

1. Recent economic and social developments

Summary

- Over the last year, Cambodia has continued to show strong growth, with garments and tourism both expanding by 20 percent. The balance of payments has improved and FDI reached a new high. Newly-released health indicators also show considerable improvement over the last five years (with maternal mortality a notable exception).
- This report analyzes the evolution of living standards (per capita consumption) over time and the changes in distributions of accesses to services and assets. The purpose of the report is to analyze the forces underlying the observed rise in inequality of consumption between 1994 and 2004, when the Gini coefficient rose from 0.35 to 0.40. The report aims to find out whether the pattern or nature of Cambodia's growth has been destabilizing as well as whether Cambodia's policies have perpetuated inequality of opportunity or poverty traps.
- Analysis begins with an examination of headline trends in consumption inequality in rural and urban areas, based on data from the 1993/4 and 2004 household surveys (recognizing the limitations of this type of data). Findings suggest that within the general population, growth and rising living standards in urban areas has been pro-poor. In rural areas, by contrast, inequality has increased.
- Inequality of non-monetary dimensions of well-being, specifically health and education, has in most respects narrowed between 1997 and 2004. Access and outcomes have improved for all, and in particular more rapidly among disadvantaged groups (e.g., the poor, girls, and the rural population). Thus, disparities of health and schooling outcomes between sub-groups have decreased.

How has the Cambodian economy evolved?

Cambodia's economy has undergone dramatic changes over the past two decades, the most significant being from central planning to a market economy. Beginning in 1989, private property rights were reintroduced, price control abolished, state-owned enterprises privatized and investments liberalized. The Paris Peace Agreement in 1991 led to a UN-sponsored election in 1993 and the establishment of the Royal Government of Cambodia (RGC) in September 1993.

Annual GDP growth averaged 8.4 percent per annum over 1994-2006. During 2004-2006, Cambodia grew at double digit rates, averaging 11.4 percent per annum for three consecutive years. Consumer price inflation dropped from an average of 56 percent over 1990-1998 to less than 3.0 percent in 2006. Growth continues to be driven by garment exports, tourism, construction, and agricultural expansion. The garment sector, employing 10 percent of the total labor force and accounting for 14 percent of GDP, expanded with exports rising by 20 percent in 2006. During 2006, 20 percent growth in

tourist arrivals resulted in a 26 percent jump in tourism receipts. Agriculture continued to expand at 5.5 percent while construction slowed slightly.

External developments were positive in 2006. The balance of payments improved as the current account deficit (excluding transfers) declined to -7.7 percent in 2006 (from -9.6 percent in 2005) and gross international reserves expanded by 20 percent to US\$ 1.1 billion. FDI continued its upward trend, reaching a record high of US\$ 475 million. Consumer price inflation declined to 2.8 percent (from 6.7 percent in 2005) and is expected to remain low (below 5 percent) for 2007 and 2008. Increasing FDI is expected to be sustained and the discovery of offshore oil and gas reserves will likely bring about even higher growth, with production expected to start in 2009 or 2010. However, the new oil sector will also pose additional challenges to macroeconomic and fiscal management. The garments sector is increasingly facing stiffer competition from Vietnam's accession to the WTO and greater competition from China in 2008.

A recently released demographic and health survey shows considerable progress in health outcomes. Infant mortality fell from 95 per 1,000 live births in 2000 to 66 in 2005; child (under 5) mortality decreased from 124 deaths per 1,000 live births in 2000 to 83 in 2005. HIV prevalence also appears to have fallen remarkably. The notable lagging indicator is the maternal mortality ratio, which appears to have remained unchanged.

Why examine inequality?

The principal motivation for this report is the finding in the 2006 *Cambodia Poverty Assessment* that inequality rose in Cambodia (World Bank 2006). The second motivation is the synthesis of international experience with regard to growth-poverty-equity relationships contained in the 2006 volume of the World Bank's annual global flagship report, the *World Development Report (WDR) 2006: equity and development* (World Bank 2005).

With peace, Cambodia has enjoyed growth and poverty reduction

Cambodia's transition from civil war to peace, from one-party to multiparty politics, and from an isolated, subsistence-oriented economy to an open market economy, has made possible impressive rates of economic growth (averaging 7.7 percent per annum between 1994 and 2004) which has in turn resulted in rising average levels of per capita income and consumption. With financial and technical assistance from external partners, basic services have also begun to improve. The *Poverty Assessment* found that poverty fell from 47 percent to 35 percent between 1994 and 2004 (Box 1.1).

However, inequality has risen

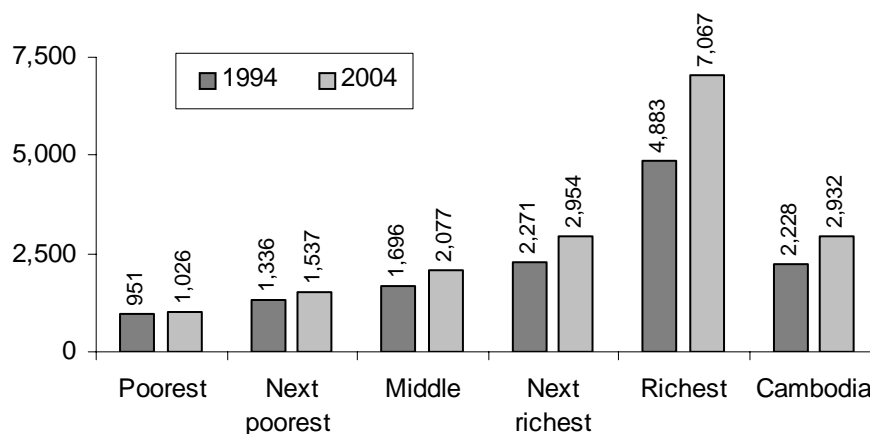
Even as all wealth groups have, on average, benefited, the benefits of growth have clearly accrued disproportionately to the wealthier groups in society, widening the gap between the rich and the poor. Within the sample of comparable areas, the average per capita consumption of the poorest quintile in 2004 was 8 percent higher than in 1994; for the richest quintile, by contrast, consumption was 45 percent higher in 2004 than in 1994.

Box 1.1 Poverty trends in Cambodia, 1993/4 to 2004

It has been hard to establish trends in poverty in Cambodia because questionnaire design and sampling have changed from one survey to the next, making it hard to compare findings. Most importantly, the geographical sampling frame has expanded each time. In the first survey, the 1993/4 Socio-Economic Survey of Cambodia (SESC), peripheral areas that were hard to reach and which were still under Khmer Rouge control were not covered: so, this cannot be directly compared to the 2004 Cambodia Socio-Economic Survey (CSES), which sampled from the whole country. However, looking only within the same (SESC 1993/4) sampling frame in 2004, poverty fell from 39 to 28 percent over the decade. On the basis of this trend in directly comparable estimates and what is known about the distribution of population and poverty inside and outside the sampling frame in 2004, it is estimated that poverty in the whole of Cambodia fell from between 45-50 percent in 1993/4 (the point estimate is 47 percent) to the national estimate of 35 percent seen in the 2004 survey.

Figure 1.1 From 1994 to 2004, per capita consumption amongst the poorest fifth has risen by only 8 percent—compared to 45 percent amongst the richest fifth of the population

- Real average per capita household consumption, 1994 and 2004, within the comparable sample frame (riels, 1993/4 constant prices)



Source: SESC 1994, CSES 2004.

Growth, inequality and poverty

Drawing on the WDR 2006 (Box 1.2) and other sources, we summarize the main arguments for fostering equity in public policy. The WDR 2006 argues that very high levels of inequality and poverty traps are fundamentally inimical to the efficient operation of a market economy. There are several different ways in which high levels of inequality and absolute deprivation may contribute to market failures and reduce investment and growth. In outline, there are three main effects that are generally distinguished:

- unequal access to economic opportunities, due to the inability of the very poor to participate in markets for credit or invest in human capital development, results in an inefficient allocation of investment.

Box 1. 2 World Development Report 2006: Equity and development

The 2006 WDR analyzes the relationship between equity, growth and poverty reduction, both within and between nations. The report documents the persistence of inequality traps, highlighting the interaction between different forms of inequality; and presents evidence that the inequality of opportunity that arises is wasteful and often weakens prospects for overall prosperity and long-term growth. It derives policy implications that center on the broad concept of leveling the playing field, both politically and economically and in both the domestic and global arenas. The report recognizes the intrinsic value of equity but focuses on the instrumental case that attention to equity supports long-run development.

WDR 2006 is structured in three parts. Part I reviews the evidence on inequality of opportunity, within and across countries. Part II asks why equity matters, discussing the two channels of impact (the effects of unequal opportunities when markets are imperfect, and the consequences of inequity for the quality of institutions a society develops) that give equity an instrumental importance, as well as intrinsic motives. Part III asks how public action can level the political and economic playing fields. In the domestic arena, it makes the case for investing in people through equitable access to services; expanding access to justice, land, and infrastructure; and promoting fairness in markets. In the international arena, it advocates leveling the playing field in the functioning of global markets and the rules that govern them—and the complementary provision of aid to help poor countries and poor people build greater endowments.

Source: World Bank 2005.

- pronounced inequalities in wealth give rise to institutions (for example, the institutions regulating the protection of property rights or the institutions that determine the voice of individuals in influencing Government policy) that systematically favor the rich over the poor.
- Finally, highly unequal societies (especially highly unequal societies in which many are very poor) are typically prone to social and political instability.

This suggests that, within sensible boundaries, improving equity promotes growth. Extreme deprivation interacts with market imperfections (in the form of asymmetries in access to information and credit, and in ability to take on risk) which divert investments in capital (including human capital) away from optimal allocations: without any asset base, the poor cannot obtain access to finance and cannot afford to invest in their children's education. In highly unequal societies, these growth-constraining effects are often embedded over time in institutions which consistently favor the rich over the poor, regardless of their innate abilities.

This basic ethical aversion to extreme inequity would seem to be present in Cambodia, too. The concepts of equality and equity seem to translate well between Khmer and English (see Box 1.3): while the place of these concepts in the Cambodian worldview is complex and difficult to summarize without grossly over-simplifying (as in any society), it would be hard to claim that they have no indigenous roots. Examining these social values needs to recognize some distinctive cultural legacies (e.g. the concept of merit, which is sometimes taken to imply that luck or misfortune in this life reflect an individual's good or bad behavior in a previous life), without oversimplifying Cambodian belief systems, or implying that values do not change over time—which they clearly do, and have. Interestingly, monks interviewed during the 2001 participatory poverty

assessment explicitly rejected most of the *karma*-based explanations of poverty, locating causality for wealth differences squarely in secular processes (ADB 2001).

Box 1.3 Defining terms and concepts: equality and equity

The key concept of this report will be *equity*. Given that the English words equality and equity can be used by different people to mean different things, it is worth trying to define these terms with some precision. Whereas equality is a positive concept (that is, one that is objective and measurable), *equity* is a normative concept (that is, one based in values). Following the WDR, equity is understood in this report to encompass issues of both relative and absolute deprivation, and to incorporate two components:

- *equality of opportunities*: a concern with equity implies attention to the fairness of wealth generation processes, and justifies interventions to ensure that individuals are able to benefit from their innate abilities (talent and hard work), regardless of the wealth, ethnicity, geographical location or sex into which they are born.
- *aversion to extreme poverty*: a concern with equity implies that public action (by state or non-state actors) is necessary to help those whose standard of living falls below a minimum threshold, regardless of the processes that have brought them there.

The related but distinct meanings attached to “equity” and “equality” in the WDR map quite well with equivalent Khmer concepts. The Khmer word usually given as the translation for equity (*samatoah*) incorporates the root *sama* (common to both Sanskrit and Pali), meaning “even, equal, impartial”: it thus relates to the “fairness” of rules or process (or, in a modern phrasing, to equality of opportunity or treatment). By contrast, *samakpheap* or *pheap smoer khnear* relate to a state of being the same, equivalent to the concept of similar outcomes in the English “equality”.

As outlined below, both logic and evidence suggest that inequality traps (inequality of opportunity and pockets of extreme deprivation) result in growth which is slower and less sustainable than it might otherwise be; and, conversely, that tackling inequity is likely to sustain or increase rates of growth (and growth-led poverty reduction). While trade-offs may be necessary in the short term, equity (or distributional concerns) and efficiency (or growth) are at a fundamental level complementary over the long term.

In a public opinion poll conducted recently by Indochina Research Limited (IRL) for the World Bank, respondents were asked to list (without prompting) the three most important issues facing Cambodia that the Government should tackle. Most respondents (33 percent of respondents) chose “poverty”. Poverty was also the most frequently quoted pressing problem, according to the richest and best educated respondents. Inequality did not feature significantly (2 percent of respondents) in the answers volunteered. However, if people focus first on absolute outcomes (their own living standards and problems encountered in making a living) rather than relative position and process (how they compare to others, equality of opportunity), they do not appear to be insensitive to equity issues. When asked “Do you think inequality of wealth is an issue?,” 88 percent answered yes. Finally, concern about growing inequality of wealth, and the implications of this in terms of growing inequality of opportunity, emerged strongly in mixed-methods locality-based research (see Box 1.4).

Figure 1.2 Rich and poor Cambodians care about the same issues, albeit with different emphasis



Source: IRL 2007.

That inequality does register as a concern is important as the popular legitimacy of a particular elected government—and of a political system more broadly—is strongly affected by citizens’ perceptions as to whether this system operates in the interests of all citizens, rather than just a privileged few. Low levels of state legitimacy make it harder to govern effectively: if it is widely believed that wealth differences result from unfair rules (i.e. that the rich are rich largely because of their connections), this undermines people’s faith in politicians and officials, making it harder for Government to retain people’s loyalty and ensure their compliance with law and policy¹. High levels of inequality also undermine the trust that is needed for citizens to work together to solve their own problems through collective action; and is clearly related to the incidence and severity of crime within society (Demobynes and Özler 2005).

Sources and measures

A core measure of welfare is per capita consumption: that is, the average value, in monetary terms, of food, clothing, housing and so on, consumed by an individual over a

¹ See Mekong Economics 2006 for this argument as applied to the analysis of growing inequality in Vietnam.

Box 1.4 Qualitative research shows widespread concern with growing inequalities

As of now, the gap between the rich and the poor is getting wider. The rich get richer and the poor get poorer and it is not easy to move upward. (Krasaing Village, Battambang: MOPS)

In 1993, we were not so different. At that time we [each] had around 5 ploan [0.5 ha.] of rice land that was given by the government. ... There is now a huge difference. The rich are reaching the clouds and the poor are sinking deeper...The rich lend out money and make a profit... whereas the have-nots are getting worse off and sooner or later sell all their land. (Kompong Thnoat, Kampot: MOPS)

Over time, stratification has been getting worse. ... It will be very hard for the poor to move out of poverty in the next five years because of landlessness, lack of capital and growing inequality. The gap between the rich and poor has grown tremendously. (Andong Trach, Battambang: MOPS).

The poor remain poor because the poor feed the rich. The rich are getting richer because they have capital to invest to make more money. ...The rich drop something for the poor to continue, but the poor earn to feed the rich. (Prek Khmeng, Kandal: MOPS)

Source: CDRI 2007b (forthcoming).

specified period. Per capita daily consumption is recorded in national multi-purpose surveys such as the 1993/4 Socio-Economic Survey of Cambodia (SESC) and the 1997 and 2004 Cambodia Socio-Economic Surveys (CSES): the consumption level of each individual is compared to the consumption poverty line level, and the proportion with consumption values falling under the poverty line defines the poverty rate.

In this report, we attempt to describe and explain changes in the level of inequality of consumption along various dimensions (rural and urban, richest and poorest quintile, those with a secondary education and those with none, and so on). Chapters 2 and 3 will, respectively, answer the following questions:

- Why does the level of inequality of consumption appear to have risen in rural areas, but appeared to remain unchanged or fall in urban areas?
- What contributed to the high levels of inequality in levels of consumption in certain segments of the populations?

Per capita consumption as derived from a national sample survey is a good general-purpose measure of living standards (and thus poverty and inequality) for a variety of reasons (Grosh and Glewwe 2000). However, it does also have some limitations. Household surveys typically under-sample the very poor and the very rich. In poverty analysis, this may not be critical if it does not result in anything more than a small underestimation of the poverty rate. When the interest is in equality or inequality of distribution, however, it matters more if *both* the tails (the poorest and richest) extremes are underrepresented, resulting in an underestimation of the true level of inequality.

Consumption is however only one dimension of welfare, and national surveys only one tool. In the case of Cambodia, it's unlikely that the richest households or the slum dwellers of Phnom Penh will be sampled in the household surveys. Thus, the results from household surveys must be interpreted with this caveat in mind.

Box 1.5 Commonly used inequality measures

There are many alternative ways in which inequality might be measured or communicated (McKay 2002). These include (among others):

- Average value (or shares of total) for the welfare measure held by different groups;
- ratios of the welfare measure between the top and bottom of a distribution;
- a simple plot of the distribution of the welfare measure
- a Lorentz curve, which plots cumulative percentage of the population against cumulative percentage of the wealth measure.
- The *Gini coefficient*, derived from the Lorentz curve, is one of the most widely-used measures of inequality, describing the difference between an observed cumulative distribution and an (ideal) perfectly equal distribution. It ranges from zero to one, with zero signifying total equality and one denoting complete inequality. It provides a measure of disparity or inequality by assessing the relative shares of outcomes vis-a-vis the respective population shares in the distribution. For a Gini coefficient of 0, every percentage of the population has 1 percentage share of the total outcomes (e.g., wealth or income or wages). In other words, the total outcomes are equally shared.
- The *Theil Index* also ranges from from zero to one, with zero signifying total equality and one denoting complete inequality. One advantage of the Theil Index is that it allows decomposition of total inequality. In other words, total inequality is the summation of inequality within each sub-component. Theil Index also measures inequality by comparing the relative outcome shares vis-a-vis the respective population shares, and weighting the differentials by their respective (sub-component) income shares.

Each of these measures has strengths and weaknesses. Thus the Gini registers as a decrease in inequality any transfer between a richer and a less rich person, without making any distinction as to whether the transfer went to someone in the middle or the bottom of the wealth distribution, which is obviously of interest when the concern is poverty reduction. A different picture of inequality may be obtained if data on distribution is presented as a ratio of values between the top and bottom 5 percent of the population, or the top and bottom 20 percent.

There are also other aspects and indicators of material wellbeing which are potentially more important in the longer run, and other tools for collecting and analyzing data. The measures commonly used to describe inequality (Box 1.5) can all be used with any continuous variable. The value of household assets or quality of housing may be good indicators of long-term welfare. Measures of human development (or human capital) such as literacy, level of educational attainment or health outcomes (e.g. life expectancy) have both intrinsic value in defining a good standard of living, and instrumental relevance in expanding an individual's economic opportunities. As the future living standards of Cambodian children depend on the education and healthcare that their families currently enjoy, differences in access to basic services are a critical influence upon equality of opportunity for the next generation. Similarly, it is rewarding to examine inequalities in access to private productive assets (land) and publicly-provided infrastructure (such as roads or irrigation), as these expand opportunities for production and employment.

Given the importance of these other outcomes, the report also examines the distribution of these non-monetary aspects of wellbeing and opportunity. In particular, Chapters 4, 5 and 6 will, respectively, document and analyze the extent of inequality in:

- access to productive assets (with a focus on land)
- access to infrastructure (with a focus on rural roads)
- access to services (with a focus on schooling and healthcare)

Apart from the SESC and CSES, there are a number of other important sources for this analysis. The primary sources of information on intra-household differences in consumption and access to productive assets, services, and infrastructure are the 1993/4 SESC and the 1997 and 2004 CSES. The key source of information on health outcomes is the 2005 Cambodia Demographic and Health Survey (CDHS), the findings of which can be compared to those in the previous (2000) CDHS. Information on education can be derived from the consumption surveys, the CDHS, and a number of other national sources. Finally, information on popular values and perceptions with regard to living standards, national challenges, and performance of various political and social institutions were gauged with a nationally-representative public opinion poll of 2,565 adults.

These various nationally-representative statistical sources are complemented with a variety of thematic, contextual studies focusing on particular localities. Such research, using either quantitative or qualitative methods (or both), may help us to understand relationships between different aspects of household livelihood strategies and welfare (e.g. between access to loans and investment decisions), and between households and wider institutional structures (communities, local authorities and market chains), in ways which are hard for a national sample survey. However, it is hard to then generalize from these local findings to make claims that they represent broader national phenomena (at least in the way that a well-designed sample survey can). Useful outcomes can be achieved by using both types of information in tandem to validate findings, explore behavioral explanations for observed statistical relationships, and so on. A key source is the Moving out of Poverty Study (Box 1.6), conducted by the Cambodia Development Resource Institute (CDRI 2007b). Other sources include the Participatory Poverty Assessment (PPA) conducted in the Provinces surrounding the Tonle Sap lake (CDRI 2007a); a number of sector-specific studies; and a short piece of fieldwork-based research into the current and potential future effects of systematic land titling (Markussen 2007).

Trends in inequality of monetary dimensions of welfare

As mentioned above, in those parts of the country for which direct comparison is possible, living standards rose for every consumption quintile. While every segment of the population has gained, the magnitude and pattern of growth differ between urban and rural domains. In Phnom Penh, the growth in consumption was spread fairly evenly across the whole range, averaging 30 percent over the decade between surveys. The poorest at the bottom end of the distribution experienced the highest rate of growth while the upper tail grew at the slowest rate. In “other urban” areas, consumption gains from the 25th percentile through the 90th percentile were phenomenal, averaging 40 percent during 1993-2004. Even for the poorest urban group below the 25th percentile, consumption growth was 10-25 percent. Growth in other urban areas could thus be characterized as rapid and widely shared (Figure 1.3).

Box 1.6 Stratification or churning? Potential insights from longitudinal analysis

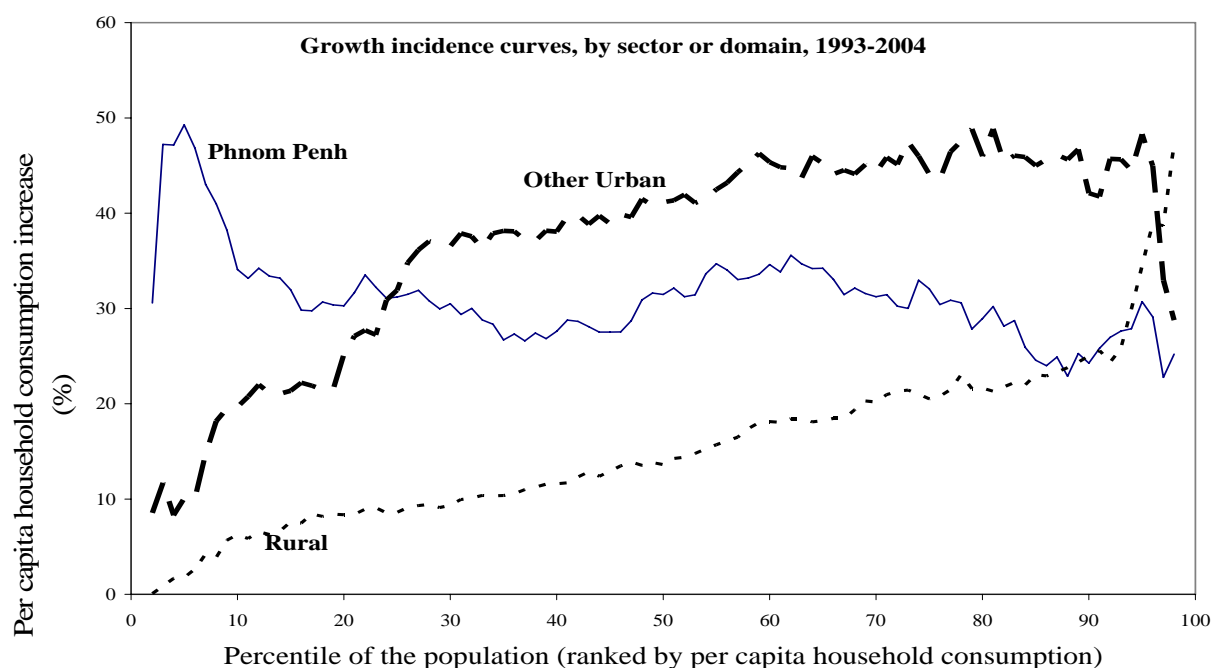
The Moving out of Poverty Study (MOPS) has used mixed methods research (that is, research which purposively combines quantitative and qualitative analysis) to describe and explain village- and household-level wealth and poverty dynamics. This has involved revisiting 890 households in nine villages which were previously surveyed for an earlier study in 2001. This panel dataset (i.e., a dataset that tracks the same households between repeated surveys) provides a valuable complement to national sample surveys such as CSES. In particular, it yields insights into how many households have moved out of poverty over a three year period—and, conversely, how many households which were not poor in 2001 had fallen into poverty by 2004, and how many had not seen their status (poor or non-poor) change. With this information, it becomes possible to estimate what proportion of the poor at any one time are trapped in chronic poverty, relative to the transitory poor who may cycle in and out of poverty in response to life cycle events or household shocks. In principle, the level of stasis or dynamism gives clues as to the level of equality of opportunity in rural society: if the rich stay rich and the poor stay poor over several rounds, it strongly suggests the existence of poverty traps and inequality of opportunity. If by contrast there is found to be considerable “churning” around the poverty line, that might suggest a healthier situation in which there is more equality of opportunity, with poverty status at any given date as likely to represent luck, life cycle factors or choices (e.g. to defer current consumption or savings). The qualitative component of MOPS, meanwhile, used semi-structured interviews with groups and individuals in the nine villages to obtain their views on how their livelihoods have changed, and what factors, at the household, village or national levels, help to explain these changes. Preliminary analysis and findings from the draft MOPS report are reproduced in this document: the full research project will be presented as a CDRI Working Papers later in 2007.

By contrast, growth in rural areas accrued primarily to the richest end of the distribution. The growth incidence curve here increased almost monotonically: consumption gains of the bottom half of the rural population were less than 10 percent, and reached only 20 percent at the 90th percentile. One can characterize growth in rural areas as highly concentrated at the extreme top end.

As a result, the Gini coefficient for per capita consumption in the geographically comparable sampling frame rose from 0.35 in 1994 to 0.40 in 2004. This rise in inequality is principally a result of rising rural inequality. Inequality in Phnom Penh and in other urban centers remained largely unchanged while inequality amongst the rural population increased considerably. Even though inequality in rural areas rose over time, the absolute level of inequality continued to be higher in urban areas today, just as decade ago. The urban Gini coefficient remained at 0.43 between 1993 and 2004, while the rural Gini coefficient was only 0.354 in 2004, despite a rapid rise (Table 1.1).

Because analysis of *trends* in consumption inequality is based upon a geographically-incomplete subsample of the 2004 data which is a subsample weighted towards the more accessible parts of the country, the 2004 figure derived from this trend analysis somewhat underplays the current level of inequality in Cambodia. In the whole of the country—that is, including now the poorer, peripheral areas that were not covered in the first 1993/4 survey—the Gini in 2004 stood at 0.42.

Figure 1.3 Changes in consumption, percentile-to-percentile, for Phnom Penh, Other Urban, and Rural Areas, between 1994-2004



Source: SESC 1993/4; CSES 2004.

Note: only comparable sub-samples from an identical (1993/4) sampling frame are used for each survey year.

Table 1.1 According to household surveys, inequality (Gini coefficients of real per capita consumption) rose considerably in the countryside, but remained largely unchanged in the towns

	1993	2004
Rural	0.265 (± 0.005)	0.354 (± 0.007)
Urban	0.434 (± 0.010)	0.431 (± 0.009)
Phnom Penh	0.393 (± 0.023)	0.367 (± 0.014)
Other Urban	0.439 (± 0.037)	0.434 (± 0.018)
Cambodia	0.347 (± 0.006)	0.403 (± 0.005)

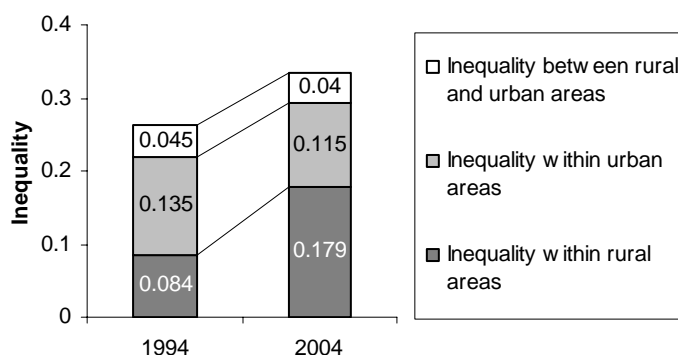
Source: Socio-economic Survey Cambodia, 1993; and Cambodia Socio-economic Survey 2003-04.

Note: estimated standard errors in parentheses; real consumption in 1993 Phnom Penh prices. The comparable sub-sample of 2004 is taken from the full 15-month sample. The results are based on similar sampling frames.

While Gini coefficients allow us to easily compare inequality across groups, they do not allow us to readily compare the relative contribution of each group to the total inequality. The Theil index, another commonly used measure, provides ease of

decomposition and can reveal the relative importance of each component—in this case the contributions of (i) rural inequality, (ii) urban inequality, and (iii) between-urban-rural inequality—to Cambodia’s total inequality. Figure 1.4 shows the decomposition of Cambodia’s inequality into these three components. Rural inequality has risen and its share in total inequality has also increased during this decade. Urban inequality, on the other hand, has fallen in point estimate and in its contribution to total inequality. Between-sector inequality is insignificant and unchanging.

Figure 1.4 Over the last decade, rural inequality has risen sharply



Source: SESC 1993/4; CSES 2004.

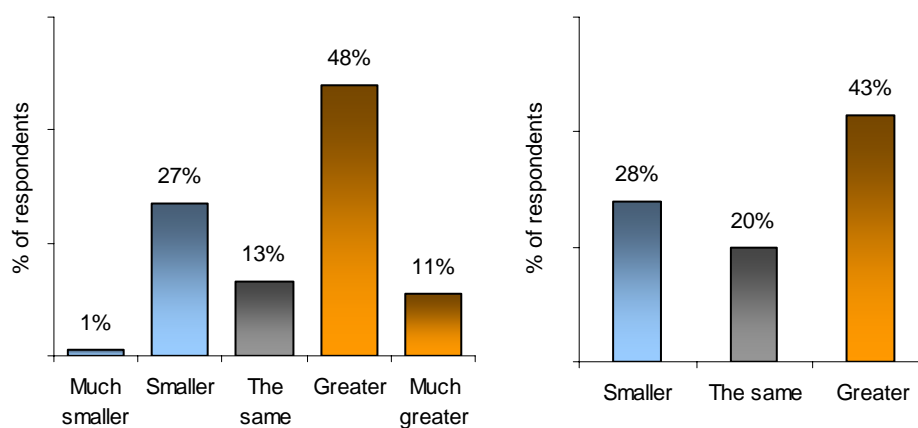
Note: For 2004, we only select the comparable sub-sample, based on the full 15-month sample, taken from an identical (1993) sampling frame.

The between-urban-rural gap is small because the rural and urban distributions have substantial overlapping areas. Figure 1.6 presents distributions of consumption for urban, rural and Phnom Penh populations by year. The overlap between these three domains is large: hence, even if the means are significantly different across distributions, disparity between distributions is trivial.

Very few people feel that inequality has not changed: the vast majority thinks that the gap between the richest and poorest in their community has changed over the last five years, with 59 percent feeling that it has increased. Opinion is more divided on whether local wealth differences will diverge further in the next five years: one in five think not, while those forecasting the gap widening outnumber those who predict it would shrink.

Figure 1.5 Most people believe inequality has risen; and will continue to do so

- a. Compared to five years ago, in your community the gap between richest and poorest is:
- b. In five years' time, in your community the gap between the richest and the poorest will be:



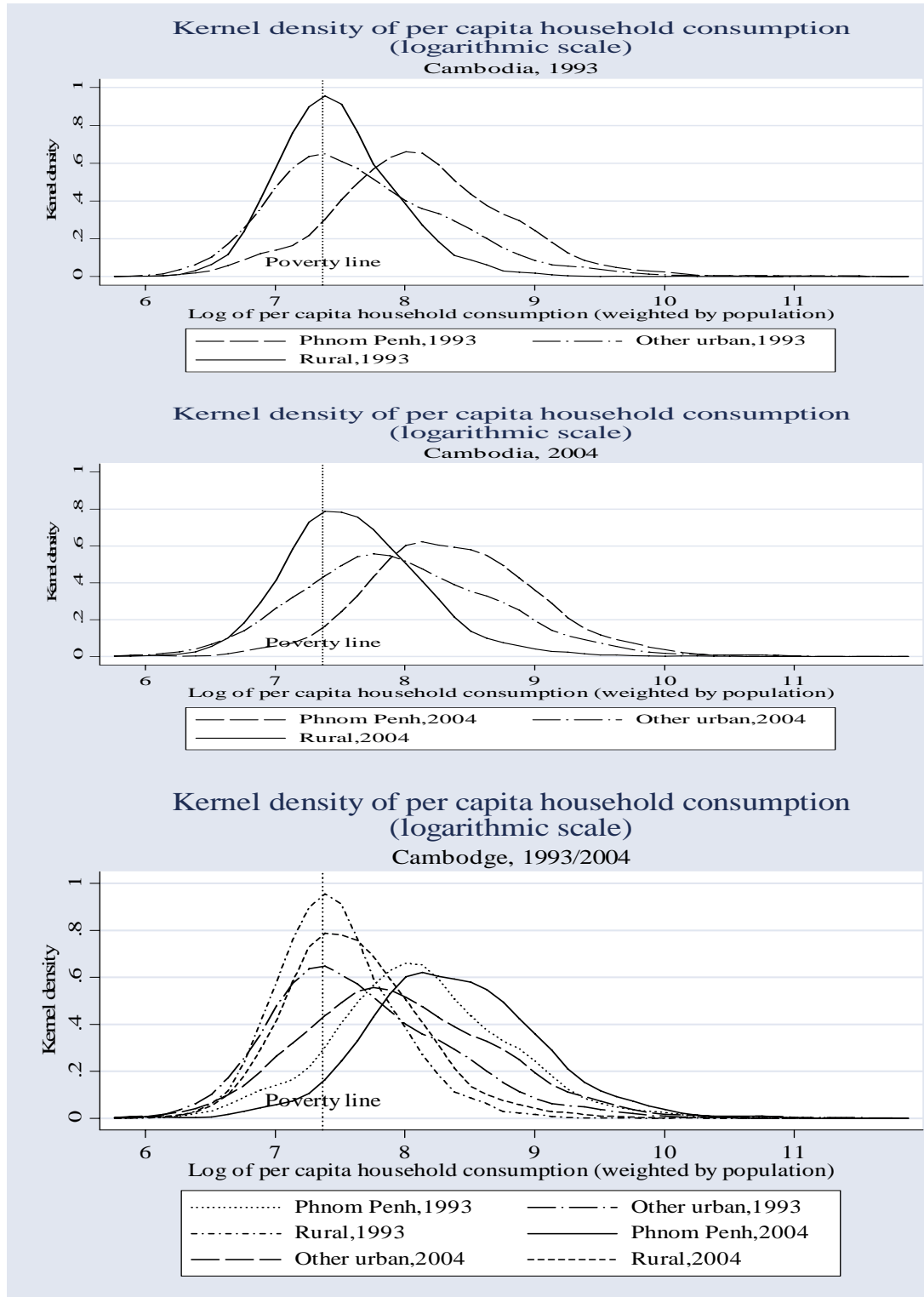
Source: IRL 2007 p. 31

Note: Answers total to 100 percent; missing values answered "don't know / didn't answer".

Trends in inequality of non-monetary dimensions of welfare

There has been progress with regard to other aspects of inequality. In education, there have been very positive trends towards increasing equality in educational uptake and outcomes, with closing gaps in the enrolment rates of girls and boys and upper and lower quintile groups. In health, there are some positive trends in outcomes. However, the pattern of public provision can be made more progressive. Currently, much is spent in the capital, whereas some 85 percent of the population and 90 percent of the poor live in rural areas, and with significant amounts allocated to tertiary rather than primary care.

Figure 1.6 Distributions of consumption, by sector, 1993, 1997 and 2004



Source: Socio-economic Survey Cambodia, 1993; and Cambodia Socio-economic Survey 2003-04.
 Note: only comparable sub-samples from the same (1993) sampling frame are used

Equality in access to primary education is improving

As a result of expanding coverage, equality in access to education is improving as increasing numbers of girls and children of rural and/or poor families are drawn into the school system.

Although there are still large inequalities in outcomes between men and women, rich and poor, and rural and urban populations, these group averages mask considerable progress in recent years. Despite problems with dropout, repetition and

Table 1.2 There has been a dramatic expansion in basic education in recent years

Performance indicator	2000	2004	change
Pre-schools	952	1,275	34%
Lower secondary schools	511	688	35%
Classes	1,628	2,249	38%
Primary enrolment (millions)	2.4	2.7	14%
Primary enrolment in remote areas	54,000	81,000	50%
Primary net enrolment rate (NER)	84%	90%	7%
Lower secondary enrolments	284,000	460,000	62%

Source: Sakellariou 2007 citing Quinio 2005.

teaching quality, greater equality in access to primary education is starting to result in closing gaps in education outcomes. Amongst the younger age groups which have more recently passed through the (improving) education system, literacy rates are higher across the board, and the inequalities are shrinking rapidly (Figure 1.7 and Table 1.2).

Although pronounced, health inequalities are starting to close

In most of the key measures, health outcomes are becoming less pronounced over time. Thus for example, the gap between the best and worst performing provinces in terms of child survival has narrowed between 2000 and 2005: Mondolkiri and Rattanakiri posted 40 percent and 39 percent declines in infant and child mortality respectively, while indicators held steady in Phnom Penh. Pursat province experienced the second highest rates of early childhood mortality across all age groups in 2000: the CDHS 2005 has shown although still relatively high, there has been a marked reduction by more than a third for rates of infant and under-five mortality².

This picture of narrowing inequalities is not, however, universal. Inequalities in child survival between the rural and urban populations are widening as improvements occur in both, but occur more rapidly—and starting from a much better initial level—in the urban centers (see Figure 1.8).

² Changes in methodology between CDHS 2000 and CDHS 2005 saw Siem Reap included with Oddar Meanchey, Preah Vihear/Stung Treng was included with Kratie and Kompong Som was included with Kampot / Kep for the CDHS 2000 which may give an under-estimate of 2005 ratios.

Figure 1.7 Increasing equality in primary enrolment is closing gaps in literacy rates amongst the younger generation

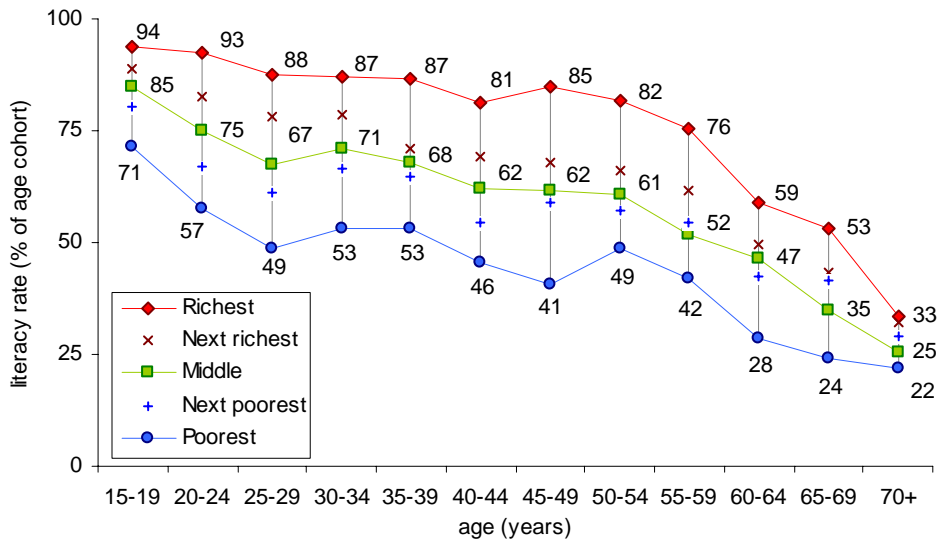
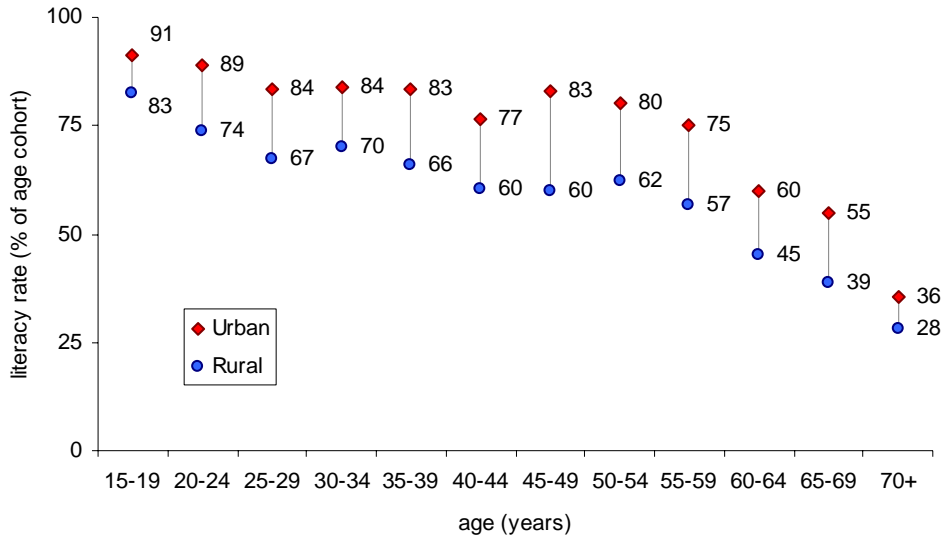
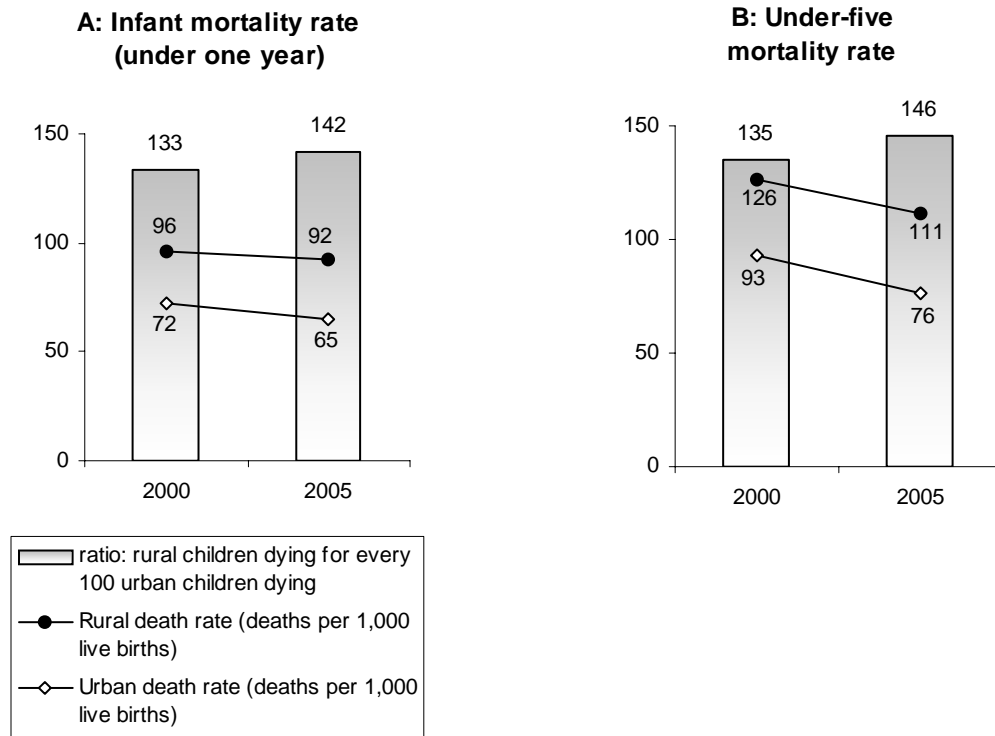


Figure 1.8 Faster gains from a better base in urban areas are widening existing inequalities



Source: CDHS 2000 p. 125; CDHS 2005 p. 126

Perspective and focus

In the context of Cambodian development policy, the focus is for now on the bottom end of the distribution. The burning question on inequality should be why this poorest segment of the population—chiefly in rural areas—has been unable to benefit more from productive opportunities. This report thus focuses on addressing the barriers to participation in the economy by all members of society, and how the government could reduce these barriers to generate greater productivity and real income for all.

Based on the analyses, the rest of the report examines sectoral as well as cross-cutting issues in-depth. Recommendations for public policies relate mainly to:

- creating an environment that promotes individuals' investments in capabilities;
- expanding opportunities to access services and productive assets; and
- removing systemic barriers so the poor and disadvantaged can participate in the country's development and experience higher growth.

More specifically, we suggest policy options to facilitate or ensure greater inclusion of the poor in government programs (e.g., land titling, social land concessions); accessing public services (e.g., healthcare, schooling); and sharing public resources (e.g., infrastructure, fiscal resources, common property resources). Each of these measures is a strong candidate for inclusion in a set of equity-enhancing pro-poor interventions.