

APPR : Section One: Country/Region Performance

Summary

The major renovation to the Cambodia program flagged in the 2007 APPR is well underway. A draft country strategy focused on new activities in health and agriculture is well aligned to Cambodia's development priorities and its response to the global economic crisis. Progress has also been made to adopt more innovative and contemporary forms of aid with growth in the use of program based approaches.

Despite this progress challenges remain. The protracted design phase of our new agricultural program has delayed implementation while our law and justice program is struggling to better align with the Government's own legal and judicial reform strategy. While program rationalisation has commenced difficult judgements remain in regard to the future of our engagement in governance activities. Our existing approach to NGO cooperation is currently unsustainable with existing arrangements imposing high management costs.

Australian assistance

Total Australian aid flows to Cambodia in 2008 were \$61.2 million.

Development challenges

Cambodia faces very significant challenges to preserve the impressive development gains made over the last decade. Particularly notable in 2008 were almost simultaneous increases in long sought after political stability and growing economic vulnerability.

Recent trends towards ever greater political stability were confirmed with the return of the governing Cambodian People's Party in national assembly elections in July 2008. An overwhelming majority result and an election process largely free of the violence enabled CPP to govern in its own right for the first time since the introduction of parliamentary democracy in 1993.

In the decade prior to 2008 Cambodia enjoyed robust economic growth averaging 8.2 percent per annum. This growth however, masked vulnerabilities to movements in external economic conditions. In 2008 Cambodia experienced the effects of both a sustained surge in international economic activity (food and fuel price crisis) and the more recent and dramatic collapse in this activity (the global economic crisis). Growth declined from previous years to under 7 per cent in 2008.

Domestic food prices in Cambodia increased sharply from 2007 to mid 2008 driven by continuing strong global economic growth. Rice (the main source of food for poor families) nearly doubled in price from January to April 2008. While commodity prices (and broader inflationary pressures) declined sharply in late 2008

The economic and social impact of the global economic crisis have been severe and may worsen during 2009..

The IMF has now projected negative growth of -0.5 percent for 2009. Declines in garment manufacturing, construction, and tourism are having economy wide effects on

household employment and income, as well as migration flows and remittances.. An estimated 70,000 jobs have been lost in the garments sector with at least 30 per cent of jobs lost in the real estate and construction industries as projects are scaled back or cancelled. Additional job losses in the tourism sector are expected due to declining international tourist arrivals. Crops which account for 14 percent of GDP and IMF projections assume a better than average harvest. A poor harvest due to floods and/or droughts will worsen a rapidly deteriorating situation

The full social impact of the GEC is not yet apparent but is likely to be severe. With a significantly increased the risk that Cambodia will not reach its MDG 4 (Child Mortality) and MDG 5 (Maternal health) targets. Progress to address the persistently high maternal mortality rate has long been a problem but there are now also emerging signs of increasing child malnutrition that threaten recent progress on child health

RGC and IMF projections earlier in the year indicated an expanding fiscal deficit, up from 1.75 percent of GDP in 2008 to 4.25 percent in 2009. As a result, RGC faces growing fiscal challenges and will require additional assistance with technical approaches to effectively and efficiently channel resources to meet the needs of the poor. Donors pledged about US\$1 billion in December 2008 in official development aid. With this support the government has planned to increase expenditures across all sectors by US\$427 million in 2009 to US\$1,815 million.

In addition to addressing the most immediate challenges there remains a pressing need for policy dialogue and support that is forward looking and strategically focussed on structural issues. Investment and credit structural reforms improved the country's standing from 150 down to 135 out of 181 countries in the ease of doing business. However strengthening governance and addressing corruption remain significant issues. Cambodia was rated 166 out of 180 countries on corruption perceptions further hampers with no timeframe for the passage anti-corruption legislation and increased incidents of forced evictions in Phnom Penh.

SECTION 2: Strategy performance

The Cambodia country strategy remains in draft with finalisation and endorsement expected in mid 2009. Despite this, significant program development was undertaken in 2008 to orient activities around four core priorities:

- Rural poverty reduction through agricultural development
- Strengthen health service delivery
- Strengthen the law and justice system
- Improve economic and natural resource management

The delay in the finalisation of the country strategy coupled with major design work in both our flagship agricultural and health programs however did prevent the use of a coherent, program wide performance framework in 2008. The draft 2009 performance assessment framework is attached at **Annex 2**.

OBJECTIVE 1:

RURAL POVERTY REDUCTION THROUGH AGRICULTURAL DEVELOPMENT

To reduce rural poverty through agricultural development, the program will focus on two sub-objectives:

- > Increasing the value of agricultural production and smallholder income in targeted provinces; and
- > Improving the quality and use of rural infrastructure (including land mine clearance).

RATING

- The objective will be partly achieved within the timeframe.

ASSESSMENT OF RESULTS AND PERFORMANCE

Australia's aid program is taking a comprehensive approach to addressing rural poverty in Cambodia. Agricultural productivity was supported through the Agriculture Quality Improvement Project (AQIP) and the design of the new flagship Cambodia Agriculture Value Chain (CAVAC) program. Social safety net support was provided to the poorest of rural households through NGO Cooperation Agreements and funding to the World Food Programme (WFP). Infrastructure improvements were supported through partnerships in mine clearance activities.

These programs provide a balanced response to achieve the objectives of the draft country strategy. The 2008 performance rating however, reflects delays in the commencement of our CAVAC and infrastructure projects and an unexpected delay in the closure of AQIP.

Key results for the objective in 2008 were:

- Increasing rural incomes by USD3.9m through the use of high quality AQIP seed which increases the value of rice yields by USD142 per hectare;
- Supporting 462,000 very poor primary school children and 75,000 people affected by HIV/AIDS through targeted WFP feeding programs
- Mine clearance of 6.8 million square metres of land and a reduction in land mine/UXO casualties from 352 in 2007 to 266 in 2008
- Farmer field schools and farmer marketing schools for rice and vegetables have been established in Kampong Thom, Takeo and Kampot as part of CAVAC's interim activities

Agricultural Productivity and Smallholder Income

Development partner support to the agriculture sector remains fragmented in Cambodia. While Australia actively encouraged coordinated donor support for the Government's Strategy on Agriculture and Water, our activities in 2008 remained project focused.

The design and approval of CAVAC, Australia's flagship rural development program, was finalised in 2008. CAVAC will address systemic failures along the agricultural value chain from supplier to farmer to consumer. Objectives are to increase farmer income and food production and accelerate growth in the value of agricultural products and markets. Specific activities will support irrigation development and maintenance, research and extension, agribusiness development and reforms to the business enabling environment.

Due to delays in the design process CAVAC will commence its inception period in early 2009 with full implementation in mid 2009. During 2008 a series of interim activities were implemented including capacity building for provincial departments of agriculture and

water resources, and conducting feasibility studies for the rehabilitation of 4 irrigation schemes in CAVAC's target provinces. Four farmer cooperatives, including 240 families, have been developed in Takeo and are supplying high quality aromatic rice to domestic supermarkets..

AQIP also supported agricultural productivity. AQIP has sought to expand farmer access to high quality rice seed by establishing an independent, commercially viable rice seed operation. In 2008 the AQIP seed company had total sales of 1,400 metric tonnes of rice seed planted over an estimated area of 27,451 hectares. Securing the company's commercial viability however, has not been easy. The combined effect of the food, fuel and financial crises in 2008 reduced both seed production and the access to additional working capital the company requires for commercial sustainability. AusAID is working actively with the company to establish a sustainable financial and operational foundation and our involvement in the joint venture will cease by late 2009.

Social safety net support was provided through integrated rural development and targeted feeding program activities. Three integrated rural development projects delivered through NGO cooperation agreements delivered measurable increases in rice yields and other food production and have reduced food shortages for beneficiary households. For example, through CARE's Integrated Rural Development and Disaster Mitigation project, rice yields have increased 36 percent, fish production has increase 35 percent and food shortages have declined from 4 to 3 months. However, more focus is required to promote sustainability by connecting farmers to consumers through improved marketing. The projects also require better alignment with Cambodian Government strategies and policies and ongoing engagement with the private and community sectors.

Australia is the largest donor to World Food Program operations in Cambodia which are improving the food security of 1.8 million people in the least developed and food insecure areas of the country through targeted feeding programs. WFP worked closely with partners to ensure that food aid supports development efforts in education, health and infrastructure. WFP is effectively mitigating the risk of diversion of funds from food for work projects through diligent implementation of control measures. Regular monitoring and evaluation needs to be institutionalized to improve targeting and assess impact.

Improving the quality and use of rural infrastructure

The Cambodian Government is seeking a 10 year extension to its current Mine Ban Convention deadline of 1 January 2010 to clear all known mined areas. The extension will be accompanied by an updated National Mine Action Strategy (currently under preparation) that will be used to guide a decision on Australian Government support beyond 2010-11.

AusAID activities are increasingly focused on the post-clearance use of land. Approximately 60 percent of the cleared land in 2008 was used for agriculture or resettlement, 20 percent for community roads and 20 percent for schools, irrigation channels, pagodas and other uses. NGO Cooperation Agreements in 2008 ensured that cleared land is allocated to poor beneficiaries who are provided with livelihood support to use that land for productive purposes. For example, the Australian Cambodia

Integrated Mine Action Project implemented by CARE provided 1,111 households with an average seed credit worth US\$30 and achieved repayment rates above 95%. While this progress is welcome the sustainability of these activities are uncertain with the lack of secure tenure in from of titles to cleared land a particular concern.

OBJECTIVE 2:

HEALTH SERVICE DELIVERY

To improve health outcomes in Cambodia, the program will focus on two sub-objectives:

- > Strengthen Royal Cambodian Government management, financing, monitoring and evaluation systems; and
- > Improved focus on hygiene and sanitation in water supply programs.

RATING

- The objective will be partly achieved within the timeframe.

ASSESSMENT OF RESULTS AND PERFORMANCE

In 2008 Australia successfully reengaged in the health and water and sanitation sectors to strengthen our support for the achievement of select MDGs in Cambodia. Maternal and child health (MDGs 4 and 5) has been targeted as a key priority and is also reflected in the hygiene and sanitation focus of our prospective support for water supply programs. Support for Cambodia's fight against HIV-AIDS (MDG 6) focused on the under funded area of harm reduction. All activities are strongly aligned with RGC systems and support efforts to improve donor harmonisation particularly in the highly fragmented health sector.

Key results for the objective in 2008 included:

- HSSP2 establishment (accounting for 20% of national budget)
- Increased number of births attended by trained health staff
- Increased ante and post-natal care visits
- Increased number of poor people accessing health centres and referral hospitals through expanded health insurance coverage
- Establishment of through the HIV

Strengthen Royal Cambodian Government management, financing, monitoring and evaluation systems

The framework for our support (and that of other development partners) is RGC's Health Strategic Plan 2008-2015 (HSP2) which was finalised and approved by government in 2008 after substantial inputs from development partners and civil society. The Second Health Sector Support Program (HSSP2) was approved by the World Bank in May 2008. This provides a structure for pooled funds and greater donor harmonisation to support HSP2. Negotiations in 2008 culminated in a partnership agreement Arrangement signed on 18 December 2008 by 7 development partners (including AusAID) and the Ministry of Health (MOH)

Under HSSP2, the Government commits to 3-year plans and Annual Operational Plans as the basis for expenditure and including HSSP2 resources in all MOH plans under

HSP2, financial records in line with international accounting standards, technical and financial reporting according to an agreed Program Operations Manual, and the implementation of social and environmental safeguards. Development Partners have committed to pooled funds and preparation of annual funding commitments and forecasts. MOH and DPs will conduct joint annual performance reviews. Although HSSP2 originates from a World Bank credit agreement, a formal management arrangement has been established to enable cooperative decision making by all development partners supporting the project. This arrangement provides the key forum for dialogue with the MOH and also feeds into the broader Technical Working Group on Health, which includes with all development partners, government and civil society agencies in the health sector.

Specific targets within each relevant Cambodian MDG (CMDG) were selected to give AusAID's health sector involvement clear objectives that fully align with the CMDGs and allow for precise measurement of impact. There are signs that recent progress to achieve MDG4 may have stalled in 2008 with the combined effect of the increased food prices and the global economic crisis contributing to increased rates of child malnutrition

Given that pooled support through HSSP2 would not occur until 2009, AusAID also supported a number of interim activities in 2008.

- Support to UNFPA to expand MOH's minimum package of activities for maternal and child health in 9 provinces. This has already yielded an increased number of births attended by trained health staff (CMDG 5.3), more ante- and post-natal care visits (CMDG 5.5) and use of modern birth spacing methods (CMDG 5.4).
- Support to develop a Merit Based Performance Incentives Manual for MOH as part of the broader RGC commitment to public sector reform. The manual will be finalised in early 2009.
- Funding to GTZ to trial a pro-poor health equity fund in Kampot province. This has increased the number of poor accessing both health centres and referral hospitals but has also identified some administrative challenges for that HSSP2 address.
- Potential partnerships between Australian and Cambodian health institutions were canvassed with a view to capacity building for MCH and management staff, and it is expected that at least one of these will commence in 2009.

In 2008 the preparation for the Cambodian country project under HAARP began in response to evidence of intravenous drug users emerging as a key risk group to the transmission of HIV in Cambodia. AusAID support will target this group with a needle exchange program and methadone maintenance therapy, working closely with the National Authority for Combating Drugs and the Ministry of Health. This is expected to have a positive impact on the numbers of adults contracting HIV-AIDS (CMDG 6.1).

Program preparation also began for the Access to Clean Water and Sanitation Initiative. AusAID will focus on support for expanding access to sanitation for the rural poor (CMDG 7.12), co-funding existing or upcoming projects of ADB, UNICEF and possibly the World Bank. In preparation for these activities AusAID will play an active role in the RGC's Technical Working Group on Rural Water Supply and Sanitation.

OBJECTIVE 3:
STRENGTHEN THE LAW AND JUSTICE SYSTEM

- > To strengthen the law and justice system in Cambodia the program will improve the capacity and commitment of the law and justice system to function effectively and equitably (particularly in dealing with vulnerable groups)

RATING

- The objective will be partly achieved within the timeframe.

ASSESSMENT OF RESULTS AND PERFORMANCE

2008 was the second year of the Cambodia Criminal Justice Assistance Project Phase 3 (CCJAP). The project takes an integrated approach to justice, working with three institutions in two Ministries, as well as the secretariat responsible for Legal and Judicial reform. This is a significant departure from previous capital works focused assistance. Initial progress in implementation has been slow, with both counterparts and the managing contractor maintaining a focus on individual project outputs, rather than supporting the Government's legal and judicial reform strategy, and related public financial management, civil service and decentralisation reforms.

Key results for this objective in 2008 included:

- Expansion of project support into two new provinces: Battambang and Prey Veng, and preparation for expansion into Kompong Thom, Kompong Cham and Banteay Meanchey in 2009;
- Improved prisoner welfare in Battambang and Prey Veng prisons through small scale capital works;
- Court strategic and annual plans developed in the four model four courts, Kandal, Banteay Meanchey, Kompong Cham and Phnom Penh Municipal court;
- National Police Strategic Plan approved by the Commissioner and annual departmental plans developed. Drafting of a new police law underway;
- Council of Legal and Judicial Reform developed a Sector planning manual and activity monitoring system to allow common planning and monitoring of Legal and Judicial Reform Strategy implementation.

Courts, police and prisons

Provincial expansion of CCJAP and an increased focus on working through partner systems has given rise to important debates about the separation of powers. The decentralisation reforms to be implemented in 2009 will give provincial governors greater authority over all line Ministries and the Ministry of Interior is attempting to extend this to the judiciary. As financial arrangements become decentralised there are risks of further politicising the judiciary. Australia has some influence in this debate as the only donor with longstanding relationships with both Ministries of Interior and Justice, however ultimately this core question of governance is one for the RGoC.

Unsurprisingly the capacity of MoJ continues to be weak and while strong advocates for judicial independence exist at middle management their resources and political authority are limited. The role of MoJ in supporting courts administration is confused, and draft

laws clarifying the status of courts and the Supreme Council of Magistracy have stalled for the last three years. The model courts initiative is the first attempt by Government to address all aspects of court operations, including funding. The initiative has also galvanised support from a number of donors including USAID and UNICEF with Australia and Danida in the lead. This is the only genuine example of a donor harmonisation in the sector. Given the enormity of the challenge expectations of progress need to be realistic.

There are varying levels of ownership among the Ministries of the institutional planning documents. The General Department of Prisons shows the most progress with committed leadership implementing reforms, including harnessing a number of small donors to support reform priorities in a consistent manner. Lack of legislative status for prisons prevents a dedicated prison budget allocation and this will be the next stage of reform. CCJAP assisted with the drafting of a prison law in 2008, which will now be put through Government legal drafting processes. In the absence of adequate financing, the use of prison labour has increased. This both provides employment and skills for prisoners, but also carries risks of exploitation. Low salaries continue to lead to significant corruption and human rights abuses by guards in prisons. A key initiative will be an inspectorate function, however participation of independent NGOs will be necessary if audit reports are to be credible. Progress in opening up to NGOs is also incremental, in 2008 Prison administration held a national forum with NGOs, the first of its kind in Cambodia. Administration continues to be sensitive to critical reports, at times preventing NGO access to prisons.

The new Police Commissioner, appointed in late 2008 after the sudden death of the long serving former commissioner, has shown some early commitment to police reform. Both the Commissioner and his Minister have made public statements about improving police relations with the public. While reforms are mapped out in strategic and business plans, implementation will challenge vested financial and political interests. .

Crime prevention and community safety

Australia supports three Australian NGOs to work directly with communities in the areas of child protection and domestic violence. In addition CCJAP undertakes crime prevention and community safety activities through commune planning and provincial financing mechanisms. Outcome and impact data is not yet available. A mid term review of the three NGOs found mixed results. In particular there was a complicated and ineffective management arrangement involving multiple partners in Australia in Cambodia. A decision was taken not to extend two of the co-operation agreements beyond 2009.

OBJECTIVE 4:

SUSTAINABLE ECONOMIC AND NATURAL RESOURCE MANAGEMENT

To support sustainable economic and natural resource management in Cambodia the program will focus on two sub-objectives:

- > Enhanced public financial management through the predictable and timely flow of public funds while ensuring adequate controls; and
- > Improve the management of natural resources.

RATING

- The objective will be partly achieved within the timeframe.

ASSESSMENT OF RESULTS AND PERFORMANCE

In 2008 Australia continued to support the Cambodian Government to establish higher standards of management and accountability of government resources. Working in conjunction with a number of development partners our support enabled the Government to consolidate and extend its Public Financial Management Reform Program. The priority for our engagement is to support progressive improvements in the financing and delivery of services in key line ministries.

Key results for this objective in 2008 included:

- Completion of phase one of reforms to strengthen budget credibility and the formal launch of next phase of reforms to strengthen financial accountability
- Revenue collection exceeded targets by 24%
- Actual expenditure within 5% of budget estimates
- Introduction of budget strategic plan to progressively integrate recurrent, capital and development partner funding in all line ministries

Enhanced public financial management

The completion in 2008 of phase one of the Government's public financial management reform strategy was achieved through the completion of a number of reforms to establish greater budget credibility.

Revenue collection and management was improved achieved through formulating better policy, forecasting and revenue management processes. Budget formulation was supported through measures to introduce a new budget classification system and budget strategic plan (BSP) which ensured a more comprehensive national budget.

Budget execution was supported through increased use of the banking system for payments to creditors and staff increased (from 5% in 2005 to 72.5% in 2008). Controls also increased with 11 line ministries (of 24) establishing internal audits. Procurement rules and policy were amended and a procurement manual was issued.

These reforms have been largely technical and involved very significant engagement with the Government's Ministry of Economy and Finance. Reflecting their comparative advantage in these areas, the World Bank and IMF provided leadership of the development partner efforts in this area. Notwithstanding the progress, challenges remain to implement real structural progress in improving the comprehensiveness and integration of the budget, strengthening macroeconomic and revenue forecasting and streamlining payment processes.

The introduction of phase two of the strategy in December 2008 will build upon this progress and seeks to strengthen financial accountability and extend reforms into line ministries. The expansion into line ministries is an important step to link the technical reforms at the central level of Government with resource allocation decisions that affect service delivery. AusAID sectoral work however indicates that capacity constraints and knowledge will present significant challenges to the roll out of the program and expectations need to be realistic. Support for the expansion will be the key priority for our engagement in this area in 2009

The expansion of the Merit Based Performance Incentives (MBPI) schemes to line ministries is also difficult, given that the Government has been slow to proceed the implementation of the MBPIs as experienced with the Ministry of Health that has taken about two years to reach an agreement for the MBPI.

Natural resource management

Sub-regional support for improved water resource management has been complemented at the bilateral level by developing human resource capacity to manage water resources. AusAID is providing water resource management scholarships to the Cambodia Development Resource Institute and the Royal University of Phnom Penh for post-graduate study at the University of Sydney. This effort also includes several research projects that focus on economic, social, and governance dimensions of water resource management around the Tonle Sap Basin. Although it is too early in the project's implementation to assess its impact on the knowledge available to inform policy, increased focus is required on aligning research activities with the Cambodian Government's policy priorities and establishing effective institutional linkages with the Ministry of Water Resources and Meteorology.

SECTION THREE

No	Initiative No.	Initiative Name	Thematic Group	Implementation Progress	Achieving Objectives	Monitoring and Evaluation	Sustainability
1	INA456	Cambodia - ADS Cost for Student in Australia	Education	5	4	4	4
2	INE626	Agriculture Quality Improvement Project	Rural Development	4	4	3	4
3	INF619	HIV/AIDS Anti-Retroviral Therapy	Health	4	3	3	4
4	INF863	Cambodia Public Financial Management	Governance	5	5	6	5
5	INF893	Radio Development Assistance Project	Governance	4	5	4	4
6	ING004	Aust-Cambodia NGO Cooperation Agreements Implement	Governance	4	4	5	4
7	ING314	Strengthening Democracy and Electoral Processes	Governance	4	4	4	4
8	ING362	Clearing for Results 2006 - 2011	Governance	4	5	5	4
9	ING446	CDRI Water Resource Management	Rural Development	4	4	3	4
10	ING723	Cambodia Criminal Justice Assistance Initiative	Governance	4	3	3	3
11	ING739	Election Support	Governance	4	4	4	4
12	ING740	Cambodia Harmonisation & Alignment	Governance	5	5	5	4
13	ING741	Cambodia Delivering Better Health	Health	5	5	5	4
14	INH188	Landmine Survivor Assistance Program 2007 - 2009	Governance	5	5	5	4

Aid effectiveness and alignment with RGC priorities

In 2008 significant progress made on aid effectiveness commitments outlined in the 2007 APPR most notably in the increased use of program based approaches and more contemporary forms of aid.

Our program currently participates in four (HSSP2, public financial management reform program, mine action and donor harmonisation and alignment) of the seven program based approaches that currently exists in Cambodia. Largely due to the growth in our health activities program funds disbursed through these mechanisms increased to 26% in 2008-09 (from 15%). Further growth can be expected in 2009-10.

Broad alignment also exists between our strategy objectives and specific Government development priorities. This alignment is particularly strong in our health and public financial management activities which support costed Government led sectoral strategies. The absence of costed strategies in agriculture and legal and judicial reform are a constraint to moving from project based to more sustainable program based approaches in these sectors.

Gender

Progress has been made to address gender issues in the program. There has been improved collection of data and gender is now included in the m&e frameworks for most initiatives. Work continues to ensure that this data collection is accompanied by effective implementation and evaluation.

UNDP / IWDA work in ensuring gender mainstreaming at the national policy level in CMAA, and IWDA work following implementation through provincial, commune and village levels in implementation in the Integrated Mine Action programs; (ii) thorough gender analysis and inclusion of gender indicators in the CAVAC and HAARP designs, and (iii) CCJAPIII is on developing awareness among government counterparts of gender and equity issues and ensuring sufficient resources are allocated to the gender components of the program.

Initiatives where there has been improved collection of data will now focus on developing improved strategies for data analysis including providing support to NGOs and managing contractors..

SECTION FOUR: MANAGEMENT CONSEQUENCES

The speed and scope of the global economic crisis has magnified the scrutiny and expectations of our aid activities. In Cambodia two conclusions are apparent. Firstly, and despite the delay in its finalisation, the country strategy remains relevant. Its finalisation and endorsement is urgent to provide coherence and direction for our activities. Second, the process of program rationalisation and adoption of more contemporary aid modalities has acquired an even greater urgency.

Country strategy and program priorities

While relevant our core program activities in agriculture, health and infrastructure can be further sharpened to respond to the immediate needs of the global economic crisis while also leveraging sustainable long term sectoral reform.

In **agriculture** we will provide additional support to a World Bank Development Policy Operation that is being funded from the Global Food Crisis Response Program (to which Australia is the largest bilateral donor). This operation requires a number of Government policy commitments that will strengthen not only the broader agricultural sector but strongly support CAVAC's activities. These include strengthening community based farmer associations, establishing explicit Government funding for irrigation maintenance and improving seed and fertilizer markets for smallholder farmers. Reinforcing CAVAC's focus on value chains and the role the private sector, this assistance will also support the design and evaluation of a financial guarantee pilot for rice mills to develop rice milling and warehouse capacities.

In **health** we will continue to focus on progress against MDGs 4 and 5. Emerging indicators suggest recent progress on MDG 4 has stalled with increasing rates of child malnutrition. Maternal health indicators remain of very significant concern and suggest the MDG 5 will not be achieved. The recent change in our family planning guidelines will change the nature of the policy dialogue with Government on these issues. More broadly we will focus on measures to ensure access to health services are maintained and where possible expanded. Falling household incomes combined with often catastrophic costs of health care represent the most significant challenge to this access. We will strongly advocate in the upcoming HSSP2 mid year review for a national Health Equity Fund

system to provide a safety net for households whose incomes may decline. Current coverage is limited to about 50 per cent of eligible recipients in 18 provinces.

We will consider significantly scaling up our involvement in **infrastructure** activities through an assessment of the feasibility of cofinancing an ADB project to rehabilitate Cambodia's national railway. A rigorous assessment will be conducted of the project's benefits to increase Cambodia's economic competitiveness and support regional economic integration.

Social protection initiatives will require a greater focus than originally envisaged in the country strategy. It is an area not only of pressing development need but longstanding Australian involvement. Our funding of the World Bank's Development Policy Operation will facilitate an expansion of the WFP's school feeding program, food for work programs and a rice distribution program in 200 Communes. Support is also required for Government efforts to develop a coherent social protection framework in Cambodia. Working with other donors, we will consider additional support for the expansion of the ID poor program as the agreed national poverty targeting system.

Creating the fiscal space to meet these needs in a difficult budget environment, will hasten the consolidation of activities already underway in the program. This inevitably involves difficult judgements and as reported in the 2007 APPR, careful management of 'legacy' programs.

The future of many of our governance activities are in doubt. Following the decision not to extend our participation in the UNDP Strengthening Democratic Processes project a decision has been taken to reduce the scope and duration of our involvement in the World Bank's Demand for Good Governance program. We are working to ensure that this withdrawal doesn't jeopardise long standing relationships with the ABC and Government counterparts.

Our current NGO cooperation agreements are not well aligned to our draft country strategy and require a disproportionate amount of management time. In addition to the decision not to extend two cooperation agreement a further five agreements will be extended for a maximum of 12 months rather than two years as originally planned. In 2009 we will conduct a major review of our approach to NGO cooperation agreements that will likely significantly reduce their number while increasing their links to the program priorities.

Aid effectiveness and program delivery

The global economic crisis gives a new and timebound impetus to our Paris Declaration and Accra aid effectiveness commitments to adopt more effective and innovative forms of aid delivery. More pointedly, the Cambodian Government has publicly requested development partners to speed up preparation, implementation, and disbursement of projects.

In 2009 we will focus on increasing the use of program based approaches and supporting capacity development to strengthen government systems.

In pure reporting terms, Australia's use of program based approaches will increase in 2009 as a result of the scale of our health sector support for HSSP2 which will shortly become our single largest program. In 2009, HSSP2 will account for about 20% of the total HSP2 budget, so the challenge for AusAID and other development partners will be

to encourage other donors to pool funds and support into HSSP2 so that Cambodia can move towards a truly sector-wide approach.

More basic reforms are required in the agricultural sector to support the implementation of the Government's Strategy on Agriculture and Water (SAW), including integration into the national budget and aligning ministry financial and human resource planning with the priorities articulated by the SAW. Supporting this we will fund technical assistance to assist the government and development partners to develop a road map for transitioning to a program based approach. In the meantime our program, particularly CAVAC, is well aligned with the SAW and its component programs. We will further support this work by seeking donor leadership of the technical working group on agriculture and water.

Australia has not previously used Cambodian Government financial or procurement systems to directly implement our activities. Consistent with our Accra commitments, decisions to bypass the direct use of government systems will be based on rigorous analysis that is discussed with the Cambodian Government. As part of this commitment we will fund a fiduciary assessment and public expenditure review to better align expenditures with priorities in three key counterpart ministries (Agriculture; Water Resources; and Rural Development). This activity will be incorporated into the broader public financial management initiative being led by the World Bank with AusAID support.

Human resources and organisational issues

Organisational arrangements are currently adequate to effectively deliver program activities.

The next stage of program devolution has commenced with the 'bilateralisation' of previously sub-regional transport and energy related infrastructure activities. The rationale for this decision is strong with benefits expected in the understanding of local context for program management and the quality of policy dialogue with Government and development partners. Achieving these benefits however, will require appropriate access to relevant technical expertise.

ANNEX ONE: Development progress

Development progress

Cambodia's progress towards meeting its MDG targets is mixed (see table 1). Good progress has been made in the areas of education (MDG2); HIV/AIDS and Malaria control (MDG6). Advances have been made in reducing extreme poverty (MDG1) and there has been progress in reducing child mortality rates (MDG4) and mine clearing (MDG9). However, Cambodia is one of the poorest countries in East Asia with some 68.2 per cent of people living under USD 2 per day. Many rural people remain vulnerable to extreme poverty from global shocks including increases in commodity prices and global slowdowns. The maternal mortality rate (MDG5) remains disturbingly high. There has been limited success to providing access to the clean water and sanitation (MDG7). Results for reducing violence against women and increase women represented in public institutions (MDG3) are also concerning.

Table 1: Key indicators in Cambodia's MDG progress

MDGs	Base (year)	2005 Target	2005 (actual)	2010 (NSDP target)	MDG target	Likelihood of achieving MDG
Poverty rate (%)	39 (1993)	31	34.7	25	19.5	Unlikely
Food poverty rate (households unable to ensure 2100 calories/day/person) (%)	20(1993)	16	19.7	13%	10%	Unlikely
National enrolment rate, primary education (%)	87(2001)	95	91.3	100	100	Likely
Gender parity in enrolment (ratio of girls to boys)						
Primary (%)	87(2001)	98	89.5	100	100	Unlikely
Secondary (%)	63(2001)	96	77	100	100	unlikely
Under-five mortality rate (deaths/1000 births)	124(1998)	102	82	85	65	likely
Maternal mortality rate (deaths/1000 births)	437(1997)	343	540	243	140	unlikely
HIV and AIDS prevalence (%)	3%(1997)	2.3	1.9	2	1.8	likely
Access to clean water source (%)						
Rural	24(1998)	30	35%	40	50	unlikely
Urban	60(1998)	68	75.8%	74	80	likely
Access to improved sanitation (%)						
Rural	8.6%(1996)	12	16.4	20	30	likely
Urban	49%(1998)	59	55	67	74	unlikely
Civilian casualties from mines and UXOs*	1,691(1993)	500	875	205	0	unlikely

ANNEX TWO

Summary QAI Performance 2008-09

2008-09 Cambodia QAI Summary Performance					
				Total Initiatives	14
				QAI's completed:	14
				Outstanding QAI's	0
				Outstanding QAI's	0%
	Implementation Progress	Achieving Objectives	M&E	Sust	
6	0	0	1	0	
5	5	6	5	1	
4	9	6	4	11	
3	0	2	4	2	
2	0	0	0	0	
1	0	0	0	0	
Total	14	14	14	14	
Unsatisfactory (1,2,3)					
	0	3	4	2	
% of QAI's	0%	14%	29%	14%	
Satisfactory Achievement (4,5,6)					
	14	12	10	12	
% of QAI's	100%	86%	71%	86%	
Special Category - Requires Improvement (1,2,3,4)					
	10	9	9	14	
% of QAI's	64%	57%	57%	93%	

Satisfactory (4, 5 and 6)	
6	Very high quality
5	Good quality
4	Adequate quality; <i>some work to improve needed</i>
Less than satisfactory (1, 2 and 3)	
3	Less than adequate quality; needs significant work
2	Poor quality; needs major work to improve
1	Very poor quality; needs major overhaul