



**Kingdom of Cambodia**

**Nation Religion King**



**Royal Government of Cambodia**

**Policy Paper**

**on**

**Public-Private Partnerships**

**For Public Investment Project Management**

**2016 – 2020**

**Prepared by: Ministry of Economy and Finance**

## **PREFACE**

The Royal Government of Cambodia has successfully implemented its Triangular Strategy and Rectangular Strategy phase 1 and 2. In the fifth legislature of the National Assembly, the Royal Government has furthered laid out the Rectangular Strategy phase 3 around its central theme of growth, employment, equity and efficiency. These strategic documents affirm the government's mission, commitment, and genuine efforts in assuring sustainable development and poverty reduction which respond to the people's wills by cohesively identifying: (1) public infrastructure investments as priority to support sustainability of long-term economic growth, increase economic effectiveness, enhance competitiveness, and accelerate Cambodian economic diversification, and (2) private sector as a driving force for economic growth by recognizing that private sector plays a key role in accelerating growth and social development as well as in bringing about modern technology and innovation aiming to increase the effectiveness and competitiveness of the economy.

In this regard, the Royal Government has invested tremendously with high consciousness on reconstructing, building and developing public infrastructure by utilizing traditional sources of funding from national budget and other funding sources mobilized from development partners. Meanwhile, as Cambodia is mobilizing investments from both Foreign Direct Investments and domestic investments, it also continues to encourage private sector to join the Royal Government in public infrastructure investments. Private sector involvement will bring about additional sources of funding, knowledge, knowhow, and modern technology to the public sector which allows the sector to develop and manage the operation of public infrastructure investment projects in a more innovative and effective manner to respond to increasing needs of the people which align with the government's policies and vision.

With this objective, the Law on Concession was promulgated in 2007 aiming to promote and facilitate the implementation of public infrastructure investment projects being financed by private sector. Nonetheless, project development and management are still disorganized using ad-hoc mechanism without analyzing project financial risks, which are inconsistent with international standards.

In the context of new development stage where Cambodia is becoming a lower-middle income country, with the prospect of reaching the status of upper-middle-income country in 2030, and high-income country in 2050, the Royal Government views that the policy on promoting public investment is facing both challenges and opportunities.

The major challenges Cambodia faces include: (1) the necessity to re-determine the target for utilizing cooperative financing fund due to global tendency of declined grants and changing

financing policy of each development partner, and (2) the declining and losing of concessional loans in the near future.

At the same time, new opportunities for Cambodia include: (1) a remarkable upsurge of private sector in Cambodia in the last decade and increased investment proposals for **“Build-Operate-Transfer”**, a form of Public-Private Partnerships (PPPs), which specifically focus on roads, bridges, and energy, etc., and (2) major development partners have embarked on new financing strategy by utilizing PPPs as a mean to finance public investment projects and are ready to provide both technical and financial supports to develop PPPs in developing countries.

Accordingly, Cambodia cannot continue using **“Ad-hoc mechanism”** in developing and managing public investment projects, thus the Royal Government is preparing the **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** that will create an enabling environment to continue to promote and encourage private sector and financial institutions involvement in public infrastructure investments, economic productivity enhancement sectors, and other priority sectors in a comprehensive manner and in accordance with international standards, which in turn strengthen Cambodia’s economic competitiveness regionally and globally.

To achieve the objectives, goal, and long-term vision of the Royal Government, this Policy Paper is to set out policy measures, identify institutional mechanism and other necessary financial support mechanism to develop an effective, efficient, transparent, accountable, consistent and interlinked system to manage public investment through PPPs by the end of 2020.

As an arm of the Royal Government, the Ministry of Economy and Finance is assigned as a lead institution to effectively facilitate the implementation of all measures set out in this Policy Paper. Together with this, the Royal Government strongly hopes that all line ministries/institutions involved will provide full collaboration with high responsibility to successfully implement this **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** in order to contribute to promoting socio-economic development on a path towards achieving progressivity, prosperity and richness.

Phnom Penh, 22 June 2016

Prime Minister

Signed and Sealed

Samdech Akka Moha Sena Padei Techo **HUN SEN**

## FOREWARD

With reference to the assignment made by Samdech Akka Moha Sena Padei Techo **HUN SEN**, Prime Minister of the Kingdom of Cambodia, the Ministry of Economy and Finance is taking lead to prepare the **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** aiming to promote and encourage participation from private sector and financial institutions in reconstructing and developing public infrastructure in an innovative and effective manner to contribute to supporting sustainability of long-term economic growth and increasing Cambodia’s competitiveness.

This Policy Paper has been prepared by senior level technical team of the Ministry of Economy and Finance with inputs obtained from regional consultative forums as well as from some development partners. In particular, the inputs from experience learned from a number of countries, especially those in Asia, that have been successful in the development and implementation of public investment projects using PPPs. Meanwhile, the preparation of **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** was done based on current context of Cambodia and in accordance with global practices and trends.

**The “Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** is a key roadmap to achieve the vision of the Royal Government set to obtain before 2020. By then, the Royal Government has to fully establish and implement a comprehensive and interlinked system to manage public investment through PPPs in consistent with international standards. The system shall also contribute to enhancing risk management of contingent liabilities that may arise from the implementation of public investment projects through PPPs. To achieve this vision, the Royal Government’s key strategy is to set out immediate policy measures, that could instantaneously achieve the outputs, and medium-term and long-term measures, which are to create enabling environment for promoting the participation of private sector and financial institutions in public investments. The tasks shall start with reviewing and revising legal framework, identifying institutional mechanism, setting out operational management procedures, establishing necessary financial support mechanism, and clearly defining public investment priority sectors to be implemented through PPPs in conformity to the progressive context of Cambodia.

As an arm of the Royal Government, the Ministry of Economy and Finance is committed to making every effort to achieve effective, progressive, and consistent implementation of strategic measures set forth in this Policy Paper. The Ministry also requests for full collaboration from all line ministries/institutions involved in order to successfully establish a public investment management system using PPPs in accordance with the government’s long-term vision.

Phnom Penh, 22 June 2016

Senior Minister

Minister of Economy and Finance

And Chairman of Economic and Finance Policy Committee

Signed and Sealed

**Aun Pornmoniroth, Ph.D.**

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## 1. Introduction

During the last two decades, Cambodia has achieved macroeconomic stability and high economic growth averaging at 7.7% per year. Cambodian Gross Domestic Product (GDP) per capita has increased six times from approximately USD 200 in 1992 to USD 1,228 in 2015. Meanwhile, poverty rate has dropped from approximately 50% in 1992 to around 16% in 2015. Such achievements were not separable from the contribution of private sector investments, foreign direct investments, and in particular public investments on physical infrastructure sector.

In this regard, the Royal Government of Cambodia has invested tremendously with high consciousness in public infrastructure by utilizing traditional financing funded from national budget, and financial resources mobilized from development partners. Despite such investment, Cambodia has not been able to sufficiently respond to the needs of its people, calling for further efforts in mobilizing private sector participation in investing on public infrastructure. The involvement of private sector investment brings about not only complementary source of financing, but also knowledge, knowhow, and modern technology to public sector to develop and manage the operation of public infrastructure investment projects in a more innovative and effective manner.

Since the first mandate of the National Assembly, the Royal Government has promoted and encouraged private sector to participate in public infrastructure investments by setting out policy and legal instruments and other necessary measures to strengthen and widen partnerships with all partners as reiterated in: (1) Triangle Strategy, 1<sup>st</sup> Socio-Economic Development Plan (SEDP I, 1996-2000), and 2<sup>nd</sup> Socio-Economic Development Plan (SEDP II, 2001-2005); (2) Rectangular Strategy phase 1 and National Strategic Development Plan, 2006–2010; (3) Rectangular Strategy phase 2 and Updated National Strategic Development Plan, 2009 – 2013; and (4) Rectangular Strategy phase 3 and National Strategic Development Plan, 2014–2018.

In this context, the Law on Concession was promulgated in 2007 aiming to promote and facilitate the implementation of public infrastructure investment projects being financed by private sector. Nonetheless, since sub-decrees, legal instruments and operational management procedures to support the implementation of the Law have not been developed and enforced, Public-Private Partnerships (PPPs) have not been fully and effectively implemented. In essence, by way of utilizing ad-hoc mechanism without analyzing project financial risks, until now the preparation, negotiation, and implementation of the projects are disorganized and not yet fully consistent with international standards.

During this new development stage, Cambodia faces two major challenges: (1) the necessity to re-determine the target for utilization of cooperative financing due to tendency of

declined grants globally and changing financing policy of each development partner; and (2) the decline of loans with high concessionality when Cambodia becomes a lower-middle income country.

While most developing countries are under pressure from increased public debt service burden resulting from excessive use of credit from various sources for finance public investments, major multilateral development partners have embarked on a new form of financing strategy through the use of “**Public-Private Partnerships for Public Investment Projects**” and are ready to provide both technical and financial supports to developing countries to develop PPPs.

Even though Cambodia’s public debt status is sustainable in the long-run unlike those of some developing and developed countries, based on the government’s long-term vision, Cambodia is still in need of PPPs for the management of public investment. Based on this, the Royal Government decided to develop and put into effect the “**Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020**”, in a comprehensive manner and in accordance with international standards, aiming to improve and enhance an enabling environment to continue to promote participation from private sector in public investment. This will also serve as a new financing source to complement the traditional public investment sources and contribute to strengthening contingent liabilities management in Cambodia. This Policy Paper sets out policy measures that serve as PPP roadmap and identify priority sectors for public investment projects through PPPs, those include: (1) immediate policy measures, and (2) medium-term and long-term policy measures. The Policy Paper has also laid out the institutional capacity and human resource development plan to strengthen capacity of government officials whose line of work linked to project cycle using PPPs.

## 2. Vision

By the end of 2020, the Royal Government has to fully develop and implement a comprehensive and interlinked system in accordance with the international standards in order to manage public investment through PPPs. The system shall also contribute to enhancing the management of risks associated with contingent liabilities that may arise from the implementation of public investment projects through PPPs. Achieving this vision will bring about not only additional sources of funding from private sector and financial institutions which complement traditional sources, but also modern technology and innovation to increase the effectiveness of public service provisions as well as the economy’s competitiveness.

### 3. Objectives and Goals

The objectives of this Policy Paper are to promote and encourage investments by private sector and financial institutions to contribute to restoring, building, operating and maintaining public infrastructure and other economic productivity enhancement sectors in an innovative and effective manner and in accordance with international standards. This will support long-term sustainable economic growth and increase Cambodia's competitiveness in the context of regional and global economic integration.

To achieve the above objectives through this Policy Paper, the goals of the Royal Government are to set out strategies, identify institutional mechanism, and establish financial support mechanism for the short-term, medium-term, and long-term timeframes in order to develop an effective, efficient, transparent, accountable, consistent and interlinked system to manage public investment through PPPs. The system shall also contribute to enhancing the management of contingent liabilities associated risks that may arise from the implementation of public investment projects through PPPs.

### 4. Definition and Types of Public-Private Partnerships

Public-Private Partnerships (PPPs) refer to an investment agreement between the state and one or more private partners to restore, build, repair, maintain and/or manage the operation of public infrastructure or other economic productivity enhancement sectors or to provide public services within a certain period of time by which the private party shall invest, bear risks and receive benefits in accordance with the provisions stipulated in the concession contract.

PPPs shall be repaid in three forms as follows:

- **Revenue-based Payment:** is a form of payment that allows the private partner to collect revenue from public infrastructure and/or public service users. This form of payment is used for public investment projects with high economic productivity where it is possible to collect revenue from the public infrastructure and/or public service users.
- **Availability-based Payment:** is a form of payment where the state shall pay the investment cost and/or relevant service fees to the private partner who has invested in the restoration, construction, repair, operation, and/or maintenance of public infrastructure or provided public services. This form of payment is used in the following cases: (1) the state is the direct user or purchaser of the services, or (2) public investment projects of social nature without the possibilities of collecting revenue from the public infrastructure and/or public service users.

- **Hybrid Payment:** is a combination between Revenue-based Payment and Availability-based Payment.

## 5. Current Context of Public-Private Partnerships

### 5.1 Global Context

#### 5.1.1 Global Trend

The world is now facing new challenges as traditional source of capital from the national budget and development partners are no longer able to meet the great investment needs to restore and build public infrastructure. Meanwhile, many developing countries experience pressure from increased public debt service burden caused by substantial use of concessional loans and other types of credit from development partners to fund public investment projects. In this context, the world, in particular multilateral development partners, have been taking leading role to initiate a new form of financing strategy by promoting the use of PPPs. PPPs not only provide a complementary source of financing, that helps to reduce pressure on the national budget and lessen public debt service burden, for the current insufficient investment on public infrastructure, but it also provides development opportunities and transfer of knowledge, knowhow, modern technology, effective provisions of public services, and innovation to the public sector.

This new initiative requires legal framework, institutional mechanism, financial support mechanism, and operational rules and procedures as well as solid, clear, careful and comprehensive guidelines to prepare, manage and implement public investment projects. In 2014, major multilateral development partners began to express high commitments to provide assistances, both technical and financial, to developing countries for the development of PPPs for managing public investment.

#### 5.1.2 Global Practice

From global experience, in order to be successful in the implementation of public investment projects through PPPs, many countries in the world have developed solid, clear and comprehensive legal and policy framework, institutional mechanism, financial support mechanism and institutional capacity and human resources as follows:

- **Legal and Policy Framework:**

Policy framework shall set forth the government's long-term strategic vision for PPPs. It should clearly identify goals, priority sectors, types of PPPs and management mechanism to ensure internal consensus within the government in order to create predictable and reliable environment for investors and financial institutions to

contribute to the development and implementation of public investment projects through PPPs.

Legal framework shall provide necessary rules for management and implementation of PPPs, clearly identify competent institutions, procedures for operational management, dispute resolution mechanism and tax and tariff systems to be implemented under the PPPs framework.

Selection of private partners for both state-initiated and private-initiated projects within the framework of public investment projects through PPPs shall be made through transparent, fair, and competitive “**procurement**” to heighten confidence of private sector involvement in public investment and to ensure economic results as well as project effectiveness and efficiency.

- **Institutional Mechanism:** Roles and responsibilities of ministries/institutions involved in the project cycle, from project identification to final project evaluation, need to be clearly identified and allocated among three main functions:

- (1) Project identification, development and implementation shall be the tasks of specialized ministries/institutions;

- (2) Review and approval on priority project list shall for a transitional period be the tasks of an Inter-Ministerial Committee, mainly led by the Ministry of Finance; and

- (3) Project coordination, monitoring and evaluation shall be mainly led by the Ministry of Finance.

In addition, ministries/institutions involved also need to have highly competent human resources and strong operational system to perform their functions and duties.

- **Financial Support Mechanism:** To promote the implementation of public investment projects through PPPs, most countries establish two types of special fund to be managed by the Ministry of Finance:

- **Project Development Facility (PDF):** Aims to provide support to specialized ministries/institutions in the project development from initial project feasibility study to granting the concession contract;

- **Viability Gap Fund (VGF):** Aims to provide support to some public infrastructure investment projects or projects in economic productivity enhancement sector or social sector to make them attractive to private sector

and financial institutions and to ensure the projects meet sufficient conditions to be implemented through PPPs.

## 5.2 Cambodian Context

### 5.2.1 Policy and Legal Framework and Institutional Mechanism

In the context of the aforementioned global trend, the Royal Government considers that PPPs are crucial to respond to Cambodia's needs in new development stage, especially as the economy is growing allowing Cambodia to rigorously step away from the status of low-income country to lower-middle-income country, a category that will disqualify Cambodia for grants and loans with high concessionality from development partners. Nonetheless, the Royal Government shall be vigilant on investment effectiveness and risk management of contingent liabilities that may arise from the implementation of public investment projects through PPPs.

Concurrently, the Royal Government's Rectangular Strategy phase 3 and NSDP 2014 – 2018 continue to identify private sector as an engine of growth, job creation and poverty reduction, all of which made possible through improvement of favorable environment for business and investment and strengthening of PPPs for public infrastructure investments.

In the current context of Cambodia, existing legal framework, strategies and policies that promote and encourage private sector and financial institutions to participate in public investment include:

- Law on Concession;
- Law on Investment;
- Law on Public Financial System;
- Land Law;
- Law on Land Road;
- Law on Secured Transactions;
- Law on Taxation;
- Law on Public Procurement;
- Law on Government Securities;
- Law on the Issuance and Trading of Non-Government Securities;
- Law on Expropriation;
- Law on Accounting and Auditing;
- Law on Customs;
- Financial Sector Development Strategy 2011 – 2020;
- Cambodia Industrial Development Policy 2015 – 2025, etc.

Although there are legal framework, strategies and sectoral development policies in place, the development and management of public investment projects through PPPs are still disorganized and inconsistent because common and comprehensive policy and legal framework are not available. In this regard, the Royal Government needs to revisit related legal framework to be amended and, if necessary, develop additional legal framework to fulfill the minimum requirements for PPPs in accordance with international standards.

Thus far, most of PPP projects have been in the power sector and public physical infrastructure, e.g. roads, bridges, and airports, implemented in the form of “**Build–Operate–Transfer**”, “**Build–Own–Operate**”, and “**Maintain–Operate–Transfer**” initiated, proposed and studied by private sector themselves. Based on private sector proposals, respective ministries/institutions review the project proposals by analyzing and assessing the benefits, project costs, user fees, internal revenue rate, impacts and related risks as well as other project conditions before moving toward negotiation and signing the concession contract.

These indicate that Cambodia is still using ad-hoc mechanism for public investment projects through PPPs which is inconsistent with the international standards. In essence, it has not used the PPP mechanism that have been implemented successfully and are highly effective in many countries in the world, especially the mechanism in which ministries/institutions initiate and lead public investment projects by conducting project identification, study, preparation, and assessment as well as selecting concessionaires through transparent and fair bidding. In this regard, the Royal Government promotes and encourages ministries/institutions involved to play a role as effective, efficient, transparent and accountable strategists, coordinators, supporters and initiators to develop PPPs by identifying a clearly defined institutional mechanism. Meanwhile, the ministry/institution in question shall prepare a list of sectoral public investment projects which incorporates government funded investment projects, development partners funded projects, and PPP investment projects.

## 5.2.2 Challenges and Opportunities

### 5.2.2.1 Challenges

- Legal framework and operational management procedures

The Law on Concession that contains provisions on management of public investment projects through the concession contract was promulgated in 2007. Nonetheless, provisions regarding certain roles of relevant ministries/institutions are not clear and comprehensive and are not in conformity with global trend and current international standard PPPs. Meanwhile, public investment projects through PPPs have so far been managed and implemented using the procedures of normal public investment projects. The procedures are not yet responsive to the necessary requisites that require a separate procedure, especially with regard to the procurement

procedures, operational management procedures, and financial support mechanism (as shown in section 5.1.2 regarding global practice).

- *Institutional mechanism*

Cambodia has not yet a clear and comprehensive institutional mechanism to manage public investment project cycle through PPPs. The current ad-hoc mechanism varies by each project or specialized ministry/institution with no proper review and assessment on project financial risks, which may cause tremendous contingent financial burden on national budget. The above practice has led to decreased attractiveness for involvement from private sector and financial institutions, reduced project effectiveness, and heightened risks related to contingent liabilities on national budget. As a consequence, it emerges uncertainty regarding roles and duties of ministries/institutions involved in a project cycle, including: (1) Project identification, preparation, and implementation management, (2) Review and approval on priority project list, (3) Project coordination, monitoring and evaluation

- *Specialized capacity and techniques*

Participation of private sector and financial institutions in the implementation of public investment projects through PPPs is considered not only as a new source of financing, in addition to the traditional source of funding, for the Royal Government to develop public infrastructure and other economic productivity enhancement sectors, but also as a new way to bring about development opportunities, transfer of knowledge and knowhow, modern technology integration, effective provision of public services, and innovation to the state institutions in the future. Meanwhile, the Royal Government comprehends that this mechanism is more complicated than normal public investment projects such as:

- (1) It must be an attractive project to private sector and financial institutions;
- (2) It utilizes a separate set of procurement procedures other than public procurement procedures; and
- (3) It requires appropriate risk allocations and distribution of benefits among many parties involved including: state ministries/institutions, concessionaires, financial institutions, beneficiaries and those affected by the development projects. All of these require involved government officials to be highly capable.

Therefore, building expertise and technical capacity of officials and institutional capacity of relevant ministries/institutions is a determinant for successful development and implementation of public investment projects through PPPs.

### 5.2.2.2 Opportunities

Although with the aforementioned challenges, PPPs remain particularly important for Cambodia's new economic context; thus the Royal Government needs to overcome the challenges based on the following opportunities:

- The Royal Government places priority on private sector participation by continuing to promote and encourage the sector's involvement in public investments and identifies strategic goals to be accomplished under the Rectangular Strategy phase 3 and National Strategic Development Plan, 2014–2018.
- Significant acceleration of private sector in Cambodia during the last decade as reflected through increased foreign direct investments from USD 375 millions in 2005 to USD 1.3 billions in 2015 as well as increased private sector deposits from USD 1.6 billions in 2008 to over USD 4 billions in 2014. These figures serve as strong indicators that private sector is having great potential to contribute to investment in public infrastructure projects and other economic productivity enhancement sectors through PPPs.
- Increased investment proposals for “**Build–Operate–Transfer**” which is a form of PPPs especially used in roads, bridges and energy sectors. This indicates that the market for PPPs investment has great potential and attractiveness although Cambodia is still in transitional period without sufficient policy and legal framework, institutional mechanism, financial support mechanism, and operational management procedures for public investment projects through PPPs.
- Experience on project identification, preparation, and implementation management gained from many countries, including those in the region, and Cambodia's own experience previously gained from implementing some public investment projects. Specifically, those projects in energy sector and public infrastructure sector such as roads, bridges, and airports in the forms of “**Build–Operate–Transfer**”, “**Build–Operate–Own**”, and “**Maintain–Operate–Transfer**”, as in the National Road 4 project, can serve as a strong foundation to start developing PPPs in Cambodia in a careful and comprehensive manner.
- During the last few years, major international financial institutions have placed high priority on private sector involvement in investments of public infrastructure projects and are ready to provide technical and financial supports for the development of PPPs in developing countries.

## 6. Strategy

To achieve the aforementioned vision, objectives and goals, the Royal Government’s key strategy is to develop and set out policy measures aiming to contribute to establishing a favorable environment to encourage participation from private sector and financial institutions in public investment through PPPs. The strategy is to carefully implement through step-by-step approach as follow: (i) the initial tasks of reviewing and amending legal framework, developing and enforcing the operational management procedures, establishing necessary financial support mechanism, clearly identifying institutional mechanism, and establishing Inter-Ministerial Committee to manage and coordinate the implementation of this strategy; (ii) the “**Learning by Doing**” approach to learn from actual experience at all stages of project cycle, especially project identification, preparation of priority project list, feasibility study, procurement, and project implementation management to develop an accurate, effective and efficient PPPs management system. At the learning by doing stage, the Royal Government will cautiously implement only “Solicited Proposals”. Nevertheless, the Royal Government will maintain its flexibility in considering some highly innovative “Unsolicited Proposals” for implementation; and (iii) institutional capacity and human resource development for ministries and institutions involved.

During the interim period of developing a new system to manage public investment through PPPs, Cambodia continues to utilize the existing management system until the new system is in place for full implementation in order to ensure continuous development momentum.

In this context, the Royal Government decides to set out the following immediate, medium-term and long-term policy measures:

### 6.1 Immediate Policy Measures

Based on the global trend, global practice, challenges and opportunities as analyzed above, the Royal Government decides to set out immediate policy measures as follows:

1. During the interim period, establish an Inter-Ministerial Committee led by the Ministry of Economy and Finance with participation from other relevant line ministries/institutions. The committee shall for a transitional period be tasked to:
  - Review provisions stipulated in the Law on Concession and other related laws and make amendments as necessary;
  - Prepare sub-decrees, Prakas, related legal instruments, operational management procedures, and in particular procurement management procedures and financial support mechanism for public investment projects using PPPs;

- Review and approve priority project list and the findings from feasibility studies of those priority projects. At the same time, during the interim period, this Inter-Ministerial Committee is tasked to review and approve priority project list and the findings from feasibility studies for PPP pilot projects under effective, efficient, accountable, transparent, publicly open and fair principles.

These functions and duties shall be transferred to the permanent mechanism which will be reviewed and decided by the Royal Government at an appropriate future time.

2. Establish and operationalize **Project Development Facility (PDF)** to support specialized ministries/institutions in project development from the initial stage of feasibility study or up to the granting of the concession contract.
3. Develop and define institutional mechanism by:
  - Integrating functions of the PPP Unit and Risk Management Unit into existing structure of the Ministry of Economy and Finance in order to provide relevant technical support services to the Inter-Ministerial Committee and sectoral ministries/institutions and to serve as an arm of the Ministry of Economy and Finance to perform the roles in operational management, coordination, monitoring and evaluation of PPP projects.
  - Establishing or integrating the functions of PPP Units in different sectoral ministries/institutions to conduct project identification, prepare proposed priority project list, conduct feasibility study, procure, and manage the implementation of public investment projects through PPPs.
4. In the current context of Cambodia, during the initial stage, the investment through PPPs shall focus on priority projects in public infrastructure sector and a number of other economic productivity enhancement sectors by utilizing the “**Revenue-based Payment**” in order to avoid pressure on national budget.

In this sense, the Royal Government decides to identify priority sectors from which public investment projects shall be selected for implementation through PPPs as follows:

- Transportation system such as roads, bridges, railroads, ports, and airports;
- Production, transmission and distribution of electricity;

- Production, supply and distribution of clean water;
  - Development, modernization of markets and public car parks or public commercial centers;
  - Development of public infrastructure in industrial zones
  - Waste collection and management services;
  - Waste water treatment and sewage systems;
  - Vocational skill development;
  - Social housing infrastructure;
  - Tourist infrastructure such as tourist attraction sites, museums, etc.
  - Economic productivity enhancement sector and other priority sectors to be identified by the Royal Government during the implementation of this Policy Paper.
5. Prepare and put into effect the institutional capacity and human resource development plan (as detailed in the Annex).

## **6.2 Medium-Term and Long-Term Policy Measures**

Building upon the implementation of the immediate policy measures, for the medium-term, the Royal Government will:

1. Continue to review and revise as needed related legal framework, institutional mechanism, procedures to manage financial support mechanism, and operational management procedures for public investment projects using PPPs;
2. Review possibilities to establish Viability Gap Fund (VGF) in order to provide subsidy to some public investment projects to make them more attractive to private sector and financial institutions;
3. Update institutional capacity and human resource development plan;
4. Built on successful implementation of pilot projects during the initial stage, in the medium-term, the Royal Government will review the possibilities of increasing the number of projects in the public infrastructure sector and other economic productivity enhancement sectors in order to promote sustainability of inclusive economic growth and increase Cambodia's competitiveness regionally and globally. The Royal

Government may also review possibilities of implementing the PPPs through other forms of payments such as “**Availability-based Payment**” and “**Hybrid Payment**”.

In this context, the Royal Government will update priority project list based on actual economic contexts by reviewing possibilities to include a number of additional priority sectors as follows:

- Infrastructure for gas and petroleum sector such as petroleum and gas distribution system;
- Telecommunications sector and information and communications technology;
- Irrigation system and agriculture infrastructure; and
- Other priority sectors.

Meanwhile, in the long-term, the Royal Government may review possibilities for public investment through PPPs in social sector such as:

- Public health services infrastructure;
- Education and sports infrastructure, etc.

## **7. Action Plan on the Development of Public-Private Partnerships**

To support the implementation of the aforementioned strategic policy measures in an effective, efficient, transparent, and accountable manner, the Ministry of Economy and Finance, as an arm of the Royal Government, shall be the lead institution in facilitating the implementation of the action plan as specified in the table below:

**Action Plan on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020**

Policy Measures	Activities		Responsible ministry/institution	Sources of Funding
	2016 – 2018	2019 – 2020		
1. Review and development of legal framework and operational management procedures	<ul style="list-style-type: none"> <li>- During the interim period, establish an Inter-Ministerial Committee led by the Ministry of Economy and Finance with participation from other relevant line ministries/institutions whose tasks are specified in para.1 of item 6.1.</li> <li>- Review provisions stipulated in the Law on Concession and other related laws and make amendments as necessary;</li> <li>- Prepare sub-decree, Prakas, related legal instruments, operational management procedures, and procurement management procedures;</li> <li>- Implementing 2 – 3 pilot projects.</li> </ul>	<ul style="list-style-type: none"> <li>- Review and revise as needed in order to establish a permanent institutional mechanism;</li> <li>- Review and revise as needed the relevant legal framework, institutional mechanism, and operational management procedures.</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Economy and Finance</li> <li>- Relevant ministries/institutions</li> </ul>	<ul style="list-style-type: none"> <li>- The Royal Government, ADB, and other development partners</li> </ul>
2. Development of financial support	<ul style="list-style-type: none"> <li>- Establish and operationalize <b>Project</b></li> </ul>	<ul style="list-style-type: none"> <li>- Review possibilities to establish and</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Economy and</li> </ul>	<ul style="list-style-type: none"> <li>- The Royal Government,</li> </ul>

mechanism	<p><b>Development Facility (PDF)</b> to support specialized ministries/institutions in project development.</p> <ul style="list-style-type: none"> <li>- Develop and put into effect operational procedures for <b>Project Development Facility (PDF)</b>.</li> </ul>	<p>operationalize <b>Viability Gap Fund (VGF)</b> in order to provide subsidy to some public investment projects to make them more attractive to private sector and financial institutions;</p> <ul style="list-style-type: none"> <li>- Develop and put into effect the operational procedures for <b>Viability Gap Fund (VGF)</b>.</li> </ul>	<p>Finance</p> <ul style="list-style-type: none"> <li>- Relevant ministries/institutions</li> </ul>	<p>ADB, and other development partners</p>
3. Development and identification of institutional mechanism	<ul style="list-style-type: none"> <li>- Integrate functions of the PPP Unit and Risk Management Unit into existing structure of the Ministry of Economy and Finance.</li> </ul>	<ul style="list-style-type: none"> <li>- Review and revise functions of PPP Unit and Risk Management Unit at the Ministry of Economy and Finance.</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Economy and Finance</li> <li>- Relevant ministries/institutions</li> </ul>	<ul style="list-style-type: none"> <li>- The Royal Government, ADB, and other development partners</li> </ul>
	<ul style="list-style-type: none"> <li>- Establish or integrate functions of PPP Units in different sectoral ministries/institutions.</li> </ul>	<ul style="list-style-type: none"> <li>- Review and revise functions of PPP Units in different sectoral ministries/institutions.</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Economy and Finance</li> <li>- Relevant ministries/institutions</li> </ul>	
4. Institutional capacity and human resource development	<ul style="list-style-type: none"> <li>- Prepare and put into effect the institutional capacity and human resource development plan.</li> </ul>	<ul style="list-style-type: none"> <li>- Update the institutional capacity and human resource development plan.</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Economy and Finance</li> <li>- Relevant ministries/institutions</li> </ul>	<ul style="list-style-type: none"> <li>- The Royal Government, ADB, and other development partners</li> </ul>

## 8. Monitoring and Evaluation of the Implementation of Policy Measures

The Ministry of Economy and Finance shall be responsible to the Royal Government in ensuring that the implementation of the policy measures is conducted in an effective, progressive, and consistent manner. In this regard, the Royal Government continues to assign Ministry of Economy and Finance to coordinate the implementation of monitoring and evaluation system to implement policy measures as below:

- **Reporting System:** Ministries/institutions involved shall provide quarterly, semi-annual, and annual progress reports including challenges faced during the implementation of policy measures to Inter-Ministerial Committee through PPP Unit at the Ministry of Economy and Finance. Having PPP Unit at the Ministry of Economy and Finance as an arm, the Inter-Ministerial Committee shall consolidate semi-annual and annual reports to be submitted to the Economic and Finance Policy Committee.
- **Problem-Solving Mechanism:** the Inter-Ministerial Committee is tasked to review and approve on necessary problem-solving measures. For sensitive cases, the cases shall be submitted to the Economic and Finance Policy Committee for decision.
- **Regular Monitoring and Evaluation Mechanism:** the PPP Unit at the Ministry of Economy and Finance is tasked to monitor, review, and evaluate progress made in the implementation of policy measures as well as the adopted problem-solving measures. The PPP Unit shall then report the progress to the Inter-Ministerial Committee.

## 9. Conclusion

In short, during Cambodia's new development context, the Royal Government recognizes that full and effective implementation of PPPs for managing public investment is necessary to accelerate socio-economic development, in particular to respond to people's needs for sufficient and effective public services.

Undoubtedly, this Policy Paper is a roadmap for PPPs development that also serves as the Royal Government's strategic decision in identifying priority sectors for the implementation of public investment projects through PPPs. Therefore, to fully implement PPPs by 2020, the Royal Government shall continue to develop legal framework and operational management procedures, identify institutional mechanism, establish financial support mechanism, and develop necessary institutional capacity and human resources as instructed and specified in this Policy Paper's strategic measures.

The Royal Government considers this Policy Paper as a living document that is subject to revisions to ensure conformity with Cambodia’s future development. Meanwhile, the Royal Government strongly believes that successful implementation of **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** will contribute to (1) promoting participation from private sector, financial institutions, and relevant development partners to enhance effective and innovative development of public infrastructure sector, economic productivity enhancement sector, and other public services sectors; and (2) strengthening public debt management through strengthening capacity of competent ministries/institutions on the predictability of contingent liability.

In this regard, the Royal Government assigns the Ministry of Economy and Finance to take a leading role in facilitating the implementation of the **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”** with full collaboration from relevant ministries/institutions in a responsible manner.

**ANNEX**

**INSTITUTIONAL CAPACITY AND HUMAN RESOURCE DEVELOPMENT PLAN  
FOR MANAGEMENT OF PUBLIC INVESTMENT PROJECTS THROUGH PUBLIC-  
PRIVATE PARTNERSHIPS**

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## **Institutional Capacity and Human Resource Development Plan**

### **For Management of Public Investment Projects through Public-Private Partnerships**

#### **1. Introduction**

During Cambodia's new development stage, the Royal Government clearly understands that traditional sources of capital from national budget and development partners are no longer able to fulfill great investment needs for public infrastructure. At the same time, the Royal Government recognizes that participation from private partners in public investments is crucial to provide not only a new financing source to complement traditional financing for public infrastructure development, but also bring about knowledge, know-how, and modern technology to the public sector to develop and manage the operation of public infrastructure investment projects in a more innovative and effective manner.

In this regard, the Royal Government has granted the Ministry of Economy and Finance the leading role in developing the Policy Paper on Public-Private Partnerships for Public Investment Project Management aiming to create an enabling environment to continue to promote and encourage private sector and financial institutions involvement in reconstructing, building, operating, and maintaining public infrastructure in an innovative and effective manner and in accordance with international standards.

As an arm of the Royal Government, the Ministry of Economy and Finance has established a technical working group to develop the **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”**. The Ministry of Economy and Finance has also integrated into the existing structure of its General Department of Budget and General Department of International Cooperation and Debt Management two key functions, namely: (i) the Central PPP Unit to be housed under the Private Sector Development Coordination Office of the Department of Investment under General Department of Budget, and (ii) Risk Management Unit to be housed under the Office of Debt Analysis of the Department of Debt Management under the General Department of International Cooperation and Debt Management.

Currently, institutional capacity and human resources of the above two units are still limited requiring the Ministry of Economy and Finance to develop a comprehensive institutional capacity and human resource development plan to strengthen the two functions in order to respond to future needs of Cambodia as well as to comply with international standards.

Other relevant ministries/institutions have also established or integrated the PPP Units into their existing structures. Nonetheless, since all investment projects using PPPs so far have

been studied and proposed by the private sector, the institutional capacity and human resources of the PPP Units at line ministries/institutions are also still limited.

The institutional capacity and human resource development plan for management of public investment projects through PPPs is a key and indispensable tool for the implementation of the **“Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”**. The plan will be used as a roadmap to guide the development of institutional capacity and human resources for managing public investment projects in order to contribute to supporting sustainability of long-term economic growth.

## 2. Objective

The objective of this plan is to strengthen institutional capacity and human resources of line ministries/institutions involved in managing public investment through PPPs to ensure effectiveness, efficiency, transparency, consistency and interconnection with other related policies and strategies.

## 3. Goal

The goal of this plan is to set out the action plan on strengthening the institutional capacity and human resources of line ministries/institutions involved in the development and implementation of PPPs for managing public investment projects and associated risks that may arise from the implementation of public investment projects through PPPs.

## 4. Scope

This plan covers only the institutional capacity and human resource development for Central PPP Unit and Risk Management Unit of the Ministry of Economy and Finance and other relevant ministries/institutions.

## 5. Progress of Institutional Capacity and Human Resource Development

Although there is no existing specific plan, the Ministry of Economy and Finance places priority on the development of institutional capacity and human resources for relevant ministries/institutions in order to promote the development of PPPs. In this regard, the Ministry of Economy and Finance has constantly paid attention to strengthening the institutional capacity and human resources of relevant ministries/institutions by focusing on two key functions,

namely: Central PPP Unit and Risk Management Unit. Concurrently, some training courses are also participated by relevant ministries/institutions. Progress on institutional capacity and human resource development of the above two functions are as follow:

### **5.1. Institutional Capacity Development**

In the fifth legislature of the National Assembly, the structure of the Ministry of Economy and Finance was amended through sub-decree No. 488 ANKr. BK, dated 16 October 2013, on the Organization and Functioning of the Ministry of Economy and Finance and sub-decree No. 19 ANKr. BK, dated 03 March 2015, on the amendment of Article 44, 45, 46 and 47 of sub-decree No.488 ANKr. BK dated 16 October 2013. The main purpose of the amendment of the organizational structure is to further ensure quality and effective performance in the economic and financial sector.

At the same time, the Royal Government has issued sub-decree No. 115 ANKr. BK on upgrading the Department of International Cooperation and Debt Management to the General Department of International Cooperation and Debt Management. The Office of Debt Analysis of the Department of Debt Management under the General Department of International Cooperation and Debt Management is to function as Risk Management Unit in accordance with Prakas No. 666 SHV. BrK, dated 08 June 2016.

Pursuant to sub-decree No. 19 ANKr. BK, the Ministry of Economy and Finance issued Prakas No. 1500 SHV. BrK, dated 25 December 2013, on Organization and Functioning of departments and units subordinated to the General Department of Budget. This Prakas stipulates that the Private Sector Development Coordination Office of the Department of Investment under the General Department of Budget is to function as Central PPP Unit.

In the current context of Cambodia and in accordance with global practices, the two units shall perform the detailed functions and duties as follow:

#### ***A. Central PPP Unit***

- Coordinate and manage the operation of PPP projects.
- Provide operational support to ministries/institutions authorized to sign contract with private partners in order to identify, assess, structure, procure, sign contract and manage the projects.
- Review and monitor PPP projects at each key stage
- Provide recommendations on project implementation to the Technical Committee and Operational Committee.
- Manage Project Development Facility (PDF) to provide financial support to relevant ministries/institutions for technical work required for transacting PPP projects.

- Request to establish committee for procurement and procurement management, revenue mobilization, and process payments to Transaction Advisors using PDF.
- Other related tasks.

***B. Risk Management Unit***

- Analyze, assess, review and monitor risks related to PPP projects, in particular those of contingent liabilities resulting from government guarantees;
- Provide recommendations on risk allocations for PPP projects;
- Calculate and analyze Value for Money for PPP projects;
- Other related tasks.

Understanding the importance of the above two key players in the development of PPP projects in Cambodia, the Ministry of Economy and Finance has recruited a number of new officials into the units of: (1) Private Sector Development Coordination Office of the Department of Investment under the General Department of Budget, and (2) Debt Analysis Office of the Department of Debt Management under the General Department of International Cooperation and Debt Management. The goal is to equip the two units with capable officials who are able to fully perform their tasks at the same level of expertise compared to other countries in the region and the world.

## **5.2. Human Resource Capacity Development**

Under the great efforts of the Royal Government, Cambodia has received substantial support and cooperation from various development partners and international financial institutions. In particular, Cambodia received both technical and financial supports for organizing local training courses and workshops as well as for participating in international training courses, workshops, conferences, and forums on some important skills and topics related to PPP project management and risk assessment.

At the same time, Cambodia has been warmly welcome by a number of countries in the region such as Indonesia, Philippines, Thailand, the Republic of Korea, and India to conduct study tours to those countries to learn and experience actual implementation of PPP project management.

In short, it is a great opportunity for officials involved to participate in both local and international training courses, workshops, conferences, forums as well as study tours to other countries in the region. In essence, they can develop their capacity and skills by gaining new knowledge as well as experience from actual implementation from other countries in the world. The acquired knowledge and experience are important input for the preparation of policy papers, strategies, and other related regulations necessary for the operational management, such as: 1) Policy Paper on Public-Private Partnerships for Public Investment Project Management; 2) Strategic Paper on Public Debt Management; 3) Policies on Public Debt Risk Management; 4)

Draft Prakas on Principals and Procedures for Managing Government Guarantees; and 5) Draft Joint Policy Framework for Public Investment Expenditure Management, etc.

## 6. Challenges

Along with the aforementioned achievements, there are also notable challenges in the development of institutional capacity and human resources for managing PPP projects, those include:

### 6.1. Limited Analytical and Specialized Capacity

To date, even though the government has put much efforts into building capable human resources on some analytical and specialized skills for PPP projects, there is still additional need for in-depth analysis and specialized skill trainings in areas such as: 1) Value-for-Money analysis and assessment; 2) the analysis, assessment, allocation, examination and monitoring of risks associated with PPP projects; 3) project structuring; and 4) planning and procurement, etc.

### 6.2. Retaining Capable Officials with Strong Professional Wills

Even though the government has so far trained a number of officials who are capable of carrying out the analysis and conducting other specialized work, the number of capable officials with strong professional background still cannot meet current and future needs of human resources. At the same time, retaining existing capable officials is another challenge given that the officials could leave the office if given opportunities for other higher paying and more benefiting jobs. In such case, operational risks may arise as major related works could get stuck and set goals not be achieved.

## 7. Opportunities

Notwithstanding the above challenges, there are opportunities for the development of institutional capacity and human resources for the two key units, including:

- ***On the Aspect of Technical Expertise:*** Cambodia receives technical assistances from various development partners and international financial institutions, such as: UNESCAP, ADB, WB, IMF, etc. Through the assistance, international experts or technical specialists share knowledge and experiences on the management of PPP projects by giving presentations during training courses or workshops.
- ***On the Aspect of Financial Support:*** the government may use financial assistance from development partners and other sources to fund officials involved to attend local and international workshops, training courses, study tours,

conferences, and forums. The government may also use the assistance to provide incentives to capable officials with strong professional background.

## **8. Action Plan on Institutional Capacity and Human Resource Development, 2016-2020**

To strengthen institutional capacity and human resources in PPP project management which in turn contribute to sustainability of long-term economic growth, the Royal Government authorized the Ministry of Economy and Finance to continue utilizing assistance from development partners and other sources for the implementation of action plan on institutional capacity and human resource development for public investment project management through PPPs, 2016-2020, as following:

### **8.1. Institutional Capacity Development Action Plan**

In order to develop capacity of line ministries/institutions involved in PPP public investment to allow them to fully perform their tasks at the same level of expertise as other countries in the region and/or the world, the Ministry of Economy and Finance and other line ministries/institutions shall implement the following action plan:

- 1) Take necessary actions in retaining highly capable officials with strong professional background by reviewing the incentive system;
- 2) Recruit additional capable officials with strong professional wills through transparent recruitment process to respond to the actual needs; and
- 3) Continue utilizing the Learning by Doing approach

### **8.2. Action Plan for Human Resource Development**

To strengthen human resource capacity for the development and management of PPP investment projects, the Ministry of Economy and Finance and other line ministries/institutions shall implement the following action plan:

- 1) Continue to pay attention to capacity building of officials with skills related to PPP public investment, according to below:
  - Project screening/selection
  - Defining project characteristics
  - Output specification
  - Project structuring
  - Preparation of PPP contract
  - Preparation of contract management plan
  - Preparation of procurement plan including developing bidding documents and proposal evaluation

- Risk allocations of public investment projects using PPPs
- Value-for-Money analysis and assessment
- Financial model for optimization of project life cycle cost
- Risk management of public investment projects using PPPs
- Contingent liability calculation
- Other related skills.

2) Continue to train relevant officials using the approach below:

**a. Local Trainings** include: 1) organizing skill training courses instructed by international experts or officials from international PPP specialized institutions; 2) organizing workshops, forums, or conferences with participation from national and international experts or specialists from relevant ministries/institutions; and 3) Internet-based study (UNESCAP).

**b. Overseas Trainings** include: 1) attending skill trainings organized by regional or international organizations/institutions; 2) attending regional or international workshops, forums, conferences on related topics; and 3) conducting study tours to specialized ministries/institutions in the region as well as other developed countries.

## 9. Estimated Expenditure for Institutional Capacity and Human Resource Development, 2016-2020

Unit: Thousand US Dollars

Action Plan	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>1. Local Training</b>	<b>175</b>	<b>175</b>	<b>175</b>	<b>175</b>	<b>175</b>	<b>875</b>
a) Training courses	90	90	90	90	90	450
b) Workshops	40	40	40	40	40	200
c) Forums	20	20	20	20	20	100
d) Conferences	20	20	20	20	20	100
e) Internet-based study	5	5	5	5	5	25
<b>2. Overseas Training</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>1,500</b>
a) Training courses	50	50	50	50	50	250

b) Workshops	50	50	50	50	50	250
c) Forums	50	50	50	50	50	250
d) International conferences	50	50	50	50	50	250
e) Study tours	100	100	100	100	100	500
<b>Total (1 + 2)</b>	<b>475</b>	<b>475</b>	<b>475</b>	<b>475</b>	<b>475</b>	<b>2,375</b>