

Validation Report
October 2019

Cambodia: Public Financial Management for Rural Development Program

Reference Number: PVR-637
Project Numbers: 41373-012 and 41373-013
Loan Number: 2674
Grant Numbers: 0132, 0133, 0221, and 0222



Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
DMF	–	design and monitoring framework
MEF	–	Ministry of Economy and Finance
NAA	–	National Audit Authority
NSDP	–	National Strategic Development Program
PCR	–	program completion report
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
PFMRDP	–	Public Financial Management for Rural Development Program
PFMRP	–	Public Financial Management Reform Program
RDM	–	rural development ministries
RRP	–	report and recommendation of the President

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM BASIC DATA

Project Numbers	41373-012 and 41373-013	PCR Circulation Date	25 September 2018	
Loan/Grant Numbers	2674, 0132, 0133, 0221, and 0222	PCR Validation Date	Oct 2019	
Program Name	Public Financial Management for Rural Development Program			
Sector and Subsector	Public sector management	Public expenditure and fiscal management		
Strategic Agenda	Environmentally sustainable growth Inclusive economic growth			
Safeguard Categories	Environment		C	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Cambodia		Approved (\$ million)	Actual (\$ million)
ADB Financing (\$ million)	ADF: 35.81	Total Project Costs	37.48	36.27
	OCR: 0.00	Loan/Grant		
		G0132	6.71	6.71
		G0133	4.10	3.45
		G0222	5.00	4.44
		G0221	10.00	10.00
		L2674	10.72	10.72
		Borrower		
		G0133	0.45	0.45
G0222	0.50	0.50		
Approval Date G0132 and G0133 L2674, G0221, and G0222	4 Dec 2008 30 Sep 2010	Effectiveness Date G0132 and G0133 L2674, G0221, and G0222	8 Mar 2009 20 Jan 2011	22 Dec 2008 8 Apr 2011
Signing Date G0132 and G0133 L2674, G0221, and G0222	8 Dec 2008 22 Oct 2010	Closing Date G0132 G0133 L2674 and G0221 G0222	30 Apr 2009 30 Sep 2012 30 Apr 2011 30 Sep 2013	30 Apr 2009 9 Jul 2014 30 Apr 2011 10 Feb 2017
Project Officers	P. Jena C. Ouch	Location ADB headquarters Cambodia Resident Mission	From Mar 2009 Jul 2012	To Jul 2012 Feb 2017
IED Review Director Team Leader	W. Kolkma, IETC E. Kim, Senior Evaluation Specialist, IETC*			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = program completion report.

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I. PROGRAM DESCRIPTION

A. Rationale

1. The National Strategic Development Plan (NSDP) 2006–2010 of Cambodia aimed to reduce rural poverty by providing policy and financial support to the rural and agriculture sector.¹ In 2008, 81% of the population in Cambodia lived in rural areas where the main source of livelihood and income was agriculture and the poverty rate was 13% higher than the urban sector.² Agriculture—an important source of jobs and enterprise formation for poverty reduction—was not only a government priority in the NSDP but also essential for rural development. It accounted for a third of the country's gross domestic product.³ The delivery of public services to the rural areas was hindered by the low capacity and underfunding of the rural development ministries (RDMs) including the Ministry of Agriculture, Forestry, and Fisheries; the Ministry of Water Resources and Meteorology; and the Ministry of Rural Development. To reduce poverty in the rural areas and improve service delivery, the Government of Cambodia implemented a multistage Public Financial Management Reform Program (PFMRP), 2005–2025. Stage 1 (2005–2008) was to achieve budget credibility by strengthening (i) revenue forecasting and mobilization, (ii) the budget's comprehensiveness, and (iii) the spending processes. Stage 2 (2009–2015) was to strengthen budget accountability by improving accounting and reporting and installing the initial design of a financial management information system, audit (internal audit and external audit), and public procurement.

2. In December 2008, the Asian Development Bank (ADB) approved a program modality intervention under the Public Financial Management for Rural Development Program (PFMRDP) for its subprogram 1, along with an attached grant for institutional and capacity development. PFMRDP supported stage 2 of PFMRP in the Ministry of Agriculture, Forestry, and Fisheries; Ministry of Water Resources and Meteorology; and Ministry of Rural Development. Subprogram 1, with the grant, supported institutional and capacity development in four components: (i) improving public financial management (PFM) capacity in RDMs, (ii) strengthening internal audit in the Ministry of Economics and Finance (MEF) and RDMs, (iii) strengthening public sector debt management, and (iv) strengthening the effectiveness of the National Audit Authority (NAA) (footnote 3).

3. ADB approved subprogram 2 in September 2010 to consolidate the initial achievements of subprogram 1 in implementing PFM reforms in three RDMs and in strengthening the capacity of NAA. Subprogram 2 also had the following four components: (i) improving PFM capacity in RDMs, (ii) providing support to the Council for Administrative Reform, (iii) strengthening public sector debt management, and (iv) strengthening the effectiveness of the NAA.⁴

B. Expected Impacts, Outcomes, and Outputs

4. The expected impacts, as outlined in the design and monitoring framework (DMF), were (i) strengthened prioritization of resource use, (ii) efficient delivery of public services to the rural

¹ Government of Cambodia. 2006. *National Strategic Development Plan, 2006–2010*. Phnom Penh.

² ADB. 2012. *Cambodia: Country Poverty Analysis*. Manila.

³ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster Grant for Subprogram 1 and Grant Assistance to the Kingdom of Cambodia for the Public Financial Management for Rural Development Program*. Manila.

⁴ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster Grant for Subprogram 2 and Grant Assistance to the Kingdom of Cambodia for the Public Financial Management for Rural Development Program*. Manila.

population, and (iii) improved governance for subprogram 1. For subprogram 2, the expected impacts were (i) strengthened prioritization of resource use, and (ii) improved governance. The expected outcome for both was improved PFM in the RDMs.⁵

5. The expected outputs for both subprograms were (i) strengthened financial management framework to increase accountability, (ii) strengthened financial management in priority sectors to improve service delivery to the rural population, and (iii) strengthened external audit as a pillar of public accountability.

C. Provision of Inputs

6. Subprogram 1 was financed by a grant of \$6.7 million released upon compliance with conditions set out in a policy matrix. Another grant assistance of \$4.1 million and a government counterpart funding of \$0.5 million were provided to support an institutional and capacity development project. Subprogram 2 was financed by a grant of \$10.0 million and a loan equivalent to \$10.0 million (SDR6.7 million) upon completion of subprogram conditions. An additional grant of \$5.0 million and a government contribution of \$0.5 million financed the capacity development.

7. The ADB Board approved the grants for subprogram 1 in December 2008, and became effective on the same date, ahead of the scheduled effectiveness of March 2009. Subprogram 1 had its planned closing date in April 2009. For subprogram 2 and its related capacity development, the two grants and the loan were approved in September 2010, while effectiveness was in April 2011. This was 2.5 months after the targeted effectiveness of January 2011. The implementation of the project grants was delayed due to (i) the recruitment of consultants, which was changed from direct hiring to the use of consultancy firms; (ii) the complexity of the reforms; and (iii) the uneven absorptive capacity of the executing and implementing agencies. Subprogram 2 grant and the loan closed in April 2011 as planned at appraisal. However, the grant for capacity development closed in January 2016—after four extensions and 28 months past the original closing date of September 2013. This was caused by an extension of the winding up period to resolve the final claim of the consultant responsible for implementation.⁶

8. The total program and project costs were \$36.3 million against the estimated \$37.5 million at appraisal. Subprogram 1 had a total cost of \$10.6 million compared with the planned \$11.3 million. Subprogram 2 had a total cost of \$25.7 million compared with the planned \$26.2 million. In general, the budget utilization for PFM and external audit was lower than originally budgeted because of lower demand for PFM training and workshops, and low absorptive capacity of NAA for strengthening external audit. The government contributed to the program a total of \$0.9 million for salaries, counterpart staff allowance, and equipment for operation and maintenance.

9. Given the limited capacity of the executing and implementing agencies to recruit and manage consultants, it was agreed that ADB headquarters would recruit consultants and the Cambodia Resident Mission would administer the contracts. However, the recruiting process suffered significant delays due to (i) procedural procurement issues for international audit specialist; and (ii) the recruitment of a local training institute instead of engaging individual consultants, as originally planned, for the training of senior and mid-level government officials.

⁵ The outcomes in the two DMFs are slightly differently worded but have the same intent.

⁶ The consultant reportedly went missing in 2014 as a result of a serious motorcycle accident.

10. The safeguards classification of PFMRDP was C for environment, involuntary resettlement, and indigenous peoples. As the program was not expected to impact negatively on women, the PFM improvements were also expected to promote inclusive growth and identify gender-responsive policy changes.⁷ This was through training programs developed to address the specific needs of women, and forums to allow women employees to discuss their training and capacity-building needs based on feedback during the implementation process.

D. Implementation Arrangements

11. The implementation arrangements for both subprograms were as proposed in the corresponding reports and recommendations of the President to the Board of Directors (RRP). Under subprogram 1, the MEF was the executing agency for components 1, 2, and 3. The RDMs were implementing agencies for component 1, the Internal Audit Department of MEF for component 2, and the Department of Cooperation and Debt Management of MEF for component 3. The NAA was the executing agency for component 4. The arrangements for subprograms 2 and 4 were similar, except for the implementing agency, which was the Ministry of Civil Service for component 2. ADB delegated the administration of the second project grant to the resident mission in July 2012. There was no overall consultant team leader and such absence generated substantial additional demands on ADB project officers. The position could have been created through a minor change in scope in implementation arrangements.

12. Lessons learned from the technical assistance—Preparing the Strengthening of Public Financial Management for Rural Development Project—completed in 2008, supported RDMs in planning to improve their PFM capacity, particularly under PFMRP, and helped ADB to design the program.⁸ As a result, the performance targets for the key outputs were met, including (i) improved expenditure management, (ii) development of new chart of accounts, (iii) improved budget execution rates, and (iv) full staffing and successful operationalization of internal audit units of RDM.

13. Only two of the 60 covenants were not fully complied with. Two gender-related issues in both subprograms were only partly complied with. The training activities addressed the specific needs of women, and female employees were encouraged to participate. However, the efforts to involve female employees in identifying capacity development needs and in applying newly acquired skills in their work were found inadequate.

14. The RRP for subprogram 1 recognized the significant challenges for Cambodia to reduce its fiduciary risk over the medium-term and noted that implementing the corresponding reform agenda would be a difficult task. Nevertheless, these were to be mitigated by reforms where Cambodia was to build a foundation for an efficient, effective, and sustainable PFM system. This would ensure that risks associated with any mismanagement of program funds or weaknesses in the PFM system will be minimized over time.

15. The risk assessment and risk management plan in the RRP for subprogram 2 identified eight risks with overall “high” risk level.⁹ The risk level was lowered to “medium” with the

⁷ Footnote 3, p. 63.

⁸ ADB. 2007. *Technical Assistance to the Kingdom of Cambodia for Preparing the Strengthening of Public Financial Management for Rural Development Project*. Manila.

⁹ The eight high-level risks include (i) poor predictability and control in budget execution due to inefficiencies in administering revenue collection and enforcing compliance; (ii) weak financial management and accounting capacity; (iii) weak external scrutiny and audit due to inadequate resources and authority for the NAA; (iv) weak central institutional framework and capacity in procurement legislation and procedure; (v) ineffective legislative and policy

incorporation of mitigation measures, but this validation considers this optimistic. The proposed measures to mitigate the high-level risk were related to future assistance and new reforms, to be implemented as part of the program and other donor-funded programs. However, no evidence was presented to prove that these were achieved or had the expected mitigating effects.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

16. The program completion report (PCR) rated the PFMRDP relevant based on its strong linkages to the development strategy of the government and to the country partnership strategy (CPS) of ADB.¹⁰ The program was aligned with a number of government programs, including the (i) NSDP, which provided medium-term policy and reform priorities; (ii) PFMRP, which was designed to improve financial accountability, establish regulations, and deliver public procurement capacity development, strengthen financial management, and enhance internal and external audit operations; and (iii) Rectangular Strategy for Growth, Employment and Equity and Efficiency 2008–2013, Phase 2, which focused on the agricultural sector and good governance. PFMRDP was also consistent with the CPS of ADB and its program for operations in Cambodia.¹¹

17. The program modality was appropriate since it enabled the subprograms to be undertaken sequentially as two single subprogram operations. Although both were developed together, the program design was such that subprogram 2 could be further refined during a subprogram impact review—hence, the program could be adjusted based on progress made in subprogram 1 and the completion of the key milestones and triggers in subprogram 2. Subprogram 1 had two grant financing while subprogram 2 had a mix of a loan and two grants, which allowed for policy and capacity development and helped the government meet its external financing gaps.

18. The policy objectives of PFMRDP subprogram 1, which were to (i) strengthen the financial management framework to increase accountability, (ii) strengthen financial management in the rural sectors, and (iii) strengthen external audit, were revised for subprogram 2. The core triggers and milestones for subprogram 2 were completed with updated core policy actions.

19. This validation cites the following program design weaknesses:

- (i) **Scope selection.** Strengthening the effectiveness of NAA may have been better undertaken as a separate project, as developing such an accountability mechanism takes time and requires cultural change within the legislature.
- (ii) **Outcome definition.** The outcome statement could have included a provision that improved PFM in RDMs would lead to increased accountability and improved service delivery to the rural population by increasing financial resources and enabling better- skilled human resources for the RDMs. This could have been

framework against corruption; (vi) weak capacity and lack of accountable framework and transparency in procurement procedures; (vii) low capacity and resources for integrity institutions; and (viii) low administrative quality due to patronage-based public sector with poorly paid civil servants, fragmented administrative structure, overlapping responsibilities, and complex business processes.

¹⁰ ADB. 2018. *Completion Report: Public Financial Management for Rural Development Program of Cambodia*. Manila.

¹¹ ADB. 2005. *Country Strategy and Program: Cambodia, 2005–2009*. Manila; ADB. 2008. *Country Operations Business Plan: Cambodia, 2008–2010*. Manila; ADB. 2011. *Country Partnership Strategy: Cambodia, 2011–2013*. Manila.

monitored through a performance indicator that measures the improvement in service delivery to the rural population.

- (iii) **Output indicator selection.** The strengthened PFM in the rural priority sectors to improve service delivery to the rural population as output 2—does not seem to be aligned with the performance indicators of the DMF. The DMF only discussed budget execution and budget strategic plans, use of bank accounts, and efficient procurement processes. Although these would have contributed to improved service delivery, an indicator to determine if the output was met could have been included.

20. Despite the weaknesses in program design, this validation assesses the program relevant given its alignment with government programs, with the CPS of ADB, the intent of the outputs, and appropriateness of the two loan and grants.

B. Effectiveness in Achieving Program Outcomes and Outputs

21. The PCR rated the PFMRDP effective in achieving the intended outcomes of both subprograms on improving PFM in RDMs through substantive developments in public expenditure management and accountability. The RDMs prepared ministry action plans and updated these annually to improve their capacity in accounting, procurement, and internal audit. The RDMs also used these as a management tool.

22. Improvements in the effectiveness of public expenditure management and accountability of the country were reflected in the 2015 Public Expenditure and Financial Accountability (PEFA) assessments.¹² The global competitiveness ranking of Cambodia continuously improved from 110th out of 133 countries in 2008–2009, 109th out of 139 in 2010–2011, 97th out of 142 in 2011–2012, to 89th out of 132 in 2016–2017. For its diversion of public funds, Cambodia's rank improved—from 92nd out of 134 countries in 2008, 71st out of 142 in 2012, to 68th out of 138 in 2016.¹³ Its rank in the control of corruption rose from 7.14% in 2010 to 13.27% in 2012, but fell again to 9.13% in 2016.¹⁴ The PEFA also pointed out that most of the PFM functions reflected in the remaining government performance indicators—including effectiveness of measures for taxpayer registration and tax assessment, and effectiveness in tax payment collection—showed significant weaknesses.

23. The PCR noted that the three outputs were achieved with the following: (i) a strengthened financial management framework, (ii) a strengthened financial management in the rural sector, and (iii) strengthened external audit as a pillar of public accountability. Some regulations—such as the decision to implement the audit law, and the cooperation between internal and external audit—were formally adopted at the end of the program.

¹² PEFA is a methodology for assessing public financial management performance. It provides the foundation for evidence-based measurement of countries' PFM systems. A PEFA assessment measures the extent to which PFM systems, processes, and institutions contribute to achieving desirable budget outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery using a four-point ordinal scale from A to D, with A as the highest score.

¹³ World Economic Forum (WEF). 2008. [The Global Competitiveness Reports, 2008–2009](#). Geneva; WEF. 2011. [The Global Competitiveness Reports, 2011–2012](#). Geneva; WEF. 2017. [The Global Competitiveness Reports, 2016–2017](#). Geneva.

¹⁴ World Bank. Worldwide Governance Indicators: 2018 Update. <http://info.worldbank.org/governance/wgi/#reports> (accessed 23 July 2019).

24. The PCR also noted that the key policy actions were accomplished prior to the approval of the two subprograms. As envisaged at program inception, subprogram 2 policy actions for 2009–2010 were adjusted, as necessary, in line with the results of subprogram 1.¹⁵ Similarly, subprogram 1 required the NAA to adopt and implement an action plan by 2010 based on peer review recommendations although subprogram 2 showed that the peer review was undertaken in March 2010 and the NAA would formulate an action plan to address development and capacity issues by August 2010.

25. The RRP for subprogram 1 indicated no foreseen social risks associated with the program. Indirect social impacts include improvement in the quality and quantity of public services and governance through more transparent, predictable, and accountable management of public resources. Subprogram 1 was category C for impact on indigenous peoples. Subprogram 2 did not trigger any safeguard policies and was category C for environment, involuntary resettlement, and indigenous peoples. Based on the overall achievement of program outputs and outcomes, this validation assesses the program effective.

C. Efficiency of Resource Use

26. The PCR rated the program efficient in the use of resources. The intended outcomes and outputs were achieved although these varied across different project grant components and subcomponents. The program grants and loan were disbursed as planned after policy actions were achieved. The assessment of project costs and disbursements showed some deviations in actual spending from original project budget plans by categories, components, and timely disbursements. The deviations for specific categories and components generally reflected the flexible and efficient resource use so that the outputs could be achieved.

27. The performance of ADB in program design and implementation supported the efficient use of resources to achieve the outcome and outputs. Budget utilization for public debt management and external audit (components 3 and 4), under both project grants, was lower than originally budgeted due to lower demand for training and workshops for PFM, and to the low absorptive capacity of NAA for strengthening external audit. Despite delays in recruiting some of the consultants, policy actions were achieved as scheduled—for the release of funds under subprograms 1 and 2. Some outputs needed more time to achieve due to the complexity of the PFMRDP and institutional challenges, capacity gaps, and incentives to implement reforms. Based on the general use of program resources, this validation assesses the program efficient.

D. Preliminary Assessment of Sustainability

28. The PCR rated the PFMRDP likely sustainable largely due to the development of human capital in key areas under stage 2 of the PFMRP, institutional development, and the commitment to the core policy and regulatory initiatives.

29. This validation supports the view that the regulatory and institutional framework has improved through (i) the amendment of the public finance system and public procurement laws, and the updating of supporting manuals; (ii) a 3-year rolling budget and strategic plans being put in place; and (iii) with 100% of government transactions being channeled through the banking system since 2017. The government committed to further support the PFMRP and improve the

¹⁵ The Procurement Law, drafted and discussed in 2009 as a proposed subprogram 2 milestone and trigger, was adjusted in subprogram 2 RRP—as drafted and discussed with stakeholders in 2010. The ongoing drafting of the law by consultants was described as a work in progress.

technical and operational capacity by consolidating key PFM reform areas in budget credibility and accountability. The NSDP is expected to continue with the support committed by the development partners. ADB has committed \$110 million from 2019 to 2021 for public sector management.¹⁶ The United Nations Development Programme considers the government to have clearly articulated the country's development objectives, while the Rectangular Strategy for Growth, Employment and Equity and Efficiency, 2019–2023 places emphasis on good governance and prioritizes human resource development, economic diversification, private sector employment, and inclusive and sustainable development.¹⁷

30. However, the World Bank reported a significant decline in the perception of control of corruption percentile in Cambodia. From a high of 13.27% in 2012, it went down to 9.13% in 2016, and further down to 8.65% in 2017. This was accompanied by the lack of significant progress in improving the strength of audit and reporting standards (footnote 14). Although these could have been due to external factors, as the regression coincided with the program implementation period, it is more likely that the PFMRDP made little or no positive contribution to the perception of corruption or to the standard of audit in Cambodia. Based on the apparent lack of sustained outcome in controlling corruption, this validation assesses the program less than likely sustainable.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

31. The program aimed for strengthened prioritization of resource use and improved governance as its development impact. Its targets or performance indicators included the (i) alignment of budget allocations with the NSDP, and priority sectors maintained overall budget share with the baseline of 3.0% in 2008; and (ii) the World Bank governance indicators for government effectiveness and control of corruption increased by 2 percentiles by 2012, compared with the 2006 baseline.

32. The PCR rated the impact of the program satisfactory. This rating was based on the efficiency of resource utilization, efficient delivery of services to the rural population, and improved governance. It noted that the program contributed to improved prioritization of resource allocations for agriculture and rural development with increased budget allocations from 3.3% in 2010 to 4.2% in 2014. The budgets of RDMs were better aligned with their development policies and programs and were aligned with the NSDP. Budget execution rates improved since the introduction of program budgeting and the establishment of dedicated budget entities within the RDMs. The percentile ranking of Cambodia for government effectiveness rose from 17.56% in 2006 to 24.52% in 2016, which coincided with the implementation of the program.¹⁸ Despite failing to contribute to improving the public's perception of control of corruption in Cambodia (para. 30), this validation observes that the program achieved significant results in strengthening the PFM systems, and thereby improving the capacity of the government to control corruption or mitigate its risks. As such, this validation finds evidence of sufficient changes for long-term development impact and assesses the preliminary development impact of the program satisfactory.

¹⁶ ADB. 2018. *Country Operations Business Plan: Cambodia, 2019–2021*. Manila.

¹⁷ United Nations Development Programme (UNDP). 2019. *Country Programme Document for the Kingdom of Cambodia, 2019–2023*. Unpublished.

¹⁸ Cambodia's percentile ranking for government effectiveness rose to 25.48 in 2017.

B. Performance of the Borrower and Executing Agency

33. The PCR rated the performance of the government satisfactory as it also noted the varying degrees of coordination and program implementation across project components. Overall, there was a strong government leadership and coordination in the implementation of the program.

34. This validation finds the performance of the borrower and executing agency satisfactory, based on the support provided through a Technical Working Group for PFM that met twice yearly to review the progress of PFMRP implementation.¹⁹

C. Performance of the Asian Development Bank

35. The PCR rated the overall performance of ADB satisfactory. Despite the absence of a consultant team leader, which generated additional demands on the ADB project officers, it showed flexibility in meeting the emerging needs of the executing and implementing agencies. ADB also held comprehensive semiannual review missions and other routine monitoring activities. Program review missions were helpful in carrying out policy dialogue with the government, monitoring progress, identifying follow-up actions, and improving coordination among government officials.

36. This validation assesses the performance of ADB satisfactory. The mission reports provided valuable information for RDMs and assisted in focusing on issues that arose during the program delivery. The reports indicated that consultants were encouraged to focus on the on-the-job training approach (15–19 November 2010) and that ADB closely followed up on the residual deliverables of consultants (28 November–2 December 2011). Coordination among the four ministries as a challenge was also indicated, and proposed the need for high-level intervention to improve the cooperation among internal audit departments and NAA.²⁰ To accommodate the implementation delays of components 2 and 4, ADB approved the required extension of the grant's closing date from March to September 2015.²¹

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

37. The PCR rated the program successful. The PFMRDP was relevant to the PFMRP of the government, its development policy and strategies, and key strategic objectives of the government and ADB during program design and implementation. Given the strong commitment of the government and the well-defined and sequenced reforms, the program was rated effective in achieving the expected outcomes. The PCR rated the program efficient in the use of resources. The strengthened capacity of RDMs in preparing budget strategic plans and program budgeting, financial management, procurement, and internal and external audit have all contributed to better prioritization and more effective and transparent management of public expenditures. With the strong ownership and commitment of the government to implement further reforms, evidenced by the multistage PFMRP, the program was rated likely sustainable.

¹⁹ The Technical Working Group is chaired by the Deputy Prime Minister and includes the Minister for MEF, high-level government officials, and representatives of development partners as members.

²⁰ ADB (Southeast Asia Department). 2011. *Review Mission to the Kingdom of Cambodia: Public Financial Management for Rural Development Program (Subprogram 1)*. Aide memoire. 9 December (internal).

²¹ ADB (Southeast Asia Department). 2015. *Review Mission to the Kingdom of Cambodia: Public Financial Management for Rural Development Program (Subprogram 2)*. Back-to-office report. 8 March (internal).

38. This validation, however, finds that the program design did not measure whether the service delivery in the rural sector, which is the main objective of improving PFM, had improved or considered that strengthening the effectiveness of the NAA may have been better undertaken as a separate project. The program was aligned with government programs and CPS of ADB, the focus on budget preparation processes, increased use of banking for government transactions, and more efficient procurement processes. It was effective in achieving its outcome of improved PFM with better PEFA results, orderly and timely budget preparation, and most of its targeted outputs. This validation assesses the program efficient in its use of resources as program expenditures were used as budgeted. Despite the ownership and commitment of the government to further reforms, the program has yet to show positive results in controlling corruption or improving audit and reporting standards. Accordingly, this validation assesses the program less than likely sustainable. Nevertheless, this validation has the same view as the PCR that the program was successful.

Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Effective	
Efficiency	Efficient	Efficient	
Sustainability	Likely sustainable	Less than likely sustainable	PFMRDP has yet to show positive results in controlling corruption or in improving audit and reporting standards.
Overall Assessment	Successful	Successful	
Preliminary assessment of impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 43.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report, Public Financial Management for Rural Development Program = PFMRDP.

Source: Asian Development Bank and Independent Evaluation Department.

B. Lessons

39. The PCR cited major lessons that contributed positively to the success of the program. It also highlighted factors that addressed the key challenges that adversely impacted on the project performance and outcomes of PFMRDP. The lessons and factors cited were the following: (i) the program was successful because its design was aligned with government reforms and commitments to their implementation, (ii) long-term commitment and support are necessary to sustain capacity development and policy reforms, (iii) similar interventions should consider more realistic time frames in future programs, (iv) the transfer of administration of subprogram 2 to the resident mission improved performance, (v) the role of ADB in the direct recruitment of consultants was appropriate, (vi) mixing policy-based and project interventions are necessary to leverage government commitment to long-term policy reform, and (vii) DMF performance indicators could have been more explicit and measurable.

40. This validation has identified the following additional lessons:

- (i) **Project-level lessons.** One of the key PFMRDP components to strengthen external audit could have been undertaken as a separate program since it was part of the PFMRP. Experiences in Indonesia, Papua New Guinea, and Tuvalu show that strengthening external audit requires a long-term commitment that is beyond training and drafting manuals. It often requires a culture of change and the acceptance by the legislature and the government that an independent body should be responsible for external audit. There is a better chance of success if senior advisers from recognized audit offices in countries—where corruption is low and quality PFM is rated highly—are embedded into this audit authority. Local auditors should also be trained in good public auditing practice in organizations abroad.
- (ii) **Results framework and methodology-level lessons.** The DMF is crucial in monitoring progress and assessing program accomplishments. In the PFMRDP, the outcome performance target indicator was more of an output indicator than as a measure of the success of the program. Its formulation should have been “to address the incidence of rural poverty through improved PFM.” The outcome should have expressed why improved PFM was important to the rural sector and the indicator should have shown how this could be measured. For future, similar interventions, the use of the theory of change methodology, which starts by determining what outcomes are required, how success would be measured, and the activities required to achieve them, should be considered.²²

C. Recommendations for Follow-Up

41. The PCR recommended the following: (i) since covenants in the loan agreements were adequate, they should be maintained in their existing form; (ii) deepen the capacity of RDMS, and increase the capacity of internal and external audit to cover information and communication technology and subnational administrations, and ensure the continuity of engagement of RDM staff involved in implementing the PFMRP; and (iii) sustain and deepen the progress and achievements under the PFMRDP over the medium-term. This validation has a similar view and has no additional recommendations.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

42. ADB worked closely with the government in the design and implementation of the program. It directly managed most program funds although advance accounts for training activities were managed by the executing and implementing agencies. The submission of annual audited financial statements was timely, and no issues were evident. According to the PCR, for the capacity building grant in subprogram 1, two inception and five review missions were conducted, for a total of 176 person-days. For the similar grant in subprogram 2, two inception and four review missions were conducted, accounting for 246 person-days. The mission reports confirmed the progress of the four components, the actions taken on the poor-quality progress reports, and the slow progress in the training of senior government officials.

²² Theory of change methodology consists of the following: a hierarchy of outputs, intermediate outcomes, and ultimate outcomes; the success criteria that go with each outcome and outputs; the main factors that influence whether the outcomes and outputs will be achieved; and the activities and resources used to address those factors that are likely to affect outcomes.

B. Comments on Program Completion Report Quality

43. This validation finds the PCR quality satisfactory. The PCR provided a comprehensive review of the program and identified its achievements against the performance indicators. However, this validation also notes minor shortcomings in the PCR presentation, as follows:

- (i) It was not clearly mentioned if the program achieved its key outcomes of “improving service delivery to the rural population” and “helping to reduce poverty.”
- (ii) The basic milestones could have been presented by subprogram, with key dates under each one.
- (iii) Program expenditures could have been presented in a summary table to show the total loans and grants. The report also lacked a clear presentation of the total program expense.
- (iv) The presentation of the program expenditures and financing in the main text (section C) did not clearly specify the planned or actual figures, and the status as of May 2010 in the DMF was not clear.
- (v) The PCR did not include the achievements of the actions in the policy matrix nor provide supporting appendixes.

C. Data Sources for Validation

44. The data sources for this validation include the PCR, the two RRP, back-to-office reports and aide memoire, national development strategies, and global indicators of the World Bank.

D. Recommendation for Independent Evaluation Department Follow-Up

45. This validation does not recommend follow-up at this time since a subsequent program is ongoing and will be completed by 2020.²³ A comprehensive evaluation could be undertaken later by IED to assess the sustainability of the interventions and to incorporate lessons learned upon the completion of this program.

²³ ADB. 2016. *Report and Recommendation of the President to the Board of Directors on the Proposed Programmatic Approach, and Policy-Based Loan and Technical Assistance Loan for Subprogram 1 to the Kingdom of Cambodia: Strengthening Public Financial Management Program*. Manila.