

Development Inclusiveness, Sustainability and Governance in Cambodia: Trends, Issues and Challenges

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1. INTRODUCTION

Cambodia is rapidly changing – economically, socially and politically. With an average annual gross domestic product (GDP) growth rate of about 7.7 percent in the last two decades, the country is now on the verge of graduating from low-income to middle-income status. A society that was torn apart by protracted civil conflict and external aggression in the 1970s and the 1980s is now demonstrating strong social cohesion and unity. Home to widespread poverty, miserable health conditions, and high illiteracy only about two decades ago, the country has more than halved extreme poverty, achieved robust improvements in health and is close to attaining universal primary education. The country has achieved these economic and social transformations at the same time as it has embarked on a process of internally driven democratisation and decentralisation of its polity. Recognising these development achievements, the International Monetary Fund (IMF) now includes Cambodia in the select list of “dynamic” low-income countries that started their economic takeoffs in the 1990s (IMF 2013).

Current indications are that, despite the political stalemate following the July 2013 national elections, growth in 2014 is likely to be around 7 percent – similar to the annual figures for 2011-2013 (ADB 2013; IMF 2013; World Bank 2014). With the current account largely funded by external aid and foreign direct investment, and annual inflation remaining around the historical average of 5 percent in recent months, no immediate macro-financial risks seem to threaten the growth prospects, although the rapid bank credit growth of recent years underscores the need for policy vigilance (Heng 2014). If the country maintains the current pace of growth until 2018, it would join the globally coveted club of 16 countries that have achieved high and sustained growth in the post-World War II period (that is, posted annual growth of 7 percent or more for about a quarter-century) – a feat that neighbouring Vietnam seems to have achieved in 2011 (CGD 2008; Madhur and Menon 2014).

Despite the commendable achievements to date, Cambodia’s remaining development agenda remains substantial – maintaining strong growth, ensuring that growth is socially inclusive, making sure that growth and development are environmentally sustainable, and strengthening governance and public institutions for development (CDRI 2013; World Bank 2013; CDRI 2014).

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Against the backdrop of these emerging priorities in the country's development agenda, the collection of papers in this year's Annual Development Review examines trends, issues and challenges in the three interrelated areas of inclusive development, environmental sustainability and development governance. This introductory chapter summarises and synthesises the key messages of the 12 papers that follow under the same thematic areas. Issues relating to development inclusiveness are discussed under the broad subcategories of growth and poverty (Section 2), health and education (Section 3) and agricultural transformation (Section 4). Section 5 deals with environmental sustainability issues and Section 6 covers governance. Finally, Section 7 provides a brief conclusion.

2. GROWTH AND POVERTY

Cambodia is a small but highly open economy located in the dynamic Southeast and East Asian region. It is also a member of several important regional and subregional cooperation and integration initiatives. Despite the high openness and the favourable geographical location, Cambodia is not economically well integrated – with its neighbours, in particular, or within “Factory Asia” more generally.

Hing and Strange (Chapter 2) place Cambodia's growth and development process in the regional context. They argue that Cambodia has huge potential to gain from the several integration initiatives that are underway such as the Greater Mekong Subregional (GMS) initiative, the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP). In order to realise the potential benefits from these subregional, regional, and inter-regional integration initiatives, Cambodia has to address several challenges. Hing and Strange prioritise three of these – strengthening connectivity with its neighbours (through better road, rail, sea and air transportation links), simplifying trade logistics (through better transparency in logistics procedures, reducing informal fees charged by officials at the border, and integrating the country's trade logistics services with its neighbours), and building the skill-base of the country's human capital (through better access to health and education services as well as a freer but well managed labour migration policy as part of the upcoming AEC).

Chapter 3 analyses trends in the pro-poorness of Cambodia's growth and a few health and education indicators. Using data from the Cambodia Socio-Economic Surveys (CSES), Roth and Lun find that Cambodia's growth during the period 2004-2011 as a whole was moderately pro-poor, and that the pro-poorness of growth has increased since 2007. Growth became more pro-poor from 2007 because consumption inequality fell, in contrast to the rising consumption inequality during 2004-2007. In general, these results are consistent with the recent estimates by both the Royal Government of Cambodia (RGC) and the World Bank that show a substantial decrease in poverty since 2007 (MOP 2012; World Bank 2013). Using data from the Cambodia Demographic and Health Surveys (CDHS), the authors extend their measurement of pro-poorness to two more areas of human development – health and education. Roth and Lun find that the pro-poorness of child health in terms of malnutrition in children under five years old (assessed from the prevalence of stunting, wasting and underweight) declined during 2005-2011 (compared with trends over the period 2000-2005). The results are

similar in the case of education in that mean years of schooling declined during 2005-2011 compared with the preceding five years. Overall, the authors caution that despite the impressive decline in the poverty rate since 2007, the remaining poor and those who hover just above the poverty line are highly vulnerable to even small negative income shocks.

3. HEALTH AND EDUCATION

Health and education are both components and determinants of development. A healthy and educated society provides a country with a pool of productive workers and hence contributes to economic growth. As well as a means for fostering growth, good health and good education are also worthwhile ends in themselves. In this context, Chapters 4 and 5 look at some specific aspects of health and education in Cambodia.

Chapter 4 takes up the issue of child nutrition, which is inextricably linked to several factors, one such factor being infant-feeding practices. The government has launched initiatives to improve children's nutritional status, including the Complementary Feeding Communication (CFC) campaign. Introduced in April 2012, the campaign uses television infomercials (advertisements that provide a lot of information), health fairs with cooking demonstrations, home visits and group meetings to promote the usefulness, ingredients, preparation, and feeding regimen of a particular nutritious meal for children aged 6-24 months. The target audiences for this programme are the children's mothers and other primary caregivers. Making an initial assessment, Chea, Nou and Ros conclude that, in the short period since its introduction, CFC has helped to improve the awareness of mothers and other caregivers and that most of them have adopted the recommended infant meal. The authors caution, however, that as yet there are no strong signs that the target groups will maintain the feeding regimen over the long term. The country's low rural electrification rate, among other barriers, constrains even the campaign messages from reaching a larger number of mothers and infant caregivers in rural and remote areas through one of the most effective communication media today – the television. The authors suggest that while there is merit in continuing the campaign, there is also a need to ensure that the target groups not only receive the messages and adopt better child-feeding practices but also that those improved practices are maintained over the longer haul.

Chapter 5 dwells on a key element of development inclusion – the pro-poorness of public expenditure on education. Tong and Phay apply benefit-incidence analysis, supplemented by marginal benefit incidence analysis, to evaluate the pro-poorness of current public spending on education and to predict to what extent households across different income groups would benefit simply from blanket increases in public expenditure across three levels of education – primary (grades 1-6), lower secondary (grades 7-9) and upper secondary (grades 10-12). Their results indicate that current public expenditure on primary education has been generally pro-poor in that the poorer households have benefited more than the richer households have from these expenditures. The results for lower secondary education spending, while not quite so rosy, are progressive nonetheless. However, the figures for upper secondary education spending are inconclusive. Indeed, the deduction is that an expansion of public spending on upper secondary school would benefit middle-income households more

than the poorest or the richest. Possible explanations for this are that, for the poor, the cost of sending children to school would still be too high, while richer parents tend to favour private schooling over its public counterpart. The authors suggest, therefore, that policy options to increase the pro-poorness of education spending should consider reallocating some of the current education budget. This could include allocating a higher share of education expenditure to primary and lower secondary levels, where, as the results indicate, such action would increase the pro-poorness of public spending. However, at upper secondary level, existing public expenditure should be better targeted to benefit poorer households, especially in rural areas. This could be done through, for example, conditional cash transfers for the poor, in-kind interventions such as school meal programmes for the poor, or the provision of other schooling support for the rural poor.

4. AGRICULTURAL TRANSFORMATION

Agricultural transformation has tremendous potential to alleviate poverty and stimulate inclusive growth. Cambodian agriculture has experienced rapid transformation in the past couple of decades, with impressive increases in both output and yield. Building on this success, there is huge potential for further productivity increases. The concomitant decline in the share of labour employed in agriculture would, in turn, release surplus labour for rapid industrialisation and economic diversification. It is in this setting that chapters 6 to 8 explore the challenges and policy options for increasing agricultural yield.

Rice accounted for almost 40 percent of Cambodia's agricultural value-added in 2010 (NIS 2011); consequently, raising rice yield is crucial for faster agricultural transformation. In Chapter 6, Theng and Flower look at the requisite policy priorities to achieve this. Most of the rice farmers in the country cultivate small landholdings. After a detailed analysis of the constraints that smallholder farmers face in raising their yields, Theng and Flower identify poor seed quality, high input costs (largely due to fertiliser market inefficiencies), inequitable distribution of agricultural land, and lack of information about the rice market as the major constraints on increasing the country's rice yield and output. To ease these constraints, the authors propose better vertical integration of production through a secure supply of good quality seeds, timely provision of extension advisory services, credit for farm-level investment, easing the current import restrictions on fertiliser, and better regulatory enforcement of fertiliser quality. Other suggestions include the promotion of horizontal linkages between farmer organisations and agricultural contract schemes, and measures to secure agricultural land ownership for smallholder farmers. For these policies to yield maximum benefits, the authors underscore the need for much better coordination among relevant ministries and government agencies so that smallholder farmers can access the many government-sponsored agricultural services through a one-stop government service window.

In Chapter 7, Theng and Khiev focus on the country's fertiliser market and ways and means of ensuring that it achieves its function in improving agricultural productivity. The fertiliser market in Cambodia is a relatively free market: there is no policy to

protect or favour local fertiliser production plants, and the government allows fertiliser suppliers to compete on quality and prices at all levels along the supply chain. Fertiliser supply has increased rapidly in response to rising demand. Future gains in crop production are expected to come mostly from increased yields, and fertiliser will play a key role in that. Analysing the constraints on the effective functioning of the country's fertiliser market, Theng and Khiev suggest three sets of reforms: simplifying import licensing procedures and regulations, removing tonnage restrictions on importers, and expanding scientific research and public extension services through increased public spending to improve the efficiency of fertiliser use by farmers. These measures should go a long way towards raising farm yield, especially since both the intensity and efficiency of fertiliser use in Cambodian agriculture is much lower than is the case in many of its neighbouring countries.

In Chapter 8, the focus shifts to an analysis of the role of agricultural extension services (such as seed selection, chemical fertiliser and pesticide usage, water management, composting and planting methods) in facilitating better farmer practices and raising farm yield. To date, few studies have attempted to decipher the effects of agricultural extension services on farm yield in the country. Using panel data from surveys conducted by CDRI in 2008 and 2011 in nine villages from the four main geographical regions – Mekong Plains, Tonle Sap Lowlands, Upland Plateau, and Coastal – and applying a variety of statistical methods, Keo and Theng deduce that agricultural extension services have a positive effect on rice yield. However, given the data limitations, inherent difficulties of accurately measuring the effect of agricultural extension services, partial adoption of agricultural technology/innovation by farmers, and omission of certain effects of extension services in the survey data, the observed effect of extension services on rice yield is not statistically significant. Such results are common in a variety of similar studies conducted on other countries. Given the pioneering nature of such study in the Cambodian context, the authors argue that more empirical evidence is needed to make a more accurate assessment.

5. SUSTAINABILITY: CLIMATE CHANGE AND THE ENVIRONMENT

Cambodia is particularly vulnerable to the adverse effects of climate change. The Tonle Sap River, which connects the Mekong River to the Tonle Sap Lake, features a unique reverse hydrological regime: it flows from the Mekong to the Lake in the wet season and vice versa in the early dry season. Although this flood pulse sustains the region's fisheries, traditional livelihoods and rich biodiversity, it has long led to flooding, especially given the country's geography. However, the effects of climate change and a lack of proper rural infrastructure have been exacerbating the effects of floods – as well as droughts – on the people that rely on the Basin's natural resources (CDRI 2013). Moreover, with industrialisation and population growth in the last couple of decades, greenhouse gas emissions from human activities have substantially increased. Although the absolute level of such emissions is still relatively low, a need has emerged to respond sooner rather than later to this potential threat. Chapters 9 and 10, therefore, focus on the issue of environmental sustainability and address two critical topics – water governance in the Tonle Sap Basin, and the potential to reduce the carbon footprint of the country's tourism sector.

In Chapter 9, Chem and Kim examine the combined implications of climate change and natural system changes caused by human activities (such as deforestation and infrastructure development) for water resources and water governance in the Tonle Sap Basin. Relying mostly on a participatory approach through commune-level consultation workshops in Kompong Thom, Pursat and Kompong Chhnang provinces, the authors identify disaster hotspots in the Basin and assess the type, frequency and severity of natural disasters. The impacts of climate change are categorised into four groups – flood, drought, lightning storm and disease outbreak. These natural disasters have occurred in the Basin almost every year in the past two decades, with the possible exceptions of 2003 and 2008, and it is felt that their frequency and intensity are gradually increasing from year to year. Local people consider flooding to be the most frequent and severe climate-related natural disaster, followed by drought. Accordingly, the authors suggest that there is a need to: (i) introduce new farming technology that enables farmers to adapt to the greater occurrence of periods of excess and deficient rainfall (given that climate change alters rainfall patterns), (ii) develop an effective mechanism and plan for emergency preparedness, response and recovery, (iii) raise awareness about climate change and its harmful effects at village and commune levels, (iv) coordinate climate change response plans at the commune, district and provincial levels, and (v) target emergency adaptation and relief efforts to assist the poorest and most vulnerable segments of the population.

In chapter 10, Lonn analyses the environmental implications of the rapid growth of the tourism sector and suggests how it can be made more environmentally sustainable. He cautions that the numbers of international and domestic tourists, hotels and resorts, flights to and within Cambodia, and other related tourism services are growing rapidly and can create great pressure on local resources like energy, fossil fuel, water, food and land. These side-effects of tourism industry development – natural resource depletion and an increased carbon footprint – need to be controlled if Cambodia's tourism industry is to be sustainable. The priorities are, he argues, energy efficiency measures in “green” hotels, expansion of renewable energies particularly solar power, increased diversity of tourism sites, better industry regulation, and, above all, an integrated strategy to promote an environmentally-friendly tourism industry. Encouragingly, there is enormous potential to diversify Cambodia's tourism beyond the World Heritage sites so that the environmental pressure on the areas around these is kept within manageable limits. There are also great prospects for developing ecotourism, which could create growth and jobs while preserving natural assets such as forests, water and wildlife. At present, Cambodia is lagging behind neighbouring countries in developing this sector, so there is much scope for further action.

6. GOVERNANCE: DEMOCRATIC DECENTRALISATION

Cambodia's democratic decentralisation programme has had mixed results. It has helped create political pluralism by setting up multi-party local councils elected directly by the people. However, political decentralisation has not necessarily been accompanied by significant administrative and fiscal decentralisation. This, in turn, has constrained subnational governments from playing a major role in socioeconomic development (CDRI 2013). Within this context, Chapter 11 focuses on the impact of the D&D

programme on the “democratisation of decision-making” at the subnational levels in terms of accountability, representation and responsiveness. Chapter 12 looks at the interrelationship and interactions between the two layers of subnational government – the district authorities and the commune councils.

In chapter 11, Kim and Hort present a case study of the Tonle Sap Demarcation Project (TSDP). Implemented between mid-2010 and 2011, the TSDP was introduced to prevent further deforestation in the Tonle Sap Basin but without infringing local farmers’ rights to their farmland. The objective was to demarcate a well-defined boundary between the flooded forests (designated as protected forest area) and the floating rice cultivation areas (that farmers had the right to use for cultivation). Using documents related to the TSDP and results from interviews with government officials, local farmers and opinion leaders, Kim and Hort assess the “democratic process” of the TSDP’s implementation. Based on a variety of evidence, they conclude that this initiative constituted a clear top-down process in which the central government officials dictated the boundaries. The local people and their elected representatives enjoyed little accountability, representation or responsiveness in the implementation of the TSDP: local authorities were often sidelined by the centrally-assigned TSDP agents, and no local authority representatives at any level took any initiative to represent the interests of the local floating rice farmers who were adversely affected by the initiative. Kim and Hort (p. 156) surmise that “... the governance reforms have not had significant and meaningful impacts on the democratic deepening of the Cambodian state, as accountability, representation and responsiveness are at times replaced or even displaced by a top-down practice of neo-patrimonial orders.”

Using data and information from a survey conducted by CDRI on the roles and responsibilities of the various layers of subnational government (Chheat *et al.* 2011) and recent follow-up interviews, in Chapter 12 Chheat examines the interrelationship between the commune/sangkat (CS) and district/municipality/khan (DMK) levels. A key conclusion is that the interactions between these two layers of government in terms of their roles, representation and accountability are plagued by the lack of a common understanding about the lines of accountability between them. While most of the DMK authorities consider that they are accountable to the residents in their jurisdiction, most of the CS councillors, as the directly elected representatives of the people, expect DMK officials to be primarily accountable to them and not to the electorate as such. Because of this major misunderstanding, the CS and DMK are unable to coordinate even the limited roles they are expected to play in local development and public service delivery. This underscores the urgent need to define their respective roles, responsibilities and accountabilities. Further, these two subnational layers of government need to be assigned adequate financial and human resources to build their capacity for public service delivery and development more generally.

7. CONCLUSION

Overall, the following chapters recognise the huge strides the country has made in the past decades and identify the next steps and potential ways forward towards determining the remaining development agenda. In brief, this volume highlights the need to:

- ***integrate the country with its neighbours*** (better connectivity, improved trade logistics, and investor-friendly business practices)
- ***reduce the vulnerability of the poor and the near-poor*** (better access to basic public services and a robust social protection programme)
- ***tackle child malnutrition*** (more low-cost, high-impact interventions such as the CFC campaign)
- ***enhance the inclusiveness of public education expenditure*** (consider targeted and conditional cash or in-kind transfers)
- ***raise agricultural yield*** (supply of quality seeds, a more efficient fertiliser market, and better agricultural extension services)
- ***ensure environmental sustainability*** (stronger capacity to adapt to climate change/natural disasters and a greater focus on more green growth)
- ***strengthen decentralisation*** (greater administrative and fiscal decentralisation and local capacity building).

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