

NATIONAL STRUCTURES AND SYSTEMS
FOR AID IMPLEMENTATION IN
CAMBODIA

[FINAL DRAFT]

PART 1

THEMATIC ISSUES

MAY 2010

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ACKNOWLEDGEMENTS

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ABBREVIATIONS AND ACRONYMS

| | |
|---------|--|
| AAA | Accra Agenda for Action |
| ADB | Asian Development Bank |
| AER | Aid Effectiveness Report |
| ANZ | Royal ANZ Bank |
| AOP | Annual Operational Plan |
| AusAID | Australian Aid for International Development |
| CAR | Council for Administrative Reform |
| CDC | Council for the Development of Cambodia |
| CMDG | Cambodian Millennium Development Goals |
| CMU | Cash Management Unit in MoEF |
| D andD | Decentralization and Deconcentration |
| DFID | UK Department for International Development |
| EA | External Audit |
| EAP | External Advisory Panel on PFMRP |
| EAPR | External Advisory Panel Report |
| EDP | External development partners |
| EFI | Economic and Finance Institute of MoEF |
| EMIS | Education Management Information System |
| EPA | Environmental performance Assessment |
| ESWG | Education Sector Working Group |
| EU | European Union |
| FA | Forestry Administration |
| FiA | Fisheries Administration |
| FOPS | Financial Office for Provincial Services |
| FM | Financial Management |
| FRA | Financial Risk Assessment |
| FTI | Fast Track Initiative |
| GDCC | Government Donor Coordinating Committee |
| GDP | General Directorate of Planning |
| HRM | Human Resource Management |
| HRMIS | Human Resource Management Information System |
| HSSP | Health Sector Support Program |
| IA | Internal Audit |
| IAD | Internal Audit Department |
| IFMIS | Integrated Financial Management Information System |
| IMF | International Monetary Fund |
| JICA | Japanese International Cooperation Agency |
| MAFF | Ministry of Agriculture, Forestry and Fisheries |
| M and E | Monitoring and Evaluation |
| MBPI | Merit Based Pay Initiative |
| MoEF | Ministry of Economy and Finance |
| MoEYS | Ministry of Education, Youth and Sport |
| MoH | Ministry of Health |
| Mol | Ministry of Interior |
| MoP | Ministry of Planning |
| MTEF | Medium Term Expenditure Framework |

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| NA | National Assembly |
| NAA | National Audit Authority |
| NBC | National Bank of Cambodia |
| NCDD | National Council for Decentralisation and Deconcentration |
| NIS | National Institute of Statistics |
| NPAR | National Program for Administrative Reform |
| NPRS | National Poverty Reduction Strategy |
| NSDP | National Strategic Development Plan |
| NT | National Treasury in MoEF |
| OD | Organizational Development |
| PAD | Program Appraisal Document |
| PB | Program budgeting |
| PBA | Program Based Approach |
| PD | Paris Declaration on Aid Effectiveness <i>also</i> Position Description |
| PEFA | Public Expenditure Financial Assessment |
| PETS | Public Expenditure Tracking Survey |
| PFM | Public Financial Management |
| PFMRP | Public Financial Management Reform Program |
| PFMR | Public Financial Management Reform |
| PIP | Public Investment Program |
| PIU | Project/Program Implementation Unit |
| POC | Priority Operating Costs |
| RGoC | Royal Government of Cambodia |
| SAW | Strategy for Agriculture and Water |
| SEILA | Major rural development program in Cambodia |
| Sida | Swedish International Development Agency |
| SOA | Self Operating Agency |
| SWAp | Sector Wide Approach |
| SWiM | Sector Wide management |
| TA | Technical Assistance |
| ToR | Terms of Reference |
| TWG | Technical Working Group |
| UNDP | United Nations Development Program |
| UNICEF | United Nations Children's Fund |
| UNFPA | United Nations Population Fund |
| USAID | United States' Agency for International Development |
| WB | World Bank |

EXECUTIVE SUMMARY

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INTRODUCTION

This study on Cambodian country systems was undertaken on behalf of the European Development Partners. They see this not as a joint assessment of country systems as set out in the Accra Agenda for Action [AAA][2008] but as a first step towards such a joint study. It is intended to form a foundation for “jointly assess[ing] the quality of country systems in a country-led process using mutually agreed diagnostic tools” [Accra Agenda, par. 15]. It is intended as a descriptive study based on documentary evidence from reports, project documents, manuals etc. and not a prescriptive study setting out recommendations for the improved use of systems, which is rightfully an outcome of the joint study described in the Accra Agenda.

The Terms of Reference [ToR] of the study [see Annex A] make it clear that the European Development Partners see the use of country systems as a key issue in aid effectiveness in Cambodia. The current use of such systems is regarded as low, with less than 12 per cent usage in 2007. The low usage is attributed to the claimed weaknesses in the quality of country systems and uneven capacity which is said to lead to unacceptable level of risks. Instead, the practice has been to create parallel structures and systems and to support necessary capacity building with the long-term objective of moving to greater use of country systems as the circumstances seem more favourable. However, the level of improvement that is expected in the systems is not always clear to Ministries and there are also questions about the standards that are being set. In any event, there are contrary views that argue that it is only through the actual use of country systems that they can be strengthened and bypassing them only perpetuates any weaknesses.

To assist in further considering these issues, this report provides a mapping of studies that have been undertaken on the use of country systems to date. The ToR requires that the views in particular studies are reported without expressing an opinion on their correctness. The report is intended to feed into subsequent phase of work involving the joint country situation analysis envisaged in the Accra Agenda for Action.

LOGISTICS

The Project commenced on Thursday March 18 with briefing from Sida senior staff followed up by a meeting with the Working Group which covered main themes and approaches to study plus the key personnel to see and documents that should be consulted. Two international and one local consultant were involved in conducting the study.

The study has focussed on reviews of the aid documentation, gathered through searches of relevant websites and the holding of meetings with external agencies and government ministries and agencies. These were conducted over two months from mid-March to mid-May, with several significant interruptions to the mapping work over that period because of important national and international holidays. Key external agencies and ministries were visited with good cooperation, a number of stakeholders were interviewed, and reports and documents either obtained or pointed out. There were some problems in follow up on promised documents but most documents were eventually obtained. During this period the bulk of the bibliography entries were drafted and assembled. The Bibliography is presented as a separate report.

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The final focus of the study was on meeting some key high level officials to reflect on the main themes identified and to check whether there were some common understandings of our main conclusions. In these we set out our major themes and invited comment on whether they presented a fair summary of the current understanding in the country on the use of country systems by external development partners. The descriptions and summaries of the reports are intended to reflect fairly the positions of the authors and/or the agencies who commissioned them. Nonetheless, unless otherwise stated, the conclusions drawn are the findings of the consultants.

SCOPE OF MATERIALS

Ninety documents have been collected on general aid effectiveness studies in Cambodia and whole of country studies, including material on Paris Declaration surveys and studies. Forty nine of these are included in the separate Part 2 of this report, which is the bibliography, on the basis of appropriateness and relevance.

There is a good scope of materials on education, health, planning and some aspects of financial systems [esp. areas such as fiduciary risk] but a more limited amount of material on Agriculture, Interior [D and D], and administrative reform.

GENERAL ISSUES EMERGING FROM THE WORK

There was **not the range of studies that we had first thought there might be**. Indeed in some sectors there appears to have been little written by way of a study that covers particular country systems. The most common focus in country systems studies is on aspects of financial management, and almost every large program or project document either includes or has associated with it a study or report on financial risks.

There are few fundamental disagreements about the facts related to the use of country systems in the studies or in the judgements made in them about risk. The differences that do exist in the studies are more about the best approach in the circumstances. Both multilateral and bilateral agencies agree that levels of risk are high, particularly in Public Financial Management [PFM] systems, but some studies from bilateral agencies seem more likely to say that a higher level of risk has to be accepted if sustainable improvements in development management are to be made. These studies suggest that real progress is only possible if particular country systems are actually used and some appreciable level of risk has to be accepted and managed. Other studies conclude that parallel systems must first be used while organizational and individual capacity is built because of the high risks with a transition at some future time when capacity is judged to be sufficient.

The position on the use of country systems revealed by the studies, and in our interviews with stakeholders, is not static. The aid effectiveness agenda in Cambodia has helped to bring about progress in the greater use of some country systems such as national plans and increasingly in sectoral plans. Limited program budgeting is being pursued in eight sectors, with some like the Education sector being more advanced in implementing financial management reform than others. There is increasing attention being given to building sound Monitoring and Evaluation [M and E] systems in a number of sectors. Internal audit capability is also being developed in a number of Ministries although there is said to be a long way to go. In D and D an extensive range of

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management systems have been developed. By contrast, less progress has been made in developing satisfactory long term remuneration arrangements but with an interim solution called Priority Operating Cost [POC] currently being developed by the Council for Administrative Reform [CAR].

Nevertheless, while progress is being made, the studies suggest that financial risks and procurement risks are considered to remain high to substantial. There are risk assessments made in both 2009 and 2010 that identify a number of significant continuing concerns in aspects of financial management arrangements. Public Financial Management Reform [PFMR] is making progress but the pace is gradual and incremental meaning that significant changes on levels of risk may yet take some years to materialize. Progress is uneven but opportunities for greater use of country systems in ministries like the Ministry of Education, Youth and Science [MoEYS] and Interior [Mol] do appear to be more promising.

Most EDPs we met were at least sympathetic to the greater use of country systems over time, with the clear exception of France and USAID. In the most recent studies that have been undertaken in Cambodia there is growing support for a gradual move to greater use of country systems. This may reflect the growing influence of the Paris Declaration on Aid Effectiveness [PD] and the subsequent Accra Agenda for Action on agency policy positions. In part this reflects an increased recognition of the impact of having aid expenditure contained in one line summaries in the development budget or else completely off budget, with all the implications that has for management of strategic priorities in ministries. However this sympathy for the use of country systems is not necessarily reflected in actual practice as external aid agency policies may still allow little flexibility on the part of country technical staff, and ministries may not always be sympathetic to the removal of parallel systems and the associated financial incentives to staff.

Ministry staff were more ambivalent on the use of country systems. They had a range of views, with some favouring moving to country systems quickly because parallel systems were seen as counterproductive, as indeed some of the studies do suggest. Three of the priority ministries were critical of the extra management burden and the distortion of priorities that can be produced by having multiple Program Implementation Units [PIUs]. Other critics thought the higher level of incentives available to those working on programs and projects attracted the best staff away from other important ministry work and could in turn create morale and productivity problems in the rest of the ministry. On the other hand, most ministries said that they are flexible and will work with whatever systems the donors want to use. There were a range of reasons given for favouring the continuing use of external systems. They included the greater flexibility of human resource management within parallel systems as well as the more familiar capacity based arguments. One frank view that was offered was that in some ministries PIUs offer the only opportunity of achieving real productivity.

NATIONAL STRUCTURES AND SYSTEMS FOR AID IMPLEMENTATION

The Terms of Reference defined country systems more broadly than the original Paris Declaration which defined country systems as including “... but ... not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring”. The Accra Agenda for Action broadened the original PD definition to “ include, but ... not [be] limited to, systems for public financial management, procurement, audit, monitoring and

evaluation, and social and environmental assessment “. This Accra list, plus planning systems, was the basis for the country systems included in this study.

PLANNING

There are a set of interlocking country activities and documents that make up the Cambodian planning system. These include the National Strategic Development Plan [NSDP] and the Rectangular Strategy at the national level, the various sectoral strategic plans and integrative plans such as the Public Investment Program [PIP] which link to financial planning. These documents and the planning activities they represent govern the preparation of medium term and annual plans and budgets. They represent national and sectoral priorities for development and investment.

The National Strategic Development Plan 2006 – 2010 is the single, overarching document containing the government’s priority goals and strategies. The plan functions as the country National Poverty Reduction Strategy [NPRS] which is a requirement for credits from the World Bank [WB] and the International Monetary Fund [IMF] so it directs all public policy to the reduction of poverty and the achievement ... other socio-economic development goals for the benefit of all Cambodians. It synthesizes and prioritizes the goals of the NPRS and the Cambodian Millennium Development Goals [CMDG] and is intended to align sector strategies and planning cycles to overall long term vision, as well as guide external development partners [EDP] to align and harmonize their efforts towards better aid-effectiveness and higher net-resources transfer than hitherto.

The Cambodian government has adopted the *Rectangular Strategy for Growth, Employment, Equity and Efficiency* as the framework for the country's socio-economic development. Founded on good governance, peace, political stability, social order, macroeconomic stability, partnership and economic integration, the Rectangular Strategy focuses on critical development issues such as the enhancement of the agricultural sector, rehabilitation and construction of physical infrastructure, private sector development and employment generation and capacity and human resource development. While not a plan *per se* it sets out the policy basis for priorities and future actions by the government and development partners, who are defined as both external development agencies and private partners. The Strategy has been revised periodically.

Since 1995, **the Ministry of Planning [MoP] has been responsible for preparation of the annual, rolling, three years Public Investment Program [PIP]** to reflect the priorities of the Royal Government for capital and technical assistance needs to implement its development strategies. The PIP allocations were meant to correspond to the envisaged sectoral allocations in the NSDP. Because many of the sectoral submissions do not arise from strategic plans and may simply be ‘wish lists’ the MoP has tried to refine the process by holding extensive, one-to-one consultations with many ministries and agencies in order to sensitise them to the need to ensure that all their submissions for the PIP were meant to directly address NSDP priorities. Furthermore, the MoP also shared the first draft with all EDPs and took their inputs, comments and suggestions into account. However the PIP still does not link well with the development budget and the government has set up an integration committee at the highest level to try and address this issue.

The issue of planning at the sectoral level is a vexed one. This planning is intended to be both a result of declared policy priorities in the Rectangular Strategy and the NSDP and an input to medium

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term planning in the PIP and the medium term budget. Some ministries such as Education, Youth and Sports, and Health have fairly well developed and robust planning systems with Strategic Plans in place for many years, as well as Annual Operational Plans [AOPs]. However other ministries such as Agriculture have taken some years to produce long term strategic documents and other ministries have none at all. This means of course that the basis of the PIP, budget planning and donor alignment with sectoral priorities can be very weak.

PUBLIC FINANCIAL MANAGEMENT

The Public Financial Management system covers all aspects of the financial management of government funds in Cambodia. It has a number of components including:

- budget planning
- budget expenditure
- payment system
- accounting
- financial management information system
- procurement
- debt management
- taxation/revenue system
- external and internal auditing

This total system is central to all government action and is the focus of most EDP documentation and attention, and was the initial primary focus of country systems in the Paris Declaration. There is an ambitious multidonor financed ten year program to reform PFM in Cambodia which has reached Stage Two of four planned Stages. Currently it is in the process of moving from budget credibility building, which is a central function, to developing greater accountability through line ministry functions such as program budgets [currently eight ministries have program components in their budgets, and the use of an Integrated Financial Management Information System [IFMIS] which will cover all transactions and connect all line ministries [and EDPs if they so choose] and which will be capable of recording and tracking both government and EDP expenditure This will eventually affect all aspects of PFM in the country, including central and line ministry operations as well as national and sub-national aspects.

HUMAN RESOURCE MANAGEMENT

The regular administration of the civil service in Cambodia is under the control of the State Secretariat for the Civil Service while the National Program for Administrative reform [NPAR] is overseen by the Council for Administrative reform. Both of these bodies come under the Council of Ministers. CAR is responsible for the development of policies for human resource management and development, the Human Resource Management Information System [HRMIS] which tracks all civil servants, and for the coordination of administrative reform in areas such as the recent creation of Self Operating Agencies [SOAs] which allow for semi-autonomy for parts of the civil service while retaining ties to the line ministry. CAR also coordinates salary supplement schemes such as the recently suspended Merit Based Pay Initiative [MBPI] and the interim supplementation scheme of Priority Operating Costs currently being developed. While the MBPI was a harmonised approach with

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EDPs agreeing to a common supplementation scheme it is not clear as yet how POC will operate and what the envisaged transition period is, and what the government intends as a long term compensation process to provide incentives for performance, and to retain staff will skills in high demand outside the civil service.

ENVIRONMENTAL AND SOCIAL ASSESSMENT

Most EDPs in setting up development projects now require both an environmental and a social assessment of the consequences of the project and a plan to counter potentially adverse effects. There is a ministry concerned with environment which has an office for natural resource assessment and another for socio-economic resource assessment. We did not find much evidence of use of the organisation or its assessments by any of the EDPs although there has been some technical support extended.

MONITORING AND EVALUATION

The basic systems for monitoring and evaluation are the management information systems of which there are both national and sectoral examples. The Council for the Development of Cambodia [CDC] maintains a data base of development activities which has a focus on PD monitoring. The Ministry of Planning has the National Institute of Statistics which is the primary collector of national statistics on socio economic matters. CAR maintains a human resource system but because of security restrictions it is little used outside of CAR. Sectoral systems vary a good deal, with some ministries such as Education, Youth and Sport, and Health having well developed systems that cover statistics, human resources and other aspects of ministry operations. However other sectors have limited or no information systems and find it difficult to monitor activities and EDP programs and projects even on an annual basis.

PRIORITY MINISTRIES AND AGENCIES

CENTRAL MINISTRIES AND AGENCIES

PLANNING

The Ministry of Planning consists of two main parts, the General Directorate of Planning [GDP] and the National Institute of Statistics [NIS]. The MoP is responsible for guiding and managing national socioeconomic development planning [GDP] and managing the statistical functions of the Royal Government [NIS]. It sees its Vision and Mission as:

The Ministry of Planning takes responsibility for guiding and managing socio economic development planning [GDP] and statistical functions [NIS], working in cooperation with other relevant Ministries and institutions in the Kingdom of Cambodia.

The NIS has had considerable capacity building support and now produces a range of relevant and useful statistical information.

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The General Directorate of Planning sees its main focus as the NSDP and is currently working on the NSDP 2011 -2016; it also coordinates the PIP from the sectoral ministries and agencies. There are six country system issues to do with planning:

- The central leading role given to the Rectangular Strategy
- The role of the National Strategic Development Plan
- Performance information for the NSDP
- The role of the PIP and integration with other planning tools
- Capacity Building in MoP
- Sectoral Planning

[Phase II of the Rectangular Strategy](#) for Growth, Employment, Equity and Efficiency in Cambodia was issued in 2008. It is the RGoC's central overarching vision and set of priority policies for the socio-economic development of Cambodia, including as regards giving effect to the Millennium Development Goals.

The NSDP provides the operational development framework or roadmap for giving effect to the Rectangular Strategy, sector by sector. The preparation of the NSDP is coordinated by the MoP. An update of the NSDP for 2009-2013 has been prepared and is expected to be put before the Government for approval in the near future. This time the plan has been prepared within the RGoC without consultancy assistance, with contributions made by all Ministries in consultation with EDPs through the TWG processes.

The first NSDP was important in itself as a concerted effort to consolidate the RGoC's policies in a coherent way. Ministries have tended to operate quite separately making coordination and collective behaviour challenging. Thus, the level of ownership for the first NSDP across Ministries was variable. MoP believes there is much stronger ownership for the second NSDP because of the process followed in its development. Moreover, the Plan is regarded as better defining Ministries' activities and responsibilities. It is also linked by Chapter 2 to a macro-economic framework for the development of Cambodia.

However, in our interviews, there was some concern expressed that **the second NSDP will be, as with the first, lengthy and some parts will need more prioritization.** An examination of the NSDP documents suggests that sectors where there was more planning capacity and experience, as well as commitment, developed better refined strategies than some others.

The performance information to support the NSDP2 is still being worked on under MoP coordination. A list of suggested performance information was originally prepared for that purpose. However, after discussion in a sub-group of the relevant Technical Working Group [TWG], it was recognized that more work was needed. As noted in Chapter VI to the NSDP2, the key concern of MoP is to ensure that not only is necessary data readily available and collectable but that particular agencies are prepared to take responsibility for doing so. The implication is that M and E at the national level still has a way to go in building ownership across Ministries for the use of M and E processes. On the other hand, it should be noted that Cambodia with EDP support has built up a reasonably strong National Institute of Statistics that already provides a range of quality economic and social data.

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As was noted in the World Bank's 2008 Aid Effectiveness Report [AER], **aligning the Public Investment Programme, which MoP coordinates, with the National Budget and the Medium-Term Expenditure Framework [MTEF] for medium-term strategic priorities remains a key implementation challenge.** A committee of senior Ministers has been set up to look at the relevant issues. It is not clear what change if any might be made, as there are sensitive political considerations involved. We did identify a working paper on how this change might be accomplished and this is listed in the bibliographies. On the other hand, though we need to see what role might be envisaged for the PIP for the future as the PFMR reform develops. For example, there are other studies amongst the bibliographies that are critical of the difficulties presented by donor funding not being able to be fully and thus transparently presented in the budget itself.

There is a study listed in the bibliographies which was undertaken in behalf of UNDP in 2009 **in regard to the capacity of the MoP.** The paper canvasses what the RGoC might decide as the future role of the Ministry. The paper raises a number of key questions about MoP's future role such as what happens if PIP is abolished and suggests there are key continuing roles to be played as regards the NSDP and the budget; the need to determine what areas of analytical skills are required; whether policy analysis is required; the managing of relationships with line Ministries; and how best might MoP's role be defined after D and D so that it plays a more facilitative role.

The study goes on to suggest that MoP's competencies are less than what is needed for organizational efficiency/effectiveness and then provides a methodology for addressing them. MoP itself freely acknowledges the need for capacity development assistance in the discussions that we had. It is understood that possible areas of EDP assistance are being discussed with MoP. A brief reference is made in the bibliography to one earlier mission report where capacity support had been provided but that leadership and motivational issues had constrained this work.

The NSDP expects that national plans will be linked into sectoral plans, as already exist in a range of sectors such as D and D, health, education, agriculture and fisheries. The move to Program Based Approaches [PBA], already in place or being worked towards in 12 sectors in Cambodia, can be expected to strengthen the focus on and the quality of sectoral planning. PBAs are a way of engaging in development cooperation based on the principle of coordinated support for a locally-owned program of development. PBAs include a number of categories of approaches including direct budgetary support, pooled funding, and sector-wide approaches. Sectoral plans have led on to support plans and to annual operational plans in sectors such as health and education.

Clearly, plans get better as experience and capacity grows provided there is continued leadership and ongoing commitment. Health has demonstrated that a bottom up approach to planning can strengthen quality, commitment and realism of planning. Education has used annual congresses to ensure cross-sectoral discussion on priorities. This year for the first time the education sector plan and the support plan are to be covered in one document. While some planning is therefore improving at the sectoral level, there are sectors that are less advanced than others. Even in the more advanced sectors such as education, there are suggestions from commentators like Ratcliffe that the quality of planning needs to be lifted to another level, a view that the Planning Department of MoEYS also reflected in our discussion with them.

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An important next step is making the linkages between planning and budgeting activity so that resource management becomes more results and performance based. The move to Budget Strategic Plans is helping this to be done in priority Ministries. The need to plan resource usage on a medium term basis in turn is pushing planning parameters outwards and requiring that Ministries have a more longitudinal view in their planning activity although the 2010 External Advisory Panel suggests the overall approach to forward estimates may need to be less ambitious.

D and D will of course also impact on the way that planning activity is done. As the capacity study of MoP notes, how planning staff at the sub-national level might relate to the centre needs some careful consideration as there will be a need to not just support local planning efforts but to build that work back in national planning and policy frameworks. NCDD advised that the consideration of issues related to sub-national planning was well advanced.

COUNCIL FOR ADMINISTRATIVE REFORM

There are no recently published studies on the Council for Administrative Reform's systems and structures. We have included the CAR Secretary-General's recent presentation to the Government Donor Coordinating Committee [GDCC] in the materials in the bibliography to ensure awareness of CAR's extensive work program. There are also a number of published Council papers on country systems. They include:

- The Government's 2005 policy on service delivery reform [see Bibliography entry] that has encouraged developments such as the one stop shop
- A draft policy on human resource management that introduce new policies like lateral recruitment, the merit principle and the use of position descriptions
- A draft policy on human resources development
- Various decrees and guidelines related to the merit based pay initiative and priority mission groups
- Decrees and guidelines related to special operating agencies such as those set up in MoH
- Guidelines related to a performance management and accountability systems
- Various increases in salary made in recent years as well as changes in functional and other allowances
- A draft compendium on Public Services
- A third Governance Plan is being developed that will update RGoC's thinking on the administrative reform agenda as well as outlining ways of operationalizing service delivery reform

There are a number of studies that have been undertaken on the MBPI and incentive schemes in particular sectors such as MoEF, MoH and in the sub-sectors supported by Danida under the Natural Resources and Livelihood Program. We have included the Danida study but not others in the bibliography as they are being overtaken by developments on the POC.

More recently, in discussion with EDPs following the suspension of existing incentive schemes, **the Government has been moving towards the adoption of a new interim Priority Operational Costing incentive scheme** coupled with the development of a longer term compensation scheme for public sector remuneration. POC is intended to cover daily performance, travel costs to and from work, and

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communication costs. It has not been possible to obtain any written proposal for these new arrangements but it is understood that CAR is working on the development of guidelines for POC payments. It is understood that the new incentive arrangements will be similar to previous ones in that they will be performance and merit-based but with slightly different and lower rates than MBPIs. Rates are likely to be set at three levels- senior staff, program managers and operational staff, with rates at the sub-national level lower than national rates. They are not to be seen as salary supplements and are regarded as interim until further, longer term, arrangements can be put in place .

CAR also oversees the government payroll through the Human Resource Management

Information System maintained in CAR. It seems that only CAR can access this system and not line Ministries due to CAR's concerns about security of the data. Some Ministries such as MoEYS have set up their own parallel HRM data bases because of this lack of access. A national census of government employees is also underway to ascertain the overall size of the government workforce with about 2,000 ghost workers identified to date. CAR is also working on redeployment reform which would facilitate the transfer of civil service staff between different locations against a range of benefits and allowances. A labour market project is underway that is setting out benchmark position descriptions for central ministry non-specific positions¹ and with some comparative data from private enterprise.

CAR has been asked to develop a process for ministries to conduct their own functional or operational reviews, particularly in regard to service delivery improvements. There is growing pressure within the RGoC and the bureaucracy for such a process although it will probably face stern resistance from those who feel their jobs are under threat. The recent Public Expenditure Financial Assessment [PEFA] in MoEF emphasizes the need for MoEF to move forward on its commitment to conduct a review during phase 2 of the PFMRP. As the PEFA notes, the PFMRP means significant functional, structural and resource reform for the Ministry, including due to the new Financial Management Information System.

One of the major difficulties of advancing administrative reform is to develop a committed, well-motivated and competent civil service work force without at the same time raising salary incentives considerably. A number of the studies suggest that the slow progress in civil service reform is having a stifling effect on national development well beyond the specific subject content involved in progressing other reform agendas such as the PFRMP and D and D. The strong government commitment to stability and equality has meant a 'hasten slowly' approach to salaries, with a government time frame of about twenty years in view. This has meant inherent tensions in discussions with EDPs, who typically have time horizons for change of three to five years. Maintaining overall political stability is regarded as a very high priority by the RGoC. The current political tensions in Thailand were raised a number of times in our discussions with senior policy makers as a warning to Cambodia not to move too quickly in reform. The other side of the coin is the risk that some civil servants become progressively more disenchanted with opportunities for

¹ That is positions which are found across all or most ministries; thus it excludes positions such as teachers, doctors and extension workers which are found only in education, health and agriculture respectively.

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legitimate rewards for performance, whilst new appointees join a culture that is not committed to advancing the public good.

ECONOMY AND FINANCE

The PFM system in Cambodia has been subjected to a great deal of scrutiny – the bibliography references six specific studies particularly referring to the on-going PFM reforms, but many project/program documents include specific references to PFM issues. This is especially so since the *Paris Declaration* and *Accra Agenda for Action* made it almost obligatory for EDPs to justify the non-use of country systems, and the finance system is the one that most concerns EDPs. There may be other, internal, documents that provide balancing responses to some of the concerning issues raised in these reports but we did not obtain any of them.

Clearly much progress has been made under PFRMP. It has received strong leadership from within MoEF. However, the PEFA findings suggest there is still a long way to go to reach a point where PFM is regarded as fully developed and soundly managed. The 2009 DFID study suggests eight areas where reform has not taken hold. Moreover, the External Advisory Panel Report suggests that there needs to be a re-focusing in Stage 2 of the PFRMP on an agenda that is more realistic and re-prioritized. While most progress in the reform has been made in building a credible budget, the reports suggest that there are still weaknesses in the extent of coverage of expenditure and therefore in transparency.

There is much work now needed to build modernized and stronger Treasury/accounting arrangements, including in line agencies- see the Aide Memoire from Ms Carrio in the bibliography. Also, the implementation of the IFMIS has been slow in part because of the need to think through process re-engineering issues but this should gather pace in 2010. The current plan is that the IFMIS should be operational for the 2012 budget year, that is from 1st January 2012. Depending on the RGoC reaction, the recommendation in the EAPR that program budgeting be simplified away from MTEFs towards simpler forward estimate arrangements may have implications for those who want to move towards budget support arrangements based on PBAs.

Success in advancing the PFM reforms is central to building the case for greater use of country reforms. However, the DFID assessment suggests the capacity for implementing PFM at the local level is thin, with PAR also acting as a constraint. Three of the studies in MoEF note there are major change management issues, and potential resistance to change, to be addressed in MoEF. Moreover, reform is seen as likely to be achieved incrementally and in the long term. As noted already, MoEF itself will need re-organization in the light of the reform with Departments, functions and particular jobs needing to be re-thought. Recent studies seem to suggest that PFM is more likely to be a long grind than any quick fix, although the original design had a ten year time frame.

Procurement assessments are to be found in the material in the education and health sectors. They indicate that Cambodian systems are not yet at the point where they can be relied on. These views are echoed in the MoEF studies. Donors have largely stayed outside RGoC arrangements but have developed special and parallel arrangements. These were described to us in detail in our meetings with local WB staff and in discussions with the Asian Development Bank [ADB]. The interesting question for the future is whether the implementation of the planned procurement law

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will change the assessment about level of risk although of course there are related capacity constraints also to be taken into account. This question needs further examination when proposals on the new law become available.

As to revenue, while significantly improved, the studies indicate Cambodia lags behind comparable countries in the scale of revenue collection. The PEFA sees this as affecting the predictability of the budget. There is also revenue that is collected that remains off budget and is therefore non transparent.

The JICA report on capacity building in the General Tax Department expresses concern about the tax take. While JICA made creditable progress in a project on building up the skills of the Department in tax administration and related audit activity, the report is an interesting case study of the difficulties of implementing sustainable changes in performance to support a reform process- there are a number of tactful illusions to the difficulties of building a learning environment where learning was valued, is acted on and is supported by managers.

Audit reform issues are outlined in the study report from the Accountant. There are now IA units in many Ministries but qualifications, audit standards, capacity and productivity are some way off. The assessment undertaken as part of the 2010 PEFA found that it is doubtful that the Stage 2 PFMRP objective to have effective Internal Audit [IA] functionality in place by 2010 will be met due to institutional and capacity constraints. The National Audit Authority [NAA] is slowly building capacity with support from a number of donors but independence is a real issue. Neither it nor the relevant committee of the National Assembly [NA] are issuing publicly available reports. The EAPR suggests audit reform should now be given a lower priority in PFM but this would not sit well with any move to country systems and has led to EDP objections. We need to see what eventuates on this recommendation. Currently, the situation with local audit capacity means much work for the private sector.

LINE SECTORS

AGRICULTURE SECTOR

While a **Program Based Approach is favoured in the medium term**, the Ministry of Agriculture, Fisheries and Forestry [MAFF] is less well advanced than sectors such as Education and Health in its preparations for moving to greater use of country systems by development partners.

The Strategy for Agriculture and Water [the SAW], together with its five programmes, was developed, with TWG involvement, in 2007. More recently a program design document for 2010-2013 has been agreed, with greater integration of donor support being proposed for the sector but not yet achieved. The Ministry claims real difficulty in knowing the full scope of donor activity in the sector. Financial management capacity is acknowledged to be weak. Planning and M and E are seen as needing to develop further with some strategies seen as broad brush and as not aligned to budget funds. Nor is their alignment between RGoC and donor funding. EDPs also see it as important that greater ownership for SAW is built within the Ministry with strong leadership being important to its implementation.

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As the recent draft PER undertaken in the sector indicates, **the Ministry Strategic Budget Framework together with the Medium Term Expenditure Framework can now become the central planning tool for implementing the SAW.** However, at the moment, their effectiveness is constrained by capacity limitations and difficulties in integrating donor funding due to the separation of program implementation units. EDPs also saw a need for better prioritizing of expenditure in the sector - for example, agricultural extension is mainly supported by donors and the impact of climate change needs to be taken into account.

Mainstreaming the SAW will involve coordination and integration with the budget planning and management instruments under PFMRP according to the draft PER. Donors, in consultation with RGoC are prepared to map the way forward, including through establishing systems that offer regular and systematic appraisal and M and E and for these to be linked to budget decisions. While there is information available on the sector through national statistics, the level of performance information needed for sectoral management and an M and E system is regarded as under-developed.

Fisheries Administration [FiA] has made real progress in building stronger country systems. FiA has developed a 10-year Strategic Planning Framework and a three year rolling Fisheries Development action plan. The plan sets out specific budget allocations. FiA has systematic accounting, an effective M and E system with agreed indicators, a human resources plan, and central planning across the Administration. By contrast, while making progress, Forestry Administration has more to do. It has developed a long term strategic and operational framework for the national forests and is now building an annual operating plan process for the sector.

In considering the possible use of budget support in supporting fisheries and forestry activities, **Danida recently commissioned an assessment against the 10 principles it is required to apply in considering budget support.** In assessing the conditions for “sector” budget support or PBAs with regard to the fisheries, forestry, land and decentralization and deconcentration [DandD] sectors, the report found that:

- three common prerequisites appear necessary for PBAs to come into being: [i] strong country ownership of the sector policy framework; [ii] a clear government commitment to lead the coordination process; and [iii] a genuine interest by two or more EDPs to assist the RGoC in this endeavour.
- FiA has sound sectoral plans and the capacity and the will to implement them. It has strong leadership. It is ready for a PBA.
- In Forestry Administration [FA], the most critical issue in developing an incentive-based approach towards sustainable forest management is community commercial forest use. The prospects for a PBA depend on EDP’s attitude to recently developed national forest plan and cooperation between FA and EDPs.
- The National Council for Decentralisation and deconcentration [NCDD] has the capacity to drive the D and D reforms and already has a strong monitoring process.

But progress across the government institutions is mixed and uneven, with different levels of commitment across government and limited action by development partners. As the report also found:

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- Efforts to resolve systemic issues in the public sector management such as administrative reform and structural problems such as corruption and the rule of law have achieved limited results.
- The continued proliferation of donor-led projects has undermined the development of RGoC institutional capacity and has further justified the rationale for project-based aid;
- Weak coordination on key policy documents, i.e. PIP, MTEF and National Budget remain to be a key impediment in bringing synergy, proper sequencing, and harmony among them.
- Local capacity is being supported project donors' projects, but will not be strengthened sustainably this way until the national system provides adequate incentives to civil servants and holds them accountable.

EDUCATION SECTOR

The Education Sector is the best example available in Cambodia of the gradual move towards a PBA based approach. The sector is not without its difficulties in that it still suffers from fragmentation such as the existence of multiple PIUs and projects and programs. While only the EU/Sida and a few others have so far introduced a sector-wide budget support program, there is interest from some other donors in moving in the same direction. The World Bank's mid-term review of the Fast Track Initiative [FTI] program suggested a move to use of country systems in the medium term. Recently, the Education Sector Working Group [ESWG] prepared a paper on the funding options available, which is listed in the bibliography.

However, as the studies indicate, including the most recent one undertaken by the EC, UNICEF and Sida **the financial risks in the sector are still regarded as high.** See for example the assessment undertaken as part of the Program Appraisal Document [PAD] for the World Bank's Fast Track Initiative. The World Bank's 2008 assessment, while noting the substantial progress made under the PFMRP, found that the present fiduciary risk is significant. However, it noted that the many PFMR projects underway are clearly leading towards mitigating these risks- there exists a core financial process that is sufficiently sound that it can serve as a platform on which to build improvements. Moreover, as one of the eight Ministries implementing program budgeting, the RGoC has made a strong commitment to the ministry to implement its PFMR program to address shortcomings; the program has been agreed with donors and the program is underway.

There has been considerable support within MoEYS for capacity building in planning, financial management and internal audit and progress in capacity building is acknowledged. The bibliography also contains an assessment of the procurement risks that are also assessed as high.

To date, the Sector has achieved:

- effective sector-wide strategic and operational planning through an Education Sector Strategic Plan using the sector wide approach [SWAp], a Support Plan and annual Operational Plans - the strategic and support plans are to be incorporated in the one document this year
- very low leakage of public funds- see the Public expenditure Tracking Survey [PETS] included in the bibliography

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- regular consultation with at least some of the stakeholders on planning and policy development through an Annual Education Congress - the bibliography includes the MoEYS's most recent report to the Congress
- close interaction and cooperation between the MoEYS and EDPs within the Education Sector Working Group and steady progress on aid effectiveness measures - the study by Ms Pernay suggests some next steps in that work
- the development of M and E systems that provide effective management information on school operations, financial resources and human resources - for example the bibliography contains a favourable assessment of the accuracy of the Education Management Information System [EMIS]
- effective funding of service delivery with formula-based program budgets to ensure equitable provision
- the introduction of job descriptions
- decentralization through four levels [centre, province, district and school], including the institution of budget management centres, with increasing accountability, in central departments, provinces and districts
- setting up a section [FOPS] in the finance department dedicated to program budget management; the internal audit department in 2005 and subsequent formulation and implementation of an audit strategic plan
- ongoing and effective leadership from political and senior management
- the Ministry now has capacity for internal audit of systems and budget centres for programs

The sector is seen as well placed to take Deconcentration and Decentralisation reform forward

although further changes are suggested in some of the studies to enhance local financial management and planning, as well as school accountabilities. David Quinn's paper comments on policy issues at the provincial level but also notes the severe pressures on MoEYS's recurrent expenditure and the implications that has for future donor support.

As the 2009 ADB study notes, **other countries with similar PFM systems have been able to successfully implement investment projects using the SWAp approach.** The study suggests that the RGoC could also be able to employ this funding approach in the future, subject to a governance structure that permits the government and the donors to monitor the use of the funds and the results of the projects financed by it. The study suggests that the governance structure should include:

- a clearly defined program of work, with specific budgets linked to each activity, with well-defined outcomes and timelines
- a governing body [the ESWG already exists] to monitor and control the initiative, supported by the existing Joint Technical Working Group - Education to discuss and resolve issues and ensure satisfactory progress against the agreed plans
- specific performance indicators and measures by which the individual activity progress can be assessed

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- an agreed pooling financing mechanism with clear responsibility for management of the pooled resources vested in MoEYS²
- procurements to comply with government's *Standard Operating Procedures for Externally-Financed Projects/Programs*;
- performance triggers into the pool that will control release of funds upon satisfactory completion of agreed tasks within the annual budgetary framework
- project financial and performance information is reported on a regular basis as directed by the ESWG and subjected to external confirmation on a schedule to be determined, but no less than semi-annually
- an annual independent external performance review of the actual results against the agreed plan and preparation of a report for the ESWG well before the next budget year begins
- an independent audit of the donor/government pool account financial statements
- regular monthly financial statements and progress reports, prepared in a timely, complete and accurate basis
- the conduct of all activities and reporting in an environment of maximum transparency

Nevertheless, the Education Sector is recognized as far from perfect. The Planning Department in the Ministry believes that better and more creative policy development is needed for the future. David Quinn's papers set out some of the policy agendas that need attention. Michael Ratcliffe's 2009 study is critical of missed opportunities on development of effective governance arrangements. Ratcliffe identifies as risks:

- insufficiently developed results orientation of sector performance monitoring and sector financing
- an over focus on supply-side issues, less so for demand-side reforms [e.g. informal fees, regulating age of entry, advocacy and information campaigns]
- overly centralised sector planning, management and monitoring, with only limited stakeholder participation in decision making. In particular, limited progress on decentralization and deconcentration policy implementation means that accountability mechanisms at provincial, district and even school levels are under-developed
- uneven participation by stakeholders

HEALTH SECTOR

The Ministry of Health [MoH] has made progress in use of country systems, particularly in progressing sector planning through use of a sector wide management [SWiM] approach, and the development of bottom up annual operational plans [AOPs]. EDPs are fully supportive of MoH's strategic objectives. This was expressed in both the first and second Health Sector Support Programs [HSSP 1 and HSSP 2]. Both of these included significant pooled funding by a number of EDPs. The current HSSP includes funding from WB, AusAID, DFID, UNFPA and UNICEF with harmonised approaches by a number of other bilateral agencies such as France and Belgium. However, more generally, there has been continued criticism of the fragmentation of donors in the sector and the number of PIUs.

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There has been recent and extensive program re-organization within MoH affecting the national programs, health centres and hospitals. MoH Operational Districts [which may combine more than one RGoC district] and some provincial referral hospitals have been set up under HSSP2 as self-operating agencies [SOAs] with service delivery targets and special funding arrangements: there are now more than thirty such agencies in the MoH.

The Health Public Expenditure Tracking Survey suggested in 2006 that only 39 per cent of health funding reached the consumer at provincial level. The WB is anxious to see tracking information produced on more recent health expenditure. USAID also queried whether, while improvements may be being made under HSSP2, what was the position under the recurrent budget

The assessments included in the bibliography of financial management arrangements suggest that there are high fiduciary risks and high risks of corruption in the sector. The reporting and cash management arrangements are said to be underdeveloped, as was internal audit. Procurement arrangements in MoH are also seen as very opaque and weak, with concerns raised about drug purchases in particular. Consequently, the HSSP2 set up parallel system arrangements while providing substantial support for capacity building. This mirrors similar concerns and parallel arrangements in HSSP1 and in that case there was no transfer of financial responsibilities from the HSSP Secretariat to the finance department of MoH. The main concern was of the capacity of the finance department even though most of the HSSP Secretariat staff who were processing the finances were from the MoH finance department and on secondment or hired as local consultants. Progress to date suggests that once again the Secretariat [and perhaps the ministry] is reluctant to consider transitions: the Aide Memoire from November 2009 points out that no plan for transition has yet been developed and the Minister suggested that it may be possible to transfer some functions by the end of 2011, which is hardly a promising follow-up to HSSP1. The reviews of the HSSP2 to date, as noted in the bibliography, seem to be largely focused on the problems of getting systems working effectively in the sector. However, there is already some suggested slippage in the timing of when the parallel system arrangements might be handed over from the secretariat to MoH itself to manage.

The planning process in the MoH is well developed and there is a current Strategic Plan, the second in the series. Within this strategic framework annual planning takes place with a series of bottom up plans developed at each level of the organisation culminating in an Annual Operational Plan for the sector, with agreed priorities, indicators and outputs, agreed at an annual national conference. Statistics on these are collected on a regular basis and the Planning Department maintains an information system. Monitoring and Evaluation systems are said to be reasonably advanced in the sector with these agreed performance indicators in place. EDPs have made progress on harmonization and alignment generally through the TWG and the annual conference.

Human Resource Management has also received considerable attention in MoH in recent times. The development of performance planning and management arrangements in the sector has been fairly successful, with a fully developed system at the central level. Unfortunately it was developed as part of the substantial effort to develop an MBPI proposal as well as the SOA approach. The MBPI system in MoH arose from the concern that professionally qualified MoH staff were able to command much higher salaries outside the ministry or to set up private medical service delivery in conjunction with their MoH work. It was also an attempt to deal with a large number of salary

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supplementation approaches by various EDPs and even some competition for staff, and in some cases, double payments to staff. The suspension of MBPI has caused many concerns in the delivery of services and raised concerns of a return to the old system. The various studies reflect the difficulties of trying to deliver better quality health care at the local level with professional and semi-professional staff that receive low pay and are under-motivated. There is in the bibliography an excellent account by David Land of capacity building efforts in the sector which also notes the need for a focus on change management.

INTERIOR [DECONCENTRATION AND DECENTRALISATION]

The Ministry of Interior has a collection of responsibilities but we were asked to focus only on their work on Deconcentration and Decentralisation. As with Education and Health, this sector has made great progress in moving towards use of country systems. Donors have been much exercised about what are the best modalities for D and D funding for the future. An independent review that was undertaken in 2006, which is outlined in the bibliography, suggested then existing modalities were counterproductive to building local accountability and that instead, multiple new funding mechanisms needed to be utilized. .

The sector has a strong strategic focus on using country systems through D and D strategies and the Organic Law and the work of NCDD. By reason of the long-term focus on local government reform through SEILA and then D and D the sector has already built up management systems such as the Commune Sangkat fund and the Provincial Excom funds where much of the donor funding is currently placed. At the commune level EDP funds flow through the national system and are placed in commune Provincial Treasury accounts. There are comprehensive operational manuals covering all roles played at sub-national level from finance through to human resource management. NCDD works with staff from a number of ministries, located at the sub-national level in provincial, district and commune offices. There are already job descriptions in the sector and extended experience in the use of performance incentives. Procurement arrangements follow donor requirements. The extensive and mainly well-established D and D work systems are outlined in the bibliography in a short paper provided by Scott Leiper.

The next stages of the D and strategy implementation will soon be considered by the Council of Ministers. An implementation plan is intended that will break down across Ministries, through separate components, the action needed. Health and Education sectors are already well advanced. The priority is likely to be deconcentration measures at Ministry level but these will need to have resources attached as the sub-national level does not have resources. Pilots of some service delivery functions will be involved. Changes in financial functions are regarded as sensitive and difficult - they are being discussed between relevant Ministers, with NCDD not wanting to put at risk any elements of D and D that now work well. Districts don't have existing funding arrangements and solutions are needed at this level. Provincial financial arrangements are seen as needing the benefit of PFMRF reform.

There are longstanding and reasonably sound data bases but NCDD regards M and E systems as needing further strengthening. There are already national indicators. A subcommittee is to be set up to look at establishing jointly agreed indicators at project level. The internal audit function is

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regarded as also needing strengthening. Recently, irregularities have been identified in a few provinces that are now receiving close attention.

The recent lack of an incentive system through the suspension of salary supplementation has caused serious difficulties in the performance of sub-national staff. Settling the POC arrangements is regarded as urgent. Apparently, the arrangements will provide incentives at senior manager, program manager and operational staff. At sub-national level, incentives for managers and operational staff are likely to be slightly lower.

D and D reform will over time possibly lead to establishment of separate arrangements for the civil servants involved. Of the over 100,000 civil servants, 81 per cent currently work at the sub-national level. However, in the meantime, MoI sees it as important to consider the delegating of more management responsibility over MoI staff at the local level through some form of regulation. But MoI will need more time to look at HRM and conditions of employment issues generally. This reform will rely on the commitment and competence of existing staff. A very large task is seen in capacity building, with NCDD looking for donor support to establish some sort of local government school. The possibilities of resistance to making the necessary changes such as in existing Ministry functional arrangements through to changes in job roles and responsibilities are seen as very large. Power relationships need to be worked through sensitively.

EMERGING THEMES AND ISSUES

This section of the report identifies issues that can impose constraints or lead to bottlenecks in the use of country systems, as required under the ToR.

ISSUES ASSOCIATED WITH SYSTEM REFORM

The major reform of the whole Public Finance system in Cambodia through the multi-donor Public Finance Management Reform Program development and implementation is seen as a key to the use by many external agencies of country finance systems, given that so much focus is put on progressing financial management by potential users of country systems. There are major concerns with the perceived slowing pace of this with the likely need to re-sequence PFMR priorities in the light of recent reviews. Associated with this is the need for a new procurement law to be fast-tracked to raise the standards of procurement generally.

Despite its significance and some recent salary improvements, the **relative underdevelopment in the civil service reform agenda is a cause for concern**, not least because of the backtracking on performance payments which united all external salary supplements to one scale and promised government ownership of the process. The impact of the suspension of incentive arrangements this year and resultant deterioration on existing levels of performance right across the civil service is an issue that is transient yet important. The interim non-salary scheme for POC is still not in operation nor are its details clear but it appears to be project linked rather than addressing general management and administrative issues in ministries, and government involvement and ownership appears to be limited to setting uniform rates. There will be no Government contribution to the cost of salary supplements.

The lack of sustained cross-sectoral focus on making service delivery improvements that improve livelihoods is an issue that concerns the government as well as the development partners. For the purposes of this study service delivery is not a 'country system' as the components of it vary from sector to sector i.e. service delivery in MoEYS focuses on the organisation of schools, qualified teachers and curricula and in MoH on the delivery of health services by various kinds of medically qualified personnel in various levels of medical organisations. However there are common elements and approaches to service delivery that transcend the specialist nature of the major ministries with widespread service delivery responsibilities. Some of these could be addressed generically and CAR has stated that it intends to undertake this in the near future. Improving service delivery is likely to be as much an outcome of other financial and personnel reforms as of direct action it is likely to have the broadest outcome on the general population.

The slow pace of, and the need for, Government decisions about sensitive aspects of De-concentration and Decentralization is a major issue for much of the sub-national level of administration. In practice the use of some country systems at the sub-national, especially the lowest level of the Commune, has been fairly successful. One reason for this has been the reluctance of government to define the responsibilities of government at the key levels of central provincial and commune levels. In part this may arise from ambivalence about power sharing. However moving from the current transitional stage to a formally and legally based decentralised system has been very slow.

An issue that sharply reveals the differences between the government and the development partners is that of the desired timeframe for change in the system. The government is particularly conscious of the need for social stability and is very wary of the risk of civil unrest brought on by what they consider 'fast' change. They think in terms of 10 to 20 year horizons while development partners, especially at the technical level usually have much shorter timeframes in which to accomplish change. Some of the recent studies also point up a perceived resistance to change, and issues related to corruption, that may undermine reform implementation.

ISSUES ASSOCIATED WITH DEVELOPMENT PARTNERS

One of the major issues is the fragmentation of human resources, management control and work expectations produced in Ministries by multiple projects and programs and the number of project implementation units. While this is well known by all, the perceived need for control seems to override the principles set out in the Paris and Accra documents. There appears to have been some growth in pooled funding arrangements, especially in the ministries studied in this report so that large programs are more likely to be funded in this way. However size is not the key determinant of fragmentation – a ministry with one large program and twenty smaller PIUs is not noticeably better off in terms of fragmentation as far as human resources are concerned as one with 21 medium PIUs with their own systems of financing and staffing.

A key impact of the multiple projects, especially when spread across a number of development partners, **is the need for multiple reporting requirement and project management procedures** which raise the transaction costs by either requiring separate staff, trained in the use of the EDP procedures, or the use of Ministry staff who have to implement two or more sets of procedures, with the consequent risk of mistakes and delays.

The Program Based Approach is seen as more desirable because of its greater flexibility; it is a way of engaging in development cooperation based on the principle of coordinated support for a locally-owned program of development. PBAs include a number of categories of approaches including direct budgetary support, pooled funding, and sector-wide approaches. Many Cambodian sectors are now moving in that direction with Education and Health in particular being well advanced. The TWG process in Cambodia has contributed to coordinated support for locally owned programs. However there are obstacles to moving to implement fully PBA approaches because of some donors' restriction on some modalities associated with PBA, particular in terms of general or sector based budget support.

Now that the PFMRF is starting to improve the credibility and predictability of government budgets in the medium term **there is likely to be an increased desire for predictability of EDP funds.** The draft Evaluation of the Paris Declaration suggests that while there has been an increase in EDP use of the Multi Year Indicative Financing Framework [Draft PD Evaluation Report Vol.1, 2010, Section 2.2.3].

Some concern was expressed by ministry staff interviewed, and by some EDPs, about the relative commitment on the part of agencies and their local technical staff to implementation of Paris and Accra principles. This was not a questioning of agreement in principle but of the degree of flexibility allowed to local staff to vary practice rather than follow strict modalities of the agency. Some regarded the decision to use country systems as the default approach as mere rewording because in practice, especially in the case of PFM systems, there were always sufficient reasons to reject the country system and use an agency system. The management approach of the agencies was also a constraint as the use of imperfect country systems would mean delays in practice that went against the limited timeframes in which the agencies and their staff worked. In other words potential delays were a constraining influence because projects or programs might be delayed and thus reflect poorly on the career prospects of the agency staff [or the TA staff] responsible.

The recent online survey of the Paris Declaration Team found that from the development partners' perspective **less than expected results were achieved under the Paris Declaration** in terms of:

- improved administrative capacities
- development of national public financial management and procurement systems
- reporting on development results

Two of the studies in the bibliography identify **the need for improvement in the use of Technical Assistance.** This has been a much vexed issue in development management in Cambodia with the studies making a number of suggestions for improved management. These were followed up by the issue of a guideline on technical assistance by the RGoC in 2008. A related issue taken up in some of the studies is how best to make progress in capacity building, with much money regarded as having been wasted on ineffective and piecemeal approaches and many recommendations on how to make sustained progress. It would be of interest to see what has been the general experience in capacity building in the use of parallel systems in line Ministries.

A major issue in **sectoral and national planning, as it is in parts of the draft NSDP, is the need for a more realistic and better prioritized approach.** Sectoral planning is often characterised by unattainable and uncosted wish lists, which may carry through to the national level. The PFMRP is addressing one of the base problems by the introduction of three year ceilings for budgets, which will restrict the breadth of plans by forcing prioritisation of either the breadth of activities or scope or both. This should improve the linkages between plans, budgets and performance. The studies also suggest there is a need to better link development planning, aid management and donor funding to government planning and financial planning and expenditure so that external development aid is fully integrated to national systems.

A second issue concerns **the management approach throughout the civil service.** This is particularly important given the hierarchical nature of the prevailing system and likelihood of patronage based appointments which do not take merit into consideration. Thus it is important to build greater ownership for evidence-based management approaches that rely on having performance targets and indicators in place and using effective Monitoring and Evaluation systems. Policy development and evidence based management is hampered by **weaknesses in management information** that hamper transparency and which can make management difficult. There is a need for organizational capacity building generally such as building management systems. The studies indicate that a number of donors in Cambodia are making efforts at the sectoral level to help Ministries to build better M and E systems that provide reliable and timely data.

Organisational structures currently often hamper the delivering of strategic priorities of the government, with a perceived need for restructuring in Ministries through conducting operational/functional reviews that lead to better and more effective service delivery to the general public. There is some conflict within and between organizations over their respective functions, powers and responsibilities arising from the lack of continuing reviews and weaknesses in cross-agency coordination. As the recent MoEF studies suggest, implementing functional reorganization/restructuring may be resisted and will be no easy task. CAR currently is commencing a further attempt to provide resources for ministries to undertake such analyses. It is also conducting a census of civil service staff and conducting a labour market study to set out benchmark Position Descriptions [PD] for non-specialised staff³ which will have a private sector dimension to show the relativities of these positions.

The need to strengthen the coverage and quality of internal and external auditing seems clear, not simply in terms of financial management but also of performance so that senior management can be held accountable on both counts. A start has been made on building auditing systems and units within Ministries and agencies but there are still large gaps in conducting and reporting results so that there can be a broad civil response. A number of established internal audit units have not actually conducted any audits [although they may have conducted inspections]. The National Audit Authority which commenced in 2002 released its first report, for 2006, in late 2009. In practice there are doubts about the independence of the NAA [see Global Integrity report for 2008 and the External Advisory Panel on PFMRP [EAP] study in the Bibliography] and in any case its reports are made only to the National Assembly which does not release them to the public. Building an independent external audit function seems to be unlikely to be achieved in the short term.

³ Defined as specific to the ministry rather than generic civil service positions

ISSUES ASSOCIATED WITH CAMBODIAN MANAGEMENT AND STAFF

Although **the capacity of Cambodian management staff** does not constitute a 'country system' as defined for this study, nonetheless it is certainly an important constraining factor in the use of country systems by development partners. Regardless of the systems as defined on paper and in the legal and formal system, they will not be properly functioning if the Cambodian staff cannot or will not use them as designed. Thus there are likely to be weakness arising from capacity such as:

- ability and knowledge of the systems
- training and competency to use the system
- lack of office systems and structures such as computers, connectivity, and electricity
- lack of staff sufficient to cover all system tasks
- the lack of a supportive environment for learning
- ability to manage, prioritise and direct staff

Discussions with senior Cambodian policy makers produced some contradictory views on capacity.

As far as central ministries were concerned capacity was not seen as the most limiting factor, rather motivation and incentives were seen as more important to performance. One official said that PIUs were favoured by the government because of the inflexibilities and limitations of the existing civil service system. Within a PIU incentives, secondments, hiring of civil service staff as local consultants etc. were determined by the Minister and did not need referral outside of the Ministry. This meant that able staff could be posted to these units and rewarded in a much more flexible way than otherwise available, at least until there was a major reorganisation of public administration. Thus the benefits of the PIUs outweighed the costs in terms of parallel systems and management inefficiencies. In this view there was existing capacity which could not be demonstrated within the regular civil service administration. However there were traditional capacity constraints at lower levels of the service and at sub-national level.

Other weaknesses may arise from the will to use the systems which may arise from:

- lack of understanding of the reform process and need for improvement
- the level of ownership for particular reforms
- resistance to change
- work motivation and attitudes to work responsibilities
- the patrimonial system and rent-seeking

More generally, there are **cultural bottlenecks** that make management of change difficult in Cambodia. Recent studies on country systems have got beyond simply focussing on the technocratic and technical issues. Now they are much more alert to the issues related to managing organizational change in the Cambodian context, including how to address and counter resistance to change. The capacity of central agencies to lead that change process is a question in its own right. But there is a need also to consider the way that change is managed at the line Ministry level. For example, stage 1 of the PFMRP went reasonably well as it was largely managed within MoEF whereas Stage 2 involves reaching out and involving Ministries across the Civil Service. Service-wide reform is a lot harder to

achieve. The concern of the current government for stability and its desire for a long, albeit slow, process of reform is another which has strong cultural and historical links.

CONCLUSIONS

One major conclusion that can be reached from this study is that EDP use of country systems is alive but not necessarily well in Cambodia. For nearly all systems examined and across the ministries in focus there was some use of country systems. The systems were there and most had been the focus, especially since Paris and Accra, of support from the external partners. This is an indication of their seriousness in implementing the accords. However a piecemeal approach, even for such an important system as PFM, is unlikely to succeed without both political will and substantive attention to organisational development in the civil service.

There is political recognition in terms of public statements that the country systems are weak and in need of improvement. At the same time change is very slow because of three factors. One is that the capacity and motivation of the civil service remains generally quite weak. A second is the desire to 'hasten slowly' in order to maximise stability and avoid the smallest risk of unrest. This is an attitude that has widespread civil support in view of Cambodia's recent history. The third is the hidden constraint that the studies suggest flows from the desire not to affect the distribution of rewards under the patrimonial system which could be threatened by greater transparency, enhancements to the legislation systems and by institutional strengthening. Some of the studies suggest that any threat to the patrimonial system is likely to lead to resistance to change.

The move to Program Based Approaches is desirable but is constrained by the desire of some agencies for 'brand recognition' and the fear that their contributions may be less visible within a pool containing much larger contributions. Another problem with PBAs and especially the use of multi-donor funding pools is the constraint imposed by the practice of aligning the reporting to the most constricted partner in the funding pool. Granted that the pooled funding approach does reduce the number of parallel implementation units and the associated transaction costs it does usually set the system use at the most restrictive level of any of the partners.

What emerges from the study and the discussions is not a simple picture of desire by government for greater use of country systems and resistance by EDPs. There are systems, such those associated with planning where there is already a lot of alignment and general agreement on both sides as to the desirability of the process and a will to make it work by developing and refining changes. There are others, and the use of PIUs is a particular illustration of this, where both sides are divided. The government recognises the cost to management of removing substantial priority areas of a sector from the regular organisational management control of the ministry as well as the transaction costs implied in the arrangement, but also sees the importance of the flexibility of the arrangement in HR terms and the opportunity to motivate staff who already have capacity to do the work. The EDPs also recognise these costs and benefits with the additional benefits to them of control, greater transparency and faster disbursement. A possible middle ground is the combination of a number of projects or programs under the management of one PIU with a common set of procedures as a further development of the pooled funding approach.

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It would be fair to say, as did one senior policy maker on the government side, that **at the most abstract level, that of planning, government and EDPs are agreed on the need to use government priorities to guide development activities**, and that what is needed now is further refinement of an agreed system. At the service delivery end of the scale there is now more use of country systems with funds flowing, and being accounted for, by health centres, schools and communes. However the major challenge lies in the centre with the slow process of organisational development and public administration reform making it unlikely that either programs or project approaches will reduce reliance on parallel implementation units. Indeed without a clearer focus on improvements to organisational management as the context in which the various country systems work it is hard to see how some of the most difficult problems will be solved.

NEXT STEPS FOR THE INCREASED USE OF COUNTRY SYSTEMS

This study is a desk study of reports and documents supplemented with interviews with stakeholders from both sides. In large part this study was shaped as a mapping exercise and was not intended to offer the definitive path forward. Its intention is to provide an information base for further consideration and dialogue on possible greater use of country systems. Moreover, this is an EDP owned process and not a joint study as envisaged by the Accra Agenda for Action. What then are the most promising next steps?

- Dissemination of this report to important stakeholders. This should involve initial discussion within the European partners then distribution to other EDPs, government agencies and Community Support Organisations.
- Discussion of the report and its implications through a joint workshop/seminar. At this stage of the year late August seems a most likely date for this.
- Establishment of a joint study of the increased use of country systems. The Centre for Development of Cambodia seems a suitable coordinating agency for such a study, with its PD responsibilities, the maintenance of pertinent databases and wide experience. It could set up a reference committee with representatives of the major stakeholders in the process and move to a more implementation focussed study based on this and the current PD evaluation.

ANNEXES

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ANNEX 1: TERMS OF REFERENCE

2010-02-08

Terms of Reference – Study of assessments of national structures and systems for aid implementation in Cambodia

1. Background

The EU Development Partners have identified the Use of Country Systems as a key issue in implementing aid effectiveness in Cambodia. According to the Paris Declaration Survey, the use of country systems by EDPs in Cambodia is very low, 12% in 2007. This is an indication of low levels of alignment which make development assistance ineffective in supporting national ownership and sustainable capacity development.

The most common reasons given by EDPs for not using country systems in Cambodia are that the quality of systems is low and that the Government lacks capacity [and sometimes even will] to implement and manage public resources through its own institutions and systems. One problem with these arguments is that EDPs could contribute to strengthening the systems by using them, instead of establishing parallel systems and structures for their own projects and programs. The present situation creates a vicious circle where donors are not using the systems since they are considered weak and thereby perpetuating the weaknesses.

In order to contribute to turning this into a situation where national capacity is developed through increased use of country systems, EU EDPs have decided to prepare a joint country situation analysis to provide a better understanding of the strengths and weaknesses of state structures in Cambodia. The aim is for a common ground to be established – based on analyses of the quality, capacity, political economy and governance of country systems – from which donors draw individual conclusions.

The first step of the exercise will be to produce a mapping of relevant studies to date, i.e. already existing [plus ongoing and planned] analyses and assessments that can feed into the coming joint analysis. The outcome of the mapping is expected to be an easily accessible document that can be used to assess the current 'portfolio' as well as what additional analytical work might be needed in order to produce the joint analysis.

2. Objective

The objectives of this study are:

1]to present available information on national structures and systems in Cambodia, as derived from existing analyses and assessments, in order to provide donors with improved knowledge as background for decisions about the alignment with and use of country systems in implementing their development cooperation.

2]to provide information for identification of bottlenecks for EDPs use of country systems and needs for reform and capacity development to address these bottlenecks.

3. Links to other processes

The EU initiative shall be managed to coordinate with, complement and support other similar processes. The aim is to make better use of all existing information. The mapping process will be fully transparent and will be carried out in coordination with the Government, other EDPs, Civil Society and researchers. A survey of EU EDPs current use of country systems will be made separately. The study is included in the workplan for the Technical Working Group on Partnership and Harmonisation and is expected to be included in the OECD-DAC process on Country Systems.

4. Material, method

The main method will be study of existing material. Selected interviews will be necessary to get information and clarification.

The study will cover assessments made by Government, Development Partners, Civil Society and independent researchers. Relevant material to be processed includes analyses and assessments of:

- the quality, capacity, functioning, and performance of country systems and structures of ministries, authorities, public administration at central and local levels, as well as committees, councils, TWGs etc.
- governance aspects, such as relating to political culture, political economy, power structures
- quality, and execution of the budget, as well as budget capacity

The gathering of material will be carried out through extensive searches of available archives, [complemented by interviews to make sure all available material is found]. All studies which make some kind of assessment of national systems [as defined below] shall be considered. The points of interest are the causal links as related to development cooperation. For example, in a programme/project assessment or evaluation, what is of interest are the causal links that are drawn from the capacity or governance issues of the country structures to the success or failure of the project/programme, *not* the project/programme in itself.

5. Expected results

The study is not expected to make its own assessments of country systems, but to present and assess existing information in a structured way.

Relevant information shall be presented in three different parts:

- a) *A thematically organized part*, in which the information derived from the various analyses is summed up, arranged according to sector. Since analyses often cover more than one sector information from one single study will often be spread over several sections of the mapping.

The first priority is to cover information regarding the systems and structures relating to:

- Ministry of Health/ TWG Health; HIV/AIDS
- Ministry of Education, Youth and Sport/ TWG Education
- Ministry of Planning/ TWG Planning and poverty
- Ministry of Economy and Finance/ TWG PFM
- Ministry of Interior/ TWG D&D
- CAR/ TWG PAR

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- Ministry of Agriculture , Fisheries and Forests/ TWG Agriculture and Water; Fisheries; Forestry

The thematical part should also feature a concluding discussion on the analytical gaps that have been identified in the process, i.e. gaps to be filled during the ensuing phase[s].

- b) A *simple matrix* showing sector by sector which analyses have fed into the above descriptions.
- c) An *annotated bibliography*, providing summaries of the main findings of each analysis and assessment with regards to their input to this study. No description of overall content shall be included. The length of the summaries will depend on the relevance for this study. Assessments of the quality and relevance of the studies should be included, but no judgement of their results should be made.

6. Definitions and limitations

The expression “national structures and systems” refers to country systems in the wider sense. The Paris Declaration uses both a more narrow definition for easy indicative measuring, focussing on public financial management and procurement systems, but it also uses a wider definition for the partnership commitments. For a study of the present kind, aiming to provide better understanding of the specific setting in Cambodia, the definition must be wide. Thus, country systems as defined for the present purpose include:

- Planning
- Public financial management systems [including procurement, planning, budgeting, payment system, debt management, taxation/revenue system, accounting, and external and internal auditing]
- Social assessments
- Environmental assessments
- Human resource management [including civil service reform]
- Monitoring and evaluation/results framework

The analysis will concentrate on studies carried out since 2007, although earlier work may be included if relevant.

7. Process, time frame, scope

At the start of the process, consultants will meet with the EU DC group to clarify points in the terms of reference, the scope of the study and the methodology to be used. .

The process will start as soon as the contract with the consultants has been signed. A draft document shall be presented widely to all stakeholders for comments, as well as presented and discussed at an EU-DC meeting. It will be included in the workplan of the Technical Working Group on Partnership and Harmonisation, led by the Government of Cambodia and with presence of government ministries, development partners and civil society organisations. It should also be coordinated with other relevant TWGs. The final document shall be delivered before the end of May 2010.

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A working group consisting of Sweden, France and the EC has been formed to follow the process more in detail. Further discussions on sequencing of the study are required, taking into account planned studies and how to conduct the study in the most aid effective way. The consultants shall coordinate with the ongoing evaluation of the Paris Declaration.

8. Team qualifications

The consultant team should consist of a senior international consultant as team leader and advisor and two consultants, of which at least one must be Cambodian. The consultants must have good knowledge of Cambodian institutions and be able to process documents in both English and Khmer. The final document is to be written in English. The team must have very good knowledge of aid effectiveness concepts, PFM systems and experience from similar assignments.

9. Budget

The maximum budget is SEK 500 000.

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ANNEX 2: PERSONS MET

| INSTITUTION | INTERVIEWEE | POSITION |
|-----------------|-------------------------------|--|
| ADB | Eric Sidgwick | Senior Country Economist |
| AusAID | Andrew Cornish | Health Advisor |
| | Lachlan Pontifex | Country Director |
| CAR | Alain Bénicy | Government Advisor |
| | Ngo Hong Ly | Secretary General |
| CCC | BorithyLun | Executive Director |
| CDC | ChhiengYanara | Secretary General |
| | Phillip Courtnadge | UNDP Senior Advisor |
| | RithVuthy | Deputy Secretary General |
| CDRI | Sedara Kim | Senior Research Fellow |
| | Sin Sovann | Social Development Programme Coordinator |
| Danida | Jacob Jepsen | Counsellor |
| DFID | Richard Erlebach | Head of Office |
| EU | Christian Provoorst | Attaché, Education, Health and Social Development |
| | Seth van Doorn | Political and Commercial Affairs Officer |
| | Katarina Courtnadge-Kovacevic | EU Consultant Aid Effectiveness |
| FAO | LivioValentini | Economist |
| France | Gilles Angles | Charge de Mission de Cooperation |
| GTZ | Schilling Heinrich-Juergen | Country Manager |
| HSSP2/PER | Diane Northway | Consultant |
| | Elizabeth Chambers | Controller |
| JICA | Keiko Suzuki | Project Formulation Adviser |
| | NheanTola | Senior Program Officer |
| MAFF | CheSavan | Chief of Office of DAF |
| | Dum Savy | Deputy Director of DPHRD |
| | Kith Seng | Under Secretary of State |
| | KrySydo | Deputy Director of DPS |
| | MakMony | Chief of Office of DPS |
| | OurngHeng | Deputy Director of ADA |
| | PrumSomany | Deputy Director of DIC |
| | Ray Purcell | WB Consultant PER |
| MAFF, TWG | TithBonle | Executive Officer |
| MAFF, Fisheries | Chan Danith | Coordinator |
| MEF | CheaSengyi | Deputy Chief of Bilateral Cooperation Division, Investment and Cooperation Department |
| | KeoPhally | Chief of Office |
| | Kim Phally | Director |
| | LivBunhay | Director of Department of Local Finance |
| | NengPanha | Deputy Chief Office |
| | VongRodavuth | First Deputy Director of Department of Public Procurement |
| | Yong Sy | Deputy Chief of Office |

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| INSTITUTION | INTERVIEWEE | POSITION |
|---------------------|---------------------------------------|---|
| | Youk Bunna | Steering Committee Secretariat Deputy Manager |
| MEF | Hang Chuon Naron | Secretary General |
| MoEYS | Dave Quinn | Team Leader, Policy and Strategy Adviser |
| | Sam Sereyath | Director of Planning |
| MoH | Mey Sambo | Director of the Personnel Department |
| | Or Vandine | Director of Department of International Cooperation |
| Mol - NCDD | Scott Leiper | |
| NCDD | Ngain Chamroeun | Deputy Director General |
| PD Consultancy Team | Arthur De Vecchio | Technical Adviser |
| Sida | Karl-Anders Larsson | Counsellor, Economist |
| | Luon March | Program Officer |
| | Magnus Saemundsson | Education Specialist |
| UNDP | Ann Lund | Head of the UN Office of the Resident Coordinator |
| | Douglas Broderick | UN Resident Coordinator |
| | Frederic Jeanjean, Pichrachana Pou | |
| | Vibol Chea | |
| UNFPA | Alice Livesay | Country Director |
| UNICEF | Kimse Leang | |
| | Peter De Vries | Chief of Education Section |
| USAID | Kate Crawford | Director Office of Public Health and Education |
| World Bank | Leng Bunlong | Environmental Specialist |
| | Luc Lecuit | Procurement Specialist |
| | Peter Murphy | Public Sector Management Specialist |
| | Rebecca Carter | Coordination Specialist |
| | Samsen Neak | Poverty Specialist |
| | Seida Heng | Financial Management Specialist |
| | Simeth Beng | Senior Human Development Operations Officer |
| | Sreng Sok | Procurement Specialist |
| | Tim Johnston | Senior Health Specialist |