

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

TA No., Country and Name TA 4441-CAM: Support to Public Financial Management Reform Program			Amount Approved: \$600,000 Revised Amount: \$600,000	
Executing Agency: Ministry of Economy and Finance (MEF)	Source of Funding: Technical Assistance Special Fund	Amount Undisbursed: \$130,941.45	Amount Utilized: \$469,058.55	
TA Approval Date: 19 November 2004	TA Signing Date: 3 February 2005	Fielding of First Consultant: 5 December 2005	TA Completion Date Original: 31 December 2006 Actual: 31 December 2007 ¹ Account Closing Date Original: 31 December 2006 Actual: 31 March 2008	
<p>Description: The Royal Government of Cambodia launched its Public Financial Management Reform Program (PFMRP) in December 2004. The PFMRP consists of 4-phased stages of implementation in a period up to 2015, and is structured to achieve four respective platforms of policy objectives, including: Platform 1 - more credible budget; Platform 2 - effective financial accountability; Platform 3 - fully affordable policy agenda through policy-budget linkage; and Platform 4 - effective program performance accountability. Its detailed Consolidated Action Plan for Stage 1 implementation (CAP1) comprised 33 activities to achieve Platform 1 (and preparatory activities for Platform 2) by 2007, each of which is further divided into a series of planned actions.</p> <p>TA 4441-CAM: Support to Public Financial Management Reform Program of the Asian Development Bank (ADB) was designed to provide necessary institutional and capacity development support to MEF for its implementation of Stage1 CAP, in collaboration with other donors represented at the PFMRP Development Partners Committee. The design of the technical assistance (TA) was enhanced through a change in scope and implementation arrangements approved in 2006 to focus ADB's interventions on public debt management under the broader PFMRP framework. The change was necessary with a view to avoid duplications with assistance provided by development partners, especially the World Bank, and to cope with pressing needs to enhance MEF's debt management capacity from both macroeconomic and fiscal perspectives. At the time of TA processing, the ratio of external debt to fiscal revenues stood at 14.8% (2003), having placed Cambodia in a group of debt-stressed countries.² The systems, appropriate data flows, and capacity for debt management were not fully in place nor was there a clearly-defined strategy.</p> <p>Expected Impact, Outcome and Outputs: Refined TA 4441 addressed Government's external and domestic debt in support of actions designated under CAP1 Activity 5 for improvement of MEF's public debt management. The TA scope comprised support for: (i) enhancing MEF's debt management functions with regard to forecasting, financial analysis and repayment management, and the link to budget formulation and execution; (ii) establishing improved data flows covering all different forms of existing and potential debts, including payment arrears; and (iii) development of operational manuals and administration of training programs. More specifically, the TA activities included: (a) formulation of a public debt management strategy; (b) technical support for preparation of model legal instruments, and supporting rules and regulations, manuals, and job descriptions for MEF staff in charge of public debt management; (c) procurement and establishment of the computer-based debt management system (CBDMS) for improved debt recording; and (d) related training and other forms of capacity building activities. The TA design and formulation were appropriate in terms of stated objectives, terms of reference (TOR), executing arrangements, implementation schedule, stakeholder participation, and ownership.</p> <p>Delivery of Inputs and Conduct of Activities: 5 international consultants and 2 national consultants have been mobilized on an individual basis under TA 4441 and their performances were rated either "excellent" or "satisfactory". Consultants completed the following activities in close consultation with MEF.</p> <ul style="list-style-type: none"> • Debt management strategy. A draft single-year debt management strategy (on types of borrowing, currency mix, and ceilings to maintain debt sustainability) for 2008 and a set of detailed proposals for the long-term organizational reform were prepared after careful review of present institutional setting at MEF and on account of international best practices. In the latter, emphasis was placed upon a need to establish a so-called "middle office" that undertakes an independent debt sustainability analysis (DSA) and risk management in the form of the new Debt Analysis Division within MEF's Department of Investment and Cooperation (DIC). Other proposals include establishment of the Executive Board of Debt Management among senior officials from MEF and the National Bank of Cambodia (the country's central bank) as a high-level decision-making body, as well as the new Domestic Debt Division. • Legal instruments, and supporting rules and regulations, manuals, and job descriptions. A model public debt law covering a comprehensive spectrum of debt management activities and incorporating key 				

¹ Extension of the TA completion date by 1 year to 31 December 2007 was approved. UNCTAD's final report on the DMFAS project was received on 6 December 2007.

² ADB. 2005. *Asian Development Outlook*. Manila.

features of the debt management strategy was drafted as a sample instrument based on international sound practices to unify all relevant rules and regulations under a single legal umbrella. At MEF's subsequent request, the consultant provided advisory support to incorporate its core elements into MEF's draft new financial management law. In addition, a standard operating procedures manual and a business process manual were produced to guide day-to-day operations for debt management and recording at DIC.

- **Establishment of CBDMS.** The Debt Management and Financial Analysis System (DMFAS) of the United Nations Conference on Trade and Development (UNCTAD) was selected and procured under TA 4441. DMFAS is a software designed for management of external and domestic public debt through its recording and monitoring functions (including recording of information on the life cycle of debt instruments, real drawings and debt service operations, calculation for amortization tables, identification of arrears and penalty interest, and generation of reports). DMFAS was fully established at MEF by UNCTAD's technical team, and its network environment has been set up. A preliminary observation on the flow of debt-related information within MEF was made to ensure an effective interface between DMFAS and MEF's prospective Integrated Financial Management Information System, while a final assessment would have to wait for selection and procurement of the latter expected to start in 2008 or later years.
- **Capacity building activities.** Introductory training courses on debt management and DSA were delivered by consultants at MEF's Economics and Finance Institute. UNCTAD conducted training on the loan life cycle, interpretation of loan agreements and collection and data sources, data inputs, validation, and reporting with DMFAS, that was preceded by a separate short course on the use of Oracle (a platform system for DMFAS). In addition to these Phnom Penh-based training courses, MEF staff attended the 6th Interregional Debt Management Conference and the DMFAS Advisory Group Meeting organized by UNCTAD in Geneva, Switzerland, and a study tour to Manila, Philippines, both in November 2007. By taking an occasion of the travel to Geneva, a series of bilateral consultation sessions between MEF and UNCTAD were arranged by ADB, whereby DIC and the DMFAS unit solved technical problems related to debt recording that have risen since initial system installation.

In the course of TA implementation, changes of scope and implementation arrangements were approved to reflect latest developments in PFMRP implementation with refined consultant TOR on debt management. ADB fielded 7 missions for reconnaissance, inception, mid-term review, follow-up review and DSA with the International Monetary Fund (IMF), final review, participation in 6th Interregional Debt Management Conference and consultations with UNCTAD, and joint review with the World Bank and other development partners. Findings by the team of consultants were presented at the tripartite meeting during the final review mission in September 2007, and the comments received from MEF's senior officials were reflected in completing the final report. These were in turn reflected by MEF in its draft Consolidated and Detailed Action Plans for PFMRP Stage 2 implementation (CAP/DAP2) in 2008-2010. The draft CAP/DAP2 was presented to development partners at the joint public financial management mission in November 2007. MEF and ADB played crucial roles in facilitating TA administration and providing feedbacks.

Evaluation of Outputs and Achievement of Outcome: TA outputs by consultants were well received by MEF, as reflected in its Senior Minister's letter of appreciation on the delivered training course, and the ministry's repeated requests to ADB for a follow-up TA both with a formal letter and verbally to missions. During the TA implementation period, Cambodia's external debt position has improved remarkably, as reflected in conclusion of IMF's latest 2007 DSA³ that the country has returned to a sustainable track with only a "moderate" risk of debt stresses over the medium term. This represented a steady progress compared with previous findings from the 2006 DSA, which assessed that Cambodia was at a "high" risk of debt distress. The achievement may be a reflection of capacity building conducted under the TA, while its proposed institutional reform takes a longer time span to be materialized.

Overall Assessment and Rating: TA implementation was successful, as demonstrated in full delivery of expected outputs and an improved record of public debt management by the Royal Government of Cambodia.

Major Lessons: It turned out that UNCTAD was unable to meet its own commitments and to deliver outputs in a timely manner. Intensive follow-up was required by ADB to ensure smooth progress.

Recommendations and Follow-Up Actions: As the Government launches PFMRP Stage 2, further support is necessary for its CAP/DAP2 implementation. In particular, follow-up capacity building for establishment of the Debt Analysis Division within MEF deserves prioritized attention. In the medium term, international best practices should guide the evolutionary process of the debt management office in Cambodia, from one undertaking only "front office" (debt negotiation) and "back office" (debt recording, supported by DMFAS installed under TA 4441) functions to one with a full-fledged "middle office" (debt risk analysis). This process requires ADB's longer engagement as the lead donor for debt management for PFMRP implementation up to 2015.

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³ DSA threshold indicators include ratios of the net present value (NPV) of debt to gross domestic product (below 30%), NPV of debt to revenue (below 200%), NPV of debt to exports (below 100%), debt service to revenue (below 25%), and debt service to exports (below 15%). DSA indicators have been aligned with those for World Bank's Country Policy and Institutional Assessment, which are also adapted to ADB's Country Performance Assessment.