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**Master's Thesis of Public Administration**

**Analysis of Public Institutional Arrangement  
for National Development:**

**Focusing on ODA Management in Cambodia**

**국가 발전을 위한 공공조직 설계에 대한  
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**Graduate School of Public Administration**

**Seoul National University**

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# **Analysis of Public Institutional Arrangement for National Development:**

**Focusing on ODA Management in Cambodia**

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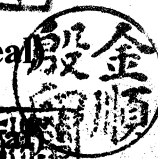
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# **Abstract**

## **Analysis of Public Institutional Arrangement for National Development: Focusing on ODA Management in Cambodia**

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Foreign aid has been a prominent source for socio-economic development in Cambodia since the first general election in 1993 after the Khmer Rouge era of devastation. A large proportion of government's public investment expenditure has been shared by ODA-financed programs and projects in both Grant and Loan Modalities. Cambodia has established comprehensive guidance and dialogues on managing development assistance and strengthening partnership with all donor counterparts.

Applying the concepts of "Structural Conditions" (Whitfield & Fraser) and "Institutional Analysis and Development Framework" (Ostrom), this paper centers on public institutional arrangement for managing and utilizing ODA resources to meet Cambodia's development priorities and requirements. The paper highlights key public institutions (actor) who are authorized to deal with the ODA coordination works, development cooperation strategies and guidelines that have formulated, and the pattern of actions that key actors have been deployed to ensuring the effectiveness of managing and using ODA for national development.

The paper's finding illustrates that the flow of ODA, both in Grant and Loan goes through various channels besides the government-designed channels. The paper argues that the presence of sound institutional arrangement did not guarantee effective managing and utilizing development assistance to fully meet national development requirement. This, perhaps, concerns to low institutional capacity, fragmented division of labor among public institutions, and different interpretation of strategies and guidelines into actions.

**Keywords: Institutional Arrangement, Fragmented Aid Delivery System, Modality of ODA, Aid Effectiveness, National Development**

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## **Abbreviation**

ADB: Asian Development Bank

CDC: Council for the Development of Cambodia

CRDB: Cambodian Rehabilitation and Development Board

CDF: Cambodia Development Forum

CDCF: Cambodia Development Cooperation Forum

CG: Consultative Group

CPP: Cambodian People's Party

CSOs: Civil Society Organizations

DAC: Development Assistance Committee

DCPS: Development Cooperation and Partnerships Report

DFA: Development Finance Assessment

EU: European Union

GDICDM: The General Department of International Cooperation and  
Debt Management

GDP: Gross Domestic Product

G-PSF: Government-Private Sector Forum

GDCC: Government-Donor Coordination Committee

GPEDC: Global Partnership for Effective Development Co-operation

IDP: Industrial Development Policy

IMF: International Monetary Fund

JMIs: Joint Monitoring Indicators

LANGO: Law on Association and Non-governmental Organizations

MEF: Ministry of Economy and Finance

MFAIC: Ministry of Foreign Affairs and International Cooperation

MoP: Ministry of Planning

MPI: Ministry of Planning and Investment (Vietnam)

NGOs: Non-Governmental Organizations

NSDP: National Strategic Development Plan

ODA: Official Development Assistance

OECD: The Organization for Economic Co-operation and Development

PIP: Public Investment Program

PIUs: Project Implementation Units

RGC: Royal Government of Cambodia

RBMG: Results-Based Management Group

TWGs: Technical Working Groups

UN: The United Nations

UNDP: United Nations Development Programme

USA: United State of America

VBNK: The Institute to Serve Facilitators of Development<sup>1</sup>

WB: World Bank

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<sup>1</sup> VBNK is a Local NGO in Cambodia.

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# Chapter 1: Introduction

## 1.1 Background of research and key questions

Foreign aid has been a prominent source for socio-economic development in Cambodia since the first general election in 1993 after the Khmer Rouge era of devastation. After the first general election in 1993 there have been around 35 donors agencies and hundreds of Non-Government Organizations (NGOs), providing development aid to Cambodia and operating their works in various sectors and development areas. According to a report by CDC in 2018, total aid disbursement increased almost two-fold from USD 979 million in 2008 to USD 1.35 billion in 2017. The large amount of aid disbursement can be found in social sector, infrastructure development, and economic sector. A large proportion of government's public investment expenditure is shared by ODA-financed programmes and projects (World Bank, 2018).

However, aid delivery to Cambodia is characterized as highly fragmented due to large number of donors and weak public institutional arrangement (Chanboreth & Hach, 2008). In general, the government has to work with various bilateral and multilateral agencies who have different aid policies, modality of aid provision, and development priorities. On the other hand, there is critical constraint of the government's poor financial management system and weak public administration system, which contributed to the volatility in aid management, particularly harmonization and alignment of ODA against public investment plan (CDC, 2011; RBMG & VBNK, 2010; Sande, 2010; Waseda University , 2018; Chanboreth & Hach, 2008).

In this context, this study will attempt to examine the structure of ODA management in Cambodia. Particularly, it will try to find out major responsible

actors and their duties in the ODA management and to present some suggestions to improve the ODA management system in Cambodia. Moreover, the development of international development cooperation has driven the ODA modality more complex. Thus, this study will look into the modalities of ODA flow provided by donors and its effect to ODA management in Cambodia. Perhaps, each donor country and each international institution has different development agenda setting which acquires a more sophisticated coordination and strong financial governance in Cambodia. Going beyond ODA management aspect, the research will investigate the implication of ODA management to NSDP requirements. Perhaps, it is necessary to examine whether the existing institutional arrangement for ODA mobilization and allocation is appropriate and effective to utilize the resources to achieve development goals and objectives.

## 1.2 Problem Statement

In recent year, Cambodia received 646 ODA financed projects, equivalent to USD 963 million involved by 32 donors<sup>2</sup> in 2016. Cambodia is a highly aid-dependent country dealing with large number of donors and has low institutional capacity to ensure comprehensive ODA management (Chanboreth & Hach, 2008; CDC, 2011). According to “the Cambodia Aid Effectiveness Report” in 2007, it clearly stated that the delivery of aid system in Cambodia is highly fragmented. This issue can cause serious impacts on the effectiveness of aid, including causing high transaction costs and weakening the ownership of government over development process and decision-making. The report also noted that aid concentration index in 2005 in Cambodia had lower ranking than other developing countries such as Lao PDR, the Philippines, Indonesia,

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<sup>2</sup> The data was extracted from Cambodian ODA Database, extracted date 25th Sept, 2017, available on [www.odacambodia.com](http://www.odacambodia.com)

Ethiopia, Somalia, and Zambia (CDC, 2007). Similarly, drawing the work of Ek Chanboreth and Sok Hach on “Aid Effectiveness in Cambodia” (2008), they argued that aid delivery to Cambodia is characterized by a highly de-concentrated environment. Their study found that there were about 100 established parallel project implementation units (PIUs), 400 donor missions, reviews, and studies per year, and the provision of duplicated technical cooperation and funding (Chanboreth & Hach, 2008).

Thus, studying through various literatures and research produced by government, international organizations, and researchers will provide a better picture to examine issues and complexity of ODA management structure in the context of Cambodia’s development cooperation. Aid is not effective unless it is used to generate greater impact on development results in alignment and harmonization with national development objectives. Its implication is concerning to strengthening national budget management and administration capacity and to maximizing the potentiality of ODA as supporting catalyst in socio economic development, particularly alignment of ODA with NSDP requirement.

### 1.3 Purpose of Research and Research Method

By seeing problems in Cambodian public institutional arrangement in the perspective of ODA management, this study is conducted in theoretical and analytical perspective to investigate and examine the structure of ODA management in Cambodia and its implication to national development. In chapter 2, the study discusses the concept of ODA which is defined in both national context and global context. Moreover, this chapter discusses about issues of managing and allocating ODA resources in Cambodia and some aid recipient countries where faced similar issues. In addition, a best practice of ODA management in Vietnam is highlighted by looking to the major actors and



what we can learn from Vietnam's experience over public institutional arrangement.

The last part of the chapter 2 illustrates the theoretical framework of study and analysis methodology. The framework is derived from two theoretical frameworks developed by Whitfield and Fraser (2009) and Elinor Ostrom (2011). The proposed analytical framework consists of two key elements: Structural Conditions and Institutional Arrangement Analysis. The key insight of Structural Conditions by Whitfield and Fraser lies in negotiation process between recipient government and donors, specifically in aid agreement process. In negotiation arena, negotiating capital/strategy is derived from Structural Conditions consisted of political condition, economic condition, and institutional condition—both recipient side and donor side have a set of interests and priorities they need to negotiate by looking to those conditions to calculate the cost and benefit in decision making. Another key insight from Ostrom's model, Institutional Analysis and Development Framework (IAD), examine the interaction pattern of a collective action in a particular entity or unit. This model attempts to explain and predict outcomes by analyzing an "Action Situation" that involves Actors, Position, and Actions.

A series of secondary data reviewing will be used to conceptualize general context of ODA management issues and the overview of Cambodia's public institutions involving in ODA sector. A wide range of documents such as government publications, previous research papers, journals, and other academic literatures are concrete evidences to investigate the case. This study selected three government institutions, who are believed having direct responsibility in ODA management, for the analysis—they are CDC, MEF, and MFAIC. Also, three largest bilateral donors (Japan, China, and USA) and three largest multilateral donors (ADB, WB, UN) are selected for the study.

In Chapter 3, a discussion on Structural Conditions—Political

Conditions, Economic Conditions, and Institutional Conditions—highlights general features of the three conditions concisely. This chapter discusses the structure of political system, level of political freedom, and the representation of civil society in the nation, which are critical factors in aid negotiation arena. In addition, the economic conditions part will look into some major economic sectors that contribute to national GDP and the level of debt sustainability in the last decade. The conditions of national economy can determine how much a country needs for external resources, particularly development aid, to fill up gaps in national required resources for development projects and programmes. In addition, an overview of trends in development cooperation in Cambodia is provided in this chapter. It aims to illustrate the modalities and provisions of aid delivery in Cambodia in the last 10 years, including ODA disbursement by sectors and by individual donor agency. A discussion about the modality and major channel of ODA will be covered by answering how many types of ODA modality flowing into Cambodia the last ten years and how complexity the ODA channel is.

Chapter 4 captures the core analytical part of institutional arrangement identifying key responsible government institutions in relation to ODA management, accessing all ODA-related strategies, and analyzing the pattern of action. The study will try to draw an implication of the existing institutional arrangement to national development by analyzing the flow of ODA via government signatory and the alignment of ODA with NSDP requirement.

Conclusion and suggestion is placed in Chapter 5 which is the last part of the study. It summarizes key findings and single out some critical suggestions for future implementation.

## 1.4 Significance of Study

The proposed study may fill the gap of the previous literatures related

to the effectiveness of ODA to national development in recipient countries but their studies did not specifically focus on issues in institutional arrangement for ODA management. This study will provide inclusive analysis of all issues related to the division of labor among responsible government institutions, strategies and mechanism for ODA management, the characteristic of donors toward public institutional arrangement, and the outcome of these issues in the respect to NSDP objectives and requirements.

The finding of this study will provide key information and guidance for both government and donor counterparts for a better decision-making and solutions for the future implementation. It will also serve for academic purpose for other researchers who want to understand the nature of public institutional arrangement in ODA-related works in Cambodia. This study is a significant source of information and data for future research.

## 1.5 Limitations

Cambodia has a rich history of initiatives undertaken to improve aid effectiveness and has put in place an effective system for making the data accessible, essentially a comprehensive Cambodia ODA Database. Nevertheless, there are some limitations and constraints to this study as followings:

- Relatively limited time and resources available for the study.
- The nature of data entry process in Cambodia ODA database is primarily filled by donor counterparts and, later, cross check by CDC's focal point officials. This process may raise concern over the accuracy of the data against actual disbursement and activities in the ODA-financed projects.
- The selected donors for the analysis may not represent the overall view and stand of the rest of donors. The fact that individual donor has different objective, strategy, and procedure of disbursement.

- The fact many parts of aid effectiveness reform agenda were already underway, limiting the extent to which the findings of the study may not reflect the present situation.

## Chapter 2: Literature Review and Theoretical Framework

### 2.1 Definition of ODA and Aid Effectiveness Initiatives

In general term of ODA definition, we define it into two types, grant and concessional loan assistance (soft loan). They are mainly used for socio-economic development with the support from donor government or multilateral agency to a developing country (OECD, 2009). In this definition, OECD also emphasizes two important points of ODA. One of them is that the transaction and the usage of ODA must be in line with the promotion of economic development and social welfare of recipient countries (developing countries). The other point is concessional loan that must have a grant element at least 25 percent of the total. Similarly, a literature on “Foreign Aid Heterogeneity” argued that the specific purpose of aid, which mostly appears in donor’s development aid policy, is a mean to serve poverty eradication through supporting for better standard of health and education system together with institutional development and participatory principles (Mavrotas & Nunnenkamp, 2007). According to Carol Lancaster (Foreign Aid: Diplomacy, Development, and Domestic Politics) in 2007, donors give aid for five purposes:

- Diplomatic: international security, international politics goals, and the management of relations between governments
- Development: to promote economic growth and poverty reduction
- Commercial: expanding exports and securing access to raw material imports
- Humanitarian reliefs: food aid and other support provided in emergency situation
- Cultural: promoting language and value

Regarding to an IMF's study on aid, the implication of aid is viewed that aid could generate the recipient country's opportunities through expanding consumption and investment which is important for macro-economic effects (Combes, Ouedraogo, & Tapsoba, 2016). It also claimed that there could be two levels of the effect: (1) The allocative effects on the structure of production, consumption, and relative prices, and (2) The effects on economic growth.

In Cambodia context, not far different from international community and scholars over the definition of ODA, ODA must be Grant and Concessional Loan (having a Grant element at least 25 percent of the total) which are undertaken by the official sector with promotion of economic development and welfare as main objective (CDC, 2017). In addition, either Grant or Loan for military purpose is not included as ODA.

## Key International Initiatives on Aid Effectiveness

The improvement of coordination and cooperation effort between donor parties and recipient countries has been placed in various initiatives at international level. The most important ones are Declaration on Aid Harmonization in Rome (2003) and Paris Declaration on Aid Effectiveness (2005). Both of them stressed on the important of greater collaboration and coordination to foster aid effectiveness and to accelerate international development initiatives, specifically Millennium Development Goals. There was also another special event for development aid and development cooperation in Accra, Ghana, where head of governments, international financial organizations, civil society organizations, and other international agencies met up in the Third High Level Forum on Aid Effectiveness in 2008. The forum reviewed the progress made by all development actors as agreed in Paris in 2005 and reemphasized long term and predictable funding, untying aid,

and recipients' national ownership on their own development agendas and need by working closely with donor counterparts and civil society organization. Global community marked a significant turning point of discussion toward aid and development in the Fourth High Level Forum on Aid Effectiveness in Busan in 2011. The forum acknowledged the important of having wider range of aid providers, including non-traditional donors, non-state actors, and private sectors, in order to create an inclusive partnership with all potential development actors.

## 2.2 Shortcomings and Best Practices

Obviously, foreign aid is an indispensable source of revenue to cover huge weight of public investment projects in developing countries, particularly for expenditure in areas such as health, education, and other public sector investments that essentially contribute to improve better social welfare and to alleviate poverty rate. Cambodia is developing country that has limited financial resources and human capacity to cope with socio-economic issues and to funding its national development plan. So that, the government has put strong effort to mobilize external resources, particularly ODA to fulfill these gaps. Cambodian government has mobilized over a billion dollar per year in the last decade.

There are some lesson learned over aid management issues, regarding to complicated administrative process, channels, and final delivery of aid disbursement. According to Todd Moss, Gunilla Pettersson, and Van de Walle (2007), states, who can raise a substantial proportion of their revenues from the international community, are less accountable to their citizens and under less pressure to maintain popular legitimacy. Therefore, they are less likely to have the incentives to cultivate and invest in effective public institutions. The authors concluded that large aid flows can result in a reduction in governmental

accountability because governing elites no longer need to ensure the support of their publics and the assent of their legislatures when they do not need to raise revenues from the local economy, as long as they keep the donors happy and willing to provide alternative sources of funding (Moss, Pettersson, & Walle, 2006).

In many cases, donors usually try to assert their demands and interests through development assistance (Alesina & Dollar, 2000; Brautigam, 2000; Chanboreth & Hach, 2008). It may break mutual accountability principles when both recipient party and donor party pay less attention on the effectiveness of aid for socio-economic development as they agreed in several international dialogues.

## Diverse Donors' Development Priorities

Dealing with an extensive number of diverse donor governments and international donor organizations is a huge responsibility and challenge for recipient country government. Each donor has different views, modalities on what need to be done, and how resources should be allocated. This is one of the vibrant issues in the field of development cooperation and partnership that recipient countries, as well as Cambodia for example, are struggling with multiple solutions and mechanisms to administer ODA to the right need and right time of national development projects. It is almost impossible to accommodate all relevant development actor satisfaction.

There are many studies on the allocation of aid showing donors allocated their own money with political and strategic interests and with too little concern to development impact. During Cold War, Western governments provided development aid to recipient countries primarily to achieve certain strategic interests, military, and political goals (Alesina & Dollar, 2000; Burnside & Dollar, 2000; Long & Eichengreen, 1991).



David Bearce and Daniel Tirone (2010) argued that foreign aid can help promote economic growth in recipient countries, but only when the strategic benefits associated with providing aid are small. The author undertook the study by analyzing donor's aid attached with strategic interests during the Cold War and after the 1990s. The author found that aid programmes provided by donor countries during the Cold War were objectively used to achieved their strategic, military, and political interest, rather than focusing on economic and welfare development in recipient countries. But, right after the end of Cold War in the early 1990s when the strategic benefits of providing aid were relatively small, donors aimed to turn their development aid programmes to economic development programmes in recipient countries, especially through economic reform programmes (Bearce & Tirone, 2010). This, probably, can be explained by the rise of economic globalization. By seeing most developing country's economies were closed economy and by looking for chance to enlarge market for the Western economies, foreign aid was served to as a bride to developing countries in order to encourage them to engage in economic reform channel. The author examined this economic reform nature by referring to opening markets, reducing barriers to international exchange, decreasing government intervention in national economy, securing private property rights, and improving rule of law (Bearce & Tirone, 2010). These policy changes will provide positive advantages to donor countries who have a better comparative advantages and capacity in international trade and production.

An analysis by Alberto Alesina and David Dollar (2000) confirmed that while aid is affected by economic considerations pertaining to the countries' growth and poverty situation, non-economic factors also play a large role, with the role of global political economy factors. For instance, Great Britain, France, and Japan were favor to their former colonies in the allocation of aid, and they,

together with the United States and Germany, allocated more aid to recipient countries that vote in unison with them in the United Nations (Alesina & Dollar, 2000). They also found that politico-economic regime or poverty level did not seem to matter much as their former colonies received more foreign aid than another countries with similar level of poverty (Alesina & Dollar, 2000).

A similar finding by Burnside and Dollar (2000) in their literature “Aid, Policies, and Growth” assumed that donors’ strategic interests might be more important than the quality of policies of the recipient countries. They assumed that foreign aid is beneficial to countries that adopt appropriate and stable policies, particularly macroeconomic policies (Burnside & Dollar, 2000).

## Diverse Project Implementation Units (PIUs)

Conflicting of development objectives in recipient country occurred when multiple donors put their own national interests into a collective action while each donor responsible for only a small part of development aid. Thus, responsibility for recipient government to manage for success or failure may be mixed and any single donor rarely has much of a stake in the country’s socio-economic development (Belton, 2003). A lesson learn in Western European governments after World War II provided huge advantages in putting aid to effective use by receiving a single donor, Marshall Plan aid from the United States, in contrast to the dozens of bilateral and multilateral agencies and hundreds of NGOs in the aid business today (Long & Eichengreen, 1991).

Based on a literature on “African Economies and the Politics of Permanent Crisis” mentioned that in the typical African nations, development assistances were delivered by some thirty donors, several dozen International Non-governmental Organizations (INGOs) through over a thousand distinct projects and several hundred resident international experts (Walle, 2012). This practice generated high transaction costs for both recipient government and

donor side because each donor has different rule, procedure for managing ODA-managed projects and programs, different languages and fiscal calendars (UNDP, 2003).

One of many other examples, in Vietnam, purchasing five vehicles for a donor-funded project took 18 months and involved with 150 government officials, because of differences in procurement policies among donors (World Bank, 2003). Similarly, World Bank's report (2003) investigated a case in Bolivia over a poverty survey project funded by five donors, revealing the involving government officials had to spend much of their time to complete requirement on separated financial and technical reporting system of each donor.

Another major issue undermining the quality of the governance of aid involves donor practices to use project implementation units (PIUs) which are parallel to the recipient government's institutional arrangement (Brautigam, 2000). According to a monitoring survey (2008) on the Paris Declaration revealed that Donors set up 123 separated PIUs that were not fully integrated into government leadership and structure—40 PIUs were operating in agriculture and rural development sector, 26 PIUs in governance related activities, 24 PIUs in health sector, and 14 PIUs in education sector (OECD, 2008).

Through PIUs practices donors tend to provide aid through project rather than through budget support (Acharya, Lima, & Moore, 2006). More importantly, donors tend to relying on expatriates instead of hiring local staffs deteriorate the development of public sector capacity. On the other hand, donors favorably pay salary supplements to the more talented local staffs, in several cases high-level government officials (Moss, Pettersson, & Walle, 2006). The implication of this practice distorts incentives for other public officials to turn their attention away from their responsibilities. In contrast, it motivates those

who are benefit from the salary supplement to protect and extend the aid projects and to favor spending aid funds in the form of independent projects rather than in the form of coordinated, sector-wide programs or budget support (Acharya, Lima, & Moore, 2006).

According to a literature on “Improving aid to Africa” in 1996, it found that master’s level government official earned a fifth of what they could earn working for one of Nairobi’s international management consulting firms or the resident mission of a donor agency. Another similar research on “Kenyanization and African capacity Shuffling” in 1993 stated that in the early 1990s, Keyan advisors, who were government officials, could earn between USD 3,000 to USD 6,000 a month by working for World Bank project, whereas a senior economist in civil service could earn approximately USD 250 a month (Wilson, 1993).

## Institutional Capacity Issues

To handle with a complex of donors’ working system, objectives, and strategies is a big constraint to Cambodian government whose institutional capacity, in another word human capacity, is still weak. Based on a study “Cambodia Country Study Report: Phase Two Evaluation of the Paris Declaration” in 2010, public sector management capacity in Cambodia needs a lot more effort to strengthen and upgrade the profession and working system, especially mid and lower levels of public service nationally. This capacity weakness hampers the effective implementation of national-level aid delivery strategies (RBMG & VBNK, 2010).

A similar lesson learn from Africa on ODA management issue was that greater attention must be paid to the level of participation of development stakeholders in planning and implementing exit processes (Slob & Jerve, 2008). The study also pointed out that institutional capacity of the recipient countries

also problematic to determine the degree of success of using ODA. Slob and Jerve recommended donors to analyze institution assessments to pinpoint needs for building capacity that can help assisting partner country institutions to dealing with ODA allocation and execution.

Yet, there is also capacity weakness from donor side; due to the fact that, there has been little intention on institutional learning on how to manage aid well that led to fragmentation of aid programmes. According to a paper written by Murshed, S. Mansoob, “On the Non-Contractual Nature of Donor–Recipient Interaction in Development Assistance,” investigates a number of issues in strategic donor–recipient interaction as motivated by the complexity of the rationale underlying aid. His finding argued that the strategic interaction between the aid providers and recipient countries cannot be truly characterized along the lines of principal and agent, as the relationship is not completely contractible because of recipient sovereignty and post-contractual opportunism (Murshed, 2009). Thus, Murshed claimed that aid donors, practically, can only expect to produce partial outcomes. Aid and institutional quality issues also found in a paper entitled “Aid Effectiveness: Looking at the Aid-Social Capital-Growth Nexus” by Mina Balamoune-Lutz and George Mavrotas (2009). Specifically, the author tried to explore the link the interaction between aid and institutional quality and social capital that could have impact on the effectiveness of ODA implementation. The central finding indicated by Mina Balamoune-Lutz and George Mavrotas also claimed that conditioning aid allocation on good policies may not lead to finest allocation of aid, as countries with high social capital at the macro level could actually yield good execution of aid independently of good policies. The authors gave the conclusion that economic policies still endeavor a strong positive effect on growth, independently of the level of aid (Balamoune-Lutz & Mavrotas, 2009).

## Best Practice Case in Vietnam

A successful experience of Vietnamese institutional set up for effective management of ODA utilization can provide a role model for other recipient countries. In the area of development cooperation, Vietnamese government put Ministry of Planning and Investment (MPI) at the centre of aid integration and coordination. Actually, MPI has fundamental role in country's overall national development planning, particularly capital expenditure planning. Under this central role, MPI has responsibility to draft and formulate the overall national development strategies, short-term plans, Five-year Public Investment Plans (PIP), and prioritizing and channeling of internal and external resources for socio-economic development (Forsberg & Kokko, 2008; Ohno, 2004). According to ADB's study on public financial management system in Vietnam (2016), MPI has the leading role among the ODA coordinating agencies including State Bank of Vietnam, Ministry of Foreign Affairs, Ministry of Finance, and Office of Government. MPI is a national focal point in mobilization, coordination, management, and utilization of ODA and concessional loans (ADB, 2016). More importantly, MPI has a direct working channel with Prime Minister Office any matter relating ODA and concessional loan issues.

Within MPI authority, the Foreign Economic Relations Department (FERD) is the main responsible unit who coordinates and manages ODA resources at national level, including negotiation, supervising and coordinating the allocation of ODA programs, particularly large scale and capital intensive loan projects (Forsberg & Kokko, 2008; ADB, 2016; Ohno, 2004). In the preparation of PIPs, FERD prepared a list of prioritized national projects calling for ODA investment and this priority list is, in fact, a menu for donors to select projects from their development cooperation priorities (ADB, 2016). It gives a clear direction and framework for donors to perform and operate their interested

projects within Vietnam's development plans. As MPI has a direct working channel with Prime Minister in any matter related to project implementation issues, and ODA and concessional loan project approval, this creates a strong ownership and leadership of MPI in development cooperation (ADB, 2016).

A study prepared by Le Thanh Forsberg and Ari Kokko (2008) characterized the role of MPI in the structure of ODA management in Vietnam in three main points. First of all, the state regulated not only domestic development planning, but also the allocation of aid and the relations with donors. The central position of MPI was instrumental in creating strong ownership. FERD coordinates all types of aid, grants and loans, with multilateral and bilateral donors, and serves as the link to line ministries and agencies and provincial governments (Ohno, 2004). If donor and aid management had been outside the body responsible for national economic planning, it would undoubtedly have been more difficult to align aid flows with Vietnamese development priorities (Forsberg & Kokko, 2008; Ohno, 2004). In addition, donors were given a window for policy dialogues, facilitating direct donor impacts on national development planning.

Second point is that MPI has a particularly strong responsibility for the coordination and management of loan aid, which has constituted 60 percent to 70 percent of total ODA in financial terms since 1996 (Forsberg & Kokko, 2008). This arguably gives more influence to donors like the WB and Japan, who have accounted for the major part of loan aid to Vietnam. Whereas, smaller bilateral donors, who provide more technical assistance and grant aid projects, are in a weaker position to influence Vietnamese development policy—even though they participate in the top level dialogue, most of their direct contacts are with provincial and sectoral authorities (Forsberg & Kokko, 2008).

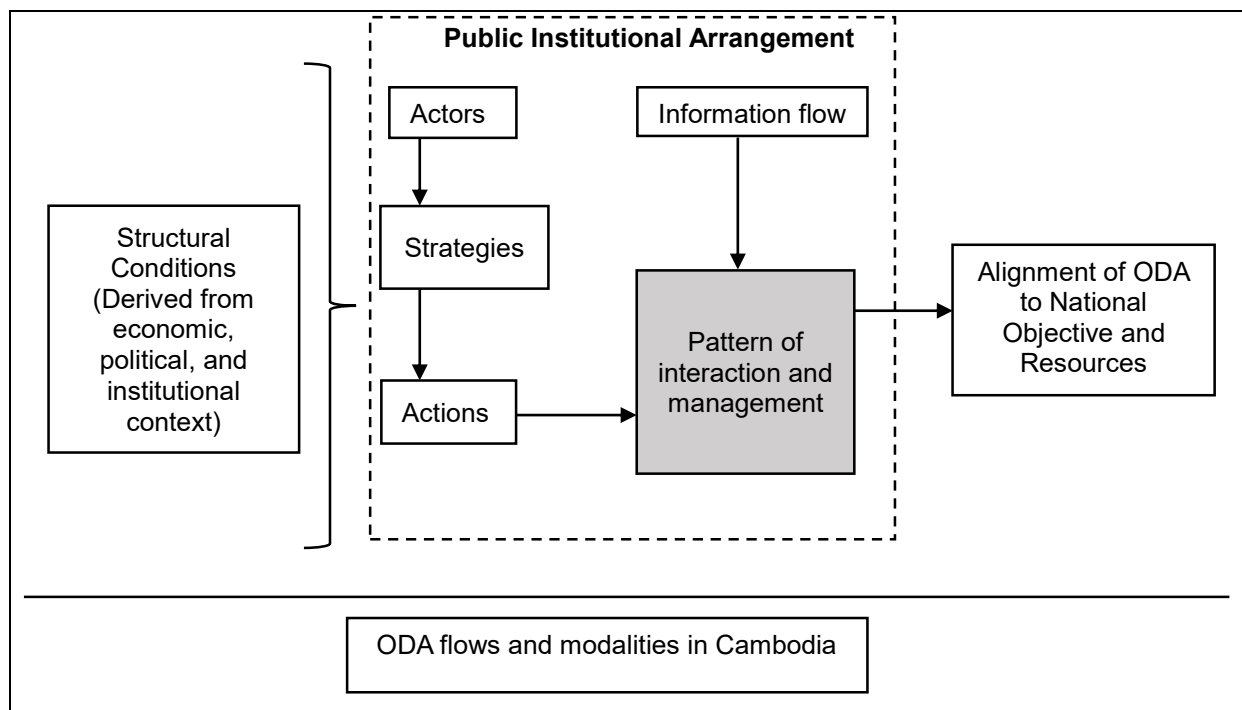
Last point made by Forsberg and Kokko (2008) is that the incentives

and capacity of line ministries and provincial agencies are constrained by the centralization of power to the MPI. It is important to notice that Vietnamese government exercises central planning system in which it plans, steers and controls local governments through the provision of public services and infrastructure, including those investments that are financed by ODA. Under central planning, aid became a strongly politicized process, where local government levels have to turn to Hanoi in order to convince MPI that their development projects are of higher priority than others, and that they should be included in the priority lists presented to donors (Forsberg & Kokko, 2008).



## 2.3 Theoretical Framework

**Figure 1:** Analysis framework on ODA management and public investment



**Source:** Adapt from *Negotiating Aid* by Whitfield & Fraser (2009, pp. 39) and “*Understanding Institutional Diversity*” by Elinor Ostrom (2005, pp. 33)

### Structural Conditions

The study proposes a political economy approach to studying and conceptualizing donor-recipient relations and institutional set up for ODA management. As shown in **Figure 1**, the theoretical framework combines two elements of framework created by Fraser and Whitfield (2009) and Elinor Ostrom (2005). The key insight from Fraser and Whitfield 2009 study “*Negotiating Aid*” lies in the process of engagement between recipient government and ODA providers as one of negotiation. They simplified model of an aid negotiation, in which recipient negotiating capital (derived from structural conditions) leads to certain negotiation strategies. ODA providers

also have negotiating capital, derived from the same set of structural conditions, which lead in turn to provider negotiating strategies (Whitfield & Fraser, 2009). They emphasized the crucial role of rational choice theory to explain their model. It suggested that political actors select courses of actions according to rational calculations about how to achieve their preferred outcomes. In this sense, the calculation is rationally based on various contexts such as economic, political, and institutional context. Structural conditions present donors and recipients with constraints to consider in deciding what they think can be achieved through negotiation, and with resources to draw on to make their case in a way that compels the other to consider their preferences carefully. Cambodia has much challenging governance context and fragmented institutional set up that causes weak and incoherent strategic approach to negotiating with ODA providers (Greenhill, Prizzon, & Rogerson, 2013). Donors may take advantage from this situation to inject ODA-financed projects/programmes to either particular sector or institution they think their interests can be maximized with less transaction cost.

In political conditions perspective, donors look at the degree of recipient government's political legitimacy in order to gain leverage in negotiations. Therefore, recipient governments that have a high degree of political legitimacy at home may thus have more negotiating capital (Whitfield & Fraser, 2009). Donors' understanding of the legitimacy of governments is also constructed in the international realm, through the representation of media and civil society. Thus, in this study will access the political structure of Cambodia and the contribution of civil society to the development of Cambodia.

In economic conditions perspective, Whitfield and Fraser (2009) emphasize the degree of the recipient's dependence on markets in the donor country or the degree of the donor's dependence on access to resources being offered by the recipient. Other important economic conditions include the

degrees of indebtedness and of aid dependence, measured, for example, in terms of the shares of state-government expenditure sourced from donors. Therefore, this study will examine some major economic sectors and the level of debt sustainability of Cambodia in recent years.

Institutional conditions can define the ability of recipient governments to negotiate effectively with donors. These include the effectiveness of recipient's institutions in devising and defending its own development priorities and strategies and the conditions of civil service which participates in utilizing and implementing ODA financed projects (Whitfield & Fraser, 2009; Greenhill, Prizzon, & Rogerson, 2013). The conditions of the state bureaucracy affects the aid management structure that emerges in a recipient country as well as the ability of the recipient government to shape its aid management structure according to its wishes (Whitfield & Fraser, 2009). There is a critical argument on the side effects of ODA toward recipient's institutional capacity. High levels of aid may positively improve governance system in recipient countries, but they can also have potential negative effects to governance improvement (Brautigam & Knack, 2004; Moss, Pettersson, & Walle, 2006). On the positive point of view, development aid projects that are channeled to government with rightful development goals and objectives can be used to improve the quality of civil services, strengthen policy and planning capacity, and establish strong central institution. However, on the dark side of aid, Brautigam and Knack (2004) argued that aid can weaken institutional capacity through the high transaction costs and fragmentation that accompany high levels of aid. Donors hire potential government staffs and provide technical assistances that substitute for the government's own capacity. Because government has low absorptive capacity to manage multiple projects and agendas, donors set up project implementation units independent from the government with off-budget funding (Brautigam & Knack, 2004).

## Institutional Analysis and Development Framework

The other theoretical framework used to inform this study is Institutional Analysis and Development Framework (IAD) developed by Elinor Ostrom in 2011. It is a multi-tier conceptual map that helps scholars and policymakers to organize diagnostic, analytical, and prescriptive capabilities (Ostrom, 2011). In making an analysis on institutional arrangement, it is necessary to figure out who are actors, what their role and resources, and how they are inter-connected from one to another and to outcome. The model will illustrate the types of actions that actors can take, the types of information, and how actions lead to result. In the scheme of development aid field, institutions are defined as the formal and informal rules of behavior that constitute incentives for all agents involved in the aid delivery process; they affect the performance of foreign aid programmes (North, 1990). Actors in this study will discuss about public institutions who involve in the process of mobilizing ODA and allocating the resources in line with public investment policy framework. Primarily, those public actors are Council for the Development of Cambodia, Ministry of Economy and Finance, Ministry of Foreign Affairs and International Cooperation, and supporting line ministries.

Actors in a situation modality are a single individual or a group functioning as decision-making entity assigned to a position and capable of selection actions from a set of alternatives made available at nodes in a decision process (Ostrom, 2005). This model will make various assumptions about how and what actors value, what resources, information, and beliefs they have, what their information-processing capabilities are, and what internal mechanisms they use to decide upon strategies. Many institutional analysts assume that an individual's choice of strategy in any situation depends on the weighs of costs and benefits to maximize the net value of expected outcomes—perceived

benefits and costs including the time and resources dedicated to creating and maintaining relationships as well as the value that individuals attach to establishing a reputation for being reliable and trustworthy (Breton & Wintrobe, 1982; Williamson, 1979). Drawing on the work of Fritz Scharpf (1997), for an institutional analyst to consider a collective actor, one must assume that the individuals intend to participate in a collective action to create a joint product or to achieve a common purpose. However, internal decision-making mechanism among collective actors may vary depending on the preferences of their members and beneficiaries. Reflecting to public institutional arrangement, the individual ministries or agencies are working under a central government's umbrella to implement national goals but the individuals shall apply different agenda setting, approaches, management, and accountability line (Scharpf, 1997). Usually, to implement national development programme or project there is a need of collaboration among ministries and agencies on inputs and resources. In most cases, either national development programme or project may touch some sphere of authority authorized by respective ministries and agencies. However, the interaction among these stakeholders is not always perfect. Individuals rarely have access to the same information known by others with whom they interact. When joint outcomes depend on multiple actors contributing inputs that are costly and difficult to measure, incentives exist for individuals to behave opportunistically (Williamson, 1979). Opportunistic behavior will compound the problem of uncertainty in a given situation to improve one's own welfare and interests at the expense and effort of others (Williamson, 1979). Many of situations of maximizing benefits and accessing information are complex and problematic.

Second component of action situation structure is a set of strategies (that determine actor's position) that are handled by actors participating in a working system (Ostrom, 2011). Positions are frequently fewer than the number

of participants, for instance chair and member depending on the structure of management system that assigns particular actors to hold particular positions. The nature of a position is assigned to participants with a set of authorized actions. Literally, Cambodian government mandated CDC as a national focal point to coordinate with all donors bilaterally and multilaterally. To support CDC position, MEF and MFAIC are supporting agencies to ensure the flow of resource mobilization and effectiveness of using the resources<sup>3</sup>. Yet, these actors may simultaneously occupy more than one position that causes overlapping role while performing the same policy agenda. All participants will occupy what is the most inclusive position in a situation, so that we can exercise their power and enjoy surplus of benefits from any allowable actions.

Third component is action, which defines a set of activities (actions) at any particular stage in a decision process (Ostrom, 2005). Drawing on the work of Elinor Ostrom in her book called “Understanding Institutional Diversity”, an action consists of a selection of a setting or a value on a control variable that an actor hopes will affect an outcome variable. The linkage of action and outcome is an inevitable causal relation. The term action includes both overt act and forbearances (the choice not to act). This situation human actor has potential role on the outcome whether to change the setting or to retain the old setting. Principally, a set of activity is outlined by certain legal framework and policy guidelines aiming to achieve certain goals and objectives. However, the boundary line of action is still debatable. Actors may carry out their activities beyond what have been defined in either legal framework or policy guidelines, as long as they can exercise their leadership, ownership, and power, and maximize their benefits.

Fourth component is information flow that stakeholders in an action

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<sup>3</sup> Sub Decree on the Organization and Functioning of the Council for the Development of Cambodia, No. 147 ANK BK dated 29 December, 2005

situation may have access to complete or incomplete information. In Ostrom's model (2005) defined that almost all formal representations of action situation assume that participants have access to complete information by which is meant that each participant know the number of other participants, the positions, the outcomes, the actions available, how actions are linked to outcomes, the information available to other stakeholders, and the payoffs of the same. It means complete information help each actor knows the full structure of an action situation before making any choices. Unfortunately, when there is incomplete information, it is often difficult for other to judge how much any one individual contributes to a joint task. When joint outcomes depend on multiple actors contributing inputs that are costly and difficult to measure, incentives exist for individuals to behave opportunistically (Williamson, 1979). In practical work situations, Williamson (1975) argued that a manager cannot know fully what employees are doing and how this adds to or take away from the accomplishment of a joint output.

Last but not least, the core part of the analysis is to find out the pattern of interaction and management among involved actors. Their interaction may determine the outcome of managing ODA toward public investment plan. In this pattern, we will figure out how each actor execute their mandates to manage ODA resources. The execution has to bear with institutional arrangement, policy guidelines and national priorities set out by the government. Yet, the question will be raised whether the respective actors respect to those guidelines and arrangement.

Last component is potential outcome which is the alignment of ODA and NSDP's required resources. When the purpose of analyzing a situation is focused entirely on understanding the result of a particular structure and when there is a certain level of participant's value over outcome, the process of representing outcomes in utility space is an effective means of analyzing a

situation. It is important to find a conclusion whether the current structure of institutional arrangement is effective or greater efforts for a better working arrangement need to be done.

The framework for this study pictures the relationship between public institutional arrangement and ODA management. The study will take the view that clear structure of institutional arrangement has great potential to effective utilization of ODA in public investment planning process.

## 2.4 Research Questions

The study will examine the characteristic of some major ODA providers and key public institutions who have direct engagement in managing the flow of ODA and its implication to the promotion of aid effectiveness implementation. The reflection of the study will also pinpoint the gaps to provide a clearer picture to address shortcomings. Therefore, this study has an endeavor to fulfill the missing gaps by investigating on the following crucial questions:

- A.** What are the main mechanisms for mobilization and allocation of ODA flows in Cambodia?
  - a.** What are major government institutions responsible for the management of the flows of ODA?
  - b.** What are ODA-related strategies that have been used to mobilize and utilize ODA for national development?
- B.** What are the modalities of ODA flow in Cambodia?
- C.** How has ODA been synchronized to NSDP's requirements for prioritized activities and resources?
- D.** What can be done to improve the existing institutional arrangement and to minimize the gap of alignment of ODA with NSDP requirements?



## 2.5 Study population and Data Analysis

The study will focus on a number of main government institutions, foreign government donors, and international organizations in Cambodia, who have direct involvement in ODA area. This study will be a descriptive case study research to demonstrate the available policies, mechanisms, and institutional structure in ODA management framework that would have important relationship to effective development implementation in Cambodian context. Also, the study will explore the variety of ODA modality and channel which have been operated in socio-economic development paradigm. To look deeper into the relationship between ODA management framework and development effectiveness, cross sectional model will take a snapshot on a specific single timeframe with a large scale population.

In Cambodia case (in the regard of ODA recipient country), there are three key government institutions dealing with ODA policy formulation and ODA coordination; They are Council for the Development of Cambodia, Ministry of Foreign Affairs and International Cooperation, and Ministry of Economy and Finance.

Looking at donor side, top three ODA providers from donor countries and top three ODA provider from international agencies. Japan, China and the United States have been ranked in the largest supporters in socio-economic development in Cambodia. Whilst, Asian Development Bank, World Bank, and the United Nations are traditionally playing important role in providing development assistance to Cambodia to enable development effectiveness. The selected major donors for the study is reasonable to reflect the nature and characteristics of ODA flows and activities in Cambodia; due to the fact that, the sum of their ODA volume was 56 percent of the total ODA disbursement in 2007-2016, according to CDC (2018). Their volume represented more than half of the total volume of ODA that has been disbursed in Cambodia for the

last decade. Their representation can potentially influence the change of the flow of ODA and ODA operation in Cambodia.

## Data Collection and Analysis

The study will apply qualitative data analysis method which is most suitable for case study design. Qualitative analysis is valuable in organizational research because it allows researchers to investigate and examine the nuances of organizational behaviors, stakeholder perceptions, socioeconomic status, and societal trends (Natasha, Cynthia, Kathleen, Greg, & Emily, 2005). Qualitative data which is also known as descriptive data is a non-numerical data that captures concepts and opinions. The analysis will be drawn from various ODA-related literatures, including government reports, international organization reports, journals, and previous research. Within this analysis method, researcher can understand research objectives by revealing the pattern and meaning of content within texts.

Time-series data is also used for statistical analysis supporting the consistency and relevancy of descriptive data. A wide range of data is withdrawn from government statistic reports and international organization reports, for instance OECD, World Bank, IMF, the United Nations, and just namely a few. The analysis provides reflections and understanding not only on what changes happened, but also how and why it happened in development cooperation context.

## Chapter 3: ODA Trend and Structural Conditions in Cambodia

### 3.1 Overview of the Development of Cambodia

After long decades of internal conflicts and spillover conflicts of the two-ideology competition in the mid-1960s to the early 1990s, Cambodia has made impressive progress reintegrating into the international community and laying the foundation for successful development. With unprecedented support from the United Nations, the first free election was held that resulted in the establishment of a democratic country in 1993. It was when the beginning pace opened the door to the resumption of Official Development Assistance to help Cambodia reconstructing and rehabilitating the nation.

Drawing on a quote from World Bank's first Country Assistance Strategy to Cambodia in 1995, it says "While many other countries in the region have enjoyed 25 years of rapid and stable development, Cambodia has been racked by civil war. The scars of this experience will effect Cambodia's development over the next decade and beyond." The war drove the nation to be one of the poorest countries in the world and took a huge toll on the physical infrastructure and natural resources of the country. Land mines remain scattered throughout many rural areas until today, posing serious threat to people and hampering agriculture activities.

Many countries that have had their physical infrastructure destroyed by war have rebounded quickly, for instance Japan, Korea, and the nations of Western Europe. The key to a quick rebound was that the institutions and human resources bases of these countries remained largely intact, so that reconstruction of capital stock could occur rapidly (Brautigam, Aid Dependence and Governance, 2000; Long & Eichengreen, 1991). In contrary, Cambodia's development had unique challenges because during the Khmer

Rouge rule (1970-1975), the institution and human resource were destroyed to a remarkable extent. By the end of this tragic period government institutions were dismantled, the legal system destroyed, and financial system abolished. It was believed that over 2 million innocents including women, and children were slaughtered.

In the new era of the development of Cambodia, Cambodia has made a significant achievement in implementing its own socio-economic development agendas. With strong partnerships and cooperation, Cambodia and donors have accelerated greater effort and support to the development of Cambodia. According to World Bank, Cambodia has experienced and sustained strong economic growth an average 7.6 percent per year over the last two decades, 1994-2015, ranking sixth<sup>4</sup> in the world (available on front page of the World Bank website). Following more than two decades of robust economic growth, Cambodian GDP per capita was expected to reach 1,434 USD in 2017, according to Recent Macro-Economic Indicators (GDP Growth Rate) on the front page of Ministry of Economy and Finance website<sup>5</sup>. Cambodia's performance to achieve MDGs has been amongst the best in the world as the country's socio-economic performance and the International Finance Institutions have referenced Cambodia as an Olympian of Growth and Asia's New Tiger Economy (ADB, 2017). Through its rapid economic growth, Cambodia was re-classified as a Lower-Middle Income Country in 2016 and begins to look towards to transitioning from Least Developed Country (LDC) status (World Bank, 2017).

In spite of these achievements, Cambodia still faces a number of development challenges. To finance and support its national development, the

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<sup>4</sup> Available on <http://www.worldbank.org/en/country/cambodia/overview>, Accessed on 12 May, 2018

<sup>5</sup> Available on <http://www.mef.gov.kh/>, Accessed on 12 May, 2018

Royal Government needs to mobilize and manage a broader and more diverse range of development resources. To do this it will be advantageous to adopt a holistic planning system and coordination mechanism that extends resources mobilized from all development actors. The role of Official Development Assistance (ODA) has also changed with alternative sources of development finance and complex channel of funding in order to achieve global commitment on development effectiveness. It is true to say that ODA has been playing an important role in leveraging the development of Cambodia and supporting Government's reforms and public service delivery. To contextualize the progress of development cooperation, Cambodia government has developed strategic policies – principally the NSDP (2014-2018) – to position priority actions to guide long- term development plan.

### 3.2 Type of Project/Programme: Grant and Loan

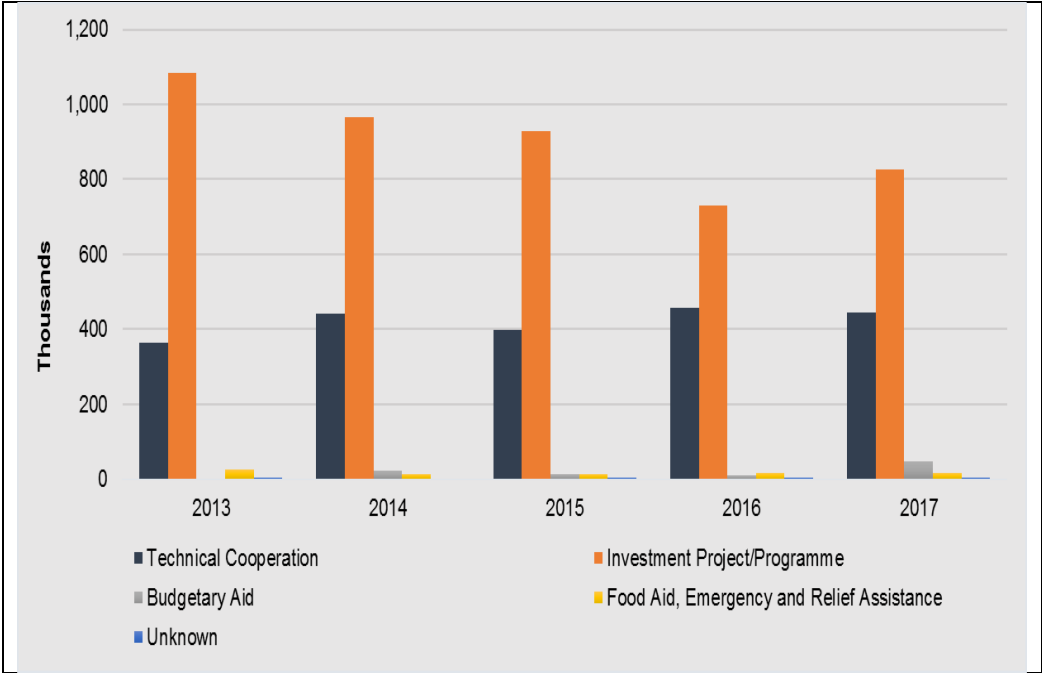
The modality of assistance identified by CDC consists of four types such as Technical Cooperation, Investment Project/Program, Budget Support, and Emergency Assistance (The definition of type assistance is available in Glossary of Term in Annex 5).

In the last 5 years (2013-2017), Investment Project/Program and Technical Cooperation received largest amount of ODA among the four modalities as shown in **Figure 2**. The aggregate amount of ODA to Investment Project/Program alone was USD 4.5 billion while Technical Cooperation received USD 2.1 billion in the same period. The other two—Budget Support and Emergency Assistance—shared only small proportion of the total ODA volume, together received USD 181 million in the five-year period.

Investment Project/Programme type, generally, consists of large Loan proportion. Between 2013 and 2017, the total Loan disbursement in all types of assistance was USD 2.7 billion of which Investment Project/Programme took

95 percent of the total Loan disbursement. The average of Loan element in Investment Project/Programme was USD 515 million per year in the same period. Whereas, the rest of the types of assistance mainly lied on Grant provision.

**Figure 2:** Term of Assistance Provision (2013-2017) in Thousand USD



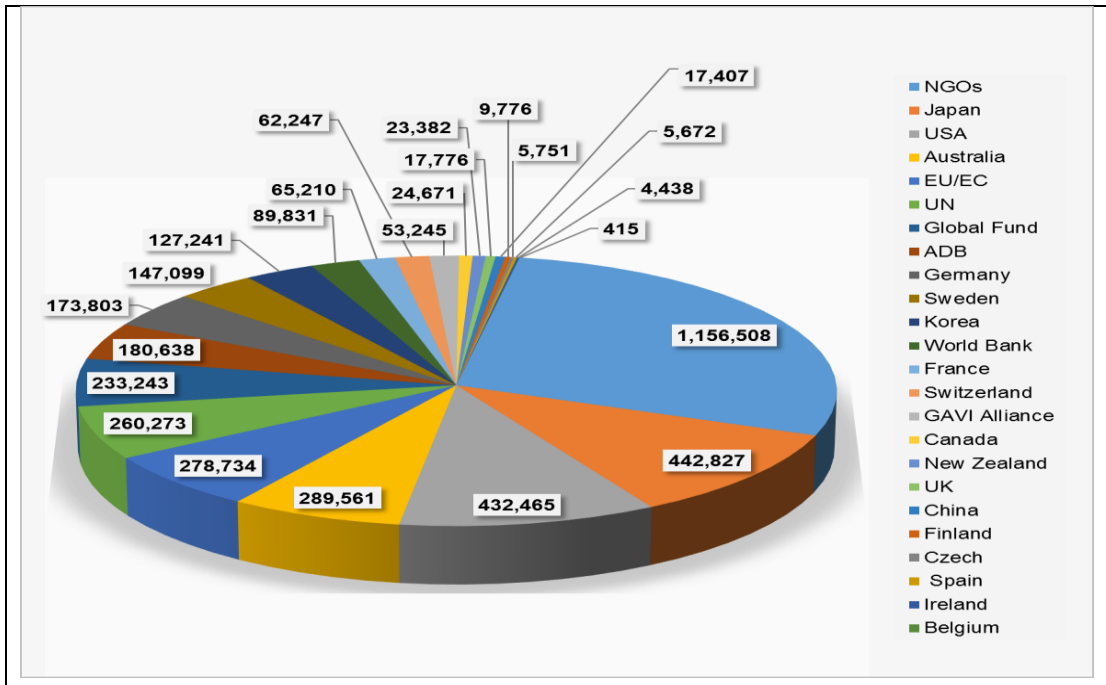
**Source:** CDC (2018), in *Development Cooperation and Partnership Report*

## ODA in Grant Assistance Provision

As in shown **Figure 3**, in the last five years (2013-2017) the total amount of grant provision to Cambodia was USD 6.82 billion. Amongst all bilateral donors, Japan, USA, and Australia remained the largest traditional bilateral donors since the very first peacebuilding process in the early 1990s. These three largest traditional donors contributed 29 percent of total grant provision in the mentioned period. In the same way, the contribution from NGOs community shared the largest proportion, 28 percent of the aggregate

amount, comparing to other bilateral donors and multilateral donors. Likewise, the United Nations, ADB, Global Fund, and World Bank were among the largest multilateral donors in Cambodia's development cooperation, together provided USD 763 million in grant assistance in the last five years.

**Figure 3:** Grant Disbursement (2013-2017) in Million USD



**Source:** Data compiled from CDC's reports, in *Development Cooperation and Partnerships Report* (May, 2016) and (January, 2018)

## ODA in Loan Assistance Provision

Chinese aid mostly lies in loan agreement and its grant proportion is marginally small comparing to the size of loan. For instance in 2015, China provided loan to Cambodia USD 344 million of which grant disbursement was about USD 4 million (CDC, 2016). This case is similar to ADB's aid to Cambodia in 2015; around USD 100 million of which USD 32.5 million is grant modality. The last five years, China has been the largest loan provider to

Cambodia. From 2013-2017, the aggregate loan provision from China was USD 1.59 billion, representing 58 percent of total loan as shown in **Table 1**.

There is no doubt why China provided huge amount of Loan assistance to Cambodia. Due to the fact that, Cambodia and China reached to establish Comprehensive Strategic Partnership of Cooperation in 2010 and, also, China is the largest source of FDI to Cambodia. Cambodia has great potential for physical infrastructure investment which is one the top priorities of national economic development plans. Chinese Loan primarily invested in transportation, energy and power, airports, seaports, and just namely a few.

**Table 1:** Major Loan Providers (2013-2017) in Thousand USD

<i>Donor</i>		<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<i>China</i>	Loan	436,216	347,790	334,921	261,931	214,359
<i>ADB</i>	Loan	128,998	79,647	105,790	86,245	112,937
<i>France</i>	Loan	4,493	43,638	52,819	20,083	87,551
<i>Japan</i>	Loan	23,204	20,503	25,176	31,456	55,474
<i>South Korea</i>	Loan	29,117	51,221	28,667	7,948	28,706
<i>World Bank</i>	Loan	12,162	34,526	1,903	5,296	19,727
<i>UN agencies</i>	Loan	1,242	5,754	5,838	7,640	7,073

**Source:** Data compiled from CDC in Development Cooperation and Partnerships Report (May, 2016) and (January, 2018)

## NGOs Support to National Development

NGOs have been a major contributor to Cambodia's national development, especially through their abilities to mobilize funds and work on areas that complement programmes by national government and donors. According to **Table 2**, it shows NGO funding trends by sectors from 2013 to



2017. The total NGO fund is between USD 300 to 350 million, comprised of NGO own fund and Fund that NGOs mobilize from donors (DP fund). The detail of NGO's fund from Donors is explained in **Table 6: NGOs' Own Fund and NGOs' Fund from Donors (2013-2017) in Million USD**. The disbursement has been centered in Health, Education, Community Welfare, and Rural Development sectors, accounting for approximately 80% of total NGO fund and representing the overwhelming social nature of NGOs' work in Cambodia. It is worth noticing that total NGO funding in 2017 decreases by 15% compared to 2016. The decrease could be seen almost equally in both NGO own fund and donor fund. Among the four major sectors, Community Welfare experiences the sharpest drop that NGOs and donor funds are reduced by USD 18 million and USD 4 million, respectively.

**Table 2: NGOs Disbursement by Sector (2013-2017) in Million USD**

Sectors	2013	2014	2015	2016	2017
Health	96.6	108	108.9	112	111.1
Education	61.4	63.3	58.2	68.4	60
Community Welfare	55.1	59.4	72.6	69.1	46.7
Rural Development	24.4	33.1	38	39	32
Agriculture	16	14.9	14.5	19.5	12.4
HIV/AIDS	11.5	21.9	15.3	15.4	19.9
Environment	19.7	12.8	13.3	15.5	4.4
Governance	15.2	9.3	9.4	12.4	12.9
other	6.1	13.2	9.4	7.8	6.6
<b>Total</b>	<b>306.1</b>	<b>335.8</b>	<b>339.6</b>	<b>359</b>	<b>305.9</b>

**Source:** Data compiled from CDC in Development Cooperation and Partnerships Report (May, 2016) and (January, 2018)

In 2017, most of NGO own fund is used to support Health, Education, Community Welfare, Rural Development, and Agriculture, while donor's fund to NGOs is provided for works in Governance, Health and HIV/AIDS sectors (CDC, 2018).

### 3.3 The Volume of ODA in Last Decade

Cambodia has mobilized development aid, so called ODA, principally grant and loan, around USD 1.1 billion annually for the last 10 years. According to a report issued by CDC, the ratio of ODA disbursement to Cambodia's GDP is around 9 percent per year from 2007-2016; comprising the amount of grant 66 percent and the rest is shared to loan proportion. The annual largest external finance provision can be seen from China, Japan, Asian Development Bank (ADB), World Bank, European countries, and United States, but the modality of ODA provision and channel are different from one to another.

As data shown in **Table 3**, the aggregate disbursement from China shared the largest proportion among other bilateral cooperation in Cambodia. China alone disbursed USD 2.6 billion which accounted for 21.5 percent. Chinese ODA has been projected in term of loan projects, largely went to infrastructure projects and energy sectors. Japan and the United States are the second and third largest donors following behind China. The combination of Japanese and USA ODA accounted for 16.4 percent of total ODA in last ten years (2007-2016). Japan and USA are considered as traditional donors who have been playing important role in socio-economic development in Cambodia after the civil war ended in the late 1980s and first free and fair election in Cambodia in 1993. Similar to Chinese's ODA objectives to Cambodia, Japan projected large amount of financial support and technical support to infrastructure sector and power and energy sector. According to Development Cooperation and Partnerships Report 2018 (DCPR) produced by CDC, in 2016, China provided loan agreement to energy sector and transportation sector

approximately USD 200 million, following by Japan USD 28.5 million. Moreover, ADB is the biggest ODA provider in term of multilateral cooperation— nearly 10 percent of total ODA between 2007 and 2016. The provision of ODA from ADB in term of loan agreement is ranked in the second largest donor after Chinese loan. Approximately, USD 400 million loan project was operated in Cambodia in the last decade while grant aid has been disbursed nearly USD 150 million.

**Table 3:** The share of ODA disbursement by Donors (2007-2016) in Million USD

Donor	Disbursement	Cumulative
China	2,638,491	22%
Japan	1,276,472	10%
ADB	1,137,064	9%
United States of America	740,651	6%
UN	631,529	5%
Australia	579,536	5%
European Commission	496,055	4%
World Bank	469,990	4%
Republic of Korea	430,792	4%
Global Fund	409,242	3%
Germany	347,030	3%
France	315,954	3%
Sweden	258,229	2%
Other IGOs and NGOs	1,877,461	15%
Other Bilateral	659,378	5%
<b>Total</b>	<b>12,267,874</b>	<b>100%</b>

**Source:** CDC (2018), *Development Cooperation and Partnerships Report*

The largest ODA partners, such as Japan, World Bank, European countries, and the United States, frequently funded grant projects in Cambodia, as they are regarded as traditional donors. Regarding to development projects

by sectors, most of donors are injecting their assistances to social sector, followed by infrastructure sector and economic sector. Since 2007, social sector received large amount of fund for its development projects in average USD 400 million every year, great of amount of total allocation to health and education. Similarly, infrastructure sector was supported with approximate amount of funding in average USD 300 million, mostly contributing to transportation and energy sector. Economic sector seemed to have least important, comparing to the previous two sectors, with financial support accounting for over USD 200 million for the last decade.

**Table 4:** The share of ODA disbursement by sectors (2007-2016) in Million USD

Sector	2007-2016	
	Share of Disbursement	cumulative
Transportation	2,418,495	19.7%
Health	1,846,368	15.1%
Education	1,345,009	11.0%
Agriculture	1,309,443	10.7%
Governance & Administration	1,060,163	8.6%
Community and Social Welfare	827,087	6.7%
Rural Development	710,740	5.8%
Energy, Power & Electricity	552,739	4.5%
HIV/AIDS	439,327	3.6%
Water and Sanitation	372,704	3.0%
Banking and Business Services	280,664	2.3%
Other 11 sectors	1,105,127	9.0%
<b>Total</b>	<b>12,267,868</b>	<b>100.0%</b>

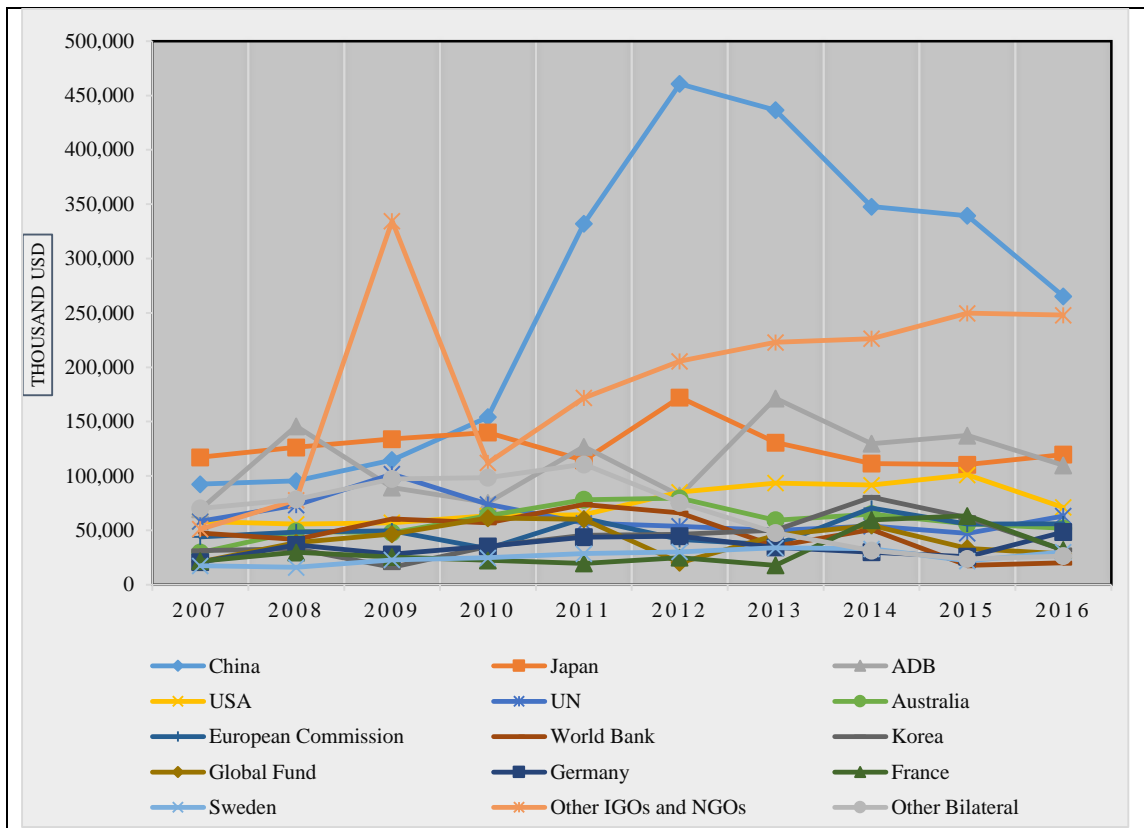
**Source:** CDC (2018), *Development Cooperation and Partnerships Report*

CDC has provided a comprehensive information on ODA disbursement by sector in the last ten years. Data in **Table 4** illustrates the proportion of ODA to various sectors from 2007 to 2016. The total amount of ODA in this ten-year period was USD 12.2 billion in which transportation sector consumed nearly 20 percent in aggregate level. It is true to say infrastructure development in Cambodia is on top priority as its demand for enabling logistic facilitation and the growth of transportation. The major supporters in developing physical infrastructure, for instance roads, railways, and ports, are largely from China, Japan, and ADB. On the other hand, the expenditure of social sectors, mainly health and education, is significantly huge which accounted for USD 3.2 billion equivalent to 26 percent of aggregate amount of ODA from 2007 to 2016.

Agricultural production has lifted 4 million people out of poverty—poverty reduction rate declined from 53 percent in 2004 to 18 percent in 2012 (Eliste & Zorya, 2015). The use of ODA to support agriculture seems comparable to the other top prioritized sectors. The ratio of disbursement to agriculture sector, as shown in **Table 4**, is 10.7 percent or USD 1.3 billion. More importantly, supporting sectors, such as rural development, energy, and water and sanitation, have been playing a critical role to agriculture development.

The trend of bilateral cooperation with China seems to have increased over times since 2007. China still have the biggest role in ODA provision as shown in **Figure 4** revealing that the disbursement in 2007 was close to USD 100 million and it increased to the peak in 2012 with the disbursement approximately USD 460 million. The second largest bilateral ODA provider is followed by Japan. The trend of Japanese support seems to be stable in average USD 127 million per year in the last decade (2007-2016). The volume of support from each European country is less than USD 100 million per year. And the tendency of European funding will remain stable in the coming years.

**Figure 4: The Trends of Donor's Disbursement (2007-2016)**



**Source:** CDC, *Development Cooperation and Partnerships Report 2018*

Besides bilateral donors, the role of non-governmental organizations (NGOs) has been on stage with the development of Cambodia since right after the civil war ended and peace building process in the early 1990s. The latest number of NGOs operating in Cambodia in 2016 is 460 institutions, according to CDC's report (DCPR 2016). NGOs' own fund increased from USD 51 million in 2007 to USD 237 million in 2016.

There are three major bilateral donors and one multilateral donor who play important role infrastructure development. East Asian countries, China, Japan and Korea, seem to have big interest in developing infrastructure sector in Cambodia. The combination of these three countries accounted for over 20 percent of aggregate amount of 2013-2016. **Table 5** also draws a significant

contribution from two multilateral institutions, GAVI and Global Fund, to promote quality of health system in Cambodia—with disbursement USD 136 million. Global Fund has been playing a key to end the epidemics of AIDS, tuberculosis (TB), and Malaria. Global Fund helped Cambodia to be one of the few countries in the world that met the Millennium Development Goal target for HIV/AIDS, TB, and Malaria (The Global Fund, 2017). In education sector, Japan and ADB provided financial support approximately USD 120 million aiming to increase better quality of basic education, elevating education attainment, and equitable access to girls, indigenous people, and the poor.

**Table 5: ODA disbursement by Donors and Sectors (2013-2016) in Million USD**

<b>Major Donor</b>	<b>Health</b>	<b>Edu.</b>	<b>Agri</b>	<b>Trade</b>	<b>CC &amp; Envir</b>	<b>Ener &amp; electri</b>	<b>Trans.</b>	<b>Other sectors</b>
China	482	8,009	296,646	268	436	114,451	613,229	96,608
Japan	45,470	52,757	72,267	7,593	5,041	151,451	229,231	138,715
ADB	8,919	65,635	90,579	1,000	8,286	23,841	178,332	171,190
USA	69,565	18,903	24,537	2,774	42,199	-	541	142,693
Korea	45,289	25,320	4,984	-	-	-	79,896	60,644
UN	43,898	35,454	52,854	2,368	14,910	588	-	62,850
Australia	39,443	25,939	35,771	-	90	2,993	15,224	60,694
EC	2,091	46,623	20,182	8,048	7,079	8,494	-	70,201
Global Fund	90,724	-	-	-	-	-	-	70,841
France	7,632	8,921	35,594	-	1,649	-	-	98,470
WB	11,626	50,309	4,315	-	565	-	11,484	45,464
GAVI	45,318	-	-	-	-	-	-	505
Other bilat.	109,676	85,968	50,436	2,041	32,363	17,639	10,505	298,810
<b>Total</b>	<b>520,133</b>	<b>423,838</b>	<b>688,165</b>	<b>24,092</b>	<b>112,618</b>	<b>319,457</b>	<b>1,138,442</b>	<b>1,317,685</b>

**Source:** The data is compiled from CDC reports, in Development Cooperation and Partnerships Report (2016 and 2018)

## 3.4 Structural Conditions

Whitfield and Fraser (2009) define Structural Conditions into three conditions, political conditions, economic conditions, and institutional conditions. They emphasize the important of Structural Conditions as negotiating capitals for both donor and recipient countries. This section will highlight (i) political conditions in two perspectives: Cambodian political structure and NGOs representation in the development of Cambodia; (ii) economic conditions in two perspectives: major economic sectors and debt sustainability in Cambodia; and (iii) institutional conditions in the perspective of public financial management.

### Cambodian Political Conditions

#### Political Structure

Cambodia has a particular tragic history of conflicts and a neo-patrimonial system, leading to distortions in bureaucratic accountability, selectivity in law enforcement and a high prevalence of poor service delivery (Greenhill, Prizzon, & Rogerson, 2013). Democratic political system was restored after the first election held by the United Nations in 1993. In the framework of constitutional monarchy, Prime Minister is the head of government who responsible for the performance of executive branch and a Monarch is the head of state. Cambodia has an elected parliamentary government elected by citizen every five year. Political power in Cambodia has been dominated by Cambodian People's Party (CPP) since the second general election in 1998. The party is belong to Prime Minister Hun Sen who is the leader of the party with most seats in parliament. The supreme organ of state power is the National Assembly. The assembly has power to adopt or amend the constitution and laws and to monitor the implementation carried out by executive branch. In general, the government is carried out by a parliamentary



system and three branches of government: executive branch, legislative, and judicial.

In executive branch, prime minister is the head taking responsibility of day-to-day socio economic affairs and security of the nation. The national assembly recommends a candidate for prime minister based political party power and vote on the candidate. The selected candidate is officially appointed by the monarch. Prime minister, once in office, has power to appoint a council of ministers, who are the head of the various ministries and government agencies and must accomplish the tasks assigned by the prime minister. After the general election in 2013, the fifth-mandate government had 26 ministries and an office of the council of ministers<sup>6</sup> (Agence Kampuchea Presse, 2013). In addition to the inherent powers of the government provided for in the constitution, a number of government agencies established under sub-decree level are performing as operational arm of the government, for instance Council for the Development of Cambodia, Anti-Corruption Unit, the National Petroleum Authority of Cambodia, Electricity Authority of Cambodia, just

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<sup>6</sup> A list of ministries was approved at the plenary session of the fifth legislature of the national assembly on September 24, 2013. They are Ministry of Interior, Ministry of National Defense, Ministry of Foreign Affairs and International Cooperation, Ministry of Economy and Finance, Ministry of Agriculture, Forestry and Fisheries, Ministry of Rural Development, Ministry of Commerce, Ministry of Industry, Mines and Energy, Ministry of Planning, Ministry of Education, Youth and Sports, Ministry of Social Affairs, Veterans and Youth Rehabilitation, Ministry of Land Management, Urban Planning and Construction, Ministry of Environment, Ministry of Water Resources and Meteorology, Ministry of Information, Ministry of Justice, Ministry of National Assembly–Senate Relations and Inspection, Ministry of Posts and Telecommunications, Ministry of Health, Ministry of Public Works and Transport, Ministry of Culture and Fine Arts, Ministry of Tourism, Ministry of Cults and Religions, Ministry of Women Affairs, and Ministry of Labor and Vocational Training, Ministry of Public Functions. The information is available on <http://akp.gov.kh/archives/36620> , accessed date September 13, 2018.

namely a few.

Legislative branch has two bodies: the National Assembly and Senate. Currently, there are 123 members in the National Assembly with five-year term (Parliamentary Institute of Cambodia, 2017). The members of the National Assembly are responsible for debating, approving, and passing laws proposed by the executive branch or by MPs. On the other hand, the senate has currently 61 members, of which two members appointed by the King, two members elected by the National Assembly and the rest elected by commune councilors and members of the National Assembly (Parliamentary Institute of Cambodia, 2017). The role of the Senate is to examine and to advise proposed laws that have been adopted in the national assembly. The Senate can give recommendations back to the National Assembly for consideration but the National Assembly can either reject or accept those. The Senate coordinates the work between the government and the National Assembly. The Speaker of the Senate is the first prime dignitary who is granted with the role as the acting Head of State (acting as Regent) when the King is not present. He is also a member of the crown council. The King needs his agreement to declare the state of emergency when the nation faces danger. The speaker of the Senate is also the chairman of the congress of the Parliament.

Judiciary branch consists of the supreme court, the appeals court, the municipal provincial court, the military court, the extraordinary chambers in the courts of Cambodia and the supreme council of magistracy. The primary responsibility of this branch is to ensure the law is enforced by punishing criminals, negotiating disputes and lawsuits, and upholding the rights of the citizens of Cambodia.

Western donors regularly linked development aid to governance reforms and democratic processes since the early 1990s. Cambodia's politics has always surrounded by criticism on corruption, political oppression on

opposition parties, and freedom of civil society's activities. Corruption has been an intractable problem in development of Cambodia. Corruption slows economic development, undermines democratic institutions, threatens social and political stability, and is a central cause of poverty. Cambodia has been perceived by its own citizen as highly corrupt, and by international measures as one of the most corrupt countries in both region and the world. Over the past decade, Cambodia has hovered around a corruption rating of 2.0 (0 indicates highly corrupt and 10 indicates very clean from corruption).

Drawing on the most recent corruption index by Transparency International<sup>7</sup> in 2017, Cambodia's corruption ranked in 161th out of 180 countries, with total score 21/100. Anti-corruption law was introduced in 2010 after over 15 years in development and it has been a priority urged by international donor community. Anti-Corruption Unit (ACU) was established right after the law passed. A couple years before Anti-Corruption law got enforced, Cambodia ratified the United Nations Convention Against Corruption (UNCAC) in 2007. The fight against corruption has been further prioritized in Rectangular Strategy for Growth. However, the implementation of anti-corruption law is still questionable due to the fact that impunity from corruption case is still in place, whistle blower protection is not assured by law, and the transparency of implementation of anti-corruption unit. Many in ruling elites abuse their powers and positions for private benefits. Increased investment in mining, forestry, agriculture, textile manufacturing, tourism, hydropower, and real estate has brought notable economic growth in recent years, but these enterprises frequently involve land grabs by powerful politicians, bureaucrats, and military officers (Freedom House, 2016).

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<sup>7</sup> Corruption Perception Index 2017, Transparency International, data available on [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017), retrieved date 15 September, 2018

In the last 20 years, the ruling party, Cambodian People's Party (CPP), has become overwhelmingly the dominant party in Cambodian politics. The CPP has steadily consolidated its position through creating a political-economic ruling elites enjoying monopoly control over both political power and economic power. According to Freedom House's report on Freedom in the World in 2016, Cambodia's political rights and civil liberties are not free (scored 6 and 5 respectively)<sup>8</sup>. The constitution outlines the right of Cambodians to participate in multiparty democracy, but in practice, political opposition is restricted. Harassment or threats against opposition supporters are not uncommon, and opposition leaders have faced legal suits for criticizing the ruling party (Freedom House, 2016). Western donors routinely criticized government's act of oppression on political freedom, yet subsequent adherence to compliance standards and donor responses have little or no serious consequences on the performance of the ruling party (CPP) in political activities. In fact, China has become the largest donor to Cambodia in both development aid and investment, shunning Western development aid and the expectations of the international community in relation to democratic development, governance, and human rights protection (Mckinley & Noble, 2012).

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<sup>8</sup> Freedom in the World 2016 by Freedom House, data available on <https://freedomhouse.org/report/freedom-world/2016/cambodia>, retrieved date 15 September, 2018

## NGOs Contribution

Alongside with democratic and socio-economic development in Cambodia, the role of civil society and Non-governmental organizations have been contributing massive amount of resources and effort to the development of Cambodia since the beginning of peace building process in the early 1990s. CDC (2018) reported that the latest number of NGOs presenting in Cambodia is 460 NGOs of which the 25 largest NGOs represent 60 percent of total NGO operational fund. Their activities largely centered in Health, Education, Community Welfare, and Rural Development sector, accounting for approximately 80 percent of total NGOs fund between 2014-2017. Government Donors and International Organizations are the major source of funding to NGOs in Cambodia.

According to Asian Development Bank (2011), both local and international Non-governmental Organization activities in Cambodia can be broadly classified into five main groups:

- (i) Democracy and human rights organizations
- (ii) Development organizations involved in education, health, credit, income-generating, and other activities
- (iii) Support organizations focusing on human resource and organizational development training activities
- (iv) Community Based Organizations and
- (v) Research and other analytical work and advocacy activities covering various development issues.

It is importantly to note, NGOs in Cambodia has been generally driven by international donors. Pointing out the finding from World Bank's assessment of civil society in Cambodia (2009), most professional NGOs in Cambodia owe their existence more to influence and financial support of international donors. Most of NGOs lack grassroots links and social

embeddedness because they have been externally created rather than internally created (Malena & Chhim, 2009).

**Table 6:** NGOs' Own Fund and NGOs' Fund from Donors (2013-2017) in Million USD

Sector	(2013-2015)			2016			2017		
	NGO Fund	DP Fund	Total	NGO Fund	DP Fund	Total	NGO Fund	DP Fund	Total
Health	229.2	88.1	<b>317.5</b>	73.6	38.4	<b>112</b>	75.4	35.8	<b>111.1</b>
Education	155.1	27.6	<b>182.7</b>	59.6	8.8	<b>68.4</b>	52.1	7.8	<b>60</b>
Community Welfare	167.4	20.1	<b>187.6</b>	60.5	8.6	<b>69.1</b>	42.3	4.4	<b>46.7</b>
Rural Dev't	60.1	36	<b>96.1</b>	25.6	13.4	<b>39</b>	21.5	10.4	<b>32</b>
HIV/AIDS	23.4	26	<b>49.3</b>	5.5	9.9	<b>15.4</b>	6.1	13.8	<b>19.9</b>
Governance	8	31.1	<b>39.2</b>	3.3	9.1	<b>12.4</b>	1.7	11.2	<b>12.9</b>
Agricul.	21.2	24.4	<b>45.6</b>	12.6	6.8	<b>19.5</b>	8.9	3.5	<b>12.4</b>
Environ.	16.3	29.4	<b>45.8</b>	6.4	9.2	<b>15.5</b>	1.5	2.9	<b>4.4</b>
Others	13.4	17.2	<b>30.7</b>	3.3	4.5	<b>7.8</b>	1.7	4.9	<b>6.6</b>
<b>Total</b>	<b>694.1</b>	<b>300.1</b>	<b>994.4</b>	<b>250.3</b>	<b>108.7</b>	<b>359</b>	<b>211.3</b>	<b>94.6</b>	<b>305.9</b>

**Source:** Data compiled from CDC reports, in DCPR (May, 2016) and DCPR (January, 2018)

Highlighting on finding in a research “Political Economy Analysis of Civic Space in Cambodia” By Mahon and Kem Ley (2014), of around 3,000 registered NGOs in Cambodia only 1,320 are active, of which 40 NGOs are considered strong. What is more, there is no strong coordination and cooperation among NGOs and there is a need for a more unified and coordinated approach to broaden social transformation (McMahon & Ley, 2014).

Due to their high dependence of donor funding, NGOs have strong incentive to follow donors' programmatic priorities and political agendas which undermine NGOs' credibility and has caused government to question their legitimacy and representativity in Cambodia. The NGO advocacy sector has generally suffered from a perception of being overly critical of government, particularly in the area of human rights. Drawing on the work of Anne van de Sande's thesis on "Challenges to the effective operation of local NGOs in Cambodia", NGOs do not have full ownership over their programmes and projects as they first sort out on which projects money is available, then check whether these topics and projects fit their organisations' mission and vision, after which they apply for donor money. The Author concluded that donors have a significant influence on the programme issues, geographical area and format of the programmes and projects of local NGOs in Cambodia (Sande, 2010).

More importantly, there is competition between government ministries and NGOs who work on the fields of the ministries. Cambodian ministries are often incompetent and lack of financial resource to perform the job properly. Many cases, donors' money and capacity development programmes goes directly to NGOs rather than to the ministries (Sande, 2010). NGOs, however, have to seek collaboration and work with government ministries to implement their programmes and projects based on development cooperation principles.

***Finding 1: Cambodia has maintained its political stability over the last decade. This may because the durable and integrated political power of CPP who dominated Cambodia's politics arena since 1993. Furthermore, the contribution of NGOs to socio-economic development showed significant progress, despite the fact that there is limitation of mutual understanding and cooperation between government counterpart and NGOs community.***

## Economic Conditions

Cambodia's economy is an open market system economy and has a rapid economic growth. Geographically, Cambodia is strategically located in the heart of Southeast Asia, sharing borders with Laos, Thailand, and Vietnam. It is also in the center of the east-west corridor of the Greater Mekong Sub-region (GMS), providing access to key world markets. This helps businesses take advantage of low-cost manufacturing in Cambodia as well as huge demand for its products in Asia. Over the past 10 years, Cambodia has achieved remarkable economic development, enjoying an average annual growth rate of over 7 percent. This sustained economic progress helped the country attain Lower-Middle-Income status in July 2016 (World Bank, 2018). Cambodia's poverty rate<sup>9</sup> dropped triple from 47.8% in 2007 to 13.5% in 2014.

Political stability and predictability, continuous institutional reforms, the inflow of foreign direct investment, trade liberalisation and facilitation, and regional integration have been the driving forces of Cambodia's growth (Vannarith, Cambodia's economic outlook, 2018). According to ADB (2017), Cambodia's growth rate is estimated to be at 7 per cent for 2018 and 2019 while Inflation rates will be kept at 3.2 per cent in 2018 and 3.5 per cent in 2019. Per capita GDP growth rate is forecasted at 6.6 per cent in 2018 but slightly down to 2.6 per cent in 2019 (ADB, 2017).

With the robust growth rate around 7 percent annually and robust reforms, Cambodia has set an ambition to become an upper-middle income economy by 2030 and expected to turn into a developed country by 2050 (Vannarith, 2018; Xinhua, 2018). To achieve the vision, Cambodia has continued focusing on human resources development, institutional capacity building, modernization of technical equipment and materials, and Information

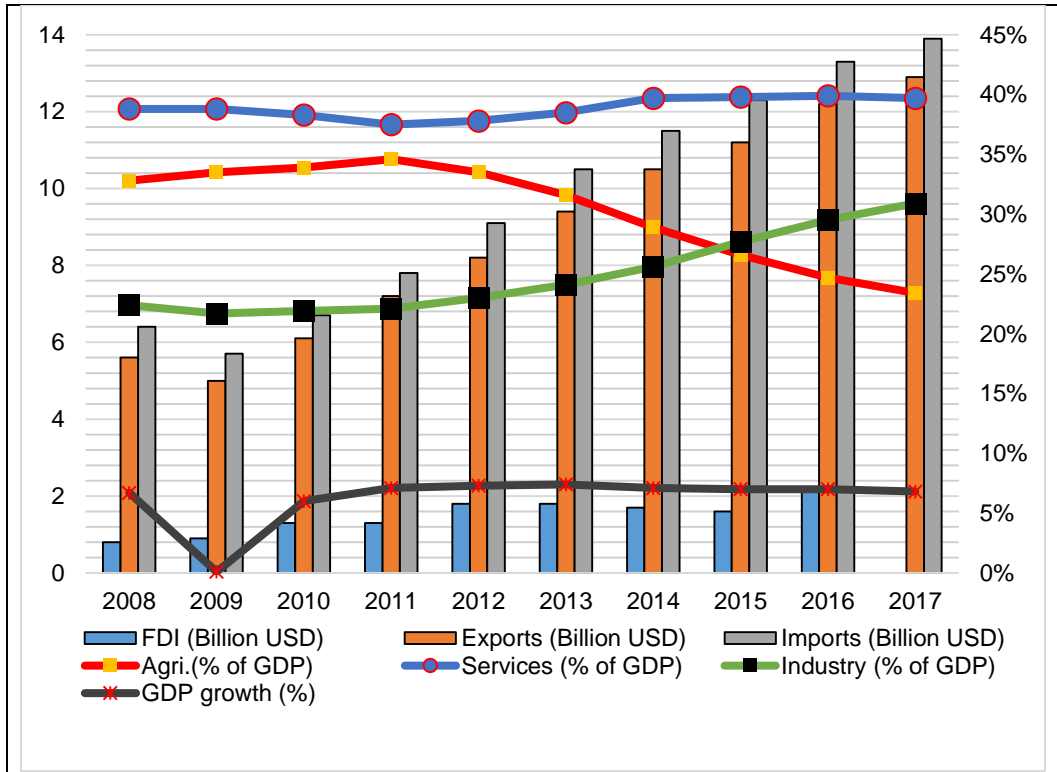
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<sup>9</sup> Asian Development Bank Member Fact Sheet: Cambodia (April, 2018), access date September 7<sup>th</sup>, 2018, retrieved from <https://www.adb.org/sites/default/files/publication/27757/cam-2017.pdf>



and Communication Technology (ICT) infrastructure development and expansion (Waseda University , 2018; Xinhua, 2018).

**Figure 5:** Cambodia's Economic Outlook, 2008-2017



**Source:** World Development Indicators, in World Bank Database, Retrieved on 15/09/2018

According to **Figure 5**, it illustrates the growth of export over the last ten years that the total volume of export increase from one digit, over USD 5 billion, in 2008 to double digits, almost 13 billion USD, in 2017. However, there is still deficit in trade activity as shown in the figure below. The average volume of import is USD 9.7 billion per year which is higher than the average volume of export, USD 8.8 billion per year in 2008-2017.

In Cambodian context, the drivers of economic growth are generally

driven by three major sectors: Industry, Services, and Agriculture. In the last decade, Service sector contributed the largest income to national economy. The share of Service sector to GDP was averagely 39 per year while the average share from Agriculture and Industry to GDP was 30 percent and 25 percent respectively.

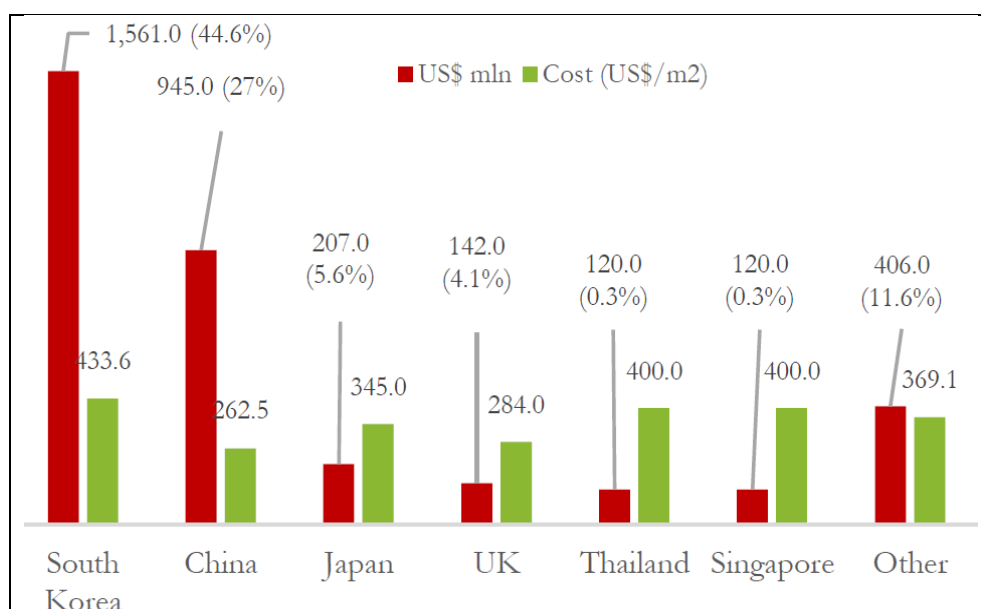
## Major Economic Sectors

Two largest industrial sectors contributing to national economy are garment and footwear production and construction industry. Garment and footwear products earned USD 6.8 billion in 2015 (ILO, 2016). The sector accounts for about 12 percent of the country's gross domestic product (GDP) and generates 76 percent of total exports in 2015, representing the largest share of Cambodia's foreign currency earnings. Garment industry in Cambodia is essentially low-skilled and labor-intensive based sector with low price of labour. Besides its huge contribution to Cambodia's export, it also provide 630,000 jobs for Cambodian workers in 2016, according to International Labour Organization (2016). Investment in the garment and footwear sector is driven by investors from China (37 percent), Taiwan (12 percent), Hong Kong, (6 percent) and the UK (6 percent)—whereas the largest consumers are in European Union, United States, Canada, and Japan (ILO, 2016).

Construction industry accounted for almost 30 percent of real growth in 2015 and has been projected to remain the second most dynamic driver of growth after garment and footwear industry (World Bank, 2016). Based on a World Bank's Cambodia Economic Update (2016) as shown in **Figure 6**, during the period 2000-2015 foreign investment in construction sector alone was USD 3.5 billion, equivalent to 27.3 percent of the total investment value in construction sector. South Korea's investment appeared on the top largest foreign investor in construction activities, accounting for USD 1.6 billion in the same period (2000-2015). South Korea's investment also appears to have

highest investment in high-end construction project, having the highest cost per square meter averaging USD 433.6/m<sup>2</sup>. The second largest foreign investment is followed by Chinese investors who shared about 27 percent of total investment, equivalent to almost USD 1 billion. China's investment seems to appear low-end construction project, averaging USD 262.5/m<sup>2</sup>, having lowest cost per square meter comparing to the other largest investors.

**Figure 6:** Top Largest Foreign Investors in the Construction Sector (2000-2015)



**Source:** World Bank, Cambodia Economic Update (October 2016)

Services sector is the biggest contributor to GDP, accounting for 41% of total GDP in 2012 (OECD, 2013). Tourism is the main source of income in services sector. It has made a growing contribution to Cambodia's GDP growth. Tourism sector has expanded considerably over the years, with the number of foreign arrivals climbing from 2.1 million in 2008 to 3.6 million in 2012 and generating total revenues approximately USD 2.2 billion (OECD, 2013). Last year, underpinned largely by arrivals from China, the total growth of tourist arrivals for 2017 reached 5.6 million, of which Chinese tourist arrivals

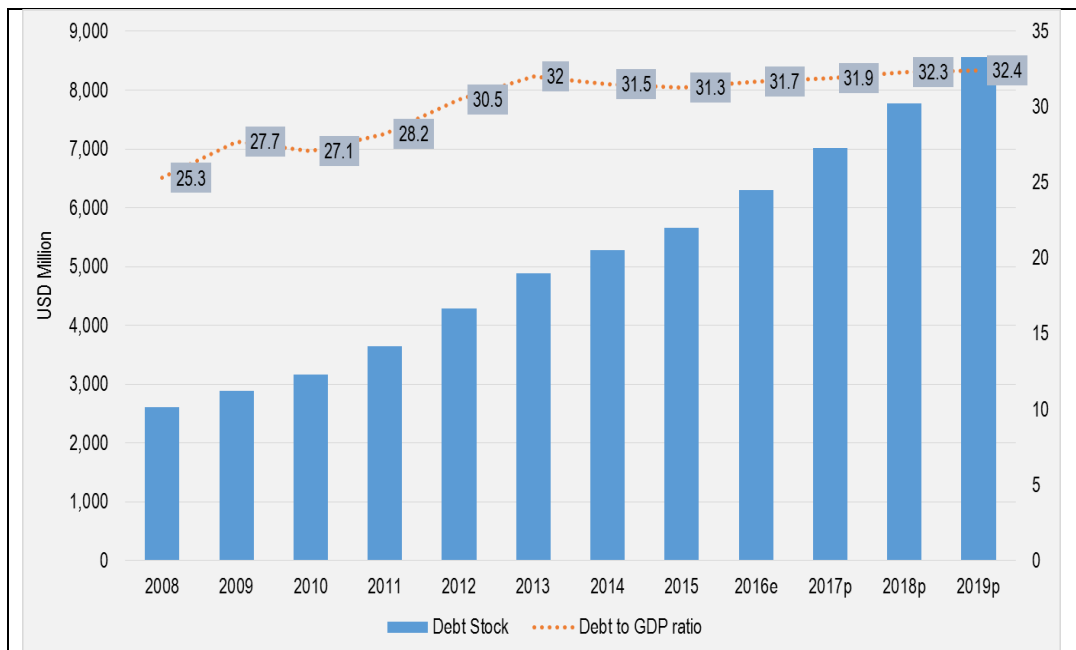
accounted for over 1.2 million. Tourist arrivals by air was 22.5 percent, the highest in a decade (World Bank, 2018). Despite Chinese tourists, Vietnam, Lao PDR, Thailand and the Republic of Korea continued to be the main countries of origin for international tourists, accounting for 14.9 percent, 9.0 percent, 7.0 percent and 6.2 percent of total arrivals, respectively. However, tourism potential remains untapped. The figure of tourist arrivals in Cambodia is quite small comparing to neighboring countries such Thailand and Vietnam. The two countries combined attracted almost 50 million tourists in 2017 while Cambodia's total international tourists were only 5.6 million people. Diversifying tourist destinations must take a serious effort. Given Cambodia's relatively large share of the land area which is covered by national parks and reserves with high biodiversity, Cambodia could develop a strategy to make potential tourism market including eco-tourism, in particular, wildlife adventure parks and trekking (World Bank, 2018).

Agricultural production continued to remain a vital source of growth and jobs for the nation. According to OECD (2013), the share of agriculture sector to total GDP in 2012 was 27% and created 4.75 million jobs for Cambodian out of total labor force 8 million. One of the main agricultural products is rice, which accounted for 60 percent of total agricultural production (World Bank, 2016). Despite rice production, rubber and cassava combined are the second largest commodity in the sector. Rubber production was 126,800 metric tons while cassava production was 12.5 million metric tons in 2015. Its production is expected to reach 300,000 tonnes by 2020 (OECD, 2013).

## Debt Sustainability

According to IMF's debt sustainability analysis (2017), it shows that Cambodia remains at low risk of external debt distress, thanks to the robust growth of economy over 7 percent in last decade as shown in **Figure 7**. However, the trend of external debt like keeps increasing in next couple years which indicates debt sustainability is becoming increasingly vulnerable to adverse macro-economic shocks, including a fall in exports and a disorderly adjustment in the exchange rate, fiscal revenue shocks, and the materialization of contingent liabilities (International Monetary Fund, 2017). Cambodia's debt significantly increased from USD 2.6 billion in 2008 to USD 6.2 billion in 2016. It is expected to reach USD 8.5 billion in 2019, equivalent to 32.4 percent of total GDP.

**Figure 7:** Cambodia's External Debt 2008-2019



**Source:** Ministry of Economy and Finance (2016) in Cambodia's Macroeconomic Progress: A Journey of 25 Years

Recently, the government has planned to reduce its foreign debt and raise capital through the issuance of bonds in the aims of improving the country's trade balance and current account. Public expenditure in 2018 is estimated to reach USD 6.4 billion, 18.75 percent of GDP while government income is projected to reach USD 4.6 billion (Vannak, 2018). The robust growth of national economy may help Cambodia being less dependent on other countries in terms of raising capital. Yet, Cambodia will likely to continue borrowing large amount of money from foreign countries and other financial institution to balance the deficit of national income and public expenditure.

***Finding 2: The level of growth of Cambodia's economy and the level of debt sustainability secure Cambodia's position to continue its economic development and its economic may maintain high level of economic independency and its survival.***

## Reliability of Public Financial Management

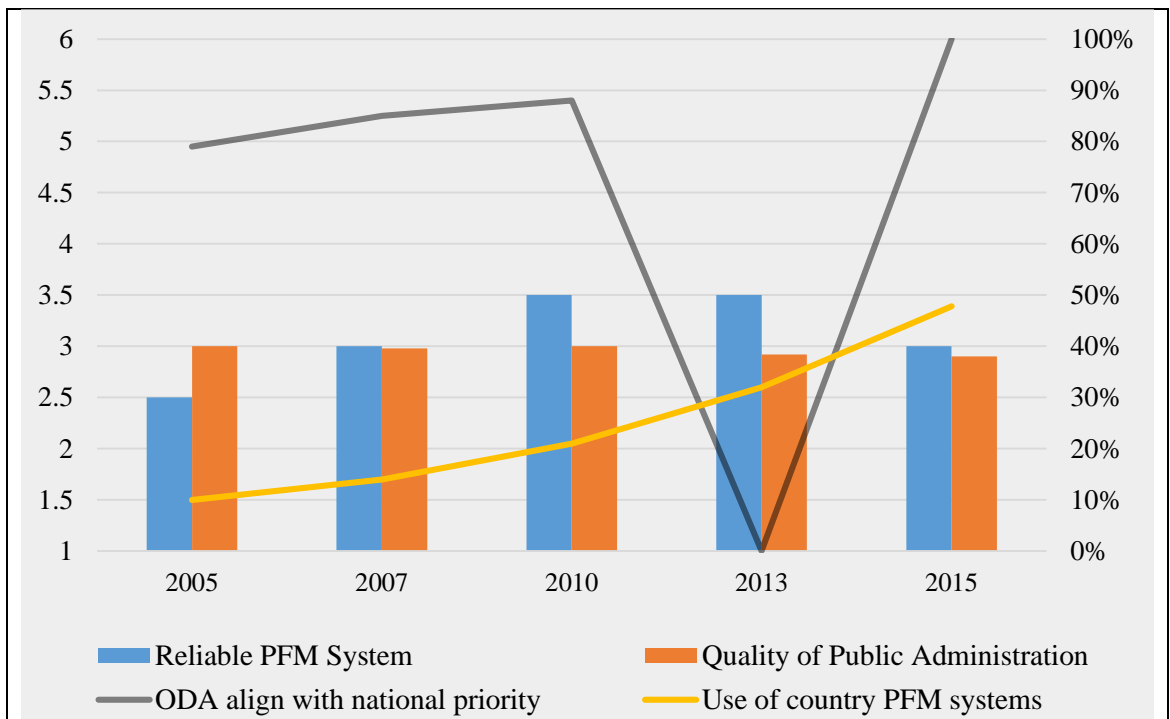
One of the Paris Declaration indicators looks at the quality of recipient country's PFM system. Country for Policy and Institutional Analysis (CPIA) is carried out by the World Bank assessing the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong). The World Bank assesses recipient's CPIA based on the three of the following criteria:

- (i) a comprehensive and credible budget linked to policy priorities
- (ii) effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way and,
- (iii) timely and accurate accounting and fiscal reporting, including timely and audited public accounts.

In the first round of the monitoring survey in 2005, Cambodia received a rating of 2.5 for its PFM system (as shown in **Figure 8**). This is marginally

below the average score of 3.2 for all International Development Association (IDA) countries. Cambodia obtained a score of 3.0 for the 2007 rating, which is a 0.5 improvement in scale on 2005 on their quality of PFM systems. With continued good progress, Cambodia's CPIA has remained a stable score of 3.5 in 2010 and 3.4 in 2016 rating, considered as a Moderate level (OECD, 2008; OECD/UNDP, 2016). Yet, PFM systems might require further efforts as Cambodia moves into a lower middle-income status, with a CPIA that has remained stable in a Moderate level over the past years, which is lower than Vietnam, with 4.0 rating in 2016 (OECD/UNDP, 2016).

**Figure 8:** Reliability of Public Financial Management and Quality of Public Administration, CPIA (2005-2015)



**Source:** The data is compiled from OECD (2011), in *Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration on Aid Effectiveness*, and OECD/UNDP (2014 and 2016), in *Making Development Co-operation More Effective: 2014 and 2016 Progress Report*

The RGC sees the Public Financial Management Reform Programme as a central pillar underlying the general administrative reform and promises only incremental change over a relatively long timeframe. In December 2004, the government launched 10-year Public Financial Management Reform Programme (PFMRP) that focused at internal functions of the Ministry of Economy and Finance to promote the objective of improved financial accountability both in terms of collecting revenue from all sources and managing expenditures (FM Solutions, 2008).

The programme has four platforms:

- (i) Improving budget credibility
- (ii) Improving financial accountability
- (iii) Improving policy-based budgeting, and
- (iv) Improving performance accountability.

Good progress has been made on enhancing budget credibility and work has now begun in earnest on financial accountability (FM Solutions, 2008). Second stage of PRMRP began in 2008 with the key objective to strengthen the financial accountability of line Ministries at the sector level. More importantly, this second Stage also has the objective to establish an Integrated Financial Management Information System (IFMIS) which will cover all transactions and connect all line Ministries and donors into one expenditure management system. This system is currently being developed so it is not possible to comment on its effectiveness as yet.

The Ministry of Economy and Finance is also strengthening public financial management between the central and sector levels. For instance, the Budget Strategy Plan (BSP) was introduced in 2007 and aims at improving budget integration and comprehensiveness across government. It is a 3-year rolling budget which requires all line Ministries to present both recurrent and capital budgets including all external financing from donors. This plan is a key



approach to ensure the alignment of actual disbursement of donors' budget to the required budget of NSDP.

Another key insight of institution condition shall be examined is the quality of public administration. Enhancing the quality of public administration system is one of the most priorities in Cambodian government's public reform agendas. Cambodia's public administration reform has been in fifth phase of implementation since the first phase in 1993. The current phase of reform strategy has five years (2013-2018) and it is so called "the period of deepening reform" (RGC, 2015). However, it is still an ongoing issue as it is acknowledged that the quality of public administration reflects the ability of ministries/institutions to work effectively to address and solve issues and challenges. From 2005 to 2015, the performance of Cambodian public administration system seems to have no significance progress, just slightly right below the average score 3.0 of the total score 6.0 based on the data from the World Bank's CPIA. Perhaps, the figure seems to agree with a study by Mark Turner (2013) that he attempted to explain the slow progress of public administration reform in Cambodia. His findings revealed that the cluster of surrounding and interrelated factors of reform failure in Cambodia included weak accountability, hegemonic political regime, high and legitimate power distance, low wages for public servants, and bureaucratic dysfunctions (Turner, 2013).

***Finding 3: By seeing the low quality of public institution in finance and administrative sector, it may drives the reluctant and low trust of donors to use the Cambodia's national financial system for ODA-financed project/programme implementation; though, donors has highly committed to align their ODA objectives with national development objectives, almost 100 percent alignment as shown in OECD data.***

## Chapter 4: Analysis of Institutional Arrangement in Cambodia

A key factor for successful development aid coordination is the presence of sound and effective institutional arrangement. The political guidance on managing development assistance and strengthening partnerships with all donors is clearly set out in government strategies and regulations, for instance the Development Cooperation and Partnerships Strategy (DCPS 2014-2018). This strategy provided an important mandatory to CDC as the national body for aid coordination and development effectiveness focal point while MEF and MFAIC are supporting stakeholders. This section will determine the division of labor of these key institutions and their role in managing the flows of aid. What is more, this section will analyze all key strategies and frameworks formulated by Cambodian government. It will look through its development approaches, monitoring mechanisms, and institutional arrangements among key responsible institutions.

Another important insight for this chapter describes the characteristics of the selected donors who have critical role and contribution to the development cooperation realm in Cambodia. This analysis part will draw on the selected donors' diplomatic relations with Cambodian government and their key strategies that have been set out in the context of development assistance cooperation. In this study, six major donors are not selected by chance, but it is based on their long history of relationship with Cambodian government and their volume of ODA to Cambodia.

## 4.1 National Strategic Framework for ODA Management

Since the Paris Peace Accord in 1991, Cambodia has received financial and technical assistance for its post-conflict rehabilitation. This included Grant assistance and Loan funding from multilateral, bilateral donors, and NGOs community. There are a large number of donors and NGOs have been operating in Cambodia since the early 1990s. According to a 2008 report, Aid Effectiveness in Cambodia, there were at least 35 official donors and hundreds of NGOs provided aid to Cambodia after the first general election in 1993. With this large number of donors, Cambodia has to deal with a complex of flows of aid and working system.

In this regard, Cambodia has developed a number of strategies and frameworks to ensuring the effective use of ODA and effective working arrangement with both national and international stakeholders. Noting the obligations of both Government and donors to the 2005 Paris Declaration on Aid Effectiveness, CDC has developed its own ODA Database to record all development finance to Cambodia and to provide public access to information on aid provided to Cambodia (CDC, 2017). Perhaps, this is the only comprehensive online ODA database in Cambodia, which is undertaken by CDC.

This section will analyze all key strategies and frameworks formulated by Cambodian government. It will look through its development approaches, monitoring mechanisms, and institutional arrangements among key responsible institutions.

### The Harmonization, Alignment, and Result

## Action Plan (H-A-R)

In national context, Cambodia adopted many principles of the Paris Declaration on Aid Effectiveness. The Harmonization, Alignment, and Result (H-A-R) action plan is a five-year action plan (2006-2010) which consisted of a set of national indicators to ensure how the aid effectiveness agenda links to the achievement of development results. H-A-R action plan consists of five indicators, including Ownership, Alignment, Harmonization, Result-framework, and Mutual Accountability.

**Table 7:** The Five Indicators of H-A-R Action Plan

Indicator	Element
Ownership	- Implementation of national plans and frameworks
Alignment	- Quality of PFM systems
	- Aid reported on budget
	- Coordinated technical cooperation
	- Use of country PFM systems
	- Use of country procurement systems
	- Parallel PIUs
	- In-year predictability of aid flows
Harmonization	- Untied aid
	- Use of programme-based approaches
	- Number of delegated partnerships
	- Coordinated missions
Managing for Results	- Coordinated country analytical work
	- Sound performance assessment framework
Mutual Accountability	- Reviews of mutual accountability

**Source:** CDC, in *Cambodia Aid Effectiveness Report 2007*

Donor were encouraged to designed project/programme in respect to all 5 indicators in H-A-R action plan. These indicators were incorporated in

Cambodian ODA database for the purpose of serving national monitoring mechanisms and providing actual information for Paris Monitoring Survey in 2007 and 2010.

## Development Cooperation and Partnerships Strategy (DCPS 2014–2018)

DCPS is the successor of Strategic Framework for Development Cooperation Management (2006-2010). This revised Strategy identifies objectives, goals, principles and tools for managing development cooperation and partnerships as well as setting out approaches to implementation and monitoring of development cooperation activities for all donors. The nature of this strategy are in line with the aid effectiveness principles endorsed in the High-Level Forum in Paris (Paris Declaration 2005) and the commitment made in the High-Level Forum in Busan (Busan Partnership Agreement 2011).

More importantly, the strategy stated the important of using NSDP and other national strategies as guidance for resource allocation, programming, dialogue and monitoring arrangements for all development actors. The foundations of the strategy lies in five principles, such as nationally owned agenda, capacity development, alignment with NSDP and sector strategies, harmonization through dialogue mechanisms, and managing for results by using PFM system and JMIs (CDC, 2014).

DCPS is guided to be implemented at two principal levels: (i) centrally by CRDB/CDC, and (ii) by line ministries/agencies and sub-nation entities. To ensure the resources are used for maximum effectiveness in reaching Cambodia's development goals, the strategy outlines three key implementation approaches, namely programme-based approaches (PBAs), results-based approaches (RBAs), and Joint Monitoring Indicators (JMIs).

### Program based approaches (PBAs)

PBAs is one of the key indicators stated in Paris Declaration (2005). PBAs is defined as a way of engaging in development cooperation based on the principle of co-ordinated support for a nationally owned programme of development, such as a sector or thematic programme. Later on, this approach was drafted in 2010 aiming to promote policy and operational coherence in Cambodian context. The approaches have been applied to all programming practices employed by donors.

They are:

- (i) Leadership: government must take full ownership on setting out policies, identifying how to allocate the resources, defining implementation arrangements, and establishing monitoring mechanisms.
- (ii) Coordination: Its main focus lies in partnership including all stakeholders in a common effort to ensure resources are programmed in line with Royal Government budget and public financial management reforms.
- (iii) Results: all program and project levels must define a clear framework of expected output and outcome that are associated with policies and expenditures.
- (iv) Efficiency: all partners shall minimize administrative and financial cost of producing a defined output.
- (v) Sustainability: capacity development and national systems should be used in sector resources, while the integration of recurrent and capital expenditure frameworks ensuring public investment is effectively managed and maintained over the longer-term.

Yet, PBAs implementation in ODA-financed projects has never been above 50 percent of the total projects. Reflecting to the result of survey on monitoring aid effectiveness in Cambodia, the use of PBAs was only 24 percent in 2005, a little bit increased in 2007 with 28 percent, and the progress remained

slow in 2010 with 35 percent (the data is shown in Annex 1). Acknowledging the link between partnerships at the national and global levels, a greater effort needs to be made for both Cambodian government counterpart and donors to accomplish what have been agreed by both parties over the principles of aid effectiveness.

## Results–Based Approaches (RBAs)

To achieve high level of using ODA, the Royal Government introduced result frameworks to guarantee all development program and project are align with National Strategic Development Plan (NSDP) and sector policies. The main features of result frameworks are primarily developed and practiced by OECD countries. Later on, the features has been globally accepted in development cooperation context.



In Cambodian context, Cambodian Government encouraged all ministries and agencies in collaboration with donors to develop and use the frameworks and similar approach to better align with national results stated in NSDP. The collaboration in across sectors was also emphasized in the DCPS (2014-2018) as a basis for promoting cross-sectoral dialogue in order to maintain adequate resources, effective implementation and monitoring.

Practically, there has been little progress of using RBAs initiated by the government. According the result of survey on monitoring the Paris Declaration of aid effectiveness in Cambodia, the indicator of the use of RBAs has been scored “C” in all the three-phase survey as shown in Annex 1—first phase survey was in 2005, second phase 2007, and the third phase 2010. This indicator is indicated by scores range from A (high progress) to D (low progress). On the

one hand, it seems to reveal the commitment made by donors on the agreed initiatives on aid effectiveness at both national level and global level. On the other hand, it may reflect the capacity of government to compel donors to be more oblige with the agreed initiatives.

## Joint Monitoring Indicators (JMIs)

The JMIs are based on principles of mutual accountability for achieving development results. It aims to provide a framework for setting medium-term goals based on development outcomes that have been prioritized in Rectangular Strategy (Royal Government of Cambodia, 2014). Outputs with indicators are then agreed by the Technical Working Group (TWG), sectoral level, to guide activities. The JMIs must be aligned with priority areas of the Rectangular Strategy, therefore represent some of the highest priority work to be implemented by the Royal Government with the support of its donors; as such they are to be endorsed by the Cambodia Development Cooperation Forum (CDCF) and monitored at the Government-Donor Coordination Committee (GDCC). According to DCPS (2014-2018), there are specific actions need to be done in order to ensure the consistency between Rectangular Strategy, NSDP, and sector work. In this regard, ministries, agencies, and TWGs are requested to identify a five-year target, outcome, and indicator. Donors in a sector are required to review their own project results frameworks to ensure consistency with sector/TWG priorities and an adequate focus on capacity and systems strengthening. Thus, annual progress reviews are routine part of the TWG work programme.

## Technical Working Groups (TWGs)

TWGs mechanism was established in 2004 to serve as coordinating bodies and dialogue mechanisms. It is consisted of representatives from government, donors, and civil society to support the accomplishment national



development objectives and government reforms. According to JMIs (2014-2018) set out by the Royal Government of Cambodia, there are 19 TWGs are supporting government effort in development cooperation context.

They are:

- Legal and Judicial Reform
- Public Administration Reform
- Sub-National Democratic Development
- Public Financial Management
- Partnership and Harmonization
- Planning and Poverty Reduction
- Anti-Corruption
- Agriculture and Water
- Forestry
- Fisheries
- Land
- Mine Action
- Infrastructure and Regional Integration
- Private Sector Development
- Education
- Health
- Rural Water Supply, Sanitation, and Hygiene
- HIV/AIDS
- Social Protection, Food Security, and Nutrition
- Gender Equity

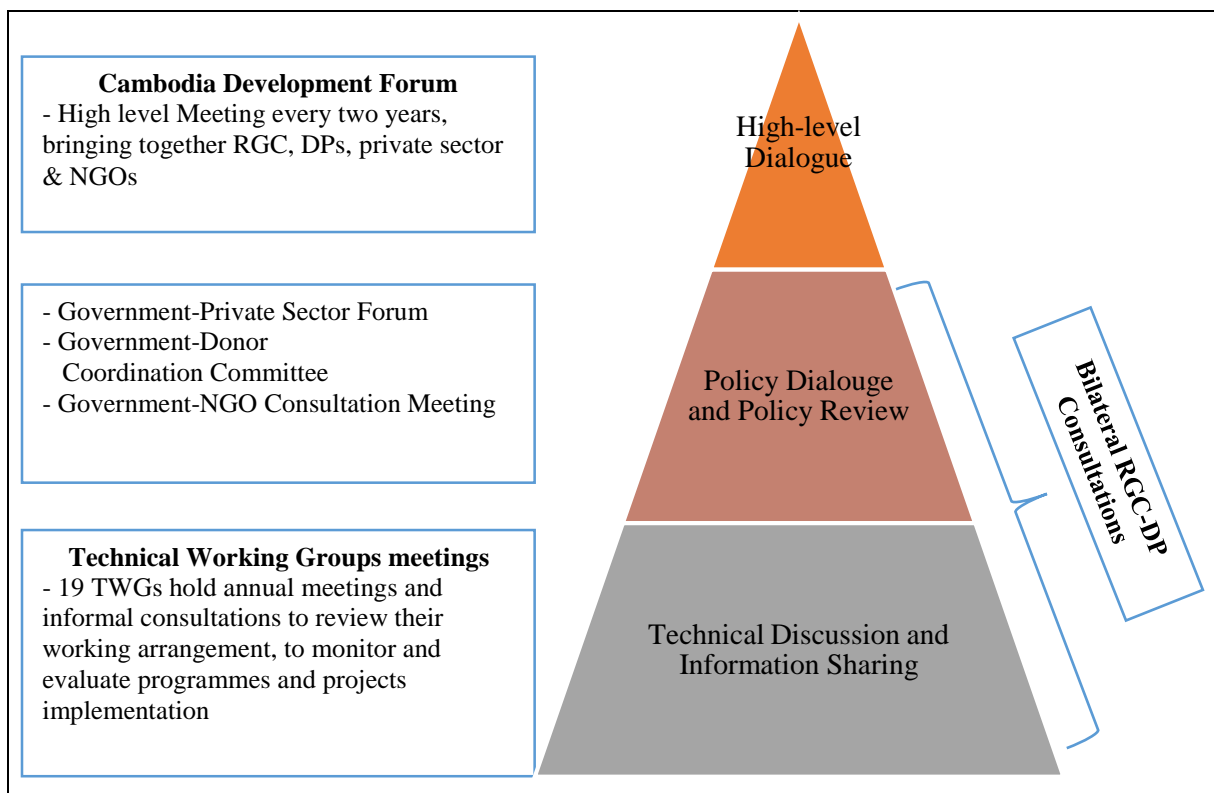
TWG are under the leadership of their host ministries and agencies as the government's lead representatives with ownership for final decision-making authority. Whilst, donor representatives work as counterpart, co-lead facilitator, to align their resources and direct their development efforts to meet the goals and results established in national and sectoral plans and strategies.

More importantly, TWGs have to report their progresses and challenges through JMIs mechanism that is led by CDC. The unresolved issues reported in JMIs report would be brought for discussion at GDCC.

## 4.2 National Dialogue Arrangements

Dialogue arrangements play a central role in managing the donorship and promoting its effectiveness in Cambodia. Regular reviews, including as part of formulating Development Cooperation and Partnerships Strategy (2014-2018), have been conducted to ensure that the mechanisms that have been put in place continue to be relevant and effective (CDC, 2014). Recognizing the importance of continuity and incremental strengthening, the three-tier model used to date is retained with some important modifications that are based on lesson learning and stakeholder consultation. As shown in **Figure 9**, they are: (i) High Level Dialogue, (ii) Policy Level Dialogue, and (iii) Bilateral Government-Donor Consultations. These multi-stakeholder arrangements serve as a venue for discussion on a wide range of issues in development cooperation realm.

**Figure 9:** Dialogue arrangement developed by Development Cooperation & Partnerships Strategy



**Source:** CDC (2014), in *Development Cooperation & Partnerships Strategy 2014 - 2018*

It is where all relevant stakeholders have equal chance to exchange their concerns and suggestions regarding to development strategies, programme/project implementation and monitoring issues, and other new initiatives on development effectiveness. As shown in Figure 8, representatives from public sector, donor community, private sector, and NGOs community are included in all levels of the dialogue, which is aligned with mutual accountability principle tracking the effectiveness of development aid.

## High level Dialogue

### Cambodia Development Forum

Cambodia Development Forum (CDF) is the proposed successor of Cambodia Development Cooperation Forum (CDCF). In 2007, Cambodia held the very first high-level dialogue, CDCF. This is a high-level dialogue chaired by the Cambodian Prime Minister and participated by representatives from government institutions, donors, private sector, and civil society, with the focus on assessing progress in implementing the National Strategic Development Plan. Actually, the CDCF is the successor of Consultative Group (CG) that was created and co-chaired by the World Bank in 1996. The first Five CG meetings were held in Tokyo and Paris and the last three CG meetings were in Phnom Penh. Its initial purpose was to complement the introduction of the NSDP, discussing on a wide range of development issues, growth, poverty reduction, and reform. This dialogue intended to characterize the shift toward complete government leadership and ownership on its own national development agenda (World Bank, 1997).

However, CDCF has never been hold again since its last meeting in 2010. The proposed CDF has also never happened. There has been no explanation why postponed this high-level dialogue.

## Policy Dialogue Level

### Government–Donor Coordination Committee

In end of 2004, GDCC was established to serve as the principal forum for stocktaking of progress and policy-level dialogue between RGC and donors. The Minister of Ministry of Economy and Finance chairs this policy dialogue level, along with the Lead Donor as Co-chair who is nominated by donor community. The creation of GDCC was in line with the utilization of Paris

Declaration on Aid Effectiveness, which demonstrated five principles such as Ownership, Alignment, Harmonization, Results, and Mutual Accountability. The GDCC meeting is conducted once annually as a half-day meeting that addresses JMI progress and national priority issues including the core public sector reforms and cross-sector issues. Moreover, the GDCC focuses on ODA related partnership issues and all matters concerning the relationship and working arrangements between the RGC and donors. This includes the establishment and review of the JMIs, monitoring of the NSDP, reviewing progress in the public sector reform agenda and presenting the Multi-Year Indicative Financing Framework (Council for the Development of Cambodia, 2004).

Not surprisingly, GDCC also postponed its meeting after its last meeting in 2012, just two years after the highest level meeting, CDCF, standoff.

## Government–Private Sector Forum

Cambodia's Government-Private Sector Forum (G-PSF), established at the initiative of the Royal Government of Cambodia in 1999, is a mechanism for public-private sector consultation on investment climate issues ranging from long range policy to day-to-day operations. The G-PSF also gives Government a channel for getting private sector feedback on draft policies, laws and regulations. The Prime Minister chairs the G-PSF. It has two plenary meetings a year, which have the status of cabinet meetings, and decisions made by the Prime Minister are binding.

The Council of Development of Cambodia acts as the secretariat of the G-PSF. Its role is to facilitate dialogue within and among the Joint Government-Private Sector Working Group (PSD-TWG) and Government-Private Sectoral Working Groups. There are 10 sectoral Working Groups, each co-chaired by a Government's Minister and a representative from the private sector. They meet

regularly to identify and prioritize common problems, and negotiate solutions with Government counterparts. These groups are (i) Agriculture and Agro-industry, (ii) Tourism, (iii) Manufacturing and Small and Medium Enterprises, (iv) Law, Tax and Governance, (v) Banking and Financial Services, (vi) Export Processing and Trade Facilitation, (vii) Energy, Transport and Infrastructure, (viii) Industrial relations, (ix) Paddy Rice-Milled Rice, and (x) Power and Mining Resources.

The last G-PSF meeting, marked as the 17th meeting, was held in 2014 under the chairmanship Cambodia Prime Minister. And the G-PSF has been postponed afterward. This is, perhaps, because the private sector co-chair calls for a meeting only with the private sector to have the proposed agenda (Chhun, 2016). Once the proposed agenda is formulated, Government-Private Sectoral Working Groups meetings are held to discuss the agenda and if the unsolved issues remain, the issues will be raised in G-PSF (Chhun, 2016).

## Government–NGO Consultation Meeting

The initiative was created after a severe flooding in Cambodia in 2011 when a number of active NGOs provided emergency assistance and technical support to the victim. Formal arrangements are in place to hold annual consultations with NGOs in the future and a Guideline on the Annual Consultative Meeting was approved by the Government in 2012, with CDC serving as secretariat (CDC, 2014). Cambodian government proposed this mechanism to promote the mutual understanding and information sharing on the implementation of Cambodia's national, sub-national and sectoral development strategies, and on the identification of shared goals and actions for government and NGOs (CDC, 2014).

The very first formal consultation meeting was expected to occur in 2016 (Chhun, 2016), but it has never happened. Probably, it was because of a

controversial Law on Association and Non-governmental Organizations (LANGO), which was approved by National Assembly in 2015. LANGO was criticized by civil society communities, due to the fact that the law restricted civil society's freedom to perform their activities—the law required many complicated administration procedures such as registration process, financial report, and work progress report (Vannarin, 2015).

## Bilateral Government–Donor Consultations

This is a bilateral dialogue between government and donor counterpart. This mechanism is positioned in two levels, policy dialogue level and technical discussion level. The consultation arrangement can be either under CDC or MEF leadership based on the type of programmes/projects—CDC responsible for Grant programmes/projects and MEF responsible for Loan provision.

There are currently 32 donors both government donors and multilateral donors, according to CDC (2018). Each donor holds the bilateral consultation either annually or every two year based on their characteristic and programmes. The consultation aims to review progress as well as to discuss in a more in-depth manner a range of sector-specific issues that relate to a particular donor's programmes and projects. More importantly, the consultation is where relevant government ministries/agencies come to present their progress, challenges, and future proposals to concerned donors.

***Finding 4: The three-tier dialogue comprehensively supports mutual accountability principles where respective stakeholders can share all concerns and best practices over ODA implementation. However, among the three-tier dialogue, high level dialogue and policy level dialogue have failed to function properly in the last five years; only bilateral consultation level between government and donors has been well functioning.***

## 4.3 Key Public Actors and Responsibilities

### The Council for the Development of Cambodia: National Focal Point for ODA

The Council for the Development of Cambodia (CDC) plays a role as coordinator for the formulation of visions and strategies for public investments and priorities for public investment for medium term and one year (CDC, 2014). Within CDC authority, Cambodian Rehabilitation and Development Board (CRDB) is one of the three operational boards<sup>10</sup> who responsible for all ODA-related activities. In addition, CDC works closely with all donors in managing and allocating grant budget to public investment projects. The main roles of CDC are initially taken from National Operational Guidelines for Development Cooperation Grant Assistance, which was approved by Royal Government of Cambodia in 2006. The guidelines outlined CDC is a national body within the Royal Government for ODA mobilization and coordination with donors including bilateral and multilateral and NGOs (CDC, 2006). CDC is mandated as a focal point for coordination with all Royal Government ministries and agencies on ODA allocation and utilization issues. In this sense, CDC, as a coordinating body, has to cooperate with relevant ministries and institutions in preparing conceptual frameworks of the National Program to Rehabilitate and Develop Cambodia (later on it was changed to National Strategic Development Plan in 2006) and setting out priority needs of the country for the immediate term, short term, medium term, and long term. The Guidelines offered a critical mandate to CDC to be a signatory on behalf of the Prime Minister and the Royal Government on any legal agreements with bilateral and multilateral donors and international organizations pertaining the acceptance and allocation of aid. An

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<sup>10</sup> CDC has three boards: (1) Cambodian Rehabilitation and Development Board; (2) Cambodian Investment Board; and (3) Cambodian Special Economic Zones Board.



updated specific actions for CDC for ODA mobilization and allocation are outlined in National Operational Guideline for Development Cooperation (2006)—and the strategy was updated to DCPS (2014-2018) as pivot tools to promote development aid effectiveness.

## Ministry of Economy and Finance: National Operational Arm for ODA

On the other hand, another type of ODA channel, loan projects, directly goes through Ministry of Economy and Finance. By cooperating with other ministries and agencies, the Ministry of Economy And Finance responsible for formulating medium term macroeconomic framework, preparing national budget for the implementation of the annual public investment plan (PIP), and monitoring and evaluating budgeting for results implementation. Moreover, Ministry of Economy and Finance has authority to manage grant flows and projects, which seems there is an overlapping role with the mandate of CDC. The General Department of International Cooperation and Debt Management (GDICDM) performs as an executive body under the leadership of Ministry of Economy and Finance with the mission to management all external resources in the field of grant and loan agreement.

According to Prakas No.666 by Ministry of Economy and Finance, in chapter 2, article 5, it clearly provides authorization to GDICDM to prepare and negotiate all government's agreements related to financial grant aid, borrowing, lending, and on-lending as well as other financial obligations<sup>11</sup>. Under the Prakas No.666, GDICDM can manage and coordinate the implementation of financing project of cooperation, with the collaboration with ministries and

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<sup>11</sup> (Prakas on the Organization and Functioning of Departments and Units Under the Supervision of the General Department of International Cooperation and Debt Management, 2016).

agencies inspecting and monitoring the implementation. In this sense, GDICDM seems to have control all aspect of international cooperation financing, literally debt, loan, and grant aid. Based on National Operational Guidelines for Development Cooperation Grant Assistance (2006), it indicated that the Ministry of Economy and Finance shall be the signatory for all loan agreements as well as the depository of all loan documents. And the Ministry of Economy and Finance is mandated to determine prioritized categories to be finance through loan program, to approve the terms and conditions of the loans, and to examine the implication of payment of loan schedule in the framework of total debt (Ministry of Economy and Finance, 2016).

## Ministry of Foreign Affairs and International Cooperation and Line Ministries: Diplomatic Window and Supporting Institution for ODA

To channel all external assistance, the Ministry of Foreign Affairs and International Cooperation (MFAIC) is authorized to serve as a window for diplomatic formalities including contact and communication with all donor country governments<sup>12</sup> (according to Sub-decree No. 70 ANK.BK, 2001). On the other hand, to guide ODA allocation and alignment with national development plans, Ministry of Planning (MoP) produces two important documents. National Strategic Development Plan (NSDP) is a 5-year strategic document setting out key priorities and nation's targets attached with an inclusive monitoring framework. And 3-year rolling public investment program (PIP) is a supporting document to outline medium term strategic priorities.

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<sup>12</sup> Sub-Decree (No. 147 ANK BK) on the Organization and Functioning of the Council for the Development of Cambodia, signed by Prime Minister on December 29<sup>th</sup>, 2005, the information is available on [http://www.cdc-crdb.gov.kh/cdc/policy\\_docu\\_guide/annex\\_01.htm](http://www.cdc-crdb.gov.kh/cdc/policy_docu_guide/annex_01.htm)

Respective line ministries have their own sectoral public investment plans by working closely with CDC and Ministry of Planning. These strategic documents are commonly used as a road map for donor to take into their consideration in order to ensure ODA-financed-program/projects are aligned with national priorities.

Not surprisingly, some of government ministries/agencies also mobilized external finance by their own effort without accessing through national bodies either CDC or Ministry of Economy and Finance. The channel of development assistance in Cambodia highlights the fragmentation of managing resources and donors have to go through different windows of government ministries and agencies. It seems a challenge for effective resource mobilization and management. This complexity of process and procedure would slow down the speed of the development of Cambodia, due to the fact that almost half of national capital expenditure is heavily depended on funding from outside to support public investment projects implementation.

***Finding 5: The divisions of labor among the responsible government institutions are not well-defined, causing overlapping role over facilitation and managing the flows of aid occurred among the responsible institutions. Individual institution seems to respect its own leadership and ownership in decision-making and intra-institutional arrangement.***

## 4.4 Characteristics of Key Donors and Strategies

This analysis part will draw on the selected donors' diplomatic relations with Cambodian government and their key strategies that have been set out in the context of development assistance cooperation. In this study, six major donors are not selected by chance, but it is based on their long history of relationship with Cambodian government and their volume of ODA to Cambodia.

Literally, ADB, WB, UN, Japan, China, and USA are among the largest donors to Cambodia since the end of Cambodian Civil War. The relations between Cambodia and these key partners has been through both bitter sweet and progresses. It is right to say that they are regarded as traditional donors to Cambodia, although China is not a member of OECD/DAC.

Each donor defines the relations and the development of Cambodia differently. It is important to understand their objectives and agenda settings that determine the quality of the relationship and quality of ODA to Cambodia.

## Asian Development Bank: Country Partnership Strategy and Greater Mekong Sub-region Program

Tracing back to the early creation of ADB, Cambodia was one of its founding members since 1966 (ADB, 2016). However, cooperation between ADB and Cambodia was suspended due to tragic civil war in Cambodia started in the mid-1970s. The cooperation was restored in the early 1990s after peacebuilding process and Peace Agreement in Paris under the support of the United Nations. In 1992, ADB resumed its operation in Cambodia and was one of the first development institutions to send missions to assess the country's needs. Both parties signed on the very first formal agreement in 1995, so called Technical Assistance Framework Agreement (ADB, 1995). The agreement was seen as a roadmap to establish the foundation of working channel and conditions between ADB and Cambodian government. Following the development of this two relations, ADB was the first international finance organization to establish an office in Cambodia in 1996. A major challenge during the early years of reengagement was the deterioration of social capital and infrastructure. Thus, initial ADB operations focused on humanitarian assistance, emergency response, and restoration of transport and irrigation

infrastructure, particularly those caused by floods and drought as well as prolonged lack of maintenance. Since 1966, ADB has supported Cambodia with USD 2.84 billion in loans, grants, and technical assistance, on transport infrastructure, agriculture, rural development, and human capital development (ADB, 2016).

The Country Assistance Plan (CAP) is medium-term strategic document describing the planned program of ADB assistance for Cambodia. It was formulated in 2000 and later changed to Country Partnership Strategy (CPS) in 2011. In the latest version of CPS (2014-2018), there are a number of priority government sectors that ADB committed to provide assistance to Cambodia, namely Infrastructure, Agriculture and Natural Resources, Finance, Water Supply and Sanitation, Education, and Public Sector Management (ADB, 2014). There are also 5 thematic areas under the focus of ADB's strategy to Cambodia such as Gender Mainstreaming, Climate Change and Adaptation, Good Governance, Tourism, and Public-Private Partnership.

It is important to note that even though ADB committed to the development of Cambodia via the formulation and implementation of CPS, the nature and objective CPS are highly under ADB's selectivity process, ensuring CPS is aligned with ADB's strategic regional program which is Greater Mekong Sub-region Program (GMS).

GMS is a vital strategy of ADB assistance to Cambodia. Cambodia is one of the founders of GMS. In 1992, GMS was launched by 6 countries where located along Mekong delta such as Cambodia, China, Lao PDR, Myanmar, Thailand, and Vietnam (ADB, 2012). The strategy was designed to enhance economic linkages across their borders. The GMS is a natural economic area bound together by the Mekong River, covering 2.6 million square kilometers and a combined population of around 326 million.

There are three levels of dialogue in GMS program arrangement:

- (i) GMS leaders' summit at the political level,
- (ii) Ministerial conference supported by meetings of senior officials at the policy level,
- (iii) Sector forums and working groups at the program and operational levels.

To support this dialogue arrangement ADB plays a role as focal secretariat providing support to GMS program in coordination with all national secretariats in GMS member countries. A key objective of the ADB program is the development of GMS markets and the movement of goods and people across borders. Thus, promotion of transport and the establishment of economic corridors is central to this objective (ADB, 2004).

## World Bank: Country Assistance Strategy

Once the elected democratic government was in place after the first free election held in 1993, WB quickly provided first IDA credit for Cambodia which was approved in 1994 (World Bank, 1995). It provided USD 63 million for emergency rehabilitation and another USD 17 million for technical assistance credit in 1995. The very first development assistance strategy of World Bank was introduced in 1995. World Bank's Country Assistance Strategy (CAS) to Cambodia aimed to promote broad-based and sustainable development that resulted in a rapid poverty reduction. Back then, the bank put 6 fundamental areas of support such as (i) Macroeconomic Stability, (ii) Capacity Building, (iii) Agricultural Development and Natural Resource Management, (iv) Economic Infrastructure Rehabilitation, (v) Poverty Reduction, and (vi) Human Resource Development (World Bank, 1995).

In 2005, World Bank adopted the latest version of CAS to Cambodia for FY 2005-2008 and it was extended till 2011. However, the cooperation

between Cambodian government and World Bank was suspended in 2011, resulting from political and human rights issues in Cambodia. The last assistance from World Bank was made in 2010 due to the violation of an agreement the Bank had reached with government regarding resettlement (Tran, 2011; Thul, 2011). In August 2011, the bank announced it had stopped providing development aid to Cambodia over evictions from land grabbing and forcing 2,000 people from the dispute areas to make way for real estate development projects (Tran, 2011; Thul, 2011).

The relationship was restored in 2014 after the dispute was settled down and new commitment on human rights improvement was made by Cambodian government. World Bank and Cambodian government started a dialogue towards renewed full World Bank engagement in development cooperation, and agreed to proceed with preparation of a Country Engagement Note (CEN) as a bridge to a higher level of cooperation which was Country Partnership Framework (CPF) (World Bank, 2016). Thus, CEN was a new version of strategy that was designed in line with the recent changes of the development of Cambodia transforming itself from a post conflict to a market oriented economy. So that, CEN aimed to support the country's efforts to sustain inclusive and resilient growth and to continue reducing poverty and to enhance shared prosperity (World Bank, 2016).

Taking into account CEN's objectives the planned CEN program consisted of 3 pillars:

- (i) Supporting Cambodia's export driven economy in improving its business climate and addressing competitiveness bottlenecks;
- (ii) Improving service delivery to address vulnerability and to promote income earning opportunities for the poorest; and
- (iii) Framing WBG engagement beyond the CEN period.

**Table 8:** Planned World Bank Group CEN Program – Indicative Activities and Milestones (FY 2016-2017) in Million USD

<b>Pillar 1: Sustaining Inclusive and Competitive</b>	<b>351.96</b>
Economic Growth	
Focus Area 1.1: Improved Business Environment	<b>19.56</b>
Focus Area 1.2: Enhanced Connectivity and Improved Competitiveness	<b>332.4</b>
<b>Pillar 2: Improving Public Services Delivery and Reducing Vulnerability</b>	<b>423.85</b>
Focus Area 2.1: Improving Service Delivery	<b>300.5</b>
Focus Area 2.2: Reducing Vulnerability	<b>123.35</b>
Cross-Pillar Engagement – Setting Out WBG Medium Term Engagement	<b>0.35</b>

**Source:** *World Bank, in Country Engagement Note (FY2016-2017)*

## The United Nations: United Nation Development Assistance Framework

The United Nations has a long history of promoting peace and advancing human development in Cambodia. Cambodia became a Member State of the United Nations in 1955. Prior to that in 1951, Cambodia became a member of UNESCO and immediately established its own National Commission.

Unfortunately, as the political situation deteriorated, UN operations suspended during Khmer Rouge Period (1975-1979). Right after the war ended, the United Nations Border Relief Operation (UNBRO) was specially



established in 1982 to provide and coordinate humanitarian assistance to Cambodian refugees along the Thai-Cambodian border. In 1991, with the assistance from UN all conflicting parties signed in Paris the Agreements on the Comprehensive Political Settlement of the Cambodia Conflict—a peace treaty to end the conflict and prepare the country for elections. The agreements assigned to the United Nations an unprecedented role. The United Nations Transitional Authority in Cambodia (UNTAC) was set up to:

- (i) supervise the ceasefire, the end of foreign military assistance and the withdrawal of foreign forces;
- (ii) regroup, canton and disarm all armed forces of the Cambodian parties, and ensure a 70 per cent level of demobilization;
- (iii) control and supervise the activities of the administrative structures, including the police;
- (iv) ensure and respect of human rights; and
- (v) organize and conduct free and fair elections

Under UNTAC mission with financial support USD 1.6 billion, there were over 21,000 military peacekeepers and civilian personnel from more than 100 countries (Findlay, 1995). Consequently, over 360,000 refugees were repatriated, free elections was held in May 1993, and a new Constitution adopted. Thereafter, the United Nations resumed its full involvement in Cambodia.

Entering post-conflict reconstruction period in the 2000s, the first remarkable UN strategy was formulated in the aim of building national capacity and strengthening democracy. United Nations Development Assistance Framework (UNDAF) was officially signed by Cambodian government and UN in 2001. UNDAF is a medium-term development strategic document that has primarily objectives to align with Cambodia's NSDP and its universal

development agendas, for instance Millennium Development Goals (MDGs) (2000-2015) and SDGs (2015-2030).

By the time 2018, UNDAF has been developed four times, UNDAF (2001-2005; 2006-2010; 2011-2015; 2016-2018). There are currently 23 UN Agencies with direct operations in Cambodia disbursing around USD 100 million per annum (UN, 2010).

## Japan: Strategic Partner and Country Assistance Strategy to Cambodia

The official diplomatic relations between Cambodia and Japan was established when King Norodom Sihanouk visited Tokyo in 1953 as it was a part of his political propaganda to get independence from French. His visit was the first Asian king to visit Japan's Imperial Palace after World War II (Vannarith, 2018). The relations of both countries was improved significantly after Cambodia renounced the right of state to ask for compensation for damages caused by Japanese imperial during World War II. Instead, Cambodia provided food assistance, rice, to Japan while Japan was facing food shortage because of the war (Vannarith, 2009). After two years of the first visit, King Sihanouk made the second official visit to Japan in 1955 and both countries signed a Treaty of Amity and the Japan's adoption of a resolution of gratitude regarding Cambodia's act of abandoning the rights to claim reparation from Japan (Vannarith, 2009). Japanese Prime Minister Nobusuke Kishi made his first state visit to Cambodia in 1957 (Vannarith, 2018).

Development cooperation began in 1968 when Japan provided loan assistance to Cambodia to develop Prek Thnot Canal. Unfortunately, the relations of both countries was cut off in the 1970s and 1980s when the Khmer Rouge seized the power and brought the nation in to civil war. Japan and Cambodia resumed diplomatic relations when Japan reopened its embassy in Phnom Penh in 1992 and Cambodia opened its embassy in Tokyo in 1994 (The

Phnom Penh Post, 2018). In pre-peacebuilding process, Japan exercised a prominent role in the preliminary negotiations that led to the Paris International Conference on Cambodia in 1989 and was co-chair of the conference which concluded with the signing of the Paris Peace agreements on Cambodia in October 1991 (The Phnom Penh Post, 2018). As a major donor to Cambodia, Japan's aid program has brought some significant benefits to Cambodia over the past 25 years, providing substantial financial and technical assistance to Cambodia especially for reconstruction and rehabilitation of the infrastructure of the country. Since 1993, Japan has helped build and rehabilitate roads, ports, bridges, electrical systems, hospitals, schools, water treatment facilities across the country. The two countries further upgraded their relations to the "Strategic Partnership" in 2013.

From 2000 to 2016 Japan provided development aid approximately USD 2 billion, equivalent to 12 percent of total ODA to Cambodia in the same period (CDC, 2018). It is important to notice that, entering the 21st Century, Japan's ODA policy has been based on the principles of "Japan's ODA Charter"<sup>13</sup> and "Japan's White Paper on Development Cooperation"<sup>14</sup> which is developed every year. These two strategic documents applies to all ODA-recipient countries. According to Japanese Embassy in Cambodia's website, Japan formulated a separated version of ODA policy to Cambodia<sup>15</sup>, so called "Country Assistance Policy" (CAS 2003-2007). And the second version of

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<sup>13</sup> ODA Charter was formulated in 1993 and revised in 2003.

<sup>14</sup> The name "White Paper on Development Cooperation" was used in 2015. The name has changed over time. From 1994 to 1999, Japan used the name "ODA Annual Report". From 2001 to 2007, Japan, then, used the name "ODA White Paper" before adopting the last name version in 2015.

<sup>15</sup> CAS (2003-2007) is available on Embassy of Japan in Cambodia's website, <https://www.kh.emb-japan.go.jp/economic/cooperation/cooperation.htm> , retrieved date October 05<sup>th</sup>, 2018

CAS was developed in 2012 which was durable till 2016. The overall goal of CAS is “steady and sustainable economic growth and balanced development” (Waseda University , 2018).

The Policy mainly focused on 3 pillars:

- (i) Strengthening of the basis for economic activities: development of economic infrastructure, strengthening of the private sector and agriculture and rural development
- (ii) Promotion of social development: development of water supply and sewage system, enhancement of health and medical care, improvement of education quality, and demining of anti-personnel mines, and
- (iii) Strengthening of governance, all of which are consistent with the Rectangular Strategy of Cambodia

## China: Strategic Partner and No–Strings–Attached Assistance

In the fact that Chinese culture and tradition rooted in Cambodian society since ancient time dated back to the 13th century. As a result of a century-long settlement history people with mixed Chinese and Cambodian ancestry. However, the diplomatic relationship between Cambodia and China was officially established on July 1958 when the Prince Sihanouk recognized the People’s Republic of China (PRC). Between the 1950s and 1960s top leaders of both countries exchanged official visits multiple times. Prince Sihanouk visited China six times and Chinese Premier Zhou Enlai and President Liu Shaoqi acknowledged Cambodian’s struggle for independence and sovereignty during their official visits in Cambodia after the official diplomatic relations established. The development of both relations started moving good when Prince Sihanouk joined the campaign led by Chinese

regime under Mao's leadership to expulse Taiwan (the Republic of China) from United Nations in the 1960s. In return, China had proved to be a regional supporter to Cambodia's balancing of power between the US and Soviet Union during the Cold War. According to Alain-Gerard Marsot (1969), author of China's Aid to Cambodia, in term of military cooperation China provided arms and materiel to more than ten countries including Cambodia between 1950 and 1963. In 1964, military assistance from China included 100 military trucks, 75mm caliber guns, three infantry units, heavy and light arms that could equip as many as 22,000 servicemen, and air-defense and anti-tank "bazooka" rocket launchers (Marsot, 1969).

However, the emergence of the Khmer Rouge, a communist insurgency, brought Sino-Cambodia relations into a severe problem because of Chinese support for the Khmer Rouge financially and politically. Despite of what happened during Pol Pot regime that cost innocent life 1.7 million, PRC remained an inevitable friend for Prince Sihanouk. China housed Prince Sihanouk in 1970 when his power was withdrawal by the US-back Lon Nol regime. In the mid-1990s, their bilateral relations was even more significance not only diplomatic relations, but also economic, politic, and military relations. The wake of a violent coup in 1997 when Prime Minister Hun Sen ousted Prince Norodom Ranariddh from power, China was the main financial aid provider to Cambodia replacing temporary suspended aid by Western donors (Chheang, 2017). After the end of the Cambodian Civil War, China still provided military aid in various forms at Cambodia's request, for instance, providing necessary military equipment, enhancing the Cambodian military's ability in disaster response and contingency planning, and training Cambodian peacekeeping officers. Moreover, Chinese aid was used to convert military facilities into hospitals, training camps, schools, and other facilities for civil purposes. China delivered USD 2.8 million worth of military equipment to Cambodia in

December 1997 (Storey, 2006).

Undoubtedly, Cambodia is a vital strategic partner to China and a trustworthy supporter to One China Policy. Both countries reached an agreement on a Comprehensive Partnership for Cooperation deal in April 2006 and, in late 2010, this bilateral relationship moved to a bigger step forward by signing on “Comprehensive Strategic Partnership of Cooperation”, which was great economic and strategic importance to China’s rise. In every international political arena, Cambodia usually stands on China’s side, for instance, the role of Cambodia in South China Sea dispute has posed many skeptical questions to the international public. In 2012, as chair of the ASEAN Summit, Cambodia helped blocking a statement on the South China Sea and for the first time in its 45-year history ASEAN failed to issue a joint statement after a foreign ministers’ meeting.

Cambodian Prime Minister, Mr. Hun Sen, applauds the rise of China as a positive opportunity to his administration against the West demanding political and governance reforms (Chheang, 2017). Special personal relationship between the two top political leaders poses a clear message to the Western countries that foundation of these bilateral relations has deeply rooted from generation to generation. What impresses Prime Minister Hun Sen about China is that every initiative proposed by China is always attached a large amount of available fund for implementation, plus there is no complicated criteria to access to the funding. In 2018, Chinese President Xi Jinping pledged USD 124 billion for his ambitious new Silk Route plan to forge a path of peace, inclusiveness and free trade, and called for the rejection to old models based on rivalry and diplomatic power games (The Strait Times, 2017).

Fundamentally, it has been argued that Chinese aid is not transparent, and there is no standard operating procedure regarding its disbursement (Var, 2017). Chinese development aid to Cambodia has no differences from its aid to

other developing countries. Given that Cambodia is China's closest partner within ASEAN framework, Chinese development aid to Cambodia has always been criticized as harboring other strategic intentions.

**Table 9:** Chinese Loan (2013-2015) in Thousand USD

Sector	2013	2014	2015	Total
Energy & electricity	36,135	33,214	45,102	<b>1,119,327</b>
Transportation	262,245	177,201	173,783	
Water & sanitation	10,709	15,490	1,057	
Community & social welfare	20,298	20,293	27,507	
Agriculture	106,829	101,592	87,472	

**Source:** CDC, *Development Cooperation and Partnerships Report 2018*

In fact, China's development assistance is extraordinarily different from other major donors in Cambodia. China does not have any development assistance strategy to share with either government or the public, unlike the rest of donors do. China is a non-DACer who are found to be popular with governments because of its overall policy of non-interference in government policy, and also its limited conditionality (Greenhill, Prizzon, & Rogerson, 2013). Chinese aid is usually offered upon the request of the Cambodian government and has largely been used for economic development and infrastructure projects. A typical understanding on Chinese development aid to Cambodia is no-strings-attached assistance. All development projects run by China are usually bigger, faster, and less complicated procedure comparing to other traditional donors such as Western donor governments, Japan, Korea, and

Australia.

Chinese aid mostly lies in loan agreement and its grant proportion is marginally small comparing to the size of loan. For instance, as shown in **Table 9**, in 2015 China provided loan to Cambodia USD 344 million of which grant disbursement was about USD 4 million (CDC, 2016). In the last decade, China alone disbursed USD 2.6 billion which accounted for 21.5 percent. Chinese ODA has largely been projected to infrastructure projects and energy sectors. Japan and the United States are the second and third largest donors following behind China. According to Development Cooperation and Partnerships Report 2018 (DCPR) produced by CDC, in 2016, China provided loan agreement to energy sector and transportation sector over USD 200 million, following by Japan USD 28.5 million. The same report revealed that the total amount of ODA in ten-year period (2007-2016) is USD 12.2 billion in which transportation sector consumed nearly 20 percent in aggregate level (CDC, 2018). It is true to say infrastructure development in Cambodia is on top priority as its demand for enabling logistic facilitation and the growth of transportation. The major supporters in developing physical infrastructure, for instance roads, railways, and ports, are largely from China, Japan, and ADB. Transportation and infrastructure development, energy and power, and agriculture are the three largest sectors receiving the largest sums of Chinese aid in Cambodia.

## The United States of America: Fluctuated Diplomatic Relations and Its Country Development Cooperation Strategy to Cambodia

Over six decades of this relations can be characterized as a relationship with high degree of fluctuation. Cambodia-US diplomatic relations was first



established in 1950 when the US recognized the new Cambodian government led by King Norodom Sihanouk, just three years before French granted full independence to Cambodia. Following the newly established relations of both countries, President Harry Truman approved USD 20 million in economic and military aid to Cambodia for the first time in 1950 (Public Affairs Section US Embassy, 2010). It was seen as US political support to Indochina countries to gain independence from French colonial. The US opened its first embassy in Cambodia in 1952.

However, in the light of ideology competition between the Soviets and the Americans, the relations between Cambodia and US was rendered by the differences of both countries' foreign policies. The relations was severely deteriorated when the war between the US and Vietnam broke out, so called "the Soviet-American Proxy War" in Vietnam (Bulut, 2017). The 1960s would be a tumultuous decade in Indochina, with the United States deepening its involvement in Vietnam and the civil war in Laos intensifying. The US foreign policies and positions were defined largely by the Cold War (Sokkheurn, 2011). Like many other small states, Cambodia found itself in a game that spillover from its neighbor, Vietnam. Whilst the US sought to create military alliance to contain Chinese influence and Communists in North Vietnam, Cambodia claimed to maintain its territorial independence and neutrality, with the objective of avoiding entanglement in the Vietnam War. Consequently, serious diplomatic friction between the two countries officially severed in 1965 when King Sihanouk refused to accept credential from the appointed US Ambassador to Cambodia (Public Affairs Section US Embassy, 2010).

The two relations was briefly restored after President Richard Nixon took office in 1969 before being severe again in 1975. The US supported the Lon Nol regime (1970-1975) that overthrew King Sihanouk in 1970 through a coup d'état. Also, the US started secret bombardments over Cambodia from

1965 to 1973—it was believed that the booming campaign dropped 2,756,941 tons of ordnance on the eastern part of Cambodia. As result, the US intervention in Vietnam War and containing communism in Cambodia was failed. Yet, it brought Cambodia into another civil war (1975-1979) when nation fell into the Khmer Rouge regime and over 2 million people were believed to have been killed during this brutal regime.

Normal official diplomatic relations was resumed in 1994 after Cambodia elected new government under the supervision of UN. The role of US assistance became very importance to national restoration and rehabilitation. In 1992, USAID opened its permanent mission to Cambodia along with financial aid USD 264 million to rebuild road destroyed during the 30 years of fighting and to support humanitarian needs (Public Affairs Section US Embassy, 2010). The US also paid for 30 percent of UNTAC’s budget for peacekeeping operation in Cambodia (Public Affairs Section US Embassy, 2010).

Unfortunately, another setback broke out in 1997 due to political turmoil in Cambodia. The US claimed Prime Minister Hun Sen seized the power unlawfully. In reaction to this issue, the US prohibited government-to-government assistance to Cambodia in 1998 in order to pressure Prime Minister Hun Sen while the US assistance to NGOs and some humanitarian programs in Cambodia were allowed to continue (Bulut, 2017). Following the 1998 national elections, the United States restored bilateral humanitarian assistance focused on HIV/AIDS, democracy, and civil society (USAID Cambodia, 2014).

Cambodia is the third largest recipient of United States assistance in Southeast Asia after Indonesia and the Philippines (Lum, 2007). The assistance from the US has usually been channeled to non-governmental organizations and to projects managed by US agencies and entities (Bulut, 2017; Lum, 2007). In 2002, USAID introduced for the first time a formal development aid strategy to Cambodia, which is “Interim Strategy Plan (2002-2005)”, moved beyond

humanitarian relief to begin addressing long-term development challenges through social sector while continuing support for democracy and human rights (USAID Cambodia, 2014). In February 2007, the United States government lifted a ten-year ban on aid to the government of Cambodia and USAID subsequently signed bilateral agreements with the Cambodian government in health, education, and economic growth (Bulut, 2017; USAID Cambodia, 2014). The latest version of USAID strategy to Cambodia was Country Development Cooperation Strategy (CDCS), covering 2014 to 2018, aimed to prioritize democracy and human rights, and the three Presidential Initiatives<sup>16</sup>. CDCS also sought to re-engage in basic education, given the evidence of the role of education on furthering democracy, as well as health, food security and environment.

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<sup>16</sup> The Three Presidential Initiatives are Global Food Security Initiative, the Global Climate Change Initiative, and the Global Health Initiative. These initiatives respond to several of Cambodia's top development priorities and are also areas where USAID has demonstrated effectiveness.

## 4.5 The Pattern of Action: The Flow of ODA via Government Channels

There is no explicit legal framework solely regulating donors and development assistance in Cambodia. Despite the lack of a specific law, CDC is the authorized national focal point for aid management. However, donors' development assistance, usually, go through any government window that they think they can operate their programmes/projects faster and efficient. A statistical evidence is presented in the analysis part below.

National Strategic Development Plan 2014-2018 (NSDP) clearly emphasizes the important of contribution from donors to fund public investment plans. Through this analysis part, the study will look deeper into required finance by government sectors and the consistency of required budget to the actual amount of ODA disbursement.

The proposed study selected 3 major multilateral donors for analysis (WB, ADB, and UN) and 3 major bilateral donors (Japan, China, and The United States). In multilateral cooperation, there are 267 ODA-financed projects financed by the 3 selected multilateral donors between 2014 and 2018. Whereas, from 2014 to 2018 there are 235 projects funded by the 3 major bilateral donors, equivalent to USD 2.14 billion.

### ODA Flow via Government Signatory

Strengthening recipient government ownership and leadership over ODA management was emphasized many aid effectiveness principles including Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008), and Busan Partnership for Effective Development Cooperation (2011). One of aid effectiveness indicators was ODA support to Government Sector. This indicator indicates whether donors provide their ODA through government channel by seeking responsible government ministries/agencies to be a

government signatory on development programmes/projects.

Cambodia has included this indicator into her national monitoring system, so called Cambodian ODA Database. To imply this indicator, ODA funding disbursed in the context of an agreement with government administrations (ministries, departments, agencies or municipalities) authorised to receive revenue or undertake expenditures on behalf of central government (CDC, 2017).

Due to the fact that, there is no explicit legal framework solely regulating donors and development assistance in Cambodia. Despite the lack of a specific law, CDC is the authorized national focal point for aid management. However, donors' development assistance, usually, go through any government window that they think they can operate their programmes/projects faster and efficiency. A statistical evidence is presented in the analysis part below.

The data for analysis is withdrawn from Cambodian ODA data report which was extracted on 25th September, 2017. This is an official data used for Development Cooperation and Partnerships Report (2018). There are 40 bilateral and multilateral donors with 2,855 projects for 6 years (2014-2019). Due to high number of donors and projects, the study selected 3 major bilateral donors (China, Japan, and USA), and 3 major multilateral donors (WB, ADB, and UN) for a better analysis. More importantly, on government side, the study primarily focus on 3 major government institutions (CDC, MEF, and MFAIC) who have greater responsibility for ODA management. Regarding to the number of year for the analysis, the study takes 5 year periods range from 2014 to 2018.

## ODA Flow via Government Signatory in Multilateral Cooperation

The proposed study selected 3 major multilateral donors for analysis such as WB, ADB, and UN. There are 267 ODA-financed projects implemented by 16 ministries and 7 government agencies<sup>17</sup> between 2014 and 2018.

Among the three major government institution (CDC, MEF, and MFAIC), the largest proportion of ODA goes to MEF, following by MFAIC and CDC, respectively. The data shown in **Table 10** clearly shows that all three major multilateral donors injected their money through all windows of government ministries and agencies. However, MEF seems to have a wider role of receiving development aid rather than going through the channel of CDC and MFAIC. Between 2014 and 2018, total disbursement via MEF's window was USD 934.6 million, of which ADB's share was 73 percent of the total amount. CDC, who is authorized a national focal point for ODA management, received the smallest share of ODA, comparing to the other two ministries, with total amount USD 13.5 million of which UN family is the only ODA provider went through CDC's facilitation. It is similar to MFAIC, who is authorized as a diplomatic window for all development cooperation, receiving 5 percent of total ODA from multilateral donors.

Despites the three official regulated channels, data in **Table 10** revealed

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<sup>17</sup> The 16 Ministries are: Ministry of Economy and Finance, Ministry of Foreign Affairs & International Cooperation, Ministry of Agriculture, Fisheries & Forestry, Ministry of Health, Ministry of Commerce, Ministry of Environment, Ministry of Education, Youth & Sport, Ministry of Interior, Ministry of Information, Ministry of Labor & Vocational Training, Ministry of Mines and Energy, Ministry of Planning, Ministry of Social Affairs and Youth Rehabilitation, Ministry of Women's Affairs, Ministry of Public Works & Transport, Ministry of Rural Development.

The 7 government agencies are: Council for the Development of Cambodia, Council for Agriculture and Rural Development, Cambodian Mine Action Authority, National Aids Authority, National Bank of Cambodia, National Committee for Sub-National Democratic Development, and Office of the Council of Ministers.

that Line Ministries also received direct flows of ODA from donor counterparts, literally UN and ADB. Between 2014 and 2018, Line Ministries received 93 Grant financed-projects, equivalent to USD 132 million.

**Table 10:** Amount of ODA of Three Major Multilateral Donors to Government Institutions (2014-2018) in Thousand USD

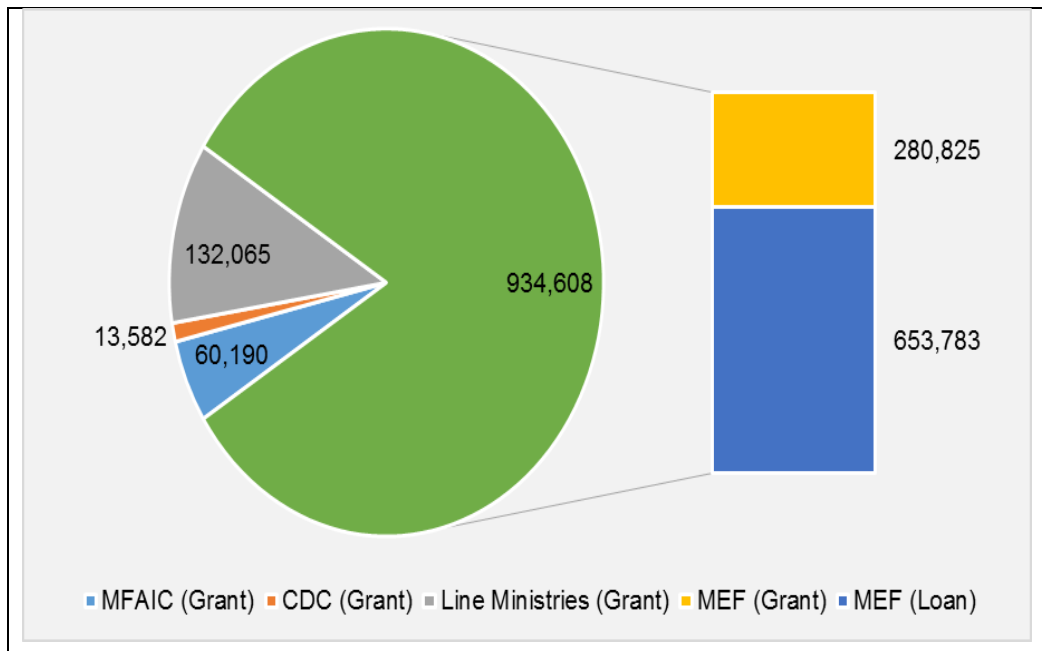
<b>Institution</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 (Plan)</b>	<b>2018 (Plan)</b>
<b>CDC:</b>					
- UN	4,635	4,037	1,169	2,290	1,450
<b>MEF:</b>					
- ADB	129,782	136,734	108,915	140,743	171,200
- UN	13,541	12,721	15,543	14,663	11,351
- World Bank	50,615	17,623	19,026	38,509	53,641
<b>MFAIC:</b>					
- UN	4,819	2,874	16,441	17,334	18,721
<b>Line Ministries:</b>					
- UN	25,750	22,299	24,478	36,451	18,323
- ADB	-	500	-	1,714	2,550
<b>Total</b>	<b>229,143</b>	<b>196,789</b>	<b>185,571</b>	<b>251,706</b>	<b>277,236</b>

**Source:** CDC, in Dump data report in Cambodian ODA database extracted on 25th September 2017

The trend of going through MEF's channel may be because of the large proportion of Loan provision. According to a government regulation on ODA management (Prakas on the Organization and Functioning of Departments and Units Under the Supervision of the General Department of International Cooperation and Debt Management), MEF is the only government institution responsible for loan management. The regulation also authorizes MEF to responsible for Grant management which is conflicting to the role of CDC (National Operational Guidelines for Development Cooperation, 2006).

Based on **Figure 10**, all of Loan provision from the 3 major multilateral donors went through MEF's facilitation. There are 45 loan projects from ADB, 5 from UN, and 12 from WB. And, in term of Grant project, MEF received 78 projects from the three selected multilateral donors while CDC and MFAIC altogether received 34 Grant financed-projects from UN family only.

**Figure 10:** Aggregate proportion of Multilateral Institutions' ODA Received by Government Institutions (2014-2018) in Thousand USD



**Source:** CDC, in Dump data report in Cambodian ODA database extracted on 25th September 2017

**Finding 6:** Multilateral donors seem to prefer using MEF's facilitation more than the others, regardless CDC is authorized as a national focal point for ODA mobilization and coordination with all government institutions and donors.



## ODA Flow via Government Signatory in Bilateral Cooperation

From 2014 to 2018 there are 235 projects funded by 3 major bilateral donors (China, Japan, and USA), equivalent to USD 2.14 billion. Out of 235 projects China provided 47 Loan projects and 3 Grant projects, Japan provided 12 Loan projects and 143 Grant projects, and USA provided 30 Grant projects.

China is a non-traditional donor whose strategy predominantly focus on economic and infrastructure development. Over 80 percent of Chinese assistance is in Loan provision. Japan and USA are traditional donors and members of OECD/DAC. Both countries have been providing development assistance to Cambodia since the early 1990s. Yet, development assistance from USA has never been in Loan provision.

The tendency of ODA channel through MEF is still large in both Loan and Grant assistance, comparing to the other two government institutions, CDC and MFAIC. According to **Table 11**, Loan provision does not go through only MEF channel, but also go through MFAIC and a Line Ministry (Ministry of Water Resources & Meteorology). Over 90 percent of total Loan provision from the 3 major bilateral donors was signed and received by MEF.

In the last 5 years (2014-2018), the total amount of Loan from all donors was USD 3.22 billion (CDC, 2016; CDC, 2018). China has the largest share of Loan provision among all donors, with USD 1.37 billion, following by Japan USD 207.93 million as shown in **Table 12** (2014-2018).

**Table 11:** Number of Project and ODA from China, Japan, and USA to

Government Institutions (2014-2018) in Thousand USD

	Donor/Recipient	Number of Project	Total Amount (2014-2018)
<b>Loan</b>	China		<b>1,581,748</b>
	MEF	43	1,536,570
	Line Ministry	2	19,881
	Japan		
	MEF	11	182,636
	MFAIC	1	25,297
<b>Grant</b>	China		<b>559,267</b>
	MEF	2	44,927
	Line Ministry	1	8,666
	Japan		
	MEF	37	232,735
	MFAIC	6	33,037
	Line Ministry	100	72,684
	USA		
	CDC	1	209
	MFAIC	2	29,520
	Line Ministry	27	137,489

**Source:** *Dump data report in Cambodian ODA database extracted on 25th September 2017*

In term of Grant assistance, Japan is the leading bilateral partner to Cambodia. Not surprisingly, the largest Grant provider, Japan, did not inject the money through CDC channel at all, but through MEF, MFAIC, and other ministries/agencies as shown in **Table 11**. The total Grant assistance from Japan was USD 338.45 million, following by United States USD 167.21 million and China USD 53.6 million (2014-2018).

The figure below shows that both Loan and Grant assistance providers tend to seek facilitation from MEF rather than from CDC and MFAIC. Based on the data from **Table 12**, over 80 percent of all Grant and Loan assistance positioned in MEF channel.

**Table 12:** ODA Provision by China, Japan, and USA to government ministries/agency (2014-2018) in Thousand USD

	Recipient	2014	2015	2016	2017 (Plan)	2018 (Plan)
Loan	<b>MEF</b>	349,738	350,192	269,763	269,833	297,045
	China	337,686	329,899	257,176	214,359	214,814
	Japan	12,052	20,292	12,587	55,474	82,230
	<b>MFAIC</b>	8,451	4,884	11,962	-	-
	Japan	8,451	4,884	11,962	-	-
	<b>Line Ministry</b>	10,104	5,021	4,756	-	-
	China	10,104	5,021	4,756	-	-
	<b>Total</b>	368,293	360,097	286,480	269,833	297,045
Grant	<b>CDC</b>	-	-	209	-	-
	USA	-	-	209	-	-
	<b>MEF</b>	49,444	53,004	52,297	48,057	74,861
	China	-	-	-	8,341	36,585
	Japan	49,444	53,004	52,297	39,715	38,275
	<b>MFAIC</b>	27,168	21,359	7,572	6,459	-
	Japan	9,651	9,355	7,572	6,459	-
	USA	17,517	12,003	-	-	-
	<b>Line Ministry</b>	-	-	-	-	-
	China	-	4,464	3,382	820	-
	Japan	17,518	13,157	16,922	13,706	11,382
	USA	24,556	35,101	23,350	36,117	18,366
	<b>Total</b>	<b>118,685</b>	<b>127,085</b>	<b>103,732</b>	<b>105,158</b>	<b>104,608</b>

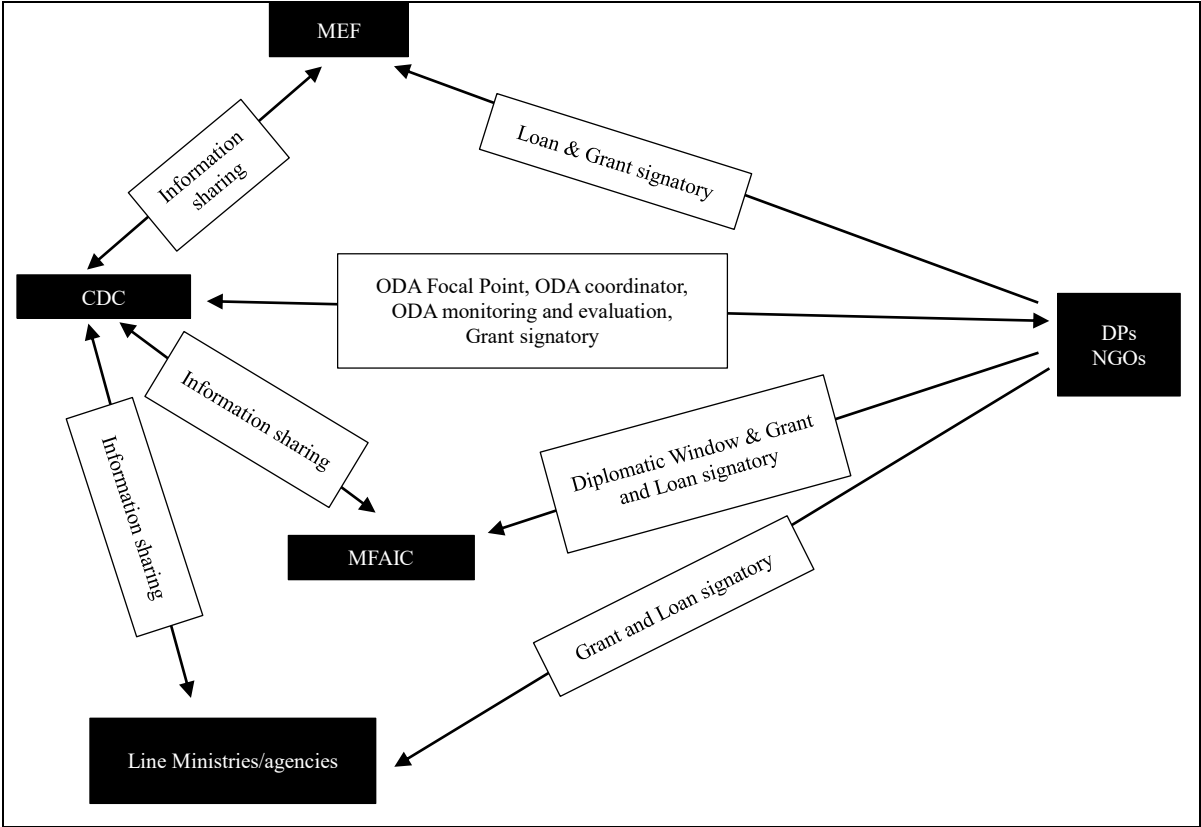
**Source:** CDC, in *Dump data report in Cambodian ODA database extracted on September 25<sup>th</sup>, 2017*

From 2014-2018 China and Japan together provided 59 Loan projects, of which China alone provided 47 Loan projects. According to

**Table 12**, the highest share of Loan provision goes to Transportation sector that receives approximately USD 150 million per year (2014-2018). China is the largest Loan provider to Transportation development with total amount USD 628.4 million.

The average volume of grant assistance by the three major bilateral donors was approximately USD 100 million per year which is 3 times lower than the average volume of Loan assistance per year in 2014-2018. Transportation sector still represents the largest ODA consumer among all sectors. Surprisingly, Grant flow via CDC channel is even less than USD 1 million in the last 5 years (2014-2018). It can conclude that the no matter what the type of ODA is MEF still represents the most credible channel for donors.

**Figure 11:** Summary of the flows of ODA through government institution channels



**Source:** The figure is drawn by the author's conclusion.

It is true to conclude that the flows of ODA go through different channels under different government institutions, specifically CDC, MEF, MFAIC, and Line Ministries. As shown in **Figure 11**, it well describes how

ODA flows via government facilitation. Perhaps, individual government institutions exercise their ownership and leadership to hook up available resources. This tendency may cause constraints over the implementation of national framework for monitoring ODA implementation. This loophole may question how to ensure ODA is well aligned with NSDP objective and required resources.

***Finding 7: The flow of ODA, both in Grant and Loan, goes through only the government-designed channels (CDC and MEF), but also goes directly to other line ministries. These incoherent flows reflect to mutual accountability principle over effective ODA management.***

## 4.6 ODA Alignment to NSDP Requirement

Improving the alignment of development cooperation with national priorities has been emphasized to ensure that resources are allocated in accordance with national development needs as part of accelerating development effectiveness work. In Accra Agenda for Action in 2008, Alignment Principle was agreed by donors to use country systems as the first option. Alignment of aid is one of all principles of Paris Declaration (2005) which makes clear references as following:

- (i) Donors align with partners' strategies
- (ii) Donors use strengthened country systems
- (iii) Partner countries strengthen development capacity with support from donors
- (iv) Strengthen public financial management capacity
- (v) Strengthen national procurement systems, and
- (vi) Untie aid, getting better value for money.

Again, Busan Partnership Agreement (2011) encouraged all donors to

strengthen their alignment with national priorities and focus on locally defined development results. The 2015 data of Alignment with development priorities is clearly strong as shown in Annex 2. Perhaps, it is because the RGC has been able to clearly articulate its priorities and negotiate policies with donors. The **Annex 2** shows that Alignment commitment in 2015 is fully aligned 100 percent with the objectives of the NSDP (2014-2018). The Use of Country-led Results Framework also shows significant progress which 79 percent relies on national M&E systems, both outlined in the JMIs (GPEDC, 2016). Partners making most extensive use of country results and M&E include the Asian Development Bank, Japan, and the World Bank Group (GPEDC, 2016).

Even though donors have aligned most of their policies and programmes with Cambodian priorities, most of their project or programme implementation processes have not linked to country systems (CDC, 2016). What is more, similar result was also found in Aid Effectiveness Report in 2007. Actual disbursements, while broadly matching the NSDP profile, are not quite as closely aligned—besides that, there is a relatively strong degree of alignment between the NSDP's financing profile and the commitment of external financing reported in the PIP (CDC, 2007).

A greater challenge has been caused by the different reporting standard, according to a finding in “Cambodia Country Study Report: Phase Two Evaluation of the Paris Declaration” conducted in 2010. Donors talk about harmonization and alignment but they have not standardized their reporting which makes reporting onerous and leads recipients to need to report in many different styles (RBMG & VBNK, 2010). The same report also found that the absence of standardized objectives and indicators of aid leave those receiving aid trying to satisfy differing aid objectives instead of harmonizing and aligning objectives for greater effectiveness (RBMG & VBNK, 2010).

It can conclude that Alignment has only been partially successful since,

although there has been an attempt by donors to align their investments to Cambodia's development policy framework. This perhaps because the low reliability of existing country PFM system, causing donors reluctant to inject their assistances by using the country system.

## ODA and the Required External Resource for National Strategic Development Plan (NSDP)

According to National Strategic Development Plan 2014-2018 (NSDP), it emphasizes the important of contribution from donors to fund public investment plans. Through this document, Royal Government shows the commitment to continue strengthening and broadening cooperation with all type of donor, such as government donors, national and international NGOs, and other civil society stakeholders, to maximize the benefits of Cambodian people. To ensure utilization of resources available for implementing NSDP, the Three-Year Public Investment Program (PIP) formulated by Ministry of Planning provides key information to enable the harmonization of development cooperation financing and public investment requirement. It is important to note that PIP is a 3-year rolling plan and is prepared annually to reflect the government priorities in order to achieve the NSDP and sectoral development strategies, policies, and frameworks.

In latest NSDP version (2014-2018), as show in **Table 13**, Cambodian government has set a target of USD 26.8 billion for capital investment (private sector capital investment and public sector capital investment) for the 5-year development plan, of which USD 7.6 billion is expected to spend on public sector capital investment (RGC, 2014). The total estimated resources public sector capital investment accounting for 28.5 percent of the total capital investment requirement<sup>18</sup> that need to mobilize from external sources (ODA).

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<sup>18</sup> NSDP 2014-2018, pp. 202-209

So, the annual required budget for the five-year public sector investment plan is USD 1.52 billion. Through development cooperation, in latest ODA figure provided by CDC report, Cambodian government has made an excessive achievement on ODA mobilization by receiving ODA disbursement approximately USD 1.23 billion per year in the last decade between 2007 and 2016 (CDC, 2018).

**Table 13:** NSDP's requirement for capital investment (2014-2018) in Billion USD

Type of Investment	Source of Funding	Total
Public Capital Investment	Financed by Domestic Resources <b>1.86</b>	<b>7.58</b>
	Financed by External Resources <b>5.72</b>	
Private Capital Investment	Financed by Domestic Resources <b>11.46</b>	<b>19.02</b>
	Financed by External Resources <b>7.56</b>	

**Source:** Royal Government of Cambodia, in *National Strategic Development Plan (2014-2018)*

To mobilize and allocate external resources to support national development projects, Council for the Development of Cambodia<sup>19</sup> (CDC) is the national focal point for aid coordination and ODA allocation. Also, NSDP 2014-2018 document clearly stated that the role of CDC is to ensure resource mobilization activities to fund the projects in PIP and to prepare regular reports on PIP projects that are supported by donors. Likewise, MEF has to make

<sup>19</sup> Sub Decree on the Organization and Functioning of the Council for the Development of Cambodia, N0. 147 ANK BK dated 29 December 2005.

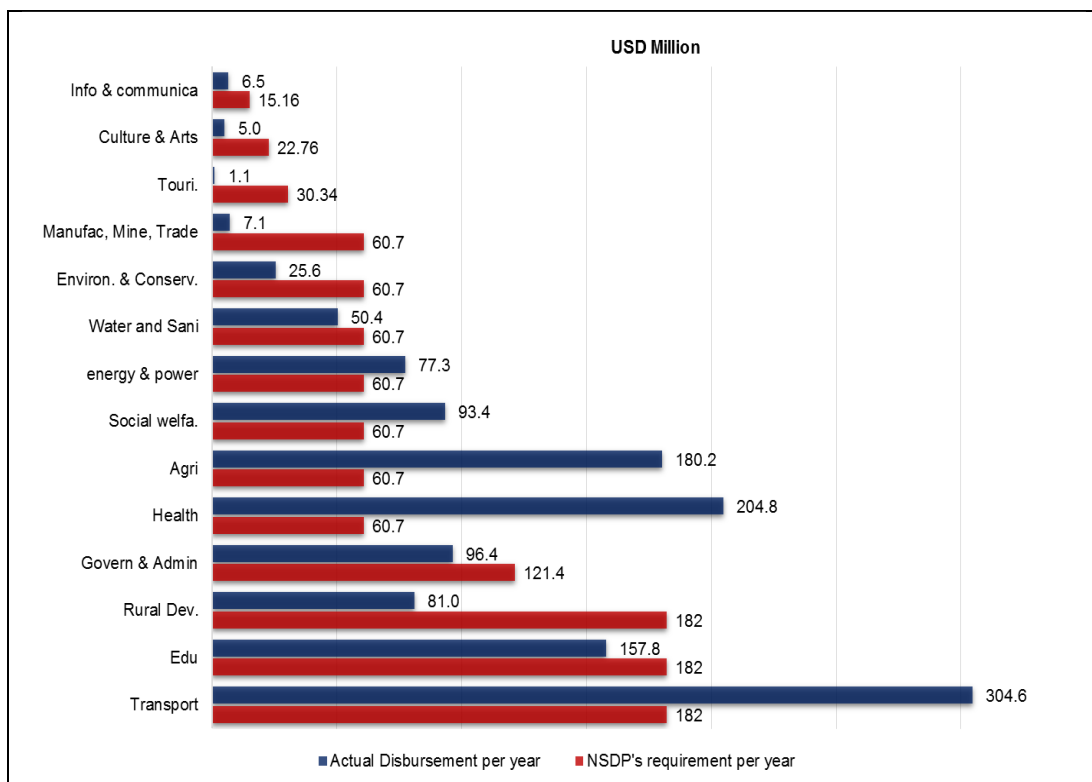


certain priorities for PIP projects to be included in Budget Strategic Framework by taking serious consideration for funding only programmes and projects that are part of PIP (RGC, 2014).

However, looking deeper into required finance by sectors, the consistency of required budget and the actual amount of ODA disbursement is still an issue, which needs further effort to maximize the alignment of external resources to the prioritized needs as outline in NSDP requirement. For instance in **Figure 12**, the estimation for required financial assistance to transportation sector was USD 182 million per year but the actual external funds received from donors was over USD 300 million per year. Then as well in health and agriculture sector, the gap of actual disbursement and estimated funding based on NSDP requirement were huge—estimated funding for both sector was USD 120 million whereas the actual disbursement was over USD 380 million per year.

In contrast to over spending on the above sectors, there was also lack of funding to some vital sectors. In rural development sector, there was inadequate funding, meaning that the actual funding, USD 81 million, was lower than half than the required budget for rural development, USD 182 million per year. Particularly, education development, which is one of the most prioritized sectors, is severely lack of support causing concern that Cambodia will take longer time to address human capacity issues.

**Figure 12:** NSDP's requirement for public sector capital investment per year against actual ODA disbursement per year during the year of 2012 to 2016



**Source:** CDC, in *Development Cooperation and Partnerships Report 2018 & NSDP 2014-2018*

NSDP document points out the required budget for education sector is 12 percent of total estimated public sector investment expenditure which equivalents to USD 182 million a year. Unfortunately, development financing was not be able to meet the required resource, due to the fact that, the actual disbursement of ODA-funded education project was only USD 157.8 million per year. This may cause questions to the quality of work and cooperation between Cambodian government and donor counterpart over the predictability and alignment of ODA funded projects. A greater effort needs to be made in order to assure sufficient financial support to the right needs of the nation.

With changes in development cooperation context due to newly emerged global development agendas and the rise of non-traditional donors, modality and flow of Official Development Assistance (ODA) has become more complex and more difficulties for a highly aid dependent country such Cambodia to manage effectively. Cambodian public sector management is generally known as highly bureaucratic, for instance red tape, complex cross sectional procedures, and even overlapped role of some public institutions over ODA management. These issues obviously jeopardize the effectiveness of using ODA and cause more vulnerabilities to ODA effectiveness and sustainable development.

***Finding 8: There are gaps in Alignment principle that the proportion of actual ODA disbursement did not meet the actual required resource for NSDP implementation. It can conclude that donors still asserted their financial assistance based on their own agendas and objectives, instead of putting NSDP's requirement as first objective.***

## Chapter 5: Conclusion

In general, the major types of ODA to Cambodia are in Loan assistance and Grant assistance. The proportion of Loan assistance has continued increasing over the last ten years—increased from USD 271 million in 2008 to USD 567 million in 2018 (CDC, 2018). Whilst, the provision of Grant assistance has dropped sharply, from USD 707 million in 2008 to USD 506 million in 2018. The changes may reflect to the recent Cambodia's graduation from a low-income economy to a lower-middle income economy in 2016 (World Bank, 2017). Nevertheless, Cambodia continues to receive a large amount of ODA to support its national development programmes, due to the fact that in 2017 the ratio of ODA to GDP is around 6 percent equivalent to over USD 1.2 billion.

Managing this large amount of money needs a high capable and effective institutional capacity to guarantee the money goes to the rightful need of the national development. Cambodian government has increased its leadership capacity and ownership by implementing national development strategies and establishing inclusive aid coordination mechanisms to manage the flows of aid; however, full ownership will not be achieved until country systems are strengthened and used to manage aid flows. Institutional capacity has obviously been a major constraint to support government leadership and ownership capacity over the allocation and utilization of aid flows. By seeing this capacity issue, government clearly stated in DCPS that capacity development remained one of the principal objectives of development cooperation, hence all technical cooperation projects/programmes must be directed to institutional and human capacity development (CDC, 2006; CDC, 2014).

CDC, MEF, and MFAIC are legally authorized by the government to

enable ODA environment more effective and accountable through respecting the national guidelines and global principles for ODA effectiveness. Yet, the fragmentation of division of labor among the responsible government institutions may hamper effective aid mobilization and allocation. Individual government institution has continued to assert their leadership and ownership over the decision making and agreement with donor counterpart and lost sight of CDC role as the only national facilitator and strategic designer for development cooperation. Drawing upon the finding of the flow of ODA via government signatory, it clearly reveals that the low quality of public institution in finance and administrative sector may drive the reluctant and low trust of donors to use the Cambodia's national financial system for ODA-financed project/programme implementation. Though, donors has highly committed to align their ODA objectives with national development objectives.

On one hand there are increasing efforts by the government and donors to establish an agreed upon development policy framework, particularly alignment with NSDP's objectives and results, which is a positive sign of alignment. On the other hand, the use of national financial management, procurement, audit and reporting systems by donors is limited to a handful of core donors. Certainly, a stronger collaboration between Cambodian government and donors need to be made, in a manner of checking and balancing over ODA-financed investments they agreed on, including choice of aid modalities, and project design and implementation decisions, through application of donor funding priorities and criteria. Relatively, donors may put more attention to the resource they have committed and their actual budgeting exercise to national prioritized activities. Adherence to the principles outlined in the Government's Development Cooperation and Partnerships Strategy, together with implementation of the norms and practices agreed global initiatives level, in Paris (2005), Accra (2008), and in Busan (2011), will ensure

that the overarching objective of aid effectiveness can be fully achieved.

### **What can be done to improve the existing institutional arrangement?**

One of the main national framework for ODA management need to be improvised is National dialogue, particularly High-level Dialogue and Policy Dialogues which are outlined in DCSP (2014-2018). They are need to be reactivated and strengthened as they are vital mechanism for ensuring mutual understanding and partnerships in the development effectiveness matters. Likewise, CDC needs to assert its role more in intervening and managing the flow of aids via government channel as it is a vital part of ensuring the direction of resources to NSDP requirement. In the meantime, MEF, MFAIC, and line ministries shall include CDC role in every ODA-financed project/programme negotiation process and agreement. The translation of commitments into disbursements needs to be more closely monitored for NSDP priority activities. A revision of division of labor strategy for responsible institutions over ODA management needs to be done more clearly and precisely.

### **Mutual Accountability Needs to be Strengthened?**

It is important to note that transparency and accountability over financial disbursement through using the country system, PFM and procurement, needs a greater attention from donors. Because it is a best opportunity to advance national capacity over financial management and it ultimately contributes to a better ODA management. Supporting to the use of national financial system, donors may consider to minimize the number of existing PIUs and the possibility of creating new PIUs.

Perhaps, donors need to be more responsive to information sharing over the project implementation, monitoring, and evaluation process, through working closely with CDC channel.

Donors shall routinely include CDC counterpart in all arrangements for signing new financing agreements and country strategies—thus, it is a step further to strengthening mutual accountability over aid effectiveness, despite of the existing three-tiers dialogue mechanism. Donor counterpart needs to continue supporting the principles and the implementation of PBAs, RBAs, and JMIs which are vital tools for ensuring a better alignment of aid to national development objectives and resources and monitoring efforts.

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# Annex 1: Survey on Aid Effectiveness

**Table 14:** Result of Survey on Monitoring the Paris Declaration of Aid Effectiveness in Cambodia (2005-2010)

INDICATORS		2005 baseline	2007	2010
<b>Ownership</b>	Operational development strategies <sup>20</sup>	C	C	B
<b>Alignment</b>	Reliable public financial management system (PFM) <sup>21</sup>	2.5	3.0	3.5
	Reliable procurement system <sup>22</sup>	Not available	Not available	C
	Aid flows are aligned on national priorities	79%	85%	88%
	Coordinated capacity development	36%	35%	27%
	Use of country PFM systems	10%	14%	21%
	Use of country procurement systems	6%	16%	24%
	Strengthen capacity by avoiding parallel Project Implementation Units (PIUs)	56	121	66
	Aid is more predictable	69%	96%	90%
	Aid is untied	85%	89%	93%
<b>Harmonization</b>	Use of PBAs	24%	28%	35%
	Joint missions	26%	12%	19%
	Joint country analytical work	64%	17%	35%
<b>Managing for Result</b>	Results-based monitoring frameworks	C	C	C
<b>Mutual accountability</b>	Review of Mutual accountability	Yes	Yes	Yes

**Source:** OECD (2011), in *Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration on Aid Effectiveness*

<sup>20</sup> This indicator is indicated by scores range from A (High-progress is sustainable) to E (Low-little action has been taken).

<sup>21</sup> This indicator is indicated by points range from 4.5 (Strong-the reliability is high) to 1.5 (Weak-the reliability is low).

<sup>22</sup> This indicator is indicated by scores range from A (High-progress is sustainable) to D (Low-little action has been taken).

## Annex 2: Global Partnership Monitoring Exercise

**Table 15:** The Global Partnership Monitoring Exercise 2013 and 2015

Indicators		2013	2015
<b>Alignment and Use of Country Results Frameworks</b>	Alignment in Objectives	Not Available	100%
	Alignment in Results	Not Available	75%
	Use of Government Data	Not Available	79.2%
	Joint Evaluations	Not Available	97%
	Aid on budget	79%	79.4
<b>Use of Country Systems</b>	Use of Country PFM system	32%	47.8%
	Use of Country Procurement	26%	23%
	CPIA	3.5	3.0
	Aid is Untied	80%	78.5%
<b>Transparency and Accountability</b>	Mutual accountability	Yes	Yes
	Annual Aid Predictability	84%	87.2%

**Source:** OECD/UNDP (2014 and 2016), in *Making Development Co-operation More Effective: 2014 and 2016 Progress Report*

## Annex 3: Loan Provision

**Table 16:** Aggregate Loan provision from Japan, China, and USA to all sector (2014-2018) in Thousand USD

Item	2014	2015	2016	2017 (Plan)	2018 (Plan)
MEF					
Agriculture	91,995	82,719	45,702	56,422	55,519
Community and Social Welfare	20,293	27,507	-	-	-
Energy, Power & Electric.	37,415	45,102	122,597	67,780	84,756
Transportation	180,827	193,807	95,399	138,356	145,411
Water and Sanitation	19,208	1,057	6,064	7,276	11,358
MFAIC					
Tech., Info. And Communications	8,451	4,884	11,962	-	-
Line Ministry					
Agriculture	10,104	5,021	4,756		
<b>Total Loan</b>	<b>368,293</b>	<b>360,097</b>	<b>286,480</b>	<b>269,833</b>	<b>297,045</b>

**Source:** CDC, Dump data report in Cambodian ODA database, extracted date 25th September 2017

## Annex 4: Grant Provision

**Table 17:** Aggregate Grant provision from Japan, China, and USA to all sector (2014-2018) in Thousand USD

Item	2014	2015	2016	2017 (Plan)	2018 (Plan)
<b>CDC</b>					
Governance & Administration	0	0	209	0	0
<b>MEF</b>					
Transportation	22,404	12,608	18,823	25,807	12,395
Education	5,282	11,617	2,996	1,679	1,993
Energy, Power & Electricity	6,355	2,832	334	2,989	2,989
Water and Sanitation	4,356	10,421	17,722	7,221	12,876
Health	4,570	8,223	11,463	3,927	3,834
other	6,476	7,303	960	6,433	40,774 <sup>23</sup>
<b>MFAIC</b>					
Health / HIV/AIDS	16,528	12,003	0	0	0
Rural Development	2,595	2,750	464	32	0
Other	8,045	6,606	7,107	6,427	0
<b>Line Ministry</b>					
Agriculture	3,798	3,412	2,104	2,509	2,678
Education	4,721	7,823	8,245	8,433	6,009
Governance & Administration	1,554	2,492	4,107	13,338	4,070
Health	6,380	9,647	11,417	11,988	9,105
Other	25,621	29,348	17,781	14,374	7,886
<b>Total Grant</b>	<b>118,685</b>	<b>127,085</b>	<b>103,941</b>	<b>105,158</b>	<b>104,608</b>

**Source:** CDC, Dump data report in Cambodian ODA database, extracted date 25<sup>th</sup> September 2017

<sup>23</sup> Out of USD 40.8 million, China pledged to provide USD 36.6 million to Culture, Art and Sport sector in 2018 (plan).

## Annex 5: Term of Assistance

**Table 18:** Glossary of Term of Funding Modalities

Term of Assistance	Element
<b>Technical Cooperation</b>	<p>(a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and</p> <p>(b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries, (including the cost of associated equipment).</p> <p>Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and not separately identified as technical co-operation in statistics of aggregate flows.</p>
<b>Investment Project/Programme Assistance</b>	<p>The provision of financing, in cash or in kind, for specific capital investment projects that create productive capital which can generate new goods or services. It is also known as capital assistance. Investment project assistance may have a technical co-operation component.</p>
<b>Budgetary Support</b>	<p>The provision of assistance which is not cast in terms of specific investment or technical co-operation projects but which is instead provided in the context of broader development programme and macro-economic objectives and/or which is provided for the specific purpose of supporting the recipient's balance-of-payments position and making available foreign exchange. This category includes non-food commodity input assistance in kind and financial grants and loans to pay for commodity inputs. It also includes resources ascribed to debt relief.</p>
<b>Emergency and Relief Assistance</b>	<p>The provision of resources aimed at immediately relieving distress and improving the well-being of populations affected by natural or man-made disasters. Food aid for humanitarian and emergency purposes is included in this category. Emergency and relief assistance is usually not related to national development efforts or to enhancing national capacity but is still included in the definition of ODA, although it is sometimes omitted from a narrower definition that relates to "core ODA".</p>

**Source:** CDC (2017), *Withdrawn from CDC's ODA Database User Manual*

## Annex 6: Economic Outlook

**Table 19:** Cambodia's Economic Outlook, 2008-2017

<i>Item</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<i>GDP growth (%)</i>	6.7	0.1	6.0	7.1	7.3	7.4	7.1	7.0	7.0	6.8
<i>Industry (% of GDP)</i>	22.4	21.7	21.9	22.1	23.0	24.1	25.6	27.7	29.5	30.9
<i>Services (% of GDP)</i>	38.8	38.8	38.3	37.5	37.8	38.5	39.7	39.8	39.9	39.7
<i>Agri. (% of GDP)</i>	32.8	33.5	33.9	34.6	33.5	31.6	28.9	26.6	24.7	23.4
<i>FDI (Billion USD)</i>	0.8	0.9	1.3	1.3	1.8	1.8	1.7	1.6	2.2	-
<i>Exports (Billion USD)</i>	5.6	5.0	6.1	7.2	8.2	9.4	10.5	11.2	12.2	12.9
<i>Imports (Billion USD)</i>	6.4	5.7	6.7	7.8	9.1	10.5	11.5	12.3	13.3	13.9

**Source:** *World Development Indicators, in World Bank Database, Retrieved on 15/09/2018*

# 국문초록

## 국가 발전을 위한 공공 제도적 장치에 대한 분석:

### 캄보디아의 공적개발원조 관리에 대한 분석을 중심으로

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해외 원조는 크메르루주 정권 이후 처음으로 민주적인 일반 선거가 이루어진 1993년부터 캄보디아의 사회경제적 발전의 주요한 재원이었다. 정부의 투자적 지출의 상당 부분은 무상 원조 또는 차관의 방식으로 이루어진 공적개발원조(ODA) 사업 및 프로그램이 차지하고 있다. 캄보디아는 개발원조의 관리와 원조국들과의 협력 강화를 위해 포괄적인 지도를 받고 의사소통을 계속해나가고 있다.

본 논문은 Whitfield & Fraser의 “구조적 조건”과 Ostrom의 “제도분석틀(IAD Framework)”의 개념을 적용하여 캄보디아의 발전에 필요한 우선 사항과 필수 사항을 달성하기 위해 ODA 자원을 관리하고 활용하는 공공 제도적 장치에 초점을 맞춘다. 본 연구는 특히 ODA 협력을 담당하는 주요 공공 기관들(행위자), 형성된 개발 협력 전략과 지침들, 주요 행위자들이 국가 발전을 위해 ODA를 관리하고 활용하는 데 있어 효과성을 보장하기 위해 사용한 행동양식들을 강조한다.

연구 결과 무상 원조와 차관 방식 모두 정부 경로 외에도 다양한 경로들로 원조가 전달되고 있음이 확인되었다. 본 논문은 건전한 제도적

장치의 존재가 국가 발전에 필요한 조건들을 충족할 수 있도록 개발 원조를 효과적으로 관리하고 활용하는 것을 보장하기 않는다는 점을 입증한다. 이는 낮은 제도적 역량, 공공기관의 파편화된 분업 체계, 그리고 전략과 지침에 대한 상이한 해석이 상이한 행동으로 나타난 것에 기인한 것으로 보인다.

주제어: 제도적 장치, 분권화된 원조 전달 시스템, ODA 방식, 원조 효과성, 국가 발전

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