

**Cambodia:
Project to Support Democratic Development
through Decentralisation and Deconcentration
(PSDD)**

Project Document

**A Sida, DFID, UNDP partnership
to support the Royal Government of Cambodia's
national program of democratic development**

2007-2009

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Abbreviations

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| APR | Annual Performance Review |
| AWPB | Annual Work Plan and Budget |
| C/SC | Commune Sangkat Council |
| C/SF | Commune Sangkat Fund |
| D&D | Decentralisation and Deconcentration |
| DOLA | Department of Local Administration |
| DFID | Department for International Development (UK Government) |
| DRILP | Decentralised Rural Livelihoods Improvement Project |
| DSP | Decentralisation Support Project (UNDP) |
| ExCom | Executive Committee (of M/PRDC) |
| IFAD | International Fund for Agricultural Development |
| IMC | Inter-ministerial Committee |
| LAU | Local Administration Unit (PRDC ExCom) |
| MDG | Millennium Development Goals |
| M&E | Monitoring and Evaluation |
| MEF | Ministry Of Economy and Finance |
| MOI | Ministry of Interior |
| MOP | Ministry of Planning |
| MWVA | Ministry of Women's and Veteran's Affairs |
| M/PRDC | Municipal/Provincial Rural Development Committee |
| NCDD | National Committee for the Management of Decentralization and Deconcentration |
| NCSC | National Committee to Support the Communes |
| NRM & L | Natural Resources Management and Livelihoods Programme |
| NSDP | National Strategic Development Plan |
| PIF | Provincial Investment Fund |
| PLG | Partnership for Local Governance (Sida, DFID, UNDP) |
| PRDC | Provincial Rural Development Committee |
| PSDD | Project to Support Democratic Development Through Decentralisation and Deconcentration |
| RGC | Royal Government of Cambodia |
| SF D&D | <i>Strategic Framework for Decentralization and Deconcentration</i> |
| Sida | Swedish International Development Agency |
| Seila | A khmer language word approximating for "foundation stone" |
| STF/S | Seila Task Force / Secretariat |
| UNDP | United Nations Development Program |
| USA | United States of America |

Executive Summary

Cambodia only recently emerged from a protracted period of conflict and faces great challenges in furthering social, economic and political development. Progress has been uneven, poverty remains high and public accountability is limited.

Under the National Strategic Development Plan (NSDP) 2006-2010, which is the equivalent of Cambodia's Poverty Reduction Strategy Paper (PRSP), decentralisation and deconcentration (D&D) is considered a prerequisite for poverty reduction.

The Royal Government of Cambodia (RGC) faces two key challenges in implementing D&D. First, in the early stages of reform, RGC must minimize disruption to current arrangements for delivering support to sub-national levels, while implementing significant reforms defined by the current draft organic law when it is enacted. Second, RGC needs to harmonise and operationally align a wide range of development partner activities with the national D&D program as it emerges.

The Project to Support Democratic Development through Decentralisation and Deconcentration (PSDD) is designed to assist RGC to meet these D&D reform challenges. In so doing it will help RGC maintain the delicate balance between continuity and change, while continuing to strengthen service delivery and access in poor rural areas. The underlying principle of the PSDD is to support a government-led reform process. It is designed to be flexible and to respond to RGC's D&D reform programme as it evolves. Key milestones, such as passage of the organic law on D&D and formulation of the national programme, will trigger an appraisal of the PSDD and, where appropriate, adjustment of the programme so that it is in line with, and does not pre-empt, RGC policy.

The goal of the PSDD is to reduce poverty in Cambodia through support to D&D reform. The specific purpose of PSDD is to improve governance, service delivery and development for the rural poor. Progress will be realized by a focus on three objectives:

- Objective 1: strengthening local government systems and structures to enable better pro-poor investments;
- Objective 2: improving the quality, accessibility and equity of services at the subnational level; and
- Objective 3: prior to and following enactment of the organic law on D&D, supporting a more effective policy, legal, political, institutional and administrative framework that will give the poor greater access to and benefits from local services.

The project is jointly funded by Sida, DFID and UNDP. Approximately US\$34.8 million will be provided over a three-year period (2007-9). In the interim period before the establishment of the RGC D&D Fund, PSDD resources will be managed under a Basket Fund.

The project builds on the successes of the first generation of support – known as the Partnership for Local Governance (PLG) - provided by the same three partners under the RGC's Seila programme. Like PLG, the new programme will support the financial and managements systems and fiduciary assurances that enable RGC and an array development partners to target investments in service delivery and infrastructure at the subnational level. Over \$200mn from some ten donors was enabled by PLG support under the Seila framework between 2001 and 2006. By adopting common systems, the core advisory services provided under PLG have been able to provide harmonised support for the programming, budgeting, financing, implementation, monitoring, reporting and accountability for all sources of funds. The savings in technical assistance over the same period is conservatively estimated at \$12 million. In the first year of the new programme, PSDD will enable some 14 donors to provide some \$55mn for improved service delivery and infrastructure in poor rural areas. It is estimated that approximately \$2 million will be saved by the continuation of harmonised programme support and technical advisory services facilitated by PSDD.

The new project will also continue to provide direct support to the local level through the RGC's Commune Sangkat Fund (C/S Fund), Provincial Investment Fund and the pilot District Initiative.

The CS Fund adopts many of the principles of general budget support and is one of the most efficient and transparent components of the national budget. The allocation formula developed for the Commune Sangkat Fund (C/S F) is a model for equitable distribution of investments. C/S F funds reach every commune in the country and flow in greater proportion to poorer areas. This is in line with the NSDP and has potential as a model for other development spending (for example the proposed District Development Fund). PSDD remains critical to its continued operation by supporting the Ministry of Economy and Finance's annual programme of the CS Fund allocations to individual communes, the National and Provincial Treasuries' financial accounting and reporting, the Ministry of Interior's design of annual training plans and national supervision of the Fund and the provincial advisers who provide technical support to all 1,621 commune councils throughout the year.

Responsibility for PSDD policy direction and implementation will rest with the National Committee for the Management of Decentralisation and Deconcentration Reform (NCDD), which is comprised of the Deputy Prime Minister and Minister of Interior (Chairman), the ministers of Council of Ministers, Economy & Finance, Rural Development, Planning, and Women's Affairs, Secretary of State of Secretariat of Public Functions, and Secretary of State of MOI.

PSDD implementation and management will be the responsibility of the Programme Support Team, including administration of sub-agreements with the NCDD working group or other national ministries/agencies, PSDD development partners, and sub-national authorities. PSDD will be managed by the Programme Support Team under NCDD secretariat and classified as a nationally implemented project. The Chair of Programme Support Team will be the *National Project Director* who will be responsible for the overall management of the development cooperation activities and for ensuring that the PSDD Project and other projects which it supports are managed in an effective and accountable manner including mobilization of inputs (personnel, goods and services).

PSDD will rely on NCDD resource management systems and procedures. The NCDD Annual Workplan and Budget (AWPB) is the resource allocation tool for programming D&D funds from RGC, PSDD, and other development partners. NCDD budget execution and expenditure management will be based on activity and output based contracts executed at various levels. Internal and external audit will be conducted. The joint Semi-Annual Performance Reviews (SAPRs) will be a key accountability mechanism for PSDD resources and will also provide feedback to levels of government, citizens and development partners on the AWPB performance and other D&D matters.

These mechanisms collectively provide some of the key information needed for monitoring and evaluating PSDD. The M&E system which is currently under revision will occur at three levels. First, monitoring efficiency of PSDD resource use will focus on efficiency in converting PSDD funds into activities. Second, M&E of the effectiveness of systems and resources utilised will assess AWPB execution and contribute to analysis during the six-monthly reviews of D&D performance. Third, impact evaluation will assess D&D impacts on sub-national governance and development and how these outcomes impact accountability, service delivery and poverty reduction.

Project Logical Framework

The logframe indicators are illustrative pending finalisation of the monitoring and evaluation systems and agreed joint monitoring indicators in 2007.

| | | | |
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| <p>Goal: Poverty in Cambodia reduced</p> | <p>Reduction in the number and percentage of people with incomes below the national poverty line</p> | <p>Monitoring of NSDP and CMDGs. Annual poverty assessments.</p> | <p>No Significant natural, political or economic shocks impact Cambodia</p> <p>Monitoring of NSDP indicators is relevant and operational.</p> |
| <p>Purpose</p> | <p>Indicators *</p> | <p>Means of Verification</p> | <p>Assumptions</p> |
| <p>To improve governance, service delivery and development for the rural poor</p> | <ul style="list-style-type: none"> - Responsive, accountable and transparent local government systems and structures in place - Conducive policies and regulatory framework adopted - X% of households report improved access to services and information - Citizens' capacity to exercise voice and realise rights in commune planning process increased by X% | <ul style="list-style-type: none"> NCDD annual report TWG D&D reports Six monthly joint reviews Policy statements, laws and subdecrees Impact studies CDRI Policy research | <ul style="list-style-type: none"> Local planning and sustainable development result in improved services and infrastructure for the poor Increased local government capacity and investment results in improved service delivery and improved rural incomes and livelihoods. RGC consensus on D&D reforms maintained Voice and accountability at the subnational level strengthened by increased political space Sustained respect for rule of law at national and subnational levels Free and fair commune council and national elections in 2007 and 2008 Long term donor funding sustained |

* The logframe indicators are illustrative pending finalisation of the monitoring and evaluation systems and agreed joint monitoring indicators in 2007.

| Objective 1 | Indicators | Means of Verification | Assumptions |
|---|--|---|--|
| Strengthened local government systems and structures to enable better pro-poor investments | <ul style="list-style-type: none"> - New NCDD systems and structures governing subnational investments and fiduciary assurances for service delivery and local development operational by 1st Qtr 2007 - D&D National Programme formulated and operationalised - 100% disbursement of Commune Sangkat Fund and subnational grants using pro-poor criteria - M&E system established and operational by 4th Qtr 2007- - Technical study on improving technical advisory services to improve capacity and service delivery outputs completed 2nd Qtr 2007 and recommendations operationalised by 4th Qtr 2007. - Technical study on alignment with RGC policy on phase out of salary supplements completed by 2nd Qtr 2007 and operationalised 4th Qtr 2007 | NCDD annual report Six-monthly joint reviews User surveys. Impact studies. | RGC committed to take institutional and financial steps necessary to ensure effective D&D transition D&D National Program development is adequately conceived and completed in a timely manner RGC capacity, resources and donor support are adequate to ensure both continuity of current subnational operations and effective expansion as RGC begins the evolution of the new system Councils have pro-poor capacity & processes Appropriate and robust monitoring system in place Effective means of interaction and cooperation between RGC and donors and among donors are established, regularly used, and adjusted as necessary TWG monitoring is robust and operational |
| Objective 2 | | | |
| Improving the quality, accessibility and equity of services at the subnational level | <ul style="list-style-type: none"> - X% of poorest and most marginalised community members report improvements in services - Effective and efficient implementation of all 11 PSDD-enabled donor projects under the NCDD AWPB - AWPB targets for enabled projects achieved, including: <ul style="list-style-type: none"> * At least 90% of sub projects of satisfactory technical quality (World Bank) * 90% of children under one year of age | NCDD annual report Six-monthly joint reviews User Surveys. Impact studies WB supervision mission report | Subnational governance systems/procedures/ staffing and accountability mechanisms adequately implemented in a timely manner Limited leakage and adequate management of resources for infrastructure and service delivery (including procurement) Adequate coordination of various actors involved in service delivery and resource management |

| | | | |
|---|--|---|---|
| | <p>are immunized against seven vaccine-preventable diseases (UNICEF) * 96% of children aged six years to eleven years enrolled in primary schools (UNICEF) * Access to safe water will increase for households by 10% and sanitation by 5% in targeted communes (UNICEF) * NRM-related programmes in Commune Development plan increased by 80% (Danida/DFID) * 8,400 poor households are able to sustain food production and incomes from intensified and diversified crop, livestock production and other sources (IFAD).</p> | <p>UNICEF review mission report Danida/DFID JAPR IFAD MTR supervisions mission report</p> | <p>Timely release of resources for subnational government investments Code of conduct on donor harmonisation in D&D adopted Appropriate and robust monitoring system in place RGC is able to manage the powerful interests that may attempt to impede good regulation and enforcement</p> |
| <p>Objective 3</p> | | | |
| <p>Following enactment of Organic Law, more effective policy, legal, political, institutional and administrative framework giving the poor greater access to and benefit from local services</p> | <ul style="list-style-type: none"> - New subnational administrative, political and fiscal structures, systems and procedures operational within X months of enactment of organic law. - Policy and legal environment provides increased incentives for councils to improve service delivery, increase accountability and social inclusion - X% increase in number of local councils able to deliver devolved services at appropriate/approved standards - X% increase in development partners funding through RGC D&D fund | <p>NCDD annual report Six-monthly joint reviews Commissioned research Impact studies</p> | <p>Organic law on D&D approved by RGC Political consensus on sub-national D&D reforms Adequate RGC will and capacity to ensure that necessary reforms are undertaken by relevant actors Donor long term commitment to D&D reform sustained after passage of organic law</p> |

Section I: BACKGROUND: NEED FOR THE PROJECT

Cambodia faces enormous challenges in furthering social, economic and political development. Progress has been uneven and the incidence of poverty remains high. Government accountability is limited, civil society is weak and citizens' interests are inadequately protected. The Royal Government of Cambodia (RGC) has detailed a national strategy to reduce poverty and meet other key development targets (section 1.1). A central feature of this strategy is decentralization and deconcentration (D&D), which is the focus of PSSD support.

The project which is supported by Sida, DFID and UNDP builds on the three donor partnership's historical support of D&D reform in Cambodia. Under the first generation project known as the Partnership for Local Governance (PLG), the three donors supported the RGC's Seila programme for local governance and local development. Seila has been, in essence, an aid mobilisation, management and coordination mechanism supporting the D&D reforms aimed at promoting local development, poverty reduction and good local governance. This programme pioneered the development of participatory commune/sangkat (C/S) planning, which leads the formulation of C/S investment plans, and the selection and implementation of projects to be funded by an annual allocation from the Commune Sangkat Fund (C/S F).

The C/S Fund adopts many of the principles of general budget support and is one of the most efficient and transparent components of the national budget. The allocation formula developed for the Commune Sangkat Fund (C/S F) is a model for equitable distribution of investments. C/S F funds reach every commune in the country and flow in greater proportion to poorer areas. This is in line with the NSDP and has potential as a model for other development spending (for example the proposed District Development Fund). PSSD remains critical to its continued operation by supporting the Ministry of Economy and Finance's annual programme of the C/S Fund allocations to individual communes, the National and Provincial Treasuries' financial accounting and reporting, the Ministry of Interior's design of annual training plans and national supervision of the Fund and the provincial advisers who provide technical support to all 1,621 commune councils throughout the year.

The RGC contribution to the CS Fund has totalled US\$46 million over the course of PLG's lifetime, rising from US\$1.4mn in 2001 to US\$15 million in 2005. Fundamental to PLG and Seila is that it has supported all subnational administrations nationwide. It has been clearly demonstrated that the use of PLG-designed and supported systems under Seila has greatly increased efficiency and effectiveness in terms of the speed of delivery and cost efficiency (over twice the investment spending per dollar of overheads) of official development assistance.

By ensuring that the core support for management and implementation of the Seila Program would be provided through PLG, RGC was encouraged to mobilize additional resources

from donor partners primarily for investment, thereby substantially reducing the transaction cost for the government. The success of the PLG financing strategy has been considerable. Over \$ 200 million, from some ten donors, was mobilized and programmed under the Seila framework over the six years 2001 -2006, with PLG resources representing 28% of the total.

The technical advisory services under PLG were divided under provincial advisory teams and a national advisory team, all under UN service contracts. The TA functions relate to policy and system design; programming and budgeting; capacity building; accountability; partnership building/harmonization; monitoring and evaluation; gender and sectoral and thematic issues. There are currently a total of 138 advisors in 24 provinces; nine of these are assigned to specific sectors in agreement with IFAD and Canada. All are Cambodian nationals. At the national level there have been some 20 advisors (five international), serving line ministries and Seila.

A Royal Decree (18 August 2006) established the National Committee for the Management of Decentralisation and Deconcentration Reform (NCDD), to take charge of D&D until a successor agency is created following the enactment of an organic law on D&D that is expected to usher in an ambitious policy reform for subnational democratic development through D&D. The phase out of Seila and establishment of new systems and structures under the NCDD Secretariat is expected to take place on 1 February 2007, the start date of the PSDD as the PLG has now been extended for one month, January 2007.

1.1 Poverty Reduction Strategy, Decentralisation and Deconcentration

RGC priority development goals are defined in the National Strategic Development Plan (NSDP) 2006-2010. This key policy document outlines a strategy to reduce poverty and achieve Cambodia's MDGs. Good governance is central to this strategy. Taking steps to "make decentralisation and deconcentration more effective" is regarded as a prerequisite for poverty reduction, as well as a principle means to advance RGC's agenda on anti-corruption, and public administration/finance reform (Annex 1).

The NSDP explicitly states eight specific "key actions" for D&D. These are:

1. Draft organic laws to guide the devolution process
2. Delegate line ministry responsibilities, development and operational funds to sub-national levels in accordance with laws and regulations
3. Define a framework for deconcentration of existing initiatives of line ministries, including education, health, agriculture and rural development, land management, urban planning and construction.
4. Institutionalise the allocation mechanism for transfer of block grants and sector grants to sub-national levels
5. Increase and better target funds to remote/other regions with high poverty levels
6. Explore how sub-national levels can develop their own sources of revenue
7. Steadily implement a commune decentralized accounting system
8. Build institutional capacity at all sub-national levels.

The RGC has made important progress on D&D since making these commitments:

1. A *Strategic Framework for Decentralization and Deconcentration* (SF D&D) reforms was approved by the Councils of Ministers on 17 June 2005. This defines the goal of D&D as ‘democratic development’, and outlines objectives, priorities, phasing and arrangements to achieve this.
2. The drafting of an *organic law* for sub-national D&D has begun.
3. A preliminary draft *Implementation Framework for Sub-national Democratic Development (Preparatory Phase, 2006-07)*, was circulated in June 2006.
4. Joint government-development partner commitments on harmonization and alignment have been agreed including *Declaration by the RGC and Development Partners on Harmonization and Alignment*, October 2006; to implement the RGC Updated Action Plan on *Harmonization, Alignment and Results 2006-2010*; and RGC endorsement of key recommendations of the *Independent Study on Donor Support for Decentralisation and Deconcentration* on 24 May 2006.
5. A Royal Decree established the *National Committee for the Management of Decentralization and Deconcentration* (NCDD)¹, to take charge of D&D until a successor agency is created by the organic law. NCDD is now the responsible agency for drafting of D&D laws and regulations, preparing a national D&D program, development partner harmonisation, and coordinating and aligning a wide range of development partner financed projects, including those that fell under the Seila Task Force.
6. Preparatory work has begun for the *national D&D program* to support the development of organic laws and regulations and to establish and resource new sub-national political and administrative structures, systems and procedures.

1.2 The Broader Reform Context and Development Partner Support

Although PSDD flows from the RGC policy directions and concrete developments with D&D outlined above, other contextual factors are also of great relevance for PSDD design and effectiveness. First, D&D is not the only reform needed to improve governance for poverty reduction as envisioned in NSDP. An engaged and informed civil society and social accountability are critical for the key benefits of D&D to be realized. Development partners have recognized this through support to projects such as the DANIDA-DFID Natural Resource Management & Livelihoods (NRML) project, the USAID Local Administration and Reform (LAAR) project, and the forthcoming World Bank Demand for Good Governance (DMGG) project, among others. PSDD, by supporting the core inter-governmental arrangements through which ‘voice’ is articulated – for example, the Commune Councils – is supporting the central pre-requisite for greater social accountability. The six-monthly joint annual review process facilitated by PSDD will be an important platform for the exchange of information and lessons learned between the work targeting social accountability and the support for D&D inter-governmental reforms.

Second, the broader RGC agenda includes a number of activities and development partner support projects that span all areas of public sector reform, including D&D. These include

¹ Section III.3 elaborates the mandate and functions of the NCDD.

for example, Public Administration/Civil Service Reform under the Council on Administrative Reform and Public Financial Management Reform under the Ministry of Economy and Finance. PSDD activities can help the RGC to link D&D to these reforms.

Third, reforms in various sectors managed by line ministries have important implications for subnational governance mechanisms and service delivery. Most vertical programmes either rely on centralised execution controls and/or deploy resources through administrative systems that operate outside or are inconsistent with government systems. Whereas the former will require modification in accordance with the functions and expenditure assignments made by D&D laws and regulations, the latter will need to be realigned with government systems as an urgent priority. PSDD will assist the RGC to progressively align these sector reforms with D&D priorities.

Fourth, by providing funds to support the management structures, systems and accountability arrangements which directly enables a wide-range of development partners to provide targeted investments at the subnational level, the PSDD will ensure that services continue to reach rural communities, while substantially reducing the government's transaction costs and improving harmonisation and alignment. Some of these focus on particular aspects of local development, such as environment (e.g. DANIDA-DFID NRML) or particular sectors or development targets (e.g. UNICEF Seth Koma) (Annex 3).

Finally, key elements of PSDD design are derived from lessons the development partners have learned from previous D&D support projects. It draws on positive lessons from PLG/Seila/CAREERE, including the successful institutionalizing of the Commune/Sangkat Fund and its national and subnational support structures and the role of Seila/PLG annual planning and budgeting processes in more efficiently harmonizing multiple development partner activities. At the same time, PSDD is sensitive to the weaknesses of earlier efforts, such as why limited progress was made, for example, on commune/sangkat own sources of revenue and with linking the recurrent and capital sides of subnational budgets.

1.3 Rationale: Change and Continuity, Harmonisation and Alignment

Within this broader context, PSDD seeks to support the RGC as it confronts two key challenges in implementing D&D. First, in early stages of reform, RGC aims to ***minimize disruption to arrangements for delivering support to sub-national levels while significant reforms are prepared and introduced***. To achieve this, the RGC needs: i) to maintain current sub-national structures, systems and procedures for channelling and managing development partner assistance and RGC funds for sub-national governance and development; and ii) to create and enable new sub-national councils and administrative structures once the organic law is passed and national programme designed.

A second challenge adds to the enormity of the first. Cambodia is highly dependent on aid both for development investment and to maintain the sub-national mechanisms for the delivery of both its own and development partner resources for the delivery of services at the local level and development. Thus, the success of ***D&D depends on the harmonisation and operational alignment of development partner activities*** with new laws,

implementation arrangements and the national program. RGC and development partners, as noted above, have already made high level commitments towards these ends.

Despite intentions to phase D&D implementation so as to ensure minimal disruption and introduce substantial changes, RGC faces two powerful constraints. First, ***resources available to support this process are generally constrained in terms of allowable use***. RGC has an extensive development partner D&D project portfolio, but most resources (technical, programmatic, investment) are earmarked to specific sectors, geographic areas or budget categories. Second, ***the end of key projects that have provided non-earmarked funds, which can help to adapt to changing circumstances, is imminent***. The *Decentralisation Support Project* (DSP) and *Seila/Partnership for Local Governance* (PLG)², have been important in i) enabling RGC's efficient/equitable management of the D&D portfolio, ii) providing technical support to define D&D policy and take implementation steps, and iii) establishing/maintaining capacity of sub-national structures, systems and procedures that enables development partner and government investment at the subnational level. Thus, RGC's ability to effectively meet the two challenges outlined above is doubly constrained.

In supporting the RGC to meet these challenges and constraints, PSDD design represents a modest but crucially important contribution in terms of both what it will fund and how these funds will be made available. The project has five key features.

1. ***Assisting the RGC to maintain national and sub-national arrangements*** that currently support investments in a wide range of local projects, sectors and services – health, education, agriculture, roads, natural resource management, water and sanitation and basic infrastructure – as current key development partner support projects end and the D&D system evolves.
2. ***Providing funds not earmarked*** to specific uses, but allocated by the agency with the legal mandate for D&D. This support for a government-led approach provides the flexibility that will allow the RGC to achieve a high degree of efficiency in managing its larger portfolio while progressively aligning it with D&D.
3. ***Supporting key national agencies*** responsible for drafting D&D laws and regulations, and designing, resourcing and establishing the new political and administrative arrangements at sub-national levels once the organic law is passed. (Although other development partners are likely to support these efforts, PSDD will be critically important during D&D's initial, three year phase).
4. ***Providing funds for investments by sub-national authorities*** that will directly impact on the wellbeing, economic opportunities and environmental assets of Cambodians in every province, district and commune, including poor and remote rural communities.
5. ***Working to achieve an unprecedented degree of development partner harmonisation and alignment*** in each of the above features of D&D, including the
6. ***Support to enable RGC to prepare an 'RGC-Development partner Agreement on D&D'***, and developing a 'code of conduct' for D&D development partners similar to models in Public Financial Management (PFM) and Lands.

² *Decentralisation Support Project*, funded by UNDP, ends on 31 December 2006. *Partnership for Local Governance* (PLG), jointly funded by Sida, DFID and UNDP, ends on 31 December 2006

In summary, the PSDD is intended to assist the RGC to meet the substantial challenges and constraints identified above. The project will help the RGC to maintain the delicate balance between continuity and change, particularly in the initial phases. During subsequent phases, the project will support the RGC as it (i) designs and implements the substantial reforms to the D&D system that are likely to result from implementation of the organic law and the national program; (ii) progressively aligns activities of national ministries/agencies and emerging sub-national arrangements; and (iii) promotes greater harmonisation in development partner support not just in the existing portfolio, but across all sectors.

Section II: PROJECT DESCRIPTION

The **goal** of PSDD is *to reduce poverty in Cambodia*. Among the priorities outlined in the NSDP 2006-2010, PSDD focuses primarily on the pivotal role of D&D in improving local governance and public service delivery, which in turn are expected to contribute to improvements in the well-being of Cambodia citizens in general and the poor in particular. Within this broader framework, PSDD defines its purpose and objective (section 2.1), its scope and duration (section 2.2), its logic and components (section 2.3) and its resourcing framework (section 2.4)

2.1 Project Purpose and Objectives

Drawing on the overall goal, the **purpose** of PSDD is *to improve governance, service delivery and development for the rural poor*. Progress towards this purpose will be realized by focusing on three **objectives**: i) strengthening local government systems and structures to enable better pro-poor investments; ii) improving the quality, accessibility and equity of services at the subnational level; and iii) prior to and following enactment of the organic law on D&D, supporting a more effective policy, legal, political, institutional and administrative framework that will give the poor greater access to and benefits from local services.

2.2 Scope, Duration and Phasing

The PSDD has been designed by Sida, DFID and UNDP in close consultation with the NCDD, which will assume responsibilities for D&D following the phase out of the Seila programme on 1 January 2007. The **scope** of PSDD, which derives from the three objectives, is defined in terms of three specific project components outlined below.

The underlying principle of the PSDD is to support a government-led reform process. It is designed to be flexible and to respond to RGC's evolving reform programme. The NCDD will provide direction for PSDD to clarify priorities within its scope and maintain its policy and operational coherence. Key milestones, such as passage of the organic law on D&D and formulation of the national programme to support D&D, will trigger the appraisal of the PSDD and, where appropriate, adjust the project so that it is in line with, and does not pre-empt, RGC policy.

The attainment of D&D will require continued efforts over a long period. The RGC has tentatively divided implementation into four phases: i) 2006: Preparatory Phase, ii) 2007-2009: Initial Phase, iii) 2010-2012: Transition Phase, and iv) 2013 and beyond: Transformation Phase. Although the duration of this project is three years (2007-9), the PSDD partners recognise the need for a *sustained and long term commitment to supporting the D&D reform process*. The outcome from the Joint Annual Project Review (APR) in 2008 will inform the design of a successor project that is expected to begin in early 2009.

2.3 Project Logic and Components

As a *support project* being initiated during a period of substantial transition, the logic of PSDD derives from its *alignment* with the evolving D&D agenda and forthcoming national program, which will articulate D&D policy, laws, strategy, funding and implementation arrangements. The *effectiveness* of PSDD, therefore, will depend not only on the quality and impact of investments in sub-national governance and development, but also on the nature and quality of the policy, technical, program coordination and oversight capacity of NCDD, and national ministries and agencies charged with D&D implementation.

This has two implications. First, PSDD must include a component to support D&D policy, coordination and implementation once the organic law is enacted, as well as components to support improved subnational governance and development during the transition period from Seila to NCDD. Second, the stated intention of PSDD to align with the national D&D program as it evolves, precludes the specific earmarking in this project document of component activities and outputs or their timing and costs in years two and three. This will be governed by the joint six-monthly annual review and annual workplan and budget process (section 2.4).

The project logical framework, which outlines the PSDD goal, purpose, objectives, indicators and assumptions, is set out above (pp iv-vi). Indicative activities are provided in the discussion of each PSDD component below and are further elaborated in the attached 2007 Annual Workplan and Budget (Annex 3). Activities under components one and two will begin in 2007. Activities under component 3 will begin following enactment of the organic law and PSDD programme appraisal. The components are as follows:

Component 1: Support for maintaining and strengthening local government systems and structures during the transition period to enable RGC and development partner investments at the subnational level to continue

Under this component, technical and financial resources will be provided to support the policy, coordination and implementation functions of the NCDD, national ministries and local authorities involved in D&D. In 2007, the focus will be on assisting the transition from Seila to NCDD in order to ensure that RGC and donor funds for subnational investment and service delivery continue uninterrupted. It will allow some 14 donors and RGC to provide US\$55mn in 2007 alone. An illustrative sample of donor projects that will be directly enabled by PSDD is set out in Box 2.1 below.

Box 2.1 Examples of RGC and Development Partner Projects directly enabled by PSDD in 2007

RGC Commune Sangkat Fund (CS Fund): US\$20.8mn. The CS Fund is the closest thing to general budget support in Cambodia and is perhaps the single most efficient and transparent component of the national budget. The allocation formula developed for the Commune Sangkat Fund (C/S F) is a model for equitable distribution of investments. C/S F funds reach every commune in the country and flow in greater proportion to poorer areas. This is in line with the NSDP and has potential as a model for other development spending (for example the proposed District Development Fund). In parallel, support will be given to strengthening the systems and structures for local government in order to improve pro-poor service delivery at the subnational level.

World Bank Rural Investment and Local Governance loan project: US\$6 million. The 4-year US\$22 million project is entering its final year and an estimated US\$6 million of local investment against the 2006 CS Fund is expected to be disbursed in 2007.

Danida-DFID Natural Resource Management Livelihoods Project: US\$5 million. With an overall budget of US\$20 million for targeted investments in NRM&L using the CS Fund mechanism, this project relies entirely on PSDD funded support for subnational systems and structures.

International Fund for Agriculture Development: US\$5.5 million. In 2007 there will be three IFAD loan projects under implementation in seven provinces using the NCDD subnational systems and structures supported by PSDD. IFAD's work involves the entire chain from farmer groups selected on the basis of poverty, revolving funds, commune extension workers competitively selected from local areas, district based extension services responding to farmer group priorities facilitated by commune extension workers, and district commune sangkat councils interaction with the provincial departments providing technical backstopping, coordination and overall annual management.

UNICEF Seth Koma project: Under a MoU between UNICEF, NCDD, PSDD and six provinces, the UNICEF Seth Koma project utilises PSDD for subnational execution. The project focuses on birth registration, immunisation, and enrolment in primary education, water and sanitation, and child rights.

USAID's Local Administration Reform Project (LAAR): This project executed by PACT is designed to institutionalise democratic practices within local government and build links between commune councils, civil society and national government to support D&D. It includes a focus on civil society-local government engagement with cross cutting themes addressing good governance, inclusion of under-represented groups; and natural resource management. LAAR will rely on the PSD supported advisory network at national and provincial levels to facilitate the design of its complementary approaches.

Indicative PSDD activities under this component will include, for example, support to:

- Facilitate NCDD assumption of the functions of the Seila Task Force, National Committee to Support the Communes, the Interministerial Committee, etc.; the development of the national D&D program; and completion of the organic law;
- Maintain and phase the alignment of existing sub-national structures, systems and procedures for local governance/development, provide training and supplementation to ensure effective and accountable use of investment resources, phase integration of all sub-national Seila systems and procedures in line with the transition plan approved by the NCDD;
- Capacity building for new commune councillors following the April 2007 elections
- Strengthening commune planning guidelines to increase accountability and inclusion
- Enhance support for fiscal decentralisation and pilot service delivery mechanisms in consultation with UNCDF;
- Strengthening project implementation guidelines following a review of the effectiveness of social and environmental safeguard mechanisms;
- Operational support for provincial rural development committees;
- Strengthen the implementation capacity of national ministries, agencies and bodies involved in D&D, e.g., through staff recruitment, training, capacity development activities, etc.;
- Strengthen mechanisms for monitoring, evaluation and research: (e.g., monitoring for accountability and fiduciary risk, evaluation of implementation management, improvements to service delivery and poverty targeting, research on poverty outcomes.)
- Improve the regulation and management of land and environmental resource use according to laws governing the rights of citizens and responsibilities of the state and MDG targets.

Component 2: Support for improving the quality, accessibility and equity of service delivery at the subnational level

This component comprises investments intended to translate improvements in sub-national governance into sustainable poverty reduction. They include investments in i) infrastructure and service delivery, through which sub-national authorities will fulfil their responsibilities. It includes substantial support to extend the 2007 District Initiative which is piloting new service delivery arrangements and accountability lines.

Indicative PSDD activities under this component, for example, include support to:

- Improve the coverage, quality and accessibility of infrastructure and services delivered by provinces, municipalities, districts and communes, with emphasis on priority agriculture, rural development, water and sanitation, education, health and gender MDG targets.

- District Initiative to pilot new service delivery and accountability lines extended to include 138 out of a total of 185 districts and initial design of a new District Development Fund to improve the coverage and quality of services and infrastructure.

Component 3: Support for more effective policy, legal, political, institutional and administrative framework giving the poor greater access to and benefit from local services once the organic law on D&D has been enacted

This component will be primarily operationalised once the organic law on D&D has been enacted, but a number of preliminary activities are expected to take place. This milestone will trigger an appraisal of the organic law, the PSDD project and recommend changes to its design and components in order to flexibly respond to RGC's evolving reforms.

Indicative PSDD activities under this component, for example, include support to:

- Conduct studies to inform decisions on specific policy, legal and technical matters (e.g., functional decentralization, sub-national boundary demarcation and rural/urban designations, design of political, administrative and fiscal systems and procedures, amendment of laws and legal agreements with development partners, specialist support required by NCDD, its working groups, or other national agencies involved in D&D)
- Promote mechanisms for development partner harmonisation and alignment (e.g., preparation of donor code of conduct); and civil society engagement (e.g., establishment of public forums for D&D policy dialogue, enhancing the availability and quality of public information; decision making and performance review, etc.)
- Joint appraisal of organic law and, if appropriate, redesign of PSDD project and its components.
- Develop activities and schedules for implementing the national program and the organic law, including, for example, assignment of subnational functions and own-source revenues; management of assets/facilities/personnel: (e.g., preparing inventories of existing resources, defining new requirements, designing mechanisms for transfer/deployment, etc.); management of implementation process: (e.g., facilitating linkages between the NCDD and other national agencies, supporting NCDD with contracted specialists, facilitating NCDD access to international experience)
- **Implement new administrative structures, systems and procedures**, including sub-national institutional assignment of functions, managerial and operational procedures, deployment and management of sub-national personnel, transformation of salary supplements into merit based pay, relevant capacity building, etc.
- **Implement new political structures and systems**, including council election processes, legislative and dispute resolution responsibilities/procedures, planning/budgeting and public review processes, mechanisms for networking and exchange with civil society, relevant capacity building, etc.
- **Implement new fiscal/financial functions/mechanisms**, including revenue generation instruments and administration, intergovernmental fiscal transfers, mechanisms for allocation of international sources of revenue to sub-national administrations, budget execution, audit, relevant capacity building, etc.

2.4 Project Cost and Financing

PSDD partners have collectively agreed to provide \$34.8 million for the next **three years**. The commitment to flexibility and the link between PSDD and an evolving RGC D&D program precludes the detailing of specific project activities and costs in this document. PSDD resources are subject to NCDD procedures for the programming of resources (see Section III and Annex 2), which include a series of processes at the national and local level conducted over a period of time.

The *NCDD 2007 draft Annual Work Plan and Budget (AWPB)*, allocates 2007 PSDD resources (Table 2.1) the three components as follows: \$5.6 million (56%) to Component 1 (Policy, Coordination, and Implementation Capacity), \$3.8 million (38%) to Component 2 (service delivery), and \$550,850 (6%) to Component 3 (policy, legal and political and administrative framework). Again, the comparable figures for 2008 and 2009 will depend on RGC policy decisions and the AWPBs for those years.

Table 2.1: PSDD Resource Framework by Project Component 2007-2009 (US Dollars)³

| Year | 2007 | 2008 | 2009 | 2007-09 |
|---|----------------------------------|---|------------|------------|
| Totals | <u>10,400,000</u> | 12,200,000 | 12,200,000 | 34,800,000 |
| Component 1: <i>Enhancing government stru</i> | <u>5,646,941</u> <i>(56%)</i> | To be allocated by future AWPB processes | | |
| Component 2: <i>Service delivery</i> | <u>3,802,209</u> <i>(38%)</i> | | | |
| Component 3: <i>Policy, legal</i> | <u>550,850</u> <i>(6%)</i> | | | |

Although the PSDD 2007 support to subnational service delivery (PSDD Component 2) seems low at 38% of project funds, the support/technical assistance contributions that PSDD supports fill an important gap for NCDD in funding a larger system on which other development partners and RGC rely to implement D&D activities. As discussed more fully below in Section IV, PSDD program overhead/technical assistance contributions support a much larger amount of investment financed from other development partner and RGC sources. In addition, the bulk of PSDD resources (nearly 90 percent for Component 1/subnational systems and structures and Component 2/subnational service delivery and development) are *clearly targeted to the subnational level*.

Section III: PROJECT MANAGEMENT

PSDD will be managed according to agreed principles (section 3.1) and expectations on the part of the RGC and PSDD development partners (section 3.2). Responsibility for policy direction and implementation will lie with the NCDD (section 3.3). Actual implementation (section 3.4) will require operational agreements between the Programme Support Team

³ These figures are preliminary pending finalisation of the 2007 AWPB which will be done by the end January 2007).

and government ministries and agencies on the one hand, and with PSDD development partners on the other. PSDD resources will be managed through specific NCDD instruments, including existing annual workplan and budget; budget execution and expenditure management systems; and semi-annual joint reviews. Design of the APR will occur early in 2007, and be jointly reviewed by NCDD and PSDD development partners during mid-2007, when the first six monthly review of PSDD progress will be conducted.

3.1 Principles and Responsibilities

Key elements of the national D&D program that PSDD will support have already been defined in a preliminary way. As noted in section I, these include; the D&D strategic framework, a four-phase implementation process through to 2012, an implementation framework for the preparatory and transitional phases, adoption of annual work planning and budgeting procedures, approval of a preferred set of modalities for development partner assistance, harmonisation and alignment, and clarity on technical studies to be done. The NCDD has been mandated to complete preparation of an initial national program. It is expected this will conclude during 2007 and be progressively reviewed and updated over time.

In all respects, and in so far as can at this stage be determined, the goal, purposes and outputs of the PSDD are completely aligned with each element of the national program. However, ensuring the potential benefits of this alignment are realised in practice requires adoption of a management framework involving development partners and government, clarity in policy oversight and implementation responsibilities, workable operational relationships among national agencies, and with development partners, and robust planning and budgeting, M&E, accounting and audit procedures. Although both RGC and development partners can be reassured by the fact that much of this framework has been tested, some key elements of it are new and need to be developed. The risks, and possible ways to mitigate them, are appraised in Section IV.

3.2 Development partner-Government Partnership

Government has announced that it will undertake technical studies, and consult development partners, to prepare an *RGC-Development partner Agreement for Decentralisation and Deconcentration*, key features of which were outlined in the *Independent Study*. PSDD seeks to achieve the purposes of such an agreement, not just by making resources available to aid its preparation, but by the commitment of DFID, Sida and UNDP to actively promote development partner harmonisation and alignment to D&D within the wider development partner community. Key to achieving this will be clarity about roles and responsibilities (government and development partner), the quality and practice of the Agreement, and the Technical Working Group on D&D.

From the PSDD development partner side, the partnership with RGC on D&D requires: i) commitment to work within the RGC's evolving reform agenda, ii) provision of discretionary funds and accepting that these are most efficiently and effectively allocated through an AWPB process, and, most importantly, iii) investing in partnership, including ensuring that all available resources are used to promote alignment of development partner

activities, and the harmonization of all development partner support, across all sectors, with D&D policy. Specific measures are outlined below.

From the RGC side, the partnership requires: i) an obligation to provide regular guidance on D&D policy and RGC's expectations of development partners and a readiness to maintain active and robust dialogue, ii) ensuring the integrity and regular use of common review, monitoring, performance arrangements provided in the RGC-Development partner Agreement on D&D, iii) providing and honouring a mutually satisfactory mechanisms for resolving disagreements. Specific measures are outlined below.

3.3 Policy Direction and Oversight

Responsibility for policy direction and implementation of PSDD shall be assigned to the NCDD whose composition, powers and functions have been defined by a Royal Decree. The NCDD is comprised of the Minister of MOI (Chairman), the ministers of Council of Ministers, Economy and Finance, Rural Development, Planning, and Women's Affairs, and the Secretary of State of Secretariat of Public Functions, and Secretary of State of MOI.

The NCDD's mission (Royal Decree, Article 3) in summary includes:

- Assuming the functions of the NCSC and Inter-Ministerial Committee for drafting the organic law.
- Preparing and implementing of strategies for transition, integration and phasing out of Seila program at end of 2006
- Developing and implementing a national, initial-phase program for democracy development at sub-national levels
- Developing and implementing an initial-phase framework, components, timeframe and temporary activities of D&D reform before promulgation of the organic law
- Designing and making recommendations for establishment of a fund for D&D reform, to mobilise and allocate development partner assistance.
- Preparing agreements between RGC and development partners on supporting D&D reform to promote harmonisation and alignment of development partner support
- Ensuring coordination among NCDD and central ministries/institutions in delegation of functions, powers and resources to sub-national levels.
- Organising appropriate forums for RGC and development partners to coordinate cooperation and mobilize resources to support D&D reform.

The Royal Decree (Article 8) provides that the NCDD mandate will end when a new mechanism for managing implementation of the organic law is established by the organic law. It is expected that PSDD policy direction and implementation responsibilities will then be assumed by that new mechanism.

3.4 Implementation Management

1. Role of NCDD Secretariat

Article 12 of the NCDD Royal Decree nominates the Directorate of Local Administration as its secretariat; however, as a result of a sub-decree on 17 August 2006, the Directorate of

Local Administration was created and will act as NCDD Secretariat. The precise responsibilities, administrative structure and rules of business of the Secretariat, and those of the Working Group also provided for in the Royal Decree, will be clarified by government sub-decree and NCDD decisions.

2. Role of Programme Support Team

PSDD will be managed by the Programme Support Team and classified as a nationally implemented project. This means that prior to enactment of the organic law, PSDD implementation will be the responsibility of the Programme Support Team, including the administration of sub-agreements with the NCDD working group or other national ministries/agencies, PSDD development partners, and sub-national authorities. The Chair of the Programme Support Team will be the *National Project Director* who will be responsible for the overall management of the development cooperation activities and for ensuring that the PSDD Project and other projects which it supports are managed in an effective and accountable manner including mobilization of inputs (personnel, goods and services). The National Project Director will be assisted by the Head of 4 Units, who will be responsible for ensuring that Project activities within their mandate are carried out. A project advisory team will provide policy advisory and process management support to the Programme Support Team in the implementation of the Project activities. In the recruitment of the project advisory team, to the greatest extent possible, efforts will be made to employ qualified national professionals. The size of project advisory team will be defined on annual basis.

The Programme Support Team's responsibilities will include, but not necessarily be limited to:

- Operational coordination, funds flow management, monitoring and evaluating implementation of PSDD
- Facilitating consensus and formalising agreements with national ministries/agencies and sub-national authorities for the implementation of activities financed by PSDD
- Ensuring the most appropriate allocation of PSDD resources through AWPB processes, managing funds flow (see Annex 2), monitoring expenditure and results, and preparing annual and other periodic reports necessary to sustain effective dialogue between NCDD and the PSDD development partners.
- Working with PSDD development partners in their efforts to promote progressive alignment of all development partner policies and activities with the D&D reform agenda.

A *PSDD Coordinating Committee* made up of NCDD members and development partners (DFID, Sida and UNDP) will be established (until a more harmonised arrangement is developed) to coordinate and provide the strategic vision to the PSDD project. This committee will meet twice a year to approve the PSDD AWPB presented by the National Project Director and to review its progress. NCDD AWPB will be discussed and endorsed by all donor partners supporting NCDD.

3. PSDD Resource Management

PSDD will rely on NCDD resource management systems and procedures. These will be based initially on Seila procedures, with adjustments as national program design proceeds and experience provides guidance on needed revision. Key elements include the Annual Work Plan and Budget (AWPB), budget execution and expenditure management/control, and the Semi-Annual Performance Review (SAPR). Details are provided in Annex 2.

The *NCDD AWPB* is the coordinating tool for **resource allocation**, through which funds provided to D&D from the RGC, PSDD, and other development partners are *programmed and executed according to principles agreed by the partners*. Each year NCDD will determine the overall resource envelope and then program the funds in two steps. At the national level, NCDD will first allocate non-discretionary resources, then use PSDD resources to create an equitable balance across ministries, sub-national jurisdictions, sectors and purposes (program support, investment, etc.). At the sub-national level, resources allocated to the province are managed through the PRDC ExCom, which prepares and executes the provincial AWPB according to NCDD guidelines and procedures and CSF regulations.

Oversight responsibility for overall **budget execution and expenditure management/control** will rest with the NCDD. The implementation of NCDD AWPB will rest with the NCDD Secretariat and the Programme Support Team.

PSDD funds will be channelled through a Basket Fund (see below) to NCDD for transfer to national and sub-national implementing agencies. Resource use management will be based on activity and output based contracts executed at a number of levels, e.g. between NCDD and ministries/PRDCs, between PRDCs and provincial line departments, etc. Expenditure accountability is based on these contracts, which are managed by the appropriate contracting entity and monitored by the Programme Support Team on behalf of NCDD. Internal audit will be conducted by the Programme Support Team/PRDC ExComs, and external audit will be done at all levels by the National Audit Authority and a competitively procured private firm.

The **semi-annual performance review (SAPR)** will be a key accountability mechanism not just for PSDD resources, but to provide extensive feedback to levels of government, citizens and international development partners on the performance of the AWPB and other D&D related matters. PSDD will assist the NCDD to design the SAPR. It may include, for example, qualitative and quantitative review of the AWPB; formal input from civil society groups, technical studies conducted by NCDD, development partners, independent researchers, etc.; progress reports on new D&D initiatives that might be relevant for future resource programming and management; commentary provided by international experts, the public at large, etc.

3. Management of UNDP, Sida, DFID Basket Fund

To promote transparency and mutual accountability UNDP and DFID and Sida will prepare and approve a *Management Agreement* that will specify the respective responsibilities of

each party. In the interim period before the D&D Fund is established, UNDP will establish and administer a Trust Fund for the purpose of receiving and managing DFID and Sida funding contributions to PSDD, to contract and procure goods and services based on request by the NCDD. This agreement, which will be fully shared with NCDD, will include provisions with respect to the following:

- **Contract management** including appointment, contracting and remuneration of national and international personnel. This provision will specify: i) that all TA requirements will be determined by the NCDD , ii) that all contracts will clearly define operational accountability to the NCDD , and that iii) recruitment and termination, contract remuneration and performance review decisions will be made mutually by a joint NCDD/PSDD panel.
- **Procurement, inventory and maintenance of selected equipment and goods based on request by the Programme Support Team.** This provision will specify: i) responsibility for ownership, maintenance and transfer of inventory, ii) procedures for initiation and management of procurements.
- Receipt, transfer to NCDD and **reporting of financial resources to NCDD and DFID/Sida development partners** including: i) transfer of funds from the UNDP account to accounts in the national treasury (for sub-national investments), ii) NCDD responsibilities to authorise transfers of resources to sub-national levels, iii) release of funds from the PSDD/UNDP account to NCDD Secretariat (payment request and reporting procedures), and iv) accounting and audit arrangements.
- **Grievance redressal and periodic review** of the provisions of the Management Agreement, including the Basket Fund administrative performance, and modifications to the Agreement.

*[The following is subject to further review in line with global agreements: The Management Agreement will reflect the actual/projected value of **service charges** retained by UNDP Cambodia against DFID and Sida contributions to PSDD. The Agreement will specify how these charges will be used to a) support the administration of the Trust Fund, and b) facilitate the harmonisation and alignment of development partner activities with government policy on D&D, and implementation of the national program.]*

4. Fiduciary risk assurances

Systems to ensure the accountability of Cambodian public servants for the management of public funds, including donor resources, are being strengthened. In order to safeguard and ensure the proper use of project resources, and to further the wider project objective of securing the poverty reduction benefits of improved governance, this will be a key concern of PSDD in 2007.

The long-term strategy of PSDD is to work with the government to strengthen its internal accountability systems. Key initiatives, begun under the Seila Program and to be continued under the NCDD mandate, include the formation of Accountability Working Groups for the C/S Fund at national and provincial levels, and the creation of Internal Auditor positions within the Programme Support Team and the provincial ExComs. As discussed below, it is

hoped that the mandate of the Accountability Working Groups will be extended to cover all resources within the NCDD Annual Workplan and Budget during 2007.

All PSDD resources will be subject to annual independent audit by a competent firm of auditors. For 2005 and 2006 Seila accounts, the PLG donors, World Bank, UNICEF and IFAD agreed to procure a single contract for audit of all their respective project accounts within the D&D framework set out in the Annual Workplan and Budget (AWPB).

It is recognized that strengthening government accountability systems will require patience and sustained effort. In the short term, an explicit function of PSDD technical advisory support is to monitor the use of project funds and, to alert the NCDD and development partners when any concerns arise.

5. Monitoring and evaluation

A weakness of the former Seila programme has been the absence of an integrated data management system to support monitoring and evaluation. This has limited the ability to attribute D&D investments to improved service delivery and poverty outcomes. In addition, although sufficient data existed under Seila to determine whether poorer areas and people within provinces (in the case of the Provincial Investment Fund) and within communes (in the case of the Commune Sangkat Fund) have been systematically marginalised, analysis of this data has historically not been carried out.

Significant work on improving the management information system and establishing a method for outcome monitoring was undertaken by Seila in 2006. It is expected that the first technical study to be commissioned by NCDD in January 2007 will be to follow up on this work with the expectation that a M&E framework which, among other things, will be able to address issues of improved service delivery, will be established. The expected elements of the new M&E Framework are set out in the Table 3.1 below. Illustrative indicators for monitoring are presented in the logframe (pages iv-vi), but these are expected to change following the finalisation of the M&E framework and establishment of baselines.

Table 3.1 Elements of the Monitoring and Evaluation Framework

| Tool | User | Purpose | Scope/Focus |
|----------------------------------|--------------------------|---------------------------|-----------------------------|
| 1. Management Information System | Managers | Steer Programme Audit | Efficiency Effectiveness |
| 2. Impact investment returns | RGC/Development partners | Results | Impact Economy Equity |
| 3. Citizen accountability | Citizens (end users) | Results | Service Process |
| 4. Formative evaluation | Polycymakers | Learning Policy reform | Institutional mechanisms |

These mechanisms collectively provide key information required for **monitoring and evaluating** PSDD. M&E will occur at three levels.

- Monitoring *efficiency* of PSDD resource use (including but not limited to financial accounting and audit) will focus on the efficiency of converting PSDD funds into activities. This will be informed by NCDD's management information systems, upgraded from Seila systems and review of transition milestones (see below).
- Second, monitoring and evaluation of the *effectiveness* of systems and resources utilised will focus on i) the respective year's AWPB priorities, activities and budget allocations, ii) activity completion and quality control reports and iii) the resultant priorities for the subsequent AWPB. Effectiveness M&E will occur in the framework of the SAPR and draw on the performance indicators of the NCDD's national program.
- Third, *outcome monitoring* will occur at two levels: i) the impact of national program activities on improvements in sub-national governance and development, and ii) in the context of the NSDP, the impact of these governance and development investment outcomes on poverty reduction. The first level will occur periodically during annual performance reviews (e.g., special studies of progress with reassignments of functions to sub-national levels, the introduction of fiscal transfer systems, the quality and accessibility of local infrastructure and services, the performance of elected councils, etc). The second, poverty impact level will be linked with the NSDP Monitoring and Evaluation System, which is being developed by the Ministry of Planning and the National Institute of Statistics with support from development partners.

Based on the results of this work, the PSDD will support the development of a common set of monitoring indicators across the range of development partner projects supporting D&D. This will allow improvements in service delivery and national and subnational capacity building to be tracked on an annual basis.

3.5 Transitional Period: Activities and Milestones

As indicated in Section I, the period 2007-2009 will be marked by a number of transitions as existing systems and activities, personnel and responsibilities and new NCDD arrangements, including with development partners, are put in place. Given the highly discretionary nature of PSDD's support to the NCDD, how these milestones are achieved and reviewed will be important to how the future relationship between NCDD and PSDD development partners develops.

These may be considered in *four sets of milestones*. These are summarised in Table 3.2 below and will be the subject of discussion during the Semi-Annual Joint Review meetings between NCDD Secretariat and development partners.

Table 3.2 Transitional Period Milestones

| | Activities | Milestones |
|---|---|--|
| 1 | <p><i>Transition of Seila Task Force/Secretariat and Decentralisation Support Program to NCDD Secretariat:</i></p> <p>i) the identification of a NCDD structure to manage the NCDD AWPB ii)transfer of assets and records, iii) the closure and transfer of accounts and accounting functions, iv) the performance review, termination, contracting and/or reassignment of government staff, national and international consultants to NCDD, and MOI and MEF.</p> <p>The legal mandate for this is provided by the NCDD Royal Decree</p> | <p>By 1st February 2007</p> |
| 2 | <p><i>NCDD Technical Studies and program preparation.</i> These will include, but not necessarily limited to:</p> <p>i) Joint monitoring indicators reviewed and TWG Action Plan on D&D for 2007 developed and agreed between NCDD and development partners</p> <p>ii) A plan and budget for the formulation process of a preliminary national D&D program developed and consulted with development partners.</p> <p>iii) The status of the NCDD Preliminary Implementation Framework discussed with development partners through the TWG mechanism.</p> <p>iv) A technical study carried out, on salary supplementation, with the view to transferring to MBPI and PMG-type arrangements. NCDD mgt response to recommendations available to development partners. Adopted recommendations incorporated into a document for implementation.</p> <p>iv) Annual staff Performance Review guidelines for Program Support Team staff including National and International technical assistance agreed and available to development partners</p> <p>v) 1st draft of the <i>RGC-Development partner Agreement</i> for D&D discussed with development partners</p> <p>vi) Carried out a study to define the future NCDD TA needs (national and international) and identified future recruitment process. Findings shared with development partners. Recommendations approved by NCDD.</p> <p>vii) Enhanced NCDD monitoring, research and evaluation systems identified, and a pilot scheme to measure poverty outputs/outcomes established</p> <p>ix) Agreed an action plan for 2007 on fiscal decentralisation with MEF and presented to development partners</p> | <p>Specific Mid-2007 review milestones.</p> <p>By February 28th 2007</p> <p>By May 1st 2007</p> <p>By 28th February 2007</p> <p>By 15th July 2007</p> <p>By 15th July 2007</p> <p>By 1st September 2007</p> <p>By 15th July 2007</p> <p>By 31st October 2007</p> <p>By 15th July 2007</p> |

| | | |
|---|---|--|
| | | Further review by end-2007 based on recommendations from Mid term review |
| 3 | <p><i>Creation of D&D Fund as a mechanism for pooling of development partner resources, (in advance of a shift in the longer term to national budget support) to channel development partner funds for</i></p> <p>i) operational needs of the NCDD/successor, ii) the recurrent and development needs of sub-national councils (until a fully functional intergovernmental fiscal transfer system is in place) and iii) technical assistance.</p> <p>Examination of relative merits of retaining Basket Fund administration role, vis transiting to D&D Fund.</p> | <p>Possibly considered by End-2007 Annual Joint Performance Review 2007.</p> <p>Will require comparative assessment of options, including fiduciary risk assessment.</p> |
| 4 | <p><i>Transfer of NCDD responsibilities to new mechanisms as may be provided for in organic law. This transition will prompt the need for milestones with respect to assets and inventory, transfer of staff and consultants, systems and procedures, in a similar manner to the first set of milestones noted above.</i></p> | <p>Pending organic law, and provisions of the law regarding timing.</p> <p>Enactment of the organic law would trigger a joint appraisal and, where appropriate, adjustment of the programme.</p> |

Section IV: RISKS AND MITIGATION

This section examines the risks associated with key issues such as; achieving poverty outcomes, the current political/governance and institutional challenges, implementation of the new legal, political, administrative and fiscal arrangements, aid efficiency, performance of the PSDD development partners, UNDP, DFID and Sida. The analysis is followed by a description of how the PSDD design will assist NCDD and its successor to mitigate these risks.

4.1 Poverty Outcomes Risks

The ultimate goal of PSDD is to reduce poverty in Cambodia. To achieve this PSDD must be fully aligned with the national reform process that is integral to the national poverty reduction strategy (Section II). Furthermore, it will fund investments that will directly (Component 1: Sub-national systems and structures) and (Component 2: Sub-national service delivery contribute to 8 of the 9 Cambodia MDGs.⁴)

In sectoral terms, PSDD alignment with both policies and investment priorities can be illustrated by reference to the Key Actions identified in the NSDP for the Rural Development sector, and the cross cutting priority of gender equity. For example, PSDD

⁴ These are: 1. Eradicate Extreme Poverty and Hunger, 2. Achieve Universal nine-year basic education, 3. Promote gender equity and empower women, 4. Reduce Child Mortality, 5. Improve maternal health, 6. Combat HIV/AIDS, malaria and other diseases, 7. Ensure environmental sustainability, 8. Forge Global Partnership for Development, and 9. Demining, UXO and victim assistance.

directly addresses 9 or 10 rural development priorities, and the two key priorities for gender equity, namely, i) gender mainstreaming, in administration, for example, planning and budgeting process, and ii) political representation and the enforcement of legal codes with respect to participation in decision making, domestic violence and women’s rights.⁵ A similar, high degree of alignment and relevance of PSDD to national policy and strategies for governance, decentralisation and deconcentration, public administrative reform and anticorruption has already been noted (section I).

Thus, to the extent that government poverty reduction strategy rests on a sound logic and a prudent assessment of what can be achieved, the alignment of PSDD with NSDP priorities and ‘key actions’ suggests PSDD scores high on poverty relevance. But international experience has been that the route to poverty reduction through good governance, and in particular devolution, is far from automatic. In some cases, including Cambodia since 2001, there is evidence that decentralisation has promoted increased public investment and greater ‘allocative’ and ‘productive’ efficiency in service delivery and through this indirectly impact on poverty. Many factors however determine whether decentralisation actually results in pro-poor social or economic outcomes, or improved regulation and access by the poor to market opportunities, or natural assets like land, forests and fisheries.

There are at least two clear lessons from experience. First, that the contribution of decentralised governance and development to poverty reduction is far less significant than, and in some respects depends on, sustained improvements in macro-economic performance. Clearly this is effectively beyond the influence of this project, and can be only indirectly influenced by the national program it supports. Second, while it is believed that well designed and implemented programs of devolution can create the necessary conditions for pro-poor outcomes, they are never sufficient to ensure this will occur. Thus, it is one thing to closely align a project with national policies and laws, and national programs and their implementation; it is quite another matter to positively appraise the project’s impact on poverty reduction. Critically important in how devolution creates both necessary and sufficient conditions for poverty reduction is how it deals with the nature of the state, and its relations with citizens. Thus, how the national D&D agenda will address the political economy of governance is central to poverty reduction.

Table 4.1 Key Poverty Challenges and PSDD Role in Mitigation

| | Type | Key Program Risks | PSDD Role in Mitigation | Risk Level |
|---|-----------|---------------------------------------|---|------------|
| 1 | Technical | Limited poverty reduction outcomes | 1. Monitoring/evaluation system and technical studies to provide quantitative and qualitative indicators for tracking. 2. Adjustment of Commune Sangkat Fund block grant allocation formulae | M-H |
| 2 | Technical | Limited service delivery improvements | 1. Monitoring/evaluation system and technical studies to provide quantitative | M |

⁵ Sponsored by UNICEF, Seth Koma program, Seila/PLG measures to introduce gender rights and domestic violence awareness and action by commune councilors has been positively appraised (*Independent Study*, April 2006).

| | | | | |
|---|-----------|--|--|---|
| | | | and qualitative indicators for tracking. 2. Support for introduction of conditional grants for social sectors | |
| 3 | Technical | New monitoring systems not robust enough to provide information on poverty reduction and service delivery outcomes which are needed to modify annual workplans budgets, activities and indicators and budget | 1. Support for semi-annual joint review process to track and review monitoring and evaluation system. 2. Target communes/households to establish baseline to measure improvements on the coverage, quality and accessibility of infrastructure and services delivered by provinces, municipalities, districts and communes, with emphasis on priority agriculture, rural development, water and sanitation, education, health and gender MDG targets. | M |

4.2 Governance Risks

Over the past decade, the RGC has secured its legitimacy through regular elections, a modest decentralisation of power to local levels, national reconciliation following the end of insurgency, upgrading its technical capacity, continued high levels of aid, and positive achievements, albeit uneven, in economic growth and poverty reduction. However, three interlocking features of the Cambodian state directly challenge the likelihood that devolution will result in ‘democratic development’ and thus, reduced poverty.

First, the anti-corruption activities is still weak, therefore, it has contributed to obstruct democratic development, pro-poor service delivery and regulation of public goods and markets.

Second, public service norms and rules for policy making and execution have been subordinated to the imperative of reinforcing patrimonial networks undermining good governance.

Third, while the technical capacity of RGC staff has improved, governance remains fragmented and unaccountable. At sub-national levels, service delivery and regulation of markets and public goods is characterised by a confusing mix of centralised, decentralised and deconcentrated arrangements in which multiple programs compete, responsibilities of different levels overlap, implementation relies on top-down instruction and off-budget salary incentives, and there is little inter-ministry coordination or responsiveness to local needs and demands.

A number of key governance challenges are outlined below and the D&D Policy Response expected through support from PSDD.

Table 4.2 Key Governance Challenges and D&D Policy

| | Type | Key Governance Challenges | D&D Policy Response/Intention | Risk Level |
|---|-----------|--|--|------------|
| 1 | Political | Unresponsive <i>political</i> leadership, poor downward accountability and 'elite capture' | <ol style="list-style-type: none"> 1. Elected councils at commune/ district/province levels will be prime mechanism for accountability to citizens. 2. Insistence that non-government agencies coordinate / integrate with commune, district and province planning and budgeting procedures so as to reinforce electoral accountability. 3. NCDD engagement with 'social accountability' and 'governance demand' projects to be integrated with D&D program (eg., DANIDA/DFID NRM/L program, World Bank Demand for Good Governance Project, and USAID LAAR program). | M |
| 2 | Adm | Poor <i>administrative</i> performance and responsiveness to elected leaders | <ol style="list-style-type: none"> 1. Sub-national administrations will be accountable to elected councils. 2. Delegation of functions to provinces, districts and communes to be matched by control over development budgets and recurrent/staffing budgets. 3. Delegation to sub-national authorities likely to include aspects of 'employer functions'. 4. Phase out off-budget salary incentives through public service pay/remuneration reform. 5. Clear responsibility assignment for administrative and elected organs so as to depoliticise the administration. | M |
| 3 | Technical | Multiple, <i>conflicting assignments</i> of function to different levels of government | <ol style="list-style-type: none"> 1. Clear assignment and transfer of functions to sub-national authorities, following principles of subsidiarity and inter-governmental accountability. | L -M |
| 4 | Technical | Geographic and sectoral <i>inequality</i> in distribution of funds, biased against remote areas, disadvantaged populations | <ol style="list-style-type: none"> 1. NCDD AWPB process specifically concerned to equalize aid-financed activities. 2. Commitment to create a system of inter-governmental fiscal transfers, including for equalisation purposes and to encourage pro-poor budgeting. 3. Aid harmonisation/alignment target to shift toward budget support modality by development partners. | L -M |
| 5 | Technical | Fragmentation, poor inter-departmental <i>coordination</i> | <ol style="list-style-type: none"> 1. Unified administration at each level of sub-national authority, backed by common planning, budgeting and monitoring procedures. | M |
| 6 | Adm | Poor <i>integration</i> of | <ol style="list-style-type: none"> 1. Commitment to reform budget process, | M-H |

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|---|-----------|---|---|---|
| | | national and sub-national administrations | treasury functions, and create national accounting/audit systems. 2. Commitment to create a system of inter-governmental fiscal transfers | |
| 7 | Adm | <i>Line ministry resistance to delegate of functions/powers.</i> | 1. Organic law to provide specific powers to national authority, and procedures to enforce its decisions | L |
| 8 | Technical | Multiple, <i>conflicting development partner financed vertical programs</i> exacerbating the above problems | 1. Commitments between government and development partners to harmonisation and alignment targets. 2. <i>RGC-Development partner Agreement on D&D</i> , to encourage alignment, reduce parallel systems, harmonise reporting systems and procedures. | M |

The manner in which the RGC intends to deal with these issues depends on further elaboration of RGC policy, the scope and character of an organic law yet to be enacted and subsequent implementation of a national program. But, as Table 4.2 illustrates, there is clear evidence in national policy announcements and debate that eight key challenges, and means to deal with them, are firmly on the D&D agenda. Key governance issues and challenges are evidently being debated and solutions are being progressively defined. But it cannot be presumed these issues and challenges will be adequately addressed in forthcoming laws and practices.

4.3 Implementation of the National D&D Program

It is not appropriate for a support project, such as PSDD, to take positions on these issues, which need to be resolved through a political, rather than wholly technical process. But that does not mean that PSDD does not have a role to play on these matters. In fact, PSDD is a project intended to support a national program through enabling technically informed political debate about D&D’s new political and administrative arrangements, including with RGC’s development partner partners. However, there are risks attached to the implementation of the national program as Table 4.3 shows nonetheless, there are corresponding ways in which PSDD aims to assist in mitigating them.

Table 4.3 Key Program Risks, and PSDD Role in Mitigation

| | Type | Key Program Risks | PSDD Role in Mitigation | Risk Level |
|---|-----------|---|---|------------|
| 1 | Policy | Lack of regular and robust policy dialogue between NCDD and development partners | 1. Establishment of semi-annual joint review process under the auspices of the D&D Technical Working Group | M |
| 2 | Technical | Lack of clarity, comprehensiveness and public consultation on D&D strategy, laws and implementation | 2. Technical support for policy/ technical studies on key issues identified by NCDD. 3. Support for orientation and dialogue within government | M |

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|---|-------------------|---|--|----------|
| | | | <p>agencies led by NCDD.</p> <p>4. Support for public access to information, and public consultation.</p> | |
| 3 | Technical | National agency (NCDD and successor) insufficiently or inappropriately resourced to fulfil its responsibilities for a) policy, b) resource management, c) coordination, d) Seila transition. | <p>1. Technical and program support for NCDD AWPB and Annual Performance Review.</p> <p>2. PSDD discretionary resources to allow NCDD greater flexibility in funding priorities.</p> <p>3. PSDD development partner to actively promote discretionary financing to NCDD agenda, to reduce unnecessary rigidities in development partner project support.</p> <p>4. Research, monitoring and evaluation systems to enable evidence-based program management, public and development partner dialogue.</p> <p>5. Technical support to prepare and implement Seila transition strategy.</p> | L - M |
| 4 | Technical | National ministries inadequately perform implementation responsibilities, including a) continued implementation of projects/programs before organic law, b) phased delegation of functions to sub-national authorities in accordance with sector policy, and c) adequate articulation of parallel national reforms (eg., finance, administration, civil service). | <p>1. Technical and programmatic support to key national ministries, during pre- and post-organic law phases.</p> <p>2. Active policy dialogue with key development partners supporting sector ministry reforms to promote alignment with D&D agenda.</p> <p>3. Linkage between Public Finance Management reform, Public Administration Reform and D&D promoted by NCDD governing membership and positive actions by development partner group.</p> | M |
| 5 | Political | RGC's D&D agenda loses public credibility as a result of i) disruption to on-going projects and local service delivery activities during transition, ii) failure to address evidence of corruption in program activities. | <p>1. Continued support to national ministries and agencies, and sub-national arrangements to guarantee non-disruption during D&D transition.</p> <p>2. Agreement (Section V) specifies audit and interdiction procedures for PSDD resources.</p> | M |
| 6 | Adm/ Political | Insufficient clarity in structures and norms for new a) assignment of functions | <p>1. Technical and programmatic support for national agencies (eg., MOI, MEF, etc).</p> | M |

| | | | | |
|---|-----------|--|--|-----|
| | | <p>to province, districts and communes</p> <p>b) political arrangements</p> <p>c) administrative and staffing arrangements</p> <p>d) fiscal and financial affairs</p> | <p>2. Support for sub-national capacity development with political and administrative officials.</p> <p>3. Support for regular participatory reviews, engaging sub-national officials.</p> | |
| 7 | Financial | Resources made available to new sub-national authorities to meet new responsibilities are inadequate, or provide limited discretion to elected leaders to respond to local demands. | <p>1. Technical studies for local revenue and intergovernmental transfer systems.</p> <p>2. Support for continued piloting of province and district ‘block grants’ systems to support local planning and investments.</p> | M-H |
| 8 | Technical | Inadequate attention to, and mechanisms for, prioritising the needs of women, children & minorities, and peripheral geographic areas. | <p>3. Monitoring/evaluation and technical studies to inform policy and implementation review.</p> <p>4. Orientation/awareness training for NCDD staff</p> <p>5. Performance benchmarks for PSDD financed TA</p> | M |
| 9 | Technical | <p>Insufficient, timely alignment of development partner sector policy and project modalities with D&D agenda, including:</p> <p>a) vertical sector programs</p> <p>b) parallel financing arrangements for NGOs and social accountability projects</p> <p>c) procurement, funds flow and accounts systems.</p> <p>d) multiple and inconsistent reporting requirements.</p> | <p>1. Technical support for preparation of NCDD’s ‘RGC-Development partner D&D Agreement’.</p> <p>2. Program support to NCDD for annual performance review and policy dialogue.</p> <p>3. Technical studies leading to greater alignment and harmonisation of development partner procedures.</p> <p>4. Active engagement by PSDD development partners with larger development partner community to encourage alignment.</p> | M |

4.4 Aid Efficiency Risks

Judgments about PSDD *aid efficiency* require that that project be assessed in the context of the larger portfolio of projects and sub-programs are directly enabled by PSDD and feature in the NCDD that feature in the NCDD AWPB, as detailed in Annex 3. At first glance, the percentage of PSDD resources in the 2007 AWPB allocated to program support seems rather high. Only 32 percent goes to investment, while 40 percent and 28 percent are respectively allocated to program support and technical assistance (Table 4.4). But these resources in fact allow the RGC to maintain a policy development and implementation framework that supports activities financed by many other AWPB development partners, including several that primarily support investment, as well as RGC Commune/Sangkat Fund investments.

Without the program support role of PSDD, government and development partners would have to divert a larger share of investment resources to finance program support needs. When the nine development partner projects programmed through the 2006 STF/S AWPB are added to the PSDD resources for 2007, the percentage of resources devoted to investments jumps to 70 percent and program support falls to 18 percent. The draft 2007 AWPB also includes four additional development partner projects. If these and RGC CSF contributions are added, the investment share rises to 79 percent and program support falls to 11 percent.

In short, the PSDD investment in program support allows the NCDD to program and execute a much larger set of development partner resources for D&D. Thus the PSDD has a substantial multiplier effect, increases the total share of resources available for investment, and in this respect is a highly efficient use of aid resources.

Table 4.4. PSDD 2007 Contributions in the Broader Funding Framework

| Fund Grouping by Source | <i>PSDD Partners Alone</i> | <i>PDDD + 9 Former STF Framework Development partner Projects</i> | <i>2007 AWPB including 14 Development partner Projects and RGC CSF Contribution</i> |
|--------------------------------|----------------------------|---|---|
| Use of Resources | | | |
| <i>Program Support</i> | 40% | 15% | 9% |
| <i>Technical Assistance</i> | 27% | 12% | 9 % |
| <i>Investment</i> | 33% | 74% | 82 % |
| Total Funds | \$10.0 million | \$34,083,079 million | \$56,893,271 million |

4.5 Risks with Respect to the Performance of PSDD Development Partners, UNDP, DFID and Sida

As RGC recognises, the success of D&D implementation and this project depends on progressively **alignment** of development partner activities (policy, funding systems, reporting, etc) with the D&D agenda, and their **harmonisation** across the development partner community. Specific consideration must therefore be given to how the actions of PSDD partners may positively impact on the above risks and ameliorative actions. Table 4.5 sets out the risks and the corresponding mitigations measures.

Table 4.5: Development Partner's Performance: Risks and Mitigation

| | Type | Risk | Risk Mitigation Measures | Risk Level |
|---|-------------|--|--|-------------------|
| 1 | Adm | <i>Lack of clarity in roles and responsibilities of DFID, Sida and UNDP in PSDD partnership leads to inconsistent representation with NCDD</i> | 1. Responsibilities defined within partner group, and for liaison with NCDD 2. Assignment of responsibility for 'lead development partner' in PSDD representation to NCDD 3. Quarterly review meetings PSDD development partners | L |
| 2 | Adm | <i>UNDP-Sida-DFID Basket</i> | 1. Agreement specifies mutually | L |

| | | | | |
|---|-----------|--|---|-----|
| | | <i>Fund administration performance detrimental to NCDD policy direction and execution of PSDD</i> | acceptable funds management, contracting, performance review 2. Six monthly review meetings, PSDD lead development partner and NCDD | |
| 3 | Technical | <i>DFID, Sida, UNDP fail to effectively align corporate aid portfolios (health, education, etc) as D&D implementation proceeds, thus undermining credibility of commitment with NCDD</i> | Many lessons have been learned from previous development partner support to D&D in Cambodia, particularly the role of PLG/Seila and its predecessors in contributing to the debate, policy and implementation procedures related to D&D. A few illustrations include: i) the need for adequate ongoing consultation with key actors involved in order for reform to be successfully institutionalized; ii) the gains that can be achieved when the systems and procedures for D&D are broad based (as opposed to limited to a single aspect, such as financial management reform); iii) the problems generated when coordination across key actors is not maintained, e.g., some actors may work to undermine defined reforms or new reforms become stalled for long periods of time; iv) the role that non-earmarked resources can play in enabling other actors to implement their support and enabling the RGC to achieve efficiency in overall D&D resource allocation; v) the gains that can be made when D&D resources and mechanisms are targeted to under-represented/marginalised groups; and vi) the role that adequate technical and capacity building support can play in building success, and the problems that occur when it is inadequate. There are, of course, many other general and specific lessons that can be derived from past experiences, but there is not space to elaborate them here. Development partners each year to agree specific actions to promote progressive realignment of on-going and new projects to D&D agenda. PSDD development partners invest in technical studies to promote development partner aid sector realignment. | L-M |
| 4 | Technical | <i>Wider development partner community treats D&D as a 'sectoral' concern, and fail to realign and harmonise sector and area development</i> | 1. UNDP Decentralisation Adviser to promote D&D harmonisation and alignment within development partner community. 2. Development partner members to | L-M |

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| | | projects, and streamline reporting procedures. | promote effectiveness of D&D Technical Working Group and other forums as specified in the <i>RGC-Development partner Agreement on D&D</i> . | |
|--|--|--|---|--|

Annexures

Annex 1: NSDP and D&D Key Actions

Annex 2: Resource Management

Annex 3: PSDD and NCDD Draft AWPB 2007

Annex 1: National Strategic Development Plan (NSDP) and Decentralization and Deconcentration (D&D) Key Actions

Table A1.1: Key Strategies and Actions: NSDP

| | |
|----|---|
| 1 | Factor poverty reduction and gender equity concerns in all activities. |
| 2 | Ensure speedy reforms in all sectors, which will yield long-term benefits, however painful they may be in the short-term. |
| 3 | Foster and facilitate equitable and spatially and sectorally well spread economic growth and opportunities for all. |
| 4 | Significantly increase " <i>real investments</i> " for growth such as in infrastructure (urban, rural and national), productive sectors like agriculture and industries, and in human development (health, education). |
| 5 | Target the most needy and least served people, including those with disabilities and indigenous people, and areas to help rapidly reduce poverty. |
| 6 | Maintain a judicious balance between top-down (macro level reforms) and bottom-up (grass root) approaches. |
| 7 | Focus on well tried, low-cost activities with potentially high-returns at the grass roots level where speedy changes are possible and will have a profound and positive impact, and/or that will directly benefit the poor. |
| 8 | Optimise factor productivity -- capital, labour, land and natural resources, inputs -- in all activities. |
| 9 | Rely as much as possible on human labour for all construction work, to boost household incomes, especially in rural areas. |
| 10 | Stress building of institutional and human capacity in all sectors and at all levels to create and sustain a critical mass of expertise and human capital. |
| 11 | Evolve mechanisms to ensure as much funds as possible to be routed through sub-national levels for implementation of development activities. |

Table A2.2. NSDP: Key actions for Decentralisation and Deconcentration.

| | |
|---|---|
| 1 | Draft and pass Organic Laws to clearly delineate the basic concepts of <i>subsidiarity</i> to provide clear guidelines for the devolution process and to specify functions, roles and responsibilities at various levels of the administration. |
| 2 | Delegate responsibilities and make available development and operational funds from line |

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|---|---|
| | ministries to the provincial and other sub-national levels in accordance with the organic laws and related regulations/rules. |
| 3 | Build upon the considerable progress already made through individual initiatives of line ministries including the Priority Action Programme (PAP) ministries -- Education, Health, Agriculture and Rural Development – as well as Ministry of Land Management, Urban Planning and Construction, to better define a framework under which deconcentration of services can develop more coherently. |
| 4 | Systemise and better institutionalise the allocation mechanism to ensure full and timely transfer of funds and strengthen the "block grant" system (e.g. already developed Commune/Sangkat Fund) from the national budget to the commune councils, and develop block grant and sectoral allocations for provincial and other sub-national levels to ensure accountability and transparency of revenue collection and expenditures to the citizens and other stakeholders. |
| 5 | Increase and target provision of such funds on a priority basis particularly to remote and other regions where poverty levels are high, to help meet in a significant way local needs for infrastructure and other development. |
| 6 | Explore appropriate avenues for provincial and other sub-national levels including communes/sangkats to develop their own resources including revenue generation from taxes to be collected at local levels, service charges and tax sharing for local budgets |
| 7 | Steadily implement a commune decentralization accounting system (CDAS) in provincial treasuries. |
| 8 | Build up institutional capacity at all sub-national levels. |

Annex 2: Resource Management

This annex outlines the mechanisms for PSDD resource management within the RGC framework for D&D. These include i) the Annual Work Plan and Budget (AWPB), ii) budget execution and expenditure management/control, and iii) the Semi-Annual Performance Review (SAPR).

These mechanisms collectively provide key information required for monitoring and evaluating PSDD:

- The AWPB lays out priorities and broadly allocates resources
- The budget execution and expenditure management/control procedures collectively provide a mechanism for ensuring that resources are expended according to regulatory requirements and resource allocation targets
- The SAPR provides a broad based means for reviewing the performance of the overall system, including D&D processes and results as well as institutional and collaborative arrangements

All of these mechanisms are subject to review, revision and further development by the NCDD and its successor.

A. Annual Work Plan and Budget

The Annual Work Plan and Budget (AWPB) is the coordinating tool by which the resources allocated to D&D from the RGC, PSDD, and other donor projects would be programmed and executed. This programming process would be conducted in two steps, one at the national level and one at the provincial level.

At the national level:

- In alignment with the national budgeting cycle, consultations occur with donors, including PSDD partners, each year to confirm the total resource envelope available for programming under the AWPB and the programming parameters for each source
- Pre-targeted (that is, non-discretionary project funds) are identified for: a) specific sectors (agriculture, social development, etc.); and/or, b) specific geographic locations (most donor projects have target provinces/communes); and/or c) to specific budget categories (eg., program support, technical assistance and investment)
- Once pre-targeted fund availability has been determined, PSDD resources are programmed on the basis of the balance of resources needed to meet priorities under each PSDD component, that is, policy, coordination and implementation needs, as well as investments in sub-national governance and development at province, district and commune levels.

- At the same time as the draft National Budget is being finalized, the indicative programming of all resources under responsibility of the NCDD is finalized; Budget allocations to implementing Ministries are announced and annual work plans/budgets prepared according to agreed formats
- Budget allocations to provinces by category are prepared and announced along with the programming guidelines for use in preparing provincial AWPBs
- Budget allocations for program support at subnational level are prepared and announced at the national NCDD AWPB workshop (September) along with the programming guidelines covering all categories of eligible expenditure
- CSF resources are allocated (as at present) on a formula basis by the MoEF as per CSF regulations

At the subnational level:

- Investment resources allocated to the province are managed through the PRDC ExCom, which prepares and executes the provincial AWPB.
- PRDC ExCom programs resources according to the guidelines and procedures issued by the NCDD (including for district and intercommune activities, district integration procedures) and existing CSF regulations. .

B. Budget Execution and Expenditure Management/Control

Responsibility for overall budget execution and expenditure management/control will rest with the NCDD (and its successor).

Channelling of funds from PSDD would initially be through a Basket Fund (see Section IV).

At the national level:

- PSDD partner funds would be transferred by UNDP through the NCDD for transfer on to implementing agencies and to the National Treasury for CS Fund allocation

From the national to subnational levels:

- Funds transferred by PSDD (and other donors using the AWPB) would be transferred on to the PRDC Excom as per the AWPB agreements and any project specific agreements
- CSF resources (including PSDD contributions) would flow from the National Treasury to CS accounts in the provincial treasury

At the subnational level:

- Funds managed by the PRDC ExCom against the approved AWPB finance both the annual budget of the ExCom itself and the contracts of designated implementing

agencies (see below). To the maximum degree, direct payments against provincial contracts would be made by the ExCom Finance Unit under the Department of Finance for expenditures incurred by implementing agencies.

- As necessary and with prior agreement, funds may be advanced to the implementing agency as per guidelines issued by the NCDD.
- CSF funds are transferred for commune purposes (either directly to the commune or to its contracted agent) from the commune account in the provincial treasury

Resource use management would be conducted through activity and output based contracts executed at a number of levels:

- The NCDD would execute a contract with each national implementing agency specifying the allocation and terms and conditions of use of PSDD funds.
- The Programme Support Team would execute a contract with each provincial governor (in his/her capacity as PRDC ExCom chair) specifying the allocation and terms and conditions of use of PSDD funds for recurrent costs and development investments at the provincial, district and commune level
- The PRDC ExCom would execute separate contracts with provincial line departments for the programmable PSDD resources; these contracts provide the formal execution framework for the provincial AWPB.
- Contracts with private sector contractors would be executed between the responsible agent (PRDC, line department, commune, etc.) and the individual contractor as per regulations issued by the NCCD.

Financial management responsibilities would be vested in the NCDD (or its successor), the implementing agencies under contract, and the government financial management structures:

- Financial management of national line ministry activities funded through PSDD would be done directly by Programme Support Team.
- Financial management of the AWPB funds governed by Programme Support Team -PRDC Ex Com contract would be through an imprest account, denominated in US dollars and held at a commercial bank; separate arrangements and accounts (in US dollars or local currency) as per other specific agreements for framework affiliated projects will be maintained, and/or established.
- Payments from the main contract-related account would, to the maximum extent, be made by cheque from the imprest account and where necessary from special advances and petty cash advances to the line department.
- CSF financial arrangements would be (as at present) handled in accordance with CS Fund regulations.

Expenditure accountability would be managed in a variety of ways, but the main point of reference would be the various contracts noted above. All contracts would be entered in contract databases (in Khmer and English) under the NCDD umbrella. These databases

would track each implementing entity's progress against work plans, physical outputs and disbursements:

- Contracts between the NCDD and national implementing ministries and PRDCs would be maintained by the Secretariat.
- Contracts between the province and implementing agencies—including line departments, private sector contractors, districts and communes would be maintained by the PRDC ExCom.
- For the CS Fund, contracts between CS councils and private contractors are tracked through the PLAU Project Information Database (PID) at the provincial level and the NCDD/MOI-DOLA at the national level.

Audit would be conducted through a variety of internal and external mechanisms:

- At the national level, internal audit would be conducted by internal auditors attached to the Programme Support Team
- At the provincial level, internal audit would be conducted by internal auditors attached to the PRDC ExCom
- At all levels (but only for a sample at the commune level), external audit would be conducted both by the National Audit Authority and a competitively bid private sector auditing firm.

Safeguards, in addition to those noted above, include the following:

- Regular monitoring of PSDD supported activities approved through the AWPB would be conducted by the Programme Support Team and PRDC ExCom
- Tendering and contracting procedures, initially those currently in force, would be strictly followed in procurement processes at all levels.
- Regular internal and external auditing at the national and provincial level would be conducted as outlined above
- Accountability Working Groups at the provincial level would function as a formal complaints mechanism to strengthen subnational accountability, with serious consideration given to extending their mandate beyond CSF activities to all PRDC/ExCom activities and all donor funded activities.
- Donor missions from PSDD partner donors would provide additional means to review of the use of PSDD resources, but this would be discussed in the context of the Semi-Annual Performance Review (SAPR) process—see below.

C. Six Monthly Performance Review

The Semi-Annual Performance Review (SAPR) will be a key accountability mechanism not just for PSDD resources, but to provide extensive feedback to levels of government, citizens and international donors on the performance of the AWPB and other D&D related matters. PSDD will assist the NCDD to design the SAPR. It is intended to be the central forum through which donors and different levels of government will monitor their

undertakings as reflected in the *RGC-Donor Agreement on D&D*, including through significant feedback from civil society. The APR may include, among others:

- Reports on the implementation of the previous year's AWPB, both narrative and expenditure/audit.
- Results of reviews and technical studies conducted by NCDD, donors, independent researchers, etc.
- Progress reports on any new initiatives and reforms efforts undertaken in D&D that might be relevant for future resource programming and management
- Commentary provided by international experts, civil society groups, etc.
- Discussion of future donor medium term funding
- Endorsement of the AWPB for the following year

The SAPR will be used as a way to provide feedback on systems, procedures and results, so that better planning and budgeting could occur in the future. Similarly, the SAPR provides information on which donors can reaffirm their commitment to Cambodia and seek adjustments in their program content, rules of engagement with the RGC, etc. if problems or issues emerge from the review.

Annex 3: PSDD and NCDD AWPB 2007

SIGNATURE PAGE

UNDAF Outcomes(s):

Increased efficiency and effectiveness of the Public Administration and Decentralized Governance structure to deliver basic service

Country Program: Enhanced enabling environment for democratic local governance and development

Title: Project to Support Democratic Development through Decentralization and Deconcentration (PSDD)

Start date: 1st February 2007-

End date: Dec 31st 2009

Management arrangements:

PSDD will be managed by the NCDD and its secretariat and classified as a national implementation project. The chair of the Programme Support Team will be the National Project Director who is responsible for the overall management of the development cooperation activities and for ensuring that the PSDD Project is managed in an effective and accountable manner. The National project Director will be assisted by two deputies and by a head of 4 units.

Project Site: All 24 provinces

Primary areas of focus:




The goal of the PSDD is to reduce poverty in Cambodia through support to D&D reform. The specific purpose of PSDD is to improve governance, service delivery and development for the rural poor. Progress will be realized by a focus on three objectives:

- Objective 1: strengthening local government systems and structures to enable pro-poor investments and service delivery to be improved;
- Objective 2: increasing the quality, accessibility and equity of services; and
- Objective 3: prior to and following enactment of the organic law on D&D, supporting a more effective policy, legal, political, institutional and administrative framework that will give the poor greater access to and benefits from local services.

Primary Beneficiaries: Rural population/people of Cambodia

Total Budget: 34.8 m US\$ over 3 years.

Partners: Sida, DFID and UNDP

| Approved | Name /Title | Signature | Date |
|----------------------|--|--|------------|
| Government | : H.E. Mr. Keat Chhon, Senior Minister Minister of Economy and Finance, First Vice-Chairman of the CDC |  | 24 JAN '07 |
| Impl. Partner | : H.E Mr. Sar Kheng Deputy Prime Minister Minister of Interior NCDD Chairman |  | 24/01/07 |
| UNDP | : Mr. Douglas Gardner Resident Representative |  | 24/01/07 |