Growth, poverty and inequality in Cambodia

Consultation with External Advisory Panel for
Cambodia: sustaining rapid growth
February 25/26 2008
Cambodia’s three-fold transition

<table>
<thead>
<tr>
<th>from</th>
<th>to</th>
</tr>
</thead>
<tbody>
<tr>
<td>“low-intensity” civil war and international isolation (excluded from non-COMECON trade and aid)</td>
<td>peace (in most places from 1993; nationwide from 1998), international recognition, FDI and ODA</td>
</tr>
<tr>
<td>one-party politics</td>
<td>multi-party politics</td>
</tr>
<tr>
<td>stagnant, subsistence-oriented economy under command / war economy</td>
<td>market-based economics and rapid growth</td>
</tr>
</tbody>
</table>
rapid economic growth...

real GDP growth (constant 2000 prices)

r = revised estimate
p = preliminary estimate
...driven by garments, tourism and construction; and, in the last 3 years, agriculture sector GDP growth (constant 2000 prices)
from 1993/4 to 2004, growth drove pc consumption up by a third and poverty down by a quarter

Note: Poverty in 1994 estimated by backw ard projection based on 1994-2004 trend in common sampling frame
data issues

• Analysis is based on the household consumption surveys
  – Socio-Economic Survey of Cambodia (SESC) 1993/4 and 1996;
  – Cambodia Socio-Economic Survey (CSES) 1997, 1999, 2004

• There are serious difficulties in comparing these surveys
  – gradually expanding geographical sampling frame
  – changes to questionnaire design
  – bad timing (CSES 1997)
  – bad execution (CSES 1999)

• which makes it hard to be confident about national trends
• So, it is important to triangulate
  – cross-check for internal consistency
  – and consistency against other sources (surveys, local studies)
marked progress in health coverage and outcomes

a. immunization of children

- In 2000, 40% of children aged 12-23 months received all basic vaccinations.
- In 2005, the percentage increased to 67%.
- In 2000, 22% of children aged 12-23 months received no vaccinations.
- In 2005, the percentage decreased to 7%.

b. child survival rates have improved by about a third

- In 2000, there were 124.4 (±9.8) deaths per 1,000 live births (under-five mortality rate).
- In 2005, the rate decreased to 83.3 (±8.4).
- In 2000, there were 95.0 (±9.0) infant deaths per 1,000 live births (infant mortality rate).
- In 2005, the rate decreased to 65.6 (±7.5).
and rapid, equalizing improvement in primary schooling and literacy

- Gender- and wealth-based gaps in literacy closing among younger generation
balance and context: despite progress, poverty remains widespread and multidimensional

- In 2004, 35% were poor and 20% were food poor
- Health and education outcomes are well below regional averages – generally the lowest in the region or above only Laos or Myanmar
- Low standards of health and education help perpetuate consumption poverty
  - Children of poor families have to drop out of education – making it harder for them to get access good jobs or opportunities as adults
  - Under-funded public healthcare results in high household spending on poor quality care - which is a common cause of households falling into poverty
consumption inequality has risen
the gap between rich and poor, and urban and rural areas, has grown

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th>Other urban</th>
<th>Phnom Penh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>1,857</td>
<td>2,782</td>
<td>4,367</td>
</tr>
<tr>
<td>2004</td>
<td>2,303</td>
<td>3,770</td>
<td>5,501</td>
</tr>
<tr>
<td>951</td>
<td>1,026</td>
<td>7,067</td>
<td></td>
</tr>
<tr>
<td>+ 8%</td>
<td>+ 36%</td>
<td>+ 26%</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>2,303</td>
<td>3,770</td>
<td>5,501</td>
</tr>
<tr>
<td>2004</td>
<td>2,782</td>
<td>4,367</td>
<td></td>
</tr>
<tr>
<td>1,857</td>
<td>2,303</td>
<td>4,367</td>
<td></td>
</tr>
<tr>
<td>+ 8%</td>
<td>+ 24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,857</td>
<td>2,782</td>
<td>4,367</td>
<td></td>
</tr>
<tr>
<td>+ 36%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,303</td>
<td>3,770</td>
<td>5,501</td>
<td></td>
</tr>
<tr>
<td>+ 26%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,782</td>
<td>4,367</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ 45%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
poverty fell by half in Phnom Penh, but only by a fifth in the countryside
but from 1994 to 2004, rising total inequality was driven by growing *intra*-rural inequality

- Inequality within the countryside appears to have widened rapidly between 1993/4 and 1997...
- ...but largely stabilised between 1997 and 2004
- NB there are questions about the reliability of the 1997 data...
- and other sources may suggest a different picture
expanding opportunities
infrastructure and service improvements first widened gaps, now closing them

- 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 rural roads, schools and health centers now improving rural access to opportunities: will spatial inequalities start to narrow, as intra-rural inequalities widen further?

- 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 inequality of opportunity and poverty traps
Policies and institutions for pro-poor rural development are lacking or weak

- Lack of access to justice for the poor exacerbates problems of unclear property rights

- Vast majority of land in Cambodia is state-owned: but management of this land (economic land concessions awarded in an un-transparent manner) has not served the national interest well
  - Has not maximized Government revenue
  - Nor has it been good for security of use for local poor communities, or for environmental sustainability

- Pro-poor directives from the centre (e.g. on natural resource management) sometimes blocked at sub-national levels
  - e.g. cancellation of fishing lots often not implemented at local levels
inequality of land distribution is high and rising

Cambodia's land ownership Gini is high

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>0.41</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.49</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.51</td>
</tr>
<tr>
<td>India</td>
<td>0.55</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.65</td>
</tr>
</tbody>
</table>

• 20% rural landlessness in 2004 (c.f. land distributed equally in 1989)
• with bulge in working-age population and limited off-farm opportunities, landlessness a serious concern
• smallholders more productive: redistribute for equity and efficiency
• administering social land concessions is complex, straining RGC capacity
taking stock

• Cambodia’s performance has been good (1 to 1.5 percentage point fall in poverty p.a., 1994-2004)…

• but other countries (including some post-conflict) have done better (2.5–4.5 percentage points p.a.)

• On 1993/4-2004 trends, Cambodia would make progress but not meet its target of halving poverty (1994-2015)

• Is sustained agricultural growth the solution? Is this in fact underway? What can be done to promote such growth?
agricultural growth

• Up to 2004, agriculture—the livelihood of the vast majority—grew much more slowly than other sectors, and very erratically

• However, accelerated GDP growth in 2005-2007 reflected in large part high rates of agricultural growth

• To what extent did this reflect:
  – beginnings of Government investment in irrigation?
  – luck (better rainfall patterns)?
  – or household investment in pumps, improved varieties etc. (implying increased productivity but maybe less change in profitability)?
trends, potential and forecasts

• Peace, integration and aid have enabled gradual extension of opportunities, growth and service delivery

• new policies will be required to sustain progress: seems likely that
  – limited poverty reduction gains remain to be achieved through narrowly-based growth
  – progress in HD will increasingly be constrained without PFM and civil service reform

• Cambodia has great potential
  – located in a fast-growing region; deep-water port; plentiful flat land...
  – probably significant reserves of oil and gas in Cambodian waters, and minerals onshore
  – groundwork has been laid for improved public financial management

• need new, pro-rural, pro-poor policies to realize this potential
  – Ensure public funds are used efficiently and for the poor
  – Investment climate reforms to diversify and sustain growth
  – Align external assistance more effectively to poverty reduction priorities
  – Promote smallholder agriculture for growth and equity?