

1. Country context

Summary

- In terms of geographical endowments, Cambodia enjoys relatively favorable conditions for development. Soils are not particularly good and the hydrological regime is complex, but Cambodia has a deep-water port, plenty of flat cultivable terrain, productive freshwater fisheries, and a considerable stock of timber. It also has great potential for tourism. Most importantly, it is located in a fast-growing region with land borders that allow it access to markets in Thailand and Vietnam.
- Cambodia's contemporary poverty is thus due primarily to almost three decades of conflict. Civil war began in 1970 and ended in victory for the Khmer Rouge, who between 1975 and 1979 killed perhaps one in five Cambodians. Throughout the 1980s Cambodia recovered slowly in a context of "low intensity" conflict and international isolation. Conflict has destroyed infrastructure, decimated the nation's human capital, and weakened or distorted social, economic and political institutions.
- From the late 1980s, Cambodia embarked on a transition from war to peace, from one-party to multi-party politics, and from an isolated, subsistence-oriented economy to one based on market principles and integrated into international trade and capital flows. It is now fourteen years since this transition was formalized in the 1991 Paris Peace Accords: Cambodia today is thus in a transition from a post-conflict society to a "normal" developing country. The effects of conflict are still seen, particularly in institutions that are oriented primarily to sustaining the state and less to responding to citizens' demands; but, after more than a decade of international integration, investment and growth, the current generation of leaders and citizens have started to move beyond the legacy of war to define new policies and livelihoods of their own.
- Although Cambodia is unusual in this post-conflict (and "post-post-conflict") experience, it is not unique; the problems it faces, and the possible solutions it might adopt, can be compared to those in other low-income, post-conflict states.
- In the first decade since the Paris Peace Accords, the Government has achieved success in consolidating peace and promoting economic growth. People recognize that peace has made an immeasurable difference to their lives, improving physical security and opening up far greater livelihood opportunities. The Government has actively pursued integration into regional and global structures such as ASEAN and WTO. Since the late 1990s it has also judiciously managed the opportunity presented by the Multifibre Arrangement (MFA).
- It is important to see progress in this first decade as in large part due to a historically-unusual 'peace dividend': peace and economic opening have made possible rapid growth and relatively rapid poverty reduction from a very low base. Policy choices on trade and infrastructure have expanded on this window of opportunity, but primarily in terms of aggregate economic growth, with less attention to the distribution of that growth. As Cambodia enters its second post-conflict decade, it faces new challenges and rising expectations. A new, more complex and equally fundamental set of institutional and policy changes will be called for.

The scale and nature of poverty in contemporary Cambodia, and the processes by which poverty increases or falls over time, cannot adequately be understood in isolation of the country's recent history. This first chapter attempts to provide the background within which Cambodia's current poverty status, recent trends, and future prospects can be set in context and assessed.

Geography and opportunity

In terms of fundamental geographical endowments, Cambodia has much going for it. Unlike many least-developed nations (for example, Lao PDR, Nepal or Uganda), Cambodia is not landlocked, or isolated from its neighbors by terrain: the deepwater port at Sihanoukville, Phnom Penh's position on the Mekong river, and the long lowland borders it shares with at least two of its three neighbors means that there are no major geographical barriers to international trade (Figure 1.1)¹. Indeed, the land borders between Cambodia and the rapidly-growing economies of Thailand and Vietnam creates considerable potential for demand for Cambodian goods and services. Looking beyond its immediate neighbors, Cambodia is located in one of the fastest-growing regions in the world. Although the Asian financial crisis of the late 1990s put a dent in growth rates, Cambodia certainly benefits from a "neighborhood effect", with the potential to attract investment from and sell to markets in the region.

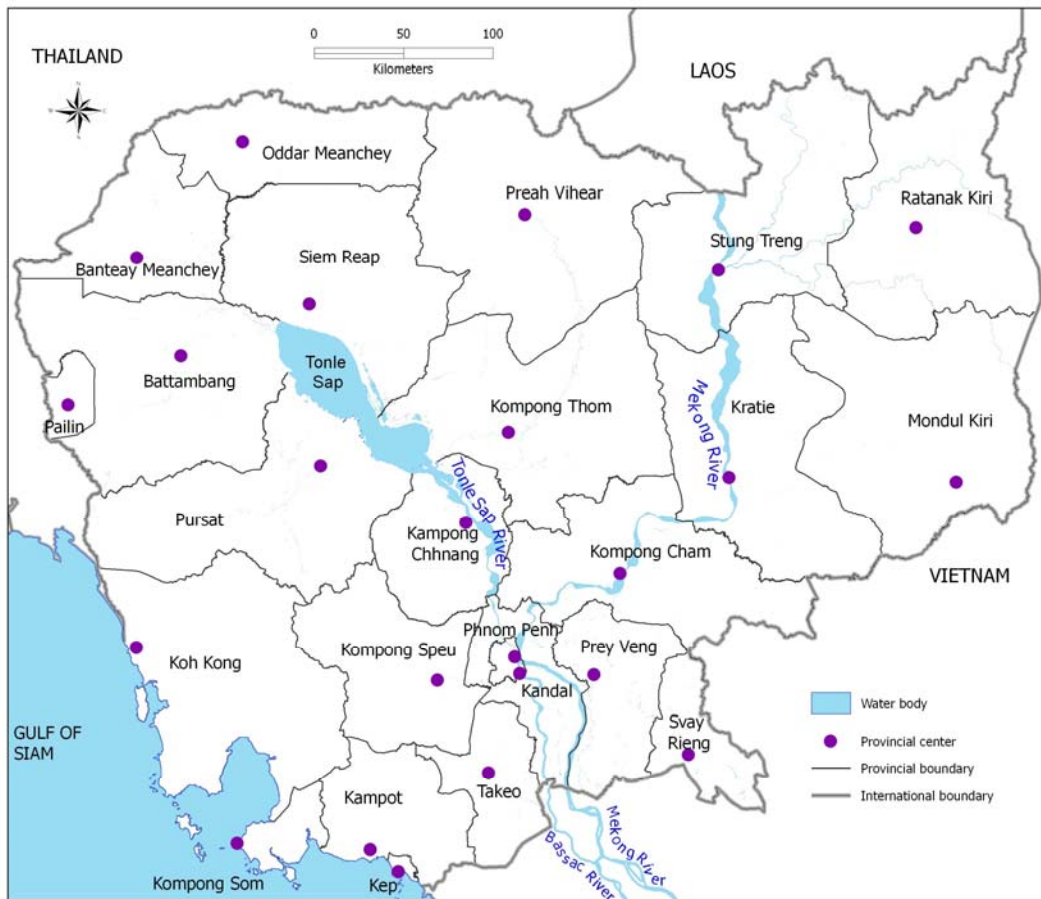
¹ Topographically, Cambodia can be described as a tilted saucer. Forested highlands, especially to the north-east and south-west, drain inward to wide plains and a large, shallow central lake (the Tonle Sap) and then, following the "tilt", to the south-east as the Tonle Sap River, which joins the Mekong River and flows on through the south-eastern plains and on into Vietnam's Mekong delta.

The topography of the country also puts it an advantage compared to many mountainous states (e.g. Lao PDR, Nepal, Bhutan, or much of Vietnam). Highlands on the northern, north-eastern and south-western borders have low potential productivity, but the majority of Cambodia is relatively flat, so that farming and investments in communications infrastructure do not require expensive adaptations to the landscape: land can be worked and roads built without needing to overcome slope. The Tonle Sap lake in the middle of the country gives a large proportion of Cambodian villages relatively good access to water transport down to Phnom Penh and eventually southern Vietnam. The lake also supports a unique ecosystem which has—at least to date—provided one of the most productive freshwater fisheries in the world, and a critical source of protein for Cambodian diets.

Any list of the inherited factors that Cambodia has in its favor must include the archaeological legacy of the temples at Angkor and the massive potential for tourism that this cultural capital represents (Box 1.1). Tourism, driven primarily by Angkor, has been a major contributor to economic growth in Cambodia over the last decade. However, the impact of tourism on poverty has yet to reach its potential: it is notable that the province in which Angkor is located, Siem Reap, was in 2004 the third poorest in the country. Obtaining sustained economic benefits from Angkor will require a more strategic approach to development of the tourism sector.

Finally, it now seems increasingly likely that within a relatively few years Cambodia will enjoy access to a significant revenue stream from offshore oil and gas reserves in Cambodian territorial waters. Provisional estimates from the explored

Figure 1.1: Cambodia benefits from access to the sea, rich freshwater fisheries, and economic growth in neighboring countries



portions of one block suggest that this area contains 400-500 million barrels of oil and 2-3 trillion cubic feet of gas. Further exploration in this and other blocks is likely to raise the estimates. Although it is impossible to forecast revenue flows to any degree of precision given both the uncertainty about the size of the reserves and about the future price of oil, it is quite possible that full-scale commercial production could bring in revenues of \$2 billion per annum (Vallely, Dapice, and Wilkinson 2006). Managed well, this could provide an immense boost to Cambodia's economic and social

development and significantly improve the prospects for a rapid fall in poverty².

This is not to say that Cambodia suffers no geographical disadvantages. Cambodia's soils are (with some notable exceptions) of generally rather low quality. Cambodia also has a complex hydrology, in which in the wet season the build up of water at the confluence of the Mekong and Tonle Sap rivers results in the Tonle Sap reversing its flow back into the lake, which expands to ten times its dry season area and twice its dry season depth in widespread flooding.

² There are however fears that, as in many other countries (Nigeria being the most obvious and extreme example), the discovery of oil and gas wealth might actually *retard* Cambodia's development if it is not managed well. Chapter 7 addresses this concern.

Box 1.1: Angkor, tourism and growth

The roots of Khmer civilization lie in the “Indianisation” of the people who lived on the Mekong and Tonle Sap floodplains. From the first to the eighth centuries CE this village-based society was drawn under centralized authority, flourishing into the Angkorian empire. Khmer power extended over much of mainland south-east Asia between the 9th and 13th centuries, during which time a collection of superb Hindu and Buddhist temples and funerary monuments were built, primarily at Angkor in north-east Cambodia. Drawing on Indian traditions, Angkorian art and architecture is nonetheless distinctively Khmer, with several different styles apparent over different eras.

With the return of peace, there has been a steady rise in tourists visiting Angkor and staying in the capital town of the province (Siem Reap) in which it is located. This flow has now hit over 1 million arrivals per annum. Although Cambodia receives considerable benefits from this tourism as some jobs have been created for the poor (particularly in hotel construction) and demand for some goods has been increased, the links from tourism backward or forward into other sectors of the national economy (e.g. through tourist-driven demand for food production) are currently well below potential, and the benefits specifically to the poor could be considerably greater than at present.

While these extensive floods are part of the normal annual cycle and are critical to rice cultivation and the Tonle Sap ecology, in the absence of water control infrastructure an unusually high flood can cause widespread damage to crops, houses and livelihoods.

On balance, however, there is no immutable aspect of location, topography or climate that holds Cambodia back from achieving its development goals. It is

telling that in 1969, Cambodia had a higher per capita income and received more tourists than Thailand (Financial Times, 1995; Dixon 1995). The reversal of fortunes since then is clearly due to the onset, in the late 1960s, of what was to turn into almost three decades of civil conflict.

The legacy of history***Post-colonial Cambodia: war, revolution and recovery***

Cambodia gained independence from the French in 1954 under King Sihanouk, who abdicated in 1955 to campaign in elections. Many older Cambodians recall this period as a golden age. By the mid-1960s, however, growing economic problems, corruption, and lack of Government tolerance for democratic opposition led a frustrated urban educated class to consider radical political alternatives (either left- or right-wing). The Cambodian Government also found it hard to keep Cambodia insulated from the war in Vietnam and from pressures from both sides in that conflict to support their cause.

Eventually, the balancing act failed. In 1970, Sihanouk was overthrown in a coup led by General Lon Nol. Cambodia rapidly descended into a bloody full-blown civil war. In exile, Sihanouk formed a "United Front" with the communists that had become known by the disparaging label of "les Khmer Rouge" (KR), who began to attract broad popular support for the first time.

Within the united front, however, the KR consolidated power, purging Sihanoukists and moderates. With Khmer Rouge victory in April 1975, a clique of extremists driven by rabid nationalism and commitment to an uncompromising agrarian communism came to control the

revolutionary state of Democratic Kampuchea (DK). Towns were emptied and religion and money abolished. Although the severity of the revolution varied between regions, life everywhere was characterized by unremitting hard labor, hunger, and the threat of execution³. It is estimated that between 1975 and 1979 around two million Cambodians—more than one in five—died in this “auto-genocide”. Most died of starvation, exhaustion and disease, but perhaps 200,000 were systematically executed. Officers and officials of the Lon Nol regime were killed in 1975; in the later years many of those executed were themselves KR, killed as the revolution turned on itself.

The dominant, Pol Pot faction was driven by, among other things, a desire to reclaim the Mekong delta, lost to Vietnam since the 17th century. Murderous raids on southern Vietnam killed thousands of civilians and eventually prompted a Vietnamese invasion in December 1978. Democratic Kampuchea was replaced by the People’s Republic of Kampuchea (PRK). Composed largely of ex-KR who had fled the purges, the PRK ruled throughout the 1980s. As outside powers once again took sides, Cambodia reverted to a second, more low-intensity albeit still massively debilitating civil war, between the PRK government on the one hand and an alliance of anti-PRK guerilla groups operating out of refugee camps on the Thai border on the other. This conflict continued throughout the 1980s.

While the Government was unable to achieve much in terms of growth or

poverty reduction (it was cut off from non-COMECON trade and from most of the international aid system), it did manage to stabilize the famine situation prevailing in 1979 and made slow but steady gains in reconstructing schooling and basic healthcare. The population was organized into “solidarity groups” (*krom samaki*). This low-level collectivization ensured equal access to the scarce male labor and draft animals available in 1979-80, but as the economy recovered it came to be seen as a hindrance to growth. Spontaneous de-collectivization, formalized through liberalization and land distribution in 1989, improved output and was welcomed by most, although vulnerable groups lost important forms of social security (Frings 1993).

Cambodia’s threefold transition: peace, democracy and market economics

In 1989 Vietnam withdrew its troops. The conflict dragged to a military stalemate and was eventually resolved in a political solution in the Paris Peace Accords of October 1991. These made provisions for a UN peace-keeping operation of unprecedented cost and scope to supervise the transition from one-party state and civil war to a peaceful multi-party democracy. The United Nations Transitional Authority in Cambodia (UNTAC) was assigned to supervise disarmament and demobilization; organize repatriation and reintegration of the 350,000 refugees on the Thai border; coordinate international reconstruction aid; and ensure conditions for free and fair elections among the civil-war-factions-turned-political-parties. The international financial institutions resumed relations with Cambodia and the number of

³ For different perspectives, see Burgler 1990; Chandler 1991; Vickery 1984; Kiernan 1996. On regional variations, see Kiernan 1996; Vickery 1984; Barnett 1983.

aid agencies and international NGOs working in the country mushroomed⁴.

Cambodia has since 1993 enjoyed over a decade of high average economic growth, driven largely by construction, tourism and, since the late 1990s, a very rapid emergence of a garment sector which benefited from preferential arrangements under the Multifibre Arrangement (MFA) and quotas agreed for clothing produced under ILO-accredited labor standards (Chapter 4). However, political instability persisted beyond the introduction of multi-party democracy, with tensions between the two parties in the first coalition Government eventually culminating in armed conflict in 1997. This return to political violence, coinciding with the impact of the Asian financial crisis in Thailand and the withdrawal of the IMF in reaction to continued weaknesses in the management of forestry revenues, created a short-lived period of economic contraction in the last years of the 1990s.

Economic recovery since then has however been relatively rapid. Progress was reinforced in 1999 by the final collapse of the Khmer Rouge insurgency. Although the agricultural sector has continued to lag, with severe floods or droughts in three of the last four years exacerbating a generally low rate of improvement in productivity or incomes (Chapter 5), there has been an expansion of off-farm opportunities in Phnom Penh or across the border in Thailand, prompting the emergence of migrant labor and remittances as important aspects of rural livelihoods and rural socio-economic change.

Political institutions and traditions of peaceful political competition however

remain somewhat underdeveloped. The deeply damaging failure of political parties to agree on the formation of a new coalition Government for a year after the 2003 elections suggests that economic and social development may continue to suffer periodic setbacks resulting as a by-product of political rivalries. On the positive side, Commune/Sangkat elections in 2002 created elected local governments nationwide for the first time, with the promise of gradual gains in participation and accountability (Hasselskog et al 2000; Ninh and Henke 2005)⁵. Overall, however, the Royal Government continues to be dogged by low levels of capacity, resources and accountability. It remains too often unresponsive or ineffective in meeting the needs of its citizens, and particularly that third of its citizens who live below the poverty line (a theme explored in Chapter 7).

In summary, Cambodia has been undergoing a threefold transition since the early 1990s (Hughes 2003). Firstly, it has moved from civil war to peace. Secondly, it has undergone a fundamental transition from one-party to multi-party politics. Finally, it has moved from an isolated, low-growth, state-managed and subsistence-oriented economy in which everyone was largely equal in poverty, to a market-based economy that is open to international flows of capital, goods and labor, in which growth has lifted a substantial number over the poverty line, but in which inequalities are growing very rapidly and a significant number are not sharing in the benefits of growth and some are suffering a decline in their standard of living. This transition is more fully completed in some respects than others,

⁴ For alternative assessments of the impact of UNTAC on Cambodia, see UN 1995; Utting (ed.) 1994; Findlay 1995; Metz 1995; and Frieson 1996.

⁵ Cambodia's administrative structure is comprised of 23 Provinces and Municipalities, below which are Districts, Communes (or their urban equivalent, the Sangkats), and villages.

and has given rise to a far-reaching but still imperfectly understood set of social and economic changes.

Defining “post-conflict”

This protracted period of political violence has had a profound negative impact on Cambodia’s development which continues to be felt to this day. Three decades of internecine conflict, exacerbated by Cold War rivalries, not only claimed millions of lives but also undermined many of the foundations for national development.

Destruction of infrastructure

The legacy of conflict is seen most obviously in the depleted physical and human capital of the nation. Investments in infrastructure—roads, bridges, water control, hospitals, schools—were destroyed and have had to be rebuilt. Inadequate transport infrastructure imposes costs and delays on travel, raising the costs of marketing goods or obtaining inputs, and limiting access to facility-based health and education services. Water control structures are underdeveloped, leaving a great many people exposed to flooding or drought (or, frequently, both in the same year). And although a significant number of schools and clinics have been built since 1993, there are still too few classrooms and hospital beds for the needs of the population.

Depleted human capital

Cambodia did not only lose the physical hardware for economic activity and service delivery: it also lost the human capital necessary for development—that is, the educated, healthy individuals who are best able to add value in business and provide professional skills in public service. Those who in 1975 were the best educated were disproportionately likely to die during the

ensuing DK period; if they survived, they were perhaps also disproportionately likely afterwards to be able to make their way into exile and establish new lives abroad. As a result Cambodia lost many of its most able individuals, and has had to reconstruct a Cambodian state and economy with a very small number of doctors, teachers, economists, agronomists or engineers. It has been hard to replace this lost generation. For the slightly less than four years of Khmer Rouge rule, school-based education was completely dismantled, and while the PRK subsequently invested considerable effort in rebuilding basic education, it had very limited resources with which to do so.

Finally, many of those who survived the 1970s carry a legacy of health problems—physical and/or psychological—which can never be adequately addressed, and which limits their ability to earn a living. While war and landmine injuries make up a progressively smaller part of the total health burden as time goes by, they are often closely related to extreme poverty. Severe malnutrition under DK also continues to have an effect, as mothers whose growth was stunted as a result of inadequate consumption of food are more likely to give birth to low birth-weight babies, perpetuating disadvantage from one generation to the next.

Weakened social capital and unresponsive state institutions

As important as the impact on physical and human capital, the endemic violence of the 1970s and the more constrained but nonetheless severe violence of the 1980s deeply affected the nature of Cambodian social and economic arrangements, the institutions of the state, and the framing of relationships between the state and the society and economy it governs. Many aspects of this institutional legacy of

conflict have been deeply detrimental to the prospects for long-term development.

Although impossible to measure, it would be remarkable if exposure to extremes of violence, deprivation, surveillance and DK efforts to destroy all existing and potentially alternative identities—including the family—did *not* have a profound impact on the ability of survivors to trust, plan ahead for the long-term, and act collectively. The institutional underpinning for an efficient modern market-based economy—ease of market entry, parity in access to information on supply and demand, transparent and stable property rights, equality of treatment for all economic actors under commercial law and regulation—are yet to be fully established.

This in turn reflects the fact that after the fall of DK a “normal” government had to be reconstructed in the context of incipient famine, massive destruction, a lack of any resource base, and civil war. The state that resulted was inevitably concerned primarily with survival and less with accountability or inclusion. To a certain extent, this legacy continues to shape state structures and the terms of the relationship between citizens and government officials to this day. These issues are explored in more depth in Chapter 7.

From peace to poverty reduction

The legacy of conflict is thus undoubtedly still present throughout all aspects of contemporary Cambodian life. However, six years after the final remnants of the Khmer Rouge were brought into the fold—and twelve years since the political settlement which brought all the other parties in the civil war into a system of democratic rather than armed competition—it becomes progressively harder to attribute all Cambodia’s

problems in a simple or direct way to this history of conflict. Cambodians, both leaders and ordinary citizens, may have inherited a post-conflict society, but ten years on they have made choices and taken actions that have collectively started to shape their own lives and their own trajectories of social and economic change. Some 60 percent of the population is aged 24 years or younger, born after the fall of the Khmer Rouge period, and have no memory of the DK period. Fully 50 percent were born after 1985, and so have little if any memory of the PRK era or the national struggles within which the current political parties have their origins⁶.

The influence of preceding decades of civil war thus continues, but this influence is increasingly subtle, and seen mainly in the nature of social and political institutions and the relationships between them. As the era of conflict fades gradually into collective memory, Cambodian citizens acknowledge and appreciate the difference that peace has made to their lives (Box 1.2).

However, they are also increasingly looking forward, concerned with other issues to do with the economic opportunities that they and their children face, the quality of services they receive from the state, and the perception that inequalities are widening and becoming more entrenched.

⁶ Revised population data from Neupert 2005.

Box 1.2: Peace has opened up opportunities and created the possibility of a better life

In the MOPS research project (Box 1.5), participants consistently emphasized how the end to armed political conflict lifted the burden of fear and opened up livelihood opportunities. This theme emerged in all villages and in discussions with local leaders, those who had prospered and those who got poorer, and in groups of young men and young women alike. However, the importance of peace emerged most strongly in villages in which the conflict ended more recently (in some, the Khmer Rouge were still active until the late 1990s); and in some villages amongst young men in particular (perhaps reflecting the fact that throughout the 1980s young men were conscripted to fight for the PRK).

Khsach Chiros village, Kompong Thom Province

Before Pol Pot troops defected to the Government, most villagers dared not sleep in their houses; most of the time they slept on the ground close to a safety hole. Whenever Khmer Rouge or government troops came to the village, they took our chickens and ducks or burned our houses if we were not willing to give our belongings to them.

In 1993, we could not move freely because we had to ask for a permit from local authorities. By contrast, in 1998 we got more freedom, because we could go everywhere and our community was secure after the integration of the Khmer Rouge.

Dang Kda village – Kompong Thom Province

Before the Khmer Rouge integration in 1998, this community was unsafe because this area was a stronghold of the Khmer Rouge. At that time, the situation was not stable. People had to be well prepared and ready to escape from the bombing. They felt unsafe, so never cared about building or improving their houses... That's why security always came first to our mind and we had less time to think about our economic life.

At that time I cared only about my pots and dishes rather than other useless things when each time serious fighting took place in this community. I never thought about earning money and how to improve my family's standard of living because I had no time to think about it. The only one thing I had to do was to learn how to escape from bombing.

Kanchor village – Kratie Province

This village was free from armed conflict after the defection of all Khmer Rouge troops in 1998. Having security significantly helps improve people's livelihoods in this area.

Source: CDRI 2006 (forthcoming).

As the Royal Government seeks to move the perception and reality of Cambodia from that of a post-conflict country to that of a “normal” developing country, its citizens too are making this transition. As part of this transition, their expectations are rising. These expectations apply to issues of process (there is increasing awareness of, and importance attached to concepts of individual rights, the rule of law, and the accountability of the Government and donors to use resources honestly and in the public interest); and to

outcomes. Citizens want to see progress in living standards and in the quality of public services they receive from the Government. Cambodians can and do have reasonable expectations of progress, and do feel that they can hold their elected leaders to account, regardless of the fact that Cambodia is still dealing with a post-conflict legacy. These same higher standards will also be increasingly expected of other powerful actors affecting their lives—including donors (Chapter 8).

Assessing poverty reduction in post-conflict contexts

Cambodia is of course unusual but not unique in this post-conflict experience. While the significance of decades of war and revolution cannot be under-estimated, international experience suggests positive examples of other countries that have only recently emerged from similar decades-long civil conflict (e.g. Mozambique) or which even now continue to suffer from ongoing conflict in a significant part of their territory (e.g. Uganda), but which have demonstrated considerable success in allocating available resources (both domestic revenue and aid) to achieve notable successes in growth and human development. These cases are summarized in Box 1.3. Attempting to distil lessons from these cases—which it should be noted, involves very different political systems—a number of common themes seem to emerge:

- The importance of sustained commitment to poverty reduction on behalf of political leaders.
- The translation of this commitment into effective public actions through the integration of planning and public financial management processes:
 - within the framework of a broad-based, nationally-owned, poverty-focused medium-term development strategy;
 - designed on the basis of policy-relevant socio-economic analysis of the causes of poverty and poverty reduction;
 - devised and kept on track through mechanisms (broad consultations with NGOs in Mozambique, local accountability mechanisms and structured participatory poverty assessments in Uganda) that were deliberately designed to involve civil

society in setting and/or enforcing pro-poor policy commitments.

Managing peace and development: economic and social change in post-conflict Cambodia

From 1993, the Government has actively managed the re-insertion of Cambodia into regional and global relationships (for example, through pursuit of ASEAN and then WTO membership) following two decades of isolation. This is having complex effects on the Cambodian economy and Cambodian society, which the Royal Government is seeking to understand and manage in order to direct the path of national recovery and development.

In terms of economic change, international investment and trade is creating new opportunities for employment or earnings, either within Cambodia or as migrant laborers in neighboring Thailand. At the same time, the shift to a market-based economy has imparted a commercial value to land and natural resources (notably forestry and fisheries) that they did not have before. Without transparent or accountable institutions to manage these resources, there is increasing accumulation in the hands of the wealthy. This concentration of resources is often at the direct expense of local poor communities who rely upon open access to forests and waters to meet their own household needs or to earn an income. Furthermore, the new owners too often acquire these newly-privatized resources at significant discount (meaning that the Royal Government does not receive the revenue it should expect to receive, and which it needs to fund investments in development); and manage them with a focus on generating a short-term, one-off gain, rather than a sustainable and more widely-spread flow of benefits over the long term.

Box 1.3: Poverty reduction in post-conflict societies: lessons from international experience**Uganda**

Following independence in 1962, Uganda has suffered long periods of impoverishing instability and civil war. In 1986, Yoweri Museveni's National Resistance Army took power and brought peace to most of Uganda, although insurgencies continue to the present. The 'No-Party' Movement system strives to be all-inclusive and consensus-based, severely limiting the activities of political parties that Museveni claims were associated with the escalation of conflicts in the past. Within this political system, Museveni and the Movement have pursued poverty reduction as a political project to reduce destabilizing inequalities and promote national unity. Poverty reduction as a political goal has in turn become a national technocratic project within the Ministry of Finance, Planning and Economic Development (MFPED), which has translated the political vision into instruments that are credible in the eyes of key outside stakeholders. The centerpiece of this strategic framework has been the Poverty Eradication Action Plan (PEAP), supported by a medium-term expenditure framework (MTEF), sector strategies and working groups; the Poverty Action Fund, which protects poverty-focused priority expenditures from budget shortfalls; and the Participatory Poverty Assessment Project, which has provided crucial grassroots feedback on the effectiveness of policies, enabling problems to be picked up and addressed. Given its weakness in 1986, MFPED has developed notable capacity, forging alliances with others to reach its objectives. A recent study of public expenditure and poverty reduction concluded 'We are aware of no other country that has achieved such a dramatic pro-poor change in spending patterns in such a short period'. Real GDP growth has driven poverty down from 56 percent in 1992 to 44 percent in 1997 and 35 percent in 2000. The success of the PEAP was the main source of inspiration for the Poverty Reduction Strategy Paper (PRSP) approach advocated by the IFIs since 1999 as the centerpiece of effective aid partnerships.

Mozambique

Mozambique's long-running civil war, fanned by outside powers, began in 1975 and killed almost a million people before peace was achieved in 1992 and the first multiparty elections were held in 1994. Since then, strong economic growth (12 percent p.a. over the 1990s) was sustained in large part by a serious effort, backed by donors, to improve governance and policy. The Government resolved in particular to improve the business climate, resulting in a doubling of private investment as a share of GDP between 1998 and 2002. From 1996, determined efforts were made to improve revenue collection by tackling customs fraud and evasion and implementing trade facilitation measures. Goods are now cleared 40 times faster than before the reforms. In the first two years of customs reform, imports decreased by 0.2 percent but customs revenue increased by 38.4 percent. Increased revenue was translated into higher and more efficient social sector spending. High levels of aid under competent government ownership also appear to have played an important role: Mozambique's poverty-focused medium-term development strategy, based on policy-oriented research and broad participation of civil society, pre-dated the introduction of the PRSP approach at the global level. Donors were persuaded of the strategic vision of Mozambique's leaders and the sincerity of their commitment to reforms and so agreed to align the bulk of their aid through sector-wide approaches. Critically, high growth rates were sustained even when the aid ratio fell sharply, suggesting that aid had been used judiciously to build a foundation for sustained economic expansion. The combination of growth and improved service delivery has resulted in broad gains in living standards. Between 1994 and 2002, under-five mortality declined from 277 to 135 deaths per 1000 live births; between 1999 and 2003, the number of students in primary and secondary education increased by 43 percent. All of these improvements were reflected in the poverty rate, which fell 14 percent over the course of six years from 69 percent in 1997 to 54 percent in 2003.

Sources: Piron and Norton 2004; Foster and Mijumbi 2002; IMF 2003; World Bank 2005; Commission for Africa 2005; Diogo 2005; Falck, Landfald and Rebelo 2001.

Social relationships, perceptions and values are also changing, with implications for poverty reduction. Practices of village-level cooperation or mutual exchange in labor or raising livestock are now giving way to fully commercialized arrangements: the switch to waged labor may benefit the poor in most years, but it may also increase vulnerability. At the same time, the increasing reliance upon short-or long-term labor migration as a strategy to survive and sometimes thrive is having profound effects on the resilience of family and community structures—but also starting to give rise to new forms of mutual support (AFSC, UNICEF and IDRC 2000).

Over the last decade, increasing exposure to new political concepts (for example, individual rights and the accountability of state actors to the electorate) and models of social organization (e.g. NGOs and unions) is changing the way Cambodians think about their relationships with Government. More widespread education, greater ease of travel along better roads with more security, and increased circulation of domestic and imported television, music and news media are all increasing people's awareness of the world beyond their immediate community. In the process, these new social and cultural influences are raising expectations and increasing the degree to which people are conscious of and concerned about growing inequalities between rich and poor.

Subject matter and sources

The focus of this report will be on the period since the threefold transition—from war to peace, from one-party to multi-party politics, and from economic dirigisme and isolation to markets and integration—began at the close of the 1980s. Most of the analysis in the following chapters will focus specifically on the period from 1994

to 2004, as we now possess comparable national household socio-economic data derived from the 1993/94 Socio-Economic Survey of Cambodia (SESC) and the 2004 Cambodia Socio-Economic Survey (CSES) for these two years⁷. In particular, we possess comparable, recall-based data on per capita household consumption for both survey years. This allows us to track changes in poverty rates and the poverty profile between these dates⁸.

The critical findings from CSES 2004 and comparison between this and SESC 1994 are summarized in the next two chapters. Because of limitations in the 1993/94 data, the CSES data must be used in slightly different ways to examine trends in consumption, living standards and poverty; and the situation in 2004. Box 1.4 provides some details on the structure of CSES data and analysis. It also explains the various levels of geographical disaggregation (Zone, Region and Province) that are used throughout this report (and particularly in Chapters 2 and 3).

⁷ For convenience, the SESC will be referred to henceforth as SESC 1994 rather than “SESC 1993/94”; similarly the CSES will be referred to in shorthand as CSES 2004, even though in reality it spanned 15 months from late 2003 through early 2005.

⁸ It is worth noting that the CSES 2004 collected household consumption data in two different ways, firstly through a recall-based module (as in previous surveys in Cambodia) and secondly through a new, diary-based module. This report has opted to use recall-based data as the basis of consumption and poverty estimates, in large part precisely because it enables comparison with 1993/94 poverty estimates, which the diary data does not. The reasons for this decision are discussed in more detail in Appendix 1. Appendix 1 also explains the status of this Poverty Assessment document vis-à-vis other recent or forthcoming documents that also use CSES 2004 data to present poverty estimates for Cambodia—and which in some cases opt to use the diary-based consumption values.

Figure 1.2: Landscape and natural resources shape spatial variations in Cambodia's economic and social development



Figure 1.2 illustrates which Provinces are classified as belonging to each of the five agro-ecological regions that are described in Box 1.5 and used in analysis.

Analysis of the data from CSES 1993/94 and 2004 is complemented with a wide range of other sources of information on the current status and change in living standards and poverty over the last ten years. The most important of these are the 2000 Cambodia Demographic and Health Survey (CDHS) and the 2004 Cambodia Inter-Censal Population Survey (CIPS). In addition to these nationally-representative surveys, the report draws on several small-scale contextual studies, most notably the Moving out of Poverty Study (MOPS) that has been conducted by the Cambodia

Development Resource Institute (CDRI). Box 1.5 provides some background on this research which, as with the CSES, will be referred to throughout this report⁹.

Other studies drawn on in this assessment include surveys of garment sector workers; a Public Expenditure Tracking Survey (PETS) in education; studies of economic subsectors or aspects of livelihoods; and preliminary findings from Participatory Poverty Assessments (PPAs) conducted in the Tonle Sap Provinces. A full set of references is provided at the back of the report.

⁹ While designed primarily as an input to national debate on poverty, the MOPS research also serves as a case study for a multi-country World Bank research project of the same name.

Box 1.5: Household dynamics and perspectives of the poor: the Moving out of Poverty Study (MOPS)

Over the course of 2004-2005, the Cambodian Development Resource Institute (CDRI) has carried out mixed methods research (that is, research which purposively combines quantitative and qualitative analysis) into village- and household-level wealth and poverty dynamics. This has involved revisiting just under 1,000 households in nine villages (see table) which were previously surveyed by CDRI for an earlier study in 2001.

Village, by region	Province	Basic criteria for selection
Tonle Sap region		
Andong Trach	Battambang	Wet season rice; labor migration
Krasaing	Battambang	Wet season rice; resettled returnees
Khsach Chiros	Kompong Thom	Floating rice; Tonle Sap fishing
Plains region		
Prek Kmeng	Kandal	Dry season rice; substantial fishing
Babaong	Prey Veng	Substantial dry season rice
Plateau / mountain region		
Kanchor	Kratie	Dry season rice; forest resources
Dang Kdar	Kompong Thom	Wet season rice; forest resources
Trapeang Prey	Kompong Speu	Wet season rice; wage labor
Coastal region		
Kompong Thnaot	Kampot	Wet season rice; fishing; salt production

This panel dataset (that is, a dataset that tracks the same households between repeated surveys) provides a valuable complement to the random sample survey of successive CSES rounds. In particular, it provides insights into how many households have moved out of poverty over a three year period—and, conversely, how many households which were not poor in 2001 have fallen into poverty by 2004, and how many have not seen their status (poor or non-poor) change. With this information, it becomes possible to estimate what proportion of the poor at any one time are trapped in chronic poverty, relative to the transitory poor who may cycle in and out of poverty in response to life cycle events or household shocks. The qualitative component of the MOPS research, meanwhile, has used semi-structured interviews with groups and individuals in the nine villages, to obtain their views on how their livelihoods have changed, and what factors, at the household, village or national levels, help to explain these changes. Preliminary analysis and findings from MOPS are reported in this document: the full research project will be presented as one or more CDRI Working Papers in 2006.

Summary

Securing peace, political stability and cooperative international relationships have been priority goals of the three Governments elected since 1993¹⁰. Peace has now been achieved. To a significant extent, the gains in growth and poverty reduction over the last decade represent a

“peace dividend”—that is, a rapid initial rise from a very low base, as the restoration of peace and international recognition made growth and poverty reduction possible again after two decades of conflict—that has been complemented and extended through a “policy dividend”. The Government deserves credit for securing and (with occasional brief setbacks) maintaining peace. It also deserves credit for leveraging additional growth benefits from the peace dividend

¹⁰ See for example RGC 1998 (the “Triangle Strategy”); RGC 2004 (the “Rectangular Strategy”).

through the active pursuit of regional and international integration (by joining ASEAN and WTO); through an effective, managed response to the opportunities offered by preferential access to north American and European markets for garments; and through overseeing investments in critical infrastructure development, such as national roads, that are starting to connect the Cambodian space-economy internally and to its neighbors. As described in the next chapter, the net effect of these changes has been a reduction in the incidence of poverty in the order of 25 percent (down by 10-15 percentage points to 35 percent in 2004). This has carried the country a significant distance towards meeting the first of the Cambodia Millennium Development Goals (CMDGs), which commits the Government to reducing poverty to half its 1993 value by 2015 (Ministry of Planning 2003, 2005).

However, a deliberate and over-arching focus on reducing poverty has by and large not been very pronounced in policy formulation; what there has been has been somewhat diluted in policy implementation. To sustain or increase the rates of poverty reduction seen over the last decade, Cambodia will need to adopt a set of new, more complex, and more deliberately pro-poor policies if it is to sustain or accelerate recent progress in growth and poverty reduction.

The challenge over the coming years is thus to consolidate the political transition and to build upon it with a concerted and coordinated strategic effort for sustainable poverty reduction. This report seeks to provide a concise but comprehensive overview of what has happened to poverty in Cambodia since 1993, and why, in order to support the Cambodian Government and Cambodian civil society in formulating a strategic response to the problem of

poverty. The report attempts to map out a number of possible scenarios with respect to how the incidence, nature and causes of poverty might change over the next five years—and how this might be affected by alternative policy choices.