SESSION I NSDP MID-TERM REVIEW – ACHIEVING THE CMDGS

Development Partner Response to the RGC Session I presentations on (1) the NSDP Mid-Term Review; and (2) progress towards a Medium-Term Expenditure Framework

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Excellencies, Ladies and Gentlemen:

The development partners extend their thanks to the Royal Government of Cambodia for the presentations on both the Mid-Term Review of the National Strategic Development Plan, and the Medium Term Expenditure Framework process.

We will now provide a joint response to both of these key presentations. We are responding to these two topics in this way because we believe that, to make effective use of domestic and external resources, it is now essential to strengthen the integration of medium term planning, public financial management and aid management. This is a topic which we know has been discussed within Government — it is addressed very well in the Aid Effectiveness Review, for example — ; and is increasingly a focus of discussion among the Development Partners, too. This CDCF provides us with the most appropriate forum in which to carry this discussion forward.

Firstly, let's consider key **progress in outcomes and capacity development** [Slide 1] — progress which was summed up well in the presentation by the Ministry of Planning on the findings of the Mid-Term Review.

The MTR clearly shows that significant gains have been made over the first half of the National Strategic Development Plan. To begin with, 2007 marked a fourth consecutive year of double digit growth.

Growth is of course only the means to an end. But evidence from the Cambodia Socio-Economic Survey and other sources shows that the growth seen in Cambodia in recent years has been reflected in progress towards the outcome targets laid out in the NSDP and the Cambodia Millennium Development Goals.

- Poverty has fallen from 35% in 2004 to 30% in 2007
- Self reported food security has improved and child malnutrition is declining
- School enrolment of children from the poorest families has continued to catch up with that of wealthier groups.

These results have been driven by growth and rising household incomes; but also by increases in the level and quality of public sector spending. In parallel to sustained economic growth, progress has been achieved in the public financial management (PFM) reform programme. As part of this reform programme, the Government has now produced a draft Medium Term Expenditure Framework (MTEF) for 2009-2011; started to prepare Budget Strategic Plans in pilot ministries; and made significant improvements to the budget cycle. The presentation by MEF provided a very useful summary of the progress made and the current status of the MTEF.

However, **challenges emerging over the last year** will make it much harder for Cambodia to sustain this rate of economic and social progress over the next few years [Slide 2]. The outcome data we have only covers up until the end of 2007; and over the last 12 months the context for Cambodian development has changed substantially.

As will be discussed in the next session this morning, at this stage it does not appear that Cambodia's financial system is particularly exposed to the global financial crisis. Developments in the global economy may even create some new potential opportunities: Cambodian farmers may be able to benefit from higher world prices for food. But on the whole, inflation and the global financial crisis are likely to slow growth and poverty reduction in Cambodia over the coming years. The challenges that Cambodia faces include:

- Businesses and households are finding it hard to manage rapid inflation, which peaked at 25 percent in May 2008

- Recession in north America and Europe is likely to reduce demand for Cambodian garment exports, with effects on investment and employment

- Tourist arrivals are slowing;

- And there is considerable uncertainty about future investment flows, especially in real estate

There is now a need and an opportunity to **integrate the national systems for planning, raising and spending revenue, and aid management** [Slide 3]. Over recent years the Royal Government of Cambodia has made progress in three areas of core cross-cutting Government functions. These are:

- defining medium term goals and a broad strategy for reaching these goals – the role played by the NSDP, under the coordination of the Ministry of Planning, and by sector strategies of the line Ministries;

- raising and spending revenues in a more efficient and effective manner – the public financial management reform programme, led by the Ministry of Economy and Finance; and

- strengthening the management of official development assistance to ensure it is more effective in supporting Government goals and systems – the harmonization and alignment agenda, led by the Council for the Development of Cambodia.

There three processes have to date evolved in parallel. Cambodia is now at a stage where to make further significant progress the Government will need to start to bring these processes closer together. The need for this integration was already becoming clear before this year; but it becomes particularly urgent as Cambodia faces an external environment that is much less supportive of investment and growth. In such an environment, it is critical that the Government can direct all available resources, both domestic and external, efficiently and effectively to stated development priorities.

Bringing these processes together is a challenge in every country [slide 4]. Development partners acknowledge that the challenges of creating "joined-up" government are exacerbated by current levels of capacity, and by the large number of partners that the Government has to deal with. However, it is now critical that issues of institutional cooperation are addressed directly. At the central level, this will involve mechanisms and processes that rationalize the roles and relationships that guide the interactions between the Ministry of Planning, Ministry for Economy and Finance, and Council for the Development of Cambodia. And this integration will need to be reflected within line Ministries in greater organizational coordination between planning, budget and financial management units.

Three critical issues for attention that would support next steps include:

- Improving revenue collection, which at 12.5 percent of GDP is improving but remains far below the low income country average;

- Using the budget and MTEF to direct public spending to support the medium-term policy goals that are laid out in sector strategies and Budget Strategic Plans, and aggregated in the NSDP;

- Developing public financial management systems that ensure that actual disbursements and expenditure follow these budget and MTEF allocations.

There is now the potential to build the foundations for integration [slide 5]. Whilst planning integration there are a number of priority actions in planning, budgeting and aid management that could be accelerated in order to make integration possible.

Firstly, the Ministry of Economy and Finance, working with the Ministry of Planning, CDC and line Ministries, needs to accelerate the development of procedures to integrate the formulation and execution of the budget and medium-term expenditure framework with policy and planning systems. This will involve strengthening arrangements for institutional cooperation by:

- bringing together the planning of capital and recurrent spending, whether financed by domestic or external resources, through implementation of a comprehensive MTEF;

- moving away from incremental budgeting to a budget formulation process shaped by policy and results; and

- upgrading the capacity and coordinating role of the MEF Budget Office in managing the budget process.

The Ministry of Planning can coordinate a push to improve arrangements for integrating the strategies of line Ministries and Agencies with the overall goals and targets of the NSDP. It can also coordinate an effort to further strengthen national monitoring and evaluation systems, and to effectively integrate these into the overall NSDP Monitoring Framework. Good data is essential to guide policy formulation and implementation. The amount and quality of socio-economic data collected by the Government has improved dramatically in recent years: Government, civil society and development partners are now able to obtain a much better understanding of patterns and trends than was possible even three years ago. However, this information is often not effectively used to guide policy, planning and budgeting decisions. To strengthen the Government's ability to respond rapidly and appropriately to development challenges and opportunities requires more evidence-based policy-making. To achieve this will require:

- better internal integration between the National Institute of Statistics, responsible for the production of key data, and the General Directorate of Planning, responsible for using it in coordinating and monitoring NSDP implementation and outcomes;

- closer working between the Ministry of Planning, line Ministries and sub-national authorities

- integrating the efforts of the planning, budgeting and financial management functions in line Ministries and sub-national authorities.

- increasing financing of capacity-building in statistical and M&E functions, with more financing from domestic resources to reduce the dependence of these systems on external assistance.

The CDC/CRDB has a critical role to play in helping to translate the goals and priorities in the NSDP into a strategic policy dialogue with development partners on the type of assistance that is required. In terms of programming, CDC/CDRB can use the MTEF to guide discussions on how to align ODA financing with Government priorities. There is a key link here with the agenda of aid effectiveness: if all resources, both domestic and external, could be assessed and managed together within a unified medium-term resource framework, this would remove some of the critical obstacles to effective harmonization and alignment, and help to make a reality of the principle of mutual accountability. The next step in this agenda is the identification by Government and development partners of a limited number of practical and verifiable actions that will effectively integrate aid effectiveness efforts with central and sector reform processes. We welcome CDC/CRDB plans to facilitate this process in collaboration with the Partnership and Harmonisation Technical Working Group in the first quarter of 2009.

Over recent months, both Government and development partners have talked increasingly about the next steps to be taken on these issues. This will clearly be a complex process that will take some time to develop at Line Ministry and sub national

Government level. However, given the progress to date it should be possible to move forward with the implementation of the overall medium-term budget and expenditure frameworks. To ensure continued collaboration and partnership in a Government-led process of integration, we have identified some key **guiding questions** [Slide 6] which are intended to help Government and development partners achieve greater clarity and focus around the next steps to be taken.

Firstly, the development partners would welcome clarification on the relationship between the updated Rectangular Strategy and the NSDP (now extended); and between these documents and sector strategies, which are at very different levels of maturity in different line Ministries. We would also welcome some discussion of the practical implications of extending the lifespan of the NSDP. What, in practice, does this mean for NSDP monitoring and evaluation, both in terms of the timing of major surveys and the programming of support to strengthen institutional capacities to collect and analyse data? And, bearing in mind that mobilizing bureaucratic resources and ensuring broad participation may be difficult in the run-up to and immediately after a national election, what does the Government propose as a realistic process and timeline for preparing a new NSDP?

Second, the development partners would welcome guidance from the Government on the timeline for moving from a draft paper MTEF to a finalized MTEF that is then implemented. To be effective, such an MTEF would need to provide, firstly, a framework projection for overall resources — that is, the medium-term budget framework; secondly, guidance on allocation of resources (capital and recurrent) between sectors; and, finally, practical mechanisms for progressively directing actual spending according to this allocation.

Third, it would help to know what is anticipated in the development of sectoral Budget Strategic Plans. Although there is still room for improvement, development partners are increasing the accuracy and timeliness in our reporting on ODA through the Government's ODA database. Are we now at a point where Government is able to commit to preparing sectoral budget strategic plans that are comprehensive – that is, inclusive of ODA? Such plans, together with the MTEF, would, we hope, allow CDC and the development partners to improve aid management.

These and other questions are critical to further improvements in the Government's capacity to formulate and deliver its development strategy. We put them forward as a sign of development partners' strong interest in supporting the next steps in the Government's national development plan and public financial reform.

In conclusion, the development partners take this opportunity to reinforce our commitment to supporting the Government in achieving the goals and targets laid out in the NSDP and CMDGs. We congratulate the Government on the progress made to date, as recorded in the Mid-Term Review. To sustain this progress calls for better integration of Government systems to enable a timely and effective response to the challenges and opportunities that Cambodia faces in the coming year. We look forward to continuing discussion on the more detailed elements of this agenda, and on how we can support it, through the existing Government-Development Partner coordination mechanisms. Thank you.