

## 7. Building an effective and responsive state

### Summary

- Previous chapters discuss the factors underlying improved economic performance and service delivery, and some of the factors holding back further progress. Underlying sector-specific challenges are a number of systemic problems, many of which are fundamentally about “governance”, that is, how the rules, institutions, and systems of the state operate and how the state relates to citizens, civil society and the private sector in terms of transparency and accountability.
- Ten years of strong growth performance only partially disguise some acute problems in economic governance. Quotas and safeguards have boosted Cambodia’s comparative advantage in garment exports; Angkor has driven tourism and construction. In other sectors, however, businesses struggle against many obstacles, the most important of which relate to costs imposed by state policies and institutions. If the economy is to become more diversified (Chapter 4) and slow agricultural and rural growth is to be accelerated (Chapter 5), it will be necessary to address insecure property rights; unproductive regulatory requirements; inconsistent application of the law; un-transparent public sector contract processes; and corruption.
- Significant further improvements in service delivery will require fundamental reforms of public financial management (PFM) and public administration (Chapter 6). The state needs to: (i) raise more revenue; (ii) improve budget execution so that funds are made available to operational units on time and in full; (iii) align public expenditures to policy priorities; and (iv) dramatically improve the pay and management of the civil service. The four-stage program for PFM reform is an extremely positive step, the implementation of which is critically important for long-term poverty reduction.
- Corruption is arguably only a symptom of the weaknesses noted above. However, the scale of the problem in the eyes of citizens, businesses and donors is such that it merits attention in its own right. Corruption keeps people poor; they have to pay (or pay more) for goods and services. Benefits intended for them are diverted, and they are dispossessed in conflicts with other groups. Services are under-funded as revenue collection is foregone, and investment is deterred and employment suppressed.
- While the end of armed conflict has transformed the opportunities available to the poor (Chapter 1), new threats to safety and property are emerging. Many people report a rise in violent youth gangs, driven partly by traffic in illegal drugs. There may, however, be some decline in domestic violence—though the evidence is mixed.
- Governance problems cannot be fully resolved through top-down reforms internal to the state. Harnessing the inputs of citizens—individually and as formed into groups—would help to create mechanisms for transparency and accountability that can provide a powerful force for reducing corruption and improving efficiency and equity (as seen in the health sector). In the absence of equitable rule-based systems for allocating resources and resolving disputes, peaceful collective action by citizens is a crucial mechanism for leveraging increased state responsiveness to the needs of the poor.

Previous chapters have examined how poverty appears to have been affected by the rate and pattern of economic growth and by improvements in access to public services such as health and education. This chapter attempts to pull out of this earlier discussion some overarching conclusions about the role of the Government in the development process, with a specific focus on its role in managing a long-term, sustainable process of poverty reduction.

In addressing this issue of state effectiveness, the second half of this chapter looks in particular at the relationships between the state and its citizens, both directly and as mediated through organized civil society. The assumption is that increasing the responsiveness of the state to the needs of its citizens improves its effectiveness in managing economic and social development. This responsiveness can involve improving the channels by which problems and preferences might be channeled from society and business to the Government (issues often addressed under the headings of participation, consultation or “voice”); and by establishing means to hold the Government accountable for using public resources honestly and effectively in the public interest.

### **Building state institutions and public sector capacity**

At the end of the Khmer Rouge period, there were no functioning state institutions in Cambodia. The basic structures of the state had to be rebuilt from scratch by the new government of the People’s Republic of Kampuchea (PRK), and for the next ten years this government had to deploy much of its limited resources on countering insurgency, with very little remaining available to invest in reconstruction or

laying the foundations for development. These rather fragile structures were subjected to a new set of pressures at the end of the 1980s, as external support was reduced and the PRK had to manage the transition to a market economy.

In the decade since the Paris Peace Accords, the newly-democratic Royal Government of Cambodia (RGC) has, with assistance from a number of development partners, undertaken a broad range of public sector reforms. These have helped produce state institutions better suited to managing market-driven economic growth and improving service delivery. Fundamentally, however, the RGC remains in many ways a post-conflict state. Human and financial resources available to the Government are severely limited. Institutional arrangements and the allocation of roles, resources and responsibilities often do not promote transparency, accountability or efficiency. The linkages between problem analysis, policy formulation and subsequent implementation are weakly developed. In particular, public financial management systems do not effectively link policy priorities to budget formulation, and weaknesses in budget execution undermine policy or results focus in actual allocations. In sum, the Government’s capacity to manage economic growth and deliver basic services is improving, but remains underdeveloped.

## **Creating an enabling environment for shared growth**

*“Cambodian public institutions are a disadvantage to the country, believed [by businessmen] to negatively affect the process of development. The perceived serious level of corruption and weak enforcement of contracts and laws incite a lack of confidence among business people, investors and the public.”*

- EIC 2005, reflecting the findings of a survey of 100 businesses.

*If you want to see it [corruption], just travel along this road at night and you will see the mobile check-points on the roads. I feel that all such checkpoints are leeches sucking our blood from every corner of our life. We would waste our time and spoil our goods if we would argue for our rights.*

- Participant in MOPS focus group discussion, Kampot.

Chapters 4 and 5 above addressed the sources of growth and trends in agricultural production and incomes. It is noted that Cambodia’s growth over the last decade has been heavily dependent upon narrowly-based, enclave-type economic development. Growth in garment exports (which accounted for 80.4 percent of total exports in 2005) and tourism were driven by factors unique to these sectors, while the remainder of the economy experienced much slower and variable annual growth rates. This has been particularly true of the rural economy in general and agriculture in particular—which is of obvious concern given the concentration of the poor in these sectors. Unclear property rights, compounded by untransparent management of state-owned lands, reduces the incentives for smallholders to invest in improving the productivity and profitability of agricultural production. The lack of rules-based management of common property resources such as forests and fisheries gives rise to a mix of

unsustainable open access exploitation and informal commercial capture and enclosure of high-value resources, neither of which is to the long-term advantage of the rural poor.

In this section we attempt to distil from the earlier chapters a number of challenges regarding the role of the state in fostering a poverty-reducing pattern of economic growth. Good economic governance facilitates productive, long-term investments in Cambodian goods and services, and helps to increase the flow of benefits that Cambodians, including poor Cambodians, obtain from these investments. If the Government deploys public investments, policies and regulation discerningly, it can help foster a pattern of growth within which the working poor can benefit through the creation of employment (either as waged jobs or as opportunities for family-based self-employment) in numbers and at income levels that sustainably improve the living standards of low income households. Broad-based growth, managed well, is also a requisite for tackling poverty through public spending on services, as investment and growth are required for increased revenue mobilization.

Poor economic governance, by contrast, creates a business environment in which the Government imposes costs on businesses and gives little in return, in which only a few can succeed by virtue of privileged access to government officials, and in which investments are weighted towards maximizing short-term returns, often involving unsustainable extractive practices.

In recent years, a number of surveys and studies have identified strengths and weaknesses in Cambodia’s investment climate and benchmarked this with regional or global comparators (World

Bank 2004a; World Bank 2004b; EIC 2005; World Bank and IFC 2006; Transparency International 2005). Although the “Doing Business” scores for 2005 represent a slight improvement on those in 2004, they remain extremely poor. Table 7.1 and Box 7.1 summarize the findings of these surveys.

At present, there is a widespread perception that government institutions and practices generally reduce, rather than enhance the competitiveness of businesses operating in Cambodia, and impose cost and time barriers to both domestic and international trade. Businesses consistently rate governance-related factors as more important constraints on business than the (serious) problems with underdeveloped transport infrastructure or very high energy costs (Figure 7.1).

If economic growth is to be the engine of sustainable poverty reduction in Cambodia, tackling improved economic governance would contribute to poverty reduction in Cambodia in a range of direct and indirect ways:

- By providing economic actors—from smallhold farmers to foreign investors—with security of property rights. This is directly important to the poor who suffer seriously if dispossessed from their land. Indirectly, it is also important as an influence upon economic growth and change; as lack of secure ownership creates a reluctance to invest in productivity-enhancing improvements in land (Chapters 4 and 5).
- For investors, lack of confidence in property rights, together with doubts about the impartiality of treatment under the law, often contributes to a

**Table 7.1: The business climate in Cambodia is far less attractive than the regional average**

Business operation / indicator	Cambodia	Regional average	OECD average
<b>Starting a business</b>			
Procedures (no.)	10	8	6
Time (days)	86	51	19
Cost (% p.c. GNI)	276%	42%	7%
Capital required (% p.c. GNI)	81%	118%	29%
<b>Dealing with Licenses (2005)</b>			
Procedures (no.)	28	17	14
Time (days)	247	153	150
Cost (% p.c. GNI)	607%	142%	68%

Source: World Bank and IFC 2006; [www.doingbusiness.org](http://www.doingbusiness.org).

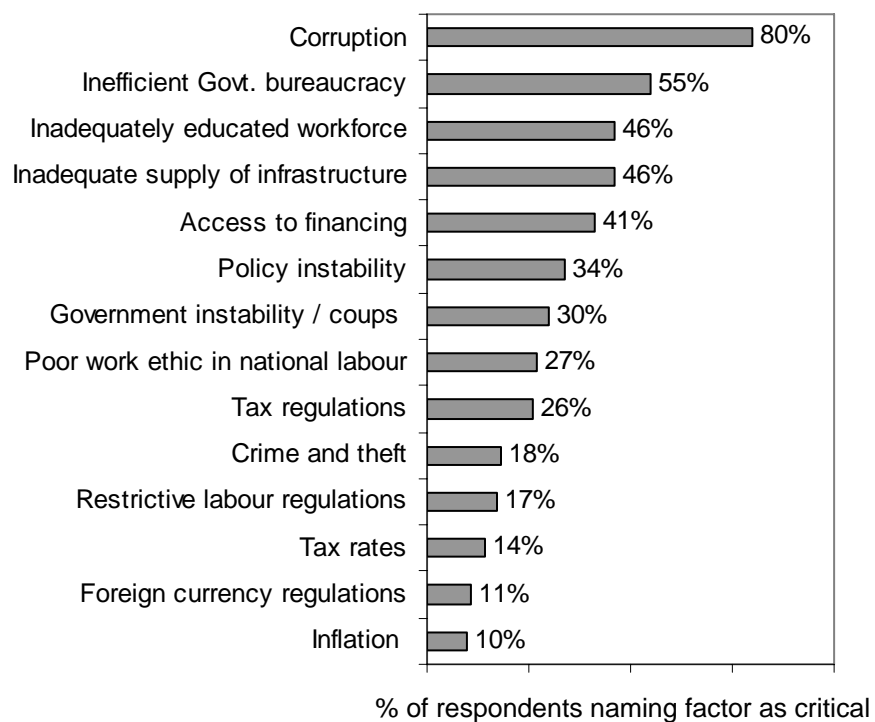
**Box 7.1: Cambodia continues to rank low in the eyes of investors**

EIC surveyed the chief executives of 100 companies operating in Cambodia as part of a global study of the business environment in a large sample of countries. In this survey, the points in Cambodia’s favor included: (i) a good mobile phone network; (ii) low inflation; (iii) stable exchange rates; (iv) relative simplicity of the tax code; and (v) a lack of discrimination against foreign-owned businesses. Overall, however, Cambodia was ranked 112 out of 117 in one index and 109 out of 116 in another. Allowing for the fact that some reforms enacted in the last six months have improved a few of the indicators (resulting in, for example, a large drop in export fees), the picture is still one of very serious constraints on Cambodia’s ability to compete for investment. Asked what would make the most difference to economic growth, respondents listed (in order) public administration reform, legal and judicial reform, and reforms of the financing and banking sector.

Sources: World Bank and IFC 2006; [www.doingbusiness.org](http://www.doingbusiness.org); EIC 2005; Cambodia Daily 30<sup>th</sup> September, 2005.

**Figure 7.1: Governance issues—corruption and bureaucracy—are seen as the most important obstacles to private sector development**

- 100 CEOs were asked to choose from a list of 14 factors the five most critical constraints on business in Cambodia



Source: EIC 2005 p. A53.

more all-encompassing reluctance to invest in Cambodia *per se*. If investors are reluctant to put money into Cambodia, jobs, wages and economic linkages through demand and supply will not develop fast enough to reduce poverty.

- The World Bank and EIC studies have highlighted that complex; overlapping and expensive regulation creates room for discretion and rent-seeking, which add to business costs. It may also create a disincentive for businesses to expand, as the transition from informal to formal sector necessitates an exponential increase in costs, which most small enterprises are not able to pay. Poor economic governance, in

other words, can keep businesses from growing.

- Economic governance promotes poverty reduction by ensuring that scarce public expenditure is used to maximum effectiveness for economic and social development. When contracts are signed with private sector companies for developing and/or managing infrastructure or public services, transparency and accountability help ensure that the nation is getting the best possible deal.

Progress has been made on these issues over the last few years. To begin with, Cambodia's accession to the WTO in 2004 will require a comprehensive range of changes in economic policy and practice. This is broadly understood amongst

Cambodian policy-makers. The policy agenda for private sector development has also taken up the findings of a detailed study of the investment climate in Cambodia (WB 2004). These were incorporated in the design of a reform program which aims to improve the regulatory environment, establish credible market-supporting institutions, and increase transparency and competition in the administration of public-private partnerships. There are some initial signs of success in terms of reduced export fees—and some upward movement between 2004 and 2005 in Cambodia's scores in the "Doing Business" surveys. However, as the scores and ranks in the most recent surveys show, in 2005 Cambodia still suffers from a number of serious problems which prevent Cambodian firms and workers from achieving their potential, and which hold back the expansion and diversification of the Cambodian economy as a whole.

### ***Making Government administration and spending effective and pro-poor***

Over recent years, increased budget allocations and disbursements to the social sectors have enabled improvements in the delivery of health and education services. However, levels of health and education spending per capita remain extremely low and the flow of funds unpredictable and heavily back-loaded, making it hard to manage available funds in an efficient or effective manner (Chapter 6).

The Royal Government faces a number of inter-linked challenges in reforming public financial management (PFM) and public administration systems and practices so that they are better aligned to government policy objectives—such as poverty reduction. While RGC arrangements have

served well to control spending and so contribute to macroeconomic and fiscal stability, it fails to deliver resources to spending agencies on a reliable basis. A review of PFM in Cambodia in 2003 (the Integrated Fiduciary Assessment and Public Expenditure Review or IFAPER) identified four broad areas in which government systems needed to be improved in order to protect public funds from misuse and to ensure that they are used effectively to realize the Government's goals (World Bank and ADB 2003)<sup>1</sup>.

The first challenge is to *improve domestic resource mobilization*. Although an increase in the figure for 2003, Cambodia's resource mobilization is, at 11.7 percent of GDP in 2005<sup>2</sup>, amongst the lowest in the world, constraining the ability of the Government to invest in economic and social development (and contributing to the low level of ownership of development policy, which in the absence of domestic funds is financed to a large degree by ODA). Progress is being made; actual tax collections in 2004 surpassed the budget target, due in part to one-off measures but also suggesting some success in fighting tax evasion (including smuggling). Actual non-tax revenue collection relative to GDP has deteriorated, however, worsening from 2003 to 2005<sup>3</sup>.

The second challenge for pro-poor PFM is to *improve budget execution, cash management and financial control systems*. The system of cash-based payments has emerged as a major constraint, and a

<sup>1</sup> It should be noted that government officials, particularly those from MEF, were closely involved in the analysis and policy recommendations included in this study.

<sup>2</sup> Projected 2005 data as of January 6, 2006.

<sup>3</sup> RGC and IMF estimates, December 2005. See also Oum 2004 for discussion of revenue relative to budget projections.

significant factor in the problem of severely delayed and unpredictable release of funds. Typically, about one-third of annual recurrent expenditure is not posted until the last month of the financial year. This back loading undermines effective operational planning and leads to a build-up of arrears. It also contributes to a lack of transparency which increases fiduciary risk.

While the four priority sectors of health (MOH), education (MOEYS), agriculture (MAFF) and rural development (MRD) have suffered less in recent years, they too are nonetheless still affected<sup>4</sup>. The problems of late and unpredictable release are compounded by the centralization of commitment authority in the Ministry for Economy and Finance (MEF).

The third aspect of PFM reform that requires improvement is in the *alignment of the formulation and management of public expenditure policies to poverty reduction objectives*. Since the late 1990s, there has been a very positive shift in budget allocations away from defense and security and towards social sectors that serve to improve wellbeing and increase human capital. The Government has made consistent commitments to increase funding for four priority ministries. There have been significant successes: between 1998 and 2001, education sector spending doubled, while health spending nearly tripled. Despite this, however, actual spending in these sectors still fall short (by a greater or lesser amount) of the sums allocated in the Budget Law, due to the problems in budget execution mentioned already<sup>5</sup>.

<sup>4</sup> See Oum 2004 for discussion of budget execution during the first 11 months of 2004.

<sup>5</sup> The budget deviation index (average of 2002-04) has varied considerably amongst the four ministries, from -19 percent (Rural

Furthermore, while allocations to key *productive* sectors (notably agriculture) have now started to increase, they remain severely under-funded<sup>6</sup>. Over the medium term (for example, the period covered by the 2006-2010 National Strategic Development Plan), it is unlikely that increased revenue mobilization will be sufficient to increase funding for the relevant economic sector ministries while simultaneously maintaining and further increasing funds allocated to health and education (which may have increased significantly, but still remain far below the minimum level necessary for real effectiveness—see previous chapter). To increase the funds available to agricultural and rural development and rural infrastructure (both social infrastructure, such as water and sanitation systems, and economic infrastructure, such as roads and water control systems) will thus require further cutting non-priority budget items and/or reducing administrative overheads.

To increase the stock of essential physical capital will require not only cutting non-critical uses of public expenditure but also an appropriate legal and regulatory framework within which to administer public-private partnerships. Given that the engagement of the private sector on public sector construction projects is essential, it becomes imperative that these contracts are awarded through a transparent process that ensures that taxpayer (and donor) money is used in the most efficient and cost-effective way to deliver high quality

Development), through -11.4 percent (Health) and -10 percent (Agriculture) to -4.7 percent (Education).

<sup>6</sup> Budget expenditure for MAFF has increased from 3,016 bn riels in 1998 to 5,691 in 2004; for MRD, from 3,783 bn riels to 64,741 bn; and for MPWT from 12,248 bn riels to 99,214 bn. The Ministry of Water Resources and Meteorology (MOWRAM), created in 1999, had a budget expenditure of 17,859 bn in 2004.

public goods. This is both an issue for how the Government promotes long-term, stable, private sector development (as described above) but also an issue for public financial management. The draft law on concessions currently under review lays out a good framework for managing state-issued contracts with private sector actors, including public-private infrastructure partnerships.

Rationalizing PFM with poverty reduction objectives in mind requires not merely reallocation of funds between sectors or ministries; it also requires increasingly effective poverty focus in sector policies and sector planning processes. Substantial progress in this direction has already been achieved in education (Chapter 5)<sup>7</sup>. There is also considerable room to strengthen the links between PFM and (already-existing) poverty reduction goals through geographic targeting of public spending to spatial concentrations of poverty.

The fourth and final challenge is to undertake a *comprehensive reform of civil service pay and employment policies* to ensure that public sector employees are on the one hand well motivated and managed, and on the other held accountable for performing their jobs—and so deliver services to citizens in an efficient, equitable and poverty-reducing manner. At present, the vast majority of public sector employees receive extremely low salaries; inevitably, they take a second job (often during official working hours) or turn to bribery to get by<sup>8</sup>. Low salaries and motivation are compounded by poor

allocation (too few service delivery staff in remote areas) and management, resulting in very weak linkages between merit (job performance) and salary.

The Government laid out a framework for increasing the efficiency and effectiveness of the public sector in the National Program for Administrative Reform (NPAR 2002-2006), and specifically for public sector pay policy in sub-Decree 98. Donors have now accepted that they have an important role and responsibility in this process of salary reform. The widespread use of ODA-financed salary supplements has created a pattern of complex and inefficient variations in pay rates which pull the best staff towards projects that donors want to implement, making it much harder for government institutions to manage their human resources on a merit-based, Ministry-wide (let alone Government-wide) basis. In recent years resolving this issue has been incorporated in the objectives of the aid harmonization and alignment agenda (Box 7.2).

The RGC, with support from donor partners, is currently engaged in thinking through the elements of improved civil service management and how to combine these elements in a coherent strategic approach. Ultimately, this will need to incorporate a broad range of complementary reforms including merit-based controls on hiring and promotion, integrated with the budget process; improving civil service pay, with more differentiation to attract and retain senior managers and staff in priority service delivery ministries; and rationalizing deployment, so that the sectoral and geographical spread of public sector employment reflects service delivery priorities. Some progress is being made—increases in average salaries have occurred and the Government has announced plans for further increases—but much remains to

<sup>7</sup> See also WB 2004, p. xii.

<sup>8</sup> Public sector employees suffer not merely from very low official wages, but also from partial and late payment of these wages due to the pervasive problem of budget execution. In the first 11 months of 2004, salary payments were only 58 percent of what was budgeted for the year. Oum 2004.

**Box 7.2: From salary supplements to pay reform**

The Government's Action Plan for Harmonization and Alignment of ODA addresses the pressing need to phase out *ad hoc* donor salary supplements and redirect these resources towards supporting a proper, Government-led strategy for reforming civil service pay and employment. It is recognized, however, that to manage this transition well requires certain preconditions and that government institutions vary in the extent to which they meet these preconditions. There is thus an agreement to adopt a "two speed" strategy. Each Ministry first assesses the current situation by conducting (through the relevant TWG) an inventory of the rates and practices used by donors in that Ministry. The more advanced ministries will utilize the Priority Mission Group (PMG)/Merit-Based Pay Initiative (MBPI) approach, which requires that donors phase out salary supplements, "pooling" their support to fund merit-based schemes. In other sectors, Ministries and institutions that are not yet ready for pooling funds will first rationalize salary supplementation at the institutional level, agreeing on a strategy for harmonizing and aligning these rates and practices. One PMG/MBPI scheme is already in place (in the MEF) and another four Ministries are considering such schemes. The remaining sectors and their supporting TWGs are required to begin moves towards the second approach.

be done if the Government is to be able to meet its targets for service delivery and economic and social development outcomes.

On all four fronts, the 2003 public expenditure review found that there had been little progress since the previous such study in 1999. Since 2003, however, the Government has developed a detailed action plan for improving PFM (the Public Financial Management Reform Program or PFMRP) and an organizational structure (a Reform Committee within MEF and a Government-donor PFM Working Group)

to support its implementation. This reform program consists of four stages of sequenced "platforms" for improving the effectiveness of PFM (Box 7.3).

The PFMRP has in turn been broken down into action plans with regular reports, the first of which shows improvement, but also identifies numerous areas in which progress needs to be accelerated<sup>9</sup>. A number of donors have demonstrated their support to this program by pooling their support to PFM reform in a Trust Fund for MEF to use to implement the PFMRP.

**Box 7.3: The PFM Reform Program offers a realistic agenda for aligning spending to policy**

In December 2004 the Government launched the PFMRP. This consists of the following four "platforms":

- *Platform 1:* The budget is made credible because it delivers resources predictably and reliably to budget managers (which provides the basis for accountability by improving budget execution);
- *Platform 2:* Initial improvements are made in internal control and holding managers accountable (which enables a focus on what is done with resources by providing better data, effective discipline, and greater internal transparency);
- *Platform 3:* Improvements are made in linking policy priorities and service delivery targets to budget planning and implementation (which enables greater accountability for performance); and,
- *Platform 4:* Accountability and review processes for both finance and performance are integrated (which would result in greater external transparency and provide a solid basis for deconcentration).

Source: MEF 2004.

<sup>9</sup> MEF 2005; World Bank 2005; MEF 2004.

### ***Petrochemical revenues and poverty reduction***

There is now a good possibility that the existence of large-scale reserves of oil and natural gas will be confirmed to exist in Cambodian territorial waters (Box 7.4). This has the potential to dramatically improve the level and effectiveness of state spending on economic and social development. Managed well, a major revenue stream from offshore oil and gas could finance infrastructure investments, public sector salaries and services and dramatically increase the rate of poverty reduction. Such revenues could help Cambodia escape least-developed country status in a much shorter time frame than has previously been thought possible.

However, international experience suggests that such petrochemical wealth may equally well result in a “resource curse” that actually *retards* development and poverty reduction. The main reason is that a government that receives all the money it needs from oil does not feel as accountable to its citizens (taxation becomes irrelevant) and does not have the necessary incentives to do the hard work of fostering broad-based economic growth. These problems are more pronounced in countries with low state capacity and relatively weak formal institutions, and at their worst in post-conflict countries in which the levels of transparency and accountability are very low and state-society relations have been shaped by a tradition of authoritarianism and extraction. Internationally, the discovery of oil has on average *reduced* national growth rates, not raised them. Nigeria, where an average of \$12 billion per annum in oil wealth over a thirty year period has fostered pervasive corruption and done nothing to promote growth or reduce

poverty is the most obvious but far from only example.

#### **Box 7.4: Early estimates of Cambodia’s oil and gas resources**

It has yet to be proven that the recent findings of oil and natural gas in Cambodian offshore waters are commercially viable. However, the indications are sufficiently strong that it is now important to start considering the legal, institutional and policy arrangements that need to be developed to ensure productive use of these revenues, should they be proven. So far, four exploratory wells drilled in Block A (one of six Blocks in Cambodian waters) have all produced oil and gas. Provisional estimates are that this explored portion of Block A contains 400-500 million barrels of oil and 2-3 trillion cubic feet of gas; total Cambodian reserves may quite possibly be as high as 2 billion barrels of recoverable oil and 10 trillion cubic feet of gas. Depending upon the world price of oil, Cambodian reserves may be contributing annual revenues of US\$2 billion per annum—several times the current level of domestic revenue and ODA combined—within perhaps five to ten years.

*Source: Valley et al 2006.*

Apart from the distorting effect that “unearned income” from minerals can have on the political economy of a country, there are further problems commonly associated with oil wealth. The first is so-called “Dutch disease”. Oil and gas exports enable a country to maintain a constant exchange rate, while higher public spending, fueled by the inflow of petrochemical revenues, creates domestic inflation which makes other sectors of the economy (e.g. agriculture and manufacturing) uncompetitive in export and perhaps even domestic markets. Governments often come to depend upon oil revenue, even borrowing heavily against it, with serious consequences when the price of oil falls. Finally, the oil and

gas industry tends to be an enclave industry with few linkages to other sectors of the host economy (especially if located offshore and in a poor economy which cannot produce the technology- and knowledge-intensive goods and services the industry requires).

There is thus good reason to be cautious about predicting the impact of any future stream of petrochemical revenue on the Cambodian economy and the prospects for Cambodia's poor. Carefully designed institutional mechanisms that promote transparency and accountability in the use of this national asset will be critical if it is to help rather than hinder Cambodia's escape from the ranks of least-developed nations (Vallely *et al* 2004; UNDP 2006). The potential for a dramatic increase in revenues adds further urgency to the need for the strengthening of public financial management as described above—and sharpens the case for improving transparency and accountability in public life in order to combat corruption.

### **Corruption**

The problems of Cambodia's weak state institutions, and the resultant low levels of state effectiveness and responsiveness to the needs of the poor, are felt most directly and acutely in the form of corruption. As in English, corruption in Khmer can cover a range of practices and value-judgments, but it is important to recognize that it *is* seen as a problem, and a critically important one, by citizens, businesses and government policy-makers (see Nissen 2005; CSD 2005, World Bank 1999, World Bank 2004). Indeed, as Box 7.5 makes clear, popular understanding of why and how different forms of corruption occur is quite sophisticated.

Those institutions seen as most corrupt were the customs service, courts, police

and tax collection (Figure 7.2). For all but the last of these institutions, surveys suggest that corruption has worsened between 2000 and 2005. This perception of worsening corruption may, however, be due to changing values amongst those surveyed, that is, it may reflect a declining willingness amongst respondents to accept corruption as a “fact of life”, rather than (or as well as) an actual increase in the incidence of corruption. It is worth noting that the majority of respondents in the 2004 survey rejected the notion that corruption becomes acceptable because it is so common, or that a small salary entitles a civil servant to bribes (CSD 2005).

Attempts to quantify the prevalence and impact of corruption in terms of direct costs to households suggests, contrary to common perception, the *direct* costs of corruption (in terms of bribes that are paid) falls more heavily on wealthier and urban groups than poor groups. This however reflects the fact that the rich and urban are more likely to make use of services, which increases the likelihood that they will (have to) pay a bribe. For the poor, services may simply not be accessible; or, the cost of the fee required (either the formal fee or the bribe) means that they are excluded from obtaining the service, rather than obtaining it at an inflated cost.

The CSD survey in 2004 suggests that on average each household pays US\$24.5 per annum on bribes—or between 1.4 - 2.2 percent of total expenditure, or 5 percent of total income<sup>10</sup>. The composition of this total—in terms of average amounts paid to different elements of the state—is summarized in Figure 2, along with the

<sup>10</sup> World Bank 2000 found 2.2 percent of income; CSD 2004 found 1.4 percent of expenditure and 5 percent of reported income.

**Box 7.5: Popular accounts emphasize the ubiquity and severity of corruption**

Participants in all nine sites in the MOPS research talked about the impact of corruption upon their livelihoods and their prospects of being able to work their way out of poverty. Many noted the number of ways in which corruption impinged on their daily lives—and how the poor always lose when bribery determines the outcome of state decisions:

*Students have to bribe the examiner during examination for looking at other students' answer sheets or hidden documents. Policemen or military police are the persons who are running the illegal gasoline trade. When we arrest thieves that steal our fishing nets, and send them to the police station... only about two minutes later the thieves are released because of money and power. The poor are the victim and always wrong, even though they are right, because the poor do not have money and power. Kampot*

*Another type of corruption is when the village authorities take money that should be spent for the collective interest and do nothing for the villagers' benefits. Also, corruption means that there are many checkpoints along the road... that is, many police, customs or people equipped with guns and known to have authority to demand people to pay when carrying goods or even passengers through their areas. Battambang*

There is also a clear understanding of the structural nature of much corruption, and how those at the bottom pay the cumulative cost for leakage or reduced profit margins at each level of the hierarchy:

*We learn corruption is committed by all actors involved from the top to the bottom... Each key person takes bit by bit from the top until at the bottom level there is hardly anything remaining. Kampong Thom*

The cumulative effect of pervasive corruption may be to disillusion citizens with regard to the Government—or to cause them to lose faith in the ability of political leaders to effectively control corruption.

*If we have so many cases of corruption, maybe it is not a good government... We heard that the government announced they would remove all military staff in the forests except at the border areas... but since then we saw a huge increase in the number of military and related authorities in our forest... We asked ourselves 'is the society clean and pure?'—and finally could find an answer that it is not, because there are many cases of corruption. Kampong Thom*

Source: CDRI 2006 (forthcoming).

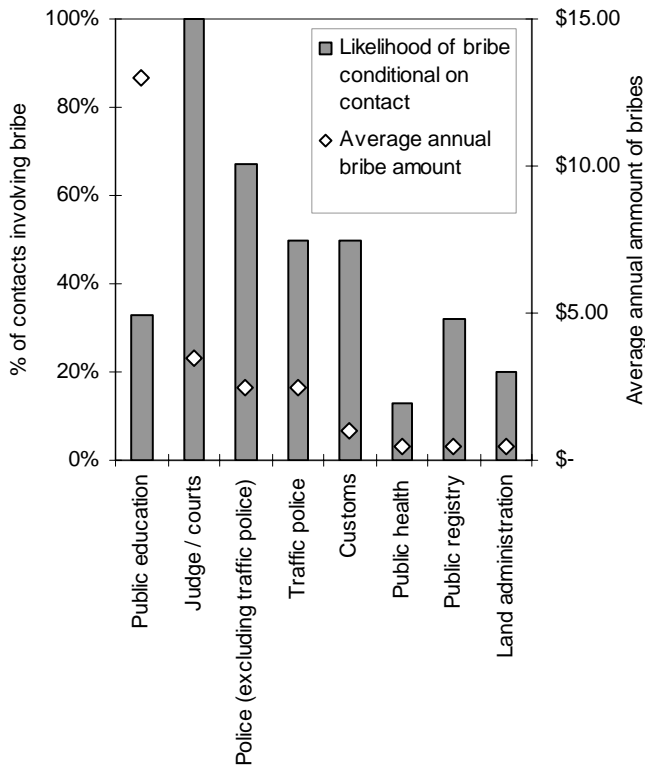
probabilities that a given interaction will involve paying a bribe.

The direct cost of bribes paid is, however, a very incomplete measure of the impact of corruption on the household economy. In part, it fails to capture the real impact of corruption because, as mentioned above, an inability to pay the bribe prevents the poor from obtaining access to essential basic services. However, it also reflects the effects of corruption that are not measurable in terms of bribes paid at the household level. Some common forms of non-bribe corruption costs would include, for example:

- benefits that should have reached households but were diverted by authorities;
- an increase in the prices paid for consumption or investment goods;
- revenue collection that is forgone from public finances and therefore unavailable to finance service delivery;
- the dispossession of poor and/or poorly connected families from access to resources that arises when local authorities sell off as private property forests or waters that have customarily been accessible as common property resources; or

**Figure 7.2: Corruption is most pronounced in the courts—but corruption in education has the greatest direct impact**

- Probability of paying a bribe and annual total bribes, by institution, 2004



Source: CSD 2005.

- the deterrent effect of corruption, in terms of the way in which corruption costs effectively reduce the competitiveness of Cambodian businesses, deterring foreign investors, and creating disincentives for successful informal sector enterprises to formalize, at which point they become liable to a range of cumbersome regulatory requirements and attendant requests for payments to “facilitate” approvals). This will act to slow economic growth, or at least to ensure that growth proceeds only in a few sectors in which the cost of corruption can be offset by unique (and

often time-bound) advantages such as MFA quotas or, now, OECD safeguards policies. By imposing unproductive costs on business, corruption reduces the number of jobs available and the salaries paid, and reduce the rate at which the economy grows and diversifies.

The cumulative effect of all these manifestations of corruption is extremely hard to calculate with any degree of precision, but is certainly significant. Although corruption is arguably merely a symptom of more fundamental problems with regard to state accountability and effectiveness, it is a critical symptom that must be tackled if Cambodia is to develop. As has been agreed between the Government and its external partners, an anti-corruption law is an essential prerequisite; but equally important, this law must then be enforced through credible, independent institutions.

**Post-conflict human security**

One of the core state functions which determine the legitimacy of a government in the eyes of its citizens, and an essential but often marginalized element of “development” policy, is that of ensuring that citizens enjoy an acceptable level of safety from crime and violence. Maintaining effective law and order while ensuring just treatment that respects due process and civil rights is an essential part of what any government should do. It is, however, particularly hard to achieve in post-conflict societies in which institutional capacity and accountability amongst the police, security and justice

services is limited; formal legal channels often cannot provide equal access to justice for all; small arms are widely available; and sustained exposure to violence as a means of surviving, resolving disputes and getting ahead has weakened the effectiveness of social sanctions against violent behavior.

As mentioned before, Cambodians are manifestly glad that peace has finally been achieved. During the 1980s (and in some places early- to mid-1990s), the conflict between the Khmer Rouge and the Government, in which civilians were potentially at risk from both sides, was an unmeasurably serious constraint on development. The final resolution of that conflict has freed up people to travel, to choose their own occupations, and to accumulate investments and possessions without the fear that they would be destroyed or seized by combatants (Box 2, Chapter 1).

The Government also deserves credit for taking concerted action since the late 1990s to collect and destroy the small arms that were in widespread circulation. Reducing the prevalence of military-purpose weapons is not a complete solution to the problems of crime and violence, but it is a major contributor.

However, Cambodia still faces serious challenges with regard to ensuring human security (Box 7.6). Fieldwork in the MOPS and Tonle Sap PPA studies revealed ubiquitous concerns with the emergence of youth gangs; drug dealing and drug use; and on occasion the use of violence by locally powerful actors, sometimes in collusion with local authorities, to exclude local communities from newly- and illegally-privatized lands and resources.

It is also important not to overlook the intra-household dimensions of human

security, and its role as a factor causing and arising from poverty. Domestic violence has been recognized as a serious issue since the mid-1990s. Violence against women remains a major problem in Cambodia, arguably reflecting both the lower social status of women and a background change in values in which decades of violence and trauma have made the use of violence in a variety of contexts more normal—both in the sense of “more common” and “less shocking”—and subject to less (or less effective) social sanctions (Zimmerman 1995). A recent study on domestic violence for the Ministry of Women’s Affairs (Indochina Research 2005) found that 64 percent of respondents knew a husband who had been physically violent toward his wife; 23 percent of women reported suffering violence from their husbands (an incidence very similar to that recorded in the 2000 CDHS). In a separate study on local dispute resolution practices, both community respondents and Commune councilors identified domestic conflicts, including domestic violence, as the second most common form of conflict at the village level (CAS 2005). Similarly, in research on access to justice, Commune authorities estimated that 48 percent of the cases brought to them were related to domestic violence. In Communes where actual case data was collected, domestic conflicts (including divorce and domestic violence) accounted for between 37 percent and 53 percent of total cases (UNDP 2005).

The survey for MOWA also found significant acceptance of domestic violence, with around a third of respondents agreeing with statements that it was “sometimes acceptable”.

Domestic violence—and violence in general—is a poverty issue for several reasons. Firstly, a broad definition of

**Box 7.6: Crime and violence are serious—and perhaps growing—problems**

There is some variation in perceptions of trends in crime between research sites in the MOPS research. In two villages, participants felt security was quite good, with only petty crimes, and women could walk safely at night. For most, however, there was considerable concern.

*Theft and robbery are something new in our village. Before we felt safe to leave our cattle or buffaloes in the fields very far from the village without guarding them for as long as one or two months, but now we cannot do so, and have to accompany our cattle or buffaloes all day. Dong Kda, Kompong Thom.*

The most commonly cited problems were theft of unattended assets such as fishing nets or cattle, banditry, and, finally, gangs of young men picking fights with other gangs at village celebrations at which there was drinking and dancing. This social phenomenon of rural gangs has emerged only recently (different villages traced its emergence in their locality to no earlier than between 2000 and 2003) but has grown very fast and appears to be a worry throughout much of the countryside.

*Teenagers in this community are likely to provoke conflict amongst themselves. Even a tiny problem can cause fighting. They don't use drugs yet—normally they just provoke a conflict during community ceremonies. They carry knives and chains along to be used during fighting. Dong Kda, Kompong Thom.*

Villagers had a number of ideas, all fairly consistent between the nine communities, about what caused violence and crime. Theft was seen as directly related to poverty; bad harvests in particular had pushed some families into destitution and petty theft was understood (if not tolerated) as one element of their survival strategies. Perhaps the most consistent theme, however, was that the rise of gangs of male youths is associated with increased exposure to “foreign” culture and the glamorization of gangster life, either through television or directly when working as migrant laborers in Thailand.

*A group of young gangsters has been created since 2000, which was a period when young people went out to search for jobs nearby on the Cambodia-Thai border. They copied this bad behaviour from the people living in Thailand... Those who think of themselves as young gangsters always provoke conflict with others outside the village, especially during special events such as ceremonies. Andong Trach, Battambang.*

Sometimes, however, the undesirable external elements blamed for problems may be from no further than Phnom Penh (as in Dong Kda in Kompong Thom, where young village men were afraid to attend local celebrations for fear of becoming embroiled in fights with a group of young men from Phnom Penh who were working locally).

The final factor seen to contribute to poor security of property and person was the ineffectiveness of local authorities. People complained that police did not appear to make efforts to prevent crime. If villagers caught a suspected thief or gang brawler and turned them over to the police, they were generally released after they (or fellow gang members) paid a bribe, or the victims would be asked for money to keep the suspect in custody. In particular, it was mentioned that the police go out of their way to avoid having to sanction the children of the rich and powerful. When local authorities did however take action (as occurred in Babaong in Prey Veng), they appear to have been successful.

Source: CDRI 2006 (forthcoming).

poverty as absence of wellbeing recognizes multiple dimensions of deprivation, of which exposure to physical violence is clearly critical.

Secondly, there are strong connections (in both directions) between domestic violence and material poverty (Box 7.7). Participatory research reveals that poverty

**Box 7.7: Poverty and domestic violence are mutually reinforcing**

In the MOPS research, domestic violence was perceived to be more common in poor households. This was seen in part because of the stress that poverty puts on relationships, and in part because the moral failings and patterns of behavior (such as drinking and gambling) that account for the poverty of some men and their families, also account for domestic violence.

*You know, when people are poor they are moody and tend to commit bad deeds easily—go to spend money on unnecessary things like wine or gambling. And when their wife advises them to stop, they just hit her. (poor group, Kompong Thom).*

It was also felt that conflict and violence within the family causes or perpetuates poverty as the offender often destroys the families' possessions—or the home itself—in the course of their violent rage.

*Violence results in poverty, because when they commit violence, they destroy their plates and pots, burn their house and clothes and other people just keep watching them because they can do nothing to help. Dang Kda, Kompong Thom.*

*In the last two or three days there was a conflict between the husband and the wife in a family... and the husband just burnt out their small hut... Domestic violence results in great loss of property. Female participant, fell into poverty group, Dong Kda, Kg Thom.*

Apart from the effects on a family's meager assets, the effect on children's education was also cited in two villages. Domestic violence was also indirectly but strongly related to poverty in people's minds because it was often seen to result in divorce or separation, and the downward decline into poverty often experienced by a newly-single woman (who would generally end up looking after the children).

*There are a lot of things lost when domestic violence happens. Amongst these, children are not able to study because they feel ashamed and also are taunted by others. (Male youth, Krasaing village, Battambang).*

*About ten or twelve years ago, my farther liked drinking wine and always hit my mother when he was drunk. During conflicts, my two siblings and I often ran away... We started living independently two years ago. Because of those frequent conflicts I did not go to school but now I am the breadwinner, I can send all my younger siblings to school.*

22-year old woman, female youth focus group discussion, Dong Kda Kompong Thom.

Source: CDRI 2006 (forthcoming).

is regarded as a contributory factor in domestic violence. The frequency and impact of domestic violence is seen as greatest amongst the poorest groups. Causation also runs in the opposite direction; in both the MOPS research and the Tonle Sap PPAs, respondents see domestic violence as having clear and direct impoverishing impacts on households as possessions are destroyed, medical costs incurred, and income foregone. It also contributes to the perpetuation of poverty between generations, as children's schooling is disrupted. Just under a fifth of those who reported experiencing violence from their spouse said their children missed school

between 5-20 times in the last year (Indochina Research 2005).

If domestic violence is clearly at alarmingly high levels, establishing trends is somewhat more complex. As with survey-based assessments of corruption, it is not clear if the appearance of static (or rising) incidence reflects actual trends or the greater willingness of respondents to acknowledge and tackle the issue, or perhaps, a mixture of both. Cambodian communities and local authorities are increasingly identifying domestic violence as a significant conflict at the local level which they are struggling to resolve. Demand for resources to tackle domestic violence is increasing at the local level,

indicating that domestic violence is no longer seen as a family affair but an issue of law and justice. The SEILA Gender Mainstreaming Evaluation Report found that domestic violence prevention was the number one “gender request” made by Commune/Sangkat Councils under their 2004 Commune Plans, accounting for around a quarter of all requests (Brereton 2005:47-48).

Interestingly—and in contrast to the general impression of static or perhaps increasing domestic violence derived from surveys—the participatory research in the nine MOPS villages resulted in a fairly consistent impression, from both male and female respondents, of an improving situation (Box 7.8). This was seen by those questioned as being a result of education and legal campaigns (which have, broadly, involved effective partnerships between the relevant Government ministry and civil society organizations). The difference between surveys and qualitative research with respect to the nature of trends in domestic violence is one that will need further exploration.

### **Voice, participation and social accountability**

Comparative international history suggests that improvements in governance and resulting accelerations in economic and social development have involved both the initiative of far-sighted leaders and reforms initiated from within the state, and organized demand expressed by civil society groups, which exerted pressure for representation of their interests in policy-setting. In Cambodia as elsewhere, enhancing the role of the

#### **Box 7.8: Qualitative research suggests a decline in domestic violence in some villages**

In most of the MOPS study villages, participants (both male and female) reported that the incidence of domestic violence had declined significantly in recent years. The improvement was described as dramatic—and remaining cases of domestic violence as residual—in six of the villages, and as less dramatic but still notable in another two. In the remaining village, violence was described as frequent, without comment on whether there was a trend. This improvement was attributed to the impact of social and legal awareness campaigns, facilitated by the spread within the villages of television and radio (which have carried many messages tackling domestic violence issues). In five villages, mention was made of human rights training workshops on domestic violence, delivered by NGOs. Participants appeared to credit these campaigns with considerable effectiveness, to the extent that those men in the village who persisted in attacking their wives were said to be those who had not attended the trainings. Also important was the perception of stronger laws against domestic violence and of local authorities increasingly willing to intervene (which is itself a product of public education and legal awareness campaigns). The situation is still far short from ideal; the emphasis of local police and authorities, as in much of “living law” dispute resolution at the local level in Cambodia, is on reconciliation and relatively symbolic punishment through a few days confinement in jail, rather than the strict application of the law. Nonetheless, the combination of new laws and active rights education appears to have led to an improvement upon the previous situation, when domestic violence was clearly seen as a family matter in which it was difficult or impossible for outsiders—both other villagers and local authorities—to intervene.

*Before, when a husband hit his wife, the wife didn't dare complain at the police station, but now, after people supporting women's rights have been here, the wife claims her rights at the police station to have him arrested and warned.* Ksach Chiros.

*Now, we have much less violence in our area than the past five years because some actions against this misconduct have been taken over the same period. For example, the authority arrests the abuser and detains them at the police post for one or two days, so the abuser and those people who tend to abuse are afraid and stop doing wrong.* Dang Kda, Kompong Thom

Source: CDRI (forthcoming) 2006.

state as a manager of long-term changes which reduce poverty will require more than just technical solutions in the form of new institutional arrangements and policy processes within the Government. Citizens and organized civil society—including business associations—have key roles to play, both as autonomous actors in promoting economic and social development, and as interlocutors with the Government.

### *Channels for citizens' participation*

Improving state effectiveness thus requires a combination of “supply-side” reforms (public administration and public financial management reforms, institutional capacity building, etc.) and “demand-side” developments (increasing the capacity of Cambodian citizens to participate in policy debates and make informed, reasoned and effective demands for improved government performance). Citizen demand, whether expressed either individually or collectively through an organization, can help to make the Government and state more accountable and in doing so drive improvement in state effectiveness and development outcomes.

As in other democracies, Cambodia's framework of accountability derives from the Constitution and is based on three key relationships: firstly, between citizens and the State; secondly, between the elected officials and the public sector employees or contracted private sector companies responsible for delivering essential services to citizens; and, thirdly, between those who deliver services and the citizens who use them (Figure 7.3).

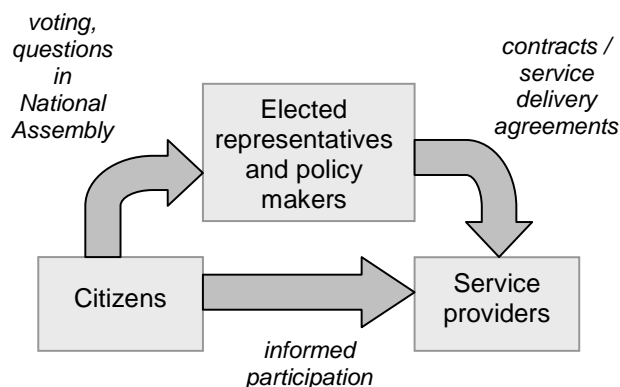
In other words, citizen demand can be channeled either indirectly, as citizens vote for politicians who can

deliver results (e.g. job-creating economic growth or improved services) by holding service providers accountable; or directly, by giving citizens and civil society organizations the information (e.g. on budget allocations for schools or clinics; or on official minimum standards for service delivery) and control (e.g. participation in health centre management committees or school boards) that they need to hold service providers accountable.

### *The evolution of civil society*

Relationships between the state and civil society in post-conflict Cambodia—and the possibilities for citizens to channel demands along the lines sketched in Figure 7.3—are complicated by the fact that the formal institutions that might provide the basis for defining and pursuing an inclusive national identity and development vision are still somewhat underdeveloped in both political *and* social spheres. Just as the Cambodian state had to be rebuilt from scratch after 1979, so too Cambodian civil society has had to recover from deliberate attempts by the Khmer Rouge to destroy any social institution or form of identity—the family, Buddhism, locality or region—that might compete with the party-state for loyalty. Although at a basic level these institutions have been

**Figure 7.3: Channels for citizen demand may be either direct or indirect**



Source: World Bank 2003.

rebuilt, decades of conflict have clearly resulted in a depleted stock of social capital (Colletta and Cullen 2000)<sup>11</sup>. Attempts to mobilize local development initiatives using the language of groups, cooperation, solidarity or collective action, must also contend with the negative associations that these words acquired under the Khmer Rouge (and, albeit to a much lesser extent, the PRK).

While there is an active debate about the current status of, or potential for, community identity and collective action at the grassroots<sup>12</sup>, there is an evident abundance of non-governmental organizations (NGOs) that operate above the local level. This sector has grown from nothing since the transition to democracy that began a decade ago. Although there are an increasing number of exceptions, the national NGOs that have emerged since 1993 have typically been professional service delivery or advocacy organizations which owe their existence more to donor and INGO support than (as in, for example, much of Latin America or South Asia) to the outgrowth of grassroots associations based on occupation or locality, or the expression of organized

charity on behalf of a comfortable, established middle class<sup>13</sup>.

These donor and NGO partners have fostered the creation or further evolution of national NGOs as the framework for the emergence of an organized Cambodian civil society capable of advocating for poor and marginalized groups and delivering services to these groups in an efficient manner (Hughes 2002). To a considerable extent they have succeeded admirably. It is striking that in the MOPS research, villagers who were asked if they had received any form of assistance or benefit from actors outside the village cited NGO projects far more often than they cited government service providers. NGOs have recorded considerable success in delivering both basic goods and services and in imparting knowledge and ideas on topics such as human rights, domestic violence, and health practices (most notably in regard to HIV/AIDS control). They have also played an invaluable role in “ground-truthing” the Government and donor understandings of economic and social change in the country, and sustaining policy attention to the needs of the poorest and most marginalized members of society.

However, the growth of the Cambodian NGO sector under the aegis of external funding and technical assistance does raise some relevant strategic issues of coordination, accountability, legitimacy and sustainability. If Cambodian NGOs have relatively shallow roots in everyday Cambodian society, there is a danger that despite conscious efforts on their part they

<sup>11</sup> “Social capital” is taken here to refer to traditions of cooperation and charity embedded in trust and collective identity.

<sup>12</sup> It is not entirely academic to note that the anthropological literature from the 1950s and 1960s suggest that, even before the start of the civil conflict, rural Cambodia had relatively few forms of village-level organization. On this, and the debate about the current strength of village-level civil society, compare Collins 1998; Ashmoneit 1998; World Bank 2005; Biddulph 1996; Ovesen *et al* 1996; Conway 1999; Daubert 1996; Ebihara 1968; Delvert 1958; and Kiernan 1982. Aranvind 2005 provides a good overview.

<sup>13</sup> INGOs have an unusually important historical legacy in Cambodia. During the 1980s the PRK was denied access to most ODA as it was not recognized by the UN. INGOs such as Oxfam came to play a quasi-donor role, reconstructing core infrastructure and providing basic service delivery.

may not fully understand the needs and priorities of their constituents (see O’Leary and Nee 2001). There are also serious questions about the timescale required for NGOs to become financially viable without external support, and the potential inefficiencies of so many organizations competing for finite funds with relatively limited coordination structures (Box 7.9).

Grassroots organizations and social movements *are* now emerging and strengthening. Most notable amongst these are the unions which have developed as the garment industry has grown. However, there are also emergent regional and national federations amongst farmers’ groups, and at the village level pagoda associations have resumed their historical roles and, in some cases, taken on new functions in local economic and social development. Nonetheless, supra-local organizations and movements remain at an early stage of development<sup>14</sup>. Donors (and INGOs) need to be very careful how they attempt to engage with such movements. There is a real danger of "killing them with kindness", or de-legitimizing them by lavishing external funds and advice on them at too early a stage in their evolution.

The growth of civil society since 1993 should thus be seen as what is, in Cambodian terms, a historically novel development, driven both by socio-economic change and by increasing exposure to global ideas and knowledge. INGO and donor support to national NGOs has played an important role in helping to transmit concepts of civil society, participation, human rights and accountability into Cambodian social and

<sup>14</sup> Historical and socio-political factors aside, the relative paucity of membership organizations is in part due to the fact that incomes are so low that it has been very hard to establish standing organizations supported by members’ contributions.

#### **Box 7.9: Coordinating NGO activities remains a major challenge**

At the time of writing, there are estimated to be 308 international and 642 national NGOs operating in Cambodia. In 2004, NGOs spent just under US\$124m (almost twice the \$66m spent in 1996). Although these NGOs vary greatly in size, skills and ambitions, there is an increasing coherence in attempts to link grassroots experience to national debates on policy and programs. This is however made hard by the scale of the effort required to coordinate such large numbers of organizations. With the beginning of the explosive growth of the NGO sector in the early 1990s, a new coordination structure had to evolve. This structure is capped by the Cooperation Committee for Cambodia (CCC), which seeks to facilitate information exchange, coordination, and (in tandem with the NGO Forum) collective representation on issues of common concern. Below the CCC, 38 informal networks coordinate between NGOs working in the same sector--MediCam and EduCam (for health sector and education sector NGOs, respectively)--are notably successful networks that have developed good working relations with their respective line ministries and sector donors and participate to a significant extent in debates on the direction of sector policy development. There are also 15 Provincial NGO networks which offer the potential for the emergence of a middle level of "intermediary institutions" in Cambodian society, improving the flow of information and ideas between the grassroots and national government.

*Source:* Development Weekly 2005; Clarke 1998; Mysliwiec 1994; Conway 1999.

political discourse, and in helping to create and sustain a measure of political space for the emergence of civil society. However, donors and INGOs could often have done more to support the "thickening" of civil society in ways that put Khmers more in charge of the process, and that rooted national NGOs in Cambodian society. The relationship between donors/INGOs and

CNGOs is steadily evolving in this direction, but still has some way to go.

To build on what has been achieved and lay out a framework within which government-NGO relations can develop along a positive path, Cambodia is now embarking on the preparation of a law on NGOs. The World Bank has agreed to provide technical support to the NGO community in the drafting of this law.

Finally, those formulating social and economic policy need to bear in mind that not all social capital is pro-poor or pro-development. While attention rightly focuses on forms of association which benefit the poor either directly as members, or indirectly through positive social impacts felt outside the group, there are also “perverse” forms of social capital, in which groups act in ways which benefit group members but impose costs on society as a whole<sup>15</sup>. The increasingly ubiquitous youth gangs described above are a good example, as are many other examples of organized criminal activity, such as those which support trafficking of drugs (Box 7.10) or humans. As in all countries, such criminal organizations are often based in social (kinship or patron-client) relationships of loyalty and protection, and constitute a serious challenge for Cambodia’s long-term development.

### *Making decentralization pro-poor*

Taking decisions on plans and budget allocation down to a local level also has considerable potential for increasing citizen participation, and the accountability and effectiveness of state action—although regional and international experience suggests that this is far from guaranteed, and deliberate efforts are required to bring

#### **Box 7.10: Drug use is a growing problem for Cambodian youth**

A variety of factors, including its regional location, large youth population and under-resourced and under-trained law enforcement institutions, foster the emergence of drug production, use and trafficking in Cambodia. Ready availability and low price has meant that use of illegal substances is quite high amongst youths; particularly vulnerable youth groups such as those living on the streets in Phnom Penh. A one-day survey amongst this group conducted in June 2005 by the NGO Mith Samlanh/Friends found almost half were abusing substances ranging from glue to heroin. Of those using drugs, 62 percent (or 30 percent of the total sample) used *yama* (methamphetamines); 21 percent (or around 10 percent of the sample) used heroin (a dramatic rise from 2004, and a cause for concern given its potential as a vector for HIV/AIDS transmission).

out the pro-poor potential of decentralization.

The decentralization process that the Government embarked on with Commune/Sangkat elections in 2002—and, potentially, recent moves towards more substantive deconcentration of functions to the Province and District level—has undoubtedly created new opportunities for civil society engagement and accountability. In some cases, more capable and assertive Commune Councils are responding to local concerns and acting as a champion or at least intermediary between Commune residents and more powerful outside interests (Box 7.11).

Rapid processes of economic and social change—processes of modernization—are having complex effects on engagements between citizens and the state. On the one hand, the increasing penetration of market relations into remote areas increases the incentives for officials to exercise power for financial gain. However it also seems

<sup>15</sup> In economists’ terms, this is social capital as a membership good with negative externalities.

**Box 7.11: Rural Cambodians are adopting new forms of collective action to defend their interests**

- A case study of land dispute resolution (Kompong Thom Province)

In World Bank research into actually-existing dispute resolution processes at the local level, an early case study provides interesting insights into what factors seem to enable the poor to obtain justice. The dispute in this case—over land in Kompong Thom Province—revolved around the acquisition, by high-ranking District and Provincial officials, of degraded forest/plantation land on the outskirts of a group of relatively remote lowland rice farming villages. The fact that land in the same area was the subject of a dispute in 2000 and again in 2005 provides an interesting opportunity to study changes in dispute resolution practice over time.

Two things stand out in this dispute. Firstly, the Commune experienced significant development between 2000 and 2005. The construction of a new road has put the area within an hour's drive of the Provincial capital. Significant investment in infrastructure has occurred (e.g., mobile telephones; wired electricity; health center; and schools). While villagers report significant increases in personal security over this time, they also expressed the view that these developments are not really alleviating poverty because the poor are at high risk of shocks (health crises, crop failure, etc.) which push them into the poverty traps of debt or landlessness, despite increasing levels of economic opportunity.

Secondly, the way in which the dispossessed villagers dealt with the dispute changed significantly. In 2000. The villagers organized for representatives of the group (an elder and a temple administrator) to speak to the District chief on their behalf. They felt intimidated by the District chief, were unable to push the case forward, and in essence gave up on the claim, explaining that they did not know how they could take any further action. In 2005 when a similar dispute arose over an adjacent piece of land, villagers were more assertive. Initially the villagers confronted the group of District officials who were measuring the land and removed signs which designated the area as state forest. The villagers then organized themselves to collect thumb prints for a petition against the District administration—a petition which they also sent to human rights organizations and the local National Assembly member representing the opposition. Though the dispute had not been finally resolved at the time of writing, the Provincial Governor made an initial intervention on behalf of the villagers and they were allowed back on to the land on a provisional basis.

*Source:* World Bank research on “Justice for the Poor”, 2006, forthcoming.

that economic progress, spreading civil society networks and increased access to information can support the development of social capital that provides the basis for collective action. Recent World Bank research on dispute resolution supports the finding that, though by no means always the case, it is possible for groups of villagers to obtain greater responsiveness in the resolution of their grievances if they build a strong network of relationships with both NGOs and government officials at all levels” (Nee and Healy 2003: 102).

### *Information and development*

The free flow of information via independent news media—both print and electronic—can be powerful tools in improving communications between the state and civil society and promoting stable, equitable, inclusive development (World Bank Institute 2002; Goldin 2005). The presence of independent media facilitates all three accountability relationships sketched in Figure 7.3. It not only keeps politicians in touch with the concerns of the electorate and service providers subject to public critique, but also—by stimulating public debate on the

strengths and failings of state arrangements for service delivery—provides politicians and policy makers with additional, independent sources of information that they need in order to be able to judge and regulate the performance of line Ministries or sub-national administrations. An independent press, as envisaged in Cambodia's 1994 Press Law, can, for example, help expose corrupt practices, or local abuses, that might otherwise not come to the attention of politicians until they face a frustrated electorate on voting day (Sen 2000).

A free media also has a critical role to play in making markets work well, by reducing “information asymmetries”—that is, by ensuring that all economic actors have access to the same information on supply and demand, can make informed decisions accordingly, and can compete on an equal footing (World Bank 2001). When only a privileged or lucky few have access to critical information on prices, trade policies or government plans for infrastructure investment, they obtain an advantage that may have nothing to do with their entrepreneurial or managerial skills. The result is distorted markets and an inefficient allocation of resources. Speculation crowds out productive investment and economic activity is characterized by a focus on short-term profit maximization at the cost of long-term, stable, job-creating growth.

The mass media have also played a significant role in raising social awareness and changing behavior on a number of issues that are critical for national development. In Cambodia, television, radio and newspapers have all played an important part in spreading messages about HIV/AIDS prevention and other health practices, about the immorality and illegality of domestic violence, or about the dangers of trafficking.

Finally, an independent media which represents a plurality of voices can contribute to the task of building national unity and political stability. Mass media that incorporates uncensored stories from all over the country—and connects the Kingdom to the wider world—helps Cambodians to think of themselves as citizens with common problems, opportunities, interests and institutions, and encourages people to seek collective, peaceful ways of engaging in national development processes. For many Cambodians, the contrast between the free media of the last decade and the preceding decades of isolation and censorship is stark; whereas in the past they lived “like a frog in a well”, over the last ten years Cambodians have enjoyed a significantly expanded perspective on their own and other countries, and seem to value this basic freedom—and, indeed, to want it expanded to encompass the electronic media as well as the print media (Phnom Penh Post 2005a, 2005b). While there is an urgent and ongoing need to improve the levels of professionalism in much of the media, the general point remains—a free press almost always *improves* state-society relations, and promotes rather than retards national development, by bringing critical issues into the open rather than allowing them to remain ignored and unaddressed.

### *State, civil society and national development*

As Cambodians' average incomes and levels of literacy and education rise over time, it is inevitable that they will ask more of their Government—and, in all likelihood, will develop the capacity to participate in increasingly meaningful ways on a more equal footing with service providers and policy-makers.

This improvement in the capacity of civil society to cooperate for economic and

social ends is important for national development, just as the development of capacity within state institutions is important. There is no one model for how these relationships between the state and civil society should be organized. Regional examples include such diverse arrangements as the mass organizations in Vietnam, the community development movement in Thailand, or watchdog committees in Singapore (Burke and Nil 2005). The important point is that the Government and civil society should not be thought of as alternatives competing in a zero-sum game. The history of the OECD economies (among others) is of state action creating incentives for civil society organization. For the state, meanwhile, having established civil society interlocutors has many advantages. Enabling civil society to participate in the policy process allows the state to:

- obtain regular feedback from the grassroots on the success or failure of its policies—and on how these policies, and the Government itself, are perceived;
- tap into a broader body of knowledge and ideas when formulating policy. Engaging with independent research institutes that possess specialist analytical skills which might be in short supply within the Government is important if policy decisions are to be informed by evidence.
- identify and deal with emerging or potential future problems in society, which senior policy-makers might not otherwise pick up on until they have become too serious to resolve easily;
- mobilize civil society capacity in areas in which they may have comparative advantage (e.g. identifying poor households for targeted programs), or where a division of responsibilities

between the Government and NGO results in better outcomes than either undertaking a task on its own. The experiences of contracting health service provision (Chapter 6), or of community groups or NGOs serving as the administrators of exemptions policies and equity funds, are good examples.

In other words, if a supportive state can make it much easier for civil society to develop, so too can actively reaching out to civil society, make the task of governing easier and more stable. A strong developmental state and a vibrant, dynamic civil society should be seen as complementary and mutually-reinforcing partners in national development, rather than opposed rivals.