Aid Effectiveness

Presented on behalf of the Donor Community
By H.E. Mr. Ulrik Helweg-Larsen, Ambassador
Royal Danish Ministry of Foreign Affairs - Danida
CG Meeting
6-7 December 2004

We thank Prime Minister Hun Sen for having outlined the framework for Government-Donor cooperation on 10 September 2004 during the Pre-CG meeting. This framework establishes Government's ownership of the development process, while providing a basis for more effective cooperation with donors.

There is increasing recognition within the donor community that aid needs to be managed very carefully in order to improve impact. There are numerous examples in Cambodia of how the behaviour of donors, both individually and collectively, has resulted in ineffective aid - and of how aid actually has made matters worse by undermining the capacity of state institutions and preventing the evolution of a coherent government vision for long-term development. One of the clearest examples in Cambodia of how lack of donor coordination and national ownership can distort the development process is that Government has been operating with three different overall strategic planning documents supported by different donors with different emphasis.

We welcome the fundamental steps that Government has taken towards increasing the effectiveness of aid in Cambodia. Firstly, Government has decided to merge the three strategies into a single government-owned framework for development and poverty reduction. This will further encourage donors to align with Government's strategy. Secondly Government has approved the Action Plan for Donor/RGC ownership, alignment and harmonization in November 2004 and strengthened Government-Donor partnership through the Joint Government-Donor Technical Working Groups (TWGs) within 17 priority sectors and thematic areas, which provide further opportunities for increasing aid effectiveness and development of a common framework. Thirdly, a Government-Donor Coordination Committee has been established to provide high-level policy dialogue and facilitate resolution of complex issues identified by the TWGs.

Nevertheless, a considerable amount of work remains to be done. Some issues need strong political commitment and some need sustained resources to implement.

There are a number of ways for individual donors to adapt their work practices with a view to increasing aid effectiveness. Based on a shared understanding and mutual trust, donors could enter into lead donor/delegated donor arrangements with joint agreements on sector support, formulation, management, funding, reporting, reviews, evaluation and impact surveys as well as identify areas where they have their respective comparative advantages. Such arrangements shall contribute to reducing the transaction costs that both Government and donors currently is overburdened with.

In Cambodia today, more than 500 projects and programmes are being implemented. In addition, NGO projects are being supported by over 200 international NGOs, some in partnership with Government and approximately 500 by Cambodia NGO's and CBO's. The work associated with these activities severely strains the capacity of both the Government and donors. Surveys indicate that senior provincial and local level staff participate in some 45 committee meetings and spend considerable time on individual project reporting, which means that they have considerably less time to spend on supporting implementation of development activities. Above all, the proliferation of projects undermines state effectiveness. The development of government visions, strategies and systems stalls, as the best qualified staff in ministries are transferred from serving core ministry functions to performing tasks for donor supported projects. Furthermore, as has been documented by a number of anecdotal surveys, many projects have established Steering Committees and Project Implementation Units (PIU), which are a highly inefficient ways of using scarce human and financial resources. PIUs in Cambodia have been described as "islands of

excellence in a sea of Government failure" resulting in "short-term improvements with specific outcomes achieved with little, if any, impact". Lastly, with the high number of donor supported projects, the risk of overlapping and duplication of efforts is immense.

A concern of Government has been the excessive reliance of donors upon technical assistance (TA), the majority of it provided by non-Cambodians. The number of foreign TA advisors (estimated at approx. 800) and the spending on TA (approx. $162m in 2001 - around 21% of combined domestic and externally-financed expenditures or more than Government's total wage bill) is extremely high. There is no doubt that there is an important need for TA, which, if managed correctly, can indeed contribute to long-term capacity development. Equally important, however, is that relying upon advisors to manage projects or reform processes can undermine national ownership and prevent the development of institutional capacity. Broadly speaking, donors need to discuss amongst themselves, with Government and within the TWGs, on the need for developing a set of basic principles guiding capacity building and the use of TA. The primary purpose of TA has to be seen as the transfer of long-term skills and the development of institutional capacity.

Of particular concern, however, is the intensive use of "salary supplements" and similar distorting practices in projects/programmes supported both by donors and some international NGO's. This practice ultimately undermines sustainability, is counterproductive to civil service and pay reform and distorts Government's service delivery systems. It is important that key civil servants are appropriately rewarded and held accountable for their work. A strategic approach to pay and employment reform, based on meritocratic principles, is required to address this crucial issue in a coherent and sustainable way. We have noticed with appreciation that one of the benchmarks from the PAR Action Plan for 2005 will be: "An agreement between government and development partners is reached by April 2005 to phase out donor-funded salary supplements and redirect them in support of pay reforms in priority areas and an action plan is developed and approved by June 2005".

Increasing aid effectiveness requires that donors cooperate with each other and align their programmes with Government's priorities with the prerequisite that Government takes on ownership of the development process and commits itself to reform of government institutions and systems in a transparent and accountable manner. There are some good examples of this, such as the public financial management programme launched by the Prime Minister on Sunday. Donors are committed to help make this programme a success in implementation. We are committed to generating more successes in other sectors. The active participation of the civil society and private sector in the development process and a rapid increase of Government revenues are also needed to ensure social and economic sustainability.

The donors are anxious to be part of the solution and not the problem. There is real determination among donors to live up to the Cambodia Declaration and to work together to provide more effective support to Government. But, to capitalise on this and contribute to faster growth and poverty reduction, the Government must demonstrate that it will lead the reform process. The donor community agree that future support clearly needs to be conditioned upon the adequacy of Cambodia's reform effort.

The nature and volume of assistance will thus be explicitly linked to progress on reforms. If such progress is not forthcoming, donors may explore ways of reaching the poor directly.

The Royal Government of Cambodia and its partners today face a unique opportunity to significantly accelerate the reform process at what appears as a propitious time in Cambodia's history.