

Annual Project Review Report Insights for Action Initiative

DATE: 30 November 2007

Project ID: 42787

Award ID: 38536

Description: Insights for Action Initiative: Catalyzing Policies and Action for Achieving Cambodia's Millennium Development Goals (CMDGs)

Implementing Partner: DEX

Period Covered: 01 January to 31 December 2007

1. Project Issues:

<p>Status of Project Risks & Risk Management Strategy:</p> <p>The Insights for Action initiative was created in 2005 to help facilitate informed policy dialogue in critical but sometimes politically difficult areas between the Cambodian Government, its society, and its development partners. The project risks for 2007 were identified as follows:</p> <p>1. IFA continues to face risks associated in dealing with sensitive policy areas – most notably the oil and gas sector. The goal of IFA is to identify innovative policy responses and practical solutions to key development challenges, as well as to motivate the needed action and implementation. The risk therefore, is of evoking a negative reaction from the government, which in turn could also potentially damage UNDP's relationship with the RGC. There is also the risk that the RGC will not agree with, or accept the research results produced by IFA, due to the high politically sensitive nature of our work.</p> <p>IFA manages this risk through paying careful attention to all details and via ensuring our work is conducted with sensitivity and with an awareness of potential problem areas. This approach has resulted in the development of a positive relationship with the RGC.</p> <p>2) A large component of IFA's work is technical and therefore requires IFA to draw on the insights and experiences of academics, economists, policy practitioners, and experts in order to develop groundbreaking research on fundamental challenges currently facing Cambodia - with a focus on fresh perspectives, new policy initiatives and practical viewpoints. The external consultants who have the technical expertise, specialised skills as well as in-country experience, often have demanding and somewhat inflexible schedules - such as the Harvard Research team who are juggling multiple projects</p>	<p>Open Project Issues & Issue Management Strategy: Issue=arising during project implementation, not foreseen</p> <ol style="list-style-type: none"> 1) The permanent staff of the IFA team is just three. As a result, an issue common to our projects for 2007 has been our stretched staff capacity. Brooks Evans UNV Economist did not begin until June 2007. Up until this point, it was difficult for IFA to continue our technical work and ensure drafts are delivered according to our deadlines, e.g. an analytical study on Socio-Economic Implications of Oil and Gas was delayed to 2008, and two new research initiatives have been postponed until 2008. 2) Another unforeseen project issue is that IFA is widely recognised as an initiative, whereas it operates more like a project. This is because we work across many different project and program areas. In addition, IFA has assumed the capacity development initiative of the Project Appraisal and Risk Management, as requested by the government counterparts. A key issue management strategy therefore relates to the first point above, and is that IFA does not have enough staff members to reflect our workload. 3) Operational Issues: IFA is a time intensive by its nature. Resultantly, each time we start new initiative/research, we have to start from ground zero, e.g. ToR for the research as well as research teams (both international and national consultants), recruitment and build relation with the government counterparts. <p>Given that IFA is a direct implementing agency, we therefore need quite a lot of support from the Procurement team. However, most of the tasks fall on the IFA team (such as recruitment, translation and out sourcing companies) to work</p>
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<p>simultaneously. In this instance, we have had to delay the research of a paper that due in 2007 until 2008 (The Synthesis paper).</p> <p>Our risk management strategy to this is to be as flexible as possible, with the Manager constantly reevaluating and reassigning priorities. Further, another key IFA Risk Management Strategy is to carefully select Consultants and technical experts so to ensure that even if we have to readjust our schedules, that the reports are produced to a very high standard and the material is the best possible.</p> <p>Moreover, the long-term solution is to develop the capacities of nationals, so that they can soon fill the technical consultancy positions.</p>	<p>on IFA publications.</p> <p>Our long-term strategy to solve this problem is to lobby for the recruitment of at least two further full time staff members for 2008.</p> <ul style="list-style-type: none"> - A staff member to focus on Capacity Development and Communications (UNV) to manage all of our knowledge generation and knowledge sharing activities internally, as the Communications Department is also very busy and sometimes unable to complete IFA work according to our deadlines. - A Project Research Assistant (National), who will focus primarily on research assistance, editing/proof-reading translations as well as translating other important documents.
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2. Project Performance

OUTPUT 1: KNOWLEDGE GENERATION: To design and implement selected applied policy research in agreed high priority targeted areas.

2007 target: To produce policy research findings and recommendations in agreed high priority targeted areas to more rapidly achieve the CMDGs, particularly those that inform the development of a sound strategy for the effective use of natural resource revenues.

1. IFA will develop policy research papers and generate significant findings that will serve as input for the National Human Development Report (NHDR) and the 2nd Cambodia Economic Forum (CEF).
 - Research on Socio-Economic Implications of Oil and Gas for Cambodia
 - 2nd Mission on Raising Rural Incomes in Cambodia: Beyond Sectoral Policy, Towards a Framework for Growth
 - Land and Human Development in Cambodia
 - Debt Swap for Education Initiative: Improving Secondary Education Through Institutional Innovation
 - Translation and Consultation on Stiglitz's book: "Escaping the Resource Curse"

Activity ID # 1.1:

Design and implement selected applied policy research in high priority target areas.

IFA has generated valuable new knowledge and insights in several critical areas, through practical action-oriented research in collaboration with the Supreme National Economic Council (SNEC), Ministry of Planning (MoP), Cambodia National Petroleum Authority (CNPA), and other leading government institutions. IFA draws on the insights and experiences of academics, policy practitioners, and experts in order to develop groundbreaking research on fundamental challenges currently facing Cambodia with a focus on fresh perspectives, new policy initiatives and practical viewpoints.

Valuable applied research completed in 2007:

- **Raising Rural Incomes:** The findings of this paper was presented in the 2nd CEF in May 2007 and published as part of the UNDP Discussion Paper series (no.4). The report reveals several inter-dependent socio-economic constraints that could be overcome to contribute to rural economic growth. These include the unusually high cost of electricity/energy and transportation, especially in contrast to most other ASEAN countries. Electricity, gasoline and diesel fuel prices range from 50% to 150% higher than in neighbouring

countries. The cost of shipping a container from Phnom Penh to a mother ship in Singapore via Sihanoukville is some 70% more expensive than via Ho Chi Minh City. Much of the cost differentials relate to unofficial transactions fees, informal road and port charges, etc. In addition, much better access to basic education, extension services and available knowledge on the internet appears critical to enabling farm families to take advantage of the opportunities emerging from liberalization. The report identifies six priority policy areas: land, water control, credit, energy, knowledge, and off-farm employment. There is no single solution to complex problems such as land management and private sector development, instead a mix of mutually supporting policies are needed.

- **Land and Human Development** study was also presented in the 2nd CEF and published as the UNDP Discussion paper no. 5. The study focuses on the rapidly increasing rate of landlessness in recent years, posing a serious threat to rural livelihoods, social well-being and ultimately, long-term socio-economic stability. The report provides an objective analysis of land through the use of a statistical regression analysis showing how land policies impact the socio-economic development of the country. The study presents various land reform scenarios, such as land titling, allocation and complementary reforms. The study determines that allocation and complementary reforms generate the greatest human development returns, the short term emphasis must be on land titling, among the many positive impacts of which is increasing economic productivity by spurring capital investment.
- **Debt for Education SWAP: Improving Secondary Education through Institutional Innovation:** The study has been jointly undertaken by UNDP and UNICEF. The mission was convened against the backdrop of ongoing negotiations between the United States and Cambodia over several "humanitarian" loans made to the government during the Lon Nol regime (1970-1975). There is bipartisan interest in the US Congress in allocating these payments to support Cambodia's continued development. It has been suggested that if and when Cambodia agrees to a repayment scheme, the United States government might use these repayments to endow a special vehicle to support education in Cambodia. For the purposes of this report, this proposed entity shall be referred to as the "Cambodia Debt Repayment Fund." There are historical precedents for using the repayments of foreign governments to the US to support educational initiatives, including the Boxer Rebellion Indemnity Fund and the Vietnam Education Foundation.
- **The Analytical study on Socio-Economic Implications of Oil and Gas.** The study, including a Computable General Equilibrium (CGE) model, was started in August 2006. This ongoing research includes important quantitative and qualitative work on the socio-economic implication for Cambodia of future oil and gas revenues, and how these might best be invested for the achievement of the CMDGs and improved human development. The report provides insightful analysis on different scenarios of potential revenues with differing production and price levels and differing types of investment of the oil/gas revenue. The conclusion is that investments in rural areas have the best benefits and minimize negative economic distortions such as Dutch Disease. Socio-economic returns are greatest with investments in hard rural infrastructure (energy, roads and irrigation) and soft infrastructure (education, health and water/sanitation). UNDP commissioned this report in tandem with the Overseas Development Institute (ODI), Cambodia's Supreme National Economic Council (SNEC), and Cambodia National Petroleum Authority (CNPA).

As part of this study, the ODI researcher will also train UNDP/ SNEC staff on how to interpret the model findings. The research uses a CGE model that shows how the potential revenues impact wages, consumption, and the real exchange rate given the supply elasticities, expansion/ contraction of industry segments, and changes in imports or exports as a result. CGE models are often used for international trade and other macroeconomic studies. This is also the first-ever CGE model for Cambodia and will therefore be a highly valuable tool to both UNDP and government counterparts. The model can be adapted in the future to support other socio-economic research.

However, given some unforeseen reasons interrupted during the study process, the expected tasks have not been completed according to original timeframes. The reasons for the work delays are:

- 1) The original work plan was based on a false claim by Economic Institute of Cambodia (EIC) that they already had a CGE model with related data. This proved inaccurate and therefore ODI had to start from scratch to collect the data and construct the model.

2) One of the team members, Ms. Stephanie, who came for the first visit in country at the beginning, had to undergo unexpected surgery in February, which involved a lengthy recovery period resulting in further delays.

- **Translation and Consultation on Stiglitz's book: "Escaping the Resource Curse:"** Permission was granted from both the publisher and the author to translate and publish Stiglitz's "Escaping the Resource Curse" in Khmer. This will be printed in December 2007.

Gender issues are mainstreamed in all the researches, in both quantitative and qualitative analysis.

Activity ID #1.2: National Human Development Report 2007: *Expanding Choices for Rural People* produced and disseminated for broad policy debate.

In partnership with the Ministry of Planning and SNEC, IFA published the National Human Development Report for 2007 under the theme "Expanding Choices for Rural People." The report is a key document to foster economic development in Cambodia. The report was launched in Phnom Penh on 4th October 2007 in a ceremony presided over by Samdech Hun Sen, Prime Minister of the Royal Government of Cambodia, and will also be launched in the provinces in November/December 2007. This was the first NHDR in Cambodia since 5 years ago.

The theme of the report is "*Expanding Choices for Rural People*" flows from the fact that 90% of the poor live in rural areas. The report provides an in-depth description of the status of human development in Cambodia at the regional and provincial levels, and provides key policy recommendations to galvanize rural development stakeholders so that all Cambodians can be socially, economically and politically empowered. This report provides an integrated look at the key issues related to equitable and sustainable rural growth, weaving together issues of land, agriculture, energy, social services and governance. It concludes with a chapter on the opportunity that oil and gas represents as a national funding source for these key rural needs.

The most vulnerable groups in Cambodia are women and children. In order to ensure Gender issues are discussed and properly analysed through the report, a gender expert was hired to work on the draft report. As a result, gender analysis and proposed policy action are well incorporated into the final report.

OUTPUT 2: KNOWLEDGE GENERATION A key focus of IFA's work is to ensure its policy research is widely and effectively disseminated, through a diverse and engaging range of knowledge sharing activities. Key issues – especially relating to the effective use of natural resource revenue have been widely debated among government officials, the development community, academia and civil society.

2007 Target:

In collaboration with our partners:

- Second Cambodia Economic Forum orchestrated (May 2007: *Development of Rural Economy is Key to Poverty Reduction*)
- NHDR 2007 launched in Phnom Penh: October 2007
- NHDR 2007 disseminated via three workshops/launches in the provinces in Nov/Dec 2007.
- University session with students on NHDR
- High-level visit of Professor Stiglitz to Cambodia (please see Activity 2.1.3 for detailed description of the visit).
- UNDP Discussion Papers - IFA series publications

2007 Achievement:

- In addition to IFA's achievements for 2007 detailed in Activity 1.1 and 1.2 above, the *Insights for Action* initiative has also developed a range of knowledge-sharing activities and modalities in 2007. These achievements include the Second Cambodia Economic Forum (CEF), successfully launched in May 2007. As well as launching the 2007 Discussion Papers, other key knowledge sharing activities include a University session with students on NHDR, as well as successfully overseeing a wide-range of knowledge sharing activities during the high-level visit to Cambodia by Professor Stiglitz. In addition, the IFA team has

significantly advanced its planning of the International Conference “Fuelling Poverty Reduction with Oil and Gas revenue”, to be held in March 2008. Furthermore, the development of committed and accountable constituencies within and outside government to transform this new knowledge into effective actions has been a key achievement for IFA in 2007.

Activity ID # 2.1:

Deliverable Description: **Development of multi-faceted knowledge sharing platform**

1. IFA’s Knowledge Sharing network has continued to grow positively. A key achievement for 2007 is our increasingly strong relationship with SNEC, as well as the Ministry of Planning. IFA has also expanded and increased its knowledge-sharing network through building relationships with substantive professionals in the focal area of applied research, including from the policy wings of government ministries, national academic, think tanks, resident development partners, and other key stakeholders.
2. Maximise broad sharing of quality knowledge pieces, esp. NSPD, CMDG related policy papers.
 - **The 2nd CEF:** IFA successfully launched the second Cambodia Economic Forum (CEF) in May 2007, presided over by Prime Minister Hun Sen, a range of Senior Ministers, the international development community as well as universities and NGOs. More than 300 people, including national and international experts, government and non-government experts as well as academics from national and international universities attended the forum. Three specific topics on rural economy were examined and discussed during the forum: 1) Raising Rural Incomes in Cambodia: Beyond Sectoral Policy, Towards a Framework for Growth; 2) Access to Land and Human Development in Rural Cambodia, and 3) Developing Rural Economy: Pro-poor Growth Policies.
 - **NHDR 2007:** Jointly organised by MoP and IFA, the 2007 NHDR was officially launched on 4 Oct 2007 in Phnom Penh and in three provinces in December 2007 and January 2008. The report, published in both Khmer and English language, was also shared widely among Government Ministries, donors, civil society and university students through sessions, workshops and other public forums.
 - **Seminar with the Royal Agricultural University student and professors:** A half-day seminar with the Royal Agricultural University students and professors organized in October on the topic “*Expanding Choices for Rural People*”. More than 200 students and professors participated.

3. High level visit of Nobel Laureate Professor Joseph Stiglitz to Cambodia.

Within the broader framework of emerging opportunities and risks facing Cambodia, Stiglitz offered innovative perspectives on international trade agreements, benefiting from globalization, applying his research on the economics of information, and achieving a resource blessing for the country using approaches such as effectively managing commercial relations with foreign energy and mining companies. The working visit was a success on substantive grounds, in terms of further strengthening UNDP’s substantive relationships at the highest levels with the Royal Government of Cambodia, and in terms of positive profile for UNDP within the development community and media. UNDP is now working on a number of follow-up activities from the visit. In addition, the recent publication of Dr. Stiglitz entitled “Escaping the Resource Curse” was translated into Khmer language.

Dr. Stiglitz met with high-level senior officials in the Royal Government of Cambodia including His Excellency Prime Minister Samdech Hun Sen, Honourable members of National Assembly and the Senate, Senior Ministers including H.E. Cham Prasidh, H.E. Sok An, H.E. Keat Chhun as well as senior staff from CNPA, SNEC, and other key development partners.

A brief summary of key focus areas are as follows:

- A discussion of *Outlook for the Global and Regional Economies, and Emerging Opportunities and Risks for countries like Cambodia* as well as the value of a freedom of information act, international trade policy;

the global commodity boom

- *Achieving Fair Trade for All* in developing countries like Cambodia: This session focused on a number of pressing trade and foreign investment related issues. Of special interest to the Senior Trade Minister was Dr. Stiglitz's perspectives on WTO TRIPS and the long-term implications of signing poorly negotiated Bilateral Investment Treaties (BITs).
- *How to maximize benefits from natural resources*: Dr Stiglitz discussed how Cambodia can maximize benefits from its emerging oil and gas sector. Dr. Stiglitz discussed how CNPA could increase government revenues through strategic auction design when tendering oil/ gas concessions and via the structure of contracts
- *Making Globalization Work*: The presentation centred on how developing countries have benefited or been hurt by globalization, and how small developing countries like Cambodia can learn from such experiences in devising policies that promote their economic and social interests.
- *The Economics of Information in Today's World*

4. **UNDP Discussion papers:** Series UNDP Discussion Papers form no1 – no. 5 were published in both languages, Khmer and English, with support from the Communication Unit. The research papers were produced within year 2005 to 2007 and were presented in the first and second CEF. They are:

- SWOT Analysis of Cambodian Economy
- Review of Development Prospects for The Cambodia Oil and Gas Sectors
- Meeting the Challenge of the Resource Curse
- Raising Rural Incomes in Cambodia: Beyond Sectoral Policy, Towards a Framework for Growth
- Land and Human Development in Cambodia

Activity ID #2.2: Capacity Development

In addition to the Knowledge Sharing and Knowledge Generation components, IFA also contributes to the further development of national capacity, especially among researchers and policy makers, so that they will gain from both "learning by doing" during applied research process as well as benefiting from a transfer of valuable information and knowledge generated by the initiative.

During 2007, in cooperation with the Economics and Finance Institute/Ministry of Economic and Finance, SNEC and CNPA, IFA facilitated capacity development exercises for the government practitioners and senior policy makers on Project Appraisal and Risk management skills.

This Capacity Development consisted of two components:

- 1) A two-week training for officials on technical and management tasks and
- 2) A half-day seminar for senior officials and institution leaders

The 2-week training focused on providing analytical tools to evaluate the financial, economic and distribution impacts of capital investments with a view to facilitate the identification of the investments which will most effectively support good development results and address poverty issues for Cambodia.

While the initial training focused on central level government officials, this second training, in line with the RCG's decentralization agenda, focuses on the provincial government officials from all 24 provinces. The total participants for the two week course totalled 66 people.

A half-day seminar designed to provide a forum for key senior policy makers, to focus on some critical elements of Capital Budgeting and Public Sector Management in a rapidly evolving context and to seek support in facilitating the building of stronger internal analytical capacity and systems to improve the allocation of capital investment. There were 216 participants from various Ministries at the central level and provincial governor and deputy governors from 24 provinces participated in the seminar.

The initiative "Building Capacity on Capital Expenditure Decisions" helps the Government maximize the impact of the new gas, oil, and other revenues for achieving the goals and objectives embodied in the National Strategic Development Plan (NSDP). It will be through a combination of strong governance as well as good technical, analytical and implementation capacity that the fruits of development will be enjoyed by all Cambodians.

3. Lessons Learned

- As mentioned in the beginning of this review, an issue common to all IFA projects for 2007 was that the initiative has been significantly understaffed. We have been grateful to the support of UNDP Management and Operations team, who have assisted IFA hire consultants within short timeframes. A key problem however, is although IFA is able to produce quality research papers, it is difficult for IFA to maximise the knowledge sharing activities for each paper produced.
- Communication is very important for IFA. We need a substantive communications person in our team. Role to translate/facilitate meetings with officials/provide substantive ideas and Research & Development, and communicate at a high level in both Khmer and English, who is also a social economist who understands the particulars of Cambodia.
- A need to simplify and streamline the recruitment and procurement process - as long as we meet the principles of transparency and equity.
- Certain key functions in the office which are needed for IFA – e.g. web design, recruitment, design/lay-out of publication, editing, translation – fall outside existing job descriptions and therefore difficult to get done.
- Lastly, a key success of the IFA program throughout 2007 has been its ability to respond quickly and efficiently to key issues as they happen. This is particularly important in order to respond to policy issues and other areas of importance, whereby IFA must ensure the government and other organisations are able to access IFA groundbreaking research on fundamental challenges facing Cambodia in a timely manner, with a focus on fresh perspectives. IFA will continue to place importance on flexibility in the years ahead.

4. Financial Report Please attach Annual Financial Report

The Government of Norway has agreed to provide financial to the amount of \$611,000 to assist IFA's work in the oil and gas sector and human development, for a three-year period from April 2007 to December 2009. This will be used for further policy research, advocacy and capacity development. It will also fund an international conference envisaged for the first half of 2008 (Government, UNDP and Norway to lead).

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