

INTERNATIONAL DEVELOPMENT ASSOCIATION  
AND  
INTERNATIONAL MONETARY FUND

CAMBODIA

**Poverty Reduction Strategy Paper  
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association (IDA) and the  
International Monetary Fund (IMF)

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January 23, 2003

**I. OVERVIEW**

1. The National Poverty Reduction Strategy (NPRS) prepared by the Government of Cambodia builds on the strategy laid out in the Interim PRSP (I-PRSP) and provides a **credible framework** for guiding the implementation of actions to reduce poverty in Cambodia. The NPRS is based on the medium-term development plan (Socio-economic Development Plan for 2001-2005 (SEDP II) ) and operationalizes the SEDP II with more specific policy actions.
2. **The main strengths of the NPRS** are: (i) the openness and extensive participation in the development of the strategy, including consultations with the poor, ongoing engagement with NGO groups and interactions with the donor community; (ii) the engagement of virtually all line agencies in the process, so that the NPRS is closely linked to sectoral strategies owned by the line agencies; (iii) the advances on the SEDP II and I-PRSP especially with respect to the participatory process, and initiating linkages to the budget, both annual and medium-term; (iv) deeper treatment of key cross-cutting issues, including the urgent need to improve governance and public sector performance, and the theme of private sector development; and (v) initiation of the development of detailed indicators to monitor progress in poverty reduction. Inter-ministerial coordination through the General Secretariat for the Council for Social Development (GSCSD) has also improved, reflecting the strengthening of the Government's commitment and ownership. The preparation process has also increased the commitment of some donors and the NGO community to coordinating assistance behind the NPRS.
3. **The key shortcomings and challenges** on which the authorities will need to focus next year are the following: (i) addressing weaknesses in costing and prioritization, linked to the annual budget and further development of the Medium-Term Expenditure Framework (MTEF); (ii) broadening central responsibility, since the NPRS core team (GSCSD) has still very limited staff and capacity, through ensuring the full engagement of the Ministry of Economy and Finance in particular, in order to help reinforce the links with the budget and by maintaining the strong links to sectoral strategies; (iii) improving governance and

combating corruption; (iv) building national capacity for poverty monitoring as well as evaluation of key programs and policies; and (v) further elaborating pro-poor rural and infrastructure development strategies.

4. **The final chapter of the NPRS** usefully outlines the guiding principles, instruments and procedures for the implementation of the strategy. Most important in the view of the staffs is the need to strengthen linkages between the strategy and the mechanisms for allocations and spending of the budget, medium-term expenditure framework (MTEF), public investment program (PIP), and expenditure management. Continued efforts to raise awareness and to build on participatory processes initiated during preparation will be needed during implementation, particularly at the sub-national levels, for localization of the Millennium Development Goals (MDGs) and transparent monitoring of NPRS implementation. Several concrete activities are programmed in 2003 and donor assistance has been mobilized to help carry them out. The staffs support, in particular, proposals to develop more transparent expenditure management systems in conjunction with NPRS implementation. Plans to merge the next NPRS and SEDP III into a single document are welcome. This will enhance country ownership and contribute to the alignment of strategic planning processes while further mainstreaming participation in the development, implementation and monitoring of poverty reduction activities in Cambodia.

5. The staffs see the **major risks** to implementation of the strategy, reflecting in part the challenges noted in para 3, in (i) poor governance and corruption, (ii) weak capacity in the civil service, and (iii) a slowdown in the world economy together with increased competition from neighboring countries, especially China, that could dampen Cambodia's prospects for trade and economic growth. Staffs are particularly concerned that despite some recent progress, there remains a gap between public pronouncements and real achievements on the ground with regard to reforms in governance and anti-corruption which could undermine donor assistance, private investment, the quality of public services and in general, the credibility of the Government's commitment to reform implementation. It is also possible that the national elections scheduled for mid-2003 could slow implementation. The NPRS recognizes and incorporates the risk of slower than expected growth. (See Section VI on risks.)

## II. THE PARTICIPATORY PROCESS

6. As highlighted by the summary statement quoted at the beginning of the participation chapter, **the process has grown more open and consultative through time and has provided valuable lessons for the next iteration of the NPRS.** The participation chapter candidly documents the overall NPRS process, clearly recognizes contributions and efforts of various stakeholders in the preparation of the strategy, and provides a plan for enhancing participation during the implementation phase, especially the poor and vulnerable groups. The staffs have the following specific points. *First*, the process was enriched by local level consultations, which complemented active interest and important contributions at the national level by NGO networks, in particular the NGO Forum. There was stakeholder involvement from fairly diverse groups, from women's groups, ethnic minorities, policy research institutes and academics, private sector, trade unions, and representatives from different regions of the country. *Second*, after a slow start, the process successfully engaged virtually all line agencies in a series of iterations in the development of the strategy. However, parliamentarians' involvement was limited to workshop participation. *Third*, the openness of

the NPRS team also allowed active contributions and support by a number of key development partners—with collaborative technical work or close involvement of a number of multilateral and bilateral agencies and the NGO community. Generally, the NPRS team, and the final paper, demonstrated significant responsiveness to stakeholders' concerns within Cambodia's technical, political, and budgetary limits, and the staffs are confident that with support this responsiveness will increase.

7. Stakeholders have expressed a number of concerns about the NPRS, reflecting a perceived need to encourage more meaningful participation through the use of local language, set clearer priorities, ensure greater consistency across multiple strategic exercises, and examine more systematically and transparently the poverty and social impact of key policies that affect the poor. **The NPRS acknowledges the concerns expressed by stakeholders in these areas.** The staffs agree that there is scope for additional analysis and discussion of the actual and potential impacts on livelihoods of major proposed policy reforms in such areas as taxation, land distribution, and forestry. The staffs also agree with many stakeholders who have encouraged further prioritization using transparent criteria, including taking into account the additional debt and recurrent cost implications of donor-funded investments. Stakeholders also urged that performance indicators under SEDP II, NPRS and sectoral strategies converge, particularly in the context of efforts to localize the MDGs and the Consultative Group (CG) benchmarks; the staffs agree. Finally, local NGOs felt that the lack of written materials available in Khmer compromised the ability of the broader population to participate effectively, despite the Government's explanation that the working language for NPRS documents was English because of the need for external technical advice and support.

8. Looking ahead, the staffs encourage and will provide support to the Government to continue to consult with key stakeholder working groups to agree on a detailed stakeholder participation action plan for the implementation and monitoring of the NPRS. Civil society participation will be critical to enhancing transparency and accountability. While the Government has a well-articulated strategy for public dissemination in Khmer, there is a need to focus on establishing a more strategic framework for communication. A key challenge will be to work out how the NPRS participatory process, including the continued engagement of various ministries and agencies, in particular the Ministry of Economy and Finance, can be integrated with ongoing processes of the Government for policy and decision making—this is better established in some areas (such as education) than in others.

### III. POVERTY DIAGNOSIS

9. **The NPRS relies on a broad range of quantitative and qualitative indicators to effectively portray the multiple dimensions of poverty in Cambodia.** The picture that emerges is of a population that is broadly deprived and faces challenges in many respects (particularly in education and health) that resemble more those of typical sub-Saharan African countries than those of its Southeast Asian neighbors.

10. The NPRS relies on the 1999 household survey (CSES) for consumption-based poverty measures but it also draws from studies of other international agencies and NGOs for non-consumption dimensions of poverty. For example, the NPRS widely uses qualitative information from the ADB's Participatory Poverty Assessment and the Demographic Health Surveys (DHS) on health outcomes. Regarding the consumption-based poverty measures, no

new database has become available since the completion of the I-PRSP, hence the diagnostics in the NPRS suffer from technical problems already discussed in the JSA of the I-PRSP. These include notably irreconcilable differences between the two rounds collected at different times in 1999; the lack of comparability with the earlier survey data used to prepare poverty estimates; and the relatively large sampling errors. In terms of the national poverty headcount rate, all that can be said with any degree of confidence is that it was somewhere between 35 and 45 percent during the 1990s. Nevertheless, all of the surveys indicate that the poverty headcount rate is highest in the rural areas, lowest in Phnom Penh, and somewhere in between in the other urban areas. Given the difficulty in establishing a reliable recent baseline for consumption poverty, the staffs recommend that **the authorities utilize the results of the forthcoming household survey (scheduled for early 2003) to set a baseline for monitoring future progress on consumption poverty.**

11. Some new analyses using the CSES and DHS provide insights into provincial disparities in income and health status. Looking ahead, the staffs encourage further analysis of provincial disparities in other areas, including in the allocation of government and donor resources, access to basic infrastructure, and vulnerability to food insecurity, land mines and natural disasters.

12. **While the document offers a good discussion of the characteristics of poverty, the causal analysis is less strong.** It is unclear, for example, what has been the relative importance of Cambodia's current environment (e.g., rapid population growth, poor policies in some areas) and the nation's tragic recent past, including in particular the widespread destruction of human resources as well as its institutions and social capital. The weakness of the causal analysis in the NPRS is due partly to data problems, especially those associated with the 1999 data. Thus, while the NPRS discusses sectoral patterns of economic growth over the last several years and highlights the importance of agriculture growth, this is not explicitly linked to the analysis of poverty. Further work in this area that analyzes the sources of income and coping strategies at the household level could inform the discussion on pro-poor growth strategies, including for example the role of private sector growth and rural development.

13. **The NPRS does not explicitly evaluate the distributional impact of past macroeconomic or structural policies.** However, the strategy does commit to undertaking poverty and social impact analysis (PSIA), with assistance from stakeholders, in several key areas – including the distributional impact of indirect taxation and land reform. Expectations for carrying out comprehensive analyses of the distributional impacts of complex systemic reforms, such as macro and tax policies, trade, forestry, and land policies, are high on the part of some stakeholders (in particular the NGO community). Staffs encourage setting realistic expectations about the extent to which the poverty impact of such systemic policy reforms can be meaningfully analyzed: these issues are often intractable and methodologically complex, and require good quality data and substantial external assistance. The Bank will be supporting the distributional impact analysis of land reform (see para 26 on land reform) in view of its far-reaching importance. The ability to carry out more extensive PSIA is constrained by the poor quality of the survey data.

#### IV. PRIORITY PUBLIC ACTIONS

14. **The Government has presented a broad strategy for reducing poverty in its multiple dimensions – beyond growth, including human development, improved governance, and reduced vulnerability.** The overall strategy reflects the aspirations of Cambodia, and is ambitious in the scope and scale of the poverty reduction agenda. The chapter on budget allocations and management provides a crucial link to feasibility, indicating how budgetary trade-offs are being handled in the face of overall resource constraints.

15. In the view of the staffs, **the broad priorities set out in the NPRS are appropriate, by giving prominence to: (i) economic growth, especially through promoting export activities, tourism, and agriculture development; (ii) improving governance and public expenditure management; and (iii) infrastructure and human development, especially education and health.** The Government is committed to maintaining the trend of increasing budget allocations to education and health, established since 1999, to improve outcomes in these key areas. Freeing resources from effective implementation of the military demobilization program will be an important component of such an expenditure reorientation.

16. **However, the policy agenda set out in the NPRS does not sufficiently prioritize the various competing measures within the time and capacity constraints.** Further work is needed to develop the matrix into a clear set of realistic activities which have full costing (including recurrent expenditure implications) and timetables for implementation. While Chapter 5 portrays, in a seemingly realistic way, budgetary priorities in the near and medium term, the staffs note that there is a large discrepancy in some sectors, particularly for agriculture, between budgetary priorities and the priorities articulated in Chapter 4 or the action plan matrix in Annex 3. The costing and further prioritization among the activities listed in the matrix should be undertaken to provide donors information on the additional financing need that would accelerate poverty reduction. At the same time, the NPRS should provide a contingency plan based on realistic assumptions on external financing.

##### A. Macroeconomic Framework

17. **The NPRS stresses the commitment of the Government to sound macroeconomic policies and broad-based structural reforms as key to sustainability.** The PRGF's objectives and targets are consistent with the macroeconomic framework developed in the NPRS. The macroeconomic framework builds on fiscal discipline, complemented by revenue strengthening and wide-ranging structural reforms that would help improve the business environment. It assumes sustained private sector-led growth under an accelerated trade liberalization regime consistent with the WTO and ASEAN arrangements. The macroeconomic framework also looks into downside risks and briefly assesses the impact of alternative scenarios on poverty reduction. Discussions on the macroeconomic framework, however, could have benefited from more comprehensive analysis of the impact of different policies on growth and inflation. The staffs encourage the authorities to develop a broader macroeconomic framework in preparation for the first annual progress report.

18. **The NPRS aims for the achievement of annual GDP growth rates of 6-7 percent over the medium term, stressing that this critically hinges upon adequate rural growth.**

Nevertheless, despite recent years' favorable growth performance, the foundations for future growth remain fragile: (i) growth has been narrowly based on the garment sector, which employs only a small fraction of the labor force; (ii) the industrial base is almost nonexistent; (iii) agricultural output, which accounts for about 40 percent of GDP, has expanded only at a slow pace, partly owing to drought and flooding and the lack of an adequate irrigation system; and (iv) the private sector is not competitive because of relatively high wages and an opaque business environment. In addition, the scheduled phasing out of the textile and apparel quotas under the WTO Agreement in Textile and Clothing in 2005 poses a significant risk to Cambodia's growth prospects. This risk can be managed only if the Government takes decisive actions, including in the areas of governance, to improve the investment climate and flexibility in the labor market, that would be needed to boost Cambodia's competitiveness and yield the high growth rates projected in the NPRS. Failure to improve the business environment owing to poor governance and corruption (and deteriorating public services arising from weak revenue performance), could undermine Cambodia's ability to compete in international markets, especially following the phasing out of quotas, and lead to slower growth in the manufacturing sector and declining exports, of garments in particular. In a worse case scenario, the failure to deliver on governance reforms could lead to sharply lower GDP growth rates, possibly falling below the population growth rate (about 2.5 percent).

19. **Moreover, the analysis of the sources of growth remains fragmented and sectoral growth rates are not specified.** Agriculture is central to the NPRS's inclusive growth strategy because it is the predominant source of national income and the poor are concentrated in rural areas. The NPRS highlights important downside risks for garments exports, owing to the prospective elimination of garment quotas in 2005. The staffs suggest that contingency plans be prepared to effectively respond to a potential crisis in the garment sector. The NPRS also lacks an analysis of the demand side of GDP, including savings-investment balances. The NPRS remains short on specifying programs aimed at eliminating identified obstacles to growth. The staffs recommend that an analysis of the sources of growth be prepared for the first NPRS progress report.

20. **Enhancing growth in the medium term requires stepping up actions to promote private sector development.** The NPRS indicates that private investment, especially foreign direct investment in labor-intensive export-oriented sectors, should remain a key contributor to economic growth. The staffs assess that the Government needs to formulate a more detailed strategy consistent with the policy matrix. In this regard, several features of the strategy merit further attention. *First*, key to both export diversification and economic growth is a conducive investment climate. The authorities need to strengthen the base on which private sector development policy decisions are made, and understand constraints facing specific sectors, including supply chain bottlenecks and administrative interventions that raise costs without adding value. The Bank plans to assist the Government with an Investment Climate Assessment in 2003. *Second*, the staffs commend the Government's efforts in incorporating the findings of the Integration and Competitiveness Study conducted under the Integrated Framework (IF) into the NPRS. The NPRS acknowledges that customs administration is a critical constraint to trade, as identified in the Study. The authorities will need to minimize the duplication and overlap in the role of government agencies dealing with trade, which increase transactions costs for firms. *Third*, international experience with export processing zones (EPZs) is inconclusive with respect to their efficacy in stimulating growth and especially poverty reduction. The staffs would encourage further analysis before this is

pursued. *Fourth*, public-private partnerships, including the use of Build-Operate-and Transfer (BOT) arrangements or output-based contracting of private providers of public services, need to be seen as part of a strategy to increase the efficiency of service delivery. To ensure the best outcomes for Cambodia's citizens and to support the NPRS service delivery goals, the Government would need to introduce the principles of transparency, competition, accountability and rational design in all transactions with the private sector.

21. **The fiscal path in the NPRS is constrained by prospective debt service obligations.** Strong revenue efforts together with strengthened budget and expenditure management are required for meeting fiscal objectives and reducing poverty. The baseline scenario is predicated on an ambitious revenue increase. Nevertheless, the staffs consider that the revenue target is achievable, provided that ongoing efforts to increase the tax base, strengthen tax and customs administration, and improve nontax revenue collections are sustained. The staffs are concerned by the erosion of the revenue base stemming from tax concessions. The proposed revised Law on Investment will help mitigate these problems over the medium term, if well implemented. Expenditure targets are consistent with the latest IMF debt sustainability analysis and reflect the pending conclusion of rescheduling agreements on concessional terms with the United States and the Russian Federation that is anticipated to raise the debt service burden to 15-20 percent of government revenues over the next ten years.

22. The staffs consider that the monetary policy stance together with a flexible exchange rate policy remain supportive of sustained growth and fiscal sustainability. The staffs also concur that the financial sector strategy embedded in the NPRS is broadly appropriate, although specific actions remain to be defined. The NPRS discusses recent external developments but lacks an analysis of the medium-term external outlook, including continued prospects for financing the current account deficit on concessional terms. The staffs suggest that a comprehensive medium-term external scenario be developed for the first NPRS progress report.

## B. Structural and Sectoral Policies

23. **The sectoral and structural measures were developed by the respective line agencies, and were subject to feedback and iterations during the course of NPRS development.** The extent to which these policies and programs present a clear and realistic approach to improving the well-being of the poor varies across sectors, with the treatment of agricultural and infrastructure issues requiring the greatest elaboration. It appears that line agencies adopted largely an incremental approach, limiting their review to new (mainly investment project) activities rather than undertaking a systematic assessment of the range of existing activities to determine the best performing ones, with the greatest impact on the poor.

24. **While the staffs welcome the grouping of the activities of the different line agencies operating in agriculture and rural areas under the broader heading of improving rural livelihoods, there is substantial scope in the period ahead to better integrate and rationalize the various programs of activity, as well as link these meaningfully with decentralization and deconcentration.** The importance of agricultural and rural development for poverty reduction calls for concerted efforts and commitment of all line agencies. *First*, in agriculture the proposed priority areas in the matrix do not seem to

capture sufficiently ongoing activities (or programs in the pipeline), but are disproportionately focused on proposals for new initiatives. Moreover, as many of the proposals for agriculture, forestry and fisheries in the matrix do not have any identified sources of financing and broad support and their total cost is beyond the levels of incremental finance which is likely to be available, further prioritization is called for. Some of these new proposals' consistency with the Government's emphasis on private sector development and the role of the public sector in a market-oriented economy need to be clarified. *Second*, since too much focus is placed on new public investments, there is inadequate consideration of the policy reforms needed to improve benefits of future investments, whether public or private. *Third*, the staffs suggest that further analytical work be undertaken to better pinpoint the areas which would have the highest potential poverty reduction impacts. This work would aim at deepening rural poverty analysis on sources of income, and broadening the knowledge base in priority areas identified by the NPRS, such as agricultural extension and research, rural credit, water management, access to natural resources, the development of rural infrastructure and improved access to markets. *Fourth*, additional attention would need to be given to ways to improve the consistency between identified priorities for poverty reduction and resource allocation in the rural sector.

25. Discussion of forestry in the NPRS is general and refers largely to the Government's efforts on legislation and regulations, including a draft sub-decree on community forestry. The staffs assess that the Government has made some progress in areas such as the new Forestry Law and in reining in illegal logging. However, **the staffs assess that the pro-poor orientation of the Government's forest policy will need to be improved through strengthening governance.** *First*, despite the implicit suggestion in the NPRS that the Government recognizes value in opening lines of communication to the poor and their advocates, the track record in forestry is not good. It has been unable to consummate an understanding after many years of consultations with NGOs and others on the proposed Community Forestry Sub-Decree, suggesting that the Government lacks the capacity to consult in a meaningful fashion with affected communities about concessions and/or it does not consider this a priority to be brought to closure. *Second*, the Government continues to approach capital and natural resource-intensive agro-industry and wood industry as the most promising sources of growth related to natural resources. Large scale processing is problematic because it does not generate employment benefits and value-added commensurate with the value of the natural resources consumed. *Third*, forestry revenues are not explicitly discussed in the NPRS. While there has been some interministerial effort on developing reformed forest revenue systems since last June's royalty audit, this has had little impact since concession logging has been in abeyance. The staffs see the following actions as priorities: (i) finalization, along with an action plan for implementation, of a satisfactory sub-decree on community forestry and a community consultation approach for forest concessions; (ii) suspension of non-performing forest concessions; (iii) maintenance of suspension of concession operations pending plan review and approval; and (iv) maintenance of an appropriate forestry monitoring system, including through the continued presence of an internationally recognized independent monitor.

26. **Since 1999, the Government undertook several steps to develop policies and implement programs in land administration, distribution and management, which are duly reflected in the NPRS.** The staffs fully recognize that land policy development and implementation are a long-term process. **On land administration**, the NPRS outlines the issues and long-term goals of establishing a nationwide land administration system and



providing secure tenure to all eligible land holdings. While the first stage of the strategy is being implemented, over the coming years the Government will need to align the phasing of land administration and titling activities with the overall poverty reduction strategy, and find the right balance between targeting poor areas (especially in the remote rural areas) and focusing on areas with high economic potential (including urban areas). **On land distribution**, the NPRS outlines a goal of distributing state land currently under private domain of the state to poor households. Building on the social concession sub-decree under preparation, the Government will need to develop a strategy for the implementation of the land distribution program, which includes: (i) the identification of land in private domain of the state which will be distributed; this land is currently under the control of several ministries (in particular with the Ministry of Defense) and nonperforming agriculture concessions; and (ii) identification of sources of funding to implement the program. **On land management**, the strategy in the NPRS is broad and more of a wish list of policy areas. Prioritization and sequencing of policy areas in land management will need to be tackled over the coming several years. The staffs encourage the Government to set up a system to monitor the implementation of social concessions of land so as to evaluate targeting effectiveness and the overall poverty impact of the program. The Bank aims to assist the Government in this effort to assess the poverty and social impact of this important policy reform.

27. Progress has been made since the I-PRSP in involving the infrastructure sector agencies. There is now greater coverage of rural infrastructure services, including water supply and sewerage, transport, energy and telecommunication. **However, key issues remain unclear including whether current approaches to rural infrastructure service provision are sustainable and can be scaled for national coverage. In addition, challenges remain relating to the need for adequate and stable funding for road maintenance and for transparency in public expenditure management, especially for public works and transport.** The Ministry of Public Works and Transport (MPWT) appears to play a marginal role in setting sectoral priorities and managing domestic resources for the sector. MEF controls the bulk of the capital budget and sometimes allocates and disburses funds directly to provincial departments of public works and transport and the military, bypassing the central ministry. In addition, there are governance issues regarding the Fund for Repair and Maintenance of Roads (FRMR): the proceeds from the FRMR appear to be allocated without the involvement of MPWT, and at times for activities other than road related programs and projects. The staffs recommend the following actions to improve infrastructure services: (i) establishing clear responsibilities for the road network between the various levels of administration (central, provincial and communes) and agencies (MPWT, Ministry of Rural Development); (ii) allocating resources to institutions- rather than projects - in order to fund their mandates; (iii) making the flow of funds predictable, so as to allow the various institutions to plan and schedule activities; (iv) ensuring, as a priority, that the level of funding is sufficient to meet road maintenance requirements across the network, ideally based on a formula that takes into account the length and condition of roads; (v) establishing transparent, technical criteria for the prioritization of major investment projects in the sector; (vi) selecting contractors for road maintenance and rehabilitation works through a transparent, competitive process; and (vii) establishing an appropriate governance framework for the FRMR, with a board, resources to undertake audits and inspections, and authority to assess performance. The staffs note that the priority road and rural infrastructure sectors did not receive adequate attention in the initial phase of the MTEF, in part due to capacity problems in the line agencies. Current Government plans are to integrate the road transport

and rural infrastructure sectors into the MTEF process in 2004. This provides an excellent opportunity to implement the staffs' recommendations.

28. **The strategy in education is comprehensive, coherent and strongly pro-poor.** Its strength reflects the wealth of prior work in the recently completed sectoral strategy. In many ways, the strategic approach to education-in terms of the process and the poverty focus of the strategy-provides important elements that could be usefully emulated by other line agencies. The NPRS tackles three important constraints in the education sector: (i) the high cost of education to parents; (ii) the low levels of government expenditure; and (iii) low teacher wages. The NPRS addresses these issues by reducing parental formal and informal fees, providing operational budgets to schools, putting in place targeted scholarship programs, increasing the share of government budget allocated to education while allocating 70% of the budget to primary and lower secondary education, and advocating in favor of increased teacher salaries. The concerns of the staffs relate to the following. *First*, untimely and unreliable disbursements have hindered school-based planning and improvement processes, and ultimately continue to place a burden on the poor as schools must depend on student fees to cover operational costs. Improvements in cash management and public expenditure management, as discussed below, are essential to reverse this trend. *Second*, slow progress on civil service reform in providing more competitive salaries to teachers would constrain the ability of the education sector to reduce the cost of education to the poor and to provide sufficient services to rural areas.

29. **The strategy in health is comprehensive and coherent but should be better focused on the poor.** It is based on some important prior work, including the recently adopted Health Sector Strategic Plan. The NPRS tackles three important constraints in the health sector: (i) the high cost of health services for patients; (ii) the low levels of government expenditure; and (iii) low wages for health staff, that result in low use of public health facilities, especially by the poor. The NPRS addresses these issues by looking at health financing options, including exemption systems for the poor, increasing the share of government budget allocated to health while allocating an increasing share of the budget to primary health care, and advocating in favor of increased health staff salaries. The document also stresses the need for a commitment to preventive care. However, the authorities could usefully further elaborate how the shift from curative to preventive care will be implemented. Looking ahead, the staffs recommend further policy and program development in order to: (i) ensure better targeting of government subsidies to the poor; (ii) ensure that the poor can afford health care and are protected against the potential impact of ill health on their welfare; and (iii) address regional inequalities in health outcomes. The NPRS correctly establishes the problem of high prevalence of malnutrition in young children and women in the country and its devastating effects on mortality and productivity. Stronger emphasis on community involvement and behavior change is needed as well as multi-sectoral approaches to address malnutrition problems. In addition, the staffs note that the recent Cambodia case study suggests that government contracting of the provision of health services to non-governmental entities is not only feasible but can potentially increase the coverage of health services in a short time. Interventions to reduce infant, child and maternal mortality are delivered to more people and faster by contracted than by governmental entities. Currently, the model is accepted only for some limited remote areas where public provision of services was dismal and the structure of health system is weak. The Government will need to consider adopting this model more broadly.

30. **The NPRS gives due emphasis to HIV/AIDS**, with a strong focus on its impact on poverty, social vulnerabilities, and gender. The response to date has managed to stabilize the epidemic. The NPRS also recognizes that continued political and multi-sectoral commitment to the problem is imperative, which raises several other issues. There is a need for better coordination between the Ministry of Health and NGOs. Voluntary counseling and training also remains limited. Surveillance is another area where further expansion would be beneficial.

31. **The NPRS reflects a much improved recognition of gender issues compared with previous government documents**, and many gender-related indicators are included. This is particularly the case for education, agriculture and to a lesser degree health. However, while the NPRS recognizes some of the differing needs, roles and constraints of female and male farmers there is no mention of the strategies to be employed to address these issues. Although the majority of the agricultural labor is female, there is no mention of gender aspects at all in agriculture development. The NPRS notes that fewer women than men have paid employment opportunities, although there is no specific reference to ways in which this gender gap will be addressed. Likewise, while low representation of women in administrative decision-making positions is recognized there are no specific strategies to address this issue. Regarding access to land, while it is acknowledged that female heads of households face particular constraints when accessing land, there is no specific strategy identified to address this issue. However, it is encouraging that allowing land titling to women is under process. The NPRS does not mention a specific strategy to promote gender equity in the context of decentralization, including training and support programs for women elected to commune councils.

32. **The strategy on environment indicates that the Government's conceptualization of poverty-environment linkages is at an early stage of development.** While the Ministry of Environment (MOE) has benefited from past donor support to develop strategies such as the National Environmental Action Plan (NEAP), such strategies have proven difficult to implement in practice due to the lack of financial and human resources. Concerns of the staffs relate to three key areas. *First*, the general inability of the MOE to effectively lead national environmental initiatives due to resource and capacity constraints. *Second*, the low level of integration or mainstreaming of environmental considerations into the strategic plans of other Ministries and line agencies. The NPRS has not effectively captured the notion of environmental protection as a cross-cutting theme requiring action on many fronts besides the MOE. While there are some examples of cross ministerial collaboration, such as forest crime monitoring and eco-tourism development, few line agencies have explicitly defined environmental objectives in their strategic planning. *Third*, the confusing and conflicting institutional roles and responsibilities in key areas such as wildlife management, community development and land tenure administration. These confusing roles are most pronounced in the context of national parks and protected areas management. MOE and other government agencies are only just now beginning to explore effective ways of managing these areas.

33. **The NPRS places adequate emphasis on reducing vulnerability and social exclusion as an integral element of the poverty reduction strategy.** Discussion in the NPRS touches upon the need to improve food security, disaster management and land mine clearance and to assist the disabled, victims of HIV/AIDS and human trafficking, orphans, street and abandoned children, the homeless, and ethnic minorities. Improvements in these areas will depend on a number of factors, including improvements in governance and

capacity in relevant agencies, the success of the strategy to improve agriculture and rural development, better coordinated donor support and adequate financing.

34. **A cross-cutting issue of major significance in Cambodia is governance. As a core element of improving governance, the NPRS fully recognizes that civil service reform is key to enhancing service delivery, and thus, to poverty reduction.** Pay and employment reform is of the highest priority in the overall administrative reform program. The NPRS matrix, which is based on the Strategy to Rationalize the Civil Service (SRCS), identifies the next steps, which comprise a clearly sequenced plan, to be carried out in the short to medium term. Given the incomplete state of knowledge about labor market conditions, the functional organization of government, the efficiency of staff deployment, and possible financing options, the critical next step is to build the analytical foundation so that the Government can formulate a comprehensive pay and employment policy. As such, the Council for Administrative Reform has committed to carrying out an analytical work program that includes targeted operational and functional reviews, labor market analysis, pay and employment policy analysis, and departure policy analysis. Based on the outcome of the analytical work plan presented in the NPRS, the Government will have to formulate a more far-reaching medium-term action plan than the one presented in the SRCS, focusing on pay and employment reform. This plan will need to include reforms to: (i) introduce competitive wage levels and greater vertical wage decompression to ensure recruitment and retention of skilled senior staff; (ii) rationalize staff deployment, providing for downsizing, where necessary; and (iii) improve establishment control. Failure to implement a sufficiently far-reaching pay and employment policy should be regarded as a principal risk to the NPRS over the medium term.

35. The NPRS recognizes that the pursuit of **good governance and the fight against corruption** can make a significant impact on poverty reduction. It summarizes the severity of corruption problems revealed by recent studies, including a governance and corruption diagnostic study. Although a number of actions in the Governance Action Plan (GAP) have been implemented, critical actions directly addressing corruption, such as anti-corruption legislation and legal and judicial reform, have made little progress for the past few years. The staffs welcome the recent extension of the public procurement sub-decree to most ministries and urge its effective implementation. The highest political commitment is essential to make those actions credible and feasible. To adequately assess the progress, the staffs recommend the Government develop a detailed, time-bound implementation plan of those critical actions that includes monitorable indicators and benchmarks. **Legal and judicial reform** is critical to improving governance. The NPRS correctly indicates that some modest progress is being made in certain discrete areas. In particular, the staffs are pleased with the steps now being taken to help ensure that judges and others in the judicial system receive essential training. The staffs are concerned, however, about the disconnect between what is claimed in the NPRS as being underway and the reality. Since the dissemination by the Council of Ministers of its draft Legal and Judicial Reform Strategy in June 2002, little progress appears to have been made in finalizing this strategy and in ensuring its broad endorsement. The NPRS makes no mention of any such strategy, nor does it make reference to various other critically important factors, including: the role of the new Council on Legal and Judicial Reform; the specific role of the Ministry of Justice; the urgent need for higher levels of salaries for all employees in the judicial system; and the essential requirement of relevant legislative enactment, including regarding the appointment, promotion, discipline and retirement of judges. The Government will need to decisively and swiftly comply with

the actions agreed at the CG meeting in June, 2002, in particular submission of the anti-corruption law to the National Assembly, implementation of the provisions of the Procurement sub-decree, and the completion of a time-bound legal and judicial reform strategy.

36. **A core area of good governance that is also crucial to the NPRS goals of service delivery to the poor, as well as to improvements in Cambodia's investment environment is the fair, transparent and competitive procurement of public services.** This pertains to such agreements as concessions, leases, asset sales, BOT agreements, construction contracts, licenses, joint venture agreements and any other forms of public-private partnership. Closed, opaque and non-competitively bid transactions that lack performance indicators or regulatory oversight have been a common feature of Cambodia's procurement of private providers of public services to date--at the cost of revenue opportunities for the government and efficient and sustainable service provision for consumers. For the NPRS to achieve its service delivery and competitiveness objectives, the Government will need to ensure the rational, economic design of bid opportunities, including rationally derived tariffs, subsidies, payment requirements, revenue sharing arrangements, oversight and regulatory mechanisms and dispute resolution mechanisms—all made clear through published implementing rules and procedures. It is critical that Cambodia institute a "no new closed transactions" policy as a measurable result for the NPRS process.

37. **The NPRS rightly emphasizes that public expenditure and financial management are critical for successful implementation of the anti-poverty agenda.** The Government's diagnosis of the constraints and deficiencies of existing systems reflects ongoing work in this area (notably the Bank's Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) and the IMF's Technical Cooperation Action Plan (TCAP) assessment). The Government now recognizes that slow and unpredictable budget execution--resulting from the extensive use of cash, fragmentation of reserve holdings, inadequate coordination between commitment controls and cash management -- are major constraints for the delivery of quality public services. As committed in the NPRS, the Government will need to decisively implement the following: (i) the use of the banking system for an increasing share of payments and inter-governmental transfers; (ii) strengthening Treasury controls and reporting, through application of a revised chart of accounts and computerization of Treasury's manual accounting system; (iii) strengthening the internal and external audit functions; (iv) the devolution of financial controllers, currently located at MEF, to line ministries; and (v) improving the audit of Priority Action Program (PAP) disbursements for health and education, including the establishment of regular reporting requirements. Political commitment to these reforms is key.

38. **The Government prepared a first phase of a MTEF in 2002,** supported by ADB. The MTEF will allow Government to better integrate its planning and budgeting processes over the medium term. However, several challenges must be overcome before the MTEF becomes an effective, credible tool. The authorities need to ensure that the MTEF is comprehensive in its coverage, integrating, in particular, external financing and the civil service reform program. The current MTEF does not incorporate the Public Investment Program (PIP) nor include projections of program support by donors. Over time, the MTEF and the PIP will have to be integrated to develop a unitary planning and budgeting tool. Moreover, the MTEF does not incorporate the Government-approved SRCS, which plans for wage increases over the next several years. Over the coming year, the Government is

expected to work on laying out a clear plan to integrate the MTEF with the SRCS, incorporate the PIP and external financing, and ensure that the MTEF feeds into the limits used for the annual budget process.

## V. TARGETS, INDICATORS, AND MONITORING

39. **The NPRS draws on medium-term goals in a range of areas from the SEDP II. These resonate with most of the areas covered by MDGs**, including the poverty headcount, and indicators to measure improvements in education, health, and access to drinking water. Hence, the Government is well placed to undertake a more systematic review of the relevance of MDGs for Cambodia in the context of the localization of MDGs. The staffs would particularly like to commend the Government for going beyond population averages, to target and track changes in several dimensions of poverty by income group (e.g., education and health disparities between the richest and poorest quintile), by gender (e.g., health, education, employment and political participation) and for ethnic minorities (e.g., education).

40. **Some of the numerical targets set forth appear ambitious**, including the targeted reduction in landlessness from an estimated 12-15% currently to 7-10% in 2005; the targeted increase in the percentage of 12-year-old children completing primary schooling, from 33% in 1998 to 90% in 2005; and the targeted increase in the ratio of the under 5 mortality rate in the richest quintile to that in the poorest quintile, from 0.5 in 2000 to 0.8 in 2005. More work will be needed in terms of developing clear and achievable indicators and targets for the NPRS, and this should receive high priority over the coming year. NPRS targets in the education and health sectors, are consistent with goals of sectoral programs that the government has undertaken with support from the Bank and other donors.

41. While indicators (although not targets) are also included to reflect the quality of legal and judicial services, especially as these relate to the poor, the behavior of public officials, and for corruption, **the Government will need to develop concrete indicators for governance, legal and judicial reform, and anti-corruption and monitor them through, for example, beneficiary assessment surveys.**

42. **The staffs urge the Government to improve the quality and availability of indicators for monitoring poverty in the context of a comprehensive program of statistical capacity building.** This will require, among other things, developing a detailed implementation framework for its household surveys, including the frequency and sample size of the surveys; what constitutes the core questionnaires; and how the survey design will allow intertemporal comparisons. **Information available through household surveys needs to be complemented with indicators that are available on an annual basis**, which could include reporting on budget allocation and execution in priority areas; and administrative data in the areas of education, health, and possibly agriculture. The findings and recommendations of the General Data Dissemination System (GDDS) mission that visited Cambodia during November/December, 2001 and the report on the Partnership in Statistics Workshop (October 2002) should be helpful in identifying measures to improve the quality of information needed to monitor the PRSP. Further efforts are also needed to upgrade the statistical framework, especially in the areas of national accounts, balance of payments, government finance statistics, and monetary statistics, to ensure adequate policy design and monitoring of policies that impact the poor.

43. **Implementing a system to monitor and assess progress in government programs on the scale called for in the NPRS constitutes a significant challenge and will require further technical capacity strengthening in the central and line ministries**, as is being carried out with assistance from UNDP and SIDA, as well as enhanced interministerial coordination within government. In addition, an effective accountability framework for monitoring and evaluating implementation will also require enhanced linkages with civil society organizations, media and donors, including through greater public availability of data and the transparent reporting of progress on the NPRS (both nationally and locally) and additional work to develop common understandings of measurement of input, output, and impact indicators using quantitative and qualitative methodologies. The follow up activities specified in the NPRS indicate the Government's awareness of the need to carry out such activities but also makes it clear that government will need significant assistance from its development partners to operationalize this framework.

## VI. RISKS TO THE STRATEGY

44. **The implementation of the NPRS's poverty reduction strategy could be affected by a wide range of risks reflecting Cambodia's areas of vulnerability.** *First*, institutional weaknesses and capacity constraints may hamper NPRS implementation. *Second*, poor governance and corruption could undermine the poverty reduction efforts, among others, through discouraging donor assistance and private investment. *Third*, failure to improve service delivery to meet the expectations generated by Cambodia's recent establishment of democratically elected commune councils could undermine the credibility of the NPRS more generally. *Fourth*, failure to adhere to the fiscal and monetary targets and to implement the structural reform program on a timely basis would destabilize the macroeconomic environment and hamper the poverty reduction strategy. *Fifth*, a slowdown in the world economy and increased competition from neighboring countries could hamper the achievement of NPRS objectives, particularly with the elimination of garment quotas in 2005 due to the Agreement on Textiles and Clothing under WTO posing significant risks to growth prospects. This could lead to reduced exports to foreign markets and lower foreign aid. Cambodia is also particularly vulnerable to exogenous shocks, e.g., deteriorating terms of trade through weaker garment prices and higher oil prices, and unfavorable weather conditions.

## VII. CONCLUSION

45. **Bank and Fund staffs believe that Cambodia's final NPRS reflects the substantial improvements achieved over the past 18 months in both the quality of the process and the content of the document. It is very important that this momentum be maintained. In the view of the staffs, the continued involvement of the Ministry of Economy and Finance and the attention of the highest levels of the Government will be critical to successful implementation.** The authorities will need to address the identified shortcomings, however, in order to make the strategy fully operational and assure its effectiveness. Successful implementation will require mastering the organizational challenges of monitoring and maintaining progress in structural reforms.

46. **There is a particular concern with regard to the implementation of critical reforms on governance, especially anti-corruption, legal and judicial, forestry, public**

**financial management, and civil service reform.** The political commitment and technical capacity to implement these reforms have yet to be sufficiently demonstrated. To date, there has been a disconnect between the policy pronouncements and the outcomes on the ground in these areas. As the Government moves beyond the easier phase of adoption of laws, regulations, and strategies to the more difficult phase of their implementation, it is the achievement of measurable and monitorable results that will signal satisfactory performance on reforms.

47. **The staffs recommend that the CG meetings be utilized by Government and donors for jointly assessing the progress in the implementation of the NPRS and agreeing on the next steps to enhance the implementation. This would complement other, more broadly participative venues such as GSCSD reviews and direct consultations with stakeholders, including communities, in the context of national and provincial workshops.** Annual NPRS progress reports could thus become the main document provided to the CG meetings. **The staffs also recommend that the Government work toward synchronizing the annual NPRS progress report preparation with the budget preparation** so that the priorities in the annual NPRS progress report can be adequately reflected in the subsequent year's budget.

48. The staffs of the World Bank and IMF consider Cambodia's NPRS a credible poverty reduction strategy that provides a sound basis for Fund and IDA concessional assistance. The staffs recommend that the respective Executive Directors of the IMF and the World Bank reach the same conclusion.