

**FOR
AGENDA**

EBD/00/124

December 22, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Cambodia—Interim Poverty Reduction Strategy Paper—Joint Staff Assessment**

Attached for consideration by the Executive Directors is the joint staff assessment of the interim poverty reduction strategy paper for Cambodia. This subject, together with the paper on the second review for Cambodia under the Poverty Reduction and Growth Facility (to be issued) and the interim poverty reduction strategy paper for Cambodia (EBD/00/123, 12/22/00), will be brought to the agenda for discussion on a date to be announced. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Cambodia indicating their preference to publish it.

Questions may be referred to Mr. Rumbaugh (ext. 36094) and Mr. Marciniak (ext. 36732).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, January 3, 2001; and to the Asian Development Bank, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

CAMBODIA

Assessment of the Interim Poverty Reduction Strategy Paper

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

Approved by R. Anthony Elson and Mark Allen (IMF) and
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The Royal Government of Cambodia responded favorably to the PRSP initiative following a mission to launch the process in May 2000, and has undertaken substantial work on both the technical and procedural aspects in putting together an interim document. The authorities' document meets the requirements for an I-PRSP and provides a sound basis for the development of a fully participatory PRSP, as well as an adequate framework for Fund and Bank concessional assistance programs.

The major strengths of this I-PRSP are: (i) the candidness of the review of achievements in poverty reduction and human resource development as against earlier targets; (ii) a detailed and critical discussion of the government's existing strategy; (iii) a clear agenda for data collection and policy analysis to be undertaken during preparation of the full PRSP; and (iv) the involvement of a broad range of agencies across the government as well as numerous external partners, and a clear agenda for participation in the full PRSP.

Looking ahead to the full PRSP, the main concern relates to the government's weak administrative capacity and difficulties in coordinating arrangements among different government and donor agencies and among various policy and planning initiatives. The work program for the full PRSP is ambitious but should be manageable if appropriately coordinated and actively led by the government with external technical and financial support.

The staffs recommend that the full PRSP should: (i) consider constructing baseline poverty diagnostics based on the 1997 household survey; (ii) establish a process for consistent poverty monitoring through future household surveys; (iii) identify appropriate indicators and targets to be monitored and the corresponding improvements to data systems; (iv) ensure that the macroeconomic framework is well integrated into the strategy; (v) identify a set of priority public policies and programs that will have the greatest impact on poverty reduction and be consistent with financial and institutional constraints; (vi) include the full costing of proposed policy actions identifying, as far as possible, links to a medium-term expenditure framework; (vii) elaborate further on strategies for administrative reform and improving governance; (viii) be prepared with full involvement of core agencies, in particular the Ministry of Economy and Finance, and active participation of civil society groups and external partners; and (ix) build on and clearly articulate the links between the PRSP and the Second Five-Year Socio-Economic Development Plan (SEDP-II).

INTRODUCTION

1. After almost three decades of armed conflict, and notwithstanding the recent progress made in economic performance since the formation of the Royal Government in 1993, Cambodia remains one of the poorest countries in Asia. Weak physical infrastructure and, more important, the inadequate capacity of human resources severely constrain Cambodia's medium-term development potential. To reduce poverty significantly and enhance economic and social well being, the government is keenly aware that it has to implement a coherent economic program that will produce rapid and broad-based economic growth over the long term. The government's commitment to implementing policies for poverty reduction is well articulated in the I-PRSP.

POVERTY DIAGNOSTICS AND MONITORING

2. The I-PRSP explicitly recognizes the multi-dimensionality of poverty in Cambodia. Poverty is described not only in terms of lack of economic opportunities, but also low capabilities (arising from poor education and health outcomes), vulnerability (in particular food insecurity) and social exclusion (due to illiteracy, denial of access to decision-making processes, corruption and discrimination). This approach to understanding the nature of poverty is in turn linked to government policies, which emphasize the breadth of actions needed to confront poverty. A number of the themes are consistent with this year's World Development Report, which encourages a multi-dimensional view of poverty and a broad consideration of policy responses, beyond a focus on the rate of economic growth.

3. The I-PRSP reflects the fact that Cambodia is rich in terms of the availability of household survey data, much of which is publicly available. A number of major household surveys, as well as a National Population Census, have been carried out in recent years, and the management information systems of line ministries provide a spectrum of poverty-relevant indicators on a regular basis. This augurs well for both poverty diagnostics for the full PRSP, as well as future monitoring and evaluation efforts. Overall, the I-PRSP has benefited from these resources which appear to be broadly reliable, notably in the case of demographic indicators, for which different data sources suggest estimates within a relatively narrow range. Discrepancies, however, exist for some indicators, in particular literacy rates, between the government's official data and other sources.

4. On the poverty diagnostics, however, there are serious issues of comparability between the two rounds of the 1999 household survey. The second round estimates--which were used in the I-PRSP--imply substantially higher mean consumption and substantially lower inequality, and the discrepancy cannot be explained by seasonality. Staffs' judgement is that neither round is unambiguously superior to the other, and the large discrepancy between the two rounds implies that the 1999 survey is unlikely to yield a robust benchmark for poverty diagnostics. Basing the poverty estimates and profile only on round-two data, as done in the I-PRSP, can thus be misleading. In staffs' judgement, basing the poverty diagnostics on the 1997 survey will yield a more credible baseline, and one that is more likely to be comparable with the next household survey.

The 1997 survey was done in a single round, and does not appear to have the internal consistency problems associated with the 1999 survey. Hence, staffs recommend that the additional analytical work planned in the context of the full PRSP should be done using the 1997 survey.

5. Establishing a process for consistent poverty monitoring through future household surveys should be a priority task for the full PRSP. Capacity building at the National Institute of Statistics and the Ministry of Planning is urgently needed to ensure the reliability of the next survey and its comparability with the 1997 survey. In parallel, it is important to complement the quantitative survey results with the findings that emerge from the proposed participatory poverty assessment that is being supported by the Asian Development Bank. The qualitative investigations can also be used to update earlier work, as well as fill gaps in knowledge about poverty determinants and trends.

6. During the period of development of the full PRSP, the authorities should, in an open and participatory way, identify key poverty indicators to be monitored, and select a number of targets. These targets would be reviewed in the context of subsequent annual progress reports. It is also important that the systems to carry out the monitoring are open and transparent, and involve local communities and civil society.

POLICY AGENDA

7. The strategy designed by the government, which is aimed at strengthening the macroeconomic environment in tandem with broad-based structural reforms, is appropriate for Cambodia's circumstances. The objectives of increasing economic growth, keeping inflation low, and containing the external current account deficit while strengthening external debt management, are key elements in promoting a stable market-based economy. Fiscal policy will continue to be the cornerstone of macroeconomic policy. Current budget surpluses and the avoidance of domestic budget financing will be important for maintaining stability, while improved revenue mobilization and expenditure management will be necessary to support poverty reduction objectives.

8. Cambodia's three-year macroeconomic framework, together with the policy matrix included in the I-PRSP, reflects the Government's existing strategy. The policy actions listed in the matrix and their timetable for implementation are based largely on the PRGF and SAC programs. The macroeconomic framework is based on the one discussed with the Fund staff in the context of the first review under the PRGF arrangement, and the medium-term objectives are the same as those that underly the PRGF program. Since the finalization of the I-PRSP, the near-term outlook has been affected by the recent severe flooding, and the framework will need to be updated in the context of the full PRSP. The full PRSP could also have a more detailed discussion of the sectoral sources of growth expected to support the medium-term objectives. A more comprehensive assessment of the links between the labor market and poverty, especially in view of the large-scale military demobilization under way and forthcoming civil service reform, would also help underpin the full PRSP.

9. The I-PRSP appropriately places priority on enhancing the government's ability to reallocate budgetary resources to priority sectors. Historically, this has been constrained by low revenue collection and high military spending. The government's present strategy is centered on a substantial reduction in the size of the military, and administrative reform directed at improving the efficiency of public services. The actions envisaged under the demobilization program, as well as rationalization of the size of the civil service, are largely contingent upon the availability of foreign funding to cushion the resulting social impact, and the fiscal implications of these reforms will need further elaboration. These reforms, coupled with pay reform, are intended to attract and retain skilled staff and upgrade service delivery. The full PRSP will need to expand on the civil service reform strategy expected to be formulated in 2001, and clearly link the strategy with the goals of rationalizing the size of the civil service, increasing remuneration, and improving the efficiency of public services. The full PRSP should also contain a more complete analysis of the composition of public sector expenditure, including for the social sectors. The I-PRSP highlights various initiatives to improve policy formulation and coordination with development partners, such as the Priority Action Plan (PAP), the Public Investment Program (PIP), the Medium-Term Expenditure Framework (MTEF), and the Public Investment Management System (PIMS). However, interrelations among these initiatives need to be clearly specified and the coordinating mechanisms established in the full PRSP.

10. As suggested above, the I-PRSP is strong in recognizing the need to tackle poverty across multiple fronts, not limited solely to the social sectors and the volume of public spending. Hence, there is a solid description of present policies and proposed reforms across a number of areas thought to be critical for poverty reduction in Cambodia including, land reform, governance and anticorruption efforts, and rural infrastructure, as well as the key sectors of health and education. But the I-PRSP mentions a very large number of actions across those areas which are likely to strain institutional and fiscal capacity. There is, therefore, a need to prioritize proposed actions in the full PRSP, based on the expected poverty impact and to cost measures in the context of the ongoing development of a medium-term expenditure framework.

11. The I-PRSP recognizes that poor governance and corruption are central obstacles to Cambodia's poverty reduction efforts. Measures are already being developed to combat these problems. The Governance Action Plan (GAP) identifies a comprehensive set of actions to foster governance primarily through judicial, legal and administrative reform. However, while noting the challenge of corruption, the I-PRSP does not give adequate emphasis to the actions already being undertaken by government in this area, such as establishing an Anti-Corruption Unit at the Council for Administrative Reform. In addition, the adoption of the GAP by the Cabinet--which is expected in December 2000/January 2001--will provide a strong indication of commitment. Toward the preparation of the full PRSP, the government should integrate more fully its governance and anti-corruption strategy into its poverty reduction strategy, by establishing the links between governance and poverty, and by identifying concrete, feasible, and costed measures that tackle the governance problems most relevant to poverty reduction, in particular judicial reform, the passage of anti-corruption legislation establishing an

independent anti-corruption body, and stricter compliance with the 1995 Sub-Decree on Public Procurement .

12. Gender equality plays a critical role in promoting sustainable development and economic growth in Cambodia, and this is recognized in the I-PRSP. While the priority areas described in the I-PRSP all provide opportunities for promoting the economic and social participation of women, the full PRSP will need to spell out in more detail the key measures required to promote the economic and social participation of women. This suggests a need for: (i) participatory consultations to ensure the equal participation of both men and women, so that the poverty reduction priorities of both sexes are taken into consideration; (ii) poverty diagnostics that examine gender differences in the causes and consequences of poverty; (iii) the selection and design of interventions to reflect the different priorities, constraints and opportunities affecting poor men and women; and (iv) monitoring and impact indicators to be gender disaggregated as appropriate.

13. The I-PRSP adequately describes a number of areas that are critical to rural development, including land issues, rural infrastructure, and rural credit. It appropriately identifies the lack of adequate road systems as a major bottleneck to social and economic development. However, it sheds little light on the policies and institutional reforms required to break with the past, and on future priority interventions. In this sense, the work plan for the full PRSP may have under-emphasized the importance of preparing a comprehensive rural infrastructure strategy that would ensure sustainable transport improvements in rural areas.

14. The sectoral strategy for education is explicitly pro-poor. It suggests ways to address barriers to poor children's attendance at school including, for example, by basing teachers' salaries on performance, and eliminating the need for informal parental payments to teachers. However, effective implementation of this strategy will require tightening the link between budget formulation and execution, based on efforts to improve public sector financial management. The full PRSP could examine options to increase poor children's enrollment and attendance and reconsider ways to direct subsidies to schools in needy areas. It is also important to consider appropriate structural and sectoral reforms to improve the quality and relevance of schooling, especially for the poor.

15. Strategies in the health sector are well specified, and the organizational reform introduced in 1996 was an important step toward improving health services to the rural poor. In the course of preparation of the full PRSP, the authorities could review whether earlier reforms have yielded the intended benefits in terms of improved access and services, and better capacity at the district level to provide primary healthcare. Given that Cambodia has the highest prevalence of HIV in East Asia, with an estimated 4 percent of the adult population infected, the full PRSP should include more concrete actions on HIV/AIDS and its links to poverty reduction. In this regard, effective implementation of the National Strategic Plan on AIDS prevention, in particular through public education and outreach to rural areas and women, will be critical.

16. The full PRSP could usefully develop a more explicit set of measures in support of private sector development. In particular, while the I-PRSP recognizes the crucial role of physical infrastructure development, in the course of developing the full PRSP it is important for the authorities, in consultation with the private sector, to consider measures to promote private sector development and the scope for public-private partnerships. For example, the I-PRSP makes no reference to tourism development although Cambodia is home to one of the world's protected cultural heritage sites, and a major tourism attraction.

PREPARATORY PROCESS

17. The process which underpinned the preparation of the I-PRSP was an iterative and participatory one. It was led by the Ministry of Economy and Finance, and structured around working groups on poverty diagnostics, macroeconomic and sectoral policies, and governance. A number of drafts and redrafts were circulated (the final document approved by the Cabinet represents draft number eight). At an early stage in the process, copies of the draft were given to external partners. Several working group meetings were held, and the process has been open to the Parliament, external partners, NGOs, and the private sector.

18. The I-PRSP sets out an appropriate preparation and participation plan for the full PRSP, which reflects a substantively more open and broader process than that which characterized previous national strategies (e.g., the First Five-Year Socio-Economic Development Plan for 1996-2000, SEDP-I). It calls for broad consultation through working groups and workshops among line ministries, civil society, donors, multilateral agencies, and NGOs. One question for the authorities to consider is whether the participatory processes can be structured to go beyond seeking views on draft papers to embrace more open-ended discussions. The present plan does include stakeholder analysis, surveys of civil society, and a participatory poverty assessment that will also feed into the Second Five-Year Socio-Economic Development Plan for 2001-2005 (SEDP-II), which is presently under preparation. SEDP-II is to focus on poverty reduction, and will be finalized by March/April 2001. The process and content of SEDP-II will form the basis for the full PRSP, which is expected to be completed by December 2001.

19. Donors, multilateral organizations, and NGOs have been very supportive of the process to date and, looking ahead, various partners have expressed a willingness to continue to provide comprehensive support to the government in preparing the full PRSP. Extensive capacity building efforts focusing on budget management in favor of social expenditure is due to begin shortly, including assistance to be provided by the Fund, the Bank, the ADB, and WHO. A wide range of capacity building initiatives to improve poverty diagnosis and monitoring capabilities is also under way, including (though not limited to): (i) the ADB is assisting the Government in preparing the SEDP-II focusing on poverty reduction; (ii) UNDP is to provide assistance in medium-term capacity building in poverty monitoring and analysis; (iii) the Bank is to provide IDF grant assistance in strengthening capacity in formulating a poverty reduction strategy with participatory approaches; (iv) WFP is in the process of completing a poverty mapping

exercise; and (v) UNICEF is expected to provide valuable insights on the statistical monitoring of poverty-related issues. A number of bilateral donors have also indicated active interest in supporting the process. It is critical for donors to more effectively coordinate various capacity building efforts under the government's leadership.

RISKS

20. The foregoing paragraphs have highlighted a number of areas that warrant attention or greater emphasis in the course of preparation of the full PRSP. This section highlights systemic and institutional risks that could, if not appropriately dealt with, compromise the quality and credibility of the PRSP.

21. Similar to most small low-income countries, Cambodia faces certain inherent risks. There is a risk of external macroeconomic shocks stemming from further increases in oil prices, a decline in commodity prices, or reduced access to key export markets. Maintaining market access for exports, particularly garments, will be important both for achieving external viability and reducing poverty over the medium term. The country is also subject to the risk of natural disasters (like the widespread flooding experienced in the second half of 2000). There are also underlying internal risks in the run-up to local elections scheduled for end-2001 and the national elections in 2003. External viability over the medium term will also continue to depend on the sustained implementation of policies and continued donor support. Although Cambodia is not eligible for debt relief under the HIPC initiative, the successful conclusion of outstanding bilateral rescheduling agreements, particularly with the Russian Federation and the United States, and prudent debt management, will be key elements in reducing external debt, currently estimated at 68 percent of GDP.

22. The main internal risk, however, stems from institutional constraints, namely limited administrative capacity. This relates to both implementation of proposed measures, especially at the local level, as well as to the preparation of the full PRSP. Formal responsibility for the preparation of the full PRSP has been transferred away from the Ministry of Economy and Finance (MEF) to the Ministry of Planning (MOP), since the MOP has been formally assigned responsibility for poverty reduction. This could further stretch limited administrative capacity given that two major policy papers, i.e. the full PRSP and the SEDP-II, will be coordinated by the MOP in 2001. To help ensure consistency with the I-PRSP, in both content and quality, it will be essential for MEF officials to remain closely involved with the PRSP process, as well as SEDP-II preparation.

23. Given concerns about the allocation of responsibilities between the MEF and the MOP and the coordination between the PRSP and the SEDP-II, the government decided to allow the MOP additional time to prepare a credible country-owned PRSP both in terms of substance and the participatory process. In principle, the two products will need to be consistent with each other and the PRSP should be able to draw on relevant parts of the SEDP-II. However, the PRSP may need to go beyond the SEDP-II in certain respects. For example, the PRSP will have to be fully costed and integrated into the

macroeconomic framework, and, therefore, will need to focus on the fiscal dimension, even if this is not fully dealt with in SEDP-II.

24. Finally, there is a risk that external assistance--either technical or financial--that is needed to support preparation of the full PRSP will not be forthcoming. The workplan clearly indicates where external assistance is being sought, and improved donor coordination in providing this assistance will be important. As indicated above, external partners have already expressed their keen interest in the process and its results, and the authorities will need to maintain an open and transparent process to facilitate continued partner involvement. Establishing priorities and a careful costing of actions designed to direct scarce resources where they have the greatest impact on poverty reduction can help minimize an adverse outcome in the event there are delays in the provision of expected donor assistance.

CONCLUSION

25. The process underpinning the Interim PRSP, and the resulting document, demonstrate the strong commitment of the Cambodian government to developing through a broad participatory process, a strategy aimed at reducing poverty in its various dimensions. The staffs of the World Bank and IMF consider that the I-PRSP provides a sound basis for the development of a full participatory PRSP, and for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.

Cambodia: Key Events, September 2000 - June 2002

Institution	Event	Expected Time
IMF	2000 Article IV Consultation/First Review under the PRGF Arrangement	September 2000
World Bank and IMF	Interim PRSP, Joint Staff Assessment	January 2001
IMF	Second Review under the PRGF Arrangement	January 2001
IMF	Technical Cooperation Action Plan	January 2001
World Bank	IDF Grant for Capacity Building in Poverty Reduction Strategy Formulation with Participatory Approaches	January 2001
World Bank	Second Tranche Review of the Structural Adjustment Credit	February 2001
World Bank	Social Fund II Supplemental Financing for Flood Rehabilitation of Small Scale Infrastructure	March 2001
World Bank	Legal Needs Assessment	March 2001
World Bank	Demobilization Operation Project	April 2001
World Bank	Country Framework Report on Private Participation in Infrastructure and Social Services	April 2001
World Bank	Economic Capacity Building Operation Project	May 2001
World Bank	Emergency Flood Rehabilitation Project	June 2001
IMF	2001 Article IV Consultation/Third Review under the PRGF Arrangement	June 2001
World Bank	Rural Electrification and Transmission Project	July 2001
World Bank and IMF	Full PRSP, Joint Staff Assessment	December 2001
IMF	Fourth Review under the PRGF Arrangement	December 2001
World Bank	Land Management and Administration Project	February 2002
World Bank	Legal and Judicial Reform Project	March 2002
World Bank	Provincial and Rural Water Supply Project	March 2002
World Bank	Country Assistance Strategy Update	March 2002
IMF	2002 Article IV Consultation/Fifth Review under the PRGF Arrangement	June 2002

