

**SESSION VII CAMBODIA AID EFFECTIVENESS PROGRESS, CHALLENGES AND
RECOMMENDATIONS**

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on behalf of Development Partners
at the
CAMBODIA DEVELOPMENT COOPERATION FORUM**

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Session objective: To review progress of aid effectiveness, identifying recommendations on accelerating progress with focus on a selected number of strategic and sector-specific priority actions

Excellencies, Ladies and Gentlemen:

In 2008, halfway through the implementation of the Paris Declaration, we have a better understanding of progress and the remaining obstacles in making aid more effective in Cambodia. With the Accra Agenda for Action, agreed in September, we now have a stronger consensus on what our aid effectiveness priorities are.¹ Our dialogue today should focus on the immediate implementation of these priorities in Cambodia.

While there has been progress in establishing aid management policy frameworks and plans, and setting up new aid delivery modalities (such as Programme-Based Approaches and the Poverty Reduction and Growth Operation), progress at sector level remains too slow and the focus on development results is not always easy to confirm.

We believe that the 2008 Aid Effectiveness Report prepared by CDC/CRDB provides a strong basis to address these concerns and we are willing to use this report as a guide to our policy dialogue in early 2009. The improved quality of the report proves that the Cambodia ODA database has become an invaluable “Cambodian” tool to track aid and to provide data for evidence-based policy dialogue.

We support the recommendations drawn from the Aid Effectiveness Report. We very much appreciate the report’s focus on linking aid to development results, as well as on “identifying key bottlenecks and joint actions that are required”. We recognize in particular that aid effectiveness is not simply a technical agenda and that progress will require stronger political commitment from both the Royal Government of Cambodia and its development partners. We also strongly believe that “simplifying, prioritizing and grounding aid effectiveness initiatives” at sector level will contribute to make aid effectiveness more meaningful for all of us. Further efforts to build stronger and more effective partnerships and to equip Government

¹ Some of the commitments made in Accra include: (1) Develop plans and set targets on using country systems as a first option; (2) Increase efforts to support partner countries build the capacity of Government, Civil Society and Parliament for stronger ownership of development processes; (3) Reduce fragmentation of aid by improving complementarity of development partners and identify guiding principles for a country-led division of labour; (4) Establish individual plans to further untie aid and make all conditionalities public; (5) Improve the quality of aid information and strengthen medium term predictability of aid; and (6) Focus on delivering results which includes developing results management instruments to assess the impact of development policies.

and development partner staff with adequate competency and relevant skills will be needed. We believe that by doing so we will be better able to keep sight of and reach development results.

We would like to focus our response to the Aid Effectiveness Report around four areas: (1) aligning national planning, national budget and aid allocation; (2) addressing aid fragmentation through an increased use of sector-specific programme-based approaches, greater complementarity and clearer division of labour among development partners; (3) increasing our support to country systems; and (4) making aid effectiveness a core part of our development partnerships.

Aligning national planning, national budget and aid allocation for stronger country ownership

We welcome the recommendation in the Aid Effectiveness Report to strengthen the linkages between the three central Government agencies that coordinate planning, national budget and aid allocation. Stronger political will and capacity from central ministries and agencies to coordinate and implement detailed plans and budgets are required. Aligning planning, budget, and aid resources will be critical to translate NSDP priorities into results. More robust linkages will also contribute strengthening country ownership and leadership.

We would also like to emphasize that strengthening national ownership and accountability in the use of aid resources will require stronger engagement with the National Assembly and Civil Society, particularly as progress is made in the decentralization and deconcentration reform.

As the government makes progress in these areas, we recognize that timely, accurate and transparent information on our aid programmes will be even more critical. Transparency of aid information promotes accountability and ownership, but also contributes to reduce the risk of corruption. It also contributes to making the citizens of Cambodia better informed on how foreign aid is provided and used.

To support the Government's efforts to align planning budget and aid, we will:

- Continue providing full and timely reporting on our aid commitments and disbursements through the Cambodia ODA Database; and
- Move to an annual update of Development Partners multi-year projections, with the objective of aligning ODA disbursement projections with the budget planning cycle

Reducing aid fragmentation

This Aid Effectiveness Report provides compelling evidence that development assistance remains highly fragmented: more than 750 projects, 80% of which disbursing less than USD 1 million each, in total accounting for just 20% of total aid to Cambodia. The proliferation of projects, each with their own implementation arrangements, continues to undermine government leadership in sector management and reduces the impact of aid.

The Report also notes that new sources of financing – middle-income countries, global funds, private sector, civil society organizations – are likely to have a considerable impact on the financing profile for Cambodia. While new actors bring valuable experience in addition to new funding for development, this also creates management, transparency and coordination challenges. We welcome and support the Government's leadership in addressing this

challenge. Equally, we welcome the engagement of the middle income countries in established aid coordination mechanisms in Cambodia.

The Royal Government of Cambodia and development partners have indicated on several occasions that Programme-Based Approaches are their preferred aid management tool to address fragmentation. However, the share of development assistance provided through this mechanism remains very low, reported to be only 28% of development assistance to the Government.² Making progress in using Programme-Based Approaches is a concrete objective that should receive top priority.

The Accra Agenda for Action stresses the need for greater complementarity and division of labour among development partners. We welcome the Government's acknowledgement of the need to establish principles for the division of labour and its readiness to facilitate this process.

In order to address aid fragmentation, we propose to:

- Strengthen our efforts to support the development and consolidation of Programme-Based Approaches, which are specific to each sector's priorities and needs, and include road maps towards greater use of government planning and reporting systems.
- Reaffirm our commitment to increasing the share of aid channeled through existing Programme-Based Approaches so as to accelerate progress towards the agreed target of 66%.
- Engage in a dialogue and support Government's efforts to promote division of labour within and across sectors starting at the level of Technical Working Groups in 2009.

Increasing the use of country systems

It is encouraging to see progress in recording aid in the Cambodia ODA database, as well as in aggregate predictability. This is the result of improved information management through the ODA database and the use of the Multi Year Indicative Framework. It is important to keep the momentum in improving the quality of aid information and reflect it in the national budget.

Important challenges remain with other country systems. The slow progress in providing aid through Programme-Based Approaches suggests, for instance, a limited use of country systems for programming, implementation and reporting on aid-financed activities.

The use of country systems for budget execution, financial management and audit and for procurement also remains low. The continued use of parallel systems can be illustrated by the fact that development partners still continue to bypass government banking arrangements in favor of individual commercial bank arrangements to execute their projects. Progress toward a greater use of country financial management systems will require renewed efforts from Government to reduce fiduciary risk, strengthen financial accountability and consolidate progress in the Public Financial Management reform towards faster progress in its implementation in line ministries and agencies.

Development partners commit to take immediate steps to identify ways for using country systems as a first option, in line with the Accra Agenda for Action, and will:

² See 2008 Paris Declaration Survey report

- Carry out joint analysis, based on mutually agreed standards, to assess the quality of country systems in each sectors.
- Inform the Royal Government of Cambodia on the results of our individual risk assessments and be explicit on the rationale for not using country systems as well as review our positions on a regular basis.
- Provide technical cooperation for capacity development focused on strengthening country systems, using the government guidelines for management of technical assistance once those guidelines have been approved.

Making aid effectiveness a core part of our development partnerships

As we address the above challenges, we will need to continue making efforts to make aid effectiveness a core part of our work. Further progress in making aid more effective will require stronger commitment from development partners and Government to mainstream aid effectiveness principles in current and future activities. Moving towards an increased use of more effective and new aid modalities will also require development partners and Government staff to be equipped with different skills and competencies.

In addition to continue supporting Government's efforts to promote aid effectiveness priorities across sectors, development partners commit to make progress in internalizing aid effectiveness priorities by:

- Responding explicitly in our new country plans and relevant project documents to local aid effectiveness priorities and provide effective technical cooperation for capacity development at sector level, in close consultation with CDC/CRDB.
- Ensuring better in-house induction of new staff on national core reforms, aid effectiveness principles, and approaches to capacity development.
- Reflecting aid effectiveness in the recruitment, TORs, performance assessment of our staff, advisors and consultants.

Concluding remarks

We look forward to working with all Technical Working Groups and with CDC/CRDB in updating the aid effectiveness Joint Monitoring Indicator early next year and identifying a set of joint actions to address some of the bottlenecks that remain at sector level.

We reaffirm our commitment to partnership with the Royal Government of Cambodia. This will require taking proactive action in seeking the necessary support from our headquarters as well as committed Government leadership at the level of line ministries.

Finally, we would like to congratulate the Royal Government of Cambodia for CDC/CRDB's strong leadership in supporting line ministries and agencies and in reaching out to development partners. Cambodia is rightly acknowledged for its proactive approach to aid coordination and CDC/CRDB's continued participation in the global dialogue has showcased some of early results of this good practice on aid management to the rest of the world.