

Cambodia: Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Progress Report for **Cambodia**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) Progress Report to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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CAMBODIA

Joint Staff Assessment of NPRS Annual Progress Report

Prepared by the Staffs of the International Development Association
and the International Monetary Fund

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ACRONYMS

APR	Annual Progress Report
CAR	Council for Administrative Reform
CCA	Common Country Assessment
CDRI	Cambodia Development Research Institute
CGA	Cambodian Gender Assessment
CMDG	Cambodian Millennium Development Goals
CSD	Council for Social Development
CSES	Cambodian Socio-Economic Survey
DFID	Department for International Development
DHS	Demographic and Health Survey
GDP	Gross Domestic Product
GSCSD	General Secretariat of the Council for Social Development
HRMIS	Human Resources Management Information System
IDA	International Development Association
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
IMF	International Monetary Fund
IMR	Infant Mortality Rate
JSA	Joint Staff Assessment
MAFF	Ministry of Agriculture, Forestry and Fisheries
MDG	Millennium Development Goals
MFA	Multi-Fibre Arrangement
MMR	Maternal Mortality Rate
MoH	Ministry of Health
MoP	Ministry of Planning
MoWVA	Ministry of Women's and Veterans' Affairs
MPWT	Ministry of Public Works and Transport
MRD	Ministry of Rural Development
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organization
NIS	National Institute of Statistics
NPRS	National Poverty Reduction Strategy
ODA	Official Development Assistance
PAR	Public Administration Reform
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PMATU	Poverty Monitoring and Analysis Technical Unit
PMG	Priority Mission Group
PSD	Private Sector Development
RGC	Royal Government of Cambodia
SAD	Single Administrative Document
SEDP	Socio-Economic Development Plan
SNEC	Supreme National Economic Council
SWAp	Sector-Wide Approach
TCAP	Technical Cooperation Assistance Programme
TWG	Technical Working Group
UNDAF	United Nations Development Assistance Framework
WTO	World Trade Organization

I. INTRODUCTION

1. Cambodia's National Poverty Reduction Strategy (NPRS) was finalized in December 2002 and discussed by the Boards of the IMF and IDA in January 2003. The NPRS is based upon the Government's medium-term Socio-Economic Development Plan (SEDP)-II, operationalising the SEDP II with more specific policy actions. The Strategy was publicly launched in March 2003, with extensive dissemination to a broad range of stakeholders within Cambodia and the international community.

2. The Royal Government of Cambodia (RGC) completed the final draft of its first Annual Progress Report (APR) on the implementation of the NPRS on the 24th May 2004. The APR addresses (i) the macroeconomic framework; (ii) governance and structural reforms; (iii) reforms in priority sectors of rural and agricultural development, education, health and road infrastructure; (iv) donor coordination and aid alignment; (v) the monitoring framework; and (vi) risks to the NPRS. Though lengthy, the Report is deliberately and appropriately selective, discussing in particular the evolution of strategies first outlined in the NPRS (e.g. in the priority areas of agriculture and rural development). The Government has used the APR exercise to start to align NPRS targets with those established as Cambodia's Millennium Development Goals (CMDGs); to cost and prioritise NPRS programs in the annual budget; and to link them to a Medium-Term Expenditure Framework (MTEF).

II. OVERALL ASSESSMENT

3. The staffs of the IDA and the IMF welcome this first APR as a serious and credible attempt by the Royal Government to assess progress with regard to both the implementation of actions outlined in the NPRS, and the outcomes of those reforms in terms of measurable change in the wellbeing of the people of Cambodia.

4. The staffs recognise also that this has been a difficult first year in which to report on progress: anti-Thai riots in January 2003 deterred investors and created compensation obligations, while national elections in July 2003 were followed by eleven months of political stasis. It is hoped that the formation of a new Government in mid-July 2004 will lead to the resolution of legislative changes awaiting approval by the National Assembly (NA), and to a faster implementation of the NPRS agenda. The staffs are concerned that the proliferation of senior posts in the interests of political balance—the number of Cabinet posts has risen from 80 to 207—could compromise implementation of the reform agenda.

5. The APR highlights several areas where progress has been achieved, despite the difficult political environment. Policy and institutional coherence in education and health continue to improve, as do levels of funding allocated to these sectors; and the Government appears to have achieved considerable success in slowing the spread of HIV and AIDS—one of the areas (the other being malaria control) in which Cambodia seems likely to meet the CMDG targets. In the area of local government, there has been slow but sustainable improvement in the capacity of the Commune/Sangkat Councils that were elected in 2002.

6. The APR also acknowledges that the reform process has suffered severe setbacks. There has been little or no progress with respect to administrative reform; improvement of the private sector environment; trade reform (including approval of legislation needed to join WTO); legal and judicial reforms; and the anti-corruption program.

7. Progress in the priority sectors is mixed. The Government has increased allocations and disbursements of public spending to the social sectors and, in consultation with its partners, has now developed a detailed, prioritized and sequenced action plan for PFM reform, which the staff expect will yield significant and steady progress. However, explicit commitment to a more equitable and efficient land allocation strategy or increased public spending on agriculture, both key to progress, is lacking. Progress has also been slow on establishing an integrated Government-wide system for the collection and analysis of social and economic data required to monitor implementation of the NPRS. For the same reason, lack of new data hindered discussions on poverty trends in the APR.

8. In conclusion, the APR provides a generally comprehensive summary of the achievements and shortfalls in implementation of the NPRS during 2003. It identifies changes and developments in NPRS-related policy when these have occurred and lays out the reform agenda moving forward. Finally, it has been used by the Government to inform and involve national and international partners, who were invited to comment on earlier drafts.

III. THE PARTICIPATORY PROCESS

9. The preparation of the APR involved considerable consultation within the Government: it was drafted by the Supreme National Economic Council (SNEC) in close collaboration with the General Secretariat of the Council for Social Development (GSCSD), an inter-ministerial body responsible for coordinating the implementation of the NPRS. Partners—the multilateral and bilateral donors and the NGO community—have been invited to comment on drafts through the NPRS Advisory Group: many of the comments have subsequently been incorporated. GSCSD has also made efforts to increase awareness of the NPRS through campaigns designed to inform both citizens and members of the NA. However, there has been less progress with regard to broader civil society participation. Citizens' participation in implementing or monitoring the NPRS was limited, in part because pre- and post-election political factors have limited the potential for acting on the commitments made in the NPRS, but mainly because there are few formal channels through which those outside Government can participate in the policy process.

IV. IMPLEMENTATION OF THE NPRS

A. Poverty reduction

10. Over the last decade, Cambodia's poor have benefited only marginally from economic growth that has been robust but narrowly based on garments, tourism and construction. The benefits from economic expansion have been concentrated, geographically and socially, resulting in widening inequalities between the rich and the poor and between urban and rural areas. Despite growth that averaged 6.6 percent between 1993 and 2003,

poverty incidence remains high and largely unchanged, with 43 percent estimated to be living below the international dollar-a-day poverty line in 2004.

11. The APR lacks a comprehensive discussion of poverty, reflecting a lack of recent household survey data. The next APR however will benefit from access to new poverty estimates from the 2003/04 Cambodia Socio-Economic Survey (CSES) and other ongoing studies, including research into household- and community-level poverty dynamics; ADB-funded Participatory Poverty Assessments; and a Demographic and Health Survey. The staffs encourage the Government to include in the next APR a review of changes in the factors causing poverty, and scenarios for how events or policy choices might affect the poor.

B. Macroeconomic policies and the medium-term framework

12. The staffs concur with the assessment of macroeconomic performance in 2003. A strong rebound in agriculture (over 9 percent growth) and buoyant garment exports offset the adverse impact on tourism of the anti-Thai riots and SARS, and led the economy to grow by 5.2 percent in 2003. The value of the riel against the U.S. dollar remained broadly stable and year-on-year inflation declined further. Despite some compression of expenditures, the fiscal deficit grew from 3.7 percent in 2003 to 4.5 percent of GDP in 2004 and domestic arrears accumulated further. In spite of strong rice exports, the current account deficit widened due to lower tourism receipts, higher oil prices and stronger merchandise import demand, but gross official international reserves continued to grow.

13. The revised medium-term growth projections in the APR (significantly down from those in the NPRS) are realistic and reflect the delay in implementing reforms. Real GDP growth is projected to slow in 2004, due to the base impact following exceptional agricultural growth in 2003 and despite the recovery of tourism, and dip in 2005 to slightly below 2 percent. The unfavourable private sector environment leaves Cambodia ill-prepared for the decline of the garment sector (which accounts for 85 percent of total exports) that is likely if, as expected, US quotas on more competitive Chinese garments are removed in 2005. Assuming speedy resumption of structural reforms—including trade facilitation initiatives—real GDP growth is expected to gradually recover over the medium-term.

14. The APR rightly emphasizes the need for expeditious and effective implementation of tax reforms. Despite robust growth in GDP and imports in 2003, tax revenue fell due to smuggling, tax evasion and exemptions, and poor administration; as in preceding years, revenue shortfalls have limited social sector spending. Measures proposed in the APR—such as closing loopholes in tax collection procedures; enforcing anti-smuggling efforts; and reviewing the granting of tax exemptions and Government contracts—will help to reverse this decline. To meet the NPRS targets, the authorities need to introduce total cumulative revenue measures equivalent to about 2½ percent of GDP during 2004-09. The staffs recommend that progress in these areas be incorporated in the next APR.

15. The staffs welcome the PFM reform program outlined in the APR, which was initiated under the Technical Cooperation Assistance Program (TCAP) and the Integrated

Fiduciary Assessment and Public Expenditure Review (IFAPER) and is continuing in the context of the SWAp. The program, developed with the support of ten of Government's development partners, aims to: (i) make the budget credible by delivering resources in a timely and predictable manner; (ii) improve internal control and accountability; and (iii) strengthen the linkage between policies and budget implementation to better link the PRSP priorities and costing with the annual budget. Donor support for the PFM program will be conditional on steady progress, including phased implementation of merit-based pay reform in selected ministries. The staffs also welcome the commitment to analytical exercises designed to support and monitor reform (including Public Expenditure Tracking Surveys (PETS) and public and private sector labor market studies), and to strengthening public sector cash management, particularly by improving the low disbursements to the social sectors and cash releases to the Commune/Sangkat Fund (C/SF). The staffs recommend that the next APR reviews progress made on the Task Force's recommendations and PAP and C/SF disbursements, and in PFM more generally.

16. Coverage of the analysis of sources of the growth and sectoral reform proposals is comprehensive but warrants better prioritization. In particular, the expected decline in garment exports means that growth and poverty reduction will depend largely on agriculture and rural sector development in the medium term. The staffs agree with the APR on the need to reorient policy focus towards improving agricultural productivity and diversification to underpin medium-term growth and directly address poverty. To do so, the Government could develop a more detailed time-bound action plan, reflecting policies on promoting access to land, strengthening property rights, and formulating pro-poor policies on fishery and forestry, with a view to seeking additional donor funding. The staffs also recommend that the sectoral allocation targets in the medium-term budget framework be revised to reflect the change in focus toward improving governance and agricultural productivity.

C. Structural policies and cross-cutting themes

17. Governance remains one of the areas in which very little progress has been made. The staffs note that actual progress in developing and implementing civil service reforms during the APR period has been minimal. A set of studies, conceived as the technical inputs needed to craft a new pay and employment policy, have been inexplicably delayed. Making progress in this area—including on decompression through selective pay increases, redeployment and right-sizing, and improved establishment control—will require a new approach by Government. While the report makes a good case for pooling donor resources to support wage reform, this need not take place through the proposed Priority Mission Groups (PMGs).

18. The discussion of the Government's anti-corruption strategy in the APR is unsatisfactory. Little progress has been achieved since drafting the anti-corruption law. The anti-corruption actions proposed in the APR remain general. The staffs recommend that the next APR discuss the links between tackling corruption and improving civil service salaries.

19. The APR acknowledges slow progress in the area of legal and judicial reform (LJR) and commits the Government to accelerating the pace of reform, but does not provide much

information on how this is to be achieved. The APR states that the Supreme Council of the Magistracy has been strengthened, but a discussion of these measures is missing. The APR notes that despite frequent criticisms, few donors are willing to support LJR in Cambodia: a number of donors have indeed withdrawn from the sector, due to negative experiences and the absence of high-level political commitment to reform. The current disparity between the funds allocated to the executive and those made available to the judiciary suggest that such a commitment is still lacking. The staffs recommend that the next APR address this issue.

20. The staffs welcome the commitment to develop legislation relating to commercial transactions, but would note that this is a necessary but not a sufficient condition for creating a "predictable business environment based on the rule of law" and fulfil Cambodia's WTO commitments. To achieve these ends, such laws must not only be passed, they must also first be formulated with the participation of civil society and private sector actors, and then published and disseminated, understood by the legal and business communities, applied in a consistent and impartial manner, and respected in the enforcement of legal decisions.

21. The APR recognizes that achieving high, sustainable and diversified economic growth will depend critically upon improving the investment climate and promoting private sector development (PSD). However, actual implementation of reforms in this area over the APR period has been minimal (financial sector reforms being the notable exception). The APR includes a long section on forward-looking plans but discussion of achievements—apart from that regarding the anti-corruption law—lacks specificity. Since the APR was finalised, however, the Government has made substantial commitments, including to replace a number of redundant documents with a single administrative document (SAD) by December 2004, to reconsider the role of CamControl, and to achieve a Single Window process by December 2005. The Ministry of Commerce is committed to developing a program to reduce the cost of business registration. The staffs recommend that the next Report include a more forthright discussion of all measures taken to address the impediments to PSD identified in the APR.

22. The staffs are pleased to note the importance attached to gender in the APR. However, this coverage focuses on the activities of the Ministry of Women's and Veterans' Affairs (MOWVA)—and in particular those areas for which there is donor funding—rather than an overall plan for integrating gender policies into the work of all ministries. The APR also neglects to mention some noteworthy recent advances (e.g. the Gender Assessment and initiation of a gender budgeting and policy analysis programme). The staffs recommend that the next APR consider including a discussion of gender-related policies in each sector.

D. Sectoral policies

23. The APR pays due attention to the need to improve performance in agricultural and rural development, and the challenges faced in this sector. This reflects the Government's stated intention to make this sector a priority sector over the next five years. The staffs concur with the APR that growth in agricultural productivity is essential to drive economic growth following the end of MFA in 2005. The changes needed include better access to land; increasing the risk-bearing capacity of rural households; improving water management to

facilitate diversification, expanding access to finance and affordable health care, designing adequate revenue mobilization systems, improving linkages to markets, and developing a better framework for public and private delivery of demand-driven, quality agricultural services, to enable farmers to respond to market opportunities. As noted in the APR, the increasing stock of rehabilitated rural infrastructure means that maintenance is emerging as an urgent priority.

24. Substantial reforms in sector management are needed to facilitate this transformation. This will involve articulating a clear program for agricultural development, refocusing limited resources on key public services, and strengthening inter-agency (and Government-donor) coordination. The APR recognizes and improves on areas where Government strategy has been weak and rightly emphasizes sub-national approaches to supporting agricultural production and rural development. The staffs recommend that the new sector strategy clarify the roles of MAFF, MRD, and MOWRAM in formulating and implementing policy.

25. Progress in land titling and further reforms in management of state lands planned for the future highlight the need for a strategy for land allocation and use which can guide decisions regarding utilization and potential conversion of state lands (80 percent of Cambodia's land area). The APR rightly emphasizes the misuse of land concessions but does not identify near-term actions to address this, or indicate when sub-decrees and regulations related to the Land Law will be implemented. Recent analysis has highlighted the difficulties in identifying suitable land for distribution: this will likely have to come from cancelled agricultural concessions, reclassified state lands or recovery of illegally-obtained state lands.

26. The APR acknowledges the continuing challenges in the forest sector. Progress has clearly been made in rationalizing concession management and expanding the area under community forestry. The staffs welcome that the Report reiterates the desire to continue to involve civil society and international NGOs in promoting transparency and accountability in the management of forest resources. However, continued reports of illegal logging in protected areas and the use of economic concessions to bypass restrictions on logging make it clear that greater efforts are required if forests are to be exploited on a sustainable basis. Further improvement requires definitive termination of the remaining concessions that have been identified as nonviable or that have not submitted suitable plans. The need to strengthen protected area management in ways consistent with benefit to local communities is not fully addressed in the Report. The staffs recommend that the next APR address the legal and regulatory framework for protected areas, provision of sustainable and adequate funding, and strengthening of land rights of ethnic minorities living in and near protected areas.

27. The Report adequately addresses issues relating to improving the management environment for microfinance, including transparency in interest rate calculations. The staffs support the NBC's strategy of improving access to rural credit and agree that administrative measures to reduce interest rates should be avoided. However, the APR fails to acknowledge that for micro-enterprises and farmers, mechanisms for secure, accessible, interest-bearing cash savings are at least as important as lending services.

28. The APR contains a comprehensive, prioritized and costed discussion of issues in the education sector, reflecting work done on the Education Strategic Plan and the Education Sector Support Program. NPRS implementation in education has been reasonably successful, as seen in the increasing share of the recurrent budget, prioritization of basic education expenditures and increasing enrolment rates, particularly amongst the poor. However, as the APR recognizes, sustaining these improvements requires more efforts to address persistently high dropout rates. Shortfalls have occurred in PAP 2002 and 2003 expenditures, due in part to the persistence of backloading disbursements. Lack of reliability in PAP disbursements hampers implementation of the ambitious sector reform program. Findings from the ongoing PETS are expected to help enhance the efficiency and effectiveness of education delivery and finance. Gains in sector monitoring must now be complemented by enhanced quality control.

29. The APR rightly highlights the systemic constraints imposed by low teacher pay and the need to ensure that salary increases are combined with accountability for higher professional standards. The staffs urge the government to continue analytical work to review possible options in teacher pay reform, taking into account (i) congruence with overall civil service reform, (ii) budgetary projections, and (iii) market comparisons and living wage estimates for teaching professionals. In the short term, paying teachers' salaries at existing levels in a full, timely and regular manner would constitute a significant advance.

30. The staffs are broadly in agreement with the analysis of achievements and challenges (notably persistently high infant and maternal mortality rates) in the health sector. There is consensus, outlined in the Health Sector Strategic Plan, on some key components of the policy response that is required. This includes recognition of the role of PFM reform in improving public service delivery, and the need for mechanisms to ensure financial access and protection against catastrophic healthcare costs for the poor. Commitments made in the APR will need to be translated into increased budget provision for equity funds (until now primarily donor-financed) and better budget execution. The APR rightly notes that raising low salaries and staff motivation and introducing incentives for performance and for working in remote areas are critical, although not sufficient, for improving service quality and access.

31. The APR acknowledges the need for a legal and regulatory framework for health sector reform. Important prerequisites would be (i) a clearer long-term vision of the structure of the sector and (ii) a pathway for reform that draws on lessons from Cambodia's many pilot initiatives and wider relevant international evidence, and is consistent with the Government's strategic goals and targets. While the APR tends to view the private sector only as a threat to the public sector, the patient-orientation, innovation and flexibility of the private and NGO sectors provide some useful lessons for the MOH and some potential opportunities for promoting higher quality care and pooling spending to cover catastrophic costs.

32. The APR's discussion of progress in rural infrastructure could be made more concise by focussing upon achievements in 2003 (of which there are several). Despite significant rehabilitation of road infrastructure, Government's capacity to manage the sector remains weak. The APR recognizes the lack of systematic, unified planning and budgeting processes as a major problem but does not suggest specific corrective actions. The draft Road Law is

helpful but not in itself a solution: the APR articulates some priority actions and results for the sector, but falls short of a coherent sector strategy. The staffs recommend that the Government commit to developing an integrated sector strategy encompassing a medium-term investment and maintenance program; plans to build and strengthen capacity in planning, budgeting, and financial management; and clarification of the roles and responsibilities of MEF and MPWT regarding the financing of investment and maintenance. The Report provides little information on progress made in improving rural water supply and sanitation. While many programs include rural water supply and sanitation elements, achieving the CMDG target of providing 50 percent of the rural population with access to a safe water source in 2015 is a daunting challenge which requires policy-led improvements in the coverage and quality of services. The staffs recommend that the next APR include more discussion of the Government's strategy in this area.

E. Monitoring and evaluation

33. The APR makes a welcome attempt to reconcile the sometimes contradictory monitoring frameworks developed for the NPRS and subsequently for the CMDGs. Completing this by integrating the CMDGs into an enhanced NPRS monitoring and reporting framework should be a top priority for strengthening the NPRS prior to the next APR.

34. The Report summarises the difficulties in monitoring NPRS implementation and progress towards the CMDGs when incentives for gathering data are weak and capacity in data analysis is low, but does not specify concrete plans to address the issues. While the APR notes that a database of indicators (CAM-info) is being compiled at the National Institute of Statistics (NIS), the frequency with which data in CAM-info is updated has not been agreed and the sustainability of the database beyond the project period is an issue. The Poverty Monitoring and Analysis Technical Unit could be more effective if staff with much-needed technical skills are integrated into the NIS to carry out poverty-related analytical work.

35. That the APR does not have a section in which poverty is discussed is due in part to lack of data on poverty trends. The CSES that is currently in the field will provide information on multiple dimensions of poverty. Because previous Surveys suffered from technical problems that limit comparability, results from this Survey will serve as a baseline for monitoring future progress on consumption poverty and its relationship to non-consumption aspects of welfare. In view of its significance, the staffs recommend that the authorities closely monitor fieldwork and data processing to ensure quality.

F. Coordination mechanisms for alignment of donor initiatives

36. The APR reflects the Government's recognition of the need to be more proactive in encouraging donors to align with the NPRS goals but does not fully reflect the steps taken—by Government and donors—to improve aid coordination in, for example, PFM and trade facilitation, and to establish government Technical Working Groups (TWGs) in key sectors. Although the TWGs vary considerably in capacity, they have the potential to help manage ODA in support of NPRS implementation. Improved coordination can also be seen in the

joint country strategy process involving ADB, DFID and the World Bank; the integration of UN agency planning cycles around a streamlined CCA-UNDAF process; and the recent national workshop on alignment. The staffs recommend that the Government review the types and uses of ODA in order to improve allocation of donor resources, particularly in the areas of agriculture, administrative reform, anti-corruption policy, and legal and judicial reform.

37. The staffs suggest that the Government give serious consideration to using the TWGs to help provide the analysis and draft text for sectoral and thematic sections of future APRs. This has the potential to significantly reduce the transaction costs of APR preparation. Along the same lines, the staffs welcome the commitment to use the Report in future years as a "key document" for the Consultative Group meeting. The staffs were encouraged by the Government's commitment during the past year to merge the next (second) NPRS with the next (third) Socio-Economic Development Plan: this is an extremely positive development, and one the staffs would have liked to see reported and reiterated in the APR.

V. RISKS TO THE STRATEGY

38. The APR's discussion of the risks to NPRS implementation is broadly satisfactory but remains very general. For example, the Report discusses the impact of the end of MFA on growth but does not go on to estimate the effects of this on the incidence or depth of poverty. Alternative scenarios and a menu of options to address shocks—drawing on, for example, the planned Poverty and Social Impact Analysis on trade reforms—would be a valuable addition to the next APR. The staffs welcome the candid analysis of risks related to the medium-term outlook, but believe that the risks are nonetheless biased downwards. Uncertainty regarding the effectiveness and timeliness of fiscal sector reforms and removal of impediments to PSD constitute a major concern. The target of over 6 percent growth in 2009 can only be achieved if Cambodia's competitiveness can be strengthened and high and broad-based agricultural growth put on a sustainable footing. Achievement of NPRS targets is also vulnerable to low budget disbursement (as seen in 2003) and limited Government capacity. If the proposed tax and PFM programmes are delayed or conducted ineffectively, the Government will lack the resources needed to achieve NPRS targets; continued delays in civil service reform would impair public service delivery and constrain progress towards growth and poverty reduction targets. Strong political commitment will be needed to push the reform agenda forward.

VI. CONCLUSION

39. The staffs believe that the APR provides a broadly comprehensive and representative account of progress made in the first year of implementation of the NPRS. A few notable exceptions notwithstanding (such as the consolidation of gains in health and education and improving capacity of Commune/Sangkat Councils), the APR acknowledges that the reform process has been largely stalled, with improvements in key aspects of governance, trade policy and the private sector environment (including for agriculture) largely put on hold during the post-election political impasse that has only ended in July 2004. Rapid progress in

these areas in the third mandate of the Government will be necessary if Cambodia is to achieve the poverty reduction targets established in the NPRS and CMDGs.

40. The APR could have been strengthened and shortened by (i) focusing on progress and challenges over the last year and activities planned for the coming year, with description and analysis confined to that required to contextualise or explain policy changes; and (ii) structuring this discussion under the thematic headings of the original NPRS objectives. The staffs recommend that future APRs contain a section which summarizes progress made and links achievements to the medium-term poverty reduction goals outlined in the NPRS.

41. Notwithstanding the concerns expressed above, the staffs of the Bank and Fund consider that the efforts of the Government towards implementation of the NPRS provide sufficient evidence of its continuing commitment to poverty reduction, and therefore the APR provides a sound basis for continued Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the IMF and the World Bank reach the same conclusion.