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Inclusive Growth for Cambodia: Putting Theory into Practice¹

“Inclusive growth is so important to the government, the private sector and Cambodian communities, especially the young, the poor and the vulnerable.”

*Samdech Akka Moha Sena Padei Techo HUN SEN,
Prime Minister of the Kingdom of Cambodia*

Inclusive Growth as a Concept

High economic growth is the cornerstone and principal measure of a country's successful socio-economic development. For this reason, policy makers have long strived to create macroeconomic conditions that enable rapid growth.

However, it is being increasingly recognised that if high growth is going to be sustained in the medium to long-term, concerted efforts must be made to ensure it extends across sectors, populations and into geographical peripheries. Inclusive growth links prudent macroeconomic policy with proactive microeconomic and social policy to ensure that growth remains high, but that its trend is equitable.

Inclusive growth is about creating opportunities and access to these opportunities for all, especially the poor and vulnerable. It does not entail redistribution of wealth per se, but rather promotes equal access to economic opportunities across the economy.

The role of government, therefore, is to formulate institutional and policy frameworks that enable the population to meaningfully participate in the economy. As Figure 1 illustrates, complementing high GDP growth with social safety nets, efficient and equitable education and improvements in health and nutrition

ensures that on the one hand opportunities are created and on the other, the population is well placed to seize them and drive the economy forward.

Increasing institutional capacity to transparently implement, enforce and monitor inclusive policy frameworks will be the overriding factor in securing Cambodia's high, inclusive and sustainable growth.

Is Cambodia's Growth Inclusive?

By all indications Cambodia has made remarkable progress in reducing poverty over the last two decades of high, sustained economic growth.

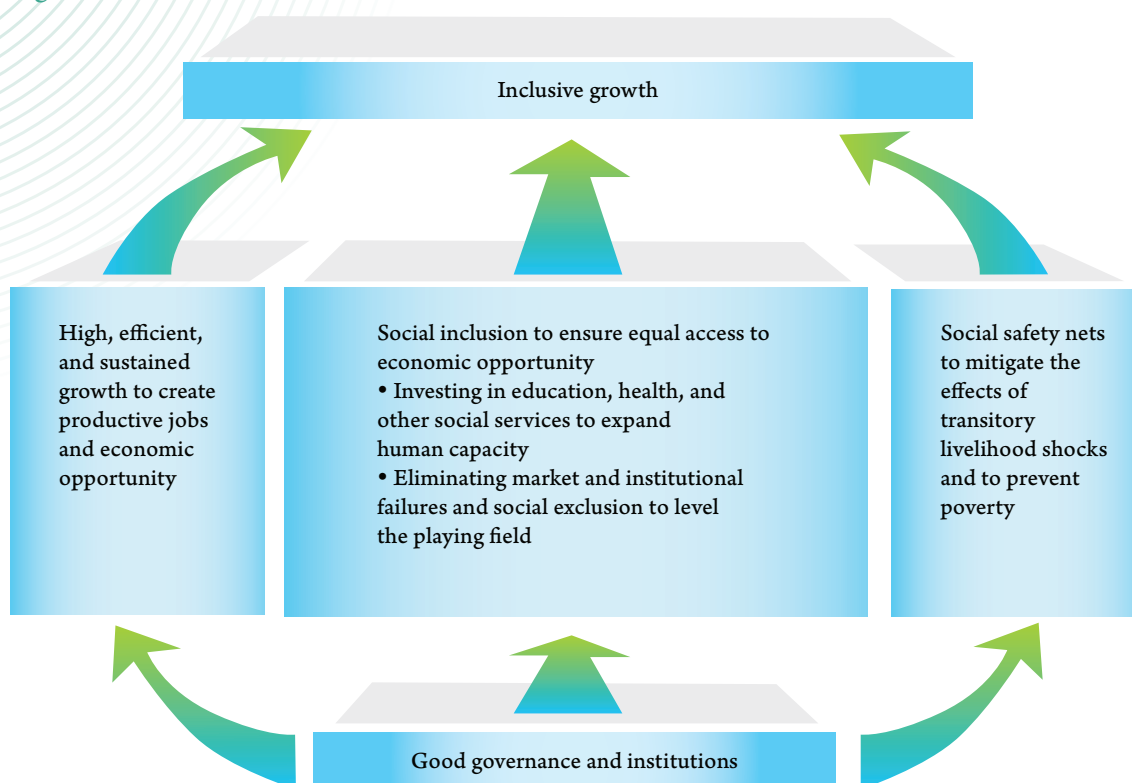
Cambodia Socio-economic Survey (CSES) data indicates that the poverty headcount ratio at the national poverty line had declined to 30.1 percent in 2007 from 47 percent in 1994. Similarly, recent analysis based on panel data from CDRI household surveys found that poverty reduced by 10 percentage points between 2001 and 2011.

But beyond the clear overall trend of declining poverty, data becomes more ambiguous. Researchers are beginning to question the accuracy and validity of current instruments for measuring inclusive development. Specifically, ongoing analyses at CDRI have questioned whether CSES data can be used to adequately quantify changes in poverty and inequality over time.

The CSES dataset is the sample most often used to quantify and describe various aspects of Cambodia's development. However, lack of continuity of measurement methodologies between years has rendered some time-series comparisons problematic.

¹ This is a summary of the 2012 Cambodia Outlook Conference presentations by Dr Tong Kimsun, Senior Economist and Coordinator, Economy Trade and Regional Cooperation Programme, CDRI; H.E. Dr Hang Chuon Naron, Permanent Vice Chairman, Supreme National Economic Council, Secretary of State, Ministry of Economy and Finance.

Figure 1: A Framework for Inclusive Growth



Source: Zhuang (2010) cited in Dr Tong's Cambodia Outlook Conference presentation, 16 February 2012

This could lead to misleading results, potentially providing policy makers with incomplete information.

CDRI has focused on overcoming these methodological issues; panel data from 2001, 2004/5, 2008 and 2011 does not suffer from methodological inconsistencies and thus is more useful for comparative analyses. The drawback is that the survey sample of around 790 households is smaller than that of the CSES.

The CSES and CDRI datasets yield quite contrasting results regarding the extent of inequality and the rate of change of inequality over time. CSES data shows that inequality has increased from a Gini coefficient of 38.28, to 44.37 between 1994 and 2007². Conversely, CDRI data shows decreasing inequality overtime and much lower rates of inequality in general, from a Gini coefficient of 28.6 in 2001 to 26.2 in 2011.

It is crucial that the disparities between datasets are redressed with more rigorous research.

Leaving aside the data issues, other factors suggest that the benefits of Cambodia's growth have not met all the criteria of inclusiveness.

First, rates of poverty reduction have not been uniform across the population. CDRI data reveals that the gender of the household head has been a significant

factor affecting the rate of poverty reduction. Between 2001 and 2011 the number of male-headed households living in poverty decreased by 11.8 percent, while the number of female-headed households living in poverty declined by only 5.5 percent.

CSES data shows disparities between urban and rural populations: between 2004 and 2007 the number of rural households living in poverty declined by 11.1 percent, while the number of urban households living in poverty declined by 13.3 percent. If current trends persist, inequality between rural and urban, and female and male-headed households is set to increase in the future.

Second, beyond income measurements of inclusiveness, Cambodia performs poorly. As Table 1 demonstrates, although Cambodia's inclusive growth index is "satisfactory", it is buoyed by "superior" rates of growth and almost "superior" rates of consumption-based poverty reduction. However, other factors that contribute to an enabling environment, such as social protection for the poor and vulnerable, are seriously lacking.

Overall, time-series analysis, using the methodologically less problematic CDRI panel data, indicates decreasing inequality and sufficient poverty reduction for the overall trend of Cambodia's development to be described as inclusive. But disaggregating the trend shows areas that government action must address with economic and social policy.

² A Gini coefficient of 0 represents perfect equality and 100 represents perfect inequality.

Table 1: Inclusive Growth Index for Cambodia

	Score	Weight	Total
1. Growth	8	0.25	2.00
2. Employment	4	0.15	0.60
3. Economic Infrastructure	4	0.10	0.40
4. Poverty	6	0.10	0.60
5. Inequality	4	0.10	0.40
6. Gender equity	6	0.05	0.30
7. Health & nutrition	3	0.05	0.15
8. Education	4	0.05	0.20
9. Sanitation & water	4	0.05	0.20
10. Social protection	2	0.10	0.20
Total		1.00	5.05

Note: 1-3=unsatisfactory progress, 4-7=satisfactory progress, 8-10=superior progress

Source: Mckinleg (2010), cited in Dr Tong's Cambodia Outlook Conference presentation, 16 February 2012

Macro and Microeconomic Policy

Macroeconomic stability alongside consistent GDP growth is the most important factor in driving inclusive growth by creating employment. It is crucial, therefore, that government maintains a stable outlook, and in particular a manageable rate of inflation, preferably at below 5 percent.

About 90 percent of poor households depend on rural livelihoods, so government must redouble its efforts in rebalancing the economy to represent this fact. The Sector Wide Approach (SWAp) to trade has made significant gains in streamlining development partner and government resources to identify and remove constraints to growth in export sectors with high poverty reducing impacts. These gains must be consolidated with continued monitoring and increased institutional capacity.

Successful inclusive development will link overarching macroeconomic with microeconomic policy. Local economic development is imperative if growth is to permeate remote geographical regions and across sectors. The peripheries are where most poverty is concentrated, so it is critical that these areas are opened up to markets with infrastructure development.

The ADB-GMS umbrella programme has been instrumental in upgrading infrastructure along key economic corridors, thereby linking Cambodia's periphery to national, regional and global markets.

In addition, complementary service provision is needed to increase productivity, particularly among the rural majority, many of whom farm small rice plots. Government and development partners have implemented a number of irrigation projects across the length and breadth of the country, with an increasing

focus on areas with high rates of poverty. One example is the ADB-funded Northwest Irrigation Sector Project, which comprises 12 sub-projects to provide enhanced small and medium irrigation schemes and water control structure for supplementary wet season irrigation of approximately 11,000 hectares of rice fields and *chamkar* (Vegetable plot and orchard).

It is important that the means as well as the end goals of development are inclusive. For example, community participation has been increasingly integrated into all stages of local-level irrigation project planning, implementation and monitoring to ensure local needs are met and service provision is equitable. The Commune/Sangkat Fund has promoted the practice of local communities managing and monitoring infrastructure projects to increase community ownership.

Lack of formal credit infrastructure remains an additional constraint to farmers and small and medium enterprise (SME) operators, though there have been major advances in this regard. The microfinance sector in Cambodia has played a leading role in expanding the reach of formal financial services to the rural poor. The sector has experienced rapid growth over the last five years, reaching 1.3 million borrowers and 1.1 million savers in 24 provinces. Deposits increased by 32 percent to USD1.26 billion in 2011 from USD952 million in 2010.

There is need for policy that addresses social and cultural norms preventing women from accessing economic opportunities. A core component of the Ministry of Women's Affairs (MoWA) Neary Rattanak III strategic plan is developing national level policies to promote gender equity in economic opportunities. The programme aims to effect changes in cultural gender models that favour men's economic participation in some economic activities, for example purchasing and inheriting property, through promoting policies that remove barriers to women's participation throughout the economy.

It is essential that the government creates more fiscal space by increasing revenue collection if there are to be sustained improvements in infrastructure, institution and policy development. It is committed to increasing rates of collection by 0.5 percent each year. Appropriate policy frameworks must be developed to optimise the productive potential of this capital to the benefit of Cambodia's high poverty sectors.

Enabling Social Policy for Inclusive Growth

Cambodia lags far behind many countries in the region when it comes to healthcare, nutrition, education and social protection schemes.

It is increasingly being asserted by development economists that the lack of social protection and

healthcare services negatively affects rates of growth, and contributes to a trend of growth that is not inclusive.

Cambodia scores low in indicators such as social protection, education, health and nutrition, sanitation and water. These indicators are important for inclusive growth because good health and financial security better enable poor households to meaningfully participate in the economy. If poor households are constantly struggling to meet basic daily needs then they are rarely productive, but rather teeter on the edge of survival in a cycle of poverty.

Civil society has been active in providing social support mechanisms for those most vulnerable, and development partners have also been active in supporting specific projects. For example, the Urban Poor Development Fund (UPDF) helps provide financial assistance for healthcare and improved sanitation facilities in urban areas. Government has been supportive of these efforts; the prime minister has gone as far as making a personal contribution to the UPDF each month.

However, there is no wide-reaching state administered social protection system in Cambodia. Reliance on development partners and civil society means that progress in this area has lacked continuity and has been largely shaped by the agendas of a variety of different organisations.

Recently the government has developed a more comprehensive National Social Protection Strategy (NSPS) 2011-15 to address the dearth of social protection in the country. The NSPS framework streamlines existing social programmes under a broader framework that will protect the poor and vulnerable and facilitate their integration into productive economic activity. This includes social safety nets to reduce poverty and food insecurity, and schemes to improve nutrition, maternal and child health, promote education and eliminate child labour.

A major challenge is increasing access to employment opportunities across society by appropriately skilling the workforce. To this end the government has consistently increased spending on education over the past decade, though since 2008 it has decreased as a percentage of the overall national budget – indeed, using this measure Cambodia ranks poorly among its neighbours.

Net enrolment rates have increased in primary education; however, repetition and drop-out rates have also risen and are mainly linked to household conditions. This again highlights how household social protection and learning are inextricably linked.

Even more pressing is the fact that 300,000 to 400,000 young people enter the labour market every year. These people need to be appropriately skilled if they are to be able to access the opportunities provided by economic growth and economic diversification. Technical and Vocational Education and Training (TVET) schemes should be mobilised to skill these entrants to the workforce, and extended into agriculture and into areas in the geographical periphery.

Policy-Institutions Mismatch and Delivery of Inclusive Growth

The government has developed and deployed a number of innovative policy frameworks that greatly work towards their goal of inclusive growth. However, as the theory suggests, it is institutional capacity that holds the key to inclusive development. Policy frameworks such as the NSPS and SWAp are strong; the problem lies in implementing them.

A mismatch between institutions and policy can have negative impacts on inclusive development. Nowhere is this more evident than in the land sector.

Land is particularly important to poor households because it can be combined with labour, their primary asset, to generate capital. Therefore secure land rights are a crucial requisite for inclusive growth. But while policy frameworks legally recognise land, the institutions that enforce them have not developed at the same pace. This has resulted in a high volume of land conflicts and a backlog of cases at Cadastral Commissions, undermining perceptions of tenure security and constraining economic participation.

A particular point of contention has been the management of Economic Land Concessions (ELCs). While again there are policies and regulatory frameworks for allocating and monitoring ELCs, in some cases these have not been followed and land use is of sub-optimal efficiency. As a result, local households' participation in capital generating activities has been constrained.

Reforms of local institutions that play a key role in households' day to day lives are also important for socioeconomic inclusion. The government's de-concentration and decentralisation reforms have worked towards reforming commune councils with a view to making them more equitable, efficient and transparent in providing services and administering local communities.

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