

NATIONAL INDICATIVE PROGRAMME

(2007 – 2010)

CAMBODIA

Country/Region	:	Cambodia
Budget Years	:	2007 – 2010
Budget Line	:	1910
Legal Base	:	Development Co-operation Instrument
Cost of Order	:	€76 million
Programming Service	:	DG RELEX H/5
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1. SUMMARY OF THE NIP

The Country Strategy Paper (CSP) 2007 to 2013 and this National Indicative Programme (NIP) 2007 to 2010 are fully in line with the RGC's National Strategic Development Plan (NSDP). Following the analysis and the priorities set out in the 2007 -2013 CSP, EC support in the 2007-2010 NIP will focus on two key sectors with the single objective of contributing to poverty alleviation in Cambodia, namely: (i) Support to the NSDP and (ii) Support to Basic Education.

EC support to the NSDP is to take the form, primarily, of budget support in the framework of the World Bank-led Poverty Reduction Support Operation (PRSO), together with technical assistance in key fields focused on by the PRSO and, in particular, continued support to the Government's Public Financial Management reform programme, which is seen as key to the efficient and accountable management of public resources and the delivery of public services in the interest of contributing to the sustainable reduction of poverty. The second focal area of the EC's intervention strategy is to continue and build on the EC's role as a major donor in the education sector in Cambodia through the provision of targeted budget support.

Additional actions in the field of trade-related assistance and to support EC-Cambodia Co-operation and Dialogue in the field of Governance and Human Rights are also provided for in this NIP.

2. INDICATIVE BUDGET

The financial allocation for the 2007 – 2010 period is €76 million.

Focal Sector 1 : Support to the National Strategic Development Plan (NSDP)	(35.30 —40% of total budget)
Focal Sector 2 : Support to Basic Education	(40.35 —45% of total budget)
Additional Actions : (Trade-Related Assistance, and support to EC-Cambodia Co-operation and Dialogue in the field of Governance and Human Rights)	(25.20 —30% of total budget)

3. PRIORITIES AND ACTIONS

3.1 Focal Sector 1 - Support to the National Strategic Development Plan (NSDP)

3.1.1 Strategy Context/justification

The Royal Government of Cambodia's National Strategic Development Plan (NSDP) covering the period 2006 to 2010 was endorsed by the National Assembly in December 2005. This document, which incorporates the provisions and characteristics of a Poverty Reduction Strategy

Paper (PRSP), sets down intended achievements, linked to the Millennium Development Goals, for the period 2006 to 2010. The aim of the NSDP is to operationalise the “Rectangular Strategy (RS) for Growth, Equity, and Efficiency” which was adopted by the Government in July 2004. Both the RS and the NSDP have at their centre a comprehensive good governance reform programme. Governance issues have been identified by the Government and donors alike as the main obstacle to poverty reduction, growth and enhanced aid effectiveness in Cambodia.

EC aid to Cambodia is aligned to the NSDP. Donor support to facilitate its implementation is fundamental if its aims are to be achieved. EC assistance is to take the form primarily of budget support in the framework of the World Bank-led Poverty Reduction Support Operation (PRSO), together with technical assistance in key fields focused on by the PRSO, in particular Public Financial Management. The provision of aid through budget support is in keeping with the EC’s keenness to use, wherever possible, modern means of aid delivery that ensure strong government ownership, effective policy dialogue, and strong donor co-ordination.

3.1.2 Activity 1: Participation in PRSO

3.1.2.1 Objectives

The principal objective of the PRSO is to support the implementation of the reform programme set down in the RS and NSDP. The PRSO follows a three-year cycle, with annual programmes. PRSO I is likely to be presented for endorsement to the World Bank board in March /April 2006. The EC is not in a position to participate financially in PRSO I, but is already very much involved in the PRSO process. The EC envisages starting to make a financial contribution on an annual basis, if conditions allow, from 2007. This will require full involvement of the EC in preparations for PRSO II from summer 2006.

3.1.2.2 Expected results

The PRSO will provide an opportunity for both financial and technical support for the reform agenda by focusing the policy dialogue on results. It will provide money to fund the Government’s growth and poverty reduction programme, and will also result in improved donor alignment with the Government’s reform agenda.

The PRSO is likely to evolve and expand over time and to address more of the focus areas of the NSDP. At the outset it relates primarily to governance issues, which are a key to unlock Cambodia’s development potential, and for which the Royal Government of Cambodia has already prepared reform strategies.

The EC will seek to ensure that expansion allows a strong targeting of poverty reduction and that the PRSO over time also addresses reforms in the rural sector. PRSO I focuses on the following key fields:

- a. private sector development. The PRSO will support the implementation of key elements of the RGC’s private sector development strategy, and seek to reduce well-identified vulnerabilities to sustaining growth and reducing poverty. It will also support the reform in the field of trade facilitation, focusing on streamlining trade-related transactions.
- b. land resources management. The RGC’s reform programme aims to implement transparent and accessible mechanisms for ensuring land tenure security, to increase participation and

transparency in the management of state lands, and to distribute state lands and provide support services to the landless and land-poor households. The PRSO will support and seek to accelerate the achievement of these objectives.

c. public financial management. The Public Financial Management Reform Programme (PFMRP) of the Ministry of the Economy and Finance presents a detailed and credible action plan for public financial management reform, and the PRSO will seek to ensure effective progress on such reform, focusing on a more credible budget, effective financial accountability, an affordable and prioritised policy agenda, and the accountability of RGC managers for programme performance. Attention will also be given to the establishment of an effective system of incentives and accountability mechanisms in the Cambodian civil service. Direct assistance to the reform agenda will be provided by the EC in the framework of its support to Public Financial Management through a multi-donor trust fund as set out below (“Activity 2”).

3.1.2.3 Activities

The PRSO represents performance-based aid. Through policy dialogue between the RGC and donors, “prior actions” (the achievement of which is rewarded by the disbursement of budget support) will be established and monitored, as will “triggers”, which are key reform steps to be used as a yardstick against which to judge performance when the next annual PRSO is being considered. Technical assistance may be provided to assist the government in the implementation of the reform agenda

3.1.2.4 Implementation

With regard to the channelling of funds, there are two options: either they can be paid directly to the Treasury, or can be paid to the Treasury through the World Bank. The latter has significant benefits in terms of reduced transaction costs for the government, as there would be only one transaction, combining funds from all donors, to deal with. Channelling funds through the World Bank would also tend to facilitate the tracking of funds if it is decided by the donors that special fiduciary measures are needed for the management of budget support in Cambodia, given the current absence of a robust public financial management system.

However, it is recognised that direct payment of the EC’s funds to the Treasury would bring benefits in terms of perceived EC independence in relation to decision-making on the release of funds, and eliminate the payment of administration costs to the Bank. It is proposed therefore that a decision on whether funds should be channelled directly to the Treasury or through the World Bank during PRSO preparation work, when it will be possible to have a fuller picture of the advantages and disadvantages of each system.

Whether payment is direct or indirect, the Financing Proposal on which the Commission Decision will be based will be put forward once donors supporting the PRSO have agreed that key reform-related Prior Actions negotiated by the government and donors have been achieved. The assessment on the achievement of the prior actions will be taken by the donors acting together. The EC Delegation will be a key actor in this, with a robust involvement in the policy dialogue on which the PRSO is based. In the unlikely event of a disagreement among donors on whether or not the Prior Actions have been satisfactorily achieved, donors will be able to decide individually to go forward or not with their financing proposals.

In the initial years of the PRSO, given current shortcomings in public financial management, special fiduciary measures will be put in place. It is likely that the Treasury Account will be audited to ascertain availability of budget support funds and that the use of funds will be tracked. The PRSO may be accompanied by the provision of technical assistance to strengthen RGC capacity to manage the funds.

3.1.2.5 Cross-cutting issues

The cross-cutting issue of governance will be prominent from the beginning of PRSO. As its scope broadens, a full range of cross-cutting issues – including gender and the environment – is likely to feature among prior actions and triggers. Human rights and the rights of indigenous peoples/ethnic minorities should also be taken into consideration.

3.1.2.6 Risks and conditions

A loss of momentum in the reform process, and resistance from vested interests, could entail a risk of slippage, especially in the areas of private sector development and public financial management. Fiduciary risk and a failure to ensure that adequate progress is made on the issues of budget transparency and tackling corruption could defeat the attempt to build modern governance. Given the current risks in Cambodia associated with public financial management, in addition to the special fiduciary measures to be put in place, as mentioned above, a robust programme of technical assistance will be established through the anticipated Multi-donor Trust Fund for Public Financial Management (see below). Before committing itself to the PRSO, the EC will carry out, or be involved with other donors in carrying out, a diagnostic study to assess fiduciary risk and to pinpoint elements that require particular vigilance. It is also to be noted that the International Monetary Fund (IMF) and the RGC agreed in July 2005 on an economic and structural reform programme that could be supported by a Poverty Reduction and Growth Fund (PRGF), pending the conclusion of debt negotiations between the USA and the RGC. If a PRGF is established, links with the PRSO will be explored.

3.1.2.7 Main indicators

Monitoring indicators in the PRSO will be linked to progress in the reform agenda. They will be discussed with the government and all donors participating in the operation, and will be aligned with the NSDP/RS and set down in the policy matrix as prior actions or triggers. The Consultative Group Meeting, co-chaired by the Royal Government of Cambodia and the World Bank, will be the main venue for negotiating the reform indicators and for assessing the progress achieved. Technical follow-up will be ensured through the Technical Working Groups which have been recently established by the Royal Government of Cambodia, while there will be regular political monitoring through the quarterly meetings of the Government-Donors Co-ordinating Committee (GDCC).

3.1.2.8 Estimated EC contribution

| (~~25~~—30% of total budget)

3.1.2.9 Co-ordination with Member States and other donors

PRSOs or similar budget support programmes have proved to be an effective co-ordination device, offering the potential for donors together to engage in policy dialogue on key issues and

to unite in alignment to a government strategy. In Cambodia, apart from the World Bank and the EC, both Sweden and Japan have expressed keenness to co-finance the PRSO. The EC will seek to establish systems whereby all EU donors present in Cambodia, whether or not they are potential PRSO co-financiers, have the opportunity to be involved in PRSO discussions and to take part in policy dialogue. Experience in other countries has shown that this is effective in terms of establishing co-ordinated EU policy. Dialogue is organised by policy areas in which donors engage selectively, based on their interests and technical capacity on the ground.

EC and EU visibility will be enhanced through active involvement in the PRSO policy dialogue.

3.1.2.10 Indicative timeframe

Preparation of this programme should commence immediately following approval of the NIP, with a view to participating in PRSO II in 2007.

3.1.3 Activity 2: Support for Public Financial Management

3.1.3.1 Objectives

Sectoral reforms and support for education and health, as well as private sector development and trade, are constrained at macro-level because of issues related to public expenditure, financial management and civil service reform. The WB-ADB *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER), prepared in 2003, provided the Government with a set of priority reform measures to further improve the country's public expenditure and financial management systems.

Drawing on IFAPER recommendations, the Ministry of Economy and Finance (MoEF) has developed a sector-wide approach to Public Finance Management reforms. In 2004, a multi-donor group (including the EC, WB, ADB, DfID, IMF, UNDP, AusAID, France, JICA and SIDA) assisted the MoEF in developing a PFM reform programme based on four platforms, where each platform constitutes the basis for moving on to a subsequent stage of reform.

The EC seeks to contribute to the PFM reform programme through a Multi Donor Trust Fund, administered by the WB (IDA), with pooled funding from DfID, SIDA and AusAID. The EC's initial financial contribution to the MDTF of €3 million (excluding monitoring, audit costs) is to support the implementation of Platforms 1 and 2. The main aims of these platforms are to lessen the fiduciary risk to public funds and to facilitate the use of budgetary support, particularly in the social sector, and to strengthen Government capacity to allocate and spend public finances more effectively and with improved accountability for improved service delivery, thereby contributing to poverty reduction.

The subsequent platforms to be implemented consist of actions based on the achieved objectives of platforms 1 and 2. The other medium- and long-term goals are indicated in the subsequent platforms:

- 3 - Affordable policy agenda through policy-budget linkage;
- 4 - Full accountability for programme performance.

Support for the PFM reform is based on a long-term commitment, as the PFM programme objectives are intended to be achieved in 2015. The platforms 3 and 4 will comprise a set of

performance indicators to be monitored by the PFM – management and monitoring group of the RGC and donors.

The components of Platforms 1 and 2 are identified as follows in the PFM – Reform Programme:

- improved accountability lines;
- improved accounting;
- improved reporting;
- improved auditing; and
- implementation of related institutional, capacity etc. measures.

For the subsequent platforms, the objectives are to achieve a system which is consistent with best practices and standards and which can be summarised as follows:

- implemented budgetary reform;
- improved budget analysis;
- improved fiscal decentralisation;
- improved methods for resource allocation and improved public participation;
- improved information;
- increased visibility of results achieved.

Target beneficiaries are the MoEF and other Line Ministries and, ultimately, the Cambodian population, which will benefit from good governance in public financial management systems.

Provision of support for PFM strengthening through the MDTF will complement the work on the PFM reform agenda carried out through the PRSO. The PRSO will ensure that appropriate reform targets are set by the RGC, while the MDTF will make available expertise and tools to help ensure that the targets can be met in this all -important field.

3.1.3.2 Expected results

- Effective allocation and use of public finance resources.
- Strengthened financial management systems, ensuring greater financial planning efficiency, improved cash management, effective and timely disbursement of funding to priority sectors, and transparency and accountability in the flow of funds.
- Increased capacity in planning and implementing reforms.
- Effective financial monitoring and accounting, facilitating further budget support.
- Implementation of pro-poor reforms.

The Public Expenditure and Financial Accountability (PEFA)/PFM Performance Measurement Framework will be used to monitor PFM improvements.

3.1.3.3 Activities

Through a Multi Donor Trust Fund, the support will consist mainly in providing technical assistance for capacity building and training, in support of MoEF's development, implementation and monitoring of the PFM's successive platforms, and in support of institutional and organisational changes.

3.1.3.4 Implementation

It is expected that, by working with the Government and other donors through a Multi Donor Trust Fund:

- Increased donor co-ordination and harmonisation will be achieved.
- The role of the EC Delegation at the policy table will be enhanced.
- Pooling of funds will be sought.
- Active and continuous involvement of the private sector will be strongly encouraged.
- Operational experience will be fed into the policy dialogue.

It is planned to use decentralised management for the implementation of this activity.

3.1.3.5 Cross-cutting issues

Improving the governance environment, and thereby assisting the Government to allocate and spend its own resources more efficiently and effectively for improved service delivery and poverty reduction, is a central plank of the PFM reform.

Principles and concepts related to the integration of gender into the Public Financial Management Reform Programme in Cambodia are also discussed in terms of how gender-responsive budgeting approaches and tools could contribute to and enhance the PFM reform.

3.1.3.6 Risks and Assumptions

Further progress in improving Public Financial Management will depend on successful implementation of Platforms 1 and 2 of the current PFM reform programme, with effective Government-donor co-ordination and harmonisation. This will require continued commitment both from donors and from Government.

Weak capacity in financial management and inadequate incentives for the civil service are constraints to good service delivery across all Government Ministries. Implementation of comprehensive public financial management and civil service reforms will help in mitigating and managing these risks in due course.

The Deconcentration and Decentralisation Strategy adopted by the RGC will result in a restructuring of the delivery mechanism for public services and central Ministry actions. Any delays or weaknesses in the implementation of the new Strategy will also impact negatively on Public Financial Management Reform.

3.1.3.7 Main indicators

The main indicators will be developed with the partners as part of the agreed programmes for the implementation of Platforms 3 and 4 of the Public Financial Management reform programme.

3.1.3.8 Estimated EC Contribution

| (5 ~~10~~% of total budget)

3.1.3.9 Co-ordination with Member States and other donors

Co-ordination between donors, including EU Member States, is institutionalised through the regular meetings of the Government -Donor Working Group for the implementation of the Public Financial management reforms.

3.1.3.10 Indicative timeframe

The EC contribution would be committed in 2009, through an Administrative Agreement with the World Bank. The PFM programme is expected to be completed in 2015. Disbursements are to be made to the WB- administered MDTF.

3.2 Focal Sector 2: Support to Basic Education

3.2.1 Strategy Context/justification

The educational status of the Cambodian population remains among the lowest in the region and continues to present a major obstacle to economic and social development¹. The Ministry of Education, Youth and Sport (MoEYS) of the Royal Government of Cambodia is mandated to ensure development of an effective human resource base through providing and enabling education opportunities for all Cambodian people in order to increase economic growth, enhance living conditions and produce a well trained and educated workforce. The Government poverty reduction strategy, alongside the longer-term Cambodia Development Plan 2020, highlights education development as a key enabling factor in income generation and job creation. It is recognised that a deepening and diversification of Cambodia's human resource base is a key factor in improving Cambodia's regional and international competitiveness in an increasingly global economy.

The MoEYS has adopted a sector-wide approach to education, which has evolved and been consolidated since 1999. Cambodia's education development is policy-led, sector-wide reform guided by a process whereby the MoEYS works in close collaboration with donors and civil society to design and implement a mutually agreed strategy for education. The Education Strategic Plan (ESP) is translated into a number of phased and costed operational programmes in the rolling Education Sector Support Programme (ESSP). Progress and impact are monitored on a regular basis, and education strategy and policies reviewed and fine-tuned as necessary, through a well-established mechanism of consultation and joint performance assessment. MoEYS's sector policy encompasses key reforms to ensure equitable access to education, quality and efficiency of education services, institutional development and capacity building for decentralisation, adequate management and financing of education services at all levels, with particular attention to pro-poor and gender responsive policies.

The Government has made steady progress in increasing funding for the education sector and in improving the efficiency and effectiveness of education sector spending. Reforms in the education sector are further supported by the Government's Public Financial Management Reform Programme aimed at strengthening fiduciary and public finance management standards in the Government, including ensuring better mobilisation of resources, improving pro-poor and results-oriented budget planning and implementation, and strengthening financial management and accounting systems and capacity.

¹ This is due to a number of factors, not least the fact that the vast majority of the educated workforce died or left Cambodia during the Khmer Rouge period.

The EC is today considered as a major donor to education in Cambodia. In 2003, the EC initiated a new programme in support of MoEYS priority policies and action programmes in the ESP/ESSP, which seeks to promote equitable access to, and completion of, quality basic education and non-formal education, with special attention to girls and those most vulnerable. The EC programme (2003 -2008) consists of budget support, combined with institutional support and TA to strengthen policy planning and management in education. It also supports the development of financial and accounting management and audit systems in education, and is linked to progress in implementing the Public Financial Management Reform Programme. The budget support approach directs resources through the Ministry systems alongside complementary technical support. The comparative advantages of this approach are that it facilitates high level policy engagement with MoEYS; enables greater engagement in institutional change, specifically focussed on enhancing the efficiency and effectiveness of the system ; and, most importantly, strengthens national systems and ensures greater sustainability of impact, thereby strongly supporting the principles outlined in the Paris declaration on aid effectiveness (March 2005). Despite difficulties in its implementation in parallel with the necessary institutional capacity development, the EC programme is seen as effectively supporting and contributing to the educational , institutional and financial reforms of the RGC. It has contributed to enhancing Government ownership of the reform and enabled the EC to engage in a constructive dialogue with the Ministry of Education and the Ministry of Economy and Finance. The NIP 2005-2006 makes provision for an extension to this programme which is likely to be implemented from 2008 to 2010.

Cambodia has adopted the Millennium Development Goals targets of universal access to primary education and of gender equity in primary and secondary education by 2015. The Government national Education for All (EFA) plan sets more ambitious targets of universal access to nine years of high quality basic education by 2015. While there have clearly been significant increases in primary school enrolments over the past decade, major challenges remain in terms of student progress and flow-through, as many children continue to drop out before completing all six years of primary schooling. Student numbers in lower secondary education continue to remain low, especially for girls, who are also suffering higher drop -out rates. While it is generally considered that Cambodia will probably meet the MDG target for universal primary education, it appears unlikely that it will achieve universal lower secondary education (including targets for female secondary school enrolment). Also, the quality and affordability of education has improved, but further progress is needed. Strengthening of financial management systems is necessary in order to ensure effective and efficient allocation and use of resources.

Cambodia is likely to access the EFA - Fast Track Initiative. However, compared to the international benchmarks drawn from the analysis of EFA successful countries, Government spending on education is not yet sufficient , the pupil-teacher ratio in primary schools is too high , enrolment and completion rates need to increase further, the number of annual hours of instruction is too low (though this is being addressed at present) , and teachers' salary levels are far too low, (though this will require broader civil service reform) . It is clear that additional resources will be needed if Cambodia is to meet, or come close to meeting, the MDG and EFA targets.

Given Cambodia's substantial financial needs, its limited capacity to mobilise domestic revenues, and the narrow private sector base, it will continue to rely heavily on ODA in the medium term. In the light of competing demands on the budget, continued external support to the education sector will be crucial to enhancing the educational status of the population, so as to contribute to poverty reduction and to the country's economic and social development . The high transitional

recurrent costs of the education reform programme also argue for a greater share of budget support within the external assistance programme. **The second focal area in the EC's intervention strategy is therefore to continue and enhance its (budget) support to implementation of the MoEYS ESP/ESSP strategies and to produce desired policy outcomes in line with the objectives of the long-term national EFA Plan. Consideration will also be given to extending support to secondary schooling.**

3.2.2 Objectives

The overall objective of the programme is to contribute to sustained poverty reduction by supporting the RGC's strategy for human resource development and the implementation of MoEYS policies and strategies to promote equitable access to, and the completion of, quality education, with particular attention to pro-poor and gender-responsive policies. In particular, the programme will directly contribute to the achievement of agreed Millennium Development Goals for education and gender equity and Education for All (EFA) targets.

Specific objectives of the programme include:

- Further support MoEYS in designing, implementing and monitoring the rolling strategies that will enable equitable access to education and strengthen the quality and efficiency of education services delivery, especially in relation to formal and non-formal basic and secondary education, with particular attention to vulnerable groups, girls and minorities, within the broader context of the national EFA plan.
- Further build up the capacities of MoEYS in policy planning, budgeting and management in education and for decentralisation.
- Provide a strong platform on which the EC can continue meaningful policy dialogue with both MoEYS and MoEF, including through existing co-ordination mechanisms.
- Support cross-cutting governance reforms by further facilitating inter-ministerial dialogue and effective linkages between education sector reforms and broader reforms, in particular the Public Financial Management reform and the Public Administration reform.
- Support institutional reform to enhance the efficiency and effectiveness of service delivery.
- Further contribute to the on-going SWAp process in the education sector, ensure that EC support is fully co-ordinated with that of other donors, and facilitate the engagement of other donors in budget support.

3.2.2.2. Expected results

- Increasingly effective allocation and use of public finance resources to the education sector.
- Effective delivery of agreed educational outcomes, in particular improved access to, and completion of quality and efficient formal and non-formal basic and secondary education.
- Strengthening of MoEYS financial management systems, ensuring greater financial planning efficiency, improved cash management, effective and timely disbursement of funding to priority programmes, and transparency and accountability in the flow of funds.
- Increased capacity of MoEYS staff in planning and implementing reforms.
- Increased inter-ministerial and donor partnerships in support of the ESP/ESSP and EFA.

3.2.2.3. Activities

It is expected that EC budget support will continue to support MoEYS strategies, policies and activities, as detailed in the Education Strategic Plan and Education Sector Support Programme, in particular those that are promoting equitable access to education, have a direct impact on the

quality and efficiency of education services, and support institutional development and capacity building for decentralisation.

It is envisaged that the budget support will be accompanied by further capacity building, as necessary, in particular to strengthen MoEYS education policy planning and management, and financial management systems in education.

3.2.2.4 Implementation

It is expected that:

- Budget support will be sustained and increased.
- Progress in both education and public financial management reforms will allow a move from targeted budget support to sector budget support.
- Pooling of funds could be sought with other donors providing budget support.
- Continuous involvement of NGOs will be favoured through horizontal budget lines to complement the EC bilateral assistance to educational reforms and provide operational experience to feed into policy dialogue.

It is planned to use decentralised management for the implementation of this focal sector.

3.2.2.5. Cross-cutting issues

A guiding principle of the education strategies and budgeting policy of MoEYS is to ensure pro-poor and gender responsive reforms. The long-term vision of MoEYS is to ensure that all Cambodian children and young people have equal opportunity to receive quality education, regardless of social status, geography, ethnicity, religion, language, gender and physical form. The policy dialogue, undertaken in the regular periodic consultations between donors and the MoEYS, helps to keep that focus. Indicators are disaggregated by gender and by urban/rural/remote areas and should also be disaggregated by ethnicity. The Ministry has tried to address retention rates in primary schools by allocating budgets to provide extra classes for children who have dropped out or are in danger of dropping out of school. Most of these drop-outs are girls. In addition, a scholarship fund for poor children has been established, with 60% of scholarships designated for girls. At tertiary level, the MoEYS has an affirmative action policy of approving 60% of eligible candidates for entrance into universities and teacher training colleges. The Ministry of Women's Affairs has also been supported in training ministries, for example MoEYS, by including a gender element in budgets. It is hoped to influence budgets from a gender perspective from 2005 onwards.

The environmental awareness of Cambodian students is low. Environmental education should be an aspect of general and vocational education in order to empower individuals to treat nature and the environment in a well-informed and responsible manner. The expansion of secondary school curricula to include more studies on the specific environmental issues of Cambodia should be undertaken, and research to establish sound foundations for environmental education should be fostered. Special efforts should be undertaken to enhance environmental education in the training of teachers.

Governance is a core concept in the ESP/ESSP annual review exercise and more generally in the education reforms, which focus on increased operational support to schools and phased improvements in teacher salaries to offset demand for informal payments, and on improvement of teacher performance and school/community accountability mechanisms. Governance is also at the

core of MoEYS' efforts to strengthen its financial management and audit systems, including with EC support.

3.2.2.6. Risks and conditions

Further progress in education reform will partly depend on progress in other areas of governance, including corruption, the legal and judicial system, public financial management, public administration, and local governance.

Weak capacity in public financial management, and inadequate incentives for the civil service, are recognised as breeding corruption, constraining delivery of key public services and delaying implementation of key reforms. Implementation of comprehensive public financial management and civil service reforms will help in mitigating and managing these risks.

Full implementation of the Government's Deconcentration and Decentralisation Strategy and support to local governance will also be crucial as a means to strengthen local voices in government, improve public service delivery and reduce opportunities for corruption .

From an education sector perspective, therefore, the EC's strategy is to facilitate effective linkages with those reforms, most importantly the Public Finance Management reform and civil service and personnel management reforms. Institutional development and capacity building for decentralisation is a core policy of the MoEYS, which will be supported by the EC.

Achievement of agreed MDG and EFA targets will depend on additional resources becoming available, including higher external budget support, to which the EC action will contribute. The addition of resources through budget support will be conditional upon the stability of the overall macroeconomic situation, acceptable pro-poor progress in the education sector, continued endorsement by donors of the education sector strategy and policies, progress in implementing the Public Financial Management reform programme, and satisfactory implementation of the EC (targeted) budget support under the National Indicative Programmes 2002 -2004 and 2005-2006. The fact that Cambodia is applying for inclusion in the Fast -Track Initiative puts pressure on the government to fulfil its reforms, and on donors to do their part in providing necessary funding for the country to achieve the goal of Universal Primary Education.

Increased donor co-ordination will be necessary, and transaction costs for the Government will have to be reduced. This can be helped by simplifying EC support and conditions, including better harmonisation and pooling of funds with others providing budget support.

The rolling approach in revising ESP/ESSP strategies, policies and programmes highlights the need for donors to become increasingly flexible in their response to emerging priorities within a sector-wide perspective. Moving from targeted budget support to untargeted sector budget support will facilitate such flexibility and avoid distorting priorities and budget implementation.

Institutional capacity and human resources remain weak in Cambodia, placing constraints on the effective implementation of reforms. The EC will therefore continue to provide adequate technical assistance and training for human resource and institutional capacity building.

The EC's commitment to supporting education in Cambodia through sector budget support will be accompanied, as is the case at the moment, by EC monitoring and audit missions that evaluate the systems and point out weaknesses that need to be addressed. The dialogue and the "peer

review” with other stakeholders in the ESWG allow the EC to obtain an accurate update of where the sector is going at present. These issues reduce the risk associated with such an approach.

3.2.2.7. Main indicators

The ESP/ESSP includes a detailed sector performance monitoring framework for MoEYS policies for equitable access to education, quality and efficiency of education services, and institutional development and capacity building. The monitoring framework is composed of sector performance indicators and targets, and of a sector-wide matrix outlining the key policy actions needed to implement MoEYS strategy and policies. Statistics on education system indicators are produced by MoEYS’s Education Management Information System (EMIS), complemented by other national surveys, such as the Cambodia Socio-Economic Survey (CSES). Progress in implementing ESP/ESSP is reported in an annual education sector performance report.

EC indicators will be selected from, and harmonised with existing education indicators in the ESP/ESSP, which in turn are harmonised with EFA, MDG and NSDP indicators. These indicators should be disaggregated by gender and ethnicity. Possible outcome and output indicators could include:

- Net enrolment ratio (in primary and in lower secondary education), detailed by urban/rural/remote areas)
- Proportion of 6-14 year olds out of school
- Survival and/or completion rates (from grade 1 to 5 and from grade 1 to 9)
- Literacy rate of 15-24 year olds (and ratio of literate females to males)
- Ratio of girls to boys (in primary and in secondary education)
- Pupil-teacher ratio in primary education
- Pupil-textbook ratio in primary education
- Pupil table/chair ratio in primary education
- Average teacher salary as a percentage of per capita GDP
- Education share of total government recurrent budget
- Number of teachers trained
- Number of schools built

3.2.2.8. Estimated EC contribution

| (~~4035~~—45% of total budget)

3.2.2.9 Co-ordination with Member States and other donors

Co-ordination between donors, including EU Member States, is institutionalised through the regular Education Sector Working Group meeting, (which also includes a representative of the NGO community), of which the EC Delegation is deputy-Chair. Co-ordination with MoEYS is ensured through the Joint Technical Working Group on education, which meets approximately every other month and brings together the leadership of MoEYS with the education sector donors and NGOs, as well as with officials of the MoEF.

In the context of the annual ESSP review, an Appraisal and Review Co-ordination Committee has been created, on which the EC Delegation is one of the two representatives nominated by the donor community. There are ad hoc working groups for the preparation and follow-up of ESSP review and other events (such as SWAP seminars), in which the EC takes an active part.

Those mechanisms are firmly established and have ensured increased donor co-ordination and complementarities within the ESP/ESSP framework, increased ownership and leadership of MoEYS over the reforms, and increased quality in the policy dialogue.

ADB and WB have been very present in the education sector. Among the Member States, the education sector is supported by Sweden, which is channelling funds through UNICEF's Expanded Basic Education Programme; France, which mainly supports higher education institutions; Belgium, which supports basic education and teacher training in three provinces; and UK, which supports MoEYS' response to HIV/AIDS. JICA, UNESCO, USAID and WFP also have a significant involvement.

3.2.2.10. Indicative timeframe

EC bilateral support to the education sector is conceived as a rolling programme, to support the MoEYS ESP/ESSP rolling approach. The detailed procedures and scheduling of the current EC support have been designed to be flexible and adaptable, so that the support can be targeted at critical emerging issues. Subsequent EC programmes must also display the same characteristics.

The current EC targeted budget support is expected to last until early 2008, with the last tranche of budget support being released in 2007. The NIP 2005-2006 support to the education sector (to be formulated in 2006) is likely to be implemented over a three-year period, i.e. from early 2008 to 2010. Subsequent support under the current NIP should allow continuous release of budget support and complementary capacity-building support, therefore starting in 2010 or 2011, thus covering a period of four to five years.

3.3 Additional Actions

3.3.1 Additional Action 1 – Trade Related Assistance

3.3.1.1 Strategic context/justification

As described in the CSP 2007-2013, Trade Related Assistance (TRA) will remain a key area for the EC intervention in Cambodia, in order to support sustainable development and poverty reduction through economic reforms. The new action will build upon the results achieved by the TRA programmes implemented under the NIP 2002-2004 and the NIP 2005-2006.

The gradual integration of developing countries into the world economy is a major objective of EC development co-operation. The EC has identified the need to link trade policy with development policy in order to achieve objectives related to poverty reduction. Thus, in line with the EC's position on the WTO Doha Round, TRA to developing countries is a high political and operational priority.

The accession of Cambodia to the WTO was ratified in 2004. The EC has provided Trade Related Assistance to the RGC since early 2004. Additional TRA will support Cambodia's effort to implement the reform programme in line with its WTO commitments and, more generally, stimulate Cambodia's participation in international flows in trade in goods and services, and investment, while paying due attention to the employment and social dimension of trade liberalisation. Strong emphasis should be placed on making trade openness beneficial for the poor, in particular in rural areas. In this context, Cambodia would be a potential candidate for a partnership under the EU Action Plan for Forest Law Enforcement, Governance and Trade

(FLEGT), which aims to facilitate trade in legal timber products while improving governance in the forest sector. Cambodia is a major timber exporter, although its forest sector is characterised by weak governance which undermines the sustainable potential of the wood industry and has an extremely adverse impact on the rural poor. The removal of barriers and impediments to domestic and international trade and investment will improve the business environment and support the creation of job opportunities. In addition, a further priority should be to develop Cambodia's capacity to beneficially negotiate and implement international trade agreements in multilateral (WTO) or regional and bilateral fora (e.g. ASEAN, and FTAs in a regional context or with the EU). There will also be a need for trade-related assistance for FTA negotiations with the EU in case such negotiations are launched, as recommended by the EU-ASEAN Vision Group. The EC will therefore increase its assistance to the RGC in support of its endeavour to promote and integrate the local economy into regional and international markets. The lessons learned during the implementation of previous TRA programmes in Cambodia indicate that strong co-ordination with other donors is essential in order to engage the RGC in a fruitful dialogue on economic reforms. A great deal of attention will be devoted to ensuring aid effectiveness in this area, by undertaking co-ordinated actions with other donors and international agencies, both during the analytical and the implementation phases. The EC TRA contribution will be embedded in broadly supported international initiatives, such as the Integrated Framework (IF), whose effectiveness will depend greatly on the government's capacity to absorb and benefit from considerable donor support in this area. Actions to support the Government's leadership and managerial and consultative capacity could be envisaged, including through the support of a Sector Wide Approach (SWAp). EC Support to the Cambodia Trade Sector Development Programme, funded under the 2005-2006 NIP, will also provide support to a SWAp in this area.

Finally, the signature of an air services agreement between the Community and Cambodia, bringing existing Air Services Agreements between Cambodia and EU Member States into conformity with Community law, would be a valuable concrete step to enhance relations in the important field of civil aviation. Both parties recognise the importance of increasing aviation safety and security; the Community could consider providing technical assistance and to enhance regulatory convergence in the field of civil aviation.

3.3.1.2 Objectives

This action aims to build up Cambodia's capacity and to support the implementation of the economic reforms necessary to improve the business environment and to increase both internal and external trade. This is expected to have an impact on poverty reduction, primarily through economic growth and the creation of new job opportunities.

3.3.1.3 Expected results

- Reduction of poverty, by creating potential for diverse economic growth and new job opportunities
- Improved legal and regulatory framework and administrative capacities to ensure compliance with WTO requirements
- Improved legislation and implementation/enforcement of regulations in areas including sanitary and phyto-sanitary measures (SPS), technical barriers to trade (TBT), trade-related intellectual property rights (TRIPS), trade facilitation and services.
- Improved business environment and development of the private sector, specifically in agro-processing or other rural-based economic activity
- Simplified import and export procedures

- Strengthened rule of law
- Improved policy dialogue between the RGC and the donors
- Improved export capacity and conditions for Cambodian SMEs
- Improved environment for FDI
- Strengthened expertise of Cambodian officials in negotiating future FTAs

3.3.1.4 Activities

Activities in support of trade sector reform should be identified in consultation with the Royal Government of Cambodia and the other donors, possibly by negotiating within the structure that the government is setting up to manage a SWAp for trade reform. Consistency with the Integrated Framework (IF) will have to be sought. Possible activities could include:

- Specific TA on international trade-related matters, including the drafting of trade-related regulations and legislation and the facilitation of exports and imports. Possible areas where trade-related assistance (TRA) is needed include SPS, TBT, TRIPS, trade facilitation and customs valuation, and services. Actions could include support for skills upgrading through training, seminars, and workshops; and transfer of know-how by international experts. Activities should also be considered to facilitate Cambodia's effective participation possible future FTA negotiations with the EU. Activities aimed at tackling illegal logging and in implementing the EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) could also be envisaged.
- TA expertise for the improvement of the administrative environment to facilitate and enhance exports by SMEs and thus to promote export diversification
- Institutional strengthening to ensure the implementation of WTO-related regulations and legislation

3.3.1.5 Implementation

EC activities will need to be co-ordinated with relevant activities of other donors in order to ensure complementarity. The IF will be used as the basis to embed EC TRA. If the necessary conditions are met, preference will be given to delivering assistance using policy dialogue and support to a sector programme for trade reform.

3.3.1.6 Cross-cutting issues

The activities proposed should match the priorities identified in the NSDP and the specific trade policies of the RGC. Gender, environmental considerations and core labour standards should be taken into consideration when designing the intervention.

3.3.1.7 Risks and conditions

The RGC has demonstrated strong commitment towards the Pro-poor Trade Strategy prepared by the Ministry of Commerce (MoC). However, more effort is needed in order to bring the benefits of the reforms to the general population, including by reducing corruption and improving the quality of public services. Without an efficient public service it will be impossible to maximise the impact of EC TRA.

Trade sector strategy reform should be addressed through a comprehensive and integrated approach. This will require strong and continued commitment by the RGC and co-operation between major donors and agencies. The government's effort to move towards a Trade Reform

Sector Programme is crucial in order to reduce transaction costs, improve sector policy dialogue and increase overall co-ordination and synergy among donors. Without strong government leadership, the TRA impact will be limited.

3.3.1.8 Main indicators

- Reduction of poverty incidence ;
- Increase of external trade flows and internal trade between provinces ;
- Number of SMEs with increased capabilities for exports ;
- Number and extent of domestic regulations/legislation adopted and applied to implement WTO requirements .

3.3.1.9 Estimated EC contribution

(~~15.12~~ ~~18~~ % of total budget)

3.3.1.10 Co-ordination with Member States and other donors

The implementation of this action, aligned to the Government's sector programme, will ensure a maximum level of co-ordination with the other stakeholders involved. Consultation in the Government-Donor Technical Working Group on Private Sector and Trade Reform will play a crucial role.

3.3.1.11 Indicative timeframe

Since the TRA activities planned under the NIP 2005-2006 are not due to begin until 2007, it is expected that identification/formulation of TRA activities under this NIP will take place in 2009 , with implementation starting in 2010.

3.3.2 *Additional Action 2 –Support to EC-Cambodia Co-operation and Dialogue in the field of Governance and Human Rights*

3.3.2.1 Strategic context/justification

The aim of this action is to promote constructive dialogue and stimulate co-operation between the RGC and the EC in a wide range of areas of mutual interest , in particular in the areas of (i) governance; (ii) legal and judicial reform (including possible further support to the Extraordinary Chambers in the Courts of Cambodia or Khmer Rouge Tribunal); (iii) institution building and administrative reform (including the fight against corruption); (iv) decentralisation and deconcentration; (v) support to the election process ; (vi) support to eliminate contamination by mines and to fight the trafficking and control the spread of illicit small arms and light weapons ; (vii) support to tackle problems related to trafficking of drugs and human beings ; (viii) the role of civil society (including social partners); and (ix) human rights (including core labour standards). Progress in all these areas is essential in order to underpin all elements of the RGC's reform programme. These small-scale activities will be complementary to those carried out under focal sector 1 (Support to the National Strategic Development Plan) and under certain thematic programmes, in particular the successor to the EIDHR. In addition, the EC is very likely to propose to the Cambodian authorities the creation, under the aegis of the EC-Cambodia Co-operation Agreement, of a sub-group on "Co-operation in institution building, administrative

reform, governance and human rights”. This sub-group could provide suggestions for co-operation activities in this area .

3.3.2.2 Objectives

General

To support small-scale initiatives aimed at EC-Cambodia co-operation and dialogue especially in the field of governance and human rights. To support activities stemming from the sub -group on “Co-operation in institution building, administrative reform, governance and human rights” if and when it is established.

Specific

- To further promote the constructive dialogue and stimulate co-operation between the RGC and the EC in a wide range of areas of mutual interest , particularly in the areas of governance, justice, institution building, administrative reform, decentralisation and deconcentration, election support, trafficking, the role of civil society and human rights.
- To promote EU-Cambodia civil society dialogue and facilitate interaction in areas of governance: administrative reform, decentralisation; strengthening of civil society, including social partners, and public interest organisations as a contribution to democracy development on all levels , good governance, and greater respect for the rule of law.
- To strengthen the rule of law through capacity -building activities, including anti-corruption mechanisms, targeting the Cambodian administration at different levels, the judiciary and the legislature; and to further promote the adoption and implementation of international human rights by Cambodia.

3.3.2.3 Expected results

- Enhanced EC-Cambodia relations, notably in the areas of governance, public administration and in other selected sectors of mutual interest;
- Strengthened links between Cambodian and EU entities (e.g. public administrations, civil society, etc.);
- Progress in the implementation of administrative reforms and improved governance, including the implementation of anti -corruption measures at all levels of government;
- Enhanced capacity of the judiciary and legal sector to implement and uphold new laws;
- Adoption and implementation of international human rights instruments;
- Civil society to play a more prominent role through the work of human rights NGOs.

3.3.2.4 Activities

In order to achieve the above -mentioned results , the following type of activities may be planned:

- Policy-oriented training, research, studies, seminars, conferences and similar events to enhance understanding on the part of Cambodian officials (public awareness) and participation in the formulation and implementation of policies.
- Technical assistance and transfer of EU experience to Cambodia.
- Policy advice and dialogue to upgrade the policy and regulatory frameworks.

- Capacity building and training for authorities on all administrative levels.
- Institution building within key administrations and structures at national and local levels.
- Networking and media events.

3.3.2.5 Implementation

The establishment of a Small Projects Facility (SPF) in Cambodia could be the main implementing mechanism for activities in this area. The SPF could be managed directly by the EC Delegation in Phnom Penh. The Delegation would be responsible for selection and follow-up of projects. An advisory committee will provide guidance on orientation and take stock of programme results. While 75 % of the available funds may be implemented through thematic Calls for Proposals on a demand-driven basis, provision could be made for the remaining 25 % of financial resources to be allocated directly by the EC Delegation in Phnom Penh in order to provide limited, ad hoc short-term technical assistance and to support capacity building in cases where urgent targeted action is needed, or where strategic issues are not adequately covered in the applications submitted. Other detailed implementation procedures will be defined, bearing in mind the need to provide assistance flexibly and to maximise the added value of EC support in this strategic field.

3.3.2.6 Cross-cutting issues

Activities will explicitly consider cross-cutting issues of human rights, environmental protection, gender equality, rights of ethnic minorities and conflict prevention. The SPF's design makes it possible to successfully target all cross-cutting issues set out in the European Community's Development Policy statement. Selection, monitoring and evaluation of SPF projects will explicitly consider cross-cutting issues of human rights, environmental protection and gender equality. In addition, rights of ethnic minorities and conflict prevention will be addressed in SPF projects dealing with populations concerned by these issues.

3.3.2.7 Risks and conditions

The success of the activities will mainly depend on continued overall political stability in Cambodia and the continued motivation of the RGC to engage in co-operation with the EC on governance-related and human rights issues.

The SPF will require substantial investment in human resources. The establishment of an SPF will therefore be conditional on sufficient resources being made available to the Delegation in Phnom Penh. The success of activities is also reliant on sound project management and on the availability of appropriate expertise. Given the N+1 rule, the SPF will be extremely sensitive to any delays.

3.3.2.8 Main indicators

Input indicators: number and quality of events, workshops, studies, research reports, TA activities; number, profile and level of participants

Output indicators: Changes in legislation (number, type), intensification of public debate (number, type).

Result indicators: increased awareness of European perspective, more positive reports on human rights situation from human rights organisations;

Impact indicators: improved quality of legislation; better governance at different levels of administration; improved respect for human rights in line with ratified human rights instruments; more prominent role for civil society;

3.3.2.9 Estimated EC contribution

(~~108~~12% of total budget)

3.3.2.10 Co-ordination with Member States and other donors

The EC will co-ordinate activities with Member States and other donors. The EC will also co-ordinate activities with other donors via small grant initiatives.

3.3.2.11 Indicative timeframe

For the SPF, a financing agreement could be signed with the Government in 2007. Project duration could be four years. Standard duration of grant projects will be one year, with the possibility of extension to 18 months, subject to approval by the Delegation. Projects could be approved as of 2007.