas except revenue mobilization, are unlikely to be reversed—for instance, neither the single account nor payments through banks are likely to be rolled back.

6.7 Some achievements under the project, such as revenue mobilization or payments through bank accounts are unlikely to be reversed. However, even if PFM reforms appear to be on the right path and benefit from government commitment (uneven though it may be), the implementation of the program faces significant risks, notably in the areas of civil service reform, continued financing for the FMIS, budget modalities at odds with FMIS implementation. The overall risk rating for the sustainability of the operation's outcomes is therefore considered **significant**.

## 7. Bank Performance

7.1 Bank performance is rated **unsatisfactory**, reflecting unsatisfactory achievement of the objectives, unsatisfactory quality at entry, and unsatisfactory supervision.

### Quality at Entry

7.2 This analysis is based on a review of the appraisal documents (PAD, Grant Agreements, and decision meeting minutes), as well as stakeholder feedback through interviews with government officials and Bank staff. It identifies strengths and weaknesses present at entry. It also considers issues that arose during implementation that can be associated with gaps in the operation's design. The main conclusion that emerges from the implementation experience and review of project documents is that notwithstanding a comprehensive IFAPER and effective donor harmonization and alignment with a government program developed with the Bank's help, the specific operation was under-prepared, suffered from internal inconsistencies, and was not ready for implementation.<sup>31</sup> Furthermore, some of the implementation problems stemmed from design choices and key risks not being mitigated, despite having been identified by various reviewers at the concept stage of the operation.

7.3 **Harmonization and alignment.** It was recognized that effective public expenditure management reforms required a solid analytical foundation underpinning a government program and effective harmonization among development partners. The Bank utilized its convening power quite effectively and brought both the government and development partners onboard with a unified approach in support of the first two phases of the PFM program. Especially the work on the IFAPER appeared to have brought greater consensus, and a sector wide approach (SWAp) for PFM based on the Bank-Fund board paper on public

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<sup>31</sup> The Quality Assurance Group's FY10 quality of supervision assessment reviewed quality at entry and considered it broadly satisfactory. This review involves a more detailed analysis and reaches a different conclusion.

expenditure management was proposed to embrace a more coordinated approach. A working group was established and was made responsible for overseeing the reforms in the course of periodic meetings. Key bilateral donors cofinanced the IDA operation, while others (the IMF, ADB, Germany, and Japan) provided parallel support, which was also coordinated through the working group. Strong commitment and ownership from senior management was in part due to this preparatory work in the early 2000s.

**7.4 Knowledge base.** Quality at entry benefited from a rigorous conceptual analytical base provided by the 1999 Public Expenditure Review (World Bank 1999) and the 2003 IFAPER (World Bank 2003). These reviews provided an in-depth assessment of the issues as well as policy recommendations on a broad range of areas subsequently covered by the project. Further, the project drew on lessons from previous engagement in Cambodia (especially TCAP), which formed the basis for the platform approach, which this project was closely aligned with. While the platform approach constitutes a sequenced approach, many questions regarding scope and timing remained (see relevance of design) and how to implement these reforms was in some instances insufficiently considered during project appraisal. For example, a study was envisaged under the project that subsequently triggers an action plan, which in turn paves the way for a given reform (for example, subcomponent 1.1 “As an initial step the project would review progress on the Tax Department’s reform program,” and others under component 2 (IBIS), subcomponent 4.4 (Capacity Development Strategy)). This approach may be justifiable for activities beyond a one- or two-year horizon. However, those envisaged during the first year or two of the project needed to be prepared as part of the appraisal. With regards to FMIS, the ambitious scope and lack of sequencing during appraisal contributed greatly to the failed procurement and stagnant progress during the first five years of project implementation (see box 7.1 for more detail).

**7.5** Another shortcoming is that tax reform was seen only from the standpoint of revenue generation, although taxes (rates and administration) also affect the investment climate. As evidenced by the 2014 Investment Climate Assessment (World Bank and ADB 2015), this has become a binding constraint to continued private sector development and exports, especially since enforcement has improved and exemptions have been reduced. Additional analytical work, such as an “effective marginal tax rate study,” which was a standard diagnostic tool availed to countries by the Facility for Investment Climate Advisory Services in the early 2000s, would have allowed early identification of tax reforms to be instituted as a complement to institutional and revenue measures. There are additional issues with the diagnostic presented in the PAD (World Bank 2006). For instance, the three challenges listed at the outset are not fully supported by the analysis it presents and there is insufficient discussion of the binding constraints faced by the NAA. Also, more rigid analytical underpinning for the assessment that “it is clear that low public sector wages provide a breeding ground for corrupt practices” (World Bank 2006, p.2; World Bank 2003, p.91) would have been desirable, especially in the light of the INT cases.

**7.6 Integration of lessons learned.** Lessons learned elsewhere contribute to the knowledge base of operations and complement the analytical base (as does tacit knowledge within the task preparation team, including that provided by reviewers). The section of the PAD pertaining to this area is relatively generic and Cambodia-centric. It identifies a handful of process issues and the need to build capacity, but fails to mention others, such as how to

design, procure, and implement an FMIS or overcome resistance to reforms. Furthermore, there is no reference to relevant experience elsewhere, and global knowledge does not appear to have been reflected in project design.<sup>32</sup>

**7.7 The operation’s design.** The section on relevance of design highlighted strong points, including good logical links between PDOs and components; the phasing of activities in two platforms; and, to a lesser extent, indicators. However, there was a significant shortcoming due to the excessive complexity of the operation, which covered too many activities (see relevance of design). According to the QAG review, this may have been partly driven by donor priorities, which should have been better managed. The need to undertake a multitude of tasks and meet a large number of objectives contributed to a complicated institutional arrangement that included two main counterparts (MEF and NAA), three mechanisms (World Bank 2006, p. 12), and a plethora of committees (up to 10, according to annex 6 and p. 13).

**7.8** With benefit of hindsight, the rejection of a simpler approach and phasing appears to have been the wrong choice, especially given that in practice the project eventually evolved toward greater simplicity by dropping activities. As noted by QAG, “some complexities of the project resulted from a compromise with donors.” The design implicitly recognized the iterative nature of the project by including annual external assessments, which were potentially important for steering the project toward what works and to reorient activities based on lessons learned. Given this approach, not envisaging a mid-term review (which is standard for this type of project, and indeed mandatory for Bank investment lending) constitutes an important oversight and a potential indication of a failure of the quality assurance process.

**7.9** Similarly, there was another logical disconnect between design complexity and the appraisal diagnostic, which highlighted low capacity in the country and fiduciary concerns that resulted in very low procurement thresholds, such as ICB for goods procurement above US\$100,000. In contrast, a similar project in Malawi<sup>33</sup> (which did not have higher capacity in government) approved around the same time had three times higher thresholds. This level of fiduciary scrutiny implies that a significant part of supervision reform would go toward prior reviews, and should have argued for simpler design and fewer activities.

**7.10 Effectiveness conditions.** A cursory review suggests that effectiveness was subject to standard (procedure manual) conditions, four in all, complemented by two disbursement conditions. Other covenants listed in the Grant Agreement appear similarly useful in guiding implementation. However, this view of design would constitute a distorted picture of reality. Specifically, one key condition reads as follows: “the Recipient has completed the remaining Merit-Based Pay Initiative MOU Activities listed in Annex 7.” There are 10 such activities—introduced at the decision meeting—and fulfilling them should have been expected to result in an effectiveness delay, as was the case. This long list seems contrary to generally accepted

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<sup>32</sup> A careful consideration of the Vietnam PFM project, which was approved two years before Cambodia, may have led to a less complicated design.

<sup>33</sup> Malawi Financial Management, Transparency, and Accountability Project ([P078408](#))

standards of readiness for implementation of Bank operations. It took over a year between project appraisal and effectiveness.

**7.11 Financing and disbursement.** The PAD (World Bank 2006) text suggests that funding from the MDTF was not fully secured at the time of approval (p. 12, EU and SIDA “funding expected”), which may be workable in the case of parallel financing, but is problematic in the case of cofinancing. Finally, disbursement projections (datasheet) only concern IDA financing, which provides a partial picture and diminishes its role in steering project implementation (to monitor possible disbursement lags). Also, given the project complexity and the long list of effectiveness conditions, the implementation period of five-and-a-half years appears too short; the project had to be extended by two years.

**7.12 Risk identification and mitigation.** The basic assumption of the project was that the preconditions for the project’s success and sustainability were satisfied thanks to a number of factors, including adoption by government of a four-phase program, with the first phase close to completion, and on fiscal and capacity development grounds. The original risk assessment of the project was based on that (also discussed under M&E) of the government program (PFMRP), to which project-specific elements were added (World Bank 2006, p. 14). It was assumed that the overall risk assessment would be mitigated through ownership of, and capacity building within, MEF and its departments, effective donor coordination, and implementation of pay reform—and, implicitly, funding provided by the project.

**7.13** Nevertheless, the project was seen as a high-risk operation, with some declining risks in certain areas expected over time as mitigation measures took hold. In addition to fiduciary risks (which were primarily managed through low procurement thresholds), the PAD identified four critical risks: (i) ownership and commitment; (ii) capacity building; (iii) project performance management; and (iv) the MBPI. However, as reflected during implementation, the risk assessment was incomplete and some of the mitigations measures were not effective. In particular, the following risks could have been better identified and mitigated:

- **Excessive complexity.** Even if a simpler design was not feasible, there was a need for provision of proactive and early project restructuring and rationalization toward areas where there was traction and abandoning activities and objectives that were not progressing satisfactorily. A mid-term review, which was not part of design, would be a key mechanism in such an approach, complementing the EAP. Engagement with the board was reportedly difficult, but possible as evidenced by other parallel projects that went to the board up until 2011 (see appendix A for a complete list).
- **Known difficulties in procuring and implementing an FMIS** based on lessons learned elsewhere. FMIS implementation might have been advanced further had the risks of procurement and experience from other countries more diligently been reviewed.
- **High turnover and difficulty in retaining skilled civil servants** (World Bank 2006, p. 2). According to stakeholder interviews, this was not an issue for the MEF, but affected some activities undertaken at the level of line ministries. The magnitude of

the problem could have been monitored through tracer studies to better understand the motivation for leaving and considering remedial measures—part of the issue relates to the broader public administration agenda, which was left largely untouched.

- **Resistance from vested interests.** Procurement is one instance of this, explicitly recognized in the PAD (World Bank 2006), as is the potential unwillingness of MEF officials to “let go” to line ministries. The whole project was the mitigating mechanism that needed to adapt to circumstances, but additional targeted measures may have been needed to ensure buy-in by others, notably line ministries. According to information collected by the IEG mission, buy-in by line ministries was, and remains, uneven.

7.14 **Fiduciary concerns.** Fiduciary risks were first raised by the IFAPER and good governance action plans were added to all projects following the INT investigations. In this project, low procurement thresholds were used as a mitigating measure. However this was not necessarily the best way to mitigate project-level procurement risks. If capacity was indeed the issue, as suggested by the PAD, a greater amount of capacity should have been considered from the start—including the use of international consultants financed by the project and available on a retainer basis (similar to the model implemented for internal audit). The IPA eventually became the main mitigating instrument at the expense of capacity building within the system (World Bank 2014). Procurement thresholds could have been revised upward to reflect IPA engagement and allow for more expedited implementation. Further, it is unclear what has changed regarding fiduciary risks that would have necessitated an IPA in due course that wasn’t already apparent during appraisal.

7.15 When PFMAPP was presented to the Board INT investigations had already concluded and fiduciary risks were apparent. The project was presented as assistance to build institutions to improve governance and fight corruption.

7.16 **Supervision budget.** The originally proposed annual supervision budget of US\$60,000 was too low. A higher allocation was provided during implementation and topped-up with a task team leader position being a coterminous position financed through a trust fund. It is unclear whether the MDTF was expected to provide additional resources—the ICR makes no mention of this.

7.17 **Integration of decision meeting inputs.** The minutes of the meeting and the final PAD reflect the rich written feedback provided by peer reviewers and others and the potential shortcomings in quality at entry. Some key comments were not taken on board and subsequently affected the project.<sup>34</sup> They include the following points: (i) possible underfunding of activities and need for further simplifying of project design; which did result in demand-side work being shifted to a different project; (ii) underestimation of risks, including low ownership by line ministries (not reflected in the PAD risk matrix); (iii) risks

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<sup>34</sup> This finding is also in line with QAG’s: “The review meeting minutes show very little apparent response from management to peer reviewer doubts about complexity of the project and need for detailed implementation plans and further assessment of transitions from various stages. These may suggest an *a priori* desire for proceeding with the operation (including helping manage donor relations in Cambodia and justify the PRSG under preparation) and fairly high optimism about country’s prospects despite recognized risks to the program.”

associated with readiness of FMIS implementation, the need to focus on core modules, as well as problems experienced elsewhere with the two-step procurement approach; and (iv) the need to improve the results framework.

7.18 **Design of the MBPI.** Girishankar and others (2011) point to a number of important design shortcomings in the MBPI: “(i) in the MEF the initiative was never linked—as originally intended—to a functional review, detailed job descriptions, selection criteria, performance appraisal criteria, and training requirements. Since none of these linkages have occurred, the scheme was never the merit-based arrangement intended; (ii) the MBPI was not implemented in the context of an agreed fiscal framework, which would have enabled the government to take on a larger share of its financing. The scheme’s expansion therefore constituted a fiscal risk; (iii) the selection criteria for receiving pay increases required staff to be designated as working on reform programs. This compromised the principle of equity within the same grade and led to resentment within the civil service; and (iv) a lack of adequate ownership by the Council on Administrative Reform (CAR) and its Secretariat undermined its sustainability.”

7.19 The quality of the program was improved through the leadership of the Bank in ensuring PFM reforms were based on a solid foundation and in harmonizing development partner activities. However, there were substantial weaknesses evident in various dimensions of project design, and the introduction of the IPA weakened the design further. These factors affected the project from its outset, leading to late effectiveness and hindering its implementation. These problems could have been largely avoided or better mitigated, and as a consequence quality at entry is rated **unsatisfactory**.

### **Box 7.1 How Poor Quality at Entry Resulted in Failed FMIS Implementation**

The FMIS design, procurement, and implementation strategy was beset by a number of critical shortcomings, and it was unlikely to result in the successful implementation of a system. These are outlined below.

- The scope of the proposed FMIS was overly ambitious, and at the same time lacked systems specifications. This led to very expensive proposals by bidders, who calculated a risk premium into their proposals. Tenders of this first bid ranged from US\$28.0 to US\$35.0 million, while the budget available was no more than US\$12.0 million (given the scope, US\$12.0 million was probably unrealistic).
- FMIS implementation arrangements were insufficiently sequenced and there was no prioritization between modules. The simultaneous implementation of all modules proposed in this project placed great strains on the capacity available and complicated systems procurement.
- The deployment strategy was problematic. In an effort to reduce the complexity and scope of the FMIS, it was envisaged to cover only the MEF departments, the Phnom Penh treasury, four-to-six provincial treasuries, and two line ministries. Even if such a comprehensive development of the system were to be successful, it would not cover all government budget transactions, and therefore the reports produced by the system would be incomplete, and thus not very useful for either fiscal management or accounting. Such a



strategy would therefore have all the disadvantages of a very complex development without yielding consolidated results.

- The FMIS was envisioned as the primary vehicle for financial management reform that would control aggregate spending, prioritize expenditure across programs and projects, assist with decentralization and accounting, and achieve greater transparency. None of the functional departments within the MEF or the line ministries was engaged in the FMIS design. This led to misalignment of system capacity to functional requirements and to a lack of ownership and understanding of the proposed system. The IT department in the MEF was entrusted with the task of the design and implementation of the system, which meant that the FMIS was perceived as an IT project rather than a comprehensive financial management solution.

Similar issues were already encountered in other countries at the time (for example, Russia), and FMIS design, procurement, and implementation strategy would have benefited from drawing on lessons from these experiences more proactively

*Source:* IEG. More detail on FMIS design, procurement, and implementation is provided in appendix B.

## Quality at Supervision

7.20 Bank supervision had two interrelated dimensions: (1) coordinating the PFM dialogue with government in partnership with other donors and (2) ensuring effective project implementation. Both are considered as part of Bank supervision, as the former established an enabling framework for the latter.

7.21 **PFM Dialogue:** The leading facilitating and coordinating role played by the Bank throughout project implementation has been recognized in various forums:

- QAG—QAG mentions the importance of “rallying donors around a single program and following implementation closely through regular results reporting.” The overall assessment of the Bank role appears positive.
- EAP—The 2007 report<sup>35</sup> notes very positive feedback from both the development partners and the government about the role of the World Bank Office in chairing the development partners’ group and in leading liaison efforts with the government. A concern expressed at that time was related to transition between task team leaders and other turnover of Bank staff, and the need to ensure an effective hand-over of responsibilities.
- Mission Interviews—Conversations with stakeholders confirmed the positive impression of the overall contribution of the Bank in ensuring that the momentum of PFM reforms was maintained. However, some respondents noted that a certain amount of fatigue had set in over time, which was compounded by delays in project implementation, and weakened the effectiveness of coordination efforts— and may have dissuaded some donors from further topping-up of the MDTF.

<sup>35</sup> The subsequent reports do not discuss this subject.

7.22 On the basis of the above, the Bank appears to have performed well in terms of creating momentum for PFM reforms and ensuring continued coordinated support to this area. The rest of this section is devoted to reviewing the project-level experience.

7.23 **Quality of Reporting:** The ISRs constitute the main project-level management information system for Bank management (and the public, since part of the information is posted externally). According to the ICR (World Bank 2014), “the quality of ISRs during June 2007–February 2010 could be rated as sub-standard . . . but improved after 2010.” The former assessment is also consistent with the QAG review, which criticized the ISRs for ratings that were not in line with the limited progress being achieved (and more generally lacked sufficient candor and realism in the ratings). The IEG review covers all nine ISRs issued during project implementation and concluded that most— if not all—of the shortcomings that were present during the first half of project implementation were left unaddressed. A detailed assessment of the ISRs is presented in appendix D and summarized below as follows:

- Frequency of reporting: Timeliness was generally good, with some notable variation; in some cases this reflected best practice, while in others, delays were excessive.
- Quality of reporting: A strong point was the regular update provided for each indicator. Otherwise, the quality of the ISRs was generally inadequate. Lack of candor resulted in known problems recorded elsewhere (aide memoires and various external reports) not being reflected in the ratings (which were generally “satisfactory,” while “moderately unsatisfactory” or lower ratings—especially for some components’ implementation that was neither mentioned nor rated—would often best describe the situation on the ground). This may have contributed to deeper restructuring not being initiated in a timely manner (that is, during the 2008–09 period). Furthermore, the basic information contained in the ISRs was deficient (for example, there were six project components, not one; see appendix D for the full list), and the ISR texts did not explain well the key events of the project.
- Management comments: Comments were entered 55 percent of the time (director’s comments were missing in 67 percent of instances), which, given the challenges faced by the operation, was insufficient. When provided, the management feedback was useful from the operational standpoint, but not always acted upon by the task team. Furthermore, it never questioned the candor of the rating or questioned the above-mentioned fundamental gaps in reporting.

7.24 **Project Restructuring:** By the time the project became effective, the need to modify key aspects of its objectives and scope was already apparent, as many of these issues were already reflected in ISRs. Aside from the introduction of the IPA, which in IEG’s opinion was inconsistent with project PDOs and would have required their amendment, other notable modifications included dropping the petroleum subcomponent, changes/clarification of indicators, effectively dropping the NAA as the implementing agency, fundamental changes to the Merit-Based Pay Initiative, and so on. None of these changes was reflected in the various project restructurings that took place between 2007 and 2012. This constitutes a significant lapse in sound project supervision and ensuring compliance with Bank

procedures,<sup>36</sup> as well as undermining transparency because of the disconnect between what the project was supposed to fund and what it actually did. The task team should, at the very least, have reflected most (if not all) of the required changes in a level 2 restructuring (which can be approved by the regional vice president). However, as noted below, this also represents a failure on the part of Bank management.

**7.25 Bank Management:** The guidance provided to the team throughout project implementation proved to be based on optimistic outlooks, and ultimately seems to have contributed to the inadequate outcomes. More important, the decision to fund the IPA under the project was made by Bank management. It was contrary to both the task team's advice and project objectives, and contributed to inefficiencies in use of Bank resources. Furthermore, the Bank has yet to fulfil its written commitment to government to provide compensatory resources for FMIS implementation.

**7.26 Other:** The following lists other strengths and weaknesses in supervision:

**Strengths:**

- The Bank identified key failure points in FMIS design and procurement and revisited the program with help from subject matter experts. The revised strategy has taken off in the follow-up operation. This is discussed in depth in box 6.2 and appendix B.
- The trust fund provided additional financing for supervision, as the supervision budget under the project was underfunded. A coterminous field-based task team leader was critical to pursue reform momentum and keep the client engaged. This facilitated a regular dialogue on the PFM program and allowed for regular project oversight.
- The Bank continued to undertake or participate in analytical work, including public expenditure reviews and a tracking survey on health<sup>37</sup> following a 2005 tracking survey of the education sector. These were complemented by the 2010 PEFA.

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<sup>36</sup> Level 1 restructuring, involving formal Board notification, would have been required to correctly reflect most of the changes, especially those pertaining to the PDO. The task team explained that the suspension of lending made Board presentations unfeasible after 2011. While Bank-government relations were already strained before that, 15 other operations (see appendix A) went to the Board during the lifecycle of the project. As the majority of changes to this project were introduced before 2011 (such as introduction of an IPA, dropping of the NAA and the oil and gas revenue component, change of the Merit-Based Pay Initiative to POC), level 1 restructuring should have been considered and there is no indication that it would not have been feasible prior to 2011. At the very least, changes could have been incorporated in level 2 restructurings.

<sup>37</sup> [Health](#) (World Bank 2008b), as recommended in the 2007 EAP report, and the 2011 [Integrated Fiduciary Assessment and Public Expenditure Review \(World Bank and ADB 2003\)](#)

**Weaknesses:**

- The task team appropriately decided to undertake an MTR in the late 2000s, unplanned in the PAD. However, the outcome of this review is unclear,<sup>38</sup> and it did not result in immediate project restructuring.
- QAG recommendations were largely ignored.
- M&E as discussed elsewhere did not adequately capture project outcomes and was not modified during implementation.
- An ISR was prepared every nine months on average, and in two cases one was prepared after less than five months. In one case, the gap was 14 months. Given the difficulties experienced by the project and the presence of the task team leader in the field, more frequent reporting would have been desirable.

**Box 7.2 Learning from Failure in FMIS**

How a Failed Effort in FMIS Built Capacity and Eventually Informed a Promising System Design with Efficient Procurement and an Effective Deployment Strategy

The contract award of the first FMIS tender collapsed in 2012 after five years of processing the procurement transaction. The challenges during this difficult period built capacity in procurement for all partners involved. Further lessons from what went wrong informed the revised design, procurement, and implementation strategy. Also, the team brought on board a subject matter specialist to assist with design and incorporate lessons from other countries. In 2012, the Bank reworked its FMIS strategy:

- Implementation modules first cater to core budget execution processes and processing of payments and receipts transactions across government before going on to other, non-core elements.
- A clear deployment strategy was developed. The treasury-centric system would be implemented first, with clear delineation of roles and responsibilities across departments of the MEF. Only after this was accomplished would the system be decentralized to spending units in an attempt to capture payment/receipt transactions at treasury offices.
- A clear procurement strategy was developed ensuring that: (i) functional requirements and systems specifications would be prepared after discussions with end-user departments; (ii) functional specification documents would specify the overall business objectives of the purchaser and bid documents would clearly specify core functional process and information flows to be covered; (iii) stringent screening criteria in a two-stage international competitive bidding would be applied; (iv) broad cost estimates of the system

<sup>38</sup> Various ISRs cite varying dates for the MTR. IEG was provided an aide memoire date of August 2009, which is considered by the task team to reflect the outcome of the MTR. After careful review, IEG has concluded that this document does not meet the expected norms for such a review, which probably took place subsequently. As of this writing, it remains unclear whether or not the MTR took place, and, if it did, whether it was properly documented.

would be applied—an innovation in the process was that the bid specified the total amount of resources available to restrict spurious and very high-priced bids.

This approach ensured steady progress, sufficient quick wins to maintain political momentum, and that the system would be capable of comprehensive capture of all payment and receipt transactions and of applying ex ante control, while at the same time limiting the deployment to nodes that are essential for this to happen.

*Source:* IEG. A more detailed discussion is provide in appendix B.

7.27 Bank performance during project implementation demonstrated both strengths and weaknesses. Noteworthy is that lessons from failed FMIS design and procurement were learned and applied, leading to promising progress in FMIS implementation in the follow-up operation. The Bank also effectively led the dialogue at the program level. However, inadequate reporting of project status and failure to restructure the project in a timely manner; insufficient management oversight of the project; and, most important, its decision to fund the IPA with the IDA grant constitute major shortcomings in quality of supervision, which is, on balance, rated **moderately unsatisfactory**.

## 8. Borrower Performance

8.1 Borrower performance is rated **moderately satisfactory**, reflecting moderately unsatisfactory government performance and satisfactory implementing agency performance.

### Government Performance

8.2 Government ownership and commitment varied across components and project implementation. Senior management showed ownership of the IFAPER, was sufficiently committed to the PFMRP, and provided leadership with regard to revenue generation, revenue management, budget formulation, and reforming the treasury system. The PFMAP and the associated MDTF were considered as the flagship operations in support of the PFMRP, which was important to maintain a dialogue with the government in a period of a strained relationship with the Bank.

8.3 However, there have been shortcomings, including policy reversals. While the MEF supported civil service reform, there was lack of consensus within government on how to achieve this goal, and the initial reform (Merit-Based Pay Initiative) was scrapped abruptly in response to political pressures. Furthermore, government decided to withdraw from the NAA component shortly after the legal agreement was signed, which is another reflection of unsatisfactory government commitment to the program. Further, there continues to be a lack of traction on procurement reform and continued use of negotiated contracts, which has led to unsatisfactory progress.

8.4 Finally, slow progress in launching the government reform program delayed project effectiveness. It took over a year from project approval to project effectiveness.<sup>39</sup> Reflecting the above, government performance is rated **moderately unsatisfactory**.

### **Implementing Agency Performance**

8.5 There were a number of implementing agencies, including the MEF, the Department of Public Procurement, the Department of Internal Audit, the Department of National Treasury, the Civil Service Commission/the Ministry of Civil Service, the Revenue Authority, and the NAA. The government and the Bank agreed to engage an IPA to handle procurement for all Bank-supported projects after evidence of corruption was uncovered (in which PFMAP was not implicated).

8.6 There has been commitment to the reform process despite slow progress at times. The MEF has remained committed to implementing the FMIS by ensuring organizational and technical readiness, even after procurement failed in 2012. Procurement capacity was built during the failed procurement process, which was important for the successful second attempt. Continued commitment to FMIS by the MEF and various departments was critical for the eventual set-up of the system. Similarly, there has been considerable commitment to reforming the civil service and introducing a merit-based pay dimension. Even though government cancelled the program, the MEF, and later the Ministry of Civil Service, continued to pursue the reform agenda and draw lessons from the Merit-Based Pay Initiative pilot. This has resulted in some performance dimensions being implemented in the Ministry of Civil Service, with support from the MEF.

8.7 Project progress reports were produced regularly by implementing agencies in the early stages of the project cycle, though this commitment somewhat diminished in due course, and reports became less frequent and there was less attention to detail. Furthermore, the government's M&E performance weakened after elections in 2013 that precipitated the appointment of new personnel and a reconstitution of the secretariat.

8.8 The IPA acted as an implementing agency proxy for procurement. There were issues during the first year of implementation because the IPA did not know Bank procedures. The first service provider was eventually replaced, and the IPA performance was subsequently assessed as adequately following the terms of reference. It was unfortunate, however, that the IPA did not have a procurement capacity-building mandate in government. Further, it was noted that the procurement processes in place resulted in considerable delays. Financial management and fiduciary compliance were satisfactory. Financial covenants were complied with and the interim unaudited financial reports were submitted regularly and on time to the Bank. The project team noted that the audit opinion was unmodified, which is interpreted here to mean unqualified.

8.9 Reflecting the above, implementing agency performance is rated **satisfactory**.

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<sup>39</sup> Due to delays in fulfilling effectiveness conditions.

## 9. Monitoring and Evaluation

9.1 **Design.** The design of the M&E framework was derived from that of the government program, which was justified. The results framework in the PAD included largely appropriate outcome indicators for each objective. Further, M&E design made generally sufficient provisions for intermediate outcome and progress indicators. However, some shortcomings remained. Outcome indicators suffered at times from imprecision, measurability problems, partial attribution, and mixing of output (such as number of civil servants or audits) and outcomes (for example, tax/GDP). Some components were not adequately reflected in progress indicators, leaving a gap between outputs and outcomes for which attribution would have to be inferred. This meant that possible slippages in attaining intermediate targets were not monitored and identified, thus challenging the attainment of the PDO. Furthermore, the indicators lacked quantitative baselines, and targets were set only for the first two years. The results matrix was not formally modified during project restructurings. In Cambodia, a strong M&E framework would have been particularly important given that clarity and objectiveness on the achievement of indicators is necessary for graduating from platforms. In stage one this was defined as achievement of a credible budget. However lack of clarity on what achievement constitutes appears to have been problematic: “Cambodian authorities have already exploited this weakness by unilaterally declaring that stage 1 has been “completed” even though many advisors and experts would not endorse this decision” (IMF 2009, p.18).

9.2 To illustrate this, the outcome indicator “increases of tax and nontax revenue as percent of GDP” is strongly related to the objective of “improved mobilization of public resources,” and is likely to benefit from project interventions in revenue administration and broadening the tax base. The indicator is also measurable, and targets are sufficiently ambitious. On the downside, the measure of pay-level increases as a proxy for strengthened management of human resources is rather weak and does not capture improved productivity or performance and conditions of the public service. The inclusion of outcome indicators such as the reduction of absenteeism or turnover of staff would have improved the results framework. Other potentially useful indicators that were not considered in the program include the reduction in qualified audits for strengthening the audit capacity or the reduction of noncompetitive tenders as a means to reflect on management of public resources. Regarding the latter, it is noteworthy that the FMIS did not have an associated intermediate outcome indicator reflecting implementation progress, which would have been key, given the prominence of the investment. Similarly, work on budget formulation and the public investment program was not reflected in the M&E framework.

9.3 The M&E system was strengthened by two important features: (i) an EAP consisting of internationally recruited consultants who were supposed to report annually on progress toward objectives; and (ii) a detailed Risk Management Framework Matrix (PAD annex 3, table 3), which was to be updated periodically. Other specific complementary M&E activities (such as tracer studies to assess retention of trained staff) were not explicitly envisaged, but might have been undertaken by the EAP.

9.4 **Implementation.** The first ISR streamlined the indicators by clarifying some and dropping others (For example, outcomes related to activities that were being dropped or intermediate output) and retrofitted baselines in the results framework. Information on the

revised framework was collected regularly and progress to date was presented in ISRs. Similarly, the EAP presented three reports during project implementation. Technically, the design called for up to seven such annual reports, but the decision to space them given slow implementation appears warranted. The only issue concerns whether or not the EAP should have prepared a report at closing. Such a report would have provided quite useful information in order to assess final project outcome and gain insights into issues and opportunities ahead. Even though the EAP reports make mention of the risk management framework, it does not appear to have been updated.

9.5 Not all indicators were duly collected. Price differentials between procurement and market prices made up an important benchmark for assessing progress against the PFM objective and a key assumption in the economic NPV estimation, but no provisions were made to monitor progress. This oversight also meant limited opportunity for corrective action by the project team. In case an indicator is too difficult to monitor, a level 2 restructuring reflecting a change should be done.

9.6 **Utilization.** The quantitative and qualitative outputs of the M&E outputs were used by the various committees and by development partners to assess progress and steer the program. This was done with regular frequency (typically on a quarterly basis).

9.7 Overall, notwithstanding the above deficiencies in indicators, the design of the M&E system was quite strong, it was well implemented (with some adaptation of design to take into account project requirements and realities), and it was used by the government and development partners to steer the PFM program. Evidence of M&E capacity built is reflected in the government's important contribution to the 2015 PEFA, which was of high quality and mostly done in-house. M&E is thus rated **substantial**.

## 10. Lessons

10.1 **Mitigating measures for fiduciary risks can exacerbate the challenge of government capacity and ownership.** If an IPA is charged with procurement, it is important to build parallel institutional capacity and make provisions for an exit strategy as country systems can be reengaged only if fiduciary risks have credibly been mitigated. Including transfer of know-how in the IPA terms of reference may be desirable. Conservative prior review thresholds should be revised upwards to reflect engagement of the IPA and allow for more expedited project implementation.

10.2 **Complex PFM operations may require regular reorientation of activities** based on results and lessons learned during implementation. This requires a comprehensive results framework, proactive supervision, candid and complete ISRs, openness to learn from failure, and management willing to take action. The inclusion of an External Advisory Panel provided much needed in-depth situational analysis, which helped address key operational bottlenecks. A mid-term review (MTR) should be an integral part of design, and operations should be restructured and objectives revisited as needed to reflect activities being funded.

10.3 **Project design.** Client capacity should be carefully considered during project design. Excessive project complexity with multiple implementing arrangements can dilute focus, and



lead to suboptimal outcomes. Peer reviewers and other feedback providers at the appraisal stage may point to critical risks and provide important tacit knowledge. In Cambodia, the original design was overly complex and ambitious and the project was de facto streamlined when various components and activities were dropped. To manage expectations and protect project performance it is important that such changes are reflected in the objective if necessary.

**10.4 Technical expertise in the design and implementation phases as well as a resident and proactive task team leader are important factors for success.** The Cambodia implementation experience illustrates this: in the early years, insufficient technical expertise led to various design deficiencies and procurement bottlenecks that precipitated the failure of the FMIS contract. Critical to the success of the second tender was that a Bank team of technical experts was able to advise the client on important systems and procurement issues during the design and implementation phases. A resident and proactive task team leader was important for an ongoing dialogue, maintaining reform momentum, and supervising progress.

## **Lessons from the FMIS Experience**

**10.5 Continued technical and financial support in FMIS is important to maintain momentum and deepen progress.** The implementation of the current treasury-centric FMIS has required significant political capital, took over seven years, and came at a substantial financial cost. Rollout to implementing agencies and the introduction of other key modules as currently planned is critical for the system to have a development impact. Continued technical and financial support at this critical development juncture is important to maintain and deepen progress.

**10.6 Previous relevant experience** in FMIS design, procurement, and implementation should be carefully drawn on when supporting an FMIS reform program. The World Bank has supported similar projects in numerous countries since 1984, and this experience offers a rich set of lessons. Issues that eventually led to the collapse of the tender could have been preempted. Similarly, it is important to learn from failure. Both the Bank and government learned from the failed attempt and drew on that experience extensively during the revised tender. This has facilitated the current expedited progress. Failing faster would have been desirable. Once it became clear that the design and procurement strategy were unsuitable, the team could have revisited the engagement and saved valuable time and resources.

**10.7 Sophisticated budgeting techniques should be sequenced after a fully functioning FMIS is in place** and modalities should be complementary. In specific, program based budgeting and associated controls need to be designed such that they don't suffocate budget management. In Cambodia the breakdown of programs and sub-programs to the activity level (budgetary allocations and spending have to be made at this level) led to a proliferation of transactions that has become practically unmanageable.

**10.8 High-level sponsorship, end-user involvement, and interagency coordination is critical.** In Cambodia the minister of finance showed continued commitment to the setting up of the FMIS, which sustained government interest in the project despite negligible progress

in earlier years. It was also important for overcoming resistance from departments that were more reluctant to embrace reform.

**10.9 Involving end-user departments in the design of functional requirements and system specifications is essential.** The first FMIS tender was, in part, failing because it was perceived to be an IT project. The second tender recognized this as a problem and changed its approach. By preparing specifications in conjunction with end users and necessitating sign-off of specifications by end users, the relevance of system capabilities was ensured and critical ownership was built.

#### **10.10 FMIS Procurement**

- **Precise systems specifications in tender documents are critical.** Contrasting the failed procurement experience in the original tender to the swift and cost-effective process in 2013 yields lessons on systems specifications: (i) the specification should primarily adopt a process-based approach, instead of a feature-based approach; (ii) the specification should focus on the processes that the system will support and derive the functionality required from them; (iii) the bid documents should clearly specify core functional processes and information flows to be covered and which departments/entities will be connected online and how many users will be in each; (iv) which transactions will be recorded; (v) which departments will send transactions off-line and how these will be captured in the system; and (vi) the bid should clearly document estimated volume of the transactions and high-volume sites.
- **Indicating resource availability in the bid is important.** Bids for the initial tender ranged between US\$28 and \$35 million, significantly surpassing the available US\$12 million. When the resource envelope was specified for the second tender, all bids received were under US\$10 million. Broad cost estimates for the systems procurement package can be developed, which can be used as a guideline for assessing bids received.

**10.11 FMIS implementation needs to be phased.** The Cambodia experience has shown that complex systems implementation is difficult and prone to resistance. The phased approach (focusing on core modules first) that was subsequently used proved more realistic and implementable.

**10.12 The setting up and staffing of the supporting organization is critical for the long-term operational sustainability of the system.** It is necessary that government plans and decides on the organizational structure of the central institution to be set up to perform the key technical tasks associated with the operation and maintenance of the FMIS and develop strategies to attract and retain the technical skills required in this unit. After the application software has been selected, staff from both the technical and the user departments should be identified for training. The ITD in Cambodia now has 40 trained staff in place, which gives confidence in the unit's ability to cater to emerging needs.

**10.13 It is important to maintain FMIS implementation momentum.** Lack of financing may adversely affect the current progress that was so difficult to come by. This risk should be mitigated by continued technical and financial engagement to allow the rollout to line ministries and an expansion of critical modules.

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## Appendix A: Basic Data Sheet and Portfolio

### PUBLIC FINANCIAL AND ACCOUNTABILITY PROJECT (IDA-H2410 – TF - 54547)

#### Key Project Data (amounts in US\$ millions)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	30.28	24.51	80.95
Loan amount	23.42	24.52	104.70
Cofinancing	14.00	15.05	107.50
Cancellation		3.41	

#### Cumulative Estimated and Actual Disbursements

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Appraisal estimate (US\$M)	0	0	2.2	8.7	14.0	14.0	14.0	14.0	14.0
Actual (US\$M)	0	0	1.2	3.2	5.6	7.5	11.3	14.7	15.1
Actual as % of appraisal	n/a	n/a	54%	37%	40%	53%	81%	105%	108%

Date of final disbursement: April, 2014

#### Project Dates

	Original	Actual
Initiating memorandum	02/07/2005	02/04/2005
Negotiations	05/19/2005	04/04/2006
Board approval	06/14/2005	06/27/2006
Signing	-	02/13/2007
Effectiveness	06/29/2007	06/29/2007
Closing date	01/15/2012	11/15/2013

#### Staff Inputs (staff weeks)

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	US\$ Thousands (including travel and consultant costs)
<b>LENDING</b>		
FY05	16.01	125.68
FY06	22.14	88.87
FY07	0.00	81.55

<b>Total:</b>	<b>38.15</b>	<b>296.10</b>
SUPERVISION/ICR		
<b>FY07</b>	16.21	70.85
<b>FY08</b>	7.07	45.33
<b>FY09</b>	39.90	69.67
<b>FY10</b>	36.22	134.39
<b>FY11</b>	35.17	161.55
<b>FY12</b>	24.31	113.21
<b>FY13</b>	36.03	69.43
<b>FY14</b>	8.57	92.65
<b>Total:</b>	<b>204.38</b>	<b>757.08</b>

### Task Team Members

<b>Names</b>	<b>Title</b>	<b>Unit</b>	<b>Responsibility/ Specialty</b>
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James Seward	Lead Financial Sector Specialist	EASFP	Financial Sector
Jennifer K. Thomson	Chief Financial Management Officer	OPSOR	FM
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Vannara Sok	Operations Officer	EASPT	Operations

### World Bank Portfolio in Cambodia

<i>FY</i>	<i>Practice</i>	<i>Project Name</i>	<i>Exit FY</i>	<i>Inst</i>	<i>US\$ m</i>
2005	Education	KH-Cambodia Education Sector Support	2012	SIL	28.0
	Finance & Markets	KH- Trade Facilitation & Competitiveness	2013	SIL	10.0
2006	Governance	Cambodia - Public Fin. Mgmt. & Acct.	2014	SIL	14.0

2007	Energy & Extractives	KH - GMS Power Trade Project	2012	SIL	18.5
2008	Agriculture	KH-Avian Influenza Emergency Project	2014	ERL	6.0
		KH-Land Allocation for Soc. and Eco. Dev.	2015	SIL	11.5
	Governance	KH-Poverty Reduction and Growth-1 (DPL)	2008	DPL	15.0
	Health, Nutrition & Population	KH-Second Health Sector Support Program	Active	SIL	30.0
	Social, Urban, Rural and Resilience	KH Rural Invest & Local Gov Add Financing	2011	SIL	36.3
	Transport & ICT	KH - Road Asset Mgmt (ADB/AusAID)	2015	SIL	30.0
2009	Social, Urban, Rural and Resilience	KH-Demand for Good Governance	2015	SIL	20.0
2010	Agriculture	KH Smallholder Ag & Social Protection Sup	2010	DPL	5.0
2011	Agriculture	KH Agribusiness Access to Finance	2014	FIL	5.0
	Education	KH-HE Quality and Capacity Improve Proj	Active	SIL	23.0
	Social, Urban, Rural and Resilience	KH-Typhoon Ketsana Emergency Operation	2015	ERL	40.0
<b>Total</b>					<b>292.3</b>

*Source:* World Bank Business Intelligence.

*Note:* SIL = Specific Investment Loan; ERL = Economic Recovery Loan; DPL = Development Policy Loan; FIL = Financial Intermediary Lending.

## **Appendix B: FMIS Design, Implementation, and Utilization**

This appendix provides an overview of the FMIS experience in Cambodia over the past decade. The period is broken down into two phases: (i) a long period (2005–12) with negligible progress due to design and procurement issues; and (ii) a period of progress (2013–16), where a new approach was taken and significant inroads were made.

Cambodia learned from unsuccessful design and failed procurement. After seven years, the original contract award collapsed, which allowed for a new design and implementing strategy. This is already yielding results. Learning by doing, however, is expensive and time consuming. The Cambodia experience has important lessons to offer for countries on a similar trajectory.

### **Phase I: A Flawed Design Leading to a Failed Tender**

In 2005, public financial management was inadequate and seen as a major constraint to delivering services. Poor budget execution practices in particular were seen as undermining allocative and operational efficiency, and as posing significant fiduciary risks. The system was characterized by gate-keeping and deficient accounting and reporting systems, leading to a weak control environment and opportunities for corruption. Against this backdrop, the government, with the support of the World Bank, decided to invest in an FMIS with the ambition of addressing these ailments.

The scope of the proposed FMIS was very ambitious, ranging from significant work on upstream budget preparation and analysis systems to a comprehensive, fully functioning accounting system with modules including G/L, A/P, A/R, cash management, procurement, commitment control, and assets management. In addition, the system was to be capable of accommodating both cash and accrual accounting and to interface with the banking system, human resources systems, and tax, customs, and debt management systems.

The project team recognized the complexity and risks associated with the FMIS and tried to evaluate the risks, drawing on major analytical tools used at the time. Accordingly, they conducted an assessment of risks on the basis of two major IT investment documents, the World Bank's "Six Pillars for Successful FMIS Reform" and the IMF's "Five Preconditions for Development of an FMIS." These assessments concluded that (i) the proposed FMIS design was appropriate in terms of scope, but (ii) there remained weak areas with regard to ownership and uncertainty in the extent of delegation of responsibility and accountability to suppliers. While these analyses were a good first step, they were too high-level and insufficiently detailed to reveal significant risks in the implementation strategy proposed.

The FMIS description in the PAD was formulated in generic terms and was too broad, and it does not give a full understanding of even the high-level functional processes that would be the subject of the FMIS. It does not specify the primary information flows or what agencies would be part of the implementation. While the interfaces between the FMIS and other systems are named, it is not specified what is expected of these and what information would

need to be transferred between the systems. This generalized approach was also adopted in the functional specifications developed for the FMIS tender. Without these details, it is very difficult for a potential contractor to develop a full understanding of what is expected. Corresponding to sufficiently detailed specifications, tenders of the first bid ranged from US\$28.0 to \$35.0 million, while the budget available was no more than US\$12.0 million. High bids may also be a result of suppliers building in large risk mitigation factors into their pricing.

Also, the proposed deployment strategy was problematic. In an effort to reduce the complexity and scope of the FMIS, it was envisaged to cover only the MEF departments, the Phnom Penh treasury, four-to-six provincial treasuries, and two line ministries. This is problematic, because even if such a comprehensive development of the system were to be successful, it would not cover all government budget transactions, and therefore the reports produced by the system would be incomplete, and thus not very useful for either fiscal management or accounting. Such a strategy would therefore have all the disadvantages of a very complex development, without yielding useful results.

Further, implementation arrangements were not sequenced and there was no prioritization of modules. In low-capacity environments, it has been found best to prioritize core budget-execution processes before embarking on the implementation of noncore modules such as assets management. The simultaneous implementation of all modules as proposed in this project placed great strains on the capacity available and complicated systems procurement.

Other reasons for the slow progress on the FMIS, include that the MEF decided to create a new IT department to manage the FMIS, and as MEF had not had an IT department, setting it up from scratch (hiring and training new staff, e.g.) and building up its capacity took time. Further, implementation was constrained by a difficult change management experience within MEF, with different departments competing for roles and influence while other departments were not sufficiently motivated to participate.

In addition, important prerequisites for FMIS implementation were not in place. This includes insufficient progress with a uniform account code structure, institutional arrangements for the banking of government funds, and a TSA. While work on the COA and TSA were envisaged as part of the project, they had not been finalized before the issue of the first tender for the FMIS, and details of critical items such as the structure of the COA could not be included in the systems specifications for the FMIS.

While the FMIS was envisioned as the primary vehicle for financial management reform, which would control aggregate spending, prioritize expenditure across programs and projects, assist with decentralization and accounting, and achieve greater transparency, none of the functional departments within the MEF (budget, treasury, Fiscal Affairs Department [FAD], Department of Investment [DI], Department of Cooperation and Debt Management [DCDM], revenue administration) or the line ministries were engaged in the FMIS design. This led to misalignment of system capacity with functional requirements and to a lack of ownership and understanding of the proposed system. The ITD department in the MEF was entrusted with the task of design and implementation of the system, which meant that the

FMIS was perceived as an IT project rather than a comprehensive financial management solution.

**The first tender:** The procurement process for the system began in 2007. However, the high cost estimates received forced the team to look for alternative implementation strategies and phasing systems implementation. This had to be negotiated with the selected contractor. When agreement could not be reached, the contract award collapsed (in January 2012). This is a very long time to process a procurement transaction, even for a two-stage ICB. The reasons for this failure are discussed below:

- (i) The ability for the ITD to undertake this complex two-stage procurement process on its own was overestimated.
- (ii) The scope of the FMIS was large at the design stage and became substantially larger by the time of bidding with the inclusion of a large number of requirements, without any prioritization. The loose description of functional requirements across a whole range of functionalities without prioritization resulted in very high-priced bids, ranging from US\$28 to \$35 million, which was more than twice the amount budgeted. Further, at the time of the issuance of the bid, there was ambiguity regarding requirements (functionality, sequencing, and numbers of users).
- (iii) The establishment of the IPA in 2006 contributed to delays in the procurement process. Eventually a joint decision was made between the MEF and the Bank to exempt the FMIS procurement from the IPA, but valuable time had been lost.

## **Phase II: Learning from Mistakes and the Implementation of a New System**

**Revised implementation strategy.** The challenges and lessons learned from the failed first procurement critically informed the revised design, procurement, and implementation strategy. Following implementation experience from other countries, the Bank pursued a strategy where: (i) implementation modules first cater to core budget execution processes and processing of payments and receipts transactions across government before going on to other noncore elements; (ii) implement a treasury-centric system first, then focus on decentralizing the system to spending units in an attempt to capture payment/receipt transactions at treasury offices.

Accordingly, the functionality for the revised FMIS would include:

- **Budget Management:** Budget apportionment, budget allotment, budget releases, budget transfers.
- **Commitment Management:** Recording all commitments relating to intended government expenditures.
- **Payment Management:** Processing all government expenditures relating to procurement of goods and services from current/capital budgets, salary and pension

payments, debt servicing payments, subsidies/fiscal transfers to subnational levels or SOEs.

- **Receipts Management:** Recording revenues and other receipts; accounting (posting all transactions as they occur).
- **Cash Management.**
- **Fiscal Reporting.**

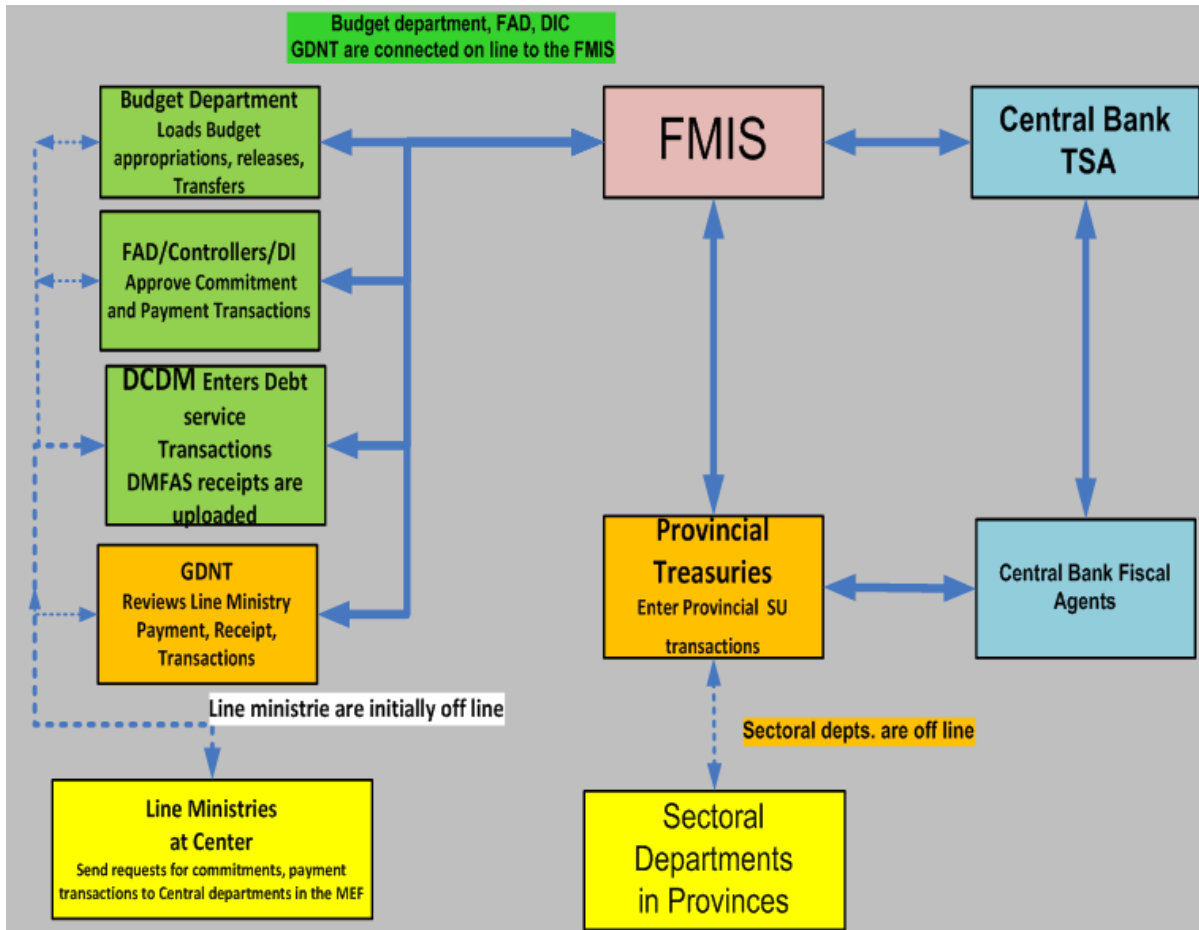
In order to fulfill this functionality, the system would need to:

- Record initial budgets, budget revisions, budget releases, commitments, purchase orders, contract details, receipt of goods and services, vendor invoices.
- Authorize payments after checking for controls and give payment instructions to the bank, initially using checks printed from the system.
- Record revenues and other receipts paid into government accounts, Reconcile with bank records.
- Enable monitoring of balances in government accounts,
- Enable posting of all transactions, enforcement of controls, accounting, and comprehensive reporting.
- Ensure that these functions are performed by authorized staff only.

**Systems deployment strategy.** Three departments of the MEF were involved in the upstream processes related to budget control and commitment control, prior to actual payment: (i) the budget department, responsible for budget management; (ii) the FAD, which is responsible for controlling commitments and payments related to the current budget; and (iii) the DI, which is responsible for these activities for the capital budget. Further, DCDM manages the loan portfolio and is responsible for debt service payments. The General Department of Subnational Administration Finance is responsible for transfers to provinces. The actual payment is done through the treasury. All these departments would therefore need to be connected to the system in addition to the treasury, so that the entire process related to budget execution is captured. At a later stage, the line ministry that initiates the transaction should also be connected directly to the system. Figure B.1 provides an overview of the revised (current) FMIS deployment architecture.

This approach ensured that the system would be capable of comprehensive capture of all payment and receipt transactions and of applying ex ante control, while at the same time limiting the deployment to nodes that are essential for this to happen.

**Figure B.1 New FMIS Deployment Architecture**



Revised procurement strategy: Having learned from the previous procurement strategy, the Bank took a number of measures to ensure that the systems procurement is done in an efficient and cost-effective manner, and is responsive to end-user requirements, while conforming to Bank procurement guidelines:

- Functional requirements and systems specifications would be prepared after discussion with end-user departments. Prior to commencement of the procurement process, user departments sign-off on the specifications for the system to ensure that their needs have been adequately addressed.
- The functional specification document would specify the overall business objectives of the purchaser. The bid documents would clearly specify core functional processes and information flows to be covered and which departments/entities will be connected online and how many users in each; what transactions will be recorded; and which departments will send transactions off-line, and how these will be captured in the system. The bid should clearly document estimated volume of the transactions and high-volume sites. The specification would focus on the processes the system will support and derive the functionality required from them. The specification would

primarily adopt a process-based approach, instead of a feature-based approach, as in the first tender.

- Systems procurement would be done through a two-stage ICB. The government would use stringent screening criteria in the first stage to avoid spurious bids— for example, from firms with insufficient relevant experience in the public sector and software packages that have not been used successfully for similar systems (both in terms of functionality and scale). The screening criteria would accordingly be designed to: (i) screen firms on the basis of financial viability and previous relevant experience in the public sector; and (ii) screen proposals on the basis of whether the application software proposed has been used successfully for implementation of treasury/FMIS systems and whether the firm has proposed staff with experience in the implementation of this software.
- The government/consultants would develop broad cost estimates for the systems procurement package that can be used as a guideline for assessing bids received. An innovative piece of the process was that the bid should specify the total amount of resources available under the loan to restrict spurious and very high-priced bids. This has proved very useful in restricting offered bid prices.
- A full set of requirements for formulating a two-stage ICB is included at appendix B.

As a result of these interventions, progress appeared eminent. Since this took place at the end of the PFMAP project, and financing had been depleted, most of the procurement and implementation work was done under the follow-up operation.

**Progress of implementation:** Despite the failure of the first FMIS tender, the government, the MEF in particular, remained committed to ensuring organizational and technical readiness for the implementation of the FMIS. The government reformulated the project design and the procurement documents in 2013, and the revised tender was issued. Four bids—each under US\$10 million—were received, and the government entered into a turnkey contract.

The project achieved its first major operational milestone with the FMIS Go-Live 1. The GL and BA Modules for ITD, GDNT (accounting department), Budget Department, FAD, DI, and DCDM were implemented in July 2015. Since then, all in-year budget changes (such as transfers) were performed by the Budget Department, DI, and DCDM directly in the FMIS system. At the time of the upload to FMIS, all expenditure transactions are subject to a budget check against the budget figures already in the FMIS.

The second major milestone (Go-Live 2) was to implement the AP, PO, AR, and CM modules. This was achieved on November 2, 2015. Since then, the FAD, DI, and DCDM have started entering expenditure transactions directly into the FMIS. This means that core functionality in the FMIS related to budget execution has been implemented. End users in participating departments have started using the system for the performance of their day-to-day work, and key revisions to the way they perform their business processes have been implemented. Achievement of this milestone enables full implementation of comprehensive



transaction processing, including all steps from Procure to Pay and report generation facilities. A key feature of the change that has taken place is that several departments have now converged to the FMIS to perform their day-to-day operational tasks, instead of using separate, stand-alone processes and systems for this purpose.

As of end November 2015, 157 end users from FAD, DI, GDNT, and the General Department of Subnational Administration Finance were connected to the system and performed their day-to-day work on the system. An average about 200 transactions each day were processed through the system by various users. This confirms that the end users are using the system on a daily basis for the performance of their day-to-day functions.

As of early 2016, the Budget Department has loaded the detailed budget data for line ministries and subordinate departments into the system. This is essential and will greatly improve the quality of fiscal control and reporting.

The system has the capability to prepare a report that shows the approved budget, the revised budget, commitments, and payments and balances for every line ministry. Therefore, such a move would also enable the ministries to use the FMIS as a management tool for their programs and projects.

FAD staff noted that workloads can be overwhelming, especially at year-end, and requested additional user licenses to allow them to distribute the work more evenly. The Bank felt that this could be done, but also noted the necessity to extend the footprint of the FMIS in a measured way to include additional functionalities and end users.

**Risks and vulnerabilities: Leakage in the TSA.** In keeping with current policy, large amounts of money are advanced to line ministries to deal with capital projects and programs to be undertaken during the course of the fiscal year. These advances are deposited by the treasury in commercial bank accounts opened by the line ministries. These seek an authorization from the FAD/DI prior to the transfer of the advance to the commercial bank. The transfer breaks down the amount of the advance according to the COA (by line item). However, after the advance account has been set up and the specified amount is transferred by the treasury into the bank account owned by the line ministry, the ministry can transact expenditures against this advance without reference to the controlling departments FAD or DI. The line ministry will keep records of all transactions against the advance and forward them to the FAD/DI/GDNT at the time of settlement of the advance. FAD/DI/ GDNT will enter these in the system, and the expenditure will be recognized on an ex post basis. There are two potential problems with this:

- First, large amounts of government funds sit in commercial banks outside the TSA at the central bank and outside the control of the treasury. This creates large idle balance problems, and the government may have to resort to significant deficit financing through overdrafts from the central bank to meet its cash requirements while these amounts remain idle in commercial banks.
- Second, expenditure transactions against the advance accounts are not processed through the FMIS system on an ex ante basis, and they will therefore not be subject to

ex ante budget or commitment control by the FAD and DI prior to expenditure, as is the case with direct expenditures paid by the treasury. Budget execution reports may show these advances as expenditures, while they were not actually spent, but would merely have been transferred to line ministry accounts in commercial banks.

The second risk factor pertains to external funds. The initial implementation of FMIS is restricted to government funds. Expenditures by donors remain outside the system. While it is necessary to have comprehensive data capture, it is recognized that a phased implementation approach is preferable, prioritizing all aspects of government funds, while donor funds are banked separately in special accounts held in commercial banks.

This practice, however, creates the issue of fragmentation of cash across many accounts outside the control of the treasury. This matter needs to be settled in coordination with the donors. Accounts could be opened in the central bank instead of commercial banks, and earmarked for a specific purpose. This policy would not only streamline procedures, but also raise the government's overdraft limit with the central bank and reduce interest charges that accrue on such accounts.

Third, as of this writing, financing for expanding the footprint of the system is yet to be secured. At present the scope of this system covers central offices of the MEF, including the ITD, GDNT (accounting department), GDSNAF, Budget Formulation Department, FAD, DI, and DCDM. Rollout to all provincial treasuries is planned. In order to gain the full advantage from the system's implementation, additional functionalities and agencies will need to be accommodated. It is necessary that financing for continuation of the reform be secured as early as possible to maintain political momentum and avoid an implementation gap.

**Risks and vulnerabilities: Program Based Budgeting.** The implementation of Program Based Budgeting as done in Cambodia has led to a proliferation of transactions that has become unmanageable and a risk to budget management and execution. This is so because of a breakdown of programs and sub-programs into a very large number of activities and budgetary controls have been placed at the activity level (rather than sub-program level), meaning that budgetary allocations and spending have to be made at this level. With an estimate of about 10,000 activities across government, this is unmanageable, even with a functioning FMIS. The treasury centric model as implemented in Cambodia is particularly unsuitable for this approach as it is not possible for the line ministries to enter their transactions directly in the system, and the FAD department is over loaded with transaction data entry.

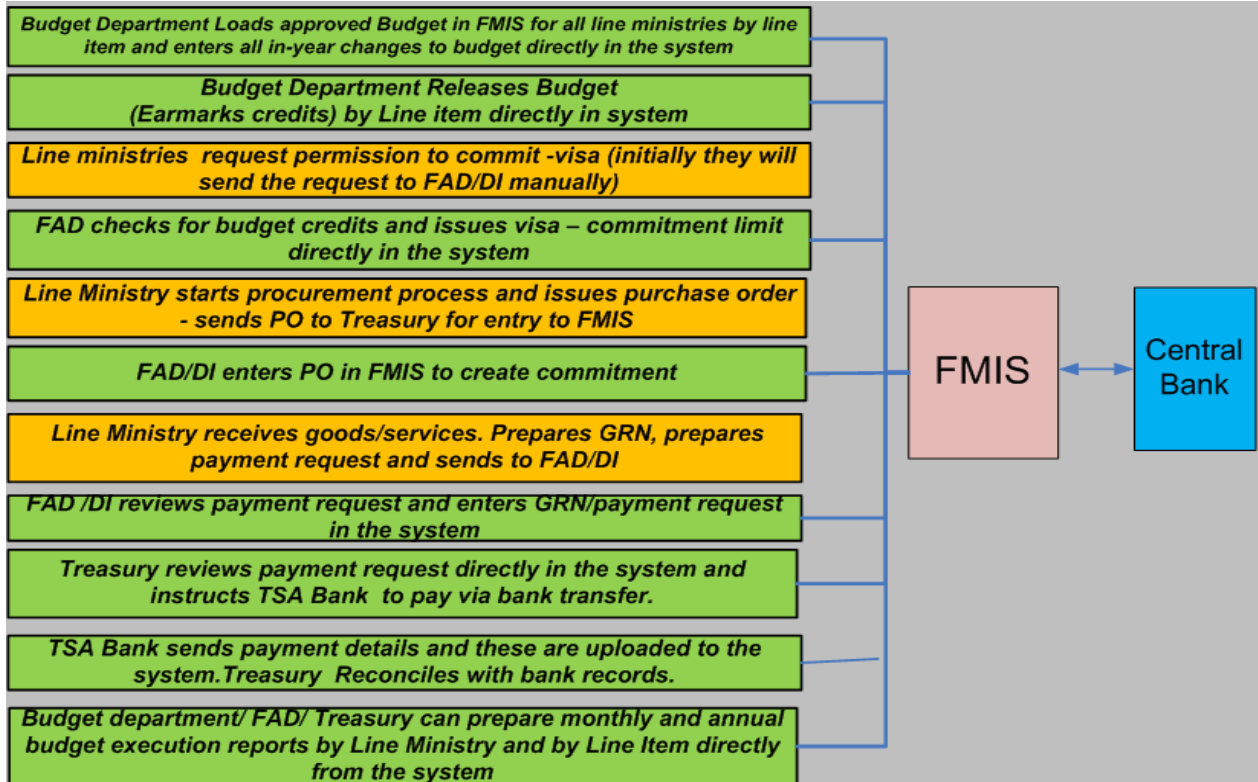
**Business processes of the FMIS.** The flow of transactions after Go-Live 2 is now as follows, and is shown schematically in figure B.2.

- The line ministries send their request for a visa to FAD (for the current budget) and to the DI for the capital budget.
- The controlling departments, FAD and DI, now issue the visa for the request, after checking for funds in the system, and record this directly in the system instead of

doing it manually. Any paper documents required (such as the visa) will be printed directly by the system. This will block budget funds for the purchase.

- After the line ministry has completed the selection of the supplier, they send the documents to the controlling departments. The controlling departments, after examining these documents, enter the details regarding the purchase, such as name of contractor, amount, and details of items to be procured, and generate a purchase order from the system. This creates a commitment.
- On receipt of the GRN and invoice from the line ministry, the FAD/DI enter the invoice. This will be checked by the system and accepted if a commitment already exists in the system. After making any additional checks required, FAD or DI approve the invoice for payment.
- After approval by FAD or DI, the transaction is available in the system for action by the GDNT. Accompanying paper documents are forwarded to the GDNT, which makes any checks against the documents and then clears the transaction for payment through the system. The payment is made from the government bank account, and the FMIS will issue payment instructions to the bank. The money will be transferred directly to the supplier's bank account, or in the case of a paper check, the check will be written directly by the system on preprinted stationary.

**Figure B.2 Cambodia Information Flows Using FMIS—Purchase of Goods and Services**



The FMIS design now includes four automated interfaces and two manual processes related to:

- Payments for payroll and debt servicing
- Confirmation of tax revenue (customs and taxes) data by the customs and the tax departments
- Entry of nontax revenue receipts and loan receipts information into the FMIS.

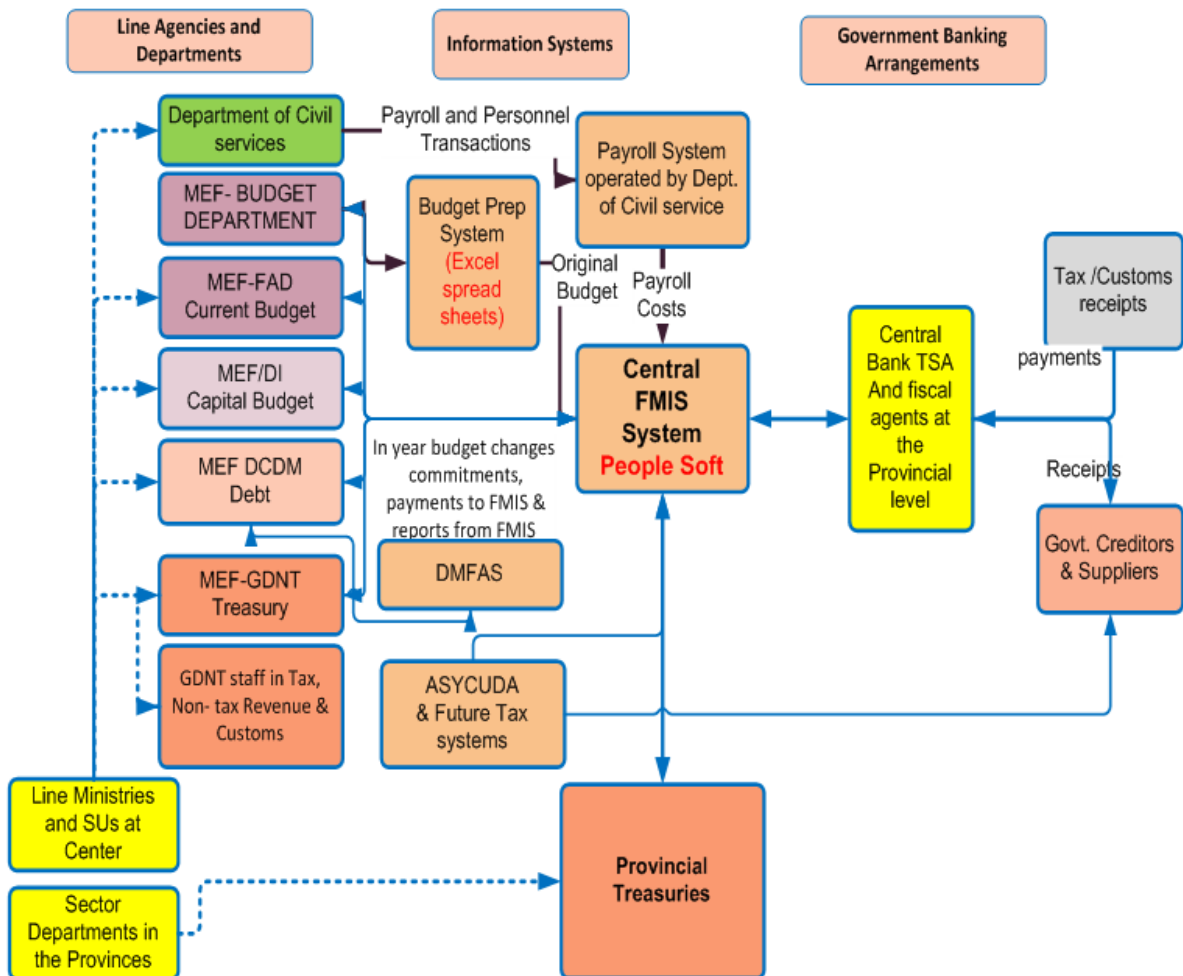
These interfaces, their functions, and information flows are described below and shown schematically in figure B.3.

- **Banking interface:** This interface enables transfer of payment and receipts data from the FMIS to and from the central bank (or any other bank) and reconciliation of records.
- **Payroll payments:** The payroll system, operated by the Department of Civil Service, calculates salaries and allowances and sends the payment request to FAD. FAD enters the transaction into the FMIS so that salary payments can be transferred to designated banks, through which payments are to be made to employees. Prior to this transfer, the FMIS system will check for budget availability against the amounts allocated for salaries and allowances for that spending unit.
- **Loan receipts and debt service payments:** The interface with the debt management and financial analysis system operated by DCDM will enable DCDM to upload receipts data recorded in system directly to the FMIS. Debt service payments against these loans will be entered directly into the FMIS by DCDM. These payments will first be entered in an Excel spreadsheet by DCDM, and this will be uploaded into the FMIS system. At the time of the upload a budget check will be performed.
- **Customs receipts:** Customs receipts are deposited directly in the Bank. This information will be transferred to the FMIS periodically through the banking interface. On transfer, this amount will be held in a temporary account in the FMIS. Customs receipt information is also recorded by the Customs Department in the ASYCUDA system. Summary information will be transferred from the ASYCUDA system through a direct interface between the FMIS and the ASYCUDA system. The amount in the temporary account will then be validated by information received from ASYCUDA and transferred to the appropriate GL account through the AR modules, in keeping with the current government legislation in operation.
- **Tax revenues:** A similar process will operate for tax revenues collected by the General Department of Taxation. Receipts for tax revenues will be deposited directly by the taxpayer into the designated bank, which will transfer it to the TSA. This information will be received by the FMIS through the banking interface and deposited in a temporary holding account. GDNT is entering tax receipt base on the

paper received from the tax department to validate the receipts data recorded in the FMIS in the temporary account. It will then transfer it to appropriate tax receipts accounts in the GL through the AR modules.

- Non-tax revenues:** All nontax revenues are received either directly by offices of this department at the Center and in the provinces or deposited directly by the payer into a designated subaccount of the TSA. The receipts are issued by line ministries or line departments for these revenues. This document serves as the basic input for recording nontax revenues. This data is recorded by the treasury in the AR module. This data will include all receipts data for fees and charges collected by government-run educational institutions and hospitals that have not been granted autonomy and permission to bank these revenues separately in commercial bank accounts.

**Figure B.3 Information Systems Architecture for Fiscal Management**



## Appendix C: Progress in Budget Cycle Dimensions by PEFA Cluster

This appendix clusters the PEFA indicators by the following six stages of the budgeting cycle: (i) strategic budgeting; (ii) budget preparation; (iii) resource management; (iv) internal control and management; (v) accounting and reporting; and (vi) external evaluation, following Andrews (2010). Numerals are used to allow averaging out across dimensions.<sup>40</sup> There is some overlap across dimensions, as some dimensions contribute across clusters.

**Table C.1 PEFA Scores in Strategic Budgeting**

<i>Dimension</i>	<i>2010</i>	<i>2015</i>	<i>2010-15</i>
PI-12 (i) Preparation of multi -year fiscal forecasts and functional allocations	2	2	=
PI-12 (ii) Scope and frequency of debt sustainability analysis	4	4	=
PI-12 (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;	3	2	↓
PI-12 (iv) Linkages between investment budgets and forward expenditure estimates.	2	2	=
Average total	2.8	2.5	↓

Sources: PEFA (2010, 2015).

**Table C.2 PEFA Scores in Budget Preparation**

	<b>Dimension</b>	<b>2010</b>	<b>2015</b>	<b>2010-15</b>
<b>Budget preparation</b>	PI-11 (i) Existence of and adherence to a fixed budget calendar;	4	4	=
	PI-11 (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	4	4	=
	PI-11 (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	4	4	=
	PI-5 (i) The classification system used for formulation, execution and reporting of the central government's budget	2	2	=
	PI-6 (i) Share of the listed information under PI-6 in the PFM PMF booklet in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)	3	2	↓
	PI-8 (i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	2	4	↑
	PI-8 (ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	4	4	=
	PI-10 (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	2	1	↓
	PI-D2 (i) Completeness and timeliness of budget estimates by donors for project support	1	2	↑
	<i>Subtotal average</i>	2.9	3.0	↑

<sup>40</sup> Numerical scores are applied to allow for averaging. The PEFA score “A” is given the highest value of “4,” and the PEFA score “D” is given the lowest value of “1.” Dimensions that were not scored were excluded from averaging.

<b>Legislative budget</b>	PI-27 (i) Scope of the legislature's scrutiny.	NU	2	n/a
	PI-27 (ii) Extent to which the legislature's procedures are well-established and respected.	NU	3	n/a
	PI-27 (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	NU	2	n/a
	PI-27 (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	NU	3	n/a
	PI-11 (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	4	4	n/a
	<i>Subtotal average</i>	n/a	2.8	n/a
	<b>Average total</b>	2.9	2.9	=

Sources: PEFA (2010, 2015).

**Table C.3 PEFA Scores in Resource Management**

	<b>Dimension</b>	<b>2010</b>	<b>2015</b>	<b>2010-15</b>
<b>Inflows (taxes)</b>	PI-13 (i) Clarity and comprehensiveness of tax liabilities	3	2	↓
	PI-13 (ii) Taxpayer access to information on tax liabilities and administrative procedures.	3	3	=
	PI-13 (iii) Existence and functioning of a tax appeals mechanism.	2	2	=
	PI-14 (i) Controls in the taxpayer registration system.	2	1	↓
	PI-14 (ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	2	2	=
	PI-14 (iii) Planning and monitoring of tax audit and fraud investigation programs.	2	2	=
	PI-15 (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	1	1	=
	PI-15 (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	3	3	=
	PI-15 (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	2	2	=
	PI-17 (i) Quality of debt data recording and reporting	2	2	=
	PI-17 (ii) Extent of consolidation of the government's cash balances	3	3	=
	<i>Average subtotal</i>	2.3	2.1	↓
<b>Donors</b>	PI-D1 (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	2	1	↓
	PI-D1 (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NU	1	n/a
	PI-D2 (i) Completeness and timeliness of budget estimates by donors for project support.	1	2	↑
	PI-D2 (ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	1	1	=
	PI-D3 (i) Overall proportion of aid funds to central government that are managed through national procedures	1	1	=
	<i>Average subtotal</i>	1.3	1.2	↓
<b>Outflows (cash)</b>	PI-16 (i) Extent to which cash flows are forecast and monitored.	2	3	↑
	PI-16 (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	3	3	=
	PI-16 (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	2	2	=
	PI-27 (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	NU	3	n/a

	PI-17 (i) Quality of debt data recording and reporting	3	3	=
	PI-20 (i) Effectiveness of expenditure commitment controls.	2	2	=
	PI-D1 (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NU	1	n/a
	<i>Average subtotal</i>	2.4	2.4	↑
<b>Procurement</b>	PI-19 (i) Transparency, comprehensiveness and competition in the legal and regulatory framework	n/a	3	n/a
	PI-19 (ii) Use of competitive procurement methods	n/a	1	n/a
	PI-19 (iii) Public access to complete, reliable and timely procurement information	n/a	1	n/a
	<i>Average subtotal</i>	n/a	1.7	n/a
<b>HR / Payroll</b>	PI-18 (i) Degree of integration and reconciliation between personnel records and payroll data.	3	3	=
	PI-18 (ii) Timeliness of changes to personnel records and the payroll	2	2	=
	PI-18 (iii) Internal controls of changes to personnel records and the payroll.	3	3	=
	PI-18 (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	1	1	=
	<i>Average subtotal</i>	2.3	2.3	=
	<b>Average total</b>	2.0	1.9	↓

Sources: PEFA (2010, 2015).

**Table C.4 PEFA Scores for Internal Control, Audit, and Monitoring**

	<b>Dimension</b>	<b>2010</b>	<b>2015</b>	<b>2010-15</b>
<b>Internal controls</b>	PI-20 (i) Effectiveness of expenditure commitment controls.	2	2	=
	PI-20 (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	2	2	=
	PI-20 (iii) Degree of compliance with rules for processing and recording transactions	2	2	=
	<i>Average subtotal</i>	2.0	2.0	=
<b>Internal audit</b>	PI-21 (i) Coverage and quality of the internal audit function.	1	2	=
	PI-21 (ii) Frequency and distribution of reports	2	2	=
	PI-21 (iii) Extent of management response to internal audit findings.	2	2	=
	<i>Average subtotal</i>	1.7	2.0	↑
<b>Monitoring</b>	PI-4 (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	4	1 (n/a)	n/a
	PI-9 (i) Extent of central government monitoring of AGAs and PEs.	2	2	=
	PI-9 (ii) Extent of central government monitoring of SN government's fiscal position	4	4	=
	<i>Average subtotal</i>	3.3	3.0	↓
	<b>Average total</b>	2.3	2.3	=

Sources: PEFA (2010, 2015).

**Table C.5 PEFA Scores for Accounting and Reporting**

	<b>Dimension</b>	<b>2010</b>	<b>2015</b>	<b>2010-15</b>
<b>Accounts reconciliat</b>	PI-22 (i) Regularity of bank reconciliations	3	3	=
	PI-22 (ii) Regularity of reconciliation and clearance of suspense accounts and advances.	1	1	=
	<i>Subtotal average</i>	2.0	2.0	=



<b>In year reporting</b>	PI-24 (i) Scope of reports in terms of coverage and compatibility with budget estimates	2	2	=
	PI-24 (ii) Timeliness of the issue of reports	3	4	↑
	PI-24 (iii) Quality of information	2	2	=
	<i>Subtotal average</i>	2.3	2.7	↑
<b>Annual reporting</b>	PI-25 (i) Completeness of the financial statements	1	1	=
	PI-25 (ii) Timeliness of submission of the financial statements	2	3	↑
	PI-25 (iii) Accounting standards used	1	2	↑
	<i>Subtotal average</i>	1.3	2.0	↑
<b>Special reporting</b>	PI-4 (ii) Availability of data for monitoring the stock of expenditure payment arrears	2	2	=
	PI-7 (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	2	2	=
	PI-8 (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	1	1	=
	PI-9 (i) Extent of central government monitoring of AGAs and PEs.	2	2	=
	PI-9 (ii) Extent of central government monitoring of SN government's fiscal position	4	4	=
	PI-10 (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	2	1	↓
	PI-23 (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	2	1	↓
	<i>Subtotal average</i>	2.1	1.9	↓
<b>Average total</b>		2.0	2.1	↑

Sources: PEFA (2010, 2015).

**Table C.6 PEFA Scores for External Accountability**

	<b>Dimensions</b>	<b>2010</b>	<b>2015</b>	<b>2010-15</b>
<b>External audit</b>	PI-26 (i) Scope/nature of audit performed (incl. adherence to auditing standards).	1	2	↑
	PI-26 (ii) Timeliness of submission of audit reports to legislature.	2	4	↑
	PI-26 (iii) Evidence of follow-up on audit recommendations.	2	2	=
	<i>Subtotal average</i>	1.7	2.7	↑
<b>Legislative audit analysis</b>	PI-28 (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	NU	3	n/a
	PI-28 (ii) Extent of hearings on key findings undertaken by the legislature.	NU	3	n/a
	PI-28 (iii) Issuance of recommended actions by the legislature and implementation by the executive.	NU	3	n/a
	<i>Subtotal average</i>	n/a	3.0	n/a
<b>Average total</b>		1.7	2.8	↓

Sources: PEFA (2010, 2015).

## Appendix D: A Review of ISRs

A total of nine ISRs were prepared during project implementation. The first ISR was done a year after approval, and the last one six months before closing. Three ISRs followed good practice and were completed within a few days/weeks of mission completion. Three others were completed after 100 to 200 days. No information on dates was provided in the last three ISRs. An ISR was prepared every nine months, on average, and in two cases one was prepared after less than five months. In one case, the gap was 14 months.

Sector manager comments were received for seven ISRs, and directors commented on three. These comments were usually to the point and relevant. They reflected key concerns and the need to address implementation issues and/or to restructure the project, and they provided useful guidance. They did not, however, question the ratings at any stage.

**Strengths:** Each ISR provided information on progress to date pertaining to key indicators. The first ICR improved the measurement of key indicators by updating the baseline and refocusing the quantitative targets, which were weak in the PAD. The indicator for oil revenue was dropped (as was the subcomponent), as were others (discussed in the M&E section). However, these changes were never formalized in a restructuring paper.

**Weaknesses:** No ISR was prepared during the 12 months following Board approval. One was mandatory after the first quarter. Such an ISR could have reported on the status of the effectiveness conditions. There were also major institutional changes affecting the project, notably the IPA.

The first five ISRs erroneously reported only disbursement figures of the IDA grant, even though the MDTF was cofinancing the project and disbursing. This may explain why implementation progress was rated satisfactory, even though the IDA grant did not disburse very much in the first three years. Despite this consideration, slow disbursement of the IDA grant (50 percent of initial funding) should have been flagged in the first few ISRs, at least through a moderately satisfactory rating. The above is an example of lack of candor in reporting by the team and ratings that did not adequately reflect realities on the ground.

Some basic information contained in the ISRs was incomplete. Aside from the late integration of the MDTF, notable shortcomings include components not being listed (operation included six instead only one as “public financial management,” as listed), which meant the report failed to signal issues with the implementation of some components (as was the case), only one legal covenant is listed in later ISRs (which raises the question how they were monitored), and the original disbursement profile shown does not correspond to the one in the PAD, and as a result, the disbursement lag during the first three years was not apparent. Other examples of lack of attention to details include implementing agencies not being listed until the sixth ISR (one missing) and additional financing being shown in two ISRs as a related project, even though it was never approved.

More generally, the ISRs do not reflect key events under the project. For instance, the abandonment of the original FMIS procurement is not explained, nor is the dropping of components and activities that were material to the PDOs (such as external audits), and some

important (as well as more routine) information is not provided (for example, no action is listed in the first five ISRs, field visit dates are not provided in some, and so on). The last issue was flagged from the outset in a manager's comments, but not taken on board.

Even though a mission was planned before closing, no final ISR was prepared. Such an exercise may have resulted in more realistic ratings of final results and could potentially have improved the quality of the ICR.

In summary, the ISR quality (especially early ISRs) was generally inadequate, the reports' ratings tended to exaggerate achievements, and ISRs did not reflect important issues affecting project implementation.

**Table D.1 ISR Key Dates and Attributes**

<i>ISR #</i>	<i>SPN</i>	<i>ISR archived</i>	<i>Gap, SPN &amp; ISR (months)</i>	<i>Gap between ISRs (months)</i>	<i>Manager comment</i>	<i>Country director comment</i>
0		9/27/2006				
1		6/29/2007	n/a	9	yes	yes
2		3/22/2008	n/a	8.8	no	no
3	7/31/2008	8/7/2008	7	4.5	yes	no
4	6/12/2009	10/14/2009	124	14.2	no	yes
5	1/17/2010	2/26/2010	40	4.4	yes	yes
6	10/28/2010	11/10/2010	13	8.4	yes	no
7		11/11/2011	n/a	12	yes	no
8	3/6/2012	10/31/2012	239	11.6	yes	no
9	4/19/2013	7/29/2013	101	8.9	yes	no

## Appendix E: Economic and Fiscal Table

**Table E.1 Fiscal Table (percent of GDP) as per IMF Article IV Agreement.**

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(act.)	(act.)	(act.)	(act.)	(act.)	(act.)	(est.)	(proj.)	(proj.)
Revenue	15.9	15.8	17.0	15.6	16.9	18.4	19.8	19.4	19.4
<i>Of which:</i> Non-grant	12.5	11.5	12.1	12.4	14.1	14.5	16.9	17.5	17.6
Tax	10.5	9.6	10.1	10.2	11.3	11.7	13.9	14.4	14.5
Income, profits, and capital gains tax	1.6	1.7	1.7	1.8	2.3	2.5	2.9	3.4	3.4
Good and services tax	6.2	5.4	5.9	6.0	6.7	6.8	8.2	8.1	8.4
International trade and transactions tax	2.8	2.5	2.5	2.3	2.4	2.4	2.8	2.9	2.7
Grants	3.3	4.2	4.9	3.2	2.8	3.9	3.0	1.9	1.8
Other revenues 1/	2.0	1.9	2.0	2.2	2.8	2.8	2.9	3.2	3.1
Total expenditure	15.7	20.0	20.0	19.7	20.7	20.5	21.2	21.4	22.0
Expense	9.6	11.5	10.8	11.3	12.0	11.9	13.2	13.9	14.4
Compensation of employees	3.5	4.9	4.5	4.4	4.7	5.0	5.9	6.6	7.4
Purchase of goods and services	3.6	3.9	3.7	3.8	4.1	3.9	4.2	4.2	4.2
Interest	0.2	0.2	0.3	0.3	0.5	0.7	0.3	0.4	0.4
Expense not elsewhere classified	2.3	2.5	2.2	2.8	2.7	2.3	2.8	2.7	2.4
Net acquisition of nonfinancial assets	6.1	8.5	9.2	8.4	8.7	8.6	8.0	7.5	7.5
<i>Of which:</i> Externally-financed	4.6	6.4	7.3	6.5	7.1	7.0	6.2	5.3	5.1
Net lending (+)/borrowing(-)	0.2	-4.2	-3.0	-4.1	-3.8	-2.1	-1.3	-2.0	-2.6
Net acquisition of financial assets	2.7	-1.7	-0.3	0.0	0.6	0.5	2.3	1.4	0.6
Net incurrence of liabilities 2/	2.5	2.5	2.7	4.1	4.4	2.6	3.7	3.4	3.1
<i>Of which:</i> External	2.4	2.3	2.0	3.4	4.1	3.1	2.7	3.4	3.1
Memorandum items:									
Net lending (+)/borrowing(-) excluding grant	-3.2	-8.5	-7.9	-7.3	-6.6	-6.0	-4.3	-3.8	-4.4
Domestic financing 3/	-2.6	1.9	1.0	0.7	-0.4	-1.0	-1.4	-1.4	-0.6
Government deposits	7.8	5.9	5.1	4.6	4.9	5.0	7.1	8.1	8.1
GDP growth (in percent)	6.7	0.1	6.0	7.1	7.3	7.5	7.1	6.9	6.9

Sources: IMF 2001, 2015, 2012; Based on IMF 2001.

Note: Data prior to 2008 are not directly comparable.

**Table E.2 Revenue and Expenditure (percent of GDP) as per Cambodia Macroeconomic Monitor.**

	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015e</i>	<i>2016 B.L</i>	<i>2017p</i>
Domestic revenue	12.9	15.2	15.2	17	18	17.9	18.2
Total current revenue	13	14.7	15.1	16.8	17.8	17.7	18.1
GDCE	6	6.5	6.4	8	8.3	8.3	8.3
GDT	4.5	5.3	5.9	6.3	7.1	7.1	7.7
Others	2.5	3	2.7	2.5	2.4	2.4	2.2
Total expenditure	21	21.9	22	21.6	20.9	22.8	23.1
Current expenditure	11.4	12.1	12.3	12.7	13	14.7	14.8
Wage	5.1	4.7	5.1	5.8	6.5	7.4	7.8
Non-wage	8.1	7.4	7.2	6.9	6.5	7.3	7
Capital expenditure	9.6	9.8	9.7	8.8	7.8	8	8.4
Current surplus	1.6	2.6	2.8	4.1	4.8	3	3.4
Overall deficit	-8.2	-6.7	-6.8	-4.5	-2.9	-4.9	-4.8

Source: MEF 2016. Cambodia Macroeconomic Monitor. Mid-Year Assessment 2016.

## Appendix F: List of Persons Met

<b>Name</b>	<b>Organization</b>	<b>Position</b>
Alassane Sow	World Bank	Country Manager
Robert Taliercio	World Bank	Practice Manager
Leah April	World Bank	Senior Public Sector Specialist
Sokbunthoeun So	World Bank	Public Sector Specialist
Sreng Sok	World Bank	Procurement Specialist
Anna Pinto Hebert	World Bank	Senior Operations Officer, INTSC
Manush Hristov	World Bank	Senior Counsel
Jim Adams	World Bank	Former Regional Vice President EAP
Annette Dixon	World Bank	Regional Vice President SAR, Former Country Director
Ian Porter	World Bank	Former Country Director
Qimiao Fan	World Bank	Former Country Manager
Yong Sarah Zhou	IMF	IMF Resident Representative
Klas Rasmusson	Embassy of Sweden	Counsellor, Economist
Alvarez Javier Castillo	European Union	Macroeconomist
H.E. Dr. Ouk Saravudh	National Audit Authority	Deputy Auditor General
Chhoun Samrith	General Department of International Cooperation & Debt Management	Deputy General Director
H.E. Kong Vibol	General Department of Taxation	Director General
H.E. Youk Bunna	Ministry of Civil Service	Secretary of State
Hout Vathana	General Department of Public Procurement	Deputy Director General
H.E. Ros Seilava	RGC MEF	Under Secretary of State; Secretary General of Steering Committee of the PFM Reform
Bou Vong Sokha	RGC MEF,	Deputy Director General; Deputy Secretary General of Steering Committee of the PFM Reform
Yeth Vinel	RGC MEF	Deputy Secretary General; Deputy Secretary General of General Secretariat PFM Reform Steering Committee
Maun Prathna	RGC MEF, ITD	Director of IT Department
H.E. Chea Vuthna	General Department of Internal Audit	Director General
Ung Luyna	RGC MEF	Deputy Secretary General of General Secretariat of the PFM Reform Steering Committee
Um Youthy	RGC MEF, Budget Formulation Division	Head of Financial and Administrative Division

Sokun Chakriya	RGC MEF, General Secretariat of PFM Reform Steering Committee	PFM Senior Specialist
H.E.Meas Soksesan	RGC MEF	Secretary General of MEF and Deputy Secretary General of PFM Reform Steering Committee
H.E. Pen Thirong	RGC MEF, General Department of International Cooperation and Debt Management	Deputy Director General
Tes Putheara	RGC MEF, General Secretariat of PFM Reform Steering Committee	Office Manager
Kim Phalla	RGC MEF, General Department of Economic and Public Finance Policy	Deputy Director General
Karm Sophea	RGC MEF, General Department of Economic and Public Finance Policy	Deputy Director, Statistics Department
Samon Kontell	RGC MEF, General Department of Economic and Public Finance Policy	Deputy Director, Macroeconomics and Fiscal Department
Liy Bithymony	RGC MEF, General Department of Economic and Public Finance Policy	Deputy Director
Mak Vichetsacksa	RGC MEF, General Department of Economic and Public Finance Policy	Economist, Macroeconomics and Fiscal Department
Vong Bunintreavuth	RGC MEF, General Department of National Treasury	Director General
Thil Siborann	RGC MEF, General Department of National Treasury	Head of Secretariat
Heng Sokna	RGC MEF, General Department of National Treasury	Advisor
Ming Bamsouvathichasella	RGC MEF, General Department of National Treasury	Deputy Director General
Te Yourouth	RGC MEF, General Department of National Treasury	Office Chief of Accounting

## Appendix G: Borrower Comments

Following standard Independent Evaluation Group (IEG) procedures, a copy of the draft report was circulated to the relevant government officials and agencies for their review and feedback. Comments were received in track-change form and are carefully reflected in the final report.

**From:** [ouch sophorn](#)  
**To:** [Moritz Piatti](#)  
**Cc:** [Ros Seilava](#); [Yeth Vinel](#); [Youthy Um](#); [Amara Khiev](#); [Linna Ky](#); [Chakriya Sokun](#); [Leah April](#)  
**Subject:** MEF comment on the Draft Project Performance Assessment Report  
**Date:** Friday, October 21, 2016 3:33:51 AM  
**Attachments:** [PPAR Cambodia - October 19 2016.pdf](#)  
[GDEFP-CMM Mid-2016-Assessment-English-Version.pdf](#)  
[PPAR Cambodia - October 19 2016.docx](#)

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Dear Mr. Moritz Piatti,

On behalf of General Secretariat of Public Financial Management Reform Steering Committee, I would like to send you the comment on the Draft Project Performance Assessment Report. The inputs reflected the situations of Cambodia and current reform.

Should you have any more concerns, please feel free to contact me.

Best Regards,  
Sophorn Ouch (Mr.)  
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