EXECUTIVE SUMMARY

Overview
The latest (2004) household survey finds that 35 percent of Cambodians live below the national poverty line, down from an estimated 47 percent a decade earlier (although the two surveys are not directly comparable (Figure 1 and Box 1). Over these ten years, Cambodia has consolidated peace and achieved economic growth of about 7 percent per annum. Non-income indicators such as ownership of consumer durables, housing quality and schooling indicate that the living standards of the population, including the poor, have improved between 1994 and 2004. These gains reflect the economic and social development that has been made possible since the early 1990s, when Cambodia embarked on a three-fold transition from civil war to peace, from one-party to multi-party politics, and from an isolated and subsistence-oriented economy to one based on the market and open to international trade.

On the basis of this performance, Cambodia has made significant progress towards the first of the Cambodian Millennium Development Goals (CMDGs), which commits the Royal Government to halve, between 1993 and 2015, the proportion of people living below the national poverty line. Starting from a base of very low output and very high poverty at the start of the 1990s, peace and economic liberalization have made possible a decade of rapid growth and relatively rapid poverty reduction. The Governments elected since 1993 deserve credit for securing and (with occasional brief setbacks) maintaining peace, for some critical investments in roads and services, and for over-seeing the process.

Figure 1: Over the last decade, poverty in Cambodia has fallen by an estimated 12 percentage points

by which Cambodia has attracted international investment and established high rates of export-led economic growth. Policy choices on trade and infrastructure have undoubtedly helped significantly.

Although all segments of society benefited over the last decade, the rise in living standards has been more pronounced in urban areas and amongst the richest quintile. The extreme poor (the bottom 20 percent who fall below the food poverty line) have experienced significantly slower growth in real consumption than the “normal” poor. While poverty in rural areas fell by 22 percent, cumulatively, over the decade between surveys, it fell by 60 percent in Phnom Penh and 44 percent in other urban areas. In 2004, 91 percent of poor Cambodians lived in rural areas. Poverty rates are highest in remote rural areas with limited access to roads, markets and basic services.

The Government’s new five-year National Strategic Development Plan 2006-2010 (NSDP) recognizes the need to address rural development and makes improving the lives and livelihoods of the rural poor a top priority. In keeping with the NSDP, this report reasons that improving the lives and livelihoods of the rural poor should be a top government priority; and that accelerating poverty reduction in Cambodia is largely about helping to raise agricultural productivity and incomes. The engines of growth that have driven improvements since the early 1990s (namely garment exports, tourism and construction) now need to be complemented with other sources of growth that are more rural, more broad-based, and more pro-poor. To accelerate poverty reduction by improving productivity and profitability in the rural economy will require: (i) secure property rights to private land, particularly for smallholders; (ii) emphasis on small holder agriculture for both growth and poverty reduction; (iii) equitable access to common property resources as a critical source of income and security for the rural poor; (iv) increased investments in productivity-enhancing infrastructure; and (v) improved human development and human capital, achieved through the pro-poor delivery of basic services in education and health.

Structure and sources

This Executive Summary is structured in five parts. Firstly, it lays out the key facts on the nature of poverty in 2004 and—for the first time in Cambodia—on poverty trends (Box 1). This section notes success in reducing poverty but also draws attention to the growing challenge of widening inequalities. Secondly, it provides a diagnosis of the relationships between growth, institutions and poverty, highlighting the need to focus on the rural economy. Thirdly, it analyzes the binding constraints to shared growth, noting in particular the role of property rights, rural infrastructure and human capital. Fourthly, it takes stock by comparing Cambodia’s performance in reducing poverty to that of other countries; laying out alternative poverty projections for the next ten years; and describing the Government’s new five-year development plan. Finally, it provides a brief discussion of broad policy priorities for public action to promote growth, service delivery and poverty reduction.

The key sources of information on which this poverty assessment is based include the nationally-representative 2004 Cambodia Socio-Economic Survey (CSES) and a set of studies by the Cambodia Development Resource Institute (CDRI) and Economic Institute of Cambodia (EIC), which mix quantitative and qualitative analysis to address particular aspects of poverty analysis.
Box 1: The difficulties in establishing poverty trends in Cambodia

A major contribution of this report is to present, for the first time, comparable estimates of household consumption and poverty between different years, and so establish the nature of trends over time. Official poverty estimates during the 1990s were not comparable for several reasons. Firstly, each set of poverty estimates was based on a different geographical sampling frame. Due to security problems the 1993-94 Socio-Economic Survey of Cambodia (from which the first poverty estimates were derived) covered only 56 percent of rural villages and 65 percent of the rural population; areas in which the Khmer Rouge were still active were not surveyed. In subsequent surveys, these more remote and— as has been confirmed from the 2004 survey— poorer areas were progressively included in the sampling frames. The 2004 Cambodia Socio-Economic Survey (CSES) is the first to include all Cambodian villages in its sampling frame. While it should in theory have been possible to at least compare changes between surveys within the areas surveyed in 1993/94, this was not possible because the description of the 1993/94 sampling frame was lost. With the rediscovery of this sampling frame in 2005, it has become possible to analyze change within the geographically-comparable sub-sample.

Secondly, differences in the design and management of the surveys in different years, and different approaches taken to the calculation of the poverty line, created further problems for those wishing to identify changes in poverty between surveys.

Given all these differences, it was simply not valid to compare estimates from different years, or to conclude on the basis of this that Cambodia experienced little or no poverty reduction during the 1990s. The rediscovery of the 1993/94 sampling frame, combined with a basically common structure to the consumption modules of the questionnaires, now makes it possible to compare data from 2004 with 1993/94.

Key facts

As living standards have improved, the poverty rate has fallen

Between the first household survey in 1993/94, and the latest survey in 2004, real per capita household consumption (the value used to measure living standards and define the poverty line) rose by 32 percent. Food shares in total consumption fell, as households can now afford other needs (Figure 2). The increase in average per capita consumption has been experienced amongst the poorest quintile (that is, the poorest twenty percent of the population) as well as the richest quintile.

Figure 2: Household consumption has risen 32 percent in real terms


NB: Comparison is of household consumption within the geographically-comparable sampling frame of the 1993/94 survey.
As a result, the poverty headcount (the proportion living under the poverty line) has fallen by over a quarter. In the area surveyed in 1993/94 in which direct comparison is possible with the same area in 2004, the headcount fell from 39 percent to 28 percent. Backward projections estimates that the poverty rate in the country as a whole in 1993/94 was around 47 percent; in 2004, the all-Cambodia poverty headcount was down to 35 percent.

The decline in poverty has been widespread

Importantly, poverty reduction has not been confined to any particular area. Poverty fell by between a fifth (in rural areas) and a half (in Phnom Penh), and in all but one of the five agro-ecological regions of the country. (Trends in the fifth region cannot be determined with confidence.) Broadly speaking, women as well as men have benefited from these trends, with significant numbers finding employment in the new garment industry and improvements in primary education now closing the gender gap in literacy amongst younger age groups.

The fall in consumption poverty is corroborated by other indicators

Non-income indicators of well-being such as ownership of consumer durables, housing quality and schooling confirm the picture of rising living standards, amongst the population in general and the poor in particular (Figures 3 and 4).

Human development indicators also suggest steady progress. Between 1997 and 2004, net enrollment and completion rates at the primary level increased by over 10 percentage points among children from the poorest fifth of the population. In cases such as HIV/AIDS control, remarkable success has been achieved as government commitment and strengthened institutions and policies have been backed by effective coordination of external assistance (Figure 5).
**Executive Summary**

Figure 5: Cambodia has been remarkably effective in slowing and reversing the spread of HIV

- Estimated HIV prevalence (% of adults aged 15-49)

Source: NCHADS 2005.

Despite progress, poverty remains widespread and multidimensional

Although the poverty rate has fallen by around one percent each year for the last decade, a third of the population still lives below the poverty line and one in five live below the food poverty line. The poor face a number of interlocking and mutually-reinforcing problems, including lack of secure land tenure, remoteness from markets and services, lack of productive assets, low levels of education, and high dependency ratios (Table 1).

The rural population began with the lowest average real consumption in 1993/94 and experienced the least growth during the last decade. As a result, the countryside has the lowest levels of per capita consumption and the highest incidence of poverty, and the rural poor account for 91 percent of the total poor. The issue of poverty in Cambodia today is thus essentially one of rural livelihoods.

Rapid economic change is also changing social relationships, with some positive and some negative effects. Women employed in garment factories often lead subsistence-level lives as they struggle to remit much of their wages to their families; and domestic violence has been and remains a very serious problem.

Inequality has risen

Comparing the 1993/94 and 2004 surveys suggests that even as the poor have

<table>
<thead>
<tr>
<th>Table 1: Profile of the poor in 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quintile</strong></td>
</tr>
<tr>
<td>Owned agricultural land is secured by a title (%)</td>
</tr>
<tr>
<td>Distance to nearest all-weather road (km)</td>
</tr>
<tr>
<td>Distance to permanent market (km)</td>
</tr>
<tr>
<td>Households with water pump (%)</td>
</tr>
<tr>
<td>Plots with access to irrigation in dry season (%)</td>
</tr>
<tr>
<td>Dependency burden (elderly and children: 100 economically active adults)</td>
</tr>
<tr>
<td>Literate adults, age 15+ (%)</td>
</tr>
<tr>
<td>Education (average school grades completed by adults)</td>
</tr>
</tbody>
</table>

Box 2: Different parts of the countryside have had very different experiences of growth and poverty reduction

The Economic Institute of Cambodia (EIC) conducted case studies of different local paths to poverty reduction deriving from different sources of growth in four rural Districts in four Provinces.

Puok District in Siem Reap Province has received some benefits from the boom in tourism in the Provincial town, which has created employment in construction, transportation, petty trade and handicrafts. However, production-side constraints (poor soils, no money for inputs such as fertilizer, lack of water control infrastructure or good roads) have prevented most local farmers from responding to increased demand for food crops from hotels and restaurants.

Malai District in Bantey Meanchey Province is a good example of successful broad-based agricultural growth. With the integration of this former Khmer Rouge zone into the national Government, land was distributed to local households. Relatively rich soil brought into production through conversion of forests to farmland, combined with good access to export markets (Malai is located on the Thai border) has led to a dramatic increase in production of cash crops and rising incomes for most households.

Phnom Sruoch District in Kampong Speu Province—one of Cambodia’s poorest Provinces — provides a contrast to Malai. In Sruoch, the end of conflict enabled the poor to clear previously insecure forested land. However, poor quality soils and exposure to a variety of shocks have meant that many have not been able to retain their land, but have sold it and moved on to clear new land and start again. There has been a steady accumulation of land in the hands of the rich, many living in Phnom Penh, while the situation of the local poor has changed only marginally, and may now be declining as further forest clearance becomes impossible.

Mesang District in Prey Veng Province is typical of much of the densely populated southeastern plains where some 40 percent of the poor live. In the face of population increase and declining land availability, the rural poor in Mesang are encountering the limits of traditional livelihood strategies based on rice cultivation and common property resources, and are increasingly relying on sending family members to Phnom Penh to find employment in the garment industry, construction, or transportation.

experienced a discernible improvement in living standards, inequality has increased significantly. The Gini coefficient provides a commonly-used summary measure of inequality, in which a value of zero signifies perfect equality in the distribution of income or consumption, while a value of one indicates perfect inequality. In those parts of Cambodia that were surveyed in 1993/94, the Gini for real per capita consumption has risen from 0.35 to 0.40. Inequality in all of Cambodia in 2004 was 0.42, making Cambodia one of the more unequal countries in the region.

Inequality in Cambodia is somewhat unusual in that most countries in South-east and East Asia saw levels of inequality start widen only at later stages of development, when levels of average income and consumption were higher (and poverty headcounts lower).

Part of the growth in inequality has been due to widening differences between urban and rural areas. Part of it, however, has been due to growing differences within the rural population, with considerable variation in the rate and distribution of growth in different localities (Box 2).

Diagnosis

Cambodia’s fundamental geographical endowments—including its location in the fastest growing region in the world—give
it a significant advantage over many landlocked, mountainous or resource-poor low income countries. Rather than climate or topography, Cambodia’s contemporary poverty is largely a legacy of over twenty years of political conflict, which resulted in destruction of physical infrastructure, decimation of human capital and distortion of social, economic and political institutions.

Just as poverty in Cambodia has its origins in conflict, so poverty reduction over the last decade has its origin in the restoration of peace. The fall in poverty has been driven by a combination of high economic growth (made possible by the end of conflict and the opening of Cambodia to foreign investment and trade), macroeconomic stability and improved access to services. The rate of poverty reduction could have been even higher, however, if more of the growth had been in the agricultural sector and in rural areas.

Cambodia remains dependent on urban engines of growth

The patterns of poverty reduction are what would be expected, given where and how growth has occurred. Between 1993 and 2004, economic growth averaged 7.1 percent per annum. The main engines of growth over the last decade—export-oriented garment manufacturing and tourism—were both urban-focused and have generated only limited urban-rural linkages. Between 1993 and 2004, the share of the industrial sector in the economy more than doubled to 29 percent and the share of services remained at around one-third. However, despite its phenomenal growth and significant share in the economy, the industrial sector still employed only 8 percent of the labor force in 2004 (Figure 6).

Meanwhile agriculture, central to the livelihood strategies of the poor, has grown slowly and erratically, with several years in which production has fallen due to droughts and/or extreme floods. Agricultural productivity in Cambodia remains very low compared to other countries in the region. Yields of paddy rice—which is central to the food security and livelihoods of rural households and accounted for 88 percent of the total area under crops harvested in 2004—are the lowest in the region (Figure 7).

Urban-rural linkages are weak…

Both garments and tourism, Cambodia’s main engines of growth, have been and still are concentrated in Phnom Penh and Siem Reap respectively, while the economic linkages between urban centers and rural areas have been limited. Probably the most important link has been

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**Figure 6:** Industry's contribution to GDP has doubled--but it still employs only 8 percent of the workforce

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of Labour Force (%)</th>
<th>Share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>71%</td>
<td>31%</td>
</tr>
<tr>
<td>Services</td>
<td>21%</td>
<td>35%</td>
</tr>
<tr>
<td>Industry</td>
<td>8%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: MEF, NIS.
in the form of remittances. However, only 13 percent of rural households received remittances from family members working in cities and the value of these remittances represented on average less than 10 percent of total household consumption. While the phenomenal growth of the garment sector has benefited many rural households, these have not necessarily been poor households, and very rarely the poorest. Lack of education and, in many cases, the need to pay informal recruitment fees to secure one of these jobs has meant that poor households in remote areas have not been the major beneficiaries.

…and the agricultural sector is large, but slow-growing

While the share in the economy of the agricultural sector—inclusive of crops, livestock, forestry and fishery—fell from 46 to 31 percent between 1993 and 2004, it continues to support more than 70 percent of the labor force. Agriculture grew by an average of 3.3 percent per annum over the last decade, including three years of negative growth since 1999. Given that the growth rate of labor supply in agriculture was 2.7 percent a year, labor productivity in agriculture grew by a lackluster 0.5 percent per annum.

Agricultural growth in Cambodia has not only been low relative to growth in the industrial and service sectors, it has also been unimpressive relative to its neighbors during comparable stages of development. Many East Asian countries registered growth rates in agriculture of five percent per annum or more over a decade or longer (Figure 8). Various measures of Cambodia’s agricultural productivity, such as crop yields, value-added per unit of labor or profit per hectare, have been and still are the lowest among East, Southeast, and South Asian countries. The problems of low and variable agricultural productivity and profitability are exacerbated by increasing landlessness and declining availability and accessibility of common property resources.
Landlessness is rising…

The proportion of rural households lacking land for cultivation has risen from 13 percent in 1997 to 16 percent in 1999 and 20 percent in 2004. This rise in landlessness is relatively rapid given that distribution was more-or-less equal (relative to household labor) when land was formally allocated to households in 1989. Although not all landless households are poor (some have profitable non-agricultural sources of income), many are, as with few other rural livelihood opportunities have to rely upon low and variable income from wage labor.

There are a number of forces underlying the rise in landlessness. A significant proportion of the landless (for example, those who returned from refugee camps in 1993-94 and newly formed households headed by young married couples) have never owned land. There is a natural dynamic away from equal distribution. Population growth leads to smaller plot sizes in densely populated areas, and a proportion of households, as in any economy, sell land, either as a deliberate strategy to raise money to invest in non-agricultural activities, or less positively to meet critical consumption needs (e.g. treatment for a serious illness). Finally, a small but politically important component of total landlessness is due to land grabbing.

The problem is exacerbated by the interconnected problems of unclear property rights (as much as 80 percent of rural households that owned land were without land titles in 2004) and—this ambiguous legal status of ownership notwithstanding—the increasing value of land in many parts of the country. The result is an emerging phenomenon of increasing landlessness juxtaposed with the existence of uncultivated land (Box 3).

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**Box 3: Landlessness amidst fenced-off land in Phnom Sruoch**

According to focus group participants in Traeng Treayung, Ou, and Mohasaing communes, landlessness in the area was between 30 and 40 percent. Available arable land was estimated at about 3,540 hectares. Of this, however, villagers cultivated less than 300 hectares while the rest was unused but inaccessible or unavailable for rent. Rich families from Phnom Penh held large tracts of land for speculative purposes; this land is not rented out because of fear that lessees will claim ownership rights, since most of the land is held without proper land titles.

*Source: EIC 2006 forthcoming.*

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…and access to common property resources is declining for the poor

Access to common property resources such as forests and fishing waters has always been a critical element in the normal livelihoods of the rural poor in Cambodia—and one that became more important during lean times (e.g. poor harvests), when intensified use of the commons provided a safety net for poor households. Amongst the poor, a quarter depended on only fishery and forestry products for over half of their income in 2004. On average, fishery and forestry products accounted for 25 per cent of household income amongst the poor (Figure 9). By contrast, forestry and fishing accounted for just 8 percent of the income of the wealthy. Own-harvested fishery and forestry products account, respectively, for 20 and 10 percent of total consumption of the poor.

Numerous studies of rural livelihoods paint a consistent picture of declining access to these resources, especially for the poor. Part of this decline is due to the increasing privatization of once open-access resources; part of it is due to a real decline
Common property resources—particularly fishing and forestry—are very important to the poorest quintile, but only marginally important for the richest quintile.

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Cultivation</th>
<th>Livestock</th>
<th>Fishing</th>
<th>Forestry</th>
<th>Non-agricultural</th>
<th>Wage</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richest</td>
<td>11</td>
<td>6</td>
<td>42</td>
<td>13</td>
<td>26</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Next richest</td>
<td>20</td>
<td>10</td>
<td>8</td>
<td>9</td>
<td>27</td>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>Middle</td>
<td>25</td>
<td>10</td>
<td>10</td>
<td>13</td>
<td>19</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Next poorest</td>
<td>28</td>
<td>10</td>
<td>11</td>
<td>14</td>
<td>14</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Poorest</td>
<td>29</td>
<td>9</td>
<td>11</td>
<td>18</td>
<td>10</td>
<td>22</td>
<td>4</td>
</tr>
</tbody>
</table>


in resource availability, as population increase and commercial interests have driven unsustainable over-exploitation.

**Binding constraints**

Below-potential agricultural and rural growth can be explained primarily in terms of poorly-defined property rights; inadequate and degraded infrastructure for water control and transport (Box 4), and a combination of low levels of human capital and high levels of household-level vulnerability (Box 6). Underpinning much of this is a more fundamental problem of low state capacity. Although improving, weak formal institutions do not yet provide a sound basis for the equitable or sustainable management of natural resources or pro-poor service delivery.

The challenges facing the Government in managing rural development serve as a microcosm of broader national development challenges. In the economy as a whole, investment that might accelerate and diversify economic growth to the benefit of the poor is constrained by low capacity, lack of transparency, and inappropriate and arbitrarily-applied regulations. These phenomena contribute to a low level of official accountability and thus a low level of incentives to achieve results. They also create opportunities for corruption. This increases the costs and decreases the competitiveness of businesses operating in Cambodia.

**Box 4: “Up to the sky”: without water control infrastructure, farmers are critically dependent on rainfall**

In both high-growth areas such as Malai or lagging Districts such as Mesang or Phnom Sruoch, lack of irrigation facilities is cited as the main constraint for growth. Farmers rely only on rainwater because the irrigation network is non-existent. In Malai, yields of soy bean and rice fell dramatically because of lack of rainfall in 2005. In Phnom Sruoch, most have suffered in recent years due to consecutive droughts. Farmers and officials in Mesang acknowledged that irrigation facilities are costly but insisted that without them, the consequences are even more costly.

Poorly defined property rights to land are hurting income growth

Ill-defined property rights to private and public resources appear from the CSES survey data to constitute a critical binding constraint on agricultural productivity and growth. Although in many cases there is common local acceptance of ownership and the renting and sale of land proceeds without the need for titles, increasingly, as land acquires greater commercial value and population pressure increases, lack of title is a problem. An “owner” who fears that his or her title might be challenged may be reluctant to invest in improving it or planting higher-value permanent crops (e.g. fruit trees) for a long-term return. He or she will also hesitate to rent out land which they themselves may not be able to use (for fear that the tenant later claims ownership), retarding the development of a rental market which could ameliorate the problem of landlessness.

The ubiquity and severity of the problems that arise from lack of legal title is still subject to debate. However, econometric analyses of data from the CSES 2004 reveals that secure land tenure, in the form of a formal land title certificate, significantly raises crop yields (by 63 percent), sale and rental value of land (by 38 and 57 percent respectively), and household consumption (by 24 percent).

Lack of infrastructure increases production risk and marketing costs

The proportion of arable land that is irrigated in Cambodia is, at 7 percent in 2002, the lowest in all of South-east Asia, and less than half that of the next-lowest country (Lao PDR, with 19 percent). Analysis based on the CSES 2004 demonstrates that crop yield is 10 percent higher on irrigated land than on un-irrigated land for the same levels of other variables (e.g. land type and labor, capital and fertilizer inputs). Land with access to irrigation facilities during the dry season has on average 15 percent greater rental value and 10 percent higher sale value than land without such access. Analysis of farm-level productivity also brings out the importance of other rural infrastructure such as roads. Farms with access to markets in their villages have 26 percent higher crop yields than those without. Farms closer to roads also have significantly higher yields; reducing the distance from a village to an all-weather-road by one kilometer raises productivity by about 30,000 Riel per hectare.

Poor health and education constrain rural productivity and accumulation

The level of human capital in Cambodia is particularly low. Illiteracy, morbidity and malnutrition are prevalent. As expected, the poor have rates of educational attainment and malnutrition that are worse than the (bad) national averages.

Qualitative research reveals that the poor are very conscious of the value of education in improving the employment and income prospects of their children—and brings out how the imperative of short-term household survival prevents them from providing their children with this schooling, so perpetuating poverty from one generation to the next (Box 5).

Analysis based on the 2004 CSES suggests that education significantly enhances productivity, farm profitability and household per capita consumption in rural Cambodia. An additional year of schooling for the household head enhances productivity by on average 40,000 riel per hectare.
Box 5: Education and the poverty trap

Because we are poor, our children quit school at an early age or after only one or two years in order to help us earn a living. Unfortunately, they cannot go as far as the rich do in obtaining skills to earn a living. Because we are trapped in illiteracy, we have poor knowledge and are without ideas, remaining short-sighted and powerless.

Focus group discussion, Kompong Thom. Moving out of Poverty Study (MOPS).

Source: CDRI 2006a, forthcoming.

Illness implies a simultaneous reduction in household labor supply and income and an increase in expenditures. In the context of high cost, low quality health care, ill health is a major factor in explaining the fall of non-poor households into poverty, and poor households into destitution. A number of studies have highlighted the role of ill health (and the costs of medical treatment) in causing or perpetuating poverty, particularly as a trigger for distress land sales (Box 6).

Governance issues—low capacity and unresponsive and ineffective state institutions—underpin many of these problems.

Strong macroeconomic performance over the last decade only partially disguises some deep-seated problems with economic governance. While OECD quotas and safeguards have boosted Cambodia’s comparative advantage in garment exports and Angkor has attracted tourists, businesses in other sectors struggle against many obstacles. The most important of these relate to costs arising from the operation of state institutions and policies. These include unproductive regulatory requirements; insecure property rights; inconsistent application of the law; untransparent public sector contract processes that often result in bad value for money; and, all too frequently, various forms of corruption.

Box 6: A health shock is often more serious than a harvest failure

Results from surveys in two villages south of Phnom Penh suggest that while crop failures and illnesses are both devastating experiences, entailing similar magnitudes of economic damage (averaging a few hundred thousand Riel), households find it harder to cope with illness. The negative consequences from health shocks are more damaging to both immediate and long-run livelihood because they require an immediate lump-sum of money for urgent treatment. Because most households do not have sufficient savings (and rural credit markets do not operate well), households are often forced to resort to distress sale of productive assets (including land) and/or enter long-term debt, reducing their future income streams and increasing their non-consumption expenditures, respectively. This broadly confirms the findings of earlier Oxfam studies which found that half of all distress sales, or around 40 percent of cases of once-landowning families losing land, involved health crises.


Improving service delivery will ultimately require fundamental reforms of public financial management (PFM) and public administration. The Government has developed a four-stage program for PFM reform. This is an extremely positive step, the implementation of which is critically important for long-term poverty reduction.

At one level, corruption is 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 unfairly disadvantaged and
dispossessed in conflicts with other groups who can afford to pay more for official decisions that favor their cause (Box 7). Services are under-funded as revenue collection is foregone; and investment is deterred and employment suppressed. The cumulative effect of corruption in constraining economic development is immeasurable but undoubtedly very high.

Box 7: Corruption keeps the poor poor
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.

MOPS focus group discussion, Kampot.

Source: CDRI 2006a, forthcoming.

Taking stock and looking forward
Assessing the past decade
Cambodia’s performance in reducing poverty is respectable, but not exceptional.

Unlike many countries which have emerged from civil war, it has avoided slipping back into conflict. However, there are also a number of low-income countries that have achieved significantly higher per annum rates of poverty reduction (Table 2). These include a number of countries that share Cambodia’s history of emerging from conflict during the 1990s (e.g. Mozambique); or, indeed, which still suffer from conflict in parts of their territory (e.g. Uganda). This is in one sense encouraging, as it suggests that, given moderately favorable external circumstances and good government policies, it should be possible to not only sustain but increase the rate of poverty reduction in the future.

Projecting trends for the next decade
Figure 10 uses assumptions about the links between sectoral growth rates and the incomes of the poor to draw two alternative projections for poverty reduction over the next ten years. It seems that if Cambodia continues with the same overall rate (7.1 percent) and sectoral pattern of growth that was seen over the last decade, poverty will fall, but at a modest rate, and Cambodia will not achieve its target of halving poverty by 2015. If however the overall rate of GDP growth were to rise to, say, 10 percent, it could at least double the rate of poverty reduction and get closer to achieving the target.

**Table 2**: The rate of poverty reduction has been good—but a number of other countries have done better

<table>
<thead>
<tr>
<th>Country</th>
<th>Period Start year</th>
<th>% under poverty line in start year</th>
<th>Period End year</th>
<th>% under poverty line in end year</th>
<th>Average annual rate of poverty reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicaragua</td>
<td>1993 2001</td>
<td>50/56</td>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1993/4 2004</td>
<td>47/35</td>
<td></td>
<td></td>
<td>1.1</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>1993 2003</td>
<td>46/33</td>
<td></td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Mozambique</td>
<td>1997 2003</td>
<td>69/54</td>
<td></td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>Uganda</td>
<td>1992 2000</td>
<td>56/35</td>
<td></td>
<td></td>
<td>2.6</td>
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<tr>
<td>Vietnam</td>
<td>1993 2002</td>
<td>58/29</td>
<td></td>
<td></td>
<td>3.2</td>
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<tr>
<td>Tajikistan</td>
<td>1999 2003</td>
<td>75/57</td>
<td></td>
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</table>

Figure 10: Current growth rates will not halve poverty by 2015—unless more of that growth comes from agriculture

Estimated annual rates 1993-2004 (interpolated using PovStats, based on annual growth rates)  
Best fit of PovStats annual poverty estimates 1993-2004  
Forecast at same (7% p.a.) total growth, but with 4% p.a. agricultural growth

Baseline forecast: PovStats projection based on 1993-2004 growth (7% total, same sectoral composition)


growth is kept constant but within this agriculture grows at 4 percent per annum, Cambodia will be likely to achieve and surpass the poverty reduction target.

Is the last decade a good guide to the next?
The baseline projection in Figure 10 is simply a linear forward projection of the best-fit line for the poverty trend in the last decade. Obviously, changing parameters over the coming years will make it more or less likely that these projections, based on past growth performance and growth-poverty linkages, will be realized and that the 2015 development targets reached.

Assessing the underlying trends and potential change factors that might nudge poverty reduction above or below the straight-line, projections is complex. Several trends appear to be in Cambodia’s favor:

- In recent years sustained efforts to bring together all the stakeholders in the health and education sectors under Ministry-led sector-wide strategies have begun to deliver results.
  - The Government has now embarked on an ambitious but feasible program of public financial management (PFM) reform, tackling some of the binding constraints on improving service delivery.
  - Similarly, government commitment to reform the institutions and procedures for trade facilitation offers the potential for more diversified and inclusive growth.
  - Cambodian NGOs are becoming increasingly capable and sophisticated as contributors to national development, both as partners in service delivery and as institutions for channeling ideas to government policy makers.
  - Donors are now beginning to tackle the problems of uncoordinated and donor-driven approaches that characterized a significant proportion of the aid delivered over the last decade.
• Finally, the Government now has a new medium-term development plan—the National Strategic Development Plan for 2006-2010—which lays out an integrated, strategic approach to national development.

At the same time, there are a number of factors that might threaten Cambodia’s ability to accelerate the 1-to-1.5 percent per annum rate of poverty reduction.

• On their own, neither the garment nor the tourism sectors will be enough to absorb the more than 200,000 young people who are going to be entering the labor market every year over the next five years as a result of the second baby boom in the early 1990s.

• Many non-poor households remain highly vulnerable with levels of per capita consumption only a short distance above the poverty line. As such, they remain exposed to a wide range of household-, community- and national-level shocks which could easily push many back into poverty within a relatively short period.

• Declining access to common property resources poses a particular source of vulnerability and a serious threat to the possibilities of the poor to work their way out of poverty (or to make it through difficult times without falling more deeply into poverty).

Two final factors could also affect the pace of poverty reduction over the next ten years. Firstly, Cambodia is going through a demographic transition. Large numbers born fifteen to twenty-five years ago are passing through the labor market at the same time as the fertility rate is falling, resulting in lower dependency ratios. If this generation has access to productive employment and business opportunities, the potential for accelerated economic growth is enhanced. If however markets are unable to respond to this increased labor supply, youth unemployment and attendant poverty are likely to become serious issues.

A final factor that could also affect the pace of poverty reduction over the next ten years is if, as now seems increasingly likely, large reserves of oil and natural gas are confirmed to exist in Cambodian territorial waters. Managed well, this resource has the potential to dramatically improve the level of state spending on economic and social development. However, international experience suggests that in countries with low state capacity and relatively weak and unaccountable public institutions, such petrochemical wealth may equally well result in a “resource curse” that actually retards development and poverty reduction.

If the reserves are confirmed, carefully designed institutional mechanisms that promote transparency and accountability will be critical if they are to help rather than hinder Cambodia’s escape from the ranks of poor nations.

The National Strategic Development Plan, 2006-2010

In recent years international donors, learning from the successes of countries such as Uganda, have advocated that low-income countries formulate a comprehensive medium-term strategy to identify priority policies for poverty reduction. Over the course of 2005, the Government has prepared just such a strategy, called the National Strategic Development Plan (NSDP) 2006-2010. This provides a framework that will be refined, operationalized and reviewed through annual consultations, and which will direct public spending (both own revenue and international aid) towards priority goals defined in terms of
Cambodia’s Millennium Development Goals (CMDGs). Box 8 summarizes the key policy commitments in the NSDP.

**Policy priorities**

To sustain and accelerate the trend in poverty reduction seen between 1994 and 2004 requires a combination of actions. In order to build on this positive trend, the first priority is to maintain a high rate of economic growth and increase the share of this growth that goes to poor households.

Essentially, this requires removing the constraints that currently hold back the productivity and profitability of smallholder agriculture, while simultaneously investing in sound economic governance, physical infrastructure and skills in order to sustain and diversify job and opportunity-creating growth in the industrial and service sectors.

A third engine of growth is needed

To increase the share of growth that accrues to the poor, Cambodia has to maintain the momentum of its two existing engines of growth and develop a third, more rural, more pro-poor engine of growth. International experience reinforces the obvious conclusion that growth in the agricultural sector will have the greatest poverty reduction impact, both direct and indirect, over the short-, medium and long-term. Steps to facilitate improvement in agricultural productivity and growth are prerequisites for poverty reduction.

**Agriculture**

Analysis of CSES 2004 data provides strong proof in support of earlier, small-scale studies that have found small plots to be more economically efficient; that is, small farms have higher productivity (yield

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| Box 8: The National Strategic Development Plan (NSDP), 2006-2010: key commitments |
|---------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 1. Good governance              | Anti-corruption measures; legal and judicial reforms; administrative reform; decentralisation and deconcentration; and military reform. |
| 2. Environment for the implementation of the Rectangular Strategy | Ensure peace, political stability and social order through elections; strengthen development partnerships; sustain a favorable macroeconomic and financial environment; further promote economic integration into the region and the world; address poverty, ensuring that all strategies focus on poverty reduction. |
| 3. Enhancement of Agriculture Sector | Formulate and implement a comprehensive Agriculture and Water Resources Strategy; improve agricultural productivity and diversification; reform land administration and management, fisheries and forestry reform; invest in environmental conservation and rural infrastructure development. |
| 4. Continued rehabilitation and construction of physical infrastructure | Restore and construct transport infrastructure; improve management of water resources and irrigation; develop energy and power grids; manage future oil and gas resources and revenues; develop information and communication technology |
| 5. Private sector growth and employment | Carry out the RGC’s Twelve Point Plan and the recommendations in the Investment Climate Survey; promote SMEs, trade and tourism, rural credit; create jobs and ensure improved working conditions; establish social safety nets for the disadvantaged. |
| 6. Capacity building and human resource development | Enhance the quality of education; improve health outcomes through the Health Action Plan; foster gender equity; implement population policy to decrease fertility and promote birth spacing. |
Executive Summary

There are two main policy implications to emerge from this finding. The first is that agricultural policies should incorporate a strong general presumption in favor of a smallholder rather than plantation model of ownership and production. The second is to reinforce the case for systematic land titling, with first priority given to areas in which smaller, poorer farmers predominate.

The Government's provision of reasonably-sized plots of land (with essential complementary services) to landless households under the "social land concession" program has the potential to improve food security, productivity and incomes for poor rural households. If small family holdings are, as the CSES and sub-national surveys agree, more productive than large holdings, the case for land redistribution is not merely "social" (improving the distribution of growth) but clearly "economic" (in terms of higher rates of aggregate output expansion).

The Government will also need to tackle production-side constraints. The factors underlying low productivity and low profitability include poor infrastructure and low stocks of human capital. The problem of inadequate economic infrastructure is particularly acute in remote rural areas, where the rates of poverty are highest in large part because access to infrastructure and basic services is limited. The poor in these areas have to travel significantly longer distances to get to markets, roads, schools, and healthcare facilities. While the benefits of rural infrastructure are evident, analyses of the costs of infrastructure have yet to be carried out with sufficient rigor.

In summary, the main channels for the government to tackle low agricultural productivity and profitability are: (i) accelerated, transparent, decentralized and low-cost procedures for land titling; (ii) clearer and more equitable rules for access to common property resources; and (iii) an elimination of excessive and inappropriate regulation, and the corruption associated

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**Figure 11: Small farms are a better economic proposition than large farms**

A. Small farms have higher outputs per hectare...
(y axis plots log of output value / ha.)

B. ...and higher crop income per hectare
(y axis plots crop income / ha.)
with it, that characterizes state intervention in private sector activity.

Human development

In recent years, allocations of public expenditures to health and education have risen dramatically, helping to implement and further refine significant reforms and capacity improvements in these sectors. These investments in human capital should help to expand the opportunities available to the next generation.

Policies to improve capabilities and conserve and replenish human capital include: (i) consolidating the gains made in increasing primary enrolment, while addressing the bottleneck in upper primary schooling and improving the quality of teaching; (ii) designing and implementing universal adult literacy programs to improve the skills and productivity of the current economically active generation; (iii) improving the quality and reducing the cost of public health services to reduce the direct and indirect effects on the poor of ill-health and out-of-pocket health spending; and (iv) developing multisectoral programs to tackle persistent public health problems such as severe malnutrition and maternal mortality, as well as acting early to promote behavior change to deal with emerging health problems such as smoking.

More effective partnerships for poverty reduction

Achieving poverty reduction will require further improvements in the relevance and effectiveness of government policies and spending. Given the importance of external development assistance in Cambodia, the quality of government-donor relationships and aid effectiveness is of critical importance to improvements in the pro-poor allocation and efficiency of total spending. Over the last decade, aid has played a role in a number of successes in Cambodia. However, much has also been badly designed or implemented, resulting in inefficiency and contributing to the governance problems of the Cambodian state.

Meeting the poverty reduction targets laid out in the CMDGs thus requires improving both national capacity and governance and aid effectiveness. This will require progress on the three fronts of ownership, alignment and harmonization.

Ownership implies that aid is directed to activities determined by the Government, rather than driven by the donors. By outlining policies and spending priorities for the next five years, the NSDP creates a framework to which donors can and should align their aid programs. Donors now need to support the NSDP by harmonizing their aid (e.g. cooperating amongst themselves to standardize management systems and share analysis) and aligning it to government priorities and systems (for example, through the Public Investment Program or sector-wide approaches). While progress towards harmonization and alignment has been made in recent years, much more is needed.

Finally, the Government, donors and civil society need to establish effective partnerships for monitoring and evaluating progress in the implementation and outcomes of the NSDP. Once again, progress has been made, and the Statistical Master Plan prepared by the National Institute of Statistics (NIS) provides the outline of both the specific exercises and systems for the collection and use of socio-economic data, and the capacity-building improvements required for sustaining this work. Further refining and then financing the monitoring and evaluation framework outlined in the NSDP will be essential for joint monitoring of progress in poverty reduction.