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AID EFFECTIVENESS IN CAMBODIA

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ACRONYMS AND ABBREVIATIONS

AER	Aid Effectiveness Report
CDC	Council for the Development of Cambodia
CDCF	Cambodia Development Cooperation Forum
CG	Consultative Group
CMDGs	Cambodian Millennium Development Goals
CPA	Country Programmable Aid
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
EU	European Union
GDCC	Government-Donor Coordination Committee
GDP	Gross Domestic Product
GNI	Gross National Income
H-A-R	Harmonization, Alignment and Results
HHI	Hirschmann-Herfindahl Index
JMIs	Joint Monitoring Indicators
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MYIFF	Multi-Year Indicative Financing Framework
NGO	Non-Governmental Organization
NSDP	National Strategic Development Plan
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PBAs	Program-Based Approaches
PFM	Public Financial Management
PIU	Project Implementation Unit
RGC	Royal Government of Cambodia
SWiM	Sector-Wide Management
TC	Technical Cooperation
TWGs	Technical Working Groups
UN	United Nations
WB	World Bank
WHO	World Health Organization

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EXECUTIVE SUMMARY

Development assistance contributes significantly to the development process of Cambodia. After the first General Election in 1993, there have been at least 35 official donors and hundreds of civil society organizations that have provided development aid to Cambodia in various sectors and development areas.

During the last decade, total development assistance to Cambodia amounted to about US\$5.5 billion. Cambodia obtained, on average, development assistance of around US\$600 million a year during the last five years, of which about 10 percent is provided by non-governmental organizations (NGOs). The main sector destinations included government and administration, health, transportation, education, and rural development.

The large amount of official development assistance (ODA) has been disbursed for technical cooperation (TC). TC represents about half of the total ODA during 1998-2006, while country programmable aid (CPA) accounts for around 40 percent. The impact of TC has become a wider debate for all stakeholders on aid effectiveness to Cambodia. TC has been criticized for

being mostly supply-driven and poorly coordinated, and it provides less capacity development than capacity substitution.

It has been noted that the role of non-traditional donors, especially China, and some private donors has been more important in Cambodia. China is the largest donor giving concessional loans to Cambodia. While some criticize that China provides ODA with less attention to development results, such as poverty reduction, China nevertheless contributes to some development areas, particularly the transportation and energy sector, and government-related activities. China has also shared the amount of ODA it planned to give to Cambodia for 2007-2009 during the first Cambodia Development Cooperation Forum (CDCF) and also provided some information to the Cambodian ODA Database. Private donors' participation in the policy-making process has been increasing. However, their voice has limited influence on the government's decision making. In general, NGOs cannot lobby the government without intervention and assistance from external/official development partners.

Aid delivery to Cambodia is characterized by a highly de-concentrated environment. Aid to Cambodia is

highly fragmented in both in the aggregate and in particular sectors, especially health and education. Due to a large number of donors, the Royal Government of Cambodia (RGC) has to spend a lot of time on meeting and reporting. The costs of aid fragmentation in Cambodia include the establishment of about 100 parallel project implementation units, the existence of 400 donor missions, reviews, and studies per year, and the provision of duplicated technical cooperation and funding. In general, the RGC has to work with various bilateral and multilateral donors to ensure effective and efficient aid coordination.

In addition to aid fragmentation, the delivery of development aid to Cambodia remains volatile although it has been improved during the last five years. Financing remains unpredictable, and the amounts provided are not adequate to the sector's funding needs. Pledges of ODA disbursements, including the Multi-Year Indicative Financing Framework (MYIFF), are only indicative. In many cases, committed funding is rarely released on time. On the other hand, development partners also criticize the government's poor financial management system which contributes to the volatility in aid delivery.

To ensure effectiveness of aid, the RGC has strengthened aid coordination and management. Technical working groups (TWGs) have been established in 19 sectors and thematic areas. The RGC committed to exercising full ownership and leadership over its development policies and development actions. More importantly, an online ODA database has been developed and put into operation over the last three years that allows the government and development partners to have better access to information to support their coordination, planning, implementation, and reporting.

Aid is not effective unless it is used to generate greater impact on development results in alignment with the National Strategic Development Plan. Increased effectiveness requires more effort and stronger commitments and willingness from both the RGC and development partners. There are some key challenges with which they need to cope. These include using programme-based approaches, strengthening TWGs, promoting the role of civil society organizations, improving government systems (particularly public financial management), and finally strengthening of information on aid delivery and management.

INTRODUCTION

Background

Cambodia is one of the poorest countries in Asia and relies heavily on aid¹ from development partners² to finance its development. Although the country escaped from civil unrest almost two decades ago and has enjoyed remarkable economic growth in recent years, development assistance from bilateral, multilateral, and private donors (e.g., NGOs) continues to dominate Cambodia's development process.

Cambodia has experienced high annual economic growth the past few years. Its Gross Domestic Product (GDP) was estimated at 10.8 percent in 2006 and 10.1 percent in 2007.³ However, its per capita income was still lower than other low income countries. The GDP per capita of Cambodia stood at US\$514—well below the average of US\$649 for low income countries in 2006. The poverty rate remains high, at about 35 percent in 2004, while the country ranked 131st out of 177 countries in the UN's *Human Development Index 2007/2008*.

Cambodia remains one of the developing world's most heavily aid-dependent countries. According to the *2007 World Development Indicators*, official development assistance (ODA) to the country amounted to US\$538 million in 2005, constituting 9.1 percent of Cambodia's Gross National Income (GNI) and far exceeding the low income country average of 2.9 percent. Aid per capita in Cambodia was about US\$38 in 2005, far above the low income country average of US\$17. Cambodia's aid receipts accounted for about half of the national budgets.

Cambodia's aid architecture is characterized by very high levels of fragmentation. According to OECD/DAC

statistics, net ODA to Cambodia amounted to US\$530 million in 2006 from 39 bilateral and multilateral donors. According to the Hirschmann-Herfindahl Index, which is based on OECD/DAC statistics, aid fragmentation in Cambodia from 1996-2005 stood at 0.08 compared to 0.3 for all developing countries and 0.22 for Sub-Saharan Africa. While aid flows vary from year to year, average volatility of aid to Cambodia compares unfavorably to all developing countries. Based on OECD/DAC statistics, volatility of aid to Cambodia was about 13 percent from 1997-2006, compared to 6.35 percent for all aid recipients.

Aid coordination has become increasingly challenging for Cambodia due to its large number of development partners. The link between foreign aid and national development plans, particularly the National Strategic Development Plan (NSDP) and the Cambodian Millennium Development Goals (CMDGs), is a matter of growing debate. Historically, development cooperation in Cambodia has been donor-driven, and insufficient attention has been paid to Cambodian ownership. The quality of external technical cooperation (TC) has been criticized since the provision of TC has been poorly coordinated among donors. In addition, capacity substitution often has been provided instead of capacity building assistance.⁴

Recognizing the challenges, the Royal Government of Cambodia (RGC) and development partners have made recent commitments to strengthening the effectiveness of development assistance by promoting RGC's leadership over development cooperation activities.⁵ But even more effort and greater commitment from both sides is needed to effectively link development assistance with development results and to strengthen national capacity.

Objectives of the Study

This study aims primarily to examine issues of aid fragmentation and volatility as well as aid modalities and types of assistance. The specific objectives of the study are:

- To assess the aid environment with a special focus on the volatility and fragmentation of overall and sectoral aid and their impacts in terms of costs and gaps in the delivery of service; and,
- To assess the effectiveness of approaches and innovations, which are put in place to smoothen and coordinate overall and sectoral aid with a special focus on the health sector.

Methodology

This study was based on desk reviews of existing studies, and employed both quantitative and qualitative approaches. The quantitative component entailed collecting and analyzing data from relevant research reports and statistics, such as the database of the Council for Development of Cambodia (CDC) and OECD/DAC statistics. The qualitative information was derived from semi-structured interviews with key informants from CDC and the Ministry of Health in addition to an extensive review of literature.

Data sources and measurement issues

Some difficulties were found in the use of data from the CDC and OECD/DAC. CDC did not have a good database management system in place during the 1990s and disbursements from all development partners were not recorded well. Therefore, an analysis of trends in aid fragmentation and volatility that is based on CDC statistics from the 1990s could conceivably be called into question.

CDC and OECD/DAC use different definitions for ODA and technical cooperation (TC), which poses another challenge for researchers. The CDC ODA database includes among its external flows aid to the non-official sector, which technically is not defined as ODA. This, in part, explains why data in the CRDB/CDC database, in some cases, is inconsistent with data collected by OECD/DAC and recorded in the Creditor Reporting System (CRS).⁶ Furthermore, TC data from CRDB/CDC includes both free-standing TC and investment-related TC because many development partners have difficulty differentiating the two types of cooperation. The OECD/DAC database accounts for only free-standing TC.

The quality of the CRDB/CDC and OECD/DAC data on ODA disbursements to Cambodia has historically posed a considerable challenge for researchers who use it analysis purposes. In this report, CRDB/CDC data is mainly used in the analysis for Cambodia, but OECD/DAC data was also employed when discrepancies were found with CRDB/CDC data and when CRDB/CDC data was found to be incomplete. For comparative purposes, data from OECD/DAC and the World Development Indicators are utilized.

Outline of the report

This report is a case study of aid effectiveness in Cambodia. It is organized based on the main concepts of aid effectiveness relating to the emerging role of new aid players, country programmable aid, fragmentation and volatility of aid, and aid coordination. At the same time, it examines trends in development aid to Cambodia.

An overview of trends in development aid is provided in the second section. The third section discusses the role of new aid players. A review of country

programmable aid, including a brief note on technical cooperation, is provided in the fourth section. The fragmentation of aid and its associated costs in Cambodia is discussed in the fifth section, followed by a review of the volatility and predictability of aid

in the sixth section. The ongoing dialogue over recent progress in aid coordination in Cambodia is discussed in the seventh section. The last section of the report identifies the key challenges associated with aid effectiveness in Cambodia.

TRENDS IN DEVELOPMENT AID

Trends in development aid to developing countries

When investigating trends in development assistance to Cambodia, it is essential to view global trends related to ODA in aid recipient countries, especially among Least Developed Countries (LDCs). As viewed in the Cambodian Aid Effectiveness Report (AER) 2007, ODA per capita in LDCs has increased steadily since 2001. It decreased slightly in 2003, but has been on the rise since 2004. In contrast, ODA as a share of GDP has been on a gradual decline since 2003 (Figure 1).

Cambodia's ODA has increased steadily since 2001 and was slightly above the average ODA per capita for all LDCs from 2003 to 2005. Its ODA as a share of GDP has declined steadily since 2003 and was similar in ratio to that of other LDCs in 2005 because Cambodia had a high rate of GDP growth during this period at about 8-10 percent per annum.

According to *2007 World Development Indicators*, total net ODA to low income countries more than doubled from US\$18.7 billion in 2000 to US\$40.3 billion in 2005. Similarly, ODA per capita almost doubled from US\$9 in 2000 to US\$17 in 2005. In addition, total ODA as a share of GNI of low income countries increased slightly from 2.3 percent in 2000 to 2.9 percent in 2005 as some African countries obtained higher development assistance, notably Sudan, Ethiopia, Mozambique and Madagascar.

Similar to the trends in many other aid recipient countries, ODA disbursements to Cambodia increased moderately from US\$396 million in 2000 to US\$538 million in 2005. Its aid per capita also rose from US\$31 in 2000 to US\$38 in 2005, which was more than

double the average for low income countries of only US\$17 in 2005.

ODA as a share of GNI also declined from 11.2 percent in 2000 to 9.1 percent in 2005 in Cambodia because of high economic growth. However, it still was much higher than the average for low income countries, which was only 2.9 percent in 2005.

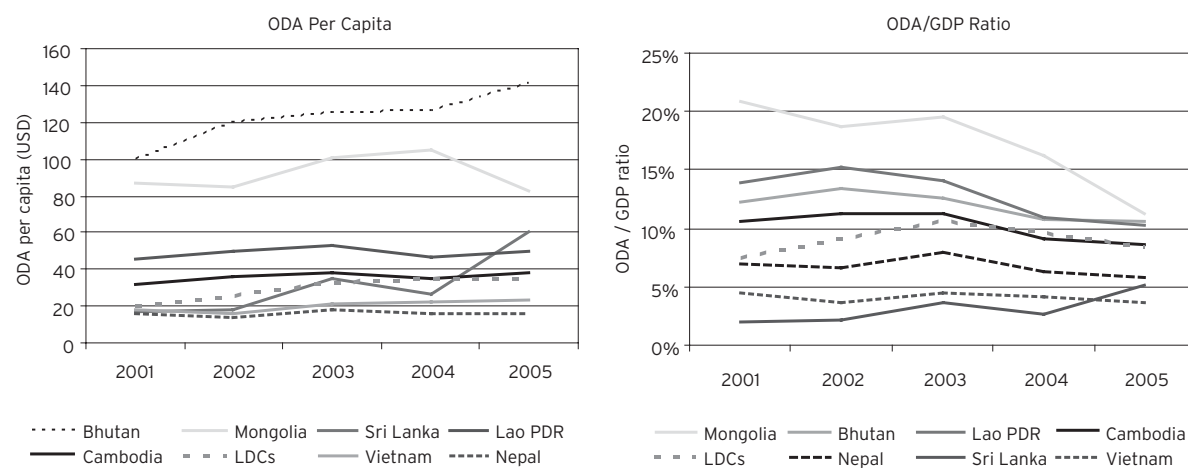
Trends in development aid to Cambodia

Aid disbursements to Cambodia have increased gradually over the past decade. According to the CDC database, total development assistance to Cambodia, including core funds from NGOs, amounted to US\$5.5 billion from 1998-2007.

It must be noted that the CDC/ODA database also includes core funds from NGOs. While CDC has plans to separate ODA from aid from official bilateral and multilateral development partners and NGOs in its online database, it has not yet been done. Therefore, in an effort to harmonize data from previous years, development assistance in the report refers to ODA, which includes core funds from NGOs, who contributed around US\$50 million a year or about 8 percent of the total aid disbursement over the last decade. The term "net ODA," which does not include core funds from NGOs, is used for discussions on international development assistance from official bilateral and multilateral agencies.

According to the CDC database total development aid provided to Cambodia increased significantly from US\$434 million in 1998 to US\$720 million in 2007. Note that the figure in 2007 is provisional because aid from NGOs (core funds) was not yet included in the CDC database. The actual number is thought to be higher.

Figure 1: ODA trends in Asian least developed countries



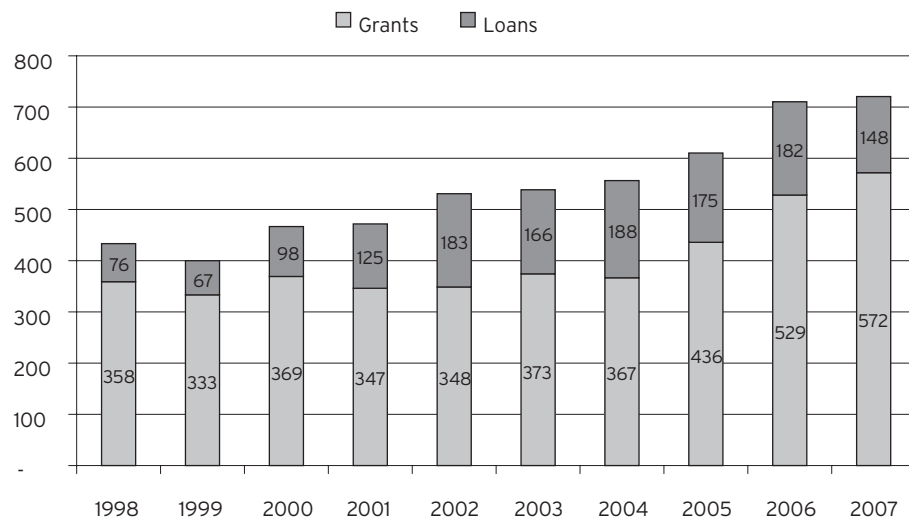
Source: The Cambodia Aid Effectiveness Report 2007, CDC.

Table 1: Aid dependency in developing countries

Countries	Net ODA (US\$ million)		ODA per capita (US\$)		ODA as Share of GNI (%)	
	2000	2005	2000	2005	2000	2005
Least developed countries						
Bangladesh	1,168	1,321	9	9	2.4	2.1
Cambodia	396	538	31	38	11.2	9.1
Ethiopia	686	1,937	11	27	8.8	17.4
Lao PDR	282	296	53	50	17.0	11.4
Madagascar	322	929	20	50	8.4	18.7
Mali	359	691	31	51	15.0	13.6
Mozambique	876	1,286	49	65	24.7	20.7
Nepal	387	428	16	16	7.0	5.8
Tanzania	1,019	1,505	29	39	11.4	12.5
Zambia	795	945	74	81	25.8	13.9
Low income countries						
Cameroon	379	414	26	25	4.0	2.5
Côte d'Ivoire	351	119	21	7	3.6	0.8
Ghana	600	1,120	30	51	12.4	10.6
Kenya	510	768	17	22	4.1	4.1
Mongolia	217	212	91	83	23.1	11.6
Tajikistan	124	241	20	37	13.1	10.9
Uzbekistan	186	172	8	7	1.4	1.2
Viet Nam	1,681	1,905	21	23	5.5	3.7
Zimbabwe	176	368	14	28	2.5	11.4
Total Low income countries	18,718	40,353	9	17	2.3	2.9

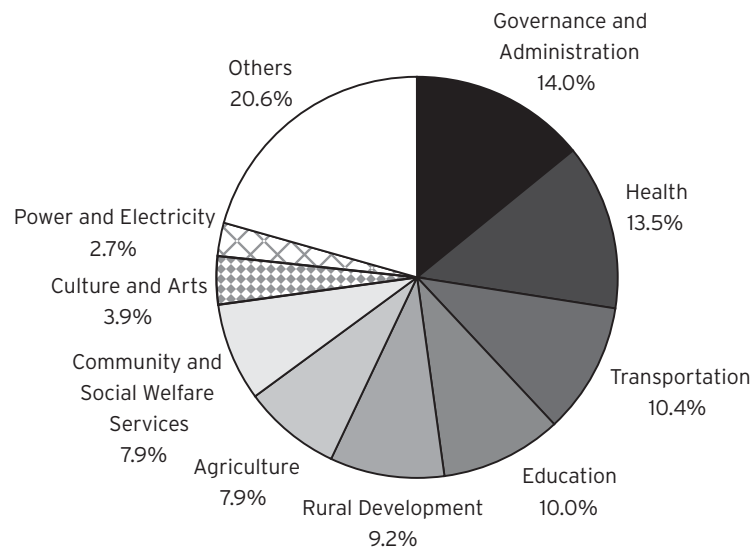
Source: World Development Indicators 2007.

Figure 2: Trends in development aid to cambodia (US\$ million)



Source: Authors' Compilation from the CDC's Development Cooperation Reports; the Cambodia Aid Effectiveness Report 2007; CDC Database.

Figure 3: Development aid to Cambodia by sector (1998-2007)



Source: Authors' Compilation from the CDC's Development Cooperation Reports; the Cambodia Aid Effectiveness Report 2007; CDC Database.

Table 2: Trends in development aid to health sector of Cambodia (1998-2007)

Year	Aid to Health, US\$ million	Share of Total Aid
1998	63.0	14.5%
1999	70.9	17.7%
2000	67.7	14.5%
2001	66.1	14.0%
2002	67.6	12.7%
2003	83.1	15.4%
2004	95.9	17.3%
2005	110.3	18.1%
2006	102.2	14.4%
2007 (provisional)	73.3	10.2%

Source: *The Cambodia Aid Effectiveness Report 2007*; CDC database.

International development aid to Cambodia is mostly disbursed as grants, which accounted for about 75 percent of total disbursements from 1998-2007. The remaining 25 percent was disbursed as loans, which represents a slight drop in relative terms over the last few years.

From 1998-2007, more than half of all development aid went to social,⁷ economic⁸ and physical infrastructure⁹ sectors; these sectors accounted for about 24 percent, 20 percent and 16 percent of aid, respectively. The remaining funds were disbursed to multi sectors.¹⁰

By sub-sector, about 14 percent of ODA was disbursed to the governance and administration sector, followed by 13.5 percent to health, 10.4 percent to transportation, 10 percent to education, 9.2 percent to rural development, and 7.9 percent to both the agriculture and the community and social welfare services sectors (Figure 3).

Trends in development aid to the health sector and achievements in CMDGs

The share of ODA in social sectors, including health and education, has decreased over the last few years due to an increase in ODA disbursements to the agriculture and the governance and administration sectors.

ODA disbursements to the health sector totaled around US\$800 million over the past decade. In absolute terms, ODA disbursements remained steady from 1998 to 2002 but increased gradually from 2003 to 2005. They declined during the last two years from US\$110 million in 2005, or 18 percent of total aid disbursements, to US\$102 million in 2006 and US\$73 million in 2007, representing 14.4 percent and 10.2 percent respectively.

The health status of Cambodians has improved as a result of rising incomes, a reduction in medical costs, and increased spending on health (including public spending and out-of-pocket private spending).¹¹ However, key health indicators as measured by the

Table 3: Health outcomes of Southeast Asian Countries

	Health spending per capita	Infant mortality rate	Under-five mortality rate	Maternal mortality rate	Male life expect- ancy at birth
Cambodia (2005)	37	66	83	472	60
Indonesia (2003)	22	31	41	230	65
Lao PDR (2003)	9	82	91	650	58
Thailand (2003)	69	23	26	44	67
Viet Nam (2003)	22	19	23	130	68

Source: WHO (2007): *Scaling Up for Better Health in Cambodia*.

Table 4: Selected Cambodian health MDGs (2000-2015)

Indicator	Unit	2000	2005 Target	2005 Prel.	2015 Target	On Track
CMDG4 Reduce Child Mortality						
Infant mortality	per 1000 live births	95	75	66	50	✓
Under 5 mortality	per 1000 live births	124	105	83	65	✓
CMDG5 Improve Maternal Health						
Maternal mortality ratio	per 100,000 live births	437	343	472	140	
Fertility rate	No of Children	4.0	3.8	3.4	3.0	✓
Contraceptive prevalence modern methods	percent	19	30	27	60	
Births attended by skilled health personnel	percent	32	60	44	80	
2 or more antenatal health professional consultation	percent	30.5	60	60.2	90	✓
CMDG6 Combat HIV/AIDs, Malaria and other diseases						
HIV prevalence rate among adults 15-49 yrs	percent per 100,000	30	2.3	0.6	1.8	✓
TB deaths	population	90	68	N/A	32	
Malaria case fatality rate reported to public health authorities	percent	0.4	0.3	0.36	0.1	
Dengue case fatality rate reported to public health authorities	percent		1	0.74	0.3	✓

Source: WHO (2007): *Scaling Up for Better Health in Cambodia*.

Millennium Development Goals (MDGs) remain weak compared to neighboring countries.

Based on recent trends, the Cambodian MDGs to reduce infant and child mortality, lower the fertility rate,

improve antenatal care, and reduce HIV/AIDS prevalence are likely to be either met or exceeded. Success is less assured for goals related to maternal mortality, contraceptive prevalence, attended births, and combating tuberculosis (TB) and malaria.¹²

COUNTRY PROGRAMMABLE AID

Not all aid is used directly for development projects and programs like building and maintaining schools, clinics, and infrastructure. Aid can be used for other purposes, which directly serve development programs, such as aid agency administrative costs, humanitarian and emergency relief, food aid, technical cooperation, and debt relief.¹³

Programmable aid of Cambodia

The effectiveness of aid disbursements for development purposes has become the subject of considerable debate and criticism among government officials, scholars, and civil society in Cambodia. About half of all international aid to Cambodia is spent on technical cooperation (TC) and, in particular, on employing international staff to support project implementation and to building the capacity of government officials who carry out projects.

To measure country programmable aid (CPA) from net ODA in Cambodia, total development aid is disaggregated into CPA, TC, emergency relief/humanitarian aid, and food aid. Administrative costs cannot be subtracted in an attempt to find CPA from net ODA due to unavailability of data in Cambodia.

The findings reveal that around half of net ODA was spent on TC, while more than a third was used for ac-

tual development programs and projects from 1998-2006. As can be seen in Figure 4, TC represents about 51 percent of the total ODA from 1998-2006, while CPA accounted for only 43 percent. The rest, about 5 percent of the total, was used for emergency relief and humanitarian and food aid.

In absolute terms, Cambodia's CPA has increased gradually since 2000, from US\$116 million in 1998 to US\$355 million in 2006. The share of CPA also almost doubled from about 31 percent in 1998 to 54 percent in 2006. These trends are not favorable because direct ODA disbursements for project and program development are almost the same as those for TC, training, international consultants, advisors, and other staff.

Technical cooperation

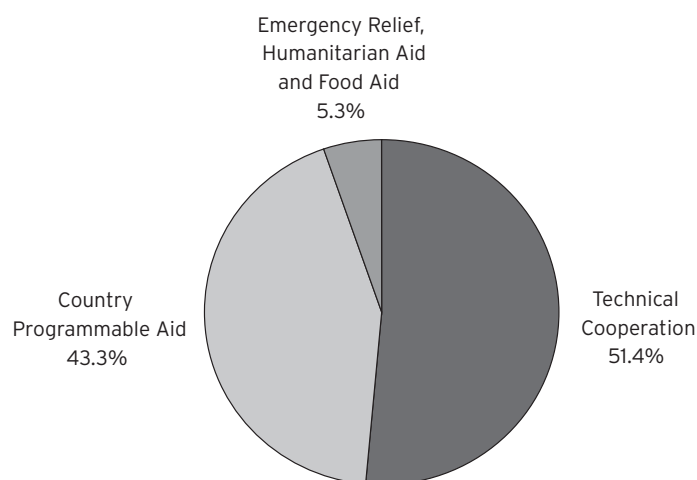
Although it has been on the decline, the share of TC in total aid disbursements remains significant in Cambodia, which indicates that developing national capacity remains a key challenge for Cambodia. Still, recent evidence has highlighted that TC has failed to yield the intended result and, in some cases, has had an undesirable impact on sustainable capacity development in Cambodia. In general, TC is poorly coordinated and supply-driven. TC is not purely donor-driven, but development partners tend to control decision making over TC. The lack of a critical needs assessment of capacity gaps and RGC weaknesses in

Box 1: Definition of technical cooperation

Technical cooperation (TC) in this report is defined as the transfer, adaptation or facilitation of ideas, knowledge, technologies or skills to foster development. TC is normally provided through the provision of both short-and long-term personnel, education and training, consultancies, research and equipment support. TC is also understood to include provision of monetary incentives to government staff associated with the implementation of a project or program that is designed to build and augment the capacity of government.

Source: Joint Study on Effective Technical Cooperation for Capacity Development: Cambodia Case Study, 2008.

Figure 4: Country Programmable Aid (1998-2006)



Source: *The Cambodia Aid Effectiveness Report 2007*; CDC and OECD/ODA Database.

Table 5: Country programmable aid to Cambodia (1998-2006)

Years	Net ODA (US\$ million)	CPA (US\$ million)	CPA/Net ODA
1998	377	116	30.8%
1999	345	124	35.9%
2000	415	140	33.7%
2001	428	188	44.0%
2002	485	183	37.6%
2003	492	225	45.7%
2004	506	222	44.0%
2005	567	267	47.1%
2006	661	355	53.7%

Source: *Author's Calculation and CDC Database.*

Table 6: Net ODA for technical cooperation in Cambodia (1998-2006)

Year	Net ODA (US\$ million)	TC ¹⁶ (US\$ million)	TC/Net ODA	FTC from CRDB/ CDC (US\$ million)	FTC from OECD/ DAC (US\$ million)
1998	377	225	59.7%	202	151
1999	345	208	60.3%	188	114
2000	415	218	52.5%	197	125
2001	428	202	47.3%	176	153
2002	485	275	56.7%	227	164
2003	492	238	48.3%	187	180
2004	506	263	52.1%	177	162
2005	567	283	49.9%	255	186
2006	661	295	44.6%	244	184

Source: *Author's Calculation and CDC Database.*

TC capacity management means that TC generally does not positively impact development results.

The RGC is not in a position to impose discipline or a coherent set of operating principles to guide the TC system due partly to its lack of ownership capability. Over time, the TC system has become trapped in a dysfunctional cycle brought about by brain drain as personnel in key middle levels, who are responsible for implementation, are lured away by attractive salaries to work (part-time) for private sector or international organizations.¹⁴ As a consequence, progress has been made on capacity substitution at the expense of capacity development.

The high cost of TC, particularly international aid money spent on international consultants and advisors, has sparked criticism among government staff and civil society in Cambodia. The findings of the 2004 study revealed that approximately 50 percent of ODA is dedicated to TC in Cambodia, which vastly exceeds the average of 20 percent across all LDCs.¹⁵

Based on Table 6, in absolute terms, ODA used for TC increased steadily from US\$225 in 1998 to US\$275 in 2002 and US\$295 million in 2006. However, the share of ODA on TC in total disbursements has declined over the last three years from about 52 percent in 2004 to 50 percent in 2005 to 45 percent in 2006. Expenditures on TC currently contain a good deal of capacity-substitution interventions with a heavy reliance on the provision of long-term technical assistance personnel. It could be argued that the oversupply of technical assistance (TA), a key element of TC, is a result of development partners' need to extract commercial and political advantage out of the field-based programs they support. It could also be argued that projects and programs that rely heavily on the use of TA are designed as such in a response to pressures from private sector firms in development partner countries who wish to maintain their presence in Cambodia.¹⁷

EMERGING NEW PLAYERS IN DEVELOPMENT AID

Traditional aid donors

Traditional aid players have tended to be Development Assistance Committee (DAC) members and multilateral agencies. Cambodia has received substantial foreign aid from DAC members, such as Japan, the USA, the EC, Germany, Sweden, the UK, and multilateral agencies, including UN agencies, the World Bank, ADB, and others.

Over the last decade, about two-thirds of all ODA, approximately US\$2,900 million, was disbursed by Japan, ADB, UN Agencies, IBRD/WB, the USA and the EC. These donors have traditionally played a significant role in aid delivery and coordination in Cambodia. Another third was disbursed by more than 20 donors, which included other DAC members, multilateral agencies and non-DAC members (Table 7).

In 2006, net ODA provided to Cambodia by members of the OECD/DAC amounted to US\$529 million and accounted for about 75 percent of aid to Cambodia. Preliminary findings of a 2008 Survey on Monitoring the Paris Declaration show that around 89 percent of aid is provided by members of the OECD/DAC.

Non-DAC aid donors

ODA disbursed by non-DAC members has been increasing gradually, most notably from China and South Korea, who have become new aid players in Cambodia. Although China provides limited development aid in terms of grants, for the past few years it has been the largest provider of loans—mainly for public works, infrastructure, and hydro-power projects.¹⁸ Similarly, South Korea¹⁹ has provided substantial loans

to support infrastructure and education sectors over the last few years.

China offers ODA with little conditions relating to domestic affairs, such as democratic reform, liberalizing markets, sustainable development, and environmental conservation which are often imposed by other bilateral and multilateral development partners. China also is lax in its attention to development results like poverty reduction. However, China often requires aid recipients to support the “one-China” principle²⁰ and Cambodia is no exception to this unofficial rule.

Unlike Cambodia's traditional development partners, China usually provides ODA directly to the RGC. Moreover, it has been argued that China's development assistance is not transparent as it is not known exactly how it is utilized, and it is not disbursed according to any standard operating procedure. While it is not certain how aid from China is used, China's ODA is typically managed through the Council of Ministers²¹ and China has become an important aid player in Cambodia. CRDB/CDC has held discussions with China regarding its ODA projects in Cambodia. More importantly, China participated in the first Cambodia Development Cooperation Forum (CDCF), where it publicly acknowledged the amount of ODA it planned to disburse to Cambodia for the Multi-Year Indicative Funding Framework 2007-2009, and also provided several details about its aid to the Cambodian ODA database.

ODA disbursements from China have increased gradually since 2004. Recently, China became the second largest bilateral donor after Japan. China's ODA to Cambodia amounted to US\$230 million from 2003-2007, which represented about 7 percent of total net ODA disbursements, compared to only US\$42 million, from 1998-2002, accounting for about 2 percent. In

Table 7: Share of ODA by donor (1998-2007)

Donor	Share of ODA Disbursements	Cumulative
Japan	20.8%	20.8%
Asian Development Bank	12.5%	33.3%
UN Agencies	10.0%	43.3%
IBRD/World Bank	8.7%	52.1%
United States of America	7.5%	59.3%
European Commission	6.4%	65.7%
France	5.6%	71.5%
Australia	4.6%	76.2%
China	4.3%	80.5%
Germany	3.5%	84.0%
Sweden	3.3%	87.3%
United Kingdom	2.8%	90.0%
International Monetary Fund	1.9%	91.9%
Republic of Korea	1.9%	93.8%
Belgium	1.0%	94.8%
Denmark	1.0%	95.8%
Global Fund	0.9%	96.7%
Canada	0.9%	97.6%
Netherlands	0.7%	98.4%
Norway	0.4%	98.7%
Finland	0.3%	99.1%
New Zealand	0.3%	99.3%
Switzerland	0.3%	99.6%
Russian Federation	0.1%	99.7%
Other Bilateral Donors	0.3%	100.0%
Total	100.0%	
Total Net ODA (US\$ million)	4,637	

Source: CDC Statistics.

2007, China's ODA reached US\$92.4 million, about 13 percent of total net ODA disbursements (Table 8).

Like China, South Korea's ODA to Cambodia has increased significantly from US\$0.5 million in 1998 or about 0.1 percent of total disbursements to US\$31.4 million in 2007, representing 4.4 percent of total ODA disbursements. From 1998-2002, South Korea's ODA amounted to only US\$26 million, compared to approximately US\$94 million from 2003-2007 after it significantly increased loans for infrastructure.

Besides China and South Korea, Thailand is one of Cambodia's important regional development partners. From 1993-2004, Thailand provided grants worth about US\$1.5 million per year in support of infrastructure projects, especially construction of roads. Thailand provided a grant of about US\$7 million and a loan of about US\$21.5 in 2002/2003 for the construction of a road as part of the GMS Southern Economic Corridor project that will connect coastal cities of Thailand, Cambodia, and Vietnam.²²

Table 8: ODA to Cambodia from China and Korea (1998-2007)

Year	Total Net ODA	China		Korea	
		ODA (US\$ million)	Share	ODA (US\$ million)	Share
1998	377	14.3	3.8%	0.5	0.1%
1999	345	3.1	0.9%	1.0	0.3%
2000	415	2.6	0.6%	0.7	0.2%
2001	428	16.3	3.8%	1.2	0.3%
2002	485	5.7	1.2%	22.5	4.6%
2003	492	5.6	1.1%	10.3	2.1%
2004	506	32.5	6.4%	24.1	4.8%
2005	567	46.6	8.2%	14.8	2.6%
2006	661	53.2	8.0%	13.3	2.0%
2007	719	92.4	12.9%	31.4	4.4%

Source: Authors' Compilation from CDC Database.

Private aid donors

There is no official record on private aid from individual philanthropists to Cambodia, although aid from voluntary contributions by public institutions or private donors has been provided to NGOs, foundations, and religious groups.

A significant number of NGOs operate in Cambodia. There are about 1,500 local NGOs registered with the Ministry of Interior and about 340 international NGOs registered with the Ministry of Foreign Affairs. As noted in the Cambodia AER 2007, NGO data should be interpreted with excessive care because the CDC's NGO database only records the activities and funding modalities of some of the more prominent NGOs operating in Cambodia.²³ Indeed, only 45 percent of registered local NGOs are believed to be currently active, compared to 93 percent of international NGOs.²⁴ And the CDC's NGO Aid Coordination Department reported that only 194 NGOs registered projects with the CRDB/CDC in 2006, of which 83.5 percent were international NGOs.

NGOs derive funds from various sources: they generate their own funds from their operations, they

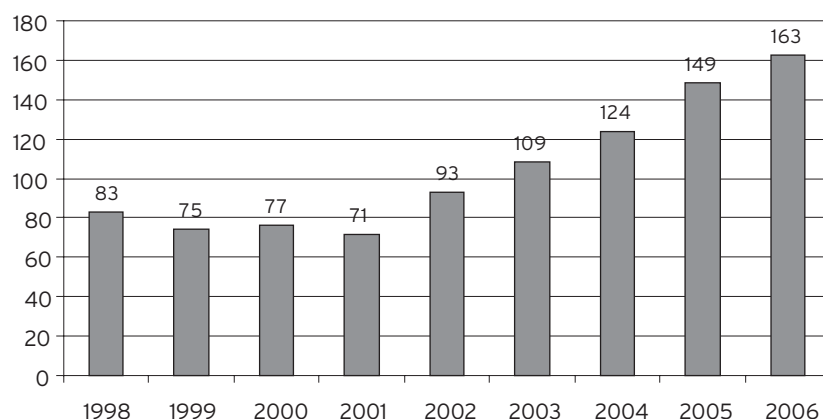
receive them from their headquarters, and they also receive funds from bilateral, multilateral, and other supporters. In terms of channels, government agencies provide bilateral funds to NGOs, while UN agencies provide multilateral funds. Other sources include funds provided by private donors and NGO partners.²⁵

According to the CDC's NGO database, actual expenditures for NGOs totaled US\$942 million from 1998-2006. The expenditure has risen gradually since 2002, increasing 75 percent from US\$93 million to US\$163 million in 2006.

The CDC database includes disbursements from NGOs in its ODA data, but only core funds from NGOs are accounted. Table 9 shows that the share of NGO core funds to ODA has declined gradually from 13 percent in 1998 to 7 percent in 2006 given that, in absolute terms, total ODA disbursements increased steadily while NGO funds remained the same at around US\$50 million per year on average.

The share of NGO funds to ODA increases if all sources of funding are included in NGO disbursement. Table 9 shows that ODA disbursements including all funds

Figure 5: NGO disbursements for projects development (1998-2006)



Source: CDC NGO Database.

Table 9: Share of NGOs to ODA (1998-2006)

Years	ODA with NGO Core Funds (US\$ Million)	NGO Core Funds (US\$ Million)	Share (%)	ODA with Total NGO Disbursements (US\$ Million)	Total NGO Disbursements (US\$ Million)	Share (%)
1998	434	56.1	12.9%	461	83	18.0%
1999	400	55.0	13.8%	420	75	17.9%
2000	467	51.9	11.1%	492	77	15.7%
2001	472	43.6	9.2%	500	71	14.2%
2002	531	46.3	8.7%	578	93	16.1%
2003	540	51.2	9.5%	597	109	18.3%
2004	555	52.1	9.4%	627	124	19.8%
2005	611	57.1	9.3%	703	149	21.2%
2006	710	50.4	7.1%	823	163	19.8%

Source: Author's Compilations from CDC Database.

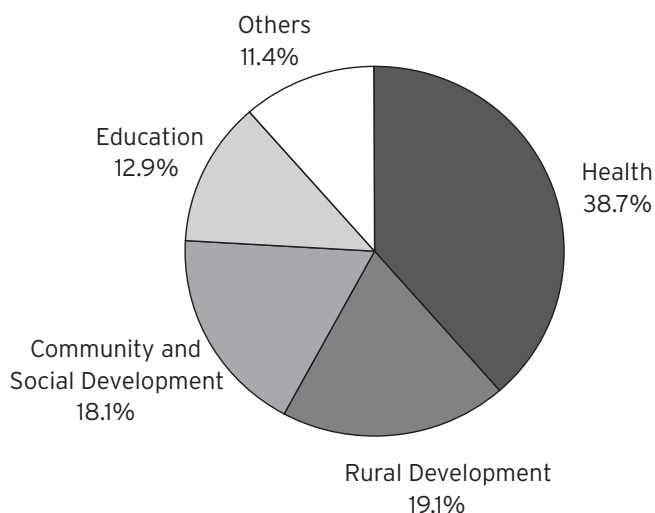
from NGOs increased from US\$461 million in 1998 to US\$823 million in 2006. In this case, the share of NGO disbursements to ODA didn't vary significantly and accounted for about 16 percent of total ODA disbursements on average from 1998-2006.

The majority of NGO funds were disbursed for project development in main sectors, such as health, education, rural development and social development. From 1998-2006, about 40 percent of NGO funds were dis-

bursed for project development in the health sector, followed by 19 percent for rural development, 18 percent for social development, 13 percent for education and 11.5 percent for other sectors (Figure 6).

The Cambodia AER 2007 highlights a discrepancy between the figures provided by NGOs themselves and data reported by development partners on funds that they passed on to NGOs. Table 10 shows that NGO disbursements in 2006 accounted for US\$133 million,

Figure 6: Total NGO disbursements for projects development in Cambodia by sector (1998-2006)



Source: CDC NGO Database.

of which about 38 percent were core funds. More than half of NGO core funds, or about 56 percent, were used for health projects, while most of the NGO funds from other sources were used for projects related to governance and administration activities.

There exists no disaggregated data on NGO disbursements for programmable projects and technical co-operation. However, it is generally perceived that the amount spent by private non-profit organizations on TC is comparatively lower than official agencies. In addition, contractors who do business with private NGOs charge a third of what official agencies pay equivalent experts to work in developing countries.²⁶

The role of NGOs in supporting the RGC and participating in national strategy formulation of the development process is gaining prominence. NGOs participate in 12 Technical Working Groups (TWGs), co-chaired by the government and external development partners, and are also involved in the TWG on Planning and Poverty Reduction, which supports NSDP implemen-

tation and monitoring. NGOs also attend annual CG meetings and were in attendance at the first CDCF held in 2007, where they presented detailed statements on various issues, including progress in achieving the targets of the Joint Monitoring Indicators. Furthermore, NGOs are invited to attend the GDCC meetings, held quarterly to assess progress in implementing TWG action plans and Joint Monitoring Indicators.

Although the participation of NGOs in policy process has been increasing, NGOs still have limited influence over the government. NGOs cannot lobby the government directly without intervention from external development partners. One study also reveals that the TWGs do not provide an effective forum for NGOs to lobby the government by discouraging the advocacy role and influence of NGOs.²⁷ TWGs do not recognize the role of NGOs as monitors because TWGs are designed to be technical bodies rather than policy advocates and only involve NGOs that are active and operational in their corresponding sector.

Table 10: NGO disbursements by sector in 2006

Sector	NGO Core Funds		NGO Funds from Other Donors		Total	
	US\$ Million	Share	US\$ Million	Share	US\$ Million	Share
Health	28.3	56.4%	7.6	12.1%	35.9	31.7%
Governance and Administration	0.3	0.6%	25.4	40.4%	25.8	22.8%
Education	5.2	10.4%	6.3	10.0%	11.5	10.2%
Community and Social Welfare	7.7	15.3%	3.8	6.0%	11.5	10.2%
Rural Dev. And Land Management	6.7	13.3%	3	4.8%	9.7	8.6%
Environment and Conservation	0.3	0.6%	1.9	3.0%	2.2	1.9%
Agriculture	1.5	3.0%	0.5	0.8%	1.9	1.7%
Water and Sanitation	-	-	1.2	1.9%	1.2	1.1%
Manufacturing, Mining and Trade	0.2	0.4%	0.7	1.1%	0.9	0.8%
Banking and Business	-	-	0.5	0.8%	0.5	0.4%
Gender Mainstreaming	-	-	0.3	0.5%	0.3	0.3%
Power and Electricity	-	-	0.1	0.2%	0.1	0.1%
Transportation	-	-	-	-	-	-
Culture and Arts	-	-	0.1	0.2%	0.1	0.1%
HIV/AIDS	-	-	-	-	-	-
Others	-	-	11.5	18.3%	11.5	10.2%
Total	50.2	100.0%	62.9	100.0%	113.1	100.0%

Source: CRDB/CDC, the Cambodia Aid Effectiveness Report 2007.

However, it has been observed that some NGOs, working in social sectors, appear to be more effective in influencing the government. Perhaps this is because social sectors, consisting of health and education, are less sensitive to the government's overall agenda. The effectiveness of NGOs in TWGs also depends on

the capacity of their respective TWG representatives. For instance, MEDICAM, an NGO network working on health issues, has influenced the government because of the unique abilities of its representatives in the health TWG.²⁸

FRAGMENTATION OF AID

In a recipient country with many donors and low institutional capacity, aid fragmentation, which occurs when a large number of donors each contribute a small share of total aid,²⁹ can adversely impact the effectiveness of aid by increasing transaction costs and weakening recipient ownership over development processes.

Aid flows and fragmentation in aid delivery

Aid delivery in Cambodia is highly fragmented.³⁰ 35 development partners are each providing support across a range of sectors and helping finance more than 700 separate projects. According to OECD/DAC statistics, 39 donors provided ODA worth about US\$530 million to Cambodia in 2006. Of the 39 donors, 10 were bilateral donors with less than US\$1 million of combined ODA. An additional 22 bilateral and multilateral donors provided just US\$5 million combined.

ODA disbursements from China, representing about 13 percent in terms of both grants and loans, were not included in the OECD/DAC statistics in 2005. Small donors who reported their ODA disbursements (reported in parentheses) to Cambodia in 2006 included: Thailand (US\$14 million), Ireland (US\$4 million), Spain (US\$2 million). Other small bilaterals (sharing less than US\$1 million) included: Italy, Slovak Republic, Czech Republic, Poland, Luxembourg, Turkey, Portugal, Austria, and Hungary.

The Cambodia AER 2007 noted that Cambodia had a lower aid concentration index in 2005 than other developing countries, such as Lao PDR, Somalia, Zambia, Ethiopia, Indonesia, and the Philippines. ODA has become less concentrated but more fragmented

since 1993 given that ODA to Cambodia has increased gradually and the number of new donor partners has also increased, especially over the past five years.

Measured by the Hirschmann-Herfindahl Index (HHI),³¹ the donor fragmentation index for Cambodia from 2002-2006 stood at 0.094, which indicates high fragmentation. The index dropped from 0.093 in 2002 to 0.087 in 2006, indicating a slight deterioration of donor concentration (Table 11).

Donor fragmentation, measured by the HHI, is calculated by squaring each donor's share of aid and then summing across all donors:

$$HHI = \sum_{i=1}^n (DS_i)^2,$$

where DS_i is donor share of *i* the donor and *n* is the number of donors.³²

Aid disbursements for the social sector consisting of health and education sectors are more fragmented than economic sectors, such as agriculture and rural development.

There were 22 official bilateral and multilateral donors providing development assistance of about US\$90 million for 100 ongoing projects that focused on the health sector in 2006. Most of the projects aim to improve primary health, immunization and disease control, hospitals, reproductive health, medical education, and policy and planning, including Sector-Wide Management (SWiM). Active donors for health sector include the Global Fund, EC, World Bank, Japan, USA, UK, Germany, ADB, and France.

Close to 40 percent of net ODA disbursed in the health sector supported seven of the largest projects and originated from five donors: the Global Fund, the USA,

Table 11: HHI of aid fragmentation overall and by sector in Cambodia

	2002	2003	2004	2005	2006	Average 2002-2006
Country Level	0.093	0.106	0.091	0.095	0.087	0.094
Sectoral Level						
Health	0.101	0.122	0.136	0.101	0.099	0.112
Education	0.132	0.141	0.117	0.113	0.102	0.121
Rural Development	0.129	0.134	0.189	0.113	0.138	0.141
Agriculture	0.142	0.133	0.182	0.113	0.170	0.148

Source: Authors' Calculation from OECD and CDC Statistics.

Note: HHI < 0.1: High Fragmentation/Low Concentration; HHI between 0.01- 0.18: Moderate Fragmentation/ Concentration; HHI > 0.18: Low Fragmentation/High Concentration.

Japan, the UK, and the World Bank. The remaining projects were supported by 17 other multilateral and bilateral donors. It is also estimated that about 100 international and national NGOs and technical agencies are providing various services in the health sector.³³

Division of labor by sector

It is vital to examine the division of labor among potential development partners when discussing the issue of aid fragmentation. Donors could concentrate their aid at the sectoral level in order to reduce the effects of fragmentation and reduce transaction costs.³⁴ Development partners frequently provide development assistance to Cambodia based on their preferences. For instance, most assistance from China goes to the transportation sector to build roads, bridges, and government-related activities.

As can be seen in Table 12, Japan remained Cambodia's largest development partner in 2006, contributing about 16 percent of total ODA disbursements. China is the second largest bilateral donor, followed by the USA. Japan and the USA disbursed more ODA to the health sector than any other bilateral donor. China was the fifth largest overall donor of ODA to

Cambodia in 2006 but ranked 15th in contributions to the health sector. Sweden and Belgium ranked 14th and 17th in overall ODA respectively but were the fourth and sixth largest contributors of ODA to the education sector, respectively.

Germany was the eighth largest donor of ODA to Cambodia but was the third largest bilateral donor of funds for rural development and land management. Finland was 18th among all development partners but was the sixth largest donor of funds to the rural development and land management sector. South Korea ranked as the 15th largest donor but was the third largest contributor, behind Japan and China, to the transportation sector. The USA was the largest donor to the governance and administration sector, while China ranked second, followed by Japan, Sweden and Australia.

Costs of fragmentation

High fragmentation can negatively impact aid quality for several reasons.³⁵ First, it increases transaction costs for recipients because more time is taken meeting (often duplicate) donor demands, filling requests for studies, and attending bilateral meetings with

Table 12: ODA disbursements by donor overall and by sector in 2006

Country Level			Health		Education		Rural Development and Land Management		Transportation		Governance and Administration	
Donor	Share		Donor	Share	Donor	Share	Donor	Share	Donor	Share	Donor	Share
Japan	15.7%		Global Fund	26.7%	ADB	19.3%	ADB	26.5%	Japan	42.0%	USA	22.0%
IMF	12.6%		Japan	13.8%	Japan	18.6%	UN Agencies	16.4%	China	23.8%	China	13.0%
ADB	10.0%		UN Agencies	12.5%	UN Agencies	13.4%	Germany	14.9%	Korea	11.6%	Japan	10.7%
UN Agencies	8.6%		EC	10.4%	Sweden	9.2%	Global Fund	10.9%	ADB	8.6%	Sweden	10.2%
China	8.1%		USA	7.8%	EC	8.2%	Japan	7.2%	UN Agencies	6.3%	Australia	8.4%
USA	7.7%		IBRD/WB	4.8%	Belgium	6.5%	Finland	6.6%	IBRD/WB	5.6%	EC	7.6%
EC	6.9%		Germany	4.2%	IBRD/WB	6.2%	IBRD/WB	5.4%	Germany	1.5%	UN Agencies	7.0%
Germany	4.3%		ADB	4.1%	USA	5.7%	Canada	3.2%	France	0.5%	IBRD/WB	5.6%
IBRD/WB	3.7%		France	4.1%	France	5.4%	UK	2.7%	EC	0.1%	Germany	4.7%
Australia	3.4%		UK	3.7%	Australia	2.2%	Korea	2.6%	Sweden	0.0%	UK	3.7%
France	3.3%		Belgium	2.7%	Korea	2.1%	EC	1.2%	Australia	0.0%	France	2.4%
Global Fund	3.3%		Switzerland	2.7%	Denmark	0.9%	New Zealand	0.8%	Belgium	0.0%	ADB	1.8%
UK	3.1%		Korea	2.0%	Canada	0.7%	Australia	0.7%	Canada	0.0%	Canada	1.5%
Sweden	2.4%		New Zealand	0.2%	New Zealand	0.6%	Denmark	0.5%	Denmark	0.0%	Denmark	0.5%
Korea	2.0%		China	0.2%	China	0.5%	Switzerland	0.5%	Finland	0.0%	New Zealand	0.5%
Canada	1.2%		Australia	0.1%	Finland	0.4%	Belgium	0.0%	Global Fund	0.0%	Belgium	0.3%
Belgium	1.1%		Denmark	0.1%	Switzerland	0.1%	China	0.0%	IMF	0.0%	IMF	0.1%
Finland	0.7%		Netherlands	0.0%	Germany	0.0%	France	0.0%	Netherlands	0.0%	Finland	0.0%
Denmark	0.6%		Canada	0.0%	Global Fund	0.0%	IMF	0.0%	New Zealand	0.0%	Global Fund	0.0%
Spain	0.5%		Finland	0.0%	IMF	0.0%	Netherlands	0.0%	Spain	0.0%	Netherlands	0.0%
Switzerland	0.4%		IMF	0.0%	Netherlands	0.0%	Spain	0.0%	Switzerland	0.0%	Korea	0.0%
New Zealand	0.3%		Norway	0.0%	Spain	0.0%	Sweden	0.0%	UK	0.0%	Spain	0.0%
Netherlands	0.1%		Sweden	0.0%	UK	0.0%	USA	0.0%	USA	0.0%	Switzerland	0.0%
Total	100.0%		Total	100.0%	Total	100.0%	Total	100.0%	Total	100.0%	Total	100.0%
Total Net ODA (US\$ Million)	660.6		Total Net ODA (US\$ Million)	82.6	Total Net ODA (US\$ Million)	68.8	Total Net ODA (US\$ Million)	41.9	Total Net ODA (US\$ Million)	53.4	Total Net ODA (US\$ Million)	101.6

Source: CRDB/CDC Database.

country officials. They also set up separate project implementation or management units and procurement practices for their own projects. Second, when a large share of donors contributes a small portion of total aid, projects tend to be smaller, with consequent limited opportunities to reap scale economies. Third, smaller donors might have more of a stake in overall country outcomes as they join the new players. In addition, the larger the number of donors, the greater the challenge to coordinate aid.

As of June 2008, there were about 1,300 projects under way, of which 710 were ongoing, implemented by more than 35 development partners in Cambodia. The heavy reliance on donor procedures for providing development assistance and TC in Cambodia results in a proliferation of project implementation units (PIUs). It is estimated that around 1,000 PIUs, steering committees and stand alone working groups have been established by bilateral and multilateral agencies and NGOs in Cambodia.³⁶ Many PIUs are of a semi-parallel nature, which means they are not fully-integrated into government structures.³⁷

The 2006 Survey on Monitoring the Paris Declaration reveals that there were 49 parallel PIUs in Cambodia that were not fully integrated into government structures, about nine in the health sector alone. Preliminary findings from the 2008 Survey on Monitoring the Paris Declaration suggest that 123 parallel PIUs were operating in 2007, of which 40 were focused on agriculture and rural development, 26 on governance-related activities, 24 on health and HIV/AIDS and 14 on education. In some cases, NGOs act as

parallel PIUs to manage operational activities in the absence of government structures and report directly to external partners rather than to the government.³⁸

Technical cooperation consumes about half of all ODA to Cambodia and is often criticized as being fragmented, uncoordinated, supply-driven, and excessively costly. Due to the existence of such a large number of donors who are poorly coordinated, the government and line ministries often receive contradictory advice. In addition, a significant portion of ODA has been spent on international technical advisors and other staff. One survey on capacity building practices among Cambodia's development partners shows that about US\$115 million or 43.4 percent of the total expenditure of US\$265 million was spent in 2002 and US\$34 million or 12.7 percent was used to employ some 740 international staff to support project implementation or fill capacity gaps in government. This expenditure accounted for about 45 percent of the total wage bill for the Cambodian civil administration in 2002.³⁹

It is estimated that more than 400 donor missions, reviews, and studies are conducted each year in Cambodia, vastly exceeding the number done in 14 developing countries studied by one expert.⁴⁰ RGC officials spend about 50 percent of their time at meetings and on reporting. The preliminary results from the 2008 Survey on Monitoring the Paris Declaration show that 310 donor missions were completed in 2007, compared to 568 missions in 2005. It is also believed that donor officials spend as much as 20-30 percent of their time on aid coordination.⁴¹

VOLATILITY AND PREDICTABILITY OF AID

For many aid-dependent countries, variations in aid flows can create problems that affect their income, budget management, and efforts to develop medium-term expenditure frameworks.⁴² The more volatile aid is the more unpredictable it becomes. Volatility and unpredictability of donor funding undermine aid effectiveness because they affect short- and medium-term budget planning and programming, disrupt implementation of expenditure allocations, complicate macroeconomic management, and deepen the challenge of building absorptive capacity.⁴³

Aid flows and volatility

On average, Cambodia receives about US\$550 million in ODA per year and ODA has accounted for about 12 percent of GNI over the last decade. As discussed earlier, actual ODA disbursements have increased gradually since 2000. By using a simple calculation, we estimate that aid volatility⁴⁴ affected about 10.3 percent of aid received from 1992-1996. However, aid flows have become less volatile, measuring 6.4 percent from 2002-2006. CPA was also less volatile, declining from 15.1 percent in 1997-2001 to 9.4 percent in 2002-2006. GNI was more volatile than ODA from 1997-2001 but less volatile from 2002-2006.

The reliability of data once again becomes problematic in calculating aid volatility. When using OECD/DAC statistics, aid volatility in Cambodia was about 13 percent from 1997-2006, which was higher than all other aid recipients.

Aid flows to the health sector have become less volatile over time. During the last five years, aid volatility to the health sector was 8.9 percent, while it was around 21 percent from 1997-2001 and 29 percent

from 1992-1996. Similarly, aid flows to the education sector have become less volatile, measuring 5.7 percent from 2002-2006 compared to 15.5 percent from 1997-2001 and 20.4 percent from 1992-1996. However, aid flows to the rural development and land management sector and agriculture sector were more volatile from 2002-2006 than previous periods.

By aid modality, aid for TC is less volatile than aid for investment projects, program assistance, and budget/balance-of-payment support. The disbursements for TC changed little over the last five years. Aid for investment projects or program assistance was less volatile from 2002-2006 compared to the previous period. However, aid for budget/BoP support has become more volatile (Table 15).

Pledging and predictability

Consultative Group (CG) meetings for Cambodia have been held since 1996. During the CG meetings, key development partners normally pledge to provide development assistance over a short-term period (one-year). On average, the major development partners pledge to provide around US\$550 million a year. In 2007 the first-ever CDCF meeting was held in place of the CG meeting in a bid to improve medium-term predictability of aid disbursements to Cambodia, as called for in the Paris Declaration, by establishing the Multi-Year Indicative Financing Framework (MYIFF) 2007-2009. It is widely believed that multi-year commitments from development partners will provide the RGC with the medium-term predictability it needs to finance the NSDP 2006-2010.

From 1999 to 2001, actual disbursements were lower than pledges made during CG meetings by an average of 23 percent. However, disbursements were 3.3 percent higher than pledges made in 2002 and disbursements have continued to exceed pledges since 2005.

Table 13: Volatility of aid and GNI (%)

	1992-1996	1997-2001	2002-2006
Net ODA	10.3	6.4	6.4
CPA	29.7	15.1	9.4
GNI	6.1	8.9	4.2

Source: Authors' Calculations from CDC and NIS statistics.

Table 14: Aid volatility by major sector (%)

	1992-1996	1997-2001	2002-2006
Health Sector	29.2	21.0	8.9
Education Sector	20.4	15.5	5.7
Rural Development and Land Management Sector	28.7	7.0	20.2
Agriculture Sector	28.4	31.4	47.6

Source: Authors' Calculations from CDC Statistics.

Table 15: Aid volatility by aid modalities (%)

	1992-1996	1997-2001	2002-2006
Technical Cooperation	11.0	11.1	6.6
Investment Project/Programme Assistance	20.4	20.0	10.3
Budget/BoP Support	36.7	33.4	44.5

Source: Authors' Calculations from CDC Statistics.

However, the ratio of disbursements to pledges fell from 121 percent in 2005 to 118.3 percent in 2006 and 104.4 percent in 2007.

Development partners were asked at the first CDCF meeting to support RGC efforts to establish a more comprehensive and robust planning and budgeting exercise. Development partners were encouraged to provide indications of medium-term resource availability. During the first CDCF meeting, the MYIFF 2007-2009 was prepared to reinforce the budget exercise and medium-term indications of NSDP financing that were sought from development partners.

It should be noted that the MYIFF 2007-2009 is only an estimation and whether or not it is carried out as

planned rests largely on development partners. Some major development partners such as Japan and the USA refused to provide longer-term commitments for financing NSDP 2006-2010, saying their domestic budget procedures preclude such pledges. The MYIFF is generally viewed as a donor-driven indication. However, the MYIFF also links to NSDP as some development partners provide financial pledges based on their work in TWGs and GDCC.

According to the MYIFF 2007-2009, Cambodia was expected to receive about US\$690 million in ODA in 2007. As discussed earlier, the actual ODA disbursements exceeded the amount pledged in 2007 by 4.4 percent. ODA disbursements are expected to remain about the same, US\$695 million in 2008, but they are

Table 16: Pledges and disbursements 1999-2009 (US\$ million)

Year	Pledges (a)	Disbursements (b)	Differences (c) = (b) - (a)	Disb/Pledges (d) = (b)/(a)
1999	526.0	399.7	(126.3)	76.0%
2000	603.3	466.8	(136.5)	77.4%
2001	610.7	471.8	(138.9)	77.3%
2002	513.8	530.9	17.1	103.3%
2003 ⁴⁵	-	539.5	-	-
2004	-	555.4	-	-
2005	504.2	610.0	105.8	121.0%
2006	600.6	710.8	110.2	118.3%
2007 ⁴⁶	689.2	719.5	30.3	104.4%
2008	694.8	-	-	-
2009	587.8	-	-	-

Source: CDC Development Cooperation Report 2001; CDC Development Cooperation Report 2004 and 2005; Seventh CG Meeting on December, 6th-7th 2004; Eighth CG Meeting on March, 2nd-3rd 2006; Compendium of Documents of 1st Cambodia Development Cooperation Forum June 19-20, 2007.

expected to decline by 15.4 percent in 2009 compared to pledges for 2008.

Pledges from the USA for 2008 and 2009 and the Global Fund are not included in the MYIFF 2007-2009. If donors disburse what they have pledged, the actual disbursements will exceed expectations because ODA from the USA and Global Fund will be included.

It is predicted that loans will account for about 28 percent and 19 percent of ODA in 2008 and 2009, respectively. Japan remained Cambodia's largest development partner in 2007. Although it has not made official pledges for 2008 and 2009, it is estimated that Japan's disbursements will be similar to 2007. Based on the MYIFF 2007-2009, China will be the largest development partner providing ODA in loans to Cambodia in 2008 and 2009. South Korea is also expected to provide a large number of loans in subsequent years.

ODA disbursements to social sectors are expected to decline from US\$154 million in 2007 to US\$100 million in 2008 and 2009. It is also predicted that the share of ODA earmarked for the physical infrastructure sec-

tor will exceed that of the social and economic sectors due to loans from China and South Korea.

In relative terms, the proportion of ODA for social sectors will decline from 22 percent in 2007 to 15 percent in 2008 and 18 percent in 2009. The share of ODA to economic sectors is expected to increase steadily from 18 percent in 2007 to 20 percent and 22 percent in 2008 and 2009, respectively. The share of ODA to physical infrastructure will increase in subsequent years, while that to multi sectors will remain stable.

Scaling up in health sector

Rather than reviewing the issue of scaling up in broad strokes, we will examine how the RGC plans to scale up its efforts to improve health.

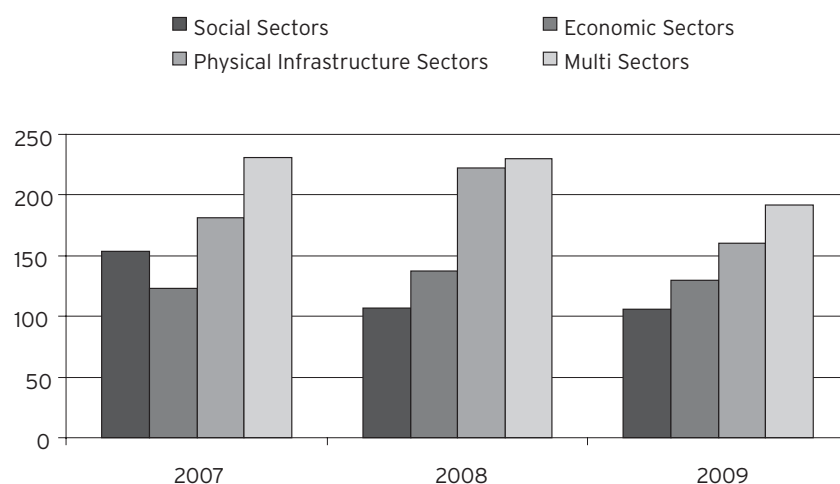
In an attempt to achieve MDGs and NSDP targets related to health, the RGC is working hard to increase budget-financed spending to improve the health status of Cambodians. According to the Medium-Term Expenditure Framework of the Ministry of Economy and Finance,⁴⁷ health spending has been on an up-

Table 17: Multi-year indicative funding framework by groups of development partners (2007-2009)

Year	Terms of Assistance	UN Agencies	International Financial Institutions	European Union	Other Bilateral Development Partners	Total
2007	Grants	61.0	92.7	167.7	234.3	555.6
	Loans	3.8	44.7	2.6	82.5	133.6
	Total	64.8	137.4	170.3	316.7	689.2
2008	Grants	56.7	85.3	169.2	187.8	499.0
	Loans	3.0	58.4	4.9	129.4	195.8
	Total	59.7	143.7	174.2	317.2	694.8
2009	Grants	53.6	94.0	147.4	180.6	475.6
	Loans	2.3	36.3	3.0	70.7	112.2
	Total	55.9	130.3	150.4	251.3	587.8

Source: Compilations from CDC Report on the 1st Cambodia Development Cooperation Forum, June 19-20, 2007.

Figure 7: Multi-year indicative funding framework by sector (2007-2009)



Source: CDC Report on the 1st Cambodia Development Cooperation Forum, June 19-20, 2007.

ward trajectory with the exception of 2004, when it dropped. It increased from US\$2.1 per capita in 2000 to US\$ 5.7 per capita in the 2007 budget and is projected to be US\$8 per capita by 2011.

Financing sources for health spending in Cambodia come from the government's self-financed spending, development partner financing, and consumer out-of-pocket spending. According to the World Health

Organization (WHO), about two-thirds of all health spending in 2005 was financed by consumer out-of-pocket spending, while about 20 percent was financed by development partners. The remaining 10 percent was covered by the government's recurrent budget. However, it is projected that government spending will equal development partner financing by 2015, when health spending will total US\$11 per capita.

Table 18: Cambodia's health budget per capita (US\$)

	2000	2001	2002	2003	2004	2005	2006	2007 Budget	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.
GDP	288	308	326	345	389	448	456	487	519	553	589	627
Total Recurrent Spending	25	28	31	33	32	35	41	47	50	54	59	64
Health Recurrent Spending	2.1	2.4	3.1	3.8	2.8	4.0	4.4	5.7	5.7	6.4	7.2	8.0

Source: The Ministry of Economy and Finance, cited from *Scaling Up for Better Health in Cambodia*, p. 27.

Table 19: Cambodia's health financing projections (US\$ per capita)

	2005	2006	2007	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Government financed current spending	4.0	4.4	5.7	5.7	6.4	7.2	8.0	8.7	9.5	10.3	11.1
External financing for health	8.3	8.5	8.8	9.0	9.3	9.6	9.9	10.2	10.5	10.8	11.1
Household financing	24.9	26.4	27.8	29.3	30.9	32.6	34.3	36.6	39.0	41.5	44.3
Total	37.1	39.3	42.3	44.1	46.6	49.3	52.2	55.5	58.9	62.6	66.5

Source: WHO. (2007). *Scaling Up for Better Health in Cambodia*. p. 27.

Costs of aid volatility

Although volatility over development aid has lessened, it still has its costs, particularly when it creates uncertainty over the release of funds. Some argue that as long as pledges of ODA disbursements, including the MYIFF, remain indicative, financing will be unpredictable and the amounts provided insufficient to meet funding needs.

Funds are rarely released on time for each scheduled phase of project/program implementation. The matter of releasing funds is often the subject of debate between the RGC and development partners with the RGC complaining that development partners do not

release funds on time as promised and development partners countering that such problems are due to the fact that government ministries do not have effective financial systems in place.

For most projects, expenditure is concentrated in the last quarter of the year, while only a small proportion of the budget is spent in the first quarter. Problems related to the release of cash remain a key challenge. Spending is documented when approved, whereas the release of cash often takes considerable time.

The case of the European Union-funded ECOSORN Project in the northwest provinces of Cambodia demonstrates how unpredictability over the release of

funds can adversely affect the implementation of a project.

The project called for the construction of 15 wells and 300 toilets over a period of three months in Battambang, Banteay Meanchey, and Siem Reap provinces. But a delay in the release of funds slowed work

in Siem Reap, where only four wells and 100 toilets had been completed after three months. Construction prices had soared 15 percent due to inflation since the project began and the cost of constructing one well had jumped from 800 Euros to 935 Euros as a result of the delay.⁴⁸

AID COORDINATION

Dialogue of aid coordination

Flows of ODA from various bilateral and multilateral donors into Cambodia have increased since the general election organized by the United Nations in 1993. However, there was little coordination among donors at the strategic level during this period of “donorship”⁴⁹ in the 1990s. Instead, a large number of uncoordinated donors delivered aid through poorly integrated projects, with little attention paid to Cambodian ownership.

As discussed earlier, almost half of ODA to Cambodia was spent on TC. The provision of TC has been criticized as being poorly coordinated among donors. As a recipient with high aid fragmentation, Cambodia receives aid from a large number of donors, who often provide contradictory advice to line ministries and favor capacity substitution to fill the RGC’s capacity gaps over the provision of capacity building assistance, which in many cases has also been poorly designed and implemented. Moreover, many donors have tried to increase the efficiency of ODA delivery and address aid management solutions in the short term only to end up exacerbating problems over the longer term.⁵⁰

Recently, efforts have been put in place to address the poor quality of external assistance. The RGC has made a commitment to improve its ODA management capacity, while donors are acknowledging the importance of increasing the effectiveness of their support under RGC leadership.⁵¹ In this sense, the RGC and donors agree that aid is more effective when it is closely linked to the established targets of national development plans, such as NSDP and CMDGs, developing national capacity and strengthening national systems.

Structure of aid coordination

There is general agreement on the importance of aid coordination in promoting aid effectiveness. The RGC has been working to enhance aid effectiveness in Cambodia since the late 1990s. In 1998/99, Cambodia became one of 14 partner countries in the OECD/DAC Working Party on Aid Effectiveness. Efforts to improve coordination among donors and facilitate policy dialogue with RGC began in earnest in 1999 with the establishment of a number of Reform Councils. Donors responded by creating Donor Working Groups as counterparts to each Reform Council.⁵² The working groups were mainly donor-led and covered broad areas.

A comprehensive restructuring of this mechanism was launched in 2004 to improve its effectiveness and place it under the leadership of the RGC.⁵³ The restructured mechanism established joint Government-Donor Technical Working Groups (TWGs) for particular sectors and thematic areas, aimed at strengthening cooperation between the RGC and external partners and facilitating technical level dialogue for strategy development, coordination, and programming.⁵⁴

Each TWG is chaired by a senior official from the respective RGC ministry or agency. To strengthen communication with donors and with the aim of coordinating donor inputs, one or two donors are selected to act as facilitators in each TWG.⁵⁵

To coordinate the work of the TWGs and act as the primary forum for dialogue on development priorities and aid effectiveness, the Government-Donor Coordination Committee (GDCC) was established as a high-level body and forum to review progress on a quarterly basis. The GDCC meets regularly to discuss high-level policy issues, make agreement on priorities, and resolve problems related to the work of the TWGs.

In a move designed to strengthen the RGC's leadership and coordination role, Consultative Group meetings have been held in Phnom Penh since 2002, co-chaired by the Minister of Economic and Finance, the first Vice Chair of CDC and the World Bank Country Director,

with the CRDB as the secretariat. The CG has been changed and is now referred to as the Cambodia Development Cooperation Forum (CDCF), which met for the first time in Phnom Penh in June 2007.

Box 2: Cambodian Rehabilitation and Development Board (CRDB) of the Council for the Development of Cambodia (CDC)

The Cambodian Rehabilitation and Development Board (CRDB) is one of the constituent bodies of the Council for the Development of Cambodia (CDC). The CRDB was created in 1994 to mobilize and coordinate reconstruction assistance to Cambodia. In 2002, CRDB was nominated as Focal Point and One-Stop Service for relations with donor countries, agencies and NGOs. It is the main counterpart for most donors operating in Cambodia although some still prefer to deal with the Ministry of Foreign Affairs and International Cooperation. It has been noted that there have been some difficulties in persuading donors to accept the "single window" concept.

The CRDB/CDC also represents Cambodia in global aid effective fora, and senior CRDB/CDC officials have been closely involved in the work of the DAC for a number of years. The CRDB/CDC is now widely regarded as an effective leader of the aid effectiveness agenda. Donor representatives point to the importance of having a strong champion of aid effectiveness within RGC.

Role and responsibilities of the CRDB are provided as follows:

1. Act as the "Focal Point" and "One Stop Service" of the Royal government of Cambodia in its relations with donor countries, agencies and NGOs; and as the "Focal Point" and "One Stop Service" for Government ministries and agencies in aid coordination and allocation/utilization.
2. Formulate and implement the Strategic Framework on Development Cooperation Management to strengthen Government ownership and leadership in development process and to strengthen partnership between Royal Government of Cambodia and the donor community.
3. Mobilize and allocate external assistance to implement the priorities set out in the National Strategic Development Plan and other sectoral development plans.
4. Directly lead the harmonization of development partners' practices and procedures to enhance aid effectiveness.
5. Provide technical support to the Government Donor Coordination Committee that is the mechanism for policy dialogue and provide support to strengthen the Technical Working Groups mechanism.
6. Cooperate with ministries and agencies in formulating national rehabilitation and development strategies, and setting immediate, medium and long term national development priorities for the preparation of annual plans of action. These plans of action must be coherent, systematic and inter-related.
7. Participate in the preparation of national socio-economic development plans and sectoral development plans.
8. Manage public investments by closely cooperating with relevant ministries and agencies. This is mainly related to coordinating and guiding the allocation and utilization of national and external resources for the rehabilitation and development of Cambodia.

continued...

9. Pursuant to the delegation of power from the Prime Minister, sign on behalf of the Royal Government of Cambodia the acceptance and/or allocation of external assistance with bilateral and multilateral donors and international organizations.
10. Lead the preparation of government policy papers to be submitted to conferences for the rehabilitation of Cambodia such as the Consultative Group Meeting of Cambodia with cooperation from relevant ministries and agencies.
11. Prepare six-month and annual reports and submit to the Royal Government of Cambodia for review and guidance to further improve rehabilitation and development.

Source: Marcus Cox, 2006; the CRDB/CDC, retrieved from <http://www.cdc-crdb.gov.kh/>

Instruments of aid coordination

The RGC has used two major instruments to localize and reinforce its aid effectiveness commitments in Cambodia.⁵⁶ First, a Declaration on Harmonization and Alignment was signed by the RGC and 12 development partners in December 2004 that included the incorporation of nine commitments from the 2003 Rome Declaration on Harmonization. Second, a Declaration on Enhancing Aid Effectiveness was signed by the RGC and 14 development partners in October 2006 to update the first Declaration on Harmonization and Alignment by taking into account the five principles of the 2005 Paris Declaration on Aid Effectiveness in the context of Cambodia. The signatories included seven representatives from embassies and seven representatives from international development partners. No representatives from civil society organizations were invited to sign this declaration.

The second declaration also represented the formalization of activities included in the RGC Harmonization, Alignment and Results (H-A-R) Action Plan, approved in February 2006. The H-A-R Action Plan identified ownership as integral to effective aid management. The GDCC has overall responsibility for coordinating the H-A-R Action Plan implementa-

tion and for monitoring the declaration, including the global aid effectiveness mechanism and national monitoring frameworks such as the Joint Monitoring Indicators (JMIs).⁵⁷

The H-A-R Action Plan, previously the Harmonization and Alignment Action Plan, applies the principles of the Paris Declaration on Aid Effectiveness in the Cambodian context. It is implemented through the GDCC. This action plan lays out priority activities to achieve aid effectiveness.

Major achievements in aid management and coordination

To improve aid effectiveness and coordination, the RGC and Cambodia's development partners have put a great deal of effort into implementing their respective partnership commitments under the Declaration on Enhancing Aid Effectiveness based on the principles of the Paris Declaration and integrated within the H-A-R Action Plan.

Ownership

To strengthen national ownership, the RGC is committed to exercising full ownership and leadership over

Table 20: Signatories to the Declaration on Enhancing Aid Effectiveness

From the Royal Government of Cambodia:

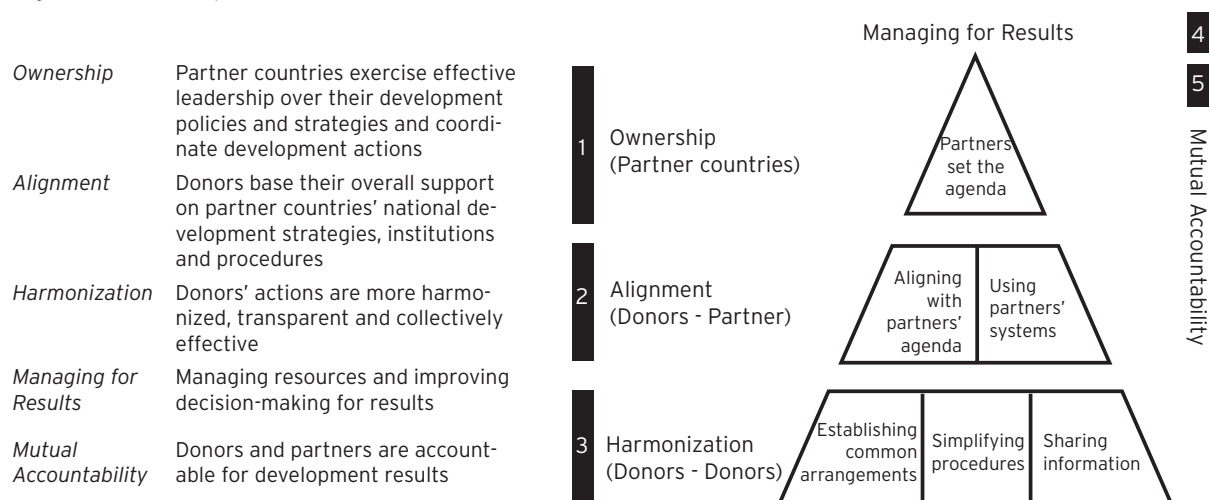
Sr. Minister Keat Chhon
Minister of Economy and Finance
First Vice Chairman of the Council for the Development of Cambodia

From the Development Partners:

Yvon Ro�� d'Albert Ambassador of France	Takahashi Fumiaki Ambassador of Japan
Lisa K. Filipetto Ambassador of Australia	Pius Fischer Ambassador of the Federal Republic of Germany
David G. Reader Ambassador of the United Kingdom	Donica Pottie Ambassador of Canada
Mogens L. Christensen Minister Counsellor DANIDA Resident Representative	Eva Gibson Smedborg Counsellor SIDA Resident Representative
Lynn de Silva First Secretary and NZAID Manager Thailand, Cambodia, Lao PDR, Myanmar NZAID	Piper A. W. Cambell Charg�� d'Affaires Embassy of the United States of America
Alain Goffeau Acting Country Director Asian Development Bank	Daniel Costa Llobet Charg�� d'Affaires a.i European Commission
Douglas Gardner UN Resident Coordinator	Nisha Agrawal Country Manager World Bank

Source: CRDB/CDC.

Figure 8: Principles of the Paris declaration on aid effectiveness



Source: The Declaration by the Royal Government of Cambodia and Development Partners on Enhancing Aid Effectiveness; the Cambodia Aid Effectiveness Report 2007.

its development policies, strategies, and development actions, especially the implementation of the NSDP 2006-2010. Development partners have made a commitment to respect RGC ownership and leadership of its development process and to provide coordinated support to strengthen the institutional and human capacity of ministries and agencies to achieve the targets of the NSDP 2006-2010.

The NSDP incorporates the CMDGs and links the vision of the RGC's Rectangular Strategy for growth, employment, equity, and efficiency to concrete goals, targets, and strategies. In this way, it serves as Cambodia's single medium-term development strategy.

The RGC ownership of national development policies and goals has increased significantly, and the government is using the NSDP to assert leadership over the development agenda.⁵⁸ Development partners are also cooperating better at the strategic level and are much more likely to provide coordinated policy advice to the RGC.

Progress has been made in aligning development assistance with national priorities. The World Bank's Aid Effectiveness Review reports that development partners are taking measures to align their development assistance with the NSDP

In May 2007, the government completed its first Annual Progress Report of the NSDP, which was presented to the first CDCF in June 2007. The CDCF replaced the CG meetings and strengthened country ownership by bringing the meeting under the sole chairmanship of the RGC. The forum aims to provide opportunities for high-level dialogue among the government, development partners and civil society over the NSDP, its financing framework and associated reform programs.⁵⁹

Alignment

For aid to be effective, it must be aligned with national development strategies and plans.⁶⁰ To ensure alignment, development partners are now being asked to base their overall support on the RGC's strategies, institutions and procedures. The RGC has also made a formal commitment to strengthening Public Financial Management (PFM) and promoting long-term capacity development with coordinated support from development partners.⁶¹

Meanwhile, progress has been made in aligning development assistance with national priorities. The World Bank's Aid Effectiveness Review reports that development partners have supported the RGC's efforts to merge Socio-Economic Development Plan 2, NPRS and the Rectangular Strategy into the NSDP and are taking measures to align their development assistance with the NSDP. Major multilateral agencies, including the World Bank, ADB, DFID and UN agencies, have also been preparing their country assistance strategies as part of a joint process.⁶²

The RGC has been improving the reliability of its country systems. A PFM Reform Program, launched in 2004, is aimed at strengthening governance through enhanced PFM for effective service delivery.⁶³ The quality of PFM has improved, but it remains unfavorable. Cambodia's PFM rated only a 2.5 for quality by the World Bank's 2005 Country Policy and Institutional Assessment (CPIA), which was well below the average of 3.2 for International Development Association borrowers.⁶⁴ The PFM was improved by 0.5 points in the World Bank's 2006 CPIA.

The RGC and development partners also are stepping up efforts to enhance TC by identifying capacity gaps and working out how to close them. They agree that TC, which accounts for a large proportion of ODA disbursements to Cambodia, should be coordinated with

sectoral strategies that are aligned with the national strategy. The 2006 Survey on Monitoring the Paris Declaration shows that 36 percent of TC is coordinated with sectoral strategies, which means development partners will have to work hard to meet the 2010 target of 50 percent.

Harmonization

To make their actions more harmonized, transparent and effective, Cambodia's development partners are committed to increasing the proportion of development assistance in the form of program based approaches (PBAs), reducing the number of separate, duplicative missions and diagnostic reviews and studies and increasing their use of delegated cooperation arrangements.

The 2006 Survey on Monitoring the Paris Declaration showed only 24 percent of aid to Cambodia in 2005 made use of PBAs. Preliminary results from the 2008 survey reveal that the proportion increased slightly to 28 percent in 2007, which makes the 2010 target of 66 percent seem unachievable. The PBA support is provided through sector-wide support focused mainly on education, health, decentralization and deconcentration and public financial management. TWGs have a vital role in facilitating and accelerating the formation of PBAs.

Only 26 percent of the 568 donor missions were coordinated in 2005 and it was found that only 14 percent of missions were conducted jointly in 2007. While it has been noted that some of Cambodia's development partners have made great progress in forming delegated partnership arrangements, in general, more efforts are needed to increase the degree of development partner harmonization.

Managing for results

One of the commitments in the RGC's Action Plan on Harmonization, Alignment and Results is to report periodically on progress in implementing the Action Plan. In general, the progress reports have been prepared by CRDB/CDC for presentation at GDCC and CG meetings. CRDB/CDC is also responsible for producing reports on progress towards aid effectiveness and Paris Declaration monitoring sureys.

To enhance sharing of information on development cooperation activities, CRDC/CDC has been developing and operating an ODA disbursement website over the past three years. The online ODA database enables development partners to report their ODA disbursements data directly to the website and allows the public to access information on ODA disbursements.⁶⁵ The overall objective of the ODA database is to provide a practical tool to promote and monitor the alignment of ODA with NSDP priorities and aid management principals. The ODA database provides more reliable and timely data than the previous recording system. More importantly, the government and development partners have better access to information to support their coordination, planning, implementation and reporting. In addition, the website provides civil society organizations with easier access to information on aid provided to Cambodia.

The NSDP monitoring framework was prepared in 2006. The Ministry of Planning is responsible for preparing Annual Progress Reviews of NSDP implementation, which are designed to summarize the findings of the NSDP M&E for the annual CG meeting that was replaced by the CDCF in 2007. In May 2007, the government completed its first Annual Progress Report of the NSDP and it was presented to the first CDCF in June 2007.

Box 3: Cambodia's ODA Database

The Cambodia ODA Database has been developed to support a single data entry point for providing a complete record of all development assistance to Cambodia.

1. Objectives of the Cambodia's ODA Database

The Cambodia ODA Database has the following main objectives:

- To record all development finance to Cambodia from all sources;
- To promote the effective planning, budgeting and management of external resources;
- To provide public access to information on aid provided to Cambodia; and,
- To support empirical analysis and the provision of practical policy-relevant advice.

2. How does the ODA Database support the Aid Effectiveness Agenda?

The ODA Database provides a strategic management tool to support the implementation of good practices in aid management with regard to coordination, planning, implementation and reporting.

- **Aid Coordination:** Harmonization and alignment supported through universal online access to information on activities, sorted by development partners, sector, modality or province;
- **Planning:** Ex post and forward-looking alignment is monitored and supported by comparing resources flows with resource requirements identified in the NSPD;
- **Results:** Support to NSPD implementation, tracking of financial resources contributes to an assessment of development impact as well as to improve budgeting.
- **Mutual accountability:** National ownership and partnership-based dialogue become more credible as a result of enhanced information sharing.

3. How is the data used?

It is critically important that the ODA Database demonstrates its ability to add value to aid management work. The ODA Database customization process has therefore ensured that the following outputs are enabled:

- Tailored reports can be produced, including data on development partner, sector and province.
- Real-time sector profiles can be produced automatically to provide snapshot overviews.
- Macro- and sector-level financial projects can be produced for planning and budgeting.
- The Aid Effectiveness Report monitors the implementations of both Government and development partners.

Source: CRDB/CDC, available at <http://www.cdc-crdb.gov.kh/database/index.htm>

The Joint Government-Donor TWGs and GDCC have also been formed to enhance planning, managing and monitoring progress in implementing development assistance and to improve ODA effectiveness.

Mutual accountability

The Joint Monitoring Indicators (JMIs) are a primary tool used for mutual accountability between the RGC and development partners. While the NSDP

Table 21: Progress, challenges and priority actions

Dimensions	2005 Baseline	2007	Challenges	Priority Actions
Ownership	Moderate	Moderate	Limited credibility of the budget	Provide clearer link between strategic priorities and the budget process
Alignment	Low	Moderate	Weak country system	Consolidate public financial management reform
Harmonization	Low	Low	Limited use of program-based approaches	Address aid fragmentation through increased use of program-based approaches
Managing for results	Moderate	Moderate	Need for better access to reliable data	Implement government statistical master plan; improve sharing of aid data by donors
Mutual accountability	Moderate	High	Strengthen dialogue mechanisms and joint indicators	Ensure participation of wide range of stakeholders in mutual assessments; improve quality of dialogue

Source: *The Draft of 2008 Survey on Monitoring the Paris Declaration in Cambodia*, CDC.

monitoring indicators are used for monitoring NSDP implementation, the JMIs are principally used for monitoring both RGC and development partner commitments related to key process issues and the reform agenda. The JMIs are also a management tool for assessing the work of the TWGs in specific sectors and thematic areas against their respective action plans.⁶⁶ TWG Progress Reports are prepared for sharing at the GDCC meeting, which is held three times a year.

Civil society is becoming increasingly active in the process of aid management and coordination. Representatives of civil society have participated in most TWGs, particularly the TWG on Planning and Poverty Reduction. They are also invited to participate in GDCC meetings, where they can release statements based on their own perspectives. Moreover, they participated more actively in the first CDCF which is the highest level forum on policy dialogue.

Survey on monitoring the Paris Declaration in Cambodia

Recent findings from the 2008 Survey on the Paris Declaration show that aid effectiveness has improved moderately in Cambodia, with alignment and mutual accountability being the most improved and harmonization the least improved dimensions. High aid fragmentation and limited use of program-based approaches are seen as the key obstacles to harmonization.

However, it has been noted that results from the 2008 Survey on the Paris Declaration may not be directly comparable with those of the 2006 Baseline Survey due to issues over data consistency across development partners and changes to the survey's methodological guidance that allowed for a broader range of development assistance. Still, the surveys can be utilized to observe efforts of the RGC and development partners in strengthening aid effectiveness.

Table 22: Survey on monitoring the Paris Declaration in 2005 and 2007

	Indicators	2005 Reference	2007	2010 Target
1	Operational development strategies	C	C	B or A
2a	Reliable public financial management (PFM) systems	2.5	3.0	3.5
2b	Reliable procurement systems	Not available	Not available	Not applicable
3	Aid flows are aligned on national priorities	79%	85%	90%
4	Strengthen capacity by coordinated support	36%	35%	50%
5a	Use of country PFM systems	10%	14%	No target
5b	Use of country procurement systems	6%	16%	Not applicable
6	Strengthen capacity by avoiding parallel PIUs	49	121	19
7	Aid is more predictable	69%	96%	84%
8	Aid is untied	86%	99%	More than 86%
9	Use of common arrangements or procedures	24%	28%	66%
10a	Joint missions	26%	12%	40%
10b	Joint country analytic work	58%	17%	66%
11	Results-oriented frameworks	C	C	B or A
12	Mutual accountability	Yes	Yes	Yes

Source: The Draft of 2008 Survey on Monitoring the Paris Declaration in Cambodia, CDC.

KEY CHALLENGES

In the process of making aid more effective, Cambodia and its development partners face several challenges in relation to aid management and coordination. Key challenges associated with aid effectiveness in Cambodia are identified as follows.

- Aid to Cambodia remains highly fragmented with over 35 development partners financing more than 700 projects, which implies duplication, a lack of coordination, difficulty in reporting on results, parallel planning, implementation outside of the budget process and a disproportionate burden on local capacity. The use of program-based approaches (PBAs) is one way to address fragmentation. Yet, progress in establishing and consolidating PBAs has been slower than anticipated.
- Strengthening of TWGs is seen as essential to effective aid coordination and was identified as such in the Cambodia AER 2007. Currently, however, TWGs are not well managed and organized and they lack the technical and financial resources needed to support the national effort to enhance ownership and align development assistance to national priorities and systems.
- The effectiveness of TC is another major concern associated with aid effectiveness in Cambodia. About half of all ODA disbursements go to TC even though TC is routinely criticized for failing to meet expectations for developing national capacity. Therefore, more effort must be made to increase the capacity development impact of TC. To make TC more demand-driven, needs assessment must be done judiciously through TWGs in 19 sectors and thematic areas to identify key capacity gaps and to develop strategies to make TC more effective. In fact, the amount of expenditures devoted to TC is not the issue. What matters is the impact TC has on development and especially capacity development. Cambodian officials still want to maintain a high level of external technical assistance to get work done, manage their departments and agencies and keep up their performance.
- NGOs need to have a more prominent role in the policy process to further promote aid effectiveness. While NGOs are participating more in policy processes, they still do not have that much influence over government decisions. They cannot lobby the government directly without the intervention of external development partners. TWGs are not designed for policy advocacy, which means NGOs cannot champion for change in that venue. Moreover, the policy and advocacy capacity of NGOs also challenges their representational role in policy dialogue at a technical level.⁶⁷ In a recent study on CSOs and aid effectiveness in agriculture and rural development, Cambodian CSOs claimed that the RGC had never asked them to share their monitoring results, take part in formal monitoring and evaluation processes or participate in other aid effectiveness mechanisms.⁶⁸
- Aid management is also undermined by under utilization of government systems. Preliminary findings of the 2008 Survey on Monitoring the Paris Declaration show that only 12 percent of development assistance is processed through government financial systems and only 16.5 percent of development assistance uses national procurements due to the perceived weaknesses of these systems and concerns about corruption.⁶⁹ Cambodia ranked 162nd out of 180 countries in Transparency International's 2007 Corruption Perceptions Index.⁷⁰ The use of government systems could be promoted through PFM reform and PBAs. At the same time, efforts should be stepped up to improve capacity development for PFM.
- Strengthen information on aid delivery and aid management to improve the linkages between development assistance, the NSDP and the budget

and to enhance transparency is another key challenge. The RGC has made significant progress in improving its ODA database over the last three years, with support from all donor focal points. Some development partner agencies, however, do not have sufficient information systems in place yet. Mistakes are sometimes made in reporting the status of their projects, for example with respect to PIUs, missions and engagement in PBAs. Furthermore, they are unable to provide projection data, particularly for three-year indicative estimates, due to procedural constraints.

CONCLUDING REMARKS

Cambodia is one of the developing world's most aid-dependent countries, consisting of a large number of official bilateral and multilateral donors and private aid donors. The high level of aid fragmentation poses a tremendous challenge in coordinating aid. In addition, the delivery of funds to most sectors remains rather volatile although overall aid is disbursed as pledged. Generally, the flow of resources is not predictable, which makes the funds provided insufficient to achieve project goals.

Technical cooperation (TC) still constitutes the large proportion of development aid in Cambodia. The provision of TC is also fragmented and sometimes overlaps. TC is mostly donor-driven and has a negligible impact on capacity development because it tends

to be delivered in the form of capacity substitution rather than capacity development. However, TC has been on the decline while development aid for actual programs/projects has been increasing over the last few years.

The role of non-traditional donors, especially China, has been gaining prominence in aid management in Cambodia. NGOs are also becoming more active in policy-making process, but policy advocacy opportunities that would allow them to influence government decision making are lacking. Consensus is building that donors should insist the government recognize the role of CSOs in policy-making and also should ensure that CSOs have an opportunity to influence government policy and decision making. The level of aid coordination in Cambodia remains moderate. The RGC and development partners have stepped up their efforts to improve the effectiveness of development aid, particularly to achieve the objectives of the Paris Declaration.

To enhance aid effectiveness, some key challenges desperately need to be addressed. These include the use of program-based approaches (PBAs), the strengthening of TWGs, promoting the role of civil society organizations, improving government systems, particularly public financial management, and finally improving the database on aid delivery and management.

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ENDNOTES

1. The terms “aid,” “development aid,” and “development assistance” are used interchangeably in the report.
2. The terms “development partner” and “donors” are also used interchangeably in the report.
3. National Institute of Statistics of Cambodia.
4. Marcus Cox. (2006). *What Structures and Processes are Emerging at Country Level to Support a More Effective and Accountable Development Partnership? A Cambodia Country Case*. Agulhas.
5. Ibid.
6. CRDB/CDC. (2007). *The Cambodia Aid Effectiveness Report 2007*. p. 57.
7. *Social sectors* consist of health and education.
8. *Economic sectors* comprise agriculture, manufacturing, mining and trade, rural development and land management, banking and business services, and urban planning and management.
9. *Physical infrastructure sectors* consist of information communications, power and electricity, transportation, and water and sanitation.
10. *Multi sectors* include community and social welfare services, culture and arts, environment and conservation, gender mainstreaming, HIV/AIDS, governance and administration, tourism and others.
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16. It is noted again that CDC includes both free-standing technical cooperation (FTC) and investment-related technical cooperation (ITC) in data on TC, while OECD/DAC accounts only FTC. It could be argued that this leads to errors in data.
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19. Also known as the Republic of Korea.
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21. Interview with the Deputy Director of CDC's Aid Coordination Unit
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26. Homi, Kharas. (2007). *Trends and Issues in Development Aid*. Working Paper 1. Wolfensohn Center

- for Development. The Brookings Institution, p. 14.
27. Romilly Greenhill. (2007). *Making Aid More Effective? An Independent Assessment of Accountability and Ownership in the Aid System*. Cambodia Case Study Research. ActionAid UK.
 28. Ibid.
 29. World Development Indicators 2008. p. 91
 30. CRDB/CDC. (2007). *The Cambodia Aid Effectiveness Report 2007*. A Report Prepared for the First Cambodia Development Cooperation Forum on 19-20 June 2007. Phnom Penh: the Council for the Development of Cambodia.
 31. HHI is a statistical measure of fragmentation or concentration.
 32. It is adopted from the HHI that is used in the context of market concentration, in which the HHI accounts for the number of firms in a market by incorporating the relative size of all firms in a market (Board of Governors of the Federal Reserve System, 1993, cited from Kim and Lee, 2007).
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 42. Global Monitoring Report 2005, p. 173.
 43. Global Monitoring Report 2008, p. 105.
 44. This measure is calculated by dividing Root Mean Squared Error by Mean of the relevant aid flows during the corresponding period without Hodrick Prescott Filter.
 45. As noted in the CDC Development Cooperation Report 2004 and 2005, a CG Meeting was not held in 1998 and 2003 and therefore no pledges were made. At the CG meeting held in December 2004, pledges were made for 2005 based on a revised definition and therefore no pledges were recorded for 2004.
 46. Pledges were made during the 1st Cambodia Development Cooperation Forum on June 19-20, 2007.
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53. Ibid.
54. So far, TWGs have been established in 19 sectors and thematic areas, namely (1) agriculture and water, (2) decentralization and deconcentration, (3) education, (4) fisheries, (5) food security and nutrition, (6) forestry, (7) gender, (8) health, (9) HIV/AIDS, (10) infrastructure and regional integration, (11) land, (12) legal and judicial reform, (13) mine action, (14) partnership and harmonization, (15) planning and poverty reduction, (16) private sector development, (17) public administration reform, (18) public financial management, and (19) rural water and sanitation.
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