

Cambodia: Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) of the Poverty Reduction Strategy Paper for Cambodia, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

CAMBODIA

**Joint Staff Advisory Note of the Cambodia
National Strategic Development Plan (NSDP), 2006–2010**

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

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June 21, 2006

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ACRONYMS

ADB	Asian Development Bank
APR	Annual Progress Report
CG	Consultative Group
CDC	Council for the Development of Cambodia
CMDG	Cambodian Millennium Development Goals
CSES	Cambodian Socio-Economic Survey
DHS	Demographic and Health Survey
ESP	Education Sector Plan
GDP	Gross Domestic Product
HSP	Health Sector Strategic Plan
IDA	International Development Association
IMF	International Monetary Fund
JMI	Joint Monitoring Indicator
JSA	Joint Staff Assessment
M&E	Monitoring and evaluation
MAFF	Ministry of Agriculture, Forestry and Fisheries
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEF	Ministry of Economy and Finance
MoH	Ministry of Health
MoP	Ministry of Planning
MPWT	Ministry of Public Works and Transport
MRD	Ministry of Rural Development
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organization
NIS	National Institute of Statistics
NPRS	National Poverty Reduction Strategy
NSDP	National Strategic Development Plan
ODA	Official Development Assistance
PDR	People's Democratic Republic
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PIP	Public Investment Programme
PRSP	Poverty Reduction Strategy Paper
RGC	Royal Government of Cambodia
SEDP	Socio-Economic Development Plan
SWAp	Sector-Wide Approach
TWG	Technical Working Group
TWG-PPR	Technical Working Group for Planning and Poverty Reduction
UN	United Nations

I. OVERVIEW

1. **Cambodia's National Strategic Development Plan (NSDP) 2006–2010 was finalized in January 2006 and approved by the National Assembly in May 2006.** As Cambodia's poverty reduction strategy, the NSDP replaces previous medium-term strategies (the second Socio-Economic Development Plan (SEDP-II) 2001–2005 and the National Poverty Reduction Strategy (NPRS) 2003–2005) and incorporates long-term targets already established in the Cambodian Millennium Development Goals (CMDGs), first formulated in 2003 and updated in 2005.
2. **The NSDP constitutes a significant step forward in terms of government ownership diagnostics and results framework.** There is now just one national strategy rather than, as before, two or three. Although preparation was less participatory than for previous strategies, it was also less donor-driven, resulting in more pronounced ownership by the Royal Government of Cambodia (RGC). Within government, however, ownership is felt unevenly across ministries and weakly at sub-national levels. Poverty diagnostics are less detailed but now based on up-to-date data, including accurate trend data. With regard to monitoring, the NSDP has largely resolved the problem of multiple (and often inconsistent) indicator and target frameworks. There are now fewer indicators, but also better institutional arrangements for monitoring progress. The evolving integration of the NSDP and Consultative Group (CG) processes provides a reference point for moves to improve aid alignment and effectiveness.
3. **The NSDP outlines links between goals, strategy and patterns of public expenditure, but is more indicative than specific when it comes to spending priorities.** Therefore, if the NSDP is to influence RGC and donor prioritization it is likely to be in the context of policies, institutions and governance arrangements (where some progress is now being made), rather than spending. Cross-Government dialogue, which advanced during NSDP preparation, needs to be institutionalised through regular interaction between Ministry of Planning (MOP), Ministry of Economy and Finance (MEF) and the Council for the Development of Cambodia (CDC). The implementation process also needs to make space for broader and deeper inclusion of civil society. Improving participation, transparency and accountability in policy-making and public financial management is particularly important if, as expected, substantial revenues begin to flow from offshore oil and gas towards the end of the NSDP period.
4. **Sustained effort is required to roll the NSDP out to Ministries in a manner which adds value to sector strategies that are at very different stages of development.** There is also a need to flesh out the roles of sub-national authorities in implementing and monitoring the NSDP. It is also important that the Government now start to engage non-state actors. Civil society participation was the weakest point in the NSDP formulation process. This needs to be redressed in implementation, firstly by communicating the key points of the NSDP to civil society in an accessible format (which increase awareness and improve the prospects for successful implementation), and secondly by involving NGOs as channels for feedback on grassroots perspectives of implementation and results.

II. THE NSDP AS A POVERTY REDUCTION STRATEGY

A. Process, Ownership and Participation

5. **A major achievement of the NSDP is that it defines a single, overarching national development strategy, rather than merely one among several competing strategies.** In the past, poor donor coordination has led to the preparation of different plans in parallel, which has resulted in weak ownership and contributed to limited implementation. The three multilaterals that supported previous exercises (ADB, the UN and the World Bank), together with other donors, made conscious efforts to provide shared advice during the preparation of the NSDP over the course of 2005. Along the lines agreed at the regional conference on National Plans as Poverty Reduction Strategies held in Vientiane, Lao PDR, in April 2006, the new national plan is being presented to the Executive Boards of the Bank and Fund as Cambodia's poverty reduction strategy. The national planning process will progressively mainstream the PRS principles according to which this JSAN is structured. The annual report on NSDP implementation prepared for debate amongst national stakeholders (e.g. at Consultative Group meetings) will in future be taken by the Boards as an annual progress report accompanied by a JSAN.

6. **The NSDP has considerably more Government ownership than previous documents, and more potential to broaden and deepen this ownership over time.** It builds upon earlier exercises in setting targets (the CMDGs) and is structured as an elaboration of an existing high-level political vision statement (the Rectangular Strategy, released as the policy platform of the government in 2004).

7. **However, knowledge and ownership of the commitments in the NSDP vary considerably across Ministries and between levels of Government.** Ownership is strongest in the Secretariat that led NSDP preparation, and more broadly in the Ministry of Planning that chaired the Secretariat. Although several rounds of consultation occurred within Government over the course of 2005, communication between the Secretariat and the various ministries and agencies was sometimes inefficient. The Technical Working Groups (TWGs), established over recent years as the fora for sector-level Government-donor-civil society policy dialogue and coordination, were marginalised until a late stage. It would have been very helpful if MEF had been more substantively and consistently engaged in the NSDP preparation. While provincial representatives were involved in the early discussions around NSDP preparation, the NSDP has yet to achieve strong recognition or operational influence at sub-national levels. The National Assembly had very limited opportunities to influence the preparation process. There is now a pressing need for a communications strategy (elements of which are already prepared) to disseminate knowledge of Government commitments contained in the NSDP both within Government, and to citizens and NGOs.

8. **The Staffs recommend that the institutional arrangements put in place for NSDP preparation are strengthened to support NSDP implementation and monitoring.** Lack of continuity between preparation and implementation has been a key factor underlying the very limited impact of previous strategy documents. There is a need for (i) the allocation of

additional RGC resources to coordination and monitoring functions; (ii) greater inclusion of civil society in periodic progress reviews; (iii) improved cross-Government communications and better integration of planning and public financial management (PFM) functions; with (iv) a central role for the TWGs and better links to the process for setting and monitoring annual progress targets in Consultative Group meetings. The Secretariat should now be institutionalized as the stable core of an ongoing effort for strategy implementation, monitoring and eventual revision, through to and beyond 2010.

9. **Elaborating on the broad directions mapped out in the NSDP calls for institutional arrangements that differentiate between sectors with varying capacities and direction and pace of reform.** Implementing the NSDP in sectors that already have well-developed strategies, policies and institutions (such as Education and Health) requires (i) further sharpening the focus upon the needs of the poor; and / or (ii) helping to strengthen the connection between planning and PFM processes with the introduction of programme budgeting and links with medium-term expenditure frameworks (MTEFs). In ministries in which the process is less advanced, implementing the NSDP requires the development of (i) poverty focus in emerging sector strategies and (ii) the key intermediate indicators and M&E systems needed to track progress towards the NSDP outcome targets.

10. **Participation of non-state actors was the weakest point in NSDP preparation—**and one where the process has declined relative to NPRS preparation. The NGO community was involved only at later stages; direct consultation with groups amongst the poor (or citizens in general) did not occur. Broader national awareness of the NSDP will thus take time to emerge. This will limit the degree to which it is possible to develop broad national as opposed to more narrow Governmental ownership. A slow start to addressing process and capacity constraints on the part of the NSDP Secretariat partially explain limited participation of civil society and the private sector in NSDP formulation. In the later stages, a Technical Working Group on Planning and Poverty Reduction (TWG-PPR) was established to provide a means for broader engagement with donors, NGOs and (to a limited extent) the private sector. The formation of the TWG-PPR strengthened the link between the NSDP preparation process and the ongoing dialogue in sector and thematic working groups, some of which include NGOs. This provided some, albeit limited, opportunity for civil society to provide input to the drafting process. More work is now needed to ensure that the TWG-PPR becomes an effective forum for regular dialogue on NSDP implementation and monitoring. This is now starting to develop, with plans to put meetings of the TWG-PPR core group on a more regular footing.

B. Poverty Focus

11. **The poverty diagnostics in the NSDP are brief but strategic and balanced.** The NSDP benefited from the availability of recent household data derived from the 2004 Cambodian Socio-Economic Survey (CSES). This provided detailed insights into the level and distribution of poverty in 2004 (and thus a baseline for NSDP M&E) as well as trends in poverty since 1993/4. Ideally, the NSDP Secretariat would have been in possession of a comprehensive, multi-stakeholder poverty assessment at the outset of the drafting process.

Unfortunately this was impossible as summary poverty data were not available until late July. The Secretariat was however supplied with the poverty estimates in mid-2005 and a first draft of the Bank's *Poverty Assessment* in October. The NSDP's description of the baseline (2004) poverty profile and 1993/4-2004 poverty trends is thus very similar to that provided in the *Poverty Assessment*, as is the interpretation of these trends. The NSDP notes that poverty has fallen significantly (from 45–50 percent to 35 percent) in the last ten years. It also notes that this was due in part to rapid recovery after many decades of conflict and isolation, and that new policies will be required to sustain or improve upon this rate of progress.

12. The NSDP envisages a continuation of strong macroeconomic performance.

Driven by garment exports and tourism, growth has averaged 10 percent recently and (on the back of unusually strong agricultural performance) approached 13½ percent in 2005. Inflation has remained under control. The economy has withstood pressures from high world oil prices, albeit with a rise in inflation and deterioration in the balance of payments. The current account deficit (including official transfers) was around 4¼ percent of GDP in 2005, the highest in four years, and is projected to increase further, while the level of international reserves dropped to less than 2½ months of import cover. The exchange rate has stayed broadly stable. The macro-economic framework is based on a continuation of the prudent fiscal, monetary and exchange rate policies that have enabled Cambodia to achieve its impressive economic track record. The framework is not over-optimistic. It envisages economic growth at around 6 percent per annum with a return to lower inflation of 3 to 4 percent, and a strengthening of the external position, with international reserves growing to cover 3 months of imports by 2010. Nevertheless, there are risks not acknowledged in the document. In particular the medium-term outlook for the garment industry, which accounts for over half the industrial sector and remains uncertain and tourism, which has seen spectacular growth in recent years (average tourist arrivals grew by over 40 percent in 2004 and 2005), is vulnerable to a slowdown in the global economy and a regional outbreak of avian flu. Agriculture, which accounts for about one third of GDP, remains highly vulnerable to weather conditions, although the authorities are confident that reforms are reducing this vulnerability.

13. The NSDP's focus on broadening the economic base is crucial for sustained pro-poor growth.

Cambodia's recent growth has been concentrated in urban areas and based around the garment and tourism sectors. A key plank of the NSDP is encouraging growth in the rural, and in particular agricultural, sector. This is crucial for reducing poverty as the overwhelming majority of the poor live in the countryside and rely on agriculture for their livelihoods. Although the NSDP identifies increasing agricultural productivity through land reforms and expanding rural credit as key areas for progress, specific and prioritized actions to achieve these aims need to be fleshed out over the coming months. Economic diversification, however, will also require that efforts to step up investment in the social sectors initiated under the NPRS—and now bearing fruit in improved health and education outcomes—be sustained. Infrastructure development, particularly in rural areas will also be critical.

14. **Discussion of key strategies and actions is structured according to the thematic areas of the earlier Rectangular Strategy.** This involves (i) establishing a “core” of good governance; (ii) maintaining the broad environment for strategy implementation (domestic stability, international integration, development partnerships and favourable macroeconomic and financial circumstances); (iii) enhancing the agricultural sector; (iv) improving physical infrastructure; (v) promoting private sector-led growth and job creation; and (vi) building capacity and human capital. Priority actions listed under these headings represent a mix of (i) new or currently-developing commitments and (ii) the consolidation and ordering of existing programmes and policies.

15. **The NSDP reflects the unevenness of sector strategies which cover a spectrum from the well-developed (notably health and education) to those which have yet to develop a strategy (e.g. agriculture).** In sectors in which strong strategies have been developed and refined over a number of years through productive sector-wide partnerships, the NSDP effectively summarizes these strategies and relates them to the 2010 goals of the NSDP. In education, the sector strategy (the Education Strategic Plan or ESP) is already synchronized with the NSDP, running from 2006–2010. The ESP seeks to consolidate recent gains (notably an impressive rise in net primary enrolment from 55 percent in 1997 to 76 percent in 2004, with rural-urban and female-male gaps in schooling and literacy closing rapidly), aiming for universal nine-year basic education (including targeted actions to include the poor) and improving quality and internal efficiency through a combination of institutional, human resource, infrastructure and policy reforms. In health, the Health Sector Strategic Plan (HSP) 2003–2007 will be reviewed in 2006 in the light of the new DHS data and extended to 2010 to bring it into line with the NSDP. The HSP provides the framework for improving service coverage and quality, promoting behaviour change, strengthening human resources and sectoral institutions, and developing pro-poor health financing arrangements.

16. **In the social sectors (and particularly education), policies are already significantly oriented towards the needs of the poor.** In both sectors, significant further improvements now depend critically upon cross-Government reforms of public financial management (the timely delivery of funds to operational units) and public administration (paying and managing public sector employees so as to encourage performance). Budget execution in these and other critical sectors has improved over recent years but remains poor, with late and unpredictable disbursements remaining commonplace and reporting inadequate to assess whether spending reflects policy priorities. The NSDP recognizes the importance of PFM and public administration reforms in the achievement of social sector objectives, although not as explicitly and forcefully as it should.

17. **For sectors that are at an earlier stage, the NSDP summarizes plans for the elaboration of sector strategy, policies and institutions.** The production in 2006 of an agricultural sector strategy will be particularly important in prioritizing between and within what is at present a long list of sub-sectoral priority areas. The elaboration of this strategy will be essential to the successful implementation of the plan’s focus on rural development.

18. **The poverty focus of the NSDP—that is, analytically-rooted prioritization of poverty-reducing actions—is adequate, but should now be sharpened.** With opportunity for a more in-depth review of the poverty analysis derived from the 2004 household survey, the Secretariat can now lead efforts to refine the definition of priority actions in time for the mid-2006 revision of the NSDP. Findings from the 2005 Demographic and Health Survey, due for release soon, will provide the basis for updating human development progress indicators and improving the pro-poor focus of service delivery policies through (i) sub-sector policy prioritisation and (ii) inter- and intra-sectoral allocations of public expenditure.

19. **In the short run, the main channel by which the NSDP might influence poverty reduction is through policy prioritization.** The expectation is that the NSDP will help to prioritise legal, policy, institutional and regulatory changes (most of which do not entail significant budget commitments) that promote sustained and diversified economic growth and greater access to services for the poor. Meanwhile, reinforcing existing step-wise progress under the Public Financial Reform Program (PFMRP) towards credible budgeting (and multi-year financial planning through the 3-year rolling Public Investment Program (PIP) and Ministry Budgetary Strategy Framework) will enhance medium-term prospects for refining expenditure prioritization. In this context, it is important that the 2007 budget clearly identifies NSDP-related expenditure and tracks this in implementation and reporting.

20. **Governance indicators adopted at the 2006 CG meeting provide firm commitments to complement the NSDP's broad reform direction.** Governance reforms, which are vital for inclusive, pro-poor growth and improved service delivery, are covered in breadth in the NSDP, but without any results indicators or 2010 targets. This has, however, been partially resolved with the adoption of a set of governance indicators at the 2006 CG meeting (which in other respects drew on the NSDP to define Joint Monitoring Indicators for 2006). These indicators were developed in preceding months in the relevant TWGs and will now be taken as governance indicators for the first year of the NSDP. It is hoped that this will increase incentives for implementation and monitoring and avoid the previous experience of CG indicators failing to result in substantive reforms or improved performance.

21. **There is a particular concern that the Government develop a coherent and effective strategy to tackle corruption, which is widespread and serious.** The NSDP recognises the importance of the issue. Amongst the priority actions it lists in this area is the passage of an anti-corruption law that conforms to international best practice (a long-standing commitment reiterated in both the NSDP and the joint monitoring indicators agreed at the March 2006 CG meeting). This would be an important signal of serious intent and needs to be accompanied by consistent and impartial application of anti-corruption measures, including under the current legal framework, resulting in sanctions for those found guilty.

22. **A specific governance challenge relates to the management of the revenue that is likely to flow within a few years from the significant reserves of offshore oil and gas now known to exist in Cambodian territorial waters.** NSDP implementation needs to focus on putting in place the legal, regulatory and institutional arrangements that are needed to ensure that this wealth is deployed transparently, accountably and effectively for poverty

reduction. In formulating policies for managing these revenues the Government needs to take into account the risk of creating macroeconomic imbalances (for instance, Dutch disease effects) and the importance of ensuring this windfall revenue is used to improve the living standards of current and future generations.

23. **Continued improvement in financial intermediation, in both rural and urban settings, is critical for broad-based growth.** Although growing rapidly, the banking system remains rudimentary and, for the most part, services only the urban centers. The NSDP correctly identifies the importance of short-term measures to deepen and improve the quality of financial intermediation (e.g. continued improvement in supervision and regulation), Other actions identified in the NSDP (e.g. the establishment of a mature capital market) are more long-term goals that if prioritized in the short-term could detract from the more pressing reforms, particularly in creating an environment for an expansion in rural credit.

24. **Sustained improvements in fiscal management are, as mentioned above, crucial to the financing of the NSDP.** Financing is anticipated to come, in part, from improved revenue performance and broadly stable current expenditures (as a percentage of GDP). In addition, on the expenditure side, this will require the reallocation of lower priority expenditures to NSDP policies which, even with the broad-brush costings contained in the document, are clearly underfunded. This is particularly important given pressures that will arise from the recurrent obligations of NSDP investments and from increased debt service obligations following the regularization of relations with all external creditors. Rapid progress in PFM reform is critical, both to facilitate efficiency gains and to enhance the ability to identify and prioritize NSDP expenditures in annual budgets, the MTEF and Public Investment Programme (PIP).

25. **To succeed in directing public resources to strategic priorities for poverty reduction, the NSDP depends upon improvements to the annual process for preparing and implementing the three-year rolling Public Investment Program (PIP).** In recent years, the PIP has not been an effective tool for prioritization. Dialogue between MOP and MEF has been weak, project appraisals have been subject to only cursory review for compliance and the resulting list of projects has not been adequately prioritized or reflected resource availability. It has thus had little impact on public expenditure. If the NSDP is to shape public spending in line with poverty reduction priorities, this situation needs to change.

26. **On the revenue side, gains in revenue performance envisaged in the NSDP will not occur without intensive attention to improving tax, customs and non-tax administration and, if required, additional policy measures to broaden the tax base.** However, the fiscal picture could change markedly if (as expected) substantial revenues begin to flow in the later years of the NSDP from the production of oil and natural gas. Contracts have been awarded for four of the six offshore blocks: one of these contains 700 million barrels of oil and 3–5 trillion cubic feet of natural gas. Revenues from this block are likely to exceed current levels of both domestic and ODA revenue sources. This newfound mineral wealth constitutes a major opportunity and challenge for Cambodia's medium to long term development. The benefits will only be grasped with careful

management. The NSDP states that the Government will learn from international experience in managing such revenues, but provides little information on the principles that will be applied. Early commitment to sound macroeconomic management and a transparent and accountable revenue management and expenditure process will be vital.

27. **The level of public investments envisaged under the NSDP is currently reliant on changes in the level and composition of external financing that may not occur.** Aside from domestic fiscal surpluses, the NSDP envisages annual external loan and grant financing of \$500 million per annum, supplemented by debt relief and resources from non-traditional partners, including through semi-concessional loans. Even with sustained improvements in governance that may unlock additional donor resources, there is a risk (acknowledged by the NSDP) that concessional external financing will not reach the targeted levels (over 50 percent more than the total amount realized in 2005). Financing from debt relief, in addition to that already received from the Fund under the Multilateral Debt Relief Initiative (MDRI), is not likely to be significant. Given Cambodia's limited capacity to service its public debt, less-concessional lending should not be used indiscriminately to fill the residual financing gap but restricted to specific high-return projects where cheaper funds are not available (and only then with careful consideration of implications for debt sustainability). A more detailed analysis of the private sector contribution to NSDP investments would also be useful.

28. **Finally, Cambodia's donor partners need to work with the Government to find ways to align their aid to the priorities laid out in the NSDP.** Effective alignment of ODA to the plan, however, will require further elaboration of Government priorities and a move by donors to multi-year aid commitments. Both processes are likely to take time.

C. Results Orientation

29. **The NSDP maps out an approach to implementation that links monitoring and evaluation (M&E) to annual revisions of the strategy.** The NSDP commits the Government to holding stakeholder consultations in 2006, which should result in production of detailed sectoral and sub-national plans, including disaggregated goals, targets and costs, and a full M&E framework. These and new data will result in a Preliminary Report on implementation which will shape the PIP 2007–09, the MTEF for 2007–11 and the budget for 2007. In subsequent years, annual evaluation exercises will be conducted between January and March and summarised in a progress report in June.

30. **At present, the NSDP presents a broad sketch of a set of institutions and processes for implementation.** These arrangements now need to be put in place in accordance with the principles and timetable outlined in the document. Ministries and their supporting TWGs are assigned a leading role in putting NSDP commitments into operation and disaggregating core NSDP indicators. This should also help to bring together two currently-separate processes for tracking annual progress, namely (i) monitoring critical actions (Joint Monitoring Indicators or JMIs) agreed and reviewed at CG meetings and

(ii) monitoring progress towards medium-term NSDP targets in annual progress reports (APR).

31. **The NSDP signals the intention to integrate the CG/JMI and NSDP/APR reporting processes, stating that NSDP annual progress reports will be presented as the Government's report to the CG meeting.** A start has already been made, as the JMIs agreed at the March 2006 CG Meeting have been drawn from the NSDP. The notable exception is the JMIs agreed for the various aspects of governance reform (e.g. legal and judicial reform, combating corruption, and public administration reform), for which the NSDP did not contain indicators, but for which the adopted 2006 JMIs will now serve as indicators by which to track progress in the first year of the NSDP.

32. **More thought now needs to be given, by the Government and its partners, to how to improve the reconciliation of targets and synchronization of processes.** On the one hand, JMIs tend to specify discrete milestone actions to be taken over the next year which, if achieved, will be replaced in the next round by new indicators. The NSDP indicator frame, on the other hand, needs to focus primarily upon tracking a relatively stable set of input and output indicators which measure progress towards medium-term (five-year) NSDP outcome goals. Integrating these two approaches is complex and will take time, and so needs to be initiated as soon as possible. Linking the CG/JMI and NSDP/APR processes and cycles would have the specific advantage of helping to define NSDP targets for good governance and relating these to development outcomes.

33. **This synchronisation of strategic progress monitoring indicators can provide the basis for a detailed elaboration of NSDP M&E arrangements.** The first of the 2006 JMIs, to be completed by June 2006, commits the Government to "Develop and implement a framework to monitor the implementation of the NSDP and prepare an annual progress review of NSDP implementation". The first draft of this framework needs to be improved through broad consultation as it currently relies excessively on administrative data sources and makes minimal reference to the National Institute of Statistics or the 2005 Statistical Master Plan (which provides a systematic, multi-year approach to (i) developing capacity to collect and use statistics and (ii) conducting key surveys). The draft M&E framework also suffers from a "missing middle", lacking output and intermediate indicators that might link inputs (sector strategies written, policy changes, spending) to poverty outcomes.

III. CONCLUSIONS

34. **When compared to the NPRS it replaces, the NSDP has a very different set of strengths and weaknesses.** Ownership is considerably narrower but somewhat deeper. While the preparation process was much less participatory, the process was also less donor-driven and the Government appears to invest more political capital in the NSDP than it did in the NPRS. The poverty diagnostics are less detailed but more current and based on much better understanding of trends to date. The poverty focus moves emphasis away from the social sectors to rural development. The results framework is, appropriately, less ambitious than that of the NPRS, with fewer targets but better prospects for monitoring this reduced set

of indicators. However, much work is now needed to link existing institutional foundations for improving data collection to inclusive arrangements for annual progress reviews. Reflecting recent progress in donor coordination, the NSDP also has significant potential to consolidate and build upon recent gains in the harmonization and alignment.

35. **Strong Government ownership improves prospects for implementation.** The claim of ownership needs to be qualified, as it is strongest in the NSDP Secretariat and declines as one moves outwards and downwards through Government and into civil society. Nonetheless, the sense of the NSDP as an RGC strategy, now endorsed at the highest level as a tool for national development (and disciplining donors), is critically important. Previous medium-term strategies have only been partially implemented due to a limited sense of Government commitment to documents perceived to have been driven by donors. There are grounds to hope that the NSDP, framed as an implementation plan for the Rectangular Strategy and a guide for aid allocation in the CG meetings, will acquire a political significance that earlier plans lacked.

36. **These gains are not yet guaranteed.** Follow-up actions are urgently required to bring out the potential for the NSDP to serve as an overarching framework to integrate and add value to disparate reform processes. These include, *inter alia*, efforts to broaden RGC and civil society ownership (through a well-developed communication strategy and participation in monitoring); prioritizing interventions by linking the NSDP to sector planning and budgeting and refining this prioritization as PFM reforms proceed; and developing stable, inclusive arrangements for coordinating across Government, with a central role for the TWGs. The Agriculture and Water Resources Strategy, due in 2006, will be particularly important given the rural development focus of the NSDP.

37. **If the NSDP is to succeed, both the Government and its external partners must design their policies and spending plans in line with NSDP goals.** The credibility of the NSDP within Government and its capacity to add value to sector-level processes will be seriously damaged if donors fail to respect the NSDP in designing their country programs. Conversely, if aid is to become better harmonized and aligned, the RGC must improve the definition of NSDP priorities and follow these in its own policies and resource allocations.

38. **There are a number of respects in which the NSDP could be improved during implementation.** Participation, particularly of civil society, is one. The NSDP has to date received a broadly positive reception from the NGOs, despite the somewhat limited opportunities that civil society has had to participate in NSDP formulation. Retaining this goodwill and reaping the benefits of partnerships with civil society in delivering services and obtaining grassroots feedback on implementation and outcomes requires that the Government invites meaningful civil society participation in NSDP implementation and monitoring.

39. **To elaborate on the broad priorities of the NSDP, the Government now needs to create a strong set of institutions with well-defined roles, responsibilities and powers.** The NSDP Secretariat needs adequate staff and funding and greater participation of MEF and CDC. The TWG-PPR needs to develop a clearly-defined mandate for providing information

to civil society, building partnerships for NSDP implementation, and channelling feedback on implementation and outcomes. The recently-formalized TWG-PPR “core group” needs to meet regularly to add value to the work of the Secretariat. Finally, the RGC and its development partners need to bring together the CG/JMI and NSDP/ADR/CMDG processes and cycles so that annual joint reviews track and guide cumulative progress towards five-year goals.

40. **The joint Staffs would like to ask whether the Executive Directors concur with their view that the effectiveness of the NSDP as a poverty reduction strategy could be strengthened by:** (i) elaborating on the directions laid out in the document through more detailed prioritization of policies and expenditures, encouraging donors in turn to align their assistance to the NSDP; (ii) making full use of the TWGs to strengthen the links between the NSDP, sector strategies, and the PFM reform process, especially for the upcoming agriculture strategy; and (iii) taking measures to broaden awareness and ownership of the plan within the Government and in the country at large.