



**Kingdom of Cambodia**

Nation - Religion - King

ជាតិ ព្រះមហាក្សត្រ ព្រះពុទ្ធិសាសនា

**ROYAL GOVERNMENT OF CAMBODIA**



**ENHANCING DEVELOPMENT COOPERATION EFFECTIVENESS  
TO IMPLEMENT THE  
NATIONAL STRATEGIC DEVELOPMENT PLAN**

*Prepared by the  
Cambodian Rehabilitation and Development Board  
Council for the Development of Cambodia  
for the  
8<sup>th</sup> Consultative Group Meeting for Cambodia, 2-3 March 2006  
Phnom Penh, Cambodia*



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## **FOREWORD**

This document is different from the Position Papers that the Royal Government has presented to development partners at previous Consultative Group meetings for Cambodia. The purpose of this document is to present to our national and international development partners a succinct summary of the issues that will need to be addressed to effectively implement the National Strategic Development Plan (NSDP) for 2006-2010 period and to improve aid effectiveness. It provides an update on macroeconomic performance, monetary and fiscal performance, and Government's policy performance. It presents a summary of the development priorities outlined in the National Strategic Development Plan for 2006-2010. It also provides an update on progress that has been made over the last year in building partnerships with all development partners -- the multilateral and international development cooperation partners, private sector and the civil society -- to enhance aid effectiveness. It outlines the challenges that both the Royal Government and the development partners face to enhance aid effectiveness and has identified priority areas to which the development partners urgently need to give a high priority. Finally, it presents information on development cooperation support that will be required, in addition to national resources, to support the development programs and projects outlined in the three year rolling Public Investment Program (PIP) for 2006-2008 to implement the NSDP 2006-2010, both were approved by the Royal Government on 27 January 2006.

To achieve its development goals, the Royal government of Cambodia is fully and firmly committed to the principles of good governance and to fully implementing the Rectangular Strategy, in particular to maintain sound macro-economic policies and fiscal discipline. The RGC will do its utmost to raise national savings and capital resources to provide as much funds as possible for its development programs. I am confident that this document will help our development cooperation partners to harmonize among themselves and to align their support to Royal Government's priorities that have been laid out in the PIP 2006-2008 and the NSDP 2006-2010.

Phnom Penh, 15 February 2006



**KEAT CHHON, MP**

Senior Minister, Minister of Economy and Finance  
First Vice Chairman, Council for the Development of Cambodia

### **ACKNOWLEDGEMENT**

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## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

1. For the first time in recent history, since 1999 the people of Cambodia have enjoyed an environment of peace, political stability, law and order, democracy, respect for human rights and economic stability. A comprehensive reforms agenda is being implemented by the Royal Government in spite of many on-going challenges. The process of making a transition from a centrally planned economy to a market based system that began in the mid-1980s is continuing. Cambodia's accession to the WTO in October 2004 is a testimony of how far along the nation has progressed. The Royal Government's concerted efforts to rehabilitate and develop the nation's social, economic and physical infrastructure are continuing to put the nation back on a holistic path that will achieve the national goals of poverty reduction and sustainable development.

2. The successful implementation of the Royal Government's *Triangular Strategy* set the stage for a profound transformation of Cambodia from a region of uncertainty, war, internal strife, instability and backwardness into an epicenter of sustained peace, security and social order, respect for democracy, human rights and dignity, cooperation and shared development. The *Rectangular Strategy* of the Royal Government outlines the economic actions agenda for its current mandate, building on the achievements attained as a result of the implementation of the *Triangular Strategy*. Over a very short period, relative to the long histories of many developed countries, the Royal Government has demonstrated that Cambodia is fully capable of engagement on an equal footing with all partners, in regional and international affairs.

3. As in any human undertaking, the Royal Government's efforts and achievements have not been exempt from insufficiency of actions and weaknesses. Indeed, the current national production structure is still far too small and concentrated in a few areas and must be expanded and diversified to ensure sustained economic growth. Although many well conceived and well designed mechanisms have been put in place by the Royal Government to improve the management of the budgetary system they have not become fully functional because of many cross-influences and constraints. Coordination among various ministerial and administrative partners remains weak.

4. To strengthen the rule of law, legislation in various areas are being drafted and enacted. The Royal Government is however concerned that while enactment of the Laws is an important first step, without developing capacities of concerned institutions to rigorously enforce and manage the Laws in a transparent and accountable manner the objective will continue to face many challenges. Reorganizing and restructuring the judicial apparatus remains a challenge for the Royal Government in the short to medium term mainly because of lack of qualified legal professionals. The shortage of Cambodian legal experts has meant that much of Cambodia's existing legal framework has been heavily influenced by international experts. This has created a range of inconsistencies in the formulation of Laws which makes enforcement difficult. Law enforcement remains a challenge for a

range of reasons but especially low salaries. It is difficult to enforce laws transparently and without fear or favor when the salaries of law enforcement officers are lower than a minimum subsistence level.

5. The Royal Government of Cambodia has continued to make significant progress in implementing a macroeconomic framework that is aimed at achieving equitable long-term economic growth and sustainable development. The focus of this framework has been on maintaining macroeconomic stability, strengthening the banking and financial institutions, implementing fiscal reform measures, ensuring a sound management of public property, and increasing public investment to develop the physical and social infrastructure and human resources of the nation. For the Royal Government, growth is the most powerful weapon in combating poverty and it remains committed to pursuing policies that encourage macroeconomic stability, shifting resources to more efficient sectors, and integrating within the global economy. The maintenance of political stability, peace and a greater sense of security among citizens have helped the Royal Government to consolidate, broaden and deepen the reforms that are underway and to maintain the momentum of sustainable social and economic development.

6. Over the past five years, significant progress has been made in implementing pro-poor development policies, achieving macroeconomic stability, implementing public finance management reforms, strengthening democracy, rule of law and good governance, mobilizing technical and financial resources to support planned development, and improving the delivery of public services to meet the needs and expectations of the population. All of these efforts have been focused on reducing poverty and achieving the development goals of Cambodia. At the same time, the Royal Government recognizes that Cambodia still has a long way to go, and has to overcome numerous obstacles to achieve sustainable progress and prosperity for the country and its people. The promotion of harmonized efforts by the Cambodian people to reduce poverty continues to be the most important objective of the Royal Government.

7. Since 1993, overall economic performance has been quite impressive. Between 1993 and 2004, real GDP (in 2000 prices) has grown at an average annual rate of 7.1 percent, and the preliminary estimate indicates that it grew by 7 percent in 2005. There has also been a sharp and noteworthy reduction in poverty levels. The results of the 2004 Cambodia Socio-Economic Survey show that in 56 percent of the rural villages accounting for 65 percent of the rural population and urban areas that were included in same survey in both 1993 and 2004 -- the number of persons living below poverty line declined from an estimated 39 percent to 28 percent or by over 28 percent. The 1993 survey did not cover areas that were inaccessible due to prevailing security conditions.

8. In a recent study on "Cambodia Poverty Assessment 2005", prepared by the World Bank, an attempt was made to develop an estimate of the poverty level in 1993 for the whole country by making backward projections based on data from the 1993 and subsequent surveys. Based on these backward extrapolations the study estimated the proportion of the population living below the poverty line in 1993 to be 47 percent. Based on this estimate of the poverty level in 1993, the study concluded that population living below the poverty line has declined from 47 percent in 1993 to 35 percent in 2004. It

found that, "as average household consumption has risen, Cambodians now have more productive assets and consumer durables and live in better houses. The improvement in living standards has been experienced by the poorest quintile (that is, the poorest 20 percent of the population) as well as the richest quintile -- albeit to a much lesser degree. Similarly, poverty has fallen in the countryside as well as the towns, although the fall has been far greater, and the level of poverty is now far lower, in the towns".

9. The development vision of the Royal Government of Cambodia is to have a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease. Realizing this vision will require continued adherence to the values of social justice, human welfare and empowerment of the people and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and better governance.

#### **PROGRESS SINCE THE LAST CG MEETING**

10. The RGC's focused efforts to strengthen macroeconomic management and the implementation of the fiscal reforms has resulted in robust economic performance in 2004 and 2005, in spite of negative external factors such as higher oil prices, SARS epidemic and concerns about the on-going avian flu, and adverse weather conditions in 2004. In 2004, real GDP grew by 7.7 percent, as compared to the revised GDP growth of 7.0 percent in 2003 and 5.2 percent in 2002. The preliminary estimate indicates that the economy grew by 7 percent in 2005, reflecting stronger growth in the agriculture sector, continued expansion of exports, tourism and construction activities. The estimated nominal GDP for 2004 was 19,630 billion CRs (approximately US\$ 4.9 billion).

11. The Royal Government's fiscal policies are designed to ensure a level of spending that is consistent with macroeconomic stability. The expenditure program is being restructured as part of a systemic reform package aimed at promoting domestic savings, productive investment, and efficient resource allocation. The fiscal performance in 2004 and 2005 has been good, with increased domestic revenue collection and public expenditure restraint.

12. Total domestic revenues increased to 11.7 percent of GDP in 2005 from 11.3 and 10.2 percent in 2004 and 2003, respectively. Tax revenues increased to 8.7 percent of GDP in 2005 from 8.4 percent in 2004. The improvement in revenue collection reflects the effectiveness of several revenue collection measures introduced in the last quarter of 2003 and at the beginning of 2004. These included actions by the Ministry of Economy and Finance (MEF) to recover revenue from Posts, Telephone and Telecommunications (PTT), the lease of government assets, as well as some additional measures such as further expansion of the tax base; increased collection of visa fees and tourism income.

13. In both 2004 and 2005, overall, the Royal Government has managed to contain total expenditure below targets, thus minimizing the need for domestic financing. In both years, total current public expenditures were lower than total domestic revenues collected both in nominal terms and as a percent of GDP. Total current expenditures decreased

from 10.6 percent of GDP in 2003 to 9.5 and 9.3 percent in 2004 and 2005 (preliminary estimate).

14. Overall, significant progress has been made in achieving the targets of the Joint Monitoring Indicators (JMIs) that were agreed to at the last CG meeting. One issue that has emerged is the lack of correlation between activities that were needed to be carried out to achieve the targets of the JMIs and the resources mobilized to carry out these activities. The periodic reviews of progress during 2005 have revealed that significant progress was being made in areas where a clear linkage between planned activities and the resources needed to implement the activities had been established; as compared to areas where this linkage was either weak or missing, or there was a lack of ownership by concerned institutions.

15. For the Royal Government, the most formidable development challenge is the reduction of poverty and improving the livelihoods and quality of life of the growing Cambodian population. Notwithstanding the significant progress that has been made over the last decade, further reduction in poverty levels, in particular in rural areas, and the improvement of the livelihoods and quality of life of a growing population remains a very high priority of the Royal Government. Accelerated development of the agriculture sector that supports the livelihood of more than three-quarters of the work force is a very high priority of the Royal Government. Sustainable economic growth, poverty reduction, and Cambodia's Millennium Development Goals can not be achieved without a significant improvement in the productivity and diversification of the agriculture sector. Formulation and implementation of strategies for the development of agriculture and water sectors, as rapidly as possible, is a high priority of the Royal Government. Concerned ministries and development partners now need to give a high priority to completing this task. The Royal Government considers poverty to be a waste of valuable economic resources which is not only morally unacceptable but can also result in social polarization and instability.

16. The limited capacities of the legal and judicial system are well known. In spite of these limitations significant progress has been made in drafting the needed Laws in 2005. A total of 45 Laws were approved by the National Assembly in 2005, as compared to a total of 90 Laws over five years from 1993 to 1998. In addition, other Laws have also been submitted to the National Assembly during 2005 that have not yet been approved by the National Assembly.

17. The Royal Government is also pleased to report that another milestone in deepening the process of democratization was reached with the free and fair elections of the Senate on 22 January 2006 that were conducted using domestic resources and Cambodian nationals. There were no debates about budgets or the use of foreign experts.

#### **IMPLEMENTING THE PRIORITIES SET IN THE NSDP**

18. The National Strategic Development Plan (NSDP) is a *broad framework* providing the road map and guidelines for taking the country from where it is at the end of 2005 to where it ought to be in 2010, using available resources in a cost-effective and result-

oriented manner. To move ahead rapidly towards its overall vision, the Royal Government will focus attention on achieving the high priority, strategic and macro-goals and core targets (indicators) of the NSDP. *The NSDP: 2006-2010, is the single, overarching document containing RGC's priority goals and strategies to reduce poverty rapidly, and to achieve other CMDGs and socio-economic development goals for the benefit of all Cambodians.* Also, a Public Investment Program for 2006-2008 has been prepared to support the implementation of the NSDP. Both of these documents were approved by the Royal Government at a Cabinet meeting on 27 January 2006. These two documents have been formulated to guide development cooperation partners to align and harmonize their efforts to improve aid-effectiveness and to secure a higher "net transfer of resources" than has been the case in the past. The Royal Government urges multilateral, international development cooperation partners, and NGOs to ensure that their country assistance strategies are aligned with the priorities outlined in the NSDP and their development programs and projects are aligned with the PIP. Copies of the NSDP and PIP 2006-2008 have been widely disseminated.

### **BUILDING PARTNERSHIPS TO ENHANCE AID EFFECTIVENESS**

19. Since the last CG Meeting for Cambodia held in December 2004 there have been significant developments in both the international arena and within Cambodia to address the aid effectiveness issues. *In the international arena*, the Second High Level Forum meeting was held on 28 February - 2 March 2005 in Paris to review progress in implementing the Rome Declaration's commitments. The Royal Government presented "Cambodia's Report on Progress toward Enhanced Aid Effectiveness" at the Forum. At the close of this meeting, the joint declaration -- issued by Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions -- has set new standards for both developed and developing countries to address the aid effectiveness issues. The Paris Declaration's commitments include far-reaching and monitorable actions to reform the ways in which aid is delivered and managed.

20. Since the Paris Declaration, the OECD/DAC Working Party on Aid Effectiveness has established a Joint Venture on Monitoring the Paris Declaration that, for the first time, will be co-chaired by a partner (Vietnam) and a donor country (UK), and will be supported by Austria, *Cambodia*, Canada, European Commission, France, Germany, Ghana, Mali, Nicaragua, Norway, Senegal, South Africa, UNDP, United States and World Bank. The participation of partner countries in this monitoring work has also been broadened and it will now include 23 partner countries and 23 bilateral donors and several multilateral institutions. This Joint Venture has been tasked to prepare two progress reports on the implementation of the Paris Declaration's commitments before the Third High Level Forum that is scheduled to be held in Ghana in 2008. Work on preparing the first progress report will be carried out in 2006. *Cambodia* is one of the six partner countries where the field testing of the survey instruments for this monitoring round will be carried out in early 2006.

21. *Within the country*, in 2005, the Royal Government in close collaboration with development partners has made significant progress in a number of areas that include:

- Putting-in-place the new government-donors coordination mechanism that has enabled the Royal Government to monitor progress, on a quarterly basis, on the implementation of ODA supported activities and in achieving the targets of the joint monitoring indicators agreed to at the last CG meeting.
- Implementation of the RGC's Action Plan on Harmonization and Alignment.
- Preparation of RGC's Strategic Framework for Development Cooperation Management.
- Preparation of National Operational Guidelines for grant assistance and the Standard Operating Procedures for loan assistance.
- Support to senior officials in ministries and agencies to take real ownership of development cooperation activities.

22. The joint TWGs and the GDCC mechanism that has been put in place in 2005 represents a fundamental change in the institutional set up for planning, managing and monitoring progress on the implementation of development assistance to improve ODA effectiveness. Ensuring that this mechanism contributes to improving the process of ODA mobilization, allocation and utilization leading to improved aid effectiveness is a very high priority of the Government. The quarterly meetings of GDCC in 2005 have provided an opportunity to both sides to regularly review progress and be informed about constraints that are being experienced, and enabled them to take necessary actions.

23. Overall, the TWGs have made steady progress in 2005. Some have functioned better than others. The year 2005 has been a year of learning-by-doing for both ministries/agencies, as well as donor members of the TWGs. A significant finding of the assessment of TWGs performance in 2005 is that TWG's that had linked their activities and identified the resources needed to implement these activities had performed better than those that did not establish these linkages. In areas where there was clear linkage between planned activities and the resources needed to implement the activities -- significantly better progress was made than in those areas where this linkage was either weak, missing or there was lack of ownership by concerned institutions. There is a need for TWG's to pay special attention to this area. Because of limited budget resources, ODA is the major source for financing of RGC's development programs. The efficient allocation and utilization of these ODA resources to meet RGC's development priorities in an environment of mutual accountability is, therefore, of critical importance for the Royal Government.

24. The Royal Government's Action Plan on Harmonization and Alignment, that was prepared through an extensive consultative process involving both ministries/agencies and development partners, was endorsed by the Council of Ministers on 19 November 2004. The Royal Government and 12 development partners of Cambodia who showed a willingness to support the implementation of RGC's Action Plan on Harmonization and Alignment also signed a Declaration on 2 December 2004. These development partners are: Australia, Canada, Denmark, France, Germany, Japan, Sweden, United Kingdom, Asian Development Bank, European Commission, UN System, and World Bank.

25. A review of TWGs progress in implementing the existing RGC's Action Plan on Harmonization and Alignment by the Secretariat of GDCC in December 2005 revealed that while on those activities that required Government action significant progress was made, there had been limited progress in areas where the development partners were to take specific actions. Over the last year, CDC has worked with development partners to prepare an updated Action Plan on Harmonization, Alignment, and Results to implement Paris Declaration's partnership commitments. The Updated Action plan on Harmonization, Alignment and Results (H-A-R Action Plan) was approved by Samdech Prime Minister on 14 February 2006.

26. In 2005, the RGC's Strategic Framework for Development Cooperation Management was prepared through an extensive consultative process both within government and with development partners. It was approved by the Council of Ministers on 27 January 2006. It is now being implemented by the Council for the Development of Cambodia. The National Operational Guidelines for grant assistance and the Standard Operating Procedures for loan assistance have now been completed in close consultation with development partners. Additional mechanisms have been put in place to further strengthen Government-Private sector partnership and partnerships with the NGOs and the civil society.

27. The Rome Declaration on Harmonization (2003) and the Paris Declaration on Aid Effectiveness (2005) have placed an emphasis on national ownership of the development processes by ODA recipient countries. The Royal Government is committed to take full ownership not only of its development processes but is also determined to ensure that ODA resources are effectively targeted and utilized to meet the high priority development needs of Cambodia for the benefit of the Cambodian people to reduce poverty and to achieve Cambodia's Millennium Development Goals.

28. However, 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; and international development cooperation partners of Cambodia and the NGOs is to quickly translate the commitments made in the international arena into concrete operational actions to change their practices to provide room for 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.

29. There is now an urgent need to leave behind the practices of the 1990s, when development cooperation activities were planned, managed and delivered by development partners with limited ownership of development choices and management process by concerned Cambodian institutions. The Royal Government recognizes that it needs to strengthen the awareness of the Rome and Paris Declarations among officials of the ministries and agencies and has taken concrete steps in 2005. The Royal Government would like to see an equal commitment and political will among the

development partners to work towards meeting their commitments of the Rome and Paris Declarations. In the spirit of the Rome and Paris Declarations, there is now an *urgent need for development cooperation partners to give a high priority to:*

- harmonizing their practices to minimize the burden on implementing institutions and to reduce wastage through duplication of activities in order to enhance ODA effectiveness;
- aligning their support with the Royal Government's development priorities outlined in the just completed National Strategic Development Plan for 2006-2010;
- ensuring that management arrangements of ODA supported programs and projects follow the OECD/DAC guidelines on best practices for "managing for results" and the principle of Government ownership of the development management process; and
- ensuring that there is a greater net transfer of ODA resources, that are targeted to reach the poor and vulnerable, to reduce poverty and to achieve Cambodia's Millennium Development Goals.

30. The Royal Government is determined to build partnerships with all development partners (multilateral, international development cooperation partners, private sector, non-governmental and civil society organizations) based on principles of cooperation, mutual trust, and mutual accountability. As noted earlier, a new mechanism to strengthen government-donor coordination has been put in place in 2005. This new provides a forum for the participation of multi-lateral, international development cooperation partners and non-governmental organizations (NGOs) at both the technical level (TWGs) as well as at the policy level (GDCC). The mechanisms under the Government-Private Sector Forum are now well organized and provide an elaborate structure for building effective partnerships with the private sector.

31. In terms of priorities for 2006, the *Royal Government strongly urges the multilateral, the international development cooperation partners and non-governmental organizations to:*

- i. Place a special emphasis on ensuring Government ownership of ODA supported programs and projects in an environment of mutual accountability. In particular, the NGOs need to coordinate their activities with the concerned government institutions in order to better target and minimize duplication of effort in order to maximize the benefits of the limited available development resources. The sector/thematic TWGs can play an important role in facilitating this coordination.
- ii. Strengthen coordination of NGO supported programs and projects with ministries and agencies at the sub-national level.
- iii. Ensure that the principles outlined in the RGC's Strategic Framework for Development Cooperation Management and Articles 13, 14, 15 and 16 of the Sub-Decree #147 ANK.BK dated 29 December 2005, as well as the principles, guidelines and procedures laid out in Royal Government's National Operational Guidelines for grant assistance and the Standard Operating Procedures for loan assistance are followed.
- iv. Shift current emphasis on processes to substance in the work of the TWGs. It will require 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.

- v. Focus on improving the efficiency of TWG operations, the Chair and the Lead Donor Facilitator(s) need to ensure that each TWG meeting has a purpose and a defined output. To reduce burden of numerous meetings on ministries and agencies as well as donor staff, the Royal Government strongly recommends that development partners limit their participation to TWGs where they are a funding partner and to more sharply focus their support to a few priority areas within their country assistance strategies.
- vi. Carry out a review to examine whether or not the TWGs as they are currently structured are appropriate to meet the current and emerging needs as well as develop broad guidelines for the operations of the TWGs with a view to minimize burden both on ministries and agencies, and the development partners participating in the TWGs.
- vii. Actively promote sector, thematic, and other program-based approaches in the TWG forum to reduce the excessive number of stand alone projects. The adoption of this approach will not only promote a greater alignment of development cooperation activities with Cambodia's development priorities, but more importantly, such an approach would also lead to a greater harmonization of development partners practices and reducing the administrative burden on the limited capacities of implementing ministries/agencies.
- viii. Reduce the number of studies carried out by individual development partners on similar topics by establishing a procedure to review proposals on any planned studies among development partners and with the concerned ministry/agency.
- ix. Reduce the number of long-term TA's by placing an emphasis on quality -- taking into account the suggestions in (iii) above -- and ensuring that short-term TA is demand driven -- based on suggestions in (vii) above. The Royal Government believes that the presence of high level technical expertise in the country offices of development partners who are actively involved in the work of the TWGs would significantly reduce the need for short-term TA. The Royal Government recognizes that in the short to medium term it will continue to need the support of high quality experts to facilitate implementation of large projects, implementation of Royal Government's reform programs, and for functions related to developing strategies and policies for national socio-economic development, and for building capacity at the central and local levels to formulate, implement, and monitor development activities. Thus, the needs

in the short to medium term will consist of elements of capacity substitution by high quality technical experts in strategic areas along with a continuing focus on capacity development. At the same time, the Royal Government would like to see a corresponding reduction in capacity substitution elements as domestic capacities are developed.

- x. Demonstrate a commitment and political will to modify existing practices in line with the principles embodied in the Rome and Paris Declarations based on the principles of “managing for results” and mutual accountability. Take actions necessary to ensure that the TWGs have the capacity to implement RGC’s Action Plan on Harmonization, Alignment and Results that has been jointly agreed between the RGC and development partners. Development partners need to expedite action on:
- Delegating authority from donors’ headquarters to country offices to empower the country offices to work on harmonization and alignment issues with other in-country donors and with the Government in the country context.
  - Increase joint programming through “delegated cooperation”.
  - Reduce individual donor missions and increase joint missions by coordinating planned missions through the TWG mechanism to reduce costs and burden on ministries and agencies.

32. The Royal Government recognizes that there are administrative costs that are incurred by development partners to deliver their development assistance that is included in the total amount of ODA that is reported to have been disbursed to Cambodia. At present, there is no readily available information on how much of the reported ODA goes in meeting these costs in-country and outside the country and how much ultimately reaches the poor and the vulnerable.

#### **FINANCING THE NSDP THROUGH PIP 2006-2009**

33. The implementation of the strategies and policies outlined in the NSDP will be achieved through a focused and prioritized Public Investment Program (PIP) which is one important instrument to implement these strategies and policies. The PIP, adopted by the Royal Government of Cambodia on 27 January 2006, has been formulated within the framework of a three-year rolling plan to capture priority proposals and needs on an on-going basis. The programs and projects that constitute the public investment program will be financed both from the National Budget and with assistance from development cooperation partners. From now on, the National Budget will be aligned to support the implementation of NSDP through financing of the PIP. The PIP is comprised of Government’s priority programs that are being implemented and/or are planned to be implemented in various sectors and constitute the basic information for the allocation of national budget resources as well as for the mobilization of development cooperation resources.

34. Based on projections of economic growth and gross investments needed in the public sector, it is estimated that US\$ 3,500 million will be needed for public sector investment during 2006-2010 to achieve the goals and targets of the NSDP. The

resources to implement the NSDP will come from: (a) surpluses in the current account in the annual national budget; (b) grant aid from traditional development partners; (c) concessional loans from multilateral financial institutions (MFIs); (d) resources from non traditional partners including for very high return and strategic programs and projects using ordinary capital resources (OCR) from MFIs; and (e) funds that could become available from possible debt relief. A high priority of the Royal Government is to direct resources in a meaningful way to "real investments", including through significant reductions in technical assistance projects, and to persuade development partners to fully align their assistance with NSDP priorities. To optimize the benefits of the ODA for the people of Cambodia and to minimize the burden on future generations, the Royal Government encourages development cooperation partners to consider financing through grants to support the implementation of the NSDP priorities and policies. The use of loans will be made only in those cases where it has been established that resources from grant aid are not available and that the proposed program or project will contribute to investments that will ensure a quick return and accelerate economic growth. In all cases, the implications of each new loan will be carefully examined, including its impact on macro-economic stability, before acceptance of the loan.

35. Total financial outlay envisaged for the three year period, 2006-2008 is US\$ 1,975 million or about 56.5% of the total outlay of US\$ 3,500 million expected to be spent during the NSDP period, 2006-2010. The sector distribution of the planned expenditure on programs and projects in the PIP 2006-2008 is in line with the target sector allocations of the NSDP. Over 80 percent of Royal Government's committed resources are allocated for the social sectors. However, in addition to the resources already committed by the Royal Government and the development partners for these programs and projects, the allocation of new resources to be mobilized, US\$ 563.4 million for 2006-2008, would need to be as follows:

- US\$ 189.8 million or 33.7 percent for Infrastructure sector.
- US\$ 171.7 million or 30.5 percent for economic sectors.
- US\$ 129.7 million or 23.0 percent for Services and Cross Sector Programs.
- US\$ 72.2 million or 12.8 percent for the social sectors.

36. In terms of the composition of PIP programs and projects, nearly 82 percent of the resources have been allocated to support the on-going and committed programs and projects and only just over 18 percent will be available for new high priority pipeline development programs and projects. Just under 25 percent of the committed resources of development partners for the next three years are planned for technical assistance. However, resources to be mobilized over the next three years will need to focus on reducing the technical assistance component to less than 15 percent of total new resources to be mobilized.

37. In terms of the distribution of on-going and committed and high priority new programs and projects in each sector:

- in the social sector, the on-going and committed programs and projects account for nearly 98 percent of resources allocated to this sector;

- in the infrastructure sector the on-going and committed programs and projects account for nearly over 81 percent of resources allocated to this sector; and
- in both the economic sector and the services and cross sector programs, the on-going and committed programs and projects account for just over two-third of the resources that are allocated to these sectors.

38. The total cost of the Government's planned development programs, both on-going and new programs, over the next three years (2006-2008) is estimated to be around US \$ 1,975.0 million. The Royal Government of Cambodia has committed from its own resources US \$ 350.0 million for these development programs and projects. Thus, **the total requirements for additional resources over the next three years will be US\$ 1,625 million that averages to US\$ 541.7 million per annum.** Some of our multilateral and international development cooperation partners have already committed to provide US\$ 1,117.3 million. *Therefore, a gap of US \$ 563.4 million in financing the planned development programs and projects remains at the present time for which the RGC is seeking additional support from its traditional and non-traditional development cooperation partners.*

## TABLE OF CONTENT

	<i>Page</i>
<b>FOREWORD</b> .....	i
<b>ACKNOWLEDGEMENT</b> .....	ii
<b>EXECUTIVE SUMMARY</b> .....	iii
<b>I. INTRODUCTION</b> .....	1
<b>II. MAJOR ACHIEVEMENTS SINCE THE LAST CG MEETING</b> .....	3
1. Overview.....	3
2. Macroeconomic Performance .....	5
3. Monetary and Fiscal Performance .....	10
4. Government's Policy Performance .....	13
<b>III. IMPLEMENTING THE PRIORITIES SET IN THE NATIONAL STRATEGIC DEVELOPMENT PLAN: 2006-2010</b> .....	26
<b>IV. BUILDING PARTNERSHIPS TO ENHANCE ODA EFFECTIVENESS</b> .....	32
1. Progress since the Last CG Meeting .....	32
2. Challenges and the Way Forward .....	41
<b>V. FINANCING THE NSDP THROUGH PIP 2006-2008</b> .....	45
<b>VI. CONCLUSIONS</b> .....	51
<b>ANNEXES</b>	
I. RGC's Updated Action Plan on Harmonization, Alignment, and Results: 2006-2010 .....	52
II. List of Acronyms .....	60

## CHAPTER I INTRODUCTION

1. For the first time in recent history, since 1999 the people of Cambodia have enjoyed an environment of peace, political stability, law and order, democracy, respect for human rights and economic stability. A comprehensive reforms agenda is being implemented by the Royal Government in spite of many on-going challenges. The process of making a transition from a centrally planned economy to a market based system that began in the mid-1980s is continuing. Cambodia's accession to the WTO in October 2004 is a testimony of how far along the nation has progressed. The Royal Government's concerted efforts to rehabilitate and develop the nation's social, economic and physical infrastructure are continuing to put the nation back on a holistic path that will achieve the national goals of poverty reduction and sustainable development.

2. The successful implementation of the Royal Government's *Triangular Strategy* set the stage for a profound transformation of Cambodia from a region of uncertainty, war, internal strife, instability and backwardness into an epicenter of sustained peace, security and social order, respect for democracy, human rights and dignity, cooperation and shared development. The *Rectangular Strategy* of the Royal Government outlines the economic actions agenda for its current mandate, building on the achievements attained as a result of the implementation of the *Triangular Strategy*. Over a very short period, relative to the long histories of many developed countries, the Royal Government has demonstrated that Cambodia is fully capable of engagement on an equal footing with all partners, in regional and international affairs.

3. As in any human undertaking, the Royal Government's efforts and achievements have not been exempt from insufficiency of actions and weaknesses. Indeed, the current national production structure is still far too small and concentrated in a few areas and must be expanded and diversified to ensure sustained economic growth. Although many well conceived and well designed mechanisms have been put in place by the Royal Government to improve the management of the budgetary system they have not become fully functional because of many cross-influences and constraints which have jeopardized the objectives set for increasing revenue collection and improved public expenditure allocations. Coordination among various ministerial and administrative partners remains weak.

4. To strengthen the rule of law, legislation in various areas are being drafted and enacted. The Royal Government is however concerned that while enactment of the Laws is an important first step, without developing capacities of concerned institutions to rigorously enforce and manage the Laws in a transparent and accountable manner the objective will continue to face many challenges. Reorganizing and restructuring the judicial apparatus remains a challenge for the Royal Government in the short to medium term mainly because of lack of qualified legal professionals. The shortage of Cambodian legal experts has meant that much of Cambodia's existing legal framework has been heavily influenced by international experts. This has created a range of inconsistencies in the formulation of

Laws which makes enforcement difficult. Law enforcement remains a challenge for a range of reasons but especially low salaries. It is difficult to enforce laws transparently and without fear or favor when the salaries of law enforcement officers are lower than a minimum subsistence level.

5. Over the past five years, significant progress has been made in implementing pro-poor development policies, achieving macroeconomic stability, implementing public finance management reforms, strengthening democracy, rule of law and good governance, mobilizing technical and financial resources to support planned development, and improving the delivery of public services to meet the needs and expectations of the population. All of these efforts have been focused on reducing poverty and achieving the development goals of Cambodia. At the same time, the Royal Government recognizes that Cambodia still has a long way to go, and has to overcome numerous obstacles to achieve sustainable progress and prosperity for the country and its people. The promotion of harmonized efforts by the Cambodian people to reduce poverty continues to be the most important objective of the Royal Government.

6. This document begins by highlighting what has been achieved since the last CG meeting in Phnom Penh in December 2004. It provides an update on macroeconomic performance, monetary and fiscal performance, and Government's policy performance. The next chapter outlines the priorities for implementing the National Strategic Development Plan for 2006-2010. Section four presents Royal Government's update on building partnerships to enhance Official Development Assistance (ODA) effectiveness, and lays out the challenges and proposals as the way forward. Chapter five outlines the financial requirements for implementing RGC's National Strategic Development Plan (NSDP) through the Public Investment Program (PIP) for 2006-2008, and finally the conclusions.

## CHAPTER II MAJOR ACHIEVEMENTS SINCE THE LAST CG MEETING

### 1. OVERVIEW

7. Since the 7<sup>th</sup> Consultative Group Meeting held in Phnom Penh on 6-7 December 2004, the Royal Government of Cambodia (RGC) has made significant progress in moving forward to implement the Rectangular Strategy for its current mandate to reduce poverty and to

achieve Cambodia's Millennium Development Goals. In all its actions and endeavors, the RGC has put forth its best effort to implement the recommendations made at the last CG meeting. A single National Strategic Development Plan (NSDP) for the years 2006-2010 has been prepared in close consultation with all development partners and the civil society to implement the policies outlined in the Rectangular Strategy. A Public Investment Program for 2006-2008 has been prepared to support the implementation of the NSDP. Both of these documents were approved by the Royal Government at a Cabinet meeting on 27 January 2006. The Royal Government urges all development partners (multilateral, international development cooperation partners, private sector, and NGOs) to ensure that their country assistance strategies are aligned with the priorities outlined in the NSDP and their development programs and projects are aligned with the PIP.

<p style="text-align: center;"><b>Major Achievements</b></p> <ol style="list-style-type: none"><li>1. <i>Overview</i></li><li>2. <i>Macroeconomic Performance</i></li><li>3. <i>Monetary and Fiscal Performance</i></li><li>4. <i>Government's Policy Performance</i></li></ol>
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8. Since 1993, overall economic performance has been quite impressive. Between 1993 and 2004, real GDP (in 2000 prices) has grown at an average annual rate of 7.1 percent, and the preliminary estimate indicates that it grew by 7 percent in 2005. There has also been a sharp and noteworthy reduction in poverty levels. The results of the 2004 Cambodia Socio-Economic Survey show that in 56 percent of the rural villages accounting for 65 percent of the rural population and urban areas that were included in same survey in both 1993 and 2004 -- the number of persons living below poverty line declined from an estimated 39 percent to 28 percent or by over 28 percent. The 1993 survey did not cover areas that were inaccessible due to prevailing security conditions.

9. In a recent study on "Cambodia Poverty Assessment 2005", prepared by the World Bank, an attempt was made to develop an estimate of the poverty level in 1993 for the whole country by making backward projections based on data from the 1993 and subsequent surveys. Based on these backward extrapolations the study estimated the proportion of the population living below the poverty line in 1993 to be 47 percent. Based on this estimate of the poverty level in 1993, the study concluded that population living below the poverty line has declined from 47 percent in 1993 to 35 percent in 2004. It found that, "as average household consumption has risen, Cambodians now have more productive assets and consumer durables and live in better houses. The improvement in living standards has been experienced by the poorest quintile (that is, the poorest 20 percent of the population) as well as the richest quintile -- albeit to a much lesser degree.

Similarly, poverty has fallen in the countryside as well as the towns, although the fall has been far greater, and the level of poverty is now far lower, in the towns".

10. The maintenance of political stability and security in the country is vital to maintain the momentum of Cambodia's march toward improving the living standards of the people, better respect for human rights and sustainable development. For the Royal Government, the most formidable development challenge is the reduction of poverty and improving the livelihoods and quality of life of the growing Cambodian population. Notwithstanding the significant progress that has been made over the last decade, further reduction in poverty levels, in particular in rural areas, and the improvement of the livelihoods and quality of life of a growing population remain a very high priority of the Royal Government. Accelerated development of the agriculture sector that supports the livelihood of more than three-quarters of the work force is a very high priority of the Royal Government. Sustainable economic growth, poverty reduction, and Cambodia's Millennium Development Goals can not be achieved without a significant improvement in the productivity and diversification of the agriculture sector. Formulation and implementation of the strategy for the development of agriculture and water sectors, as rapidly as possible, is a high priority of the Royal Government. Concerned ministries and development partners now need to give a high priority to completing this task. The Royal Government considers poverty to be a waste of valuable economic resources which is not only morally unacceptable but can also result in social polarization and instability.

11. The development vision of the Royal Government of Cambodia is to have a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease. Realizing this vision will require continued adherence to the values of social justice, human welfare and empowerment of the people and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and better governance.

12. A major development in 2005 that will provide further support to maintain the momentum of economic growth that has been achieved so far is the discovery of oil in the Gulf of Thailand in January 2005. The Royal Government awarded a contract covering an area of 6,278 square kilometers offshore (Cambodia Block A) to a consortium of Chevron Oversea Petroleum (Cambodia) Limited holding 55 percent of the interest, as an operator with Moeco Cambodia Co. Limited, a subsidiary of Mitsui Oil Exploration Co. Limited, and LG Caltex having 30 percent and 15 percent interest, respectively. In January 2005, Chevron announced that its affiliates have discovered oil in four exploration wells. The preliminary results of exploration wells are promising. Chevron plans to drill 10 more wells in 2006. At present, expectations are that production of oil from these wells could begin as early as end of this decade.

13. The Royal Government is also pleased that under the Multilateral Relief Initiative, the IMF Executive Board made a decision to provide debt relief to Cambodia at its meeting in December 2005. As part of this initiative, the IMF will cancel 100 percent of Cambodia's borrowing from the IMF up to 1 January 2005 that total US\$ 82 million. The Royal Government's sound track record of prudent management of the economy was an important contributing factor in IMF's decision.

14. The Royal Government is also pleased to report that another milestone in deepening the process of democratization was reached with the free and fair elections of the Senate on 22 January 2006 that were conducted using domestic resources and Cambodian nationals. There were no debates about budgets or the use of foreign experts.

15. The limited capacities of the legal and judicial system are well known. In spite of these limitations significant progress has been made in drafting the needed Laws in 2005. A total of 45 Laws were approved by the National Assembly in 2005, as compared to a total of 90 Laws over five years from 1993 to 1998. In addition, other Laws have also been submitted to the National Assembly during 2005 that have not yet been approved by the National Assembly. Cambodia's accession to the WTO, in October 2004, requires work on amending existing or the drafting of more than 40 Laws. The Royal Government would like to urge all parties to be realistic in setting time frames for the completion of work on the drafting of Laws taking into consideration the existing capacities of concerned institutions and available resources as well as the complexities of the processes in securing approval of proposed draft Laws at the various levels of the Executive and Legislative branches.

16. After extensive consultations with development partners in 2003 and 2004, a new government-donors coordination mechanism was put in place in 2005. This new mechanism includes: (i) 18 sector/thematic Joint (government and donor) Technical Working Groups (TWGs); and (ii) a high level Government-Donor Coordination Committee (GDCC) to ensure coordination among the 18 joint TWGs, and to provide policy guidance, to set priorities, and to propose measures to solve problems raised by joint TWGs. At the Pre-CG Meeting held on 10 September 2004, Samdech Hun Sen, the Prime Minister endorsed this proposal and appointed H.E. Keat Chhon, Senior Minister, Minister of Economy and Finance to be the Chair of GDCC. The quarterly meetings of GDCC in 2005 have provided an opportunity to both sides to regularly review progress and be informed about constraints that are being experienced, and enabled them to take necessary actions. More details on this new mechanism are presented in Section 4. The joint TWGs and the GDCC mechanism that has been put in place in 2005 represents a fundamental change in the institutional set up for planning, managing and monitoring progress on the implementation of development assistance to improve ODA effectiveness. Ensuring that this mechanism contributes to improving the process of ODA mobilization, allocation and utilization leading to improved aid effectiveness is a very high priority of the Government.

## **2. MACROECONOMIC PERFORMANCE**

17. The Royal Government of Cambodia has continued to make significant progress in implementing a macroeconomic framework that is aimed at achieving equitable long-term economic growth and sustainable development. The focus of this framework has been on maintaining macroeconomic stability, strengthening the banking and financial institutions, implementing fiscal reform measures, ensuring a sound management of public property, and increasing public investment to develop the physical and social

infrastructure and human resources of the nation. For the Royal Government, growth is the most powerful weapon in combating poverty and it remains committed to pursuing policies that encourage macroeconomic stability, shifting resources to more efficient sectors, and integrating within the global economy. The maintenance of political stability, peace and a greater sense of security among citizens have helped the Royal Government to consolidate, broaden and deepen the reforms that are underway and to maintain the momentum of sustainable social and economic development.

18. The RGC's focused efforts to strengthen macroeconomic management and the implementation of the fiscal reforms has resulted in robust economic performance in 2004 and 2005, in spite of negative external factors such as higher oil prices, SARS epidemic and concerns about the on-going avian flu, and adverse weather conditions in 2004. In 2004, real GDP grew by 7.7 percent, as compared to the revised GDP growth of 7.0 percent in 2003 and 5.2 percent in 2002. The preliminary estimate indicates that the economy grew by 7 percent in 2005, reflecting stronger growth in the agriculture sector, continued expansion of exports, tourism and construction activities. The estimated nominal GDP for 2004 and 2005 was 19,630 billion CRs (approximately US\$ 4.9 billion), and 22.086 billion CRs (approximately US\$ 5.4 billion).

19. In terms of the contribution of the main economic sectors to overall GDP, in constant 2000 prices, the agriculture, fisheries and forestry sector in 2004 accounted for 31.1 percent of GDP compared with 45.4 percent in 1993. The contribution of industrial sector continues to grow, more than doubling from 12.8 percent in 1993 to 27.5 percent in 2004, due to the rapid expansion in the textile, wearing apparel and footwear industry and continued strong construction activity. Although there has been significant growth in tourist oriented services sector, as a result of the rapid expansion in the industry sector, the share of the services sector in total GDP has declined from 38.8 percent in 1993 to 35.8 percent in 2004.

20. Due to drought, late floods and declining forestry production, the output of the agriculture, fisheries and forestry sector declined in 2004 by 2.0 percent as compared to an increase of 12.2 percent in 2003. Crops and fisheries gross value added declined 3.4 and 3.3 percent, respectively. Gross value added for inland and marine fish catch continued to trend downwards in 2004, with decreases of 4.6 and 7.8 percent, respectively. The livestock and poultry grew by 4.3 percent. In the forestry and logging sector gross value added increased slightly, by 0.2 percent, in 2004. The turn around is due mainly to the strong growth in logging for timber for use in domestic construction and furniture manufacturing, offset by the continuing decline in illegal logging for export. Agricultural production grew by 4.5 percent in 2005, led by a 20 percent rebound in rice production.

**TABLE 1: SELECTED MACRO-ECONOMIC INDICATORS**

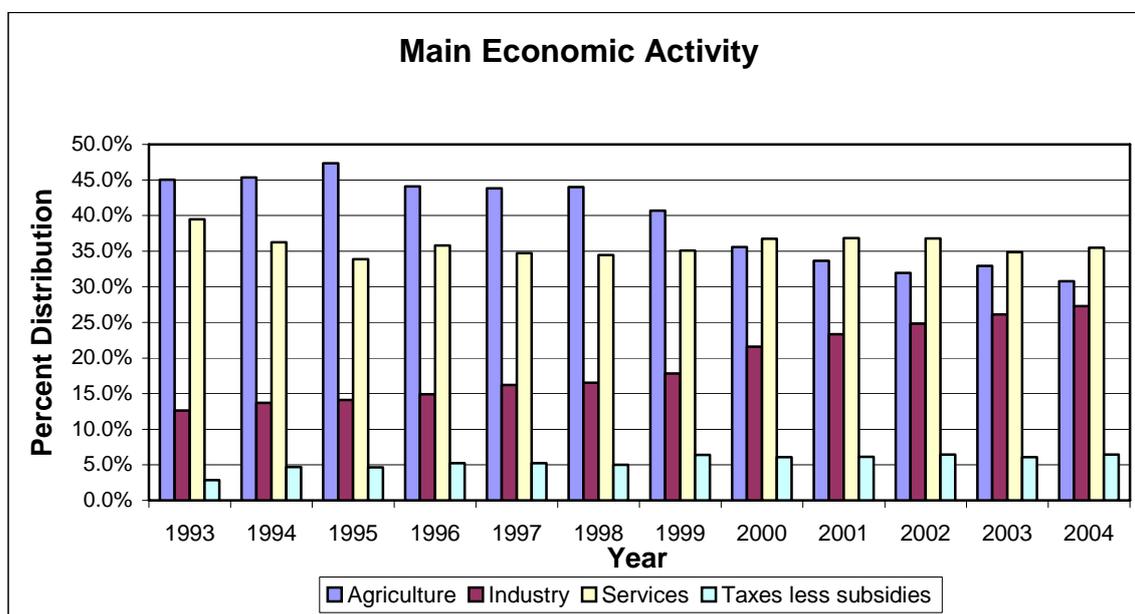
<b>Indicator</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005 e</b>
<b>GDP in billions of Cambodian Riels (at current prices)</b>	<b>14,860</b>	<b>15,994</b>	<b>17,311</b>	<b>19,630</b>	<b>22,086</b>
GDP in million US\$ (at current prices)	3,787	4,079	4,355	4,888	5,363
<b>Real GDP Growth at constant 2000 prices (in %)</b>	<b>5.5%</b>	<b>5.2%</b>	<b>7.0%</b>	<b>7.7%</b>	<b>7.0%</b>
<b>Real GDP % share (at current prices)</b>					
• Agriculture (in %)	34%	32.2%	33.2%	31.1%	33.8%
• Industry (in %)	23.6%	25.0%	26.4%	27.5%	25.7%
• Services (in %)	37.2%	37.1%	35.2%	35.8%	35.0%
Per Capita GDP (in US\$) in current prices	293	310	325	357	385
Population (in Millions)	12.9	13.1	13.4	13.7	13.9
Inflation in Cambodian Riels ( % year average)					
Inflation (in %, period average)	-0.2%	3.3%	1.2%	5.6%	6.7%
Net Foreign Reserves (in US\$ million)	467	567	633	712	817
Gross Foreign Reserves (in US\$ million)	548	663	737	809	867
Gross Foreign Reserves (Months of Imports)	2.8	3.1	3.1	2.7	2.5
Total Savings (as % of GDP)	17.6%	20.9%	16.5%	15.7%	17.5%
Riel/US\$ parity (year average)	3,924	3,918	3,984	4,019	4,118
Riel/US\$ parity (end of year )	3,930	3,940	4,000	4,038	4,160
<b>Total Investments (in US\$ million)</b>	<b>665.8</b>	<b>852.1</b>	<b>715.2</b>	<b>767.5</b>	<b>936.5</b>
Public Investments	280.7	354.4	298.3	304.7	283.9
• financed from domestic sources	58.3	40.9	48.8	62.8	66.8
• financed from external sources	222.4	313.5	249.5	241.8	217.1
Private Sector Investments	422.6	452.3	432.4	462.8	652.6
• financed from domestic sources	280.6	313.3	355.1	341.8	436.6
• financed from external sources	142.0	139.0	77.3	121	216
<b>Total Investment as % of GDP</b>	<b>17.6%</b>	<b>20.9%</b>	<b>16.5%</b>	<b>15.7%</b>	<b>17.5%</b>
• of which Public Investment	7.4%	8.7%	6.9%	6.2%	5.3%
• of which Private Investment	10.2%	12.2%	9.6%	9.5%	12.2%

Source: Ministry of Economy and Finance, National Bank of Cambodia; and National Institute of Statistics, Ministry of Planning

21. The industry sector grew by **16.1** percent in 2004, as compared to **11.9** percent in 2003. The sector is dominated by manufacturing (75.4 percent) and construction (22.0 percent). Textile, wearing apparel and footwear manufacturing value added increased by 24.9 percent in 2004, following increases of 16.9 percent and 21.2 percent in 2003 and 2002 respectively. Exports in GSP products, mainly manufactured garments, have grown from 82.6 percent of Cambodia's total goods exports in 2003 to 88.8 percent in 2004. Construction value added also contributed strongly to 2004 growth, increasing by 13.2 percent compared to increases of 11.1 percent and 27.1 percent in 2003 and 2002 respectively. In 2005, the industrial sector grew by 10.7 percent, reflecting the continuing strength of the garment manufacturing sector that grew by 10.2 percent and the construction sector that grew by 13 percent. The value of garments exported increased from US\$ 1.98 billion in 2004 to US\$ 2.17 billion in 2005.

22. The services sector grew by 9.2 percent in 2004, as compared to 0.2 percent in 2003. Tourism continues to be the main contributor to growth in the services sector, with travel receipts from overseas tourists increasing by 50.4 percent in 2004. Tourists from overseas helped to contribute to growth in the hotel and restaurant industry (23.6 percent); transport and communications industry (6.2 percent); and other services (18.5 percent). In 2005, the services sector grew by 6.2 percent in real terms, with value added by hotels and restaurants increasing by 15 percent.

**TABLE 2: GDP BY MAIN ECONOMIC ACTIVITY IN CURRENT PRICES**



Source: National Institute of Statistics, Ministry of Planning, "National Accounts of Cambodia: 1993-2004", June 2005.

23. Estimated nominal per capita GDP in 2004 was 1.435 million CRs, an increase of 11.2 percent from 2003. It has grown at an average annual rate of 6.7 percent over the last four years. Population growth during the same period has averaged 1.9 percent per annum. In real terms, GDP per capita was 1.319 million CRs in 2004, an increase of 5.6 percent from 2003. Real growth in GDP per capita has averaged around 4.4 percent over the last four years. Per capita GDP in US dollars has shown reasonable real annual

**TABLE 3: NATIONAL BUDGET INDICATORS**

Particulars	2001			2002			2003			2004			2005		
	Budget Out-Turn			Budget Out-Turn			Budget Out-Turn			Budget Out-Turn			Estimated Budget		
	in Billion CRs	in Million US\$	% of GDP	in Billion CRs	in Million US\$	% of GDP	in Billion CRs	in Million US\$	% of GDP	in Billion CRs	in Million US\$	% of GDP	in Billion CRs	in Million US\$	% of GDP
<b>DOMESTIC REVENUE:</b>	<b>1561</b>	<b>397.8</b>	<b>10.3</b>	<b>1,762</b>	<b>449.3</b>	<b>11</b>	<b>1776</b>	<b>446.7</b>	<b>10.2</b>	<b>2212</b>	<b>550.7</b>	11.3	<b>2,591</b>	629.2	11.7
1. Tax Revenue	1128	287.4	7.5	1,245	317.5	7.7	1219	306.6	7.1	1648	410.3	8.4	1,929	468.4	8.7
Direct Taxes	140	35.6	0.9	132	33.6	0.8	150	37.7	0.9	158	39.3	0.8	212	51.5	1.0
Indirect Taxes	572	145.7	4.0	654	166.7	4.0	635	159.7	3.7	895	222.8	4.6	1,086	263.7	4.9
Customs Import Duties	376	95.8	2.5	424	108.1	2.6	395	99.3	2.3	516	128.4	2.6	560	136.0	2.5
Other	41	10.4	.02	35	8.9	0.2	39	9.8	0.2	79	19.6	0.4	71		0.3
2. Non tax Revenue	424	108	2.8	501	127.7	3.1	525	132	3	544	135.4	2.8	555	134.8	2.5
3. Capital Revenue (Domestic)	9	2.2	0.01	16	4	0.1	31	7.7	0.1	19	4.7	0.1	106		0.5
<b>EXPENDITURE:</b>	<b>2,516</b>	641.1	<b>16.9</b>	<b>2,963</b>	<b>755.6</b>	<b>18.5</b>	<b>2,946</b>	<b>741.1</b>	<b>17</b>	<b>2,970</b>	<b>739.5</b>	<b>15.1</b>	<b>3,294</b>	799.9	14.9
1. Current Expenditure	1,415	360.6	9.5	1,574	401.4	9.9	1,758	442.2	10.1	1,745	434.5	8.9	2,125	516.0	9.6
Defense & Security	417	106.2	2.80	406	103.8	2.5	411	103.3	2.3	422	105	2.2	452	109.8	2.0
Civil Administration	998	254.3	6.7	1,168	297.8	7.4	1,347	338.8	7.8	1,274	317.2	6.5	1,673	406.2	7.6
2. Capital Expenditure	<b>1,101</b>	<b>280.5</b>	<b>7.4</b>	<b>1,388</b>	<b>353.9</b>	<b>8.6</b>	<b>1,188</b>	<b>298.8</b>	<b>6.9</b>	<b>1,224</b>	<b>304.7</b>	<b>6.2</b>	<b>1,169</b>	283.9	5.3
Locally financed investments	283	72.1	1.90	338	86.2	2.1	333	83.7	1.9	297	73.9	1.5	342	83.1	1.5
Externally financed investments	818	208.4	5.50	1,049	267.5	6.5	854	214.8	5	927	230.8	4.7	827	200.8	3.7
<b>DEFICIT/SURPLUS</b>															
<b>Overall</b>	<b>(987)</b>	<b>(251.7)</b>	<b>(6.64)</b>	<b>(1,219)</b>	<b>(310.8)</b>	<b>(7.6)</b>	<b>(1,181)</b>	<b>(297.1)</b>	<b>(6.8)</b>	<b>(864)</b>	-215.1	-4.4	<b>-694</b>	-168.5	-3.1
-of which current	113	28.7	0.7	169	43.1	1.0	6	1.5	0.03	340	84.6	1.7	360	87.4	1.6
<b>GDP in</b>															
<b>Billions of Cambodian Riels</b>		<b>14,860</b>			<b>15,994</b>			<b>17,311</b>			<b>19,630</b>			<b>22,086</b>	
<b>Millions of US\$</b>		<b>3,786.9</b>			<b>4,079.1</b>			<b>4,354.9</b>			<b>4,887.9</b>			<b>5,363</b>	

Source: Ministry of Economy and Finance

growth of 4.6 percent in 2004, increasing to US\$ 328, compared to 3.6 and 3.4 percent in 2003 and 2002 respectively. Nominal GDP per capita increased from US\$ 325 in 2003 to US\$ 357 in 2004.

### **3. MONETARY AND FISCAL PERFORMANCE**

#### **3.1 MONETARY POLICY AND PERFORMANCE**

24. The National Bank of Cambodia continued the adoption of tight monetary policy and managed floating exchange rate. Inflation and exchange rate performance was generally encouraging. This policy has so far greatly contributed to boosting public confidence in the macroeconomic environment of Cambodia and enabling the private sector in doing business and in investment.

25. In fact, the Cambodian economy enjoyed a low and stable price level for about five years in row since 1999 when average annual inflation rate moved just around one percent. Unfortunately, the year 2004 and this year the economy is being directly impacted by one of the country's economic concerns, the unprecedented level of fuel prices. The higher fuel prices have negatively impacted on all sectors, consumers, producers, and the government as well. Higher petroleum prices and an increase in local food prices pushed inflation up to about 6 percent in 2005. The NBC has made various efforts to reduce inflation pressure, especially by controlling the monetary expansion.

26. Meanwhile, sharp fluctuations in the global currency markets also threw shadows on local foreign exchange market, as the riel-US dollar exchange rate became somewhat weaker in 2005 compared with the previous year. The riel depreciated year-on-year by about 2 percent in December 2005 as compared to 1 percent depreciation in the same period of last year, though this rate is still within a manageable range.

27. Monetary data for 2005 indicate that liquidity of the banking sector continues to maintain the rising trend, although at a slower pace. Broad money (M2) growth slowed down to 16 percent to 5,025 billion riel in December 2005 from 4,329 billion riel in December 2004. This growth was 14 percentage points lower than the 30 percent recorded during the corresponding period in 2004. The slight increase in total liquidity and the high economic growth rate of 7 percent in 2005 indicate that monetary expansion has been controlled effectively and the higher rate of inflation in 2004 and 2005 is attributable mainly to factors other than monetary causes. The growth in broad money during the period under review was largely on account of the increase in net foreign assets of the banking system, which increased by 14.2 percent as a result of an increase in foreign assets of 12 percent and a reduction in foreign liabilities of 2.6 percent. Currency outside banks increased by 15 percent albeit from a smaller base compared to foreign currency deposits. Growth in domestic credit slowed down to 21.3 percent (35.8 percent in December 2004).

28. Preliminary data on external sector developments show that growth in trade deficit widened to 43.7 percent in 2005 compared to 34.7 percent in 2004, mainly due to an increase in the value of petroleum imports. A sharp increase in tourism receipts helped to

partly offset the deterioration in trade performance, leading to a small increase in current account deficit (excluding official transfers) to 10.5 percent of GDP (9.8 percent of GDP in 2004). Improved foreign direct investment flows, coupled with an increase in official transfers enabled the capital and financial account to record a surplus that is higher than the current account deficit. As a result, the country's overall balance of payments recorded a surplus of 43.6 million USD and net international reserves expanded by 17.6 percent and was equivalent to about 2.5 months of imports in 2005.

### **3.2 FISCAL POLICY AND PERFORMANCE**

29. The objectives of Royal Government's fiscal policy are to maintain a sustainable fiscal balance with gradual increases in budget allocation for social and economic sectors by limiting and rationalizing public expenditure and by broadening the tax base, preventing leakages, and by strengthening the customs and tax administration to collect additional revenues. The prudent fiscal policy has enabled the Royal Government to maintain price stability in Cambodia's highly dollarized economy.

30. The Royal Government's fiscal policies are designed to ensure a level of spending that is consistent with macroeconomic stability. The expenditure program is being restructured as part of a systemic reform package aimed at promoting domestic savings, productive investment, and efficient resource allocation. The fiscal performance in 2004 and 2005 has been good, with increased domestic revenue collection and public expenditure restraint.

### **3.3 DOMESTIC REVENUES**

31. Total domestic revenues increased to 11.7 percent of GDP in 2005 from 11.3 and 10.2 percent in 2004 and 2003, respectively. Tax revenues increased to 8.7 percent of GDP in 2005 from 8.4 percent in 2004. The improvement in revenue collection reflects the effectiveness of several revenue collection measures introduced in the last quarter of 2003 and at the beginning of 2004. These included actions by the Ministry of Economy and Finance (MEF) to recover revenue from Posts, Telephone and Telecommunications (PTT), the lease of government assets, as well as some additional measures such as further expansion of the tax base; increased collection of visa fees and tourism income.

32. In 2005, total domestic revenues are expected to increase to 2,591 billion CRs (approximately US\$ 629.2 million) from 2,212 billion CRs (US\$ 550.7 million) in 2004, and 1,776 billion CRs (US\$ 446.7 million) in 2003. In 2005, domestic revenues collected consisted of 1,929 billion CRs in tax revenues, 555 billion CRs in non-tax revenues, and 106 billion CRs in capital revenues from privatization and other sources.

33. In 2004, total domestic revenue collected consisted of 1,648 billion CRs in tax revenues, 544 billion CRs in non-tax revenues, and 19 billion CRs in capital revenues from privatization and other sources.

### **3.4 PUBLIC EXPENDITURE**

34. In both 2004 and 2005, overall, the Royal Government has managed to contain total expenditure below targets, thus minimizing the need for domestic financing. In both years, total current public expenditures were lower than total domestic revenues collected both in nominal terms and as a percent of GDP. Total current expenditures decreased from 10.6 percent of GDP in 2003 to 9.5 and 9.3 percent in 2004 and 2005 (preliminary estimate).

35. In 2004, expenditures processed through the National Treasury totaled approximately 2,078.8 billion CRs (US\$ 515.7 million). These included 1,745.7 billion CRs (US\$ 433.1 million) on current expenditures, and 333.1 billion CRs (US\$ 82.6 million) on capital/development expenditures that were financed from domestic sources and channeled through National Treasury. The total capital expenditure in 2004, from both domestic and external sources, was estimated to be 1260.6 billion CRs (US\$ 312.7 million).

36. In 2004, the composition of the total current expenditure of 1,745.6 billion CRs on civil administration, defense and security, and interest on loan, was as follows:

- Expenditures on the civil administration totaled 1,274.2 billion CRs (US\$ 316.1 million), representing 73.0 percent of total current expenditure. Of this, expenditure on salaries amounted to 343.6 billion CRs (US\$ 85.2 million) or 27.0 percent of the expenditure on civil administration.
- Expenditures on defense and security totaled 422.8 billion CRs (US\$ 104.9 million), representing 24.2 percent of total current expenditure. Of this, salaries amounted to 296.1 billion CRs (US\$ 73.5 million), representing 70.0 percent of the expenditure on defense and security.
- Interest on loans totaled 48.6 billion CRs (US\$ 12.1 million), representing 2.8 percent of total current expenditure.

37. The preliminary data on expenditures in the first eleven months of 2005 show that expenditures processed through the National Treasury totaled approximately 1,789.8 billion CRs. These included 1,475.8 billion CRs on current expenditures, and 314 billion CRs on capital/development expenditures that were financed from domestic sources and channeled through the National Treasury. The total capital expenditure during this period, from both domestic and external sources, was estimated to be 950 billion CRs.

38. The composition of the total current expenditure of 1,475.8 billion CRs in the first eleven months of 2005 on civil administration, defense and security, and interest on loan, was as follows:

- Expenditures on the civil administration totaled 1,092.7 billion CRs, representing 74.1 percent of total current expenditure. Of this, expenditure on salaries amounted to 324.1 billion CRs or 29.7 percent of the expenditure on civil administration.

- Expenditures on defense and security totaled 336.8 billion CRs, representing 22.8 percent of total current expenditure. Of this, salaries amounted to 255.8 billion CRs, representing around 76 percent of the expenditure on defense and security.
- Interest on loans totaled 46.3 billion CRs, representing 3.1 percent of total current expenditure.

#### **4. GOVERNMENT'S POLICY PERFORMANCE**

39. In the history of CG Meetings for Cambodia that have been held so far, it was for the first time in late 2004 that the Royal Government and the development partners have had an opportunity to jointly review and agree on a set of monitoring indicators to review progress. These discussions were held at the first meeting of the newly created high level Government-Donors Coordination Committee (GDCC) a few days before the 7<sup>th</sup> CG Meeting. Since the 7<sup>th</sup> CG meeting, the GDCC has met quarterly to review progress on the Joint Monitoring Indicators (JMIs) that were agreed upon at the 7<sup>th</sup> CG meeting held on 6-7 December 2004. These quarterly reviews by representatives of the Royal Government and development partners -- who have included Senior Ministers, Ministers or heads of government agencies, Ambassadors or heads of diplomatic missions, and heads of multilateral institutions -- have provided an opportunity to both sides to regularly review progress and be informed about constraints that are being experienced, and enabled them to take necessary actions.

<b>Policy Performance</b>	
4.1	<i>Fighting Corruption and Increasing Accountability</i>
4.2	<i>Legal and Judicial Reform and Protection of Human Rights</i>
4.3	<i>Public Administration Reform</i>
4.4	<i>Decentralization and De-concentration</i>
4.5	<i>Public Financial Management</i>
4.6	<i>Cross-cutting for Agriculture and Natural Resources Management</i>
4.7	<i>Private Sector Development</i>
4.8	<i>Gender, Poverty and HIV/AIDS</i>
4.9	<i>Health and Education</i>
4.10	<i>Harmonization and Alignment</i>

40. The 18 sector/thematic Joint (Government-Donor) Technical Working Groups and the high level GDCC mechanism that became operational following the last CG meeting has begun to have an impact on moving forward the RGC reform programs. The quarterly reviews of progress at the high level GDCC meetings have kept focus of ministries and agencies as well as development partners on achieving the targets of the agreed JMIs throughout the year. This mechanism has also enabled both sides to appreciate the constraints that are being faced and has provided an opportunity to take appropriate actions. The year 2005 has been a year of learning-by-doing for both ministries/agencies as well as development partners. On both sides, as in any endeavor, some have rapidly moved on to make the new mechanism work while others are following.

41. Overall, significant progress has been made in achieving the targets of the Joint Monitoring Indicators (JMIs) that were agreed at the last CG meeting. One issue that has emerged is the lack of correlation between activities that were needed to be carried out to achieve the targets of the JMIs and the resources mobilized to carry out these activities. The periodic reviews of progress during 2005 have revealed that significant progress was

being made in areas where a clear linkage between planned activities and the resources needed to implement the activities had been established; as compared to areas where this linkage was either weak or missing, or there was a lack of ownership by concerned institutions.

42. At the Fifth GDCC Meeting held on 12 December 2005, on behalf of the Royal Government, the Chair of GDCC asked development partners to make effective use of the TWG mechanism for identifying the JMIs for endorsement at the next CG meeting. Based on the principle of mutual accountability, the Royal Government would like the TWGs to not only identify the JMIs to monitor progress of their work -- in an environment where the Government side takes ownership of the process and most of the responsibility -- but also to (i) identify who will be responsible for the work needed to achieve the targets of each proposed JMI; and (ii) the resources required to carry out the work as well as identify donors who will provide the needed resources. The Royal Government would like to see TWGs setting realistic time frames for achieving the targets by taking into account the existing capacity of the concerned institutions for carrying out the required tasks and the complexities of the processes involved.

43. In terms of progress in achieving the targets of the JMIs agreed at the 7<sup>th</sup> CG meeting held on 6-7 December 2004, the progress made in each area is summarized below.

#### **4.1 FIGHTING CORRUPTION AND INCREASING ACCOUNTABILITY**

44. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed to in this area:

- i. Within the existing criminal law, **reported cases of corruption** shall be brought before the courts for investigation and hearing; a consistent and strategic approach shall be employed by law enforcement authorities to the prosecution of cases of corruption. Data shall be collected to enable monitoring of progress.
- ii. The **existing draft law on anti-corruption** shall be brought into compliance with international best practice [such as reflected in the United Nations Convention against Corruption or other instruments].
- iii. The Government should commence preparatory work on establishing a legislative framework (such as a Freedom of Information Law) to facilitate **access to information held by public authorities**. In the meantime, public authorities must change current practice by displaying a preparedness to share information with the general public and with other institutions in Government. The different TWGs will monitor specific indicators of access to information.

45. Significant progress has been made in 2005 in moving forward to deal with the three JMIs in this area. With respect to the first JMI, the Ministry of National Assembly-Senate Relations and Inspection (MoNASRI) was mandated by Samdech Prime Minister to report on cases of corruption. MoNASRI has provided detailed reports at the GDCC meetings on high profile cases such as the missing food-for-work case and case of corruption involving judges, prosecutors and court clerks.

46. After extensive consultations and revisions based on inputs from various parties, the Ministry of National Assembly-Senate Relations and Inspection (MoNASRI) that is responsible for overseeing the drafting of the *Anti-corruption Law* submitted a draft to the Council of Ministers. The consultation process in 2005 has included:

- The formation of a Sub-working Group of the Legal and Judicial Reform TWG that was chaired by the Chairman of the Anti-corruption Law drafting Committee. Its members have included, in addition to government officials, representatives of development partners and two NGOs -- the Centre for Social Development and Cambodian Defenders Project. A number of international experts have been involved in the drafting process.
- Based on the inputs a revised draft was prepared. It was presented at a two-day workshop held on 17-18 August 2005 in Phnom Penh in which all stakeholders participated. The workshop was opened by Samdech Prime Minister.
- Following this workshop, after further revisions by MONSARI, the draft was submitted to the Council of Jurists on 12 December 2005. After approval by the Council of Jurists it will be submitted to the Council of Ministers for review and approval.
- The approved Anti-corruption Law incorporates the essential principles of the United Nations Convention against Corruption and other relevant instruments.

47. On the third JMI in this area, a number of concrete actions have been taken in 2005 to increase access to information held by public authorities. For example:

- The Department of Fisheries has opened the bidding process for fishing lots to the public.
- MAFF has begun to release information on economic land concessions. The first batch of information that included names of concession companies which have signed an agreement or are in the process to finalize an agreement with MAFF has published. Additional information providing details on land concessions will be posted on MAFF website in the second quarter of 2006.
- Information on forest concession reviews is now available at Public Affairs Unit of the Forestry Administration.

#### **4.2 LEGAL AND JUDICIAL REFORM AND PROTECTION OF HUMAN RIGHTS**

48. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed to in this area:

*Fundamental Legal Framework:* Adoption of the drafts of the 8 fundamental laws by the Council of Ministers and submission to the National Assembly as a matter of urgency:

- i. Penal Code
- ii. Code of Penal Procedures
- iii. Civil Code
- iv. Code of Civil Procedures
- v. Organic Law on the Organization and Functioning of Courts
- vi. Law on the Amendment of the Supreme Council of Magistrates (reflecting transparency in appointment, promotion, transfer, remuneration and disciplining of judges and prosecutors, and ensuring the independence of Judges and Prosecutors) - *rolled over*
- vii. Law on the Status of Judges and Prosecutors - *rolled over*

*viii. Law on Anti-Corruption - rolled over*

49. Significant progress has been made in drafting the Laws in 2005. A total of 45 Laws were approved by the National Assembly in 2005, as compared to a total of 90 Laws over five years from 1993 to 1998. In addition, other Laws have also been submitted to the National Assembly during 2005 that have not yet been approved by the National Assembly. The Royal Government would like to urge all parties to be realistic in setting time frames for the completion of work on the drafting of these Laws taking into consideration the existing capacities of concerned institutions and available resources as well as the complexities of the processes in securing approval of proposed draft Laws at the various levels of the Executive and Legislative branches. The current status on the preparation of these Laws is as follows:

- *Penal Procedures Code* is being reviewed by the Inter-Ministerial Meeting and is expected (at the date of preparation of this report) to be finalized by the end February 2006.
- *Penal Code* has been revised by the Council of Jurists and will be scheduled to be reviewed by the Inter-Ministerial Meeting.
- *Civil Code* is being reviewed by the Inter-Ministerial Meeting.
- *Code of Civil Procedures* has been reviewed by the Permanent Committee of National Assembly and will be scheduled for debate at the full session of the National Assembly.
- *Organic Law on the organization and Functioning of the Courts* has been reviewed by the working group of the Ministry of Justice.
- *Law on the Amendment of the SCM* has been drafted and reviewed by the Council of Jurists. The working group of the Ministry of Justice is working to refine the draft.
- *Law on the Statutes of Judges and Prosecutors* has been drafted and reviewed by Council of Jurists. Now the working group of the Ministry of Justice is working to refine the draft.
- *Progress on the Anti-corruption Law is reported in the preceding section.*

#### **4.3 PUBLIC ADMINISTRATION REFORM**

50. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed to in this area:

- i. Agreement between government and donors on a strategy to phase out donor-funded salary supplements and redirect them in support of pay reforms in priority areas by June 2005. (Ref. to RGC's Action Plan for Harmonization and Alignment, Section D.1.c and NPAR priorities section 2.1.3)*
- ii. The Council of Ministers approve by November 2005 for implementation starting in January 2007, a phased medium-term civil service remuneration plan to improve civil service pay selectively to appropriate levels, that will allow the public administration to attract and retain talent. The plan shall be coherent among State institutions, sustainable and consistent with the RGC approved Medium-term Expenditure Framework. (Ref. to NPAR priorities section 2.1.1, 2.1.3 and 5.1 and PFM Consolidated Action Plan measures 2.3 and 2.4).*

- iii. Pilot implementation of pay and employment reform initiatives--that are fully consistent with each other-- and that reward performance and promote merit in at least 3 sectors or professional streams during 2006
- iv. Gradual reduction of cash transactions in the payment of salaries through the use of the banking system and electronic transfers. Parameters and preparation of pilots for payments via electronic bank transfers completed by November 2005 (*Ref. to NPAR priorities section 2.1.2 and PFM Consolidated Action Plan 7.12*).
- v. A meritocratic human resource policy with a detailed and sequenced implementation plan will be adopted by the Council of Ministers.

51. Significant progress has been made in 2005 in moving forward to deal with the five JMIs in this area. With respect to the first JMI, after extensive consultation, the strategy has been finalized and was agreed to by the TWG at a meeting on 26 January 2006. Implementation commenced on 27 January with the information questionnaire being sent to donors, for response by 28 February 2006. The core of the strategy relies on the implementation of PMGs and PMG/MBPIs at the sector level and making supplementation practices more transparent and harmonized.

52. With respect to the second JMI, a new remuneration regime more conducive to performance has been in operation since 2002. Pay reforms must be sustainable and depend essentially on government revenues. The Royal Government's approach has been to target priority functions (management, education, health) and priority missions while increasing base salary as much as possible. Average remuneration has increased by 116% since January 2002. Further allowances will be introduced shortly to enhance mobility and compensate for risks. Ways and means to accelerate the pace are being investigated with three studies on remuneration, employment and the labor market to be completed in time to inform decision making on a medium strategy in June 2006.

53. On the third JMI, progress has gone beyond piloting the Sub-Decree 98, it is now authorized to be implemented across the Administration. PMG and PMG/MBPI are being implemented on a wide front. A first PMG/MBPI is operational to support the PFM. Others are being developed to support reform programs in land, health, commerce and others. More than 10 ministries and agencies are actively involved.

54. With respect to the fourth JMI, the activity under this indicator is being managed in the Ministry of Economy and Finance where good progress is being made.

55. On the last JMI in this area, core HR processes are being strengthened in support of performance and merit. A detailed HRM guide is in the final stage of preparation. Building on the outcome of a national seminar, a HRD Master Plan is being developed. Related HRM and HRD policies are scheduled for discussion by the PAR TWG in March. Effective mechanisms are in place to control the establishment.

#### **4.4 DECENTRALIZATION AND DE-CONCENTRATION**

56. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed in this area:

- i. The RGC National Policies, Strategic Framework, Action Plan finalized by March 2005 and submitted to Council of Ministers for approval.

- ii. The first draft prepared for consultation of the D&D organic Laws on the Management of Provincial & District, Municipalities and the Capital, produced within the D&D strategic framework.

57. In 2005, substantial and encouraging progress was made on decentralization and de-concentration reforms, in particular on the two agreed JMIs.

58. As regards the first JMI, a draft of the RGC's Strategic Framework for D&D was prepared, reviewed at the highest levels of the RGC, and discussed at a national workshop opened by Samdech Prime Minister and co-chaired by the two Deputy Prime Ministers and Co-Ministers of the Ministry of Interior. The Strategic Framework was later revised and adopted by the Council of Ministers on 17 June 2005.

59. The Strategic Framework sets the policy and principles for restructuring and reformation of all levels of sub-national administration (provinces, municipalities, districts, khans, communes, and sangkats) and corresponding adjustments to the national administration. The essential purpose is to establish and promote democratic development at the sub national levels through decentralization and de-concentration, and the better delivery of programs, services and infrastructure.

60. With respect to the second JMI, the drafting of the Organic Laws was started in 2005. The first drafts will be completed by the end of the first quarter of 2006 and will be discussed with stakeholders, including the TWGD&D that was established on 25 November 2005.

61. Another encouraging development on D&D, initiated by the Ministry of Interior through the IMC Task Force, was the commissioning in September 2005 of an Independent Study to undertake a comparative review of donor funding support and services for decentralization and de-concentration, including all funding programs; institutional arrangements for funding; funding mechanisms; and Seila.

62. The study, which will be completed by the end of the first quarter of 2006 in consultation with development partners, is expected to provide essential inputs for improving cooperation, understanding and consultation between the Government and the donor community on the methods, modalities and mechanisms for ensuring optimum long-term donor support for democratic development at sub-national level.

#### **4.5 PUBLIC FINANCIAL MANAGEMENT**

63. At the 7<sup>th</sup> CG Meeting, the following JMI was agreed to in this area:

- Implement RGC's PFM reform agenda: first 12 months of platform 1.

64. The Public Financial Management Reform Program (PFMRP) is being successfully implemented to complete the activities planned for the first 12 months of platform one. Although this comprehensive and long term PFMRP is still at an early stage of the implementation, progress over the first year has been satisfactory and significant

impact is being noted on both revenue and expenditure sides. Specifically, substantial progress has been made in several areas such as change management (especially in institutional change and ownership and responsibility building), capacity development, macro-fiscal forecast and management, budget formulation and execution, procurement procedures, internal audit, cash management, and a significant improvement in both tax and non-tax revenue collection.

65. The PFMRP consists of 27 activities which break down into 254 actions that were planned to be implemented in stage one. Out of the 254 actions, 224 actions were planned to be carried out in 2005 of which 208 (93%) activities were implemented as scheduled and the implementation of 16 (7%) actions was delayed. Of the total planned activities, work on 35 (16%) of the planned activities was completed in 2005, while implementation of 173 (77%) activities was on-going at the end of 2005. Of these on-going activities, progress on 25 activities was judged to be below expectations. The delays in implementation and slow progress in some actions/areas were mainly due to several reasons such as inappropriate sequencing of actions, cross-cutting actions/activities, additional analysis and/or consultation requirement, additional technical assistance need, better cooperation and coordination and pro-active of all key players/stakeholders requirement.

66. Due to the comprehensiveness and complexity, the program is managed and monitored based on a management framework and a set of performance measurement indicators which monitor and review monthly, quarterly and annually. Under the umbrella of Public Financial Management Technical Working Group (PFMTWG), a Reform Committee (RC) has been established to lead and coordinate on the Government side as well as a Development Partner Committee has also been established to lead and coordinate on the development partners side. The RC and DPC meet monthly and the PFMTWG meets quarterly. Currently the program is subject to be reviewed two times a year (mid-year and annual) by the PFMTWG and through an external independent evaluation. The first annual review of the program is being carried out to assess progress and challenges, to review action plan and performance measurement indicators, to review the first phase implementation of Merit Based Pay Initiative (MBPI), and finally to agree on the revised action plan and performance measurement indicators and the second phase of MBPI implementation which is scheduled to be completed in late March 2006.

#### **4.6 CROSS-CUTTING FOR AGRICULTURE AND NATURAL RESOURCES MANAGEMENT**

67. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed in this area:
- i. Pass/enact key laws and sub decrees, governing natural resources management, including fisheries law and community fisheries sub decree (rollover), state land management and economic land concessions sub decrees and enforcement of Article 18 of Land Law, that private sales transactions on state lands are illegal and hence should not be validated by officials. Joint development of a medium term sector strategy for agriculture, including irrigated agriculture, has been commenced by March 2005, with an overall policy and strategic framework completed by December 2005.

- ii. Maintain suspension/moratorium on logging, transport of logs (except those which have been already inventoried and for which royalties have been paid in full), and new economic land concessions pending completion of applicable review processes and/or a legal framework.
- iii. Increase transparency of state management of natural resources through immediate public disclosure of existing contracts and compliance status (royalties and other key provisions) of contracts governing economic land concessions, mining concessions, fishing lots and continued disclosure of status of review of forest concessions.
- iv. Application of sustainable management planning, including ESIA's, investor evaluations, consultation with local communities, public disclosure and comment period prior to entering into new contracts for private use/management of state managed natural resources (land, fisheries, forestry, and mines).
- v. RGC disclose the location and legal status and process for termination of mining concessions, Military Development Zones, economic land concession and other development arrangements situated on forest land or in protected areas and inconsistent with law governing management of these areas.

68. Significant progress has been made on all JMIs in this area since the last CG meeting. The TWGs in this area have played an important role in moving forward the reforms and have tried to follow the principle of mutual accountability in their work.

69. With respect to the first JMI in this area, the:

- Statement of the Royal Government on National Fisheries Sector Policy was issued on 15 June 2005.
- Draft Fisheries Law was prepared and sent to the National Assembly.
- The Royal Decree on Community Fisheries was signed by His Majesty the King on 29 May 2005. The Sub-Decree was signed by Samdech Prime Minister on 10 June 2005. The Department of Fisheries conducted a meeting in July 2005 with NGOs and provincial fisheries offices to disseminate information on the Royal Decree and the Sub-Decree.
- Provincial fisheries offices have been disseminating information on the Royal Decree and the Sub-Decree at the community levels.
- Sub-Decree on SLM was approved and implementation is in progress. The Sub-Decree on ELC is being considered by the Council of Ministers. Discussions on enforcement of Article 18 of the Land Law are on-going.

70. On the second JMI in this area concerning the moratorium on logging and transport of logs, the TWG on Forestry and Environment has reported to GDCC that the targets of this JMI have been met. It has also raised a concern that available wood supply might not meet the increasing domestic demand due to logging moratorium.

71. The third JMI in this area concerning the transparency of state management of natural resources, the TWG on Forestry and Environment has reported to GDCC that the targets of this JMI have been met. It has reported that:

- Information on forest concession reviews is now available at Public Affairs Unit of the Forestry Administration.
- The Department of Fisheries has opened the bidding process for fishing lots to the public.
- MAFF has begun to release information on economic land concessions in accordance with Samdech Prime Minister's notice following 30 June with development partners. The first batch of information that included names of concession companies which have signed an agreement or are in the process to finalize an agreement with MAFF has been published. Additional information providing details on land concessions will be posted on MAFF website in the second quarter of 2006.

72. The fourth JMI in this area concerning the application of sustainable management planning, the TWG on Forestry and Environment has reported to GDCC that the targets of this JMI have been met. It has reported that:

- SFMPs of forest concession plans are being reviewed according to procedures set under the sub-decree.
- Department of Fisheries in cooperation with provincial/municipal fisheries offices is implementing a number of initiatives to crackdown on illegal fishing activities and to raise awareness of fisheries protection resources.
- On community fisheries, regulations to execute and further extend the Royal Decree and Sub Decree have been prepared. On Marine conservation, the 10-year-Action Plan of Coral Reef and Sea Grass Management has been finalized.

73. With respect to the fifth JMI in this area,

- In collaboration with Provincial Agriculture Departments the DoF is taking measures to suppress cutting flooded forest activities. It is cooperating with lot operators to help in protecting illegal fishing during closing season.
- There are still difficulties in getting information on developments in forest areas from different agencies.

#### **4.7 PRIVATE SECTOR DEVELOPMENT**

74. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed in this area:

- i. The Government will establish a single entry point, or Single Window, that will allow parties involved in trade to fulfill the documentary requirements for import or export in a single transaction. Multiple interactions with agencies will be replaced by information sharing within Government. This will be achieved as a key step toward an automated Single Window process including CED and other relevant agencies.
- ii. The revised PPI process articulated in the draft Law on Concessions will be adopted by the Council of Ministers and submitted to the National Assembly during 2005. Implementing Regulations will be issued by June 2005. Beginning June 2005, any new PPI deals will be done in conformity with the law as submitted to the National Assembly and the implementing regulations.
- iii. The Council of Ministers will approve an SME development framework, including a definition of SMEs to be used among all Government agencies, developed by the

SME committee and in coordination and consultation with other line ministries and private sector representatives.

- iv. The draft Law on Commercial Arbitration is adopted by the Council of Ministers and submitted to the National Assembly. As evidence that the law is implemented, at least one recognized arbitration center, with appropriately trained and respected staff and a roster of trained and respected arbitrators will have issued at least two arbitration judgments.

75. Significant progress has been made on all JMIs in this area. For the Royal Government the private sector is the engine of growth. The Royal government's policy with respect to fostering private sector development is to play a strategic role in creating an enabling environment for the development of private enterprise, and to manage the development process. As further support to the Government-Private Sector Forum mechanism on policy guidelines a Private Sector Development Steering Committee was established in July 2004 that is Chaired by the Senior Minister and Minister of Economy and Finance. Under the Steering Committee, three Sub Steering Committees have been established: one dealing with Investment Climate and Private Participation in Infrastructure (PPI) that is chaired by Senior Minister, Minister of Economy and Finance, second on Trade Facilitation that is chaired by Senior Minister and Minister of Commerce, and third on SME's that is chaired by the Minister of Industry, Energy and Mines. In the area of trade facilitation, a strategy on administrative document, single window and risk management is currently being prepared and will be finalized in 2006.

76. Following the recommendations of the 8<sup>th</sup> Government-Private Sector Forum, the Ministry of Economy and Finance issued Prakas Number 298, dated 17 June 2005, on the implementation of VAT for supporting industry or subcontractors who are supplying goods or services for garment export, textile, and shoe industries. As provided in this Prakas, for supporting industry, the duty on inputs for the calculation of VAT on the import of production inputs and equipment used for direct supplies to the garments, textile and the shoe industries should be born by the Government. The VAT on products and services used for exports is at the zero percent rate.

77. As for the enterprises under the real regime of taxation, supplying directly 80 percent of its production or services to exporters of the garments, textiles and shoe industries, the VAT on their production outputs is at a zero percent rate.

78. Investment related regulations have been promulgated i.e. the Sub Decree on the implementation of the Amendment to the law on Investment, the Sub Decree on the establishment of provincial-municipal investment Sub Committees, and the Sub Decree on the establishment and management of Special Economic Zones.

79. The RGC has also developed other key legal infrastructure to sustain the development of the financial sector such as the Law on Commercial Enterprises. This Law can be implemented without Sub-Decree. The Draft Law on Government Securities, the Draft Law on Issuance and Trading of Public Securities, and the Draft Law on Bankruptcy will soon be submitted to the Cabinet. The Draft Law on Secured Transactions has been already adopted by the Cabinet. Meanwhile, the Ministry of

Economy and Finance and the National Bank of Cambodia are preparing the Draft Law on Leasing.

80. With respect to the first JMI, "establish a single entry point, or Single Window" due to the complexity and cross cutting nature of the task, more time will be needed before the implementation of the Single Administrative Document (SAD), the Single Window and the Risk Management Strategy. It is expected that the aforementioned activities will take place in 2006.

81. The Trade Facilitation & Competitiveness Project initiated by the Royal Government of Cambodia in 2005, incorporates a number of components which collectively define a broad range of reforms to be implemented. These reforms, which impact and require the support of a number of government agencies, will affect numerous stakeholders within the private sector and government. However, pre-dating the current project, several changes have already been instigated, in particular since the Investment Climate Assessment study conducted for Cambodia in 2003.

82. The results of the Reform Score Card survey undertaken by Emerging Markets Consulting show that government agencies have made strong improvements in the eyes of the private sector in terms of, among others, costs, time and information dissemination:

83. There has been a sharp drop in the number of firms reporting problems with their documentation during the importing and exporting process. In 2003, roughly 49 percent of firms reported encountering problems that has significantly declined to only 13 percent of firms who have recently reported encountering difficulties. The average costs have also decreased from \$2,477 per import transaction in 2003 to about \$673 per transaction in 2005, and for exports, from \$942 in 2003 to \$598 per transaction in 2005. The private sector perception of the amount of time required to process transactions has also improved, with respondents reporting a reduction in processing time of over 20 percent from 2003. Concerning government's dissemination of information – an important capability assessed via the survey – 84 percent and 91 percent of respondents said they were at least adequately informed about fees and documentation respectively.

84. With respect to the second JMI, the Law on Concessions was adopted by the Cabinet on July 15, 2005.

85. With respect to the third JMI, the SME development framework was adopted by the Cabinet on July 29, 2005. The activities in the action plan to implement the SME Development framework are now aimed at streamlining and simplifying administrative procedures for SME registration and operations.

86. With respect to the fourth JMI concerning the Law on Commercial Arbitration, the draft Law is now being reviewed by the Commission No. 9 of the National Assembly.

#### **4.8 GENDER, POVERTY AND HIV/AIDS**

87. At the 7<sup>th</sup> CG Meeting, the following JMIs were agreed in this area:

- i. These will be treated as cross cutting issues to be addressed under the broader umbrella of formulating the next 5 year National Strategic Development Plan for 2006-2010
- ii. Gender Equality: Put in place the Legal Framework for Protection
  - Draft Domestic Violence Law is adopted by the Council of Ministers and submitted to the National Assembly and a Prevention Plan adopted
  - Draft Anti Trafficking Law is adopted by the Council of Ministers and submitted to the National Assembly and a Prevention Plan adopted

88. With respect to the first JMI in this area related to addressing the cross-cutting issues in the formulation of the National Strategic Plan (NSDP) 2006-2010, the concerned TWGs have reported that the NSDP that has been formulated by the Royal Government in close consultations with all development partners and civil society representatives is more responsive to cross-cutting issues than any of the previous Socio-economic Development Plans.

89. The Royal Government is pleased to report that significant progress has been made on the second JMIs in this area. The "Law on Prevention of Domestic Violence and Protection of the Victims" was promulgated on 5 November 2005. A Sub-decree is being drafted and a prevention plan is being developed. The "Law against Trafficking in Person and Sexual Exploitation" is being reviewed by the Ministry of Justice in close consultation with the Ministry of Women Affairs. Also, the UN protocol on Prevention, Intervention and Punishment of Human Trafficking was ratified by National Assembly on 25 November 2005.

#### **4.9 HEALTH AND EDUCATION**

90. At the 7<sup>th</sup> CG Meeting, the following JMI was agreed in this area:

- Timely disbursements of the budget for Health and Education as agreed in the PFM Action Plan.

91. In 2005, total disbursements of the budget to the Ministry of Health were as follows:

- At the Central Level, total disbursements (147.7 billion CRs) amounted to 92 percent of planned budget allocation (160.3 billion CRs), and 95.5 percent of the amount requested (153.6 billion CRs) by the MOH against planned budget allocation. The PAP disbursements (30.1 billion CRs) were 81.3 percent of planned budget allocation (37.0 billion CRs) and 83.5 percent of the amount requested by MOH.
- At the Provincial Level, total disbursements (51.0 billion CRs) amounted to 65 percent of planned budget allocation (78.5 billion CRs). The PAP disbursements (11.7 billion CRs) were 60.3 percent of planned budget allocation (19.4 billion CRs).

92. In its report to the GDCC, the Ministry of Health has noted that the reason for delays in disbursements to provinces is the weak budget management capacity at MOH, especially at the provincial level, and the complexities of disbursement process at the

central-provincial level. The Royal Government urges the development partners working with the MOH to give a priority to strengthening the MOH's budget management capacity at both the central and provincial levels.

93. In the case of the Ministry of Education, the overall budget for PAP 2005 of the Ministry of Education, Youth and Sports was 86.7 billion Riels. As of 25 January, 2006, some 70.3 percent or 61 billion CRs were disbursed. These included:

- At the central level, disbursement of 13.3 billion CRs or 37.3 percent of the PAP budget allocation for the central (35.7 billion CRs).
- At the Provincial level, disbursement of 47.7 billion CRs or 93.5 percent of the budget allocation for the provincial level (51 billion CRs).

94. The Ministry of Education, Youth and Sports has reported to the GDCC several reasons for delays in disbursements of PAP budget allocations. These include: late submission of requests, need to improve submission process, need to follow MEF procedures consistently, and delays in the utilization of PAP budget for the year until the start of the school year i.e. the month of October. The need for more negotiations with MoEF to improve cash flows systems by reducing the number of disbursement tranches is also identified. The MoEYS's priority is to strengthen its budget planning and management capacity at both the central and provincial levels. The Royal Government urges the development partners working with the MOEYS to give a priority to strengthening its budget planning and management capacity at both the central and provincial levels.

#### **4.10 HARMONIZATION AND ALIGNMENT**

95. At the 7<sup>th</sup> CG Meeting, the following JMI was agreed in this area:

- Implement--and monitor implementation progress on a six monthly basis—the Harmonization Action Plan and the Partnership Principles

96. The Royal Government is pleased to report that the JMI in this area has been met. Cambodia's Report on "Progress Toward Enhanced Aid Effectiveness" was presented by H.E. Senior Minister Keat Chhon, Minister of Economy and Finance, and the First Vice Chairman of the Council for the Development of Cambodia at the Second High Level Forum held in Paris on 28 February - 2 March 2005, at the close of which the Paris Declaration was issued. The six month progress report was presented and discussed with development partners at the Partnership and Harmonization TWG meeting on 4 July 2005 at the Council for the Development of Cambodia. More details on recent developments in this area and the progress made in 2005 are presented in Chapter IV.

### **CHAPTER III IMPLEMENTING THE PRIORITIES SET IN THE NATIONAL STRATEGIC DEVELOPMENT PLAN: 2006-2010**

97. The development vision of the Royal Government of Cambodia is to have a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease. Realizing this vision will require continued adherence to the values of social justice, human welfare and empowerment of the people and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and better governance. The National Strategic Development Plan (NSDP) is a *broad framework* providing the road map and guidelines for taking the country from where it is at the end of 2005 to where it ought to be in 2010, using available resources in a cost-effective and result-oriented manner. To move ahead rapidly towards its overall vision, the Royal Government will focus attention on achieving the high priority, strategic and macro-goals and core targets (indicators) of the NSDP outlined in Table 4.

98. The Royal Government of Cambodia (RGC) has decided that it should now focus on priority and strategic goals to be reached in the next five years and pursue key strategies and actions to achieve them, maximizing results by use of scarce resources in a selective, cogent and coherent manner. *The NSDP: 2006-2010, is the single, overarching document containing RGC's priority goals and strategies to reduce poverty rapidly, and to achieve other CMDGs and socio-economic development goals for the benefit of all Cambodians.* It operationalizes the Rectangular Strategy to achieve its intended goals. Also, a Public Investment Program for 2006-2008 has been prepared to support the implementation of the NSDP. Both of these documents were approved by the Royal Government at a Cabinet meeting on 27 January 2006. These two documents have been formulated to guide development cooperation partners to align and harmonize their efforts to improve aid-effectiveness and to secure a higher "net transfer of resources" than has been the case in the past. The Royal Government urges multilateral, international development cooperation partners, and NGOs to ensure that their country assistance strategies are aligned with the priorities outlined in the NSDP and their development programs and projects are aligned with the PIP.

99. NSDP has been developed through wide ranging consultations focused on "results". The strategic goals, targets and actions outlined in the NSDP will be spelt out in more details through ongoing, or soon to be adopted, sector plans and through sub-national goals and plans. Such exercises, particularly at sub-national levels, will also serve to better disseminate NSDP. NSDP is a live document, capable of being adjusted and updated annually based on any new data that becomes available and the proposed annual monitoring and evaluation exercises.

**TABLE 4: NSDP'S MACRO-GOALS AND CRITICAL INDICATORS**

Major Goals: Targets/Indicators		2005	2010	CMDG- 2015
<b>Eradicate - Poverty &amp; Hunger (*)</b>				
1*	Poverty levels % of population -- 2004 -- in 56% of country covered by 1993/94 survey	34.7 (28.0)	25	19.5
2*	Poverty levels % rural population -- 2004 -- in areas covered by 1993/94 survey	39.2 (33.7)		
3*	People below food poverty line % -- 2004 -- in areas covered by 1993/94 survey	19.7 (14.2)	13	10
<b>Enhance Agricultural Production and Productivity</b>				
4	Paddy yield per hectare (tons)	1.97	2.4	
5	Irrigated area – including supplemental irrign., (% of rice area)	20	25	
6	Land Reforms: Land Titles to farmers -- % of Total agri. land	12	24	
<b>Improvements in Health (*)</b>				
7*	Infant Mortality Rate per 1,000 live births	66	60	50
8*	> 5 Mortality Rate per 1,000 live births	82	75	65
9*	Maternal Mortality per 100,000 live births	N/A	243	140
10*	Births attended by skilled health personnel -- %	N/A	70	80
11*	HIV/AIDS prevalence, % of adults 15-49	1.9	1.9	1.8
12*	Malaria Cases - fatality %	0.36	0.2	0.1
13*	TB smear positive cases, per 100,000	N/A	214	135
14*	Married women using modern birth spacing methods (%)	20.1	44	60
15	% of health facilities providing RH services	33	45	70
<b>Improvements in Education (*)</b>				
16*	Net Enrolment: Primary Schools -- Total; Boys; Girls --%	91.9; 93.0; 90.7	100	100
17*	Net Enrolment: Lower Sec. Schools --Total; Boys; Girls -- %	26.1; 27.1; 24.8	75	100
18*	Survival rate % : 1-6:	53.1	100	100
19*	Survival rate % : 1-9:	30.18	76	100
20*	6-14 years out of school (%)	18.7	11	0
<b>Rural Development</b>				
21	Rural Roads rehabilitated – Kms (out of total 28,000)	22,700	25,000	28,000
22*	Safe Drinking water access -- % rural population	41.6	45	50
23*	Sanitation access -- % rural population	16.4	25	30
<b>Environmental Sustainability (*)</b>				
24*	Forest Cover -- % of total area	60	58	60
25*	Fuel Wood dependency: Households -- %	83.9	61	52
26*	Access to safe water source -- % of urban population	75.8	85	80
27*	Access to improved sanitation -- % of urban population	55	67	74
<b>Gender Equity (*)<sup>2</sup></b>				
28*	Mainstream gender in all spheres	To be developed		
29*	Female share of wage employment -- agriculture, industry, services (%)	52.5; 53.5; 27.0	50; 50; 37	50; 50; 50
30*	Level of awareness that violence against women is a crime (%)	4.5	25	100
<b>Reforms</b>				
31	Accelerate Governance Reforms	To be developed		
<b>Sustain high Macro-Economic Growth (*)</b>				
32	Annual GDP Growth at constant prices - %	6.5	6.5	
33	Per Capita GDP at constant prices (000 Riels)	1,400	2,243	
34	Rate of Inflation %	5.5	3.0	
<b>Improve Budget Performance</b>				
35	Total Government budget revenues - % of GDP	11.30	13.70	
36	Total Government budget expenditure -- % of GDP	16.8	16.8	
<b>Accelerate Industrial Growth &amp; Employment</b>				
37	Annual Growth in manufacturing - constant prices (%)	10.2	7.2	
38*	Working children aged 5-17 years -- %	22.3	10.6	8
<b>Tourism</b>				
39	Annual Tourist arrivals nos -- 000s	1,300	3,120	
<b>De-mining, Victim Assistance (*)</b>				
40*	Casualties (deaths and injuries) nos.	797	200	0
41*	Area affected cleared of mines and UXOs -- %	50.3	77	100
<b>Infrastructure</b>				
42	Length of paved roads (primary & secondary) out of 11,310- kms	2,100	4,100	
<b>Energy</b>				
43	Per capita use of electricity - Kwh	54	89	

- CMDG goals and targets

<sup>2</sup> Gender related targets have been shown separately under health and education.

100. With peace and internal stability taking strong hold, improvements in social order, and robust economic growth in the past few years, Cambodia is at a *critical threshold* for faster future progress. The next ten years represent a *decade of opportunity* to realize ambitious CMDGs and uplift the poor and vulnerable. Over the next five years, in planning and implementation of development cooperation programs and projects special emphasis will be given to the following overarching aspects:

- Factor poverty reduction and gender concerns in all activities.
- Pursue reforms in all sectors, however painful they may be in the short-term.
- Foster and facilitate robust and equitable, and spatially and sectorally well-spread, macro-economic growth.
- Significantly increase "real investment" for growth in productive sectors and in human development.
- Target most needy and least served people and areas.
- Focus on well-tried, low cost activities with quick and high returns at the grassroots to have profound positive effect on the poverty situation.
- Optimize factor productivity.
- In rural areas in particular, rely as much as possible on human labor for construction, etc., to enhance household incomes.
- Stress institutional and human capacity building in all sectors.

101. Key strategies and actions will be pursued to implement all elements of the Rectangular Strategy. The priorities to foster "Good Governance" are to:

- Reinforce and fast track a multi-pronged attack on corruption.
- Carry out specific legal and judicial reforms.
- Speed up and pursue Public Administration Reform.
- Add to and strengthen measures to make decentralization and de-concentration (D&D) more effective.

102. To create an enabling environment for Good Governance the Royal government will:

- Vigilantly safeguard and continuously enhance the hard-earned peace, political stability and social order, so essential for any progress.
- Further broaden and deepen integration of Cambodia into the region and the world and attract investment to achieve pro-poor economic progress.
- Continue to deepen and strengthen partnership with civil society, private sector and external development partners.

103. Steady and robust *macro-economic growth*, fiscal discipline, and vibrant financial sectors are vital to pursue progress. The Royal Government will adopt policies that will:

- Ensure steady GDP growth of 6% per year.
- Maintain external sector and exchange rate stability.
- Contain inflation at under 5%.
- Encourage private sector investment in priority activities in the rural sector.
- Improve budget performance both by increases in current income and targeted pro-poor expenditure.

- Ensure full transparency and accountability in all government transactions, including disposal or lease of public assets.

104. In the *Agriculture Sector*, the focus will be on intensifying crop production to increase yields and rural incomes, diversification of crops, improving fisheries management, sustainable management of forestry through reforms, environment conservation and carrying out of land reforms, particularly to ensure land tenure to the poor. The key strategies and actions will include:

- Prepare a comprehensive Strategy for the Agriculture sector.
- Increase public sector investments in the sector.
- Enhance affordable micro-finance availability.
- Encourage and facilitate private sector involvement in agriculture and agro-processing.
- Improve food security and nutrition.
- Facilitate increase in yields through expanding extension services.
- Try out innovative grass-roots oriented direct interventions to reduce poverty.
- Ensure sustainable access to the poor in the fisheries sector.
- Strengthen and enlarge animal production.
- Better manage the protected areas.
- Conserve forests through sustainable management practices.
- Formulate and implement a comprehensive land policy.
- Implement a program of land allocation to poor farmers.
- Continue removal of land mines and UXOs.

105. To further advance *Rural Development*, along with D & D, accent will be on building rural infrastructure -- roads, markets, drinking water facilities, sanitation facilities, minor irrigation, school and health buildings, etc. -- much of it through devolution of funds through the commune councils. Efforts will continue to enhance access to rural credit and to bring down the prevalent high interest rates.

106. Priorities in *rehabilitation of physical infrastructure* include: primary and secondary roads, railways, airports, ports, irrigation facilities, telecommunications, electricity generation and distribution networks, etc., with maximum attention being paid to attracting private sector to undertake work on a BOT basis wherever possible.

107. Prospects of exploitation of *offshore oil and gas* resources are becoming bright. RGC will undertake special studies and put in place necessary infrastructure to optimize use of these valuable resources and revenues to flow from them.

108. Attracting *private sector*, both domestic and foreign, is of utmost importance to accelerate the pace of economic development. RGC will earnestly and quickly remove the current major obstacles including delays in approvals and high "transaction costs" and improve the overall climate through various governance reforms. SMEs will receive special attention, including better and easier access to long and medium term finance.

109. Opportunities for *Trade with neighboring countries* and others have improved but are not being adequately availed of to create demand for, and to export, goods and services using the competitive advantages of the country. Reforms to enhance private sector participation will address issues relating to trade as well.

110. *Education* is a priority area in human development and capacity building. The Education Sector Strategic Plan (2006-2010) has already been developed. Apart from providing universal basic education, a CMDG, attention needs also to be paid to other levels including vocational training and higher education to start building a 'critical mass' of educated, skilled, talented, capable people to serve the development needs of the county in various spheres. Priorities for the next five years include:

- Ensure easy and equitable access to basic education, especially to the poor and those living in remote areas, including by increasing number of primary and lower secondary schools.
- Facilitate attendance of girls at lower secondary and higher levels, including by increasing the number of dormitories for girls.
- Reduce the financial burden on poor students by targeted scholarships.
- Enhance quality and efficiency of education services.
- Ensure better linkage of education and training to the short and long-term needs of the labor market and the society.

111. *Health Sector* has witnessed significant progress but some of the health indices are still quite low. It is expected that some CMDG targets could be met while for others specific actions need to be pursued. Priorities include:

- Accelerate reforms in all areas.
- Expand availability of health care facilities by construction and/or rehabilitation of facilities -- hospitals, health centers, etc., in rural areas.
- Expand and strengthen sustainable methods for provision of help to the poor to access public health care system.
- Elicit, encourage and involve private sector in provision of health care, both in urban and rural areas.
- Pay special attention to curtail spread of HIV/AIDS, especially to families, by information and education efforts.

112. *Gender equity* issues permeate all activities, and are being addressed in all sectors, particularly in agriculture, health, education. The National Council for Women would continue to address the myriad aspects of gender mainstreaming in all aspects of governance and society.

113. There are some imponderable factors or risks that may hinder NSDP progress, such as: expected resources not being available particularly from EDPs; global oil and gas prices continuing at the current excessive levels which will push inflation up; world and regional political, security and social situation deteriorating due to acts of terrorism; international trade barriers not being brought down at the required pace; outbreak of diseases like avian flu or other new ones; natural calamities like repeated floods and droughts. RGC is confident that it could withstand such challenges and adjust NSDP to

accommodate realities as they emerge. RGC is optimistic that with its strong commitment and cooperation from all, NSDP could be successfully implemented to attain intended goals and reach the measurable targets, to reduce poverty and to enhance overall well being of all Cambodians.

## **CHAPTER IV**

### **BUILDING PARTNERSHIPS TO ENHANCE ODA EFFECTIVENESS**

114. Since the last CG Meeting for Cambodia held in December 2004 there have been significant developments in both the international arena and within Cambodia to address the aid effectiveness issues. This section presents the highlights of progress that has been made since the last CG meeting, the challenges that both the Royal Government and development partners need to address in order to enhance aid effectiveness, and outlines some priorities to move forward.

- Building Partnerships to  
Enhance ODA Effectiveness***

  - 1. Progress since the Last CG Meeting*
  - 2. Challenges & the Way Forward*

#### **1. PROGRESS SINCE THE LAST CG MEETING**

115. *In the international arena*, the Second High Level Forum meeting was held on 28 February - 2 March 2005 in Paris to review progress in implementing the Rome Declaration's commitments. The Royal Government presented "Cambodia's Report on Progress toward Enhanced Aid Effectiveness" at the Forum. At the close of this meeting, the joint declaration -- issued by Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions -- has set new standards for both developed and developing countries to address the aid effectiveness issues. The Paris Declaration's commitments include far-reaching and monitorable actions to reform the ways in which aid is delivered and managed.

116. Since the Paris Declaration, the OECD/DAC Working Party on Aid Effectiveness has been working on finalizing indicators and developing a framework for monitoring progress on the implementation of the Paris Declaration. In September 2005, the Working Party established a Joint Venture on Monitoring Paris Declaration that, for the first time, will be co-chaired by a partner (Vietnam) and a donor country (UK), and will be supported by Austria, *Cambodia*, Canada, European Commission, France, Germany, Ghana, Mali, Nicaragua, Norway, Senegal, South Africa, UNDP, United States and World Bank. The participation of partner countries in this monitoring work has also been broadened and it will now include 23 partner countries and 23 bilateral donors and several multilateral institutions. This Joint Venture has been tasked to prepare two progress reports on the implementation of the Paris Declaration's commitments before the Third High Level Forum that is scheduled to be held in Ghana in 2008. Work on preparing the first progress report will be carried out in 2006. *Cambodia* is one of the six partner countries where the field testing of the survey instruments for this monitoring round will be carried out in early 2006.

117. *Within the country*, in 2005, the Royal Government in close collaboration with development partners has made significant progress in a number of areas that include:

- Putting-in-place the new government-donors coordination mechanism that has enabled the Royal Government to monitor progress, on a quarterly basis, on the implementation of ODA supported activities and in achieving the targets of the joint monitoring indicators agreed at the last CG meeting.
- Implementation of the RGC's Action Plan on Harmonization and Alignment.
- Preparation of RGC's Strategic Framework for Development Cooperation Management.
- Preparation of National Operational Guidelines for grant assistance and the Standard Operating Procedures for loan assistance.
- Support to senior officials in ministries and agencies to take real ownership of development cooperation activities.
- Development and implementation of a CDC/CRDB ODA Disbursements website.

### *1.1 NEW GOVERNMENT DONORS COORDINATION MECHANISM*

118. After extensive consultations with development partners in 2003 and 2004, a new government-donors coordination mechanism was put in place in 2005. It includes: (i) 18 sector/thematic Joint (government and donor) Technical Working Groups (TWGs); and (ii) a high level Government-Donor Coordination Committee (GDCC) to ensure coordination among the 18 joint TWGs, and to provide policy guidance, to set priorities, and to propose measures to solve problems raised by joint TWGs. At the Pre-CG Meeting held on 10 September 2004, Samdech Hun Sen, the Prime Minister has endorsed this proposal and appointed H.E. Keat Chhon, Senior Minister, Minister of Economy and Finance and the First Vice Chairman of the CDC, to be the chairman of the GDCC. Its membership includes Ministers or heads of government agencies, Ambassadors or heads of diplomatic missions, and heads of multilateral institutions. The Secretary General of the Cambodian Rehabilitation and Development Board at CDC (CDC/CRDB) is also the Secretary General of GDCC. The GDCC is assisted by a Secretariat that is located within the CDC/CRDB. The role of the Secretariat is to liaise with the joint TWGs, report to the GDCC on progress made by TWGs in implementing their Action Plan and to achieve the targets of the Joint Monitoring Indicators (JMIs) agreed to at the CG meetings. The GDCC has met quarterly in 2005. The Secretariat of GDCC has prepared quarterly progress reports that outlined the issues and challenges in implementing TWGs Action Plans and progress made toward achieving the JMIs for GDCC consideration and decision making. The formation of the GDCC has enabled both the Royal Government and the development partners to jointly review progress for the first time on a quarterly basis and to take corrective actions to achieve the targets of the Joint Monitoring Indications agreed at the last CG meeting.

119. This joint TWGs and GDCC mechanism represents a fundamental change in the institutional set up for planning, managing and monitoring progress on the implementation of development assistance to improve ODA effectiveness. Ensuring that this mechanism contributes to improving the process of ODA mobilization, allocation and utilization leading to improved aid effectiveness is a very high priority of the Government.

120. The basic principles that were agreed to by the Royal Government and the development partners for establishing the Joint TWGs at the sector/thematic level and have to a large extent been followed include:

**First**, to strengthen the ownership and leadership of the Royal Government, the joint TWGs are being lead by the responsible ministry or agency and include members from other concerned ministries and the development partners. On the development partners' side, a lead donor facilitator or facilitators has/have been appointed by development partners to ensure donor-donor coordination.

**Second**, almost all TWGs have prepared their Terms of References (TORs). However, to ensure consistency across TWGs it was agreed that the TORs of each TWG will include the following basic generic elements:

- i. Each TWG shall jointly prepare detailed strategies or policies for the sector/thematic area that is being dealt with by the TWG, if these had not been developed so far, ensuring that these strategies or policies are consistent with the Rectangular Strategy. For sector/thematic area where these have already been developed, the strategies or policies should be revised, if necessary.
- ii. After the strategies or policies have been prepared, each TWG shall develop an Action Plan and identify priorities and modalities of support for the implementation of the TWG Action Plan. The Action Plan shall be considered to be a joint document of the Royal Government and the donor community for monitoring progress by the Working Group.
- iii. Each TWG shall be responsible for mobilizing resources needed for the implementation of the agreed TWG Action Plan. If the resources are not enough, both the Government and the donors shall work together to re-prioritize their activities in line with the available resources.
- iv. Each TWG shall jointly monitor progress against benchmarks that have been set forth to increase aid effectiveness and to achieve the strategic objectives laid out in the Rectangular Strategy and Cambodia's Millennium Development Goals.

121. Overall, the TWGs have made steady progress in 2005. Some have functioned better than others. The year 2005 has been a year of learning-by-doing for both ministries/agencies, as well as donor members of the TWGs. For the GDCC meeting in December 2005, the Secretariat had attempted to collect information from TWGs on the estimate of financial resources that each TWG had needed to implement its Action Plan for 2005 and the amount of resources that it was able to mobilize. A major finding of this survey was that very few TWGs had prepared estimates of resources that they needed to implement their Action Plans for 2005. In its report to the GDCC, the Secretariat of GDCC had noted that TWG's that had linked their activities and identified the resources needed to implement these activities had performed better than those that did not establish these linkages. It also noted that in areas where there was clear linkage between planned activities and the resources needed to implement the activities -- significantly better progress was made than in those areas where this linkage was either weak, missing or there was lack of ownership by concerned institutions. There is a need for TWG's to pay special attention to this area. Because of limited budget resources, ODA is the major

source for financing of RGC's development programs. The efficient allocation and utilization of these ODA resources to meet RGC's development priorities in an environment of mutual accountability is, therefore, of critical importance for the Royal Government.

122. In this phase of learning-by-doing an important lesson learned by the TWGs is to be more realistic about setting the time frames for the completion of planned activities. It is an important lesson learned and the Royal Government urges all members of the TWGs to set realistic time frames by taking into account the existing capacity of the concerned institutions for carrying out the required tasks and the complexities of the processes involved.

#### *1.2 IMPLEMENTATION OF THE RGC'S ACTION PLAN ON HARMONIZATION AND ALIGNMENT*

123. The Royal Government's Action Plan on Harmonization and Alignment, that was prepared through an extensive consultative process involving both ministries/agencies and development partners, was endorsed by the Council of Ministers on 19 November 2004. The Royal Government and 12 development partners of Cambodia who showed a willingness to support the implementation of RGC's Action Plan on Harmonization and Alignment also signed a Declaration on 2 December 2004. These development partners are: Australia, Canada, Denmark, France, Germany, Japan, Sweden, United Kingdom, Asian Development Bank, European Commission, UN System, and World Bank.

124. An important element of this Action Plan was Royal Government's commitment to prepare a single National Strategic Development Plan (NSDP) for the years 2006-2010 to serve as the framework for alignment of all ODA supported activities. In 2005, the NSDP was prepared through an extensive consultative process within government and with development partners and civil society. The NSDP 2006-2010 is the overarching single document that presents RGC's goals and strategies to reduce poverty rapidly, and to achieve other CMDGs and socio-economic development goals for the benefit of all Cambodians. A Public Investment Program for 2006-2008 has also been prepared to support the implementation of the NSDP. The Royal Government urges all development partners (bilateral, multilateral, private sector, and NGOs) to ensure that their country assistance strategies are aligned with the priorities outlined in the NSDP and their development programs and projects are aligned with the PIP.

125. In the process of restructuring of the working groups, the TORs of the existing Government-Donor Partnership Working Group were reviewed and revised and in 2005 it was renamed Partnership and Harmonization TWG (P&H TWG). A key role that the restructured P&H TWG has played in 2005 was to coordinate and facilitate the implementation of the Royal Government's Action Plan on Harmonization and Alignment. It has also in close consultations with ministries/agencies and development partners updated the Harmonization and Alignment Action Plan to incorporate the Paris Declaration's commitments. The Paris Declaration is a commitment by Ministers of developed and developing countries responsible for promoting development and Heads

of multilateral and bilateral development institutions -- who attended the Second High Level Forum in Paris on 2 March 2005 -- to take far-reaching and monitorable actions to reform the way in which ODA is delivered and managed to enhance aid effectiveness. It consists of 5 Partnership Commitments:

1. Ownership: Partner countries lead and coordinate development actions.
2. Alignment: Donors align support with partner countries strategies, institutions and procedures.
3. Harmonization—Donors' actions are harmonized, transparent and collectively effective.
4. Managing for Results—Managing resources and improving decision-making for results.
5. Mutual accountability—Donors & partner countries are accountable for development results.

126. To review the first draft of RGC's Updated Action Plan on Harmonization, Alignment and Results a workshop for government representatives and development partners was held at CDC on 4-5 July 2005. Based on comments received at the workshop a revised draft was prepared by CDC. This revised draft was reviewed at a two-day workshop of government representatives on 1-2 September 2005 held in Sihanouk Ville. The purpose of this workshop was to review and internalize the content of the Action Plan within the government in order to empower government officials to take ownership and to play a leadership role in discussions with development partners.

127. Following these workshops, CDC/CRDB had carried out a review of what other countries have done in this area. Also, a review by the Secretariat of GDCC in December 2005 of TWGs progress in implementing the existing RGC's Action Plan on Harmonization and Alignment revealed that while on those activities that required Government action significant progress was made, there had been limited progress in areas where the development partners were to take specific actions. Taking into account the realities on-the ground, CDC again revised the draft of the Updated H-A-R Action Plan based on the following criteria:

- i. The Updated Action Plan must be fully aligned with the partnership principles of the Paris Declaration.
- ii. Each activity in the Action Plan must clearly identify who will be responsible for carrying out the planned activity.
- iii. As the first next step, identify resources that will be needed to carryout the planned activities as well as donors who will provide the needed resources.
- iv. Ensure that time frames set for completing each activity are realistic and take into account the complexities of the issue.

128. The revised draft of the Updated Action plan was reviewed at a workshop for government representatives and development partners held at CDC on 7 February 2006. The final draft of the RGC's Updated Action Plan on Harmonization, Alignment and Results (H-A-R Action Plan) was approved by Samdech Prime Minister on 14 February 2006 (Annex I).

129. A recent study on harmonization and aid coordination in Cambodia commissioned by DFID that was completed in late 2005 reported that both within the Government and among development partners there is not yet a full understanding of the internationally agreed commitments made in the Rome and Paris Declarations. At the P&H TWG meeting on 8 December 2005 and the GDCC meeting on 12 December 2005, the Royal Government urged both sides to take the necessary actions to correct the situation and highlighted the need for both parties to work together in a spirit of mutual accountability that is a basic principle of the Paris Declaration. The Royal Government also noted 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.

130. In terms of monitoring and facilitating the implementation of the updated H-A-R Action Plan, the CDC in consultation with the P&H TWG will continue to provide the overall direction and technical support to TWGs; and the sector/thematic TWGs will continue to be responsible for the day-to-day operational management of the implementation of the activities in the Action Plan and for monitoring progress in their areas.

### *1.3 RGC'S STRATEGIC FRAMEWORK FOR DEVELOPMENT COOPERATION MANAGEMENT*

131. In 2005, the RGC's Strategic Framework for Development Cooperation Management was prepared through an extensive consultative process both within government and with development partners. It was approved by the Council of Ministers on 27 January 2006. The consultative process included:

- A review of the zero draft (draft #0) of the Strategic Framework by an inter-ministerial group that met at CDC on 1 August 2005. Based on inputs from the inter-ministerial group the zero draft was revised.
- The revised draft (draft #1) was submitted to SNEC for its review and comments. SNEC's comments were incorporated in a revised draft (draft #2) that was formally approved by SNEC in September.
- This draft was sent by Chair of the P&H TWG to the Lead Facilitator of the P&H TWG to discuss the draft with all development partners and provide a consolidated version of the comments of the development partners.
- A final draft incorporating comments/suggestions of development partners that were within the parameters endorsed by SNEC was prepared and submitted to the Council of Ministers for its review and approval and also made available to all development partners through the Lead Donor Facilitator of the P&H TWG.

132. The Strategic Framework outlines RGC's policy framework on institutional and operational issues related to development cooperation management. It presents information on:

- i. the role and responsibilities of the RGC's focal point for resource mobilization and aid coordination functions within the Royal Government;
- ii. the current situation and recent initiatives of the Royal Government and the international community to strengthen development cooperation;

- iii. the objective and basic principles that shall guide the management of development cooperation programs; and
- iv. outlines a national program to implement RGC's development cooperation management strategy.

133. As outlined in the Strategic Framework, the Royal Government would like to see support for the implementation of the Strategic Framework through a Multi-donor Support Program. The core concept underlying this Program is to enhance Government capacity to take ownership and assume leadership of development cooperation management processes and management of ODA to achieve targeted development results. The Program aims at capacity development of CDC/CRDB -- the focal point within the Royal Government for ODA mobilization and aid coordination functions -- as well as at capacity development of the line ministries and agencies to effectively manage external assistance. The Multi-Donor Support Program will be managed by CDC/CRDB. The RGC's preferred modality to finance the Multi-Donor Support Program is a pooled resources modality co-financed by development partners. UNDP will establish a "pooled resources facility" to manage the contributions of development partners to the pooled resources facility. Under the UNDAF for 2006-2010, UNDP has allocated US\$ 1.16 million from its core resource to participate in the pooled resources modality. Using these as core resources, the CDC/CRDB and UNDP will mobilize resources from other development partners who are willing to co-finance this Program through a pooled resources modality. So far, in addition to UNDP's commitment, DFID has indicated a strong interest in participating through the pooled resources facility. UNDP will be responsible for completing all formalities related to co-financing arrangements/agreements with contributing development partners and for receiving and disbursing to the Multi-Donor Support Program resources contributed by participating development partners to the pooled resources facility.

134. Development partners who because of their internal rules and procedures are unable to contribute to the Program through the "pooled resources modality" can support the Program by making their contributions directly to CDC/CRDB. The formal arrangements for participation through this modality will be documented in an agreement between the CDC/CRDB and the contributing development partner. Development partners opting for this modality will be provided periodic financial and progress reports in the same format that is used for the pooled resources modality.

#### *1.4 NATIONAL OPERATIONAL GUIDELINES FOR GRANT ASSISTANCE AND THE STANDARD OPERATING PROCEDURES FOR LOAN ASSISTANCE*

135. The preparation of the National Operational Guidelines for grant assistance was commissioned by the Government-Donor Partnership Working Group as one of three studies. A Sub-Working Group composed of government and development partner representatives was formed to facilitate and guide the work of the study team. The purpose of the National Operational Guidelines for grant assistance is to set out policies and operational procedures for planning and management of the implementation of development cooperation activities. These guidelines provide further elaboration of the principles and polices outlined in RGC's Strategic Framework for Development

Cooperation Management. The guidelines have been formulated based on the principles embodied in the OECD/DAC “Good Practice Papers”, and incorporate best practices in the planning and implementation of development cooperation programs in Cambodia. The use of these guidelines as a common reference document on policies, operational procedures, and institutional responsibilities by national and international development partners will not only significantly improve aid effectiveness but will also reduce administrative burden on implementing government ministries and agencies. The Royal Government urges development partners to make use of the guidelines in planning and management of their development assistance programs and projects. The preparation of these guidelines was supported by UNDP.

136. This work on the preparation of operational guidelines for grant assistance has been closely coordinated with the work on the preparation of Standard Operating Procedures for loan assistance that has been completed by the Ministry of Economy and Finance in collaboration with ADB and the World Bank.

#### *1.5 SUPPORT TO SENIOR OFFICIALS IN MINISTRIES AND AGENCIES TO TAKE REAL OWNERSHIP OF DEVELOPMENT COOPERATION ACTIVITIES*

137. In 2005, CDC/CRDB started a process of dialogue between government officials on how to improve aid effectiveness and to identify specific support that it can provide to them to enable them to take ownership and to play a leadership role in managing development cooperation activities within their area of responsibility. CDC/CRDB has placed a high priority on providing whatever support is needed through workshops and other modalities to meet these needs. It has begun to organize workshops, in Khmer, to deepen the understanding of the issues and approaches in areas such as: harmonization and alignment; sector and program-based approaches, sector MTEFs, and managing for results. In addition to workshops on harmonization and alignment issues, a workshop on program-based approaches for government officials was held on 9-10 June 2005 that was supported by SIDA. A two-day workshop of government representatives that was conducted in Khmer was held in Sihanouk Ville on 1-2 September 2005. For this workshop, the participants were provided a translation of the Paris Declaration and the RGC's Updated Action Plan on Harmonization, Alignment and Results (H-A-R) in Khmer. The presentations and discussion at the workshop covered the Paris Declaration, RGC's Updated Action Plan on H-A-R, and preparation of MTEF. This workshop was supported by UNDP Support Program at CDC/CRDB. In 2006, CDC/CRDB will continue to organize these workshops on relevant topics.

#### *1.6 DEVELOPMENT AND IMPLEMENTATION OF A CDC/CRDB ODA DISBURSEMENTS WEBSITE*

138. In 2005, CDC/CRDB has developed and operationalized a ODA Disbursements website. The website has been designed to: (i) enable development partners to report their ODA disbursements data directly to the website; and (ii) provide access on ODA

disbursements information to the general public<sup>3</sup>. The website includes a “query” system through which users will be able to obtain specific information on ODA flows. It has been used to collect ODA disbursements data from development partners for the year 2005. This website has been designed, developed, and implemented employing national personnel. Over the next year, CDC/CRDB will make available the software that has been developed, free of cost, to other developing countries that want to develop a web-based ODA disbursements system.

#### *1.7 GOVERNMENT-PRIVATE SECTOR PARTNERSHIPS*

139. For the Royal Government the private sector is the engine of growth. The Royal government's policy with respect to fostering private sector development is to play a strategic role in creating an enabling environment for the development of private enterprise, and to manage the development process. The Royal Government recognizes that improving the business climate and creating an enabling environment for private sector development are key pre-requisites for fostering growth, creating jobs, reducing poverty and achieving sustainable economic development. To remove critical bottlenecks impeding the development of the private sector as well as to provide inputs in the processes of administrative and regulatory reforms, the Government-Private Sector Forum has continued to hold six monthly meetings. As further support to the Government-Private Sector Forum mechanism a Private Sector Development Steering Committee was established in mid 2004. Under the Steering Committee, three Sub Steering Committees have been established: one dealing with Investment Climate and Private Participation in Infrastructure (PPI) that is chaired by Senior Minister and Minister of Economy and Finance, second on Trade Facilitation that is chaired by Senior Minister and Minister of Commerce, and third on SME's that is chaired by the Minister of Industry, Energy and Mines. These mechanisms have proven to be effective not only in building partnerships with the private sector but, more importantly, in providing inputs in the process of prioritization of activities under the reform programs.

#### *1.8 PARTNERSHIPS WITH NON-GOVERNMENTAL ORGANIZATIONS AND CIVIL SOCIETY*

140. The Royal Government believes that the civil society and NGOs can play an important role in monitoring the implementation of poverty reduction initiatives of the National Strategic Development Plan (NSDP) 2006-2010. Cambodian NGOs are a part of the civil society. NGOs can contribute much to poverty reduction plans based on their development experiences and are in a strong position to convey the needs and concerns of vulnerable groups to policy makers. The NGOs now participate in the quarterly GDCC meetings, the Partnership and Harmonization TWG, as well as in several other TWGs. The Royal Government would like to encourage a greater participation of the trade unions, ethnic associations and farmers' associations in monitoring the implementation of the poverty reduction initiatives of NSDP. To better target poverty reduction initiatives the participation of the poor and vulnerable groups in monitoring of poverty reduction efforts

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<sup>3</sup> The address of CDC/CRDB website is <[WWW.CDC-CRDB.GOV.KH](http://WWW.CDC-CRDB.GOV.KH)>. Key documents of the Cg meetings and GDCC meetings are available on this website. The address of CDC/CRDB's new ODA Disbursements website is <CDC.KHMER.BIZ>.

needs to be strengthened. There is also a need to strengthen the capacity of the Parliament in order for it to make concrete inputs.

## **2. CHALLENGES AND THE WAY FORWARD**

141. The Rome Declaration on Harmonization (2003) and the Paris Declaration on Aid Effectiveness (2005) have placed an emphasis on national ownership of the development processes by ODA recipient countries. The Royal Government is committed to take full ownership not only of its development processes but is also determined to ensure that ODA resources are effectively targeted and utilized to meet the high priority development needs of Cambodia for the benefit of the Cambodian people to reduce poverty and to achieve Cambodia's Millennium Development Goals.

142. However, 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.

143. There is now an urgent need to leave behind the practices of the 1990s, when development cooperation activities were planned, managed and delivered by development partners with limited ownership of development choices and management process by concerned Cambodian institutions. As mentioned earlier, the review by the Secretariat of GDCC in December 2005 of TWGs progress in implementing the RGC's Action Plan on Harmonization and Alignment revealed that while on those activities that required Government action significant progress was made, there had been only limited progress in areas where the development partners were to take specific actions. Also, another study on harmonization and aid coordination in Cambodia commissioned by DFID concluded that both within the Government and among development partners there is not yet a full understanding of the internationally agreed commitments made in the Rome and Paris Declarations. The Royal Government recognizes that it needs to strengthen the awareness of the Rome and Paris Declarations among officials of the ministries and agencies and has taken concrete steps in 2005. The Royal Government would like to see an equal commitment and political will among the development partners to work towards meeting their commitments of the Rome and Paris Declarations. In the spirit of the Rome and Paris Declarations, there is now an *urgent need for development cooperation partners to give a high priority to:*

- harmonizing their practices to minimize the burden on implementing institutions and to reduce wastage through duplication of activities in order to enhance ODA effectiveness;

- aligning their support with the Royal Government's development priorities outlined in the just completed National Strategic Development Plan for 2006-2010;
- ensuring that management arrangements of ODA supported programs and projects follow the OECD/DAC guidelines on best practices for “managing for results” and the principle of Government ownership of the development management process; and
- ensuring that there is a greater net transfer of ODA resources, that are targeted to reach the poor and vulnerable, to reduce poverty and to achieve Cambodia's Millennium Development Goals.

144. The Royal Government is determined to build partnerships with all development partners (bilateral and multilateral, private sector, non-governmental and civil society organizations) based on principles of cooperation, mutual trust, and mutual accountability. As noted earlier, a new mechanism to strengthen government-donor coordination has been put in place in 2005. This new mechanism that includes 18 joint sector/thematic Technical Working Groups (TWGs) and the high level Government-Donor Coordination Committee (GDCC) provides a forum for the participation of bilateral, multi-lateral and non-governmental organizations (NGOs) at both the technical level (TWGs) as well as at the policy level (GDCC). The mechanisms under the Government-Private Sector Forum are now well organized and provide an elaborate structure for building effective partnerships with the private sector.

145. In terms of priorities for 2006, the *Royal Government strongly urges the multilateral, international development cooperation partners, and non-governmental organizations to:*

- i. Place a special emphasis on ensuring Government ownership of ODA supported programs and projects in an environment of mutual accountability. In particular, the NGOs need to coordinate their activities with the concerned government institutions in order to better target and minimize duplication of effort in order to maximize the benefits of the limited available development resources. The sector/thematic TWGs can play an important role in facilitating this coordination.
- ii. Strengthen coordination of NGO supported programs and projects with ministries and agencies at the sub-national level.
- iii. Ensure that the principles outlined in the RGC's Strategic Framework for Development Cooperation Management and Articles 13, 14, 15 and 16 of the Sub-Decree #147 ANK.BK dated 29 December 2005, as well as the principles, guidelines and procedures laid out in Royal Government's National Operational Guidelines for grant assistance and the Standard Operating Procedures for loan assistance are followed.
- iv. Shift current emphasis on processes to substance in the work of the TWGs. It will require 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.

- v. Focus on improving the efficiency of TWG operations, the Chair and the Lead Donor Facilitator(s) need to ensure that each TWG meeting has a purpose and a defined output. To reduce burden of numerous meetings on ministries and agencies as well as donor staff, the Royal Government strongly recommends that development partners limit their participation to TWGs where they are a funding partner and to more sharply focus their support to a few priority areas within their country assistance strategies.
- vi. Carry out a review to examine whether or not the TWGs as they are currently structured are appropriate to meet the current and emerging needs as well as develop broad guidelines for the operations of the TWGs with a view to minimize burden both on ministries and agencies, and the development partners participating in the TWGs.
- vii. Actively promote sector, thematic, and other program-based approaches in the TWG forum to reduce the excessive number of stand alone projects. The adoption of this approach will not only promote a greater alignment of development cooperation activities with Cambodia's development priorities, but more importantly, such an approach would also lead to a greater harmonization of development partners practices and reducing the administrative burden on the limited capacities of implementing ministries/agencies.
- viii. Reduce the number of studies carried out by individual development partners on similar topics by establishing a procedure to review proposals on any planned studies among development partners and with the concerned ministry/agency.
- ix. Reduce the number of long-term TA's by placing an emphasis on quality -- taking into account the suggestions in (iii) above -- and ensuring that short-term TA is demand driven -- based on suggestion in (vii) above. The Royal Government believes that the presence of high level technical expertise in the country offices of development partners who are actively involved in the work of the TWGs would significantly reduce the need for short-term TA. The Royal Government recognizes that in the short to medium term it will continue to need the support of high quality experts to facilitate implementation of large projects, implementation of Royal Government's reform programs, and for functions related to developing strategies and policies for national socio-economic development, and for building capacity at the central and local levels to formulate, implement, and monitor development activities. Thus, the needs in the short to medium term will consist of elements of capacity substitution by high quality technical experts in strategic areas along with a continuing focus on capacity development. At the same time, the Royal Government would like to see a corresponding reduction in capacity substitution elements as domestic capacities are developed.

- x. Demonstrate a will and commitment and apply the concept of “managing for results” to modify existing practices in line with the principles embodied in the Rome and Paris Declarations. Take actions necessary to ensure that the TWGs have the capacity to implement RGC’s Action Plan on Harmonization, Alignment and Results that has been jointly agreed between the RGC and development partners. Development partners need to expedite action on:
- Delegating authority from donors’ headquarters to country offices to empower the country offices to work on harmonization and alignment issues with other in-country donors and with the Government in the country context.
  - Increase joint programming through “delegated cooperation”.
  - Reduce individual donor missions and increase joint missions by coordinating planned missions through the TWG mechanism to reduce costs and burden on ministries and agencies.

146. Notwithstanding the constraints, the Royal Government is gratified by the generous support that the development partners provide to Cambodia. However, to maximize its effectiveness it would like a greater net transfer of these resources to benefit the poor and the vulnerable. The Royal Government recognizes that there are administrative costs that are incurred by development partners to deliver their development assistance that is included in the total amount of ODA that is reported to have been disbursed to Cambodia. At present, there is no readily available information on how much of the reported ODA goes in meeting these costs in-country and outside the country and how much ultimately reaches the poor and the vulnerable.

## **CHAPTER V FINANCING THE NSDP THROUGH PIP 2006-2008**

147. An important priority of RGC's first Action Plan on Harmonization and Alignment, that was agreed to with development cooperation partners just before the last CG Meeting, was the preparation of a single National Strategic Development Plan (NSDP) for 2006-2010 to, *inter alia*, enable development partners to align their programs and projects with Cambodia's development priorities. The NSDP has been prepared through an extensive consultation process involving all stakeholders. The NSDP is a live document that will be adjusted and updated annually based the annual monitoring and evaluation exercises.

148. The implementation of the strategies and policies outlined in the NSDP will be achieved through a focused and prioritized Public Investment Program (PIP) which is one important instrument to implement these strategies and policies. The PIP, adopted by the Royal Government of Cambodia on 27 January 2006, has been formulated within the framework of a three-year rolling plan to capture priority proposals and needs on an on-going basis. The programs and projects that constitute the public investment program will be financed both from the National Budget and with assistance from development cooperation partners. From now on, the National Budget will be aligned to support the implementation of NSDP through financing of the PIP. The PIP is comprised of Government's priority programs that are being implemented and/or are planned to be implemented in various sectors and constitute the basic information for the allocation of national budget resources as well as for the mobilization of development cooperation resources.

149. Successful and timely implementation of NSDP strategies and achievement of NSDP targets would need substantial and well-directed additional investments and their focused and effective use. Such investments are needed in both the public and private sectors.

150. Under the Multilateral Relief Initiative, the IMF Executive Board made a decision to provide debt relief to Cambodia at its meeting in December 2005. As part of this initiative, the IMF will cancel 100 percent of Cambodia's borrowing from the IMF up to 1 January 2005 that amounted to US\$ 82 million. The Royal Government's sound track record of prudent management of the economy was an important contributing factor in IMF's decision. The Royal Government will use the resources that will become available because of this relief to finance the implementation of the NSDP. The Royal Government is currently in the process of strengthening its public debt management system. The outcome of the negotiations on the rescheduling of loans with the governments of the United States and Russia that were delivered in the 1970s and 1980s is likely to increase the debt service burden on the limited budget resources of Cambodia. To optimize the benefits of the ODA for the people of Cambodia and to minimize the burden on future generations, the Royal Government encourages development cooperation partners to consider financing through grants to support the implementation of the NSDP priorities and policies. The use of loans will be made only in those cases where it has been established that resources from grant aid are not available and that the proposed program or project will contribute to investments that will ensure a quick return and accelerate economic growth. In all cases, the implications of each

new loan will be carefully examined, including its impact on macro-economic stability, before acceptance of the loan. Loan assistance may be considered in case of:

- infrastructure development programs and projects that can produce large impact on national economy and have a high internal rate of return on investment; and
- areas that help generate and promote external sector transactions that enhance the foreign exchange earnings capability.

In the case of large programs and projects that require feasibility studies or other pre-investment analysis *that are being considered for financing* through loans, such work will be financed through grant aid. The Royal Government shall:

- stop use of loans for studies not directly related to investment programs/projects; and
- minimize expenditure on consultants and foreign experts out of loan assistance.

151. Based on projections of economic growth and gross investments needed in the public sector, it is estimated that US\$ 3,500 million will be needed for the public sector during 2006-2010 to achieve the goals and targets of the NSDP. Within this envelope, priority attention given to ensure a rural focus for poverty alleviation and allocations for activities which will benefit rural areas directly.

152. The resources to implement the NSDP will come from: (a) surpluses in the current account in the annual national budget; (b) grant aid from traditional development partners; (c) concessional loans from multilateral financial institutions (MFIs); (d) resources from non traditional partners including for very high return and strategic programs and projects using ordinary capital resources (OCR) from MFIs; and (e) funds that could become available from possible debt relief. A high priority of the Royal Government is to direct resources in a meaningful way to "real investments", including through significant reductions in technical assistance projects, and to persuade development partners to fully align their assistance with NSDP priorities.

153. The Royal Government has been proactive in putting in place a government-donors coordination mechanism to enhance aid effectiveness and to ensure that the use of official development assistance (ODA) is being made to optimize its benefits for the people of Cambodia in a transparent and accountable manner to achieve the goals of the NSDP. The joint sector/thematic Technical Working Groups (TWGs) and the high level Government-Donors Coordination Committee (GDCC) that have been operational for just over a year provide both the Royal Government and the development partners a forum to jointly review progress for the first time on a quarterly basis and to take corrective actions to ensure that the ODA is being used to implement the programs and projects outlined in the PIP 2006-2008 to achieve NSDP priorities.

154. The 2006-2008 PIP takes into account all the on-going and committed projects for which data is available. High priority pipeline projects submitted by various line ministries and agencies have been accommodated to the extent possible within the overall ceiling of allocations made in the NSDP. In some cases, bulk allocations have been indicated for high priority programs and projects that will be developed for the respective sectors to implement the strategies outlined in the NSDP. It is envisaged that most of the high-priority pipeline projects would need funding support from development cooperation partners. The Royal

Government does not encourage development cooperation partners to provide support for any programs and projects that are not included in the PIP. The PIP for 2007-2009 will be completed by the end of 2006.

155. Total financial outlay envisaged for the three year period, 2006-2008 is US\$ 1,975 million or about 56.5% of the total outlay of US\$ 3,500 million expected to be spent during the NSDP period, 2006-2010. The sector distribution of the planned expenditure on programs and projects in the PIP 2006-2008 is in line with the target sector allocations of the NSDP (Table A). Over 80 percent of Royal Government's committed resources are allocated for the social sectors. However, in addition to the resources already committed by the Royal Government and the development partners for these programs and projects, the allocation of new resources to be mobilized, US\$ 563.4 million for 2006-2008, would need to be as follows:

- US\$ 189.8 million or 33.7 percent for Infrastructure sector.
- US\$ 171.7 million or 30.5 percent for economic sectors.
- US\$ 129.7 million or 23.0 percent for Services and cross sectoral Programs.
- US\$ 72.2 million or 12.8 percent for the social sectors.

156. In terms of the composition of PIP programs and projects, nearly 82 percent of the resources will be needed to support the on-going and committed programs and projects and only just over 18 percent will be available for new high priority pipeline development programs and projects (Table 5). Just under 25 percent of the committed resources of development partners for the next three years are planned for technical assistance. However, resources to be mobilized over the next three years will need to focus on reducing the technical assistance component to less than 15 percent of total new resources to be mobilized.

157. In terms of the distribution of on-going and committed programs and projects, and high priority new programs and projects in each sector:

- in the social sector, the on-going and committed programs and projects account for nearly 98 percent of resources allocated to this sector;
- in the infrastructure sector the on-going and committed programs and projects account for nearly over 81 percent of resources allocated to this sector; and
- in both the economic sector and the services and cross sector programs, the on-going and committed programs and projects account for just over two-third of the resources are allocated to these sectors.

158. Over the last three years, from 2003 to 2005, disbursements were US\$ 539.5 million in 2003, US\$ 553.7 million in 2004, and the preliminary indications are that disbursements in 2005 were around US\$ 525 million. The RGC is gratified by the support of its development cooperation partners and hopes that they will continue to provide their support to enable Cambodia to achieve its goal of reducing poverty among its people.

159. The total cost of the Government's planned development programs, both on-going and new programs, over the next three years (2006-2008) is estimated to be around US \$ 1,975.0 million. The Royal Government of Cambodia has committed from its own resources

US \$ 350.0 million for these development programs. Thus, **the total requirements for additional resources over the next three years will be US\$ 1,625 million that averages to US\$ 541.7 million per annum.** Some of our multilateral and international development cooperation partners have already committed to provide US\$ 1,117.3 million. *Therefore, a gap of US \$ 563.4 million in the financing of these development programs remains at the present time for which the RGC is seeking additional support from its traditional and non-traditional development cooperation partners.*

**TABLE 5: DEVELOPMENT PROGRAMS AND PROJECTS BY SECTOR: PIP 2006-2008**

(Amounts in thousands of US\$)

SECTOR	NSDP Allocation for 2006-2010	Total Cost of Programs and Projects PIP: 2006-2008		Committed Resources				Total Resource Mobilization Targets	
				Government		External Partners			
		US\$	%	US\$	%	US\$	%	US\$	%
<b>Social Sectors</b>	32.86%	668,467	33.85%	237,915	80.84%	358,341	32.07%	72,211	12.82%
<b>Economic Sectors</b>	22.29%	469,745	23.78%	24,456	8.31%	273,543	24.48%	171,746	30.48%
<b>Infrastructure</b>	25.14%	550,875	27.89%	25,073	8.52%	336,003	30.07%	189,800	33.69%
<b>Services &amp; Cross Sectoral Programs</b>	14.00%	285,912	14.48%	6,877	2.34%	149,378	13.37%	129,657	23.01%
<b>Unallocated</b>	5.71%	....	....	....	....	....	....	....	....
<b>TOTAL: All Sectors</b>	100.00%	1,975,000	100.00%	294,321	100.0%	1,117,265	100.00%	563,414	100.00%

**TABLE 6: STATUS OF DEVELOPMENT PROGRAMS AND PROJECTS BY TYPE: PIP 2006-2008**

(Amounts in thousands of US\$)

Status of Programs/Projects	Number of Programs and Projects	Total Cost of Programs and Projects 2006-2008			Committed Resources				Total Resource Mobilization Targets	
					Government		External Partners			
		US\$	%	%	US\$	%	US\$	%	US\$	%
<b>On-going &amp; Committed</b>	<b>334</b>	1,616,369	100.00%	81.84%	292,976	100.0%	1,115,655	100.00%	207,737	100.00%
• Capital Investments	203	1,269,711	78.55%	80.85%	250,041	85.35%	837,054	75.03%	182,614	87.91%
• Technical Assistance	131	346,658	21.45%	85.67%	42,934	14.65%	278,600	24.97%	25,123	12.09%
<b>High Priority Pipeline</b>	<b>283</b>	358,631	100.00%	18.16%	1,345	100.0%	1,610	100.00%	355,677	100.00%
• Capital Investments	191	300,646	83.83%	19.15%	197	14.65%	1,410	87.58%	299,040	84.08%
• Technical Assistance	92	57,985	16.17%	14.33%	1,148	85.35%	200	12.42%	56,637	15.92%
<b>TOTAL</b>	<b>617</b>	<b>1,975,000</b>	<b>100.00%</b>	<b>100.00%</b>	<b>294,321</b>	<b>100.0%</b>	<b>1,117,265</b>	<b>100.00%</b>	<b>563,414</b>	<b>100.00%</b>
• Capital Investments	394	1,570,357	79.51%	<b>100.00%</b>	250,238	85.02%	838,464	75.05%	481,654	85.49%
• Technical Assistance	223	404,643	20.49%	<b>100.00%</b>	44,082	14.98%	278,800	24.95%	81,760	14.51%

**TABLE 7: ON-GOING AND COMMITTED AND PIPELINE PROGRAMS AND PROJECTS BY SECTOR: PIP 2006-2008**

(in thousands of US\$)

SECTOR	Planned Development Programs Cost in					Committed Resources		ODA Resource Mobilization Target
	2006	2007	2008	2006-2008 \$	%	Govt.	External Partners	
<b>SOCIAL SECTORS</b>								
• On-going & Committed Projects	157,070	204,882	291,904	653,856	97.81%	237,681	358,141	58,034
• Pipeline Projects	4,777	5,506	4,328	14,611	2.19%	234	200	14,177
<b>Total: Social Sectors</b>	<b>161,847</b>	<b>210,388</b>	<b>296,232</b>	<b>668,467</b>	<b>100.00%</b>	<b>237,915</b>	<b>358,341</b>	<b>72,211</b>
<b>ECONOMIC SECTORS</b>								
• On-going & Committed Projects	126,505	108,227	85,081	319,812	68.08%	23,345	273,543	22,924
• Pipeline Projects	35,805	47,254	66,874	149,933	31.92%	1,111	-	148,822
<b>Total: Economic Sectors</b>	<b>162,310</b>	<b>155,481</b>	<b>151,955</b>	<b>469,745</b>	<b>100.00%</b>	<b>24,456</b>	<b>273,543</b>	<b>171,746</b>
<b>INFRASTRUCTURE</b>								
• On-going & Committed Projects	165,132	153,809	128,210	447,151	81.17%	25,073	336,003	86,076
• Pipeline Projects	22,880	36,141	44,703	10,724	18.83%	-	-	103,724
<b>Total: Infrastructure</b>	<b>188,012</b>	<b>189,950</b>	<b>172,913</b>	<b>550,875</b>	<b>100.00%</b>	<b>25,073</b>	<b>336,003</b>	<b>189,800</b>
<b>SERVICES &amp; CROSS SECTORAL PROGRAMS</b>								
• On-going & Committed Projects	71,425	63,545	60,579	195,549	68.39%	6,877	147,968	40,703
• Pipeline Projects	16,406	30,636	43,322	90,363	31.61%	-	1,410	88,954
<b>Total: Cross Sectoral Programs</b>	<b>87,831</b>	<b>94,181</b>	<b>103,901</b>	<b>285,912</b>	<b>100.00%</b>	<b>6,877</b>	<b>149,378</b>	<b>129,657</b>
<b>TOTAL: ALL PROGRAMS</b>								
• On-going & Committed Projects	502,132	530,463	565,773	1,616,369	81.84%	292,976	1,115,655	207,737
• Pipeline Projects	79,868	119,537	159,227	358,631	18.16%	1,345	1,610	355,677
<b>TOTAL</b>	<b>600,000</b>	<b>650,000</b>	<b>725,000</b>	<b>1,975,000</b>	<b>100.00%</b>	<b>294,321</b>	<b>1,117,265</b>	<b>563,414</b>

## **CHAPTER VI CONCLUSIONS**

160. This document has presented the highlights of what has been achieved since the last CG meeting held in Phnom Penh in December 2004. It has provided a succinct summary of the issues that will need to be addressed to effectively implement the National Strategic Development Plan (NSDP) for 2006-2010 period and to improve aid effectiveness. It has provided an update on the macroeconomic performance, monetary and fiscal performance, and Government's policy performance. It presented the priorities for the implementation of the National Strategic Development Plan for 2006-2010. It has provided an update on progress that has been made over the last year in building partnerships with all development partners -- the bilateral and multilateral donors, private sector and the civil society -- to enhance aid effectiveness. It has also outlined the challenges that both the Royal Government and the development cooperation partners face to enhance aid effectiveness and has identified priority areas to which the development cooperation partners urgently need to give a high priority. Finally, it has presented information on the development cooperation resources that will be required -- in addition to domestic resources -- to implement the programs and projects outlined in the PIP 2006-2008.

161. To achieve its development goals, the RGC is fully and firmly committed to the principles of good governance and to maintaining sound macro-economic policies and fiscal discipline. The RGC will do its utmost to raise domestic savings and capital resources to provide as much funds as possible for its developmental programs and projects. The Royal Government, however, recognizes that it remains dependent in the short-term on support from development cooperation resources. For the next three years, 2006-2008, the total development cooperation resources needed for the priority programs and projects in the PIP are estimated to be US\$ 1,625 million, after taking into consideration the Royal Government's contribution of US\$ 350.0 million. The Royal Government would appreciate pledges for the entire three-year period, to enable it to plan for the implementation of its priority development programs. At this stage of the development of Cambodia, the Royal Government is well aware of the pitfalls of financing its development programs through loan financing, that has implications for debt and debt services charges that are likely to constrain its ability to restructure its budget allocations for social sectors in the future. It, therefore, places a high priority to seeking assistance from its development cooperation partners as grants.

162. Over the years, the development cooperation partners have been generous in providing support to Cambodia's public investment program. The Royal Government of Cambodia is gratified by the support of its development cooperation partners and hopes that they will continue to provide their support to enable Cambodia to implement the NSDP to achieve its goal of reducing poverty and attaining Cambodia's Millennium Development Goals.

## ANNEX I

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*Unofficial Translation*

### **KINGDOM OF CAMBODIA NATIONAL RELIGION KING**

Royal Government of Cambodia  
No. 02 SSR

#### **DECISION on ACTION PLAN ON HARMONIZATION FOR 2006-2010**

Royal Government of Cambodia

- Having seen the Constitution of the Kingdom of Cambodia;
- Having seen the Royal Decree NS/RKT/0704/001 dated 15 July 2004 on the Nomination of the Royal Government of Cambodia;
- Having seen the Royal Kram 02/NS/94 dated 20 July 1994 promulgating the Law on the Organization and functioning of the Council of Ministers;
- Having seen the Sub Decree 147ANK.BK dated 29 December 2005 on the Organization and Functioning of the Council for the Development of Cambodia;
- Upon the request of the Senior Minister, Minister of Economy and Finance and First Vice Chairmen of the Council for the Development of Cambodia;
- Pursuant to the need of the Royal Government

Hereby decided as follows:

- Article 1: The Royal Government's Action Plan on Harmonization to improve aid effectiveness for 2006-2010 is approved as appended with this Decision.
- Article 2: The Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia shall be responsible for monitoring the implementation of the Action Plan in collaboration with ministries and agencies involved and with development partners and shall report progress on the implementation of the Action Plan to the Royal Government on an annual basis.
- Article 3: The Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia shall have the authority to review and revise the Action Plan in response to development both in the national and international arenas upon discussion and agreement with ministries and agencies involved and with development partners, and shall report the revision to the Council of Ministers for information.
- Article 4: The Office of the Council of Ministers, the Council for the Development of Cambodia, and concerned ministries and agencies of the Royal Government as well as the Technical Working Groups shall implement this Decision from now on.

Article 5: This Decision shall be effective from the date of signature.

Phnom Penh, 14 February 2006

Signature

Prime Minister

Delivered to:

- The Royal Palace
- Secretariat of the Constitutional Council
- Secretariat of the Senate
- Secretariat of the National Assembly
- Cabinet of the Prime Minister
- Secretariat of the Royal government
- Office of the Council of Ministers
- Ministry of Foreign Affairs and International Cooperation
- As per Article 5 above "for implementation"
- Archive

**ANNEX I: RGC's ACTION PLAN ON HARMONIZATION, ALIGNMENT AND RESULTS: 2006-2010**

<b>SECTION A: OWNERSHIP:RGC exercises effective leadership over its development policies, strategies, and coordinates development actions</b>					
<b>Results</b>	<b>Actions Needed</b>	<b>Responsible RGC Institutions</b>	<b>Lead Development Partners</b>	<b>Milestones</b>	<b>Timing</b>
a) National Strategic Development Plan targets are achieved. (Indicator # 1)	<p>1. Within the framework of NSDP, sector ministries and agencies develop sector plans and prioritized results-based programs, and a sector MTEF.</p> <p>2. Based on prioritized programs of sector ministries/agencies, the three year rolling PIP is updated annually to feed into the national budget preparation process.</p>	<p>Chairs of sector TWGs</p> <p>MOP, SNEC, CDC/CRDB, and MEF</p>	<p>Lead Facilitator(s) of sector TWGs</p> <p>Lead Facilitator(s) of PPR TWG</p>	<p>Detailed sector plans, prioritized sector programs, and a MTEF prepared.</p> <p>Three year rolling PIP prepared and made available to MEF for preparation of National Budget 2007.</p>	<p>SeptMay 2006</p> <p>SeptJune 2006 and in subsequent years</p>
b) CDC/CRDB -- RGC's focal point for resource mobilization and aid coordination -- leads the processes of resource mobilization and aid coordination with all development partners.	<p>1. Implement the Strategic Framework for Development Cooperation Management approved by the COM with development partners support to strengthen the capacity of CDC/CRDB and sector ministries and agencies.</p>	CDC/CRDB	Lead Facilitator(s) P&H TWG	Strategic Framework implemented through a Multi-Donor Support Program with committed funding from interested development partners.	2006-2010
c) Sector ministries & agencies lead the management of ODA supported activities.	<p>1. CDC/CRDB provides technical support to sector ministries and agencies on aid coordination and aid management issues based on needs identified and support requested by the Chair of the TWGs.</p>	CDC/CRDB	Lead Facilitator(s) P&H TWG	CDC/CRDB with resources of the Multi-Donor Support Program delivers the support requested by Chairs of the TWGs.	On-going.

<b>SECTION B: ALIGNMENT: Development partners base their overall support on Cambodia's development strategies, institutions, and procedures</b>					
<b>Results</b>	<b>Actions Needed</b>	<b>Responsible RGC Institutions</b>	<b>Development Partners</b>	<b>Milestones</b>	<b>Timing</b>
<b>1. Development partners' support is aligned with national development strategies, i.e. NSDP..</b>					
a) Development partners base their support on NSDP priorities and PIP. (Indicator #3)	1. Development partners review their country assistance strategies and policies to align their assistance with NSDP priorities and sector development plans.	CRDB/CDC and Chair of TWGs	All development partners	Review of development partners' country assistance strategies completed.	June 2006
	2. Development partners align their development programs and projects to finance and implement agreed sector plans and prioritized sector programs included in the three year rolling PIP.	MOP, MEF, CDC/CRDB and Chairs of TWGs	Lead donor Facilitator(s) of TWGs	All new ODA supported programs/projects fully aligned with PIP.	Dec 2006
<b>2. Development partners make increasing use of strengthened Cambodian institutions, systems and procedures as they attain mutually agreed standards.</b>					
a) National public financial management and procurement systems that adhere to broadly accepted good practices. (Indicator # 2)	1. MEF continues to implement the PFM reform program with targeted capacity development support from development partners to strengthen its PFM and procurement systems based on international best practices.	MEF	Lead Facilitator(s) of PFM TWG.	Quarterly progress reports provided to GDCC.	On-going
b) Increasing proportion of development assistance delivered through national institutions, systems and procedures. (Indicator #5)	1. Development partners and MEF establish mutually agreed framework to carry out reliable assessments of the PFM and procurement systems and make use of this assessment to increasingly rely on these Government systems as mutually agreed standards are attained.	Chair of PFM TWG	Lead Facilitator(s) of PFM TWG.	1. Development partners and MEF agree on a methodology for carrying out a reliable assessment of PFM and procurement systems. 2. First assessment carried out. 3. Development partners provide periodic reports to GDCC on the use of PFM and procurement systems.	June 2006  Dec 2006  June 2007 onwards

Results	Actions Needed	Responsible RGC Institutions	Development Partners	Milestones	Timing
c) Development partners release aid disbursements according to agreed schedules in annual or multi-year framework. (Indicator #7)	1. Each development partner provides to CDC/CRDB reliable indicative commitments of aid over a multi-year framework and disburses aid in a timely and predictable fashion according to agreed schedule.	CDC/CRDB MEF	All development partners	Data on indicative commitments provided.	on-going
d) The number of parallel PIU/PMUs for day-to-day management and implementation of external funded projects and programs steadily reduced. (Indicator #6)	1. CDC/CRDB with support from development partners carries out a survey on number of existing PIU/PMUs, and develop a strategy to integrate parallel PIU/PMUs in the government' structure. 2. Implement the agreed strategy. 3. CDC/CRDB and development partners secure an agreement that no new parallel PIU/PMUs will be established under new programs and projects.	CDC/CRDB MEF  Chair of TWGs  CDC/CRDB	Lead Facilitator(s) of P&H TWG  Lead Facilitator(s) of TWGs Lead Facilitator(s) of TWGs	1. Survey completed and strategy developed and agreed with development partners.  1. Strategy implemented.  1. Agreement secured.	September 2006  October 2006 onwards  Dec/June 2006

### 3. RGC's capacity to plan, manage, implement, and account for results of policies and programs strengthened with development partners' support.

a) Capacity development issues are addressed in the formulation of Sector Plans and ODA supported programs/projects with development partners' financial support to achieve targeted development results. (Indicator#4).	1. All sector plans and development programs/projects include an assessment of the existing capacity gaps and a capacity development plan to fill the gaps to achieve targeted development results.  2. Each sector TWG prepares and implements a capacity development program for their sector ministry/agency to fill identified capacity gaps.  3. Development partners provide financial support for the application of MBPI/PMG schemes as an element of the capacity development strategy.	Chair of TWGs  Chair of TWGs  CAR, MEF, CDC/CRDB Concerned sector ministry/agency	Lead Facilitator(s) of TWGs  Lead Facilitator(s) of TWG  Lead Facilitator(s) of TWGs	Assessment of capacity gaps and a plan for capacity development included in all sector plans and program/project documents.  Actions to strengthen capacity of sector ministries/agencies included in TWGs Action Plans.  1. Formalities to implement MBPI/PMG schemes in Education, Health, CDC, Land and MOP completed. 2. Implementation of MBPI/PMG scheme expanded to other key sectors.	On-going  Starting with TWG Action Plans for 2006.  Dec June 2006  On-going
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Results	Actions Needed	Responsible RGC Institutions	Development Partners	Milestones	Timing
<b>4. Development partners untie aid.</b>					
a) Increasing proportion of aid is untied. (Indicator #8)	1. CDC/CRDB with support from development partners carries out a survey to collect information on the proportion of aid delivered through "untied-aid" modality and based on survey findings, formulate and implement a strategy, jointly with development partners, to increase the proportion of untied ODA.	CDC/CRDB	Lead Facilitator(s) of P&H TWG	<ul style="list-style-type: none"> <li>Survey completed and a strategy outlined.</li> <li>Strategy implemented.</li> </ul>	Dec 2006. Dec 2007

**SECTION C: HARMONIZATION: Development partners' actions are more harmonized, transparent and collectively effective.**

**1. Development partners implement common arrangements and simplify procedures.**

a) Increasing proportion of ODA is delivered through Sector/thematic Programs, and other Program Based Approaches (PBAs). (Indicator #9)	1. CDC/CRDB and development partners jointly set targets on the portion of ODA that is to be delivered through Sector/thematic Programs, and other Program Based Approaches (PBAs) to be reached by 2010 in the framework of NSDP, and develop and implement a strategy to reach the agreed targets.	Chair of P&H TWG	Lead Facilitator(s) of P&H TWG	1. Agreement on targets reached and a strategy developed. 2. Strategy implemented.	Dec 2006 On-going starting in 2007
	2. Each TWG prepares a plan to increase delegated cooperation within their sector/thematic area.	Chair of TWG	Lead Facilitator(s) of TWGs	Periodic reports on cases of delegated cooperation provided by TWGs to GDCC.	On-going

Results	Actions Needed	Responsible RGC Institutions	Development Partners	Milestones	Timing
b) Steadily decreasing number of separate, duplicative donor missions and diagnostic reviews and studies. (indicator # 10).	1. Each TWG prepares a calendar of field missions, and diagnostic reviews and studies planned by donors participating in the sector/thematic area of the TWG.	Chair of TWGs	Lead Facilitator(s) of TWGs	Periodic reports provided by TWGs to GDCC.	On-going
c) Development partners successfully implement their Action plans to meet the commitments of the Paris Declaration.	1. Development partners provide an annual report to CDC/CRDB on progress made to implement their country action plans that have been prepared as part of the follow up to the Paris Declaration.	CDC/CRDB	Each development partner.	CDC/CRDB makes available to OECD/DAC Joint Venture on Monitoring of Paris Declaration periodic progress reports based on information provided by development partners.	On-going

**2. Promoting a harmonized approach to environmental assessments and other cross-cutting issues such as gender equality and other thematic issues.**

a) Strengthened application of EIAs and "strategic environmental assessment" approaches at the sector and national levels.	1. Concerned ministries and donors develop, in consultation with stakeholders, a common procedure to strengthen EIAs at sector and national level. 2. Concerned TWGs develop and implement an action plan to strengthen the technical and policy capacity of relevant institutions to carry out environmental analysis and to enforce legislation.	MOE & MAFF (lead) and other ministries  Chair of concerned TWGs	Lead Facilitator(s) of concerned TWGs.  Lead Facilitator(s) of concerned TWGs.	Procedures to strengthen EIAs drafted.  Periodic progress reports provided to GDCC.	To be established by concerned TWGs.  On-going
b) RGC's sector ministries and development partners adopt harmonized approaches to tackle cross-cutting issues, such as gender equality.	1. Concerned ministries and donors develop common guidelines to tackle cross-cutting issues e.g. gender, HIV/AIDS.	Sector ministries	Lead Facilitator(s) of TWGs.	Common procedures to tackle cross-cutting issues developed and endorsed by RGC and donors.	Dec/June 2006

<b>SECTION D: MANAGING FOR RESULTS: Managing resources and improving decision-making for results.</b>					
<b>Results</b>	<b>Actions Needed</b>	<b>Responsible RGC Institutions</b>	<b>Development Partners</b>	<b>Milestones</b>	<b>Timing</b>
a) RGC and development partners use jointly agreed results-oriented reporting and assessment frameworks that have a manageable number of indicators to monitor progress against key dimensions of national and sector development strategies. (Indicator #11)	1. MOP develops and implements a framework to monitor the implementation of the NSDP and prepare an annual progress review of NSDP implementation.	MOP	Lead Facilitator(s) TWG-PPR	First Annual progress report for the year 2006 prepared by PPR-TWG and submitted to RGC.	March 2007 and annually thereafter.
	2. Development partners ensure that the Standard Operating Procedures (SOP) for loan assistance and National Operational Guidelines (NOG) for grant assistance are followed in monitoring and reporting on their programs/projects to reduce burden on RGC implementing institutions.	Chair of TWGs	All development partners	Chair of TWGs provide periodic reports to GDCC on development partners compliance with SOPs and NOGs.	On-going

<b>SECTION E: MUTUAL ACCOUNTABILITY: RGC and development partners are accountable for development results.</b>					
a) RGC and development partners are mutually accountable for development results.	1. CDC/CRDBRGC and development partners jointly assess and report on a regular basis progress in implementing RGC's Action Plan on Harmonization, Alignment and Results.	CRDB/CDC Line ministries/agencies	All development partners	An annual rReport prepared and presented to GDCC.	On-going
	2. CDC/CRDBRGC and development partners jointly carry out a review of the effectiveness of the TWG mechanism.	CDC/CRDB	Lead Facilitator(s) P&H TWG	Survey completed and recommendations submitted to GDCC.	June 2006
b) Development partners provide timely, transparent and comprehensive information on aid flows to the RGC. (Indicator #12)	1. Development partners provide transparent and comprehensive information to CDC/CRDB on ODA flows (including contributions to NGOs) in a timely fashion, to enable integration into budget cycle.	CRDB/CDC	All development partners	Information on ODA flows provided within the timeframe requested by CRDB/CDC/CRDB.	On-going

## ANNEX II

### LIST OF ACRONYMS AND ABBREVIATIONS

ACLEDA	..	Association of Local Economic Development Agencies
ADB	..	Asian Development Bank
ADD	..	Accelerated District Development
AFD	..	Agence Francaise pour Developpement, France
ASEAN	..	Association of South-East Asian Nations
AFTA	..	ASEAN Free Trade Area
AICO	..	ASEAN Industrial Cooperation Scheme
AIA	..	ASEAN Investment Area
AusAID	..	Australian Agency for International Development
BOT/BOO	..	Build, Operate and Transfer/Build, Own and Operate
BMC	..	Budget Management Centers
BSEC	..	Budget Strategy and Enforcement Center, MEF
CADF	..	Civil Aviation Development Framework
CAR	..	Council for Administrative Reform, Council of Ministers
CARD	..	Council for Agricultural and Rural Development
CARDI	..	Cambodian Agricultural Research and Development Institute
CDAF	..	Council for the Demobilization of Armed Forces, Council of Ministers
CDRI	..	Cambodian Development Research Institute
CIAP	..	Cambodia-IRRI-Australia-Project
CSOs	..	Civil Society Organizations
CDC	..	Council for the Development of Cambodia
CDC/CRDB	..	Cambodian Rehabilitation and Development Board/CDC
CDF	..	Comprehensive Development Framework, World Bank
CIB	..	Cambodia Investment Board/CDC
CG	..	Consultative Group
CIDA	..	Canadian International Development Agency
CNPA	..	Cambodian National Petroleum Authority
CMAC	..	Cambodia Mine Action Centre
CoM	..	Council of Ministers
CPA	..	Complimentary Package of Activities, Ministry of Health
CTA	..	Cambodian Telecommunications Authority, MPWT
CRDC	..	Commune Rural Development Committees, MRD
CVAP	..	Cambodia Veterans Assistance Program
DCR	..	Development Cooperation Report for Cambodia
DFID	..	Department for International Development, United Kingdom
DHO	..	District Health Office, Ministry of Health
DPWS	..	Department of Provincial Water Supply, MWRM
DTEE	..	Department of Techniques, Economics and Extension, MAFF
EAC	..	Electricity Authority of Cambodia
EIA	..	Environmental Impact Analyses
EDC	..	Electricite du Cambodge
EENT	..	Eye-Ear-Nose-Throat
EU/ EC	..	European Union/ European Commission
FAO	..	Food and Agriculture Organization, United Nations
FDI	..	Foreign Direct Investment
GDP	..	Gross Domestic Product
GMS	..	Greater Mekong Sub-Region
GS-CDAF	..	General Secretariat, Council for the Demobilization of Armed Forces
GSP	..	Generalized System of Preferences
Ha.	..	Hectare
HC	..	Health Centers, Ministry of Health
HCP	..	Health Coverage Plan, Ministry of Health
HRMIS	..	Human Resources Information Management System
ICORC	..	International Committee for Reconstruction of Cambodia
IFAD	..	International Fund for Agricultural Development

*Development Assistance Needs to  
Implement the National Strategic Development Plan*

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IIPP	..	Integrated Investment Priorities Program
ILO	..	International Labour Organization, United Nations
IMF	..	International Monetary Fund
IOs	..	International Organizations
IOM	..	International Organization on Migration
IPP	..	Independent Power Producer
IRRI	..	International Rice Research Institute
ITU	..	International Telecommunications Union, United Nations
JICA	..	Japan International Cooperation Agency
MAFF	..	Ministry of Agriculture, Fisheries and Forestry
MEF	..	Ministry of Economy and Finance
MFN	..	Most Favored Nation
MFIs	..	Micro-finance institutions
MIME	..	Ministry of Industry, Mines and Energy
MLMUPC	..	Ministry of Land Management, Urban Planning and Construction
MoE	..	Ministry of Environment
MoEYS	..	Ministry of Education, Youth and Sports
MoH	..	Ministry of Health
MoH-COCOM	..	Coordinating Committee, Ministry of Health
MoINF	..	Ministry of Information
MoP	..	Ministry of Planning
MoWVA	..	Ministry of Women's and Veterans' Affairs
MPA	..	Minimum Package of Activities, Ministry of Health
MPWT	..	Ministry of Public Works and Transport
MPP	..	Municipality of Phnom Penh
MPTC	..	Ministry of Posts and Telecommunications
MRD	..	Ministry of Rural Development
MT	..	Metric Tonne
MW	..	Megawatt
MWRM	..	Ministry of Water Resources and Meteorology
NAA	..	National Audit Authority
NBC	..	National Bank of Cambodia
NEAP	..	National Environmental Action Plan
NEC	..	National Election Commission
NGOs	..	Non-Government Organizations
NPRD	..	National Program to Rehabilitate and Develop Cambodia
NPAR	..	National Program for Administrative Reform
ODA	..	Official Development Assistance
OD	..	Operational Districts, Ministry of Health
OECD	..	Organization of Economic Cooperation and Development
OECD/ DAC	..	Development Assistance Committee, OECD
PAP	..	Priority Action Programs
PEP	..	Public Expenditure Program
PIP	..	Public Investment Program
PIMS	..	National Public Investment Management System
PPWSA	..	Phnom Penh Water Supply Authority
PSI	..	Pre-shipment Inspection mechanism
PRDC	..	Provincial Rural Development Committees, Ministry of Rural Development
RDB	..	Rural Development Bank
RCAF	..	Royal Cambodian Armed Forces
RGC	..	Royal Government of Cambodia
RH	..	Referral Hospitals Ministry of Health
RN	..	Route National
SEDP	..	Socio-Economic Development Plan, 1996-2000
SEILA	..	(Khmer word for "foundation"; Government Rural Development Program
SMEs	..	Small-to-Medium sized Enterprises
SOEs	..	State-Owned Enterprises
SWAP	..	Sector-Wide Approach to Programming
TA	..	Technical Assistance
TdC	..	Telecommunications du Cambodge, Ministry of Posts and Telecommunications

*Development Assistance Needs to  
Implement the National Strategic Development Plan*

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TOFE	..	Tableau des Opérations Financières de l'Etat
TVET	..	Technical Vocational Education and Training
TSN	..	Transitional Safety Net
UN	..	United Nations
UNDP	..	United Nations Development Program
UNDAF	..	UN Development Assistance Framework
UNESCO	..	United Nations Educational & Scientific Cultural Organization
UNFPA	..	United Nations Fund for Population Activities
UNICEF	..	United Nations Children's Education Fund
UNAIDS	..	United Nations Fund for Aids Prevention
US\$	..	United States Dollar
UXO	..	Un-exploded ordnance
VAT	..	Value-Added Tax
VDC	..	Village Development Committee, Ministry of Rural Development
VHF	..	Very High Frequency
WB	..	World Bank
WTO	..	World Trade Organization
Y2K	..	Year 2000