



The age of choice: Cambodia in the new aid landscape

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Research Report



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Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
ASEAN	Association for South East Asian Nations
CCM	Country Coordinating Mechanism
CDC	Council for the Development of Cambodia
CDCF	Cambodia Development Cooperation Forum
CDM	Clean Development Mechanism
CFU	Climate Finance Update
CIDA	Canadian International Development Agency
CPIA	Country Policy and Institutional Assessment
CRDB	Cambodia Rehabilitation and Development Board
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
Danida	Danish International Development Agency
DMS	Debt Management Strategy
EAC	Electricity Authority of Cambodia
EDC	Electricité du Cambodge
EU	European Union
FDI	Foreign Direct Investment
GAVI	Global Alliance for Vaccines and Immunisation
GDCC	Government Donor Coordinating Committee
GDP	Gross Domestic Product
GEF	Global Environment Facility
GIZ	German Agency for International Cooperation
GNI	Gross National Income
IDA	International Development Association
IDB	Islamic Development Bank
IDE	International Development Enterprises
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
JMI	Joint Monitoring Indicator
KOICA	Korea International Cooperation Agency
LDC	Least-developed Country
LIC	Low-income Country
MDG	Millennium Development Goal
MEF	Ministry of Economics and Finance
MIME	Ministry of Industry, Mines and Energy
MOE	Ministry of Environment
MOFA	Ministry of Foreign Affairs
MOH	Ministry of Health
MOP	Ministry of Planning
NBC	National Bank of Cambodia
NGO	Non-governmental Organisation
NSDP	National Strategic Development Plan
NTDA	Non-traditional Development Assistance
NTP	Non-traditional Provider
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OFID	OPEC Fund for International Development
OPEC	Organization of Petroleum-exporting Countries
PBA	Programme-based Approach
PFM	Public Financial Management

PIU	Project Implementation Unit
PPP	Public–Private Partnership
RGC	Royal Government of Cambodia
SFDCM	Strategic Framework for Development Cooperation Management
Sida	Swedish International Development Agency
TAF	The Asia Foundation
TDA	Traditional Development Assistance
TWG	Technical Working Group
UN	United Nations
UNDP	UN Development Programme
US	United States
WHO	World Health Organization

1 Introduction

1.1 Background to the study

Development cooperation is changing rapidly. There are both demand- and supply-side pressures that suggest that 'traditional' development assistance from members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) is becoming less important. There are now a myriad of less traditional sources of development assistance, including from non-DAC donors such as China and India, philanthropic organisations such as the Bill and Melinda Gates Foundation and new 'social impact investors' such as the Shell Foundation and the Acumen Fund.

This study is one of three being carried out to explore the implications of this new global landscape for partner country governments.¹ It aims to examine the challenges and opportunities experienced by governments in managing the new landscape, particularly the growth of what we here call 'non-traditional development assistance' (NTDA). By NTDA, we mean cross-border sources of finance that are provided to developing countries for a public or philanthropic purpose, and which have an element of concessionality, but are not 'traditional' bilateral or multilateral ODA.² The distinction between traditional and non-traditional is at best a useful approximation, inevitably involving a degree of subjective judgement. It does not seek to imply that so-called 'traditional' providers do not innovate or that 'non-traditional' assistance is new. It nevertheless provides a useful conceptual distinction for the purposes of our study.

Within our category of 'non-traditional providers' (NTPs)³ we include non-DAC donors; climate finance; philanthropists or philanthropic organisations; social impact investors; and global funds. We do not focus on domestic resource mobilisation. We cover purely private sector flows in only a limited way and do not include them in our estimates of development assistance. The rationale for focusing on NTDA flows rather than domestic or purely private flows is twofold: to limit the scope of the study; and because these flows are arguably the most likely to be considered complements or substitutes to ODA, and to be managed by governments in comparable ways. This is investigated in more detail in the case studies.

Rather than to act as a standalone report, this study is intended to provide background for the Working Paper 'The age of choice: developing countries in the new aid landscape', which summarises findings from all three case studies. The Working Paper also provides a more detailed taxonomy of traditional and non-traditional development assistance. Refer to the paper (Greenhill et al., 2013) for more detail on the background, rationale and scope of the study.

1.2 Case selection, methodology and research questions

'The age of choice' project uses a three-country case study approach. We selected what background data analysis suggested would be 'typical cases', as they receive amounts of development assistance⁴ that are close to the average when measured as a share of gross national income (GNI). We also sought to select countries representing a mixture of regions,

1 Note that we focus here on government priorities rather than those of civil society, citizens or other stakeholders. We did, however, interview a number of non-governmental stakeholders for this research. See Greenhill et al. (2013) for more details.

2 Although some of what we define as NTDA is scored as ODA, for example climate finance and global funds. See Greenhill et al. (2013) for more details.

3 The term 'NTPs' is not in common usage in the literature. Most studies focus on these providers as 'new', but this is not strictly accurate, as some of the non-DAC donors have been in operation for many decades. We also avoid using the term 'donor' because many such providers do not see themselves as donors, hence the need for a more neutral term.

4 By which we mean both TDA and NTDA.

income classifications, fragility and natural resource endowment. This led to the selection of Cambodia, Ethiopia and Zambia as case studies.

The methodology for the case studies is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield lies in seeing the process of engagement between governments and donors or NTPs as one of **negotiation**, in contrast with much of the literature on the political economy of aid. Governments and providers are assumed to have a – possibly divergent – set of objectives that they seek to negotiate in order to reconcile. Fraser and Whitfield also focus heavily on the importance of **context**, both economic and political, in shaping country and donor negotiating capital and hence negotiation outcomes.

Unlike Fraser and Whitfield, however, we do not assume there is a given set of objectives that countries are seeking to achieve through aid negotiations. Instead, one of our research questions was to understand **country priorities when it comes to the 'terms and conditions' of development assistance**. By 'terms and conditions', we mean aspects of aid quality such as concessionality, predictability, speed of delivery and so on. We do not assume a given set of priorities, for example those expressed through the Paris Declaration on Aid Effectiveness. Instead, we sought to understand government's own priorities, and how successful they had been in securing development assistance that responded to these. We also asked whether government priorities were the same when it came to flows from traditional donors and NTPs, or whether they differed between the two groups.

We also draw on Ostrom et al. (2001)'s Institutional Analysis and Development framework, which emphasises the importance of identifying the **arenas** in which countries and providers⁵ negotiate. However, we do not take the arenas as a given. Instead, we ask whether governments seek to negotiate with donors and NTPs in the same arenas, or in different ones.

Drawing on this theoretical framework, we sought to answer the following questions in the three case studies:

- 1 How has the volume and composition of total development assistance, and the breakdown between traditional and non-traditional sources, changed since 2002?
- 2 What is the economic, political and aid management context that determines the ability of Cambodia to mobilise and utilise development assistance and shapes the outcomes of negotiations between the government and providers?
- 3 What are the Cambodian government's priorities when it comes to the volume, purpose and 'terms and conditions' of development assistance? To what extent do these priorities differ between different types of providers?
- 4 In which arenas does the Cambodian government seek to engage with providers, and which strategies does it employ to negotiate with them? How do these arenas and strategies differ between different types of providers?
- 5 To what extent is Cambodia achieving its objectives when it comes to negotiating with providers? How has the existence of NTPs helped or hindered the Cambodian government in achieving these objectives?

The Cambodia case study was carried out over a two-week period in June 2012. Overseas Development Institute (ODI) staff worked in collaboration with the Council for the Development of Cambodia/Cambodia Rehabilitation and Development Board (CDC/CRDB) to carry out interviews with 29 senior-level key informants (see Annex 1 for a full list of interviewees). This is combined with a background literature review and data analysis. While ODI worked together with CDC/CRDB in planning the research, the views expressed and the report is entirely the responsibility of ODI staff.

⁵ By which we mean both traditional donors and NTPs.

1.3 Structure of the report

This study seeks to answer the questions identified above in the following ways. Section 2 examines trends in development assistance in Cambodia, answering Question 1 above about the volume and trends in such flows. Section 3 examines in detail the economic, governance and aid management context in Cambodia, answering Question 2 above. Section 4 provides a summary of government priorities regarding donors and NTPs; the arenas in which they negotiate with them; and the outcomes they achieve, thus providing an overview of the answers to Questions 3-5 above. Section 5 provides more detailed answers to Questions 3-5 by sector and Section 6 does the same by NTP. Section 7 concludes the report.

2 TDA and NTDA in Cambodia

In this section, we estimate trends in the volume and composition of what we define as development assistance to Cambodia, reviewing particularly the breakdown between traditional and non-traditional sources. We focus on the largest sources of NTDA to Cambodia, namely, flows from non-DAC donors and Korea; philanthropy; climate finance; and global funds. We also look at private sector investment, including social impact investment, but do not bring this into the data analysis given the paucity of data on this source of finance.

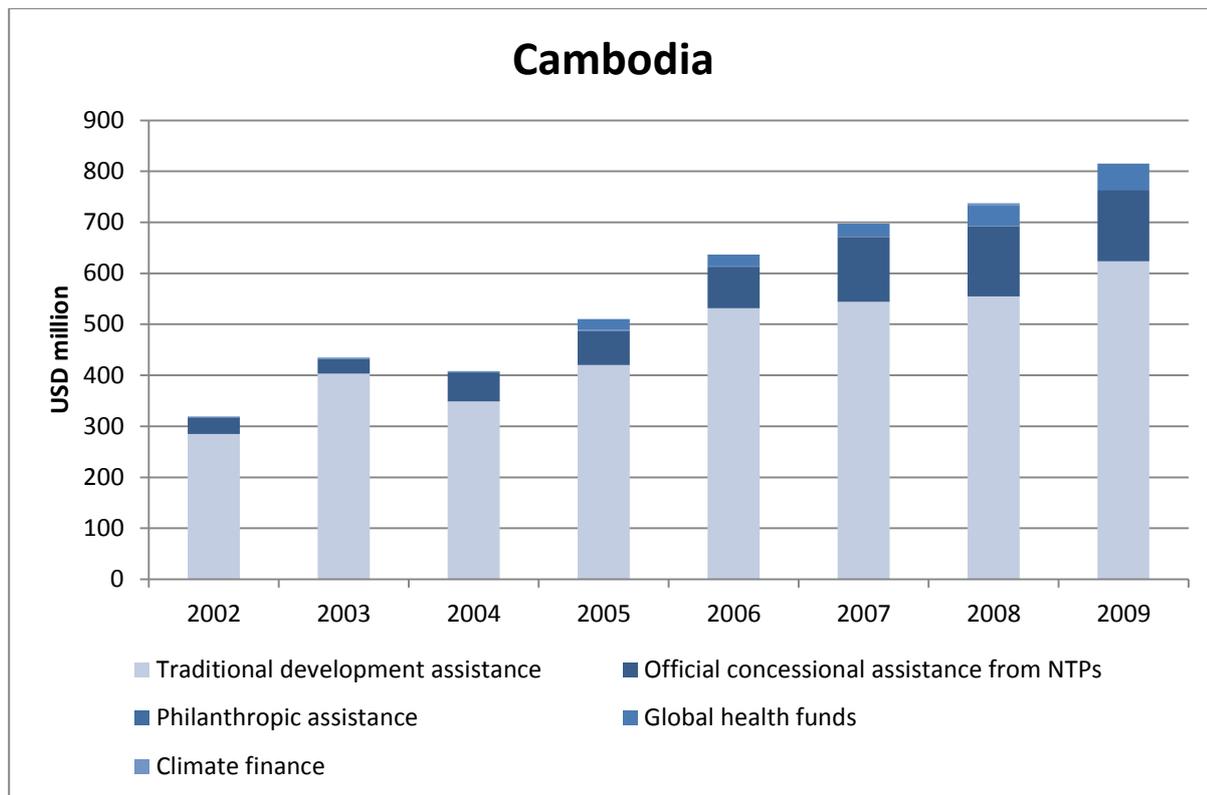
Table 1: Estimates of TDA and NTDA, 2002-2009 (\$ millions)

	2002	2003	2004	2005	2006	2007	2008	2009
Non-DAC donors	32.71	28.63	56.84	66.88	81.23	127.13	137.91	138.06
Non-DAC donors reporting to DAC	..	..	..	..	..	..	..	..
Korea	22.50	10.30	24.10	14.90	13.30	31.30	33.00	15.80
Hungary	0.00	0.00	0.08	0.11	0.07	0.00	0.08	0.00
India	0.00	0.00	0.00	3.56	0.00	0.00	7.78	0.56
ISDB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kuwait	0.00	0.00	0.00	0.00	0.00	0.00	1.66	0.00
OFID	4.51	12.73	0.00	1.70	14.38	0.00	0.00	7.00
Slovak Republic	0.00	0.00	0.16	0.00	0.29	0.00	0.00	0.00
Thailand	0.00	0.00	0.00	0.00	0.00	3.43	0.00	0.00
China	5.70	5.60	32.50	46.60	53.20	92.40	95.40	114.70
Climate finance		0.20	0.00	0.00	0.00	0.00	4.89	0.00
Philanthropy		0.95	0.95	2.10	0.78	2.43	0.73	2.15
Vertical funds	1.37	1.62	1.77	20.81	23.06	24.19	39.53	51.25
GAVI	1.37	1.62	1.77	2.01	1.16	3.09	0.93	4.75
GFATM				18.80	21.90	21.10	38.60	46.50
Total NTDA	34.08	31.40	59.56	89.79	105.07	153.76	183.07	191.46
ODA (bilateral + multilateral)	305.39	403.09	348.94	420.30	545.29	580.07	597.53	639.42
Korea assistance	20.68	..	..	..	13.83	35.28	34.66	17.05
Equity	0.00	0.00	0.00	0.00	0.00	0.93	8.33	-1.37
Total TDA	284.70	403.09	348.94	420.30	531.46	543.85	554.54	623.74
Memorandum item								
Other official flows (actual numbers not 3-year moving average all donors)	..	..	8.49	10.00	1.30	2.90	11.45	14.10
Share								
TDA	89.3	92.8	85.4	82.4	83.5	78.0	75.2	76.5
NTDA	10.7	7.2	14.6	17.6	16.5	22.0	24.8	23.5

Note: South Korea joined the DAC in 2010, but is listed as a NTP for the purposes of this study. See Greenhill et al. (2013) for more details. IDB = Islamic Development Bank; OFID = OPEC Fund for International Development; OPEC = Organization of Petroleum-exporting Countries; GAVI = Global Alliance for Vaccines and Immunisation.

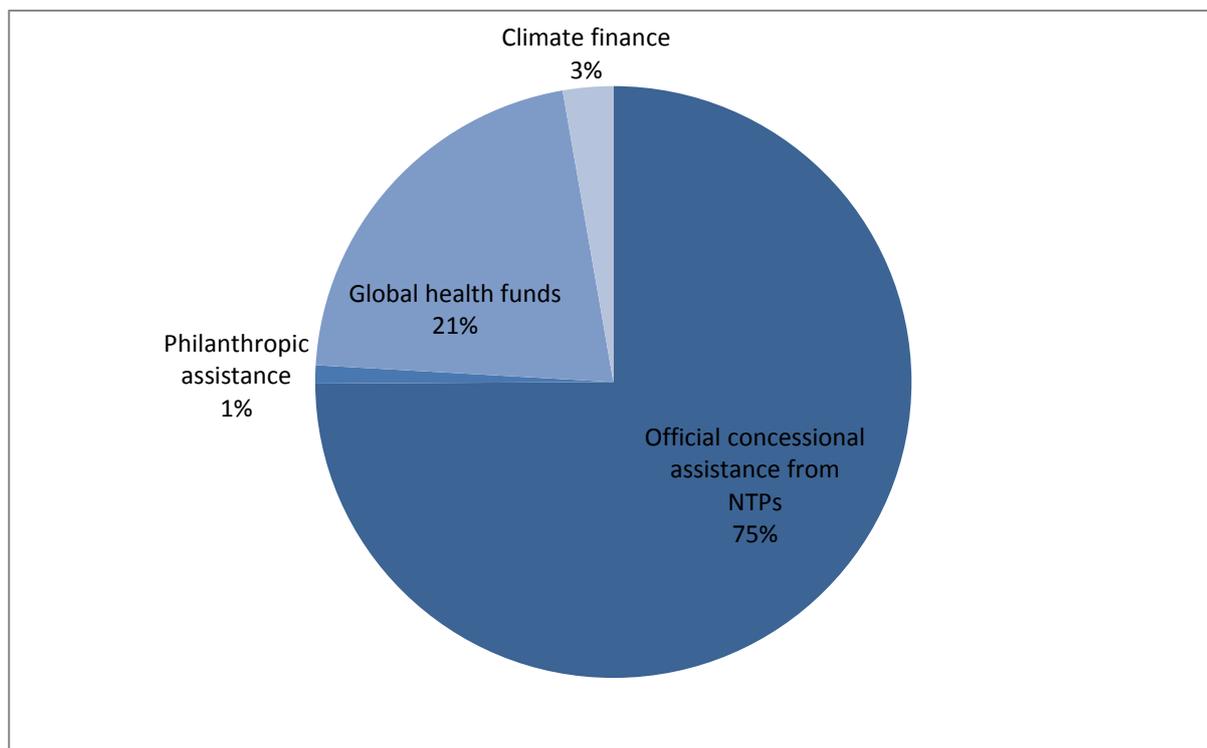
Source: Authors' elaboration on the basis of OECD (2012 [OECD.stat]), AidData, Foundation Center, Climate Funds Update October 2012 version, disbursed data only. See Annex 2 in Greenhill et al. (2013) for more detail on data sources.

Figure 1: TDA and NTDA in Cambodia (\$ millions)



Note: As Figure 2 below shows, climate finance and philanthropic assistance account for a very small proportion of total development assistance, which is why neither are clearly visible on the figure above.
 Source: See Table 1.

Figure 2: Breakdown of NTDA in Cambodia, 2007-2009 average



Source: See Table 1.

Table 1 and Figure 1 show that **Cambodia is receiving a significant volume of NTDA, and non-traditional flows increased both absolutely and proportionately over the period 2002-2009.** In 2009, NTDA was estimated at \$191.5 million, or roughly 23.5% of the value of total development assistance. This was an increase from only \$34.1 million in 2002, only 10.7% of total development assistance. Table 1 and Figure 2 also show that **this increase owes overwhelmingly to the rise of Chinese support,** which grew from less than \$6 million in 2002 and 2003 to \$114 million in 2009. The other main donor we describe in this study as 'non-traditional' is South Korea, which accounted for \$15.8 million in 2009. Vertical funds account for a large part of the remainder of 2009 NTDA, with the Global Fund for AIDS, Tuberculosis and Malaria disbursing \$47 million in 2009 and GAVI \$4.8 million,⁶ and these flows have also increased substantially since 2002.

Other forms of NTDA stand at very low levels. Climate finance flows, as reported to the Climate Finance Update (CFU) website, stand at only \$5 million over the period.⁷ Philanthropic flows stand at only around \$10 million over the period, although this is for US foundations only. Cambodia was likely receiving some philanthropic support from foundations such as the Bill and Melinda Gates Foundation through the Global Fund and GAVI, though data on this are not available. As noted above, **we do not have exact figures on new private sector sources and uses of flows, including social impact investment.** Given the nature of private sector flows, it is not possible to provide aggregate figures on the extent of new sources and uses of such flows, including from social impact investment. Further details are provided in the relevant sections of the case study research.

6 Note that our source for GAVI figures, as in the other two case studies, is the GAVI website. There is a discrepancy between GAVI website figures and RGC (2011a), which shows GAVI disbursing only \$1.7 million in 2009. We are not able to identify the source of the discrepancy, which does not have any great impact on overall figures.

7 Note that there is a substantial discrepancy between CFU figures, which are used for this study and the other two case studies to ensure comparability of data, and the climate finance figures reported in the CDC database. Further work is needed to understand the source of this discrepancy.

3 Economic and governance context in Cambodia

In this section, we discuss the context that is likely to shape Cambodia's ability to manage aid flows from traditional and non-traditional providers, and so provide a response to Question 2 above. As we explain in more detail in the synthesis report, the methodology used for our case study focuses heavily on the importance of context in shaping a country's ability to negotiate effectively with providers, both traditional and non-traditional. Contextual factors include economic and political/governance conditions, as well as a country's aid management structure and progress towards aid effectiveness targets. Some countries may be more geopolitically important or have access to raw materials, which makes them very attractive recipients of support from traditional and non-traditional providers and may affect their ability to negotiate with them. A country's economic performance, its gains in terms of the Millennium Development Goals (MDGs) and its governance context are also likely to have an impact on their attractiveness as a destination for TDA and NTDA. In economic terms, we describe these contextual conditions as the 'exogenous' variables that have an impact on the 'endogenous' variables of the choices a country makes in managing development assistance and the success it has in achieving its priorities.

3.1 Economic context

Cambodia had a very high rate of economic growth during the mid-2000s, although progress towards the MDGs has been slower. Growth was above 10% between 2004 and 2007. The country was severely affected by the 2008/09 global financial crisis, as growth has been driven mainly by garments, tourism, construction and agriculture.⁸ This high growth rate has not necessarily translated into progress on the MDGs: as of 2010, only two of the Cambodian MDGs were on track, with three more making slow progress and three off track (UNDP, 2010).

Cambodia receives significant levels of ODA, albeit at levels below the low-income country (LIC) average when measured as a share of gross national income (GNI). Net ODA stood at 6.9% of GNI in 2010,⁹ although this had fallen from a high of 11.2% in 2000, which compares with the LIC average of 9.3% in 2010 and 6.4% in 2000.¹⁰ ODA in relation to central government expenditure is 58%, although this has also steadily fallen, from 121% in 2002.¹¹ This drop has owed mainly to growth in GNI and government expenditures rather than a fall in ODA; ODA in fact rose from \$427 million in 2000 to \$1,027 million in 2010.¹²

Cambodia's most important trading partners are China and the US, as Table 2 shows.¹³ The US received more than \$2.9 billion of Cambodian exports in 2011, considerably higher than any other country. China stands as Cambodia's largest import partner accounting for \$1.8 billion in imports to the RGC in 2011 alone; ten times the level of imports from Japan.

8 <http://www.unescap.org/pdd/publications/survey2012/notes/cambodia.asp>

9 World Bank (2012), World Development Indicators, current values.

10 Ibid.

11 Ibid.

12 OECD Creditor Reporting System, all figures in constant 2010 dollars.

13 Note that these figures do not include services such as tourism, which is very important for Cambodia's economy.

Table 2: Merchandise trade with largest DAC and non-DAC donors, 2011 (\$ millions)

	Merchandise exports	Merchandise imports
Japan	320.9	171.7
Australia	43.9	25.9
US	2921.9	157.6
Germany	615.5	32.0
China	192.4	1791.6

Source: <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx>

Cambodia is not heavily endowed with natural resources at present, although this has the potential to change with the recent discovery of offshore oil and gas. Natural resource rents for Cambodia have been declining steadily as a share of gross domestic product (GDP), from 4% in 2000 to 1% in 2010. Over the same period, ores and metals exports averaged less than 1% of manufactured exports. However, natural resource extraction is thought to have significant potential. Predictions from the International Monetary Fund (IMF) (2007) indicate that oil revenues could increase from \$174 million in 2011 to \$1.7 billion in 2021, before plateauing. However, the IMF notes that there is considerable uncertainty about these figures, as exploration so far has found the oil harder to extract than expected (The Economist, 2009). Nevertheless, the potential income would be significant in relation to Cambodia's budget, and is likely to have an impact on both Cambodia's attractiveness as a recipient for donor support and its negotiating position in relation to major providers.

The country's debt is considered by the IMF to be sustainable and the country has a low risk of debt distress, according to the IMF's recent Article IV Consultation (IMF, 2012). The country's external debt stock to GNI ratio was 43.4% in 2010, a fall from 74.3% in 2000 (ibid.). While these figures are above the LIC average of 28.5% in 2010 and 67.6% in 2000,¹⁴ they are considered by the IMF to be within Cambodia's capacity to service.

Compared with other LICs, Cambodia receives relatively high volumes of foreign direct investment (FDI). FDI inflows stood at 7% of GNI in 2010, above the LIC average of 3.1%. This had risen from 4.1% in 2000, also above the LIC average of 1.5%. FDI flows stand at roughly the same level as ODA, which is substantial when compared with other LICs, whose ODA stands at three times the level of FDI as a share of GNI. Remittances are below the LIC average, at 3.3% of GNI in 2010 compared with 8%, however.

3.2 Political and governance context

Cambodia has a particularly troubled history. The Khmer Rouge-led genocide in 1975-1979 led to the deaths of at least 1.7 million people. Although Vietnamese forces invaded the country in 1979 and ended their rule, the Khmer Rouge continued to engage in an armed struggle with Cambodian forces until the early 1990s. The genocide and these conflicts had a devastating impact on the country's economy, population and infrastructure, with many of the kingdom's educated and skilled people being targets for the Khmer Rouge. **It also left the country with a legacy of fragility and a tendency to prioritise political stability over other governance related goals.**

Cambodia now faces a number of governance challenges as a result of its history. The country's overall Country Policy and Institutional Assessment (CPIA) score as of 2010 was 3.3,

14 World Bank (2012), World Development Indicators.

in line with the average for International Development Association (IDA)-only countries. While scores on economic management are above average, weaker scores were seen on governance-related areas, including rules-based governance; quality of the public administration; and transparency and accountability in the public sector (VBMK and RBMG, 2010). The country scored 133 out of 185 on the 2012 World Bank Ease of Doing Business index¹⁵ and 164 out of 182 on the Transparency International Index.¹⁶ Governance challenges in Cambodia stem in part from the neo-patrimonial system of governance, which can tend to favour informal over formal networks, leading to potential distortions in bureaucratic accountability, selectivity in law enforcement and challenges in service delivery (Chea et al., 2008; Pak et al., 2007). The aforementioned loss of educated and skilled labour has also resulted in big capacity problems at both the senior and the more junior professional levels (Chea et al., 2008).

Cambodia is not a particularly geopolitically important country for DAC donors, but it is more important for China, which sees it as a key ally in Asia and in the Association for South East Asian Nations (ASEAN) (Hille, 2012). The country has a long and charged history with both the US and China, albeit of different natures. During the 1980s, China supported the Khmer Rouge in fighting against Phnom Penh's Vietnamese-backed government, which was run by current Prime Minister Hun Sen, among others. This led to significant antagonism between the two governments, but following a political crisis in 1997, Cambodia's relationship with China was restored, particularly as Cambodia looked to China for finance as Western donors suspended their aid following the crisis. China offered 'non-interference' to Cambodia, alongside aid and international political support. Economic and political ties have grown, with frequent visits on both sides, and growing levels of aid since that time. China has gone from being Cambodia's bitter foe to a close ally and, as noted above, now sees itself as having a strong partnership with the country (Hille, 2012; Long, 2009). Cambodia has historically had a Chinese minority, which has always been economically dominant. The relationship with the US has been similarly complex, with some suggesting that the US bombing of Cambodia during the Vietnam War helped increase support for the Khmer Rouge. The current relationship is much less close than that between China and Cambodia.

3.3 Aid management and aid effectiveness context

Policy and institutional framework for aid management

The Royal Government of Cambodia (RGC)'s overall policy priorities are set out in the Rectangular Strategy, which is currently in Phase 2, and the National Strategic Development Plan (NSDP). The NSDP was developed in 2008 and has been twice reviewed, with mid-term reviews led by the Ministry of Planning (MOP). MOP prepares a Public Investment Plan, which includes priority investment projects across the government's sectors. The Investment and Cooperation Department at the Ministry of Economy and Finance (MEF), which also manages the government's investment budget, has developed a Debt Management Strategy (DMS), which states that the government can borrow only for infrastructure that supports growth and the productive sector. This includes roads, bridges, irrigation, energy, ports and water supply infrastructure. The DMS is an eight-year strategy for 2010-2018 and is expected to be updated after the first three years to cover the five-year term of the government after the next election in 2013. The NSDP will also be updated after the election.

Cambodia's Strategic Framework for Development Cooperation Management (SFDCM) was developed in 2005 and originally intended to run from 2006 to 2010. The SFDCM localises the Paris Declaration in the Cambodian context by identifying a set of priorities for aid management, including alignment; ownership; programme-based approaches (PBAs) and budget support; developing appropriate partnership arrangements through Technical Working Groups (TWGs); capacity development; use of Cambodian institutional mechanisms, delivery systems and human resources; predictability and alignment with Cambodian national budget cycles; harmonisation; and RGC leadership in aid coordination (RGC, 2006a). The Action Plan

¹⁵ <http://www.doingbusiness.org/rankings>

¹⁶ <http://cpi.transparency.org/cpi2011/results/>

for Harmonisation, Alignment and Results ran up to the end of 2010 (RGC, 2006b). Cambodia plans to develop a new aid policy towards the latter half of 2012, which will build on the SFDCM but include reference to a broader set of partnership arrangements.

There are many different institutions involved in aid management in Cambodia. MOP oversees national planning, including management of the Public Investment Programme, and MEF oversees the national budget. The CDC/CRDB is mandated to function as a 'one-stop-shop' for the donor community in the mobilisation of external resources, and therefore plays a key role in aid coordination. The Paris Declaration evaluation noted that there is still untapped potential for the CDC to become more engaged in programming and review dialogue with development partners (VBMK and RBMG, 2010). Relevant ministries and government bodies oversee sector-level strategies and policy formulation, implementation and monitoring and evaluation.

The institutional complexity described above, which is underpinned by varying political interests, can cause challenges in coordinating aid and clearly delineating roles between different institutions, as Chea et al. (2008) point out. This was reinforced by interviews in country. Some donors interviewed identified the need for greater coherence and inter-linkages between various planning and budgeting tools, including budget plans, sector strategies, Joint Monitoring Indicators (JMIs) and the NSDP. Other stakeholders noted that there was potential for better joint working and inter-sectoral coordination between different ministries, including sector and central ministries such as MEF and the Ministry of Foreign Affairs (MOFA).

Cambodia has a relatively typical aid coordination structure. As in other countries, there are a number of crosscutting TWGs, which feed into the Government Donor Coordinating Committee (GDCC), which meets three to four times per year. In previous years, there has also been a biannual Cambodia Development Cooperation Forum (CDCF), which replaced the World Bank-led Consultative Group meeting, although the most recent CDCF meeting was cancelled. Cambodia's CRDB/CDC prepares an Aid Effectiveness Report semi-annually, renamed the Development Effectiveness Report. This provides an update of progress in terms of improving aid effectiveness and sets out interim priorities and objectives for improvement. The RGC is at the time of the writing of this report seeking to establish a Cambodia Development Forum, which will replace the CDCF and include a wider set of participants, including some from the private sector and other stakeholders.

Cambodia does not have a stated policy on the level of ODA it would like to receive in relation to government expenditures or GDP. However, the RGC is very aware that aid dependency is likely to fall, given rising domestic resource mobilisation efforts. Once Cambodia becomes a middle-income country, it is also likely to see a reduction in traditional ODA volumes, making exploring alternative options for financing development particularly attractive (RGC, 2011a).

Progress on aid effectiveness

According to the 2011 Paris Declaration survey, five out of thirteen of the 2005 Paris Declaration targets have been met in Cambodia. This is a strong result considering that only one of the targets has been met at the global level (OECD, 2011). A further four areas have seen progress. The 2010 Paris Declaration evaluation noted that further progress in Cambodia would require a faster pace of public sector reforms on behalf of the RGC and a greater willingness on the part of donors to allow the RGC to lead the agenda and make use of government systems (VBMK and RBMG, 2010). Box 1 identifies potential areas for improvement identified by the 2011 Cambodia Paris Declaration evaluation (VBMK and RBMP, 2010) and the 2008 evaluation of aid effectiveness (Chea et al., 2008).

Box 1: Potential areas for faster progress on aid effectiveness in Cambodia

Improve the pace of public sector reforms. Progress towards strengthening national systems, reforming financial management (PFM) and strengthening public sector capacity could be accelerated.

Strengthen local ownership. In the Paris Declaration evaluation, the impression of many stakeholders was that local ownership could be strengthened, with the agenda of the government currently heavily influenced by development partner priorities over country priorities. Chea et al. found that salary supplementation by donors continued to be a problem, providing a motive for ministries to accept or

compete for projects without sufficiently questioning their relevance, priority, visibility or terms and conditions.

Speed up progress towards using country systems. The 2011 Paris Declaration survey showed some increase in the use of country PFM and procurements systems, up from 10% in 2005 to 21% in 2010 for PFM systems and from 6% to 24% for procurement. However, use of PFM systems remains some way off the 2010 Paris target of 40%.

Tackle aid fragmentation and make progress towards use of PBAs. The Paris Declaration evaluation noted that the move towards PBAs had been challenging for some development partners, given continuing weaknesses in PFM systems. The survey showed only modest progress in the use of PBAs, up from 24% in 2005 to 35% in 2010. Aid fragmentation is also at very high levels.

Improve the quality of technical cooperation. Technical cooperation typically accounts for 30-40% of ODA disbursements. Both the RGC and development partners believe that these investments have not yielded the expected capacity dividends.

3.4 Implications of the country context for Cambodia's management of TDA and NTDA

The contextual information reviewed here suggests that the following factors may shape both Cambodia's behaviour and its negotiating ability when it comes to dealing with traditional donors and NTPs.

Cambodia has a favourable economic climate, making it a potentially popular destination for traditional donors and NTPs seeking new market opportunities. At the same time, its high growth, potential for oil revenue and low debt ratio mean it is likely to become less dependent on aid flows and to have greater access to private capital markets in future. This factor is likely to increase Cambodia's negotiating power with both traditional donors and NTPs.

Cambodia has a particularly close relationship with China, which has made it a favourable destination for Chinese support and, in future dealings, may increase its bargaining power in relation to China. Cambodia's more difficult historical relationship with Western donors, in particular the US; its lack of geopolitical importance for Western countries; and the growing openness of Myanmar may leave Cambodia less popular with traditional donors operating in the region.

Cambodia has a challenging governance environment, as indicated by its performance on many of the standard governance assessments. The proliferation of actors and roles in aid and budget management suggest that Cambodia may be less likely than other countries to take a centralised approach to aid management. Traditional donors and NTPs are more likely to be subjected to competition and poor coordination within the government. This, combined with other governance challenges, would tend to reduce negotiating capital in relation to both traditional donors and NTPs.

Cambodia has made good progress in terms of improving aid effectiveness, although there is scope to further accelerate this progress. A particular challenge is to improve trust between donors and government. We expect this lack of trust would make Cambodia more likely than other countries to be attracted to NTPs.

4 Summary of case study findings

This section aims to provide an overview of the answers to Questions 3-5 above. It reviews government priorities when it comes to the terms and conditions of aid from traditional and non-traditional providers and summarises the main arenas in which the government engages with the different actors. Finally, it reviews the evidence on how successful the RGC has been in achieving its outcomes, when measured against its stated priorities.

In undertaking the research in country, it emerged that those priorities regarding the terms and conditions of flows differed substantially between sectors and NTPs. The RGC's priorities are very different in less politically sensitive sectors, such as health, to those in sensitive sectors such as land. Interviewees did not group different NTPs together and noted that priorities, negotiating arenas and outcomes differed substantially according to the different types of provider and flow. For this reason, Sections 5 and 6 expand in more detail the priorities, arenas and outcomes by sector and NTP, respectively.

4.1 Government priorities in relation to traditional donors and NTPs

This section outlines what we understand from the interviews to be the RGC's overall priorities in relation to the volume, purpose and terms and conditions of TDA and NTDA. By 'terms and conditions', we mean core elements of aid quality, such as concessionality, ownership, alignment and so on. 'Terms and conditions' were not defined very tightly ahead of the case study research in order to allow space for the government to define its own priorities.

The general consensus among interviewees was that **Cambodia's need for resources has been the strongest government priority and the government is unlikely to refuse funding**, regardless of the source (i.e. traditional donor or NTP). For example, CDC Secretary-general of the CDC H.E. Chhieng Yanara stated that one of the country's major achievements was to secure big increases in aid. Interviewees observed that there was a tendency within the RGC to accept offers of funding even if these were not government priorities, although the quality of implementation was seen as dependent on the degree of government support. A similar tendency was noted in the government's acceptance of project implementation units (PIUs), despite global and national commitments to phase these out. The RGC is particularly interested in securing access to alternative sources of finance, given that it is likely soon to become a middle-income country, at which point ODA receipts will decline (RGC, 2011a).

The government debt strategy states that it should limit borrowing to sectors that support growth, such as infrastructure and the productive sector. However, the country has been classified as a low debt risk by the recent IMF Article VI consultation (IMF, 2012). Interviews with government officials revealed that they believe they are able to manage the macroeconomic impact of aid flows; in general, they appeared relaxed about taking on new borrowing.

A second overriding priority of the government, which emerged from the interviews, was **political leadership and control**, with Prime Minister Hun Sen in particular reported as being very assertive in dealing with donors. Resistance at this level to perceived donor interference or pressure on sensitive issues such as land, natural resources, governance and human rights was noted.

Policy alignment and support for Cambodia's policy priorities appeared to be a third priority. Policy alignment is considered more important than alignment with Cambodian systems, as set out in the CDC's concept note on PBAs (CDC, 2010a). Policy advice is welcomed in some areas, although one government interviewee stressed that this should be relevant to the country's needs and fit within the national development plan.

4.2 Government negotiating arenas with donors and NTPs

As noted above, the main theoretical underpinnings of this research are drawn from Ostrom et al. (2001) and Fraser and Whitfield (2008)'s work on African strategies for negotiating with donors. Ostrom et al.'s framework in particular emphasises the importance of identifying arenas in which negotiations between actors take place. In the Cambodian context, we identified three main arenas in which negotiations between government, traditional donors and NTPs take place.

First arena: reporting

The first arena is in the submission of information to the government, in particular through the CDC's ODA database and budget process. The CDC's ODA database shows the size and content of many, if not most, partner projects, as well as adherence to the Paris principles. The information is available publicly online. Government and donor officials who mentioned the database were positive about it, a finding consistent with earlier evaluations (Chea et al., 2008; VBMK and RGMG, 2010). The database contains information on Chinese projects, and some donors reported a degree of insistence by government counterparts that information on projects be provided. The information is passed to the National Bank of Cambodia (NBC) and MEF for their own use.

Second arena: aid coordination mechanisms

The set of formal aid coordination meetings, including the CDCF, the GDCC and 18 joint donor-government TWGs across the different sectors, make up the second arena. The primary formal purpose of the TWGs is seen to be coordinating and supporting bodies focused on implementing JMIs (akin to conditions). Priority activities are described in CDC documents as promoting linkages with the NSDP; supporting the development of sector strategies; maintaining a record of current financing and identifying pipeline projects for financing; capacity development; partnerships and aid effectiveness; and reporting and review (CDC, 2010b). Non-governmental organisations (NGOs) are part of the TWG structure, as now stipulated in the law, although interviewees observed that the boundary between NGOs' implementation and advocacy role was not fully clear.

Evidence from interviews suggests that the functioning of TWGs varies by sector, with some TWGs, such as those on health and education, having a good reputation, while this is less true for others. One donor noted that those with less complex and politically sensitive issues tended to work better. This is consistent with Chea et al. (2008)'s evaluation of aid effectiveness in Cambodia, which estimates that approximately one-third of TWGs are working well; one-third are making gradual progress; and one-third are not close to being effective, including one or two that are dormant or deadlocked. Challenges for the TWGs, identified by interviewees, include those on the donor side in coordinating some sectors; capacity issues within some of the relevant government bodies; challenges in internal RGC coordination; weak integration of sector strategies, JMIs and the NSDP; and the mixing of political and policy dialogue by donors.

NTPs are engaged in TWGs and aid coordination mechanisms to only a limited extent (see later sections). The development of broader partnership arrangements that include new actors is identified as one of three policy priorities in the 2011 Development Effectiveness Report (RGC, 2011a). This document identifies the need to recognise the roles and responsibilities of other development actors and sources of non-aid development finance. However, the impression gained from interviews was that pressure to include these actors in aid coordination mechanisms is coming more from traditional donors than from government.

Third arena: direct negotiation with the government

The third arena in which providers (traditional and non-traditional) interact with government is through direct negotiations on projects. This includes liaising with MOFA, which deals mostly with diplomatic formalities, including contracts; MEF deals primarily with the formulation of national economic and fiscal policies and the budget, incorporating foreign aid projects and signing loan agreements. The CRDB/CDC functions as a 'one-stop shop' for the donor

community and is the Cambodian counterpart in dialogues with a number of donors (Sato et al., 2011).

4.3 Negotiation outcomes in relation to government priorities

In general, **the Cambodian government appears to be meeting its priorities when it comes to traditional and non-traditional sources of development assistance.** The RGC appears to have been successful in securing an increase in resources, with total development assistance (according to our definition) having increased from just over \$300 million in 2002 to more than \$800 million in 2009.

The government also appears to be making progress on its second priority of political leadership and control. The government is becoming more assertive in its dealings with traditional donors, thus helping meet its objective of greater ownership at the political level, according to donor and government interviewees. Those from NGOs and donor organisations noted that weak implementation of donor conditionalities by the government is not followed by a reduction in aid flows. One example raised anecdotally was the case of the government missing a JMI on creating an anti-corruption entity: the RGC responded in only a very limited manner to donor protests and was not reported to be committed to providing the necessary resources, time and energy to achieve the JMI. The government's cancellation of fishery leases, which was done unilaterally rather than in partnership with donors, was another anecdotal example raised. The government has also cancelled the planned CDCF, the biannual review process at which the RGC and donors normally review progress on the government's development agenda, as mentioned earlier. Some interviewees felt this owed to disputes between the RGC and the World Bank, although other interviewees had alternative explanations.

It appears from our study that China, in particular, has been a major support to the Cambodian government in terms of enabling it to be more assertive in dealing with traditional donors. Although further research is needed to confirm this position, it is consistent with the 2008 aid effectiveness evaluation (Chea et al., 2008.) To assess the real impact of China on the achievement of conditionalities, however, it would be necessary to review the RGC's commitment to achieving these before China became a large-scale development partner, which is beyond the scope of this study.

5 Detailed case study findings 1: government priorities by sector

While the section above sets out the government's overall priorities when it comes to traditional donors and NTPs, in-country research shows that priorities vary substantially by sector. In this section, we describe the RGC's priorities and engagement between government and providers in selected sectors. We then move in the next section to discuss priorities, arenas and outcomes by NTP in more detail.

5.1 Health

The health sector in Cambodia is one of the least politically sensitive, and one in which relationships between traditional donors and the government appear to be working relatively effectively. Interviewees assessed the health sector TWG as one of the better functioning TWGs. It is chaired by the Ministry of Health (MOH) (either the minister or a secretary of state) and co-chaired by the World Health Organization (WHO). Private providers are heavily involved in the sector, and about 100 NGOs are also involved in providing health services. NGOs are involved in the TWGs and are represented by the umbrella body MEDiCAM. Despite a generally positive picture, however, interviewees noted that there was still some room for improvement in the TWG's functioning, for example in speeding up the policymaking process.

In terms of government priorities, **there is a consensus among interviewees that alignment with government priorities and policies**, as set out in the Health Policy and Strategy and the Annual Operating Plan, **is more important to the government than the use by donors of government financial or implementation systems**. This is in line with the overall government priority for policy rather than systems alignment, as set out above. MOH has taken a strong leadership role in developing health strategic plans and has negotiated with donors around their development, according to one interviewee. MOH reported that it recognised that donors needed visibility and attribution, and was trying to accommodate this need.

When emphasising the importance of policy alignment, however, MOH stated that 'our door is open', and noted that it had limited scope to influence projects implemented and funded by non-governmental actors to ensure they are aligned. However, MOH expressed the view that projects supported by the government were likely to be better planned and coordinated than those with less support.

5.2 Infrastructure

Alignment with government priorities is one of the key priorities identified by the government in the infrastructure sector. **Using local contractors** and having **social safeguards** is also seen to be important. As in the health sector, use of government systems was not seen as a key priority. The government emphasised the need for social safeguards, although concerns were raised about high allocation within some projects to social issues such as HIV/AIDS, an area the government considers adequately dealt with elsewhere. **Reliability** is also seen as important. Government officials raised concerns about the decision of the World Bank to suspend lending to this (and other) sectors following disputes over land evictions around Boeung Kak Lake (McCartan, 2011). Government sources suggested that there was now less enthusiasm for taking on new loans from the World Bank following the dispute.

5.3 Energy

The energy sector has a clear, formal process for project submission, consideration, approval and monitoring. Private companies carry out their own privately financed feasibility studies before submitting their proposals to the Ministry of Industry, Mining and Energy (MIME)

Evaluation Committee. This committee is made up of MIME, MEF, Electricité du Cambodge (EDC) and the Electricity Authority of Cambodia (EAC), which consider proposals on the basis of technical, environmental and financial considerations. If the project is approved and completed, the private company will need a licence from MIME to operate. Even if a project is approved at the proposal stage, a licence may not be given if the requisite standards are not met. Renewable energy projects are subject to the same process.

The government seeks to use private sector providers in building energy infrastructure, because energy goes straight to the consumer. This contrasts with the previous approach in the energy sector, where there was a great deal of support from traditional donors, with agencies such as the Asian Development Bank (ADB), the World Bank, the Japan International Cooperation Agency (JICA) and the Australian Agency for International Development (AusAID) building power plants and distribution systems.

The government appears to have been successful in meeting this objective. The government's strategy involves building a hydroelectric and two coal-fired power plants. A Chinese company is reported to be building the hydroelectric plant on a 'build, operate, transfer' basis, and Chinese and Malaysian companies are each reported to be building one coal-fired plant on a similar model. Each project has been paid for using concessional loans from the company's home country, but MIME sees this as private sector provision. Government sources indicated that the availability of these other 'private sector' loans was helping compensate for the withdrawal of funds from traditional donors. It should be noted that many non-DAC donors mentioned here are likely to be providing funding on market or quasi-market terms, which does not meet the definition of 'development assistance' as used in this study.¹⁷

17 See Greenhill et al. (2013) for a full definition of 'development assistance' as used for the purposes of this study.

6 Detailed case study findings 2: volume, government priorities and outcomes of for NTPs

As already noted, interviews in Cambodia demonstrated that government priorities regarding the terms and conditions of aid differed substantially according to different sectors and NTPs. For this reason, this section outlines for the different NTPs the volume and purposes of assistance (to the extent known); the arenas in which negotiations take place; our understanding from interviews of government priorities; and, where possible, an assessment of the extent to which government has been able to meet those priorities.

6.1 People's Republic of China

Volumes

Total Chinese support to Cambodia in 2009 was \$115 million, the vast majority (\$112 million) being concessional loans, with \$3 million in grants (RGC, 2011a). China is the second-largest 'donor' to Cambodia after Japan. Chinese support is concentrated in the transportation sector, with some support also provided for irrigation projects. Chinese officials also reported that some grant support had been provided on a humanitarian basis in the wake of 2011's record floods, and also cited one example of a pilot triangular cooperation agriculture project between China and the UN Development Programme (UNDP). Chinese support is set out in a three-year strategic plan agreed with the RGC, which is updated annually.

Arenas

Information on Chinese support is usually provided to the CDC database, in contrast with other countries, in which information about Chinese financing is often very difficult to obtain. The CDC appears to have had considerable success in encouraging China to provide this information and ensuring it is publicly available. The reason for this success remains unclear. One donor speculated that China might be more willing to provide this information because the ODA database is Cambodian owned rather than set up by a DAC donor.

China attends high-level aid coordination meetings, and sends more junior officials to technical meetings, although other interviewees reported that these junior officials were often unable to make decisions. It was not clear from interviews what benefits China gained from attending these meetings. One donor interviewee reported that Chinese attendees at TWGs provided information on their projects, but usually that which is already in the public domain.

Strikingly, **no government representative interviewed could see any advantage for China in attending the TWGs.** The perception among government officials appears to be that, as China responds directly to government requests, it is not necessary for China to participate in the policy dialogue and coordination activities that are the focus of the TWGs. Chinese officials similarly observed that their approach was bilateral and demand driven, and their main counterpart was MEF, meaning that the TWGs offer them little in terms of value added. The impetus to include China and other non-DAC donors in Cambodia's aid coordination mechanism appears from interviews to stem largely from traditional donors. This group is likely to have interests in coordinating with non-DAC donors, including on issues of policy dialogue and conditionality. This was also suggested by the minutes of a recent Development Partner Workshop on Enhancing Policy Dialogue, which identified strengthening policy dialogue and coordination with non-traditional development partners as key objectives, and expressed concerns about the non-inclusion of such partners in current aid coordination mechanisms (RGC, 2011b).

Chinese projects are negotiated directly with the government. The government issues requests, in line with the three-year strategic plan (agreed between China and the Cambodian government), and then China carries out assessments, including a feasibility report, according to interviewees. These are then examined by the Exim Bank, not the Chinese government. The

feasibility assessment reportedly includes repayment potential and social and economic factors. Chinese companies are also closely involved in designing project proposals, even before they are formally submitted, according to Sato et al. (2011): 'Chinese companies, which maintain close contacts with Cambodian line ministries, make the first move to promote Chinese loan financing schemes, consulting on candidate projects directly with the line ministries'. However, it can also be argued that traditional donors take a proactive, *ex-ante* approach in identifying projects they wish to carry out with government.

Priorities

When asked about their priorities with respect to China, Cambodian officials raised three issues. The first was that **China was seen as a valuable source of finance, complementary to that of traditional donors, both because of Cambodia's huge financing needs and because China is able to finance projects with lower rates of return than other donors.** For example, government officials noted that the ADB needs to secure a 12% rate of return for road investments; although international roads can meet this criterion, provincial roads cannot. China has lower requirements, and so is reportedly able to build the roads traditional donors are not able to fund. Similar examples were raised in other sectors. Government officials interviewed did not appear to be overly concerned about the potential debt impact of financing being taken on, given the country's low debt levels and its low debt risk rating by the IMF, as described before. This finding is consistent with earlier findings (VBMK and RBMG, 2010) that Cambodia values China and South Korea because they provide additional financing for development beyond ODA.

Second, Cambodia values the **speed** of Chinese disbursement, and government representatives felt this did not come at the expense of social safeguards. Interviewees from different ministries noted in positive terms the speed of China's operations, contrasting this with the approaches of traditional donors, which are often delayed by factors such as procurement procedures and social safeguards. There is no trade-off between speed and quality within Chinese road projects, in the opinion of government sources interviewed. The focus on speed also emerged in Sato et al. (2011).

The third issue raised was **conditionality**, with the government unsurprisingly praising China's unconditional approach to aid. It was felt that China was more likely to respond to government requests without policy discussion. This finding is consistent with the Paris Declaration evaluation, which found that the RGC believes support from China and South Korea is consistent with the general principles of the Paris Declaration, including national ownership and leadership, and that support from China helps consolidate Cambodia's independence and sovereign integrity (VBMK and RBMG, 2010.)

Separate research by Sato et al. (2011) also indicates that Cambodia welcomes China and other new donors because, **in sectoral terms, they are aligned more closely with the government's strategy** which emphasises infrastructure and energy rather than the social sectors. This was confirmed by some of our interviewees, who suggested that China's support was focused heavily on the economy, which is considered important by both China and Cambodia, whereas traditional donors are focused partially on the social sectors. The 2010 Paris Declaration evaluation (VGMK and RBMG, 2010) also notes that China and South Korea are aligned with RGC's policies, especially for infrastructure projects.

6.2 South Korea

Volumes

Total South Korean support to Cambodia was \$33.9 million in 2010, of which \$15.3 million was in grants and \$18.6 million was in concessional loans (RGC, 2011a). South Korea's support is set out in a three-year country partnership strategy agreed with government and updated annually. South Korea's main areas of intervention include transportation, education, agriculture and governance and administration (*ibid.*). Unlike China, South Korea does not see itself in a South-South relationship with Cambodia and, as a DAC member, it appears to emulate DAC members more closely than the non-DACs. Government officials also perceived

South Korea as being closer to DAC donors than to South–South cooperation providers such as China.

Arenas

South Korea appears to provide information to the government through the CDC database. It also participates in the TWGs, and sees benefits to this structure, including information sharing, division of labour and avoidance of duplication, although it currently sees itself as mainly in a 'listening mode'. South Korea was not reported as attending the health sector TWG, although, as with China, the government did not raise any concerns about this, as the two sides hold frequent bilateral meetings.

Negotiations on loans take place directly between the Exim Bank, line ministries and MEF. There is one grant-funded road project, which was agreed through CDC and MOFA. As with China, when the Korea International Cooperation Agency (KOICA) receives a request, it produces a concept note and commissions experts to carry out assessments and feasibility studies. KOICA then decides whether to proceed with the project on the basis of these assessments.

In-country interviews did not reveal a strong set of distinctive **priorities** with regard to South Korean assistance, as its operations are largely seen as in line with those of DAC donors, although South Korea's recent development successes are seen as a potential model for Cambodia to follow. In the health sector, however, the government particularly appreciated South Korea's alignment of projects with the National Policy and Strategy and the Annual Operational Plan.

6.3 Global Fund and GAVI

Volumes

The Global Fund disbursed \$61.2 million to Cambodia in 2010, 5.7% of all aid disbursements, making it the seventh-largest donor, even larger than the World Bank (RGC, 2011a). Interviews with government officials indicate that, in their view, the Global Fund is making a major contribution to Cambodia's expected achievement of MDG 7, although it is not without challenges, as discussed below. The Global Fund is by far the biggest donor to the health sector, and was reported to have enabled the employment of 6,000 and 40,000 people to receive retroviral treatment. GAVI is also present in Cambodia, and disbursed \$6.2 million in 2010 (ibid.).

Arenas

Even though the health TWG is one of the better functioning TWGs, the Global Fund does not participate in it, as it has no in-country presence. Instead, the Global Fund requires a separate committee, the Country Coordinating Mechanism (CCM), which must include a given list of stakeholders, including representatives from government, bilateral and multilateral donors, civil society and those suffering from the relevant diseases. This requirement means the health TWG is not able to function as the CCM, which is why a parallel committee is necessary. However, interviewees reported concerns about the functioning of the CCM because of a lack of time and interest among those sitting on the committee and because of potential conflicts of interest. Interviewees also expressed concerns about this requirement for a parallel structure when there is the reasonably well-functioning TWG.

Priorities

As noted above, government priorities for the health sector focus on policy alignment, particularly with the Health Policy and Strategy and the National Operational Plan. The three diseases covered by the Global Fund fall within these plans, and spending is reported in the budget, so in this respect it is regarded as aligned with the RGC's policy. However, **interviewees observed that, in the broader sense of alignment, of following government's priorities, the lack of flexibility inherent in a vertical fund can prove a challenge.** One of the government's priorities is to strengthen health systems, which can help ensure better treatment for the three diseases in both the short and the long term. However, it

was reported that the Global Fund had not been responsive to proposals by government and donors to allocate a proportion of financing to health system strengthening. The focus on particular diseases can also lead to distortions at the operational level, for example when a feverish child is given a blood test only for malaria, when the same test could also be used for dengue fever, which is very common in Cambodia. These findings are consistent with the earlier Paris Declaration evaluation of Cambodia, which found that global programmes had contributed to a growing misalignment between donor support and stated government priorities in Cambodia, including potential over-funding of HIV/AIDS in relation to other health priorities (VBMK and RBMG, 2010.)

While the government does not see systems alignment as a priority, burdensome parallel systems required by the Global Fund were seen as problematic by a number of interviewees. Specific parallel human resources, procurement and financial management guidelines and monitoring and evaluation indicators are required or duplicated. Interviewees reported few examples of the Cambodian government being able to successfully negotiate with the Global Fund to achieve its objectives. The RGC and other donors agreed that the scale of potential funding from the Global Fund and the moral imperative to improve health care in Cambodia means there is little room to manoeuvre.

GAVI, another vertical fund, was reported to suffer similar alignment issues as the Global Fund, because of its focus on one area. GAVI support was also reported to lead to distortions, with staff carrying out immunisations for one particular disease paid more than other staff at the same clinic. As with the Global Fund, successful examples of negotiation with GAVI were hard to come by, although the government noted that GAVI did attend the TWGs and submitted proposals to the grouping.

6.4 Climate finance

Volumes

Total commitments of climate finance flows to Cambodia in 2008 are reported by the CFU to be \$4.9 million, while no funds are reported as having been disbursed in 2009.¹⁸ Mechanisms for providing climate finance are complex, and a range of different projects are reported to be involved, including the Climate Change Alliance Fund Trust Fund supported by the European Union (EU), UNDP, the Danish International Development Agency (Danida) and the Swedish International Development Agency (Sida), which give grants to line ministries and civil society organisations (CSOs) to implement projects.

Other implementation structures reported include the Clean Development Mechanism (CDM) Board, where companies try to access revenue from certified emissions reductions after going through a process to obtain a national approval letter to validate these. Five projects have recently been approved. It is not clear whether CDM funding is included within the figures presented above, although this seems unlikely.

Arenas

The main structure for managing funds on the government's side is the National Climate Change Committee, which consists of 20 ministries. The prime minister is the honorary chair and the chair is the Minister of the Environment (MOE). MOE now has a Climate Change Department, upgraded from Climate Change Office in 2009 (which was set up in 2002). This is a government-only committee, and there are no fora where donors, CSOs and NGOs can meet to discuss climate change strategies (UNDP Cambodia, 2010). This is further problematised by the fact that the TWG on forestry and the environment is reported to be one of the less effective groups.

¹⁸ Note that separate estimates as reported by the CDC's ODA database put disbursements up to 2009 at just under \$39 million, including \$9 million from UNDP for capacity building and another \$9 million from the Canadian International Development Agency (CIDA) for a pilot programme on climate resilience. Total disbursements for 2011 are reported to be just under \$9 million. We have not been able to ascertain the reasons for the discrepancies between CFU and CDC data.

Priorities

As Cambodia is part of the least-developed country (LDC) group, government interviewees reported that the negotiating priorities of this group at the international level remain important. For climate funds, this means they should be new and additional; provided on a direct access basis; and in the form of grants rather than loans. At the national level, the RGC focuses mainly on mobilising funds. Additional priorities stated by MOE are alignment of activities with government priorities; use of local organisations for implementation in order to build capacity; and avoiding the use of parallel systems (in descending order of importance).

Outcomes

Climate finance is relatively new to Cambodia, and the government appears to still be some way from achieving its objectives when it comes to these funds. This may change over time, particularly once the government has set out a climate change strategic plan. **Accessing funds** was found to be challenging, given the complex requirements of different funds. Research by UNDP Cambodia in 2010 showed Cambodia's Climate Change Department had identified a number of challenges in accessing global climate change funds, including a fragmented and diffuse array of climate funding options; complex rules and procedures in accessing funds; relatively small amounts available compared with need; complex co-financing requirements; limited national capacity; limited local knowledge of the rules and procedures of each fund; and mandatory requirement to include a Global Environment Facility (GEF) agency in GEF proposals, as the priorities of GEF agencies can contradict recipient government priorities and agendas. MOE further reported that the process of accessing CDM funds was long and difficult.

The RGC's preference for the funds to be **additional** was also found to be challenging. Most climate finance is counted as ODA and managed through ODA channels, thus is unlikely to be in addition to ODA (UNDP Cambodia, 2010). One survey carried out for the UNDP Cambodia study suggests that many development partners had not interpreted global agreements on climate finance as requiring that support be in addition to ODA or other existing funding.

Alignment with government priorities is also found to be a challenge, given the lack of a climate change strategic plan with which donors can align. MOE is planning to improve this by supporting line ministries to develop individual climate change strategic plans. These will be integrated into a government-wide climate change strategic plan, which can then flow into the next update of the NSDP. MOE has tried to avoid using **parallel systems** by ensuring that \$2 million from an ADB project meant for use by NGOs uses the same system as the Climate Change Alliance (a UNDP system), which has already been set up. This is rather than paying for a consultant to set up a separate framework. The response from ADB has been to require a CSO representative to sit on the government committee while the government considers this. Interviewees reported that a large number of projects were ongoing outside of government structures without the government being fully informed. This is a concern for MOE because they may not be aligned with government priorities and because funds may not be spent locally.

6.5 Non-traditional sources and uses of private sector flows

One of the features of the new 'aidscape' is greater engagement between different actors, including donors, governments, NGOs and the private sector, in promoting development objectives. While purely private flows are outside the scope of the 'Age of choice' project, we cover them briefly here because private sector engagement is a strong priority for the CDC. In this section, we consider the role that governments and donors play in working with the private sector, which may include the following, as outlined in the Busan Partnership for Effective Development Cooperation:

- Direct engagement with private sector organisations to discuss policies and strategies and agree on development goals;
- Direct support by donors/government to promote private sector development (this is largely outside the scope of this paper, but we cover it briefly here);

- Providing an enabling environment for private sector development (also largely outside the scope of this paper);
- Providing innovative private sector sources of finance with developmental purposes, rather than purely profit, in mind: so-called 'social impact investment'.

This section briefly discusses experiences and proposals in Cambodia in these areas.

Engagement/relationship building

At the coordination level, one of the stated priorities of the CDC is to strengthen links with the private sector and integrate such actors into the development coordination agenda. The CDC emphasises the need to develop inclusive partnerships that go beyond traditional relationships with traditional donors, and to create a high-level body involving a wider set of stakeholders, to be called the Cambodia Development Forum. This development of broader partnership arrangements is identified as one of three policy priorities in the 2011 Development Effectiveness Report (RGC, 2011a). It is also included in the Rectangular Strategy. However, a number of interviewees in Cambodia expressed concern about the idea of merging the existing Private Sector Forum (in which the government and private sector interact) with the CDCF (in which the government engages with donors), despite this stated policy commitment. One concern was that the Private Sector Forum was seen as functioning well, and as operating with a narrow focus, whereas the CDCF has faced more challenges in recent years, as noted above. Other interviewees recommended maintaining the *status quo* and keeping the remit of each format narrow to preserve the current functionality and reduce confusion. Some interviewees suggested collaboration on particular items of interest, or bilateral meetings with the chairs of the relevant fora.

The Public-Private Partnership (PPP) sub-TWG, which sits under the health TWG and is reported to be the only TWG with a specific PPP focus, enables direct engagement with the private sector. This group includes representatives from associations such as the Pharmacy Association, the Dental Association and the Medical Association, which include private sector providers such as private clinics and pharmacies. Consensus among interviewees was that progress in this sub-TWG had been slow, owing to capacity issues and weak experience on the government side of working with the private sector, as well as differing views on the definition of PPPs. Other problems raised included a lack of a clear objective for the group and competition between the public and private sectors for resources. The German Agency for International Cooperation (GIZ) is reportedly working with MEDiCAM, the health umbrella NGO, to develop evidence and examples of successful PPP activities in order to support further movement.

Direct support to private sector development

Governments and donors in Cambodia are also engaged in direct support to the private sector. This is largely outside the scope of this study, as it does not fall into our definition of 'development assistance'. However, it is worth mentioning, as support to the private sector is a particular priority of the Cambodian government, especially in agriculture and agribusiness, with a view to export promotion. Interviews with donors and NGOs pointed to a wide range of activity within the development arena in support of the private sector. Examples cited include the government's rice policy, with a stated objective of increasing rice exports by 2015. RGC support to the import of capital goods for rice processing, identified as a key bottleneck in the value chain, is an example of measures being taken to reach this target: rice in warehouses is being used as collateral to borrow in importing milling equipment. The government sees rice as a priority sector because it is automatically bringing development through increased incomes for farmers. The RGC has led on this policy and has not approached multilaterals such as the World Bank for funding, and, although China was ready to support the initiative, the Cambodian government decided to implement it alone.

Support to an enabling environment for private sector development

Some donors are working to support a more general enabling environment for private sector development in Cambodia. There are also several NGOs working in the 'market-supporting' sector, including The Asia Foundation (TAF), which has set up 'business environment

scorecard' processes in several provinces. TAF reports that local governments are generally responsive to this work, especially around less sensitive issues. Several social enterprises exist, which are a mix of the non-governmental and private sectors, working in areas such as water and sanitation, agricultural extension and tourism; these are described in the next section. One such enterprise reported that there had been an increase in market-based approaches in Cambodia, and that they had experienced fewer funding problems than other sectors during recent cuts in ODA.

Innovative sources of private finance: social impact investment

There is little macro-level information on social impact investment flows to Cambodia. Some broad information on specific projects is available at www.impactbase.org. Most interviewees across government, NGOs and partners were unaware of any activity in social impact investment in Cambodia, and many were not aware of the concept. However, some in government and development partners welcomed social impact investment, seeing opportunities in this kind of activity. Several interviewees compared social impact investment with corporate social responsibility (CSR) activities, of which there are several in Cambodia. This includes work by Australian hospital volunteers and by a Vietnamese hydroelectric company. The World Bank said General Electric was doing some CSR activities, and suggested the government could have a role in providing guidance to CSR activities.

Box 2: Example of successful social impact investing: IDE

International Development Enterprises (IDE) is a market-supporting NGO that receives funds from ODA and the private sector. It has set up and spun off a social enterprise to manufacture and distribute water filters (called Hydrologic), supported by an impact investor called Impact Finance. Other social impact funders include Leonard Capital, the Emerging Market Consulting Fund, Insator, Geres, Friends International and Hagar.

Hydrologic, which has a factory in Cambodia, was spun out as a social enterprise in order to help access social impact investment (equity and debt financing) to a degree which, in IDE's judgment, may have not have been possible if Hydrologic had remained within the NGO.

Hydrologic is 100% owned by IDE but has a Board including a local businessman. IDE reports that the social enterprise is run in the same way as a standard private sector company, except that 100% of profits are reinvested.

In terms of government policy on social impact investment, interviewees from both the government and donors were cautious about developing specific policy recommendations, particularly given the small size of the sector. Some interviewees felt that issues facing organisations receiving social impact investment were very similar to those facing other private sector organisations, and thus the policy recommendations would be similar. It was also noted that social impact funds are considered along with purely private investment funds in the national accounts.

6.6 Philanthropy

There is no central source of information on philanthropic support to Cambodia. The US Foundation Center estimates more than \$10 million was provided to Cambodia between 2002-2009 from US foundations. The major foundations active in Cambodia appear to be Gates and Rockefeller. Several partners and NGOs displayed a lack of awareness of any philanthropic activity, whereas those who had heard of philanthropic investment thought it was of a small size, at around 5-10% of NGO funding. We were not able to confirm this through data analysis.

In terms of the attributes of philanthropic funding of NGOs, interviewees did not see much difference between this approach and traditional NGO funding streams, including bilateral and multilateral donors. One international NGO noted that it was difficult for donors to work with local organisations, and that it was sometimes necessary to contract international NGOs to subcontract local NGOs. NGO Forum suggested that, if there were any difference between philanthropic and traditional funding streams, it might lie in a small bias in philanthropic

streams towards visible deliverables, such as construction projects over long-term advocacy work.

7 Conclusions

This study has sought to map volumes of development and non-traditional development assistance in Cambodia; understand government priorities with respect to the volume, purpose and terms and conditions of these flows; understand the arenas in which government, donors and NTPs of finance interact; and develop some preliminary understanding on how successful the Cambodian government has been in achieving its objectives. This has led to the following conclusions.

- 1 Cambodia is indeed receiving additional resources, and a growing share of these resources is accounted for by 'non-traditional' sources. China, South Korea and the Global Fund are the most important 'non-traditional' providers. Funds from philanthropy and social impact investment appear to be very small.
- 2 **The government's main priority appears to be to secure maximum resources with minimal political conditionality and maximum alignment with Cambodian policy priorities.** Policy alignment was consistently found to be more important than systems alignment. The more technical elements of the Paris Declaration agenda, including fragmentation and coordination, did not emerge as important in our interviews.
- 3 **Against this broad objective, the government is strongly supportive of additional financing, particularly from China.** China's support is valued because it is fast, unconditional and more flexible in terms of its rates of return, enabling the financing of a larger number of projects. It is also aligned with the RGC's policy interests, focusing on support to economic growth, including large-scale infrastructure projects. Concerns raised in the literature around poor coordination and fragmentation resulting from the entrance of new donors do not appear to be particularly important in Cambodia, largely because these issues are afforded a lower priority than ownership and policy alignment.
- 4 **There is some evidence, although this needs to be corroborated, that the availability of funds from China, plus Cambodia's high growth rate and potential for oil revenues, is increasing Cambodia's confidence in relation to traditional donors.** Some interviewees suggested there had been a reduction in success in implementing conditionalities, and there is some evidence that Cambodia is now more willing to challenge its traditional donor partners (Sato et al., 2011; Chea et al., 2008).
- 5 **The Cambodian government shows limited interest in involving China in its official aid coordination structure, and our research suggests that stated policy commitments towards this end appear to be driven more by donors than by government.** This is partly because China does not engage in policy dialogue or set conditions for its support, so it is not necessary for it to coordinate with other donors around those conditions. However, it may also call into question the degree of Cambodian government support to these mechanisms. Pressure to include non-DAC donors in these aid coordination structures appears to be coming largely from the donor community.
- 6 **Philanthropy and social impact investment are at an embryonic stage in Cambodia, and the volume of funds is very small.** Interviewees did not see philanthropy as substantially different from any other funding source, and levels of awareness were low. Stakeholders interviewed felt that policy recommendations for social impact investment would be similar to those involved in purely private flows, at least until volumes increase. Neither form of finance has yet had a substantial impact on the aid landscape in Cambodia.
- 7 **Climate finance has proved challenging to access to date, and the government is not yet meeting its objectives of securing new funding** and ensuring funding is additional and aligned with policies. This may be because this is a new area and the government does not yet have a strategic plan for climate change.

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Annex 1: List of interviewees

Name	Position	Organisation
H.E. Sok Chenda	Minister Attached to the Prime Minister and Secretary General of CDC and CIB/Special Economic Zones	CDC
Dr Or Vandine	Director of International Cooperation	MOH
Ms Noun Sokha	Technical Director General	NBC
H.E. Chhieng Yanara	Minister Attached to the Prime Minister and Secretary General of CDC/CRDB	CDC
Mr Philip Courtnadge	UNDP Advisor	
H.E. Ung Luyna	Deputy Secretary General	SNEC
H.E. Tep Phiyorin	Deputy Secretary General	
H.E. Post Dr Cheam Yeap	Chairman of Commission on Economy, Finance, Banking and Audit	National Assembly
Mr Pen Thirong	Director of Investment Cooperation Department	MEF
Mr Gerald Lazer	Director and Coordinator of Priority Area 'Rural Development'	KfW
Mr Rada Chhom	Deputy Programme Coordinator of Social Health Protection Programme	GIZ
Mr Peter Brimble	Senior Country Economist	ADB
Dr Shin Euicheol	Resident Representative	KOICA
Ms Elena Tishchenko	Country Director	UNDP
Ms Asmeen Khan	Country Manager	World Bank
Mr Enrique Aldaz-Caroll	Economist	
Mr Sum Thy	Director of Climate Change Department	MOE
Mr Pieter JM Van Maaren	Country Representative	WHO
Mr Heng Kunleang	Director of Energy Department	MIME
Mr Jacob Kahl Jepsen	Counsellor	Danida
Mr Brian Lund	Director	Oxfam America
Dr Mary Mohan	Health Programme Manager	World Vision Cambodia
	Economic and Commercial Counsellor of China	Embassy of China
Mr Michael Roberts	Country Director	IDE
Mr Gavin Tritt	Country Representative	TTAF
H.E. Nguon Mengtech	General Director	CCC
Ms Megan Anderson	Counsellor for Development Cooperation and Health	AusAID
H.E. Dr Sok Saravuth	Director of Budget Department	MEF
Mr Pheng Sovicheano	Deputy Director General	Ministry of Public Works and Transport
Mr Chhith Sam Ath	Executive Director	NGO Forum on Cambodia



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