

Executive Summary

Overview

Over the last one-and-a-half decades, Cambodia has achieved high rates of economic growth and significant poverty reduction. However, the benefits of growth have been spread unevenly, resulting in a rise in consumption inequality. Drawing on survey and other data, this report concludes that the rise in inequality occurred in the early part of the decade (circa 1994-1997) and only in rural areas; there was no significant change in the distribution of consumption between 1997 and 2004. The findings suggest that the pattern of growth is not structurally destabilizing. The report then examines how expansion in service delivery and the provision of infrastructure have begun to reduce inequalities in human development outcomes and increase equality of opportunity; but also how increased concentration of land ownership, together with insecure land tenure, risk creating the conditions for widening inequality in the future. Looking at the roles of institutions in shaping economic and social development processes, the report describes ongoing reforms in public financial management and discusses the potential for using public spending to promote equity and poverty reduction. It notes that practices in the legal and judicial sector fail to meet the ideal of providing equality before the law; and analyzes how gains have been achieved on a number of fronts by adopting a flexible, iterative approach to institutional reform.

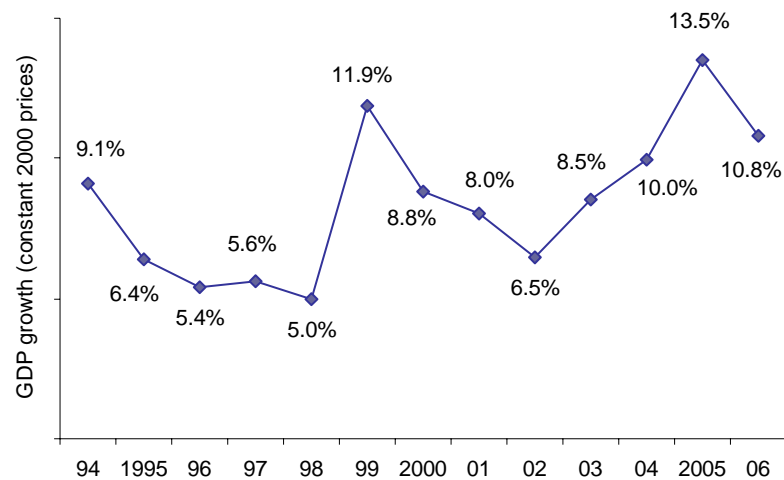
Cambodia's changing distribution of income-related outcomes is consistent with the process of transition from a planned to an open market economy, and the accompanying growth of incomes. This transformation has promoted better resource reallocation, expanded the spectrum of gainful activities, and widened the distribution of earnings. Aided by robust economic growth and improved capacity for implementing public policies, Cambodia has seen most other welfare outcomes (notably health and education indicators) become more equal over time. While a radical shift of development strategy is not necessary, improvements in public spending and selected interventions can further promote equality of opportunity, and public policies can promote an expansion of private investment opportunities. The findings of the report point to the following sets of government actions:

- (i) continuing economic reform to promote investments and sustain growth;
- (ii) protecting land tenure through systemic titling, and addressing landlessness-related poverty through various measures (e.g., social land concessions; non-farm employment);
- (iii) building upon progress to date with further improvements in the quantity, quality and affordability of schooling and healthcare; and underpinning service delivery reforms with stronger and more responsive state institutions through continued reforms of public financial management and merit-based civil service pay.

Background: transition and growth in Cambodia

Cambodia has made considerable progress in the one-and-a-half decades since the Paris Peace Accords of 1991. That settlement marked the beginning of a transition from conflict to peace, bringing most of the parties to the low-intensity civil war of the 1980s into an agreement to compete for power through elections rather than military struggle (although full peace was only achieved in 1999 with the final collapse of the Khmer Rouge insurgency). This agreement also cleared the way for international recognition, an inflow of foreign investment and development assistance, and a transition from an isolated, subsistence-oriented economy to one based on international integration and markets. The results have been high rates of economic growth (Figure 1) and a rise in national living standards. Between the first household survey in 1993/4 and the most recent in 2004, poverty fell by around a quarter (from around 47 percent in 1993/4 to 35 percent in 2004). Quality of housing, ownership of consumer goods and access to electricity have all improved, including amongst the poorest fifth of the population. Non-monetary aspects of welfare have also improved. Health service coverage and child survival

Figure 1 Since 1994, growth has been variable but high



Source: NIS 2007.

outcomes have improved dramatically between the health survey of 2000 and that of 2005. The rise in HIV/AIDS has been contained and reversed; and primary school enrolment has expanded rapidly, and been reflected in rising literacy rates among new school leavers.

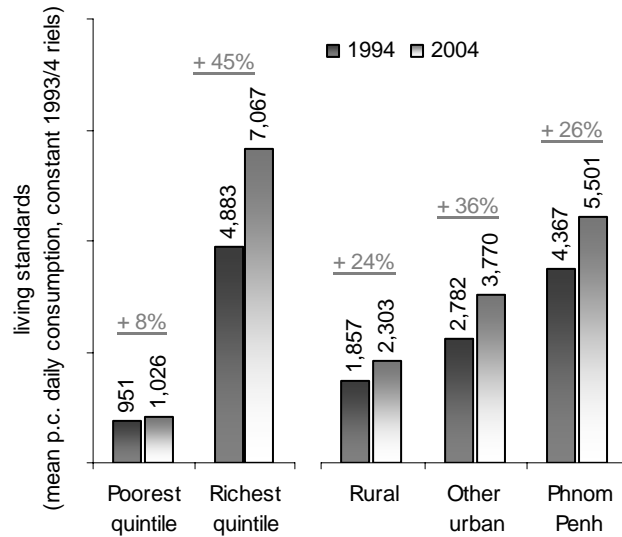
This report attempts to understand the causes and consequences of this increase in inequality; examine whether the pattern of growth has structural characteristics that are generating social or economic instability; and assess whether Cambodia needs to change policies and public spending interventions.

Sharing the benefits of growth: trends in per capita consumption

The benefits of economic growth have been unevenly distributed

In those parts of Cambodia in which trends can be compared directly (i.e., those areas that were covered by the first survey in 1993/4), average living standards, measured as consumption of goods and services per capita per day, rose by 32 percent in real terms between 1994 and 2004. However, this rise was associated with widening differences between rich and poor. In 2004, the living standards of the poorest fifth of the population were only 8 percent higher than they were a decade earlier; over this same period, the living standards of the richest fifth rose five times as fast (45 percent). Similarly, rural living standards rose more slowly than those in Phnom Penh and other urban centers (Figure 2).

Figure 2 Living standards improved at very different rates, widening inequalities



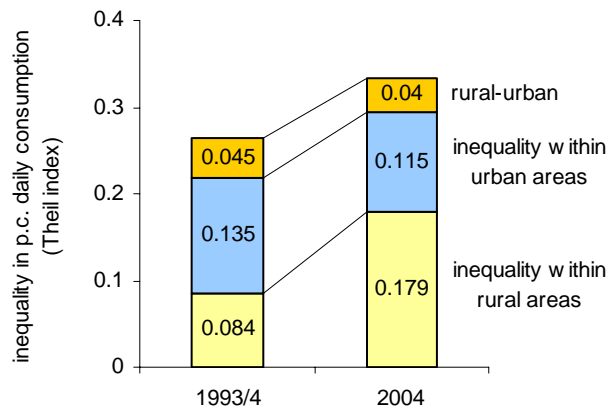
Source: SESC 1993/4, CSES 2004

The result has been a rise in the Gini coefficient (a commonly-used summary measure of inequality, ranging from a value of zero—signifying perfect equality—to one—signifying perfect inequality). The Gini for the comparable sampling frame rose from 0.35 in 1993/4 to 0.40 in 2004. In Cambodia as a whole (that is, looking at the full national sample, not just that part of it that corresponds to the 1993/4 sampling frame), the Gini in 2004 was 0.42.

Rising inequality has been driven by increasing intra-rural inequality

It is striking that the rise in total inequality in Cambodia can be attributed primarily (Figure 3) to widening differences in standards

Figure 3 The rise in national inequality has been driven by growing inequality *within* the countryside



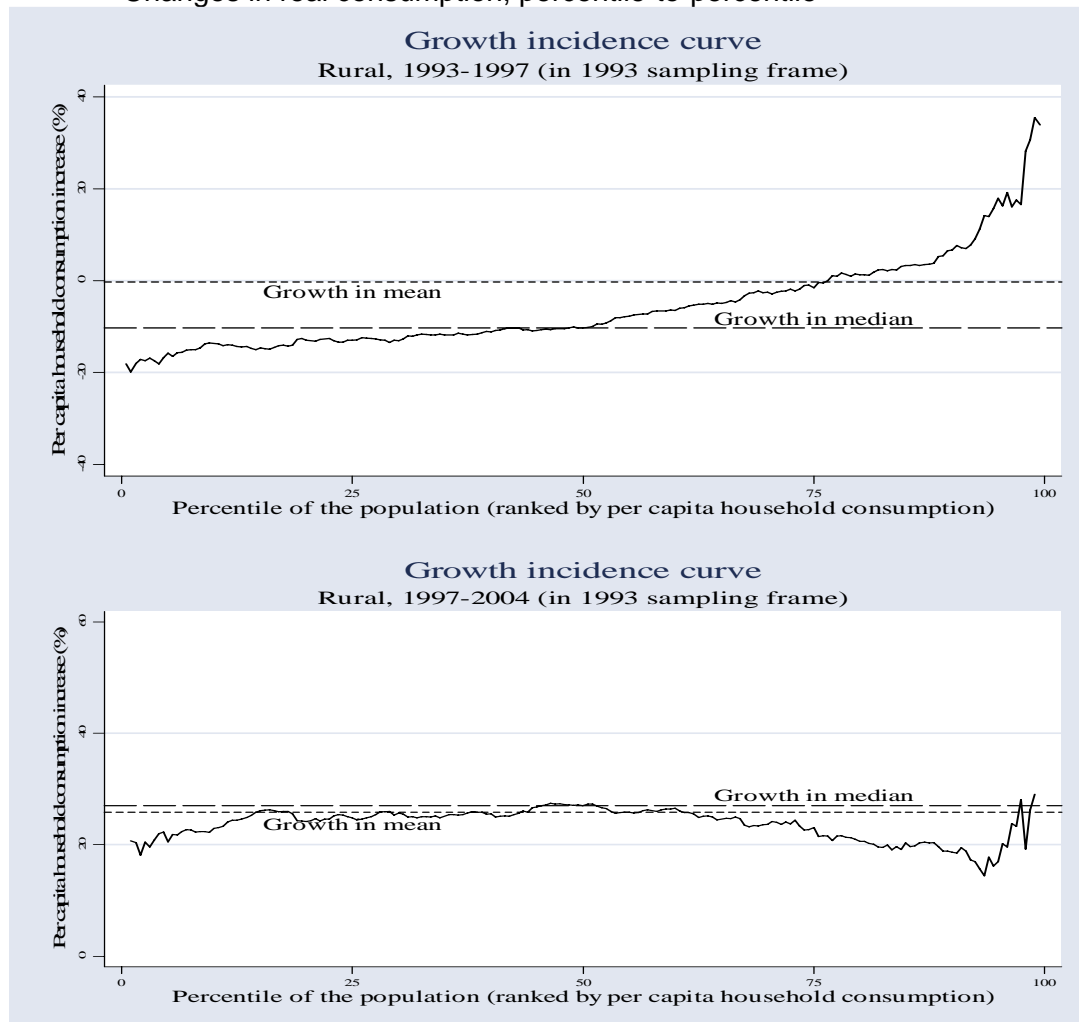
Source: SESC 1993/4, CSES 2004

of living in the countryside. Although the gap in urban areas remained large, its share in aggregate inequality has fallen.

Inequality appears to have widened in the mid-1990s, then stabilized

Further insights can be obtained by breaking the analysis down into two time periods, (i) 1993/4–1997, and (ii) 1997–2004. Plotting change in per capita consumption for every percentile in the respective samples reveals how growth was distributed for the two sub-periods. In rural areas the level of inequality widened considerably between 1993/4 and 1997 as consumption grew rapidly at the upper tip of the distribution, but contracted for the rural masses; however, inequality remained unchanged from 1997 to 2004, as growth in consumption was similar for the rich and the poor (see growth incidence curves in Figure 4).

Figure 4 In rural areas, the rich initially made rapid gains while others lagged; later, improvements were spread evenly across the population
- Changes in real consumption, percentile-to-percentile



Source: SESC 1993/4, CSES 1997, CSES 2004.

Note: Only comparable samples from the identical (1993) sampling frame are used for each survey.

In urban areas, inequality remained stable throughout. Although urban inequality changed little over the last decade, the absolute levels of inequality in Phnom Penh and other towns were more pronounced than in the countryside (Table 1). It is worth bearing in mind two caveats. The first is that there are reasons to suspect that consumption measures under-estimate the full magnitude of inequalities. Especially in urban settings, income or wealth which may be more appropriate than consumption in obtaining a rounded picture of the extent of inequality, tends to show more dispersion than

consumption. The second is that the small number of extremely rich households in any population are very unlikely to be interviewed in a household survey. Such households are more numerous, and their omission thus more significant, in urban settings. As such, household surveys that under-sample the extreme rich or poor probably underestimate total urban inequality. With these caveats in mind, these inequality trends suggest that the nature and pattern of Cambodia's growth have not been structurally destabilizing.

What explains changing trends in consumption inequality?

In urban areas...

Economic growth in Cambodia has been heavily reliant upon garment manufacturing, tourism and construction, all of which are concentrated in urban centers, and in particular Phnom Penh, Siem Reap town and Sihanoukville. The expansion of trade, investment and employment created two countervailing forces on the distribution of urban incomes. On one hand, global integration and an increasingly diverse urban economy tend to widen the inequality of earnings, as wages for skilled labor rise much faster than those for non-skilled labor. On the other hand, there were also equalizing forces arising from the structural transformation of the urban economy. Trade and foreign direct investment resulted in a higher labor force participation in urban labor markets and a shift of employment from the low productivity sector of agriculture to higher value-added manufacturing (especially garments) and services (especially construction and tourism). The rapidly growing sectors in the economy have also been those that are intensive in unskilled labor, Cambodia's relatively abundant resource.

In rural areas...

The initial widening and subsequent stabilization of inequality amongst the *rural* population appears to reflect the interaction between three different sets of factors.

Table 1 Urban consumption inequality appears not to have risen—but is still much higher than in the countryside

	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: SESC 1993/4, CSES 2004

Firstly, geography plays a key role. As growth and public services improved first around urban centers and in accessible densely-populated lowland areas, households in these areas enjoyed better access to factor and product markets and pulled further ahead of those in remote areas, resulting in widening differences. Over time, as conflict subsided, and in 1999 ended with the integration of the Khmer Rouge, infrastructure investments and improvements in schooling and healthcare reached these peripheral areas. The report's analyses find that the incidence of poverty is lower and mean consumption levels are higher in connected villages with easier access to road than in remote villages (Table 2). Even with the end of conflict, however, remote areas are more likely to have poorer soils and more limited potential for irrigation.

Table 2 There is greater poverty in remote villages with less connectivity

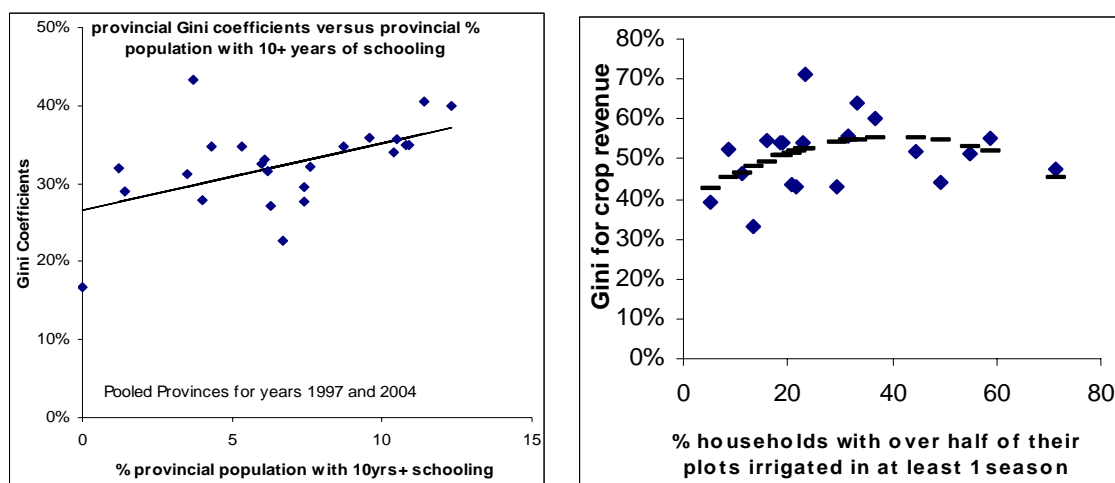
Village size	Distance to the nearest all-weather road	
	Less than 5km	More than 5 km
More than 1,000 persons	33% population are poor	38% population are poor
Less than 1,000 persons	43% population are poor	53% population are poor

Source: CSES 2004.

Secondly, rural households differ in their abilities to take advantage of new opportunities or manage risk. Innate individual abilities, differences in human capital (education and health status), and different endowments of land and other productive assets enabled some rural families to pull ahead of their neighbors. Analyses in the report suggest that differential stock of human and physical assets have promoted disparity in incomes. Increasing returns to higher levels of schooling attainments as well as higher yields and revenue in households with greater land investments have widened disparity in rural incomes (Figure 5).

Figure 5 Investments in productive asset matter

- Provinces with greater human capital (e.g., higher levels of education) and more physical capital (e.g., land investments) have higher inequality



Source: CSES 2004

Finally, local governance and the quality of local institutions play a role. Through social connections or simply greater capacity to pay bribes, wealthier rural households find it easier to navigate governance structures which are more often than not characterized by limited resources, professional capacity, transparency and accountability. These institutional weaknesses are reflected in low trust scores (Table 3). Faith in local authorities is particularly low in communities which depend heavily upon access to and management of natural resources such as forests and fishing waters, where rent seeking and corruption work to the benefit of richer, better connected households and against the poor (CDRI 2007a, 2007b).

Table 3 There is limited trust in public institutions, particularly police and the courts

Institution / actor	honest	effective	treat poor and rich equally	treat men and women equally
NGOs	73	78	71	86
banks	69	80	58	81
media (TV, radio)	50	64	63	82
national government	47	60	40	80
Commune / sangkat officials	44	55	46	79
teachers	59	68	60	82
healthcare professionals	48	66	40	79
money lenders	41	57	36	75
police	29	50	31	75
judges	18	46	20	70
middlemen	10	44	29	67

Source: IRL 2007.

Note: An example of the statement was “NGOs are honest”, with the respondent asked to agree or disagree on a scale from 1 (“not at all”) through 2 (“somewhat”), 3 (“neutral / don’t know”), 4 (“much”) and 5 (“very much”). The percentage of respondents who picked 4 and 5 to the statement are recorded in the Table above.

Creating equality of opportunity

Equity in service delivery and human development

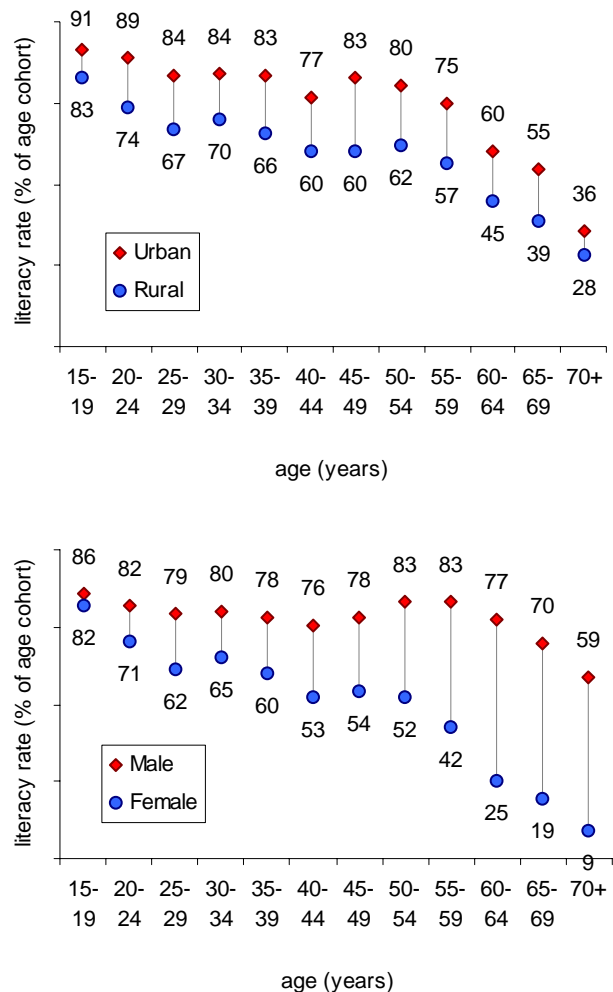
Equity in effective access to basic services and in human development outcomes are important both as ends in their own right and as means to the ends of equality of economic opportunity. Intrinsic value is particularly obvious with regard to health: no-one chooses to suffer illness or early death when they have the option to avoid them. However, health and education status also have a very important instrumental value, as determinants of economic opportunities and predictors of income, consumption and wealth. Finally, there are very strong cross-sectoral links. The level of a mother’s education exercises a strong influence upon not only her own health but also that of her children; conversely, ill health is a major barrier to obtaining an education.

In contrast to living standards as measured in terms of per capita consumption, non-monetary aspects of welfare in Cambodia have shown a broadly positive trend towards greater equality over time. Gains in education in recent years are notable for their pro-poor, pro-girl bias. Primary enrolment has increased fastest amongst these traditionally under-represented groups, resulting in shrinking urban-rural, male-female and rich-poor gaps in literacy rates amongst the younger cohorts who have more recently left the (improving) school system (see Figure 6).

Nonetheless, significant differences remain between urban and rural populations and rich and poor households in access to services and outcomes. While access to primary schools and to a lesser degree health centers have become more equal over the last decade, poor households still live significantly further than the rich from secondary schools and hospitals. Despite progress over the past years, access to improved water supply and sanitation facilities is still virtually non-existent in most of the countryside.

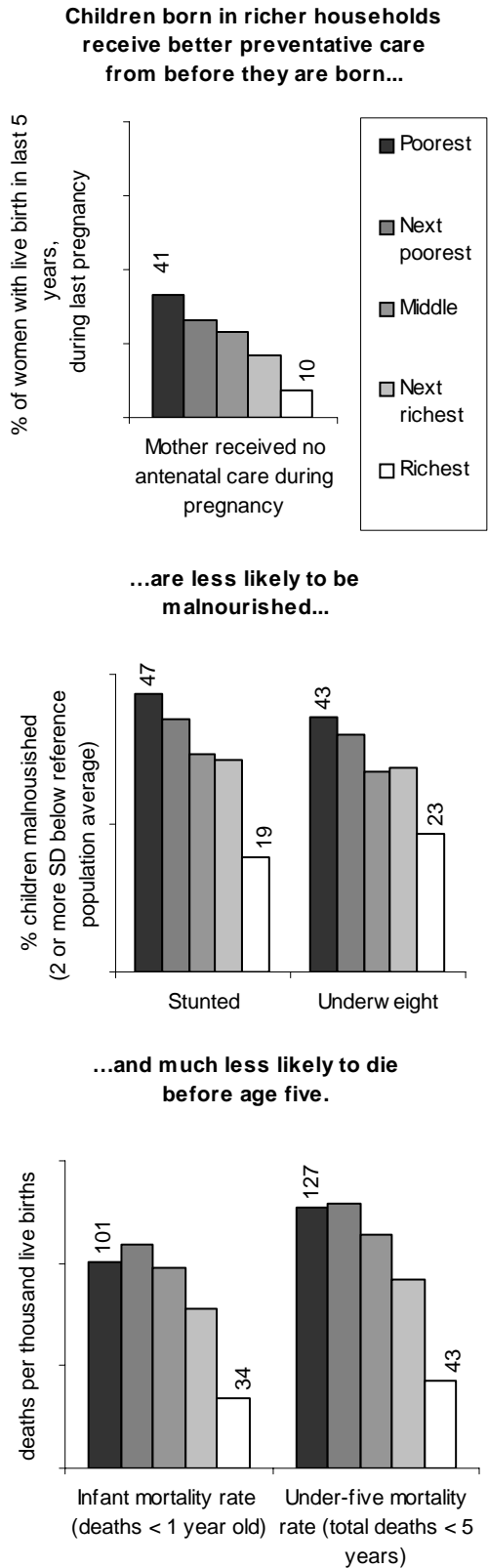
Inequalities in human development outcomes in large part are a result of low public spending on these services, despite increases in recent years. The major part of total per capita spending is in the form of out-of-pocket spending by households. This is true to some extent of education above primary level, but is particularly pronounced with regard to healthcare, including even basic healthcare. With public spending on health too low to play an effective compensatory role, an individual's effective access to quality healthcare closely tracks his or her level of income, savings and consumption.

Figure 6 Inequalities in literacy are closing over time



Source: CSES 2004

Figure 7 Child care and survival by wealth



Source: CDHS 2005.

Consequently, inequalities in access to services and resulting health- and education-based opportunities do still vary considerably. The life chances of a child born into the poorest quintile are significantly reduced even before birth (see Figure 7): compared to a child born into the richest quintile, his or her mother is four times more likely to have gone without any contact with antenatal care. A child born into the poorest quintile is then over twice as likely to suffer from severe malnutrition; and three times as likely to die before reaching their fifth birthday.

There is also a pressing need to improve the ability of the health system to respond to key health issues faced by women. Although data issues make definitive interpretation hard, it appears that the maternal mortality rate has remained unchanged at a very high level (472 per 100,000 live births).

Poor households are more likely to need to withdraw their children from school to help make ends meet; and more likely to have to adopt extreme measures to manage the costs of a health crisis (see Box 1). Low education, low income and consumption, and vulnerability to illness and illness-induced economic shocks act in mutually reinforcing ways to limit opportunities and trap households in poverty.

Box 1 Poor households lack the resources to cope with health shocks

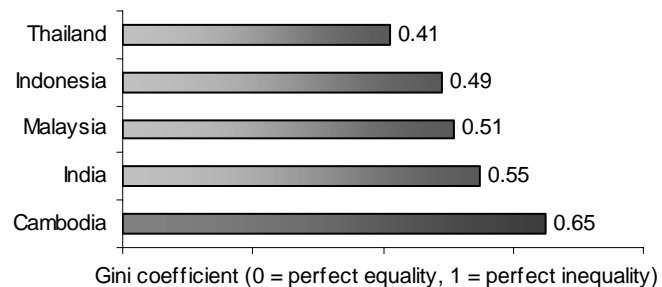
Results from surveys in two villages south of Phnom Penh suggest that while crop failures and illnesses entail similar magnitudes of economic damage (a few hundred thousand riels), households find it harder to cope with illness. The negative consequences from health shocks have greater impact on both immediate and long-run livelihood because they require an immediate lump-sum of money: as most households do not have sufficient savings and rural credit markets do not operate well, households are often forced into 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 earlier studies which found that half of all distress sales, or around 40 percent of cases of once-landowning families losing land, involved health crises.

Sources: Yagura 2005; Biddulph 2004; Ballard and So 2004.

Land ownership is highly concentrated

In 1989, land was privatized and distributed largely on the basis of need (household size), resulting in a highly equal distribution and effectively zero landlessness. Since then, landlessness and inequality in landholding have risen, reflecting the interaction between population growth and land management policies which designate much of Cambodia as state land and prioritize large-scale concessions when allocating this land to use in cultivation. As a result, by 2004, 5.7 percent of the rural population was both landless and poor, and the distribution of land in Cambodia is amongst the most unequal in the region (Figure 8).

Figure 8 Land ownership is highly unequal



Source: WDR, IFAD

Inequality in ownership of a key productive asset such as land is a major concern because it implies the likelihood of a trend to growing inequality of production, income and consumption in the future. In the absence of dramatic expansion of off-farm employment or livelihood opportunities to absorb landless labor, the concentration of land in fewer hands implies a growing gap in the opportunities available to different types of households. There is also a strong growth case to be made *against* polarization in land holdings. Evidence from Cambodia, as in most other rural-majority developing countries, shows agricultural productivity in an inverse relationship with size of farm, so that small farms are significantly more productive than are large farms. All things being equal, equality and efficiency (growth) are fully complementary. There is thus much to be said for the proposed program of redistributing idle economic land concessions (which it was hoped private investors would develop as large-scale commercial plantations) to local landless and land-poor households through a program of social land concessions. There are numerous challenges—redistribution requires logistically complex complementary policies and programs to be effective—but the case

remains strong for a Government agricultural policy that prioritizes assistance to small-scale family farms.

The second major policy issue in land administration concerns the security of land tenure. Analyses in the World Bank's Poverty Assessment show that secure land tenure, as manifested in various forms of paper proofs of land ownership, has a significant impact on land productivity, profitability and agriculture income. The importance of tenure security is corroborated, in this report, by additional analyses of the CSES 2004, semi-structured interviews during field research, and results from a national poll. This report also finds that secure land tenure, in forms ranging from paper receipts to titles, is highly correlated with land investments. As the price of land rises and local markets become more integrated, full land titles will be increasingly useful for avoiding disputes, encouraging productivity-enhancing investment, and protecting against outright seizure by more powerful actors.

Systematic land titling began in 2004 and has resulted in the allocation of almost one million titles. Early indicators from small-scale research suggests that the receipt of these titles is perceived to improve tenure security and make disputes less likely; make it easier to sell to buyers from outside the community; and improve the terms on which credit can be obtained.

Infrastructure and inequality

Infrastructure is a powerful influence upon livelihood opportunities (particularly off-farm opportunities) and welfare outcomes: household incomes in villages with an all-weather road connection are typically twice as high as incomes in villages without a road. As such, the uneven distribution of economic infrastructure (in particular roads and irrigation structures) helps perpetuate differences between localities; and the extension of such infrastructure can be a powerful tool to start reducing these spatial inequalities. Equality or difference in access to roads interacts with the distribution of social infrastructure (schools, health centers, referral hospitals) to create spatial inequalities in access to basic service delivery.

Inequalities in access to infrastructure are pronounced, first and foremost between urban and rural populations, but also within both segments. Both national surveys and locality studies confirm the importance of road construction—and, critically, road maintenance—in improving opportunities and livelihoods (Box 2).

Box 2 Roads reduce spatial inequalities and expand opportunities for the poor

Before we had a good road, the poor, especially female heads of households, rarely dared to go to sell labor far from the village ... It took a long time to reach where they wanted to go... [Now] it costs only 1,000 riels and takes an hour to travel to Prey Veng, compared to 1,500 riels and four hours before the road was built ... The poor landless and others have migrated farther from the village in search of work; before 2002, when travel was expensive and it took longer to reach the work destination, they had to think twice. (Babaong village, Prey Veng)

Source: CDRI 2007b (forthcoming)

Perceptions of inequality

In Cambodia, different tools suggest slightly different pictures with regard to the perception of inequality and its severity. In a national public opinion poll, when asked to specify the most important problems facing Cambodia, most (33 percent) focused on poverty, with only around 2 percent mentioning inequality and unfairness, a proportion similar to those who mentioned roads, education and health care. However, qualitative research also suggests that people are very conscious of and concerned about growing inequalities in opportunities and outcomes (Box 3).

Box 3 Rural Cambodians perceive and worry about growing inequality

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)

Source: CDRI 2007b (forthcoming)

Gender-based inequalities remain significant

Gender norms and opportunities are shifting significantly in response to economic and social change. Positive trends towards greater equality include increasing girls' enrolment in primary education (and resulting rise in female literacy) and expanded employment opportunities: the vast majority of garment factory jobs are female.

However, significant traditional inequalities persist, and new ones are emerging. As women are assumed to have primary responsibility for childcare and domestic tasks, they have limited opportunities for more remunerative employment. These difficulties are reinforced by lower average levels of education, prevailing attitudes regarding "appropriate" occupations for women, and the fear of trafficking or sexual violence when traveling away from home, especially to urban centers or across the border. With migration and more disposable income, new, risk-taking patterns of male behavior are emerging and resulting in new forms of vulnerability for women (vulnerability to sexual harassment or to contracting HIV from their husbands).

Finally, women lack significant voice in social or political affairs, with very limited representation in Government or policy-making or planning processes, from the local level to the national. While 20 of the 123 parliamentarians elected to the National Assembly in 2004 (16 percent) and 14.6 percent of council seats filled in the 2007 Commune /Sangkat council elections are women, women constitute only two out of 37 Ministers (5.4 percent) and 8 out of 127 Secretaries of State (6.3 percent). In the total labor force, one-third of professional and technical workers are women but only 14 percent of legislators, senior officials and managers are women.

Inequality and public action: the role of institutions

Public spending and equity

The state can influence national economic and social development through several channels. The first is through raising revenue and directing public spending. Cambodia's public financial management (PFM) system has a number of serious problems, but a PFM reform program over the last two years has begun to make significant headway in reforming this system. These reforms open up possibilities for more effectively and efficiently directing public expenditure towards poverty reduction. Priorities would include:

- Increasing revenue collection (particularly through improved tax administration)
- Putting in place strong, transparent measures for the effective use of the very considerable revenue that is expected to flow from offshore oil and gas within a few years
- Reallocating spending towards priority goals (shifting spending from general administration to priority sectors; changing the balance of ODA from technical assistance to capital spending)
- Increasing capital spending with emphasis on economic sectors (roads, irrigation, energy) that shape the distribution of opportunities and the pattern of growth.
- Increase recurrent spending, both on maintenance (to sustain the value of capital investments) and, critically, on public sector salaries. Better pay for public sector workers, combined with better management, is essential to create strong state institutions that can formulate and implement national development strategy.

Current legal practice falls far short of the ideal

The allocation and management of spending is not the only tool by which the Government can guide the course of national development. The Government can also influence economic and social change through its regulatory functions: that is, by setting and implementing laws and policies that shape incentives and interaction between different actors.

However, Cambodia faces some quite pronounced difficulties formulating and implementing laws and policies. State capacity remains low, reflecting limited financial and material resources; the small numbers of well-educated public servants; limited data with which to design and monitor evidence-based, results-oriented policies; and institutional arrangements which are, as in many low-income countries, not well aligned to responsive and accountable policy-making. In particular, the legal and judicial sector in Cambodia notably fails to deliver services which conform to the ideal of equality before the law. Lack of resources and low levels of transparency and accountability are reflected in widespread distrust of the police and courts, which are seen as either corrupt or subject to political direction. Faced with a dispute, most Cambodians will seek to resolve it without recourse to the court system.

Fair institutions typically evolve in stages

Both theoretical and applied thinking now emphasizes the role of institutions in shaping economic and social change. However, limited success has been achieved with attempts to transplant ideal models of “international best practice” from one country to another: effective institutional arrangements for given policy outcomes are likely to vary considerably from one country to another. This is in part because in Cambodia as in many countries, formal state law is in practice only one among several normative reference points: values and behavior are also shaped by “traditional” understandings of rights (e.g. of a household’s right to clear land for subsistence farming or extract resources from forests), or by perceptions amongst powerful actors that position confers discretionary rights to manage or dispose of public resources in ways not bound by formal rules. This legal pluralism is by no means unique to Cambodia, but does create a major challenge for Government.

Rather than attempt to create organizational structures perfectly designed to achieve defined public policy functions, more success may be achieved with a more iterative—and messy—process that acknowledges the useful role to be played by “interim” institutions. In a number of cases, progress in Cambodia has been achieved in an enclave, in the hope of developing robust institutions and later building outwards, rather than through an attempt to implement a comprehensive across-the-board reform of institutional arrangements. Thus, ties to trade quota agreements were used to create incentives for achieving core labor standards in the garment export industry. Principles of participatory and accountable local planning were introduced through donor-supported “project law” (new institutional rules and principles developed under the Seila program): over time, these have taken root and come to influence Government thinking on the direction of decentralization and deconcentration policy. In each case, outcomes fall short of the ideal that is envisaged under the liberal concept of the rule of law, but do mark a significant advance on what existed before, and do open up possibilities for future stepwise progress.

Summary: findings and policy implications

Using the national household surveys, qualitative studies, and opinion polls, the report finds the following:

- Rural inequality of consumption rose during the last decade, driving up aggregate inequality in Cambodia, while urban inequality remained unchanged. Rural inequality of consumption rose during 1993-1997, but then stabilized between 1997 and 2004.
- In contrast to consumption inequality, inequality in non-consumption measures of living standards such as school enrollment and mortality rates has fallen over time. The disparity in access to infrastructure (roads), amenities (clean water, electricity), and basic services (schooling, healthcare) has also narrowed between 1997 and 2004, as have gender gaps in literacy and schooling.
- Inequality in rural and urban areas comes from two sources: the gap between the richest 25 percent and the rest, and inequality within the richest quarter of the

population. Rising rural inequality was mainly the result of rising inequality among the richest quarter.

Based on the findings and analysis, the report concludes that policies that directly tackle poverty will also address inequality, because income growth of the poor will narrow the rich-poor disparity. This suggests a number of policy priorities for Cambodia's response to inequality concerns:

First, there is a need for continued effort in *economic reform* and improvement of *investment climate*. Maintaining the economy's openness and global outlook will be the best strategy for continued growth and sustained poverty reduction.

Second, priority in *land* policy should be to accelerate and intensify systemic titling, extending it throughout the country, including to remote, more conflict-prone areas. Land policies within the agricultural strategy should give priority consideration to household farming, including by redistributing idle plantation land to landless poor households.

Third, more needs to be invested in building and then maintaining *basic infrastructure* to connect up remoter parts of the country to economic opportunities and improved social services. Rural roads clearly have a significant impact in equalizing geographical inequalities. There is also a pressing need for increased investment in improved water supply and sanitation in rural areas: the rural-urban gap in access to these facilities remains extremely wide.

Fourth, there is a need to build upon progress to date with further improvements in the quantity, quality and affordability of basic *education*, with an emphasis upon tackling the causes of late enrolment and drop-out. Equally important is a comprehensive nationwide adult literacy program, as a first step to replenish (and equalize) the human capital of the adult generation.

Fifth, *healthcare* provision needs to be focused on preventative and primary care, with emphasis on expanding physical access and affordability (targeted fee exemptions backed by equity funds) and concerted efforts to improve maternal health and bring down the persistently high maternal mortality rate. Expansion of investments in improved water supply and sanitation would play a major role in reducing disease burden and the economic costs associated with it.

Lastly, significant improvements in service delivery will depend on creating stronger and more responsive state institutions. Continued reforms of *public financial management*, with emphasis upon improving *civil service pay and management* and putting in place arrangements for the transparent and effective use of future oil revenues, will be critical.