

**Independent Study of Donor Support
for Decentralization and Deconcentration (D&D)**

Contributing to Democratic Development

**Options for Future Donor Support
to Decentralization and Deconcentration**

(Draft Final Report)

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Abbreviations

ADB	Asian Development Bank
ADESS	Agricultural Development Support to Seila
AFH	Action For Health
ARDP	Administration Reform and Decentralization Project (GTZ)
AusAID	Australian Agency for International Development
AWG	Accountability Working Group
AWPB	Annual Work Plan and Budget
BMZ	Federal Ministry of Economic Cooperation and Development (Germany)
CS	Communes/ Sangkats
CAR	Council on Administrative Reform
CBO	Community Based Organization
CBRDP	Community Based Rural Development Program (IFAD)
CCDP	Commune Council Development Project (ADB)
CCs	Commune Councils
CDC	Council for the Development of Cambodia
CDC	Commune Development Committee (pre LAMC 2001)
CDP	Commune Development Plan
CDRI	Cambodia Development Resource Institute
CEW	Commune Extension Workers
CG	Consultative Group
CIDA	Canadian International Development Agency
CIP	Commune Investment Program
CMAA	Council for Mine Affected Areas
CPP	Cambodia People's Party
CSF	Commune Sangkat Fund
DAC	Development Assistance Committee (OECD)
DANIDA	Danish International Development Agency
DCR	Development Cooperation Report
DfAE	Department for Agricultural Extension
DFID	Department for International Development (UK)
DFT	District Facilitation Team
DIC	Department for International Cooperation (in MoEF)
DIW	District Integration Workshop
DOLA	Department of Local Administration (in MoI)
DPM	Deputy Prime Minister
ECOSORN	Economic and Social Relaunch of the Northwest (EU funded project)
EU	European Union
ExCom	Executive Committee (of PRDC)
FAO	Food and Agriculture Organisation (UN)
FMS	Financial Management System
FAO	Food and Agriculture Organisation (UN)
FOA	Food Aid
FTC	Free-standing Technical Cooperation
GDCC	Government-Donor Coordination Committee
GTZ	German Agency for Technical Cooperation
HC	Health Centre
HCMC	Health Centre Management Committee
HD	Health District
HSSP	Health Sector Support Program
IA	Implementation Authority

IFAD	International Fund for Agricultural Development
IFI	International Financial Institutions
IMF	International Monetary Fund
IPA	Investment Project Assistance
ITC	Investment-related Technical Cooperation
JICA	Japan International Cooperation Agency
KAF	Konrad Adenauer Foundation (Germany)
LAAR	Local Administration and Reform (USAID funded project)
LAMC	Law on Administration and Management of Communes/Sangkats
LAMDP	Land Administration, Management and Development Program
LDF	Local Development Fund
LGDP	Local Government Development Program
MDG	Millennium Development Goals
MoAFF	Ministry of Agriculture, Forestry and Fisheries
MoE	Ministry of Education
MoEF	Ministry of Economy and Finance
MoFA&IC	Ministry of Foreign Affairs and International Cooperation
MoH	Ministry of Health
MoI	Ministry of Interior
MoIME	Ministry of Industry, Mines and Energy
MoLMUPC	Ministry of Land Management, Urban Planning and Construction
MoP	Ministry Of Planning
MoPWT	Ministry of Public Works and Transport
MoU	Memorandum of Understanding
MoWA	Ministry of Women's Affairs
MoWRAM	Ministry of Water Resources and Meteorology
MRD	Ministry of Rural Development
MTEF	Medium Term Expenditure Framework
NBC	National Bank of Cambodia
NCSC	National Committee for the Support to Communes/ Sangkats
NGO	Non-Governmental Organization
NRDP	Northwestern Rural Development Project (ADB)
NREM	Natural Resource and Environment Management
NRM	Natural Resource Management
NSDP	National Strategic Development Plan
O&M	Operations and Maintenance
OD	Operational District (health sector)
ODA	Official Donor Assistance
OECD	Organisation for Economic Cooperation and Development
PAP	Priority Action Program
PBA	Program-Based Approach
PBA	Programme/Budget Aid
PBC	Planning and Budgeting Committee
PDA	Provincial Department of Agriculture
PDAFF	Provincial Department of Agriculture, Forestry and Fisheries
PDE	Provincial Department of Education
PDEF	Provincial Department of Economy and Finance
PDH	Provincial Department of Health
PDP	Provincial Development Plan
PDRD	Provincial Department of Rural Development
PER	Public Expenditure Review
PFM	Public Financial Management

PFMRP	Public Financial Management Reform Program
PFT	Provincial Facilitation Team
PHD	Provincial Health Department
PIF	Provincial Investment Fund
PIM	Project Investment Manual
PIP	Provincial Investment Program
PIU	Project Implementation Units
PLAU	Province Local Administration Unit
PLG	Partnership for Local Governance (UNDP, DFID, SIDA)
PMG	Priority Mission Group
PMU	Project Management Units
PNGO	Province NGO
POLA	Provincial Office of Local Administration
PPTA	Project Preparation Technical Assistance
PRA	Participatory Rural Appraisal
PRDC	Provincial Rural Development Council
PRDC	Provincial Rural Development Committee
PRSO	Poverty Reduction Strategy Operation (World Bank)
PRSP	Poverty Reduction Strategy Paper
PT	Provincial Treasury
RGC	Royal Government of Cambodia
RILG	Rural Infrastructure and Local Governance Project (World Bank)
RPRP	Rural Poverty Reduction Project (IFAD)
S/N	Sub-National
SD	Sub-Decree
SF	Strategic Framework
SIDA	Swedish International Development Agency
SNAs	Sub-national Authorities
STF	Seila Task Force
STFS	Seila Task Force Secretariat
SWAp	Sector-Wide Approaches
SWiM	Sector-Wide Management
TA	Technical Assistance
TOR	Term of Reference
TWG	Technical Working Group
UNCDF	United Nations Capital Development Fund
UNDP	United Nation Development Program
UNICEF	UN Children's Fund
USAID	US Agency for International Development
WB	World Bank
WFP	World Food Program
\$ or dollars	United States Dollars

Glossary

Unless otherwise noted:

Accountability: we distinguish four forms (1) primary accountability (between elected representatives and citizens), (2) sub-national accountability (between different sub-national levels), (3) horizontal accountability (between administrative units at the same sub-national level, between representative body and administration), and (4) national vertical accountability (observance of national laws and regulations, national programmes and policy priorities)

Alignment: can refer to (1) the commitment made by donors to adjust their support with the strategies, plans, institutions, procedures and systems of the partner country (government-donor relationship), thus progressing towards more flexible aid modalities and (2) the actual process of adjusting donor program and procedures to become consistent with government policies, procedures and programs.

Assignment: is to transfer the ownership of a function including all the power and discretion that is necessary to administer and enforce that function

Authority: short for 'Implementation Authority', i.e. the government body expected to be responsible for policy coordination and strategic oversight for the D&D reform process, as indicated in the Deputy Prime Minister's speech at the CG meeting on 2 March 2006

Capacity Building: refers to investments made to *directly* impact on the ability of institutions and the political and administrative officials to make policy choices, discipline these through plans and budgets, and ensure their articulation in the way resources are used and accounted for in practice. Not included is 'development financing' nor 'recurrent/salary' financing – both *indirectly* critical to 'capacity'.

Commune: refers to the elected Council

Conditional Grants: generally made available to local governments with conditions to spend the monies in a certain manner and to achieve particular outputs or results. In some cases the 'objects of spending' are also detailed (see 'special purpose grants'). The grants are provided to improve a sector's performance and specific output targets may also be laid down.

Decentralisation: is any act by which central government formally cedes powers and authority (to plan, make decisions or manage public functions) to actors and institutions at lower levels in a political-administrative and territorial hierarchy.

Deconcentration, or administrative decentralization, involves transfer of power to local offices of central government agencies. Typically, this deconcentration does not also involve subjecting local administrations to local political representation.

Delegation: is the transfer of a function along with power and discretion to administer that function on behalf of the delegating authority

Districts: includes both srok and khan, ie., rural and urban districts

Donors: includes both multilateral development banks, and bilateral aid organizations, unless greater specificity is needed, such as referring to non-governmental organisations.

'Duality of Systems': an expression in the Study TORs, in which government and donor sanctioned systems for planning, budgeting and finance management operate in tandem. Sometimes referred to as 'parallel systems'.

Expenditure tracking: generally refers to an activity designed to assess the effectiveness and efficiency of public spending on a sector basis by 'tracking' the transfer of funds from national budget outlays

through to the final point (the school, health clinic, operations expenditure) at which resources are expended.

General Purpose Grants: generally used to provide the mainstay of local government expenditures in decentralised financing systems. Funds generally permitted to be used for any local government purpose. Allocations of funds under this grant are conditioned only by the mandates of local governments as provided for in the relevant law.

Governance: refers to how power is exercised by authorities, whose legitimacy is recognized in law, to make and apply rules, mobilize and manage resources respond to public choices. Official (donor and government) policy suggests that good governance is advanced through five principles -- openness, participation, accountability, effectiveness and coherence.

Harmonization is the commitment and actions by donors to rationalize and coordinate their multiple activities, so that the collective aid effectiveness is maximised under the leadership of the partner country (donor-donor relationship).

Implementation Authority: is that which was referred to by the Deputy Prime Minister (3 March, CG Meeting, 2006). We take this as being synonymous with the 'National Committee' which was included in the D&D Strategic Framework announced on 17 June 2004.

Implementation Strategy: is that which was referred to by the Deputy Prime Minister (3 March, CG Meeting, 2006). We take this as being synonymous with the 'National Program for the Implementation of D&D Strategy' which was included in the D&D Strategic Framework approved by the Council of Ministers in June 2005.

Local Regulation: is the process through which public entitlements (personal security, administrative and contractual rights, land, irrigated water, forests, etc) are managed by public authorities to ensure people's access to, and security of tenure over these entitlements fairly and in accordance with the law.

Modality: includes (1) policies and instruments which structure how aid is delivered, aligned and made effective, and (2) the administrative, financing and accountability arrangements which deliver aid, which (3) enable that investments are made in local governance and local development

Ownership is the effective authority the government has over the formulation and implementation of its development programs, including the external resources assigned for their implementation. To achieve ownership requires a focused effort by partner countries and donors to clarify and formalize their roles and responsibilities in a partnership framework.

Political Decentralisation, or Democratic Decentralization, involves transfer of power to elected local authorities

Provinces: includes both provinces and municipalities

Regulation: 'a regulation' is an official legal restriction promulgated by government which is supported by threat of sanction for acts of non-compliance. Regulations are legal instruments which articulate higher laws. A 'regulation' may articulate a statutory law.

Salary Supplement: payments paid by donors and their implementing partners, including NGOs and private contractors, including regular monthly payments received as salary; contracts for specific pieces of work paid at a daily rate; employment of civil servants on leave without pay; part time employment of civil servants; payments either made to individuals or to a team, group or unit; all other financial payments (both internal to Cambodia or for overseas) that are received by civil servants such as travel or other allowances, per diems, sitting fees, honoraria, payment of expenses; as well as other sorts of benefits that are received but which are not provided as a cash payment such as overseas travel or gifts. (TWG on Public Administration Reform 2005)

Seila Framework: the existing institutional structures and procedures which are used to channel donor resources to sub-national entities

Seila Program: the program for local governance and local development as defined in the Seila Program Document of December 2000

Seila Task Force (STF): the national-level inter-ministerial body established by Sub-Decree No. 57 ANKR.BK, which is charged with the overall management of the Seila program

Special Purpose Grants: grants provided to local government for specific development projects. Typically, these grants are for capital expenditure to support local level development.

Sub-national Government: refers to all three levels below the national government, ie., province and district administrations and commune councils.

Subsidiarity: refers to the principle that the relevant level for decisions by public authorities is the most-local-possible level at which decisions will not result in negative effects at higher social or administrative levels.

Executive Summary

1. The Study Team's Task: The Study Team was required to present options and make recommendations for future donor support to the D&D reform process against the background, intentions and needs of the Strategic Framework and in the context of policy for sub-national democratic development. More specifically, these options needed to contain 'modalities'¹ which would promote two key purposes: a) reinforce government *ownership and authority* and prevent the 'duality of systems', (in other words, systems that operate in parallel with government systems), and b) the *accountability* of elected (and appointed) officials to the needs of their communities in ways that "not simply deliver programs, services and infrastructure, but also involve and stimulate social and political capital". The Team was required to undertake a comparative review of existing institutional and funding arrangements, that is, existing 'donor modalities' in light of these two key purposes. Together, the key purposes and comparative review, would enable the Team to prepare options that would stipulate the necessary, a) institutional arrangements, and b) fiscal procedures and mechanisms for different options.

Our investigations have led us to two conclusions.

First, amongst senior officials at national level (particularly the IMC) and in the provinces (particularly the governors and key line departments), there is a clear sense that the success of D&D will depend on three things: a) effectively re-engineering governance around local accountability, that is, relations between elected leaders and citizens, b) creating a 'unified administration' at province and district levels, and c) ensuring in practice the axiom of fiscal decentralization – that 'resources must follow functional responsibility'². As we will illustrate, officials differ in how they define these points, but there is a high degree of coherence about the fundamentals.

Second, in respect of each of these three points, we have concluded that, *with some notable exceptions*, the 'modalities' currently employed by government and donors at the sub-national level have the effect of undermining the primary accountability of local elected leaders to citizens, and will make unified administration extraordinarily difficult. Unless current modalities are fundamentally altered, the possibility of citizen-responsive local politics we believe is very remote. Current systems promote political, administrative and fiscal centralization, or, in another language, they conspire to ensure that resources intended to benefit Cambodia's majority poor are captured, diverted and are otherwise used to reinforce patrimonies which are most often at odds with their interests.

Observations from field visits highlighted critical issues as follows:

- the crowding effect of multiple relationships with external partners ('donors'), which draw the attention of elected leaders away from their constituency towards meeting the requirements of these external relationships
- overall, the relative neglect of 'governance' or in particular regulatory issues in providing support to sub-national initiatives and innovations, putting innovations at risk and reducing their potential benefit for the communities involved
- the limited potential of the PRDC/ExCom arrangement to ensure sufficient sub-national

¹Defined in this Study as (1) policies and legal instruments which structure how aid is delivered, aligned and made effective, (2) administrative, financing and accountability arrangements through which (3) investments are made to enhance national and sub-national governance and development.

² Policy makes a distinction between 'obligatory functions', for which predictable, adequate resources must be made available as of right, and 'agency functions' (non-obligatory) which are negotiated and agreed between levels of government, for which the 'principal' must provide corresponding resources to enable the 'agent' to carry out the function. This distinction is not important in the axiom noted here.

- accountability, ie. the interaction between provincial, district and commune level.
- the overriding strength of vertical, sectoral programs which either largely by-pass sub-national entities or overrule efforts for horizontal coordination like the PRDC/ExCom arrangements
- the positive effects of harmonized and aligned systems in speeding up the availability of external resources for the sub-national level
- the harmful effects on primary and horizontal accountability of the dominant implementation modality for capacity building measures.

2. Constructing and Recommending Modalities: The Team used known Government policy, international and local experiences and the RGC's commitments for enhancing aid effectiveness as the building blocks for constructing future modalities for donor support to the D&D reform process. As numerous policy decisions on details of the D&D policy reforms have not been made yet, the Team had to work on the basis of interpreting available policy documents and statement, bearing in mind the limitations of this approach. The Team assumed that D&D implementation will have to address reforms and changes in four strategic domains: fiscal and financial matters, political and administrative matters, sectoral matters, and human resource matters. The team further assumed that Government will seek support with five cross-cutting aspects of these domains (top level D&D policy management, subsidiary policies and legal instruments, systems and structures, human resources, and investments for both local governance and local development). Complementary reform in public financial management and public administration will be instrumental in providing important requirements for the success of the D&D reform process. Looking at international experiences in decentralization reforms elsewhere, six key requirements for D&D reform are highlighted: (1) the existence of a committed and strongly facilitated national champion, (2) strong arrangements for government-donor coordination, (3) strong donor-donor coordination, (4) effective links between decentralization reforms and sector reforms, (5) effective links between decentralisation reforms and the wider public sector reform (financial management, public administration), and (6) common processes of preparation, design, reviews and monitoring.

The Team distinguished between modalities regarding policy formulation and policy management at the national level, and modalities concerning donor support to sub-national authorities. In both cases, three options are described, and then assessed against seven policy principles drawn from Government policy documents and the Team's TOR. These policy principles include (1) local participation and accountability, (2) political and administrative accountability, (3) governmental ownership, (4) fiscal efficiency, transparency and accountability, (5) flexibility and sustainability, (6) managing for results and performance, and (7) donor-government cooperation.

Regarding donor support to policy formulation and policy management, the preferred modality includes a mixture of pooled resources and stand-alone support activities, which address the needs of the 'Implementation Authority' (as the body overseeing the reform process) and other governmental agencies implementing elements of the D&D reform in line with their constitutional and legal mandates. A 'D&D Reform Facility' would provide pooled funds for resourcing needs at the national and sub-national level. The 'Implementation Authority' would coordinate overall Government-Donor relationships pertaining to D&D support by using instruments like an RGC-Donor Agreement on D&D Support, annual work planning and budgeting, and a joint progress review process. Resources would be provided to core and line ministries (e.g., in the sectors) either through the 'Implementation Authority' or through direct relationships with donors, which will have to be reflected in the annual D&D work plan.

Regarding donor support to sub-national authorities, the Team suggest the use of multiple financing instruments which are disciplined by the RGC-Donor Agreement on D&D. Examples of

financing instruments include the above-mentioned “D&D Reform Facility”, specific purpose grants, and sector programs and area development projects. In the longer term, the Team suggest that donor support to sub-national authorities is channelled through intergovernmental grants financed by sector budget support. However, in the short- and medium-term this option was regarded as not feasible, as the weaknesses of the public financial management system would deter many donors from providing support through the normal budget process.

The combination of these two options C is then described in more detail as the Study Team’s recommended future modality of donor support to the D&D policy reforms.

4. New Modalities of Donor Support – How to get from here to there: The Study Team has recommended to the IMC Task Force that a new Government-donor relationship on D&D support should be in place by January 2008, keeping in mind the constraints of the budget process both in Cambodia and in many donor countries which would make it difficult to achieve this any earlier.. As the preparation of new arrangements will be too complex to be managed in time for the budget process for 2007, the next “window of opportunity” will be the budget process for 2008. The RGC has committed to ensuring that implementation of D&D reforms occur with minimal disruption to the business of government and in particular, that current arrangements to deliver both government and donor resources to SNAs are not interrupted. In more detail, the Study Team recommends that

- donors continue to support the process of drafting the organic law(s) and the implementation strategy, and support the consultation process required on the draft.
- during the next 18 months a series of Technical Studies be conducted on a range of issues, including the preliminary design of the 'Implementation Authority' and its secretariat, the design (or re-design) of province and district funds, the design of the suggested D&D Reform Facility, the replacement of current modalities for providing salary supplements, a review of the National Audit Authority and external audit options for the sub-national level. These studies should not be done simultaneously but in a sequenced manner as prioritized by the Government; the modality of conducting the study should be modelled on this Independent Study.
- the future RGC-Donor relationship on D&D support be governed by a “RGC-Donor Agreement on D&D Support”, which details the principles and objectives of the cooperation, and puts in place the required processes, mechanisms and structures for cooperation; the design and development of such an agreement can be the task of one of the technical studies mentioned above. The agreement should be concluded during the third quarter of 2007 and be the basis for the budget commitments of the RGC and the individual donors. Endorsement of this agreement and subsequent budget decision would result in the approval of a first Annual Work Plan and Budget (AWPB) of the 'Implementation Authority' for 2008.

5. Implications for Seila: It had been stated recently by the Government that the Seila program is expected to continue beyond 31 December 2006 in line with the RGC's policy that there should be no interruption of essential government business (including donor activities). However, continuation of Seila (either by an extension of the existing program, or by formulation of a new, similar program which would take over those functions of Seila which are still needed) will require considerable flexibility and adaptability to adjust to the emerging D&D implementation arrangements, and to subsequent institutional and procedural changes to match these. We believe this is achievable, especially considering the flexibility demonstrated in Seila program arrangements over the 2001-2003 period when the commune councils were being introduced.

Decisions regarding Seila are only one part of crucial and pressing decisions that must be made about national programs across a range of priority sectors (health, rural development, agriculture and natural resources, land, education). Should the 'Implementation Authority' be fully 'competent' by the end of 2007 and new mechanisms of resourcing sub-national authorities in place for the new budget year 2008, the need for a Seila program and the functions, which it had provided, will no longer exist. The extension and replacement program of Seila, for which the Study Team suggests a three-year period (to coincide with the 'Initial Phase' of the D&D reform process) will have to feature in-built mechanisms of flexibility and adjustment. Although such an extension and replacement program during its initial 12 months (i.e., during budget year 2007) might resemble closely the current Seila program, significant changes and modifications (regarding institutional structures, scope of work, staffing) will have to be effected.

SECTION A: STUDY PREAMBLE

A.1 The Purpose of the Assignment

The *Independent Study of Donor Support for Decentralization and Deconcentration* (the Study) was commissioned by the Royal Government of Cambodia (RGC) – represented by the Task Force of the Inter-ministerial Commission To Formulate a Draft of Organic Laws (IMC) – to obtain “an authoritative understanding and choice of options for best ensuring the sustainable support of all donors for the implementation of the Organic Laws and for the long- term development of the D&D policy.”³

Based on the *Strategic Framework for Decentralization and Deconcentration Reforms* (D&D SF), approved by the Council of Ministers on 17 June 2005, the Study was tasked to identify and consult widely both within government and the donor community regarding options for the alignment of donor support with the implementation of the D&D policy reform process that would contribute towards achieving the two major objectives of the D&D reform process, ie., to “strengthen and expand local democracy and to promote local development and to reduce poverty”.

A.2 Expectations of the TORs and Study Approach

We here summarise the Study TORs, the approach taken by the Team, indicate some key concepts, and make remarks about Study limitations.

The Study occurred in a fluid policy context in which key elements necessary for the Team to fully accomplish its assignment were uncertain or absent. Government statements during the March 2006 Consultative Group (CG) Meeting clarified issues regarding tentative time lines of the reform process, however neither a first draft of the organic law(s) nor the draft ‘implementation strategy’, originally anticipated to be available during the Study, were available before the Study concluded. Therefore in many aspects, the Study Team had to rely on informed interpretations of the D&D policy visions as formulated in the June 2005 D&D SF and the Deputy Prime Minister’s statement to the 2-3 March 2006 CG meeting, in order to *infer* the likely programmatic basis for D&D, against which options for donor support modalities could then be crafted and assessed. This proved to be a sensitive exercise. Representatives of the IMC, the Study Team’s ‘client’, pointed out that they did not regard interpretations of the ‘implementation strategy’ as being part of the Study TORs, and that it was important the Team did not anticipate the nature or scope of this in ways that might pre-empt decisions yet to be made.

Nonetheless, the Study TORs provided a general frame of reference around the two major goals of the intended policy reforms, that is, “to strengthen and expand local democracy” and “to promote local development and to reduce poverty”. This general frame was further specified in terms for each member of a three person team (Team Leader, Funding Mechanisms/Financial Support Specialist, Implementation Mechanisms and Modes of Delivery Specialist). It proved impossible to mobilise the third member of the Team. In response, and with the approval of the Chairman of the IMC Task Force, we proposed to address the TORs overall, by taking common responsibility for the TORs, rather than in terms of the three specific assignments originally envisaged. Annex 1 contains the Study TOR⁴, and explains how the Team interpreted and addressed the TOR.

³Memorandum of the Deputy Prime Minister/Co-Minister of Interior on Preparation, Processes And Implementation of Organic Laws (2 June 2005). Note we have referred throughout to organic law(s) since we are informed that government has yet to determine whether one or more laws will be required.

⁴As endorsed by the IMC Task Force on 13 December 2005.

A.3 Methodological Steps

In summary, the Team was required to present options and make recommendations for future donor support to D&D against the background, intentions and needs of the Strategic Framework and in the context of policy for sub-national democratic development. More specifically, these options needed to contain ‘modalities’ (a term we explain shortly) which would promote two key purposes: a) reinforce government *ownership and authority* and prevent the ‘duality of systems’, (in other words, systems that operate in parallel with government systems), and b) the *accountability* of elected (and appointed) officials to the needs of their communities in ways that “not simply deliver programs, services and infrastructure, but also involve and stimulate social and political capital”. The Team was required to undertake a comparative review of existing institutional and funding arrangements, that is, existing ‘donor modalities’ in light of these two key purposes. Together, the key purposes and comparative review, would enable the Team to prepare options that would stipulate the necessary a) institutional arrangements, and b) fiscal procedures and mechanisms for different options.

The *structure of the Report* largely reflects this flow of argument. Section B deals with the policy context for the Study and concludes with a listing of ‘policy principles’ that we garnered from existing policy statements as well discussions with officials on what they considered crucial to consider when assessing donor modalities in relation to D&D policy. These principles, particularly those dealing with what we term ‘D&D’s new accountability map’, are further elaborated in Section C, which looks at existing donor modalities in practice, particularly at the sub-national levels, and again concludes by summarising our assessment in terms of these same policy principles. Section D turns to the future, and outlines options for donor support to D&D implementation, and tests each of these in the same way. We propose a way forward, that is, a particular option and set of modalities, before, in Section E, outlining steps that the IMC might consider to make this option a reality over the next 18 months.

Understanding of the term ‘modalities’: In the international debate on aid effectiveness, the term ‘modalities’ normally refers to instruments for providing assistance which are located on a continuum between ‘general budget support’ at the one end, and so-called ‘stand-alone projects’ at the other. Aid modalities are thus described by the use of government systems versus the use of parallel systems (like Project Implementation Units/PIU), with various hybrid forms in between these two extremes. Aid modalities in this context are described as having different degrees of earmarking, as applying different forms of conditionalities, and as using different accountability arrangements. Another way to describe aid modalities is the distinction between technical and financial assistance, and between grants and loans.

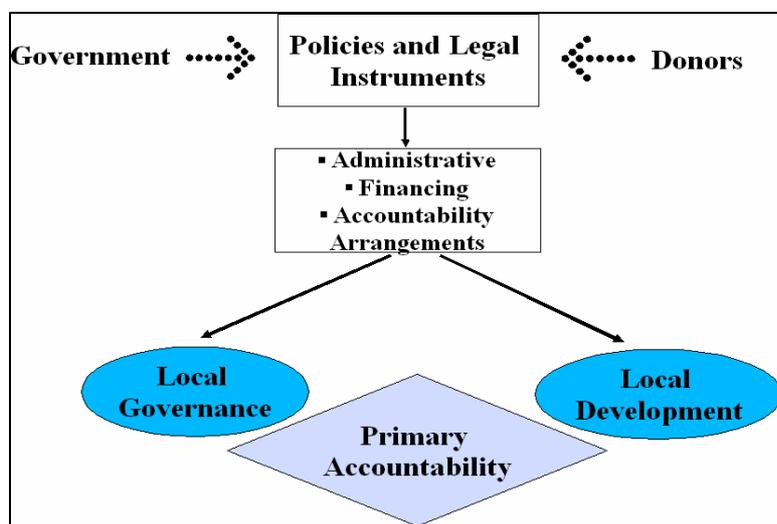
These distinctions are evident in international statistics on aid flows. These distinguish six types of aid modalities, ie. Free-standing Technical Co-operation (FTC), Investment-related Technical co-operation (ITC), Investment Project Assistance (IPA), Programme/Budgetary Aid or balance-of-payments support (PBB), Food aid (FOA), and Emergency and Relief (humanitarian) Assistance (ERA). Whilst we have incorporated these conventions, for the purpose of the Study, we have found it useful to refer to three aspects of modalities:

1. Donor *policies and legal instruments* which structure how aid is delivered, aligned and made effective, and
2. administrative, financing and accountability *arrangements* through which
3. *investments* are made to enhance national and sub-national governance and development.

However, two caveats are in order. The distinction between *government* modalities on the one hand and *donor* modalities on the other is often artificial and difficult to sustain in practice. Certainly, our assessment included examples of stand-alone donor project modalities, including some parallel systems that seem to operate largely untouched by the fact that they are ‘being

implemented in Cambodia'. Indeed, as we explain in detail in Section C, we are not the first to conclude that many modalities simultaneously weaken governmental ownership and local accountability. But as often, we show examples of modalities (policies, planning or financing systems, for instance) which may have begun their life as a 'donor invention' crafted primarily to serve donor needs, but which over time have become part of normal government business, as a result of the passage of law or regulation.⁵

Figure A.1: Our understanding of "modalities"



Similarly, the taken for granted distinction between donor and government modalities can be misleading in other ways. Just as donor modalities are many, so too are government modalities. It is important not to neglect the fact that a large share of 'governance' in countries like Cambodia occurs through systems of patronage which operate not so much in 'parallel' with official systems, but are thoroughly infused with those systems. How government modalities work in practice, therefore, is as important to

understand as donor modalities. D&D reforms are in many countries resisted because they could threaten and disrupt entrenched patronage systems, from the highest level, to the forestry or health worker, the head teacher to public health inspector. But just as often, decentralization reforms are not resisted for the simple reason that, because they tend to be only partially implemented, decentralisation reforms can provide so many more opportunities for local corruption or the misdirection of resources that are the hallmarks of neopatrimonial government systems.⁶ Thus it is necessary to be alert to the fact that whilst it is possible to craft 'donor modalities' which, in theory, promote local accountability or governmental ownership, in practice these modalities may prove instrumental in making possible quite different outcomes. Thus, the distinction between, and the effects of interaction between donor modalities and government modalities cannot be taken for granted. This becomes all the more important as commitments to 'alignment' are realised in practice.

A.4 Implementation of the study

The Study occurred between 14 February and 30 April 2006, with some preparatory work concluded before February 2006.⁷ Several donors and agencies provided support for the conduct of the study: the British Government and the German Government (through GTZ) funded the two team members⁸; UNDP and UNICEF provided funds for office equipment and logistical support;

⁵Reality is often more complex than this. For instance, when one is working with a government official, say a Director of a province line department, who receives more than four times his/her official salary through donor supplementation, who applies donor procedure to dealing with development spending, both donor and government procedure for non-salary budget spending and a maze of government and donor rules for dealing with the salary aspects of employment – where does the convenient distinction between 'government' and 'donor' modalities lie?

⁶How this works, although important for how the Study has framed its analysis, cannot be elaborated here. Cf. Brinkerhoff and Goldsmith (2002).

⁷In particular the donor mapping exercise (Independent Study 2006).

⁸Rainer Rohdewold (Coordinator/Team Leader, 26 January – 30 April 2006; Douglas Porter (Team Member, 14 February – 6 April 2006).

GTZ (through the Administration Reform and Decentralization Project (ARDP)) provided additional support staff, logistical and office support. The Team reported to the IMC Task Force. The Ministry of Interior (MoI) provided office space and two senior officials as counterparts for the study team.

The Study Team's work (14 February to 6 April), was roughly divided into three phases.

First, the Team met with senior officials from the MoI, MoEF and CDC, as well as with representatives of a range of donor organisations and projects, on the basis of which we prepared an inception statement to the IMC. Second, the Team visited six provinces⁹ over two weeks, and met with government officials at provincial and district level, commune councillors, technical advisors and representatives of national and international NGOs. We were accompanied by researchers from the Cambodia Development Resource Institute (CDRI) who assisted with the translation and with the contextualisation of the information. Our inception statement recommended a third phase, (13 March – 6 April) during which time individual meetings would be complemented by structured focus group consultations with the IMC Task Force and a working group comprised of five donor agency representatives. This would allow us to test our ideas, receive guidance, and then prepare this draft Report.¹⁰

Study Limitations: The Study TORs called for a three member team working together over two months. Evidently, the product of a two member team will have limitations. We are conscious of two particular limitations; one of process, another of product. On process, we regret that the Study fell short on consultation, particularly during the third phase, noted above. Whilst we benefited greatly from consultations during our field visits, and in Phnom Penh with senior officials from MoI, MoEF, and CDC and from donor agencies, we were unable to hold the structured focus group discussions in the manner intended. In late March/early April, two rounds were held with senior officials from MoI, MoEF and CDC followed by an intense and detailed discussion with the Chairman, IMC Task Force and his advisers in MoI. However, the Chairman advised the Team that before submission of the draft final report on 6 April, it would not be appropriate to hold the focus group discussions with the donor group. The Chairman has undertaken to consult with donors once the IMC has reviewed the Study Report and has made comments and observations.

The content of the Study focuses on external official donor assistance (ODA). Although we do have something to say about non-government agencies in Section C, the Report gives inadequate attention to their potential role in D&D policy management and implementation. National and international NGOs play an indisputably major role in sub-national social and economic development (e.g., as funders and providers of technical services and investments, as lobbyists and advocates, or as contractors to national programs or government agencies). Despite some observations during the field visits, time and resources did not allow for a more in-depth analysis of NGOs' contribution to the D&D reform process. Likewise the role of the private sector in delivering services which will be affected by the D&D reform process has not been covered.

Without altering the content of the TOR, the team made an effort to produce a comprehensive report which looks at the Study requirements as a whole, rather than at the individual TOR for each expert position. However, some issues listed in the TOR could not be dealt with in sufficient detail. These issues include the following:

⁹Takeo (27/28 February), Prey Veng (1 March), Kampong Thom (2/3 March), Siem Reap (4 March), Banteay Meanchey (6/7 March) and Battambang (9/10 March)

¹⁰On 6 April, a first draft of the report was presented to the Chairman, IMC Task Force. This final draft reflects comments and suggestions received after that date.

- the issue of constitutional mandates of Government agencies for D&D and how this might effect donor modalities
- the issue of donor support to address broader policy support needs of the Government, of which D&D policy relies for much of its coherence (e.g., poverty reduction, anti-corruption)
- the issue of auditing in relation to sub-national financing, and the role of the National Audit Authority in this respect.

SECTION B: THE CONTEXT OF CAMBODIA'S D&D REFORMS

This section summarises the policy context for Cambodia's D&D reforms. It interprets current policy against the background of recent history, sets it in the context of national poverty reduction and related commitments, and highlights key features of D&D policy objectives and strategic statements of particular importance of the Study. In closing, this background is distilled in a set of 'policy principles' which we use in subsequent sections of the Report.

B.1 Policy Background

Cambodia's uneven performance in reducing poverty is attributed to the three decades of conflict that destroyed infrastructure, decimated the country's human capital and weakened or distorted social, economic and political institutions. Although high economic growth ensued in the decade after 1993, poverty reduction suffered various setbacks due to political rivalries and instabilities. These were prompted as much by history as by events during the 1990s when the country grappled with the twin effects of opening to the global economy and to global norms about how governments should behave in relation to their citizens. As Cambodia transits from post-conflict to 'normality', the legacy of the past remains evident. Governance institutions remain primarily oriented to maintaining regime stability, and less to responding to citizen's demands.¹¹ Government remains weak in terms of its ability to engender the allegiance of its employees and representatives to official norms and rules, to maintain operational coherence around national policy goals, to protect its citizens from predation by government or commercial agents or to ensure that disputes, both within the population and between citizens and government are fairly and effectively redressed.¹²

Decentralisation reforms always carry a range of political and technical ambitions. Not surprisingly, given the events of the recent past, the political legitimacy of government, and stability considerations were important motives in the passage of two commune laws in 2001, and the Commune/Sangkat (C/S) elections in 2002 which created elected local governments nationwide. But here also began the possibility of creating stronger lines of accountability between elected leaders and citizens while, it was hoped, bolstering 'from below' the credibility of government. For the first time, decentralisation law empowered men and women to participate in one, permanent and government-owned set of planning and budgetary practises, in concert with accountable, elected local representatives to decide how public resources would be allocated to their priorities for delivery of basic social, economic, administrative, and political entitlements.

The political ambition remains central to the D&D SF. These policy commitments may be viewed as an acknowledgment that although popular and path-breaking, the creation of C/S governments has not substantially altered the perception that government remains unresponsive and ineffective in meeting citizen's needs and rising expectations, or addressing growing inequality and disaffection with government.

Thus, although many recognized that the introduction of elected communes was a chance to improve service delivery through a better matching of scarce public resources to local needs, and more efficient implementation of these decisions, the RGC has always seen these important *local development* aims as part of a larger, and more far-reaching set of *political* aspirations and *local governance* aims Government hopes to achieve by restructuring government. Official policy indicates that the RGC hopes that a wide range of purposes may be served by pushing forward with this larger reform; four of these seem partly important to the Study Team's assignment.

¹¹ World Bank (2006a).

¹² A useful 'SWOT' analysis of Cambodia's current and future prospects is in Dapice (2006).

First, acutely felt is the charge that national governments have not done enough to deal with burgeoning corruption, now often listed as the single most important issue facing national development, democracy, poverty reduction and international credibility. The effects of corruption are well rehearsed. Bribes increase the cost of goods and services, create an uncertain investment climate, reduce revenues available for delivering and maintaining services. As important, corruption fosters a public sense that laws can be broken with impunity. Government recognizes the need to implement reforms to deal with corruption in policy making and planning, budget preparation and execution, the operations of Treasuries, commercial regulation and so on, as part of efforts to curtail the politically and financially corrosive effects of corruption. But it seems clear that officials also believe progress in these areas depends on a wholly new assignment of governmental powers, responsibilities and resources in favor of sub-national authorities (SNAs).

Second, stronger lines of accountability between citizens and elected representatives, especially at the sub-national level where government does most of its business, are also intended to deal with deeper forms of corruption which undermines local regulation. Corrupted local regulation stymies local economic enterprise, results in exclusion of the poor from access to the health, education or other services they are entitled to, or dispossess them of the personal assets and the common property resources on which the majority poor rely. The concentration of resources at the direct expense of local communities, and evidence suggesting that the poor now enjoy less access to land and resources (fishing waters, irrigation, forests, etc.) are commonly remarked on in D&D policy discussions. Related are expectations that appropriately empowered sub-national authorities might deal with the underlying conflicts, insecurities and lack of economic opportunity that prompt the emergence of gangs and extortion, drug use and dealing, and violence in the home, the village, and between communities and local authorities.

Third, popular conceptions of bad governance and corruption have become associated with the dominance of donors – in policy setting, directing sovereign decisions through a plethora of program implementation units, and otherwise intruding into the business of government and its relations with citizens. Cambodia's donor partners have for long underwritten the lion's share of investment in public services and infrastructure and government policy is unequivocal that future changes must not interrupt this. But the dominance of donors (people, innovations, systems, procedures, money, accountabilities), it is said, is inadvertently making a difficult situation worse and undermining institutional capacity. Donors' closely felt need to see their support impact directly, through service delivery, on poverty indicators (the Millennium Development Goals, and poverty reduction commitments) has resulted in myriad 'special purpose' arrangements, in how plans are made, budgets prepared, funds directed and, importantly, how accountability is ensured for the results achieved. These efforts to by-pass government and short-cut the links between external aid and the intended beneficiaries, it is feared, not only might undermine the nascent accountabilities between newly elected local leaders and citizens, but the distorted incentive structures maintained by donor systems and support may also reduce pressure for reform within the system and reinforce the patrimonies that resist the long and painful process of building credible and effective governance institutions at all levels.

And fourth, as explained below, all three of these outcomes are tied together in the commitment to local 'democratic development': namely, a system of representative governance based on citizen rights, social justice and the rule of law, which fosters local social and economic development. As explained below, D&D policy offers no 'short cut' route to local development, such as might rely on special purpose direct arrangements to get more money spent on social services and infrastructure. Rather, D&D policy commits to the longer and infinitely more complex route of fostering local development through representative forms of local governance at all levels.

B.2 Policy Response

B. 2.1 National Policy: poverty reduction and governance

Thus, although reducing poverty has in recent years become central to government policy, securing peace, political stability and cooperative international relationships have been priority goals of three governments elected since 1993. These priorities, today articulated in the ‘good governance’ agenda, feature as the first of the six key commitments of the National Strategic Development Plan, 2006-2010 (NSDP). This includes:

- Implement anti-corruption efforts through policy reforms, behavioral change and transparency to combat corruption and instil a culture of service within public administration.
- Deepen legal and judicial reforms via institutional strengthening, capacity building, passing basic laws, providing legal aid for the poor, and out-of-court conflict resolution mechanisms.
- Implement the National Program of Administration Reform, including rationalizing the civil service through merit-based appointments and promotions, increasing salary levels.
- Promote decentralization and deconcentration to strengthen local democracy and participatory development, and improve local level service delivery by building local management capacity and further delegation of responsibilities and devolution of funds.
- Reform the armed forces, continue with demobilization.

It is intended that the NSDP will guide RGC policies and resource allocation decisions. But few in government expect that Cambodia will attain the 2015 target of halving poverty without significant changes: the NSDP, no matter how comprehensive, depends on an institutional infrastructure for its implementation. Although a wide variety of economic, historical and management factors will impact on how poverty is reduced, the RGC now regards systematic issues of ‘governance’ as a priority. D&D is a radical prescription that will change the laws, institutional structures, rules and systems of all levels of the state and how it relates to private sector, civil society and the citizens of Cambodia. These, according to the Deputy Prime Minister, promise to be “the most profound and complex constitutional development in Cambodia since the adoption of the Constitution”.¹³

B.2.2 D&D Policy

All dialogue with RGC officials begins with the reminder that the content and implications of D&D policy and laws will require considerable care and consultation. Responsibility for this lies with the Inter-Ministerial Commission (IMC), and an IMC Task Force was formed to assist the Commission with secretariat support from the MOI. The D&D SF provides the broad outline of the laws, implementation framework and program to channel government and donor support over the next decade. However, the IMC has reminded those involved of the responsibilities of the National Assembly and the Senate to debate, modify and approve these changes. Government ownership is stressed.

The D&D SF has three main elements:

- ***electoral accountability***: creating sub-national institutions that have elected representatives; that facilitate citizen participation; that are responsive to local needs; that make decisions and choices relating to local development; and that are accountable for their decisions and actions;
- ***promoting local development***: by ensuring the delivery of services and infrastructure,

¹³ HE Sar Kheng, Deputy Prime Minister and Co-Minister of Interior, *Memorandum on Preparation, Processes and Implementation of Organic Laws*, 2 June 2005.

economic development and the alleviation of poverty, at sub-national levels. This requires corresponding sub-national management institutions that have structures, systems, and administrative and financial capacity that will achieve this; and

- ***unified administrations***: ensuring that these first two components interact with each other regularly. In other words, services and infrastructure must always be provided in response to the decisions of sub-national political institutions.

B.2.3 D&D Policy Objectives

Whilst the over-arching policy goal of D&D is to contribute to the national goal of poverty reduction, the object of D&D reforms is referred to as ‘democratic development’. What is meant by this? HE Prum Sokha, Secretary of State, MOI, and chairman of the IMC Task Force, appreciatively quotes¹⁴ Nobel Laureate Amartya Sen

First, “[democracy] enriches individual lives through more freedom (involving political and civil rights). Second, it provides political incentives to the rulers to respond positively to the needs and demands of the people. Third, the process of open dialogues and debates that democracy allows and encourages, helps in the formation of values and priorities, and this constructive function of democracy can be very important for equity and justice as well as efficiency.”

Government officials distinguish between two parts of democratic development: ‘political’ and ‘administrative’.

Political development involves creating at sub-national levels autonomous institutions that have elected representatives; that facilitate citizen participation; that are responsive to local needs; that make decisions and choices relating to local development; and that have accountability for their decisions and actions.

Administrative development involves the delivery of services and infrastructure at sub-national levels. In a democratic environment, this requires creating at sub-national levels, management institutions that have adequate responsibilities and powers, structures and systems, and administrative and financial capacity that can ensure the delivery of services and infrastructure.

The inter-related nature of these two parts are evident in the key features of D&D policy. (Table B.1)

B.3 Donor Support and Donor-Government Policy

Since 1992, external donors have been providing substantial resources for the development programs of the RGC. Between 1992 – 2003, disbursement of external aid totaled \$5.2 billion.¹⁵ Pledges at the December 2004 and March 2006 Consultative Group meetings reached around \$504 million and \$601 million, respectively.

Since D&D does not appear as a separate sector in the statistics on external aid, capturing the size of donor support in D&D depends on the definitions of what constitutes ‘D&D support’. The

¹⁴ HE Prum Sokha, Second University Lecture, Decentralisation and Deconcentration, May 2005.

¹⁵ CDC (2004), p. 8.

donor mapping exercise conducted by the Study Team¹⁶ categorized more than 60 ongoing and committed projects and programs as D&D support, with a total investment volume of around \$431 million. Of this, 42 percent come from international financial institutions, around 10 percent from multilateral organisations, and 49 percent from bilateral donors. Most of the external support comes in the form of Free-Standing Technical Assistance (FTC) (45%) and Investment Project Assistance (IPA) (53%). Support is being provided by more than 20 organisations and donor countries, using a wide range of implementation modalities. Disbursement between 2002 and 2005 increased from \$26.2 million (2002) to \$54.7 million (2005). Total disbursement during this 4-year period was around \$175 million.

Table B.1: Key Features of D&D Policy¹⁷

1	National Ownership	National government will remain responsible for any function delegated to sub-national administration. In principle, the national government exercises control over these functions only to ensure that the actions of the councils are legal and that councils do not act against the national interest. The corollary of this principle is that the current proliferation of donor-initiated systems at the sub-national level will become progressively aligned with and integrated within, the 'mainstream' of government systems and procedures.
2	Local Accountability	Elected councils represent their local constituents, are responsive and accountable to these local communities for the way in which they carry out their functions, rather than responsive and accountable to the national government. The policy of decentralization is therefore intended to give local autonomy, but not sovereignty, to elected councils.
3	Vertical Accountability	SNAs will remain responsive and accountable upwards to the national government in the manner in which they exercise their delegated/assigned powers.
4	Unified Administration:	SNAs will be 'horizontally accountable', to create single policy, planning, budget making and execution arrangements in which administrations respond to elected representatives.
5	'Cambodian Deconcentration'	Although the term 'deconcentration' has been variously applied in sector-based programs in the past five years, a 'new' form of deconcentration will introduce elected officials at district and province levels and empower them with a wide range of responsibilities and 'maximum discretion'; thus, "the new deconcentration will be adapted to include many of the advantages of decentralization". ¹⁸
6	Clear functional responsibilities	Functional responsibilities will be delegated or assigned to SNAs in accordance with the principle of 'subsidiarity'. It is intended that national government will retain policy oversight, standards and regulatory responsibilities, and ensure that jurisdictional overlaps do not occur, whilst the bulk of service delivery and regulatory responsibilities will be devolved to SNAs.
7	Resourcing according to Function	Elected councils and their administrations must be given the necessary powers and resources, including human, financial, physical and legal capacity to decide, implement and manage their own functions.

Cambodia is one of the participating countries of the *Paris Declaration on Aid Effectiveness*, which formulated five partnership commitments (Box B.1). Specifically for Cambodia, a joint statement by the RGC and development partners in March 2006¹⁹ focused among others on:

¹⁶ Independent Study (2006).

¹⁷ It should be noted that this is not an official 'policy interpretation', but the Team's understanding based on a review of policy documents and discussions with IMC officials.

¹⁸ HE Prum Sokha, Second University Lecture, Decentralisation and Deconcentration, May 2005.

¹⁹ *Declaration by the Royal Government of Cambodia and Development Partners on Enhancing Aid Effectiveness* (March 2006). The February 2006 *RGC Action Plan on Harmonization, Alignment and Results: 2006-2010*, commits to a) the strengthening of public finance management and procurement systems, b) increasing the share of development assistance through national institutions, systems and procedures, and c) increasing the proportion of

- development of sectoral plans at national and sub-national level within the framework of the NSDP 2006 – 2010
- respect of RGC ownership and leadership of the development management process
- alignment of donor country strategies with the priorities of the NSDP
- making increasing use of strengthened RGC institutions, systems and procedures
- increasing the proportion of development cooperation through sector/thematic programs and other program-based approaches.

In the D&D area, considerable progress has already been made to apply the commitments of the Paris Declaration: unprecedented alignment has occurred in donor-supported activities around the RGC's Seila program, and in the joint use of the Seila systems and procedures by several bilateral and multilateral donors which provide targeted multi-sectoral support to the sub-national level. Many of the systems and procedures developed under parallel donor structures have migrated into the Government system – as we illustrate in Section C. Government and donors cooperated closely in developing the 2005 D&D SF; however there have been differing views about implementation strategy. The Government (represented by the Deputy Prime Minister/Minister of Interior) has stressed that a detailed ‘implementation strategy’ (which then would constitute the Government's program to which donor support can be aligned) can only be finalised once the organic laws have been approved by the National Assembly and the Senate.²⁰

In late 2003, RGC and development partners agreed to establish Technical Working Groups (TWG) under the Consultative Group (CG) mechanism, and to set up a Government-Donor Coordination Committee (GDCC). In November 2005, a TWG on Decentralization and Deconcentration (TWG D&D) was established to provide a mechanism at the technical level to facilitate policy dialogue, exchange of information, understanding, and build cooperation between the IMC, the IMC Task Force, the MoI and the donor community. A first meeting of the TWG D&D occurred in late February 2006. It is expected that this TWG will take the lead role in facilitating Government-donor dialogue on donor support to the D&D reform process. However, a detailed action plan and the allocation of resources to the TWG has yet to be established.

Box B.1 Five Partnership Commitments

1. **Ownership:** partner countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions
2. **Alignment:** donors base their overall support on partner countries’ national development strategies, institutions and procedures
3. **Harmonisation:** donors’ actions are more harmonised, transparent and collectively effective
4. **Managing for Results:** managing resources and improving decision-making for results
5. **Mutual Accountability:** donors and partners are accountable for development results.

B.4 The Future: Policy, Program and Implementation

MOI’s mandate for the further development of the D&D policy process has required engagement with several inter-ministerial bodies which have partly overlapping mandates for D&D issues²¹:

- the *Inter-Ministerial Commission to Formulate a Draft of Organic Law* (IMC) is tasked with the coordination and facilitation of the preparation of drafts of the organic laws; a Task Force has been established for this purpose, for which the MoI acts as secretariat.
- the *National Committee for Support to Communes/Sangkats* (NCSC) was established

ODA delivered through sector/thematic programs, and other program based approaches.

²⁰See DPM Memorandum of 2 June 2005. Note: government statements refer to ‘implementation plan’ and ‘implementation strategy’ interchangeably. Throughout this Report, we refer to ‘implementation strategy’.

²¹See Annex 3 for details.

following the adoption of the 2001 Law on Administration and Management of the Communes (LAMC); the NCSC focuses on supporting decentralisation at the commune level, its functions include (1) to ensure inter-ministerial consultations, (2) supervise and facilitate CS funding and development planning, (3) coordinate the implementation of functions and powers of Communes/ Sangkat (decentralized and delegated functions), (4) legal supervision, (5) capacity building and facilitation; and (6) monitoring and evaluation.

- the *Seila Task Force* (STF) established in 2001 to oversee the implementation of the Seila Program; the brief of the STF includes the facilitation of policy discussion on decentralized planning, financing and management of local development under the Seila framework, monitoring and evaluation of the effectiveness of the decentralized and deconcentrated policy implementation in the Seila provinces, and preparation of reports on lesson learned for submission to the RGC for national policy formulation on decentralization and deconcentration
- the *Council for Administrative Reform* (CAR) as an oversight body for administrative reform (including deconcentration), its functions include to coordinate the activities of ministries related to the administrative reform program, follow up on reform implementation, facilitate implementation, and coordinate the mobilisation of state and external resources.

The MoI takes the lead role in the IMC, IMC Task Force and NCSC. It has been indicated that the IMC will take over all responsibilities and terms of reference of the NCSC when the mandate of the NCSC expires in the second half of 2006.²²

For the duration of the Study, key aspects of the reform agenda had not been detailed, in particular, relating to what official policy refers to as the D&D implementation strategy. However, the D&D SF does provide guidance on what this implementation strategy may entail.²³ it lists the policy and regulatory, institutional, and sectoral outputs expected, indicates a five-year time horizon for a national implementation program, and identifies the following three-year program priorities:

- formulation of the organic laws and various legal instruments, plus the revision of existing legal instruments relating to sub-national management systems
- establishment of a unified administration at district and provincial level
- establishment of personnel management systems at district and provincial level covering all sectoral departments and agencies at these levels
- establishment of district and provincial councils
- the mobilization and allocation of internal and external resources for development and capacity building of the sub-national administration.

The D&D SF also outlines potential program *management arrangements* (including a national committee with a secretariat to coordinate the implementation of the organic laws and to provide guidance, coordination and support), states several principles for program implementation, and makes reference to existing agreements on donor harmonization and alignment. During the Study, a statement by the Deputy Prime Minister/Co-Minister of Interior, HE Sar Khen at the CG Meeting in early March provided a 'preliminary and tentative' outline of the D&D implementation strategy.²⁴

²²Attachment B, Invitation for the First Meeting of the TWG on D&D (23 February 2006).

²³Especially in Chapter IV (National program for the implementation of decentralisation and deconcentration strategy). Cf D&D SF, p. 13.

²⁴We refer to these details in Section D.1

The absence of a Government-sanctioned *national program* on D&D has caused considerably anxiety within the donor community which argues that such a program is a necessary requirement for the planning of future support to the D&D process. In this context, it has to be pointed out that essentially a ‘D&D program’ is but one possible instrument for supporting the D&D policy process as ‘whole-of-government reform’. While the RGC has asked the donor community to await the conclusion of the policy formulation process before planning new commitments, it has also pointed out “that donors should be able simply to continue with their present arrangements ... Existing activities and committed funds should therefore continue undisturbed during the transitional period, but bearing in mind the real prospect of converting to new systems and structures by 2007.”²⁵

B.5 D&D Policy Principles: a Framework for Analysis

For the Study Team, the absence of approved organic laws and of a definitive implementation strategy meant that we had to construct our proposals and recommendations for future donor support modalities for the D&D reform process around available policy documents and refine these into an analytic framework to enable the comparative review of existing donor/government modalities, and then craft options for the future. To achieve this, we culled a set of ‘policy principles’ from existing government policy statements (and our TORs), and then discussed these with our study counterparts in the IMC working group. We asked “against the wider background, intentions and needs of D&D policy, what kinds of things would a ‘donor modality’ need to support, so as to give meaning to these principles?” Table B. 2 summarises what we learned from this process. During the study, these principles served as the basis for the analytic framework developed to examine and compare existing donor modalities (Section C) and to construct and evaluate different options for the future (Section D).

²⁵ DPM Memorandum of 2 June 2005.

Table B.2: Policy Principles, and what a modality should promote

	Principles	Criteria for assessing features of a modality, and what it should support.
1	Local participation and accountability	Promotes: <ul style="list-style-type: none"> • participation in determining local needs • plans and budgets which reflect local choices for priority services and infrastructure • participation in implementing and monitoring the outcomes of local decisions
2	Political and administrative accountability	Promotes: <ul style="list-style-type: none"> • accountability of administration to elected local leaders • integration of local choices with national policies and priorities • unified administration
3	Governmental ownership	Promotes: <ul style="list-style-type: none"> • ownership of designated (national, sub-national) governmental authority (for systems of planning, budgeting, regulation, implementation and monitoring) • avoids dual/parallel systems, except as stipulated in laws • governmental officials remunerated through official salary arrangements
4	Fiscal efficiency, transparency and accountability	Promotes: <ul style="list-style-type: none"> • efficiency, transparency and accountability in funds management at all levels of government • transparent procedures and mechanisms for mobilizing and managing external funds • international good practice for monitoring and safeguarding donor funding.
5	Flexibility and sustainability	Promotes: <ul style="list-style-type: none"> • flexible arrangements to enable donors to respond to phasing of D&D implementation • sustainability of funding commitment, to enable RGC to plan and budget for implementation of D&D over the medium term
6	Managing for Results and Performance	Promotes: <ul style="list-style-type: none"> • arrangements that are feasible, in terms of capacity, and acceptable to government and donor partners • realignment of programs and projects in accordance with national and sub-national investment plans (e.g., national PIP, sub-national plans) and D&D policy • incentives for good performance at sub-national level (e.g., performance grant and reward systems)
7	Donor-government cooperation	Promotes: <ul style="list-style-type: none"> • appropriate mechanisms for coordination amongst donors • efficient and effective mechanisms (low transaction costs) • close cooperation, understanding and consultation between government and donors.