



Australian Government
Department of Foreign Affairs and Trade

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A. Executive Summary

The Development Context and Situational Analysis

An uncertain economic recovery and transition lies ahead

Cambodia, ASEAN's second poorest country (USD\$1544 per capita in 2020), faces a challenging economic transition as it progresses from Least Developed Country status. The COVID-19 pandemic has underscored weaknesses in the country's growth model. Economic growth has been heavily reliant on foreign investment, particularly from China and clustered in a narrow band of sectors (garments, construction, tourism, agriculture) leaving the economy highly exposed to the domestic and international effects of the pandemic. At the same time, the pending loss of trade preferences following its graduation from Least Developed Country status, and the impact of wage growth in a highly dollarized economy are eroding the basis for Cambodia's competitiveness in the low-wage, low-skill activities that have previously driven the country's export and income growth.

COVID-19 also demonstrated the fragility of women's economic gains, with the pandemic heavily impacting economic activities where many Cambodia women derive incomes (including as migrant workers in neighbouring countries), at the same time as bringing significant increases in gender-based violence and unpaid domestic labour. Exposure to a range of climate change effects is also impinging on Cambodia's development path – creating challenges for agriculture, water security and the resilience of infrastructure and cities.

With its traditional sectors destabilised and recovery uncertain, the Royal Government of Cambodia (RGC) is taking more seriously the need to adjust and upgrade its growth model, encouraging more diversified, complex, and higher value-added production, integrated into regional and global value chains, and with stronger linkages to domestic financing and businesses.

Cambodia needs more effective and inclusive institutions enabling higher quality investment

Diversification of Cambodia's economic structure will require 'quality' investment (i.e., productive, inclusive and supporting skills and technology upgrading) by governments, businesses, and households, in physical and human capital, and institutional capabilities - at a time when global interest in emerging markets is likely to be constrained and development financing tight.


Attracting quality private investment in turn will require a range of policy, institutional and market constraints to be tackled including: strengthening public infrastructure delivery; providing market-enabling public goods such as standards, certification and trade facilitation; and enabling market-based solutions to current bottlenecks such as poor logistics or the absence of market intelligence or affordable business finance. Efforts to remove barriers to women's equal economic participation will also be critical.

The challenges of stimulating higher quality investment cut across the RGC's policy reform agenda, but CAP-RED will primarily focus its efforts in supporting this broader agenda in three domains where Australian has a comparative advantage: agriculture and agro-processing; trade, investment and enterprise development; and infrastructure services. In addition, the whole Facility will be targeted towards reducing the constraints to women and marginalised people participating in and benefiting equally from the economy.

Lessons learned

Recent programs - the *Cambodia Agricultural Value Chain program (CAVAC)* and *Investing in Infrastructure (3i)* - show that directly engaging at project or value chain level provides the reputation and relationships to engage on broader policy and institutional reform issues. The practice-informed approach yields insights on the real-world constraints facing market actors and the feasibility of innovative business and financing models. This provides an effective basis for pursuing targeted, impactful policy and market systems change.

Assessments of other investments show that conventional top-down approaches to policy and institutional change alone rarely yield meaningful change in Cambodia. With patchy capacity, reform processes are more successful when development partners are adaptive, responding to domestic reform momentum and providing



more hands-on support translating policy into financed plans and coordination of implementation, and focusing on solving specific problems or delivering tangible outcomes.

Reviews of CAVAC and 3i also find that gender equality, disability and inclusion goals are only achieved when fully integrated and prioritised from the outset into program systems, budgets, culture and performance measurement.

Strategic Intent and Rationale

A central Australian objective in Southeast Asia and the Indo-Pacific more broadly is to support the emergence of sovereign states that act in their citizens interests and cooperate on shared challenges. Economic resilience is a pre-condition to that exercise of strategic and political independence. It is in Australia's interests to support Cambodia's economic recovery and diversification, buttressing its economic resilience and avoiding the closure of its options.

Australia's *Partnerships for Recovery* policy and *Cambodia COVID-19 Development Response Plan* commits us to supporting economic recovery. In Cambodia, COVID-19 and its aftermath threaten to unwind decades of development progress and have eroded human capital, raised household debt burdens and left widespread scarring.

Cambodia's economic development also matters to ASEAN's cohesion and effectiveness, in focus this year as Cambodia takes up the ASEAN Chair. Mekong countries increasingly worry about the 'development gap' in the bloc. A united ASEAN becomes a more distant prospect were the gap to become entrenched in the wake of COVID-19.

Our support also stands to elevate Australia's standing as a valued and influential partner, augmenting an already significant legacy. Senior Cambodian policymakers have asked Australia to forge a new high-level partnership to help shape and implement key aspects of the RGC economic recovery agenda.

In the consultation for the design, a range of likeminded partners (Japan, ROK, USAID, the World Bank, ADB, IFAD, and other UN agencies) indicated a strong interest in collaborating with CAP-RED and concrete options for joint work were identified. This will amplify Australia's development efforts and influence and bolster the view that Cambodia benefits from diverse partnerships.

The Partnership builds on a shared outlook on key economic development priorities and objectives, given the RGC's market-oriented approach to economic development and interest in regional and global integration within the prevailing rules-based architecture.

CAP-RED will be able to draw on Australia's comparative advantages to work in areas that are central to Cambodia's successful diversification such as agricultural modernisation, infrastructure financing, water and the renewable energy transition. Our support will also generate influence to promote effective action on priorities such as gender equality, disability and social inclusion ('GEDSI').

Program Logic, Outcomes and Delivery Approach

CAP-RED's goal is that: Cambodia has sustainable, resilient and inclusive economic growth.

CAP-RED's objectives are:

1. *The Cambodian Government develops and implements policies and programs that are conducive to sustainable and inclusive public and private investment; and*
2. *Cambodian businesses and individuals are better equipped to invest in new market opportunities supporting a diverse and inclusive economy*

CAP-RED will work in three 'domains' in pursuit of these objectives: agricultural transformation; trade, investment and enterprise development, and infrastructure services. It will deliver six end-of-facility outcomes (EOFO), two of which are Partnership-wide outcomes, and four of which will build on workstreams across these inter-related domains.

- EOFO 1: Targeted RGC policies and programs supporting inclusive economic recovery and resilience are informed by robust evidence and analysis and implemented more effectively
- EOFO 2: Market systems and RGC policies are more conducive to women and marginalised groups engaging in profitable entrepreneurial activities
- EOFO 3: Cambodian female and male farmers and agribusinesses sell more higher value agrifoods (crops and processed products) that meet market requirements and are climate resilient/sustainable
- EOFO 4: RGC's trade and investment policies and practices are more supportive of diversified, competitive and inclusive trade and investment
- EOFO 5: Cambodian SMEs (particularly women-led enterprises) in targeted value chains increase market access and sales and evidence is generated on how to better enable enterprise development
- EOFO 6: The quality, reach, efficiency and sustainability of water, energy, and logistics services are improved through increased public and private investment

These outcomes are elaborated further below after a brief explanation of the delivery approach.

Delivery approach

The Partnership will be delivered as a managing contractor-implemented development facility. A facility model will allow CAP-RED to work on inter-related constraints to inclusive growth across different sectors, while managing risk through a portfolio of diverse interventions. It will enable DFAT to focus on strategic direction and policy engagement and provide value for money through the synergies between different program elements, as well as reduced overheads from consolidating programs.

CAP-RED will work with both the private sector and the RGC to identify and implement solutions to constraints to achieving sustainable, resilient, and inclusive growth. It will pursue change through a combination of 'bottom-up' and 'top-down' approaches.

For the bottom-up approach, the Partnership will engage in hands-on problem-solving, working with line agencies and the private sector, focusing on key sectoral-level policy and regulatory issues and market systems problems constraining investment. It will support actors to pilot solutions (new financing models, service innovations, regulatory approaches) to lay the foundation for evidence-based policy reforms and broader scale-up. This will produce tangible results – for example, partnering with the RGC and other donors to expand coverage of piped water networks – but also help catalyse more systematic change.


In terms of 'top-down' support, CAP-RED will establish a responsive 'policy sub-facility' ('PSF'). This will provide technical assistance to key RGC agencies to help translate Cambodia's high level economic recovery strategy into more detailed policy measures and to support management of implementation. It will play a central role in underpinning policy dialogue and positioning Australia as a valued partner to Cambodia in its economic transition.

Top-down and bottom-up aspects will be closely married, with insights from work in the domains providing evidence and insights to inform the high-level policy work (akin to a 'policy lab'). And conversely, work at the domain level will support implementation, providing resources and capacity to pilot new models, convene public-private partnerships and support oversight of implementation.

End-of-Facility Outcomes (EOFO) Briefly Elaborated

EOFO 1: Targeted RGC policies and programs supporting inclusive economic recovery and resilience are informed by robust evidence and analysis and implemented more effectively

This outcome will mainly be delivered through the PSF referenced above. CAP-RED will provide responsive technical assistance to economic agencies to develop, implement, review and strengthen priority policies bearing on public and private investment. This PSF's policy engagement will primarily focus in the three domains, noting the RGC will be aware of Australia's track record and expertise in those areas. Twinning and linkages with Australian institutions (counterpart agencies, universities, think tanks) will be promoted. Work will extend to practical support with implementation (for example, identifying resource needs, coordinating actions across Ministries, co-financing initial pilots) given that is often where problems arise. The PSF priorities and workplan will



be set through a joint process involving senior representatives of RGC economy agencies and the Embassy, based on an agreed set of criteria.

The PSF will also focus on strengthening the RGC's capability to integrate GEDSI into policymaking, including helping to implement gender-responsive budgeting reforms. The PSF will build and communicate the evidence base that a more inclusive economy contributes to growth. It will identify specific constraints to equal economic participation (for example, workplace discrimination and inadequate childcare provision) and measures to resolve them.

EOFO 2: Market systems and RGC policies are more conducive to women and marginalised groups engaging in profitable entrepreneurial activities

This EOFO is a whole-of-program one, with an expectation that work across the entire Partnership flows up and contributes. This includes the work through the PSF noted above to improve RGC capacity to integrate GEDSI into policy and to build a compelling evidence base for more inclusive policy. Within the domains, a range of workstreams will also contribute. Most notably, CAP-RED will focus on solutions to the gendered constraints women often face in growing their businesses, while fostering 'coalitions for change' to push for more systematic change.

GEDSI will be comprehensively mainstreamed through the rest of the Partnership to ensure broader contributions to this outcome. As an example, support for RGC trade policy will focus on the differential effects for various groups (women, rural communities, persons with disabilities, etc) of different potential trade settings and sectoral preferences. The most resources and attention will be focused on gender equality issues, but disability and other dimensions of socio-economic disadvantage will also be integrated.

EOFO 3: Cambodian female and male farmers and agribusinesses sell more higher value agrifoods (crops and processed products) that meet market requirements and are climate resilient

Cambodia's agriculture sector accounts for around a fifth of GDP and is critical to continuing poverty reduction, but growth has stagnated, and practices are unsustainable. A key plank of Cambodia economic recovery strategy is to diversify into high value crops and kickstart the nascent processing sector. A range of challenges – including agricultural financing, market intelligence, logistics, limited availability of key inputs and expert advice, and an absence of quality and certification standards constrains growth.

Building on CAVAC, CAP-RED will work with the RGC and private sector to improve market provision of the technologies, varieties and inputs required for diversification and climate resilience. It will focus on improving the business enabling environment by identifying superfluous regulatory costs, improving access to finance and strengthening RGC efforts to attract private agro-investment. It will provide technical support and resources to establish agro-industry parks to improve competitiveness as well as helping to convene the RGC, private sector and research institutions to develop an agri-food innovation ecosystem.

EOFO 4: RGC's trade and investment policies and practices are more supportive of diversified, competitive and inclusive trade and investment

CAP-RED will help Cambodia to proactively respond to its shifting trade environment (such as the post-graduation loss of preferential tariffs), helping to target and pursue opportunities to improve market access through global, regional and bilateral agreements (GSP+, RCEP, FTAs). It will support more joined up RGC engagement with the private sector and economic diplomacy to improve investment attraction and utilisation of trade agreements.

Linking to agriculture work, it will focus particularly on strengthening Cambodia's 'quality infrastructure' – the standards and certification systems (in areas such as food safety) required for Cambodian exporters to access international markets.

EOFO 5: Cambodian SMEs (particularly women-led enterprises) in targeted value chains increase market access and sales and evidence is generated on how to better enable enterprise development

This component aims to strengthen some of the key enablers for Cambodian enterprises to grow and take better advantage of new market access opportunities. Employing the majority of Cambodians, the fortunes of SMEs are critical to Cambodia, particularly for women, who lead 61 per cent of SMEs.



CAP-RED will help tackle several key constraints that tend to inhibit the growth of many businesses, particularly for women. It will support SMEs to ‘go digital’ – adopting digital production and management technologies and e-commerce channels – key to integration into regional value chains. It may also focus on improving business management and access to finance which are critical for expansion. Support may be through direct engagement with the private sector or by partnering with RGC SME-support initiatives. This component will particularly focus on overcoming specific barriers faced by female entrepreneurs.

EOFO 6: The quality, reach, efficiency and sustainability of water, energy, and logistics services are improved through increased public and private investment

Cambodia has made headway in restoring infrastructure services since the 1990s, but still faces major shortfalls, hindering productivity. The quality of public investment management – in terms of effective planning, financing, design, construction and ongoing operation and maintenance – is also mixed. There are particular gaps in clean piped water provision (53 per cent of villages remain without coverage) as well as post-harvest agricultural infrastructure and logistics (storage, cold-chain, etc).

The Partnership will work with the RGC on an ambitious agenda to rapidly expand clean piped water access, most likely through helping Cambodia to establish and operate an RGC Water Fund to finance expansion. CAP-RED will provide some co-financing to leverage support as well as embedding the financing, regulatory and policy tools successfully demonstrated through 3i.

CAP-RED will also provide technical assistance to support Cambodia to implement its renewable energy strategy (developed with 3i assistance) enabling Cambodia to integrate more renewable energy and increase the competitiveness of energy markets. Finally, the Partnership will work on boosting private sector infrastructure financing, particularly for logistics relating to agriculture and agro-processing, through a range of supply and demand interventions.

Implementation Arrangements

The managing contractor (‘MC’) will be responsible for all aspects of delivering CAP-RED under the strategic direction of DFAT as well as supporting governance mechanisms that include RGC counterparts.

CAP-RED will be adaptively managed. It will work towards the outcomes prescribed in this design, but the outputs and activities initially identified are ‘indicative’, providing a range of potential pathways. Those identified for transition from CAVAC and 3i should continue seamlessly from the beginning of the program, while those in new areas are likely to require further scoping and consultation. The list of indicative activities and outputs in this design is also ambitious and should be seen as a set of options – to be evaluated, prioritised and winnowed.

Accordingly, over the first seven months, the MC (in concert with DFAT and the Steering Committee) will review and validate the program logic. Using set criteria to be developed building on suggestions provided in the design, it will assess the feasibility and priority of the broader list of outputs and activities and adjust as necessary, reflecting this in domain strategies.

This exercise will involve intensive engagement with the RGC, the private sector and development partners, building on the more than 170 consultations over the design phase. It will be important to follow up conversations with key likeminded development partners to bed down identified options for collaboration as well as deconflicting support where relevant.

Throughout implementation, CAP-RED will have ongoing scope to make further adjustments to domain strategies and the program logic based on assessments of what is and is not working (using the Partnership’s M&E systems). Management structures should be established to support this flexibility. The MC will consult regularly with Post, including a nominated Senior Responsible Officer (head of the Embassy’s economic team) on ongoing direction and any proposed shifts.

A High-Level Steering Committee, composed of RGC Senior Officials and senior representatives from the Embassy will meet at least annually to set strategic direction, approve workplans and review progress and engage in policy dialogue on priority issues. This will be supported by technical level coordination between the RGC and CAP-RED (and including DFAT as required) to negotiate the areas and scope of cooperation.



Inception Phase

During an inception phase of nine months, the MC will be responsible for taking forward five streams of work, including: organising transition and handover; establishing management structures, systems and processes; progressing key activities carrying over from CAVAC and 3i; validating the program logic and formulating domain strategies, workplan and M&E framework; and building relationships with key stakeholders. A range of tasks are defined with deadlines at different points of inception (i.e. three, six and nine months).

This will be challenging and require CAP-RED to simultaneously maintain the continuity of the select, high profile CAVAC and 3i workstreams, while scoping activities in newer areas of work, and establishing robust systems. To avoid disruption, key staff covering those workstreams in CAVAC and 3i will be transitioned across.

Policy Dialogue and Private Sector Engagement

CAP-RED will incorporate substantial policy dialogue focusing particularly on the theme of economic diversification. DFAT (including HOM and DHOM) will be integrally involved and often lead policy dialogue. CAP-RED will also facilitate senior economic policy-makers to engage with RGC counterparts – for example, current or retired senior Australian office holders in relevant fields. CAP-RED program staff will also be constantly engaging with counterparts on key policy issues.

CAP-RED will also work with businesses and other market actors (business chambers, sector associations, etc) to understand and address market underperformance, and to overcome barriers to investment and innovation. This will include co-financing with the private sector to demonstrate and de-risk opportunities to ‘crowd in’ investment. Strict criteria will be used for co-financing to ensure fairness and avoid distorting markets.

Monitoring and Evaluation (M&E)

As a relatively complex and adaptive facility, CAP-RED will need effective systems to support learning and inform decision-making, as well as to meet performance evaluation and reporting requirements at the project and portfolio level.


Building on the minimum M&E framework annexed to the design, CAP-RED will develop the overall M&E approach including a Performance Assessment Framework. The draft M&E Framework will be updated in line with decisions about the prioritisation and focus of the program and individual domains. The system will be designed to answer key evaluation questions including how well CAP-RED has been managed for impact; the extent and nature of improvements in policy and market systems; and how CAP-RED has contributed to the bilateral relationship and public diplomacy. The selection of indicators, targets, data sources should follow from those questions. Given the policy and systems focus of the program, the M&E system should enable collection of a range of evidence, but avoid rigidity or over-reliance on a large number of quantitative indicators (which will require honing the current draft framework). It will also need to develop approaches to issues such as evaluation contribution, systems change, and value for money.

An independent Quality and Technical Assurance Group (QTAG) will be established to provide additional oversight and advice to the implementing team and DFAT on effectiveness and strategy, including on GEDSI issues.

Gender, Disability and Climate Change

GEDSI will be a central priority for CAP-RED as reflected in EOFO 2. In addition to the specific activities focusing on GEDSI outlined above, GEDSI will be comprehensively mainstreamed. A GEDSI screening tool will be adopted to consider gender dimensions in any areas of engagement and the potential differential impacts for women, girls and persons with disabilities. Based on this analysis, activities will be designed to ameliorate specific constraints and promote greater inclusion and progress monitored through the M&E system. GEDSI will also be institutionalised in the leadership, culture and governance of the program (including in performance assessment) and resourced appropriately.

CAP-RED will also treat climate change (and disaster risk reduction) as a cross-cutting issue to be integrated across the program. Its interventions in the agriculture and infrastructure domains will be particularly salient, including



strengthening Cambodia's capacity to integrate renewable energy, improving the sustainability and climate resilience of farming, and improving Cambodia's water security.

Budget and resourcing

CAP-RED is designed as a five-year program with an option for a three-year extension. The proposed resource envelope is AUD87 million in the first phase and up to AUD57 million in the extension period. This will include agreed co-funding by the Mekong-Australia Partnership. Conversations are ongoing with New Zealand about supplementing funding. Investment components of the program will be able to leverage considerable funding from the private sector and other development partners, potentially well beyond CAP-RED's own budget.

Given the adaptive approach to programming, a definitive split is not proposed between different activity costs (e.g. technical assistance, grants, infrastructure, etc). However, an indicative framework budget is provided identifying a likely split between staff, operational and activity costs.

The existing Post establishment will manage the program taking up approximately 55-65 per cent of the economic team's effort (3 A-based and 6 LES). The consolidation of programs into CAP-RED creates efficiencies that will allow the team to focus on strategy and policy dialogue (rather than the administration of managing multiple programs). The MC may make dedicated expert resources available to DFAT to support policy dialogue.

Procurement and partnering

DFAT will procure a Managing Contractor through a two-step open and competitive tender process (the first step has already been completed following AGB endorsement of the Concept Note).

The Managing Contractor will work with and through a range of domestic and international partners. Procurement will be in accordance with Australian legislation and Commonwealth Procurement Rules. There will be an emphasis on building enduring linkages between Cambodian and Australian institutions.

Risk management

CAP-RED represents a step-change in engagement with RGC in the economic sphere, bringing with it reputational risks which will need to be carefully managed through clear public messaging and circumscribing our support - judiciously choosing which parts of the RGC to work with and on what issues.

The Partnership has also been designed flexibly. This will allow resources to be shifted from policy engagement to private sector development should RGC commitment to policy reform prove less robust than expected or problems in the bilateral relationship preclude close government-to-government engagement. This could entail directing more resources to infrastructure and value chain development.


Working with the private sector also entails risks given governance challenges in Cambodia. Robust criteria will govern decision-making about private sector partnerships, including to avoid market distortions.

CAP-RED will also put in place comprehensive fraud and safeguard policies aligning to DFAT standards and building on the effective systems employed by CAVAC and 3i. Based on previous risk assessments, CAP-RED will not procure through RGC's financial system or provide budget support, although it may provide parallel co-financing.

B. Development Context and Situational Analysis (What problem are we addressing?)

Cambodia faces a difficult and uncertain economic transition to middle income status

Following the peace process and subsequent political stabilisation in the mid-nineties, **Cambodia has experienced more than two decades of strong growth** – best characterised as a peace dividend or 'catch up' period. With security guaranteed, donor financing supported the reconstruction of backbone infrastructure networks, basic social services and state functions were established, smallholder agriculture expanded, the rural-urban divide contracted, and Foreign Direct Investment (FDI) into tourism and later manufacturing and construction buoyed economic growth.



However, coming off such a low base post-Khmer Rouge and subsequent civil war years, **Cambodia remains the second poorest country in ASEAN (USD\$1544 GDP per capita in 2020) and poorest in purchasing power adjusted terms.** Before the COVID-19 pandemic, 42 per cent of the population were poor or near poor. Childhood malnutrition is very high and Cambodia lags on other measures, ranking 146th on the Human Development Index, a post-pandemic drop after impacts on schooling and national income.

Cambodia ranks 103rd (out of 156 countries) on the World Economic Forum's Gender Index (dropping from 89th in 2020¹) and is the lowest ranked among neighbouring Laos (36th), Thailand (79th), and Vietnam (87th). While women have high labour participation rates and lead most smaller businesses, they are disadvantaged in access to education (particularly post-primary), higher-paid jobs, and business opportunities. Female workers are more likely to be engaged in unpaid or insecure employment, and gender-based violence and workforce sexual harassment are widespread. Only 52 per cent of people with disabilities are employed and face a range of other inequities.

As Cambodia shifts from least developed to middle income status, **its current growth model is becoming increasingly unsustainable, posing a risk to its ongoing economic transition.** Despite a strong government response (Box 1), **COVID-19 has underscored the model's weaknesses.** Economic growth is heavily reliant on FDI (with increasing concentration of investment from China) and clustered in a narrow band of sectors (garments, construction, tourism, agriculture). This jeopardises economic resilience, evidenced by the downturn caused by the pandemic-driven collapse of tourism and slowdown in construction. COVID-19 also demonstrated the fragility of women's economic gains, disproportionately affecting the economic activities where many Cambodia women derive incomes (including as migrant workers), while bringing significant increases in gender-based violence and unpaid domestic labour (elaborated further below).

The private sector is dominated by foreign owned companies mainly in export-oriented businesses (primarily the garment sector), as well as construction, operating in an enclave fashion with minimal linkages or beneficial spillovers to local firms or employees. Most nationally-owned businesses are informal Micro and Small to Medium Enterprises (MSMEs/SMEs), primarily in service sectors. As a result, while there are some politically well-connected larger conglomerates, there is a 'missing middle' with most small Cambodian businesses not expanding into more sizeable operations. This current economic structure reduces the prospects for technology transfer and, consequently, for Cambodia to shift towards more complex and higher value-added production.

The basis for external competitiveness is also eroding. Wage growth in the heavily dollarised economy is making low-skill, low-wage manufacturing increasingly unviable. While Cambodia is a very open economy, its goods exports are **highly dependent on preferential trade access, due to be phased out** after a grace period following the transition from Least Developed Country (LDC) status (phase out will occur from 2027). Further, persistent gaps in physical and institutional infrastructure impede broad-based responses to opportunities created by global and regional integration.


Box 1: Cambodia's COVID-19 Crisis Response

The Royal Government of Cambodia's (RGC) pandemic response has included vigorous efforts to contain transmission of the virus and a rapidly accelerating vaccination program (at the end of November 2021 83 per cent of the population had had two doses of vaccine). Fiscal responses have included large-scale cash transfers to the poorest households, wage subsidies, tax relief, and concessionary finance for the private sector. Expenditure on COVID-related relief measures amounted to an estimated 3.0 per cent of GDP in 2020 and 4.9 per cent in 2021, with a further expenditure amounting to 3.4 per cent of GDP planned for 2022. These fiscal measures have largely been financed by savings elsewhere in the budget and have been accompanied by an accommodative monetary policy.

The COVID-19 pandemic triggered the first contraction in gross domestic product (GDP) that Cambodia has experienced in 30 years, estimated at around 3 per cent in 2020. The pandemic and associated closures have had a substantial effect on jobs and poverty. A World Bank survey² found that around 50 per cent of respondents reported declines in income over the 3 months to March 2021, and by October 2021 nearly 20 per cent of all

¹ WEF, (2021)

² World Bank Cambodia Economic Update, December 2021



households were receiving cash transfers, targeted through the 'ID-Poor' system which was established with Australian assistance over a decade ago. A range of studies showed that a high proportion of Cambodians resorted to negative coping strategies such as reducing basic consumption and selling productive assets. These effects are particularly felt by women and the aged, with a 2020 Action Aid study finding that 97 per cent of female informal workers reported an average 58 per cent decrease in income due to COVID 19³. The World Bank estimates that school closures triggered by the pandemic will lead to a loss of 1.5 years of learning adjusted schooling for the current student cohort.

Despite rapid industrial and service sector growth, Cambodia **remains a strongly agrarian economy**, dependent on low-productivity agricultural activities. Three quarters of the population and 90 per cent of Cambodians classified as poor live in rural areas. Up to 2012, the agriculture sector grew rapidly and accounted for two thirds of poverty reduction, spurred by market liberalisation and an expanding land frontier. But in the absence of more systematic investments in agricultural modernisation and diversification, productivity increases have only offset rapid rural-urban labour migration, leaving sector growth flat, and posing the risk that the rural majority are increasingly left behind. Recent studies suggest significant potential for the nascent agro-processing sector to become a growth driver, helping to better integrate rural and urban economies. However, realising that potential hinges on addressing critical challenges created by absent or expensive and unreliable infrastructure and utility services.

Cambodia is also very exposed to climate change, exacerbated by regional competition for shared water resources. Cambodia ranks 152 out of 182 countries for climate vulnerability and adaptive capacity⁴ with 2015 estimates noting adverse climate impacts had caused losses equivalent to 10 per cent of GDP.⁵ The Mekong River and Tonle Sap Basin are under serious stress from cumulative over-development (including exploitation by upstream countries) and climate impacts. Climate change poses serious risks for agricultural production and water and food security, contributing to mounting infrastructure repair bills, major health impacts and loss of wetlands biodiversity and ecosystem services. These changes will disproportionately affect the most vulnerable, including rural communities (and indigenous people) with limited adaptive mechanisms who are reliant on natural resources.

Gender inequality poses a challenge to inclusive growth

Ensuring equal opportunities for economic participation of all Cambodians is key to establishing an inclusive growth path. Despite the intentions of RGC's fourth *Strategic Plan for Strengthening Gender Mainstreaming and Women's Empowerment* (Neary Rattanak IV), gender equality tends to be treated as secondary to the pursuit of growth. This relegation is likely to have actually curtailed economic growth: a forthcoming World Bank study indicates that closing gender employment gaps would by itself increase per capita GDP by 6.2 per cent.⁶

Cambodia does not have the rigid limitations on women's agency and economic participation present in some countries at similar levels of national income, and rates of participation in employment are comparatively high. However, deep-rooted cultural norms and practices disempower women, placing limits on their career or the extent of their entrepreneurial ambitions and reinforcing attitudes towards policy-making that overlook systemic impediments to women's economic empowerment. Significant disparities across key indicators of well-being, opportunity and voice which reflect prevailing norms as well as explicit, formal disparities in opportunity.

The nature and underlying causes of gender inequality in Cambodia are discussed in detail in Annex A. Key features and drivers of inequality include:

- Female workers are more likely than men to be in unpaid or insecure employment
- Women earn substantially less than men, but the earnings gap narrows with the attainment of upper secondary and tertiary education

³ ActionAid Cambodia (2021). Rapid Assessment: Socio-Economic Impacts of COVID-19 on Workers in Informal Sector of Cambodia

⁴ Notre Dame Global Adaptation Initiative (ND-GAIN). A global index ranking countries vulnerability to climate change and readiness to improve resilience.

⁵ Cambodia: Climate Risk Profile Assessment, USAID, 2019.

⁶ Pennings, World Bank, Forthcoming.

- Women own 61 per cent of businesses in Cambodia, but only three per cent of the nation's women entrepreneurs have access to formal business credit
- Cambodia has a low representation of women at all levels of legislative and executive bodies
- The burden of unpaid work falls mainly on women
- Gender-based violence is widespread
- Many women face sexual harassment at work.

Women have also been particularly affected by the COVID-19 pandemic. A study found that women in rural communities had increased their time spent on unpaid care and domestic chores from 3 hours to 4-6 hours a day and had increased economic vulnerabilities.⁷ Hundreds of thousands of primarily female manufacturing workers were affected by factory closures or suspensions. In the informal sector, almost half of women reported losing having lost their job, compared to one in five men⁸. The pandemic has also impacted approximately 90,000 returning migrant workers who face challenges accessing the domestic labour market in a contracted Cambodian economy. Women migrant workers reported experiencing violence during return travel and in quarantine.

More broadly, the COVID-19 pandemic has amplified the existing pre-conditions of inequality for other marginalised and intersecting groups. People with disabilities, the elderly and marginalised rural communities are more vulnerable to the economic shocks caused by COVID-19, in part due to limited access to social protection schemes. People with disabilities have faced income insecurity, and experienced increased health risks due to difficulty in enacting social distancing; for example, many depend on caregivers to access health care.⁹

More effective and inclusive institutions that enable higher quality investment are critical to transition

With its traditional sectors destabilised and recovery uncertain, **Cambodia is taking more seriously the need to adjust and upgrade its growth model**, encouraging more diversified, more complex, and higher value-added production, integrated into regional and global value chains, with stronger linkages to domestic financing and businesses. This is reflected in the RGC's overarching *Rectangular Strategy for Growth, Employment, Equity and Efficiency*, now in its fourth phase, and underlined in Cambodia's *Economic Recovery Strategy 2021-23* ('ER Strategy'). The Rectangular Strategy lays out a strongly market-oriented approach to economic development, and focuses heavily on human resource development, economic diversification, promotion of private sector development and employment, and inclusive and sustainable development. More detailed articulation of the RGC agenda is laid out in the *National Strategic Development Plan* and sectoral strategic documents, such as the *Cambodia Trade Integration Strategy IV* and the *Industrial Development Policy*, draft *Agriculture Sector Master Plan* and *Strategic Plan for Agro-Industry Development*.


Diversification of Cambodia's economic structure to reduce the risks associated with the narrow and low-productivity sectoral base requires investment by governments, businesses, and households, in physical, and human capital, and in institutional capabilities. Economic recovery is predicated on new public and private investment, in circumstances where global interest in emerging markets will be constrained and development financing for the public sector will tighten. Fortunately, Cambodia's public finances are in good shape and with revenues amounting to 20 per cent of GDP, its revenue system performs well relatively to developing country peers. Nonetheless, Cambodia may need to provide a more compelling 'offer' if it is to attract the broader investment required for future recovery and inclusive growth.

Existing frameworks, institutions and aspects of the political economy negatively affect the quality of public investment and the incentives for efficient foreign and domestic investment. Of concern, they create barriers for greater investment by small domestic enterprises, impacting women entrepreneurs and the informal businesses

⁷ UN Women (2020c).

⁸ ActionAid Cambodia (2021). [Rapid Assessment: Socio-Economic Impacts of COVID-19 on Workers in Informal Sector of Cambodia](#). ActionAid Cambodia.

⁹ [Access Cambodia](#)



run by poor. Low levels of investment in human capital loom as a major constraint to improving productivity and the distribution of the benefits of growth.

Cambodia does not just need more investment – it needs more ‘quality investment’. That is, investment that is productive, economically efficient, and financially sustainable and contributes to economic transformation (for example, through technology transfer, skills development, and impetus for diversification). Investment must also be inclusive, creating broad benefits (such as income generation) for women, people with disabilities and other marginalised groups. Further, to avoid creating vulnerabilities to shocks and benefit from integration with the world economy, Cambodia must create an enabling environment that allows investments from different sources to compete on their economic and social merits.

Attracting quality private sector investment requires tackling a range of constraints through a mix of better public sector investment and a more conducive enabling environment. Some important examples include the following:

- **Well-targeted and efficient investment in development and management of infrastructure services** to improve access and reliability and reduce production and logistics costs (and increasingly, meet industry commitments to decarbonisation).
- Developing **regulatory functions** that achieve well-considered regulatory goals while facilitating access to services and competition and enabling market participation by all community segments.
- **Efficient provision of market-enabling public goods and services** such as standards and certification systems (for example, food safety), trade facilitation functions, legal and judicial systems underpinning contracts and property rights, and laws (for example, to enable digital transformation).
- **Enabling market-based solutions to current market system deficiencies**, such as impediments to economic coordination, missing market elements, resolution of challenges to information dissemination (such as for technological change and market requirements), practices that discriminate based on gender and ethnicity, shallow and non-inclusive financial markets, and absence of mechanisms to spread and mitigate risk.
- **Ensuring consideration of gender equality and inclusion is mainstreamed** across all elements of policy analysis and formulation, and infrastructure development and delivery, so that assessments of policy and program impacts consistently consider gendered effects and contribution to inclusion objectives.

Three domains intersect most strongly with DFAT’s comparative advantage in Cambodia


The above concerns apply to most aspects of Cambodia’s growth and development agenda. Given the RGC’s reform agenda and that overarching policy settings and public investments will be critical to providing an enabling environment for quality private investment, CAP-RED proposes to offer flexible and responsive technical assistance on economic policy issues prioritised by the RGC. This will help ensure that policies and programs for Cambodia’s economic recovery strategy are robust, evidence-based, and inclusive. This element of the Partnership is explained later in the design.

However, to ensure focus and impact, CAP-RED will focus most of its efforts in addressing constraints to quality investment in three selected domains: agricultural transformation; trade, investment and enterprise development; and improving infrastructure services. The reason for these choices is explained later in the Strategic Rationale section (Section D).

What follows is a brief explanation of the key challenges in each of the three domains, challenges that CAP-RED will seek to address in partnership with the RGC and other development partners.

Agricultural transformation

The imperative for policy and market system change is particularly acute in Cambodia’s agriculture sector, where many Cambodians remain locked in low productivity activities. Up to 2012, the agriculture sector grew rapidly, accounting for two thirds of poverty reduction, propelled by market liberalisation and an expanding land frontier. Rice, cassava, and rubber have become major Cambodian exports.



Since then, with rapid urbanisation and labour migration, productivity has increased through widespread adoption of mechanised technology, **but production and sectoral growth has flattened**. Some diversification has continued with increased production of crops such as mango, cashew, and pepper. While analysis suggests that Cambodia could have strong comparative advantage in high value agriculture and that the transition could (if accelerated) provide an important driver for rural uplift¹⁰, RGC's ambition to transition to high value crops that generate greater commercial returns for farmers remains largely unrealised.

Moving to higher value crops and more commercial production hinges on farmers—who have limited resources or safety net and are often already indebted—making unfamiliar and risky investments. This requires specific knowledge, skills, services, and access to finance and reliable markets, factors that are challenging in a Cambodian context. Key issues include:


- **Lack of agricultural skills and limited technical support**, which reflect capacity and institutional weaknesses in public sector provision of extension and other services, and the underdevelopment of regulatory and research and development systems to introduce and adapt new varieties and technologies, and incentivise a stronger contribution from the private sector
- Underdevelopment of wholesaling, aggregation and logistics services **impeding the role of the formal private sector in developing and transmitting information about standards and market demands**, alongside limitations of public sector structures to underpin implementation and compliance with regional and global standards. This underdevelopment contributes to difficulties in coordinating markets, making it hard for farmers to identify and respond to market demands. The **underdevelopment of Cambodia's agro-processing sector** creates risks of seasonal over-supply increasing price volatility. This has been exacerbated during the pandemic.
- **Relatively high cost and limited availability of quality inputs** such as seeds, fertiliser, farm materials, irrigation systems, and machinery (and insufficient capacity for maintenance), along with inadequate access to affordable and well-targeted finance. Some of these costs relate to formal and informal compliance costs, negatively impacting competition.
- **Inadequate physical infrastructure** limiting internal and external connectivity for locations with agro-climatic potential. Poor road and inland waterway infrastructure and associated logistics services make it hard to respond to market requirements. Limited access to reliable water and irrigation services for non-rice crops constrains development of the horticulture sector.
- **Risks created by uncertain property rights** and lack of accessible mechanisms to seek redress when rights are violated
- Lack of institutional and regulatory infrastructure to support **quality and safety control**, affecting access to external markets as well as the ability to supply formal segments of the domestic market (for example, supermarkets and tourism).

A concerted effort is needed to progressively resolve these constraints, involving policy changes and interventions in various areas, as well as contributions by the public and private sector and development partners. In its absence, **Cambodia risks a growing urban-rural divergence** (reversing a period of convergence from 2007-14) leaving the rural poor behind as Cambodia's broader economy grows.

The pandemic has instilled in the RGC a newfound urgency to develop the agriculture sector, as reflected in its recently released Recovery Strategy. Australia's current agricultural support program – the Cambodia-Australia Value Chain (CAVAC) program – has been working closely with the RGC on various reform initiatives including on quality seed, value chain studies for high value crops, mechanisation, agro-investment, quality standards and agro-industrial parks. This renewed energy and collaboration provides a basis for constructive engagement in the sector.

There are serious questions about the sustainability of Cambodian agricultural practices. Huge tracts of Cambodian forest have been felled, replaced by root-crops (Cassava) which quickly sap soil nutrients, requiring ever-increasing amounts of chemical fertiliser to sustain yields. This quickly reduces profitability and will likely lead to desertification and further deforestation as farmers search for new productive land. The Australian Centre for International Agricultural Research (ACIAR) has produced a body of research identifying and piloting sustainable

¹⁰ World Bank Study 2015, SNEC Study through Arise; ADB Study



and profitable strategies for cultivating both upland and low land crops, including crop rotation, diversification, reduction in tillage and input use, that could be scaled up.

Climate change is also creating serious challenges for Cambodian agriculture. Increased climate variability makes decisions such as the timing of planting and harvesting increasingly fraught, as well as increasing vulnerability to pests and diseases. With that variability, access to reliable, year-round water sources is also diminishing, requiring improved forecasting and modelling tools, effective policy and regulatory frameworks, and well-targeted investments in water infrastructure to boost water security. Cumulatively, the increased variability and uncertainty reduce household resilience – already vulnerable farmers stand to more frequently lose crops, leaving unpaid debts from input costs, likely resulting in negative coping strategies (e.g. selling assets, reducing nutritional intake, etc).

While the agriculture sector represents around 20 per cent of GDP, **agro-processing only accounts for 1.5 per cent of GDP, compared to an ASEAN average of 4.5 per cent, reflecting a gap and opportunity.** Cambodia's Industrial Development Strategy has long targeted agro-processing, but with little meaningful policy support implemented. Emergence of the sector has also been inhibited by intense competition from regional neighbours (Vietnam and Thailand) that have more efficient production (particularly in energy costs), a stronger skills base, and better logistics. With porous borders, farmers sell their crops to foreign buyers who informally export for processing in neighbouring countries. Foreign buyers are usually able to pay ready cash at harvest time when farmers need money, while local processors lack access to trade finance.

For the sector to attract investment, more supportive policy settings will be required, including allowance for cheaper electricity, improved logistics, streamlined regulatory compliance and cost-effective quality infrastructure (i.e. systems for testing and certification to meet export standards) and a local ecosystem and skills base for product innovation and production. Coordinated policy action undertaken in the past by countries such as Thailand to create such enabling condition provides instructive lessons for Cambodia.¹¹

The RGC is currently working closely with CAVAC to establish an economically competitive model for agro-industry parks including identifying required services (for example, on-site solar generation) and optimal regulatory settings. Given the serious regional competition, to be viable, domestic processing will have to focus on specific niches, rather than bulk commodity processing.

Accelerating integration and accessing higher value markets


Cambodia is a relatively open economy, and **the RGC views international trade and investment and regional integration as a central pillar of its growth strategy.** For example, in 2021, the Cambodian Government entered into Free Trade Agreements (FTAs) with China and the Republic of Korea and was among the first signatories to ratify the Regional Comprehensive Economic Partnership (RCEP) agreement.

However, **Cambodia typically adopts a defensive approach to negotiations,** rather than strategically using agreements to cement improvements in the national trade and investment architecture and generate new market opportunities. This reflects a frequent lack of understanding of what is being negotiated, limited consultation with the private sector and academic and research institutions, and weak inter-ministerial cooperation. These tendencies mean Cambodia is largely unprepared for the resultant gradual withdrawal of LDC-specific benefits resulting from its LDC graduation, including preferential access (through 'Everything But Arms') for Cambodia's five top export markets and Aid-for-Trade grants.

Once the momentum of negotiation and ratification has lapsed, insufficient attention is paid to implementation resulting in delays, missed opportunities, and a constant need for legal and regulatory catchup. Limited engagement with the private sector results in low uptake of FTA opportunities, exacerbated by lack of publicly available information on the Agreements.

Emergent sectors such as agro-processing, electronics and wood processing are **hampered by a failure to implement market enabling services and address 'behind the border' barriers** (for example, conforming national industry standards and quality infrastructure to enable exports). Access to technology and technology transfer has been limited, as the largest investments from China and Republic of Korea are geared towards value addition in

¹¹ Reference WB study; Agro-Industry Analysis by CAVAC, + ADB study.



their own or other jurisdictions. Cross-border trade facilitation has received support from the RGC and donors in implementing the WTO Trade Facilitation Agreement and the ASEAN Single Windows initiative. However, persistent bottlenecks continue to affect Cambodia's competitiveness in bringing goods to markets, as evidenced by the limited availability and low professionalism of logistics, freight forwarding and distribution services, warehousing, and cold chains.

Similar challenges with implementation need to be addressed for the recently passed *Law on Investment* (LoI). To attract FDI inflows into emerging sectors it will be important to promptly introduce necessary regulations and arrangements, to undertake effective outreach to investors on the opportunities, to reform the approach to Special Economic Zones which have not proved sufficiently attractive to overcome other perceived obstacles, and to boost capacity in key Cambodian agencies including to provide 'after care' encouraging the execution of approved investment proposals.

Despite these challenges, there are **promising signs of sectoral and sub-sectoral diversification** with significant growth in travel goods exports and the early emergence of light manufacturing including packaging, bicycles, vehicle parts, wiring and electrical components. Since Cambodia now has a foothold in these sectors, it will be important to form a more comprehensive understanding of the constraints that firms operating in these sub-sectors face to scaling up and the key policy levers for accelerating growth including trade and investment policy.

The RGC is also pinning its expectations of economic recovery on Cambodia's increasing participation in the digital economy. The capacity of Cambodian companies to take advantage of new trade and investment opportunities is increasingly contingent on their adoption of digital technologies in all aspects of business – from sales, to production technology and to providing greater transparency of value chains. The *Cambodia Digital Economy and Society Policy Framework 2021–2035* addresses many aspects of the digital transition, but the RGC and the private sector still faces challenges finding ways to drive ICT usage to support improved efficiency and competitiveness in an inclusive manner. Stronger public-private dialogue on technology and digital transformation would be helpful in this regard.


There is a need to **tackle demand-side issues with relatively low levels of digital literacy and adoption of digital technology, including industry 4.0 production technologies and digital payments.** The problem reflects broader issues associated with the structure of Cambodia's private sector and a multitude of micro, small and medium sized enterprises (MSMEs), many of which operate informally. Even in urban areas where e-commerce is growing and digital financial services are becoming increasingly available, cash (and cash-on-delivery) is often preferred. At the same time, several supply-side factors seem to hinder demand, with merchants having little incentive to accept cashless payments. Innovation in some segments of the market, such as payments aggregation, gateway, and other back-end services, is currently limited.

Cambodian SMEs also frequently lack access to the knowledge and competencies needed for growth. Often, they have core competencies relating to their business line but lack other business capabilities (such as accounting, strategy, marketing, and product innovation), impeding their ability to access affordable business financing, to attract investment (given investor requirements for demonstrated corporate governance), and to integrate into regional value chains. A larger skills base supporting these functions needs to be developed. These issues are especially relevant for women-led SMEs, which constitute 61 per cent of the total, but cluster around the micro and small segment.¹²

At the same time, Cambodian finance has become increasingly concentrated in the real estate sector in recent years and regulations and practice favour (property-based) collateralized lending. More analysis is required on the supply side and market systems issues impeding business lending – likely including absence of robust credit score systems, securitization regulations and enforceability and bank capabilities. Recent RGC initiatives such as the SME Bank program (through commercial banks) and the Credit Guarantee Corporation of Cambodia are promising initiatives which may provide platforms to build on.

While adequate and affordable business finance is an important issue (and there are similar challenges for infrastructure and agricultural finance) it is against a backdrop of a relatively large (banking and micro-finance)

¹² Refer to IFC Study and note in the outcomes that will need particular approaches for women / focuses (around networks and mentorship).



financial sector, and high levels of private borrowing, which has increased significantly during COVID-19 (52.9 per cent during 2020-21). With a relatively weak capacity for prudential oversight, and high levels of dollarization, the regulator would have limited ability to intervene in a crisis. High levels of private debt could constrain growth and investment if households and firms seek to deleverage, including in response to any shifts to a less accommodative monetary policy. These risks should be taken into account in CAP-RED's engagement in this space.

Accordingly, some of the key issues to be addressed include:

- Developing and prosecuting a trade strategy in preparation for LDC graduation and the loss of trade preferences.
- Managing the inter-ministerial coordination challenges in achieving regulatory coherence and compliance with key international commitments.
- Helping the SME sector (and particularly women owned and managed SMEs) build capabilities that enable the formalisation required to access services (such as finance) and adopt digital technologies, while also tackling supply-side issues to increase the availability of finance to SMEs
- Supporting the RGC and private sector to tackle behind the border constraints including strengthening Quality Infrastructure¹³ services to enable Cambodian firms to expand sales to domestic and export markets.

Improving infrastructure services

Cambodia has taken important steps towards restoring infrastructure services since the 1990s, making progress on the national roads, electricity access, urban water supply, mobile telecommunications networks, airports and ports. Despite this progress and a relatively high proportion of public expenditure on infrastructure, Cambodia still faces significant infrastructure shortfalls compared to regional peers ranking 106th on the World Economic Forum Infrastructure Index. The Global Infrastructure Hub estimates that **by 2040, Cambodia will face an investment gap of roughly USD28 billion** across transportation, water, energy and telecommunications sectors. Infrastructure in peri-urban and rural areas including roads, water supply, broadband, train services and inland waterways remain particularly underdeveloped.


With a projected decline in access to concessional financing as it graduates from LDC status, Cambodia will need to rely increasingly on private sector financing to cover this gap. However, the overall policy and regulatory framework for the promotion and development of private sector investment in infrastructure are weak.

Institutional arrangements for public private partnerships (PPPs) are nascent (a new PPP Law was passed in late 2021) and regulatory frameworks in several sectors are not yet conducive to private sector investment. PPPs (mainly in the energy sector) are currently procured with limited transparency or competition, reducing efficiency and quality. Financial markets for infrastructure are also rudimentary, such that private sector operators of infrastructure find it difficult to attract capital to expand networks or improve service provision.

Systems for public investment management (PIM) also tend to be limited in Cambodia undermining the effectiveness and efficiency of expenditure. While sectoral planning is stronger, other upstream aspects such as project selection, feasibility and procurement, and downstream elements such as asset management and maintenance are poorly funded and executed. **Incentives skew bureaucratic energy towards delivering new projects rather than a system emphasis** that focuses on the overall design and operation of infrastructure networks. Capacity to factor climate change and disaster risks into infrastructure development is also limited. The RGC has recently agreed a comprehensive *Public Investment Management System Reform Strategy (2019-25)* which aims to bolster performance across the project life cycle, but improvement in practice is likely to be a long and painstaking process.

Regulatory oversight is relatively undeveloped in several infrastructure sectors, limiting the quality of services and in some instances failing to limit the power of monopolistic utilities. This limited institutional capacity to promote competition and to impose efficiency and access requirements on commercial interests results in higher-cost

¹³ Quality Infrastructure here refers to the ecosystem of institutions and legal and regulatory frameworks enabling entrepreneurs to demonstrate the quality and safety of goods and services.



services and limited incentives to expand infrastructure to the poorly served. Informal fees also increase costs, for example in the logistics sector. **Cambodia's current skills base is also a generally limiting factor.** There is inadequate human capacity to perform a range of functions relating to infrastructure development and ongoing service delivery to a high standard—from policy setting through to operating utilities.

While Cambodia's infrastructure services continue to improve, these difficulties cumulatively mean there are major gaps in infrastructure services; many services are not delivered reliably or to a high standard; and services such as electricity and logistics are comparatively expensive (although importantly to the digital economy, data services are cheap). Each of these factors (particularly the cost of electricity) **reduces Cambodia's attractiveness as a destination for investment in more complex and intensive economic activities and its capacity to successfully integrate into regional value chains.**

Increasing access to piped water

At present, around 53 per cent of Cambodian villages remain unconnected to piped water networks, which are constructed and operated by private water operators in peri-urban and rural areas. Current policy settings and practices (tariffs, licensing regimes and business models) fail to provide sufficient incentives for expansion to meet Cambodia's goal of universal coverage by 2030 and realise Sustainable Development Goal Six (Water and Sanitation). Provision of clean, piped water is important to health and education, gender equity (through the effect on household labour), and economic development in rural areas as an input for businesses.

Following the passage of a 2020 Water Law, the Ministry of Industry, Science, Technology and Innovation (MISTI) is responsible for the quality of water services. However, MISTI faces challenges in performing relevant functions (standard setting, provision of capacity support to water operators, and monitoring and enforcement).

More broadly, **the RGC does not systematically manage water resources.** Water is plentiful in aggregate, but availability fluctuates seasonally and across regions, requiring effective management strategies, tools and investments to ensure water security. While some efforts are being made to improve management, this is hindered by institutional cultures that impede cooperation between five ministries responsible for different aspects of water resource management, and an emphasis on projects rather than system management.

Improving access, quality, and affordability of energy services

The expansion of electricity networks over the last decade has been rapid, now connecting 91 percent of Cambodians (2019) (up from 31 percent in 2009).¹⁴ Prices have come down, but **electricity remains comparatively costly, discouraging industrial diversification.** Institutional arrangements are an important cost driver, with generation usually procured from large Chinese State-Owned Enterprises (SOEs) without competition or transparency. The regulator lack power to check state-owned utilities, which also discourages industrial users from installing rooftop solar. With heavy reliance on hydropower, reliability is becoming an increasing problem as climate change and upstream exploitation affects river flows.


Recent comprehensive modelling and analysis (produced through the **Investing in Infrastructure** (3i) program) indicates **Cambodia could meet demand and reduce costs by investing in solar and wind** together with ancillary services. Having recently signed a no new coal pledge, an internal debate is underway regarding the pace of shift to renewable generation. Garment manufacturers (RE100) are also pressing for a transition to enable them to meet corporate zero carbon pledges. As well as complex vested interests, Cambodian policymakers' views that shifting to renewables presents overly difficult technical challenges and risks (particularly to grid stability) discourages the transition.

Addressing the logistics deficit

Recent analysis of Cambodia's logistics performance suggests various challenges and areas for improvement.¹⁵ There are some large ticket infrastructure gaps that inhibit the efficiency of the system. The RGC is currently investing in addressing a number of these, including major expressways and a deep seaport, but has no proximate

¹⁴ <https://data.worldbank.org/indicator/EG.ELC.ACCS.RU.ZS?locations=KH>

¹⁵ Insert reference to Logistics masterplan and studies that informed it (e.g. WB and JICA)



plans for others (rail and inland waterways). A multimodal transport and logistics plan has been developed listing 300 projects and a price tag of \$35 billion¹⁶ and PPPs are under development for some key logistics investments (e.g. fulfilment centres in Phnom Penh and Sihanoukville). As well as physical infrastructure, logistics performance is hampered by a lack of availability of skilled professionals, as well as heightened costs.

At a micro level, there is a **shortfall in various enabling logistics required for diversification into new sectors**, including high value agriculture and agro-processing. Those (and other prospective sectors) require post-harvest facilities (e.g. drying, storage and warehousing, cold chain, treatment and packaging). Typically, the private sector would finance such small and medium-sized investments, but in Cambodia those services are absent. This reflects the challenges of nascent sectors (e.g. high value crops/agro-processing) in a frontier market. Risk premiums are high, demand is unproven, prospective investors lack familiarity and confidence, and domestic banks require land as collateral. Interventions are needed to de-risk investments and crowd in private investment.

The challenges of Cambodia's political economy and institutional capacity

The Government's extensive array of development strategies and policy statements capture many of the elements of what is required to shift to a more resilient and inclusive private sector-driven model. But their translation into effectively resourced and implemented programs and state functions is complicated by the political economy and capacity of the Cambodian State.

The space for non-government organisations, media, and wider civil society to operate in Cambodia has narrowed in recent years, and along with it, accountability for government action. The interaction between the government and commercial interests can distort the way in which the state regulates and collaborates with the private sector and can undermine the efficiency with which public projects are conceived, designed and implemented. The resulting emphasis on creating and extracting rents from large public projects, can distract attention from the quality of the projects or pursuing broader reforms to improve performance of the system. This can also exacerbate the tendency towards siloing of the public sector, as it diminishes incentives to share oversight and control over projects).

Regulation becomes an opportunity for rent extraction, limiting scope to reduce compliance costs for business. Large, connected business interests have significant influence, **creating an uneven playing field and limiting attempts to deter anti-competitive behaviour**. The legal and judicial underpinnings of Cambodia's market economy are weak, as are the institutions that underpin protection of human rights and provide redress against poor governance. While considerable effort has been made to develop the judicial system and introduce a body of laws and regulations to support market transactions – such as to provide mechanisms for contract enforcement and dispute resolution and to promote competition and deter anti-competitive behaviour – there is limited judicial independence and a bias in favour of elites (many contracts provide for international arbitration as a workaround). Interface with government creates high costs for those outside patronage systems and impedes the development of a strong, formal SME sector.


Institutional capacity within the public sector is mixed and the ability to translate broad statements of strategic intent into well-administered programs is quite limited, especially where inter-ministerial coordination is required. Strengthening public sector performance in coordinating and implementing key strategies is therefore critical. Given the political economy challenges, generic capacity building is likely to be ineffective and more targeted problem-driven approaches are likely to yield more success.

While this paints a bleak picture, there remain many realistic opportunities for reform. **The State is improving its performance and provision of public goods in many areas**. Well-educated graduates with diverse work experience are entering public service at all levels, and talent and results are rewarded. Many development partners are supporting reforms to some of the key building blocks of a better performing state, including public administration and public finance reforms¹⁷ and a decentralisation/de-concentration agenda.

RGC legitimacy relies on restoring and maintaining economic growth and promoting Cambodians' welfare. Having successfully built a strong domestic taxation base and as more Cambodians are educated and reach the middle

¹⁶ ADB 2019 study suggested US\$19 billion (approx A\$27 billion) for 25 investment and capacity programs to implement the logistics strategy. Couldn't track down RGC estimates/ source of \$35 billion

¹⁷ Including through Australian funding to a World Bank Public Financial Management and Public Administrative reform program.



class, expectations of government will grow, heightening impetus for reform. The pandemic (and before it, the threat of removal of European Union trade preferences) has focused many key Cambodian policymakers on the reforms required to ensure a resilient growth path, and tangible steps have already been taken. This creates the prospect for productive Australian engagement through CAP-RED, with more innovative and reform-minded elements in the RGC. This includes **the capable and reform-oriented Ministry of Economy and Finance (MEF)** which has been increasingly empowered to push a reform agenda to restore growth. In this context, CAP-RED can expect to gain real traction on a range of specific reforms that can improve the quality of public and private investment (and this is already apparent in Australia's current economic portfolio).

Key Lessons from Economic Policy Programs in Cambodia and across the Network

DFAT's two most recent economic development programs in Cambodia, CAVAC and 3i, have shown that direct engagement at a project or value chain level on infrastructure quality and market systems functionality has provided a powerful relational platform for Australia to engage on policy and institutional reform issues. The insights yielded into the real-world constraints and incentives facing market actors and on the feasibility of innovative business and financing models has provided an effective basis for pursuing targeted, impactful policy change. This practical experience has provided an in-depth understanding of the limitations of existing policies and how they are implemented, enabling advice to be based on both sound economic principles and an appreciation of what is feasible given public and private sector capacity.

CAP-RED will build on the lessons and entry points established by CAVAC and 3i, but will engage explicitly with policymakers from the start, **linking the piloting of new tools and approaches to an explicit strategy for adoption, scale-up and policy change**. This means continuing to work with line agencies, but also focusing on MEF: the most reform-oriented actor, which determines resource allocation to strategies and is willing to condition funding on reform measures. This aligns to lessons from other successful economic governance programs (such as Governance for Growth, Prospera, and Aus4Reform) that recommend linking policy support to central institutions that have an economy-wide mandate, capacity to break down siloes, and power to set reform priorities.

Conventional top-down policy support for policies and strategies does not on its own usually yield meaningful change in Cambodia. Reform processes are more successful when:

- a) Development partners also provide hands-on support with translating policy into financed plans and coordination of implementation, especially across a siloed public sector (noting that MEF has convening and disciplining power, but limited bandwidth to effectively supervise implementation)
- b) Policy processes are focused around solving a specific problem (that matters to stakeholders) or enabling the delivery of a tangible outcome
- c) Development partners are equipped to be responsive and demand-driven, providing 'just in time' advice contributing to domestic reform agendas that have existing momentum
- d) Cross cutting issues such as gender equality, disability and inclusion must be prioritised and fully integrated from the outset in the way programs work and their performance is measured. GEDSI needs to be properly resourced, embedded in the program culture, and integrated in design work, ongoing analysis and activity development, especially in domains such as infrastructure where differential gender impacts are not obvious on the surface.
- e) Programs working in policy reform and systemic change spaces must be as adaptive as DFAT's contracting and performance assessment arrangements and practices allow
- f) Continual analysis and learning to shape program direction (especially early in a program's life); examine program relevance, effectiveness and impact throughout implementation; and active commitment to dissemination of and transferring resultant knowledge are important to achieving sustainable impacts.

C. Strategic Intent and Rationale (Why?)



Boosting Cambodia's economic resilience contributes to Australia's Indo-Pacific objectives

The Foreign Policy White Paper noted that Southeast Asia sits at the nexus of strategic competition in the Indo-Pacific and is vital to Australia's security and prosperity. This has become only more apparent in intervening years. In this context, it is a policy priority to support the continuing emergence of sovereign Southeast Asian States that act in the interests of their citizens, cooperate on shared interests, and are resilient to coercion.

Economic resilience is a pre-condition to this exercise of strategic and political independence. It is no coincidence that the least developed countries in the region exhibit the greatest vulnerabilities. Countries with more complex and diversified economies, with a range of trade and investment partners and adequate social safety nets are less susceptible to shocks or to reliance on individual countries to underpin their prosperity. It is in Australia's interest to support sustained economic growth and diversification in Cambodia and to buttress its economic resilience, avoiding the closure of options for Cambodia in the medium to long-term.

As articulated in the Partnerships for Recovery Strategy and the related Cambodia COVID Development Response Plan, it is also incumbent on Australia to support economic recovery and enhanced stability in the Indo-Pacific Region. COVID-19 threatens to unwind Cambodia's progress of recent decades, has exacerbated pre-existing food security issues, eroded human capital, raised household debt burdens, and is leaving widespread economic scarring. Strong economic growth has been crucial to maintaining political stability, underscoring the importance of developing and implementing policies to ensure a sustained and inclusive recovery. Recovery is not assured; the ongoing effects of the pandemic continue to disrupt many of the drivers of growth Cambodia has relied on in recent decades (e.g. functioning regional supply chains, flows of FDI to emerging markets, tourism).

Cambodia's economic resilience also matters to ASEAN's cohesion and effectiveness. Mekong countries increasingly worry about the 'development gap' in the bloc, and the risk of it becoming entrenched in the wake of COVID-19. If the catch-up process stalls, a more enduring ASEAN split becomes increasingly probable. This would constrain the longer-term prospects of ASEAN cooperation in managing a range of critical regional challenges and opportunities.

The sharpening of these risks has spurred recent major Prime Ministerial regional initiatives including the **Mekong-Australia Partnership (MAP)** (AUD 232 million) and the **Partnerships for Infrastructure (P4I) program** (AUD 140 million) with aligned strategic objectives. CAP-RED will be highly complementary, building deep and sustained relationships with counterparts and insights about economic reform issues, while leveraging situational awareness to identify targeted entry points for regional partnerships. The MAP will also co-finance CAP-RED, supporting targeted activities that deliver on MAP objectives.

Reinforcing Australia's standing as a valued and influential partner

In Cambodia, Australia builds on a significant legacy. Australia was a key architect of the Paris Peace Accords and contributor to the UN Transitional Authority in Cambodia and has provided over AUD 1 billion in aid since. Many Cambodian economic institutions were midwived with Australian assistance, and over 50 per cent of Cambodian international students studying in English choose Australia.

This remains front of mind for Cambodians. DFAT's concluding economic development programs (CAVAC and 3i) are universally respected for delivering effective, private sector-oriented solutions (on agriculture and infrastructure) but have until recently, expended less effort on supporting RGC-led reforms. In consultations for CAP-RED, senior Cambodian policymakers have asked Australia to draw on the insights generated by these programs (and broader Australian economic expertise), **to forge a new high level policy partnership to shape and help implement key aspects of the RGC economic recovery agenda.**

Economic reform to drive recovery and transition is a key RGC domestic priority and integral to Cambodia's success. Providing responsive and high-quality support to these efforts will **bolster views of Australia as an integral partner and strengthen the argument that Cambodia benefits from maintaining a balanced range of partnerships.** This also provides opportunities to influence economic institutions, rules, and standards to align with liberal, rules-based norms, influencing the long-term character of the region and benefitting Australian businesses.



CAP-RED will work with like-minded partners, amplifying our collective influence

Japan, the Republic of Korea, the European Union, the Asian Development Bank (ADB), World Bank, the UN system and USAID are all serious players in Cambodia. Combining our resources and capabilities and working closely together demonstrates the scale and impact of our support, reinforcing both elite and community perceptions that collective cooperation is critical to Cambodia's ongoing development, and strengthening the case for balance.

Being policy and piloting-focused, the program will be well-placed to collaborate with other partners that have greater financial capacity. That is, CAP-RED can support Cambodia to identify the right policy settings and to design quality projects, and other partners can back this with sizeable loans.

Areas for CAP-RED engagement were selected following extensive mapping of other development partners activities. Following mapping, we engaged extensively and in detail on opportunities for collaboration with all the development partners referenced above. In-principal agreement was reached with several of them on areas and modalities for potential cooperation during implementation (which will be pursued in the inception phase). Cooperation on a jointly-financed Water Fund, on logistics development and on SME digital transition are amongst the most prospective areas (and more specifics of potential partnerships are referenced in the Outcomes Section).

Australia and Cambodia largely have a common view on key economic development priorities and objectives in Cambodia

The COVID-19 pandemic, and its impacts on key historical growth sectors has prompted a reconsideration of the Government's development strategy, reflected in RGC's recently published *Economic Recovery Strategy 2021-23*. The strategy is framed around "recovery, reform and resilience", **outlining a sharper focus on the structural reforms and the sector-specific measures required for economic diversification** as the basis for ongoing resilience.

CAP-RED proposes to focus on many of the reform priorities set out in the ER Strategy, including - improving Cambodia's trade environment and investment facilitation, strengthening the SME sector and business financing, catalysing digital transformation and improving infrastructure services. It (the ER Strategy) places renewed emphasis on agricultural modernisation and processing and emphasises a greener growth path.

This shared view of the key constraints, and reform priorities provides a sound basis for a policy-focused development partnership, increasing likelihood that Australian support will have traction and contribute to successful reform; reforms that align to Australia's interests in increased diversification and resilience.

The exception to this is in respect to gender inclusion. While formally, the Cambodian Government is committed to promoting women's economic empowerment, this is not reflected in resourcing or leadership. This means CAP-RED's work on gender will require a stronger advocacy element – building the evidence base and argumentation for women's economic empowerment.

Working in areas of Australian comparative advantage

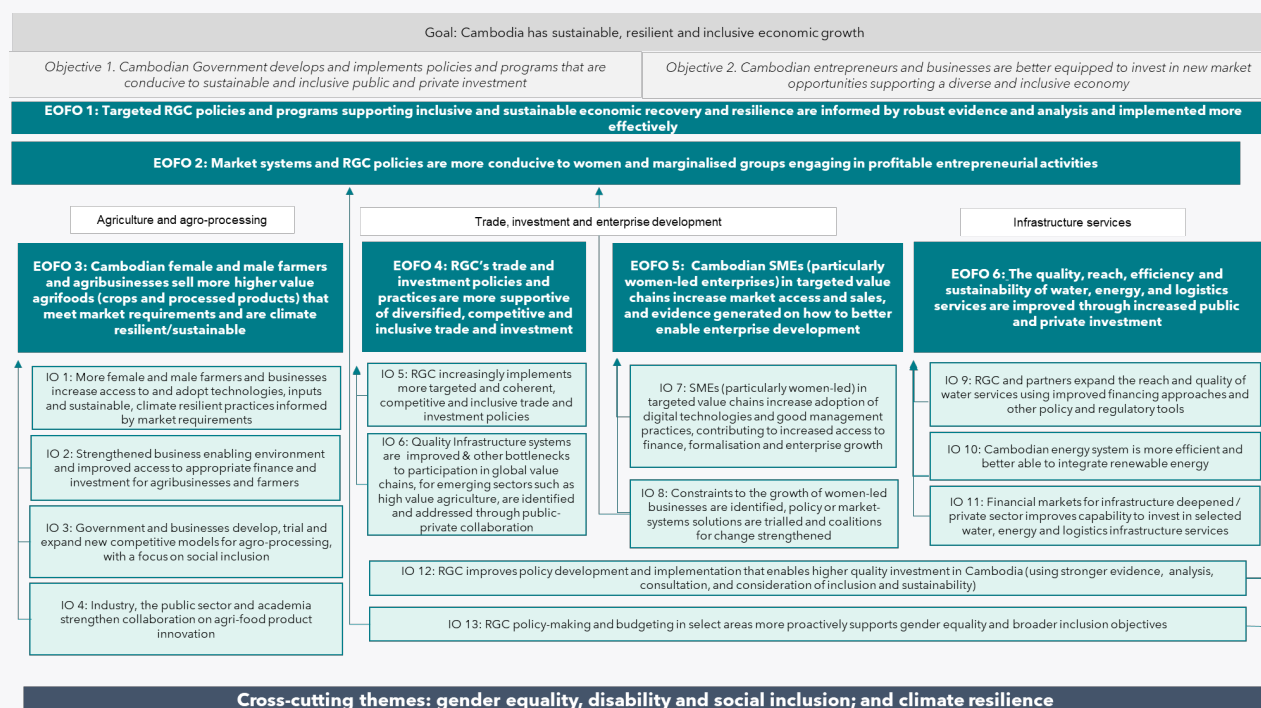
CAP-RED focuses in areas of Australian comparative advantage. Australia has leading expertise in agriculture, infrastructure financing, water, and the renewable energy transition. Existing bilateral programs in those areas have built Australia's local reputation, relationships and understanding of the political economy of those sectors. Our trade and investment liberalisation journey and competition policy reforms provide useful lessons (both positive and negative) to be drawn on, and our regional trade-focused programs also provide a strong foundation for increased bilateral engagement. The Australian aid program's extensive international experience in women's economic empowerment and social inclusion also provides an extensive body of practice and evidence to draw on in our engagement in Cambodia.

D. Program Logic, Expected Outcomes and Delivery Approach

Program Logic

The Partnership's goal and objectives reflect the underlying rationale for Australia's engagement with Cambodia's economic development, and the shared strategic interests in partnering with the Government of Cambodia to develop and implement a robust, sustainable growth model that provides economic opportunities for all Cambodians. This section lays out the goal and objectives for the Partnership, defines the end-of-facility and intermediate-level outcomes intended to contribute to the objectives and goal, and outlines what the Partnership may do to achieve the desired changes. These are summarised in Figure 1. More detail on the program logic for each outcome, indicative outputs and assumptions is then presented, following a summary of CAP-RED's delivery approach. The program logic should be read in conjunction with the delivery approach.

Figure 1: CAP-RED overarching program logic




Goal and Objective

CAP-RED's goal is that: **Cambodia has sustainable, resilient, and inclusive economic growth.**

As noted in Section B, quality investment is critical to the achievement of this broad goal. In this light, the Partnership has two inter-related objectives:

1. *The Cambodian Government develops and implements policies and programs that are conducive to sustainable and inclusive public and private investment; and*
2. *Cambodian businesses and individuals are better equipped to invest in new market opportunities supporting a diverse and inclusive economy*

The **first objective** reflects the need for the RGC to provide a stronger enabling environment for diversification into more complex economic activities. This includes providing more comprehensive and efficient infrastructure, developing regulations, standards and other capabilities required for industry investment (e.g. skills, market coordination, trade facilitation, etc) in nascent sectors and participation in global value chains, as well as **ensuring that both the formal and informal rules that govern the operation of markets provide fair, competitive and attractive conditions for investment.** The way the government exercises its formal and informal powers through its policy and action shapes firms and enterprises' incentives to invest in new ways of doing business. Underdeveloped market systems (for example, in managing risks or gathering and disseminating



information) can deter enterprises and households from making investments that have a significant likelihood of generating acceptable financial and social returns.

Australia's prior development programs in Cambodia demonstrate that **working directly with the private sector is a complementary and effective way to tackle constraints inhibiting investment, as reflected in the second objective**. For example, development programs can help 'crowd in' the private sector to fill gaps in market services currently inhibiting value chain development (for example, appropriate financial products, insurance, and logistics) by identifying market opportunities and providing support to reduce risks for first movers. Development programs can similarly de-risk adoption of innovations or entry into new sectors by providing advice, information and co-financing, and industry coordination. Therefore CAP-RED will work closely with the private sector across various domains to develop the capabilities and market systems required for quality investment.

There is also a strong relationship between the two objectives. Working with the private sector provides more grounded and detailed information about the real constraints to investment (both formal and informal), rather than more generic, standard recommendations on how to improve the enabling environment. Concluding programs (3i, CAVAC) show that such insights can then be drawn on as an evidence base for policy and regulatory reform efforts under the first objective.

Partnership 'Domains' and End-of-Facility Outcomes (EOFO)

The Partnership will primarily focus on achieving these objectives in a set of **three 'domains' – Agriculture and Agro-Processing, Trade, Investment and Enterprise Development and Infrastructure Services**.¹⁸ Gender equality and social inclusion will be integrated into everything the Partnership does. This underscores the essential role that gender equality and women's economic empowerment plays in improving productivity, and the importance of an inclusive economy that meets the needs of people living with disabilities and other marginalised groups. In practice, this means the Partnership team must establish Partnership programming and management arrangements that encourage cross-domain collaboration and consideration of inclusion in all activities.

Six end-of-facility-outcomes (EOFOs) will contribute to the achievement of the objectives and goals. Four sit within the domains, while the first two are Facility-wide outcomes:

Responsive Policy Support

- Targeted RGC policies and programs supporting inclusive economic recovery and resilience are informed by robust evidence and analysis and implemented more effectively (EOFO 1)

Gender equality, disability and social inclusion

- Market systems and RGC policies are more conducive to women and marginalised groups engaging in profitable entrepreneurial activities (EOFO 2).

Agriculture and agro-processing

- Cambodian female and male farmers and agribusinesses sell more higher value agrifoods (crops and processed products) that meet market requirements and are climate resilient/sustainable (EOFO 3).

Trade, Investment and Enterprise Development

- RGC's trade and investment policies and practices are more supportive of diversified, competitive and inclusive trade and investment (EOFO 4); and
- Cambodian SMEs (particularly women-led enterprises) in targeted value chains increase market access and sales and evidence is generated on how to better enable enterprise development (EOFO 5).

Infrastructure services

18 Similar to what would typically be referred to as 'pillars', but the term domain is used to emphasise that these areas are closely inter-related and should not be managed in silos. Many program activities will contribute to multiple domains – for example, strengthening logistics will be targeted to support agriculture, trade, and infrastructure development outcomes.

- The quality, reach, efficiency and sustainability of water, energy, and logistics services are improved through increased public and private investment (EOFO 6).

Delivery approach

In recent years, the RGC has issued a comprehensive set of vision statements, policies, strategies, plans and frameworks across a wide range of issues pertinent to economic development and ongoing work continues to add to this. Rather than helping to produce more big picture strategies, CAP-RED can make a more effective contribution by **supporting with various dimensions of turning strategies into sustained action**. This covers most aspects of the policy cycle, including information gathering, consultation and analysis, development of policy and regulatory tools and program options to implement strategic objectives, identifying resource requirements and financing options, developing institutional structures and capabilities, and oversight and monitoring of implementation feeding back into policy improvements.

CAP-RED aims to support improved policy implementation in two inter-related ways - 'bottom-up' and 'top-down'. In respect of the former, the Partnership will take a **problem-based approach**, working hands-on with line agencies and the private sector. It will focus on key sectoral-level policy, regulatory and practical issues constraining investment by market actors in relevant domains, identifying and trialling approaches to resolve those problems and unlock investment. This could include co-investment, helping to pilot new business models, services and financing models, brokering partnerships or strengthening public-private dialogue, helping to tackle private sector information or coordination gaps, and boosting public and private sector capacity to perform specific tasks.

Such activities will generate direct, tangible results, for example, expanded infrastructure services or improved incomes for farmers and agribusinesses; at the same time, activities will serve to develop models that overcome systematic problems or lay foundations for evidence-based reforms.

It will be important to **involve key RGC policy-makers in the problem-solving process from the outset with a view to adoption and scale** and/or to be guided by the RGC in the identification of problems and development of solutions initially. It will be similarly important to **collaborate with key likeminded development partners**, so that the evidence generated and models 'proved' by CAP-RED can be taken to scale by other partners looking to deploy substantial debt-financing. In the inception phase, the Partnership will follow up conversations from the design phase to explore opportunities to work closely with Japan (on logistics and agriculture, water infrastructure and industrial diversification); the Republic of Korea (on agro-processing, digital technology and water infrastructure); the ADB (on energy, agriculture, water and improved infrastructure planning); the World Bank and IFC (water, gender equity, digital economy and SME development); Agence Française de Développement (AFD) (water, agriculture, energy); IFAD (agriculture and logistics); InfraCo Asia (agriculture/agro-processing and logistics, water and renewable energy) and Cambodia's new Green Bank (energy, water, agriculture). While not providers of debt-financing, USAID (water, agriculture and agroprocessing, digital economy and SME development), the UNDP (digital economy, gender equality, industrial diversification), UNIDO (agro-processing, industrial diversification), and the FAO (agriculture) also work in similar policy spaces, providing opportunities for cooperation.

In terms of 'top-down' support, CAP-RED will establish a capacity to provide responsive policy support to the RGC (Policy Sub-Facility or 'PSF'), comparable (although distinct in some ways) to elements of DFAT 'governance for growth' programs in the region (e.g. Prospera, Aus4Reform, Governance for Growth, etc). This is outlined further under End of Facility Outcome One.

The top-down and bottom-up aspects of the program will be closely married. For example, insights from work and partnerships in the different domains will provide evidence to support high-level policy work. Inversely, the domains can support implementation, providing resources and capacity to pilot new models, to convene partnerships with the private sector and to help monitor implementation.

The overall intention of this work is to help catalyse systemic change – in the policy and regulatory environment as well as the way that markets operate – to create conditions more conducive to economic transition. At the same time, it intends to **build the RGC's capacity for policy development and economic management**. While this

may involve some formal training, it is intended that most of the capacity uplift will be achieved through 'learning by doing'.

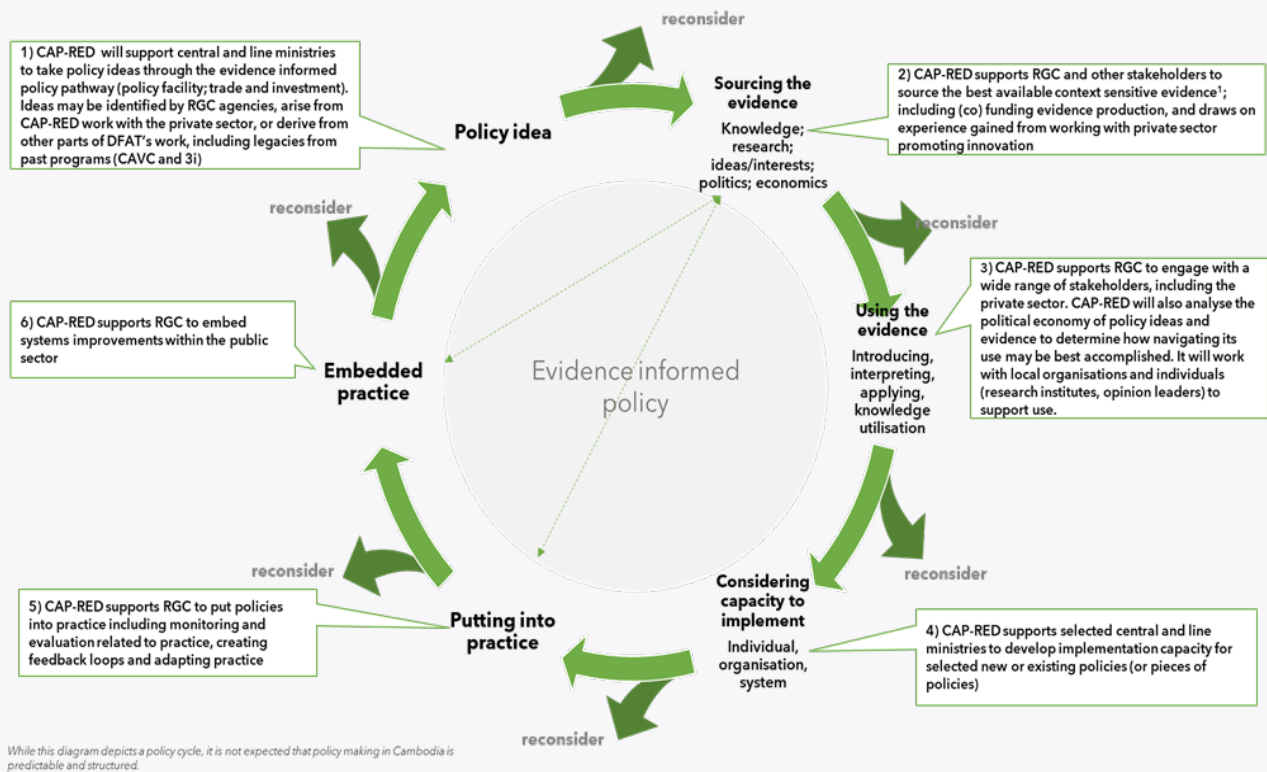


Figure 2: How the Partnership will work to promote policy and institutional change

The Partnership must be managed adaptively to adopt a policy and systemic change approach. Opportunities for policy and institutional change are not created by development partners but arise from the government's agenda in response to its domestic and international environment. CAP-RED will need to be demand-driven, attuned to that agenda and viewed as a responsive partner to evolving RGC needs.

This design outlines a range of workstreams currently viewed as prospective based on concluding programs and extensive consultation. However, momentum for some reforms may falter, and market systems are complex and do not always respond as expected. CAP-RED will need to monitor interventions closely and assess results, while progressing towards outcomes (mindful of critical assumptions underpinning change pathways) and be able to refine its vision for market system change, improve its strategies, and adjust its intervention portfolio. Given the risk of fragmentation and drift, the Partnership should aim for **'guided flexibility' striking the balance between focus and the flexibility to experiment and adapt**. The set of criteria for activity selection will remain a critical tool to support this approach.

This will require CAP-RED to embrace and resource a strong learning orientation – putting in place a robust Monitoring and Evaluation (M&E) system that provides insights into whether interventions are working and why, providing a basis for real-time decision-making about how to refine or reshape approaches, and scale areas of work up and down to maximise impact and value for money. The emphasis should also be on joint learning with the RGC and other program partners (whereas concluding programs have only lately prioritised dissemination of research and analysis).

An independent **Quality Technical Advisory Group (QTAG)** will provide additional oversight and advice to the implementing team and DFAT on effectiveness and strategy. The QTAG will include GEDSI expertise with particular emphasis on the nexus between gender equality and economic growth. The role of the QTAG is elaborated in Section F.

Detailed End-of-Facility Outcomes (EOFO)

EOFO 1 – Responsive policy support

CAP-RED will complement its more defined work in the three domains with a policy sub-facility ('PSF') providing responsive policy support to the RGC's economic reform agenda.

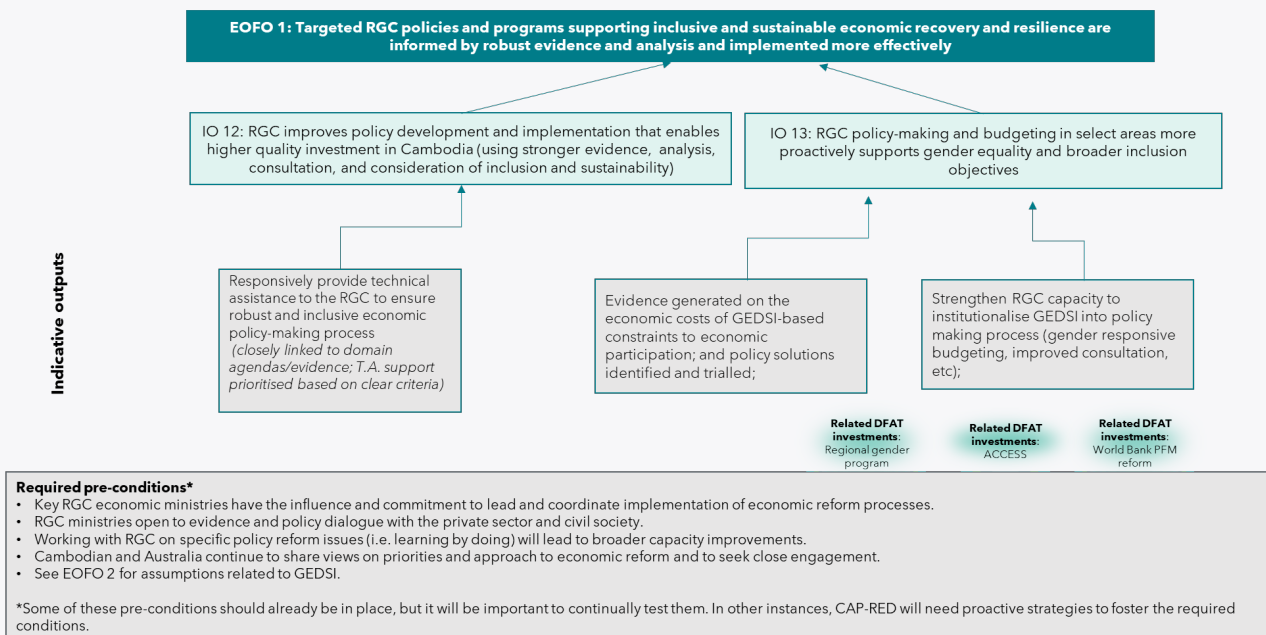
The EOFO is **Targeted RGC policies and programs supporting inclusive and sustainable economic recovery and resilience are informed by robust evidence and analysis and implemented more effectively.**

Two intermediate outcomes are associated with this EOFO:

- IO 12: RGC improves policy development and implementation that enables higher quality investment in Cambodia (using stronger evidence, analysis, consultation and consideration of inclusion and sustainability).
- IO 13: RGC policy making and budgeting in select areas more proactively supports gender equality and broader inclusion objectives.

Figure 3: End-of-Facility Outcome 1


Responsive Policy Support Facility



The MEF, including in its leadership of powerful intra-governmental policy committees such as the Economic and Financial Policy Committee (EFPC), is taking a more proactive role in driving and corralling Cambodia's economic reform agenda. Often this goes beyond the traditional remit of a central agency, leading policy on diverse topics such as improving SME financing and reducing the cost of electricity, and it is difficult to generate recommendations that are evidence-based and feasible.

Responding to this gap (and MEF's request), **the PSF will provide 'just in time' technical assistance to key economic agencies** (MEF, the Supreme National Economic Council (SNEC), the Ministry of Commerce (MOC) and the Ministry of Women's Affairs (MOWA) - to develop, implement, review and strengthen policies bearing on public and private investment.

Technical assistance will be concentrated in the three CAP-RED domains (as well as on GEDSI issues). Those domains are aligned to the RGC economic recovery agenda and the RGC will look to CAP-RED to provide advice in areas of demonstrated expertise. The process for activity selection will reinforce this.



The agenda of the policy sub-facility will be set by a joint RGC-DFAT steering committee, with membership closely linked to Cambodia's own key policy committees (such as the EFPC) ensuring alignment with Cambodia's reform priorities. This would be supported by a Secretariat responsible for sourcing proposals for technical support. The Committee would also likely govern the policy work undertaken by Australia's Partnerships for Infrastructure (P4I) program – for efficiency, coherence and to provide the RGC with a fuller view of the range of Australia's policy support.

To ensure close alignment with CAP-RED's broader program of work, **a clear set of guidelines and criteria will be applied** focusing on alignment with the objectives and expertise of the Partnership, prioritisation by the RGC, significance for economic reform, risk, feasibility and likelihood of achieving impact (the draft criteria are set out in Section E). The PSF will also have a dedicated focus on gender, disability and social inclusion issues. This is explained further in the next EOFO.

Policy proposals will also originate from the 'hands-on' work in the CAP-RED domains – i.e. if work in a particular domain highlighted a constraint to investment (for example, regulations affecting the cost of agriculture inputs), these issues could be escalated and proposed for inclusion in the work plan of the policy sub-facility. This would provide visibility of key constraints and policy solutions to central agency senior officials with an interest in economic reform and a mandate to allocate resources and push reform efforts (whereas line agencies sometimes lack power and resources and/or are motivated by narrower vested interests).

In terms of the type of technical assistance, **at an upstream level**, this could include diagnostic studies, field surveys, policy options development and comparison, sector and thematic issue studies, economic modelling, and value chain analysis, along with public consultation, policy dialogue and awareness building processes. It could convene and fund research exercises conducted by domestic researchers, linking them to international experts as well as facilitating institution-to-institution linkages and relevant training courses. Such assistance should result in more effective, targeted and inclusive policies.

The PSF will extend to downstream work helping to develop budgeted implementation plans, to support procurement and to provide co-financing and technical assistance to pilot new initiatives. Experience from other comparable programs suggests that it will be important to boost RGC capacity (especially of central agencies) to monitor implementation of policy commitments and to review the effectiveness of policy reforms. This strengthens accountability and documentation of success also creates positive feedback loops. Encouraging better dialogue with the private sector and civil society throughout the policy reform process (including into impl can also boost this accountability. Noting implementation is the key weakness in Cambodia, this downstream support will contribute to more fully realising policies in support of economic diversification. Some of the downstream work will be delivered through CAP-RED's three domains.

While it is envisaged that the PSF will initially not be fully institutionalised as an RGC-managed institution (although of course, the RGC will have a key role in agenda setting), its transition into RGC systems should be considered when CAP-RED is at the point of independent review to boost sustainability. Earlier institutionalisation could also be considered if the RGC demonstrates a strong interest in this occurring and there is evidence of a clear common purpose and approach to managing the PSF.

EOFO 2 – Gender, Disability and Social inclusion

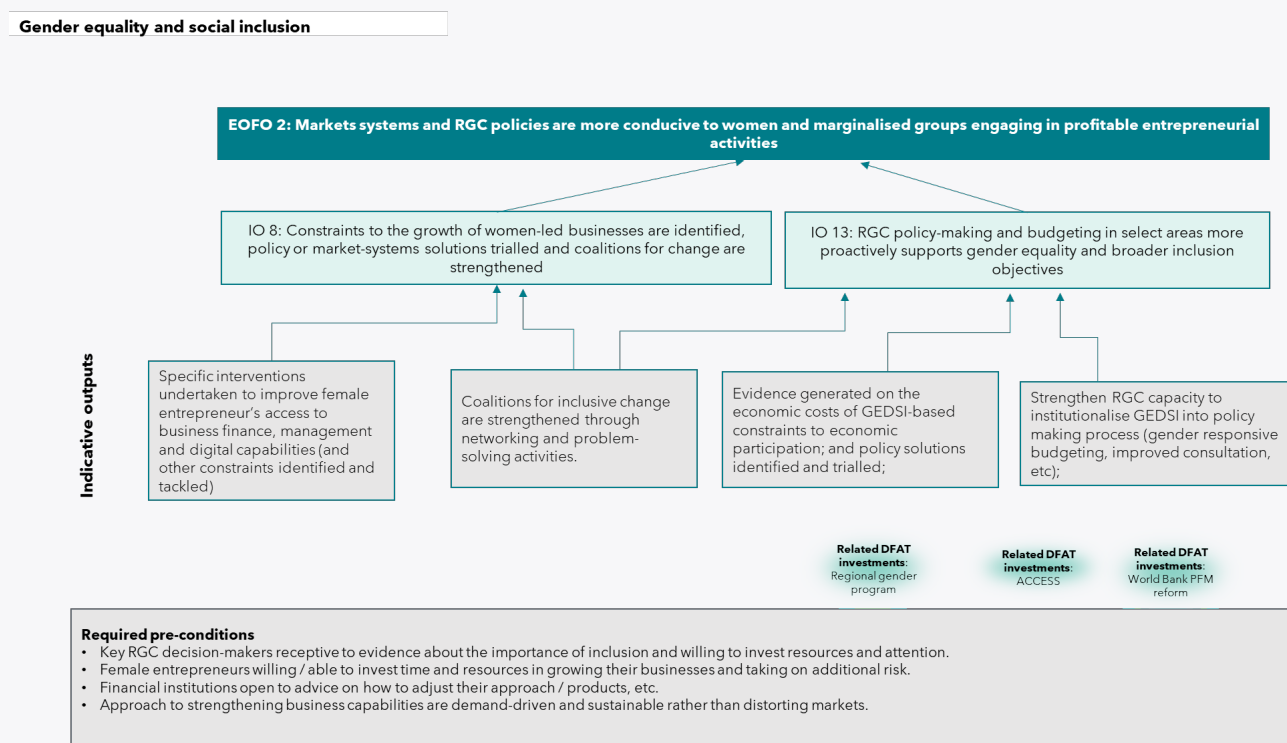
Women, men, boys and girls should have the right to participate in and benefit equally from economic activity (as should persons with disabilities, indigenous people and other marginalised groups). Fully harnessing the talents of more than half the population, will also be a key determinant of whether Cambodia's resilient growth continues. Accordingly, CAP-RED includes a whole-of-facility EOFO:

“Market systems and RGC policies are more conducive to women and marginalised groups engaging in profitable entrepreneurial activities”

There are two intermediate outcomes associated with this EOFO:

- IO 8: Constraints to growth of women-led businesses are identified, policy or market solutions trialled, and coalitions for change are strengthened.
- IO 13: RGC policy making and budgeting in select areas more proactively supports gender equality and broader inclusion objectives.

Figure 4 End-of Facility Outcome 2




As with other aspects of CAP-RED, the Partnership will both support improved public policy and institutional reform (with regard to economic inclusion) as well as work directly in market systems focusing on removing the barriers to women and other marginalised groups participating equally.

In respect of policy change, CAP-RED will work with MEF, MOWA to **build and communicate the evidence base that more equal participation of women in the economy (and greater inclusion generally) will make a significant contribution to core RGC growth goals**. This could produce specific studies and analysis that quantify this in the Cambodian context – both broadly and in relation to specific reforms that would remove barriers to effective participation – rather than relying on more general international evidence about the GDP implications of inequality. Experience in Cambodia and elsewhere in the region suggests that such evidence is more likely to persuade senior decision-makers to enact policy change and invest resources than broad appeals to equity.

Secondly, CAP-RED will **support the RGC to better institutionalise gender and inclusion into policy-making in targeted areas**. This may include building on CAVAC's work with ministries on gender mainstreaming action plans, into more extensive efforts to integrate GEDSI concerns into policy-making. It may also work with MEF and relevant line agencies (those the Partnership is already likely to work with) on implementing gender-responsive budgeting reforms – that is, strengthening the capacity of ministries to finance a gender equality agenda. This work will focus in the domains where CAP-RED has experience and expertise (e.g. agriculture/agroprocessing, trade and investment, etc).

Thirdly, CAP-RED will seek to **address specific constraints to equal economic participation** (such as discrimination, sexual harassment and accessibility of childcare), through analysing the constraints, developing policy



recommendations to address them and undertaking practical action aimed at catalysing change. **This work will particularly focus on the challenges for, and growth of women-led businesses**, given enterprise development is a key focus of the broader program (reflected in EOFO 4). This may involve policy support for the RGC, for example, working with MOWA to define the role and model for ‘Women’s Development Centres’ and assisting with their roll out. But equally, it will involve working directly with the private sector. For example, CAP-RED will likely engage with financial institutions on reducing (unconscious) bias against lending to women-led businesses (as well as working with those businesses on their ‘finance-readiness’). The Partnership will aim to share and disseminate better practices amongst existing businesses given the credibility of direct peer-to-peer learning.

This EOFO will be delivered by all parts of the Partnership. The PSF will play an important role, undertaking policy work to build the evidence case for greater inclusion, making recommendations for key reforms and working with key ministries on institutional reforms such as gender-based budgeting. But the domains will also contribute substantially, for example, through the work on SME development or on supporting trade policy that is better informed by analysis of distributional impacts.

Work on GEDSI issues will aim to both solve specific constraints, but also to help create conditions influencing broader structural change. CAP-RED will seek to bring together and resource different actors across the private sector and civil society to form networks and coalitions of change. It is expected that this would start by working with existing associations and networks representing women-led business and women business leaders, providing resources and support to increase value for members and expand networks (in collaboration with MOWA as relevant). It would extend to engaging with and bringing together progressive businesses and business leaders committed to promoting gender equality. CAP-RED will undertake stakeholder mapping and analysis as an early task to inform these efforts.

Where relevant, CAP-RED will aim to resource and facilitate dialogue between these coalitions and the RGC and broader business community to create channels and habits of dialogue.

CAP-RED will also target the erosion of current discriminatory norms through evidence, pilots, dialogue and advocacy, again, working through relevant networks.

Careful coordination (and potentially collaboration) will be required with other Australian-funded gender equality programs. This includes the PROMISE partnership with the World Bank which funds policy and advice work on gender equality and social inclusion, with a focus on three themes – access to childcare services; supporting women living with disabilities to participate in the labour force, and promoting women entrepreneurs’ engagement in e-commerce. As well as ACCESS, PROMISE and the Australian-financed World Bank PFM Trust Fund, CAP-RED may also collaborate on gender initiatives with Australia’s new Southeast Asia multi-country ‘Investing in Women: Women in Inclusive Sustainable Economic Recovery’ (‘WISER’) program, should it choose to work in Cambodia.

EOFO 3 – Agriculture production and processing

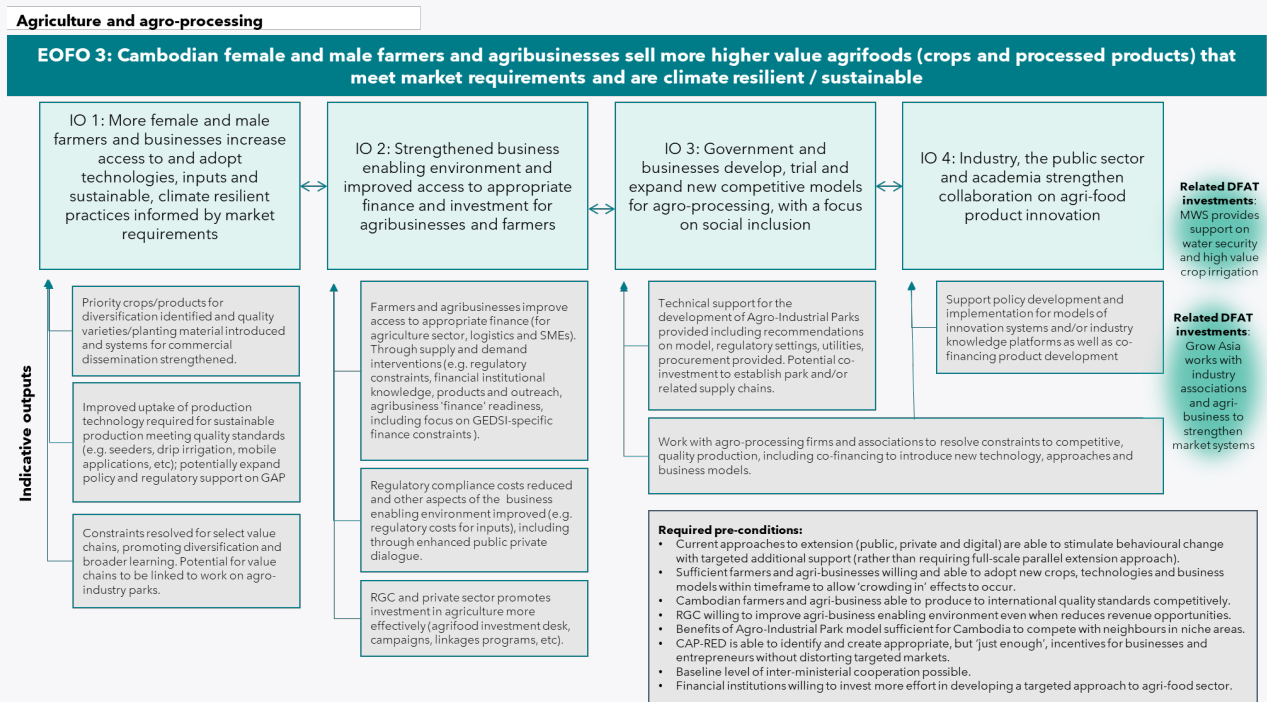
As noted, a wide array of constraints hinders Cambodia developing a more diversified, higher-value, inclusive agriculture sector. CAVAC has made some inroads and the results, relationships and lessons provide a strong foundation for CAP-RED to build on. The EOFO for this domain is that **Cambodian female and male farmers and agribusinesses sell more higher value agrifoods (crops and processed products) that meet market requirements and are climate resilient/sustainable** (EOFO 2). To achieve this outcome, four necessary intermediate outcomes have been identified. These are:

- IO 1: More female and male farmers and businesses increase access to and adopt technologies, inputs and sustainable, climate resilient practices informed by market requirements.
- IO 2: Strengthened business enabling environment and improved access to appropriate finance and investment for agribusinesses and farmers.
- IO 3: Government and businesses develop, trial and expand new competitive models for agro-processing, with a focus on social inclusion.

- IO 4: Industry, the public sector and academia strengthen collaboration on agri-food product innovation

Figure 5 summarises the logic for this domain which will be delivered through a combination of two approaches. CAP-RED will firstly adopt a market-system development approach working with private and public sectors to address constraints that may occur through different stages of the value chain, from input supply through aggregation, processing, transport, distribution, and marketing. It will use a range of tools such as co-investment, value chain analysis, business matching, research, technology introduction and challenge funds to address constraints.

Figure 5: End-of-Facility Outcome 3



The workstream will identify problems or opportunities to improve performance in a few targeted value chains to increase output and quality to align to market requirements. The approach means mostly working with private and public sector organisations, rather than farmers directly (although it could work with intermediaries such as cooperatives). It will encourage businesses to develop and provide commercially viable products and services that sustainably address constraints in areas such as quality production, logistics, inputs, and finance. CAP-RED could work with other development partners to find market-based ways of promoting adoption of technologies and business models.¹⁹

At the same time, CAP-RED will also support policy development and implementation on select issues (which are outlined below), based on the practical insights on market constraints gained through value chain work.

Consideration of gender equality, disability and social inclusion will be fully integrated in both approaches. With the predominance of women-led agri-food businesses, agro-processing related work will provide opportunities to promote women's economic empowerment. In developing interventions, the Partnership will identify gendered constraints and structure support to promote women's economic opportunities and leadership.

This work will also be closely inter-linked with the infrastructure and trade and investment domains. The infrastructure domain will include a focus on attracting finance for the post-harvest and logistics services (transport, storage, cold chain, etc) required to strengthen agricultural value chains. The Trade and Investment domain will work with the RGC and private sector to strengthen 'quality infrastructure' systems for

¹⁹ The implementation annex identifies potential development partners (based on design phase consultations) for further engagement in the inception phase.



agriculture/agro-processing – i.e. the capacity of the sector to comply with non-tariff barriers such as sanitary and phyto-sanitary (SPS) measures.

IO 1: More female and male farmers and businesses increase access to and adopt technologies, inputs and sustainable, climate resilient practices informed by market requirements

To improve economic returns, farmers need to grow higher value crops efficiently and sustainably, using techniques that align to market standards. This requires underlying public and/or market systems that provide the right information, inputs and technologies and markets for farmers. CAP-RED will seek to strengthen these systems for a few designated crops, working with both the private and public sector.

CAP-RED will select a small number (likely two to four) of key crops to focus on. Studies by CAVAC and others have identified prospective crops with market demand (such as mango, banana and banana chips, longan, cashews, chillies, avocado, sesame and palm sugar and a range of vegetables) and CAVAC is assessing the potential for scale, commercialisation, and processing to determine if and how Cambodia can produce each competitively.²⁰ For CAP-RED, the focus crops should be ones already grown at reasonable scale, but with considerable opportunity to increase quality and output, as well as scope to benefit many Cambodians (as smallholders or through employment). The work should link closely to the workstream on Agro-Industry Parks (aiming to strengthen the supply of relevant crops to make processing viable). It should also assess existing work by other development partners. Consideration will also be given encouraging more sustainable land use (for example, by replacing more extractive crops such as cassava and corn being grown in vulnerable highland zones).

While CAP-RED's work under this IO will tend to focus on a few crops, aspects of its support may apply more broadly (e.g. in identifying and introducing quality varieties across a broader range of crops). Building on existing CAVAC workstreams, CAP-RED's work under this IO will likely focus on:

1. **Crop selection, quality varieties and dissemination** – Cambodia's strategy is to compete on select, high quality, niche agricultural products, which requires a strategic choice of crops and products, as well as the cultivation of quality varieties and planting materials. CAVAC has begun this work by completing and publicising studies to identify the most prospective high value crops for Cambodia. For rice, CAVAC helped to cultivate and brand high value and climate resilient rice varieties for Cambodia and to set up systems for quality assurance of seed.


In the next phase, CAP-RED would work with Ministry Agriculture Forestry and Fisheries (MAFF) and the private sector to source, breed and trial quality seed and planting materials for other high value crops and work on establishing commercial or public-private models with more extensive reach for the dissemination of those materials to farmers (potentially involving technical support, co-investment, etc. at the outset). Work to further embed the quality seed systems for rice could also continue depending on a needs assessment (including activities by other development partners).

2. **Mechanisation and technology for quality and sustainability** – while the adoption and use of labour-saving forms of mechanisation (e.g. combine harvesters) have spread rapidly, technologies focused on quality production - such as direct seeding and laser levelling, important to enable transition to quality rice varieties and more sustainable farming - have been adopted more slowly. For diversification (e.g. mangoes) this could also include higher efficiency, and more automated irrigation (drip, pivot, etc) and best adapted greenhouse options for vegetables.

A number of these technologies improve sustainability by increasing water efficiency, and reducing tillage and inputs use. Learning from CAVAC, CAP-RED could identify appropriate technologies (including through engagement with ACIAR) and then support their demonstration, generally through private sector partnerships – building a market for the technologies such that ongoing subsidies become redundant.

3. **Good agricultural practices (GAP), sustainability and quality assurance** – to access export markets, Cambodian agriculture needs to meet compliance standards around GAP (pesticide residues, etc). CAP-RED could work

²⁰ In this analysis, CAP-RED should assess whether Australia's long-term support for high value rice (and associated products) should be continued. This should take into account an assessment of whether there is an ongoing need for development partner assistance to encourage more farmers to transition to higher value, more profitable varieties (and taking into account the very large number of rice farmers and importance for poverty reduction).



with MAFF and the private sector to strengthen awareness and compliance with GAP, building on successful CAVAC work to improve locally available information on pesticides use (including through digital technology). Relatedly, over twenty years, ACIAR has developed a body of evidence about sustainable agricultural practices in Cambodia in both low land and upland settings, involving features such as low/no tillage, reduced inputs, inter-cropping (and similarly AFD have been developing similar knowledge through its Conservation Agriculture projects). There may be scope to work with MAFF and the private sector to expand the uptake of these practices, including potentially linking into green financing and/or carbon credits markets.


IO 2: Strengthened business enabling environment and improved access to appropriate finance and investment for agribusinesses and farmers.

There are a range of business enabling issues that impact on the competitiveness and diversification of the Cambodian agri-food sector. CAP-RED will focus on tackling three of these:

1. **Regulatory costs** – various regulatory costs impact on competitiveness. For example, Cambodia affords duty free importation of agriculture machinery, but currently excludes spare parts, which significantly adds to costs. Similarly, agricultural inputs need to be re-registered with Ministries more frequently than in comparable countries, contributing to high input costs. CAVAC has worked in the past on quantifying some of these increased costs (including assessing the range of costs through value chains) and working with relevant agencies to identify potential areas for efficiencies. This workstream could continue in the new program, noting that MEF has identified reducing input costs as a priority under the ER Strategy.
2. **Availability of appropriate financing** - it is presently difficult for farmers and agri-businesses to get reasonably priced financing, and trade finance is generally unavailable. Securitisation against inventory (rather than land) is challenging under current regulations and practices. Part of the problem reflects hard-to-shift risk premiums, and transaction costs. However, CAP-RED should – working with relevant partners - explore policy avenues to improve financing. This could include issues around the formalisation of enterprises and cooperatives and their ‘finance-readiness’, (building on work done by CAVAC with fintech firm Banjhi), working with financial institutions to raise their understanding of agricultural financing needs and opportunities and assessing regulatory impediments to financing (e.g. rules around securitisation), and continuing to find ways to expand contract farming models which sometimes enable farming cooperatives to effectively access seasonal finance through buyers. With recent MEF-led initiatives providing injections of financing for an ‘SME Bank’ and the Agricultural and Rural Development Bank as well as a credit guarantee scheme, there may be scope for policy collaboration (i.e. to review the early functioning of these schemes and propose any adjustments to enhance their impacts). This finance work would be part of a larger workstream crossing into other domains (reflected in each domain).
3. **Attracting investment and market linkages** – CAVAC has supported Cambodia’s investment agency – the Council for the Development of Cambodia (CDC) - to establish a specialist agri-foods desk aimed at providing potential investors (who can bring know how as well as capital) with comprehensive information and a single government interface. This work can be built on, supporting CDC to develop effective campaigns, including linkages programs (e.g. to strengthen networks between producers and major buyers such as supermarkets) as well as to strengthen after-care to increase productive investment in the sector.

IO 3: Government and businesses develop, trial and expand new competitive models for agro-processing, with a focus on social inclusion.

Cambodia’s agro-processing sector is relatively under-developed. To compete with neighbours, several constraints to efficient production need to be addressed, including comparatively high electricity prices and compliance costs, and challenges securing and aggregating sufficient, reliable volumes of input crops. CAVAC is now partnering with the MEF to develop a viable model for Agro-Industry Parks to overcome these challenges. This includes value chain studies for prospective crops, a site-specific feasibility study, identification of required utilities and logistics, analysis of potential models (PPPs, etc) and recommendations for the required regulatory settings. The analysis will identify an inclusive model for AIPs and their supply chains – i.e. one where smallholders are integrated on an equitable basis into production systems, risks of land grabbing are mitigated and gender equality is given due attention.



CAP-RED will take over CAVAC's role as the RGC's key technical partner in implementing this work. This may include supporting procurement and investment promotion, technical assistance to establish and strengthen inclusive value chains and production processes, assistance with required regulatory changes, and analysis to support replication and expansion. ADB has also allocated US\$150 million for a loan operation to support develops of AIPs in their latest Country Operations Business Plan, creating opportunities for collaboration.

Complementing work with AIPs, CAP-RED could also progress CAVAC's work with agri-food businesses and associations to strengthen sector performance. This could include boosting capacity for product development, efficient production, food safety compliance, business management, skills needs and regulatory challenges. Support would be tailored to specific challenges facing women-led businesses, particularly given their predominance in the sector (which also impacts on issues such as access to business finance). Khmer Enterprise – the independent RGC agency responsible for SME development – has proved a capable partner in this space and further collaboration should be pursued.

IO 4: Industry, the public sector and academia strengthen collaboration on agri-food product innovation.

Closely linked to IO3, CAVAC has worked with the agri-food sector to strengthen product innovation, which is an important prerequisite to industry development. To date, this has included working with agri-food companies and associations to identify profitable food products (e.g. purees, rice-paper rolls, etc) and support product development and commercialisation, including through collaborations with academia (the Institute of Technology of Cambodia) and Khmer Enterprise. This workstream has proved successful and should continue and evolve.

CAP-RED should work with the RGC and other partners to explore and trial policy options for transitioning over time from an ad-hoc approach to product development into a more established food product innovation platforms. As a long-term vision, this could consider models such as Food Innopolis in Thailand which bring together industry, academia, public investment and research and development incentives in a physical hub. This work could potentially be combined with the AIP workstream. Potentially this workstream could be integrated into IO3.

EOFO 4 and 5 – Trade and investment

In this domain, the Partnership's work will be targeted at expanding market access for the private sector, while simultaneously enhancing the Cambodian private sector's capacity to take advantage of those opportunities. International trade and investment remain critical to Cambodia's growth path. Developing and implementing effective strategies to stave off current threats (erosion of preferential market access and special and differential treatment resulting from Cambodia's graduation, as well as competitors securing FTAs) is an RGC priority. Market access by itself will not be sufficient. The capacity of the underdeveloped domestic private sector to participate in an internationally integrated economy will be equally important.

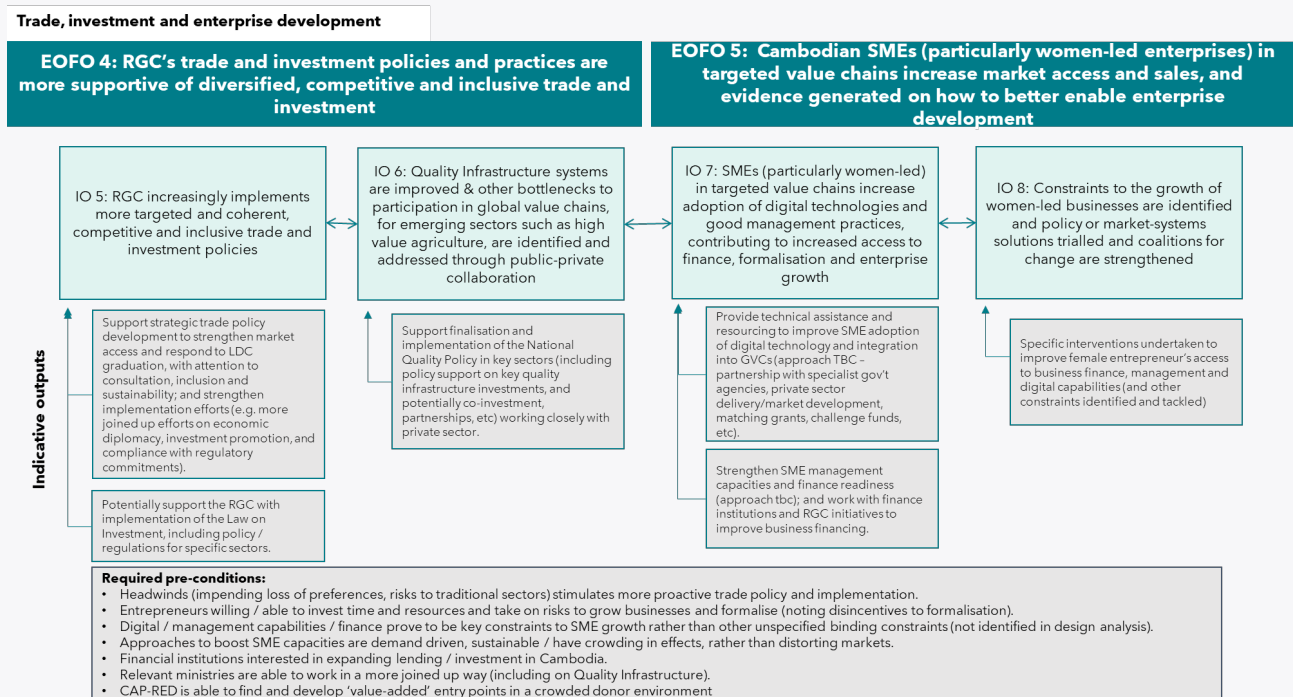
This is reflected in two related end-of-facility outcomes: that, by the Partnership's conclusion, the **RGC's trade and investment policies and practices are more supportive of diversified, competitive and inclusive trade and investment** (EOFO 4), and that **Cambodian SMEs (particularly women-led) in targeted value chains increase market access and sales, and evidence is generated on how to better enable enterprise development** (EOFO 5).

Four intermediate outcomes will contribute to these EOFOs (the first two to EOFO 3 and the latter to EOFO 4):

- IO 5: RGC increasingly implements more targeted, coherent, competitive, and inclusive trade and investment policies.
- IO 6: Quality Infrastructure systems are improved and other bottlenecks to participation in global value chains for emerging sectors such as high value agriculture are identified and addressed, including through public-private collaboration.
- IO 7: SMEs (particularly women-led) in targeted value chains increase adoption of digital technologies and good management practices, contributing to increased access to finance, formalisation and enterprise growth.
- IO 8: Constraints to the growth of women-led businesses are identified, policy or market-systems solutions are trialled and coalitions for change are strengthened.

Figure 6 summarises the program logic for this domain.

Figure 6: End-of-Facility Outcome 4 and 5




IO 5: RGC increasingly implements more targeted and coherent, competitive, and inclusive trade and investment policies.

CAP-RED will assist the RGC to develop a proactive, strategic response to LDC graduation, including supporting an upcoming trade policy review and subsequent development of an overarching trade policy. This will include assessing threats and opportunities and identifying prospective sectors and subsectors (supported by value chain studies to demonstrate feasibility) for diversification as well as the trade mechanisms that could support relevant market access (including FTAs, regional agreements, GSP+, etc).

The Partnership would also support negotiation efforts (bilateral, regional and international) aimed at leveraging those mechanisms to best effect. Such analysis would also help the RGC to target regulations and sector-specific incentives being promulgated under its recently reformed Law on Investment. CAP-RED would ensure that underpinning analysis had a strong focus on gender equality and social inclusion – drawing out the implication of different diversification strategies on women and rural poverty. It would also help the RGC to convene stronger dialogue with the private sector to inform policy options – including by improving public availability of information about trade agreements, as well as strengthening inter-ministerial coordination to determine positions. To help improve uptake of opportunities created by trade policies and agreements, CAP-RED would help establish an FTA portal providing information to industry.

The Partnership would also support the RGC **to strengthen trade and investment promotion work, which is often disjointed**. Again, this could include stronger, targeted engagement with the private sector on trade and investment opportunities, investment profiles, guides and campaigns (including specific investment opportunities in emerging sectors), strengthened market intelligence, and more joined up economic diplomacy efforts (involving Cambodia's diplomatic network, the CDC, Chambers of Commerce, etc).

To participate fully in a range of trade agreements, Cambodia will also need to strengthen its compliance with and reporting on, a range of commitments in areas such as competition policy, trade facilitation, intellectual property and electronic commerce. CAP-RED may support inter-ministerial coordination to improve coherence, accountability and reporting, and strengthening the regulatory development process in targeted areas.



IO 6: Quality Infrastructure systems are improved and other bottlenecks to participation in global value chains for emerging sectors including high value agriculture are identified and addressed through public-private collaboration.

To access export markets, Cambodian producers need to meet relevant international standards (for example, in meeting Sanitary and Phytosanitary (SPS) requirements). This requires Cambodia to agree and promulgate conforming national standards and to establish approaches that encourage compliance, testing and certification (i.e. Quality Infrastructure' services or 'QI Services').

Analysis by CAVAC and other partners indicate gaps in efficient provision of those services hampering production of quality conforming goods. CAVAC has been working with SNEC/MEF to develop an overarching 'National Quality Policy' to outline a rational, prioritised and efficient approach to the provision of those services. Following from the policy, CAP-RED can support more granular work to identify specific quality infrastructure services required – particularly for the agriculture and agro-processing sectors (but potentially also for other emerging sectors) – and to assess the most efficient way for their delivery (e.g. publicly, privately or through PPPs) to support decisions on investment. CAP-RED may also provide implementation support (e.g. design and procurement of PPPs, blending finance with other partners to establish QI Services, etc). This work must be closely coordinated with agriculture domain workstreams.


In addition to QI Services, this component may also engage with the RGC and the private sector to identify other bottlenecks in emerging sectors (again, particularly agriculture and agro-processing) such as missing market elements (logistics, cold chain, packaging warehousing, etc) and public goods gaps inhibiting value chain development and investment. It could use a range of tools (feasibility and value chain studies, co-investment and grants, policy development, etc) to pilot solutions and crowd in investment. Again, this work would be co-extensive with value chain development work in the agriculture/agro-processing and infrastructure domains (with its focus on logistics development).

IO 7: SMEs (particularly women-led enterprises) in targeted supply chains increase adoption of digital technologies and good management practices, contributing to increased access to finance, formalisation and enterprise growth

This component focuses on resolving some of the constraints identified as currently preventing the broader emergence of more dynamic, growth-oriented Cambodian businesses. In particular, it is concerned with supporting greater integration of Cambodian businesses into the FDI-financed export sector and equipping them to better take advantage of enhanced market access (covered in other aspects of this domain). Based on a hypothesis of a 'missing middle' of Cambodian SMEs, it is presently targeted towards tackling constraints that SMEs face to upgrade and grow. However, this assumption should be interrogated during the inception phase, with analysis on whether targeting of SMEs is warranted or a broader approach taken. To achieve synergies with other program domains (EOFO 3, 4 and 6), work in this area could target relevant sectors – for example, agro-processing businesses.

Digital transformation is critical to the expansion and regional integration of Cambodians businesses. Engagement in e-commerce (both customer and business facing) will help SMEs to connect into value chains, ameliorating challenges with market intelligence and quality conformity. But that transformation also encompasses adopting developing digital services as a new source of growth and using digital technologies to improve production processes, reduce costs and improve firm management (through basic applications such as using digital accounting software).

As well as working directly with the private sector on digital adoption, CAP-RED could partner with various Cambodian entities potentially including Khmer Enterprises, the Techo Startup Centre (Cambodia's startup incubator/accelerator), the Ministry of Science, Technology and Innovation (MISTI), business associations, universities and technology institutes in the design and implementation of programs to foster this transformation (as well as active partners such as USAID and UNDP). This could include innovation loans, grants and challenge funds to support the adoption of digital technology, establishing platforms / marketplaces providing SMEs access to information about relevant digital services and providers, supporting the implementation of already established 'tech roadmaps (agritech would be of particular interest) and developing digital sector investment profiles.



SMEs often operate as informal family businesses, with rudimentary management and governance, limiting their capacity to attract finance and grow. **CAP-RED will work with partners on initiatives to build the management capacities of SMEs, including with a view to making them more ‘finance-ready’** (some of these programs could link to the digital support programs). There are risks of interventions of this sort to be supply driven and market distorting, so the approach will need to be carefully designed. These workstreams could also generate evidence on **pathways to formalisation** which is of particular interest to the MEF.

In terms of the supply of finance, the banking sector is heavily concentrated in real estate and construction, and conservative in its business lending (often requiring land as collateral). CAP-RED could assess current constraints to lending including any regulatory barriers, gaps such as reliable credit score services or affordable accounting services for SMEs (including through fintech solutions), as well as bank capacity for inclusive SME lending. It could then work with relevant authorities and partners to design and implement relevant policy reforms, and trial and scale new services or approaches. The RGC is already investing more in private sector-implemented SME lending initiatives (SME Bank, Credit Guarantee Scheme) and CAP-RED could partner with MEF in assessing how these initiatives are working and what improvements could be made.

IO 8: Constraints to the growth of women-led businesses are identified, policy or market-system solutions are trialled and coalitions for change are strengthened

This IO is critical to achieving CAP-RED’s inclusion goals, particularly relating to gender. Women lead most Cambodian enterprises (particularly micro-businesses), but this tails off for larger firms, suggesting gendered constraints to growth and formalisation. CAP-RED will invest significant attention and resources into identifying and seeking to find solutions to those constraints and catalysing long-term structural change (IO 8).

This could include partnering with producer groups, business associations, businesses and relevant organisations such as SHE Investments, Impact Hub and the Disability People’s Organisation to **analyse the specific problems constraining women-led businesses and entrepreneurs with disabilities**. Partners could be supported to develop collective responses themselves or recommendations could flow into workstreams described above – for example, developing tailored approaches to financial services or digital upgrading support. MOWA has also expressed interest in establishing ‘Women’s Development Centres’ (WDCs) throughout the country, including to support entrepreneurialism. There may be value in assisting MOWA to develop and evaluate different models, options and partners for the WDCs and helping to pilot preferred approaches.

At a more structural level, CAP-RED could also help to **resource networking and formation of coalitions for change, better organised to influence the transformation of the conditions for economic empowerment of women and marginalised people**. This could include working with existing organisations representing women-led businesses to expand their membership and networks (and value proposition to those networks). It would also involve resourcing and facilitating dialogue between those coalitions and the government and broader private sector, on how to reduce barriers to women’s equal economic participation, particularly as entrepreneurs.

EOFO 6 – Infrastructure services

As set out in Section B, the three main infrastructure challenges are the gaps in services (particularly in peri-urban and rural areas), their mixed quality, and high costs (particularly for energy). In turn, this mainly results from weaknesses in key aspects of public investment management as well as institutional and regulatory arrangements at both a cross-cutting and sector level that often are not conducive to private sector investment and high-quality PPPs. Figure 7 summarises the program logic for this domain.

DFAT is planning its engagement on infrastructure in Cambodia as a portfolio, constituted by CAP-RED, but also the recently established Partnerships for Infrastructure (P4I) programs and MAP-funded Mekong Water Solutions (MWS). P4I will take on cross-cutting support to build the RGC’s capacity for public investment management and PPP development. P4I will support MEF and line agencies to strengthen key aspects of the project cycle such as project appraisal as well as helping to establish and train MEF’s new General Department for PPPs.

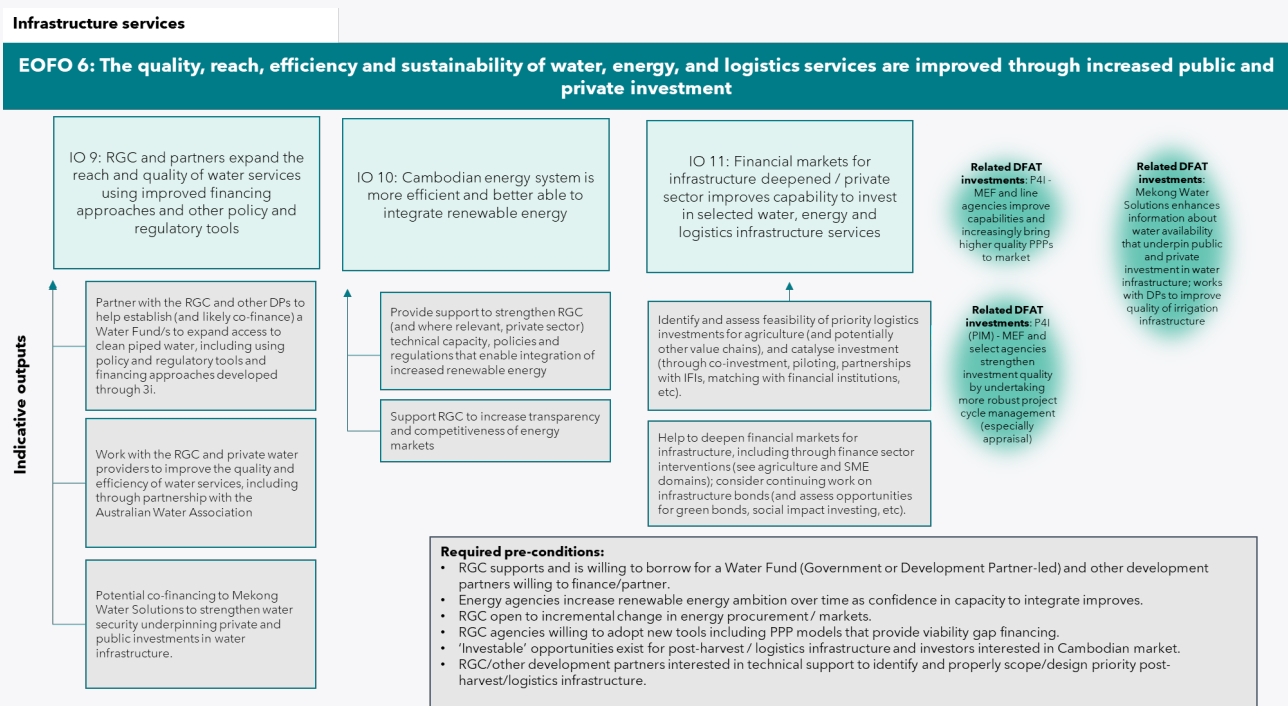
CAP-RED will complement this by focusing on strengthening performance in select sectors where Australia has a comparative advantage in terms of existing knowledge, relationships and leading Australian capabilities. The Infrastructure EOFO is therefore that: **The quality, reach, efficiency and sustainability of water, energy and logistics services are improved through increased public and private investment.**

Three intermediate outcomes are associated with this EOFO:

- IO 9: RGC and partners expand the reach and quality of water services using improved financing approaches and other policy and regulatory tools.
- IO 10: Cambodian energy system is more efficient and better able to integrate renewable energy.
- IO 11: Financial markets for infrastructure deepened / private sector improves capability to invest in selected water, energy and logistics infrastructure services.

Broadly, these objectives will be pursued in two inter-related ways, reflected by the intermediate outcomes. Firstly, in those select subsectors, CAP-RED will work with the RGC to strengthen its policies, regulatory approaches and public investment²¹ as well as to shape an enabling environment that is more attractive for quality private investment. Secondly, CAP-RED will engage with the private sector to understand the constraints to investment in these sectors and to work with businesses, financial institutions, and regulatory authorities to find innovative financing solutions and to crowd in investment.

Figure 7: End-of-Facility Outcome 6




Work in this domain will build on the infrastructure-related policy work of 3i and CAVAC. It will initially continue the **focus on water and energy, where existing programs have been active and explore expansion into logistics.**

Piped water

Building on existing 3i workstreams, CAP-RED will support the RGC to implement its Provincial Investment Plan ('PIP' - which 3i helped develop) with the objective of reaching universal clean water coverage by 2030. The PIP identifies remaining areas without piped water coverage and investment strategies and policy tools to incentivise network expansion. These tools are derived from 3i's experience and analysis, having successfully leveraged private network operators' capital to expand piped water access for one million more Cambodians. Relevant

²¹ Refer to Section B for an elaboration of what is intended by the term 'quality' in this context (as distinct from more technical definitions of quality infrastructure).



policy tools include viability gap financing, results-base financing and smart subsidies, licencing approaches including site clustering, variable tariffs and new business models such as bulk water.

CAP-RED's primary focus will be helping the RGC to use these policy tools to expand coverage (as distinct from 3i which had its own sizeable investment fund). This will include **assisting the RGC to consider establishing and managing a public Water Fund aimed at efficiently and equitably expanding coverage leveraging private sector capital**. 3i is currently completing a scoping study for the Fund. This will likely involve collaboration with other development partners who would supply concessional or blended finance (with the ADB, World Bank, Korea and Japan amongst potential partners). There may also be scope for CAP-RED to collaborate with other donors on parallel funds that work outside of RGC financial systems, but under a common framework (e.g. USAID, Cambodia's new Green Bank, the Stone Foundation, etc). CAP-RED will also have a smaller investment fund to contribute to subsidies, blending finance to leverage contributions by the RGC, other development partners and the private sector. **CAP-RED's funding will also help pilot new approaches such as site clustering, bulk water and different treatment technologies**. 3i will have already fully scoped and completed procurement processes for these activities allowing CAP-RED to contract and mobilise them almost immediately subject to due diligence and agreements about risk allocation with DFAT.

Drawing lessons from the recent 3i Review, CAP-RED will be more attuned to gender and inclusion considerations, paying greater attention to the barriers to connection (as well as access) for women-headed households, people with disabilities and poorer people. As well as inclusion focused data collection and analytics, this may include trialling smart subsidies for relevant households as a financing component.


CAP-RED will also support the RGC to improve the quality and efficiency of water services, including capacity to set standards, support private water operators to improve operations, and to monitor and enforce compliance. This will also include introducing and promoting different technology options. CAP-RED will continue to partner with the Australian Water Association (AWA) on the quality agenda.

The Partnership will cooperate closely with the newly established **Mekong Water Solutions (MWS) initiative**. Building on CAVAC's legacy, MWS will partner with RGC and other development partners (including the ADB, the World Bank and potentially the Asian Infrastructure Investment Bank and European Investment Bank amongst others) **to strengthen water security** – modelling projected user demand against availability to assess infrastructure viability and prioritise investment (critical to creating greater climate resilience). MWS will also provide technical support for developing sustainable irrigation schemes, particularly the 'soft aspects' – establishing operations and maintenance systems – an endemic weakness in Cambodia which often results in wasted investments. This may include engaging trilaterally with China as we previously did in 2013-14, to reduce the risk of stranded assets. CAP-RED could potentially co-finance MWS given alignment in their objectives.

Energy

The infrastructure domain will continue 3i's work in the energy sector. To help reduce prices and increase the reliability and sustainability of services, CAP-RED will provide technical support to energy agencies (the Ministry of Mines and Energy, Electricité Du Cambodge, Electricity Authority of Cambodia) **to implement key recommendations from Cambodia's renewable energy strategy** which 3i recently helped develop. Technical assistance will focus on building Cambodia's capability to integrate more variable renewable energy (VRE), through work on the policies, regulatory and operational changes required to manage grid integration (demand/supply forecasting, integration planning and analysis, ancillary services, etc). This would aim to build RGC confidence in expanding the share of VRE required for a more forward leaning energy strategy.

CAP-RED will also work with MEF (and potentially other energy agencies) **on energy market reform issues, encouraging incremental reform to increase the transparency and competitiveness of energy procurement**. This could start by focusing on a) the terms of Power Purchase Agreements – which need to be modernised to account for the different operational requirements and risks associated with VRE; b) analysis of the likely efficiencies from more open procurement process; c) support to appraise unsolicited power proposals. In the medium term, it could also include policy support to assess options for more substantial competition-focused reforms. MEF has



expressed interest in CAP-RED support on these broad themes, but the appetite for reform will have to be regularly monitored given the complex political economy of the energy sector.

Infrastructure financing and logistics

As noted above, **Cambodia needs to mobilise much more private finance if it is to fill infrastructure gaps, particularly in the ‘missing middle’** (medium sized projects requiring external finance, but too small for concessional loans). However, outside of large projects, there is limited infrastructure lending or investment by financial institutions in Cambodia, despite relatively large pools of domestic savings in Cambodia.

On the supply side, this can be tackled by working with financial institutions to improve their understanding of infrastructure investing (for domestic institutions) and connecting them to specific opportunities (for offshore funds that have limited familiarity with Cambodia). On the demand side, **support can be provided to make project pipelines more bankable** through stronger feasibility analysis, and other interventions to reduce risk and improve returns (co-financing, blending, guarantees, etc). In some instances, CAP-RED could provide this support directly, and in other instances, connect project proponents to relevant services (e.g. the new credit guarantee corporation, regional impact investors, etc). With increasing volumes of green financing available, helping frontier market countries to develop bankable project pipelines is increasingly important. Expanding the types of financial markets operating in Cambodia may also be a useful way to tap into domestic financing. 3i has commenced work with the Cambodian Securities Exchange Regulatory Commission with policy and regulatory advice related to establishing an infrastructure bond market, and CAP-RED should assess moving ahead with the next steps in this work.

CAP-RED should particularly target this work on the logistics investments required to underpin new potential growth sectors in Cambodia (e.g. for agro-processing: storage, cold chain, warehousing, packaging, treatment, etc) and this should be a completely joined up effort with the agriculture/agro-processing and trade and investment domains. In nascent sectors, lack of a track record heightens risks for investors, so helping de-risk new types of investment is more needed to crowd in private sector finance. In some instances, a level of ongoing public subsidy may be needed to enable the provision of these services. CAP-RED will also take forward initial conversations on **a potential partnership with IFAD and MAFF** – with CAP-RED helping to identify priority post-harvest infrastructure and assess its feasibility and MAFF developing the infrastructure through an already agreed IFAD loan. InfraCo Asia – which has just broken ground on a significant cold chain logistics facility in Cambodia has also expressed an interest in collaboration to be followed up once CAP-RED mobilises.


Across its various workstreams, the Partnership will be trialling new approaches to infrastructure financing (e.g. various forms of viability gap financing, results-based financing, etc). It should document the effectiveness of different approaches and share experience with other infrastructure sector actors (RGC, Development Partners, etc) to encourage scale up. In this regard, it will be useful to partner with P4I, which will be working with parts of MEF responsible for improving the efficiency of infrastructure development.

Cross-cutting issues

GEDSI considerations will be incorporated across the domain, working with Ministries to undertake analysis on the specific barriers to service provision for women-headed households, persons with disabilities and other marginalised groups, as well as to improve community consultation to identify the needs and priorities of women and people with disabilities and to integrate those considerations into all stages of delivery. Potentially infrastructure Ministries could be supported to roll out gender-sensitive policy analysis and gender-based budgeting.

Support to expand renewable energy provision will contribute to climate change mitigation as does expanding piped water access.²² Expanding water supply also creates greater resilience against climate change impacts,

²² Analysis and modelling by Cambodia’s recently established Green Bank finds avoided emissions from avoided clearance and burning of forests/mangroves which Cambodians in unserved areas use to boil untreated water.



noting that Australia’s support through MWS will have a more intensive focus on improving water security across the country.

Preferred program modality

The Partnership will be delivered as a managing contractor-implemented developmental facility. This approach has been chosen for the following reasons.

- 1) A facility will enable CAP-RED to **work on inter-related constraints to inclusive growth across sectors**, and link practical problem solving with higher level policy reform. Other approaches considered are less suitable to synergising diverse workstreams and less able to integrate broader capacity for research and learning.
- 2) Economic reform is unpredictable. A **facility will allow risk to be managed by pursuing a balanced range of interventions** – shorter-term, clear outputs with a clear line of sight to inclusive development impacts and more ambitious (but uncertain) reform efforts with less predictable timeframes and interventions. In context of uncertainty, it will allow ‘adaptive’ approaches – adjusting course and shifting resources as the program tracks what is working (and what is failing). It also provides flexibility to DFAT should engagement settings change.
- 3) An appropriately designed facility will allow **DFAT to focus primarily on strategic direction and policy engagement**, rather than program management. It will support direct visibility, access and influence for the Australian Government, including through capacity building with counterpart agencies.
- 4) **It will create a balanced bilateral portfolio**. Australia has two existing large multilateral partnerships in Cambodia – a governance and human development-focused partnership with the World Bank (AUD 50 million) and a mine clearance and resilience-focused program with the UNDP (AUD 13.5 million). Cambodia also attracts a comparatively large volume of Australian-supported NGO programs (AUD 8.3 million in 2020-21) through the ANCP. Regional programs such as P4I will complement the Partnership’s work in infrastructure policy and add a responsive element to portfolio engagement in this important sector.
- 5) **It will provide value for money (VFM), optimising management structures**. Comparative analysis indicates that consolidating from several programs into one facility will realise efficiencies in terms of management (one leadership team rather than two or three), operational (office, IT, vehicles, equipment) and cross-cutting resources (design, M&E, communications, security, GEDSI, safeguards). It will also streamline management for Post. To realise this benefit, investment up front in the resources needed to mobilise and establish the Partnership is critical including clear articulation of Performance Assessment Framework and cross-cutting reporting requirements.

Other models for program delivery were canvassed in the Concept Note (annexed for reference). The AGB agreed with the preference for a developmental facility and accordingly, other options are not restated in this design document.

As articulated above, CAP-RED will work closely with the RGC, seeking to provide substantive support in its development and implementation of policy (i.e. working with and through partner policy systems). It is not intended that CAP-RED provide budget support or work through RGC financial systems (although Australia’s program contributions will be reported and reflected in Cambodia’s budget). The RGC is in a relatively healthy fiscal position with a strong revenue base (achieved with technical assistance from the Australian-funded PFM Trust Fund). While improvements have been made, the risks in procuring through Cambodian systems remain elevated. The Partnership may provide parallel co-financing with Cambodian programs/projects or output-based aid in some instances (having appropriately assessed fiduciary risk in any expenditure deemed higher risk).

E. Implementation Arrangements (How will DFAT engage?)



Implementation and management

CAP-RED represents an evolution in Australia's aid approach in Cambodia, **creating a platform for enhanced engagement and dialogue on economic policy issues of mutual strategic interest**. Implementation and governance arrangements are calibrated as such, with DFAT closely involved at a strategic level in setting program direction the program and playing a visible role in policy dialogue (while the managing contractor takes primary responsibility for technical leadership and operational management).

The Partnership will be implemented as a programmatic facility, managed by a Managing Contractor ('MC'). **The MC will be responsible for all aspects of delivering the CAP-RED program under the strategic direction of DFAT** as well as relevant governance mechanisms laid out below. This includes providing advice and recommendations on ongoing strategic direction, for developing detailed work plans reflecting the intent of the design, for identifying and engaging relevant stakeholders, for implementing activities (whether directly through MC staff or by contracting, grants or co-investment), and for monitoring and reporting on performance.


The implementing team will require a range of skill-sets including strategy development, stakeholder engagement and partnering, technical skills in key sectors, political economy analysis, finance, procurement and operations, risk management and safeguards, monitoring and evaluation and communications. Given the scope and complexity of the program, it will be important to have **a management structures that encourages collaboration and adaptive management**, devolving sufficient responsibility to avoid bottlenecks and inflexibility in the different domains. This will require a capable team leader (and management team), who is also able to distil a complex program into an ongoing clear narrative for a range of stakeholders. **The MC will also need to attract high quality technical resources** - ongoing personnel and short-term consultants, international and national – to deliver the program, particularly relating to economic policy / development issues to build credibility with key counterparts. Previous programs have successfully relied on Khmer staff taking various senior roles, and key personnel will be expected to transition into CAP-RED to maintain continuity on ongoing workstreams.

A lesson learned from other facilities is **responsibility for integrating GEDSI must be shared by all senior staff**. Delivering on GEDSI outcomes will be a key performance measure for all CAP-RED staff and the Partnership will provide support to staff to better understand and address GEDSI in meaningful ways.

DFAT at Post will provide ongoing strategic direction and oversight of CAP-RED. The MC will consult with and seek agreement from DFAT on strategy development and program implementation (before issues are submitted to higher-level governance mechanisms) – including facility and domain strategy development and updates, major activity selection and resource allocation and risk management. To retain an appropriate strategic-level role, Post and the CAP-RED will engage early on to determine what constitutes 'strategic-level' decisions. Post will need to ensure coherence and cooperation between CAP-RED and other Australian programs in Cambodia, both regional (P4I, MAP and potentially WISER as well as various bilateral investments relating to: PFM, social accountability, inclusion in public services and social protection).

Post will be responsible for leading engagement and policy dialogue with senior stakeholders, with early discussions establishing when DFAT should lead and when the MC engage directly with RGC and other counterparts. Post will review six-monthly reporting against the agreed M&E framework, engage in performance discussions based on this performance data as required, make assessments against milestone and performance-based payments. Post will also arrange an independent evaluation or review of the program, likely in year three or four of the program to support decision-making on an extension and 'design refresh'.

The existing Post establishment will manage the program, with Post's economic team lead nominated Senior Responsible Officer ('SRO'), supported by two more junior A-based officers and five LES. Most members of the economic team will be partly engaged in managing CAP-RED, but retain a significant range of other responsibilities such as managing other bilateral and regional programs (MAP, P4I, etc), political-economic reporting, and economic diplomacy. CAP-RED will likely take up approximately 55-65 per cent of team effort. Consolidation of several programs into CAP-RED creates efficiencies (one rather than multiple sets of management meetings, reports, risk management processes).



With the expansion in policy dialogue entailed, the MC will provide supporting technical expertise to Post. The different CAP-RED policy areas will be split across Post's team to enable team members to build subject matter knowledge and relationships with counterparts.

Head of Mission (HOM) and Deputy Head of Mission (DHOM) will have important roles in the program. DHOM, as head of Australia's development program in Cambodia, will Chair the Steering Committee (with RGC counterparts) and the SRO will escalate issues to DHOM/HOM as required. HOM and DHOM will also be regularly involved in CAP-RED convened policy dialogue with senior stakeholders (Ministerial level and Secretary of State) as well as public diplomacy opportunities (events, forums, handover of pilot infrastructure, etc).

Domain strategies and activity selection

Starting from the program logic, the MC will develop engagement strategies for each domain (as well as the policy sub-facility) within the first six months of the Partnership. These will validate that program logic and make any necessary adjustments based on consultation and analysis in the inception phase. This design presents an ambitious set of potential activities. The MC will need to carefully assess feasibility, avoid spreading too thin, and likely prioritise and pare back (or postpone some aspects for later years). It will be important to consult with other development partners to deconflict and/or find ways to work jointly.

The domain strategies will **identify early priority activities to deliver, including legacy workstreams transitioning from concluding programs**. They will identify key partners and modalities for activities, and resource envelopes. The strategies will be reviewed and updated annually and form the basis for CAP-RED's annual workplan. This will allow for ongoing adaptation, evolving to meet shifting priorities and evidence of what is and is not working, while still retaining a strong line of sight to outcomes.

The development of the strategies and selection of activities will be based on criteria listed below. **The most important consideration (noted below) will be maintaining CAP-RED's focus**. Often, change is not possible without tackling a series of inter-related constraints. This requires focus on constellations of selected interlinked problems –rather than ranging across a disconnected series of activities that are individually beneficial, but don't lead to meaningful changes. The criteria proposed is as follows:

- Alignment with and likelihood to make a significant contribution to DFAT and RGC strategic priorities
 - Such alignment will be judged by reference to the CAP-RED Goals, Objectives and EOFO and other DFAT overarching policies in effect; and to key RGC strategies (e.g. Rectangular Strategy, ER Strategy) and priorities communicated to the Australian Government.
- Existence of an Australian comparative advantage for the relevant field or activity.
 - Assessment of comparative advantage will be based on Australian technical capabilities (including opportunities for collaboration with the Australian public and private sector and academia), as well as relevant experience, knowledge and relationships in Cambodia.
- Coherence and complementarity with other aspects of CAP-RED and DFAT's other bilateral and regional investments to maintain focus.
 - The emphasis will be on whether the activity stands alone or is part of a larger body of work jointly contributing to EOFOs (or with other lines of Australian effort external to CAP-RED) which justifies the transaction costs (i.e. the building of relationships with relevant counterparts, resources required to gain familiarity with relevant issues and political economy).
- Demonstrated clear commitment from the RGC, the private sector or other relevant counterparts.
 - The question will be whether there is strong evidence of a real intent by the RGC, private sector or other actor to pursue change beyond the specific activity. This could include intent to meaningfully implement policy reforms or act on evidence generated and/or to invest additional resources (whether private sector/domestic revenue/debt-financing)
- Opportunity to integrate and achieve GEDSI outcomes through the activity.

- Activities and outputs which can be calibrated to advance gender and other social inclusion goals will be prioritised.
- Opportunity to amplify efforts by working with likeminded development partners and the private sector.
 - This will include consideration of whether there are strong opportunities to leverage CAP-RED work, for example, by providing technical work that will enable or strengthen the quality of loans provided by likeminded partners or leverage private sector contributions.
- Investment underpinned by a strong evidence base or data; or gaps in evidence necessitate policy work
 - Consideration will be given to whether there is a clear evidence base linking intervention to outcomes – for example, if similar policies / programs have been successful in comparative countries or if robust analysis has shown the importance of the intervention. Conversely, there may be cases where CAP-RED policy support is justified by the need to fill evidence gaps.

Governance Arrangements and Structure

Strategic Level Governance

A high-level **Steering Committee will be established to provide strategic direction and monitor performance**, meeting bi-annually. The final composition and arrangements for the Steering Committee are under discussion with the RGC. It will be co-chaired by senior representatives of the Embassy and MEF. Its membership will include officials from key counterpart agencies with a core group likely to include the Ministry of Commerce (MOC), the Ministry of Industry, Science, Technology and Innovation (MISTI), the Ministry of Agriculture, Forestry and Fisheries (MAFF) and MOWA. This list may be narrowed further. Other Ministries may be invited to discuss specific issues.


The Steering Committee will provide a forum for exchange on the RGC’s and Australian Government’s shared priorities for economic reform in Cambodia and be responsible for guiding the program’s strategic direction. Initially, this will include validating the relevance of CAP-RED’s program logic to Cambodia’s priorities (through the design and domain strategies). For the Partnership’s duration, it will assess their ongoing relevance considering any contextual changes or shifts in priority, recommend any changes in direction and request CAP-RED work on any other issues. It will review progress reporting and recommend appropriate actions in terms of adjusting activities, for example, cancelling or recalibrating poorly performing activities or expanding resources to areas demonstrating high impact. It will also review and endorse annual workplans.

The MC will support the work of the Steering Committee, preparing (in consultation with DFAT) the relevant strategic documents for consideration, annual work plans and performance reporting as noted in the management section above.

Subject to further discussions on governance arrangements with the RGC, a ‘Strategic Coordination Group’ will also be established to support the work and functions of the Steering Committee and meet on a more frequent basis (quarterly). This would include the DFAT, the CAP-RED Team Leader, representatives of MEF/SNEC, and potentially other key economic or cross-cutting agencies (MOC, MOWA). This group would serve several functions:

- First, it would coordinate across the RGC to identify Cambodian priorities for the policy sub-facility (PSF). The working group would also be delegated authority to endorse work between meetings.
- Secondly, it would allow for more frequent and informal exchange on evolving RGC priorities, updates on CAP-RED workstreams, and advice on how to continue to coordinate and progress different reforms involving multiple ministries (including dealing with bottlenecks or problems arising).
- Thirdly, it will be the touchpoint for developing the Steering Committee’s agenda and ensuring that the annual work plan aligns to RGC priorities.

Domain-level consultation and coordination



Below those levels, there will need to be mechanisms to **engage with various RGC Ministries to understand their evolving policy agenda relevant to CAP-RED themes**, to jointly develop concepts for CAP-RED support, and to partner through implementation. In some instances, this will simply involve developing (or continuing) working relationships with ministerial counterparts, including consulting with them individually in advance to feed into higher level governance meetings. However, given the inter-sectoral nature of many of the challenges CAP-RED intends to tackle, it will be important in some instances to work across multiple RGC agencies - as well as private sector representative groups - noting the tendency for RGC to operate in silos.

There are two potential ways that CAP-RED could take forward this engagement. **The first possible approach is to consult with existing inter-ministerial committees ('IMCs')** to understand their agendas, scope and agree areas of CAP-RED support and maintain ongoing cooperation. CAP-RED could also support formation of new issue-based IMCs, for example, CAVAC supported the formation (and now acts as the Secretariat) of a multi-stakeholder Agro-Industrial Park IMC. If this approach were preferred, the MC team (together with Post as appropriate) would engage with relevant committees on various parts of CAP-RED's agenda and workplan which would then be brought together and presented periodically to the Steering Committee.

An alternative approach would be to establish purpose-created IMCs for each CAP-RED domain, specifically created to cooperate with the Partnership on its program of work (which would then cascade up to the Steering Committee). This approach is more donor-driven, but common in Cambodia.

The exact composition and functioning of the governance and coordination mechanisms will be finally negotiated in the inception phase and **formalised in a Memorandum of Subsidiary Agreement** under the existing Australia-Cambodia Memorandum of Understanding on Development Cooperation. This will be based on the approach outlined above but may be varied depending on the protocols of counterparts.

It will also be important to consult and coordinate regularly with a range of development partners. This could be done by joining existing thematic working groups, by individual consultations with key partners and/or via a specific periodic consultation meeting with those development partners. At a domain level, CAP-RED will also need to foster relationships with relevant business associations and Chambers of Commerce.

Figure 8: Governance Structure



Policy Dialogue

CAP-RED will provide a strong platform to support policy dialogue with the policy sub-facility, particularly through the policy sub-facility. The implementation arrangements will position and equip DFAT to play an important role in policy dialogue (at a senior and working level), as well as facilitating dialogue between the RGC and the private sector, civil society, and technical experts.

CAP-RED will also facilitate senior Australian and regional economic policy-makers to engage with RGC counterparts. This could include exchanges and engagement with Australian agencies such as the Productivity Commission, the Treasury, relevant line agencies, or Australian economic policy think tanks. CAP-RED will consider establishing a small group of senior economic policy leaders as a reference group to provide ongoing, high level engagement on key policy reform issues over the course of the program. The Facility will work closely with them, updating and consulting them on policy reform projects and mobilising them at strategic points to engage in peer-level policy dialogue.

Given the scope of the Partnership, reforms will be pursued at a granular level across a range of topics. However, several consistent underlying messages will underpin the Australian Government’s policy dialogue on economic reform in Cambodia through CAP-RED and associated engagement:

- The **importance of economic diversification and avoiding over-reliance** to Cambodia’s resilience given a more challenging economic period ahead.
- The need to provide a **stronger enabling environment** to unlock diversified private sector investment in Cambodia – with a particular focus on skills, infrastructure, reduced regulatory costs (including informal costs created by corruption), and improved trade facilitation and other market-enabling services.

- The greater focus required on **concerted implementation efforts and institutional capacity building** following policy development.
- The value in **improving the quality of infrastructure expenditure**, with an emphasis on ‘soft’ elements, such as consultation and inclusion, design, systems for operations and maintenance, climate change resilience, and policies, regulations and tools (such as viability gap financing) that catalyse private sector investment. This also requires allocating resources to the soft elements.
- The **economic, social and political benefits of integrating a focus on gender and social inclusion** into all aspects of economic policy making, including through investment in rural development.
- That **sustainable natural resource management is critical to Cambodia’s resilient economic growth** rather than a luxury that Cambodian cannot afford.
- The imperative to **improve both public and corporate governance**, noting that issues of an uneven playing field, weak rule of law, and the lack of strong corporate governance inhibits investment, particularly from countries such as Australia.
- The cross-cutting relevance of efforts to **calibrate financial markets to support inclusive and productive business investment**, particularly for SMEs, agriculture and infrastructure.

These messages will serve as a framework for Australian economic policy engagement. A more detailed policy dialogue matrix will be developed in the inception phase, providing a more granular and extensive list of policy dialogue priorities, as well as identifying how advocacy will be pursued, by whom, and key audiences/influencers.

It is also important that **the program establishes a strong “communications for development” capability**. For pilots and policy ideas to influence the RGC, the private sector and other development partners, they must be effectively and persuasively communicated to those stakeholders. That may include social media, case studies, videos, visits and study tours, events, etc. CAP-RED will develop a communication strategy that identifies key target audiences and the communication tools and approaches that are likely to be most effective for different target groups (including taking into account GEDSI considerations).

Private sector engagement

Engaging directly with businesses and other market actors is integral to CAP-RED’s work as reflected in Section D. The purpose of such engagement will be to **understand and find ways to address the causes of market underperformance**. The Partnership will build an understanding of the formal and informal institutions and ‘rules of the game’ that shape market behaviour, and experiment with ways of changing attitudes and incentives, managing risk and removing impediments. This may involve escalating issues for dialogue with government, or co-investing with businesses to introduce innovations, practices and relationships that are new for Cambodia.

This is more necessary in a frontier market such as Cambodia. Low levels of information transmission, education and business trust dampen the uptake of innovation. The aim is not to assist those businesses per se: but to address underlying reasons why market forces are not encouraging productive investments. Success relates to market system changes, not the improved performance of individual businesses.

CAP-RED will apply a framework for using grant financing to subsidise activities of businesses building on lessons from 3i and CAVAC. Any co-investment should:

- have a clear development and economic rationale: it should be addressing a market or institutional failure or have a clear equity or distributional objective.
- record evidence of methodology and results to enable learning and adaptation;
- demonstrate additionality – without the intervention outcomes would not occur, or be substantially delayed;
- bring about sustainable changes, usually with a view to ‘crowding in’ other uptake – the continuation of development outcomes should not be dependent on continued external support;

- target the underlying cause of poor market performance as directly as possible minimising market distortions.

While not every individual grant need contribute to gender equality or social inclusion, this should be monitored at a portfolio level, ensuring that co-investment overall contributes to GEDSI goals. The framework will also indicate how reputational and fiduciary risks to DFAT will be managed. Exit strategies should be designed at the outset.

Early Activities

The inception phase of the partnership will last approximately six to nine month and will have five key workstreams:

- ensuring a smooth organisational transition from CAVAC and 3i to CAP-RED;
- establishing CAP-RED’s management structures, systems and processes;
- progressing key activities inherited from CAVAC and 3i;
- validating the CAP-RED program logic and formulating domain strategies and workplans accordingly; and
- engaging and building relationships with key stakeholders and situational awareness.

A short description of each workstream and timeline follows.

First three months: Organisational transition – most critically, this will involve employing key 3i and CAVAC staff already identified as critical for continuation of existing workstreams. It will also involve reviewing existing office space and asset lists and identifying those that will be transferred to the new program or donated to RGC partners, as well as CAVAC policies and procedures with a view to adaptation for the new program as relevant.

First seven months: Management structures, systems and processes establishment – this will include engagement of remaining staff and establishing management structures, values and protocols, establishing an office and putting in place a range of policies and procedures including fraud and safeguards, financial management, procurement, monitoring and evaluation systems, governance arrangements, a memorandum of subsidiary agreement with RGC, registration of the new entity and a public diplomacy and communication strategy.

First seven months: Progressing key ongoing activities – CAP-RED’s program logic picks up some existing CAVAC and 3i workstreams. Both programs will provide handover documents indicating ongoing priorities aligning to CAP-RED’s ongoing objectives and proposed next outputs. The CAP-RED team should review these as a matter of priority (i.e., within the first four to eight weeks), engage with the previous programs for elaboration, and assess which activities should continue or proceed into their next phase and which exited. Continuing activities should be integrated into the domain strategies. An interim budget should be developed to cover the remainder of 2022, to resource continuation of those activities and the broader work planning process (workstream four noted above).

Key activities which should be given early attention include:

- Agro-industrial parks: novating the existing service contract and commencing the work on a site-specific feasibility study and associated workstreams to develop AIPs (such as value chain studies, regulatory issues, or utilities)
- Agri-food desk: continuing work to strengthen Cambodia’s agricultural investment promotion efforts²³
- Continuing work on Cambodia’s National Quality Policy and follow up recommendations on early implementing actions.
- Continuing the procurement process already commenced through 3i to trial a) bulk water models and b) clustered piped water sites

²³ Note – these first two activities are partly funded by the Mekong-Australia Partnership and have dedicated funding for 2022-23 and 2023-24.

- Engaging with the RGC and development partners on the recommendations of a 3i study on a Water Fund and commencing policy, design and implementation work on the water fund, including potential CAP-RED co-financing.
- Engaging with energy agencies on implementation of the Renewable Energy Strategy and off grid solar pilot.
- Relevant CAVAC work on mechanisation and sustainable production (including quality seed and planting material work)

First seven months: Validating the CAP-RED program logic and formulating domain strategies and a workplan accordingly – this will include reviewing and testing the program logic, rationales and activities described in this design (including against the criteria set out in the design). This process should involve the CAP-RED technical team, the QTAG, RGC counterparts, and private sector and other development partners. It should include testing views on whether the constraints are relevant, whether the proposed interventions are likely to catalyse change, whether they are still gaps, and whether demand for support remains. It should also include assessing the capacity of the CAP-RED team and budget envelope to deliver on the range of outputs and to adjust accordingly. It is likely that a process of prioritisation and winnowing will need to occur, with some outputs shelved permanently or postponed to later in the program.

First seven months: Engaging and building relationships with key stakeholders – this will follow naturally from other workstreams, but attention should be given to developing relationships with: members of CAP-RED’s governance group, key MEF and SNEC counterparts for the policy sub-facility, counterparts in RGC agencies for newer areas of work, development partners with whom there are prospective opportunities for cooperation.


Profile and Public Diplomacy

CAP-RED will be Australia’s flagship development program in Cambodia. As such, **considerable effort will be put into building its profile and public diplomacy**. CAP-RED’s commencement coincides with the 70th year of diplomatic relations and Cambodia’s charring of ASEAN, bringing additional attention and opportunities. This will include a visible launch event, potentially timed to coincide with the Foreign Ministers’ visit for ASEAN, joined by senior Cambodian counterparts. This would substantiate the narrative that Australia is a long-term, reliable partner, providing substantial, high-quality support on key challenges facing our ASEAN neighbours.

The facility will engage dedicated communications resources. The MC will be required to produce a communications strategy in the first three months of inception covering program launch, setting out branding approach, identifying relevant target audiences, elaborating key messages and themes for communication efforts, identifying different media and social media channels to be used and a range of standing communications products to be developed, as well as a rolling plan for different communications activities. This will be done in close consultation with the Embassy’s public diplomacy team. As noted above (in the Policy Dialogue Section) the communication strategy will focus both on public diplomacy and communications for development.

Given CAP-RED’s multiple strands and approaches, there will be opportunities for diverse approaches to public diplomacy. This will include frequent policy events and forums involving the Ambassador, Embassy staff and senior Cambodian Government officials which will be **profiled in traditional media as well as through Embassy and Cambodian Government social media channels**, both of which have extensive reaches. At the same time, there will be **opportunities for more grassroots engagement**, including through tangible support for agriculture, infrastructure and SMEs across various provinces, demonstrating the breadth of support and providing opportunities for visible provincial engagement by senior officials. There will be an emphasis in communications efforts on individual stories – for example, of Cambodian entrepreneurship and innovation – which generate substantial audience engagement.

Sustainability



An important determinant of the sustainability of Cambodia's future growth path lies in the extent to which it creates broad-based opportunities for the people, carefully manages natural resources, and diversifies economic activities and sources of investment. For an economy heavily reliant on private sector initiative, this in turn depends on how well the government shapes incentives for private investment and manages its own public investment. CAP-RED is designed to help the RGC address these challenges.

The focus of Partnership is on systemic change – promoting economic policy reforms that produce enduring changes in incentives facing market actors, as well as helping market actors to overcome barriers to the adoption of innovations. CAP-RED's sustainability is not then determined by perpetuation in changes for specific households, but the durability of changes in incentives, the reduction in constraints and the increased competitiveness resulting from the Partnership's work. On the policy front, this will be a function of the quality of support to policy development and institutional change.

The Partnership will emphasise implementation of policy and provide targeted support to RGC efforts to coordinate implementation across ministerial boundaries and provide active support to strengthen implementation capacity. This will increase the likelihood that the policy changes supported by the Partnership persist when support ends.

A key assumption is that **support and mentoring in solving real policy problems and implementing policy will lead to ongoing, sustainable changes in institutional capacity and performance** – even if those changes are likely to be uneven. This assumption aligns to the literature on “Problem-Driven Iterative Adaptation approaches”.²⁴ The possibility of extending the Partnership beyond the initial five years, will allow the Partnership to adopt the medium to longer term style of engagement that successful policy and institutional change requires. The Partnership's emphasis on supporting gender equality and social inclusion objectives also supports sustainability, given that inequality and exclusion undermine social and political stability, and marginalises a large proportion of society from maximising their productive contribution to social and economic development.

F. Monitoring and Evaluation (How will DFAT measure performance?)

CAP-RED is multi-thematic facility that employs different development approaches. The program is implemented in the context of complex individual and intra and inter-organisational relationships and incentives. Some areas of the program also build on decades of DFAT support to Cambodia and there is a sound body of knowledge about working in these, while other areas are newer and will take time for the implementation team to better understand.

The first purpose of managing for impact is to **generate usable and useful information and insights for CAP-RED's implementation team** to manage and make decisions related to strategies; portfolio and intervention design, implementation, adaption and exit; stakeholder relationship development and management and resource allocations and use. Curiosity is a critical part of CAP-RED's management practices, and the M&E system is to support a culture of inquiry. CAP-RED cannot effectively manage for impact without ensuring M&E is embedded in program practices and mindsets, under the leadership of the Senior Management Team. CAP-RED managers require more detailed and frequent information than DFAT Program Managers (although more detailed data should be available to DFAT on request).

CAP-RED will periodically synthesise performance information to provide DFAT with a consolidated holistic picture to inform strategic decision-making, which is the second purpose of the M&E function. CAP-RED's M&E system is expected to have generated sufficient quality evidence over the life of the program to be able to answer six key evaluation questions (Table 1).

²⁴A series of publications can be accessed at Harvard University's Building State Capability resource site: [Publications | Building State Capability \(harvard.edu\)](#)

The third purpose is to provide synthesised progress, achievement and issues information to the CAP-RED Steering Committee and other key stakeholders, for example, other donors working in the same sector or on the same issues.

Table 1: Key evaluation questions

Key evaluation questions	Key areas of inquiry
<p>1. How effectively has CAP-RED (DFAT and MC) managed the facility for impact?</p>	<p>Responsiveness to opportunities and requests</p> <p>Quality of program implementation, inputs and outputs</p> <p>Clarity and rationality of strategy</p> <p>Synergies within and across domains</p> <p>Quality of engagement with key stakeholders including RGC</p> <p>Development of partnerships with other complementary actors and program leverage</p> <p>Use of political economy analysis, data and evidence to inform designs and manage implementation</p> <p>Efficiency of management systems and approaches</p>
<p>2. To what extent have CAP-RED's activities been effective in achieving outcomes related to improving RGC policies and policy processes?</p>	<p>Evidence of progress towards / achievement of outcomes</p> <p>Evidence of changes in RGC policy and practices that support competitiveness and enable quality private investment.</p> <p>Evidence of changes in RGC policy and practices strengthening the quality of public investment.</p> <p>Indications of capacity development showing up as improved practices or processes in policy development and implementation (for example, stakeholder consultation and engagement; using evidence; addressing gender equality and social inclusion in policy processes, planning and budgeting; more concerted and coordinated implementation efforts)</p> <p>Factors helping and hindering improvements, and negative outcomes</p> <p>Contribution of changes to the wider policy making environment</p>
<p>3. To what extent have CAP-RED's activities effectively achieved program outcomes related to improving the functioning of markets?</p>	<p>Evidence of progress towards / achievement of outcomes</p> <p>Evidence of individuals and businesses adopting innovations (new technologies, practices, products, business models, etc)</p> <p>Evidence of new areas of / approaches to service provision (financial services, different PPP models, etc)</p> <p>Evidence of new networks both between different parts of the private sector as well as with other actors (e.g. academia)</p> <p>Factors promoting and hindering innovation and business development (including gendered); use of technology to spur change (e.g. digital helping to deal with information issues); spill overs; negative outcomes</p>

Key evaluation questions	Key areas of inquiry
<p>4. To what extent has CAP-RED: influenced RGC policy to be more gender-sensitive and inclusive ; and contributed to greater gender equality and inclusion in targeted sectors or sub-sectors?</p>	<p>Evidence of progress towards / achievement of gender equality and inclusion outcomes</p> <p>Who has benefited, how and how much: breadth, depth and duration of changes experienced by different groups, including different size and type of enterprises; men and women; rural and urban; persons with disabilities; socio-economic status.</p> <p>The degree to which the terms of relevant groups (women, persons with disability, rural populations, etc) participation in and access to economic opportunities and resources has changed and why. Includes comparative analysis according to socio-economic characteristics</p> <p>CAP-REDs contribution to system changes, and the significance of these in changing underlying power dynamics and mental models</p> <p>Changes in horizontal and vertical inclusion and exclusion</p> <p>Factors helping and hindering improvements and negative outcomes</p>
<p>5. How effectively has CAP-RED applied new knowledge and evidence from its monitoring and evaluation practices, research and political economy analysis to improve the likelihood of sustainable outcomes?</p>	<p>The difference applied learning has had on the program’s implementation, effectiveness, impact and sustainability</p> <p>Factors helping and hindering the use of information, improvements and negative outcomes</p>
<p>6. To what extent are the outcomes and impacts to which CAP-RED contributed sustainable?</p>	<p>Degree to which policy changes remain in effect and indications that will be implemented beyond life of CAP-RED</p> <p>Evidence of ongoing improved RGC capacity / approaches to policy development and implementation</p> <p>Evidence of ‘crowding in’ – private sector actors continuing to take up innovations (business models, services, etc) following intervention ceasing (or indication that they will do so).</p> <p>Systems changes within RGC, private sector actors (for example, entrepreneurs and businesses, business associations); and other key stakeholders</p> <p>Degree to which outcomes and impacts are sustainable for different groups, including micro, small, medium and large enterprises, male and female and poor and non-poor beneficiaries²⁵</p> <p>The degree to which the changes are systemic</p> <p>Factors helping and hindering sustainability</p>
<p>7. To what extent does the Cambodia Government and people consider Australia an effective partner in improving the</p>	<p>RGC views about Australia’s support, including evidence that RGC seeks CAP-RED support on priority areas of work</p>

²⁵ Intersectional analysis is an important aspect of the monitoring and evaluation related to assessing inclusiveness.

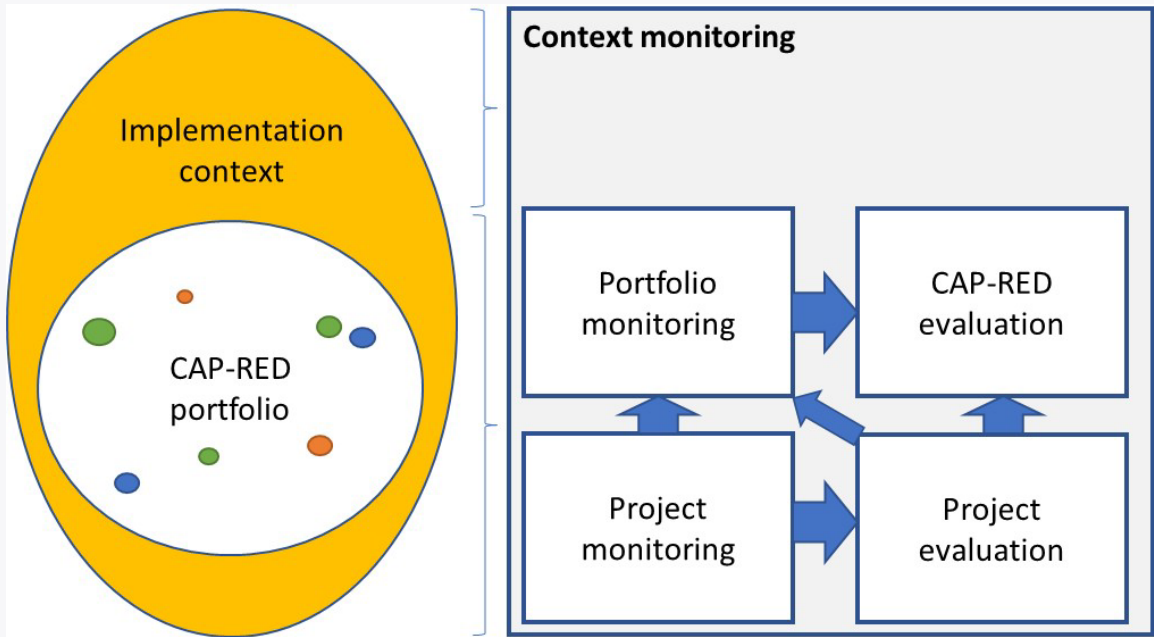
Key evaluation questions	Key areas of inquiry
inclusiveness, competitiveness, and diversification of Cambodia's economy?	<p>RGC view on whether CAP-RED has supported institutional capacity (in addition to direct outcomes)</p> <p>The relevance, efficiency, and effectiveness of DFAT partner strengthening activities</p> <p>Effectiveness of communication / public diplomacy efforts to raise the profile of Australia's contribution in Cambodia.</p> <p>Factors helping and hindering improvements, and negative outcomes</p>

CAP-RED's approach uses a theory based and utilisation focused approaches to M&E. An integrated methodology of program portfolio and intervention level M&E will be needed to fulfil DFAT M&E Standards 2 and 3. It covers:

1. Project monitoring and evaluation
2. Portfolio monitoring and evaluation
3. Context monitoring, including political economy analysis

Annex E describes each in more detail while a summary is provided below.


Figure 9: Illustration of CAP-RED's integrated approach



Portfolio monitoring will be supplemented by a Performance Accountability Framework (PAF) that is focused, mostly, on the quality, quantity and timeliness of management and operational processes. The PAF aims to:

- help DFAT and facility managers develop shared and transparent expectations regarding facility performance, and support a culture of performance management;
- provide a framework for examining and managing the performance of facilities, including continuous improvement and learning²⁶.

²⁶ A further objective of the PAF is to enable DFAT to assess the strengths and challenges of its portfolio of facilities on a consistent basis.



The development and implementation of CAP-RED's M&E system will be completed on a rolling basis as the portfolio develops. During the inception phase, the MC is expected to develop the overall framework for the system, and put in place adequate resources (human, financial, equipment), that will be built on as the portfolio develops and matures. Sufficient flexibility must be built into M&E planning to enable it to meet the program's needs as CAP-RED develops and where necessary, extract useful data/reporting of regional DFAT programs that intersect or fund CAP-RED. M&E activities will be expected to be operational faster where legacy activities are transferred to CAP-RED from other DFAT investments. These investments provide some critical lessons for the development and implementation of CAP-RED's management systems, for example that appropriate GEDSI data is being collected to report on the indicators, and that data is used to inform adaptation in the Partnership's approach.

Data sources and methods

M&E activities will differ in their nature and size; be conducted using internal and/or external resources; and are expected to seek to answer some or all key evaluation questions (tailored to specific needs as necessary).

Project M&E tools will be developed together with activities. Similarly, CAP-RED will not have a single baseline study, but baseline data collection and analysis will be undertaken in a similar rolling fashion and where feasible may draw on other CAP-RED research and analysis activities, such as analysis of market constraints or value chain studies. The M&E team can support other implementation team members to ensure that analysis is sufficiently robust for different purposes.


To meet different purposes and timeliness, activities will use a variety of formal and informal data collection and analysis methods. Less formal methods, such as content analysis of meeting notes and capturing and analysing anecdotes, using smaller sample sizes for quantitative surveys will likely be used more frequently to provide rapid feedback needed by managers. Triangulation of data from different sources strengthens the quality of evidence and judgements about performance.

The program will draw on data and information from partners and may need to sometimes build partner capacity to attain accurate and timely information. Contracts and grants with businesses, government, and non-government organisations (and multilateral organisations if relevant) will include clauses related to output and outcome data collection, analysis and reporting, as well as data confidentiality including storage and use. Data will need to be disaggregated by gender and socio-economic group. Where businesses provide commercially sensitive operational data CAP-RED will implement data protection protocols for handling such information. Contracts and grant agreements should include adequate financial and human resources for undertaking monitoring and evaluation activities, with clear roles and responsibilities. Where CAP-RED collects data from partners and key stakeholders, it will ensure timely feedback loops to share analysis back to partners and key stakeholders (including beneficiaries) to build knowledge, share lessons and increase use of information.

CAP-RED may undertake or commission research studies, including political economy analysis, to support learning and decisions. Many program activities will already involve research elements and findings will be integrated into the M&E system. All political economy analyses will integrate considerations of gender and social equality, and include analysis of power relations, norms and incentives in shaping decision-making. Such research can also be used for M&E activities, such as informing baselines, thereby demonstrating value for money, but also in identifying and understanding risk. At the research design stage, the M&E team will review draft terms of references and work with colleagues to determine how such activities may fulfil dual purposes, agree methodologies etc. Consideration will be given to different information needs, feasibility and timeliness.

Learning fast is a fundamental driver of the success of CAP-RED. Internal reflection and learning will take place through informal day to day processes and in more structured regular facilitated discussions. Implementation teams will use after action reviews, or similar short rapid reflection discussions regularly.

The CAP-RED M&E Team will design facilitation processes and co-facilitate regular, at least six monthly, internal review workshops. Inputs into these workshops includes the analysis of portfolio performance, evaluation activities, project and activity-level - after action reviews. Project and activity-level learning may involve stakeholders the RGC or private sector partners CAP-RED is working with and/or beneficiaries, for example



agricultural producers, as collective learning is integral to testing new ways of working. Independent reviews indicate that 3i and CAVAC could have been more proactive in sharing research and analysis with the RGC and other partners to support broader sectoral improvements. This is a clear expectation for CAP-RED, particularly for analysis with broader implications, as distinct from more project specific performance information.

Individual teams within CAP-RED will also engage in reflection exercise. The M&E team can provide an objective critical friend perspective to support them, as well as bring insights gathered from across the program and identify cross-domain learning, that could be the basis to examine broader problems. These activities may highlight information or analysis gaps requiring further data collection or research.

External performance reporting

Annually, CAP-RED will analyse and synthesise portfolio-level performance and provide an assessment against expectations, and changes to expectations in the upcoming period. The assessment will clearly and honestly communicate where performance has met, exceeded, or not met expectations together with the factors helping or hindering performance. It will also describe proposed changes in activities (including potentially exit). DFAT will use the annual performance report for internal performance monitoring and reporting requirements. Formal reporting will be complemented by regular discussion, that also may be more issues based, between the MC, Senior Leadership Team (SLT) and DFAT. The annual written report will also include an assessment of progress and achievements against the PAF. Where necessary, the report will reference other more detailed performance analysis should readers need more detailed evidence.

Resourcing


CAP-RED's M&E will need to be cost-effective and appropriate to the context, considering budget, time, and data constraints. **M&E must be resourced adequately to meet its three purposes.** Resourcing must also reflect the complexity of the program, its multiple domains and modalities and the need for different M&E methods (including to capture systems change). As such approximately 4-7 per cent of CAP-RED's budget should be allocated for M&E, noting that much of the policy analysis and research work (e.g., baseline studies) can also be leveraged for M&E purposes.²⁷

The Team Leader is ultimately responsible for the effectiveness of CAP-RED's M&E systems but will be supported by specialised M&E resources – likely including an M&E Director as part of the SLT. SLT members should demonstrate an 'improvement mindset' - actively seeking out and using information to make decisions, developing an effectiveness culture and encouraging it in key internal and external stakeholders. The M&E Director will be supported by other dedicated staff members and have resources to engage external support as needed.

CAP-RED requires a management information system (MIS) to record, store and easily extract quantitative and qualitative data at the project and portfolio levels. A database will also enable more efficient automated simple analysis for learning and reporting. A primary criterion for the MIS is to improve the efficiency of data storage, collation, analysis and reporting. As outlined in the discussion of project monitoring in Annex E, the MC is expected to have integrated results and financial analysis and reporting. The establishment of the MIS should factor in how this will best be achieved.

To support program management the QTAG will be established in the first six months to assist with the review of key inception milestones. The QTAG will take on the role of external critical friend to the program and DFAT - close enough to implementation to understand what is happening and why, but a step removed from routine implementation. It will participate in annual portfolio reviews to provide advice on the strategic relevance of CAP-RED activities and their technical rigour, and examine specific issues arising from portfolio monitoring and project M&E. It should be viewed as a source of advice for more difficult strategic and technical questions or challenges arising. The QTAG will have relevant technical knowledge and skills to make these judgments (economic policy and private sector development, GEDSI, domain knowledge, M&E and strategy, Cambodia political-economy).

²⁷ CAP-RED may support public sector capacity development in monitoring and evaluation. Resources (financial and human) for these activities are drawn from the program budget and not this M&E budget.



They may review the M&E system and practices and provide recommendations on its fit for purpose. In years three to four, the QTAG will help design a facility evaluation (and may conduct the evaluation subject to views at the time) to inform DFAT decisions about an extension and ‘design refresh’. The review will be guided by the evaluation questions or a subset of them. The evaluation will seek to elicit a broad set of stakeholder views on program performance. Actionable recommendations will be drafted in consultation with stakeholders with clear responsibilities and timeframes, the implementation of which the QTAG will continue to monitor. The QTAG role may change over time in line with emerging needs but will always apply a GEDSI lens to its work.

G. Gender, Disability and Other Cross Cutting Issues

Gender equality, disability and social inclusion (GEDSI) are integral to the objectives of CAP-RED. At a high level, this is reflected in choices about areas of engagement. Australia has long worked in the agriculture sector in Cambodia because most poor people remain in rural areas, and absent inclusive agricultural modernisation (including agro-processing), a reversal in the earlier convergence between rural and urban incomes is likely. Similarly, given the number of Cambodian women deriving their incomes from MSMEs and SMEs working on enterprise development is a logical choice.

CAP-RED will integrate disability and social inclusion, but the most attention and resources will be focused on gender equality. This reflects the Australian Government’s prioritisation of women’s economic empowerment, and the scale of the challenge and potential impact. In practice, what this means is that policy and market systems work will give most attention to identifying how gender dynamics affect women’s access to economic opportunities and what can be done to empower women and remove barriers. While gender dimensions will receive the most detailed attention, CAP-RED will also undertake similar (if less intensive) analysis and problem-solving for constraints relating to disability and other forms of social exclusion (for example, lower socio-economic groups).


As elaborated in Section D, CAP-RED’s GEDSI work is encapsulated by an End of Facility Outcome, with the expectation that the whole Partnership contributes to its achievement. Some areas of the Partnership will have a more substantial role to play, with various outputs and intermediate outcomes specifying GEDSI-specific elements. In other instances where GEDSI is less explicitly addressed upfront, the Partnership will need to ensure that GEDSI concerns are integrated.

This will be achieved by **applying a GEDSI screening tool to CAP-RED activities** (building on the tool outlined in Annex A, but expanding it beyond its current gender focus including to encapsulate disability). Using the tool, program managers and specialist team members will analyse GEDSI dynamics affecting a particular sphere of action (e.g. differential roles, agency, impacts and access), representation issues (how to ensure diverse views inform decision-making) and design interventions accordingly. For example, in looking at infrastructure financing models, CAP-RED will build in analysis of how different policy options affect equity.

In terms of **disability**, the Partnership will work with Australia’s ACCESS program in Cambodia (which focuses on improving services for persons with disabilities and for women affected by gender-based violence), drawing on its technical resources and networks to inform how to best integrate disability considerations into CAP-RED’s work, including in the design of the GEDSI screening tool. This will include working with and learning from organisations representing persons with disabilities, and facilitating them to engage with policy-makers and business leaders on key barriers to equal economic participation.

Another lesson from CAVAC and 3i is that **GEDSI needs to be institutionalised in the leadership and culture of the program, and to be resourced appropriately to avoid relegation.** As outlined in the implementation arrangements, all staff will be responsible for delivering GEDSI outcomes and have their performance assessment tied to it, and GEDSI work will be properly resourced. This includes provision for specialist staff (outlined in more detail in the Statement of Requirements). This requires GEDSI issues to be embedded into M&E systems, including collecting disaggregated data where relevant, to enable reporting on the GEDSI EOFO in regular reporting.

The design process seriously considered a standalone GEDSI domain to elevate inclusion concerns. Ultimately, this was not preferred. The priority policy issues highlighted in the GEDSI analysis (see Annex A) are deeply embedded



in the different domains of the design. To have a separate domain risked creating a parallel architecture and activities, rather than a more integrated effort. For example, in looking at enterprise development and formalisation, having a single stream of work focused on constraints to SME growth including a sharp emphasis on gendered constraints is likely to be more impactful and efficient. Separating out the pieces of work risks inclusion issues being hived off to parts of the RGC bureaucracy that have less authority and influence. Accordingly, the design does not separate out a GEDSI domain, but settles on a program wide GEDSI EOFO to maintain focus and accountability on GEDSI.

Climate change

As noted in Section B, **Cambodia is highly vulnerable to a range of climate change impacts**, particularly from variable and extreme weather conditions (flood and drought) as well as changing Mekong flows. Those impacts pose major challenges for fisheries, agriculture, energy (via hydropower), infrastructure and property damage, and health.

CAP-RED's work in the energy sector will focus on providing Cambodia the technical capabilities and policy support to increase the proportion of renewable power in the energy mix, reducing emissions. **Various workstreams will focus on adaptation.** In the agriculture sector, the program will promote more sustainable and climate-adapted crops, varieties and production systems to increase resilience to changing climate systems, and decrease water and input use and land disturbance. If this work is successful in decreasing soil nutrient depletion, it may also have a role in reducing deforestation. Technical support and investments in strengthening value chains and post-harvest logistics should also lessen crop wastage.

The Partnership's work on infrastructure will also have climate dimensions, including improving planning and management of water storage and distribution (working closely with MWS), increasing the resilience of rural Cambodians to drought. Modelling also indicates that expanding clean piped water access leads to quantifiable emissions reductions through avoided deforestation for charcoal used to boil water. CAP-RED will also aim to play an active role in matching green finance to potential projects in Cambodia through finance-focused work.

In addition to these specific focus areas, climate change adaptation will be mainstreamed across the program. In a similar way to GEDSI mainstreaming, **the design of activities will be required to actively consider how climate resilience may be promoted** and identify anything that might increase climate risk. Infrastructure and policy planning support will integrate advice on disaster risk reduction.

Private Sector and Innovation

Private sector engagement and innovation are both dealt with extensively in other parts of the document (see sections D and E).


H. Budget and Resources (What will it cost?)

Resourcing and duration

CAP-RED is designed as a five-year program with an option for a three-year extension. The proposed resource envelope is AUD87 million in the first phase and up to AUD57 million in the extension period. This includes agreed co-funding by the Mekong-Australia Partnership. Conversations are ongoing with New Zealand about supplementing funding, focusing on agriculture and energy elements. CAP-RED's budget constitutes approximately 35-40 per cent of projected bilateral spend for Cambodia over the program's duration, consistent with it being a flagship bilateral program.

Investment components of the program will be able to leverage considerable funding from the private sector, RGC and other development partners, likely well beyond CAP-RED's own budget. In general, 3i and CAVAC have been able to achieve at least 2:1 leverage ratios in their private sector partnerships, and this should provide a general minimum benchmark for CAP-RED.

There are also several activities where we expect to leverage substantial funds from other partners. For example, CAP-RED's will likely contribute around \$5 million to parallel co-finance a new Water Fund (including technical



assistance costs) but will expect the RGC to borrow \$15-30m (with the ADB, ROK, Japan, InfraCo Asia, the Stone Foundation and World Bank potential financiers), to fund the bulk of it. Similarly, CAP-RED may spend \$500,000 – \$1.5 million on feasibility and design work for agriculture logistics, with IFAD loaning a much larger sum to the RGC for construction.

Given the adaptive approach to programming, a definitive split is not proposed between different activity costs (e.g. technical assistance, grants, infrastructure, etc). However, an indicative framework budget is provided in Annex F identifying a likely split between staff, operational and activity costs. By those estimates, on an annual basis, advisor and staff costs (including support costs) will amount to approximately \$4 to 4.5 million, operational costs \$300,000-\$500,000, and activity costs \$11 million and management fees \$1.6m. CAP-RED staff will be providing technical advice to the RGC and as such, their salary costs also contribute directly to activities. The consolidation into a facility will lead to direct savings in streamlining administration costs and operational staff.

In terms of a rough split between program components, of the approximately \$55 million in activity costs (over five years) the following allocation is anticipated: Agriculture / Agro-Processing – 31.25 per cent (\$17.2 million); Infrastructure – 31.25 per cent (\$17.2 million); Trade and Investment – 22.5 per cent (\$11.8 million) and Policy Sub-Facility 15 per cent (\$8.25 million). At least 80 per cent of activities will contribute to GEDSI objectives.

An independent review in year four will inform decisions about whether to proceed with the extension. Subject to that decision, a ‘design refresh’ will also be completed, providing scope to make any adjustments for the extension period. Processes of economic reform and transformation take time. This will allow the program to take a longer and more strategic view and to build knowledge and credibility (while the option provides flexibility should circumstances markedly change).

The existing Post establishment will manage the program taking up approximately 55-65 of the economic team’s effort (3 A-based and 6 LES). As noted (in the Implementation Arrangements section) the consolidation of programs into CAP-RED creates efficiencies for DFAT’s management allowing the team to focus on strategy and policy dialogue (rather than the administration relating to managing multiple programs).

I. Procurement and Partnering


CAP-RED will be delivered by a Managing Contractor, procured through a two-step, competitive DFAT-managed open tender process. This was commenced following the AGB’s approval of the concept note and agreement that the design did not have to return for AGB approval (based on confidence in the concept).

The **two-step process maximises competition by reducing barriers to entry**. In the first step bidders provide a relatively simple statement of capabilities and are then shortlisted for the detailed tender stage (which will proceed on approval of the design). ‘Teaming’ firms – with capabilities to provide specialised elements of CAP-RED – also submitted shorter statements, which have been provided to the lead tenderers (for consideration to enter consortiums or otherwise partner post contract award).

The **competitive process will help achieve value for money**, in part by encouraging firms to present innovative and efficient ways to deliver the partnership, drawing on international experience. The Statement of Requirements will set out the program logic and model for program delivery but leaves it to tenderers to propose operational approaches (including team structures, etc). The contract will incorporate performance-based incentives, linking a proportion of management fees to key milestones, results and Partner Performance Assessments.

The selected MC will have flexibility to work with and through various partners to deliver the program, based on analysis of what kind of tool and partner will be most effective and efficient for the end in mind. This may include grants to development partners (INGOs, specialised multilateral institutions) to deliver outputs or tasks, contracting with consultants to provide technical services or training, and co-investments (through grants) to businesses or associations (for example, to pilot a new service).

All procurement will be compliant with Australia legislation, Commonwealth Procurement Rules and DFAT head contract provisions, and the default will be for competitive procurement processes unless there is a compelling (and compliant) reason for sole sourcing (for example, to establish government-to-government linkages). Procurements above a certain threshold will require DFAT approval. As an incentive for change, bidders for larger



contracts (values to be determined in inception), will be required to have or commit to developing GEDSI-compliant corporate policies (e.g., policies to safeguard against GBV and provide relevant support). In addition, the Contractor will be working with RGC agencies to identify and contract local and international research and academic institutions, consulting firms, and think tanks to carry out independent research, policy support and capacity development activities.

Given a tight handover period from 3i and CAVAC, and various workstreams continuing, key national staff from 3i and CAVAC will be identified for transition. 3i and CAVAC have also commenced competitive procurement processes for certain outputs, which will be taken over and contracted by the incoming MC subject to their own due diligence). This will be further detailed in an Implementation Plan.

J. Risk Management and Safeguards (What might go wrong?)

Risk Management Plan

A Risks and Safeguards Tool is annexed. The Partnership is considered a MEDIUM risk investment. Risks will be assessed at a minimum on a quarterly basis through active use of the risk register, and appraising developments in the political economy. Identified downgrades in risk assessments will be taken up with senior management in the Managing Contractor and DFAT. Key identified risks include the following:

COVID-19

The impacts of COVID-19 and emergent strains of the virus may continue to impact the operating environment in Cambodia in the form of:

- Ongoing disruption to travel (international and domestically)
- Sustained exposure of CAP-RED staff to COVID-19 and the need to ensure business continuity through remote work as required
- Fluid or rapid changes to RGC priorities that effect CAP-RED focus and alignment.


To address these risks the MC must develop COVID-19 operating protocols and business continuity plans to manage health risks and meet its duty of care. CAP-RED must establish early, in partnership with DFAT effective relationships with RGC to ensure early notification of any realigned or prioritised focus and proactively manage adjusted scope and/or pivot activities to retain strategic relevance and minimise implementation disruption.

Stakeholder and political risks

Closer engagement with the RGC entails reputational risks given the consequences should possibility of further democratic backsliding and escalating human rights occur problems. This can be mitigated by working with development-focused RGC agencies and limiting engagement accordingly. The Partnership's capacity to work with both the RGC and with the private sector and civil society also provides flexibility to adjust in case of shifts in broader settings. Working on private sector development in a weak governance environment also creates risks. As with past programs, this requires close management so that any support provided to the private sector (for example, co-investment or subsidies) follows transparent and performance-based selection processes. As detailed in the procurement section, private sector partners in contracts above a pre-determined size would need to commit to putting in place GEDSI compliant corporate policies, such as procedures for preventing gender-based violence (GBV) and supporting staff experiencing or at risk of GBV.

Programming risks

The influence of patronage systems, and opaque and siloed decision-making pose challenges for a program aiming to improve the use of evidence in policymaking and more transparent approaches to implementation. Some workstreams will fail to take and results will be uneven. This mandates an attentive and adaptive approach, using the M&E systems to adjust approach and shift resources. The balance between more hands-on work yielding tangible results and more ambitious, potentially transformative policy engagement will help balance risk.



It will be important to **periodically make clear-eyed assessments of whether emerging evidence supports the assumption that the RGC is willing to take forward some meaningful policy reforms.** If it becomes clear that this is not the case (or that Australian and Cambodian viewpoints on economic reform no longer align), a more major reorientation of the program would need to follow. This would involve focusing primarily on direct engagement with the private sector and civil society on market systems development (returning to the earlier approach of CAVAC and 3i). It could also include a greater proportion of funding for co-financing infrastructure and business innovation. CAP-RED's design provides the flexibility for such a change.

Managing a complex facility also poses effectiveness risks. The right balance needs to be struck between giving rein to experiment and adapt (and avoiding internal bottlenecks and bureaucracy) and retaining strategic purpose. DFAT and the Partnership leadership will need to communicate a clear vision and employ a robust performance assessment framework to maintain visibility and retain discipline in the pursuit of outcomes.

Capability to deliver

Successful policy engagement relies on **staff who have both the technical and soft skills to build trust** which can be hard to attract and retain. The Partnership will have to utilise longer term staff with technical and relationship management skills, as well as be equipped to mobilise specialised advisors rapidly (whether through identifying a pool in advance, drawing on a global network or rapid recruitment processes or a combination thereof). Consultations during the design process have highlighted RGC's preferences for the Partnership to work closely alongside Cambodian counterparts (inside and outside of government), use local expertise wherever possible, and make knowledge and skills transfer a central objective of CAP-RED.

Some advisors may be partly embedded within RGC agencies. In Cambodia, this is common practice and is not assessed as high risk. Risk assessments will be conducted before embedding any advisor, including whether a role will be exposed to any sensitive or political issues, and whether the advisors have the right skills and outlooks to navigate any challenges. All advisors will be co-located for part of their weeks in the CAP-RED office to remain integrated and connected to program objectives, expectations and culture and to encourage coordination. Frequent check-ins with CAP-RED management will also provide opportunities to identify any emerging risks.


Fraud

Because the partnership will not use partner systems, fiduciary risks will be reduced. However, with weak governance standards and high levels of corruption, fraud remains a significant risk, particularly in relation to private sector partnerships, requiring careful due diligence and contract design and oversight to minimise risks, building on 3i and CAVAC's extensive experience. The program will establish a fraud policy, processes and training aligning to DFAT's requirements.

Key safeguard issues

There are a range of significant safeguards risks in Cambodia that need to be managed. CAP-RED will be required to have in place policies, procedures and training (for staff and for sub-grantees if required) that comprehensively cover and are fully aligned to DFAT's safeguards policies. These can be modelled on the protocols employed by CAVAC and 3i, which were assessed by DFAT's risk and audit committee as best practice during a visit in 2019.

Weak enforcement and permissive gender norms regarding sexual abuse and harassment in Cambodia require CAP-RED to have appropriate policies and oversight systems in place. The Managing Contractor will be expected to undertake risk assessments and develop and implement appropriate PSEAH safeguards, policies and procedures, including reporting and investigation procedures, and mandatory training on sexual exploitation, abuse and harassment. Further, without development and implementation of appropriate safeguards and protocols, CAP-RED's activities may reinforce or fail to address inbuilt impediments to gender equality, within the facility itself and in partners and communities engaged by CAP-RED. Besides building assessment of performance on the gender EOFO being built into CAP-RED's PAF, there will be regular assessment of implementation of internal gender policies.



While the program will be policy focused, there will be field level work, including construction, often with the aim of piloting new approaches. Such work in the Cambodian context, comprises a range of safeguards risk, including child protection (particularly child labour), occupational health and safety, and unexploded ordnance. Two additional safeguards risks that will require extra attention in this context are environmental protection and displacement. Commercial agriculture can involve land grabbing and displacement, as well as land clearing (including of biodiverse habitats). These risks may arise at a field-level – if CAP-RED provides technical support and co-investment on agricultural value chains; as well as at a policy level – if CAP-RED works on policies that may inadvertently contribute to these practices. For both, the Partnership will need to carefully consider those safeguards issues, including due diligence of partners and putting in place mitigation actions where required.

K. Annexes

- A. Gender, Disability and Social Inclusion Analysis and Strategy
- B. Program Logic
- C. ‘Minimum Sufficient’ M&E Framework
- D. Risk and Safeguards Tool including Risk Register
- E. Draft Statement of Requirements
- F. Summary of Key Peer Review and Appraisal Recommendations and their Integration into Design