



Kingdom of Cambodia

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Royal Government of Cambodia



CAMBODIA'S REPORT ON PROGRESS TOWARD ENHANCED AID EFFECTIVENESS

*Prepared for the Second High Level Forum
OECD/DAC, 28 February- 2 March 2005, Paris*

***Council for the Development of Cambodia
Cambodian Rehabilitation and Development Board***

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FOREWORD

The purpose of this report is to present a succinct update on progress that has been made by the Royal Government of Cambodia to implement the Rome Declaration's commitments to improve ODA effectiveness in order to achieve Cambodia's Millennium Development Goals. In Cambodia, aid coordination and management has undergone a number of changes over the past several years in response to an increasing flow of external assistance, to an increasing mix and number of foreign and national players in development, and to a more complex, cross-sector and multi-disciplinary development agenda. The Royal Government of Cambodia (RGC) has set up management systems and institutional mechanisms to support aid coordination and management through the Council for the Development of Cambodia. However, in spite of major improvements, the current situation is such that a significant proportion of ODA still bypasses the National Budget process because of the practice of direct funding by donor agencies to project implementers. This situation has resulted in inadequate Government ownership of many projects; in "piece-meal" efforts and insufficient coordination by donor agencies on sectoral issues and institution building; in a proliferation of different procurement, disbursement, auditing, and progress monitoring and procedures among agencies; and in the formation of donor-supported project management units staffed either by expatriates or by nationals with "topped up" salaries, which have adversely impacted on Government's institution building efforts.

To respond to these concerns the Royal Government of Cambodia presented its overall vision for a *New Development Cooperation Partnership Paradigm for Cambodia* to improve ODA effectiveness at the 4th Consultative Group Meeting held in Paris in May 2000. It was discussed, accepted in principle and supported by all donor representatives present at that meeting. This strategic vision was offered as ideas on the nature, structure and implementation options for building partnerships to support the achievement of Cambodia's national development goals through more collaborative arrangements. The Royal Government has been working hard in collaboration with its development partners to achieve this vision.

Soon after the launch of the New Development Cooperation Partnership Paradigm for Cambodia, the Prime Minister appointed Cambodian Rehabilitation and Development Board at the Council for the Development of Cambodia (CDC/CRDB) to be the RGC's Partnership Focal Point within the Government. As the Partnerships' Focal Point, CDC/CRDB is responsible for coordinating and mobilizing resources for public investments, and to provide support to ministries/agencies to enable them to effectively manage the process of establishing partnership arrangements with Cambodia's national and external partners. The CDC/CRDB is also responsible for expanding the aid management information systems within the Government to ensure that there is a functioning government-wide system to monitor the implementation of development programs, and for coordinating with sector ministries on issues related to resource mobilization.

An Inter-Ministerial Steering Committee to Strengthen Development Cooperation Partnerships was established in April 2001. The purpose was to ensure that key officials are seriously

involved in policy decisions and operational actions for capacity development, integration/enhancement of information and monitoring systems, and for assessing progress and identifying issues during the transition to fully functioning development partnerships, covering dimensions such as procedural harmonization, ownership, and capacity indicators. It is headed by the 1st Vice-chairman of CDC. The membership of this Committee includes key officials in-charge of partnership arrangements at the Secretary/Under-Secretary of State level. The Secretary General of the CDC/CRDB also serves as the Secretary General of the Inter-Ministerial Steering Committee. The Committee is supported by a Secretariat, composed of the staff of CDC/CRDB.

At the 5th CG Meeting held in Tokyo in June 2001, the Royal Government provided further elaboration on strategic implementation considerations that should be taken into account in developing effective cooperation partnerships with the development partners. At the 6th CG Meeting held in Phnom Penh for the first time in June 2002, the Royal Government presented a proposal to establish a Government-Donor Partnership Working Group. This proposal was overwhelmingly endorsed and subsequently the Government-Donor Partnership Working Group was established. In its deliberations the Working Group agreed to begin its work by focusing on problems/issues for which feasible solutions already exist and that can be agreed to and implemented immediately. It was a pragmatic approach that assigned a high priority to picking the readily accessible “low hanging fruits”. To begin its work the Working Group commissioned three studies to collect and analyze the necessary background information and to outline feasible solutions to tackle the harmonization issues. The purpose of these studies was to provide to both the Government and the development partners factual information and analysis on donors practices to tackle the harmonization and alignment issues based on facts rather than perceptions. The three studies focused on: (i) the capacity building practices of Cambodia's development partners, (ii) practices and lessons learned in the management of development cooperation; and (iii) preparation of national operational guidelines for development cooperation. The first two studies have been completed. Also, the first draft of the third study has been prepared.

The Government-Donor Partnership Working Group has also been busy in supporting both the work of the OECD/DAC on examining harmonization and alignment issues in Cambodia's context, in particular the preparation of Royal Government's Action Plan on Harmonization and Alignment, and in discussions on the restructuring of the Working Groups under the CG mechanism. In Cambodia, several Working Groups under the CG mechanism have existed to monitor progress on specific policy issues since 1999. To strengthen this monitoring mechanism under the CG process, over the past year the Royal Government and development partners have had extensive discussions on how to restructure the working groups in order to enhance aid effectiveness and to bring a greater coherence to ODA supported activities. The Secretary General of CDC/CRDB, as the Chairman of the Government-Donor Partnership Working Group, submitted a proposal to the development partners on the basic principles for restructuring the working groups in October 2003. After extensive discussions an agreement on the basic principles to restructure the working groups was reached.

At the Pre-CG Meeting held on 10 September 2004, Samdech Hun Sen, the Prime Minister endorsed the proposal to create 17 Joint Technical Working Groups at the sector/thematic

level. To ensure coordination among the 17 joint technical working groups, he also endorsed the proposal to:

- i. Create a "Government-Donor Coordination Committee (GDCC)" to provide policy guidance, to set priorities, and to propose measures to solve problems raised by joint technical working groups. The GDCC is Chaired by Senior Minister, Minister of Economy and Finance and the 1st Vice-chairman of CDC. The membership of the GDCC includes Ministers or heads of government agencies, Ambassadors or heads of diplomatic missions, and heads of multilateral institutions.
- ii. The Government-Donor Coordination Committee will be assisted by a Secretariat. This Secretariat is located at the Cambodian Rehabilitation and Development Board (CRDB) at CDC.

The first meeting of the GDCC was held on 2 December 2004 just before the 7th CG Meeting that was held in Phnom Penh on 6-7 December 2004 to review and agree on monitoring indicators under the CG process. I am encouraged by the fact that because of the existence of this mechanism, for the first time in the CG process, we have had an opportunity to openly discuss and review the indicators to monitor progress. The next meeting of the GDCC is planned to be held on 7 March 2005 to review jointly, Government and donors, progress that has been made on monitoring indicators agreed to at the last CG Meeting.

I am pleased to report that to monitor progress on the implementation of Rome Declaration's commitments, the Royal Government's Action Plan on Harmonization and Alignment has been prepared through a long process of consultations with the development partners. The Action Plan was approved by the Cabinet on 19 November 2004. I am also pleased to report that the Royal Government and 12 development partners who have shown a willingness to support the implementation of the Action Plan on Harmonization and Alignment signed a Declaration on 2 December 2004.

I would like to take this opportunity to thank all our development partners for their support. The Royal Government, on its part, remains committed to improving ODA effectiveness to maximize its benefits for the people of Cambodia. On behalf of the Royal Government of Cambodia I would like to express our appreciation to the Government of France for hosting this very important meeting aimed at enhancing ODA effectiveness through harmonization of donor practices and alignment of ODA supported activities with national priorities. I would also like to take this opportunity to thank H.E. Chhieng Yanara, Secretary General of the Cambodian Rehabilitation Board at the Council for the Development of Cambodia for his dedication and tireless efforts to enhance ODA effectiveness to maximize its benefit of our people.

Phnom Penh, 9 February 2005

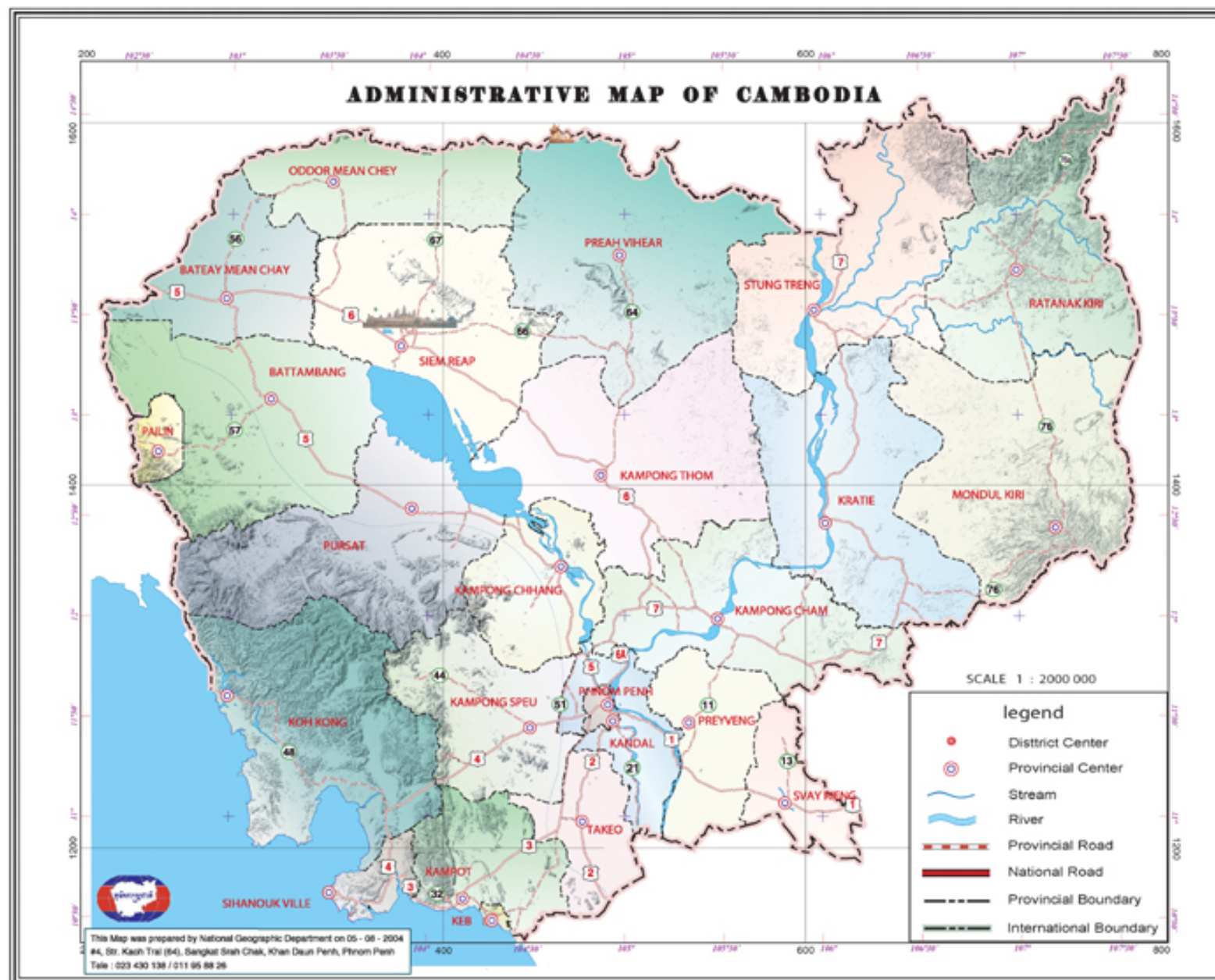


KEAT CHHON, MP

Senior Minister, Minister of Economy and Finance
and First Vice-Chairman of the CDC

LIST OF ACRONYMS

| | |
|----------|--|
| ADB | - Asian Development Bank |
| AusAID | - Australian Agency for International Development |
| AFD | - Agence Française Pour Développement |
| ESP | - Education Sector Strategy |
| ESSP | - Education Sector Support Program |
| EU / EC | - European Union/ European Commission |
| GDCC | - Government-Donor Coordination Committee |
| GDPWG | - Government-Donor Partnership Working Group |
| GTZ | - Gesellschaft für Technische Zusammenarbeit (Federal Republic of Germany) |
| HSP | - Health Sector Strategy |
| HSSP | - Health Sector Support Program |
| IMF | - International Monetary Fund |
| JICA | - Japan International Cooperation Agency |
| MAFF | - Ministry of Agriculture, Forestry and Fisheries |
| MOEYS | - Ministry of Education, Youth and Sports |
| MPWT | - Ministry of Public Works and Transport |
| MOT | - Ministry of Tourism |
| MIME | - Ministry of Industry, Mine and Energy |
| NSDP | - National Strategic Development Plan |
| OECD/DAC | - Organization for Economic Co-operation and Development /Development Assistance Committee |
| ODA | - Official Development Assistance |
| PFM | - Public Financial Management |
| PPI | - Private Participation in Infrastructure |
| SWAp | - Sector Wide Approach (Education) |
| SWiM | - Sector Wide Management (Health) |
| SNEC | - Supreme National Economic Council |
| TCAP | - Technical Cooperation Assistance Program |
| TORs | - Terms of References |
| TWGs | - Technical Working Groups |
| UK-DFID | - United Kingdom-Department for International Development |
| UNDP | - United Nations Development Programme |



CAMBODIA'S REPORT ON PROGRESS TOWARD ENHANCED AID EFFECTIVENESS

1. INTRODUCTION

1. Since the launch of the Rome Declaration in February 2003, significant progress has been made by the Royal Government and the development partners in Cambodia to begin the work on the implementation of Rome Declaration's commitments. The efforts over the last two years have focused on:

- i. Commissioning **studies** to provide to both the Government and the development partners factual information and analysis on donors practices to tackle the harmonization and alignment issues based on facts rather than perceptions.
- ii. **Promoting harmonization through sector and/or thematic programs.**
- iii. **Strengthening partnership with the private sector.**
- iv. **Restructuring the Working Groups under the CG mechanism** to create an institutional set up that will enable the Royal Government to take ownership of ODA supported activities, enhance Government-Donor coordination to achieve a greater harmonization and alignment of ODA supported activities with national priorities, and strengthen the process of monitoring progress in the implementation of the Royal Government's reform programs.
- v. **Developing an Action Plan on Harmonization and Alignment** to implement the Rome Declaration's commitments.
- vi. **Signing of a Declaration by the Royal Government of Cambodia with 12 development partners** who have shown a willingness to support the implementation of the Action Plan on Harmonization and Alignment.

2. Since the launch of Cambodia's New Development Cooperation Paradigm in 2000¹, the Royal Government has put in place institutional mechanisms and management systems to support aid coordination and management through the Council for the Development of Cambodia. However, in spite of major improvements the current situation, as reflected in the findings of the just completed OECD/DAC survey for Cambodia, continues to present challenges to which solutions must be found to improve

¹ "A New Development Cooperation Partnership Paradigm for Cambodia", Draft Discussion Paper, Prepared for the Consultative Group Meeting, 24-26 May 2000 by the Council for the Development of Cambodia. A copy of this report is posted on CDC/CRDB website WWW. CDC-CRDB.GOV.KH.

aid effectiveness. The current situation is a good illustration of inadequate Government ownership of many projects; “piece-meal” efforts, and insufficient coordination and support by donor agencies for Royal Government’s sectoral/thematic programs; the uncoordinated approaches for capacity development; proliferation of different procurement, disbursements, auditing, and progress monitoring and reporting procedures among agencies; and the use of donor-supported project management units staffed either by expatriates or by nationals who are paid significantly higher salaries than those with comparable qualifications employed in the public sector.

3. The Royal Government of Cambodia (RGC) considers the "Good Practices Papers" prepared by the OECD/DAC Task Force on Donor Practices as an important contribution in a move forward on harmonizing donor practices and aligning donor supported activities to recipient country development priorities to improve aid effectiveness. The progress made over the last two years in each of the six areas that have been the focus of RGC's efforts are summarized below.

2. STUDIES

4. At the 6th CG Meeting held in Phnom Penh in June 2002, the Royal Government presented a proposal to establish a Government-Donor Partnership Working Group. This proposal was overwhelmingly endorsed and subsequently the Government-Donor Partnership Working Group was established. In its deliberations the Working Group agreed to begin its work by focusing on problems/issues for which feasible solutions already exist and that can be agreed to and implemented immediately. It was a pragmatic approach that assigned a high priority to picking the readily accessible “low hanging fruits”. Thus, the Working Group began its work by commissioning three studies to collect and analyze the necessary background information and outline feasible solutions to tackle the harmonization issues. The three studies focused on: (i) the capacity building practices of Cambodia's development partners, (ii) practices and lessons learned in the management of development cooperation; and (iii) preparation of national operational guidelines for development cooperation. The first two studies have been completed. Also, the first draft of the third study has been prepared.

5. The first study on the “Capacity Building Practices of Cambodia's Development Partners” was financed and supported by UNDP. The methodology used to carryout the study included personal interviews with donor and government representatives, as well as collection of quantitative data through a questionnaire from multilateral and bilateral partners and NGOs. The survey questionnaire covered five areas that are related to building the individual and institutional capacity and the employment of national and international personnel to support the implementation of the programs and/or to fill capacity gaps. These five areas included: training, operational support, monetary incentives including salary supplements, and the employment of national and international personnel. The study findings are now being discussed by the Council for Administrative Reform with development partners to arrive at a set of recommendations on which there is consensus, and to develop an action plan for their implementation.

6. The study on, "Practices and Lessons Learned in the Management of Development Cooperation: Case Studies in Cambodia", was financed and supported by Japan. This study examined four cases of good practices that included:

Sector-focused aid coordination:

- i. Education -- Sector Wide Approach (SWAp)
- ii. Health -- Sector Wide Management (SWIM) and Tuberculosis Sub-Sector (TB)

Cross-cutting-issue focused aid coordination:

- iii. Local Governance -- SEILA
- iv. Public Finance – Technical Cooperation Assistance Program (TCAP).

7. The preparation of the national operational guidelines for the grants component of the ODA, the third study, is financed and supported by UNDP. The guidelines are being prepared in close collaboration with key Government agencies and the development partners under the umbrella of a Sub-Group of the Government-Donor Partnership Working Group (GDPWG). These guidelines cover each stage of the program/project cycle: identification, formulation, implementation, monitoring, review and evaluation of projects. The guidelines take into account the OECD/DAC's Good Practice Papers on harmonizing donor practices for effective aid delivery, UN General Assembly Resolutions, and lessons learned in the management of development cooperation activities in Cambodia. This work on preparing operational guidelines on the grant side has been closely coordinated with the work on the preparation of the Standard Operating Procedures for loan projects. In terms of process, after the guidelines have been endorsed by the Sub-Group of the GDPWG, they will be presented for discussion and approval by the Government-Donor Partnership Working Group. After approval by the GDPWG, CDC will submit the guidelines to the Council of Ministers for approval.

8. The findings and recommendations of these studies present both opportunities and challenges for the Royal Government as well as the development partners. They offer opportunities to improve ODA effectiveness through strengthened partnerships to achieve more harmonized practices in program planning, formulation, financing, and the management of the implementation of development cooperation activities. The challenge now is to find ways to quickly move forward with the implementation of recommendations on which there is agreement between the Royal Government and the development partners.

3. PROMOTING HARMONIZATION THROUGH SECTOR AND /OR THEMATIC PROGRAMS

9. The Royal Government would like to emphasize the important role that sector/thematic programs can play not only in better aligning ODA supported activities with Cambodia's national development priorities to achieve its Millennium Development Goals, but more importantly, in providing a framework for harmonizing donor practices around jointly agreed priorities and actions. Cambodia's experiences with its sectoral/thematic programs show that sector-wide and/or broad issue based programs are not only more effective in aligning donor assistance with national priorities but that they also provide a practical framework for harmonizing donor practices as well as in enhancing Government ownership of the development process -- as compared to stand

alone projects that are delivered without an overall framework. In addition to the existing sector programs in the Education and Health sectors, and the SEILA program that have been operating for some time now, as well as the newly formulated Public Finance Management Program, and on-going work in the areas of Private Sector Development and Land Management -- the Royal Government would welcome its development partner's support to prepare sector wide programs in other key sectors as well, such as, agriculture, infrastructure (transport/energy/water), private sector development, land management, and decentralization.

10. The Royal Government's National Poverty Reduction Strategy was launched in March 2003. In the implementation of this strategic framework, the challenge has been on how to clearly define the entry points for programming the agreed upon poverty reduction action plan. The experiences in the implementation of poverty reduction strategies in other parts of the world, in particular Africa, have not been very encouraging. Learning from these experiences as well as on basic conceptual grounds, the Royal Government believes that well defined sectoral and cross-sectoral programs that fully incorporate the action plan of the poverty reduction strategy are the most effective entry points for programming poverty reduction initiatives in Cambodia.

11. In terms of Cambodia's experiences with sector wide programs, in the Education Sector (SWAp) and Health Sector (SWiM), so far, the joint work in the education sector has progressed more than in the health sector. A significant number of donors are participating as partners in the planning, reviews and financing under the SWAp in the education sector. An Education Strategic Plan (ESP) 2001-2005 and a detailed Education Sector Support Program (ESSP) 2001-2005 were completed in 2001. The first joint review and appraisal of the ESP/ESSP were carried out in June 2001. Since then joint ESSP reviews in collaboration with development partners have been carried out each year. In September 2004, a revised ESP and ESSP for 2004-08 was reviewed and endorsed by development partners. The ESSP 2004-08 outlines how ESP 2004-08 priorities will be managed, monitored and implemented through specific programs. The SWAp in the education sector has made two important contributions. First, it has made available to the Ministry of Education a mechanism for aligning donor assistance with the education sector needs. Second, it has reduced the transaction costs to the MOEYS of coordinating with each donor agency bilaterally. On the financing side, however, donor funding through direct budget support in 2003 accounted for only 18 percent of total donor assistance to the education sector, most of which is comprised of loans from multilateral financial institutions.

12. In the case of the health sector-wide management (SWiM) program the discussions with development partners started in 1999 and a Joint Health Sector Review was held in December 2000. A Health Sector Strategy (HSP) and a Health Sector Support Program (HSSP) for 2003-2007 were subsequently prepared. The implementation of the 5-year HSSP began only in January 2003. It has served as a way for three major donors, ADB, DFID and the World Bank, to coordinate their financial inputs to the health sector. The majority of donor assistance to the health sector under the SWiM arrangement is being provided in the form of project-type support. As compared to the SWAp in the education sector, the SWiM approach in the case of the

health sector has not so far produced a significant reduction in the administrative burden on the Government of coordinating with each donor bilaterally.

13. The Royal Government's SEILA Program was initiated in 1996 to formulate, test and continuously strengthen decentralized and de-concentrated systems for planning, financing and implementation of local development at the provincial and commune levels. Beginning with 5 provinces and a small number of pilot communes in 1996, by the end of 2001 and prior to the commune elections, coverage had expanded to half of the provinces and to more than one-third of the rural communes in the country. In 2003 the SEILA program coverage was extended to cover all provinces and communes. Adopting a partnership approach with the donor community at national level and an integrated annual programming framework with international agencies and NGOs at the provincial level, a high volume of additional, parallel resources have been mobilized and programmed each year to support development activities at the provincial and commune levels. External evaluations of the SEILA program have reaffirmed the socio-economic benefits that have resulted from civil works projects implemented by the private sector at the commune level as well as the growing capacity of the provinces, districts and communes to manage the decentralized systems. The partnership arrangements now cover all aspects of the programming cycle through joint planning, programming, budgeting/financing, and management of the program implementation. Progress is also being made to extend this partnership arrangement further to include the harmonization of monitoring and reporting procedures.

14. In addition to the sector wide programs and the SEILA program, over the last two years a number of donors have also begun to jointly finance a specific project or program. One recent example is the multi-donor funded Land Management and Administration Project. This project was based on a multi-donor appraisal mission, involving the World Bank, the Governments of Germany and Finland and the ADB. Work is now underway to develop a SWAP for Land Management and Administration.

15. Enhancing public financial management is crucial for strengthening good governance. The Royal Government and the development partners have recently completed the formulation of a SWAp for Public Financial Management (PFM). This Program that is being jointly financed by 10 donors provides a framework for coherent and focused efforts to achieve the goals of the Royal Government's public finance management reform program. The Royal Government's PFM reform program is built upon four sequenced and prioritized platforms: (i) a more credible budget; (ii) effective financial accountability; (iii) the RGC policy agenda becomes fully affordable and prioritized; and (iv) RGC managers become fully accountable for program performance. The Royal Government is also working at developing a SWAp for Private Sector Development.

16. There is now also a growing awareness and recognition among the development partners of Cambodia that sector and/or program based approaches for ODA programming can not only bring a greater coherence to ODA programming by providing a framework for alignment of donor programs with Government's priorities, but more importantly, the sector/thematic programs also provide a framework for harmonizing

donor practices. Over the last few years, a series of resolutions have been adopted by the Council and European Parliament that are aimed at the re-orientation of aid instruments, where appropriate, towards increased use of budget support and sector-wide approaches. To operationalize these resolutions, in February 2003, the European Commission issued detailed "Guidelines for European Commission Support to Sector Programmes". The Royal Government is encouraged by this recent EU initiative, and the fact that the OECD/DAC Working Party on Aid Effectiveness and Donor Practices has prepared a "Good Practices Paper on Providing Harmonized Support to Sector Approaches".

4. STRENGTHENING PARTNERSHIP WITH THE PRIVATE SECTOR

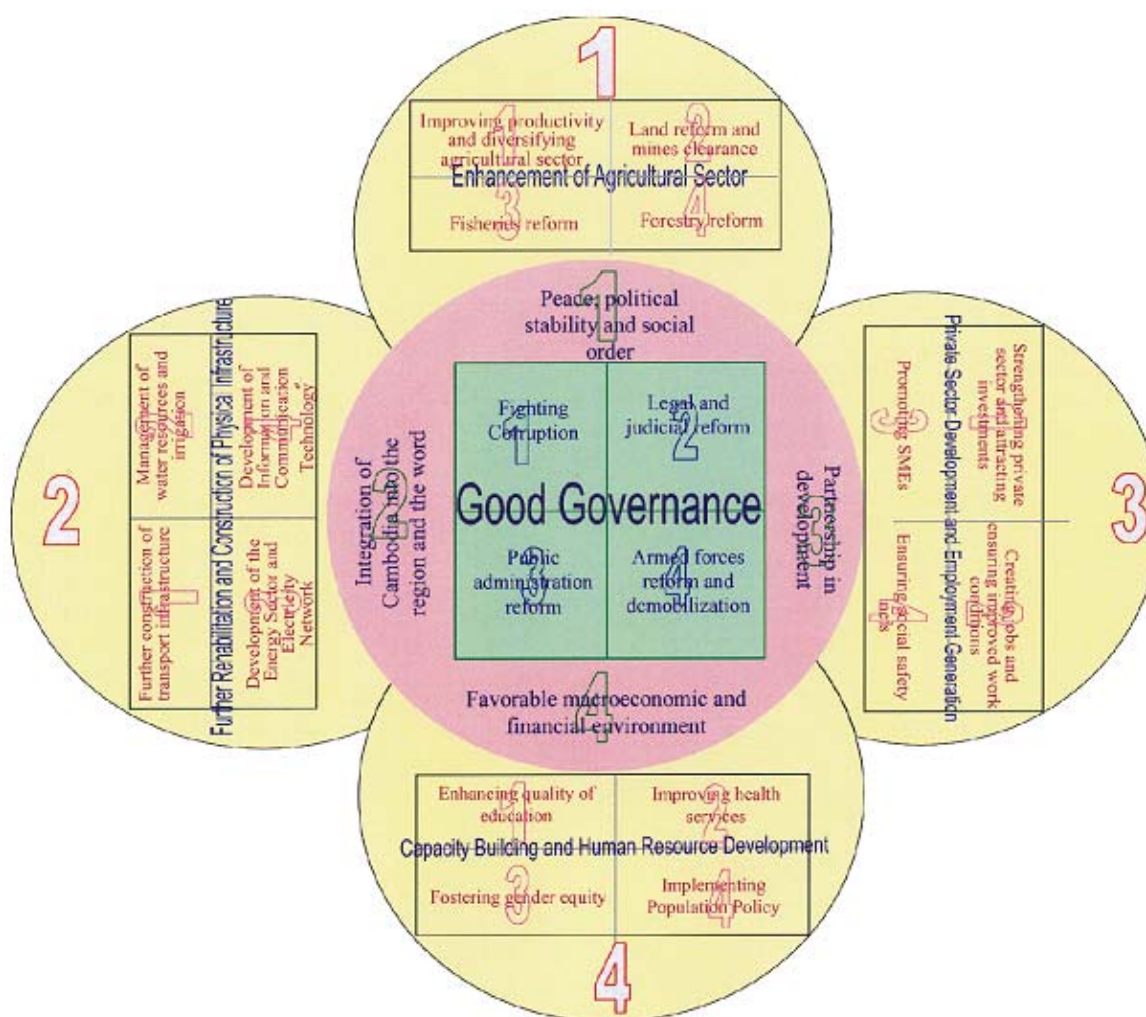
17. The Royal Government recognizes that improving the business climate and creating an enabling environment for private sector development are key pre-requisites for fostering growth, creating jobs, reducing poverty and achieving sustainable economic development. To remove the critical bottlenecks impeding the development of the private sector as well as to provide inputs in the processes of administrative and regulatory reforms, a Government-Private Sector Forum was established in December 1999. It has been meeting once every six months. To further strengthen the key institutional mechanisms to support the implementation of the Rectangular Strategy (see Chart 1 on next page), at the last Government-Private Sector Forum held on 20 August 2004, Samdech Hun Sen, the Prime Minister announced the formation of a Steering Committee for Private Sector Development. This Committee is chaired by the Sr. Minister, Minister of Economy and Finance, with the Sr. Minister, Minister of Commerce as Deputy Chairman, and the Governor of the National Bank of Cambodia and the Ministers of MIME, MAFF, MPWT and MOT as Members, and the Secretary General of CDC, as its Secretary. The Steering Committee is responsible for carrying out the following tasks:

- i. Act as the "Etat major" of the Head of the Royal Government in leading, implementing, and monitoring the implementation of the Rectangular Strategy on Private Sector Development.
- ii. Propose and implement measures to improve investment climate.
- iii. Propose and implement measures for trade facilitation.
- iv. Propose and implement measures to promote Small and Medium Enterprises.
- v. Propose and implement other measures to promote private sector development.

18. The Steering Committee is supported by the following three Sub-committees: (i) Sub-committee on Investment Climate and Private Participation in Infrastructure (PPI) chaired by Sr. Minister, Minister of Economy and Finance; (ii) Sub-committee on Trade Facilitation chaired by Sr. Minister, Minister of Commerce; and (iii) Sub-committee on SMEs chaired by Minister of Industry, Mines and Energy. The Steering Committee and its three Sub-committees will work closely with the development partners who want to assist Cambodia in developing the private sector, including the WB, ADB, IMF, UNDP, JICA, AUSAID, GTZ, AFD and others, based on a SWAP arrangement for private sector development.

CHART 1

The Royal Government's Rectangular Strategy



5. RESTRUCTURING OF THE WORKING GROUPS UNDER THE CG MECHANISM

19. In Cambodia, the Working Group mechanism to monitor progress on specific policy issues has been in operation since 1999. Until recently, the membership of most of these working groups had included donor representatives only and they operated in an ad hoc manner without an overall framework for their operations. Over the past year, on behalf of the Royal Government, the Council for the Development of Cambodia (CDC) has had discussions with development partners on how to restructure the working groups in order to enhance aid effectiveness and to bring a greater coherence to ODA supported activities. The CDC gave a proposal to the development partners on the basic principles for restructuring the working groups in October 2003. An agreement on the basic principles to restructure the working groups was reached in mid 2004. Subsequently, these basic principles were endorsed by Samdech Hun Sen, the Prime Minister at the Pre-CG Meeting held on 10 September 2004 in Phnom Penh.

20. The Royal Government and the development partners have agreed to establish seventeen Joint Technical Working Groups at the sectoral/thematic level based on the following basic principles:

First, to strengthen the ownership and leadership of the Royal Government, the joint technical working groups shall be lead by the responsible ministry or agency and will include members from other concerned ministries and the development partners. The appointment of the chairperson of the working group shall be made by the Minister of the ministry/agency that will lead the working group. Based on the experiences of some working groups, the newly appointed chairperson of the working group must have the political will and commitment and willingness to devote his/her time to lead the working group. The development partners will nominate a donor coordinator and an alternate coordinator to ensure donor-donor coordination and continuity of the operations of each working group.

Second, each working group must prepare its Terms of References (TORs) that clearly defines its roles and responsibilities. However, to ensure consistency across working groups the TORs of each working group will include the following basic generic elements:

- i. Each Working Group shall jointly prepare detailed strategies or policies for the sector that is being dealt with by the Group, if they have not been developed so far, ensuring that these strategies or policies are consistent with the Rectangular Strategy. For Working Groups that have already developed the strategies or policies, they should be revised if necessary.
- ii. After the strategies or policies have been prepared, each Working Group shall develop an Action Plan and identify priorities and modalities of support for the implementation of the 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 Working Group shall be responsible for mobilizing resources needed for the implementation of the agreed 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 Working Group 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.

21. To ensure coordination among the 17 joint technical working groups, the Royal Government and development partners have also agreed to create a "Government-Donor Coordination Committee (GDCC)" to provide policy guidance, to set priorities, and to propose measures to solve problems raised by joint technical working groups. This committee will meet regularly every 3 months. Samdech Hun Sen, the Prime Minister has appointed Senior Minister, Minister of Economy and Finance and the First Vice Chairman of the CDC, to be the chairman of the GDCC. The membership of the GDCC will include Ministers or heads of government agencies, Ambassadors or heads of diplomatic missions, and heads of multilateral institutions. The Government-Donor Coordination Committee will be assisted by a Secretariat. This Secretariat will be located at the Cambodian Rehabilitation and Development Board (CRDB) at CDC. The role of the Secretariat is to liaise with the joint technical working groups and to collect progress reports as well as identify problems facing the joint technical working groups during the implementation of their activities. The Secretariat will prepare a quarterly progress report including issues and challenges as well as proposed remedies to tackle the problems and submit it to the GDCC for its consideration and decision making. In case, the GDCC is not able to make decisions or solve the problems, the Secretariat will report directly to the Head of the Royal Government for decision-making or to provide direction and guidance.

22. At the Pre-CG Meeting held on 10 September 2004, Samdech Hun Sen, the Prime Minister also identified the following urgent tasks that each joint technical working group should complete before the 7th Consultative Group Meeting that was held on 6-7 December 2004.

First, both parties coordinate to finalize the list of members and TORs of the joint technical working group, as soon as possible.

Second, each joint technical working group has to appraise the progress in the nine priority areas for joint monitoring that were agreed to at the 6th Consultative Group meeting held in June 2002 as well as identify any outstanding issues and challenges. The reports of the technical working groups will be consolidated into one document that will be presented at the Consultative Group meeting to be held in December 2004.

Third, each technical working group has to develop its action plan and benchmarks for consideration and adoption at the Consultative Group Meeting to be held in December 2004.

23. The restructuring of the Working Groups under the CG mechanism that the Royal Government and the development partners in Cambodia have agreed to, represents a

fundamental change in the institutional set up for planning, managing and monitoring progress on the implementation of development assistance.

24. As part of the restructuring of the working groups, the TORs of the existing Government-Donor Partnership Working Group is being reviewed and revised. A key role of the restructured Partnership Working Group will be to coordinate and facilitate the implementation of the Royal Government's Action Plan on Harmonization and Alignment to implement the Rome Declaration's commitment. As the focal point on harmonization and alignment issues, it will continue to provide guidance on these issues to all Technical Working Groups (TWGs). The technical work related to planning, resourcing, managing the implementation of Working Group's Action Plan, and providing quarterly progress reports to the Government-Donor Coordination Committee will be the responsibility of each TWG.

6. ACTION PLAN ON HARMONIZATION AND ALIGNMENT

25. As the next steps, the Rome Declaration encouraged partner/recipient countries to design country-based action plans for harmonization, agreed with the donor community that set out clear and monitorable proposals to harmonize development assistance using the proposals of the OECD/DAC Task Force and the MDB technical working groups as reference points. In turn, the bilateral and multilateral agencies agreed to take actions to support harmonization at the country level.

26. The formulation of Royal Government's Action Plan to move forward on the implementation of Rome Declaration's commitments to harmonize the practices of the development partners has been a high priority of the Royal Government. With assistance from the UNDP and the World Bank, the Action Plan has been prepared after extensive consultations and collaboration between Government and development partners and with government ministries and agencies over the last year. This process of consultations began at the first workshop held in January 2004 to examine and sensitize Government and donor representatives to the harmonization and alignment issues. Following this workshop, the Royal Government prepared a zero draft of the action plan on harmonization and alignment that was discussed and reviewed by representatives of government institutions and development partners at a second workshop held in June 2004 in Siem Reap. The revised draft incorporating the feedback from the second workshop was discussed and reviewed by an inter-ministerial group at a workshop held in Sihanoukville in August 2004. The draft incorporating changes recommended at the inter-ministerial workshop was discussed and approved at the fourth and final workshop held at CDC on 26-27 October 2004. This workshop was attended by both Government and donor representatives. The final Royal Government's Action Plan on Harmonization and Alignment that incorporates the outcome of the discussions at the fourth workshop was endorsed by the Council of Ministers on 19 November 2004. It is presented as Annex I. An important element of this Action Plan is Royal Government's commitment to prepare a single National Strategic Development Plan for the years 2006-2010 that will serve as the framework for alignment of all ODA supported activities.

27. In terms of the management of the implementation of the Action Plan, the Royal Government would like: (i) the Partnership Working Group to continue to provide the overall direction; and (ii) the newly restructured sectoral/thematic Joint Technical Working Groups to take the responsibility for the day to day operational management of the implementation of the activities in the Action Plan and for monitoring progress in their areas.

28. The Royal Government recognizes that achieving full harmonization is a long-term process and in some areas may be difficult in the short-term. It has, therefore, adopted a gradual approach with an immediate focus on areas where some concrete steps can be taken in the short-term that would increase the national ownership of the development cooperation activities, lessen the burden on implementing agencies, and minimize the unintended adverse effects of some donor practices, notably those related to capacity development.

7. SIGNING OF A DECLARATION BY THE ROYAL GOVERNMENT OF CAMBODIA WITH 12 DEVELOPMENT PARTNERS

29. The Royal Government is pleased to report that on 2 December 2004, the following 12 development partners of Cambodia signed a Declaration to work with the Government in the implementation of RGC's Action Plan on harmonization and Alignment of their ODA supported activities:

- Australia
- Canada
- Denmark
- France
- Germany
- Japan
- Sweden
- United Kingdom
- Asian Development Bank
- European Commission
- UN System
- World Bank

A copy of the Declaration is presented as Annex II.

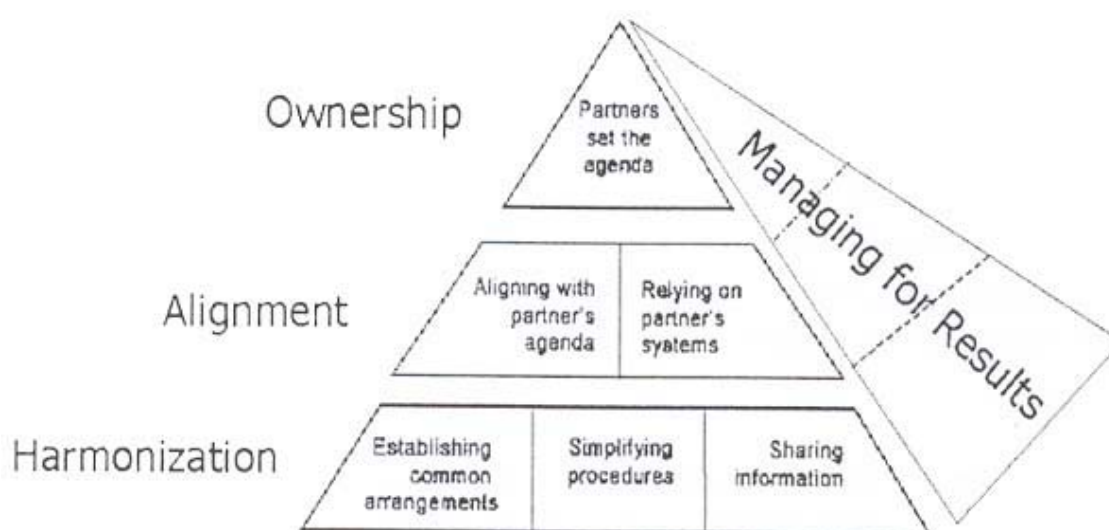
8. CHALLENGES

30. Following the Rome meeting, Cambodia was selected as one of the 14 pilot countries to implement the Rome Declaration at the country level. Early in 2004, the OECD/DAC Task Team carried out a survey of progress made on harmonization and alignment in the 14 pilot countries. This survey consisted of a comprehensive three part questionnaire that focused on ownership, alignment and harmonization issues based on

an "aid effectiveness pyramid" as the framework for monitoring progress on the implementation of the Rome and Marrakech commitments. This pyramid covers three broad areas:

- **Ownership** by recipient countries to establish their development agenda.
- **Alignment** of donor's development assistance with recipient country's development priorities.
- **Harmonization** of donors practices to streamline and harmonize their policies, and procedures.

AID EFFECTIVENESS PYRAMID



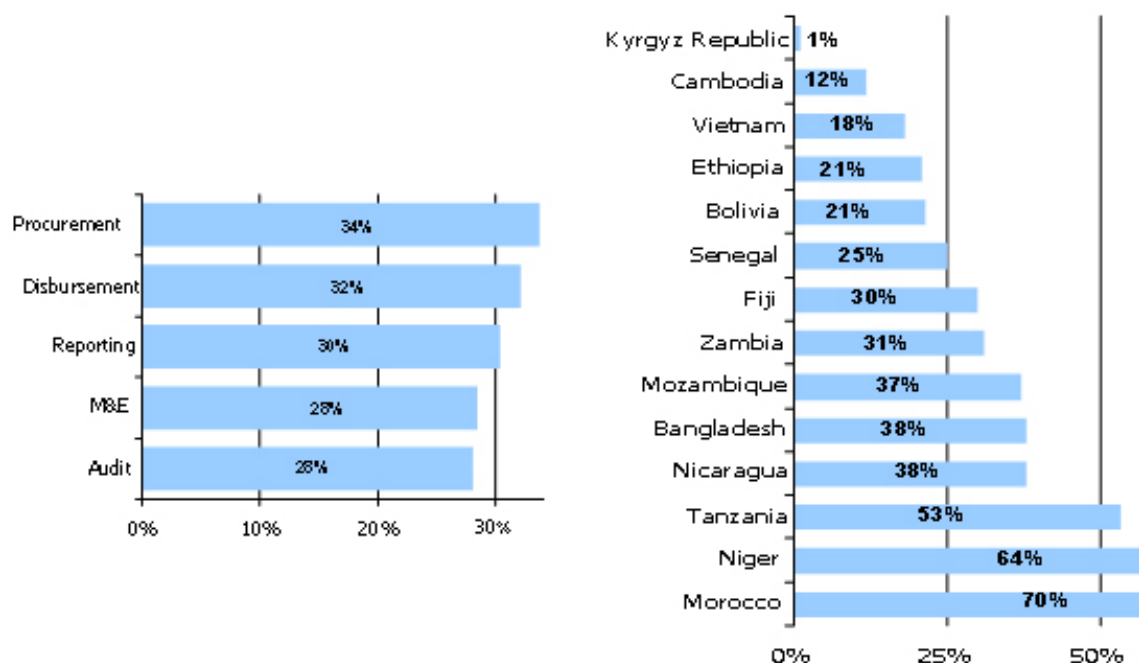
31. The process of completing the three part survey questionnaire involved extensive consultations within Government institutions, among donors, and between Government and donors. In Cambodia, after extensive discussions within the Government, among donors, and between Government and donors the questionnaire was completed not only on time but also Cambodia was reported to be the first country to return the completed questionnaire to OECD/DAC. The Task Team has just completed the first draft of the summary report presenting an overview of the survey results for the 14 countries. This report provides insights into how ODA is currently being managed in the 14 countries. The survey results also highlight the differences between the 14 countries in two areas:

- i. the use of partner country systems and procedures to manage aid, and
- ii. the volume of donor country missions.

32. On the *use of partner country systems*, the survey asked donors to indicate the share of their project portfolios where donors relied on partner country's administrative systems in areas of procurement, disbursement and accounting, reporting, monitoring and evaluation, and audit. In all of these areas, the averages for the 14 countries show that only around one-third or less of the ODA is being channeled through country systems. These averages, of course, mask significant disparities between countries. The report, however, does provide country specific information on "procurement" as an

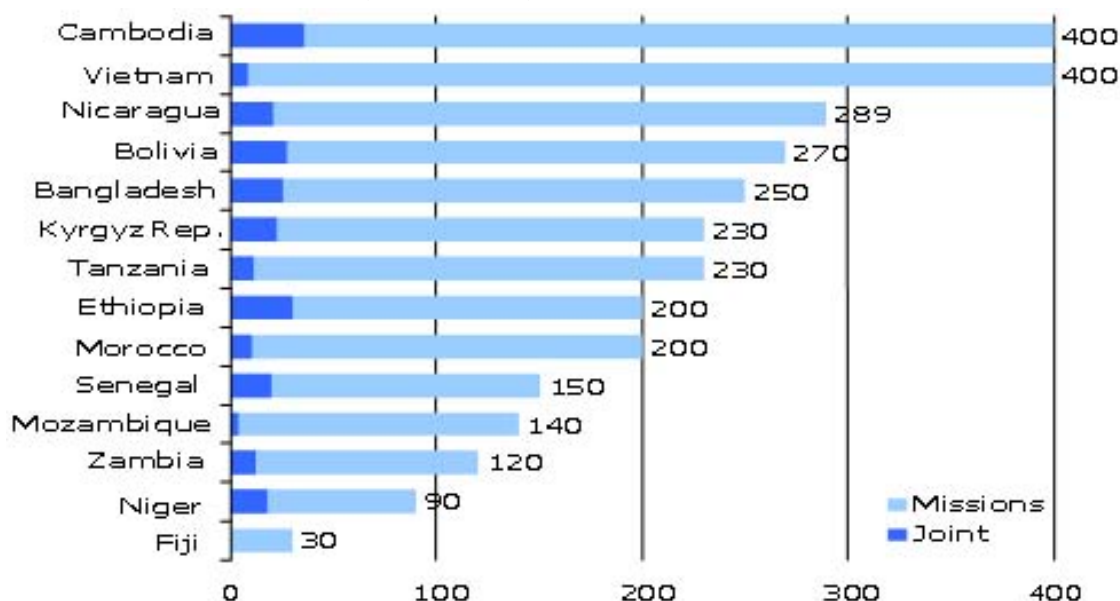
illustration. In terms of the use of partner country procurement systems and procedures, Cambodia is reported to have the second lowest rate among the 14 countries – only 12 percent of donor portfolios make use of Cambodia's procurement system and procedures as compared to 70 percent in the case of Morocco.

Are donors using country systems?



33. In terms of the *number of donor missions in 2003*, Cambodia is reported to have had the highest number of donor missions – more than 400 – the same number as Vietnam. This number is considered to be conservative by the authors of the report based on methodological considerations. The survey results show that less than 10 percent of donor missions involved more than one donor -- that is joint missions.

Number of donor missions?



9. LOOKING AHEAD

34. Looking ahead, the OECD/DAC survey results highlight some of the challenges that need to be faced to improve aid effectiveness. Achieving success will require a strong commitment and a collective will to tackle the difficult issues. The Royal Government recognizes that to encourage a greater use of government systems and procedures by the development partners it needs to significantly strengthen its systems and procedures. The Royal Government is also aware of the challenges that some of the development partners face to effectively participate in the implementation of the Action Plan on Harmonization and Alignment to improve aid effectiveness. The most serious of these challenges is the divide between agreed global policies on harmonization and alignment by the authorities at the national or headquarters of the development partners, and the follow up actions needed to change the practices and behavior of donor operations at the country level. In the case of a number of bi-lateral partners, the authorities in the capitals have now prepared their Action Plans for harmonization and alignment in line with OECD/DAC principles. It is however, not clear whether or not the authorities at the capital or headquarters have fully examined the operational implications of the policies that they have agreed to, and where necessary, taken actions to amend the rules and regulations that govern the planning and management of their ODA resources. Last year, on behalf of the Royal Government, the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia (CDC/CRDB)) had asked the OECD/DAC Task Team to not only share these Action Plans with partner countries but also to closely monitor and periodically report to partner countries on:

- whether or not the Action Plan prepared at the capital of a member country or the headquarter of a multi lateral organization has been shared with their country field offices;
- whether or not the capital of a member country or the HQ of multilateral organization has provided clear direction or instructions to their country field offices to implement their national or HQ action plan; and
- what authority has been delegated to country field offices to implement the action plan in the partner country context.

35. There is an urgent need for the headquarters of the development partners to speed up this process to enable their country offices in Cambodia to effectively participate in the implementation of Cambodia's Action Plan on Harmonization and Alignment that has been prepared through a collaborative effort between the Government and the development partner's representatives stationed in Cambodia.

36. There are many challenges that the Government and representatives of our development partners in Cambodia need to begin to tackle together, for example:

- How to build capacity of ministries and agencies to empower them to plan and deliver their services effectively and efficiently to citizens?
- How to strengthen national systems and procedures to encourage a greater use of these systems and procedure by the development partners to discourage the creation of parallel implementation systems and structures?

- How to increase delegated cooperation arrangements?
- How to minimize the number of donor missions and increase the number of joint donor missions?
- How to ensure alignment of ODA supported activities with national priorities?
- How to reduce excessive reliance on the use of international experts?
- How to attract and retain qualified national personnel in the civil service in light of the fiscal constraints over the short- and medium-term that limit options to increase current low salaries to an acceptable level?
- How to make ODA supported activities more transparent and accountable for the benefit of the citizens of Cambodia?

37. Based on progress that has been made over the last two years to strengthen aid coordination and management, in particular the agreement to establish 17 Joint Technical Working Groups lead by a Government representative, the high level decision-making Government-Donor Coordination Committee that will be monitoring progress quarterly, and the Action Plan on Harmonization and Alignment; the Royal Government is confident that with the continuing cooperation of its development partners these challenges can be met. Over the next year, to improve aid effectiveness the Royal Government will be placing special emphasis on:

- Preparing a single National Strategic development Plan for the years 2006-2010.
- Implementing the action plan on harmonization and alignment as follow up to the Rome Declaration.
- Preparing National ODA Management and Utilization Policy.
- Promoting sector and/or thematic/program based approaches for ODA programming.
- Strengthening partnerships between public sector institutions, NGOs and civil society at the sub-national levels.
- Strengthening partnerships with the private sector.

ANNEX I: RGC's Action Plan on Harmonization and Alignment: 2004-2008

| Section A: Ownership and Leadership | | | | | |
|--|---|---|---|--|--|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 1. RGC leads the process and prepares a single Strategic National Development Framework for the next planning cycle (2006-2010) | | | | | |
| a) RGC prepares and adopts a single National Strategic Development Plan (2006-2010). | (i) SEDP and NRSP are consolidated into one strategy document, aligned with CMDGs: <ul style="list-style-type: none"> Formalize institutional mechanism for formulating NSDP (TWG/Planning and Poverty reduction) MoP requests all line Ministries & Institutions to formulate individual Strategic Plan Sector ministries/agencies prepare Sectoral Strategic Plans Sectoral Strategic Plans consolidated into a NSDP Consultations on NSDP with all stakeholders NSDP Revised, if necessary Consolidated NSDP submitted for adoption by RGC and for approval by the legislatures | MoP, SNEC with line Ministries and Institutions MOP and line ministries Ministries and TWGs MOP MOP MOP MOP | WB,ADB, UN, and DFID TWGs TWGs TWG/Planning and Poverty Reduction TWG/Planning and Poverty Reduction TWG/Planning and Poverty Reduction | TWG on Planning & Poverty Reduction established and starts developing NSDP. Technical meetings in MOP held to discuss NSDP preparation process and guidelines for the preparation of NSDP issued. Sector Strategic Plans prepared. Technical workshop(s) First draft of NSDP prepared National Workshop(s) Revised NSDP completed. NSDP approved by RGC and Parliament. | December 2004 January 2005 May 2005 June-August 2005 September 2005 October, 2005 November-December 2005 |

| Section A: Ownership and Leadership | | | | | |
|--|--|-------------------------------|---|--|-----------------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 1. RGC leads the process and prepares a single Strategic National Development Framework for the next planning cycle (2006-2010) | | | | | |
| a) RGC prepares and adopts a single National Strategic Development Plan (2006-2010). | (ii) Implement the National Strategic Development Plan through national sector programs in the form of SWAp, SWiM and Program Based Approach. | Concerned sector ministries. | Concerned donors through Technical Working Group. | Preparation of national sector programs in at least 2 sectors | June 2005 |
| | (iii) Expand the application of SWApS, SWiMs, and PBAS modalities in appropriate sectors, e.g. <ul style="list-style-type: none"> • Agriculture • Infrastructure: sub-SWAPs in transport/energy/water • Land Management • Decentralisation | Line ministries and CDC | TWGs | National Sector Programs in other areas developed. | 2005 - 2006 |
| b) RGC uses a single national development framework for planning linked to resource allocation, including ODA. | (i) Use the new TWG on Planning and Poverty Reduction as mechanism for coordination for planning and monitoring the implementation of the NSDP. | MEF, MoP and CDC | TWG/Planning and Poverty Reduction | Process for coordination for planning and monitoring of NSDP established. | Early 2005 |
| | (ii) Build a common understanding of relationship between the NSDP and other planning and budgeting mechanism. | MEF and MOP | TWG/Planning and Poverty Reduction | Workshops to disseminate information on NSDP and other planning & budget mechanisms. | Throughout 2005 |
| | (iii) Reflect the priorities of the NSDP in the budgeting process. | MEF | TWG/PFM | MEF & MOP explore options and take appropriate actions. | Beginning 2006 |
| | (iv) Incorporate sector priorities in the preparation of MTEF. | MEF with concerned Ministries | TWG/PFM | Sector priorities incorporated in the MTEF. | 2006 |

| Section A: Ownership and Leadership | | | | | |
|---|--|------------------------------|------------------|---|------------------------------------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 2. RGC assumes leadership role in the coordination of development assistance | | | | | |
| a) Cambodia's Action Plan for Harmonization and Alignment—2004-2008, outlining RGC's priorities on harmonization and alignment, is prepared and agreed with development partners. | (i) RGC's Action Plan on Harmonization and Alignment prepared and approved. | CDC and ministries | All donors | Government approves National Action Plan. | November 2004 |
| | (ii) Secure agreement between RGC and interested donors on a Partnership Agreement. | | | Partnership Agreement signed. Inform the CG meeting on the H & A Action Plan and Partnership Agreement | November 2004 December 2004 |
| b) RGC has one ODA coordinating body. | (i) Strengthen CDC's leading role within the RGC on ODA coordination and resource mobilization. | CDC | TWG/Partnerships | Endorsement of the GDCC. | Dec 2004 |
| | (ii) Strengthen CDC's focal point for ODA planning. | CDC | TWG/Partnerships | CDC leads all discussions for ODA planning. | Jan 2005 onwards |
| | (iii) CDC leads the coordination process to implement Cambodia's Action Plan on Harmonization and Alignment. | CDC | TWG/Partnerships | Endorsement of CDC lead role to implement H/A Action Plan. | Dec 2004 |
| c) RGC's ODA Management Policy prepared and agreed with donors. | (i) Formulate basic principles of ODA Management. | CDC and concerned Ministries | TWG/Partnerships | Discussion and agreement with donors on principles of ODA management. | November 2005 |
| | | | | Adoption and implementation of basic principles of ODA management. | Dec 2005 |

| Section A: Ownership and Leadership | | | | | |
|--|---|------------------------------|------------------|--|----------------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 2. RGC assumes leadership role in the coordination of development assistance | | | | | |
| d) Joint planning and monitoring of the implementation of RGC's development priorities, involving donors and stakeholders, as outlined in its strategic development framework(s) and its Rectangular Strategy. | (i) Restructuring of the Working Groups finalized leading to joint planning and monitoring on the implementation of RGC's development priorities outlined in its strategic development framework(s) and the Rectangular Strategy. | CDC and line ministries | Donors | Inform CG | December 2004 |
| e) RGC has the information it needs to lead and coordinate development assistance. | (i) Donors provide full information about their activities to RGC. | CDC | TWG/Partnerships | Agreement on modality and content of information provided by donors. | June 2005 |
| | (ii) Donors provide periodic progress reports on on-going harmonization and alignment efforts to RGC. | CDC | TWGs | Periodic reports, on quarterly basis, provided. | Start Jan 2005 |
| 3. As one of the fourteen pilot countries, Cambodia plays an active role in the implementation of the Rome Declaration on Harmonization and Alignment (2003). | | | | | |
| a) RGC provides regular progress reports on implementation of Cambodia's Action Plan on Harmonization and Alignment. | (i) RGC reports progress at the Second High Level Forum on Harmonization and Alignment (HLF2). | CDC | | Progress report presented at HLF 2. | Early 2005 |
| | (ii) Government prepares periodic reports on the implementation of the Rome Declaration. | CDC | TWG/Partnerships | Reports prepared and presented to GDCC. | on-going |
| | (iii) RGC participates in Regional Workshop on Harmonization and Alignment. | CDC | | | On-going |

| Section B: Capacity Development | | | | | |
|--|--|------------------------------|------------|---|-------------------------------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 1. RGC's capacity strengthened to effectively perform development coordination and management functions | | | | | |
| a) The capacity of CDC, coordinating agencies and sector ministries strengthened to effectively perform development coordination and management functions. | (i) Assessment of the capacity development needs of the relevant government agencies to effectively perform development coordination and management functions completed within the context of the preparation of sector plans (SWAPs). | Relevant government agencies | TWGs | Each sector plan (SWAP) includes capacity development needs assessment and strategy for filling the critical gaps. | December 2005 |
| | (ii) Secure commitments from ministries and development partners to support the identified capacity development needs secured. | Relevant government agencies | TWGs | Adequate commitment (financial) secured. | December 2005 |
| | (iii) Develop and implement training and institutional strengthening programs based on the results of the capacity assessment. | Relevant government agencies | TWGs | Indicators developed by TWGs measuring increased capacity within government agencies. Decrease in % ODA spent on TA. | December 2005 on-going |
| | (iv) to avoid institutional duplication and confusion, assess inter- ministerial mandates and relationships. | CAR | TWG/PAR | Each TWG flags institutional issues and informs the TWG/PAR. | on-going |

| Section B: Capacity Development | | | | | |
|---|---|------------------------------|------------|---|--------------------------------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 1. RGC's capacity strengthened to effectively perform development coordination and management functions | | | | | |
| | (vi) TWGs provide timely feedback on all sector capacity development proposals to ensure that the TA to be provided is based on demand-driven needs at the sector/program level | Concerned ministries | TWGs | Process designed and disseminated | June 2005 |
| b) Agreement on principle and practices of donor support for allowances and salary supplements to Government employees. | (i) Finalize strategies to deal with incentives issues, including salary supplements, finalized. | CAR and concerned Ministries | TWG/PAR | Agreement on strategy. | |
| | (ii) Review the findings of the study on "Capacity Building Practices of Cambodia's Development Partners" and develop an action plan to implement agreed recommendations between the Government and donors. | CAR and concerned Ministries | TWG/PAR | TWGs develop Action Plans in their areas. | December 2005 |
| | (iii) Develop guidelines for remuneration of local consultants and Cambodian nationals employed on donor supported programs/projects, based on market principles. | CAR and concerned Ministries | TWG/PAR | Survey on 'market rates' for national consultants and project staff. (see CAR Labour Survey) Guidelines agreed and disseminated. | December 2005 June 2006 |

| Section C: Alignment | | | | | |
|--|--|-----------------------------------|------------|--|--|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 1. RGC and donors adopt the consolidated Strategic Development Plan of the RGC as the common framework for planning ODA. | | | | | |
| Donor activities are aligned with government strategies and policies. | (i) Increased donor efforts to align their country assistance strategies with the RGC's national development priorities, strategies, approaches and processes, and the Rectangular Strategy. | CDC and concerned ministries | TWGs | All new donor country strategy documents are aligned to the RGC Strategic Development Plans and to the NSDP (2006-2010). | on-going |
| 2. Donor practices are harmonized around the generic elements of the program/project cycle | | | | | |
| a) Government introduces national operational guidelines for development cooperation activities covering all component of the program/project cycle. | (i) RGC prepares in collaboration with development partners national operational guidelines for development cooperation activities on the grant side that embody international standards, and adopts these guidelines. | CDC | UNDP | National Operational Guidelines prepared, agreed and discussed with partners, and adopted by government and partners. | Now to June 2005 |
| | (ii) Donors, government and national institutions use National Operational Guidelines in the planning and management of the implementation of their programs/projects. | CDC, MEF and concerned Ministries | All donors | National operational guidelines used in planning, designing and implementation of projects/ programs. | Loan projects (June 04); Grant projects (Dec 05) |
| b) Development assistance is increasingly delivered in accordance with RGC's priorities. | (i) Donors support is linked to the government's strategic development plan, and implementation through the MTEF. | MoP, MEF | All donors | | From now on |

| Section C: Alignment | | | | | |
|--|--|------------------------------|------------------|--|---------------------------------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 3 Donors increasingly use Government's systems, procedures and practices, where appropriate | | | | | |
| a) Development partners seek to reduce the proportion of ODA that bypasses the National Budget and RGC commits to integrate ODA into budget . | (i) Donors provide full information to RGC on ODA flows (including contributions to NGOs) in a timely fashion, to enable integration into budget cycle | CDC and concerned Ministries | TWG/Partnerships | Data to CDC for previous year provided by March each year by all donors | on-going |
| b) Medium Term Expenditure Framework (MTEF) is strengthened and expanded. | (i) Donors increase the share of aid commitments provided through multi-year funding arrangements | MoP, MEF | TWG/PFM | Where sector-wide MTEF exist, increasing number of donors commit to multi-year financing | on-going |
| | (ii) RGC commitment to accommodate direct budget support through implementation of PFM. | MEF | TWG/PFM | | on-going |
| | iii) Identify new areas where the direct budget support modality may be a viable option for disbursing ODA funds. | MEF and concerned ministries | TWG/PFM | New areas identified. | on-going |
| c) Allocation and utilization of ODA resources are transparent and accountable. | (i) Review and Upgrade Government procurement and financial Management. | MEF | TWG/PFM | Government procurement and financial system improved. | on-going |
| | (ii) Standardize reporting formats for sector programs. | MEF, CDC | TWG/Partnerships | Reporting format agreed and implemented – utilized for sector programs. | December 2005 |
| | (iii) The National Audit Authority's role and auditing capacity are strengthened. | NAA | PWG/PFM | As NAA capacity builds, then an increased proportion of ODA is audited by NAA | on-going |
| | (iv) All donors give CDC permission to freely disseminate information on ODA. | CDC | TWG/Partnerships | Agreement with all donors secured | December 2004 |
| | (v) All detailed ODA data is available on CDC website | CDC | TWG/Partnerships | Functioning ODA database website. All donors provide data on ODA disbursements for 2005 to website. | December 2005 March 2006 |

| Section D: Harmonization and Streamlining | | | | | |
|---|--|--|---|--|--|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| 1. Donor-Donor harmonization is strengthened to reduce transaction costs and to maximize ODA benefits for Cambodia | | | | | |
| a) Decrease burden on the Government in the formulation of Donors' strategies and plans. | (i) Donors prepare joint country assistance strategies. ii) Donors deliver their assistance through SWAPs, SWiMs and PBAs. | CDC, MEF and concerned Ministries Sector ministries | TWGs TWGs | Fewer stand alone donor country strategies. At least two more SWAPs prepared. SWAPs in other areas formulated. | on-going June 2005 December 2006 |
| b) Donor field offices have sufficient authority to enable the implementation of country-based harmonization initiatives. | (i) Donors HQ's take action to decentralize authority to their Cambodia country offices to provide maximum flexibility in implementing the harmonization action plan. (ii) Donor country Offices take actions to tackle HQ constraints where these occur. | CDC CDC | Donor HQs, and country offices Donor country offices | HQ's delegate the authority to country offices needed to implement Cambodia's Action Plan on Harmonization and Alignment. Information on donor country office constraints to harmonize shared at GDCC meetings. | January-December 2005. on-going |
| c) Donors further harmonize their practices at the implementation stages of sector programs. | (i) Existing and new TWGs work on sector harmonization action plan appropriate to their circumstances, including addressing salary supplementation issues. | CDC, CAR, and MEF | TWG/PAR/PFM | Harmonization Action Plan for the sector prepared and agreed between RGC and donors, including salary supplementation issue. | December 2005 |
| | (ii) Donors integrate PIUs/PMUs into RGC's institutional structures. | Concerned ministries | TWGs | PIUs/PMUs integrated into Government structures by 2007 | 2005 |
| d) Donors commit to eliminating duplication of activities. | (i) All new activities to be peer reviewed by TWGs to avoid duplication/gaps, and maximize synergies. | CDC and concerned ministries | TWGs | TWG report on steps taken to reduce duplication. | 2005 |

| Section D: Harmonization and Streamlining | | | | | |
|---|--|------------------------------|------------|--|--------|
| Results | Actions Needed | Responsible RGC Institutions | Lead Donor | Milestones | Timing |
| f) Donors undertake fewer missions, and increase the proportion of joint missions especially for analytical work, sector review, evaluation and monitoring. | (i) TWGs prepare a calendar of planned donor missions in their area. | CDC and line ministries | TWGs | Reduced number of donor missions. | 2005 |
| g) Donors decrease the burden on government of project management | (i) TWGs use SMART indicators to reduce the burden of project management. | CDC and line ministries | TWGs | Indicators prepared. | 2005 |
| | (ii) Increased number of delegated cooperation/lead agency arrangements. | CDC and line ministries | TWGs | Non resident donors deliver their assistance through delegated cooperation arrangements | 2005 |
| | (iii) Increased donor commitment to multi-year resourcing, linked to government multi-year budgeting system. | MEF | TWGs | | 2005 |
| | (iv) Increased number of joint donor missions. | CDC | TWGS | Increase proportion of joint missions by 10% pa, decrease individual missions by 10 p.a. | 2005 |

ANNEX II

Declaration by the Royal Government of Cambodia and Development Partners on Harmonization and Alignment

December 2, 2004
Phnom Penh

Declaration by the Royal Government of Cambodia and Development Partners on Harmonization and Alignment

Introduction

The Royal Government of Cambodia (RGC) and Cambodia's development partners declare their willingness to create an effective development partnership based on mutual commitment, trust, respect and confidence. We do so in the interests of the people of Cambodia—aiming to reduce poverty, improve our collaboration and sustain development gains towards achieving Cambodia's Millennium Development Goals. The objective of this Declaration is to enhance aid effectiveness through harmonization and alignment of donor and RGC practices and procedures to achieve quality outcomes and greater development impact.

The spirit of this understanding follows from the Royal Government of Cambodia's statement at the Fourth Consultative Group (CG) Meeting, *A New Development Cooperation Partnership Paradigm for Cambodia* (May 2000), the work of the OECD/ DAC, the resolutions of the Monterrey Consensus (March 2002), and the Rome Declaration on Harmonization (February 2003). This Declaration has been developed following discussions and exchanges at four Harmonization and Alignment Workshops held in Cambodia during January - October 2004 to implement the Rome Declaration's commitments.

We the Royal Government and the development partners of Cambodia are committed to the Rome Declaration on Harmonization and through this Declaration express our willingness to support the following:

Rome Declaration #1: Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonization efforts are adapted to the country context.

In Cambodia, we will align our programs to existing government strategies such as the Rectangular Strategy (RS), the National Poverty Reduction Strategy (NRSP) and the Socio-Economic Development Plan II (SEDPII), and we will work together to help the government produce an integrated National Strategic Development Plan NSDP (2006-2010).

Rome Declaration #2: Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures and practices to facilitate harmonization. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonize documentation.

In Cambodia, we will turn best practice in the following areas into common practice:

- *working towards Sector Wide Approaches where appropriate, and in all cases we will harmonize our resources, provision of TA and channels of delivery around one*

strategy; strengthening the involvement of civil society - as appropriate - to support the activities of government and donors in achieving the goals identified by the government in its national policies and strategies;

- *working to improve the government system--such as procurement and financial management-- to international standards so that we can adopt them; and*
- *Harmonizing, streamlining and simplifying donor requirements through joint formulation/ missions/projects/workshop/reporting etc.*

Rome Declaration #3: Implementing progressively—building on experiences so far and the messages from the regional workshops—the good practice standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices to our managers and staff at headquarters and in country offices and to other in-country development partners.

In Cambodia, we will produce a Partnership Report every six months for the Consultative Group meeting and the mid-CG Meeting. These reports will take stock of progress and will enable government and donors to share emerging good practices with the donors' headquarters and with the international community.

Rome Declaration #4: Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country based staff to manage country programs and projects more effectively and efficiently.

In Cambodia, we will encourage all development partners to look at ways to provide assistance through delegated cooperation -- especially those donors without an in-country presence.

Rome Declaration #5: Developing, at all levels within our organizations, incentives that foster management and staff recognition of the benefits of harmonization in the interest of increased aid effectiveness.

In Cambodia, this will mean that increasingly we will recognize and reward results achieved through collaboration rather than the number of inputs.

Rome Declaration #6: Providing support for country analytic work in ways that will strengthen government's ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, deliver, and efficiency of country analytic work.

In Cambodia, we will make efforts to have all analytic work carried out in harmony with the relevant sectoral TWG, thereby avoiding duplication, and achieving government ownership and building government capacity. Furthermore, both the RGC and donors recognize the importance of civil society in undertaking policy research and dialogue. Donors will support the government in fulfilling its responsibilities to undertake open, inclusive and respectful consultations with Cambodian civil society when undertaking studies or developing policies.

Rome Declaration #7: Expanding or mainstreaming country-led efforts (whether begun in particular sectors, thematic areas, or individual projects) to streamline donor procedures and practices, including enhancing demand-driven technical cooperation.

In Cambodia, this will mean that we will make efforts to provide Technical Assistance necessary for meeting capacity development needs identified at the sector/program level and within the framework of the relevant sectoral TWG -- and where appropriate, in the context of a Sector Wide Approach—so as to move towards more integrated and demand-driven technical assistance and more sustainable capacity.

Rome Declaration #8: Providing budget sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place. Good practice principles or standards—including alignment with national budget cycles and national poverty reduction strategy reviews—should be used in delivering such assistance.

In Cambodia, in addition to the actions spelled out in point 8, we will make efforts to provide full information to RGC on ODA flows (including contributions to NGOs) in a timely manner, to enable integration into the budget cycle, improve predictability of resources, provide more medium-term indication of donor support to Cambodia, in the context of the Medium Term Expenditure Framework.

Rome Declaration #9: Promoting harmonized approaches in global and regional programs.

In Cambodia, we will aim to do this in the context of the Mekong River Commission, GMS, ASEAN and other regional fora.

THE WAY FORWARD

We, the Royal Government and the development partners of Cambodia express our willingness to implement the RGC's National Action Plan on Harmonization and Alignment and to monitor progress in implementing the Plan, which will be reported through the Consultative Group process twice a year.

On its part the Royal Government of Cambodia will undertake the necessary reforms to enhance transparency and accountability especially in the areas of procurement, financial management and reduction of corruption.

We, the development partners will aim to make the planning and delivery of our assistance more transparent so that we can increase the accountability of all development actors and to improve aid effectiveness to maximize its benefits for the Cambodian people.

PARTNERSHIP AGREEMENT

We, the undersigned, hereby confirm our willingness to jointly work on enhancing aid effectiveness and efficiency in Cambodia.

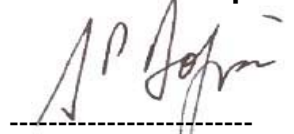
Signed this day, 2 December 2004, in Phnom Penh, Cambodia.


For the Royal Government of Cambodia:

H.E. Keat Chhon, MP
Senior Minister, Minister of Economy Finance
First Vice Chairman of the Council for the Development of Cambodia
Royal Government of Cambodia

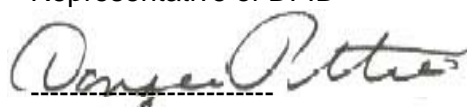


For the Development Partners:




Shyam P. Bajpai
Country Director ADB

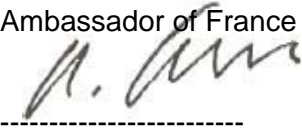
Lisa K. Filippetto
Ambassador of Australia

Elizabeth Smith
Representative of DFID

Donica Pottie
Ambassador of Canada

Mogens L. Christensen
Representative of DANIDA

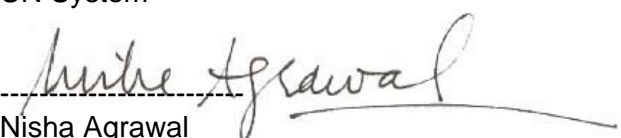
Winston McColgan
Chargé d'Affaires a.i., EC

Yvon Roé d'Albert
Ambassador of France

Pius Fischer
Ambassador of the Federal Republic of
Germany

Fumiaki Takahashi
Ambassador of Japan

Claes Leijon
Representative of Sida

Douglas Gardner
Resident Coordinator
UN System

Nisha Agrawal
Country Manager, World Ban

