What structures and processes are emerging at country level to support a more effective and accountable development partnership?

Cambodia country case

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The opinions expressed in this case study are the author’s alone, and do not represent the official views of the organisers of the Asian Regional Forum on Aid Effectiveness

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1. Introduction

2. This case study is a component of a thematic study examining the evolution of structures and processes at country level to support increased aid effectiveness. It assesses how aid effectiveness initiatives are being promoted and managed, and what impact they are having on improving the coherence and effectiveness of development assistance. The case study examines how the principles and commitments in the Paris Declaration are being localised and implemented, and whether they are supporting the emergence of a more mature, effective and accountable development partnership.

3. This country study presents the experience in Cambodia. This analysis will then be combined with lessons from Vietnam in a larger thematic case study for presentation at the Asian Regional Forum on Aid Effectiveness in Manila in October 2006.

4. The case study was initiated by and prepared on behalf of a Steering Committee of donors responsible for the Manila Forum. The case study was prepared on the basis of available literature and interviews with a range of Government, donor and civil society stakeholders during a week-long visit in July 2006. A draft was then circulated among stakeholders for review. However, while care has been taken to reflect a range of views in the case study, the opinions expressed here are the author’s alone, and do not reflect the official positions of the sponsors of or participants at the Asian Regional Forum.

2. Context

2.1 Cambodia’s record in growth and poverty reduction

5. Since the Paris Peace Accords in 1991, Cambodia has made steady progress in poverty reduction. The 2004 household survey, conducted nationwide for the first time, showed that population living below the national poverty line had decreased to 35% from an estimated 47% a decade earlier. GDP has increased by an average of over 7% over the past decade, fuelled by growth in the garment and tourist industries.1

6. While all segments of society benefits from this growth, the rise in living standards has been concentrated in urban areas. Growth in the agricultural sector, which provides the livelihoods for the majority of the population, has been slow relative to other sectors, with productivity held back by drought and flooding, poor rural infrastructure, lack of technology and uncertain property rights. The rural poor account for 91% of total poor, and poorest quintile have continued to fall behind in relative terms.2 Cambodia is not on track to achieve the first of the Millennium Development Goals, unless it can achieve a significant boost in agricultural productivity.

7. Cambodia has achieved progress in improving its social indicators, but the challenges remain acute. Primary school enrolment has improved considerably, particularly among the poorest communities, but primary school completion rates and quality standards remain a concern. There have been important successes in controlling the prevalence of HIV-AIDS. There has been a significant reduction in mortality rates for both infants and the under-5s over the past decade, with immunisation rates nearly doubling over the past five years, although maternal mortality is still well above national

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2 Ibid., v & 17.
targets. Only 42% of the rural population have access to safe drinking water, and only 16% to sanitation.\(^3\) Rural infrastructure remains poorly developed.

8. Cambodia’s development challenges reflect the country’s tragic history of conflict and destruction. Cambodia emerged in 1979 from four years of genocide with both its infrastructure and its institutions at ‘year zero’. Large scale rebuilding began only in 1998. While rapid progress has been made in rehabilitating physical infrastructure, overcoming deficits in human and institutional capacity necessarily requires more time.

9. The Royal Government of Cambodia (RGC) has succeeded in restoring political and social stability, with three peaceful national elections, which is a precondition for successful development. Improving governance capacity and strengthening the rule of law are now considered key challenges for poverty reduction and sustainable development. While there has been important progress in the governance arena, much remains to be done. On the economic front, sound fiscal discipline and macroeconomic management have now been established. Revenue performance has been gradually improving, although at 11.7% of GDP\(^4\) it remains below that of many comparable countries. The recent successful negotiation of WTO membership has enabled the country to attract increasing levels of foreign investment.

10. However, there is an acute shortage of managerial and policy capacity within government. Many core government systems, particularly in public financial management, were almost nonexistent a decade ago, and are still being put in place. Transparency and accountability of government is still being established, and corruption is a persistent problem. The public administration is reported to be highly fragmented, reflecting the country’s complex political groupings. Weak public financial management and desperately low public-service salaries are major challenges for on-going attempts to improve public service delivery.

11. Over the past decade, Cambodia has developed a number of different development policies and strategies, some of them in response to the requirements of the international financial institutions. It set out its medium-term development goals in a series of 5-year Socio-Economic Development Plans (SEDP), supported by 3-year rolling Public Investment Programs (PIP). A National Poverty Reduction Strategy (NPRS) was produced in 2002, and a set of Cambodia Millennium Development Goals (CMDGs) in 2003. The relationships among these different instruments were often unclear. Following the formation of the new government in July 2004, the Cabinet approved the Rectangular Strategy, setting out its development vision for Cambodia. The Rectangular Strategy is based on four broad priority areas – enhancement of agriculture; private sector development; human resource development; and infrastructure rehabilitation and development – and places good governance as its central theme. To implement the vision set out in the Rectangular Strategy, RGC decided in 2005 to prepare a single development strategy for the next five-year period.

12. The National Strategic Development Plan 2006-2010 (NSDP), adopted by RGC in 2006, provides a unified, medium-term framework for determining national development priorities, setting out strategic actions, and estimating and allocating available resources,

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\(^4\) CRDB/CDC, "Enhancing development cooperation effectiveness to the implement the National Strategic Development Plan", prepared fro the 8th CG Meeting, Phnom Penh, March 2006, p. v.
in order to achieve the goals set out in the Rectangular Strategy and the Cambodian Millennium Development Goals. The NSDP has been widely hailed the NSDP as an important step forward, providing a framework in which policy dialogue and the alignment of external assistance can take place, and demonstrating the RGC’s willingness to establish more effective leadership over the development agenda.

13. The NSDP remains at a fairly general level, however, and needs to be further elaborated through sectoral and thematic plans and strategies. A high level committee of four institutions (the Ministry of Planning, the Ministry of Economy and Finance, the Supreme National Economic Council and the Cambodian Rehabilitation and Development Board) has been established to support NSDP implementation. One of its tasks is to ensure an effective linkage between the NSDP and the annual budget and medium-term expenditure framework. A monitoring framework of the NSDP has been approved by the RGC and agreed with development partners, and is in the process of being established. Implementation capacity across the administration remains weak, and leadership and ownership across government agencies is still being developed.

2.2 External assistance and the development partnership

14. Cambodia is heavily aid dependent. In 2005, some US$525 million in ODA was disbursed, representing approximately half of total public resources. Most development activities are ODA-funded. ODA has been concentrated in infrastructure rehabilitation, the social sectors and institution building. The proportion of loans increased from 16.8 percent of total ODA in 1999 to 34.3 percent in 2004, but the provision of assistance through government systems remains limited.

15. While ODA to Cambodia is high compared to other low-income countries, it does not have a strong record. The 1990s have been referred to as a period of ‘donorship’, with a large and uncoordinated donor presence delivering aid through poorly integrated projects which contributed to a range of governance problems. There was little coordination among donors at the strategic level. The RGC struggled to obtain adequate oversight of ODA flows. The quality of technical assistance (TA), which according to some studies represented more than half of all ODA, came in for particular criticism. One survey on development cooperation programmes in 2002 found that, of a total of US$265 million in ODA disbursements, around US$34 million or 12.7% was used to employ some 740 international staff to support project implementation or fill capacity gaps in government. In general, TA provision was poorly coordinated among donors, and ministries often received contradictory advice. Capacity substitution was the norm, while capacity building assistance was often poorly designed and implemented.

16. Poor quality external assistance is in part a function of the weakness of government systems for the management and implementation of development projects,

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in particular public financial management (PFM). In this environment, donors have elected to set up parallel project management arrangements which increase the short-term efficiency of ODA delivery, but failed to address the systemic problems. The proliferation of projects and the diversity of procedural and institutional requirements associated with them contributed to the fragmentation of the Cambodian administration. Salary supplements and other financial incentives offered to public officials involved in ODA projects had distorting effects on institutional development. One World Bank report noted,

“In too many cases, short-term aid management solutions designed to sidestep the capacity and governance problems of the post-conflict Cambodian state (e.g. reliance on technical assistance to fill capacity gaps, or use of stand-alone projects to ensure control and avoid the fiduciary risks involved in working through existing RGC structures) have often ended up perpetuating or exacerbating those problems over the longer term.”

17. Against this background, the aid effectiveness agenda is highly pertinent in Cambodia. The Government recognises the importance of improving its ODA management capacity, in order to establish effective leadership over the development agenda. For their part, donors recognise the limitations of past practices, and have committed to increasing the effectiveness of their support under RGC leadership. However, in a weak governance environment, it is proving a challenge to break out of the negative dynamics of the past. The initiatives described represent the joint efforts of Cambodia and its development partners to accomplish this.

18. Recognising the challenges of increasing the effectiveness of external assistance for national development, the RGC set out its aid-effectiveness vision in a concept paper presented during the 2000 Consultative Group Meeting. Since then, efforts have been made to put in place policy and institutional mechanisms to realise this vision. At the core of the aid effectiveness agenda, the RGC recognises the importance of improving its ODA management capacity, in order to assume more effective leadership over development cooperation activities, while for their part, donors recognise the limitations of past practices, and have committed to increasing the effectiveness of their support under RGC leadership.

3. Aid effectiveness structures, processes and instruments

19. The RGC has been working to promote increased aid effectiveness in Cambodia since the late 1990s. In 1998/9, it became one of 14 partner countries in the OECD Development Assistance Committee (DAC) Working Party on Aid Effectiveness, and one of 9 pilots in the DAC Peer Review mechanism. Since then, efforts have been made to put in place policy and institutional mechanisms to realise this vision. At the core of the aid effectiveness agenda, the RGC recognises the importance of improving its ODA management capacity, in order to assume more effective leadership over development cooperation activities, while for their part, donors recognise the limitations of past practices, and have committed to increasing the effectiveness of their support under RGC leadership.

10 “The widespread use of ODA-financed salary supplements has created a pattern of complex and inefficient variations in pay rates which pull the best staff towards projects that donors want to implement, making it harder for government institutions to manage their human resources on a merit-based, Ministry-wide (let alone Government-wide) basis.” World Bank, supra note 1, p. 138.
11 Ibid., p. 163.
established in 2002, was created to explore options for improving the development partnership. Since 2004, a country-led aid coordination mechanism has been put in place and now measures are being taken to enhance its efficiency and effectiveness. Informed by the international consensus on aid effectiveness, the RGC developed an Action Plan on Harmonisation, Alignment and Results to implement the commitments in the Paris Declaration.

18. At the core of the RGC’s effort to enhance aid effectiveness is increased country leadership of ODA-funded activities through the alignment of external support with national strategies and priorities, and harmonizing ODA practices and procedures. Moving towards increased use of simple forms of programme-based approach (PBA) built up at sectoral level has been government’s preferred method for achieving this. Nevertheless, RGC also acknowledges the diversity of aid modalities in use in Cambodia, and the impediments to moving towards upstream aid delivery such as budget support at this stage. It therefore remains open to different funding modalities. However, the ultimate goal is to bring all the assistance in a given sector within a common policy and programming framework under Government leadership, in order to improve coherence and coordination across the aid portfolio and to achieve sustainable capacity development.

20. The structures and processes developed in recent years to improve aid effectiveness should therefore be assessed against this overarching objective.

3.1 Localising aid effectiveness commitments

21. The RGC and its development partners have used two main instruments to localise and reinforce aid effectiveness commitments in Cambodia.

22. A Declaration on Harmonization and Alignment was first signed by RGC and 12 development partners in December 2004. It incorporated the 9 commitments from the Rome Declaration on Harmonization (2003), and states briefly what they will mean in the Cambodian context. A second Declaration on Enhancing Aid Effectiveness was produced following the Paris Declaration on Aid Effectiveness (2005), and is awaiting signature by the development partners. As well as restating the Paris principles, it contains a number of concrete commitments. For example, the Government commits to:

- developing a monitoring framework for the NSDP and carrying out an annual review of implementation;
- developing sectoral and provincial plans;
- aligning the national budget to support NSDP implementation; and
- strengthening its ownership and leadership of aid coordination at all levels.

Undertakings by the development partners include:

- respect RGC ownership and leadership;
- increase the proportion of ODA in the form of PBAs;
- make increased use of delegated cooperation;
- coordinate analytical work through government-led working groups to avoid duplication and increase ownership;
• enhance government leadership over technical assistance;
• provide RGC with full information on their aid.

23. The Declaration is reinforced by an Action Plan, which takes the form of a matrix of goals, actions needed, responsible RGC institutions, lead development partner, milestones and time frame. A first Action Plan operated from 2004-2006, and a new Action Plan for 2006-2010 has now been agreed. The Action Plan primarily contains process commitments, such as studies or the development of strategies or agreements on specific issues. Examples include development of a strategy for reducing the number of parallel Project Management Units (PMUs), introducing capacity assessments and capacity-building plans into sectoral strategies, and achieving agreement between RGC and donors on a target for the proportion of aid to be provided through PBAs.

24. The Action Plan does not contain quantified targets on aid effectiveness. RGC proposes to establish targets only once the ongoing OECD DAC survey (see below) has yielded reliable baselines.

25. Aid effectiveness commitments in Cambodia are therefore still at a fairly general level. Nonetheless, they set out a clear direction of travel for future efforts, and represent an important set of political commitments to change aid practices.

3.2 Structures for dialogue

26. The RGC has put considerable effort into developing and refining a structure for managing and strengthening the dialogue with its development partners. Given the history of poor coordination of external assistance in Cambodia, these efforts have been extremely important in promoting a more open and productive development partnership.

27. Efforts to improve coordination among donors and facilitate policy dialogue with RGC began in 1999, with the establishment of 5 Working Groups in particular sectors. They were mainly donor-led, and covered quite broad areas. Two more Working Groups were added in 2002, including a Government-Donor Partnership Working Group dedicated to addressing aid effectiveness issues.13

28. At a pre-Consultative Group meeting in September 2004, the Prime Minister announced a comprehensive restructuring of this mechanism, to make it more effective and place it under the leadership of RGC. The restructured mechanism consists of 18 joint Government-Donor Technical Working Groups (TWGs) for particular sectors and thematic areas. A higher level body, the Government-Donor Coordination Committee (GDCC) was created to coordinate the work of the TWGs and act as the primary forum for dialogue on development priorities and aid effectiveness. The Technical Working Groups (TWGs) provide a working-level structure for strategy development, coordination and programming. One of these, the TWG on Partnership and Harmonization, is devoted specifically to aid effectiveness. These bodies serve as the primary mechanism for coordinating, managing and monitoring development assistance, and for promoting mutual accountability between RGC and its development partners.

28. The GDCC is chaired by a senior member of government, who is Senior Minister of Economy and Finance and First Vice Chairman of the Council for the Development of Cambodia. Its membership includes senior government officials and heads of agencies, Ambassadors or heads of diplomatic missions, and heads of multilateral institutions. The GDCC meets regularly to discuss high-level policy issues, agree on priorities and resolve bottlenecks arising out of the work of the TWGs. The Secretary General of the Cambodian Rehabilitation and Development Board at CDC (CRDB/CDC) also serves as Secretary General of GDCC, and the GDCC is served by a secretariat located in the CRDB/CDC.

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<th>List of Technical Working Groups</th>
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<td>1. Agriculture and water</td>
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<td>7. Gender</td>
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<td>8. Health</td>
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29. Each of the TWGs is chaired by a senior official from the appropriate RGC ministry or agency, and supported by a secretariat from that ministry or agency. In each TWG, one or two of the donors are selected to act as facilitators, to strengthen communication with donors and coordinate donor inputs. CRDB/CDC provides support to the TWGs in their efforts to address harmonization and alignment issues.

29. The TWGs have extensive responsibilities. They serve as the primary forum for policy dialogue, and support the responsible ministries in reviewing or elaborating sectoral policies and strategies under the NSDP. They are each required to formulate an Action Plan for their sector, setting out short-term targets and actions. They formulate results-oriented indicators, known as Joint Monitoring Indicators (JMIs – see below). They are responsible for mobilising and coordinating donor support to the implementation of sectoral strategies and Action Plans. They are tasked with carrying out a capacity assessment in each sector, and integrating capacity building into all strategies and programmes. They oversee the provision of technical assistance, to ensure complementarity and avoid overlap. They should review existing programmes for consistency with the NSDP, and coordinate new donor support and activities. They are tasked with developing sector-wide or programme-based approaches, and therefore carry primary responsibility for implementing the RGC’s aid effectiveness vision.

a) TWG performance

30. The performance of the TWGs to date has varied significantly. According to one recent review, a third of the TWGs are perceived to be working well, another third are just beginning to make progress, and the remainder are still some distance away from becoming effective bodies.14

31. There is a broad consensus among the participants consulted for this study that the most effective TWGs are those where structures for policy dialogue and aid coordination have emerged over a period of several years, such as education, health and public financial management. In the case of education, where a SWAp is in place, the Ministry and its development partners agreed a set of Principles and Practices for Partnership in 2000, together with a coordination mechanism and a joint annual sector review. The Education Sector Working Group was one of the original five established in 1999. It progressed from informal information sharing and consultation, towards more structured coordination. To support the RGC’s Education Strategy Plan, it produces an Education Sector Support Programme to mobilise and coordinate external assistance. It has managed an effective capacity-building programme over a number of years, enabling foreign TA to be scaled down. It has developed a management information system, which now supports the joint monitoring process. Cambodian NGOs are active participants in these processes, and an Education Forum has been established for public consultation.

32. The combination of these different elements have enabled the emergence of an effective SWAp in education, based on a high degree of trust and solid working relationships among the stakeholders. External support is still provided through multiple funding modalities, from projects through to budget support, but all fit within a single, RGC-led sectoral framework. There has been a similar process of development in health, leading to a sector-wide management structure (SWiM), which has many of the features of SWAp but without a common funding basket.

33. By contrast, in sectors where the introduction of a TWG in 2004 was the first attempt at structured coordination, there is less evidence of progress. In some cases, attendance is irregular or at too junior a level. Some Government officials have indicated a concern that donors are not sufficiently open in sharing information on their activities, and are unwilling to realign their support to match Government priorities and preferences. Some donors are concerned that there is insufficient leadership and engagement from the RGC side, and that meetings are not structured in a way that facilitates genuine dialogue.

34. One of the tasks of the TWGs is to formulate their own Action Plans to coordinate external support with an agreed set of sectoral priorities. In areas where joint sectoral plans were not already in place, most of the TWGs have made limited progress. According to the Ministry of Planning, these Action Plans should begin as simple lists of ODA-funded projects linked to sectoral objectives, to support the preparation of the Public Investment Program (PIP). Most TWGs have not yet accomplished this. A review by the CRDB/CDC found that few TWGs have prepared estimates of the resources required to implement their Action Plans. It stated that “just preparing Action Plans without a clear understanding of the issues and commitment to implement the activities seriously jeopardizes the chances of any success.”

35. Where the TWGs are seen to be ineffective, some dissatisfaction with the process is readily apparent on both the donor and government sides. According to the recent review,

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15 CRDB/CDC, “Enhancing development cooperation effectiveness to implement the National Strategic Development Plan”, prepared for the 8th CG Meeting, Phnom Penh, March 2006, p. 37.
“A great deal of valuable time, resources and effort of many people in each ministry hosting a TWG are diverted in servicing this mechanism, writing reports and attending meetings (including GDCC, sub-groups, and so on) without any apparent value-added or results, or that the benefits are not commensurate with efforts put in.”

The bilateral donors, who often have small country teams, are particularly concerned about the time commitment involved. This experience suggests that these mechanisms need to demonstrate their value added fairly quickly, if they are to sustain their momentum.

36. According to some participants, in many cases there are too many people in attendance, with too few genuine sectoral experts, with the result that the dialogue becomes insubstantial, focused on process rather than development outcomes. One of the inadvertent effects of this form of partnership working is that policy dialogue is led by donor staff, rather than the embedded consultant experts. Most donor staff are generalist aid administrators, rather than sectoral specialists. Some observers felt that, as a result, the TWGs may lose their character as technical bodies.

37. RGC has expressed a strong view that the solution to this problem is that donors should focus on a few sectors or thematic areas, and should assign leadership in the policy dialogue to a single donor with appropriate expertise at country level. According to a CRDB/CDC report, raising the level of dialogue in the TWGs requires

“participation of donor personnel who have substantive/high level technical expertise in the sector/thematic areas of the TWGs. The Royal Government recognizes that the costs of maintaining this level of expertise on the ground by all development partners could be prohibitive. It therefore strongly recommends that development partners select among themselves an area or areas that is/are of primary importance to each partner who should be made responsible for placing on the ground the highest level of expertise in the sector/thematic area that is available on the international market and the development partner can afford. The Royal Government strongly discourages the use of donor personnel in the work of the TWGs who lack substantive technical expertise in the sector/thematic area of the TWG and lack experience in strategic policy formulation processes.”

38. Some donor representatives also raised a more fundamental concern with the TWG mechanism. They were uncomfortable with the idea that a body which is in many cases donor-led is accountable to the GDCC for the production of a sectoral strategy. They considered that the TWG was being asked to assume a policy-making function, blurring the lines between the proper roles of donors and Government.

39. In fact, Government documents make it clear that, while the policy function remains with the responsible ministry, the donors do have an important role to play in supporting the emergence of sectoral frameworks, wherever country leadership is weak, particularly through building policy-making and budgeting capacity.

17 Cambodian Rehabilitation and Development Board, "Enhancing development cooperation effectiveness to the implement the National Strategic Development Plan", prepared fro the 8th CG Meeting, Phnom Penh, March 2006, p. 41-2.
“In sector/thematic areas where policies and strategies for implementing national development priorities are not fully developed or lack rigor, appropriate partnership arrangements (e.g. TWGs) shall be used to assist concerned Royal Government institutions in elaborating policies, strategies and programs.”

In effect, stronger coordination of external assistance around an annual Action Plan provides a platform on which sectoral policy and planning processes can develop. However, work on developing an Action Plan within the TWG can only progress as quickly as the host RGC institutions can support. This is seen as a transitional arrangement while capacity develops.

“By its very nature, the GDCC-TWG mechanism is but a stage in the development continuum and is therefore not permanent; it is subject to changes and would over time phase out, especially as RGC’s internal coordination capacities and mechanisms are strengthened.”

40. As a result of the recent TWG review commissioned by the GDCC, consultations will be held with each TWG chair and lead facilitator, with a view to elaborating further guidelines for their work.

b) Breadth of participation

41. Beginning from a low base, the NGO sector in Cambodia has gradually become more involved in the policy process, moving from service delivery into analysis and advocacy. Three national NGO umbrella associations are involved in Consultative Group (CG) meetings and the GDCC. A Civil Society Forum is convened in advance of CG meetings, and NGOs produce a joint statement covering a range of different sectors, which is sent to Government and donors. NGO representatives participate in some of the TWGs, including the TWG for Partnership and Harmonisation. According to some observers, there are some TWGs, such as Forestry, PFM, Infrastructure and Legal and Judicial Reform, where NGO participation would not be appropriate. One review of the TWG mechanism commented that, as technical bodies, they should not be used as fora for policy advocacy, and that NGOs should be invited to attend only where they are active in the sector at an operational level.

42. NGOs were dissatisfied with the level of civil society participation in the preparation of the NSDP, which they felt had in fact declined from the level set by the NPRS, when participation was mandated by the donors. There were only two one-day workshops for civil society, with too many formal presentations by Government and not enough time for consultation. NGOs therefore organised their own consultations at provincial level, providing a list of 28 proposals on the draft strategy to the Ministry of Planning. Some of these were accepted, although there was no systematic feedback. Participation of the National Assembly was also limited, largely due to capacity constraints within the parliament itself.

43. There is an increasingly effective policy dialogue between the Government and the private sector, although it works through different institutional mechanisms. A

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20 Ibid.
Government Private Sector Forum, established in 1999, has been meeting every six months to provide inputs into the process of administrative and regulatory reform. The RGC established a high-level Steering Committee for Private Sector Development in August 2004, with three sub-committees dealing with Investment Climate and Private Participation in Infrastructure, Trade Facilitation and Small and Medium Enterprises.

3.3 Building ODA management capacity

44. In the Cambodian context, building up government capacity to manage ODA – and public investments in general – is critical to improving aid effectiveness. Some of the most unhelpful aid practices in Cambodia have emerged from donors trying to substitute for weak ODA management capacity. This imperative has been recognised by RGC for a number of years, and various measures have been put in place to strengthen ODA coordination and project management.

45. The Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia (CDC) was created in 1994 to mobilise and coordinate reconstruction assistance to Cambodia. In 2002, one of its constituent bodies, the Cambodian Reconstruction and Development Board (CRDB), was nominated as Focal Point and One-Stop Service for relations with donors and international NGOs. It is the main counterpart for most donors operating in Cambodia, although some still prefer to deal with the Ministry of Foreign Affairs and International Cooperation. There have been some difficulties in persuading donors to accept the ‘single window’ concept. In one Government document, it was stated:

“The current practice of some development partners to enter into agreements with individual government ministries and agencies without any prior coordination through the Royal Government’s designated focal point for aid coordination, the Cambodian Rehabilitation and Development Board at the Council for the Development of Cambodia, is a serious problem that hampers Royal Government’s efforts to efficiently manage its aid coordination functions. The Royal Government places a high priority on all parties conforming to and complying with the provisions of existing laws, rules and regulations.”


46. Other agencies engaged in ODA management include the Ministry of Planning, responsible for the PIP and for preparing and monitoring the NSDP, and the Ministry of Economy and Finance, which is responsible for approving and overseeing development loans.

47. UNDP has been providing capacity-building support to CRDB since its establishment. In the initial phase, when capacity was very limited, this involved a measure of capacity substitution, with international consultants performing core institutional functions. The UNDP support has now evolved into a multi-donor programme of support to the CRDB. The support programme includes training of staff, capacity building and awareness raising for line ministries in aid coordination and management, support for participation in DAC processes and dissemination of best-
practice materials, and the development and maintenance of an ODA database and website.

48. **CRDB** is now widely regarded as an effective leader of the aid effectiveness agenda. Donor representatives point to the importance of having a strong champion of aid effectiveness within RGC.

49. The **CRDB/CDC** has developed National Operating Guidelines for Grant Assistance (January 2006) to guide donors and RGC officials. It sets out policies and operational procedures to be followed in the design and management of grant-funded development activities. It goes through the entire ODA cycle, from the development of country strategies through to programming, implementation and monitoring and evaluation. The Guidelines encourage donors to shift their support away from stand-alone projects to sector, issue or other programme-based approaches, in order to facilitate alignment and reduce transaction costs. They are encouraged to prepare joint assistance strategies and programmes. It calls for RGC agencies and development partners to be jointly responsibility for programme design, and requires all programmes to identify and address capacity-building needs. The Guidelines draw heavily on DAC Good Practice papers.

50. The National Operational Guidelines are drafted in very general terms, so as to accommodate the different institutional requirements of the donors. They do not mandate the use of country systems for the delivery of grant-funded projects, which is very limited in Cambodia. Some observers argue that it would be inappropriate to expect the RGC to manage grant funds directly. In the short term, it would only increase transaction costs, while exposing projects to unacceptable fiduciary risk, making it more difficult for RGC to achieve its development goals.

51. Loan-financed projects are necessarily managed by RGC agencies, and are therefore treated differently. **MEF** has produced a Manual on Standard Operating Procedures (SOPs) for loan-financed projects and associated TA grants (July 2005), with assistance from the World Bank and ADB. The SOPs set out roles and responsibilities across the project cycle, and include detailed manuals on procurement and financial management. These reflect the harmonised procedural requirements of Cambodia’s main lenders, including the World Bank, ADB, Japan and AFD.

52. By harmonising donor procedures and collecting them into a common format, the SOPs provide a very useful tool for building project management capacity across the administration. Training programmes on the use of the SOPs are underway. However, it is likely to be some time before they are consistently applied.

### 3.4 Monitoring aid effectiveness

53. One of the commitments in the RGC’s Action Plan on Harmonisation, Alignment and Results is to report periodically on progress in implementing the Action Plan. So far, progress reports have been prepared by CRDB/CDC and presented to the GDCC and annual CG meetings. Cambodia has also been an active participant in the work of the DAC Working Party on Aid Effectiveness in monitoring progress on harmonization and alignment. CRDB/CDC coordinated the 2004 survey on harmonization and alignment, and produced Cambodia’s Report on Progress Toward Enhanced Aid Effectiveness which was presented at the Paris High Level Forum in 2005. At present, efforts are
focused on preparing Cambodia’s contribution to the OECD/DAC global monitoring survey of implementation of the Paris Declaration. Results of this will be used as a baseline for target setting and future reporting.

54. The recent survey is proving a challenging exercise for both the RGC and many of the donors in Cambodia. It has required agreement on the definition of key terms, such as ‘parallel PMUs’ and ‘programme-based approach’. In the case of PBAs, the Partnership and Harmonisation TWG agreed on a fairly broad definition which includes programmes coordinated according to a sectoral strategy or action plan, irrespective of whether there is a single budget framework in place.22 This reflects country circumstances and the RGC’s aid effectiveness priorities.

55. Some donors found the survey to be a useful exercise, forcing them to analyse their own aid delivery practices in detail for compliance with Paris commitments. Others criticised the process as excessively laborious, or noted that it was difficult to give an accurate picture of their aid practices within that format.

56. The Joint Monitoring Indicators are another tool for monitoring aid effectiveness. In the past, the Consultative Group adopted general performance criteria or benchmarks to allow for assessment of RGC performance against its main policy undertakings. However, because the responsible agency was not identified, these were of limited value in promoting accountability. Since the TWGs were established, these benchmarks have evolved into Joint Monitoring Indicators – a simple management tool for assessing the work of the TWGs against their own action plans. Each TWG is required to produce a number of high-level progress indicators for approval by the GDCC, which are then used as the basis for regular reporting.

57. The JMIs for 2006 were developed before the completion of the NSDP, and RGC and its development partners will need to determine what linkages they should have with the emerging NSDP monitoring system. On principle, the JMIs are primarily for mutual accountability between the RGC and its development partners around key process issues and the reform agenda, while the higher-level NSDP monitoring indicators will be used for monitoring NSDP implementation and progress towards development outcomes. RGC stresses that the JMIs are a joint tool for monitoring both RGC and donor commitments, including the provision of resources to implement TWG action plans. At present, however, the system does not really support monitoring of donor performance.

58. It is also important to note that the accountability of RGC agencies under the JMIs is for the time being exclusively to donors. Now that the NSDP is in place, there may be scope for using the monitoring system to promote RGC accountability to parliament and the general public for progress against its development goals.

4. Costs and benefits

59. Donors report that participation in aid effectiveness structures and processes in Cambodia involves a considerable amount of time and effort. Many donor officials spend as much as 20-30% of their time on aid coordination.

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60. Respondents among the donors differ in whether they consider this time to be a ‘transaction cost’, or part of the core business of delivering aid. Many are concerned that their offices are not staffed to reflect these additional duties. Most are willing to put time into initiatives that are seen as valuable, but are concerned that the results are not always commensurate with the time they put in. They would like to see more effort put into rationalising the structures and ensuring their efficiency.

61. Many donor respondents foresee that effective partnership working will drive a process of greater selectivity in country programmes, as well as more delegation of authority to a single donor to lead the policy dialogue on behalf of others. This is potentially a positive development, although it is still at an early stage in Cambodia.

62. Some donors are also concerned that bringing the policy dialogue within a single institutional structure has a ‘lowest common denominator effect’, forcing the donors to tone down their message and diluting their advocacy power. On politically sensitive issues such as land concessions, some feel that donors are not being sufficiently forceful. For its part, the Government clearly prefers that contentious issues be dealt with inside the established structures, rather than in a public fashion. Government informants point out that, while efforts to develop consensus within the donor community are welcomed, the Government also recognises a value in diversity of opinion on policy issues, and that it is not the function of the TWG mechanism to reduce the policy dialogue to a lowest common denominator.

63. It is too early to be offering a cost/benefit analysis of these aid effectiveness initiatives from the perspective of RGC. Government officials noted a number of cost savings associated with improved partnership working, in particular the creation of a unified policy dialogue through the TWG structure. However, most of the initiatives described here are not seen by Government as cost-saving measures, but as strategies for bringing the previously unruly field of development assistance under effective country leadership. Compared to the past pattern of stand-alone aid projects managed by foreign TAs, improving aid effectiveness will involve substantial additional costs for Government. One report of a 2002 survey found,

"Only in the case of health and education sectors were aid management costs and issues the key concerns. Both these sectors are relatively advanced in collaborative planning and implementation between government and donors, and are a focus for donor interest. For other respondents from government, aid management costs were not a problem, probably because aid management is undertaken by donors’ project implementation units and consultants."\(^{23}\)

However, these increased costs are a necessary part of the RGC asserting effective leadership over the Cambodian development agenda.

5. Impact assessment

64. Most observers believe that there has been a substantial change in the nature of the development partnership in Cambodia, when compared to the situation five years ago. Donors are cooperating much better at a strategic level, and are providing more coordinated policy advice to Government. Government ownership of national

development policies and goals has increased significantly, and Government is using the NSDP to assert leadership over the development agenda. High-level political commitments towards improved aid effectiveness, both at global level and in Cambodia, indicate a clear direction of travel for the aid relationship, and create pressures for change in aid practices.

65. Most observers agree that an effective development partnership needs to be organised through a set of formal structures and processes, along the lines of those described here. However, it is clear that creating such structures does not deliver automatic benefits. Experience from sectors such as health and education shows that it takes a number of years to develop effective partnership working among donors, and between donors and RGC counterparts. In many sectors, the new structures have not yet succeeded in generating country leadership. However, these mechanisms are still at an early stage in their development, and are likely to become more effective as policy making and implementation capacity improves.

66. There is evidence of behavioural change from both donor and government sides, but both sides appear concerned that not enough is being done. One Government report states:

“in spite of these commitments by the international community some donor practices that have roots in the era of the 1990s, a period that various studies have characterized as a period of ‘donorship’, continue. The challenge for the multilateral, international development cooperation partners of Cambodia, and NGOs is to quickly translate the commitments made in the international arena into concrete operational actions to change their practices to provide room to the Royal Government to assume ownership of its development management processes in an environment of cooperation, mutual trust, and mutual accountability to improve ODA effectiveness in order to maximize its benefits for the people of Cambodia. The challenge for the Royal Government is to continue to put in place management systems and institutional mechanisms that are transparent and accountable to enhance aid effectiveness.”

This suggests that the vicious circle of low government capacity and poor aid practices has not yet been entirely broken.

67. Government believes that donors have not done enough to change their own institutions to support aid effectiveness. It would like to see more delegation of authority to country level, and greater effort to disseminate the Paris Declaration principles in the field. It notes that many donors still have “a project mentality”. However, it also points to improvements in donor behaviour, including more effective use of TA than in the past and a greater willingness to focus on longer term capacity-building goals.

68. Alignment of external assistance with country-led priorities and strategies is well developed in a number of sectors, including health, education and certain thematic areas such as PFM. Donors have indicated their willingness to align their country strategies with the NSDP, although for the time being this does not require any substantial change in programming. Alignment tends to be weakest in areas like agriculture where RGC has been slow to articulate a credible strategy. Donors believe that the core of RGC’s aid

24 CDC/CRDB, "Enhancing development cooperation effectiveness to the implement the National Strategic Development Plan", prepared for the 8th CG Meeting, Phnom Penh, March 2006, p. 41.
effectiveness vision – the alignment of external assistance through simple forms of PBA at sectoral level – is appropriate for the country context. However, while simply stated, this objective is nonetheless an ambitious one which will take some time to achieve.

69. Alignment of external assistance with country systems is not much in evidence in Cambodia. Weaknesses in public financial management systems make it difficult to contemplate moving to upstream aid delivery on any scale, which is acknowledged by RGC. There are plans to improve the integration of PMUs with the RGC agencies. Harmonisation of procedures among the development banks has proved a more promising strategy. The four major lenders – ADB, AFD, Japan and the World Bank – have agreed to common SOPs for project management, procurement and financial management, which are gradually being rolled out across the administration. These will form the core of new country systems for public investment management.

70. While RGC ownership of the development agenda is clearly increasing, Cambodian NGOs point out that ‘country ownership’ must be defined broadly in countries where democratic traditions are not well entrenched. Civil society involvement in the formulation of development goals and strategies and the monitoring of results is required in order to provide checks and balances on the executive and increase transparency. More effort needs to be put into building demand for good governance at community level. NGO informants point out that society cannot be transformed through “the power of donor money”, unless it is backed by the power of the community. While some effort has been made to facilitate civil society participation in policy dialogue, there is not such clear consensus on the appropriate role of civil society in the dialogue on aid effectiveness, which on some views is primarily a matter for government and donors.

71. Managing for results is still a relatively new concept in Cambodia, and needs to be operationalised. A monitoring system for the NSDP is now under development. The system of Joint Monitoring Indicators is focused on policy actions rather than results, and primarily supports accountability of Government to donors. The RGC is of the view that it cannot be held accountable for development results, when most of the assistance of the assistance is not under its management and donors fail to share basic information on ODA flows. While RGC has shown an increasing willingness to criticise poor donor practices, there is as yet not much sign of donor accountability. Nonetheless, many of the initiatives described in this case study have contributed to establishing the preconditions for mutual accountability, in particular the negotiation of common targets, the establishment of baselines and the creation of an enhanced dialogue on aid effectiveness.

6. Lessons learned

72. There are many practical lessons emerging from the Cambodian experience with developing processes and structures to improve aid effectiveness. A selection of the most important lessons are presented here.

73. The RGC’s emphasis on strengthening the coordination and alignment of assistance through simple forms of programme-based approach, while remaining open to different funding modalities, is widely considered an appropriate way of adapting the aid effectiveness agenda to the country conditions. PBAs are a means of establishing country leadership of assistance at the sectoral level, while promoting greater coherence among donors.
74. Promoting the alignment of assistance through PBAs is nonetheless an ambitious goal, which is likely to take considerable time to achieve.

75. Strengthening country policy-making and ODA-management capacity is fundamental to improving aid effectiveness in Cambodia. Many of the poor aid practices from the past emerged because donors were trying to compensate for weak government capacity. As one World Bank report put it,

“Poor governance and poor aid management have co-evolved over the last decade. Unblocking this logjam will require simultaneous and complementary reforms by both the Government and its development partners. In other words, significant improvements in aid effectiveness will require progress on governance, and vice versa.”

76. In the weak governance environment that followed the Cambodian conflict, a measure of capacity substitution was inevitable, as donors supported the reestablishment of Government systems and institutions. However, poorly coordinated, supply-driven TA had negative effects on capacity development. RGC and donors have now identified that the need progressive change in the way TA is delivered, to make it more demand driven. All sectoral strategies should contain capacity assessments and coherent capacity-building strategies. Careful attention needs to be given to avoiding capacity substitution in areas where country capacity already exists. TA should be used to support Government objectives. It should be led by Government, and accountable to Government for its results.

77. Doing aid better in a weak governance environment requires considerable time and effort from donors. At present, many donors are finding the costs of effective partnership working to be prohibitive. There is considerable danger of fatigue with aid effectiveness processes. To avoid this, donors need to be more selective as to which processes they engage in, focusing on areas where they have strong technical capacity, while working through lead agencies in other areas. This is both time saving, and results in higher quality policy dialogue.

78. RGC continues to be concerned that donors have not delegated sufficient authority to country offices to participate fully in aid effectiveness processes. Aid effectiveness is a highly negotiated process, and country representatives need the authority to negotiate on behalf of their agencies. Donor staff at the country level also need to be given incentives to encourage behaviour change in support of better partnership working with Government. This means having the resources to participate in aid effectiveness structures and processes, and being recognised for the considerable effort involved.

79. The development of working groups to support a unified and well-structured policy dialogue is a necessary part of creating a more effective development partnership. It raises the quality of dialogue and policy advice, while reducing the costs to Government of multiple communication channels. The TWGs in Cambodia have worked well in sectors where Government capacity and leadership is relatively well advanced. In other sectors, however, developing that leadership is proving a challenge.

Poverty assessment, p. 168.
In such cases, donors must be willing to engage intensively with RGC partners over an extended period, to support the development of planning and budgeting capacity.

80. A number of concrete lessons have emerged as to conditions that are conducive to an effective TWG.

i) TWGs need to remain focused on results, or they risk becoming an endless conversation about processes. Time-bound action plans with clearly identified milestones are useful for achieving this.

ii) TWGs should be limited to 10-15 members of sufficient seniority to represent their agencies.

iii) Care should be taken to ensure that the appropriate technical expertise is present. Foreign technical advisers should attend to provide technical input, although not to represent donors.

iv) The use of simple Action Plans, linking ODA-funded projects to sectoral goals, provides a useful starting point for developing PBAs.

v) TWGs need a strong chair and a competent secretariat to prepare meetings.

vi) Good information sharing on ODA flows and activities is critical to effective dialogue.

vii) It is helpful if both donors and RGC agencies meet separately in advance to prepare for meetings, to maximise their efficiency.

viii) Where necessary, sub-groups should be formed on specific issues to increase efficiency.

ix) TWGs have proved more effective when the subject matter relates to a single RGC agency. They have been less effective in cross-cutting areas.
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