



Cambodia: sharing growth equity and development in Cambodia

Launch workshop for the
World Bank Cambodia Equity Report 2007

Hotel InterContinental, Phnom Penh
June 12th 2007

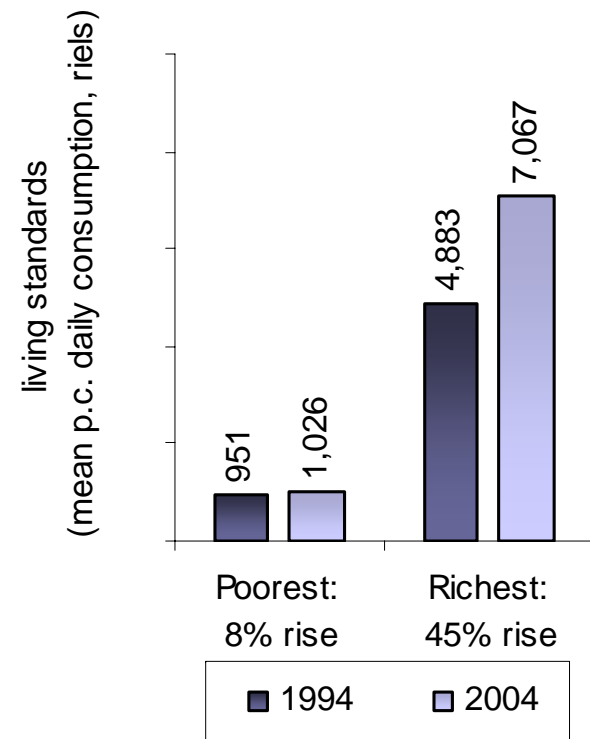


Structure of presentation

- I. Starting point: recap on growth, poverty reduction, inequality
- II. Growth and living standards: inequality in consumption
 - within and between urban and rural areas
 - breaking down the 1993/4-2004 trend
- III. Opportunities and non-monetary outcomes
 - Infrastructure
 - Human capital (health, education, water and sanitation)
 - Land
 - Institutions

Starting point (NSDP, Poverty Assessment):

- Cambodia has experienced rapid economic growth (average 7.4% p.a. 1994-2004)...
- and falling poverty (c.47% to 35%)...
- but rising inequality

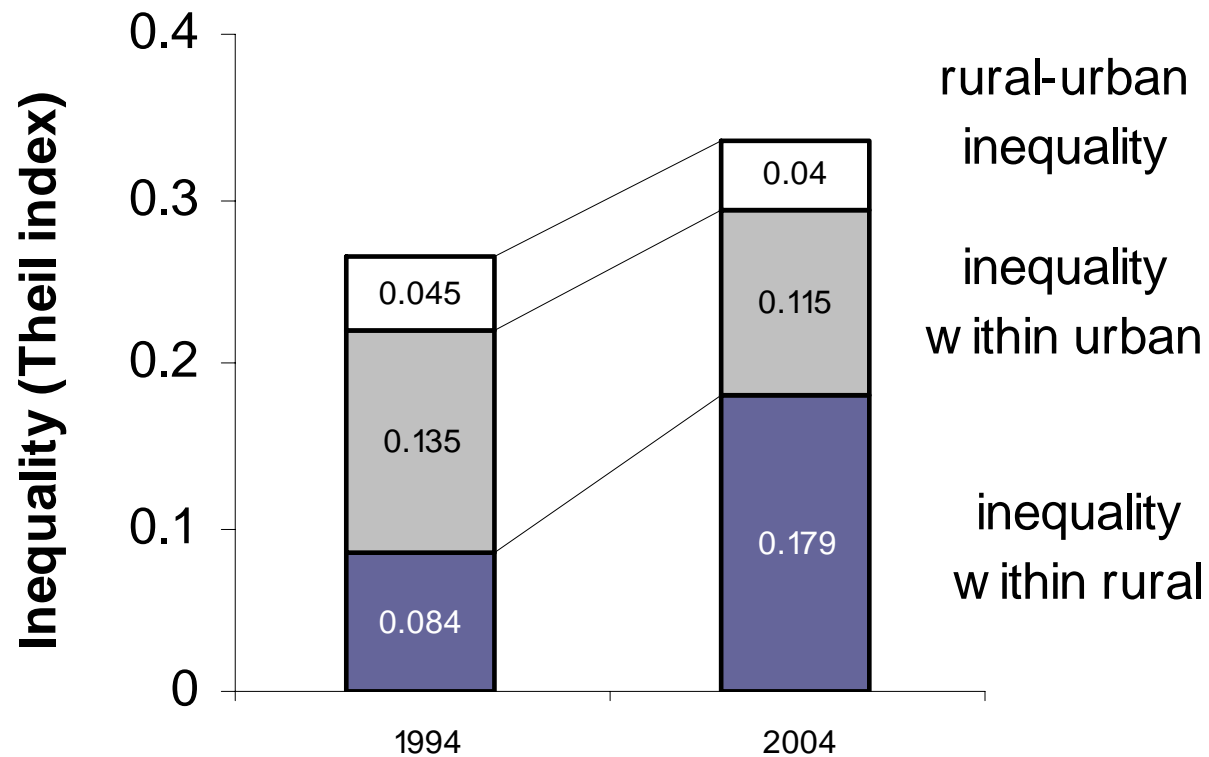


Trends in consumption inequality

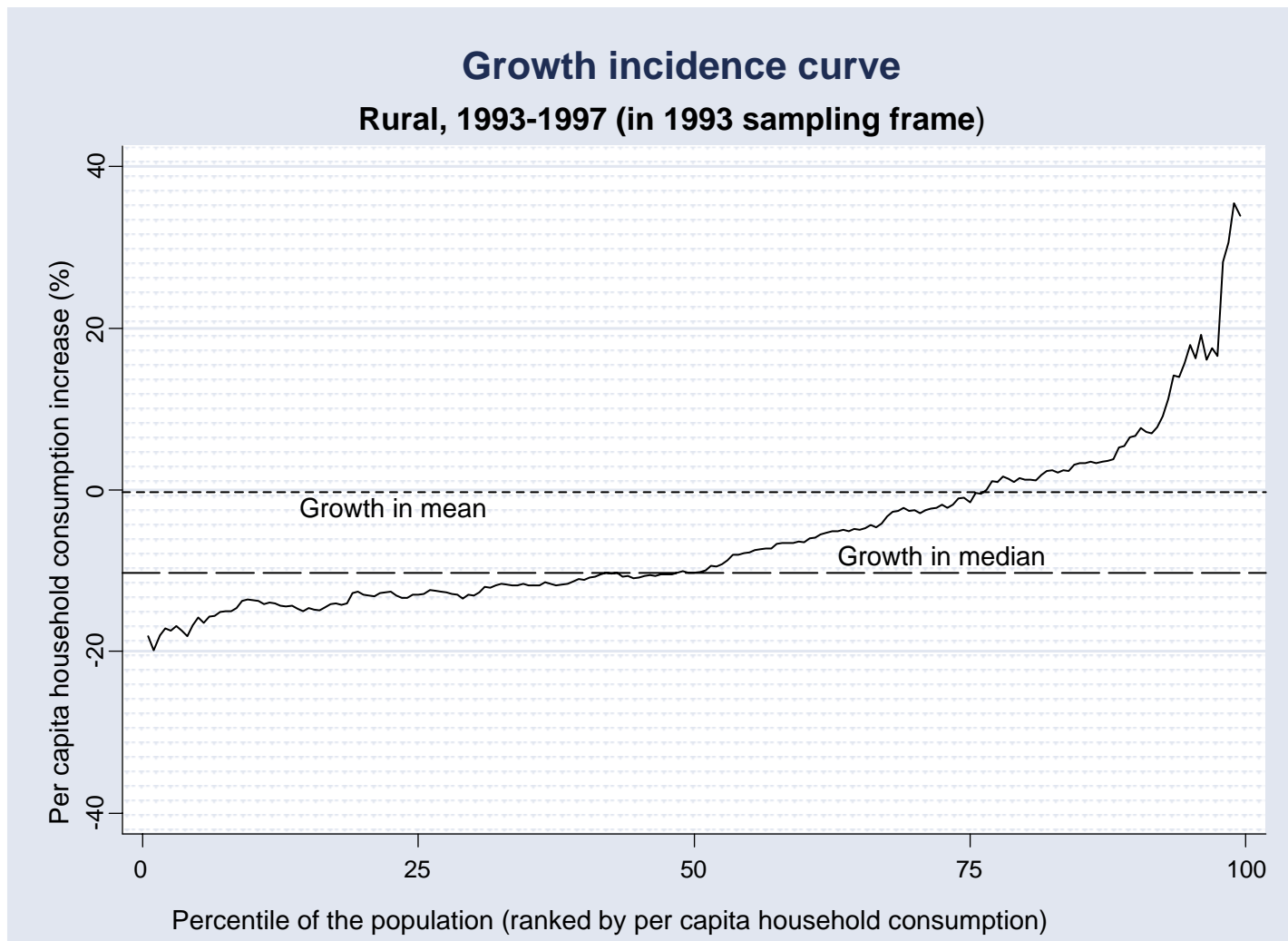
- To summarize, in areas that can be compared between 1994 and 2004:
 - Inequality within rural areas rose (particularly 1993/4-1997)
 - Inequality within urban areas remained largely unchanged
 - Rural-urban differences remained about the same

- Some caveats about
 - Consumption as the measure of inequality
 - Household surveys as a tool
 - 1997 data

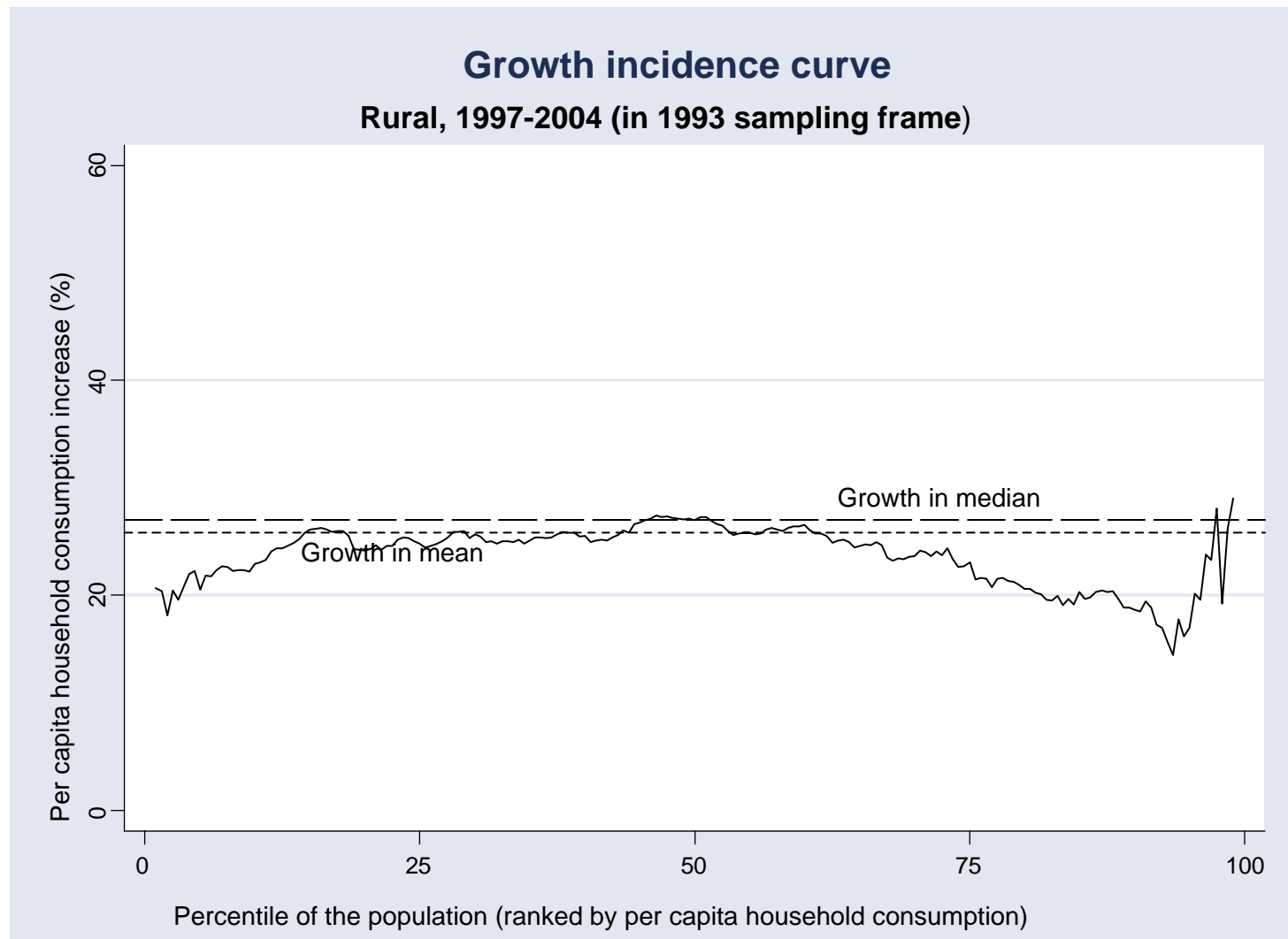
the rise in national inequality has been driven by growing *intra-rural* inequality



Surveys suggest rural inequality grew 1993-97...



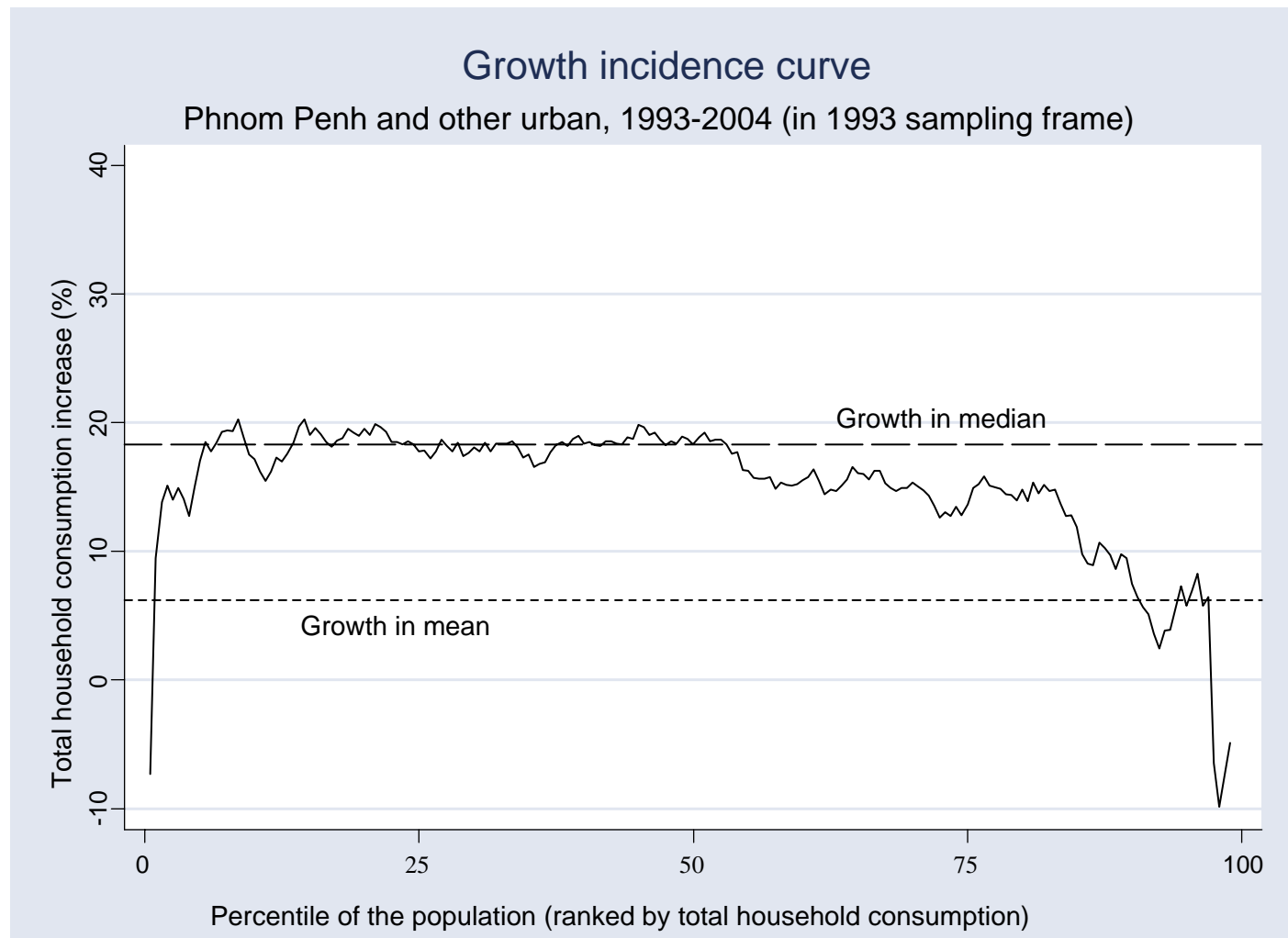
...but remained largely stable 1997-2004



Mixture of factors underpin growing rural inequality

- *Individual / household characteristics*
 - innate abilities
 - human capital conferred through health and education
 - different endowments of financial and physical capital i.e. savings and assets
- *Geography*
 - communities differ in quality of soils, potential for irrigation, and remoteness / connection (access to markets and basic services)
- *Institutions / governance*
 - particularly in management of local natural resources, where well-connected rich enjoy access and incomes that the poor often cannot

In urban areas, surveys suggest growth widely shared, raising consumption for all groups



Inequality in urban areas has been more stable – but also consistently higher

- Gini coefficients for p.c. consumption (0 = perfect equality, 1 = perfect inequality)

	1993/4	2004
Rural	0.265	0.354
Urban	0.434	0.431
Phnom Penh	0.393	0.367
Other Urban	0.439	0.434
Cambodia	0.347	0.403

Broadly inclusive urban growth reflects:

- Increasing returns to education and skills with opening to international trade and investment driving urban economy
- Offset by higher labor force participation and unskilled labor moving from agriculture to services and manufacturing (tourism, garments, construction)

The future of equality in urban areas?

Some caveats...

- household consumption surveys don't capture either the very rich or the very poor, so the picture is partial

...and caution: challenges remain

- Very narrow base of growth and employment
 - c. 80% of exports still garments; success reflects strategy, but also favorable trade environment
 - c. 250,000 entering labor force every year, so need more than garments (broader investment climate reforms)
- If Cambodia does move up the value chain into technology-heavy sectors, returns to education can be expected to increase
 - Resulting in growing education-based inequalities in wages

Inequalities in human development and inequalities in consumption / assets reinforce each other

- “poverty traps” reproduce inequality between generations. The poor:
 - are badly nourished, have less contact with health services, and work in physically strenuous and risky jobs: and so are more likely to fall ill
 - once ill, have less physical access to health care; often delay treatment because of the cost; and get sub-standard treatment because they cannot pay
 - without savings, must sell assets (e.g. land) or take on debt to afford treatment – so becoming poorer
 - Similarly, the poor often pull children (especially girls) out of school to meet immediate labor / income needs – reducing future earnings potential
 - Which reduces future earnings potential, trapping next generation in occupations with low and unstable incomes

Improvements in equity of human development

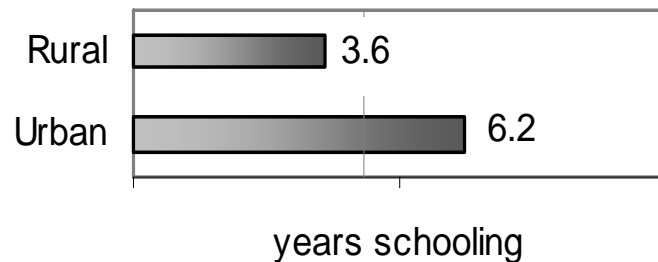
- Human development is important both as
 - a goal in its own right; and as
 - a means to the goal of opportunity and economic growth
- Significant gains in education
 - Pro-poor, pro-girl expansion of primary education has closed gender gaps in literacy
 - Reflecting broadly pro-poor Government spending
- Some improvement too in health equity...
 - Health Coverage Plan has reduced spatial differences
 - Closing inter-Provincial differences in child survival
 - Out-of-pocket spending still high, but slightly more affordable
- ...although inequalities in access to health services and health outcomes remain very large

III. Opportunities and non-monetary aspects

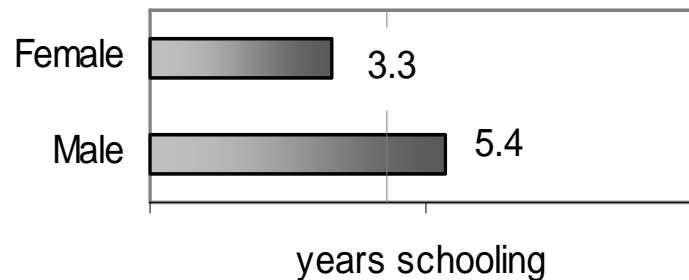
Educational opportunities have varied widely

- There is inequality in average years of schooling...

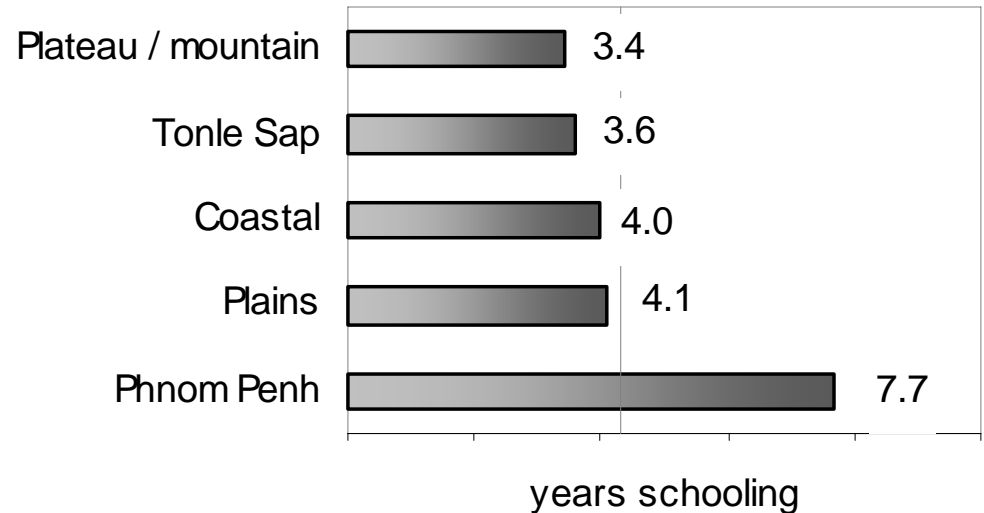
a. between urban and rural areas



b. between men and women



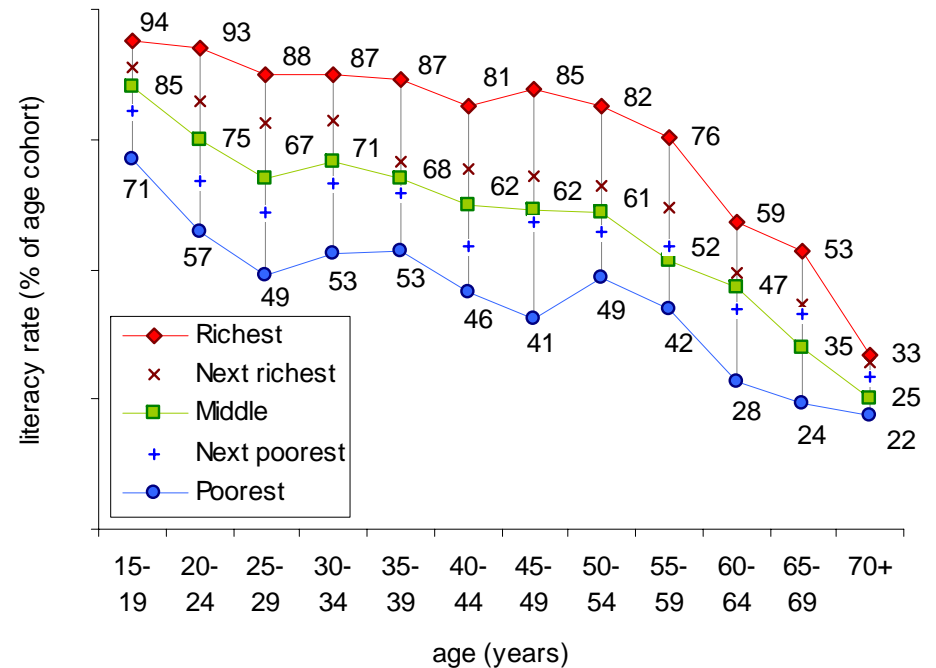
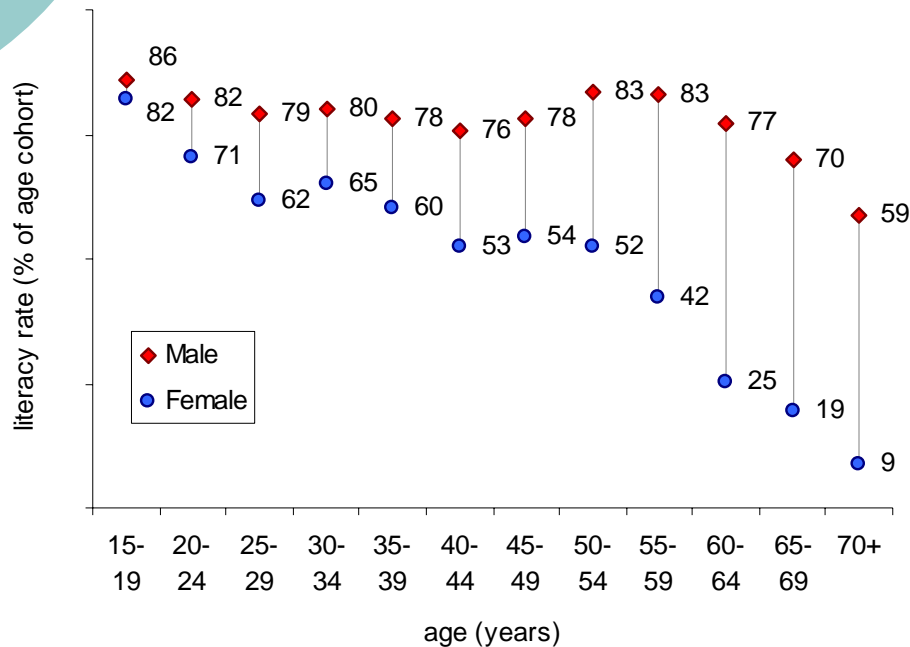
c. between regions



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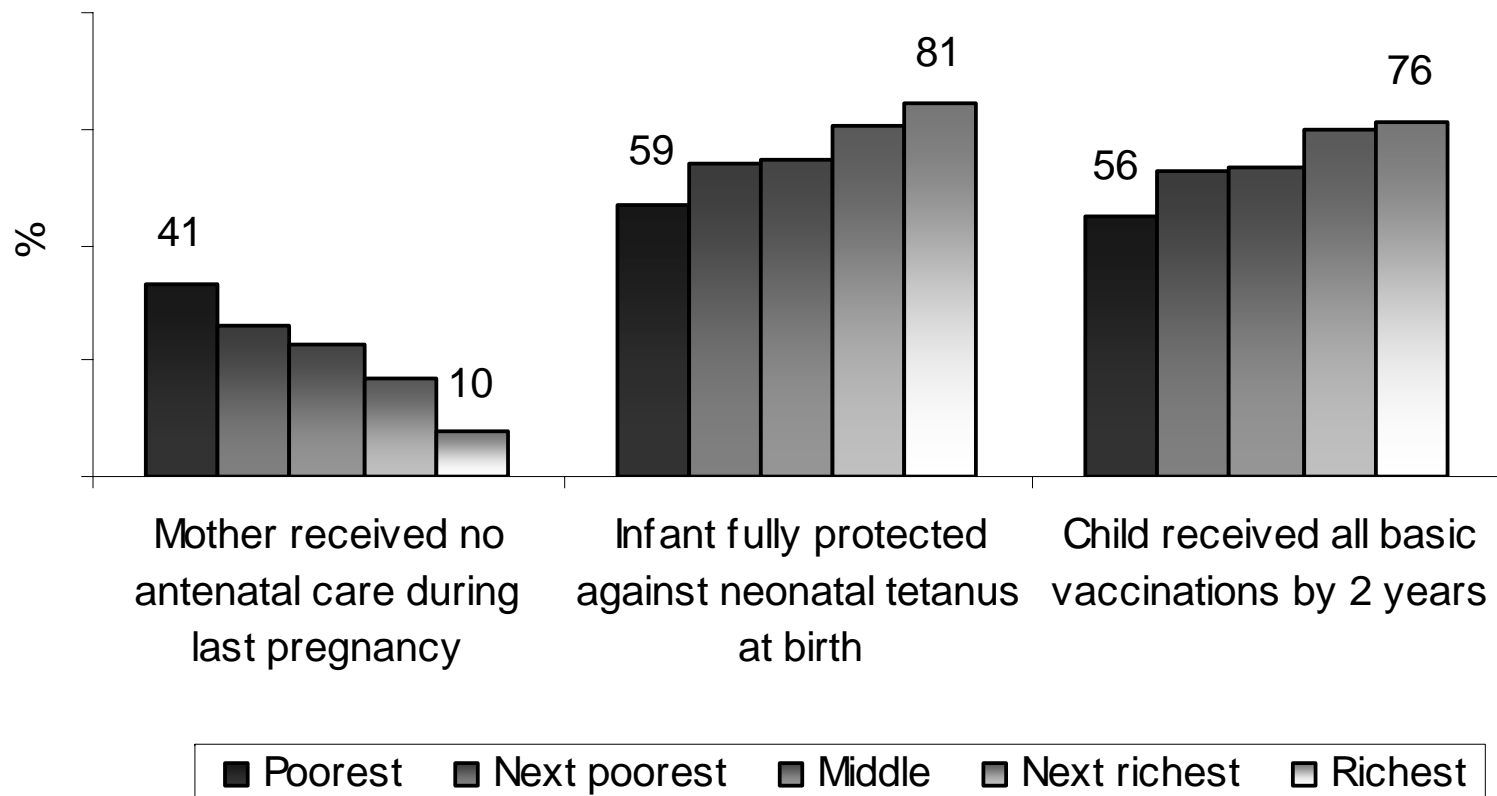
However, inequalities in education outcomes are shrinking as primary enrolment improves

- Gender- and wealth-based gaps in literacy are closing among the younger generation

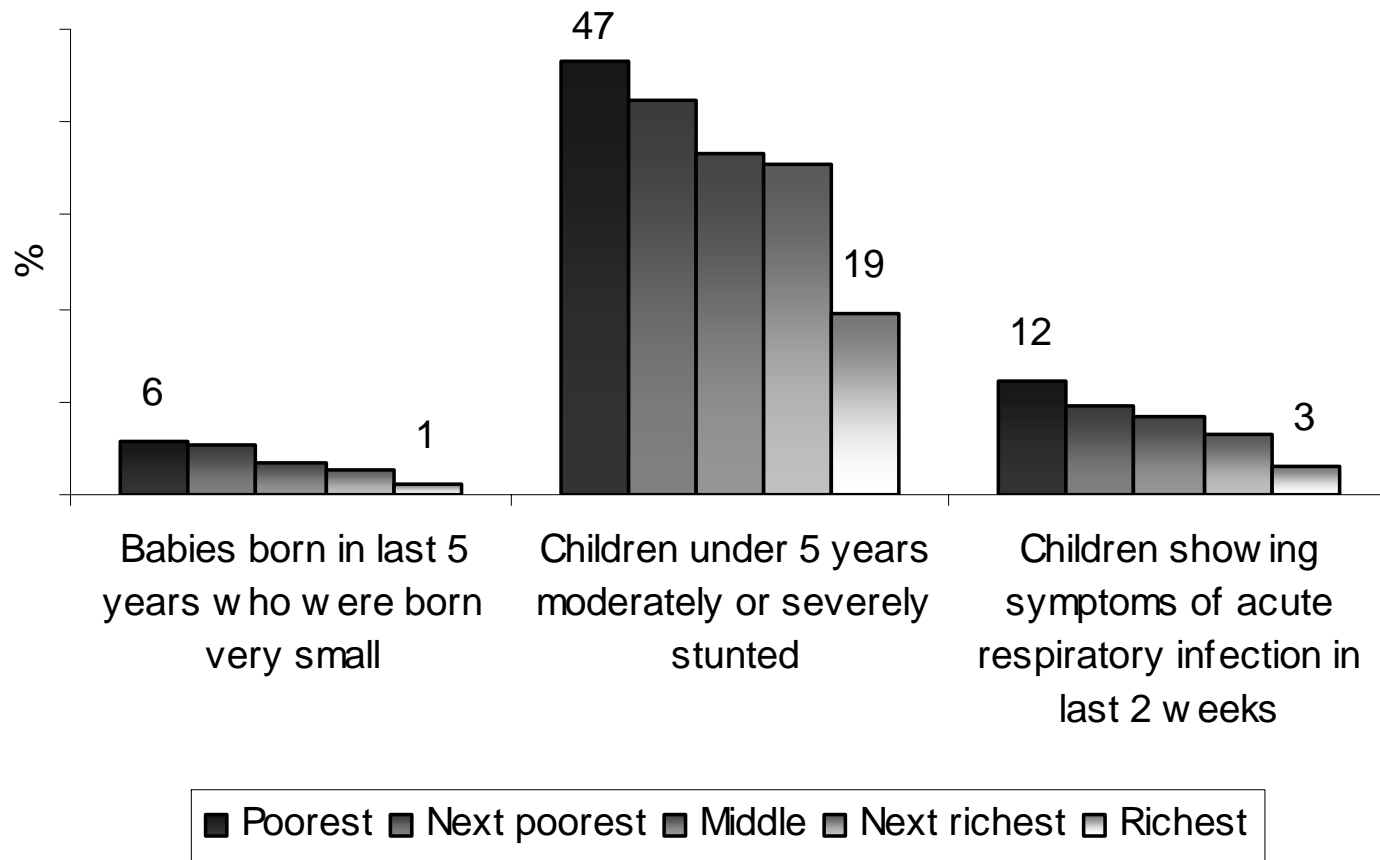


But large inequalities remain—e.g. in health

- Children born into richer households receive better preventative healthcare from before they are born and throughout childhood

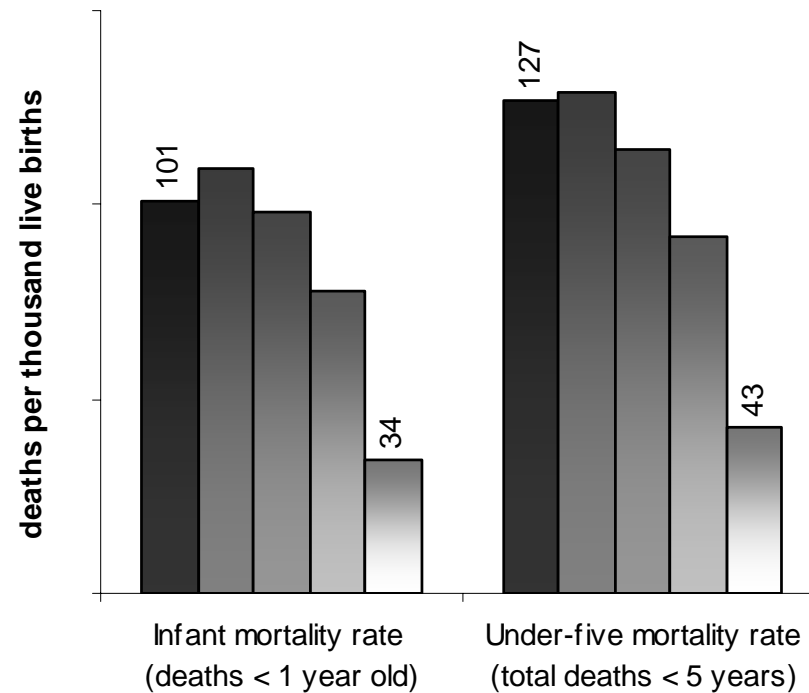



Inequalities in diet and access to healthcare are reflected in wealth-based inequalities in health outcomes...



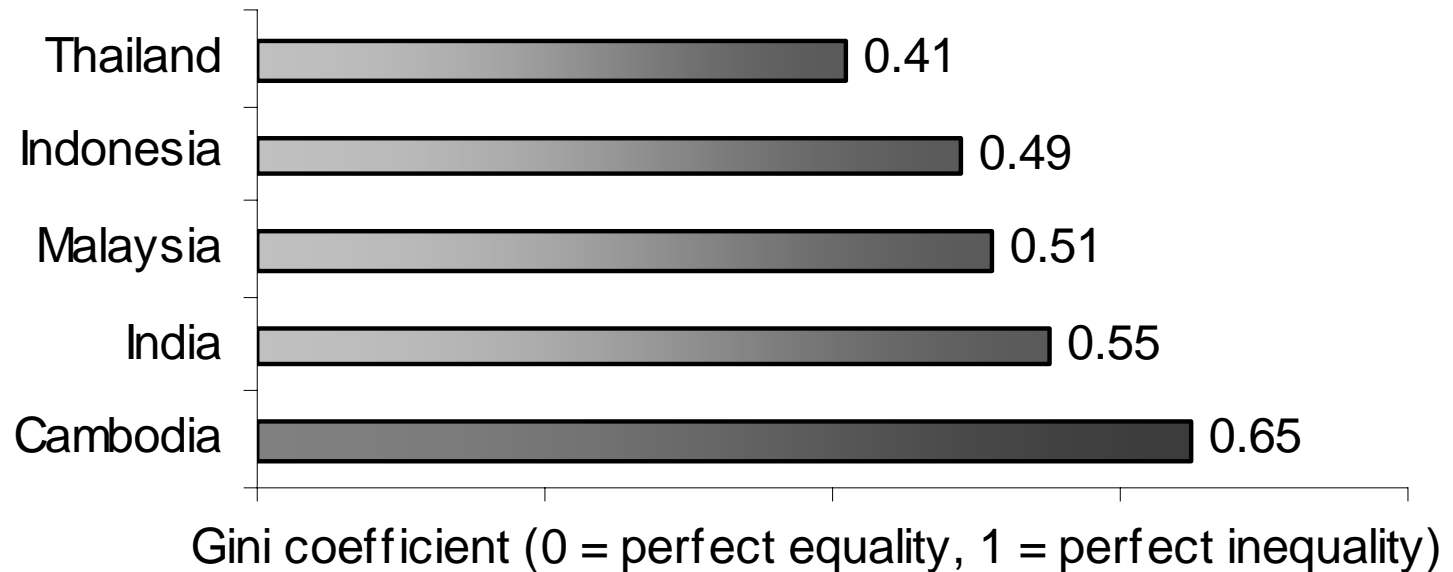
...including child survival

- Compared to children born into the richest fifth of households, children born in the poorest fifth are three times as likely to die before their fifth birthday






Assets: land distribution in Cambodia is amongst the most unequal in Asia



Rapid rise in landlessness and land concentration

- Troubling rise in the numbers of landless rural poor
 - c. 20% of rural households are now landless
 - c. 6% of rural households – c.630,000 - are landless and poor...
 - Strikingly fast rise given that land was distributed equally in 1989
- ...co-existing with large amounts of land that are assigned but not farmed
- With bulge in working-age population and limited off-farm opportunities, landlessness is a serious concern
 - The rural landless need either jobs, or land
 - Jobs are unlikely to expand at the rate needed
- The Government has started to pilot arrangements for Social Land Concessions (distribution to the landless poor); this now needs to be accelerated



To provide growth and jobs, state land management must be governed by the law

- Economic Land Concessions (ELC) must be awarded and managed in accordance with the ELC sub-decree
 - granted in a transparent manner and following the criteria (maximum 10,000 ha, state private land only, through a consultative process, etc.)...
 - monitored for compliance with the law...
 - and, when not compliant with the law, should be taken back into state ownership in an orderly manner and put to productive use
- Given higher productivity of small farms, redistribution would serve both equity and efficiency objectives
 - Administering social land concessions is indeed complex, straining limited RGC capacity
 - But likely to have significant economic and social benefits

Systematic land title distribution is yielding gains

- Rich groups typically have “stronger” (post-2001) land documents
- Systematic land titling began in 2004
- Early findings suggest titles:
 - Are perceived to improve security of tenure
 - Reduce land conflicts
 - Make it easier to sell to buyers from outside the community
 - May improve the terms on which credit is obtained
- It is too early to detect clear effects on investment, productivity and household welfare:
- but given the effects described above, these can reasonably be expected to emerge over time


...but to scale up impact on equity, will need to address new challenges

- Systematic titling has been piloted and taken to scale primarily in settled areas of small, productive plots and relatively low levels of dispute – and in doing so has developed robust institutional models and processes
- It is most needed in remoter areas on the land frontier, where large low productivity plots have often been informally / illegally cleared on what is officially state land
- To benefit the poor in these areas will necessitate
 - a change in incentives for titling teams (fee structure); and
 - tackling the reclassification of state land to recognise existing land use / ownership patterns (politically difficult)

Expanding opportunities: rural infrastructure & services

- Economic infrastructure (roads, irrigation), social infrastructure (schools, health centers) and other aspects of basic service delivery all initially concentrated in and around urban centers
- Investments in building rural roads, schools and health centers have improved access to opportunities, reducing geographical inequalities
- Investments in irrigation would undoubtedly be beneficial, but we need more analyses about the most cost-effective forms and types of irrigation structures
- Although gaps narrowing, still pronounced inequalities in health and education outcomes, which contribute to poverty traps / inequality of opportunity

Public spending and the poor

- 
- Reform of public expenditure management opens up potential for pro-poor, equitable spending
 - Total spending (as well as spending by economic and functional category) in Cambodia is low
 - Implication is to increase sources of available funds:
 1. Increase revenue collection
 - improve tax administration
 - put in place arrangements for transparent and effective management of oil and gas revenue
 2. Reallocate spending to priorities
 - Shift ODA from TA to capital spending
 - Shift RGC budget from general administration to priority sectors



Priority uses of public funds

1. Increase spending on public sector salaries through strategic civil service reform via the Merit Based Pay Initiative (MBPI)
 - Accelerated civil service pay and employment reform to spearhead institutional capacity development
2. Increase capital spending
 - with an emphasis on the economic sectors (roads, irrigation, energy)
3. Increase recurrent spending on maintenance
 - to sustain the value of current and prior capital investments

Institutions and equity

- Market institutions are embedded in and depend for their effectiveness on a broader set of political and social institutions
- Post-conflict Cambodian state faces difficulty in implementing regulatory functions in a context of legal pluralism:
 - state law is often only one among competing normative reference points
 - Iterative approach to reform, utilising interim institutions to gradually bring practice into line with law, has shown benefits in labor law, local governance, and land titling

Inequality and legitimacy - how do Cambodians see inequality?

- Different tools give different perspectives
- In a nationally-representative poll, few Cambodians mention inequality as a “most pressing problem”
- The prime concern is absolute wellbeing (poverty): other factors important, but as a means to an end

poverty	32.79	inequality/discrimination/unfairness	2.07
crime and security	11.46	electricity	1.95
corruption	10.06	environmental problems	1.83
transportation and roads	8.19	lack of access to natural resources	1.52
unemployment/jobs	7.41	border and immigration	1.29
economy and taxation	6.47	health problems	1.25
land	6.08	domestic violence	0.51
healthcare services	2.46	education problems	0.23
teachers and schools	2.18	nothing/ no problems	0.08
water and sanitation	2.11	rights and justice	0.08



Qualitative research also suggests people are very conscious of growing wealth differences

- “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)
- “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).
- “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)

CDRI / World Bank moving out of poverty study (MOPS)



Many thanks for your attention
