

INTERNATIONAL MONETARY FUND AND  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

CAMBODIA

**Assessment of the PRSP Preparation Status Report**

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

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1. Cambodia's interim Poverty Reduction Paper (I-PRSP) was approved by the Cabinet in October 2000 and presented to the IMF and IDA Boards on January 19 and 23, 2001, respectively. The I-PRSP indicated that the full PRSP would be completed by end-December 2001. There have been delays, however, and the authorities have requested additional time for completing the full PRSP. The PRSP Preparation Status Report—hereafter the “Report”—highlights progress and constraints in developing the full PRSP, and proposes a revised work plan and associated timetable.
2. Experience so far clearly indicates the authorities' weak institutional capacity. Since the completion of the I-PRSP, the Government's efforts have focused on the preparation of the Second Socioeconomic Development Plan (SEDP-II; 2001-2005) which the Report notes is the main reason for the delay in the completion of the full PRSP. The JSA for the I-PRSP had noted that limited administrative capacity in the Ministry of Planning (MOP) would be overstretched by the simultaneous preparation of SEDP-II and the full PRSP in 2001 and considered the initial timetable for the PRSP to be ambitious. While staffs concurred with the Government's decision to proceed in steps and to delay the preparation of the full PRSP until after completion of SEDP-II, overall government ownership and institutional support for the PRSP process need to be strengthened.
3. The completion of SEDP-II, which was approved by the Cabinet in December 2001, represents good progress towards the preparation of the full PRSP. SEDP-II focuses more on growth and poverty reduction than the first Plan; takes stock of existing sectoral strategies; makes an effort to develop monitorable indicators; and has started the process of consultation with key stakeholders. As such, SEDP-II presents a solid foundation for preparing the full PRSP. In fact, the preparation of SEDP-II was delayed by one year, in part to sharpen the focus on poverty reduction and to consult more fully with various stakeholders, including NGOs.

4. With the recent approval of SEDP-II by the Cabinet, the Government can now focus on developing a poverty reduction action plan that translates sectoral strategies into concrete policy and program priorities; establishing the link to the recurrent and investment budgets; setting up a monitoring and evaluation mechanism; and embracing a fully participatory approach that builds on lessons learned and comments received, in particular from the NGO community, on the I-PRSP and SEDP-II. However, given the scope of the work that is needed, expectations of what can be accomplished in the full PRSP need to be realistic.

5. The Report notes that the reformulation of the institutional arrangements for the full-PRSP is another factor explaining the delay in the completion of the document. Establishing effective interministerial arrangements for the preparation of the PRSP is critical for the quality and broad ownership of the document and the process. As the Report indicates, the Council for Social Development (CSD)—an interministerial committee led by MOP—has overall responsibility for the preparation of the full PRSP. But while CSD was created a year ago, its operational unit, the General Secretariat (GSCSD), was set up only recently after considerable delays, with the result that PRSP-related operations were launched only in late September 2001. Staffs concur with the changes that are proposed in the Report to the structure of CSD in order to ensure better representation of all relevant line ministries, including the Ministry of Commerce and the Ministry of Public Works and Transport as of January 2002, and to affirm the key role of the Ministry of Economy and Finance (MEF) in forging the links to the budget and the overall macroeconomic framework. The design of the poverty strategy would also benefit from including representatives of the National Bank of Cambodia (NBC) in the CSD, given NBC's crucial role in maintaining macroeconomic stability, and in promoting private sector access to bank credit, including microfinancing. Finally, the thematic working groups under the GSCSD warrant reformulation so as to ensure adequate coverage of issues important for poverty reduction, particularly of a cross-sectoral nature. To this end, the Government might consider setting up working groups on poverty diagnostics and evaluation, macroeconomic and fiscal framework, infrastructure, governance, and private sector development.

6. As noted in the Report, progress has been made in strengthening poverty diagnostics and establishing benchmarks. Staffs especially welcome the decision to rely on the more robust results from the 1997 socio economic survey, rather than the 1999 survey, to establish benchmarks for the PRSP and agree that the donor supported poverty related studies (e.g., the Participatory Poverty Assessment, the Poverty Mapping, and the Demographic and Health Survey) will provide important inputs for the PRSP. Work underway with UNDP and SIDA to develop capacity for poverty monitoring and analysis will further support this effort. Under the UNDP/SIDA project, the authorities plan to conduct a new household survey, but the results will not be available in time for the PRSP. Data and capacity limitations could limit the scope of the full PRSP and are likely to continue to constrain poverty monitoring and assessment beyond the timeframe envisaged for the full PRSP.

7. The Report provides a detailed description of progress in implementing the government's reform program. In the fiscal area, although significant progress has been made in redirecting expenditure toward priority sectors (i.e., health, education, agriculture, and

rural development) and in strengthening budget and cash management, much more remains to be done, especially on the revenue side and in establishing a medium-term expenditure framework (MTEF) which could start with the health and education sectors. As mentioned in the JSA of the I-PRSP, inter-linkages among the Priority Action Program (PAP), the Public Investment Program (PIP), the MTEF, and the Public Investment Management System (PIMS) need to be clearly specified and the coordinating mechanisms firmly established. Costing of priority reforms that takes into account ongoing debt restructuring discussions will also be necessary.

8. The preparation of comprehensive development programs in the education and health sectors, is generally in line with the thrust of recommendations set forth in the JSA for the I-PRSP. The Report, however, does not elaborate on progress made in several key areas noted in the JSA for the I-PRSP, especially rural development, gender equity, AIDS prevention, and private sector development. Staffs' assessment is that progress is uneven in the development of sector strategies, with good results in the social sectors, but inadequate progress in other areas, especially for rural infrastructure. Moreover, in view of the recent plight of the urban poor a strategy to deal with the urban poor needs to be developed in the full PRSP. A pro-poor trade strategy would play an important role in poverty reduction, and staffs welcome the authorities' intention to integrate the recent findings under the Integrated Framework for trade in the full PRSP.

9. The full PRSP is now expected to be completed by end-October 2002. This timing would coincide with the budget cycle for 2003, the PRGF review, and the presentation of a potential PRSC and thus presents an opportunity and a challenge both to the Government and the IMF and IDA to align strategies and resources. Staffs consider that the Government's revised action plan for producing an adequate full PRSP is feasible, given the considerable diagnostic work already available in SEDP-II. The strong support to the PRSP process recently expressed by the Prime Minister is also encouraging. But timely completion of an adequate full PRSP remains highly contingent upon strong ownership of the authorities, including broader and fuller engagement of relevant ministries, and external support for building capacity at GSCSD and MOP, in particular.

10. Donors and NGOs are already providing substantial technical assistance to Cambodia. Additional technical assistance in support of the PRSP process sought from IDA, the UNDP, and SIDA is primarily aimed at strengthening GSCSD capacity and the participatory framework, and at establishing adequate poverty monitoring and analysis capabilities. Together with support already being provided or planned by IDA (mainly through the IDF grant), the Fund (mainly through TCAP on fiscal management), DFID, and the NGO Forum, overall technical assistance support is deemed adequate for developing a full PRSP. Nonetheless, technical assistance alone will not be sufficient to prepare a fully-owned PRSP that will need to make difficult and inherently political trade-offs across a range of priority areas. And even in the narrower domain of technical issues, some of the expected advances, such as in the areas of costing, developing a medium-term fiscal framework, and monitoring and evaluation, are challenging even for more developed countries than Cambodia and will require many years of sustained effort and external support.

11. With the completion of SEDP II, and the new institutional arrangements being put in place, prospects for the completion of an adequate PRSP are good. However, expectations for the first full PRSP need to be appropriately modest in view of the authorities' weak capacity and the limited data. Development of a poverty reduction strategy should be considered a continuing process. In the first full PRSP, the Government needs to focus on prioritizing policy actions and on strengthening the process to ensure better coordination and participation. On the substance, it is advisable for the authorities to sharpen the focus of the programs and policies developed in the SEDP II for agriculture, rural infrastructure, health, and education—rather than trying to develop a fully comprehensive across-the-board strategy—and integrate these priorities with annual budgets and the MTEF. Other important sectoral and cross-sectoral strategies can be developed more fully in the subsequent annual progress reports when capacity has been strengthened.

12. The staffs of the World Bank and IMF consider that progress on the development of the full PRSP, as evidenced by the PRSP Preparation Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.