

SUMMARY OF CHAPTER 6
Improving Aid Effectiveness

There are a number of things both donors and Government could do differently to improve aid effectiveness in Cambodia. Over the last decade, poor aid management has not only resulted in technical inefficiency, but also contributed in part to the governance problems facing the Cambodian state. Similar experiences in many developing countries have given rise to a global call for *harmonization* (better donor-donor coordination through common management systems or joint programs); and *alignment* (donors structuring their aid in line with Government policy frameworks and – where such systems are adequate – managing aid delivery through Government systems). Donors have to a large degree committed to harmonization and alignment at the international level, at the UN Millennium Summit, the Monterrey Conference, and the Rome Agreement: they now need to put these commitments into practice at the country level.

There has been considerable progress on aid reform over the last year, with different strands of the process drawn together in a Harmonization and Alignment Action Plan. Several donors have combined their country- or sector-strategy processes in order to reduce the transaction costs to Government. The Government has led the call for existing coordination bodies to be redefined in standardized format as Government-donor Technical Working Groups (TWGs) – and for TWGs to be created for sectors or themes where such structures do not yet exist. The latest of these groups to be announced is a TWG to support pro-poor planning, with a stronger link to resource allocation. This will focus in its first year on coordinating donor support, under Government leadership, to the production of Cambodia's new five-year (2006-2010) strategic plan for development and poverty reduction and the Public Investment Program (PIP).

Both Government and donors need to sustain the progress made. There is a need for Government to develop, and donors to support, common principles for more strategic use of TA. The ad hoc salary top up system that exists needs to be rationalized and then phased out. The TWGs need to be supported and strengthened. Finally, donors need to engage in a collective debate with Government on development priorities and how external assistance can best support these.

While donors can do much to reduce the transaction costs involved in delivering aid (by harmonizing systems, forming partnerships, and reducing the number of missions and reports), maximizing the value of aid ultimately requires Government leadership, on policy issues but also on governance reforms. Many donors now give a large weight to progress on governance as a key criterion for giving aid to Cambodia, and some donors have been cutting back their assistance due to poor performance on this criteria. Implementation of the governance agenda laid out in the Rectangular Strategy could therefore result in aid levels increasing over the coming years.

CHAPTER 6: Improving Aid Effectiveness

1. There is increasing recognition in the development community that aid needs to be managed very carefully in least developed countries. If it is not, there is a risk of distorting the development of Government-institutions and, potentially, disrupting macroeconomic stability. The need for responsible donor behavior is particularly urgent in post-conflict societies in which the institutions of state, market and civil society are often weak, or take forms that do not necessarily serve long-term, collective interests. In these circumstances, carelessly given aid can prevent, rather than promote, the development of those fundamental "goods" without which long-term development will not be achieved (Box 6.1). When donors manage their aid badly, it can have a serious negative effect upon the development of political vision and commitment; of state institutions characterized by transparency, accountability and the capacity to deliver key economic and social services in a pro-poor manner; and of economic governance which promotes broad-based, sustainable and poverty-reducing growth.

2. These debates are highly pertinent to Cambodia. There is much that donors can and should do to make their assistance to Cambodia more effective. There are numerous examples of how donors have behaved, individually and collectively, which result in inefficient and ineffective aid; or which even make things worse by contributing to (or exacerbating) a culture of corruption and patronage in the use of public resources. Poorly managed aid can inadvertently impede the evolution of a coherent Government vision of long-term development; or undermine the capacity of institutions of the state and de-legitimize civil society organizations.

3. For convenience, discussion of how development assistance can best be organized so as to contribute to developmental ends at the national level can be

Box 6.1 The seven deadly sins of development cooperation

In Christian doctrine there are seven extremely serious – or "deadly" - sins. Nancy Birdsall of the Center for Global Development has used this concept of a typology of human failings to identify and frame discussion of the common mistakes made by donors in the design and management of the aid programs.

- 1 Impatience (with institution-building)
- 2 Pride (failure to exit when aid isn't working)
- 3 Ignorance (failure to evaluate)
- 4 Sloth (pretending participation equals ownership)
- 5 Envy (failure to collaborate)
- 6 Greed (stingy and unreliable financing)
- 7 Foolishness (underfunding of global and regional public goods)

These failings are particularly common, and particularly serious, in least developed and post conflict societies. Indeed, in such cases, formal institutions are weak, information is scarce, pressure for rapid results is intense, and an aid-dependent Government lacks the ability, or confidence, to discipline donors.

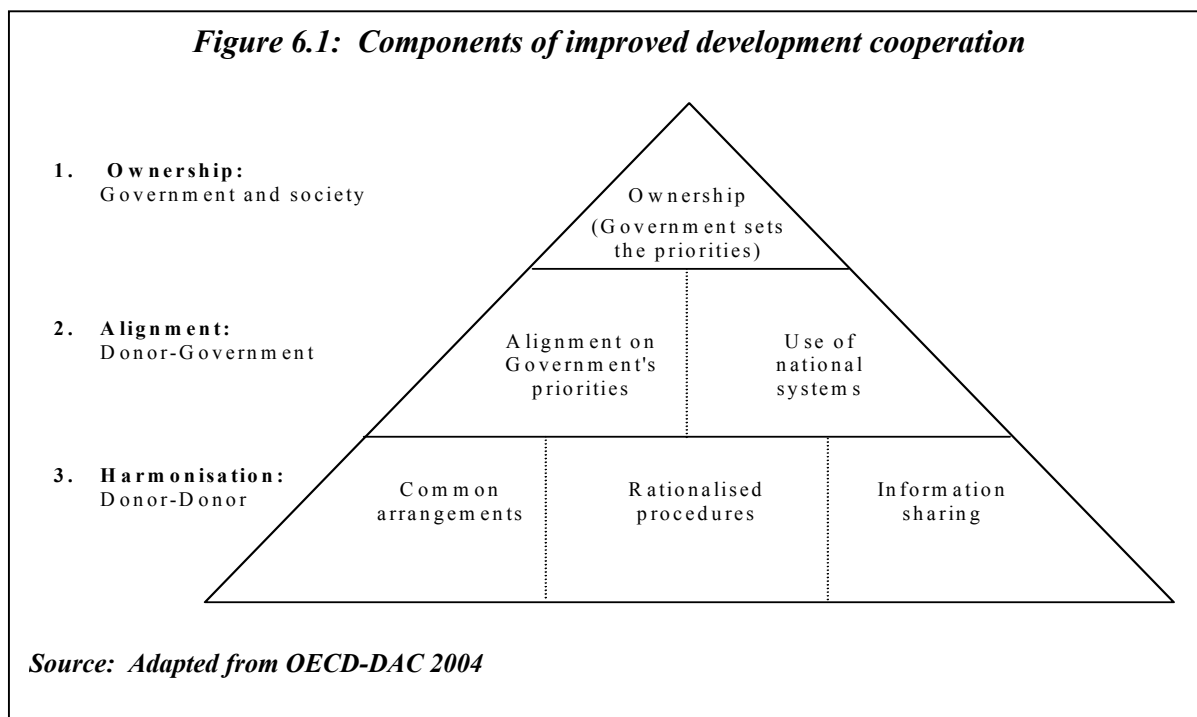
Source: Birdsall 2004

structured under a number of discrete headings (Figure 6.1). Ultimately, improved development cooperation relies upon credible indications of Government *ownership* of the development agenda. To simplify, the concept of ownership implies that the Government understands the problems it faces; has developed a strategy for tackling this, which the donors judge meets some minimal technical standard of quality and feasibility; and shows sign of real political commitment to implement this strategy.

4. If donors are persuaded of the adequacy and sincerity of the Government's development strategy, they should be willing to undertake *alignment* of their country cooperation programs with the Government's lead on policy directions and budget priorities. (Where such ownership does not exist, it is important that aid is managed in such a way as to promote the evolution of ownership - or, at a minimum, not to retard its development). Alignment of a different kind – which can to some extent exist even where donors are not willing to align with Government policy or priorities – involves a commitment by donors to use Government administrative and financial systems to manage aid transfers and activities, rather than (as has conventionally been the case) requiring Government to adapt its own processes to a multitude of different donor systems. This systems alignment, however, requires that donors can satisfy themselves (and their taxpayers or shareholders) that Government systems and procedures meet some minimum technical standard of efficiency and financial accountability.

5. Finally, there is in most developing countries considerable scope for donor-donor *harmonization* of their own procedures by: i) adopting common arrangements for planning and delivering aid (e.g. through greater clarity and commonality regarding the conditions that would lead to increased or decreased giving, or through support to agreed sector-wide aid frameworks); ii) wherever possible, streamlining and rationalizing their procedures (e.g. through joint, rather than single, donor missions and studies) so as to reduce the burden on Government; and iii) sharing as widely as possible analytical work and information on planned and actual aid flows. It is important to note that donor-donor harmonization can and should occur regardless of whether or not they can align their programming and systems with those of Government. That is, even when donors cannot align their policies or systems with those of Government (either because they judge that those policies are misguided or the systems are inadequate to ensure accountable, effective or efficient use of aid resources; or because their own internal rules prohibit use of Government systems), donors *can* take steps amongst themselves to harmonize.

Figure 6.1: Components of improved development cooperation



6. This chapter provides a brief review of some of these issues. It argues that the move to a partnership approach to the development of Cambodia requires reforms on the part of lenders and donors, as well as on the part of the Royal Government of Cambodia. The long-term objective is to make a reality of the principle of mutual accountability: Cambodia's development partners and Government need to agree and then follow a set of rules defining their obligations to each other, and to Cambodian citizens. Donors have to a significant degree committed to this general principle and specific reforms at the global level, notably at the Millennium Summit¹; the Monterrey Conference of Financing for Development; and the OECD-DAC Rome Agreement on Harmonisation. The challenge now is to live up to these commitments in Cambodia.

7. None of this, however, should detract from the central message that runs through this report (and which is explicit in the Government's Rectangular Strategy): namely, that Cambodia will not be able to escape poverty and marginality unless it achieves good governance. Donors could achieve more, even under current conditions, if they were to adopt more coordinated and harmonized approaches. Realizing the full potential of aid, however, requires that donors be able to interact with, and align their aid programs to, a Government that is demonstrably becoming increasingly transparent, accountable and internally coordinated in its pursuit of a coherent vision for poverty reduction. Without significant reform of Government institutions and systems, even well coordinated aid will achieve relatively little. In such circumstances, donors will

eventually be forced to reconsider the justification for continuing to support Cambodia rather than other, equally poor nations.

8. The chapter begins with a brief overview of how poorly managed aid has contributed to Cambodia's governance problems. It then summarizes some of the positive recent developments that have occurred, and lays out the current agenda for the near- and medium term. Broad themes are identified for how ODA might become more a part of the solution rather than part of the problem with regard to issues of incentives, institutional development and governance.

A. Development Assistance and Cambodia's Governance Problems

9. Due primarily to Cold War geopolitics, Cambodia was largely excluded from the international aid system for most of the 1980s. With the signing of the Paris Peace Accords in 1991, the volume of international assistance to Cambodia, as well as the number of actors involved in its delivery, expanded dramatically. Inevitably, aid management and effectiveness suffered as mechanisms that had proved effective at coordinating a small number of grant-funded projects in a given sector during the isolation / recovery phase of the 1980s proved inadequate for the much-expanded cast of actors, and much greater diversity and ambition of interventions, in the normalization phase of the mid and late 1990s. Table 6.1 provides a sense of the scale of the problem: although domestic revenues are starting to rise, Cambodia remains highly dependent on aid.

Table 6.1 Selected indicators of aid dependence in Cambodia

Indicator	Year	Value
Number of donors	2003	31
Number of donor-supported activities	2003	410
ODA as percentage of GNI	2002	12.7%
ODA as percentage of imports	2002	16.7%
Reported external assistance flows	1996-2001	\$2,672m
...compared to total Treasury-executed expenditures	1996-2001	\$2,122m
Percentage of total public spending accounted for by ODA in:	Year 2001	%
Health	2001	65.9%
Agriculture	2001	67.4%
Transport	2001	68.1%
Area / rural development	2001	88.8%

Sources: World Bank 2003 pp. 19-22; World Bank 2004.

10. The relationship between state capacity, governance and aid under these conditions is complex and recursive. Donors have tended to rely heavily on project implementation units (PIUs), either because they believe that weak state institutions and endemic corruption require that they manage their assistance under very close

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supervision, or simply because those are what donor country law or donor agency regulations demand. Through the use of donor systems, donors have thus attempted (not always successfully) to insulate project activities from Government failings, with reliance on PIUs and TA predicated as both a necessity for aid effectiveness in the face of weak capacity, and a way of building that capacity. These PIUs have indeed often achieved effectiveness in discrete project-defined goals, in large part by offering higher salaries to recruit, retain and motivate the best staff. Increasingly, however, it is recognized that there are severe limitations to what can be achieved through such a model of aid delivery (Box 6.2). Indeed, in practice such an approach often undermines the foundations for accountable and effective use of available resources (domestic and ODA) and the capability of Government to perform key functions.

Box 6.2: Capacity and governance: the limitations of projects

In its extreme form, the proliferation of PIUs has resulted in "islands of excellence in a sea of Government failure": that is to say, short-term improvements in specific outcomes are achieved with little, if any, impact on the systemic problems plaguing the mainstream of public administration and public financial management. At worst, the proliferation of stand-alone donor-administered projects actively undermines state effectiveness: the development of Government vision, strategy and systems is blocked or reversed as a Ministry comes to spend all its time seeking project funds, resulting in a set of uncoordinated (and often contradictory) objectives; the best staff are sucked out of core Ministry functions into PIUs; and achievements are ultimately unsustainable, being highly likely to collapse when donor support is withdrawn.

11. A particular concern of the Royal Government has been the excessive reliance of donors upon technical assistance (TA), the vast majority of which is expatriate in origin. The numbers of foreign TA advisors (estimated at c. 800) and the size of spending on TA (c. \$162m in 2001 - around 21% of combined domestic and externally-financed expenditures, or more than the Government's total wage bill) are extremely high. There is no doubt that there is an important role for TA, which, if managed correctly, can indeed contribute to long-term capacity development. Equally however, relying upon advisors to manage projects or reform processes can undermine national ownership and prevent the development of institutional capacity, especially when these advisors are weakly integrated into the mainstream of Ministry processes (Godfrey et al 2003; Mysliwiec 2004).

12. At a more macro level, Government leadership on the aid reform agenda depends critically upon the existence of a clear and comprehensive national development strategy. Without such an over-arching medium-term strategy, there can be only limited progress in aligning donor support to Government priorities. Such a strategy has not yet been fully developed in Cambodia. This is not surprising given the limited institutional capacity. In an effort to create such a strategy, there have been a number of alternative donor-funded efforts, in parallel or close succession, which have given rise to the Second Socio-Economic Development Plan (SEDPII), supported by the

ADB, and the National Poverty Reduction Strategy (NPRS), supported by the World Bank as Cambodia's PRSP. Although sharing much in common, they differ in some important respects, particularly with regard to the frameworks for monitoring and evaluating policy implementation and outcomes over the medium term. The situation with regard to progress monitoring was further complicated by the production (with UNDP support) in 2003 of the Cambodian MDG Report, which introduced a third, only partially compatible official set of baseline and target indicators.

B. Efforts to Reform Aid in 2004

13. As of late 2004, there are important grounds for optimism regarding donor-donor relations. A number of positive developments, many occurring over the last twelve months, have significantly improved the prospects for moving towards a more productive use of aid resources. All of these can be seen as responding both to a general global agenda for improved, government-led aid modalities at the country level (articulated most clearly in the OECD-DAC *Guidelines on Harmonizing Donor Practices*), and to a specific RGC critique of uncoordinated aid delivery to Cambodia (expressed in a number of Government studies and statements since the late 1990s²). Cambodia has over the last few years started to connect to the global debate, and is now a signatory to the Rome Declaration on Harmonization.³

14. Moves towards more coherent ODA first began in earnest at the sectoral level. Today, the aid reform agenda is most advanced in respect to education and health, where multi-donor partnerships have evolved gradually in support to developing sectoral strategies (a Sector-Wide Approach – SWAp – in education and Sector-Wide Management – SWIM – in health) which align ODA behind a Ministerial strategy and reduce transaction costs for Government.⁴ Multi-donor partnerships have also streamlined donor-Government relations and helped to reduce gaps and overlaps in regard to decentralization and local governance (Seila and the Partnership for Local Government) and, more recently, in PFM (with agreement on multi-donor support to a three-stage process of reform, including salary reform, in the Ministry of Economy and Finance).

15. In an effort to impose a basic common structure on sub-national alignment/harmonization initiatives and bring arrangements in less advanced sectors up to the standards seen in health and education, the Government has mandated that existing Government-donor coordination bodies at the sectoral and thematic level should be restructured along more standardized lines as Technical Working Groups (TWGs). At the pre-CG Meeting held on September 10, 2004, Prime Minister Hun Sen announced the launch of 17 new Technical Working Groups (TWGs) and laid out some basic principles for reforming the old working group structure:

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16. **First**, the Government and its development partners recognized the necessity to review and restructure these working groups into joint technical working groups as a mechanism at the sectoral/thematic level;

17. **Second**, to strengthen the ownership and leadership of the Government, the joint TWGs will be headed by a responsible ministry or agency with the participation by members from other ministries and development partners. Coordination on the donor side will be facilitated by a lead donor coordinator;

18. **Third**, each TWG must have a generic terms of reference (TOR) which clearly defines its roles and responsibilities.

19. While much can be achieved through sectoral-level initiatives, there is a need also for an overall, nation-level framework for aid management. Over the last year, both Government and donors have confirmed at the highest levels that the situation of multiple national strategies will be resolved with the production of the next five-year strategy for 2006-2010. This constitutes an extremely positive development. The new strategy will be produced by the end of 2005 and will unify the approaches previously developed in the SEDPII, NPRS and CMDGR. The Prime Minister has clearly, and repeatedly, signaled that it is the intention of the Government to consolidate around one national strategy. For their part, all three of the donors previously associated with the separate strategy documents of the past (i.e. the ADB, World Bank and UN) have stated publicly that they are committed to a unified approach. The new five-year plan will lay-out the concrete policies and investments that will be needed to realize the vision for Cambodia that is presented in the Rectangular Strategy.

20. There have also been positive trends towards better communication and greater cohesion of strategic vision amongst the donor community. This has been seen in a number of encouraging specific moves towards donor harmonization. These initiatives include joint analytical work⁵; the common country strategy development process involving ADB, the UK Department for International Development (DFID), the World Bank and now the UN; and the integration of UN agency analytical and planning cycles around a streamlined CCA-UNDAF process (which is, furthermore, directly aligned to the NPRS). The joint analysis in the World Bank-ADB Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) has provided the basis for an evolving partnership approach to public financial management (PFM) reform, with ten bilateral and multilateral donors aligning their financial and technical assistance in support to a staged series of reforms, designed to bring RGC PFM practices up to international standards by 2015 (see Chapter 3). At the level of systems and procedures harmonization, the Government, World Bank and ADB have collaborated on the preparation of a Manual of Standard Operating Procedures and a joint project financial management system and manual.⁶

Table 6.2 Summary of the RGC Action Plan for Harmonization and Alignment, 2004-2008

Section A: Ownership and Leadership

- 1. RGC leads the process and prepares a single Strategic National Development Framework for the next planning cycle (2006-2010)**
 - a) RGC prepares and adopts a single National Strategic Development Plan (2006-2010)
 - b) RGC uses a single national development framework for planning linked to resource allocation, including ODA.
- 2. RGC assumes leadership role in the coordination of development assistance**
 - a) Cambodia's Action Plan for Harmonization and Alignment—2004-2008, clearly stating RGC's priorities on harmonization and alignment, is prepared and agreed with development partners
 - b) RGC has one ODA coordinating body
 - c) RGC's ODA Management Policy prepared and agreed with donors
 - d) Joint planning and monitoring of the implementation of RGC's development priorities, involving donors and stakeholders, as outlined in its strategic development framework(s) and its Rectangular Strategy.
 - e) RGC has the information it needs to lead and coordinate development assistance
- 3. As one of the fourteen pilot countries, Cambodia plays an active role in the implementation of the Rome Declaration on Harmonization and Alignment (2003).**
 - a) RGC provides regular progress reports on implementation of Cambodia's Action Plan on Harmonization and Alignment

Section B: Capacity Development

- 1. RGC's capacity strengthened to effectively perform development coordination and management functions**
 - a) The capacity of CDC, coordinating agencies and sector ministries strengthened to effectively perform development coordination and management functions.
 - b) Agreement on principle and practices of donor support for allowances and salary supplements to Government employees

Section C: Alignment

- 1. RGC and donors adopt the consolidated Strategic Development Plan of the RGC as the common framework for planning ODA.**
 - a) Donor activities are aligned with government strategy and policy, and are consistent with a framework for private sector and civil society participation
- 2. Donor practices are harmonized around the generic elements of the program/project cycle**
 - a) Government introduces national operational guidelines for development cooperation activities covering all component of the program/project cycle
 - b) Development assistance is increasingly delivered in accordance with RGC's, civil soc, PS, priorities
- 3. Donors increasingly use Government's systems, procedures and practices, where appropriate**
 - a) Development partners seek to reduce the proportion of ODA that bypasses the National Budget and RGC commits to integrate ODA into budget
 - b) Medium Term Expenditure Framework (MTEF) is strengthened and expanded
 - c) Allocation and utilization of ODA resources are transparent and accountable

21. All of these mutually supportive processes have now been brought together over the last six months. Australia, Japan, the UN system, ADB and the World Bank have supported the CDC in managing a series of national and regional Government-donor workshops to assess the current state of play on harmonization (using the OECD-DAC questionnaire as a basis for assessment) and prepare documents defining roles and responsibilities in Government-donor partnerships. The last of these meetings - held at the CDC on the 26th and 27th October – resulted in the production of the RGC Action

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Plan for Harmonization and Alignment (summarized in Table 6.2) (RGC 2004). This document will be formally approved before the CG meeting takes place in early December 2004— one of the many signs over the course of the year that the harmonization and alignment agenda is clearly supported by Cambodia's political leadership.⁷

C. Moving Towards Mutual Accountability: The Development Cooperation Agenda in 2005

Sustained commitment to a poverty-focused, medium-term RGC strategy

22. It is critically important that the Government's commitment to a single, poverty-focused five-year development plan (2006-2010) be followed-through in practice. As described above, the "one strategy" approach has been endorsed at the highest levels by both the Government and donors. At the operational level however the legacy of parallel donor-specific programs of support to national strategy development is such that within the Ministry of Planning there remains a division of labor that allocates separate and divided responsibilities for SEDP, NPRS and CMDG projects. The senior political leadership and the donor community need to work with MoP to untangle this situation and establish the institutional groundwork required to promote Government ownership of, and jointly manage multi-donor inputs to, a unified, poverty-focused national strategy. There is an emerging consensus that what is required is some form of "SWAp for planning" – although the form this will take has yet to be defined.⁸ In starting to sketch out how budgets (investment and recurrent) should be driven by plans – and actual public expenditure management should in turn be driven by the budget – it will be critical to delineate the roles and relationships between the line Ministries, Ministry of Planning, and Ministry of Economy and Finance, and the functional links between plans and the progressive re-orientation of investment flows towards rural and pro-poor activities (notably through the Public Investment Program).

Government leadership on use of TA and tied aid

23. Goods and services procured using ODA should be based on strictly developmental criteria, with emphasis added on securing the best possible value for money. Donors are increasingly withdrawing from tied aid: the government and the donor community collectively need to sustain the pressure for this (RGC, 2004).

24. More broadly, donors need to work with Government to develop a set of basic principles guiding common approaches to capacity-building and the use of TA. There needs to be a commitment, enforced by peer pressure and Government counterparts, that the primary purpose of TA is long-term skills transfer (rather than skills gap-filling). The emphasis needs to be upon the development of institutional, rather than merely individual, capacities. In the short term, donors need to agree terms of reference for

technical assistance jointly with Government and in consultation with other donors in the sector; adopt institutional development approaches which take more account of Cambodian perceptions and preferences rather than de-contextualized international "best practice"; and develop a strategy to urgently address the current excessive level of reliance on expatriate advisors. Such a strategy would over the medium to long term evolve into a time-bound program to reduce and eventually phase out all expatriate advisors and replace them with qualified Cambodians. This needs to be accompanied by coherent approach to phasing out the *ad hoc* salary supplements and benefits that donors currently use to subsidize civil servants working on donor funded programs. The savings from this and from the reduced dependence on external advisors can be reinvested into a system of transparent payments to priority groups of civil servants who are seen as critical for ensuring improved public service delivery for the poor. Such a program will need to be developed ministry by ministry and be linked to the implementation of an overall reform program for the concerned ministry (including improved management of the performance of those better paid civil servants). Support of this nature will need to be assured until such time (10-15 years in the future) as Cambodia's own revenue effort is able to sustain an adequate living wage for the entire civil service – and subject, of course, to a continued long-term commitment on the part of the Royal Government to implement such institutional reforms.

Donor Flexibility to Respond to Cambodia's Changing and Urgent Needs

25. In Chapter 1 it is noted that growth is likely to fall significantly in 2004-2005 and not likely to recover to the NPRS target of 6-6.5% until 2009. During this transition period it is imperative that donors help to cushion the initial decline in growth rates and then, as soon and as much as possible, to restore faster growth. During 1999-2003, aid inflows averaging 12% of GDP helped finance domestic investment and fuel construction activities (IMF, 2004). About half of the inflows were grants in the form of donor-financed projects and technical assistance, all of which were outside the budget. Aid inflows were used to improve health and education (24%), rebuild physical infrastructure (23%), and strengthen economic and social institutions (15%). Agriculture and forestry received only 8% of aid flows.

26. It is now time to review the current allocation of foreign aid flows, focusing more attention on maintaining and increasing growth rates and on ensuring that growth is strongly linked to poverty reduction. In the past, weak administrative capacity may have justified channeling a large proportion of total ODA through technical cooperation (which accounted for 50% of all aid flows during the period 1999-2003). However, there is now a good case for reallocating ODA in order to more directly address poverty and boost long-term growth. The critical need to raise rural incomes argues for a better understanding of the constraints to rural growth and development, in particular in the agricultural sector where growth rates have been low and the potential has been unutilized. An agricultural strategy that identifies the constraints to agricultural growth

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and builds consensus on the necessary policies and investments that are needed to promote agricultural growth—is urgently needed as the first step.

Strengthening the Technical Working Groups

27. The sectoral level has been, and will remain, a critical level at which to improve Government-donor dialogue and aid effectiveness. The restructured TWGs thus assume a critical significance. To make them work, however, will require concerted attention on a range of issues:

- *Ensuring the right level of participation, from both Government and donors.* Making the TWGs work as a mechanism for sustained on-going dialogue requires that the participants in TWGs should be senior technical level staff, rather than political (Minister or Ambassador / Head of Mission) level, although there are some very rare exceptions. Donors and NGOs should attempt to send one delegate each to meetings; and there should be a preference for making sure that, as far as possible, the same individual attends each time. This is easier said than done, given the small size of donor offices and the limited resources available to both Government and NGOs for such work. This suggests that there may be a tradeoff between the effectiveness of groups and the large number that currently exist.
- *Membership that creates space for non-state national actors,* increasing the exposure of Civil Society Organization (CSOs) and private sector associations to Government and donor policy debates and processes. Selecting legitimate representatives from the large and often diverse panoply of non-state actors requires considerable thought and time.
- *Clear and relatively standardized ToR and partnership principles* to structure the work of the TWGs. The PFM TWG has developed excellent partnership principles, which could well serve as a model for other TWGs. These founding agreements, and discipline on the part of all members, should ensure that the focus of the Groups remains on the identification of sectoral problems and ways to improve sector policy, planning, budgeting and M&E – and does not get stuck on mere information-sharing and descriptions of individual projects.
- *Creating and sustaining a sense of purpose for the TWGs.* One way to do this would be to give them formal responsibility for elements in the annual Government-donor planning and budgeting cycle: for example, by requiring each TWG to compile an annual review of sector progress as an input to a MoP-led performance review and/or Government CG report.

28. The TWGs are the logical focus of many, if not most, of the other reforms described in this section. That is to say, these measures - joint evaluations, principles for harmonizing and aligning TA and capacity-building approaches, monitoring of both Government and donor performance indicators, and multi-donor or lead/silent partner partnerships - are all likely to take root first at the sectoral level, through the forum of the relevant TWG. If the TWGs are to fulfill this potential, it is essential that the Government believes in their importance and feels a sense of ownership of the Groups.

This will require efforts both from the Government (which will need to assert positive leadership of sectoral policy debates through the TWGs) and the donors (who must learn to exercise discipline, and to allow the space for Government leadership to develop).

Reduced transaction costs through stronger donor-donor partnerships

29. There are a number of significant reforms that individual donors can make in order to improve the effectiveness of their own aid program, without needing to wait for a high-level Government lead or a critical mass of donors to agree on a sector-wide approach. Donors who establish a shared understanding and basis of trust between themselves should increasingly aim to enter into lead donor/silent donor partnerships. For instance, donor A delegates to donor B the responsibility for managing donor A's support to a given sector or project, providing the funds and asking only for some basic regular reporting and joint review of activities and outcomes, along previously agreed lines. Such arrangements have the potential to reduce transaction costs for both Government and the donors involved, and significantly reduce the cacophony of donor voices to which the Government must listen.

D. Monitoring Donor Effectiveness and Behavior

Monitoring and Evaluating Aid More Effectively and in Ways that Build Capacity

30. With a few exceptions, donors generally do not spend enough time or resources on critical evaluations of the aid they give to Cambodia (Birdsall, 2004). There is a need to ensure that evaluations, once produced, are made public and actively disseminated to Government, civil society and other development partners (particularly those operating in the same sector or geographical area). Most importantly, the recommendations of the evaluations must result in concrete actions on the part of the donors.

31. In the first instance, it is important that evaluations are understood to be a requirement for development agencies (who need to demonstrate to their taxpayers or boards of governors that ODA resources are being used in a proper and effective manner). However, they should also be embraced as a vehicle for inculcating principles of accountability (upwards to political leaders and downwards to citizens) and evidence-based decision-making into the mainstream of national policy, planning and budgeting systems. Wherever possible, donors/lenders should seek to formulate their evaluations as joint (Government-partner) exercises, which should increase the opportunities for Government counterparts to learn evaluation principles and skills, and deepen the level of national ownership of the evaluation findings and recommendations.

32. Such evaluations, however, constitute a further demand upon the limited time and resources of Government counterparts. This is *particularly* true if there is no

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commensurate reduction in the number of evaluations – which would be the case if each donor continues to require its evaluations are carried out on a bilateral, project-focused basis. A number of actions can be taken to help reconcile the need for critical evaluations with the need to reduce transaction costs to Government. Less numerous but more meaningful evaluations would be one further benefit of a move towards concentrating ODA resources into fewer, larger and longer projects, and more multi-donor projects.

33. Donors also need to make more use of Cambodian universities, research institutes and consultancies to carry out monitoring and evaluation of aid. They could commission Cambodian researchers to conduct independent evaluations of ODA-supported projects, programs and modalities. This would serve to strengthen and embed the capacity of groups outside Government to hold Government, and donors, accountable for the management of aid.⁹

Monitoring Donor Behavior and Progress on Harmonization and Alignment

34. The donor community makes legitimate demands of the Government in order to establish that the aid resources they give are used in a transparent and accountable manner for the good of Cambodian citizens. They have also established benchmarks to monitor progress in these aspects between CG meetings. By the same token, the Government has a right to ask donors to account for their aid management practices. This could begin with transparent reporting and annual reviews of information relating to ODA management, against an expanded and more detailed set of performance indicators based on the information reported to the CDC. Box 6.3 provides a preliminary list of what indicators might be included in any benchmarking and peer reviewing of donor performance.

35. In reporting on donor performance as in all other aspects of donor activity, there is a pressing need for more donor material to be translated more promptly into Khmer, and more actively disseminated to the general public, civil society organizations and NGOs, and the private sector. Donor partnerships – ideally sector-wide through TWGs, but in the absence of this through multi-donor partnership clusters – provide a logical way to absorb the increased translation and public information costs required for a more transparent and accountable approach to the design, implementation and supervision of aid-financed activities.

Box 6.3: Indicators for benchmarking donor behavior: a preliminary list

Indicators of alignment

- % of country program on-budget
- % of country program spent as TA
- Government involved in drafting ToR for TA
- use of Government FM systems
- country program supports national development strategy
- % of country program provided within SWAs

Indicators of consolidation/concentration

- average project size/ratio of projects to total ODA
- ratio of number of projects: number of sectors in which a donor works
- ratio of total country program budget: number of sectors in which a donor works

Indicators of harmonization and reduced transaction costs

- number of missions p.a.
- % of missions that are joint
- % of analyses and evaluations that are joint
- average length of projects (years)
- participation in multi-donor projects (as % of projects in country program)
- use of tied aid (Y/N)

Indicators of transparency and predictability

- country programs made public
- commitment: disbursement ratio
- provision of multi-year envelope forecasts (indicative/firm)
- inter-annual volatility/variability

E. Donors and Governance

36. If donors are to support the Government's commitment to good governance, they need to devote significant attention and resources to supporting reform of certain core aspects of governance. These include strengthening Government's fiduciary capacity (including aligning donor procedures around an improved, Government-owned set of fiduciary controls and processes); raising, and where necessary decompressing, salaries; introducing human resource systems which assign positions on the basis of qualifications and rewards on the basis of performance; instituting effective monitoring and evaluation systems so that policies and plans are formulated with reference to analysis and evidence; and finally, linking policies and plans to annual and medium-term expenditure management processes which enable resources to be assigned on the basis of objectives rather than incremental budgeting.

37. Donors could also do much more to help strengthen the "demand side" of governance reform by engaging civil society and the private sector more systematically and substantively in the design, implementation and monitoring of development assistance. This can be used to incrementally expand the space for these groups to participate in Government policy processes. Experience in other countries in which donors have been criticized for past inaction on corruption and poor governance suggests some basic internal changes that donors can undertake – greater information disclosure, strengthened controls and supervision, engagement of communities and civil society organizations in project design and supervision as the norm, and better enforcement when abuses are discovered. These measures can significantly reduce the opportunities for misuse of ODA and, in doing so, contribute to clarifying the distinction between public and private resources.

F. How Cambodia's Development Partners Could Support Better Governance

38. A dilemma for international development partners is whether to prioritize need (e.g. poverty headcount) or performance (proven ability of governments to use aid effectively to make an impact) when allocating aid to developing countries. There is an increasing body of evidence that aid effectiveness depends heavily upon the existence of a sound institutional and policy environment. When such an environment is lacking, donors are increasingly wary of committing large amounts of grants or loans.

39. Some donors, such as the World Bank and the ADB, link the overall country program resource envelope to country performance in an automatic and non-discretionary manner. The World Bank, for example, uses an annual Country Policy and Institutional Assessment (CPIA) to score each country according to a range of criteria. The sub-set of governance indicators are now heavily weighted in the overall CPIA score. In the case of Cambodia, the scores for three of the five governance indicators remained largely the same or declined between 1999 and 2003, with slight increases in only two dimensions (Figure 6.2). In terms of comparison with other IDA countries, Cambodia in 2003 did as well as other countries on macroeconomic management and almost as well on structural and social equity issues - but scored worse than the average for IDA recipients in all five governance criteria (Figure 6.3). As a result, the World Bank's overall IDA allocation for assistance to Cambodia has been reduced. The ADB uses a similar performance rating to assign country-level funds and, on the same basis, has reduced allocations through its Cambodia country window. The implication is that since governance is weighted so heavily for both the Banks, improvements in governance - as laid out in the Rectangular Strategy - could result in aid levels increasing considerably over the coming years.

Fig. 6.2: Cambodia's Country Policy and Institutional Assessment (CPIA), scores in 1999 and 2003

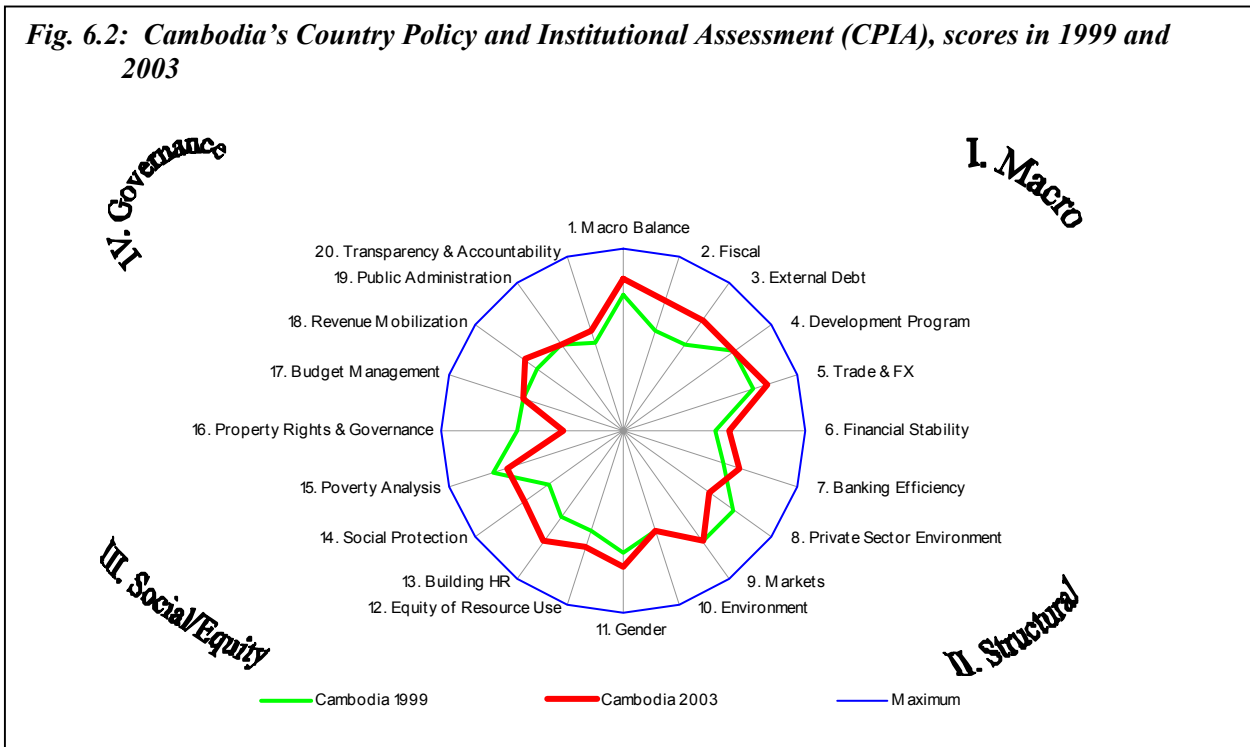
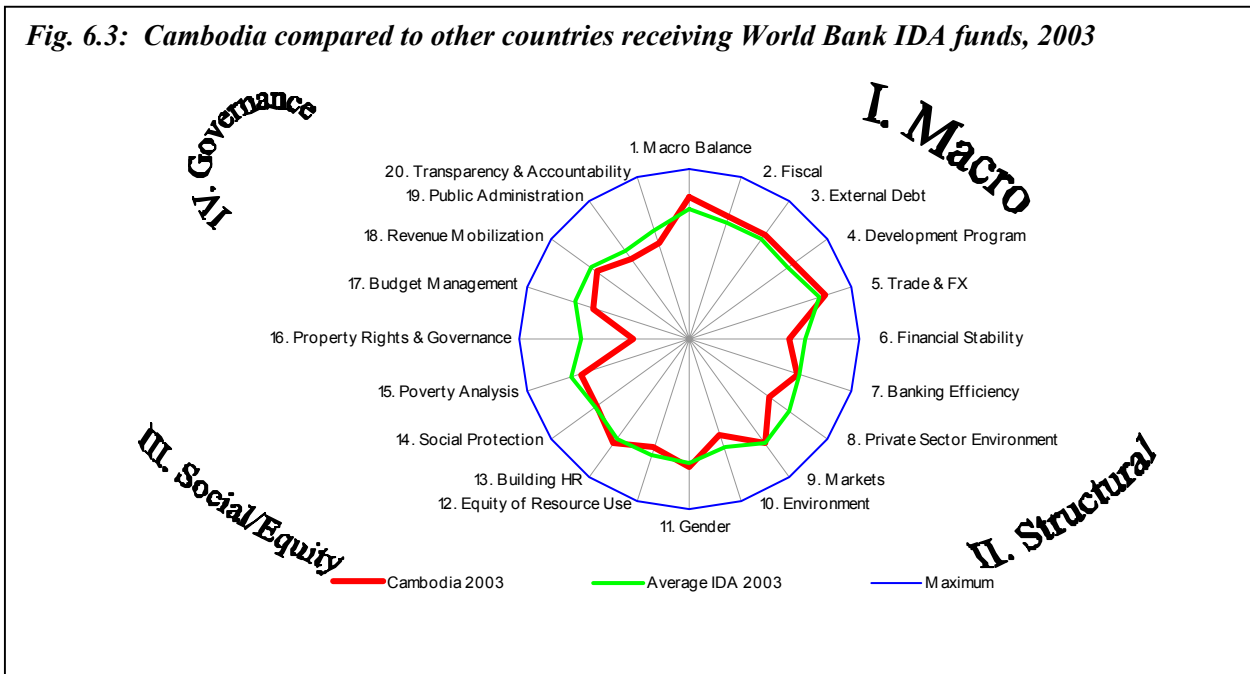


Fig. 6.3: Cambodia compared to other countries receiving World Bank IDA funds, 2003



End Notes

¹ The eighth MDG commits nations to "develop a global partnership for development": UN 2000.

² see for example the Annual Progress Report (APR) on NPRS implementation, which argues for combining funds currently allocated to project-based salary supplements in a pool for budget support for wage reform.

³ Cambodia has participated in the OECD-DAC Task Force on Donor Practices and was selected as one of the pilot countries for OECD/DAC work on harmonization.

⁴ for accounts of the sector approaches in education and health see CDC 2004 Chapters 6 and 7; H.E. Chhieng Yanara 2004b.

⁵ e.g. the *Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER)* (World Bank and ADB 2004) and the *Cambodia gender assessment* (UNIFEM, World Bank, ADB, UNDP, DFID and MoWVA 2004).

⁶ H.E. Chhieng Yanara 2004a.

⁷ Note for example that the Prime Minister used the pre-CG meeting between Government and donors in early October to endorse the process and issue instructions to guide its completion.

⁸ One specific aspect to this donor-exacerbated weakness in planning and policy-making is the plurality, and limitations, of national frameworks for monitoring and evaluating change. Although there have been a number of attempts at establishing an overall system for collecting, processing, analyzing and making use of socio-economic data, the current situation is unhelpfully confused, with a lack of clarity about the respective roles for the Poverty Monitoring and Analysis Technical Unit (PMATU), CamInfo, sectoral M&E systems, and the indicator frameworks of the SEDP II, NPRS and CDMGR.

⁹ If there are doubts about the capacity of the Cambodian research and consultancy community to handle the technical complexity or (a more valid concern) the volume of evaluation work required, the facility could be designed to incorporate long-term call-down contracts with policy research institutes or suitable consultancy organizations elsewhere in the region or the world, providing opportunities for long-term skills transfer and institutional capacity-building.