

**2006 ASIAN REGIONAL FORUM ON AID EFFECTIVENESS:  
IMPLEMENTATION, MONITORING AND EVALUATION**

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**What new structures are emerging at country level to support  
a more effective and accountable development partnership?**

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The opinions expressed in this case study are the authors' alone,  
and do not necessarily represent the official views of the organisers  
of the Asian Regional Forum on Aid Effectiveness

## Executive summary

This thematic case study assesses how the Paris Declaration is being implemented at country level, and how it is contributing to the emergence of a more mature and accountable development partnership. It assesses how the Paris agenda is being localised in different contexts, and how implementation is being organised and managed. It draws on the experiences of two countries – Vietnam and Cambodia – that have engaged actively with the aid-effectiveness agenda, against the background of very different country contexts.

The initiatives described here include:

- localising aid-effectiveness commitments through country-level action plans and targets;
- establishing structures for dialogue and coordination around aid effectiveness;
- strengthening systems and capacity for aid management;
- monitoring donor and government performance against aid-effectiveness commitments.

The Paris Declaration principles have proved highly relevant in both countries. Both have recognised that the Paris Declaration offers a platform for advancing their development agendas. For Vietnam, it provides a means of strengthening country management of external assistance and maximising its contribution to national development goals. For Cambodia, it provides a means of overcoming a history of poor aid practices and gradually increasing country leadership of external assistance.

The study shows the importance of country-level implementation processes, to convert the high-level commitments in the Paris Declaration into concrete action plans. Negotiating specific objectives and targets helps to identify country priorities, as well as generate buy-in from stakeholders. It is useful for countries to identify the problems with current aid practices that they wish to address, and the main areas where change is required, to help them organise and prioritise their efforts. There needs to be more joint analytical work to identify constraints and determine how to overcome them.

Both countries have generated useful experience in managing the aid-effectiveness dialogue. Dedicated working groups have proved helpful, although care has to be taken to avoid over-elaborate processes that are too demanding on participants. The study lists a number of specific lessons on how to organise an effective dialogue.

Both countries have identified that weak aid-management capacity contributes to poor aid practices, and have initiated comprehensive capacity-development programmes. These include clarifying the responsibilities of different agencies, strengthen the legal framework, development aid databases, preparing guidelines for donors and raising awareness of Paris principles and best practices across the administration. Improving the integration of Project Implementation Units into the administration is essential for sustainable improvements in aid-management capacity.

Donors are finding that changing aid practices requires a major commitment of time and effort. Some of these costs are transitional in nature, but many are permanent and should be seen as part of the core business of delivering aid according to the Paris

principles. Donors need to think through the resource implications, particularly for staffing. There is a need for greater selectivity in country programmes and improved division of labour among donors. Partner countries also call for greater delegation of authority to country level, together with cultural change among donor staff and consultants.

The principle of managing for results needs to apply to initiatives to improve aid effectiveness, just as to other development activities. In this context, it means working out how different aid-effectiveness initiatives are likely to contribute to the achievement of national development goals. Without this, there is a real risk that the Paris Declaration commitments may come to be seen as ends in themselves, rather than as tools for promoting development.

There is a need for dedicated mechanisms to monitor progress in implementing aid-effectiveness commitments. Vietnam's proposed system includes annual reporting against aid-effectiveness commitments by both donors and government agencies, supported by external evaluations of particular themes or institutions. At this early stage of implementation, the priority is to monitor whether the changes in aid practice and collective behaviour required under the Paris Declaration are actually occurring.

While there are no enforcement mechanisms for Paris Declaration commitments, there are signs that mutual accountability is beginning to emerge through a number of different processes. The negotiation of reciprocal aid-effectiveness undertakings is generating a sense of shared commitment and mutual obligation. There is greater transparency and more intensive dialogue around aid practices. Setting baselines and targets is creating a yardstick by which donors and partner countries can measure their collective performance on aid effectiveness, helping to sustain momentum for change. Through these processes, the norms established in the Paris Declaration are becoming accepted as the new rules of the game for aid delivery.

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## Acronyms

ADB	Asian Development Bank
AFD	Agence Française de Développement
CCBP	Comprehensive Capacity Building Programme (Vietnam)
CDC	Council for the Development of Cambodia
CG	Consultative Group
CRDB	Cambodian Rehabilitation and Development Board
DAC	Development Assistance Committee
EIA	environmental impact assessment
EU	European Union
GDCC	Government-Donor Coordination Committee (Cambodia)
GDP	gross domestic product
GoV	Government of Vietnam
HCS	Hanoi Core Statement on Aid Effectiveness
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
JBIC	Japanese Bank for International Cooperation
KfW	Kreditanstalt für Wiederaufbau
LMDG	Like-Minded Donor Group (Vietnam)
MDGs	Millennium Development Goals
NGO	non-government organisation
NSDP	National Strategic Development Plan 2006-2010 (Cambodia)
ODA	official development assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PBA	programme-based approach
PFM	public financial management
PGAE	Partnership Group on Aid Effectiveness (Vietnam)
PIU	project implementation unit
PRSC	Poverty Reduction Support Credit
SEDP	Socio-Economic Development Plan 2006-2010 (Vietnam)
SIA	social impact assessment
SME	small and medium-sized enterprise
SOPs	Standard Operating Procedures
TA	technical assistance
TWG	Technical Working Group
UN	United Nations
UNDP	United Nations Development Program

## 1. Introduction

1. This thematic case study assesses how the Paris Declaration is being implemented at country level, and how it is contributing to the emergence of a more mature development partnership based on the principle of mutual accountability. It addresses a number of key questions related to the implementation of the Paris Declaration.

- How is the aid effectiveness agenda being localised and adapted in different country contexts?
- How is implementation of the Paris Declaration being organised at the country level?
- How are the Paris Declaration principles, in particular mutual accountability, helping to support the emergence of a more effective development partnership?

These are cross-cutting issues relating to the Paris agenda as a whole, with a particular focus on mutual accountability.

2. The case study draws on the experience of two countries: Vietnam and Cambodia. Both countries have made strong commitments to improving aid effectiveness, and have adopted some similar structures and processes. However, they have done so against very different backgrounds. Vietnam has an impressive track record of pro-poor growth and solid ODA management capacity. It is not aid dependent, and its strong leadership of the development agenda has a disciplining effect on its development partners. By contrast, Cambodia emerged from a generation of conflict with an acute lack of human, physical and institutional capital, and is still working to establish basic government systems. Weak governance capacity and poor aid practices have co-evolved over the past decade, making Cambodia a challenging environment for effective aid delivery. The two examples therefore illustrate how the aid effectiveness agenda is being adapted and implemented in different country contexts.

3. The case study presents current experiences and issues relating to implementation of the Paris Declaration. Many of the initiatives described here in fact predate the Paris Declaration, but can be regarded as examples of the Paris principles in action. The case study is intended to provoke debate on the merits of different approaches to implementation, and to generate practical lessons. However, not all of the experiences and lessons described here will be of general application. Care has been taken to describe the country conditions in sufficient detail to enable the reader to relate the lessons to a particular country context.

4. The material for these case studies was gathered from available literature and interviews with a range of government and donor officials and civil society representatives. Separate drafts of each country case were prepared for review by stakeholders, and then used as inputs for this thematic study. While government representatives and a selection of donors have commented on the drafts, the opinions expressed in this case study are the authors' alone. The case studies are necessarily somewhat impressionistic in nature, and do not support definitive judgments on progress in implementing the Paris Declaration across Asia, or in any particular country.

## 2. Framing the issue

5. While the Paris Declaration provides a set of global commitments on aid effectiveness, the hard work of improving aid effectiveness needs to take place at country level. Countries are negotiating additional aid effectiveness agreements or action plans with their donor partners, which adapt the Paris principles to the local context and set country-specific commitments and targets. They are setting in place structures for dialogue and processes to monitor changes in behaviour. Through these mechanisms, the Paris agenda is developing from high-level political commitments at the global level into a managed process of change at country level.

6. The Paris Declaration recognises the importance of country level commitments and action plans on aid effectiveness. While it contains a set of preliminary, global targets, these are not intended to prejudice or substitute for detailed targets at country level. It does, however, contain a number of commitments relevant to the implementation process.

- Partner countries agree to take the lead in co-ordinating aid at all levels, in dialogue with donors and with the participation of civil society and the private sector (para. 14).
- Donors agree to provide timely, transparent and comprehensive information on aid flows, so as to enable partner authorities to report on development assistance to parliaments and citizens (para. 49).
- Partner countries and donors jointly agree to assess through increasingly objective country level mechanisms their mutual progress in implementing agreed commitments on aid effectiveness, including the Paris Declaration commitments (para. 50). Under Indicator 12, the target is set that all partner countries should have mutual assessment reviews of aid effectiveness in place by 2010.

7. There are two Paris principles which are particularly relevant to the implementation process. The first is **Managing for Results**. Efforts to improve aid effectiveness should remain focused on achieving the partner country's development objectives. Numerous observers on both the partner country and donor side stress the importance of keeping the aid-effectiveness dialogue results focused, so that it does not come to be seen as an end in itself. The effort involved in aid-effectiveness initiatives is often substantial, and is only justifiable if it helps the partner country achieve its development goals more efficiently or effectively.

8. Monitoring mechanisms capable of linking improvements in aid effectiveness to the achievement of development results are a fairly long-term ambition. In the meantime, there needs to be intensive debate on how different kinds of aid-effectiveness initiative are expected to advance the national development agenda.

9. The second principle is **Mutual Accountability** – perhaps the least clearly articulated of the five principles in the Paris Declaration itself, and the one least well understood at country level. The Paris Declaration involves commitments on both sides of the aid relationship. It is the *reciprocity* of these commitments which creates the possibility for mutual accountability. Effective accountability is difficult to establish. Power imbalances between donors and aid-dependent countries are still very real. Most partner countries are still very reluctant to criticise donors for their conduct.

10. Nonetheless, as these case studies show, there are a number of very important processes underway which are helping to build mutual accountability. Partner countries and donors are negotiating detailed commitments and developing a structured dialogue around aid effectiveness, bringing donor conduct into sharper focus. Partner countries are establishing country-level monitoring and review process (including through the OECD DAC Global Monitoring Survey on the Paris Declaration indicators). This increases the transparency of donor conduct, and creates peer pressures in favour of improved aid practices. These developments are beginning to establish the preconditions for mutual accountability, making it more likely that the norms set out in the Paris Declaration will be respected.

#### **Four conditions for mutual accountability**

**Confidence:** Relations between government and donors based on reciprocal trust and confidence, built up over time through the demonstration of ‘good faith’.

**Credibility:** Donor engagement is structured by a clear and credible framework set by the recipient government, with a long-term vision, clearly articulated priorities and defined rules of engagement.

**Coherence:** Governments present unified and coherent strategies, and demonstrate effective cross-government coordination.

**Capacity:** Partner countries demonstrate solid capacity for aid management, at both the political and technical levels.

Adapted from ODI, *Promoting Mutual Accountability in Aid Relationships: Synthesis Report*, January 2006

11. The Paris Declaration itself provides little guidance on how mutual accountability can be established, beyond the need to monitor aid-effectiveness commitments. It mentions the role of parliament in setting development policies and budgets, and of national stakeholders in formulating and monitoring national development strategies (para. 48).

12. The importance of broad participation in the development policy process and government accountability to national stakeholders is well recognised, and central to the Poverty Reduction Strategy approach. Participation is sometimes described as a component of true ‘country ownership’, which distinguishes it from the preferences of the government of the day. However, there is no real consensus yet as to whether parliaments and national civil society should play a direct role in holding government and donors to account for their commitments under the Paris Declaration. It may be an appropriate in countries where parliaments and civil society have strong capacity in the development field. In most countries, however, limited parliamentary and civil society capacity may be better devoted to the national policy dialogue.



### 3. Aid effectiveness structures and processes

#### 3.1 *Different agendas for different contexts*

13. Vietnam's record in growth and poverty reduction over the past 15 years has been extremely impressive. Since the late 1980s, when Vietnam first began introducing market-oriented reforms, it has averaged annual growth rates of 6-7%. The growth has been broadly pro-poor in nature, and Vietnam's record on poverty reduction is among the most successful in the developing world. The number of people living below the national poverty line fell from 58.1% in 1993 to 19.5% in 2004. The Government's commitment to equity and improved social service delivery has resulted in social indicators that are superior to those of most countries at similar levels of *per capita* income.<sup>1</sup>

14. The changing economic system has been accompanied by major reforms to the Vietnamese State. There has been extensive administrative and fiscal decentralisation, with half of budget expenditures now decided at sub-national level. Public financial management systems have been strengthened, and reforms introduced to improve the professionalism and service-orientation of the public administration. While there are still capacity constraints across the administration, particularly in financial management, a credible set of reform processes are underway. Recently, the Government merged its constitutionally mandated, 5-year plan with its poverty reduction strategy, producing a unified Socio-Economic Development Plan 2006-2010 (SEDP). The SEDP now offers a solid foundation for the alignment of external assistance, although it needs to be further elaborated through sectoral plans.

15. Vietnam is one of the world's major aid recipients, with pledges of more than US\$3.7 billion in 2006 (although disbursement rates are low). However, it is by no means aid dependent, with ODA representing only 4% of GDP<sup>2</sup> and less than 15% of the Government's budget. This places Vietnam in a relatively strong position vis-à-vis its development partners. Policy conditionality has a poor record, with the Government unwilling to accept an externally driven policy agenda. Vietnam chose to allow its IMF Poverty Reduction and Growth Facility to lapse, rather than meet the attendant conditionalities. This places Vietnam in a strong position to assert its leadership of the development partnership.

16. Cambodia presents a very different environment for aid delivery. It has also experienced rapid economic growth, averaging over 7% *per annum* over the past decade, but with less poverty-reducing effect due to the slow development of the agricultural sector.<sup>3</sup> It has had some success in improving its social indicators, including primary school enrolment and infant mortality, but remains off-track on many of its Millennium Development Goals (MDGs). Cambodia's development challenges reflect the country's tragic history of conflict and destruction. Cambodia emerged in 1979 from four years of genocide with both its infrastructure and its institutions at 'year zero'. Large-scale rebuilding began only in 1998. While rapid progress has been made in rehabilitating

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<sup>1</sup> United Nations Country Team Vietnam, "MDGs and Viet Nam's Socio-Economic Development Plan 2006-2010", Hanoi, November 2005, p. 3.

<sup>2</sup> Taken from OECD DAC statistics.

<sup>3</sup> World Bank, "Cambodia: Halving Poverty by 2015? Poverty Assessment 2006", Phnom Penh, February 2006, pp. i & vii.

physical infrastructure, overcoming deep deficits in human and institutional capacity is necessarily taking more time.

17. The Royal Government of Cambodia has succeeded in restoring political and social stability, with three peaceful national elections, which is a precondition for successful development. Improving governance capacity and strengthening the rule of law are now considered key challenges for poverty reduction and sustainable development. The Government has demonstrated sound fiscal discipline and macroeconomic management, and has been able to attract increasing levels of foreign investment. Like Vietnam, Cambodia has recently established a single development planning framework, the National Strategic Development Plan 2006-2010 (NSDP).

18. However, ODA-management capacity in Cambodia remains limited. Many core government systems, particularly in public financial management, were almost nonexistent a decade ago, and are still being put in place. Transparency and accountability of government is not yet established, and corruption remains a concern. Weak public financial management and desperately low public-service salaries present major challenges to on-going efforts to improve public service delivery.

19. Cambodia is heavily aid dependent. Its revenue-collection performance, at 11.7% of GDP, remains one of the lowest in the region.<sup>4</sup> ODA disbursements of US\$525m in 2005<sup>5</sup> provided approximately half of total public expenditures. A high proportion of development expenditure is ODA financed.

20. External assistance to Cambodia does not have a strong track record. Until recently, there was little coordination among donors at the strategic level. The quality of technical assistance (TA), which in past years accounted for more than half of all ODA,<sup>6</sup> came in for particular criticism. Policy advice was often contradictory, and capacity substitution was the norm. In the weak institutional environment, donors provided their assistance through parallel systems that increased the short-term efficiency of their projects, but had distorting effects on institutional development. Low governance capacity and poor aid practices became mutually reinforcing.<sup>7</sup>

21. It is striking that the Paris Declaration is viewed as equally relevant in both countries, despite the very different contexts. Both countries see improving aid effectiveness as important to achieving national development goals. However, context influences the way in which the aid effectiveness agenda is articulated and implemented. The Vietnamese Government has engaged actively across the entire range of Paris principles, establishing some elaborate processes and structures and setting targets which are in some respects more ambitious than those agreed at Paris. Vietnam places a high premium on a well-structured, country-led development partnership, and sees the aid effectiveness agenda as a means of strengthening its management of external assistance at multiple levels.

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<sup>4</sup> CRDB/CDC, "Enhancing development cooperation effectiveness to the implement the National Strategic Development Plan", prepared for the 8th CG Meeting, Phnom Penh, March 2006, p. v.

<sup>5</sup> Cambodian Rehabilitation and Development Board, "Development Cooperation Report: 2004 and 2005", Phnom Penh, February 2006, p. 7.

<sup>6</sup> CDRI, "Technical assistance and capacity development in an aid-dependent economy: the experience of Cambodia", Working Paper 15, August 2000.

<sup>7</sup> World Bank, "Cambodia: Halving Poverty by 2015? Poverty Assessment 2006", Phnom Penh, February 2006, p. xviii.

22. For its part, the Cambodian Government has established structures and processes that on paper look quite similar to those in Vietnam. However, its commitments are less specific and more incremental in nature. The core of the Government's aid effectiveness vision is improving the harmonisation and alignment of external assistance through the development of simple forms of programme-based approach. While still an ambitious agenda in the Cambodian context, it is seen as providing a realistic path out of the negative dynamics that have characterised aid delivery in the past.

### **3.2 *Localising aid effectiveness commitments***

23. Within a few months of the Paris Declaration, Vietnam and its development partners produced the **Hanoi Core Statement on Aid Effectiveness (HCS)**. It is a joint declaration that localises the principles and commitments agreed at Paris in condensed form, as 'Partnership Commitments' for Vietnam. Most of the content is similar between the two documents, but there are some differences. The HCS, for example, excludes any reference to the untying of aid, but adds a commitment to phase out paid incentives for government officials administering aid-financed activities. The HCS includes a list of 14 indicators, along with indicative targets for 2010. In some cases, these are more ambitious than those in the Paris Declaration. For example, by 2010, Vietnam hopes to eliminate parallel Project Implementation Units (PIUs), and ensure that all capacity building programmes are country led. Fifty percent of aid flows, and at least 50% of funds from 50% of donors, should use country systems for procurement and financial management. Seventy-five percent of aid interventions should be managed at country-office level, and 75% of aid should be programme-based.

24. There have been a series of donor surveys (two in 2005 and one in 2006) to establish baselines against these indicators. A selection of results are presented in Table 1. They show that Vietnam is still some way off achieving its targets for integrating PIUs and delivering aid through country systems, but scores well on predictability of aid flows. It already receives more than half of its assistance in the form of programme-based approaches (PBAs).

25. Donors report a generally strong commitment on the part of their institutions to work towards the HCS goals. However, not all donors are optimistic of meeting the 2010 targets. Some donor officials interviewed for this study understood the HCS targets as signposts, rather than binding commitments. Even so, setting measurable targets was generally considered helpful, and in some cases had helped country offices to advocate within their own agencies for greater flexibility on rules and procedures.

<b>Hanoi Core Statement: Baselines and Targets</b>		
<b>Hanoi Core Statement goal</b>	<b>Performance indicator and 2010 target</b>	<b>2006 baseline (preliminary results<sup>8</sup>)</b>
Donors strengthen GoV capacity by avoiding parallel PIUs	No parallel PIUs	165 at national level 390 at provincial level
GoV integrates capacity-building programmes into the SEDP and related plans	100% of capacity building aid delivered through GoV-led and coordinated programs	78.2% by value of ODA
Donors progressively rely on GoV procurement systems	50% of aid flows, and 50% of donors for 50% of their aid, use GoV procurement systems	38% by value (including budget support), but only 19.4% of project aid
Donors progressively rely on GoV PFM and accounting systems	50% of aid flows, and 50% of donors for 50% of their aid, use GoV budgeting, financial reporting and auditing systems	By value:- Budgeting system: 37% Financial reporting system: 33% Auditing system: 26%
Donors enhance the predictability of aid	75% of aid disbursed on schedule	78% per original plan 83% per annual plan
Aid projects use improved Government environmental and social safeguards	30% of EIAs and SIAs carried out using government systems	EIAs: 71.5% by number SIAs: 78.7% by number <sup>9</sup>
GoV and donors increasingly use PBAs	75% of aid is national or sector programme-based	52.8% by value

26. Cambodia also produced joint declarations with its development partners immediately following the Rome and Paris Declarations, defining what the global commitments meant in the Cambodian context. The Declarations are further developed through an Action Plan on Harmonisation, Alignment and Results (2006), which contains a matrix of goals, actions, responsible Government agencies, lead development partner, milestones and time frames. The commitments are primarily to processes and policy actions, rather than specific aid effectiveness targets. Examples include development of a strategy for reducing the number of parallel PIUs, introducing capacity assessments and capacity-building plans into sectoral strategies, and achieving agreement with donors on a target for the proportion of aid to be provided through PBAs.

<sup>8</sup> Calculations based on PGAE, "Continuing to Advance Aid Effectiveness", Report to Mid-Term Consultative Group Meeting, June 2006, pp. 71-80. These are preliminary results based on survey responses from 30 donors, representing 97% of ODA.

<sup>9</sup> These results are heavily influenced by the SIDA figures, which is responsible for 60% of EIAs and 77.5% of SIAs reported in the survey. If SIDA is excluded, the results are 26% for EIAs and 7% for SIAs.

Cambodia is currently completing the OECD DAC survey on aid practices, and does not propose to set specific targets until baselines are established.

### 3.3 Structures for dialogue

27. Both countries have established quite elaborate structures for dialogue with donors around aid effectiveness issues, and aid coordination more generally. Both stress the importance of these structures for managing the process of improving aid effectiveness. However, participating in these structures is very time consuming, and there are concerns in both countries that the aid effectiveness process has become ‘bureaucratised’.

28. In Vietnam, the **Consultative Group (CG)** is at the apex of the structure, and as in other countries has developed into a country-led event for pledging aid and providing joint oversight of the development partnership. Mid-term CG meetings provide a forum for more technical discussions. Under the CG, there is a structure of 20 **Partnership Groups**, which manage the policy dialogue and ODA coordination in particular sectors and thematic areas. These vary in composition, level of formality and effectiveness. One of these is the **Partnership Group on Aid Effectiveness (PGAE)**, created in 2003 as the primary forum for dialogue on aid effectiveness. It meets every month and is co-chaired by the Ministry of Planning and Investment and one of the donors on a rotating basis. The PGAE has in turn established 7 **Thematic Groups** to pursue particular HCS objectives (e.g., procurement, PFM, ODA on budget, environmental and social impact assessments and cost norms). A third set of working groups was established to coordinate the preparation of the annual Poverty Reduction Support Credit, the World Bank-led general budget support instrument.

Vietnam: Activities of the PGAE Thematic Groups 2006	
<i><b>Procurement</b></i>	Developing an Action Plan to support implementation of the new Procurement Law, based on four themes: (i) strengthening the legal and institutional framework, including preparing subsidiary legal instruments; (ii) analytical work on gaps between government and donor systems; (iii) ‘quick wins’ on systems alignment; (iv) capacity building.
<i><b>Public financial management</b></i>	Developed a work plan and began the process of preparing a single strategy document on PFM reform, which is to include a unified capacity-building programme and measures for coordinating donor resources.
<i><b>ODA on budget</b></i>	Working towards agreeing objectives and guidelines for reflecting ODA on the budget. It will explore measures for increasing aid predictability.
<i><b>Environmental impact assessments</b></i>	Building on a study carried out by the Five Banks in 2005, the Group is commission analytical work on gaps between Government and donor environmental standards and will develop a Joint Action Plan.

<b><i>Social impact assessments</i></b>	Plans to commission gap analysis between Government and donor standards on social protection and develop a Joint Action Plan.
<b><i>Cost norms</i></b>	Working to increase transparency and harmonisation among donors in cost areas such as local salaries, consultants' fees, allowances and office expenditure, and to meet HCS commitments towards phasing out paid incentives to government officials and parallel PIUs. Conducting a baseline study in order to report options to the PGAE.
<b><i>Independent monitoring</i></b>	Developed a concept for independent monitoring of donors and government performance under the HCS.
<b><i>Communications</i></b>	Prepared a Communications Strategy for the HCS, identifying targets groups, key messages and communications channels.

29. Different donor groupings have also played a role in promoting the aid effectiveness agenda in Vietnam. The **Like-Minded Donor Group (LMDG)** was established in 2001 as a loose association of bilateral agencies to pursue possibilities for improved harmonisation and joint programming. It now comprises 12 agencies (Australia, Canada, Denmark, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United Kingdom) and meets fortnightly. It has promoted change in aid practices through demonstration projects, and coordinates on various activities such as commenting on the draft SEDP. The **Five Banks** group was created in 2002 to promote the simplification and harmonisation of procedures among the development banks. It now comprises ADB, AFD, KfW, JBIC and the World Bank, representing around 70% of ODA to Vietnam. The Five Banks carry out a Joint Portfolio Review every second year, which examines practical constraints on programme implementation and greater use of country systems. They provide joint technical input into a range of government reform processes. The **European Union member states** are another platform for coordination. They have developed a Roadmap on Harmonisation and a number of working groups. An EU-Vietnam Masterplan, negotiated with the Vietnamese Government, provides guidelines for programming in different sectors, and nominates particular EU member heads of mission to lead on the dialogue with different Vietnamese ministries. The member states adopt common positions in various areas, and have developed a harmonised set of cost norms. The 15 **United Nations agencies** working in Vietnam have also been working to pilot the 'One UN' reform agenda.

30. The quality of dialogue between the Government and its development partners is generally assessed as high. The Government values a unified and well-structured policy dialogue, and is adept at sourcing technical inputs from different partners. Because the quantum of ODA to Vietnam is relatively small, donors see one of their most important functions as contributing policy inputs in support of the Government's development agenda. However, the structures for dialogue have emerged organically over the past 6-7 years, rather than according to any overarching design. New working groups have been created on Government or donor initiative as needed, but have rarely been disbanded.

This has resulted in a complex and sometimes overlapping network of structures, which is ripe for rationalisation.

31. The working group structure in Cambodia has been through several explicit design phases. In 1999, donors established 5 Working Groups in different sectors to improve coordination and facilitate dialogue with Government. Another two were added in 2002, including a Government-Donor Partnership Working Group dedicated to improving aid effectiveness.<sup>10</sup> In 2004, the Government restructured this mechanism and placed it under Government leadership. The restructured mechanism consists of 18 joint Government-Donor Technical Working Groups (TWGs) for particular sectors and thematic areas. A higher-level body, the **Government-Donor Coordination Committee (GDCC)** was created to act as the primary forum for dialogue on development policy and aid effectiveness. It is chaired by a senior government minister, and attended by donors at ambassador or head of mission level. It meets quarterly to agree priorities and resolve bottlenecks. The Technical Working Groups (TWGs) provide a working-level structure for strategy development, coordination and programming. One of these, the TWG on Harmonization and Alignment, is devoted specifically to aid effectiveness. These bodies serve as the primary mechanism for coordinating, managing and monitoring development assistance. Each is chaired by a senior official from the appropriate Government ministry or agency, with one or two donor representatives acting as facilitators to coordinate donor inputs. The TWGs report to the GDCC on a quarterly basis. The number and composition of the TWGs is currently being reviewed by the GDCC.

32. The Government has articulated an extensive list of responsibilities for the TWGs. They serve as the primary forum for policy dialogue, and should support ministries in reviewing or elaborating sectoral policies and strategies under the NSDP. Each is required to formulate an Action Plan for its sector, setting out short-term targets and actions. They are responsible for mobilising and coordinating donor support and overseeing the provision of technical assistance to ensure complementarity. Most importantly, the TWGs are tasked with developing simple forms of sector-wide or programme-based approaches, designed to bring all the support to a given sector within a single planning mechanism. This is the core of the Government's aid effectiveness vision.

Cambodia: List of Technical Working Groups	
1. Agriculture and water	12. Legal & judicial reform
2. Decentralisation & de-concentration	13. Mine action
3. Education	14. Partnership & harmonisation
4. Fisheries	15. Planning & poverty reduction
5. Food security & nutrition	16. Private sector development
6. Forestry	• Investment climate & PPI
7. Gender	• Trade facilitation
8. Health	• SMEs
9. HIV/AIDS	17. Public administration reform
10. Infrastructure & regional integration	18. Public financial management
11. Land	

<sup>10</sup> Siddiqui, Farid, "Towards improved aid effectiveness in Cambodia", *capacity.org*, Issue 25, April 2005.

33. The performance of the TWGs to date has varied significantly. According to one recent review, a third of the TWGs are perceived to be working well, another third are just beginning to make progress, and the remainder are still some distance away from becoming effective bodies.<sup>11</sup> The most effective TWGs are those where structures for policy dialogue and aid coordination have emerged over a period of several years, such as education, health and public financial management. By contrast, in sectors where the introduction of a TWG in 2004 was the first attempt at structured coordination, there is less evidence of progress. In some cases, donor representatives are concerned about insufficient leadership from the Government side, and a lack of open dialogue within the TWGs, while Government officials note that donors remain poor at sharing information and unwilling to coordinate with Government priorities. Where the TWGs are seen to be ineffective, fatigue with the process is readily apparent on both sides. According to one review,

“A great deal of valuable time, resources and effort of many people in each ministry hosting a TWG are diverted in servicing this mechanism, writing reports and attending meetings (including GDCC, sub-groups, and so on) without any apparent value-added or results, or the benefits are not commensurate with efforts put in.”<sup>12</sup>

Government and donors are now working together to review and strengthen the system.

### **3.4 *Strengthening systems for ODA management***

34. In both countries, building up aid coordination and management capacity within Government has emerged as critical to improving aid effectiveness. Just as weak country leadership is often a root cause of poor aid practices, so building up aid-management capacity has proved important not just to establishing ownership, but also for mutual accountability. In the two countries, this has involved a range of initiatives, including strengthening the legal and institutional framework for ODA management, improving country systems for project management, and gradually reducing reliance on parallel project implementation arrangements.

35. In Vietnam, the legal framework for managing development projects is notoriously complex, with multiple levels of legal instrument that are often unclear and contradictory. Approval and management processes are highly centralised, resulting in extensive delays in implementation. Government has been simplifying the legal framework, giving more authority to line agencies to manage ODA projects and strengthening monitoring and evaluation. There has also been legislative reform in the areas of public investment, procurement and environmental protection. These changes have gone some way to improving efficiency, although bureaucratic practices are slow to change.

36. Government is also preparing a document entitled Strategic Framework on ODA Attraction and Mobilization 2006-2010. This sets out guiding principles for donors on how to match ODA flows with Government investment priorities, and a range of policies and measures to increase effectiveness and efficiency. There is also a Comprehensive Capacity Building Programme (CCBP), funded by World Bank/Japan

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<sup>11</sup> CRDB/CDC, “The Government-Donor Coordination Committee (GDCC) and Technical Working Groups (TWGs) in Cambodia: A Review”, draft, July 2006, p. 3.

<sup>12</sup> *Ibid.*, p. 3.



and the Like-Minded Donor Group, which supports the Vietnamese Government on a range of ODA management issues, including developing new aid modalities.

37. Nonetheless, slow disbursement in aid projects remains a significant problem in Vietnam, caused by a combination of cumbersome country systems and additional donor rules and procedures. Working with other donors and through the Thematic Groups, the Five Banks have been trying to bring Vietnamese systems up to international standards. The focus has been on procurement, project preparation, environmental and social impact assessment and project reporting. This has allowed for gradual convergence between donor requirements and country systems in a number of discrete areas, such as Standard Bidding Documents for local procurement, the content of feasibility studies and joint monitoring and reporting tools. This has proved a painstaking process – it has taken 2-3 years to achieve alignment in each of these areas – and it appears unlikely at this pace that the ambitious HCS targets on use of country systems will be achieved. The donors have not chosen to pursue harmonisation of procedures among themselves.

38. An alternative approach to aligning assistance with country systems has been the development of new aid modalities. Vietnam has a well-developed general budget support instrument, the Poverty Reduction Support Credit (PRSC), which is administered by the World Bank with 11 co-financiers (see case study no. 1). There are also a number of pilot projects to develop sectoral budget support, using existing Government programmes as delivery mechanisms, including in primary education and support for the poorest communes (Programme 135). The sectoral budget support pilots have proved extremely resource intensive to establish, requiring hands-on support from donors. There are differences in view among the donors as to the preconditions for sectoral budget support, and how to interpret experience from the existing pilots. Some would prefer to see a longer period of capacity-building in budgeting and financial management, before moving to budget support. Others see budget support as the most effective platform for engaging with the development of those systems. Interestingly, tracking surveys suggest that the rate of diversion of funds from the Government's own programmes is as low as 3%, which may be no higher than for projects delivered through donor systems. Using new aid modalities may therefore offer a shorter path to achieving the HCS goals on use of country systems, compared to the painstaking work of aligning project aid.

39. In Cambodia, where weak systems and capacity have been the root cause of poor aid practices in the past, Government has recognised that improving ODA management capacity is fundamental to improving aid effectiveness. In the past, donors agreed their assistance directly with individual agencies, making it difficult for the Government to establish oversight of ODA flows. In 2002, the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia (CRDB/CDC) was nominated as Focal Point and 'One-Stop Service' for relations with donors, while the Ministry of Economy and Finance approves and supervises loan assistance. However, there have been some difficulties in persuading donors to accept the 'single window' concept. In January 2006, a Government report stated:

"The current practice of some development partners to enter into agreements with individual government ministries and agencies without any prior coordination through the Royal Government's designated focal point for aid coordination... is a

serious problem that hampers Royal Government's efforts to efficiently manage its aid coordination functions.”<sup>13</sup>

40. UNDP is managing a multi-donor programme to strengthen ODA management capacity. It includes training of CRDB/CDC staff, capacity building and awareness raising for line ministries, support for participation in DAC processes and the dissemination of best-practice materials, and the development of an ODA database and website.

41. The CRDB/CDC has developed National Operating Guidelines for Grant Assistance (January 2006), setting out policies and operational procedures to be followed in the design and management of grant-funded projects. It runs through the entire aid cycle, from the development of country strategies through to programming, project implementation and monitoring and evaluation, recommending good practices, many of them drawn from DAC guidelines. The Guidelines are drafted in general terms, and do not mandate the use of country systems for grant-funded projects, which is very limited in Cambodia. However, they encourage donors to shift their support away from stand-alone projects to programme-based approaches, in order to facilitate alignment and reduce transaction costs. They also emphasise that all assistance programmes should identify and address capacity-building needs.

42. Loan-financed projects are treated differently. The Ministry of Economy and Finance has produced a Manual on Standard Operating Procedures (SOPs) for loan-financed projects and associated TA grants (July 2005), with assistance from the World Bank and ADB. The SOPs set out roles and responsibilities across the project cycle, and include detailed manuals on procurement and financial management. These reflect the harmonised procedural requirements of Cambodia's main lenders, including the World Bank, ADB, Japan and AFD. Because most development investments in Cambodia are ODA-financed, by harmonising their own procedures the development banks are in effect creating the core of new country systems for public-investment management. This represents a very different approach to systems alignment than the one being pursued in Vietnam. However, it is likely to be some time before the SOPs are consistently applied.

43. Both countries have also made commitments to address some of the most distorting effects of stand-alone project aid, by integrating parallel PIUs with the responsible Government agency, and reducing or eliminating salary supplements to public officials implementing aid projects. Vietnam's goals are the most ambitious – it intends to eliminate parallel PIUs altogether by 2010, to phase out paid incentives to government officials and to standardised cost norms across all donors. All PIUs in Vietnam are to some extent integrated with their parent agency, but to varying degrees. In some cases, staff are drawn from the parent agency; in others cases, they are externally recruited on separate terms and conditions, and will carry their skills away with them on project completion. Integrating PIUs is therefore key to long-term capacity-building goals, and the Government is now studying options for how this should be done. Eliminating financial incentives is a more difficult challenge, for donors and Government alike. Donors have been used to providing generous financial incentives to ensure their projects are well staffed and implemented. A significant share of the income of public officials in some government agencies comes from these incentives, causing serious

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<sup>13</sup> Royal Government of Cambodia, “Strategic Framework for Development Cooperation Management”, January 2006, pp. 3-4.

distortions in institutional performance. One of the Thematic Groups is addressing this subject, but no consensus has yet emerged on the way forward.

### **3.5 *Monitoring aid effectiveness***

44. Monitoring and evaluation of aid-effectiveness commitments, as well as of particular development activities, is important both for ensuring mutual accountability and for maintaining a focus on results. Monitoring and reporting are tools for ensuring that the general commitments made in the Paris Declaration are translated into effective action on the ground, and for generating practical lessons to strengthen implementation. Monitoring systems focused specifically on aid effectiveness are now beginning to emerge at country level.

45. While monitoring and evaluation does not have a strong tradition in Vietnam, there are ambitious plans to set in place monitoring arrangements on aid effectiveness. The goals of the proposed HCS monitoring system include:

- tracking progress against the 14 HCS indicators;
- monitoring Government/donor dialogue on aid effectiveness, including the work of the Partnership Groups;
- monitoring progress against the action plans developed by the PGAE Thematic Groups;
- conducting analysis and producing recommendations on desirable actions on aid effectiveness;
- disseminating lessons learned through workshops and website development;
- reviewing the impact of the HCS on improving Government systems and donor behaviour, and on overall aid effectiveness.

46. There have been three surveys of donors to establish baselines for the HCS. The exercise had to be repeated because of the difficulty of agreeing definitions on terms such as ‘parallel PIUs’, and because of concerns about data quality. The PGAE recently agreed to repeat the survey on an annual basis, which will be linked to the submission of project-level data by donors to the Development Assistance Database. There are also plans to introduce evaluation of HCS implementation, using a team of independent international and Vietnamese experts to evaluate Government and donor performance against selected HCS targets every second year, and to carry out detailed reviews of individual donors on a voluntary basis.

47. The Government of Cambodia plans to establish an annual reporting process against its Action Plan on Harmonisation, Alignment and Results. So far, progress reports have been prepared by CRDB/CDC and presented to the GDCC and annual CG meetings. Efforts are now focused on preparing Cambodia’s contribution to the OECD DAC global monitoring survey under the Paris Declaration, which will establish a set of baselines.

## **4. Costs, benefits and impact**

48. It is clear that a great deal of time and effort is required to translate the Paris Declaration into an effective set of processes at country level. Neither the costs nor the benefits are possible to quantify. Participants vary as to whether they consider

participation in these processes to be a transaction cost to be minimised, or as part of the core business of delivering aid in the post-Paris environment. It is not yet possible to demonstrate a causal linkage between efforts to improve aid effectiveness and greater progress towards development results. This is to be expected at such an early stage. Nonetheless, in Cambodia there is a clear consensus among stakeholders that poor aid practices in the past have held back the development agenda, particularly the development of country capacity. There are no dissenting voices from the proposition that change is necessary. However, the precise changes likely to be most effective in the Cambodian context are still a matter of experimentation and debate.

49. Most donor officials clearly see it as their responsibility to participate actively in these initiatives, and are willing to put time into structures and processes that they regard as productive. However, a certain degree of fatigue with aid effectiveness processes is also apparent in both countries. It appears that aid effectiveness initiatives need to establish their value fairly quickly, or run the risk of sapping the good will and energy of the participants.

50. Many observers are concerned that too much time is being spent on process (“harmonisation of rhetoric”), and not enough on the real business of changing aid practices. Government informants point to insufficient delegation of authority to country level, and to the continuation of pressures on donor officials for rapid disbursement, which works against their spending the time required to develop effective partnerships with government counterparts.

51. Delivering aid programmes according to the new partnership paradigm is placing additional demands on donor staff, many of whom are concerned that the efforts required are not sufficiently recognised within their organisations. Many believe that it is becoming impossible to maintain a diverse portfolio of assistance, and that the only way to improve the quality of aid delivery is to introduce greater selectivity in country programmes and better division of labour among donors. This is potentially a very positive development, which is welcomed by partner countries. In Cambodia, one group of four donors conducted a joint country planning process (see case study 3), which helped to improved the complementarity of their programmes. However, government would like to see donors making more effort to concentrate their resources and expertise in a few areas, and creating donor leads in particular sectors.

52. Both Governments recognise the value of a well-structured and coordinated development partnership, that enables them to work with partners as a group, rather than in parallel. Most of the measures described here are not seen by Government as cost-saving measures, but as investments in improving the effectiveness of ODA. For Cambodia, in particular, transaction costs have not traditionally been seen as the problem, because aid management was undertaken principally by PIUs and donor consultants.<sup>14</sup> In this environment, improving aid effectiveness necessarily involves an increase in costs. However, these costs are a necessary part of establishing country leadership of the development agenda.

53. In both countries, there have been significant improvements in the development partnership in recent years, that are consistent with the Paris agenda. The level of coordination between donors has improved markedly, with donors now in the habit of

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<sup>14</sup> Michael Hubbard, “Cambodia: A Country Case Study”, prepared for the OECD DAC Task Force on Donor Practices, November 2002, p. 19.

consulting with each other on major policy and strategic questions. The policy dialogue has become more unified, and donors have become more responsive to government preferences. There is much more extensive dialogue around donor practices, with a clear direction of travel identified for improving aid effectiveness. These changes are most dramatic in Vietnam, where donors have welcomed strong Government leadership and are eager to support the Government in achieving its development goals. The Government's assertive stance and relatively high capacity for donor coordination has a healthy disciplining effect on donors.

54. Establishing an accountable development partnership in Cambodia has been more difficult given a range of factors including aid dependence, weaker capacities and a history of poor aid practices that are proving difficult to break. In recent times, government has become more willing to criticise donor practices, with some Government officials believing donors are not doing enough to change their institutions, and that they still have a "project mentality". They point out that mutual accountability is difficult to establish where there is insufficient delegation of authority by donor organisations to country level. They would like to see greater efforts by donors, and greater peer pressure among donors, to instil the principles and attitudes of partnership working in their institutional cultures, and among consultants. One area where they would like to greater accountability of donors to government is in the delivery of technical assistance, which remains in too many cases supply driven and poorly designed. However, the Government is aware that these change processes necessarily take time, and is confident that the direction of recent change is positive.

55. Both countries have now unified their development planning frameworks in a single strategy, which facilitates alignment. However, the strategies remain fairly general, and alignment at that level has not required any substantial changes to donor programmes. As the two countries improve the linkages between their development strategies and the budget process, and develop clearer prioritisation, alignment at the national level will become more demanding. It will challenge donors to shift resources away from their traditional programme areas into national priority areas identified as under-funded. In the short term, the priority is to improve alignment at the sectoral level through the development of sectoral plans and budget frameworks. In both countries, the quality of sectoral planning varies significantly, with certain areas that have been prioritised by donors (health, education, public financial management) well ahead.

56. Interestingly, in Vietnam the development of sector-wide approaches has not been a priority. Rather, donors have used existing government sub-sectoral programmes as vehicles for delivering programmatic support. In Cambodia, by contrast, the development of simple sectoral programmes has emerged as the Government's priority, but in most cases requires substantial improvement in sectoral planning and budgeting capacity.

57. While both countries stress the importance of aligning assistance with Government policies and strategies, neither is giving strong guidance to donors on funding modality. In part, this is to accommodate the requirements of different donors, and the continuing concerns of many donors around fiduciary risk. But there is also a certain ambivalence across Government on new aid modalities. There are strong vested interests around traditional forms of project delivery, which tend to reinforce the autonomy of individual agencies while providing financial benefits for staff. The perception of the costs and

benefits of changing modalities therefore varies depending on the position of the observer.

58. Aligning with country systems is a complex challenge, and may prove to be the area where the Paris commitments are most difficult to achieve. In Vietnam, where only a small proportion of development investments are ODA-financed, the challenge is to bring country systems as a whole up to international standards. This has permitted systems alignment in a few discrete areas, but the pace of change has been slow. This may be necessary in order to generate the cross-government consensus required for effective reform. In the meantime, however, use of country systems, other than through budget support, remains quite limited.

59. Cambodia is taking a different route. Chronic weaknesses in public financial management makes it difficult to contemplate budget support on any scale. Harmonisation of rules and procedures among the development banks has proved a more promising strategy. The four major lenders – ADB, AFD, Japan and the World Bank – have agreed to common SOPs for project management, procurement and financial management, which are gradually being rolled out across the administration. These will form the core of new country systems for public-investment management.

60. Managing for results and mutual accountability are relatively new concepts in both countries, and less familiar to many government officials than ownership, alignment or harmonisation. Both countries are still in the process of designing monitoring systems for their national development strategies, and neither uses results information systematically for policy making. The two countries are now developing monitoring systems specifically for aid-effectiveness commitments. Vietnam is putting in place a very ambitious system, which will include baseline surveys, analytical work, regular reporting and independent reviews. By increasing the level of transparency and external scrutiny of aid practices, this system will both reinforce mutual accountability between government and donors, and stimulate healthy peer pressures among donors. Some donor staff are already reporting that the 2006 survey, by ranking their performance alongside that of other donors, is helping them to promote the HCS agenda within their own organisations.

61. In Cambodia, government informants consider that the accountability is still one-sided, and that it is unreasonable to hold government to account for aid effectiveness when most assistance is not under its management. Nonetheless, even in the Cambodian context, the articulation of clear aid-effective principles provides an agreed set of objectives and encourages an open dialogue around aid effectiveness. It also gives government greater confidence to point out poor aid practices. This is helping to establishing the preconditions for mutual accountability.

62. In both countries, the aid-effectiveness dialogue is limited to government and donors. NGOs participate in some of the sectoral mechanisms for policy dialogue and aid coordination, particularly in those sectors where programme-based approaches are most advanced, and also in thematic groups. There are also NGO representatives in the CG meetings. Civil society was consulted in the formulation of the national development strategies, although in both countries participation was considered to have fallen away since the first-round PRSP, when the process had been more strongly influenced by donors. In Cambodia, Government recognises a role in the TWGs for NGOs involved in service delivery in a particular sector, and therefore able to contribute

specific knowledge or expertise, but stresses that the TWGs are not intended to be fora for policy advocacy. Parliaments are not substantially involved in aid-effectiveness issues, nor in the formulation of development policy.

63. In both countries, national civil society is just beginning to acquire the capacity and the political space to contribute to the formulation of development policy. In the circumstances, stakeholders have not considered it a priority to involve them extensively in debates on aid effectiveness.

## 5. Lessons learned

### *5.1 Approaches to Paris Declaration implementation*

64. **It is striking that the Paris Declaration principles have proved highly relevant in both countries, despite the very different contexts.** Both governments have recognised that the Paris Declaration offers a platform for advancing their development agendas. For Vietnam, it provides a means of further strengthening national leadership and management of external assistance, and maximising its contribution to national development goals. For Cambodia, it provides a means of overcoming a history of poor aid practices and building up country leadership of external assistance.

65. **Both Vietnam and Cambodia have been quick to recognise the benefits of the Paris Declaration, and to engage actively with implementation processes.** This puts them well ahead of other case study countries. The participation of senior government officials from both countries in DAC fora and processes has helped to create champions of the aid-effectiveness agenda. For countries that have not yet engaged fully with the Paris agenda, it may be helpful to promote the Paris Declaration not just as an international normative framework, but also as a set of tools which can help them to advance their own objectives. Encouraging greater awareness among government officials of the experience in countries like Vietnam and Cambodia would facilitate this.

66. **While the high-level political commitments made at Paris are important, they are not self-executing. The hard work of implementation has to take place at country level.** To turn general commitments into concrete action, there need to be implementation processes at country level to generate momentum for change. Leaving implementation to take place within individual aid projects and programmes is unlikely to be sufficient.

67. **While the Paris Declaration is of general application, there is a clear value to negotiating country-specific commitments and targets.** Preparing a country-level declaration or action plan on aid effectiveness gives an opportunity for partner countries and donors to identify different objectives, perceptions and constraints, and negotiate on concrete undertakings. Improving aid effectiveness is always a negotiated process. Negotiation helps to build awareness of reciprocal commitments, generating greater buy-in from stakeholders.

68. **The two case study countries have followed a broadly similar pattern in structuring and managing their efforts to improve aid effectiveness.** The pattern includes the following elements.

- Developing a set of country-level aid effectiveness principles and commitments, to localise the Paris Declaration.
- Developing action plans that identify targets, change processes and responsible institutions.
- Establishing structures for dialogue on aid effectiveness, and working groups to address specific issues.
- Setting baselines, using the DAC Global Monitoring Survey as a starting point, and on-going monitoring and review processes to assess progress against aid-effectiveness commitments.

69. **The Paris agenda needs to be adapted to country context.** Given the enormous diversity of country conditions across Asia, it may be helpful to think of the Paris Declaration not as a menu of activities, but as a set of tools for addressing country-specific problems. For example, one of the Vietnamese government's objectives is to increase the disbursement rate of external assistance. The Cambodian government is promoting the development of programme-based approaches, to improve aid coordination. As countries articulate their aid-effectiveness objectives, it may be helpful for them to identify what are the problems in the current development partnership that need to be solved, and working from those to a set of commitments and activities.

70. **It may also be helpful for countries to identify the main areas where change is needed, in order to help them prioritise and organise their aid-effectiveness initiatives.** For instance, the main change processes underway in Vietnam and Cambodia include:

- increasing the proportion of assistance provided in the form of programme-based approaches;
- improving the integration of project implementation structures into government ministries and agencies, and minimising practices (such as financial incentives) that have distorting effects on institutional development;
- bringing country systems for public-investment management up to international standards, and increasing the use of those systems for aid delivery
- integrating capacity assessments and capacity-building plans into all external assistance programmes, and increasing government leadership of technical assistance.

71. **In each area, partner countries and donors should engage in joint analytical work, to identify obstacles and constraints and how to overcome them.** In both case study countries, there was not always consensus among stakeholders as to why particular aid-effectiveness initiatives – for example, increasing the use of country systems by donors – were proving difficult. Both government officials and donors were inclined to blame each other for the lack of progress. The best solution to this is joint analytical work that develops a common understanding of problems and constraints.

72. **The pace and sequencing of aid effectiveness issues is likely to vary in different country contexts, and partner countries and donors should give explicit attention to this.** The case studies demonstrate that different aspects of the Paris agenda may become important at different points in the evolution of the development partnership. For example, where country leadership is lacking, the focus may be on



harmonisation initiatives among small groups of donors. As government leadership increases, the focus may shift to alignment through government-led processes, right across the donor community. For countries with very weak systems, the focus may be on harmonising procedural requirements among the major lenders. For countries that are not aid dependent, strengthen national systems for public-investment management may have higher priority. Prioritisation, pacing and sequencing are all key to successful implementation, and should be debated between partner countries and donors.

## **5.2 Structures for dialogue**

**73. The development of specific structures for dialogue and technical work around aid effectiveness has proved very important for implementing the Paris Declaration.** Having a common platform for dialogue between government and donors is both time saving and results in higher quality policy advice from donors.

**74. However, in both case study countries, stakeholders were concerned about the proliferation of working groups and processes.** Active participation is time consuming for all involved. Where processes become too elaborate, or are not seen as delivering any real progress, there is a risk of fatigue among participants and loss of momentum. Structures need to be kept under review and periodically rationalised, to ensure they remain substantive and results-focused.

**75. In Vietnam, the creation of *ad hoc* thematic groups, involving government and donor officials, to address particular challenges (e.g., standardising cost norms, recording aid on the budget and so on) has proved a useful innovation.** It enables a dedicated group to focus on technical challenges, without involving the entire community of stakeholders. The thematic groups are dedicated to specific tasks, and will continue only as long as required.

**76. Creating a working group is no guarantee of effective dialogue.** There are many ingredients required for successful joint working, including strong leadership from government, active participation from stakeholders, appropriate technical expertise and good levels of trust and communication among the participants. In cases where these ingredients are present, they have often evolve through several years of intensive joint work. A number of concrete lessons have emerged on how to run effective working groups.

- i) They should remain focused on results, or they risk becoming an endless conversation about process. Time-bound action plans with clearly identified milestones are useful for achieving this.
- ii) Representatives should have sufficient seniority to represent and commit their agencies.
- iii) The appropriate technical expertise should be present around the table.
- iv) Good information sharing on ODA flows and activities is critical to effective dialogue.
- v) There should be a strong chair and a competent secretariat to prepare meetings.
- vi) It is helpful if donors and Government agencies meet separately in advance to prepare for meetings, to maximise their efficiency.
- vii) Where necessary, sub-groups should be formed on specific issues to increase efficiency.

### **5.3 Lessons for partner countries**

**77. Perceptions of the costs and benefits of aid-effectiveness initiatives (including new aid modalities) vary across government, depending on the position of the observer.** There are often substantial vested interests in existing practices and procedures. Building consensus around improving aid effectiveness can therefore be a challenge, and requires strong leadership from the officials and agencies responsible for aid coordination.

**78. Raising awareness across the administration on the Paris Declaration and the purpose of aid-effectiveness initiatives is therefore a worthwhile investment.** For example, Vietnam has been conducting seminars for a wide range of public officials at central and provincial level on the nature of new aid modalities and their benefits, to help increase receptivity.

**79. Weak country capacity for aid management is one of the main causes of poor aid practices.** Building aid-management capacity, both in central coordination and in project management, is therefore a key investment in improving aid effectiveness. In the two case study countries, various initiatives are underway.

- i) Clarifying the responsibilities of different government agencies for aid management. In Cambodia, this included nominating a single agency, the Cambodia Reconstruction and Development Board, as a ‘single window’ for donor relations.
- ii) Unifying and strengthening the legal framework for aid management, covering issues such as the approval of loans and grants, recording of assistance on budgets, management responsibilities and so on.
- iii) Preparing guidelines for donors on programming and aid management, including guidance on how best to align with government programmes, government preferences on funding modalities and suggestions for good aid-management practice.
- iv) Training programmes to increase the familiarity of public servants with the Paris Declaration principles, and with issues such as new aid modalities; dissemination of DAC good-practice guidelines.
- v) The development of aid databases and other information tools for aid management.

**80. Improving the integration of project implementation units into government ministries and agencies is essential for improving national capacity for public-investment management.** Where PIUs are poorly integrated, with staff drawn from outside government and remunerated according to donor scales, the capacity developed within those PIUs is likely to be lost. Governments are beginning to explore methods of structuring project delivery so that this capacity is preserved. One possible strategy is to invest in developing a cadre of professional service providers operating on a commercial basis, who are available to both government and donors.

### **5.4 Lessons for donors**

**81. Improving aid effectiveness requires a major commitment of time and effort from the donor side.** Some of these costs are transitional in nature, particularly

related to the negotiation and design of new aid effectiveness initiatives, and may decline over time (although there is as yet no clear evidence of this). However, many of the costs are permanent, and should be seen as part of the core business of delivering aid according to the Paris Declaration principles. Donor staff report that, to deliver according to the new paradigm, significantly more effort is required in dialogue and relationship building. Some donor country offices are concerned that they are not staffed appropriately for these new obligations, and that staff may not be receiving due recognition for the efforts involved. Staff note that the scaling up of aid, and corporate pressures to 'do more with less', are likely to make it more difficult to sustain this effort in the future. **Donors therefore need to think systematically through the resource implications of implementing the Paris Declaration, and staff their country offices accordingly.**

82. **Many donor officials believe that, to sustain the effort involved working according to the Paris principles, donors will need to limit the number of areas in which they engage.** This can be accomplished through greater selectivity in country programmes, through delegated cooperation or by nominating a lead donor on aid coordination and policy dialogue. This would also be welcomed by partner countries. Improving the division of labour among donors would enable each agency to focus on building up its expertise at country level in its chosen sectors, raising the quality of technical input. It would also facilitate the development of long-term relationships with country counterparts, which is a key ingredient of successful assistance.

83. **Greater delegation of authority to country level facilitates implementation of the Paris Declaration, and its importance is strongly emphasised by country partners.** Improving aid effectiveness is a highly negotiated processes, and experience shows that it is much more difficult to reach agreement when the donor officials with authority to make commitments on behalf of their agency are not present in the country. Lack of delegation also undermines mutual accountability.

84. **Working according to the Paris Declaration principles requires a cultural change on the part of donor staff and consultants.** It requires greater willingness of donor staff to allow country counterparts to manage aid activities and determine the pace of change. Both government and donor officials identify pressures on donor staff for rapid disbursement as a barrier to changing practices. There is a widespread perception that donors have not yet found ways to institutionalise positive incentives for improved aid practices.

85. **Establish donor groupings to promote harmonisation and alignment has helped to initiate the process, but may be a transitional phase.** In Vietnam, there are no less than four main donors groups – the Like-Minded Donor Group, the Five Banks, the European Union and the UN agencies. Each of these groupings exists for a reason, and has its particular strengths. However, the creation of multiple, parallel groupings may prove to be a phase in the evolution of the development partnership, which will eventually give way to government-led processes involving the donor community as a whole. However, even in an environment of strong government leadership, it is useful for donors to have their own structures for coordinating their inputs, both on aid effectiveness and in the general policy dialogue, in order to maximise the efficiency of government-led processes.

## 5.5 *Managing for results*

86. **As the Paris Declaration itself suggests, there is a need for dedicated mechanisms to monitor progress in implementing aid-effectiveness commitments.** In the case study countries, review processes are being established on aid effectiveness that are distinct from the monitoring systems for national development plans. Ultimately, it would be desirable to link the two areas of monitoring, so as to make it possible to demonstrate that improvement in aid effectiveness are leading to improved development results. However, that is a rather long-term objectives, involving many difficult challenges. For the time being, in the case study countries both types of monitoring system are still in the development phase.

87. The proposed aid-effectiveness monitoring system in Vietnam involves two main elements:

- annual reporting against aid-effectiveness commitments by both donors and government agencies;
- periodic independent evaluations, addressing particular aid-effectiveness themes or the performance of particular institutions.

The combination of regular monitoring and analytical work should generate valuable information on rates of progress and obstacles encountered in meeting aid-effectiveness commitments.

88. Vietnam has gone to some effort to develop specific, quantified targets on aid effectiveness. Some observers see the targets as useful in overcoming inertia. Others saw them as over-simplifications of complex change processes. Certainly, many of the changes required to improve aid effectiveness – particularly around the quality of interactions and relationships between governments and donors – are impossible to express in the form of targets. While targets can be useful, it is important to recall that they are only one tool for managing a complex change process.

89. **In the aid-effectiveness arena, managing for results means working out how different aid-effectiveness initiatives are likely to contribute to the achievement of national development goals.** This is an extremely important process to go through. Without this, there is a real risk that the Paris Declaration commitments may come to be seen as ends in themselves, rather than as tools for promoting development.

90. The aid-effectiveness agenda is still evolving, and there is a considerable experimentation involved. There needs to be debate, both at the international and national levels, as to what kinds of benefit one would expect to see from different aid-effectiveness initiative (e.g., improved policy dialogue, greater programme impact, enhanced capacity development, reduced transaction costs and so on). Such a debate will help to support the emergence of an evaluation framework around the Paris Declaration – namely, a general set of hypotheses as to how improved aid practices contribute to better development results, which can be tested against actual experiences in different countries. To be meaningful, an evaluation framework must reflect an emerging consensus among stakeholders.

91. **At this early stage of the implementation process, the priority is to monitor whether the changes in aid practice and collective behaviour required under the**

**Paris Declaration are actually occurring.** The question at this stage is not so much whether changing aid practices are delivering results, but whether aid practices are in fact changing. The process of change should therefore be kept under review, to identify the sticking points and bring them forward for debate and resolution. This can be achieved with through qualitative reporting by stakeholders on their progress against aid effectiveness commitments, together with independent analysis and evaluation on particular issues or challenges. The key is that these review process must link back to policy dialogue and collective lesson-learning, both at national and international level, in order to broaden and deepen the consensus on aid effectiveness.

## **5.6 *Mutual accountability***

**92. There are no enforcement mechanisms for Paris Declaration commitments.** Partner countries do not seek to compel donors to change their practices. Most partners countries are careful to be non-confrontational in their dealings with donors, and to accommodate their different institutional preferences and constraints. This is not likely to change.

**93. Nonetheless, where countries are engaging actively with the Paris agenda, there are signs that mutual accountability is beginning to emerge, as the cumulative results of a number of different processes.**

- The high-level political commitments agreed at Paris create a clear direction of travel, which is no longer disputed at country level.
- Partner countries and donors are going through a process of negotiating detailed commitments on aid effectiveness. The negotiating process, and the reciprocal nature of the resulting commitments, help to generate a sense of shared commitment and mutual obligation.
- There is much more intensive dialogue around aid practices, and a greater willingness to confront difficult issues.
- Establishing baselines and review processes is increasing the transparency of donor conduct, creating a yardstick by which the partners countries and donors can measure their collective performance.

**94. Through these processes, the norms established in the Paris Declaration are becoming accepted as the new rules of the game for aid delivery.** This makes it increasingly difficult for donors and governments alike not to live up to their commitments.

**95. There are, however, a number of factors which work against mutual accountability.** One is the lack of delegation by donors to their country offices. If donor representatives at country level do not have the authority to make commitments on behalf of their agencies, then mutual accountability is very difficult to achieve. A second is poor information flows between government and donors, which tend to obscure poor aid practices. A third is the lack of serious engagement in the aid effectiveness agenda from the side of some partner countries. If government does not appear to take the Paris Declaration commitments seriously, and is not actively trying to establish effective leadership over aid practices, then it is unlikely that donors will see their own commitments as binding.

96. The Paris Declaration itself does not articulate the nature of or conditions for mutual accountability very clearly. The text stresses the role of parliaments and civil society. Clearly, broad participation in the policy processes and mechanisms for holding governments accountable to parliaments and the public for their performance in the development arena are very important, and are recognised as such in the Poverty Reduction Strategy approach. This is what distinguishes ‘country ownership’ from mere ‘government ownership’.

97. However, it is not necessarily clear that parliaments and civil society should be involved in the accountability relationship around aid effectiveness. If they have the capacity to monitor government and donor performance under the Paris Declaration, that would clearly be welcome. However, in most of the case study countries, parliaments and national civil society are just beginning to acquire the capacity and the political space to participate in the formulation of development policies and strategies. In a few cases, they are beginning to participate in monitoring national development strategies. Given limited capacity, these may be higher priorities for parliaments and civil society than engaging in the debate on aid effectiveness.

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