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## Poverty Reduction through Decentralisation? Lessons from Elsewhere and Challenges for Cambodia

Dr Caroline Rusten, Programme Manager of CDRI's Policy Oriented Research Programme on Decentralisation, and Dr Joakim Öjendal, Professor at Gothenburg University in Sweden, assess the challenges of the recently launched decentralisation process to address poverty reduction.\*

Cambodia has seen significant investment in the restructuring of development assistance, including rural development, but this has had little effect on poverty. Recently a major decentralisation process with great ambitions with regard to poverty alleviation has been launched in Cambodia. Experience from other countries indicates, however, that there is no clear link between decentralisation and poverty reduction. This article assesses the significance of the commune election law; the features of 'pro-poor' policies; central-local relations; the impact and prevalence of social capital; the institutional set-up; and particular dimensions of the overall political economy. We conclude that in spite of the major difficulties revealed, a certain degree, and certain kind, of poverty alleviation may be within reach.

The recently launched decentralisation reform has explicit poverty alleviation ambitions. Its objectives are defined by the Royal Government of Cambodia (RGC) as: (i) promotion of pluralist participatory democracy at the local level, (ii) promotion of the culture and practice of participatory development at the local level, and (iii) contribution to reduction of poverty in the country.<sup>1</sup> Great hopes have been pinned by both the government and the donors on its ability to meet these objectives. Globally, however, there is no empirical evidence suggesting there is a clear connection between decentralisation and poverty reduction.<sup>2</sup> Rather, lessons learned from other countries show that decentralisation programmes thus far have generally had little impact on



Commune Council members in Samlot district, Battambang province, in CDRI training seminar on Conflict Management, 05 June 2002.

poverty reduction. Decentralisation, when managed badly, has in fact the potential to further increase marginalisation and poverty. This is partly because those with political and economic power may capture the process (this is what is known as 'elite capture'). This is partly too because of local government fiscal deficits. Both these 'dangers' are the results of poor design, procedural weaknesses, political immaturity, and capacity problems.<sup>3</sup> However, decentralisation does have the potential to effectively address poverty if properly designed and wisely managed. This certainly is a complex task as decentralisation often takes place in the context of unstable political situations, structural poverty (which is both income poverty and poverty rooted in impedi-

## In This Issue

Poverty Reduction through Decentralisation? .....	1
Envisioning a New Paradigm of Development .....	
Cooperation in Cambodia .....	6
Farming and Flooding in Takeo .....	8
Economy Watch — External Environment .....	13
— Domestic Performance .....	15
— Economic Indicators .....	17
Glossary .....	19
CDRI Update .....	20

\* This is a revised version of a paper presented at the Inception Seminar of CDRI's Policy Oriented Research Programme on Decentralisation (PORDEC) in Phnom Penh, March 27, 2003. The paper is based on field work by Öjendal conducted between 1999 and 2003 and field work carried out by the PORDEC team in 2003.

ments to achieve poverty reduction, such as distrust and lack of local state legitimacy), fragmented donor involvement, and unclear long-term government policies.

Decentralisation in Cambodia is in agreement with the common objectives of the decentralisation reforms sweeping the developing world, with the hypothesis that elected representatives at sub-national and local levels are better able than the central government to understand and address the needs of the people. Drawing on this and guided by a wide range of literature,<sup>4</sup> this article will investigate six 'requirements' for decentralisation to result in poverty reduction, namely:

- 1 The political process is open and transparent with equal access for every citizen (election law);
- 2 The identified priorities of the majority of the constituency are the chief concerns guiding council resource allocation (pro-poor policies);
- 3 The local authorities establish a certain degree of independence and integrity (central-local relations);
- 4 The local civil society holds a minimal degree of social capital (local-local relations);
- 5 The 'institutional set-up' is adequate; and,
- 6 The specifics of external support and influence are conducive (external political economy).

#### **Equal Access to Decentralisation - the Election Law**

Two specific issues that have bearing on the ability of a decentralisation reform to address poverty have frequently been mentioned regarding a country's election law. The first aspect is the *level of constituency*. The concern is that higher levels of constituency create greater space for elite capture of the development process than when the constituency is at village level. The argument for elite capture is based on experiences from Ghana, India, and Thailand.<sup>5</sup> Elite grabbing in Cambodia may be facilitated by two processes: one, the history of political centralism, and two, the widespread prevalence of vertical and exclusive patronage. One question is therefore to what extent priorities of the elite would enhance commune investment benefiting (all) the poor. CDRI's ongoing research<sup>6</sup> shows that concern regarding elite capture of the development process at the commune level is still premature.

The second aspect of the Election Law is to what extent it makes councillors upwardly or downwardly accountable. Experience shows that electoral systems based on party lists make councillors vulnerable to central decisions within their own party and so enhance their upward (semi-legitimate) accountability. Bangladesh is a case in point, where central level party politicking to some extent dashed the developmental intentions of the decentralisation process. This was effectuated through the establishing of chains of patronage in which the rural elite was co-opted by central level politics, where party structures were the key vehicle. The only possible way to avoid this seems to have been to reinforce the degree of local self-sufficiency by reducing centrally provided state services.

The Cambodian election law enables the central party structures to establish the names on the local party list, which allows a degree of central level political control over commune councils. While potentially unfortunate, it works in the reverse too in that it enabled the recruitment of a large number of new – locally popular – Commune Chiefs *prior* to the first commune elections. The reason was that popular people in the commune were placed on top of the party list. This could be viewed as an example of local democracy working. However, CDRI's ongoing research indicates that councillors tend to be more accountable to the party than to the government (or the public).

The two major risks with the design of the election law may be that: one, a local elite-consensus emerges, or, two, party structures re-establish a hierarchical order where top-down policies are exercised. Does this mean that 'pro-poor' policies are unlikely to emerge?

#### **Pro-poor Policies – What Are They?**

To what extent must a policy or intervention be 'pro-poor' in order to improve the situation of the poor? It seems, no matter what the approach, poverty reduction on any measurable scale is hard to achieve despite agendas that claim to be pro-poor. There seems, however, to be a renewed global focus on economic growth as the best way of addressing poverty. The concern, however, is that this renewed approach may fail to address the demands of the poor, as the focus is on the supply, rather than the demand side. Economic growth in Cambodia has therefore had little impact on the poverty situation.<sup>7</sup>

Thus, macroeconomic changes in isolation seem to be questionable for poverty alleviation purposes. Also, experience from Africa shows that attempts to address poverty in a targeted sense in donor projects also tends to be difficult, because projects are inclined to be focused on poor people in isolation of markets and local government revenues. As a result, options for commune council revenues tend to be lost.

In Cambodia, the CAREER/Seila project 1996-2001 attempted to address poverty in a structural sense and it is generally regarded as having been successful. Even so, tangible poverty alleviation – understood as income poverty alleviation – on a national (or local) scale was not detectable. Poverty alleviation seems to be stuck between macroeconomic growth with little effect on poverty and the unsustainability of targeted interventions.

In terms of making decentralisation conducive to poverty alleviation, therefore, legitimate commune councils with the required capacity to effect the implementation are required to combine a 'structural' and a 'targeted' approach, and thereby to turn growth into poverty alleviation. The challenge here might be that while growth in Cambodia is urban rather than rural, poverty is rural rather than urban, hence, equalisation grants and taxation policies are fundamental for this change to take place. This is a central government responsibility and not within the jurisdiction of the commune councils.

### Central-local Relations – The Challenge of Commune Council Independence and Integrity

The major overall determinant for the success or failure of decentralisation in achieving poverty reduction lies in the character and politics of central-local relations rather than in the technical aspects of the particular system of decentralisation adopted. Three important aspects should be considered.

#### *Central-local relations*

The social, cultural and political context may enforce other power relations than those stated by the law. This is what is called the 'political culture'. In Bangladesh and Ghana, local governance has been under the watchful eye of authoritarian regimes. Performance has been controlled by the elite. Also, activities at the local level have been dominated by considerations of higher levels of government. This is exacerbated by the fact that local leaders have been co-opted into national policy building exercises. In Cambodia too, lower levels of government habitually seek authorisation from higher levels of government although they now have the legal power to make decisions themselves. The decentralisation reform, through its strong emphasis on commune independence, local development, and bottom-up thinking, would represent a break with Cambodian political culture should the commune councils succeed with their task.

The ineffectiveness of decentralisation processes is often rooted in reluctance among sector ministries to participate, and also in the fragmentation of responsibility for different aspects of the reform to different agencies. The future success of decentralisation processes lies in improving the balance between central state guidance and local initiative. This applies to Cambodia as much as anywhere, where despite local government autonomy to articulate their needs within the political system, central state guidance gives meager space for local initiative, and local actors are extremely worried about making mistakes. Also, the centre does not necessarily possess greater knowledge about what constitutes 'good' decentralisation processes than does the local administration. Proper institutions for instituting these changes are in short supply, and even the legal framework is, as yet, incomplete.

#### *Power relations at the local level*

Any potential positive impact of reforms has failed to materialise in cases where elite capture takes place at the local level such as in Kenya, Bangladesh, Ethiopia and Nigeria. In Cambodia, local elite capture may not be a particularly urgent issue. Land ownership is more equal (comparatively speaking) and the economic elite does not necessarily overlap with the political elite, a set of circumstances that produces a rather weak (or at least fragmented) local elite. The general lack of a strong local elite may thus make local elite grabbing less likely than in other places. After all, commune councillors and

village chiefs are often rice farmers themselves, like most others in the villages.

Making local government accountable requires that a civil society demands this. Perhaps the key issue for successful decentralisation in Cambodia is how civil society will be able to hold commune councils accountable, and particularly how the poorer strata of civil society will manage this. However, keeping authorities accountable is not a regular feature of rural Cambodian political life. Here, even the commune is viewed as fairly distant from the people. Also, there is a strong tendency to avoid interference with the activities of the State. There is therefore an imperative for any development programme to create space for villagers to interact with the local state.

#### *Transfer of funds and revenue collection*

Experiences from India and other places indicate that achievement of poverty reduction can take place only if adequate financial resources support the devolution of power.<sup>8</sup> Communes in Cambodia have two sources of funds: the central government and donors (the Commune/Sangkat Fund), and their own funds from civil registration. In contrast to most other countries in the world, neither land tax nor income tax is currently collected (in rural areas). However, there are clear indications that a system of informal taxation is widespread and that greater revenue potential exists for the Commune

Council than that which has been identified thus far. At present, market taxation by district authorities in Cambodia is irregular and lacks transparency.

As informal taxation provides a more direct link between the 'tax' being paid and the benefit achieved at the local level than the general taxation imposed by the state, it has been argued that the informal taxation is more acceptable.<sup>9</sup> Decentralisation may serve as a mechanism to start to reverse this 'collapse' which has its origin in public distrust vis-à-vis the state. This may be one of the major long-term tasks of the decentralisation process.

In weak administrative systems, a transfer of resources requires two things: (i) reliable and secure financial systems, and (ii) simple systems that can be understood and accessed at the local level by people with limited education and minimal exposure to modern management systems. This is a great challenge in Cambodia as the training provided (albeit substantial) is still insufficient for the majority of councillors with low education. Also, the absence of a rural banking system makes secure and flexible transfer of resources difficult, and this results in circumscription of commune council independence because funds need to be kept in the provincial administration treasury. Finally, late transfers from the central government delay implementation of commune development projects. This challenges the trust that the commune councils need to build with their constituencies and investors.

*The future success of decentralisation processes lies in improving the balance between central state guidance and local initiative.*

### **Social Capital as a Lever for Decentralisation that Alleviates Poverty**

One important requirement is that the commune/community has a certain degree of 'social capital' that can be drawn upon. This is currently rarely the case in Cambodia. It would, however, be worth exploring the extent to which the local private sector, the Wats and other local institutions are drawn upon in the decentralisation process. There are emerging tentative linkages between commune councils and civil society organisations. Although the latter are extremely weak in rural Cambodia, in communes in Battambang, Takeo and Kep provinces, cooperation between the commune council and local associations has been observed. Although far from conclusive, this is taken as an interesting trend emerging in sharp contrast to previous patterns, since in at least two of the three cases the linkages had a direct and positive impact on poverty reduction.

From a historical perspective, local collective organisation has always been weak. The legacy of recent atrocities has exacerbated this weakness. Where collective organisation has existed, it has been based on limited family and kin networks rather than on any larger units of collective rural identities.<sup>10</sup> Although CDRI's preliminary research indicates emerging engagement and empowerment in some places, the pattern of weak organisation seems to persist in most areas, despite increased local participation. This weak collective organisation may continue to complicate politics and the establishment of trust among policy makers. There is an uphill journey before decentralisation can utilise any substantial social capital in rural Cambodia.

### **Institutional Set-up**

It has been observed that countries that have been able to build commune administrations on the foundations of pre-existing well-established bodies have proven most successful in overcoming the challenges of institutional weakness and poor individual motivation. However, Cambodian local leaders lack self-confidence and although commune councillors are elected they tend to be reluctant to make independent decisions.

Although to some extent avoided by the Seila structure, some donors, NGOs and political parties bypass existing, albeit weak, government structures. Despite the existence of the District Integration Workshop, it seems that the line departments tend to carry out their duties more or less as they did before the commune elections. This is an increasing concern among the provincial governors. Furthermore, the future role of the province and the district is still unclear, but is being negotiated through the establishment of the law, rather than by an overall transparent vision and strategy to guide it.

### **The Political Economy of Decentralisation—The Need for a Conducive Environment**

Decentralisation in less developed countries often takes place in a context of unclear policies, emerging laws, and limited strategies for implementation. A common

challenge is that reform policies often outpace the capacity to implement them. In Cambodia, however, the Seila programme has made huge efforts in terms of building capacity and support for the communes through the involvement of, and support from, the provincial administration. Although the efforts made by the facilitation and support staff to assist the communes are commendable, technical issues, especially those related to procurement processes and financial accounting, remain problematic.

One of the major strengths of this decentralisation reform is that it appears to satisfy the agendas of all major actors. For the government it represents a long awaited reform of local governance. The centre (the dominant party) was losing influence in rural areas. Decentralisation and externally financed local development constitute a legitimate means of regaining this influence. The donors, for their part, see ahead of them major democratic and poverty alleviation achievements, triggered by decentralisation, and they are keen to engage in public sector reform. It seems reasonable to assume as well that rural society can only gain from more resources being made available at the local level and from a reformed local governance system. For the moment, financial resources and political will are available, and few 'spoilers' are around. For these reasons alone it is possible that the reform will, at least initially, be successful.

### **Decentralisation in Cambodia**

When designing a decentralisation reform there is a delicate balance between accepting blueprints emanating from different circumstances somewhere else and of inventing the wheel anew under misplaced perceptions of uniqueness.

Neither Cambodia's political culture, nor her historical experiences make the country a malleable recipient of democratic decentralisation. Both central and local levels lack capacity and resources for implementation, and they receive little help from civil society in this regard. Donors have different ideas about both the potential of decentralisation to bring about poverty alleviation and how this potential could be tapped.

The *election law* has a 'weak spot' in that it makes councillors primarily accountable to the party. So far, however, the process of introducing local elections has gone smoothly and gathered wide acceptance. To launch the commune as the level of constituency was a bold move, which in fact was met with surprisingly little resistance.

The possibility of establishing *pro-poor policies* may appear slim given the extreme vulnerability of the poorest inhabitants of rural Cambodia. However, with 40% of the rural population below the one-dollar-a-day poverty line and the majority of the rest just a little better off, it is likely that even if the poorest of the poor are neglected considerable numbers of poor people will benefit. In other words, elite capture is likely to occur to some degree but even this may constitute a form of poverty reduction given that even the 'elite' in rural Cambodia is also poor. The very existence of a democratic de-

centralisation reform encouraging bottom-up thinking suggests that the denigrated Cambodian political culture is more complex than generally assumed. It is truly capable of change given the right incentives, and it is capable of acting differently at the local level.

As for establishing *well-balanced central-local relations*, there are two risks: there may be either too much or too little higher-level involvement. The commune councils are likely to continue to be dominated by higher levels for some time to come. Over the short-term this is hardly a problem since the commune councils would be utterly uncomfortable being 'on their own' from day one, but gradually they will need to develop independence.

Decentralisation seems to either encourage existing, or trigger the founding of, *civil society* organisations with distinct poverty reducing effects. While this is not yet evident in Cambodia, it is a very interesting possibility since the lack of such citizen initiatives is one of the key development impediments at the local level. In terms of *institutional set-up*, the basics of the reform seem to be well conceived, although the obvious lack of administrative capacity is worrying. This must, however, be considered in the context of the *overall political economy* of the decentralisation reform, where the donors and NGOs alike bear a huge responsibility for respecting the intentions and evolution of the reform, while simultaneously not behaving with indifference. Historically, this has been handled fairly well in Cambodia, but there are distinctly diverging agendas in the aid community and long-term commitment is a key issue.

Cambodia faces a major challenge: decentralisation is not the automatic poverty reduction mechanism it may have appeared to be in the 1990s. Also, it is important that the 'structure of poverty' is assessed properly. 'Real poverty' in Cambodia may not be entirely based on the mainstream understanding of poverty, namely material conditions (income poverty). Instead it is likely that legacies of the violent past, such as fear, distrust, lack of local state legitimacy, endemic low levels of education, and general fatigue, both impoverish the people and impede their attempts to achieve (income-based) poverty reduction. Decentralisation has a bearing on all these issues, and thus has relevance for a wider poverty concept. Rather than delivering 'simple' poverty alleviation projects, a comprehensive approach is required in which societal reconstruction in the broadest sense is required.

However, although this may appear daunting at a first glance, a finer analysis reveals that a number of factors are working in favour of a reasonably successful reform in Cambodia. So far, on the design level, the RGC seems to have got it right: commune independence is protected by law, financial resources come with political responsibility, the democratic content is real, and the initial elections worked fairly well. Moreover, government – from local to central level – is largely committed to the idea of decentralisation. In fact, many of the pitfalls of decentralisation seem to have been

avoided. And although this reform challenges deep-seated patterns, its time may simply have come.

The long-term challenge for the Cambodian decentralisation reform process is essentially twofold: firstly, it must bring about poverty reduction both via developmental effectiveness and via responsiveness to local demands through participation and empowerment. Secondly, it must maintain the social and political dynamics that are able to promote the reform even in the absence of the current massive external interventions. It is these two factors that will eventually define the degree of success of decentralisation as a poverty reducing mechanism in Cambodia.

#### Endnotes

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