

3. The nature of poverty in Cambodia, 2004

Summary

- The poverty headcount for 2004 is estimated at 35 percent; that is, 35 percent of the Cambodian population is estimated to have been living under the national poverty line. One in five Cambodians lived under the food poverty line. Poverty was considerably higher in rural areas (39 percent) than urban areas (5 percent in Phnom Penh and 25 percent in other urban areas).
- Poverty in Cambodia is overwhelmingly a rural phenomenon. In 2004 about 91 percent of the poor lived in rural areas.
- The rural areas of the Tonle Sap and Mountain/Plateau regions experience both the highest poverty headcounts and the most pronounced poverty severity. Poverty headcount measures in rural Tonle Sap and rural Mountain/Plateau regions were, respectively, 45 percent and 56 percent. Poverty severity measures in both regions were about twice the national average.
- Fully 40 percent of nation's total poor live in the Plains region; the rural poor in the Tonle Sap and Mountain/Plateau regions account for about 50 percent.
- In terms of occupational profile, households with heads engaged in agricultural activities or employed as domestic workers, experience the highest incidence of poverty (averaging over 40 percent) and the worst poverty severity. Households in which the head of household was employed in one of these two occupations together account for almost two-thirds of all the poor in Cambodia. The occupational group which enjoys the lowest poverty incidence was that of households headed by an individual working in the public sector.
- Poor households have higher dependency burden and lack human capital; they tend to be uneducated, unskilled, and unhealthy. The poor and in particular the extreme poor are concentrated in rural remote areas, with limited access to roads, markets, and basic services. They also lack secure land tenure and access to irrigation facilities.
- Critical problems for the urban poor revolve around security of housing rights and opportunities for gainful income generation or employment. Many in the squatter settlements claim tenancy rights with limited right to some services but lack secure housing tenure and are vulnerable to evictions.

This chapter presents some basic facts on household consumption and poverty, based primarily on the full nationally-representative 12-month sample from CSES 2004. While the previous chapter describes trends in various measures of poverty for

geographically comparable areas between 1994 and 2004, this chapter presents the overall picture of living standards for all of Cambodia in the year 2004.

This difference between geographically-comparable and full sample accounts for differences in the 2004 values reported for the same variable (e.g. average consumption or poverty incidence) in Chapter 2 and this Chapter. Thus, for example, the poverty rate in rural areas in 2004 is reported in Chapter 2 as 34 percent (Figure 2.2), but in this chapter as 39 percent. The former figure is the poverty rate amongst the households surveyed in 2004 that fell within the 1994 sampling frame; it is calculated to allow direct comparison with the value from this area in the 1994 survey. The higher value for 2004 in this chapter reflects the poverty rate amongst the rural population as a whole, not merely that part of it that falls within the comparable sampling frame.

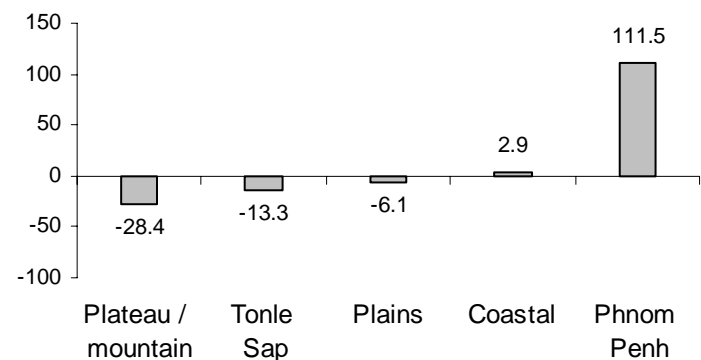
Household consumption

Average levels of per capita consumption vary greatly between regions and between urban and rural areas within regions. Figure 3.1 presents estimates of per capita household consumption by agro-ecological region, disaggregated into the urban and rural areas within each region. The estimates of mean per capita consumption are

expressed in 2004 Phnom Penh prices. The urban Phnom Penh population clearly enjoyed the highest real per capita level of consumption, having an estimated level well over twice the national average (Figure 3.2). The rural areas of the Tonle Sap and of Plateau/Mountain regions, meanwhile, had the lowest mean levels of real per capita consumption. These two poorest rural areas account for over one third of the country's population, i.e., 26 percent in the Tonle Sap region and about 9 percent in Plateau/Mountain areas.

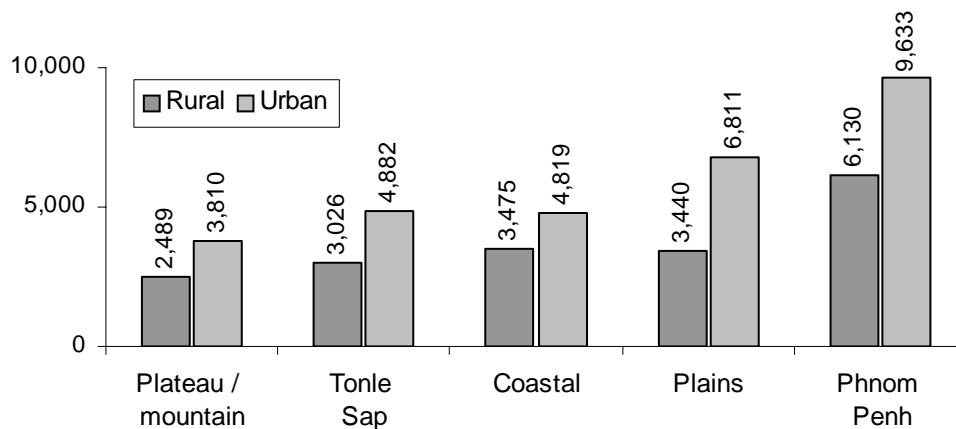
Figure 3.2: Per capita consumption in upland areas is only 75 percent of the national average

- Per capita consumption by region indexed on all-Cambodia average = 100, 2004



Source: CSES 2004.

Figure 3.1: Rural Plateau and rural Tonle Sap regions had the lowest average of consumption



Source: CSES 2004.

Including the urban poor, the Tonle Sap and Mountain/plateau regions combined accounted for 54 percent of the total poor population. The low average consumption values in these two regions are brought out in Figure 3.3. In particular, Kompong Speu and Kompong Thom had the lowest provincial per capita consumption in the country, followed by Siem Reap province and Eastern and Northern provinces in the Mountain/Plateau zone.

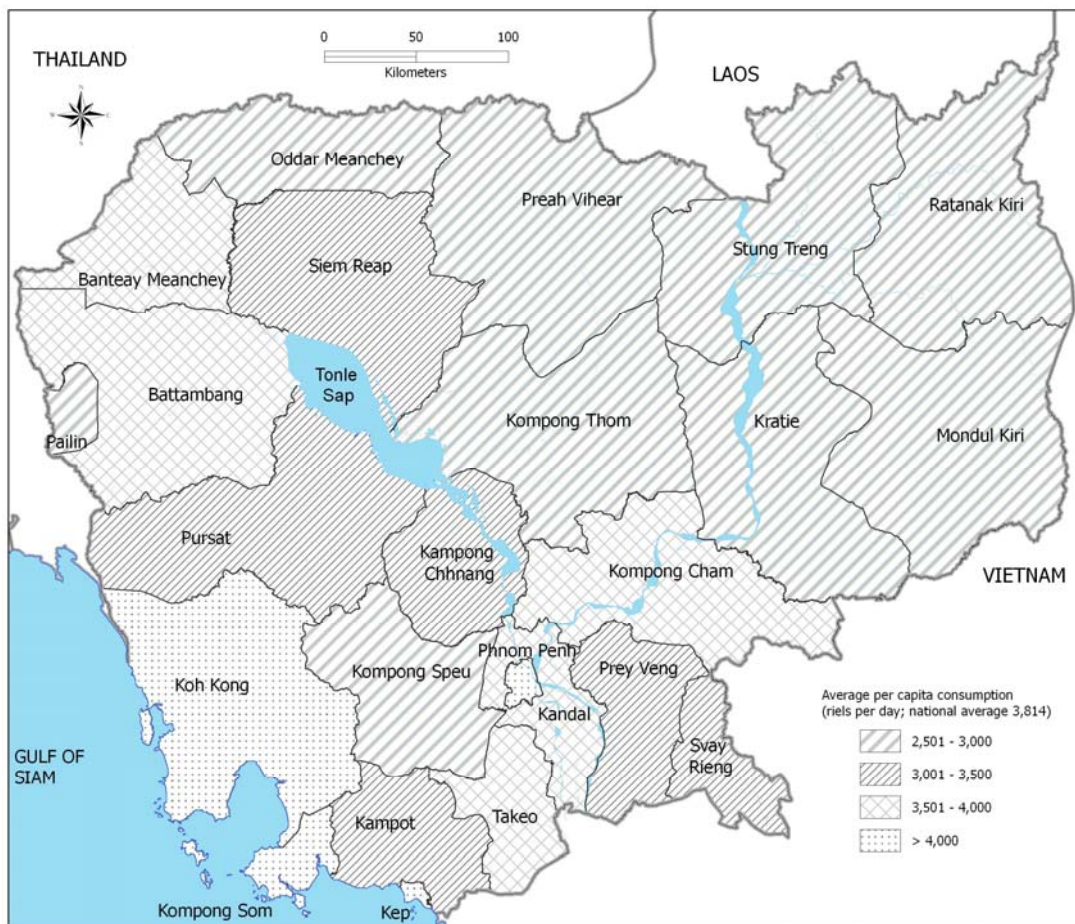
Poverty in 2004

In 2004, 35 percent of the population lived below the poverty line, and 20 percent below the lower food poverty line. The

incidence of poverty was highest in rural areas (39 percent) and considerably lower in urban areas (five percent in Phnom Penh and 25 percent in other urban centers).

For reference, the 2004 poverty headcount according to the international, “dollar-a-day” poverty line stood at 18.5 percent. Throughout this report, however, poverty will be analyzed, as is standard practice, with reference only to the national poverty lines described in the previous chapter. Box 3.1 describes the formulation of the dollar-a-day international poverty line, how it compares to the national poverty line, and why the national poverty line is preferable for national-level analysis.

Figure 3.3: Standards of living are lowest in the Mountain/Plateau and Tonle Sap regions



Source: CSES 2004.

Box 3.1: Choosing a poverty line: national and dollar-a-day poverty lines compared

Over the last decade, the international community has become increasingly interested in tracking poverty trends at a global level, primarily to enable monitoring of progress towards the first of the Millennium Development Goals (MDGs), which commits the world's governments and international organizations to reducing the percentage of the world's population living in absolute poverty to half of its 1990 value by 2015. To track global poverty, it is necessary to adopt a standard measure of absolute poverty that is constant across countries and over time. This need for an international reference point gave rise to the adoption of the so-called "dollar-a-day" line, which defines the poverty line in terms of the goods and services that could be consumed for one dollar per person per day in the USA in 1993. The full description of the international poverty line is thus "one dollar per capita per day, 1993 purchasing power parity (PPP)".

Defined in this way, the international poverty line attempts to account for changes in prices over time (i.e., adjust for inflation) *and* account for differences in prices between countries (i.e., adjust for cost-of-living differences between economies). Because in most developing countries basic goods and services (particularly food) are much cheaper than in the USA, the actual value of one dollar a day, 1993 PPP in these countries is much less than one dollar in current prices. In Cambodia, the international (dollar-a-day) poverty line in 2004 was equivalent to 1,382 riels per capita per day (or US\$0.34 in 2004 current prices). The "dollar-a-day" international poverty line is thus in real terms *lower* than the Cambodian national poverty lines described in Table 2.1 and used in this report, which range from 1,753 riels (US\$0.43) per capita per day in rural areas to 2,351 riels (US\$0.58) per capita per day in Phnom Penh. As such, the international poverty line results in a much lower estimated poverty headcount for 2004 (18.5 percent) than that derived by reference to the national poverty line (35 percent)—even though both use the same reference dataset (the recall-based data on per capita household consumption derived from the CSES 2004).

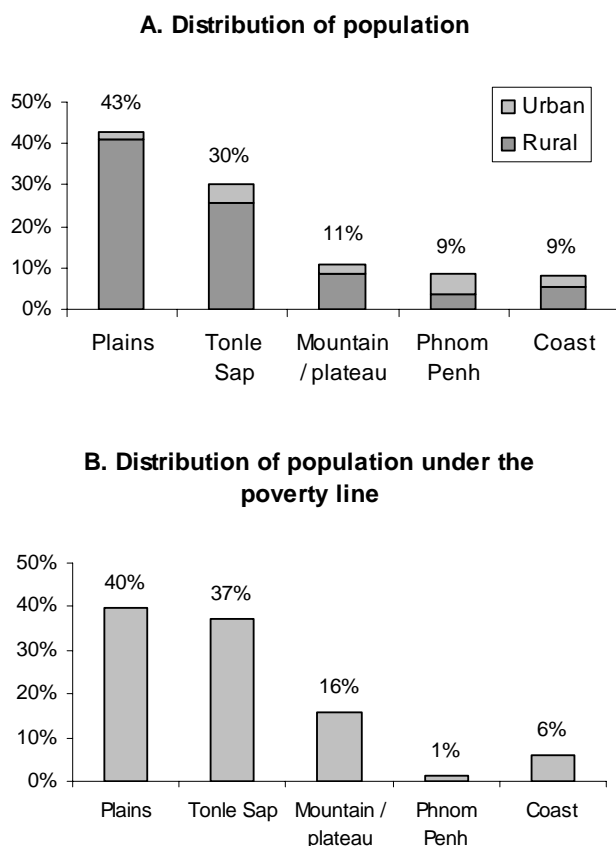
This disparity between a more inclusive national poverty line and the more severe international poverty line is not unusual. The level of Cambodia's poverty line is comparable to that of most low-income countries, many of which have national poverty lines that are less than half a dollar a day in current prices, but which are nonetheless higher (and thus result in a higher poverty headcount) than the international, dollar-a-day PPP poverty line. In Vietnam in 1998, for example, the international, "dollar-a-day" poverty rate was estimated at 16.4 percent, while the poverty rate according to the national poverty line of 4,900 dong per person per day (\$0.35 in current prices), based on the 1998 Vietnam Living Standards Survey (VLSS), was 37 percent. In Lao PDR, similarly, the international, "dollar-a-day" headcount estimate was 28.1 percent in 2002 and 25.8 percent in 2003. By contrast the 2002/03 poverty rate according to the national poverty line (3,065 kip per person per day, or \$0.26 in current prices), measured in the third Lao PDR Economic and Consumption Survey (LECS III), was higher at 30.7 percent.

The dollar-a-day international poverty line thus provides a much cruder definition of poverty than a well-crafted national poverty line. It serves an invaluable role in enabling rough comparisons between countries and over time, in tracking progress towards the MDGs; but for the purposes of national-level analysis and policy debate, it is far preferable to use a national poverty line constructed following accepted international principles and with reference to a country-specific consumption bundle. This report therefore uses the national rather than the international poverty line in the construction of poverty measures.

Sources: Knowles 2005a; Deaton 2001; Deaton and Grosh 2000.

The south-western Plains region has a poverty headcount lower than the national average (32 percent, compared to 43 percent in the Tonle Sap and 56 percent in

the Mountains/Plains regions) but, by virtue of the population density in these Provinces, nonetheless contains 40 percent of the nation's poor (Figure 3.4).

Figure 3.4: The majority of the poor are found in the Plains and Tonle Sap Provinces

Source: CSES 2004, Neupert 2005.

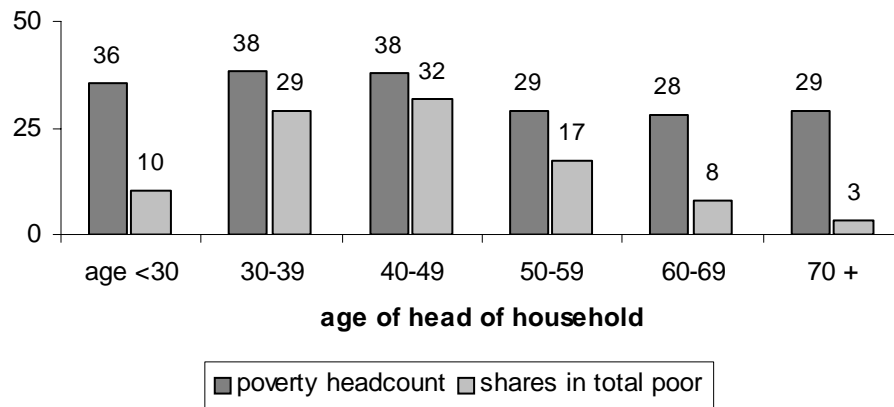
The left panel in Table 3.1 presents poverty headcount measures for all agro-climatic regions, disaggregated by urban and rural sectors, for 2004. The right-hand panel in this table presents the distribution of the poor population by zones and sectors. In terms of poverty severity, the rural Tonle Sap and rural Mountain/Plateau regions once again demonstrated the worst values, averaging about 1.5 times and twice the national average, respectively.

When the data are disaggregated further, there was found to be wide variation between Provinces. However, the poorest Provinces (in terms of poverty headcount and poverty severity index) were still those in either the Tonle Sap or Mountain/Plateau regions. The Provinces with the highest incidences of poverty were Kompong Speu, Siem Reap, and Kompong Thom (Figure 3.5), while those with the deepest poverty were Siem Reap, Kompong Speu, and Kompong Thom.

Table 3.1: Poverty headcounts are highest in the rural areas of the Tonle Sap and Mountain/Plateau regions, which together account for almost half of all poor

Zone	Poverty headcount index			Population distribution of poverty headcount (% of all poor)		
	Urban	Rural	Total	Urban	Rural	Total
Phnom Penh	1	9	5	0	1	1
Plains	14	33	32	1	39	40
Tonle Sap	28	45	43	4	33	37
Coastal	20	30	27	1	4	6
Plateau/ mountains	33	56	52	1	14	16
Cambodia	18	38	35	8	92	100

Source: CSES 2004.



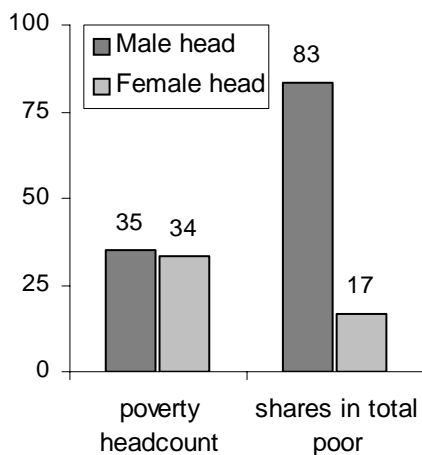
Household poverty profile

The poor are primarily in households headed by prime-aged adults

Figure 3.6 analyzes the incidence of poverty by the age and gender of household heads. The data suggests that the highest incidence and greatest number of the poor were among household heads of prime age (between 30 and 50 years). Individuals in these households made up about 60 percent of the entire poor.

In terms of the sex of the head of household, the CSES data does not support the contention that female-headed households experience greater poverty than male-headed households (Figure 3.7). This is not an unusual occurrence. In many countries in the world national sample surveys fail to find any difference between male and female-headed households, despite relatively consistent evidence from small-scale and qualitative studies that there *are* differences.

Figure 3.7: There is no statistical difference in the CSES data between the incidence of poverty in male- and female-headed households



Source: CSES 2004.

Fieldwork in Cambodia draws out that there are differences, but that the category of female-headed household is, on its own, inadequate as a targeting category as there are indeed both rich and poor female-headed households. What is needed is rather to disaggregate between different types of FHH, looking also at the availability of other adult labor and dependency ratios (Vlaar and Ahlers 1998; Box 3.2).

There was no difference in poverty measures by marital status (84 percent of heads were married and 13 percent were widowed). Nor was there any statistical significance in poverty measures by ethnicity or reported disability of household heads (although this is mainly due to the fact that the sample sizes of minority ethnic and disabled heads were rather small). A discussion of poverty and ethnic minorities is presented in Box 3.3.

A broad conclusion from the discussion of the poverty profile so far is that the most effective way for poverty reduction would be to promote broad-based growth, with a particular emphasis upon agricultural growth that would directly benefit the rural population which contains 91 percent of the nation's poor.

The poor lack human capital

Years of schooling and literacy of household heads are strongly related to poverty outcomes. The probability of being in poverty dropped significantly for household heads with some years of schooling, compared to those with none at all. Mean years of schooling among the indigent were 2.75 compared to an average of 5-6 years for the two richest quintile groups. Chapter 6 discusses the links between human development, productivity and consumption poverty.

Box 3.2: Gender and poverty in Cambodia

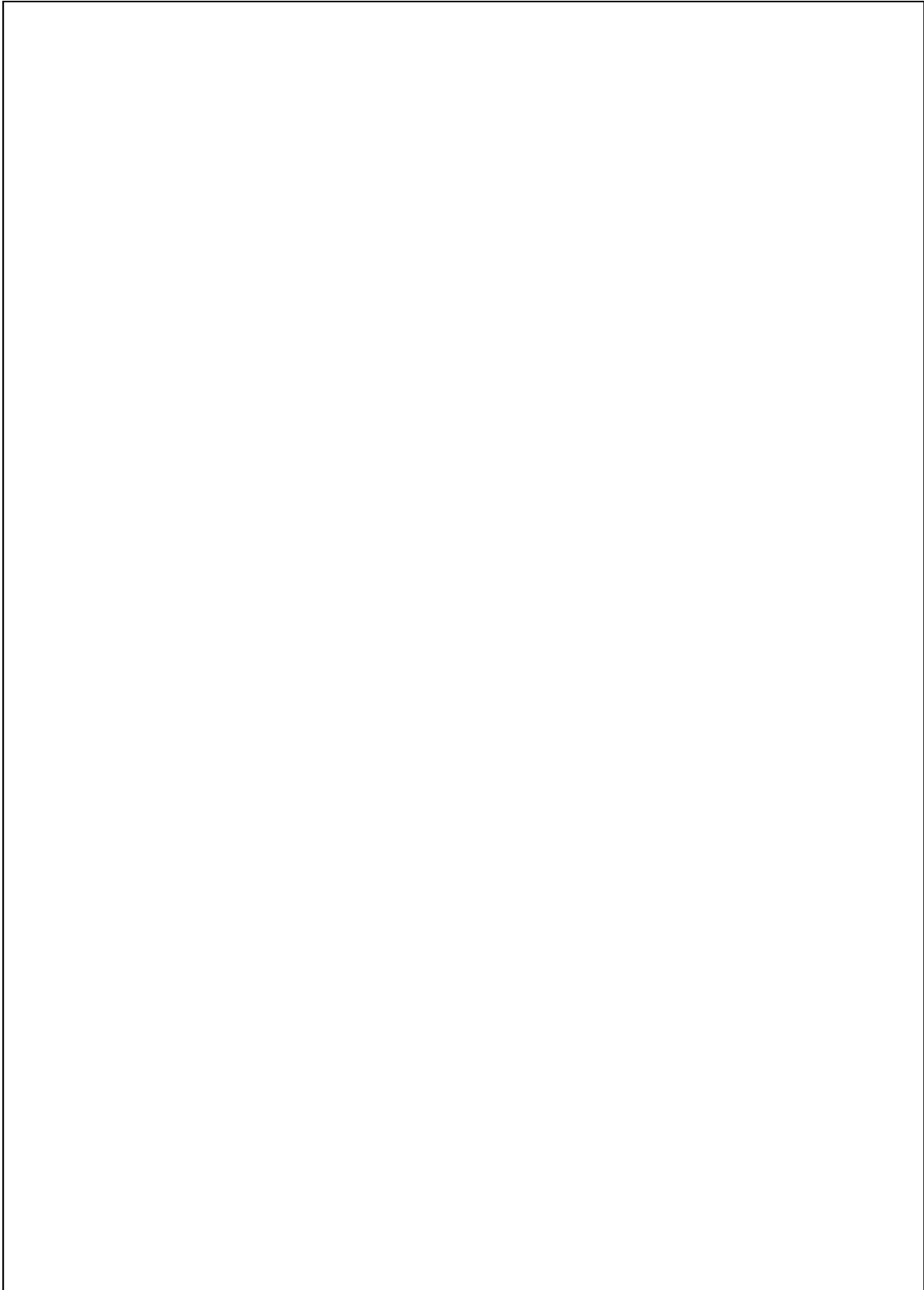
Anthropological and sociological literature has often stressed the “relative equality” between men and women in Cambodia, and Cambodian women have traditionally enjoyed a higher status and greater independence than, for example, women in India or China (Ledgerwood 2005). Marriage does not involve dowry, while bilateral kinship and a customary preference for a newly-married couple to live with the parents of the wife provides a measure of familial support (UNDP 1998). Women participate actively in the economy and the agricultural division of labor is flexible (and becoming more so). In many cases women are responsible for managing the family’s income and expenditure, with major economic decisions taken jointly.

While relations between women and men in Cambodia may be described as relatively equal when compared to many other countries, gender inequalities continue to persist in certain aspects of social, economic and political life. Gender inequality has historically been most pronounced with regard to education (schooling for girls was seen as at best unnecessary and often undesirable); political authority (very few women held positions that might allow them to shape public policy), and the double burden that women face in managing domestic tasks, which are almost exclusively the responsibility of women, while also contributing to agricultural and/or income-generating activities. Occupational choices are strongly determined by gender, and there are very few women in management positions in any sector.

In practice gender ideals are one of several factors (including age, wealth, reputation and power) that determine relative status. (Thus, for example, a married woman with children will have more freedom to speak and act her mind than would a young unmarried woman.) Gender relations are also, along with much of Cambodian society, in flux. Some aspects of traditional gender relations are changing for the better (although they still require attention). The gender gap in education and literacy is closing (see Chapter 6) and women’s participation in politics, while still marginal, is no longer entirely non-existent. Other aspects of economic and social change, however, have further disempowered women. Because significantly more men than women died during the wars of the 1970s (and to a lesser degree the 1980s), Cambodia has had a very unbalanced adult sex ratio. Marriageable men, being in short supply, found they could often get away with behavior vis-à-vis women that would not have been tolerated in the past. Although the sex ratio has now significantly balanced out, there is a legacy of changed attitudes, which may be one factor contributing to extremely high levels of domestic violence (see Chapter 7). The legacy of war also created female-headed households, both directly and indirectly (as surviving men found they could abandon one woman and still get remarried). While analysis of consumption poverty data does not show female-headed households to be any poorer than those headed by men, locality studies make it clear that certain types of female-headed households do indeed suffer particular economic disadvantages (UNIFEM et al 2004).

The public health system does not serve women well (see Chapter 6) as seen most strikingly in a high maternal mortality rate (437 deaths per 100,000 live births). Gender relations and values are also central to one of Cambodia’s major public health challenges, that of HIV/AIDS. Traditional tolerance of prostitution has posed a challenge to which the Government has responded well; however, while prevalence rates have come down due to promotion of condom use in commercial and casual sex, it is harder to promote their use by married couples, and husband-to-wife and consequently mother-to-child transmission is becoming increasingly common. Although surveys find that family planning decisions are typically arrived at jointly through discussion, participatory research suggests that women have limited power to negotiate safe sex and condom use in the context of marriage (CDRI 2006c forthcoming).

Finally, women continue to be concentrated in low-wage/low-income economic sectors and are paid less than men for the same work. The rapid expansion of the garment sector has been a major benefit to approximately 200,000 women (who comprise over 90 percent of the workforce in this sector), but this is a small percentage of the overall workforce. Female garment workers also face extremely high expectations from their families, remitting a very large proportion of their wages to their families, often at the cost of their own current consumption (ADB 2004; Dahlberg 2006 forthcoming; ADI/CCC 2005).



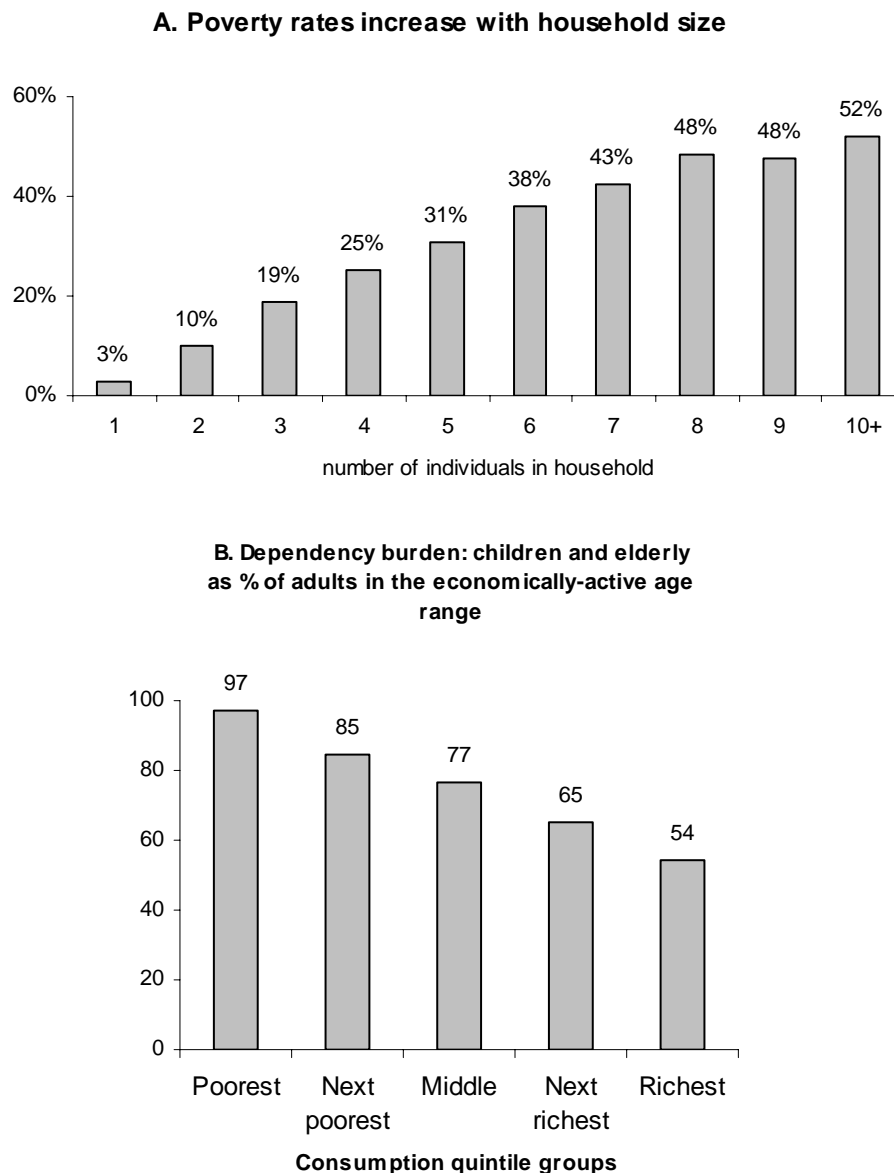
Poor households tend to be larger and have higher dependency ratios

Figure 3.8 presents poverty headcounts by household size. The data indicate that the incidence of poverty becomes significantly worse for households larger than 5 persons (which account for half of the population)

This pattern is essentially similar to that observed in previous poverty profiles.

Even after converting to an adult equivalence scale, average real consumption values fall with household size. For instance, the average real consumption per equivalent adult for household of three members was 3,505 Riel a day, but the average for a household of nine was only 2,583 Riel a day.

Figure 3.8: Larger households tend to be poorer because of higher dependency ratios



Source: CSES 2004.

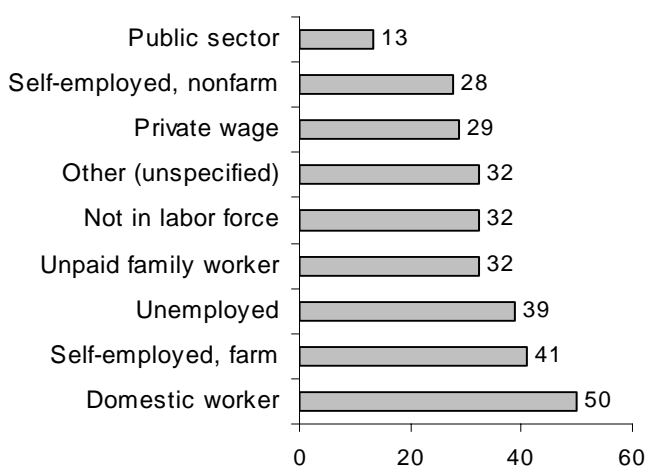
These larger households tend to have higher dependency ratios, that is, more young children and elderly individuals to be supported by each adult of working age. The CSES confirms that dependency ratios are inversely associated with poverty.

Households with farmers and domestic workers as heads tend to be significantly poorer

Figure 3.9 presents poverty estimates by employment status of the head of household. Poverty headcounts were highest among farmers and domestic workers. Households headed by self-employed farmers and domestic workers accounted for 48 percent and 13 percent, respectively, of the total poor. Households headed by domestic workers had the highest poverty incidence as well in the 1994 poverty profiles and account for an increasing share of the total population (9 percent in 2004). The lowest estimated poverty headcount was among households headed by someone in the public sector.

Figure 3.9: Households headed by domestic workers and farmers are much more likely to be poor

- Poverty incidence (%) by occupation of head of household



Source: CSES 2004.

These patterns are broadly consistent with the findings of previous poverty profiles.

Poverty rates are highest in remote areas

Access to economic infrastructure (roads and irrigation facilities) and social infrastructure (basic services including modern energy sources, water and sanitation, and school and healthcare facilities) is far more limited for the poor than for non-poor. The poor and especially the very poor (the bottom quintile that live below the food poverty line) tend to be in extremely remote and isolated areas where their access to any infrastructure or basic services was limited. The average distance to infrastructure and basic services increases steadily as one moves from a higher consumption quintile group to a lower one. The food poor are especially isolated from access to permanent markets and healthcare facilities. When the data are disaggregated by provinces, Northern provinces in the Mountain/Plateau zones (i.e., Ratanakiri, Stung Treng, Preah Vihear) and Siem Reap province in the Tonle Sap zone have the poorest infrastructure measured by percentage of villages with all-weather roads or those with gasoline as an energy source (Figure 3.10).

The poor have virtually no access to modern energy sources and water and sanitation

The poor rely heavily on firewood for fuel and kerosene for lighting, while the non-poor have the luxury of connection to gas and electricity. While there were noticeable gaps between the poor and the non-poor in energy

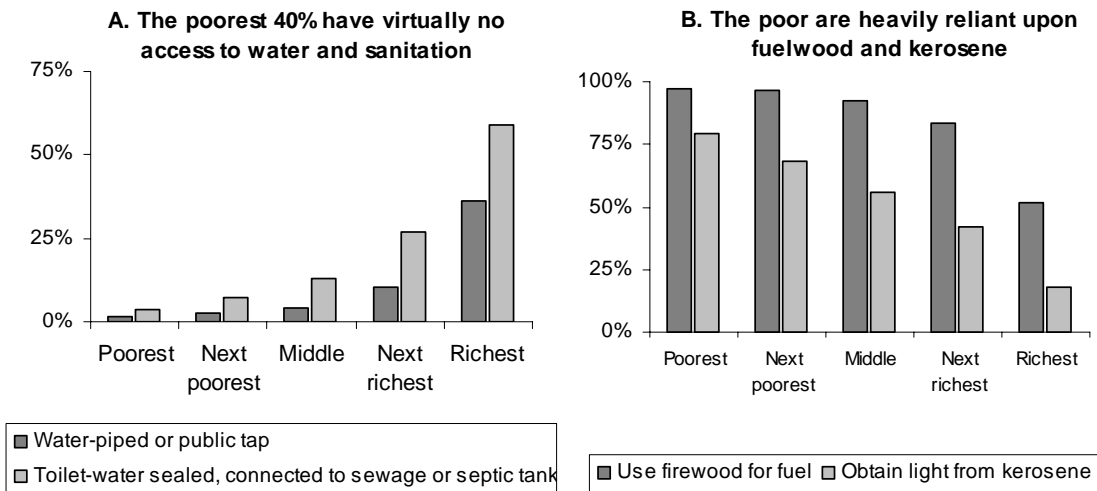
sources, the deprivation in access to clean water and sanitation was particularly acute among the poor. Barely 2 percent of the poor households had access to piped water

or public tap and only 3.5 percent of the poorest had access to decent sanitation (Figure 3.11).

Figure 3.10: The poorest infrastructure is to be found in Siem Reap Province and in Provinces in the Mountain/Plateau region



Figure 3.11: The poor are acutely deprived of energy, water and sanitation



Source: CSES 2004.

A substantial number of the poorest in rural areas have no access to land for cultivation

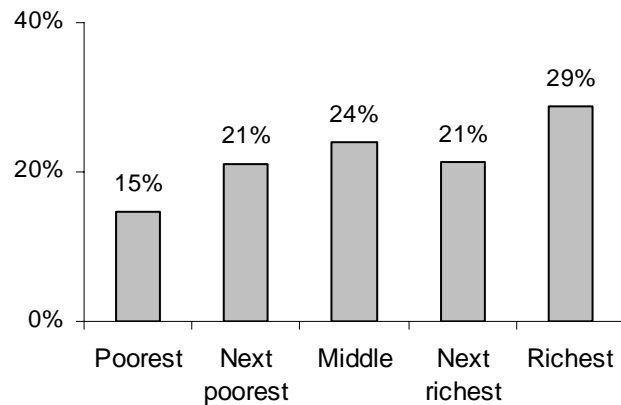
Given that Cambodia is still primarily an agrarian economy with 71 percent of the labor force in agriculture, and where 91 percent of the poor are in rural areas, the most important assets for these rural poor will be labor and land. Because of limited human capital and lack of skill, the poor and the indigent were less able to make use of their labor to pursue non-farm employment opportunities. Thus, land becomes the utmost critical asset for a rural poor.

Landlessness—in which the rural landless are defined as households without any access at all to land for cultivation—has increased from 12.6 percent in CSES 1997 to 15.8 percent in CSES 1999 to 19.6 percent in CSES 2004. These households did not own, borrow, or lease any land, and could not use communal land. In 2004, about 15 percent of the poorest quintile living in rural areas and 13 percent of the next poorest quintile group were landless.

...while those who owned land had little security of land tenure

Among those who owned land for cultivation, the indigent and the poor were less likely than the non-poor to have a secure land title. Figure 3.12 shows that only 15 percent of the extreme poor held a land title compared to about 29 percent of the richest quintile group. The likelihood of obtaining a secure land title increases with income. Secure land rights and efficient land administration systems are crucial for agricultural growth and for facilitating exit from the sector. The benefits of secure property rights are widely recognized and well-documented in international research.

Figure 3.12: The poorest and next poorest quintiles are less likely to have secure land titles



Source: CSES 2004.

Urban poverty: lack of secured housing and insecurity of income

Although Cambodia is still an overwhelmingly rural society, there is reason to suspect that the CSES 2004 (in common with similar living standards surveys in other countries) may have under-sampled the urban poor, and that urban poverty still merits attention (Box 3.4).

A number of surveys on urban poverty, mainly of Phnom Penh, have been carried out by UN-Habitat and NGOs. A survey by the Urban Resource Centre (URC) revealed that, as expected, most residents of poor squatter settlements are employed in the informal economy as *motodop* (moped taxi) drivers, construction workers, domestic workers, or small scale street vendors, while a few work as permanent (or at least not fully casual) employees in the garment industry (mainly female) or restaurants, or as domestic help (a category found in the CSES 2004 to have the highest poverty headcount—49 percent—

Box 3.4: The urban poor: small, but undercounted and growing?

Poverty statistics derived from CSES may under-represent the urban poor for a variety of reasons. Firstly, many of the poorest in urban areas (particularly Phnom Penh) sleep on the streets and would have been overlooked in the CSES sampling frame, which is based on residences. Most of the next strata (poor but not destitute) live in informal squatter settlements. While informal settlements existing in 1998 would have been included in the Census (which provided the sampling frame for the CSES 2004), these settlements have been growing rapidly since then, fueled by migration from rural areas. NGOs estimate that the number of poor households in squatter settlements doubled between 1997 and 2003. There will thus be households within informal settlements which were not included in the CSES sampling frame. Although not all inhabitants of informal settlements are poor, many are. So while it remains true that poverty in Cambodia is and will remain for many years overwhelmingly rural, poverty in Phnom Penh and other towns is probably somewhat greater than the CSES would suggest. Urban poverty is likely to become increasingly important over time as the poor move to towns to seek alternative livelihoods. The rural-urban shift is especially likely if, as over the last decade, the pattern of growth remains heavily biased towards urban-based manufacturing and services, with agriculture and the rural economy more broadly lagging behind. As landlessness increases and access to common property resources declines, rural-urban migration can be expected to increase. Given that the problems of the urban poor are significantly different from those of the rural poor, and urban poverty needs to be tackled in the context of complex urban planning (both economic and spatial), there is a need for specific policies and programs for the urban poor, to a significant degree distinct from those designed for the rural poor.

and to account for a small but growing share of the population, and of the poor).

As in the countryside, surveys in urban areas find that children make a significant

contribution to the income of poor households, earning around 4,000 riels per day as rag pickers, shoe cleaners or beggars, or remaining at home to look after younger siblings while parents are out to work.

The problems of the urban poor differ somewhat from those of the rural poor. Whereas physically healthy people in the countryside can generally obtain building materials and water relatively easily, in towns these generally need to be purchased; and while richer neighborhoods are connected to municipal services, poorer neighborhoods generally are not, and have to purchase their water (for example) from private vendors, at a much higher price. Incomes are generally higher than in rural areas, but so are costs. Many of the urban poor depend upon casual labor for their income, which is very variable, making it hard to save.

If the key daily challenge for the urban poor is the struggle to make enough income, the overriding threat to their livelihoods and wellbeing is the security of housing tenure. While the 2001 Land Law gives existing residents some rights, these are very limited for those who have settled on what is classified as State Public Land (as opposed to State Private Land) and even those with nominal tenure rights are vulnerable to effort to displace them in a context of rapidly rising land values. Many feel that their lives have improved since moving from the countryside to the city, a move which brought them better employment opportunities, better incomes, and better access to health and education services. Given this, they have little interest in the offer of land outside the Municipality. Many in the squatter settlements report having been able to improve their housing since they first arrived. However, forced eviction (the Municipality has evicted 11,000 families

from the city centre between 1998 and 2003) can almost instantaneously reduce them to a level equal to or worse than what they experienced before coming to the city (UNOHCHR 2004; URC 2004).

Crowded settlements on marginal land are also very vulnerable to community-wide disasters such as floods or fires, which can reduce thousands of families to destitution overnight. In terms of social cohesion and the community basis for collective action, the urban poor are in some ways better off and in some ways worse off than their rural equivalents. On the one hand, poor communities have, with support from NGOs, organized to demand provision of services or to oppose evictions. On the other hand, the poorest of the urban poor—families living off reclamation from municipal waste dumps, children or disabled persons without families living on the streets, commercial sex workers—may suffer from extremes of social exclusion and vulnerability. Even amongst these groups, however, there is some early evidence of group formation around workplace-based or service-delivery issues (USG 2004; AFSC et al 2001).

One of the major areas in which information is lacking is the nature of economic and social change in secondary urban centers. Although urbanism in Cambodia is very much a primate city model (there are few large cities other than Phnom Penh, which in 1998 was six times the population of the next largest Municipality), experiences in other countries suggest that provincial towns may play a crucial role in the development of their rural hinterlands, as nodes for the marketing of rural goods, a sources of agricultural inputs, and as locales for the emergence of industries that process and add

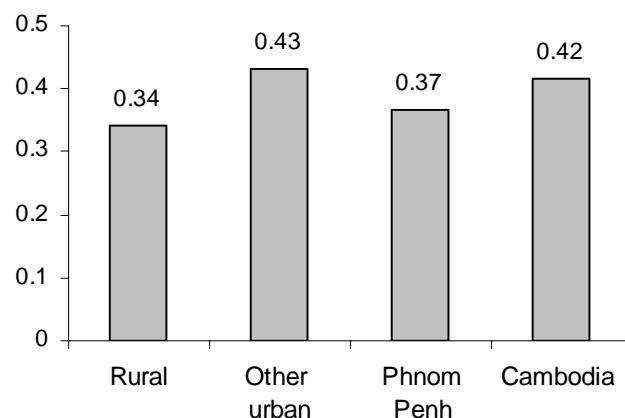
value to agricultural products and that draw off rural labor, improving per capita land availability and sustaining agricultural wages and output prices.

Inequality is high

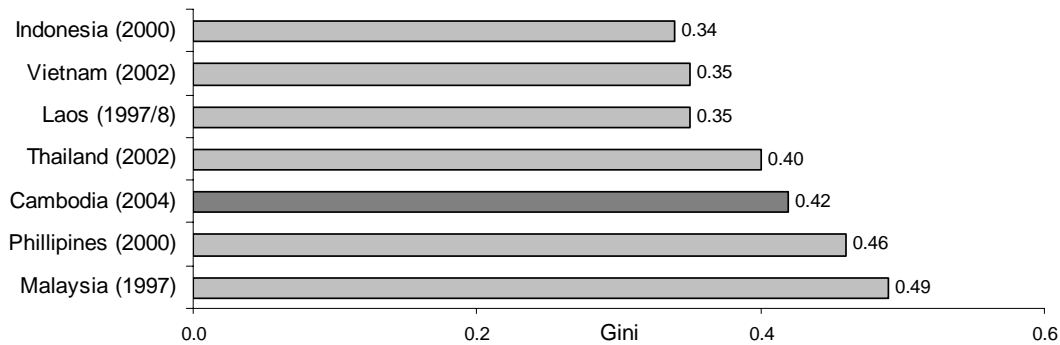
It was mentioned in the previous chapter that inequality within the areas that were surveyed in both 1994 and 2004 has risen considerably (from a Gini coefficient of 0.35 to 0.40, when a Gini of 0 represents perfect equality, and a Gini of 1 represents perfect inequality). The figures for inequality in 2004 are actually more serious when the full sample is used as the basis of analysis. In the whole of Cambodia in 2004, the Gini coefficient stood at 0.42 (Figure 3.13). This puts it towards the higher, more unequal ends of the regional scale (Figure 3.14).

Inequality in Cambodia is furthermore unusual in that most of Cambodia's high-growth neighbors in South-east and East Asia saw levels of inequality start to widen only at later stages of development, when levels of average income and consumption were higher (and poverty headcounts lower). What is notable about Cambodia,

Figure 3.13: Inequality in Cambodia is high, particularly in urban areas.



Source: CSES 2004.

Figure 3.14: Inequality in Cambodia is high compared to its regional neighbors

Source: CSES 2004; World Bank 2005.

in other words, is the coexistence of significant and growing inequality with a still-high level of absolute deprivation. Finally, the uncomfortable combination of widespread poverty and conspicuous inequalities acquires particular social and political significance in light of a commonly-held perception (as revealed in many fora, including but by no means limited to the MOPS fieldwork) that weak governance gives the wealthy unfair advantages over the poor.

The lessons to be drawn from international experience are open to debate, as findings are highly dependent upon the choice of countries, reference periods and analytical technique. Until perhaps the last five years the consensus in international development theory was that: (i) inequality inevitably rose with economic development and the transition from “traditional” or socialist society to a market-based society; (ii) however, changes in inequality, in either direction, occurred only slowly; (iii) growing inequality was of little practical significance so long as absolute deprivation (i.e. poverty) was falling; and (iv) there was little that public policy could do to control growing inequality, certainly not without impeding growth rates and poverty reduction.

In recent years, however, increasing attention to the connections between economic growth, inequality and poverty has challenged or qualified a number of these axioms (Naschold 2002; World Bank 2005). It now seems that high levels of inequality not only (as expected) reduce the poverty elasticity of growth (that is, the percentage poverty reduction that arises from one percent of GDP growth); high levels of inequality may also, it seems, negatively affect the rate of economic growth itself.

There are a number of reasons for this. The first is that in imperfect markets, inequalities in wealth translate into unequal economic opportunities, leading to wasted productive potential and an inefficient allocation of resources. In other words, individuals who may have the intelligence and application to make efficient use of capital, land and education may, by nature of their or their parents’ poverty, be unable to access these resources.

Secondly and more subtly, entrenched economic inequalities are over time strongly associated with political inequalities and impaired institutional development. In unequal societies, institutions (political, economic, and

social) come to serve primarily to perpetuate inequality by preserving the advantages of those with power and wealth. Such institutions distort incentives in ways that are typically bad for investment, innovation, and judicious risk-taking—and thus for long-term economic growth.

Interestingly, the economic case for less rather than more inequality derives very strongly from the experience of Cambodia's neighbors. The high-growth east- and south-east Asian tigers were and to a significant degree still are distinguished by relatively low levels of inequality compared to, on the one hand, middle-income Latin America (where average growth rates have in recent decades been lower than east and south-east Asia) or, on the other hand, low-income sub-Saharan Africa (where in many countries growth has on average been low or even negative for much of the last two decades). In trying to explain what made Korea, Taiwan, Thailand, Indonesia or later China and (perhaps most notably) Vietnam grow rapidly for several decades, a number of analysts have cited low levels of initial inequality (particularly in land but also in average levels of education and literacy) as a potential contributory factor.

This is not to say either that absolute equality is ever feasible, or even that equality necessarily should become a policy objective in its own right. There is, however, a strong case for taking the level of inequality seriously as a factor that affects *both* the rate of poverty reduction *and* aggregate economic growth. At the very least, policy-makers interested in sustained economic growth and social and political stability should be concerned to monitor rapidly growing (or even static but high) levels of inequality. A comprehensive review of the international

evidence suggests that the judicious use of public action to prevent inequality from growing to very high levels is rational economic policy: and that, contrary to the accepted wisdom of earlier decades, there *are* policy tools that can be used to promote equality that do not impede but rather promote economic growth and political stability (Killick 2002). These need not involve the politically difficult compulsory redistribution of physical assets or income. Investing in quality universal education that will allow poor children to participate equally for jobs and opportunities, or in social protection measures (e.g. affordable health care) that will help moderate risk-avoiding incentives for poor households, may all help slow the growth of inequalities and increase and diversify economic activity.

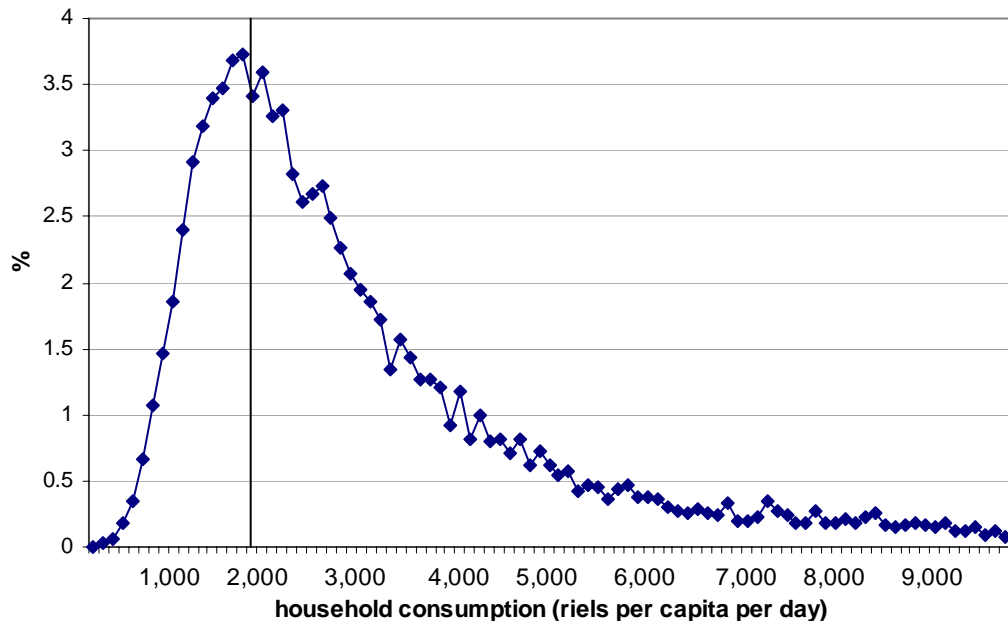
Vulnerability

Estimating levels of vulnerability

The reduction of the poverty headcount by between 10 and 15 percent over the period 1993/94 to 2004 is a significant achievement. However, a balanced interpretation of this trend requires that a number of contextual factors are taken into account. The first is that, as outlined in Chapter 1, Cambodia has over this period enjoyed some historically exceptional factors that have helped it reduce poverty. Improvement was relatively easy when starting from a very low base, to which were added the time-bound benefits of first quotas and now safeguards for Cambodia's garment exports. As the full effect of these one-off boosts to growth wears off, Cambodia will need to find new sources of growth and new ways to tackle poverty reduction.

The second factor that tempers the optimistic interpretation of the poverty trend is that while many have escaped

Figure 3.15: A large proportion of non-poor Cambodians remain vulnerable to poverty
 - Distribution of per capita consumption relative to the national poverty line, 2004



Source: CSES 2004.

poverty, a significant proportion of the non-poor remain vulnerable to risks that could push them back into poverty. One way of illustrating this graphically is by looking at the distribution of per capita household consumption (Figure 3.15). It can be seen that a significant proportion of the population is clustered around—either just below or just above—the poverty line. On the one hand, this is good news, in that it implies that many of the poor require only a small, steady increase in consumption to gradually lift them over the poverty line.

Conversely, however, it implies also that a great many individuals in 2004 recorded per capita consumption that put them only a short distance above the poverty line. While this means that they are classified as currently non-poor, it would take only a

small decline in the living standards of this group to move them back down below the poverty line. Nearly 7 percent of households fall within a 10 percent band above the poverty line; in other words, if the per capita consumption of these households were to decline by just 10 percent, the poverty rate would increase by 7 percent from 35 percent to 42 percent.

Sources of vulnerability

Households in Cambodia face a variety of risks which can, individually or in combination, push even relatively wealthy households into poverty, and poor households into destitution (World Bank 2005). Covariant shocks (that is, shocks which affect many households at once, and so are likely to overwhelm social coping

strategies based upon support within families and communities) include:

- Extreme floods and droughts. Floods in 2000 affected some 3.4 million people, causing crop failures and extensive damage to houses, livestock and property, damaged public goods in the form of infrastructure, and spread illness. Droughts in 2002 and 2004 also affected millions of people.
- Change in international trade affecting comparative advantage of Cambodian goods and services. The garment sector appears set to survive, although probably not expand, following the end of MFA, with an extra lease of life from the EU and US safeguards against Chinese exports. However, these are set to expire in 2008, and if not replaced, then many of those in the garment sector face unemployment. Tourism and construction are vulnerable to fears of SARS, avian flu, political instability and terrorism. Changes in the Thai economy or in rules on Khmer labor migration would make cross-border wage employment inaccessible for many, and less profitable for others.
- For poor urban squatter communities, evictions or fast-spreading neighborhood fires are important community-wide shocks.

Idiosyncratic shocks or individual-specific shocks which typically affect particular households include:

- Illness, which has been found to be a major factor in leading to land loss. Without a high quality, accessible, affordable public health system, illness, particularly an emergency illness or injury, can prove extremely expensive, both in terms of costs and foregone labor of the patient.

- More field- or farmer-specific crop failure (due to localized flood, drought, or pest damage) or illness or death of livestock.
- Theft or violence, including domestic violence.
- Life cycle events such as weddings, deaths, or births, each of which involves some combination of financial outlay, lost earning potential, and increased consumption needs. Some of these are at least partially predictable, making it somewhat easier to mitigate or cope with the impact, but some are not.

Vulnerability to these shocks is exacerbated, in some cases increasingly so, by: (i) the limited asset base and savings of poor households; (ii) the underdevelopment of financial markets for saving, borrowing or insurance; (iii) the lack of diversification in many rural households (and communities); (iv) heavy reliance on common property resources as either part of normal livelihood strategies or as safety nets, when access to or productivity of these resources is in decline; and (v) a lack of rule of law and lack of guaranteed access to justice in conflicts between the poor and wealthier or more powerful actors.