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Cambodia's Development Dynamics: Past Performance and Emerging Priorities



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September 2013

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Cambodia's Development Dynamics: Past Performance and Emerging Priorities

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ACRONYMS

ADB	Asian Development Bank
ADB I	Asian Development Bank Institute
AEC	ASEAN Economic Community
ASEAN	Association of South East Asian Nations
CDHS	Cambodia Demographic and Health Survey
CDRI	Cambodia Development Resource Institute
CGD	Commission on Growth and Development
CO ₂	Carbon Dioxide
COMPED	Cambodian Education and Waste Management Organisation
CNRP	Cambodian People's Rescue Party
CPP	Cambodia People's Party
CSARO	Community Sanitation and Recycling Organisation
CSO	Civil Society Organisation
D&D	Deconcentration and Decentralisation
DFID	Department of Foreign International Development
DO	District Ombudsman
DRF	Development Research Forum
EITI	Extractive Industries Transparency Initiative
EIU	Economist Intelligence Unit
ELC	Economic Land Concession
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GMS-DAN	Greater Mekong Sub-region Development Analysis Network
GWh	Giga Watt
ICT	Information and Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
MOE	Ministry of Environment
MOI	Ministry of Interior
MOP	Ministry of Planning
MOWA	Ministry of Women's Affairs
MOWRAM	Ministry of Water Resources and Meteorology
NGO	Non-Governmental Organisation

NIS	National Institute of Statistics
NSPS	National Social Protection Strategy
NSDP	National Strategic Development Plan
OECD	Organisation for Economic Cooperation and Development
OWSO	One Window Service Office
PM	Particulate Matter
PPP	Purchasing Power Parity
RCEP	Regional Comprehensive Economic Partnership
RGC	Royal Government of Cambodia
RS	Rectangular Strategy
SIGI	Social Institutions and Gender Index
SLC	Social Land Concession
STEM	Science, Technology, Engineering, Mathematics
TPP	Trans-Pacific Partnership
TVET	Technical and Vocational Education and Training
UMIC	Upper Middle-Income Country
UN	United Nations
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
USD	United States Dollar
WB	World Bank
WDI	World Development Indicators
WEF	World Economic Forum
WHO	World Health Organisation
WTO	World Trade Organisation

FOREWORD

I am pleased to introduce CDRI's new publication, *Cambodia's Development Dynamics: Past Performance and Emerging Priorities*. The idea for such a study, the first in a new series of broader thematic development studies, was conceived at a meeting of CDRI's Board of Directors in early 2012. It reflects our commitment to provide timely, independent, objective, accessible and policy-oriented development research. We hope this new study will be useful to a wide audience interested in Cambodia's socioeconomic and political development – policymakers, the research community, development partners, the private sector, and non-government organisations.

The Report analyses many facets of Cambodia's development dynamism over the last two decades, and identifies emerging development priorities for the next two. It examines Cambodia's past performance, emerging priorities and future challenges in the economic, social, environmental and governance spheres. In so doing, the Report presents a possible long-term development vision for the country and suggests some strategic options and policy priorities that should be incorporated into any future development agenda.

Despite the large body of development literature on Cambodia, broader assessments of Cambodia's development experience such as this are still rare. CDRI has done other important groundwork, for example, the Cambodia Background Paper for the Asian Development Bank Institute's *ASEAN 2030: Growing Together For Economic Prosperity – The Challenges*, on which this Report builds. Numerous studies have analysed individual sectors and issues, but few have situated Cambodia within a multi-country comparative context – a unique feature of this Report.

The Report is timely, as Cambodia has just held national elections and a new government will be setting a new agenda of development priorities under the 2014-18 National Strategic Development Plan; the country is on the verge of achieving middle-income status; the ASEAN Economic Community will be established by 2015; and ASEAN countries are in the early stages of negotiating a mega integration initiative – the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN, China, Japan, South Korea, India, Australia and New Zealand.

As the country moves forward along the middle-income path, a growing middle class – often the agent of economic, social and political change – will emerge. Citizens are more likely to expect better provision of public services, governance that is more transparent, a bureaucracy free of corruption,

and stronger voice and accountability in development policymaking for citizens. Well-sequenced changes for more effective and more transparent government decision making will be required to respond to current and emerging development needs. We trust that this study will make a valuable and constructive contribution to informed discussion and debate about Cambodia's future.

The Report was produced by a CDRI team led by Srinivasa Madhur, Director of Research. I would like to express my sincere appreciation to the team members for their excellent work on this research study.

Larry Strange
Executive Director
September 2013

PREFACE

This publication is CDRI's first major macro-development research product on Cambodia in recent years. The empirical research it presents places Cambodia's development performance and priorities in a multi-country comparative perspective. The Report relies on both quantitative and qualitative evidence, often from many sources – national and international. Many of the Report's findings and conclusions, therefore, are only as reliable as the empirical evidence they are based on. The Report makes a conscious effort to qualify the quantitative evidence (by pointing out the limitations of quantitative data) as well as to quantify the qualitative findings (by making the qualitative observations as precise as possible), so that the conclusions derived are as objective as possible. Nevertheless, some degree of subjectivity and errors of both commission and omission cannot be avoided. It is important to keep this note of caution in mind while reading the Report.

This Report is the result of teamwork within CDRI. The core team consisted of Kem Sothorn (contributed to the subsection on structural change), Kim Sour (prepared the subsection on fisheries), Lonn Pichdara (drafted some parts of the section on natural resources and the environment as well as contributed elsewhere), Lun Pide (prepared the Boxes as well as contributed elsewhere), Ou Sivhouch (drafted significant portions of the section on governance, democratisation and civil society), Sen Vicheth (contributed to the subsection on education), So Sovannarith, (drafted the subsection on land reforms and deforestation), and Vong Sreytouch (contributed to the subsection on health). Eng Socheath provided excellent research assistance – data collection, preparation of tables and figures, as well as compiling the reference list. Rebecca Catalla, Research Advisor, coordinated the teamwork, made several content reviews, and contributed in more ways than can be listed in a short preface like this. Susan Watkins, Language Editor, improved the manuscript and enhanced the content in different places. Let me place on record my sincere appreciation to all these team members for their invaluable contributions to the Report.

I would like to express my gratitude and appreciation to Ung Sirn Lee, Director of Operations, for overall support, Larry Strange, Executive Director, for valuable guidance, and Sok Siphana, Chairman of CDRI Board of Directors, and Board members for constant encouragement. Many other CDRI staff, including the Publishing Team, extended timely support in many different ways in bringing this Report to fruition.

Some of the ideas contained in this Report were presented at the 2013 Cambodia Outlook Conference, organised jointly by CDRI and ANZ Royal Bank in Phnom Penh on 20 February 2013, and at the Planning Input Consultation Retreat on Cambodia Vision 2030 and related subjects, organised by the Supreme National Economic Council of Cambodia in Kampong Cham on 28-29 March 2013. The Report has benefitted from the ideas shared by the participants at both these events.

The preparation of the Report would not have been possible without financial support from the Swedish International Development Cooperation Agency (Sida) and the Swiss Agency for Development and Cooperation (SDC).

Srinivasa Madhur
Director of Research
September 2013

EXECUTIVE SUMMARY

Background and Rationale

It is now about two decades since Cambodia came out of prolonged conflict and civil unrest. Some groundwork for economic normalisation, social cohesion and political stability was done in the 1980s, following the unprecedented civil strife in the previous decade. Yet, by the early 1990s, Cambodia's physical infrastructure and human resources remained badly damaged, savings rate was negative and the political system and the governance framework were in need of major repair and reconstruction. Getting development started then, not to speak of sustaining it over the next two decades, was a formidable challenge.

This Report analyses Cambodia's development dynamism over the last two decades and identifies emerging development priorities for the next two. It examines Cambodia's past performance, emerging priorities and future challenges in economic, social, environmental and political spheres.

One of the distinguishing features of this Report is that it examines Cambodia's past performance and emerging development priorities within a multi-country comparative perspective. The guiding principle was to select a few small to medium-size Asian economies that had broadly similar income levels to Cambodia during the five consecutive decades from the 1950s through to the 1990s. Six such "comparator" countries were selected – Laos, Vietnam and Myanmar from Southeast Asia, and Bangladesh, Nepal and Pakistan from South Asia.

Unlike the comparator countries, Indonesia and Thailand share few commonalities with Cambodia, especially in terms of income levels. From a futuristic perspective, however, Cambodia has the potential to achieve an income level closer to that enjoyed by these countries today, say, in two decades time. Indonesia and Thailand, then, serve as "benchmark" countries in identifying the emerging priorities and a development vision for Cambodia over the coming years.

Cambodia's Past Development Performance

Cambodia's development performance in the last two decades has been impressive in the three core elements considered crucial for human development – growth, health and education. To realise rapid economic growth, solid social development and significant democratisation simultaneously is a remarkable feat. Overall, the country has travelled a

long distance and overcome many obstacles on its journey of socioeconomic development.

Cambodia is on the verge of graduating to lower middle-income country status – a country with a per capita gross national income (using the World Bank's Atlas method) of USD1035 – a feat that Vietnam achieved in 2010 and Laos in 2011. Strong growth has contributed to significant poverty reduction. However, even after cutting the poverty rate by more than half since 1994, about one in five Cambodians was subsisting on a daily consumption of less than USD1.25 in 2009 while one in two was living on a daily consumption of less than USD 2. These poor are highly vulnerable to even small fluctuations in growth and income. Such vulnerabilities are accentuated by fragile food security, insecure land titling, recurrent natural disasters, exposure to climate change, and many health and education-related constraints. Available data indicates that income inequality has improved and economic polarisation between the richer and the poorer segments of society has moderated. However, if the country's experience between 2004 and 2007 is any guide, both could suddenly worsen and negate recent gains. Cambodia thus faces the dual challenge of sustaining strong growth while forging a more inclusive economy where the benefits continue to be shared more equitably.

Cambodia's health indicators have made large gains in most areas, from improvements in overall life expectancy, maternal mortality, and infant and child mortality to incidence of HIV and tuberculosis. On average, Cambodians live healthier lives today than they did two decades ago. However, viewed against the comparator countries, Vietnam has done much better in most health indicators, and Cambodia lags far behind the rest in reducing the incidence of tuberculosis. Large scope exists to improve health outcomes in many other areas as well, including infant mortality, under-five mortality, neonatal mortality, stunting, wasting and malnutrition. A high percentage of the population suffers from exposure to water and indoor air pollution, conditions readily controlled by access to affordable and safe drinking water, improved sanitation, and cleaner cooking fuel. Large disparities in health and access to health services exist between the rich and the poor and between rural and urban areas. As the country embarks on the next stages of development, closing these gaps will become an increasingly urgent socioeconomic priority.

Cambodia has done a creditable job in educating its children – both girls and boys – in the last two decades. In primary education, enrolment and completion rates have improved significantly and universal primary education is within reach. Progress in secondary and tertiary education

has been much less impressive in terms of enrolment and completion rates and education quality. Improving the quality of primary education to lay a strong foundation for future academic and vocational skills development is a priority area for action. Despite the abundance of talent, the wide gaps in access to education between the rich and the poor and between urban and rural areas hamper the country's ability to harness the full capacity of its workforce for development. Partly a reflection of the disparities in access to quality secondary and tertiary education, and partly the outcome of the skills the education sector produces, Cambodia faces a shortage of skilled labour across industries, even for low-to-medium skill intensive sectors. The skill mismatch is accentuated by the inadequate focus on science, technology, engineering and mathematics (STEM) education. Lack of technical and specialised skills is only part of the problem, as there seems to be inadequate training even in soft skills for such service sectors as hospitality and tourism.

Emerging Development Priorities: A Long Term Vision and Goals

Emerging socioeconomic priorities are many, but the three somewhat intertwined priorities of sustaining strong and inclusive growth, improving health and strengthening education are critical. Global development experience in the last several decades shows that these core development priorities are mutually reinforcing since progress in one area can enable and enhance progress in the other two. Building on past successes, Cambodia could set as its long-term national development vision broad-based human development that heralds a “prosperous, healthy, and educated society”. For the long-term vision to serve as a roadmap for the future there is a need to articulate the specific goals in terms of measurable and monitorable development indicators in the three areas of shared prosperity, health and education.

Shared Prosperity

Prosperity should be viewed as an improvement in the overall standards of living for the people, not just as the attainment of higher incomes and more wealth. The goal should be one of inclusive growth that eliminates poverty, keeps income inequality under check, and reduces the deprivations of certain basic human needs such as improved sanitation, safe drinking water, clean cooking facilities, and access to electricity. Long-term goals for a prosperous and inclusive Cambodia over the next two decades could be:

- **Upper middle-income country status by 2033:** comparable to Thailand in 2010 and Indonesia in 2012-13;

- **Extreme poverty eradicated by 2025:** reduce the USD1.25 a day poverty rate from about 19 percent in 2009 to less than 2 percent by 2025 – something that Thailand achieved in the late 1990s;
- **USD2 a day poverty reduced substantially by the early 2030s:** it could be cut from about 50 percent in 2009 to less than 5 percent by the early 2030s – similar to what Thailand had achieved by the late 2000s;
- **Income disparities kept under a threshold:** contain the Gini coefficient (consumption-based) below a threshold of, say, 35 or 40; since 2004, it has hovered in the range of 31 in 2011 to 43.5 in 2007;
- **Incomes of the poorest to grow faster than the average:** the consumption share of the bottom 20 percent of the population to increase from 9 percent in 2011 to, say, 15 percent by the early 2030s; similarly, the consumption share of the bottom 40 percent to increase from 21 percent to about 30 percent;
- **Modern sanitation for most:** increase the access to modern sanitation from 31 percent of the population in 2010 to close to 100 percent (96 percent in Thailand today and 73 percent average for upper middle-income countries (UMICs) globally);
- **Safe drinking water for all:** increase the access to safe drinking water from 64 percent of the population in 2010 to close to 100 percent (96 percent in Thailand today and 93 percent average for UMICs globally);
- **Clean cooking fuel for all:** increase the access to modern cooking fuels from about 10 percent of the population now to 100 percent (household reliance on firewood and charcoal for cooking to be eliminated);
- **Electricity for most:** double the percentage of households with access to electricity from 37 percent now to more than 75 percent;
- **A well-designed and selective social protection programme for the most vulnerable:** to cover old age and disability, unforeseen natural calamities, and huge economic shocks.

A Healthy Society

Health is increasingly seen as an end in itself since it is crucial for strengthening people's capabilities, but at the same time, it also has a beneficial effect on the country's growth potential. It seems logical then to set the vision of achieving a healthy society with basic healthcare for all as the goal over the next two decades. Within this framework, possible 2033 goals that the country could set for itself include:

- **Longer, healthier life for all:** life expectancy to increase from 64 years in 2012 to 74 years (the same as Thailand's figure now and close to the average of 73 years for UMICs globally);

- **Safe childbirth:** maternal mortality rate to decline by at least three-fourths – from 206 per 100,000 live births in 2011 to about 50 (the current figure for Thailand is 48 and the average for UMICs is 62);
- **Healthy early childhood:** infant and under-five mortality rates to fall by at least two-thirds – from 36 and 43, respectively, per 1000 live births in 2011 to 10 and 12 (the current figures for Thailand are 11 and 12, and the averages for UMICs are 18 and 23 percent, respectively); underweight children under-5 to decline from 28 percent now to less than 5 percent; and child malnutrition (in the first 1000 days of life) to be fully eliminated;
- **Control of contagious diseases:** incidence of tuberculosis to decline by three-fourths – from 424 per 100,000 people in 2011 to about 100 (the current figure for Thailand is 137 and the average for UMICs is 90); reduce HIV incidence to less than 0.2 percent;
- **Nutrition for all:** the percentage of population that is undernourished to be reduced from 17 percent now to less than 5 percent.

An Educated People

Education, like health, could be treated as both an end in itself and as a means to growth and prosperity. Against this background, the long-term vision should be one of changing the perception of Cambodia as a country with a skill-deficient labour force. Some of the 2033 goalposts for education could be:

- **Putting education to work:** align education with labour market needs. This bridge between education and work is not easy to build, but without it, more education may simply result in more youth unemployment and the attendant problems;
- **Quality universal primary education for all:** improve the quality of primary education to build a foundation for future academic and vocational skills development;
- **Quality secondary education for most:** improve the quality of learning and increase the gross secondary enrolment rate from 47 percent in 2011 to 85 percent (presently 79 percent in Thailand, 77 percent in Vietnam and 85 percent for UMICs globally); a more ambitious target could be universal secondary education;
- **A threefold increase in the percentage of the population with at least secondary education:** increase the percent of adults with at least secondary education from 16 percent now to about 50 percent (32 percent in Thailand and 50 percent average for medium human development countries);

- **A close to fourfold increase in tertiary enrolment (along with increases in completion rates);** tertiary enrolment to increase from 14 percent in 2011 to about 50 percent (48 percent in Thailand and an average of 35 percent for UMICs globally);
- **A sixfold increase in tertiary enrolment in STEM subjects:** to increase from less than 4 percent now to 25 percent;
- **A strong TVET integrated with secondary and tertiary education:** raise the status of vocational training and education to reorient the perception that it is inferior to mainstream secondary and tertiary education.

Strategic Options and Policy Considerations

In order to accomplish the above long-term national vision and goals, the Report identifies three distinct, yet inter-related, sets of strategic options for the future development agenda:

- (i) Macroeconomic imperatives – raising investment and savings, building infrastructure, enabling the market and the private sector, ensuring macro-financial stability, securing social protection and integrating regionally and globally;
- (ii) Sectoral specifics – improving health, educating people, transforming agriculture, diversifying industry, nurturing natural resources, coping with climate change and greening the environment;
- (iii) Institutional ingredients – strengthening governance, building institutions, sustaining democracy, promoting decentralisation and enhancing civil society development and participation.

Within the envelope of these strategic options, the Report then highlights a few key policy considerations that the government will have to embed in its future socioeconomic policy kit:

- (i) Better policy coherence
- (ii) Enhanced access to opportunities
- (iii) Efficient public resource use
- (iv) Gender equality and women's empowerment
- (v) Extractive industries management
- (vi) Commitment to avoid a “few bad ideas”.

Conclusion

Overall, Cambodia has travelled a long distance on its arduous development journey in the last two decades; yet the distance to the destination of, say, a “prosperous, healthy, and educated society” is quite long. The goal of securing a mature democracy may also take equally long to attain.

The latest results of the just concluded national elections – a parliamentary majority for the ruling party along with a substantial increase in parliamentary seats for the united opposition party – do signal increasing empowerment of the people, a key objective of the country adopting democracy two decades ago. The increasing parliamentary authority (if the united opposition is able to sustain itself), popular engagement, and substantive governance reforms should gradually strengthen democracy. Both the ruling and the opposition parties have a huge stake in cooperating and working together to bring about governance reforms in the interest of Cambodia’s continued democratisation and socioeconomic development.

This Report is optimistic about Cambodia’s potential to build on its past development dynamics and march ahead towards a prosperous, healthy and educated society in the next two decades. But it is also cognisant that the outcomes could fall far short of that goal. That could happen for many reasons – constant bickering and power struggle among the political parties, waning of interest in sustaining democratisation and decentralisation, lack of government commitment to governance reforms, bureaucratic inertia and policy paralysis, inability to adjust to the evolving regional integration architecture, and inability to balance the country’s commercial interests and geopolitical imperatives. An alternative, much less promising development outcome for the country is thus not out of the reckoning.

Pragmatism and flexibility – and above all, the willingness to experiment, adapt and make mid-course corrections – are what the country needs in order to navigate the uncharted contours of its middle-income journey. With a fresh parliament and a new government after the recent national elections, this is an opportune time to initiate the much needed policy measures to shore up the economy, sustain social cohesion, and keep the momentum towards a mature democracy.

Section 1

BACKGROUND AND RATIONALE

It is now about two decades since Cambodia came out of prolonged conflict and civil unrest. Some groundwork for economic normalisation, social cohesion, and political stability had been done in the 1980s, following the unprecedented civil strife in the previous decade. Yet, by the early 1990s Cambodia's physical infrastructure and human resources were badly damaged, savings rate was negative and the political system and the governance framework were in need of major repair and reconstruction (Ear 1995). Getting development started then, not to speak of sustaining it over the next two decades, was a formidable challenge. Worldwide experience shows that, on average, one out of two post-conflict countries falls back into renewed conflict and crises within five years. For the remaining countries, post-conflict stabilisation (economic, social and political) and restoration of good governance takes an average of 30 years (World Bank 2011a).

This Report analyses Cambodia's development dynamism over the last two decades and identifies emerging development priorities for the next two. The Report looks back as well as forward. It examines Cambodia's past performance, emerging priorities and future challenges in economic, social, environmental and political spheres. In so doing, the Report unfolds a possible long-term development vision for the country and identifies the strategic options and policy considerations that need to be incorporated in the future development agenda. The strategic options, in turn, are categorised into three distinct, yet inter-related, pillars – macroeconomic imperatives, sectoral specifics, and institutional ingredients.

Comprehensive assessments of this kind are not available at present, though detailed works on one of these specific aspects of Cambodia's development abound. This Report draws upon the findings of these existing studies and synthesises their results into a more comprehensive analysis of the many facets of Cambodia's development dynamics. CDRI's *ASEAN 2030: Cambodia Country Background Paper*, part of a study led by the Asian Development Bank Institute (ADB), laid the foundation (Hing *et al.* 2013). This Report builds on that paper.

A good starting point for assessing Cambodia's past performance is to flash back to the mid-1990s and consider what the country's political leaders, policymakers, and more generally, the society, were aiming at in their rebuilding efforts. The National Programme to Rehabilitate and Develop Cambodia (1994 cited in Ear 1995: Ch. 2) had this to say about the nation's aspirations:

The overriding objective of the Royal Government is to achieve a fair, just and peaceful society and, through accelerating the rate of economic growth, to raise the living standards of all Cambodians. In short, the government is striving to achieve sustainable growth with equity and social justice.

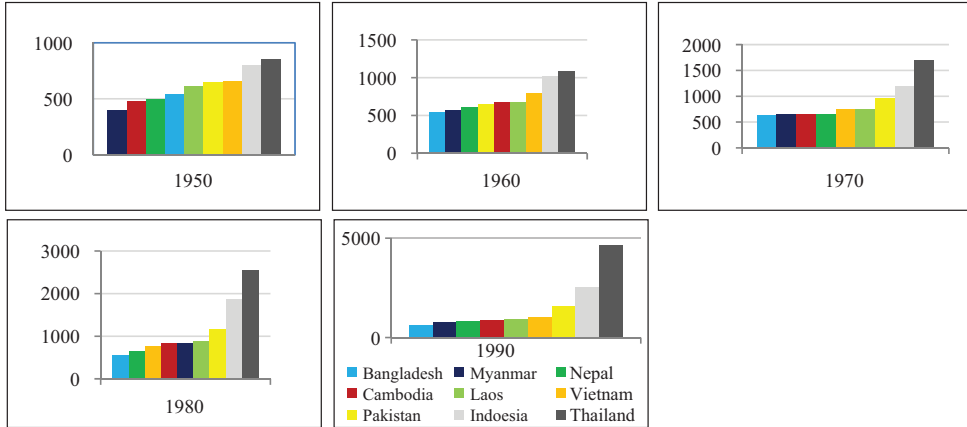
With that in mind, this Report looks at Cambodia's development performance in six thematic areas: growth, structural change and poverty (Section 2); inclusiveness, gender equality and basic services (Section 3); human development, health and education (Section 4); natural resources and the environment (Section 5); global integration, savings-investment and business environment (Section 6); and governance, democratisation and civil society (Section 7). Building on these analyses, Section 8 pulls together the emerging development priorities, suggests a development vision for the country for the next two decades and identifies possible long-term goals. Section 9 discusses the strategic options for realising the long-term vision and development goals. Section 10 highlights a few broad policy considerations that would help address the strategic challenges. Section 11 concludes.

One of the distinguishing features of this Report is that it examines Cambodia's past performance and emerging development priorities within a multi-country comparative perspective. In other words, Cambodia's performance is assessed in relation to the performance of a set of comparator countries. Choosing comparator countries is not an easy task and an element of subjectivity is unavoidable. The guiding principle was to look at small to medium-size Asian countries that had broadly similar income levels to Cambodia during five consecutive decades, from the 1950s through to the 1990s. Six countries were selected – Laos, Vietnam and Myanmar from Southeast Asia, and Bangladesh, Nepal and Pakistan from South Asia. Except for Pakistan, these countries had per capita incomes (purchasing power parity at 1990 international dollars) comparable to Cambodia's for most of the period from 1950 to 1990 (Figure 1). Pakistan's per capita income was comparable with Cambodia's until the end of the 1970s, but then grew much faster. The South Asian countries in this group have experimented with democratisation, of course, with widely varying degrees of success and failure, while the Southeast Asian countries in general have not prioritised democratisation of their political regimes in their past development agenda.

Unlike the comparator countries, Indonesia and Thailand share few commonalities with Cambodia in terms of income levels, and are therefore not suitable for comparing against Cambodia's past performance. From a

futuristic perspective, however, Cambodia has the potential to achieve an income level closer to that enjoyed by these countries today, say, in two decades time (Hing et al. 2013; Tong and Madhur 2013). Indonesia and Thailand, then, serve as benchmark countries in identifying the emerging priorities and a development vision for Cambodia over the coming years.

Figure 1: Per Capita GDP, 1990 International Geary-Khamis Dollars



Source: OECD 2013, The Angus Maddison Project Database

Section 2

GROWTH, STRUCTURAL CHANGE AND POVERTY

2.1 Growth

Growth is not an end in itself. But it makes it possible to achieve other important objectives of individuals and societies... In short, we take the view that growth is a necessary, if not sufficient, condition for broader development.

(Commission on Growth and Development 2008: 1)

During 1994-2011, Cambodia's annual GDP growth averaged 7.8 percent. By both global and Asian standards, economic growth of this magnitude is remarkable. Cambodia outperformed the comparator countries in terms of both average GDP and per capita income growth (Table 1). This does not mean though that the path of progress has always been smooth for Cambodia. The 2008-09 global financial crisis, for example, made a big dent in Cambodia's growth.

Table 1: Growth – GDP and Per Capita GDP: Annual Average Growth Rates (1994-2011)

Indicators	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
GDP at constant 2005 USD	7.76%	▲	NA	▲	▲	▲	▲	▲	▲
GDP per capita at constant 2005 USD	5.95%	▲	NA	▲	▲	▲	▲	▲	▲
GDP per capita at PPP 2005 USD	5.54%	▲	NA	◻	▲	▲	▲	▲	▲

Note: Cambodia's performance: better▲; similar◻

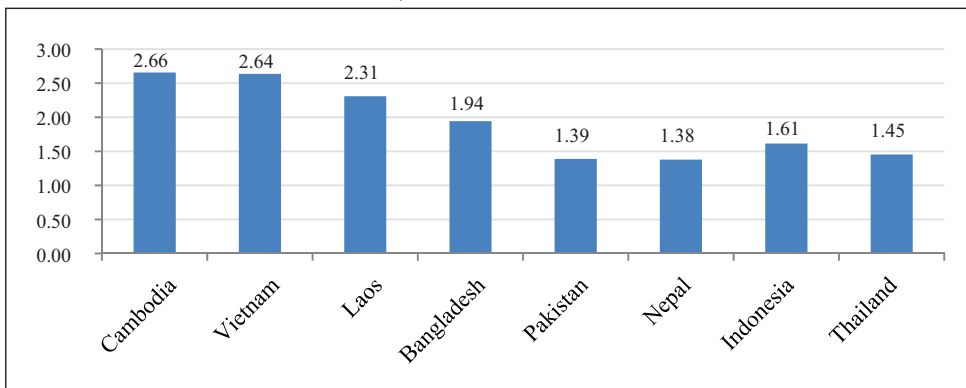
Source: CDRI's calculation based on World Bank – World Development Indicators 2013

Annual GDP growth, which averaged more than 10 percent during 2004-2007 – the heydays of the pre-crisis global economic boom, after slowing to 6.5 percent in 2008, plummeted to close to zero in 2009. With gradual recovery in the global economy, Cambodia's annual GDP growth has hovered in the range of 6 to 7 percent since 2010. GDP growth in 2012 is estimated to be about 6.5 percent. Even after factoring in slower growth in

recent years, Cambodia's average annual GDP growth in the 19 years from 1994 through 2012 is about 7.7 percent.

Strong GDP growth has translated into solid growth in per capita income for Cambodia. Per capita income grew at an average annual rate of close to 6 percent during 1994-2011 – faster than in the comparator countries (Table 1). In terms of US dollars at 2005 purchasing power parity (PPP), per capita income has grown at about 5.5 percent a year since 1994, representing just less than a threefold increase over the 18 years. Among the comparator countries, only Vietnam comes close to matching Cambodia's growth performance – whether in GDP or per capita income (Table 1 and Figure 2). At market exchange rates, Cambodia's per capita income has increased from USD240 in 1993 to an estimated USD950 in 2012. The country is thus on the verge of reaching what the World Bank refers to as lower middle-income status. The country should achieve that by at least 2015, but possibly even as early as the end of 2013 (Tong and Madhur 2013).

Figure 2: Per Capita Income: Ratio of 2011 over 1994 (PPP Constant 2005 International Dollars)



Source: CDRI's calculation based on World Bank – World Development Indicators 2013

There is another milestone on the horizon for Cambodia. In the more than 75 years since World War II, only 13 countries have achieved annual GDP growth of above 7 percent for 25 years or more (CGD 2008). For 19 years – from 1994 through 2012 – Cambodia has posted annual average GDP growth of 7.7 percent, even after factoring in the economic slump in 2009. If it maintains average growth of about 5.5 percent for the next six years, which going by current economic trends is a possibility, it will join this globally coveted club of high performing countries.

Higher incomes have improved access to consumer durables such as mobile phones, television sets and cars. Today, more than 60 percent of Cambodian households have television sets (only Vietnam and Pakistan have higher

figures), almost every Cambodian has a mobile phone (only Vietnam has higher figure), and about one in fifty Cambodians owns a passenger car (the highest percentage of ownership among the comparator countries). Internet usage in Cambodia is growing, though at 3.1 percent the percentage of people using the internet is only higher than in Myanmar (Table 2).

Table 2: Access to Consumer Goods

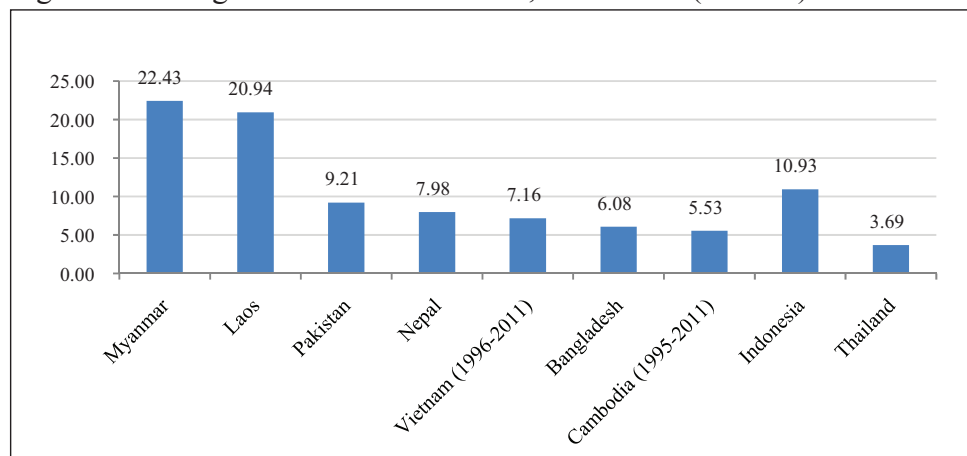
Country	Households with television sets (%) (2011)	Passenger cars (per 1000 people) (2010)	Internet users (% of population)* (2011)	Mobile phone subscriptions (per 100 people) (2011)
Cambodia	62	18	3.1	96
Laos	NA	2	9.0	87
Myanmar	NA	5	1.0	3
Vietnam	88	13	35.1	143
Bangladesh	36	2	5.0	56
Nepal	36	4	9.0	44
Pakistan	68	13	9.0	62
Indonesia	72	37	18.0	103
Thailand	98	67	23.7	112

Note: * refers to the percentage of individuals using the internet (via computer, mobile phone, personal digital assistant, games machine, digital TV etc.) in the last 12 months.

Source: World Bank – World Development Indicators 2013

Cambodia has achieved strong growth along with relative macroeconomic stability. Annual inflation, for instance, has averaged about 5.5 percent since 1994. Cambodia's inflation rate has been the lowest among the comparator countries (Figure 3).

Figure 3: Average Annual Inflation Rate, 1990-2011 (Percent)



Source: World Bank – World Development Indicators 2013

Another indicator of macroeconomic stability is current account balance. Although Cambodia has historically run relatively large current account deficits, at times reaching more than 10 percent of GDP, most of these were financed by relatively stable sources of external finance – either official aid (in the initial years), or a combination of official aid and foreign direct investment (in more recent years). That, in turn, meant limited dependence on the more volatile portfolio capital flows for financing that often cause undue instability in a country's external payments situation.

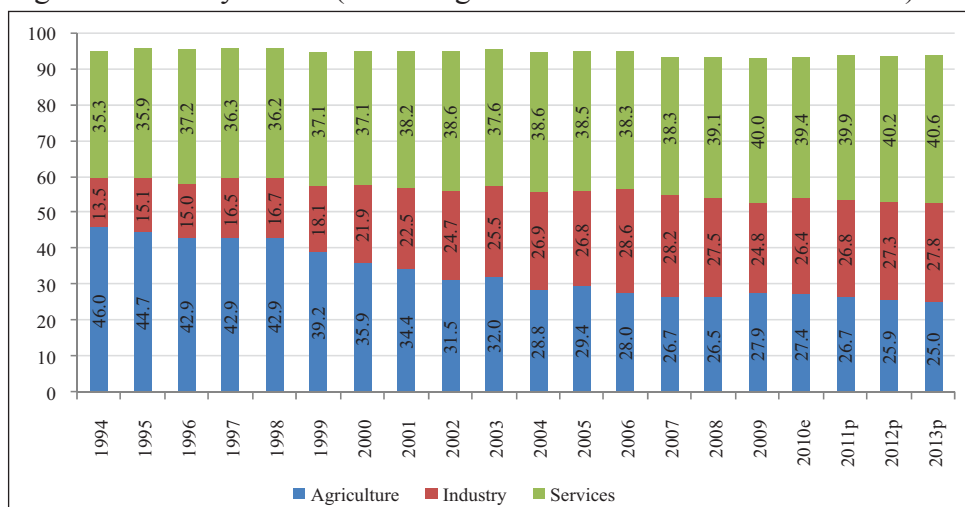
Cambodia's macro-financial environment has been undergoing profound changes in recent years. This is evident from the rapid growth in the country's financial system and the accompanying increase in the bank credit-GDP ratio (IMF 2013). The credit-GDP ratio, after hovering in the range of 6 to 9 percent between 2000 and 2005, has increased sharply. It is now marginally below 40 percent, which is well above the median figure for low-income countries and a relatively high figure for a heavily dollarised economy like Cambodia (IMF 2013). The high rate of credit growth in recent years may have been largely due to structural reforms. The 2009 Secured Transactions Law removes barriers to using movable property as collateral and allows credit bureaus to collect and distribute positive and negative credit information, and the country's first credit bureau was established in 2012. Yet, macro-financial risks need to be carefully monitored and managed especially since they tend to cause sudden and unexpected shocks with severe socioeconomic consequences.

2.2 Structural Change

Economies in high-growth mode are transforming themselves structurally... Growth entails a structural transformation of the economy, from agriculture to manufacturing, from a rural workforce to an urban one. (CGD 2008: 3, 6)

Typical of a country at the early stages of development, Cambodia has experienced gradual structural change – a shift in the sources of growth away from agriculture towards labour-intensive industry and service sectors. During 1994-2010, industry and service sector outputs grew at impressive annual rates of close to 12 percent and 8 percent, respectively, while agricultural output increased at a robust annual rate of more than 4 percent. As a result, the production structure of the economy has undergone significant change. In 1993, agriculture accounted for 46 percent of GDP, with industry contributing 13 percent and services 35 percent. Since then, agriculture's share has fallen to about 25 percent, that of industry has doubled to 27 percent, and that of services has reached close to 41 percent (Figure 4).

Figure 4: GDP by Sector (Percentage to Total GDP at Constant Prices)



Source: NIS (2011) National Accounts of Cambodia

Structural transformation has been intertwined with solid gains in agricultural productivity and a modest transfer of excess labour from agriculture to industry and services. Cambodia's agriculture sector transformation in the last two decades has been extraordinary in terms of both output and yield increases. Crop and food production has increased more than threefold – the largest gain among the comparator countries (Table 3 and Figure 5). About three-fourths of the increase in agricultural output was driven by higher yields: yield per hectare more than doubled from 1362 kg to close to 3000 kg – the largest percentage yield increase among the comparator countries. This is an impressive agricultural transformation, especially considering that fertiliser use per hectare in Cambodia is still much lower than in the comparator countries. For example, on average, Cambodia uses about 7 kg of fertiliser per hectare of arable land compared to more than 400 kg in Vietnam, 281 kg in Bangladesh, and 217 kg in Pakistan; only Nepal (1.4 kg) and Myanmar (5.4 kg) use less fertiliser than Cambodia (World Bank WDI 2013).

The decline in the share of agriculture to total output has been accompanied by a decline in the employment share of agriculture from about 81 percent in 1990 to about 59 percent in 2011. At the same time, industry's share of total employment has increased from about 2 percent to 15 percent, while that of services has risen from 17 percent to 25 percent (Figure 6).

Industrial growth in Cambodia has been driven primarily by one sector – textiles and footwear. This sector accounted for about 13 percent of Cambodia's industrial output in the mid-1990s but by 2010 its share had gone up to almost 60 percent. Similarly, the sector's share in manufacturing output rose from 21 percent in the mid-1990s to 75 percent in 2010.

The World Bank, using a slightly different industrial classification in its World Development Indicators, places the share of textiles and clothing in Cambodia's manufacturing output at 87 percent in 2010. None of the comparator countries has as high a concentration of manufacturing in one sector. Indeed, based on the World Bank World Development Indicators, no other country in the world has as much concentration of industry in one sector as Cambodia.

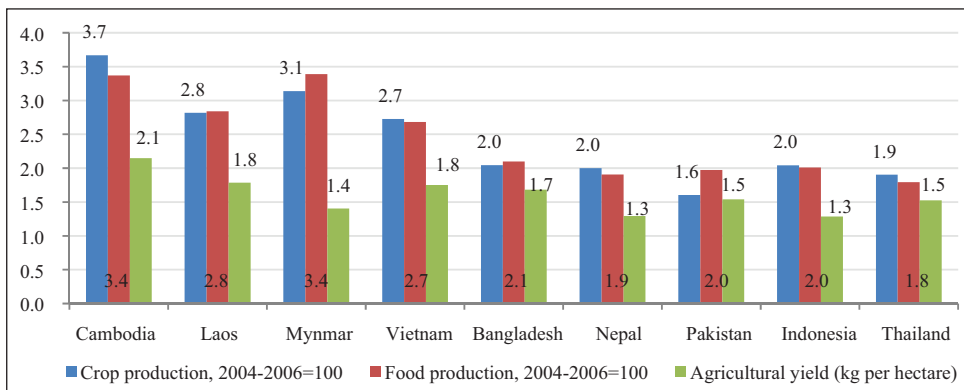
Table 3: Agriculture, 1990 and 2011

Country	Crop production index		Food production index		Agricultural yield (kg per ha)	
	1990	2011	1990	2011	1990	2011
Cambodia	46	168.8	46	155.0	1362	2925
Laos	52	146.5	50	141.9	2268	4045
Myanmar	42	131.8	41	138.9	2762	3880
Vietnam	45	122.6	47	126.0	3073	5383
Bangladesh	66	134.9	63	132.1	2491	4191
Nepal	62	124.0	64	122.0	1920	2481
Pakistan	67	107.5	60	118.3	1766	2718
Indonesia	61	124.6	62	124.6	3800	4886
Thailand	64	121.9	69	123.8	2009	3065

Note: Agricultural yield kg per ha; crop production and food production index 2004-06=100

Source: World Bank –World Development Indicators 2013

Figure 5: Agricultural Output and Yield Increases: Ratio of 2011 over 1990

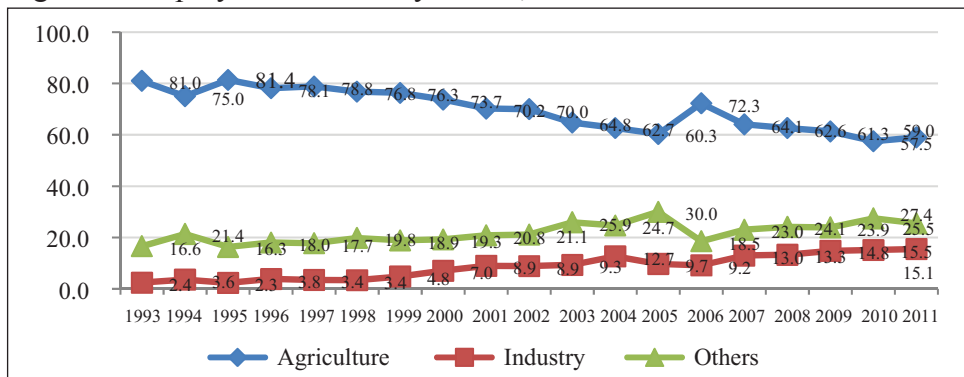


Source: World Bank –World Development Indicators 2013

All these structural changes have led to a modest increase in the rate of urbanisation. About 20 percent of Cambodians now live in urban areas, up from around 11 percent in the mid-1990s. The urban share of GDP is now close to 50 percent, and almost half of this is concentrated in Phnom Penh

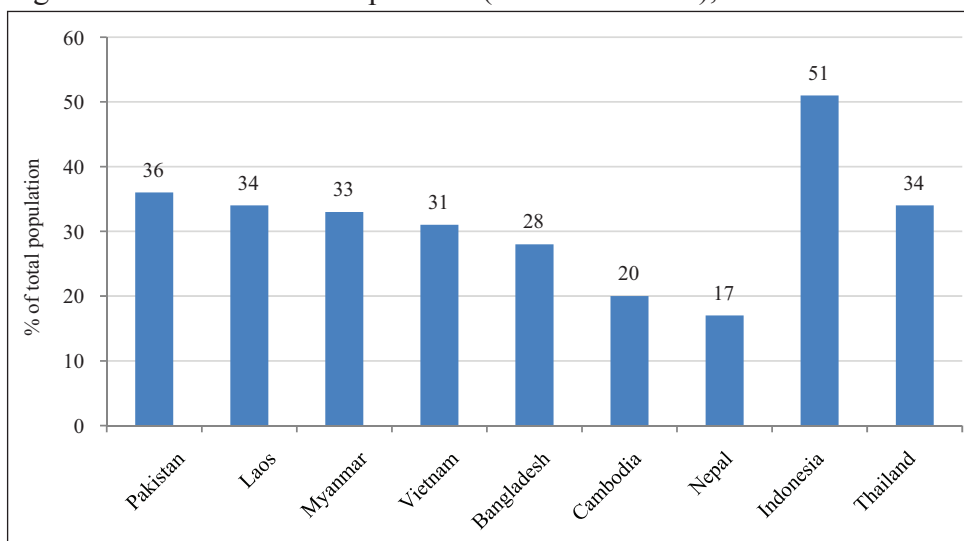
(ADB 2012a), home to about 50 percent of the country's urban population. Despite the rapid pace of urbanisation in the last two decades, Cambodia's share of urban population is the second lowest (after Nepal) among the comparator countries (Figure 7).

Figure 6: Employment Shares by Sector, 1993-2011



Source: ADB Key Indicators for Asia and the Pacific, 1993-2003; Cambodia Socioeconomic Surveys 2004-2011 (sampling weight applied)

Figure 7: Share of Urban Population (Percent of Total), 2011



Source: World Bank – World Development Indicators 2013

Despite rapid structural change, Cambodia's agricultural transformation is highly incomplete at this stage. With 25 percent of its GDP originating in agriculture and about 90 percent of the poor living in rural areas, Cambodia is transiting from an "agriculture-based" country (where agriculture accounts for about 29 percent of GDP and more than 70 percent of the poor live in rural areas) to an "agriculturally transforming country" (where agriculture accounts for about 13 percent of GDP but rural areas still account for 82

percent of total poverty) (World Bank 2008). The country is still far from reaching the final stage of transformation to an “urbanised” economy in which agriculture accounts for less than 6 percent of GDP and the rural poor account for less than 45 percent of total poverty.

Drawing on global development experience, the key challenges Cambodia faces in the next stages of agricultural transformation are twofold: enhancing agricultural productivity and enabling people to move away from agriculture to non-agricultural jobs. Raising agricultural productivity is a multi-faceted task, though it can be summarised as a twofold strategy – improving smallholder farm yields and shifting production from traditional food crops to higher value commercial crops (Bingxin and Xinshen 2011; Theng and Koy 2011; Tong *et al.* 2011; Wokker *et al.* 2011). A careful balance between these two strategic objectives of agricultural transformation needs to be struck, especially keeping in mind the still fragile food security of the country.

Cambodians are more food-secure today than in the past, yet food security remains a concern (CDRI 2011). The Economist Intelligence Unit (EIU)’s 2013 global food security index – which incorporates three key elements of affordability, availability and quality of food – ranks Cambodia 89 out of 107 countries (Table 4). Cambodia comes out worse than all the comparator countries, and only ahead of sub-Saharan African countries. The EIU index ranks Cambodia even lower in terms of food availability (93) and food quality and safety (98).

Table 4: Food Security Index, 2013

Country	Affordability		Availability		Quality and safety		Overall global food security index	
	rank	score	rank	score	rank	score	rank	score
Cambodia	85	27.9	93	35.2	98	29.2	89	31.3
Myanmar	73	38.4	89	37.0	63	52.9	74	40.1
Vietnam	68	42.1	49	53.9	69	50.6	61	48.6
Bangladesh	80	33.0	78	39.1	95	30.9	81	35.3
Nepal	94	22.4	74	40.9	79	42.5	84	33.8
Pakistan	81	32.8	76	40.1	57	56.3	75	39.7
Indonesia	67	42.2	55	49.9	80	42.1	66	45.6
Thailand	39	60.9	44	57.3	53	58.0	45	58.9

Note: Overall Global Food Security Index (score) = 0-100, where 100 is most favourable

Source: EIU (2013) Global Food Security Index

As Cambodia graduates to lower middle-income country status and consequently loses some of its concessions for garment exports in western markets, diversification of the industrial sector is likely to become increasingly crucial for sustaining strong growth (Hill and Menon 2011; Saing 2012;

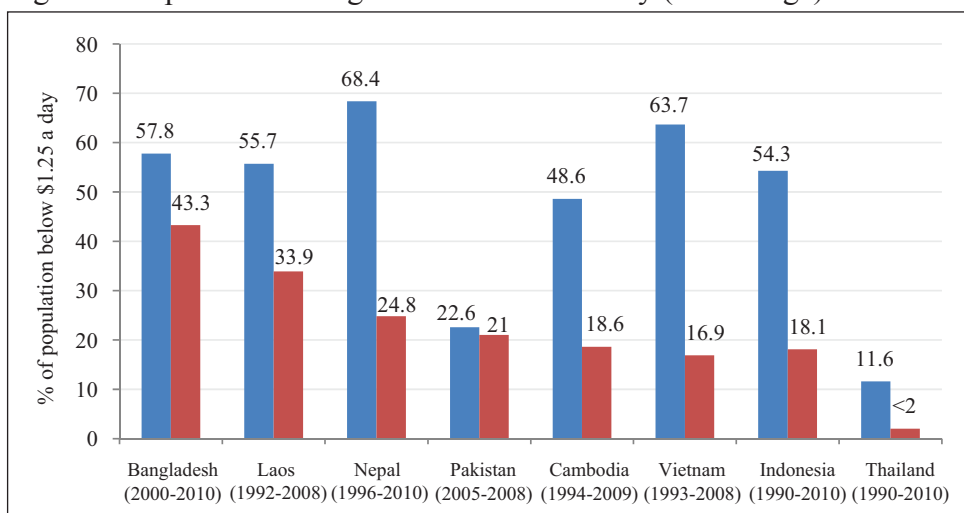
Hing *et al.* 2013).

2.3 Poverty

Among the many statistics that demonstrate how far Cambodia has come in only 20 years, the most powerful is the decline in poverty. In 1992, more than half of the population was living below the (national) poverty line. Today that proportion has fallen to less than one-quarter.

(Haruhiko Kuroda, former ADB President in ADB 2012a: foreword)

Figure 8: Population Living below USD1.25 a day (Percentage)



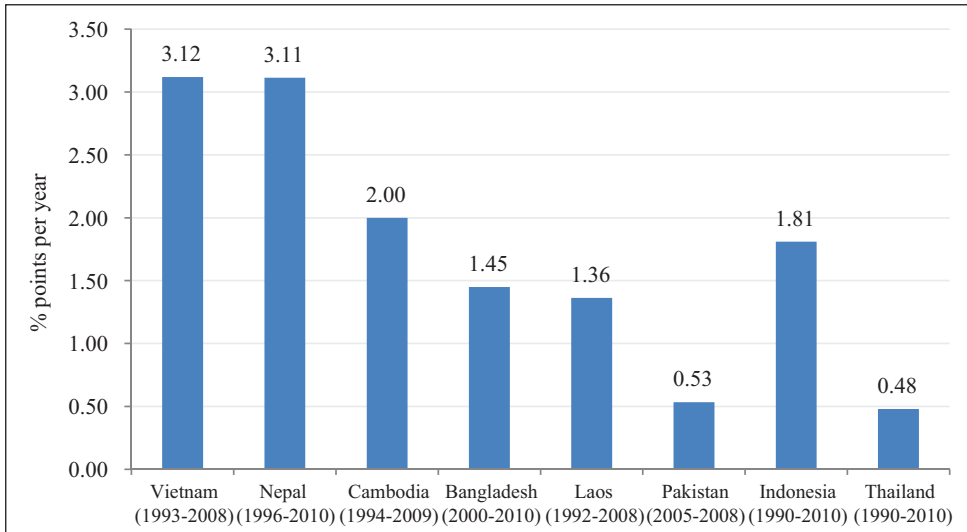
Source: World Bank–World Development Indicators 2011-2013; ADB (2012c), Myanmar in Transition: Opportunities and Challenges.

Similar conclusion follows if, instead of the national poverty line, the internationally comparable poverty line of USD1.25 a day is used, though poverty estimates in Cambodia seem to be subject to a few unresolved issues. The percentage of population living below USD1.25 a day has been more than halved, from 48.6 percent in 1994 to 18.6 percent in 2009 – a decline in poverty rate of 2 percentage points a year (Figures 8 and 9). That is better than the yearly poverty reduction in Laos, Bangladesh and Pakistan, but compares less favourably with that of Vietnam and Nepal where USD1.25 a day poverty rate declined at more than 3 percentage points per year during a comparable period.

Using poverty estimates based on Cambodia's national poverty line, some studies have highlighted the muted effect of growth on poverty raising concerns that growth may not have sufficiently benefitted the poor. These studies suggest that poverty might have even increased in the aftermath

of the 2008-09 global financial crisis (Tong 2013; Hill and Menon 2013). Encouragingly, recent data shows that the poverty-elasticity of growth, after declining during 2001-2007, has increased in recent years; as a result, the pro-pooriness of growth in Cambodia has improved (Roth and Lun 2013). Similarly, recent estimates of poverty by the World Bank indicate that despite the food price spiral in 2007-08 and the global financial crisis during 2008-09, poverty rate has declined substantially in recent years (World Bank 2013a; MOP 2012b).

Figure 9: Poverty Reduction – Percentage Points per Year



Source: World Bank – World Development Indicators 2011-2013; ADB (2102c), Myanmar in Transition: Opportunities and Challenges.

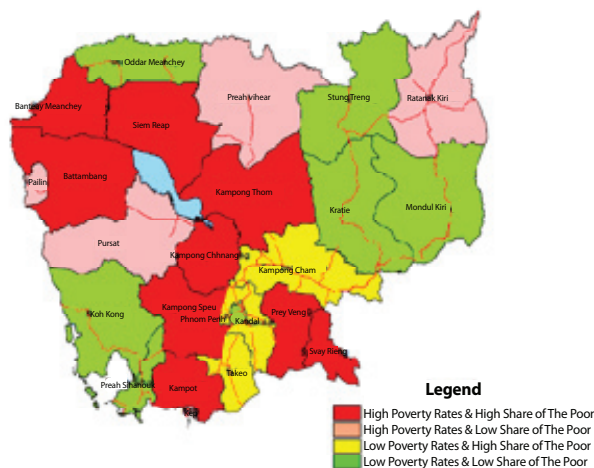
Within Cambodia, however, there is significant variation in poverty incidence across regions. About 90 percent of the poor live in rural areas, especially around the Tonle Sap Lake and on the Mekong Plains (see Box 1).

Box 1: Regional Dimensions of Poverty

Uneven spatial economic development is inevitable, leading to wide disparities in poverty incidence and wellbeing across and within regions and by urban and rural areas. The discussion of the regional dimensions of poverty is important in that one needs to know where the poor are in order to design policy instruments to flow economic development to the most disadvantaged areas. This knowledge is important in the development of spatially targeted policy initiatives to tackle poverty.

Cambodia is composed of four distinct physiographic regions: Mekong River Plains, Tonle Sap Lowlands, Plateau-Mountains, and Coastal. Following is a brief overview of poverty incidence across the four regions from two angles: first, using the poverty headcount – defined as the share of poor people to the population in each region, and then by the share of poor people in each region to the country's poor population. High poverty headcount rates above the national average feature in almost all the provinces in the Tonle Sap Lowlands (see Map 1). The highest poverty rates occur in Ratanakiri and PreahVihear provinces in the Plateau-Mountains region, and the lowest occur in the Mekong River Plains.

Map 1: Poverty Rates and Concentration of The Poor



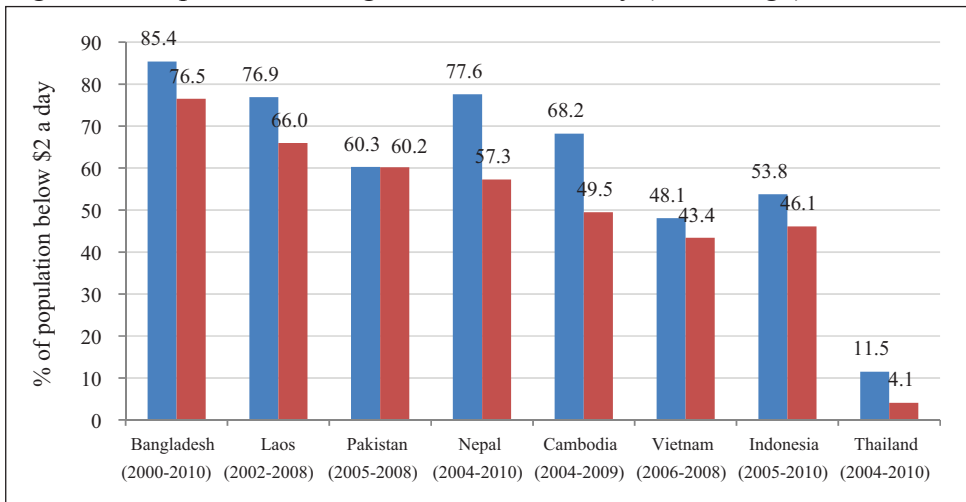
Source: CDRI's calculation based on Cambodia Socioeconomic Survey 2011

Some significant findings emerge from analysis of the share of poor people to total poor. The Plateau-Mountains region, where poverty is highest, has the second lowest number of poor people after the Coastal area, suggesting the regions' low population density. In contrast, the Mekong River Plains, where poverty rate is lowest, has the highest number of the poor with the highest concentration in Prey Veng province. This is because the Plains has the highest population density. The Tonle Sap Lowlands, where the poverty rate is high, has the second highest number of poor people after the Mekong River Plains, indicating the region's high poverty rate and high concentration of the poor.

Note: For administrative purposes the country is divided into one municipality and 23 provinces, which are Phnom Penh (municipality) Kampong Cham, Kandal, Takeo, Prey Veng and Svay Rieng in the Mekong River Plains; Battambang, Siem Reap, Banteay Meanchey, Kampong Thom, Kampong Chhnang, Pursat, Otdar Meanchey and Pailin in the Tonle Sap Lowlands; Kampong Speu, Kratie, Preah Vihear, Ratanakiri, Mondulkiri and Stung Treng in the Plateau-Mountain areas; and Kampong Speu, Kratie, Preah Vihear, Ratanakiri, Mondulkiri and Stung Treng in the Plateau-Mountain areas; and Kampong Speu, Kratie, Preah Vihear, Ratanakiri, Mondulkiri and Stung Treng in the Plateau-Mountain areas; and Kampong Speu, Kratie, Preah Vihear, Ratanakiri, Mondulkiri and Stung Treng in the Plateau-Mountain areas; and Kampong Speu, Kratie, Preah Vihear, Ratanakiri, Mondulkiri and Stung Treng in the Plateau-Mountain areas.

Moving beyond extreme poverty, Cambodia has also seen significant reduction in population living below a higher poverty norm of USD2 a day. The proportion of people living below the USD2 a day benchmark fell from 68.2 percent in 2004 to 49.5 percent in 2009. Among the comparator countries, only Vietnam has a lower USD2 a day poverty rate than Cambodia (Figure 10). Cambodia's USD2 a day poverty rate is not out of line with its per capita income, yet at close to 50 percent, it is significant. As Cambodia moves up the development ladder, enabling this segment of the population to share the benefits of growth (i.e., lifting these people out of relative poverty) will be a major policy challenge.

Figure 10: Population Living below USD2 a Day (Percentage)



Source: ADB (2012c), Myanmar in Transition: Opportunities and Challenges; World Bank–World Development Indicators 2011-2013

Section 3

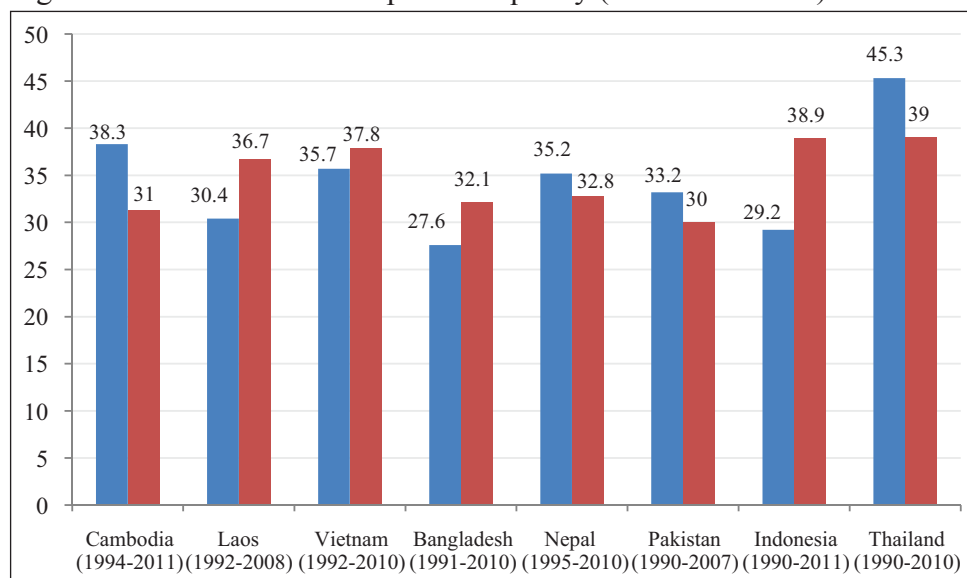
INCLUSIVENESS, GENDER EQUALITY AND ACCESS TO BASIC SERVICES

3.1 Inclusiveness

Equality is the result of human organisation. We are not born equal.
(Hannah Arendt 1906-1975)

The measure of poverty (extreme or relative) does not give a complete picture of overall inequality in the entire range of income distribution. Poverty and inequality are different qualities of a society, and one of these can rise while the other declines (Sen 1997; Subramanian 2006; Basu 2011). How has Cambodia performed in terms of managing inequality? Judging by commonly used measures, it has done well in reducing inequality, especially in recent years. A commonly used measure for overall income inequality is the Gini coefficient.

Figure 11: Trends in Consumption Inequality (Gini Coefficient)

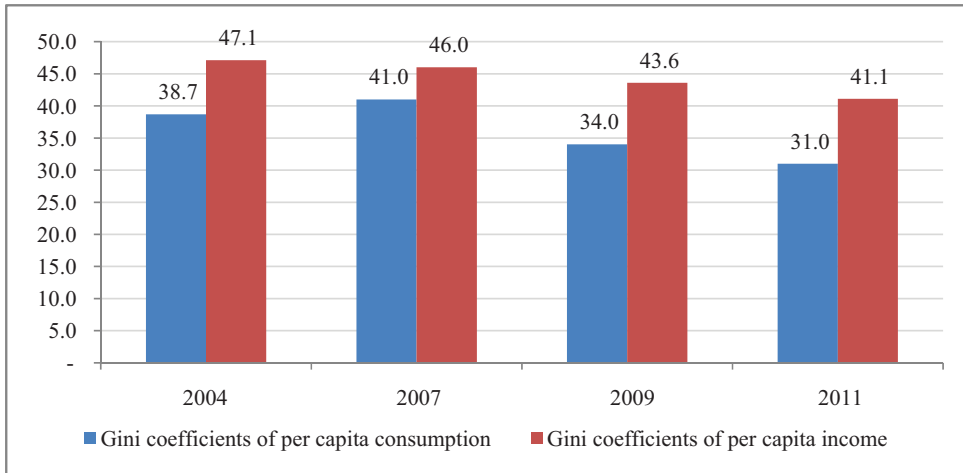


Source: ADB (2012b), Asian Development Outlook; MOP (2012), Annual Progress Report; CDRI (2013) for Cambodia, Vietnam and Thailand

Cambodia's income and consumption distribution data shares some of the unresolved issues as data on poverty. Available data, however, shows that with a Gini coefficient of 31 in 2011 for per capita consumption, overall inequality in Cambodia is at the lower end of the inequality spectrum among the comparator countries (Figure 11) – only Pakistan has a lower Gini than

Cambodia. Also notable is the fact that the consumption Gini in Cambodia declined significantly from 38 in 1994 to 31 in 2011. The Gini coefficient for income, as expected, is higher than that for per capita consumption (Figure 12); the two have not however moved together in the past (Roth and Lun 2013). Available data indicates that consumption inequality increased between 2004 and 2007 and then declined, whereas income inequality has been on a downward trend since 2004 (Figure 12).

Figure 12: Gini Coefficients of Per Capita Income and Consumption in Cambodia, 2004-2011



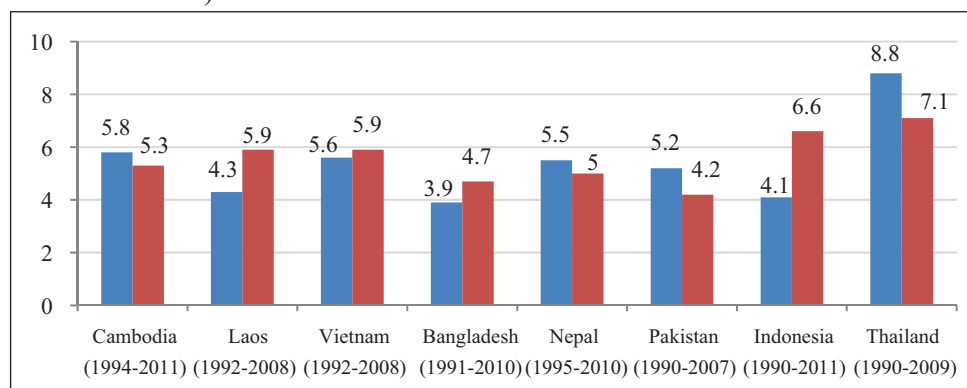
Source: Cambodia Socioeconomic Surveys 2004-2011; MOP 2012 Annual Progress Report

Another way of examining inequality is to look at signs of polarisation in income and consumption at the extreme ends of the income distribution. After all “... while the Gini coefficient is important, the gap between the richest and the poorest is important as well” (Basu 2011: 164). For example, a situation where a sizable population feels increasingly marginalised because the richest benefit from a disproportionate share of the gains of overall growth could cause political and social instability. This kind of income polarisation has happened in the United States and in a few other countries around the world, where an unduly large share of the nation’s income and wealth are concentrated in the richest one percent of the population (Basu 2011; Sachs 2011; ADB 2012b; Stiglitz 2012).

One way of viewing economic polarisation is to look at the income/consumption share of the richest 20 percent to the income/consumption share of the poorest 20 percent. At 5.3, this figure is higher than in the South Asian comparator countries, but lower than in neighbouring Laos and Vietnam (Figure 13). As in the case of consumption inequality, there is some evidence that consumption polarisation increased between 2004 and 2007 and then declined (Roth and Lun 2013). By contrast, income polarisation does not

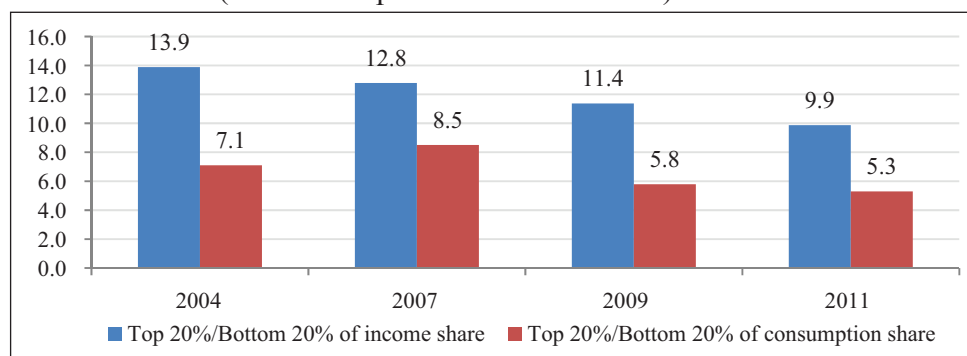
show any hump in 2007 (Figure 14). Indeed income polarisation seems to have been on a downward trend since 2004, as has income inequality.

Figure 13: Trends in Consumption Polarisation (Ratio of Top 20% to Bottom 20%)



Source: ADB (2012b), Asian Development Outlook; Cambodia Socioeconomic Survey 2004-2011 for latest data for Cambodia

Figure 14: Income and Consumption Polarisation for Cambodia, 2004-2011 (Ratio of Top 20% to Bottom 20%)

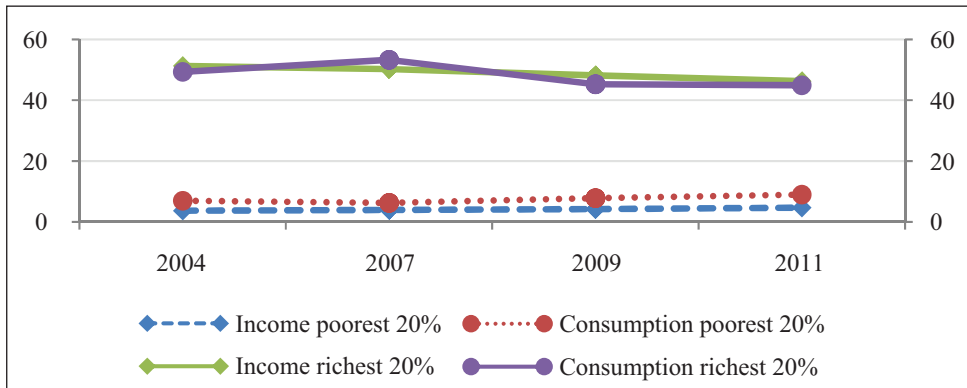


Source: Cambodia Socioeconomic Survey 2004-2011

On balance, both consumption/income inequality and polarisation have improved in Cambodia, especially in recent years. This is an encouraging trend. Yet, going by the country's experience between 2004 and 2007, both these could worsen suddenly, thus negating the recent gains. There is thus merit in policymakers keeping a watchful eye on them and being prepared to take corrective measures if needed. This is especially important because a more equal distribution of consumption, income and wealth is not only desirable in its own right, but also enables countries to reduce poverty faster. Worldwide development experience shows that "On average, for countries with low levels of income inequality, a one percentage point growth in mean incomes leads to about 4 percentage-point reduction in the incidence of USD1 per day poverty. That power falls to close to zero in countries with

high income inequality” (World Bank 2006: 9). There are other significant socioeconomic benefits that flow from a more equitable society, from lower crime rates to less mental stress, not to mention higher interpersonal trust and better social cohesion (Wilkinson and Pickett 2010).

Figure 15: Income and Consumption Polarisation for Cambodia, 2004-2011 (Richest 20% and Poorest 20%)



Source: Cambodia Socioeconomic Surveys 2004-2011

3.2 Gender Equality

When Plato or, closer to our time, Thomas More wrote about a utopian society in which all men were treated well and with dignity, it did not even occur to them that there might be something wrong in leaving women... out of this scheme.

(Kaushik Basu 2011: 1)

Historically, gender equality has been a long neglected issue. The idea that equality in economic and social opportunities between women and men is not only desirable on social considerations but also important for a more efficient use of a country's human resources is a recent one. For example, even the World Bank, that has produced yearly reports on important thematic and sectoral development issues since 1978, took more than three decades to devote one of these – the 2012 World Development Report – to gender equality. During the same period, the World Bank devoted two of its yearly World Development Reports on poverty and another two on agriculture. Gender balance is increasingly gaining prominence on the global development agenda. “Gender equality matters on its own right. But it is also smart economics” because “Misallocating women's skills and talent comes at high economic cost” (World Bank 2011b: xx, 3). Global experience also indicates that better gender equality leads to improved health outcomes, especially in maternal and child health.

There are various dimensions of gender balance and accordingly different ways of measuring it. Measured by the UNDP gender inequality index, Cambodia ranks 96 out of 186 countries in 2012, ahead of South Asian comparators and Laos, but behind Vietnam and Myanmar (Table 5). Using another measure – the gender gap index developed by the World Economic Forum (WEF 2012) – Cambodia ranks 103 out of 135 countries and is ahead of Pakistan and Nepal, but behind Vietnam and Bangladesh.

Table 5: Gender Equality

Country	Social Institutions and Gender Index (SIGI), 2012 ¹		Gender Inequality Index, 2012 ²		Gender Gap Index, 2012 ³	
	Rank out of 86 countries	Score*	Rank out of 186 countries	Value**	Rank out of 135 countries	Score***
Cambodia	13	0.1213	96	0.473	103	0.6457
Laos	49	0.2599	100	0.483	NA	NA
Myanmar	44	0.2405	80	0.437	NA	NA
Vietnam	43	0.2393	48	0.299	66	0.6867
Bangladesh	63	0.3524	111	0.518	86	0.6684
Nepal	36	0.2154	102	0.485	123	0.6026
Pakistan	55	0.2934	123	0.567	134	0.5478
Indonesia	32	0.1743	106	0.494	97	0.6591
Thailand	25	0.1475	66	0.360	65	0.6893

Note: * 0 = low discrimination; 1 = high discrimination

** 0 = women and men fare equally; 1 = one gender fares as poorly as possible in all dimensions

*** 0 = lowest possible score (inequality); 1 = highest possible score is 1 (equality)

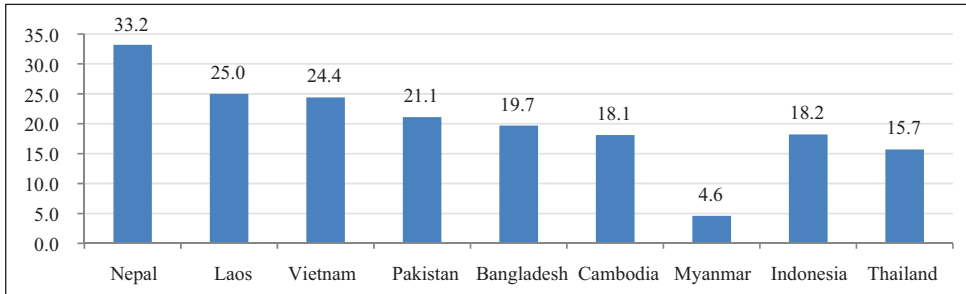
Source: ¹ OECD 2012; ² UNDP 2013; ³ WEF 2012

Although gender disparity in health and education has been greatly reduced (see Section 4), Cambodia's progress in the economic and political empowerment of women has been less impressive (MOWA 2008, 2011; Ellis *et al.* 2010). At 18 percent, women's representation in parliament in Cambodia is lower than in Laos and Vietnam (Figure 16). Women secretaries of state remain at about 8 percent, and those elected to the National Assembly at 22 percent – short of the 30 percent target for women's representation at national level by 2015. Similarly, women's representation in commune elections has increased in recent years, though there are very few women provincial governors.

The UNDP gender inequality index and the World Economic Forum (WEF) gender gap index measure gender balance outcomes. A different index of gender balance – the social institutions and gender index (SIGI) developed by the Organisation for Economic Cooperation and Development (OECD),

measures both the outcomes and the legal and institutional frameworks that are in place to foster gender balance. By this index, Cambodia ranks 19 out of 86 countries, far ahead of the comparator countries. In many ways, this high ranking perhaps reflects the good progress the country has made in laying the legal and institutional foundations for fostering better gender balance by reducing discrimination against women, despite uneven implementation.

Figure 16: Women's Representation in National Parliaments (Percent), 2012



Source: UNDP – Human Development Report 2013

Gender equality measures introduced by the government include the enactment of several laws, such as the 1997 Law on Abortion, the 2001 Land Law, the 2005 Law on Prevention of Domestic Violence, and the 2008 Law on Suppression of Human Trafficking and Sexual Exploitation. These legal reforms were complemented by institutional mechanisms through which gender issues were brought to the fore of the development process. These include the setting up of the Cambodian National Council for Women, the Technical Working Group on Gender, Gender Mainstreaming Action Groups and similar provincial-level mechanisms. It will take some time for these legal and institutional reforms to translate fully into substantially better gender equality outcomes.

3.3 Access to Basic Services

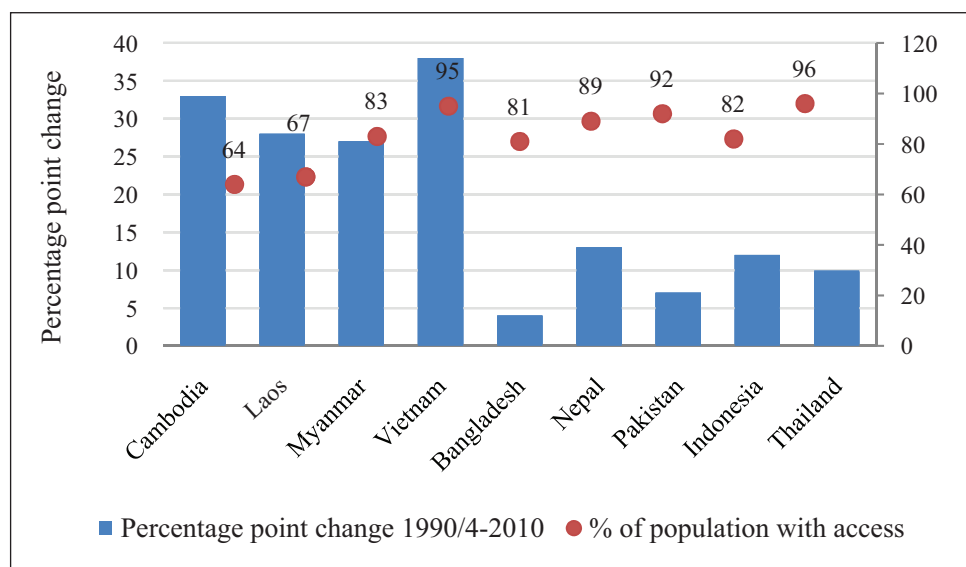
What I don't like about cash transfers is that it is just re-distribution and I'm against that. If we raise the money, we should use it for those public services that are lacking. Re-distribution is a mistake. What the poor need is better public services and not cash in their pockets. Cash transfer allows them to get certain things..., but it is not a solution. (Amartya Sen 2013)

“If 90 school buses filled with kindergartners were to crash every day, with no survivors, the world would take notice. But this is precisely what happens every single day because of poor water, sanitation and hygiene (UNICEF

2013). Just as lower income inequality and greater gender balance, along with higher incomes, contribute to a better standard of living, a society's overall prosperity depends very much on people's access to basic services such as modern sanitation, safe drinking water, cleaner cooking facilities, affordable electricity and even minimum social protection. The public sector provides most, if not all, of these basic services, or it plays a major role facilitating the private sector to provide them. Global development experience indicates that while strong and sustained income growth enables countries to provide quality basic services, wide variations across countries with similar income levels in the provision of these services is quite common. This Report considers access to five basic services – safe drinking water, sanitation, electrification, modern cooking fuel, and social protection. What is Cambodia's track record on this score and how does it compare with the comparator countries?

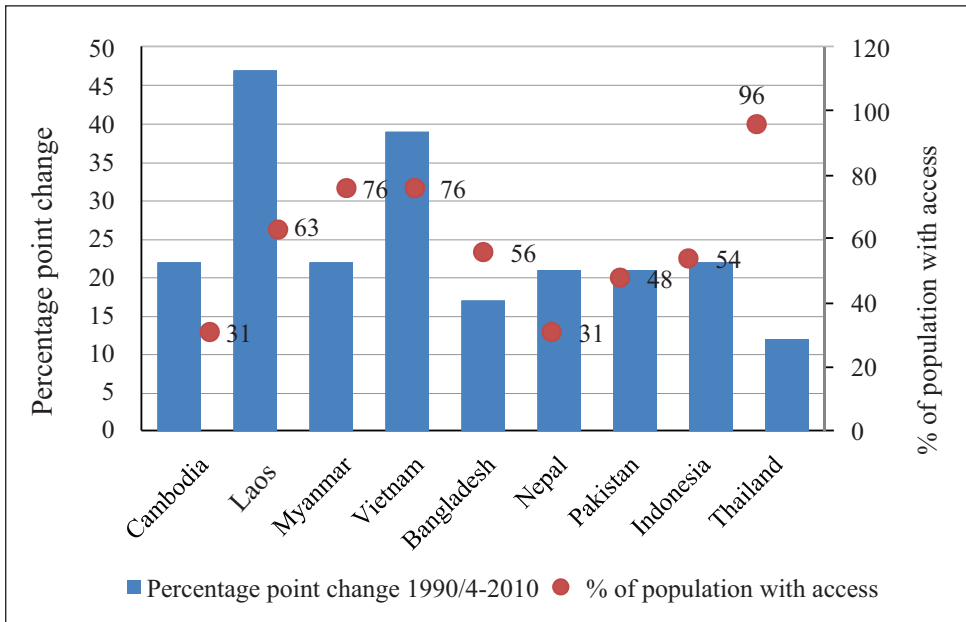
Over time, except for Vietnam, Cambodia has made the most progress in raising the percentage of population with access to improved drinking water, from 35 percent in the mid-1990s to 64 percent in 2010 (Figure 17). That is the second largest increase among the comparator countries. In the provision of sanitation facilities, with the exception of Laos and Vietnam, Cambodia did better than the other comparator countries; the percentage of people with access to improved sanitation almost tripled from 11 percent in the mid-1990s to 31 percent in 2010 (Figure 18).

Figure 17: Improved Water Source (Percent of Population with Access), 1990/4-2010



Source: World Bank – World Development Indicators 2013

Figure 18: Improved Sanitation Facilities (Percent of Population with Access), 1990/4-2010



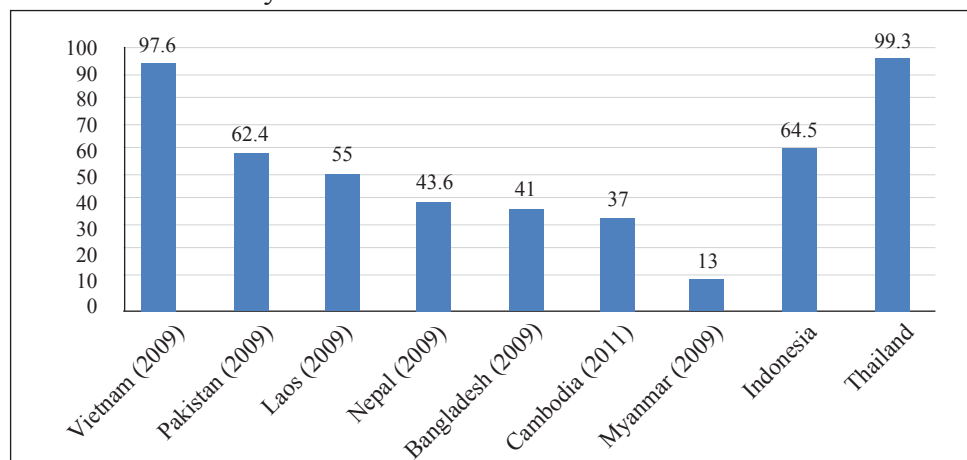
Source: World Bank – World Development Indicators 2013

Although data on the electrification rate for the 1990s is not readily available, given the level of per capita income and the historical narratives on living conditions at that time, it is reasonable to assume that the percent of population with access to electricity in the mid-1990s would not have been more than 10 percent. By 2011, the figure had gone up more than three times to about 37 percent (Figure 19). Despite this large improvement over time, Cambodia's electrification rate today is the second lowest (after Myanmar) among the comparator countries. Moreover, the country does not have a nation-wide electricity grid and a little less than 50 percent of the electricity is imported from neighbouring Laos and Vietnam. Exacerbating the issue of access is the high cost of electricity for those who can connect to publicly provided electricity (discussed further in Section 6 below). Enhancing access to affordable electricity, along with adequate provision of sanitation and drinking water would go a long way towards raising living standards.

Another basic service that hugely affects quality of life is access to modern cooking fuels – kerosene, gas and electricity. Yet only an estimated 10 percent of Cambodian households have access to such cooking fuels, while the majority rely on firewood and charcoal, with 87 percent of households using firewood (MOP 2012b). This figure is higher than in Bangladesh, Myanmar and Laos, but lower than in Vietnam, Pakistan and Nepal (Figure 20). The reliance on conventional cooking fuels certainly lowers people's

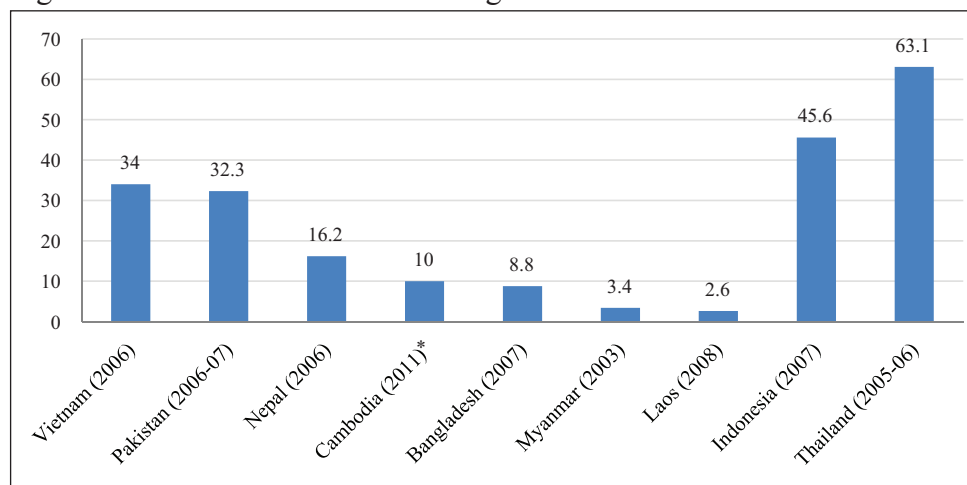
living standards. Equally importantly, it results in several health hazards, especially respiratory and cardiovascular diseases (UNDP & WHO 2009). Since poorer people are more reliant on these conventional sources of fuel, it also has a dampening effect on the goal of poverty reduction.

Figure 19: Electrification Rate – Percent of Population with Access to Electricity



Source: UNDP – Human Development Report 2013; CDRI 2013 for Cambodia only

Figure 20: Access to Modern Cooking Fuel – Percent of Households

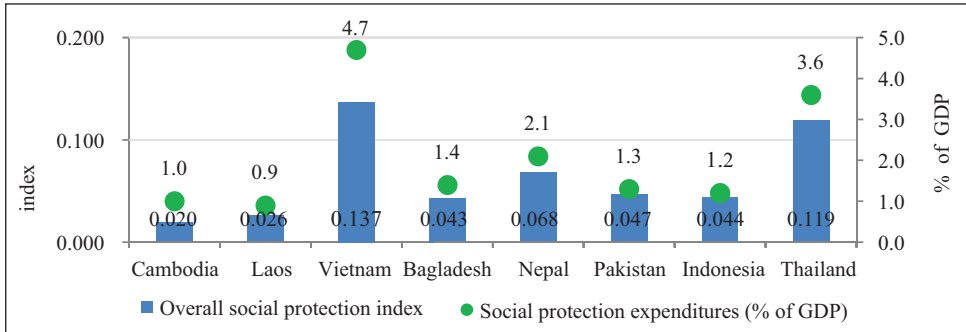


Source: UNDP and WHO 2009; *CDRI 2013

In most modern economies, government-funded social protection or safety nets help lower-income households to manage economic shocks such as illness, unemployment, work injury, vulnerability or old age. Broadly speaking, such social protection measures include social insurance (pension, health insurance, unemployment benefits, severance payments), social assistance (social transfers, health assistance, child welfare, assistance for the

elderly, disability programmes, disaster relief) and labour market transfers (cash or food-for-work programmes, assistance for skill development and training). Government expenditures on these social safety net programmes constitute one indicator of the degree of such protection. An index of social protection that adjusts social protection expenditure to levels of per capita income and poverty of a country is an alternative measure (ADB 2013b).

Figure 21: Social Protection Expenditures and Index, 2009



Note: The higher the index number, the higher a country's social protection.

Source: ADB (2013b), Social Protection Index

In terms of both these indicators, government-provided social safety net assistance in Cambodia is one of the lowest among the comparator countries (Figure 21). At about 1 percent of GDP, social protection expenditure in Cambodia in 2009 (the latest year for which we have data) is closer to that of Laos, but lower than in the other comparator countries. Cambodia's social protection index is lower than even that of Laos; in both dimensions, Vietnam is way ahead of Cambodia. Realising the need for better social protection measures, in 2012 Cambodia initiated a social protection programme. Effective implementation of the programme and continued government commitment and investment will be a major challenge in providing a better social safety net in the country.

Section 4

HUMAN DEVELOPMENT, HEALTH AND EDUCATION

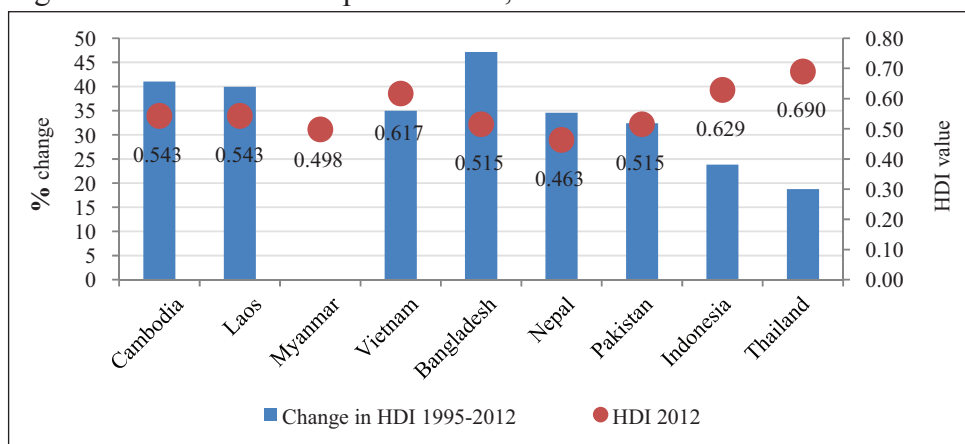
4.1 Human Development

Money matters, but the evidence shows overwhelmingly that great improvements can be achieved in other aspects of human development without going flat out for economic growth.

(UNDP 2010a: 63)

Rapid economic growth in general leads to faster human development – not only a higher material standard of living, but also better health and education for the people. However, this transmission of economic growth into human development is not automatic. Experience suggests that the degree of such transmission differs across countries. Since the early 1990s, development practitioners have increasingly judged a country's performance by the extent to which it achieves human development rather than focusing solely on growth and poverty reduction. Human development, and not just a higher material standard of living, is increasingly seen as the real wealth of nations. How has Cambodia fared in terms of achieving such a broader development objective?

Figure 22: Human Development Index, 1995-2012



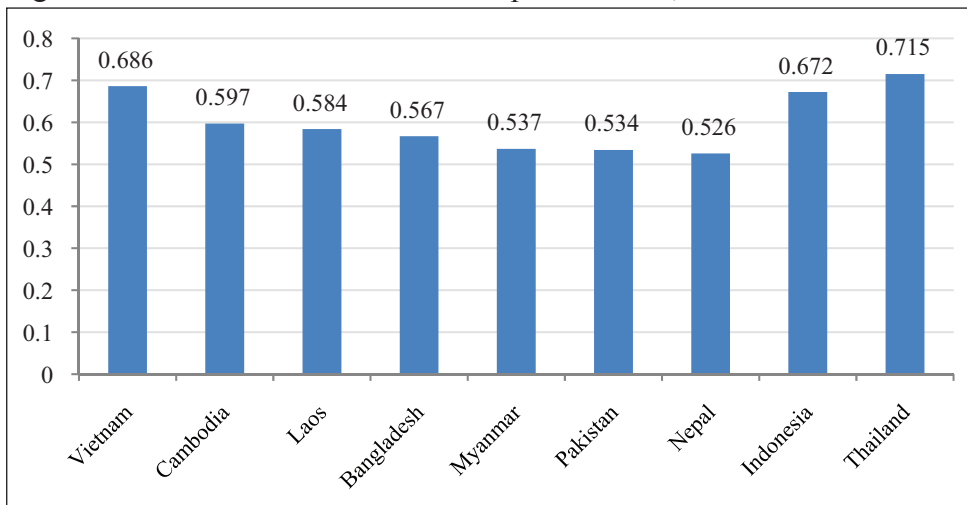
Source: UNDP – Human Development Report 2010, 2013

Cambodia's performance in overall human development since the mid-1990s has been almost as impressive as its record in sustaining strong growth and robust poverty reduction. Between 1995 and 2012, Cambodia's human development index improved by 41 percent, second only to Bangladesh among the comparator countries and similar to Laos (Figure 22). As a result of its impressive progress, Cambodia's level of human development today is higher than in the South Asian comparator countries, and is the same as

that of Laos. Only Vietnam has a higher human development index than Cambodia (Figure 22).

To some extent, Cambodia's gain in human development reflects strong growth in income, as human development is a composite index of income on the one hand and health and education indicators on the other. A non-income human development index that consists of only health (life expectancy at birth) and education (mean years of schooling and expected years of schooling) indicators places Cambodia next only to Vietnam (Figure 23). Interestingly, unlike in the case of the overall human development index, the non-income human development index places Cambodia ahead of Laos as well. Empirical evidence such as this is at variance with the observation that "Cambodia has had only growth and not development" (Ear 2013:49).

Figure 23: Non-Income Human Development Index, 2012



Source: UNDP – Human Development Report 2013

That said, an important caveat is in order on Cambodia's human development index. The mean years of schooling used by the UNDP in its computation of the HDI do not seem to take into account the differences in the actual instruction hours that students receive in different countries; it rather relies on the intended number of years of schooling and the number of school days within a year (Benavot and Amadio 2004). The actual daily class instruction hours that primary to high school students receive varies across countries, but in general, it is in the range of 6-8 hours a day for about 200 days a year (Hughes 2007). In Cambodia, it is much lower – around 3.3 hours a day, as most schools run multiple 4 hour shifts a day – 3 hours and 20 minutes in the class and 40 minutes break time.

Adjusting for these lower daily class hours, Cambodia's effective mean years of schooling and the expected years of schooling would be much lower than the 2012 figures of 5.8 years and 10.5 years, respectively. For example, using the minimum of the school hours range – 6 hours per day – as the benchmark, Cambodia's effective mean years of schooling would work out to 3.2 years, which is much lower than the reported figure of 5.8 years. Similar downward adjustment will occur for the expected years of schooling too. That, in turn, would lower the actual level of the human development index, as these two educational indicators taken together have a one-third weight in the computation of the human development index. Even without factoring in the differences in the quality of education, this issue of shorter class hours raises serious issues regarding the country's educational standards – requiring further examination and policy intervention.

Moreover, the human development index, with or without income, covers only a few health and education indicators. Therefore, it is important to go beyond the human development index and look at a number of additional health and education indicators. In health, it is important to go beyond the single indicator of life expectancy at birth that the UNDP Human Development Report includes in its measure of human development. Similarly, in terms of education, indicators other than mean years and expected years of schooling need to be considered.

4.2 Health

If you have health, you probably will be happy, and if you have health and happiness, you will have all the wealth you need, even if it is not all you want. (Elbert Hubbard 1856-1915)

As well as the importance of health as a means for wealth, robust health should be treated as an end in itself for happiness and well-being. What is true of individuals and families is also true of nations and societies. Striving for the better health of a nation is a laudable objective, both as a means for growth and development and as an end in itself.

By the mid-1990s, judged by almost any indicator of health, Cambodia had a mammoth task in restoring the health of its people. Contagious diseases were widespread, and healthcare facilities – both the hardware and the software – were basic. Most of the medical infrastructure, including medical personnel, was destroyed during the second half of the 1970s. For example, Cambodia had about 1000 qualified medical doctors by the mid-1970s, but most of them were killed during 1975-1979. None of the comparator countries had to rebuild their health systems from such extremely adverse initial conditions.

Table 6: Progress in Health

Indicators	Period	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
Outcome Indicators										
Life expectancy at birth, total (years)	1994-2012 % change	8	▼	▲	▲	◻	▼	▲	▲	▲
Healthy life expectancy (years)	1990-2010 % change	16	◻	NA	▲	▼	▼	▲	▲	▲
Mortality rate, infant (per 1000 live births)	1994-2011 % change	-58.76	▼	▲	▲	▲	▲	▲	▲	▲
Mortality rate, under-5 (per 1000 live births)	1994-2011 % change	-64.40	▼	▲	▲	▲	▼	▲	◻	▲
Maternal mortality rate (per 100,000 live births)	(1990-1999) – (2006-2011) (% change)	-55.32	NA	NA	▼	▲	NA	NA	▲	NA
Prevalence of under-nourishment (% of population)	(1990-1992) – (2006-2011) % point change	-23	▲	NA	▼	▲	▲	▲	▲	▼
Prevalence of HIV, total (% of population ages 15-49)	1994-2011 % point change	-0.7	▲	▲	▲	▲	▲	▲	▲	▼
Incidence of tuberculosis (per 100,000 people)	1994-2011 % change	-21.04	▲	▲	▲	▲	▲	▲	▲	▲

Note: Cambodia's performance: better ▲; worse ▼; similar ◻

Source: World Bank – World Development Indicators 2012; UNDP – Human Development Report 2013; Salomon *et al.* (2012) for estimates of healthy life expectancy

In the last two decades or so, Cambodia has achieved larger improvements in several key health outcome indicators vis-à-vis many comparator countries (Table 6). However, there are exceptions – overall life expectancy, where Laos and Nepal did better; maternal mortality rate, where Vietnam did better; health-adjusted life expectancy, where Bangladesh and Nepal fared better; infant mortality rate where Laos outperformed Cambodia; under-five child mortality rate where Laos and Nepal fared better; and overall undernourishment where Vietnam did better.

Table 7: Current Health Status

Indicators	Year	KHM	LAO	MMR	VNM	BGD	NPL	PAK	IDN	THA
Outcome Indicators										
Life expectancy at birth, total (years)	2012	63.6	▼	▼	▼	▼	▼	▼	▼	▼
Healthy life expectancy (years)	2010	57.95	▲	NA	▼	▼	▼	▲	▼	▼
Mortality rate, infant (per 1000 live births)	2011	36	▼	▲	▼	▲	▲	▲	▼	▼
Mortality rate, under-5 (per 1000 live births)	2011	43	▼	▲	▼	▲	▼	▲	▼	▼
Maternal mortality rate (per 100,000 live births)	2006-2011	206	▲	NA	▼	▲	NA	▲	▲	▼
Prevalence of undernourishment (% of population)	2006-2011	17	▲	NA	▼	◻	▲	▲	▼	▼
Prevalence of HIV, total (% of population ages 15-49)	2011	0.6	▼	◻	▼	▼	▼	▼	▼	▲
Incidence of tuberculosis (per 100,000 people)	2011	424	▼	▼	▼	▼	▼	▼	▼	▼
Access and Input Indicators (disease prevention and health facilities)										
Births attended by skilled health staff (% of total)	2006-2011	71	▲	◻	▼	▲	▲	▲	▼	▼
Physicians (per 1000 people)	2006-2011	0.2	▼	▼	▼	▼	NA	▼	▼	▼
Nurses and midwives (per 1000 people)	2006-2011	0.9	▼	◻	▼	▲	NA	▲	▼	NA
Public expenditure on health (% of GDP)	2010	2.1	▲	▲	▼	▲	▲	▲	▲	▼

Note: Cambodia's performance: better ▲; worse ▼; similar ◻

Source: World Bank – World Development Indicators 2012; UNDP – Human Development Report 2013; Salomon *et al.* (2012) for estimates of healthy life expectancy

Despite these substantial gains in health indicators, the overall health status of Cambodians remains weak (Table 7). At 63.6 years, Cambodia's life expectancy at birth is the lowest among the comparator countries, about 12 years lower than in Vietnam. Similarly, at 424 people per 100,000, Cambodia has the highest incidence of tuberculosis among the comparator countries. Cambodia's child mortality rates are higher than in both Laos and Vietnam. Its maternal mortality rate is lower than in Laos, Bangladesh and Pakistan, but six times that of Vietnam. In addition, 44 percent of pregnant women and 55 percent of children under five in Cambodia are anaemic, fewer than only in Laos and Myanmar. About 29 percent of Cambodian children are underweight and 41 percent are stunted – lower than in Laos, Nepal and Bangladesh, but much higher than in Vietnam (World Bank 2013c). Similarly, using the global hunger index, a composite measure of three indicators – overall undernourishment, child weight and child mortality – Cambodia ranks 56 out of 79 countries covered globally, ahead of Laos (57), Pakistan (57), Nepal (60) and Bangladesh (68), but far behind Vietnam (26) (Von Grebner *et al.* 2012).

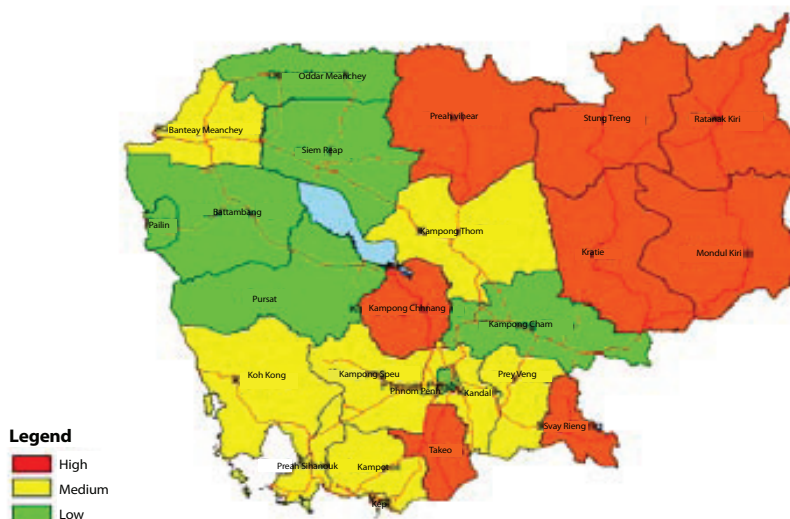
Significant progress over the years has closed gender gaps to some extent in both access to and outcomes in health, yet sizeable disparities exist. These health indicators partly reflect the still significant poverty as well as the inadequate access to modern sanitation and safe drinking water (discussed in Section 3). Every day an estimated 20 Cambodian children (about 7300 per year) die from diarrhoea, a condition directly related to contaminated water and poor sanitation. In 2008, poor sanitation cost an estimated economic loss of USD450 million per year (ADB 2012a: 21).

Within the national picture, there are wide variations in health status between rural and urban areas. The health status of the rural population is much worse than that of urban Cambodians. For example, the under-five mortality rate in rural areas is about 75 compared to 30 in urban areas. Likewise, the percent of underweight and stunted population in rural Cambodia is much higher than in urban areas. The 2010 Cambodia Demographic and Health Survey records that 66 percent of rural households still practice open defecation. Large variations in health status also exist at the provincial level (see Box 2).

Box 2: Regional Dimensions of Health

The population of the Plateau-Mountain region in Cambodia faces the poorest health status. For example, in 2010 the average under-5 mortality rate was as high as 96 per 1000 live births, with the highest rate of 118 recorded in Preah Vihear province. The under-5 mortality rates in the other three regions were very similar, averaging 66 deaths per 1000 live births (see Map 2). In terms of malnutrition among children younger than 5 the Plateau-Mountain region again features prominently with the highest number (around 50 percent) of stunted children, followed by the Coastal area where about 43 percent of children are stunted. The prevalence of underweight in children in 2010 shows a similar trend, affecting 34 percent of under-5s in the Plateau-Mountain region and 28 percent of under-5s in the Tonle Sap Lowlands.

Map 2: Under-5 Mortality Rates



Source: CDRI's calculation based on Cambodia Demographic and Health Survey 2010

Vaccination coverage rates of 64 percent in the Plateau-Mountain area and 66 percent in the Coastal region are lower than the national average of 75 percent. However, health insurance coverage among men and women aged 15 to 49 in the Plateau-Mountain region is second highest after the Coastal region, suggesting that the right responses are targeting the neediest areas.

Improvements in health indicators in 2000-2010 show that the biggest reduction in under-5 child mortality – by 50 percent, from 915 to 458 – has occurred in the Tonle Sap Lowlands; vaccination coverage has increased from 19 percent to 66 percent in the Coastal area; and the largest reduction in child malnutrition is evident in the Mekong Plains.

Health gaps between the rich and the poor are significant. For example, infant and under-five mortality rates among the poorest 20 percent of the population are about three times the figure for the richest 20 percent. Similarly, the prevalence of acute respiratory infections for children younger than five years among the poorest 20 percent is about two and a half times that of the richest 20 percent. The comparable figure for the prevalence of diarrhoea is about 1.7, implying that it affects the poorest 20 percent of the population about 70 percent more than the richest 20 percent. In many dimensions of gaps in child health between the rich and the poor, Cambodia fares worse than most of the comparator countries (Table 8). Cambodia compares somewhat better in terms of child malnutrition, prenatal care, and births attended by skilled healthcare workers. It is encouraging that some of the health gaps between the rich and the poor have shown signs of closing. Vaccination coverage for children aged 12-23 months, for example, improved across all wealth groups between 2005 and 2010, while the gap between the poorest and the richest also narrowed. Other health indicators such as child mortality and undernutrition among women show similar trends (Table 9).

Table 8: Health Gaps between Poorest and Richest, Latest Year

Country	Infant mortality rate	Under-5 mortality rate	Diarrhoea*	Acute respiratory infection**	Prevalence of child malnutrition (underweight)***	Prenatal care	Births attended by skilled health staff
Cambodia (2010)	3.3	3.0	1.7	2.4	2.2	0.8	0.5
Laos (2006)	NA	NA	1.9	2.3	2.4	0.2	0.0
Vietnam (2000)	NA	NA	NA	NA	NA	0.7	0.5
Bangladesh (2007)	1.8	2.0	1.3	2.5	2.0	0.4	0.1
Nepal (2006)	1.8	2.1	1.1	1.2	4.0	0.5	0.1
Pakistan (2007)	1.8	2.0	1.2	1.1	NA	0.4	0.2
Indonesia (2007)	2.2	2.4	1.8	1.6	NA	0.8	0.5
Thailand (2006)	NA	NA	1.7	2.1	3.8	1.0	0.9

Note: * Percentage of under-5s that had diarrhoea in the two weeks before survey

** Percentage of under-5s with symptoms of acute respiratory infection

*** For Cambodia, the percentage below -2 standard deviation from WHO Child Growth Standards population median. The survey year for Nepal is 2011.

Source: Cambodia Demographic and Health Survey 2010; World Bank–World Development Indicators 2012, 2013

Table 9: Health Indicators of the Rich, Poor and Middle Classes 2005-10

Wealth quintile	Basic vaccination coverage (%)		Child mortality		Undernutrition among women (%)	
	2005	2010	2005	2010	2005	2010
Lowest	56.1	65.3	29	15	24.0	22.9
Second	65.8	77.4	23	13	22.5	20.8
Middle	66.6	83.6	18	7	22.8	18.4
Fourth	74.4	84.3	15	10	17.6	17.7
Highest	76.4	88.2	9	8	16.6	16.6
Lowest/ highest	0.73	0.74	3.22	1.87	1.44	1.37

Source: Cambodia Demographic and Health Survey 2005, 2010

4.3 Education

If you plan for a year, plant a seed. If for ten years, plant a tree. If for hundred years, teach the people. When you sow a seed, you will reap a single harvest. When you teach the people, you will reap a hundred harvests.

(Confucius (K'uan-Tzu) 551-479 BC)

This ancient philosophy emphasises the importance of education for human progress and highlights the importance of building a credible education system for securing the future well-being of a society.

Most developing countries confront similar challenges as they build and improve their education systems, but the difficulties besetting Cambodia's education planning were unique. The country had to start rebuilding its education system in the mid-1990s almost from scratch. During 1975-1979, much of the educational infrastructure, including buildings and facilities, was destroyed (Ayres 2000a, b) and 75 percent of tertiary teachers and 96 percent of university students were killed (Chamnan and Ford 2004 cited in CDRI 2013). Unlike hard infrastructure such as roads, dams, bridges and power plants, rebuilding the education system has been perhaps one of Cambodia's most daunting tasks.

Progress in education has been less impressive and more mixed than in the area of health. Moreover, the caveat that the actual class hours of education Cambodian school children receive is less than in the comparator countries makes some of Cambodia's actual educational attainments less than the reported indicators would suggest. Even without factoring in this caveat, in most outcome indicators on education, Cambodia has made less gains than the comparator countries for which comparable data is available (Table 10). The one exception is in primary education, where both enrolment and

completion rates have improved. Primary enrolment and completion rates have made impressive headway and the country is now close to achieving universal primary education. Progress in secondary and tertiary education, however, has been much slower.

Table 10: Progress in Education

Country	Year	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
Youth literacy rate, total (% of people ages 15-24)	1998/2001-2008/2010	10.8	NA	▲	▲	▼	▼	▼	NA	▲
Primary school enrolment (% gross)	1990-2002/2011	32.1	▲	▲	▲	NA	▲	▼	▲	▲
Secondary school enrolment (% gross)	1990-2002/2011	23.3	▲	NA	▼	NA	NA	NA	▼	▼
Tertiary education enrolment (% gross)	1990-2002/2011	12.9	▼	NA	▲	▲	NA	NA	▼	▼
Primary school completion (% net)	1991-2010/2011	45.0	▼	NA	NA	▲	NA	NA	▲	NA
Pupil-teacher ratio, primary	1999-2010/2011	-0.8	▼	▼	▼	NA	▼	▲	▼	▼

Note: Cambodia's performance: better ▲ worse ▼; similar ■

Source: World Bank – World Development Indicators 2012, 2013; UNDP – Human Development Report 2013

At about 16 percent, the percentage of adults with at least secondary education in Cambodia is the lowest among the comparator countries (Table 11). Similarly, at 47 percent, the gross secondary enrolment rate in Cambodia is higher than in Laos, Nepal and Pakistan but lower than in other comparator countries. Similarly, Cambodia's tertiary gross enrolment rate of 14 percent is only higher than that of the South Asian comparator countries. Net enrolment rates remain low at around 32 percent for lower-secondary education and about 12 percent for upper-secondary education and training (UNDP 2011; World Bank 2013c). At present, only 5 percent of the tertiary education age group is enrolled in tertiary education (7 percent males and 4 percent females). This is only about one-third of the enrolment figures in many other developing countries (World Bank 2013c).

Table 11: Current Education Status

Country	Year	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
Youth literacy rate, total (% of people ages 15-24)	2008-2010	87.1	NA	▼	▼	▲	▲	▲	▼	▼
Adult literacy rate, total (% ages 15 and older)	2005-2010	77.6	▲	▼	▼	▲	▲	▲	▼	▼
Primary school enrolment (% gross)	2002-2011	126.0	◻	◻	▲	NA	▲	▲	▲	▲
Secondary school enrolment (% gross)	2002-2011	47.0	▲	▼	▼	▼	▲	▲	▼	▼
Tertiary enrolment in STEM subjects	2011	26.6	NA	NA	NA	NA	NA	NA	▼	NA
Tertiary education enrolment (% gross)	2002-2011	14.0	▼	▼	▼	▲	▲	▲	▼	▼
Primary school completion (% net)		90.0	▼	▼	▼	▲	NA	▲	▼	NA
Mean years of schooling (years)	2011	5.8	▲	▲	▼	▲	▲	▲	◻	▼
Population with at least secondary education (25 % years and older)	2006-2010	16.1	▼	▼	▼	▼	▼	▼	▼	▼
Expected years of schooling (years)	2011	10.5	▲	▲	▼	▲	▲	▲	▼	▼
Pupil-teacher ratio, primary		47.0	▼	▼	▼	▼	▼	▼	▼	▼
Public expenditure on education, total (% of GDP)		2.6	▼	▲	▼	◻	▼	▲	▼	▼

Note: Cambodia's performance: better ▲; worse ▼; similar ◻

Source: World Bank – World Development Indicators 2012, 2013; UNDP – Human Development Report 2013

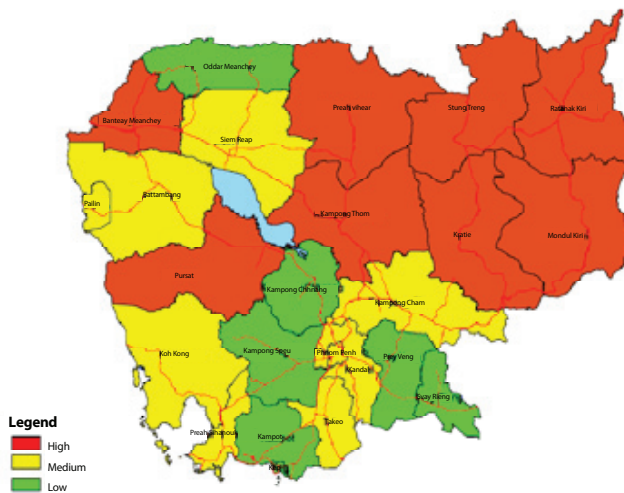
Over the years, gender gaps in primary and secondary education have closed substantially. As a result, any gender gaps are minimal, perhaps with the exception of some rural areas.

With the exception of primary school attendance, rural Cambodians have much lower educational attainments than the urban population. Secondary school net attendance rate is close to 60 percent in urban areas, compared to a little over 40 percent in rural areas. As a result, the median number of years of schooling of rural youth is 3.7 compared to 7 years for urban youth. This rural-urban difference in years of schooling has risen since 2005 (NIS *et al.* 2011). At provincial level, education attainments in the northeastern provinces are generally lower than the national average (Box 3).

Box 3: Regional Dimensions of Education

The Plateau-Mountain region of Cambodia lags behind in terms of education status, with Ratanakiri and Mondul Kiri provinces showing the worst performance. The Tonle Sap Lowlands is the second worst performer, while the Mekong Plains is the best. Primary school net attendance rate is lowest in the Plateau-Mountain region at around 79 percent in 2010 compared to the national average of 84 percent (see Map 3). The region also has the lowest secondary school net attendance rate at around 19 percent, followed by the Tonle Sap Lowlands. In addition, the region's population has the lowest average number of years of completed education – about 3.1 years.

Map 3: Primary School Net Attendance Rates



Source: CDRI's calculation based on Cambodia Demographic and Health Survey 2010

Gains in education indicators between 2000 and 2010 indicate mixed results. Primary net attendance rates improved substantially in the Plateau-Mountain region, followed by the Tonle Sap Lowlands and the Coastal region. This result is perhaps rather predictable, especially since the Plateau-Mountain region started from a very low level. When it comes to net secondary attendance rate and median years of education, however, the Plateau-Mountain region shows the least improvement, signalling that greater priority should be given to improving those two indicators in that region.

Large gaps in education attainments also persist between the rich and the poor. For example, the average years of schooling of children aged 15-19 years among the poorest 20 percent of the population is about one-fifth of that in the richest 20 percent. The gap in the years of schooling between the rich and the poor is much higher than in Vietnam, Bangladesh and Nepal (Table 12). The gap between the rich and the poor in primary education completion rates – the percentage of poor children completing primary education – is about three-fourths that of rich children. Similarly, the percentage of poor children out of school is more than three times that of rich children – only Nepal has a larger rich-poor gap in this dimension. Vietnam, on the other hand, has made access to education more equitable and narrowed the gap between the rich and the poor. Encouragingly, the education gap between the rich and the poor in Cambodia has shown signs of closing in recent years. The ratio of median years of schooling of females of the poorest group to the richest group, for instance, increased from 0.19 in 2005 to 0.20 in 2010, while that of males declined from 0.32 to 0.27 (National Institute of Public Health *et al.* 2006; NIS *et al.* 2011).

Table 12: Education Gaps, Poorest and Richest

Country (latest year)	Average years of education	Primary completion rate	Children out of school*
Cambodia (2010)	0.21	0.78	3.40
Vietnam (2006)	0.72	0.95	1.50
Bangladesh (2006)	0.56	0.67	2.00
Nepal (2011)	0.60	0.76	12.00

Note: *Data for Cambodia refers to no schooling

Source: CDRI's calculation based on Cambodia Demographic and Health Survey 2010; World Bank – World Development Indicators 2012, 2013

Partly a reflection of inadequate secondary and tertiary education attainments, Cambodia has a shortage of skilled labour for low-to-medium skill intensive industrial sectors (World Bank 2010; JICA 2012). There is a growing gap between the skills that industry and business want and what education institutions, whether academic or vocational training, are producing. In recent surveys, 73 percent of employers reported that university graduates do not have the right skills for the jobs they are applying for (World Bank 2010). Despite the large number of youth entering the labour market every year, there are huge human capability deficits even for relatively light skill-intensive sectors such as garments, hospitality, tourism and construction not to mention the more skill-intensive sectors like information and communications technology.

One study estimates that if Cambodia wants to attract a reasonable increase in FDI, say in the range of 6-8 percent of GDP between now and 2020, it would need about 35,000 engineers and another 46,000 technicians by 2018 (JICA 2012). On current trends, the projected supply of these personnel would fall far below that required. This mismatch reflects the lack of focus on science, technology, engineering and mathematics (STEM subjects) in Cambodia's education system (Table 13). Lack of technical skills is only part of the human resource problem, as there seems to be an inadequate supply of labour with even soft skills for such service sectors as hospitality and tourism.

Table 13: Education Indicators in Science and Technology

Indicators	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
Researcher in R&D 2000-10 (per million people)	17	16	18	115	NA	59	162	90	316
Technician in R&D 2000-10 (per million people)	13	NA	137	NA	NA	137	64	NA	140
Scientific and technical journal articles 2009	27	12	10	326	260	56	1043	262	2033
Expenditure on R&D 2000-10 (% GDP)	0.05	0.04	0.16	0.19	NA	NA	0.46	0.08	0.21
High technology exports 2010-11 (USD million)	5	NA	0	4020	134	2	316	5728	33,265
% of manufactured exports 2011	0.1	NA	0	8.6	1.2	0.3	1.8	8.3	20.7

Source: World Bank – World Development Indicators 2011, 2012, 2013

Section 5

NATURAL RESOURCES AND THE ENVIRONMENT

The nation behaves well if it treats the natural resources as assets which it must turn over to the next generation increased, and not impaired, in value.

(Theodore Roosevelt 1910 cited in Shallenberger 2006: 23)

This short statement underscores how important it is for countries to value and manage natural resources well while they pursue economic growth and development.

Cambodia is endowed with a rich and diverse natural environment – productive arable land, rivers and lakes, plentiful water, forests, rich biodiversity, and beautiful landscapes. Millions of Cambodians in rural areas depend on natural resources for their daily livelihoods (McKenney and Tola 2002; Hansen *et al.* 2006). It is only logical that the country harnesses these natural resources to improve the living standards of its people. Yet, in so doing, it is also critical that natural resources are not depleted at an unsustainable rate to ensure long-term benefits for future generations. In addition to this intergenerational equity, there is a need to manage natural resources so that the various segments of the current generation can share the benefits that flow from these resources equitably. More often than not, natural resource-rich countries tend to pay little attention to both inter- and intra-generational dimensions of equity.

Worldwide development experience shows that natural resource-rich countries are vulnerable to nationally unproductive and socially undesirable, yet privately profitable, rent-seeking activities. The result is unsustainable natural resource depletion, land and water degradation, overfishing and environmental pollution. The poorer segments of the population are intrinsically linked with natural resource depletion in that they tend, or are compelled, to undertake environmentally damaging activities for their daily survival. Moreover, the poor bear a disproportionate burden of the adverse consequences of destructive resource extraction because they have few options to cope with the negative side effects. For a developing country like Cambodia, effective environment and natural resources management is crucial for poverty reduction, food and water security, and climate change resilience.

How has Cambodia harnessed its natural resources and managed the environmental ramifications of growth and development in the last two decades? Based on 22 indicators under two broad sets of factors – environmental health (measuring environmental stresses to human health)

and ecosystem vitality (measuring ecosystem health and natural resource management) – the Yale Centre for Environmental Law and Policy brings out a composite index of environmental performance for several countries. The 22 indicators cover air pollution, water resources, drinking water and sanitation accessibility, biodiversity and habitat, forests, fisheries, agriculture and climate change. In terms of this composite index for 2012, Cambodia ranks 59 out of 132 countries, behind Nepal (38) but ahead of Myanmar (69), Vietnam (79), Bangladesh (115) and Pakistan (120) among the comparator countries covered (YCELP *et al.* 2012: 10). Within its overall rank of 59, Cambodia ranks better in biodiversity (14), climate change (14), ecosystem-related air pollution (17) and ecosystem-related water resources (28), but worse in human health-related water resources (122), forest (122), human health-related air pollution (111) and fisheries (78) (www.epi.yale.edu).

Composite measures such as these give an overall comparative position of the country in natural resource and environmental management. Yet, due to the limitations arising out of the weighting scheme used and the indicators covered in such composite indices, it is hard to derive strong conclusions about the exact nature of the environmental problems faced by a country. To have a better understanding of Cambodia's natural resource and environmental management challenges, it is important to go beyond the composite indices and examine the sectoral and sub-sectoral issues in greater detail.

5.1 Land Reform and Deforestation

There are few issues that have attracted more debate, controversy and media coverage in Cambodia in recent times than land management policy and its administration, particularly our progress on the complex challenge of national land titling, and the role of economic and social land concessions as key elements of our national strategic development policy.

(Prime Minister Hun Sen's speech at the 2013 Cambodia Outlook Conference)

With a total land area of about 18 million hectares, about 4 million hectares (or 22 percent) of which are arable, Cambodia has ample land resources. At about 1.25 hectares, it has the highest per capita land area among the comparator countries. Similarly, at 0.39 and 0.28 hectares, Cambodia has the highest levels of per capita agricultural and arable land, respectively, among the comparator countries. In terms of forest cover, only Laos among the comparator countries has a larger per capita forest area than Cambodia (Table 14).

Land ownership and management in Cambodia has had a very chequered history. Private ownership of land was abolished during 1975-1979 and all land belonged to the state. People had no option but to work on state-owned land, which they did in return for two meals a day. State ownership of land continued until 1989, though by that time the state did allow collective farming. Under that system, groups of households or collectives (kromsammaki) could cultivate plots of land. After sharing the harvest to meet their own consumption requirements, the collectives sold the remaining output (surplus) to the state at prices fixed by the state.

Table 14: Land Use (Ha per Capita), 1990-2011

Country	Population (million)		Forest land (ha per capita)		Arable land (ha per capita)		Agricultural land (ha per capita)	
	1990	2011	1990	2011	1990	2011	1990	2011
Cambodia	9.06	14.61	1.43	0.68	0.41	0.27	0.49	0.39
Laos	4.24	6.52	4.08	2.40	0.19	0.21	0.39	0.36
Myanmar	42.12	52.35	0.93	0.60	0.23	0.21	0.25	0.24
Vietnam	66.02	87.84	0.14	0.16	0.08	0.07	0.10	0.12
Bangladesh	107.39	152.86	0.01	0.01	0.09	0.05	0.10	0.06
Nepal	18.11	27.16	0.27	0.13	0.13	0.09	0.23	0.16
Pakistan	111.09	176.17	0.02	0.01	0.18	0.12	0.23	0.15
Indonesia	178.63	243.80	0.66	0.38	0.11	0.10	0.25	0.22
Thailand	56.58	66.58	0.35	0.29	0.31	0.24	0.38	0.32

Source: World Bank – World Development Indicators 2012, 2013

In 1989, land was distributed among households based primarily on household size. The households were allowed to use the land only for cultivation and were not given the right to sell it or buy more. As a result, land was equally distributed among households (So *et al.* 2001). This near-equality in landholdings was, however, short-lived. An informal land market developed that facilitated the selling and buying of land across households. This led to considerable consolidation of landholdings, which, in turn, led to increased inequality in land distribution. There were many reasons for this rise in land inequality – large unsettled population during the 1990s due to the return of refugees from the Thai border areas, almost non-existent formal credit market, and high rural interest rates that forced many rural households to incur unsustainable debt in the informal market, to name a few (So *et al.* 2001). By the mid-2000s, the distribution of landholdings across households in Cambodia was one of the most unequal. At 65, Cambodia's Gini coefficient for landholdings was far higher than in many other countries in the region – 55 in India, 51 in Malaysia, 49 in Indonesia and 42 in Thailand (World Bank 2007). Rural landlessness, almost non-existent immediately after the 1989 land reforms, increased as a result. Although land inequality has fallen

in recent years, with a Gini coefficient of 51 in 2011, it is still relatively high (Roth and Lun 2013).

In addition to the inequality in landholdings, land management in Cambodia continues to face two key challenges: inadequate land titling and the transfer of state-owned land for economic and social land concessions. The 1989 land reforms did distribute land fairly equally among households, but did not follow up by conferring official land titles to households. Land ownership thus remained ambiguous. Sporadic issuance of land titles to households that applied for land titling did take place in the years following the 1989 land reform. However, even today, Cambodia lacks systematic nationwide land titling. As a result, many households hold land but without having a secured title for their holdings. This situation lends itself to land grabbing and conflict. Lack of secure land titles deters landholders from making long-term investments in their land and thereby reduces land productivity. More importantly, it has caused social tensions and even violence, posing avoidable governance problems at almost all layers of government. Recognising the importance of land tenure security, in 2001, the government started a programme aimed at issuing official land titles to about 65 percent of landholders by 2015. By 2009, titles had been issued to about 24 percent of landholders. With the deadline of 2015 now only two years away, the target of officially registering about 65 percent of landholdings seems difficult to achieve, unless the process is speeded up substantially.

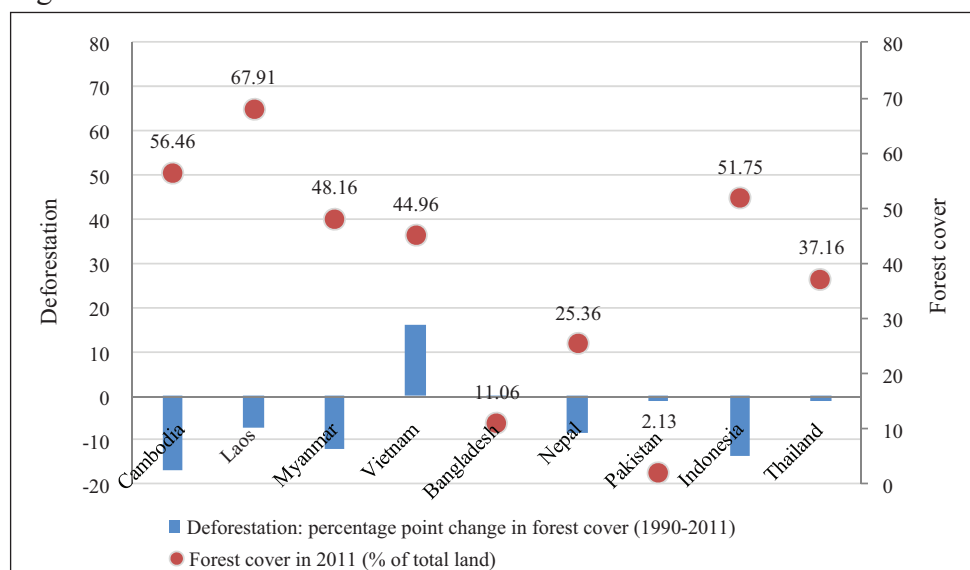
Economic Land Concessions (ELCs) have brought land ownership and reforms to the fore in Cambodia's natural resource management (Heov *et al.* 2006). There is growing concern that the process of resolving those disputes has resulted in the forced eviction of smallholders without satisfactorily addressing the resettlement of the evicted families (ADHOC 2012). By the end of 2012, the government had provided 1.5 million hectares of land to private companies, of which 1.2 million hectares are for rubber plantation. Most of the ELCs have been carved out of the country's forests. Since the planned rubber plantations are expected to create about 1.3 million new jobs, the government views these ELCs as a land management strategy that generates income and reduces poverty while gradually replacing some of the initial loss of tree cover.

However, only about 300,000 hectares of land allocated to private companies under the ELCs are actually cultivated, employing about 100,000 workers. This raises the concern that private companies, mostly foreign ones, chiefly use ELCs for illegal timber logging (resulting in deforestation) and/or land speculation. However, the government expects that in the next five years about 70 percent of the land allocated to ELCs for rubber plantation will

be cultivated, thus contributing to growth and poverty reduction. Even as these plans for better and faster cultivation of the land allocated for rubber plantation are underway, the government has suspended fresh allocations under the ELC programme effective from 7 May 2012.

Alongside ELCs, the government has introduced Social Land Concessions (SLCs). The programme aims to demarcate about 1.8 million hectares of state-owned (uncontested) land, mostly forestland around villages, and distribute that land with secure titles to poor landless families for residential and farming purposes (RGC 2003). So far, a total of 520,000 hectares of land has been distributed with official titles to 480,000 families, and the government aims to complete the distribution of the remaining land by the end of 2013. Building on the programme, there is merit in conferring secure land titles to landholders and developing a credible system for land dispute settlement.

Figure 24: Deforestation and Forest Cover



Source: World Bank – World Development Indicators 2013

The lack of a nationwide system of secured land ownership has also contributed to significant deforestation. In 1990, the country had forest cover of 12.9 million hectares, accounting for about 70 percent of the country's total land area. Forest cover has since declined to about 10.4 million hectares, about 57 percent of Cambodia's total land area. In the two decades since 1990, Cambodia's rate of deforestation has been the highest among the comparator countries (Figure 24). To achieve the MDG goal of 60 percent forest cover by 2015 (10.9 million hectares), about half a million hectares of land will need to be reforested (FA 2011). That said, Cambodia's forest cover of 57 percent

is still substantial, and is higher than in all the comparator countries except Laos. Cambodia also has the largest share of land as terrestrial protected areas. One recent concern raised is that the 1.5 million hectares licensed as ELCs will reduce the country's forest cover by the same extent. However, the government contends that the reduction in forest would be partly compensated by the plantation of rubber trees in ELC areas.

5.2 Water Resources

Water and economy are inextricably linked ... Improved water supply and sanitation and water resource management boosts countries' economic growth and contributes greatly to poverty reduction. (WHO 2005: 7)

As well as being pivotal to economic growth and development, access to safe water at a fair price is considered by the United Nations to be a basic human right. Cambodia's Ministry of Water Resources and Meteorology embodies these ideals in its slogan "Water is our life".

Cambodia is endowed with abundant water. Annual renewable fresh water resources are estimated to be about 476 billion cubic metres; about 355 billion cubic metres (75 percent) is river water (mostly from the Mekong), about 116 billion cubic metres (24 percent) is surface water, and about 5 billion cubic metres is ground water. At 8431 cubic metres, per capita internal renewable fresh water in Cambodia is only lower than in Laos and Myanmar among the comparator countries (Table 15).

Table 15: Internal Renewable Fresh Water Resources, 2011

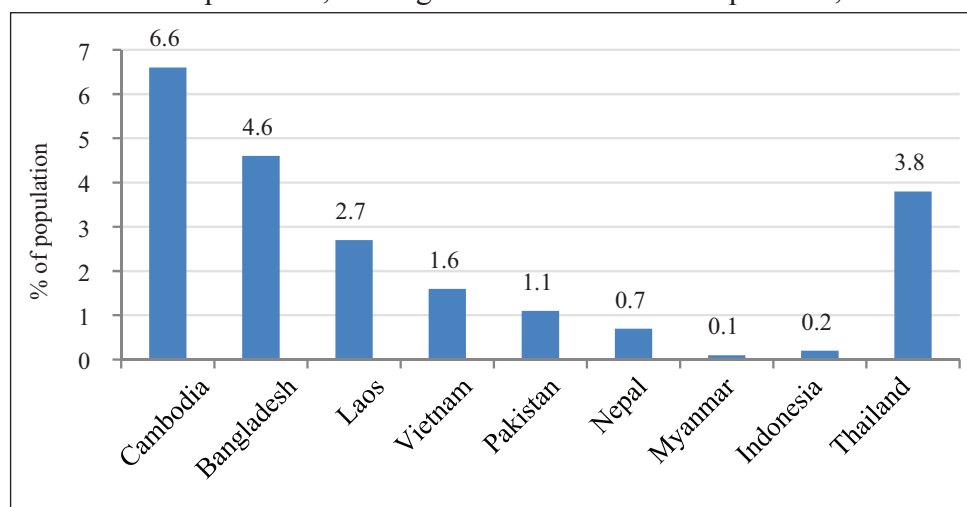
Country	Internal renewable freshwater resources (cu. m per capita)	Annual freshwater withdrawals			
		% of total internal resources	% for agriculture	% for industry	% for domestic use
Cambodia	8431	1.8	94	2	4
Laos	30,280	2.2	93	4	3
Myanmar	20,750	3.3	89	1	10
Vietnam	4092	22.8	95	4	1
Bangladesh	698	34.2	88	2	10
Nepal	6501	4.9	98	0	2
Pakistan	311	333.6	94	1	5
Indonesia	8332	5.6	82	7	12
Thailand	3229	25.1	90	5	5

Source: World Bank – World Development Indicators 2013

The country has a unique hydrological system. The Tonle Sap River that reverses its direction of flow twice a year connects the Mekong River to the Tonle Sap Lake – the largest freshwater lake in Southeast Asia. During July-October, when the water level in the Mekong River is high, excess water flows into the Tonle Sap River that then fills up the Tonle Sap Lake. In November, when the water level in the Mekong River declines, the flow of the Tonle Sap River reverses direction and water flows from the Tonle Sap Lake to the Mekong Delta. The estimated storage capacity of the Tonle Sap Lake is about 72 billion cubic metres. The volume of water flowing into the Lake is several times greater than its capacity at the height of the rainy season and much lower during the dry season. For example, the overall size of the Tonle Sap Lake quadruples to accommodate the huge increase in water inflow during the rainy season, causing severe floods in the surrounding provinces.

Climate change seems to amplify intra-year fluctuations in water availability, causing devastating floods and damaging droughts. Between 1990 and 2009, droughts, floods and extreme temperatures affected about 6.6 percent of Cambodia's population – the highest figure among the comparator countries (Figure 25). This highlights the extent of the country's vulnerability to climate change and water-related natural disasters.

Figure 25: Population Affected by Droughts, Floods and Extreme Temperatures, Average Annual Percent of Population, 2009



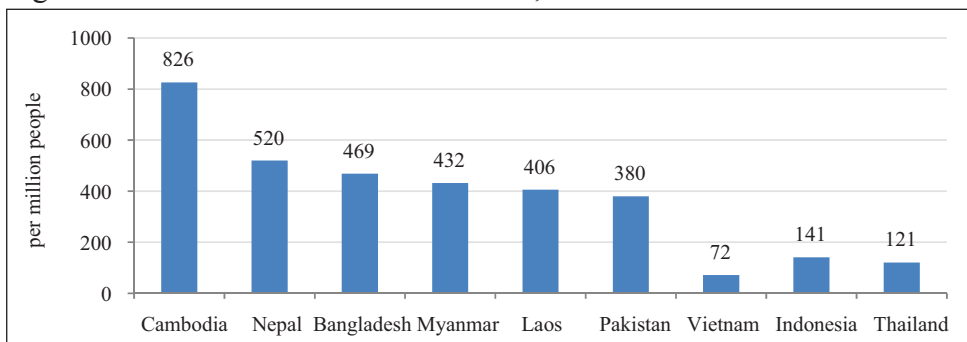
Source: World Bank – World Development Indicators 2012

The 2000 and the 2011 floods in Cambodia, perhaps the most visible signs of climate change impacts, cost the country dearly. The floods cut farm output and damaged infrastructure, not to speak of the tragic loss of life they caused.

Estimates show that the 2000 flood affected more than 3 million people in 22 of the 24 provinces, displacing 85,000 families and killing 182 people (ADB 2012a). The total cost of the 2000 flood (not including the loss of human life) is placed at USD150 million, equivalent to 4.1 percent of that year's GDP. The 2011 floods cost much more – about USD600 million, or 4.6 percent of that year's GDP – and badly damaged nearly 300,000 hectares of rice crops, 1360 schools, 115 health clinics, 900 km of national and provincial roads, and 4500 km of rural roads (ADB 2012a).

The result of the huge fluctuations in water flow during the year is an excess of water during the rainy season and severe shortages during the dry season. This affects both agricultural productivity, which requires a well-regulated flow of water throughout the year, and the availability of safe drinking water at affordable prices. Shortage of freshwater for consumption and irrigation during the dry season, the early part of the wet season, and the dry spell within the wet season has been a common problem in the country (Chem *et al.* 2011). Frequent floods and droughts also cause water pollution with the attendant harmful effects on people's health. For example, in 2004 (latest year for which data is available) water pollution was the cause of 826 premature deaths per million people in Cambodia – the highest among the comparator countries (Figure 26).

Figure 26: Deaths due to Water Pollution, 2004



Source: UNDP – Human Development Report 2011

Paradoxically, despite its water-abundance, Cambodia is far from being water-secure. Water resources management to improve water security is emerging as a major development challenge. Among the comparator countries, Cambodia has the lowest annual withdrawal rate of its available fresh water resources (Table 15). This indicates substantial scope for harnessing the country's hydrology for both agricultural growth and social development. Worldwide development experience shows that successful countries made substantial investments in water resource development in their initial phases of growth (WHO 2005; Grey and Sadoff 2006). Cambodia

cannot afford to let its water resources remain untapped, especially when a significant proportion of its population does not have access to safe drinking water and improved sanitation. This underscores the need for stepping up investment in water resource development. For these investments to yield maximum benefits, there is also merit in developing appropriate institutional frameworks for water resources management. Achieving water security, i.e. harnessing its productive potential and mitigating its destructive impact, would thus require a two-pronged strategy – larger investments and better governance through credible institutions.

5.3 Fisheries Resources

Where there is water, there is fish (Khmer saying)

I call on all citizens in all areas to help preserve and protect our fishery resources in order to sustain local communities. We must avoid the use of destructive fishing equipment and practices such as tight nets, mosquito nets, electric tools, poison, and the taking of fish eggs. These instruments and practices destroy the root of fishery resources, and make fish harvest scarce. Eventually we will lack fish for food.

(Prime Minister Hun Sen's remarks on National Fish Day,
1 July 2003 cited in ADB 2004: 10)

Cambodia has substantial fisheries, both marine and inland. Among the comparator countries, only Myanmar and Vietnam have higher per capita fisheries production than Cambodia (Table 16). In terms of marine fisheries, the exclusive economic zone (EEZ) covers about 55,000 km² of the Gulf of Thailand and is relatively shallow, with an average depth of about 50 metres. Information on the marine fisheries sector remains limited; however, latest available data reports that around 5000 motorised fishing vessels operate in this area. The rich diversity of marine species includes 476 types of finfish, 20 types of crab, 42 gastropods and 24 bivalve species (Gillet 2004: 1-4). Overexploitation, illegal fishing, and associated declines in stocks of target species are thought to be the main problems threatening Cambodia's marine fisheries.

Inland fisheries have been crucial to the national economy, provided livelihoods and a social safety net, and shaped Khmer culture since the Angkor era when fisheries (along with a highly productive system of irrigated agriculture) supported one of the largest human settlements in the world (Kurien *et al.* 2006). With total annual fish production of 300,000 to 450,000 tonnes and the estimated value of the annual catch as high as USD100 million in 2005, Cambodia's freshwater fishery sector ranked

fourth in total production behind China, India and Bangladesh (RGC 2005), but first in per capita production.

Table 16: Total Fisheries Production, 2012

Country	Total production (thousand tonnes)	Per capita (kg)
Cambodia	550	39.01
Laos	113	18.23
Myanmar	3914	81.54
Vietnam	5128	59.01
Bangladesh	3035	20.41
Nepal	50	1.66
Pakistan	593	3.42
Indonesia	11600	48.35
Thailand	3113.00	45.05

Source: World Bank, The Little Green Data Book 2013

The Tonle Sap Lake, due to the rich biodiversity supported by its vast floodplain and complex hydrological dynamics of inundated forest, rivers and streams, is one of the most productive ecosystems in the world. The natural resources of the Lake and its floodplain are vital to national food security, employment and the economy. About 4.1 million people living in the six provinces bordering the Tonle Sap Lake depend on the lake and its floodplain for farming and fishing, while more than 1.2 million people derive direct livelihoods from fisheries (RGC 2005). Fisheries and related economic activities provide full-time, part-time and seasonal employment for approximately one-third of the country's population (RGC forthcoming cited in So *et al.* 2011). In short, the Tonle Sap Lake directly and indirectly enables a large part of the Cambodian population to earn its daily food and livelihood. "Never has the lake been called upon to supply so much to so many...." (ADB 2004: 9).

The Tonle Sap floodplain is particularly important for its productivity and link to the inland fisheries of the Lower Mekong Basin, including Cambodia, Laos and Vietnam. The Tonle Sap fisheries alone account for almost two-thirds of Cambodia's inland fish catch and made up 7.5 percent of GDP in 2010 (ADB 2012d: 159). Freshwater fisheries and aquaculture from the Lower Mekong Basin are a major component of the total at more than 3.9 million tonnes in 2008 – 1.9 million tonnes from capture and 2 million tonnes from aquaculture (ADB 2012d: 169).

Direct threats to the fisheries sector include the use of destructive fishing methods, overexploitation and exploitation of fish at vulnerable stages; and indirectly, the negative consequences of deforestation, inappropriate agriculture, road construction, hydropower and other forms of development

are already evident (ADB 2012d: 170-171). The key causes of overfishing appear to be growing population pressure and the policy of unrestricted fishing both for subsistence and income. Unregulated fishing by foreign fishers is another reason (Gillet 2004: 5). Infrastructure development in the GMS region could also adversely affect fisheries in the Tonle Sap as land is cleared to make way for roads, transmission lines and urban expansion. These natural resource implications need to be taken into account in the future plans for infrastructure development in the GMS region.

Cambodia's recent freshwater fishery sector reform, initiated by the top level of government, is one of the country's most significant policy developments. Implemented in two main waves, the first took place in 2000-2001, with the release of 56 percent of commercial fishing lot areas in the Tonle Sap Lake for community access (Kim *et al.* 2013). In early 2012, the second wave of reform culminated in the complete removal of all inland commercial fishing lots. This final step, opening all private fishing grounds for public access, was hailed by international organisations, local civil society groups and local communities, but particularly the majority of local fishers whose livelihoods are considerably dependent on fisheries in the Tonle Sap Lake.

5.4 Air Pollution

Pollution is nothing but the resources we are not harvesting. We allow them to disperse because we've been ignorant of their value.
(R. Buckminster Fuller 1895-1983)

The trends in air pollution in Cambodia over the past two decades are typical of a low-income country growing rapidly through industrialisation and urbanisation – a substantial increase in CO₂ emissions and an enlarging ecological footprint.

Between 1990 and 2009, Cambodia's CO₂ emissions increased by close to 1000 times. This was the largest increase in CO₂ compared to all the comparator countries (Table 17). In Phnom Penh, which accounts for more than three-fourths of vehicles in the country, vehicle ownership has increased at a rapid pace, as is generally the case in a fast-growing developing country (Figure 27). Between 1990 and 2011, motorcycle ownership in the city has increased by 20 times, and light vehicle ownership from about 3000 units to more than 200,000 units. Road congestion on the city's main roads is gradually emerging as a problem; on average, it takes about an hour to cover a distance of 13 km. Although this is faster than in Jakarta (8 km per hour), it is slower than what is globally considered as the normal pace of city travel by automobiles of about 15 km an hour (JICA 2013).

At about 830,000, the number of motorcycles in Phnom Penh is about 3.5 times that of light vehicles. From a traffic congestion point of view, the motorcycle equivalent of a light vehicle such as a car is about 3.4 – that is a car on an average would occupy the same space on the road as 3.4 motorcycles (Nguyen *et al.* undated). Assuming that a car's passenger carrying capacity is roughly double that of a motorcycle, the motorcycle equivalent of a car adjusted for its passenger carrying capacity is about 1.7. Therefore, a car causes roughly twice as much congestion per passenger as a motorcycle. However, the greenhouse gas emissions per typical motorcycle passenger (about 130 gm assuming two passengers per motorcycle) are roughly 1.7 times that for a typical car passenger (about 78 gm assuming four passengers per car). Hence, greenhouse gas emissions per passenger are approximately the same for both cars and motorcycles; greenhouse gas emissions from automobiles in Phnom Penh city are thus shared more or less equally (50:50) between motorcycles and light vehicles.

The sharp increase in the number of cars and motorcycles in the city is causing a gradual worsening of air quality, though it is still better than in many cities in the comparator countries. There is an air quality monitoring system in place in Phnom Penh, but monitoring activities are considered inadequate because the system does not meet the technical standards set by WHO (ADB 2006).

Table 17: Carbon Dioxide Emissions

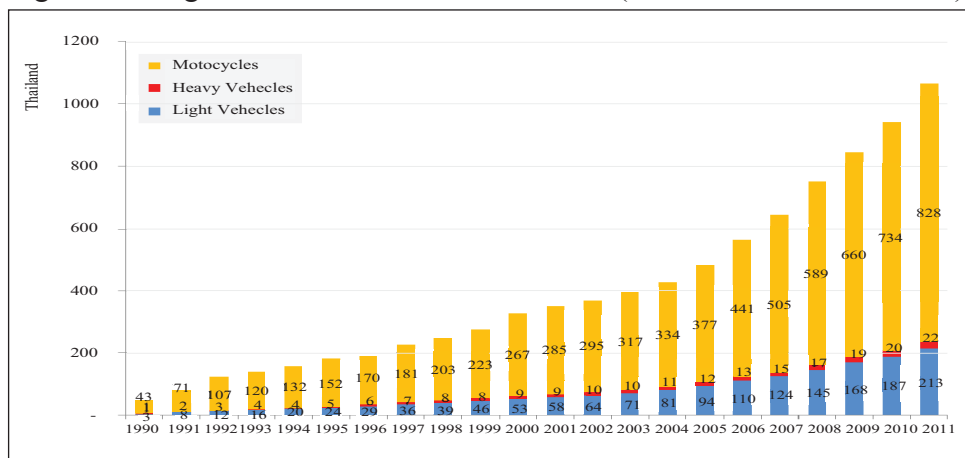
Indicators	Year	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
CO ₂ emissions (% change)	1990-2009	922.8	670.64	159.42	564.51	228.57	454.73	135.3	202.06	183.54
CO ₂ emissions (million tonnes)	2009	4.6	1.8	11.1	142.3	51.0	3.5	161.2	451.8	271.7
CO ₂ emissions per capita (% change)	1990-2009	NA	200.00	100.00	466.67	200.00	NA	50.00	137.50	135.29
CO ₂ emissions per capita (tonnes)	2009	0.3	0.3	0.2	1.7	0.3	0.1	0.9	1.9	4.0

Source: World Bank – World Development Indicators 2013

As Cambodia continues on its strong growth path over the next two decades, further surges in CO₂ emissions are most likely. However, the conventional development model of “grow and pollute first and clean up later” is becoming increasingly unsustainable (Petri and Thomas 2013; UN 2013). Therefore, it would be to Cambodia's advantage to monitor its rising air pollution and initiate measures to make its growth processes environmentally sustainable. To some extent, emission levels depend on the sources of energy generation

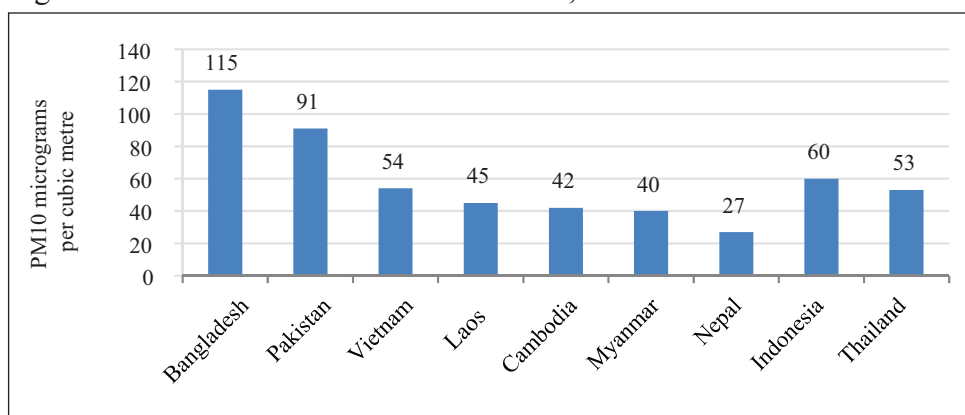
in the country, which are intrinsically related to the industrial and transport technology in use.

Figure 27: Registered Vehicles in Phnom Penh (Accumulation Unit: 1000)



Source: JICA 2013

Figure 28: Particulate Matter Concentration, 2010



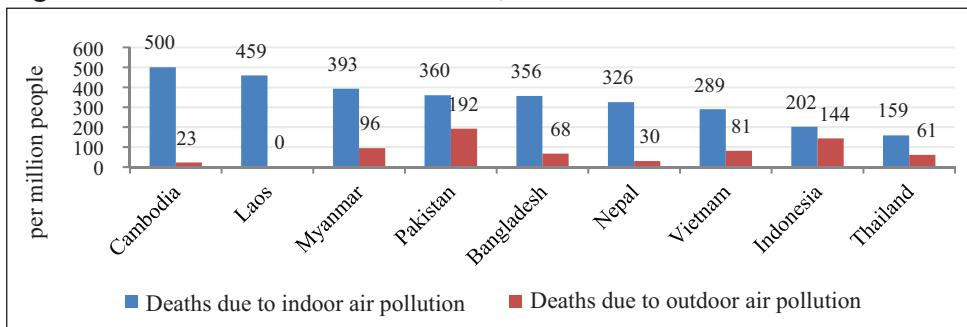
Source: World Bank – World Development Indicators 2013

Most of the commercial energy used for electricity generation, transport, industry, residential and commercial sectors comes from oil. The transport sector accounts for about two-thirds of petroleum consumption (ADB 2006), and the main source of electricity generation is diesel fuel. Both the pace and level of motorisation and electrification are expected to increase rapidly in the near future. Given the present electrification rate of about 37 percent, the demand for electrification in the next stages of the country's development is bound to increase. The Electricity Board of Cambodia reports total electricity consumption in 2008 as 1859 GWh, with expected annual growth of 12 percent until 2024 and then 5 percent through to 2050. The Ministry of Mines, Industry and Energy expects that by 2020, hydro dams will generate

68 percent of electricity and coal-fired power plants will generate 15 percent (Euronet Consortium 2012:16). Growing motorisation and electricity consumption will lead to greater demand for petroleum, unless the country makes a conscious effort to improve energy efficiency.

As in other countries, Cambodia's greatest energy resource is the energy that is currently wasted. Several studies show that there is substantial scope for increasing energy efficiency in the country across all major industries (Heirerli *et al.* 2008: ILO *et al.* 2009: UNIDO 2010, 2012). These studies found that energy consumption per unit of output in several industries – garments, brick making, rubber refining and rice processing – is significantly higher than regional benchmarks and international norms. As a net importer of energy, there is big merit for the country in saving energy by introducing cleaner production techniques in the industrial sectors. That could be the stepping-stone for energy security and pollution control. There is also scope for reducing emission levels by changing the energy mix for electricity generation. In this context, the government's plan to encourage investments in renewable energy sources is a welcome initiative. As part of this plan, the construction of 12 hydroelectricity and two solar thermal power stations are at various stages of negotiation and commission. It is envisaged that once these power plants are installed, Cambodia could become a net exporter of energy by 2020 (UNIDO 2012).

Figure 29: Deaths due to Air Pollution, 2004



Source: UNDP – Human Development Report 2011

Besides the gradually worsening, though not yet alarming, outdoor air quality, indoor air pollution poses significant health hazards. Latest available data for 2011 shows that close to 90 percent of Cambodian households use firewood and charcoal for cooking (MOP 2012b: 26; also see Section 3.3). As a result, indoor air quality is poor with a very high percentage of particulate matter – a cause of major respiratory health problems. Although deaths due to outdoor air pollution are relatively low, the number of deaths due to indoor air pollution in 2004 (latest available data) is the highest among the comparator countries (Figure 29). It is also a matter of concern that poor

households are more likely to be exposed to indoor air pollution. Such an environment-poverty nexus makes it even more urgent to explore policy options for combating indoor air pollution in the country. From a long-term perspective, the adoption of the national Green Growth Roadmap by the government is a welcome step. Effective implementation of the key elements of the Roadmap could help make Cambodian growth and development over the next decades not only ecologically sustainable but also more pro-poor.

5.5 Waste Management

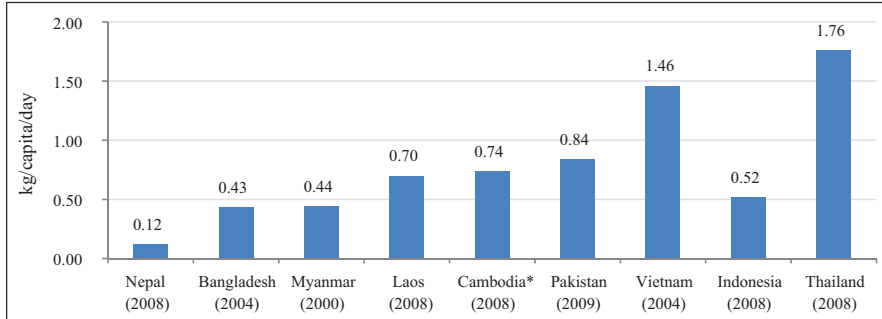
A city that cannot effectively manage its waste is rarely able to manage more complex services such as health, education, or transportation. (World Bank 2012b: ix)

Waste disposal and management has always been a key environmental problem in developing countries, and Cambodia is no exception. Traditionally, waste disposal has been an environmental problem in rural Cambodia with the discharge of wastewater into river systems, especially in the provinces along the Mekong and Tonle Sap rivers (Sidet 2008 cited in MOE 2009: 20-21). With growing industrialisation and urbanisation, industrial and urban waste management is emerging as a fresh environmental concern. A recent study identifies toxic pollution from the garment sector, unduly disposed of waste from motor vehicle repair and service stations, and improper household and medical waste disposal as the newly emerging environmental problems (MOE 2009). Since Cambodia relies substantially on tourism as both a source of foreign exchange earnings and growth and employment generation, keeping the major tourist destinations clean and green is of added importance. The growing generation of waste is thus placing new demands on local governments in terms of both waste collection and disposal.

Accurate data on waste generation, collection and disposal for developing countries is not readily available on a comparable basis across countries and is often compiled from different sources and for different years (WB 2012b). The estimates from different sources vary. A recent study places per capita solid waste generation in Phnom Penh Municipality for 2008 at about 740 gm per capita per day (Seng *et al.* 2011). The same study also shows that solid waste generation in Phnom Penh increased from 0.136 million tonnes in 1995 to 0.361 million tonnes in 2008. Using this estimate for Cambodia and the World Bank's (2012b) estimates of urban solid waste generation for other countries, Cambodia is behind only Vietnam and Pakistan in terms of per capita solid waste generation (Figure 30). An estimated 80 percent of Phnom Penh's solid waste generation is from residences and the remaining

from industrial and commercial premises. More than 70 percent of the solid waste generated in Phnom Penh is organic and therefore relatively easy to dispose of in an eco-friendly way. Available information suggests that the collection rate of solid waste in Phnom Penh is in the range of 70-80 percent.

Figure 30: Municipal Solid Waste Generation (kg per capita per day)

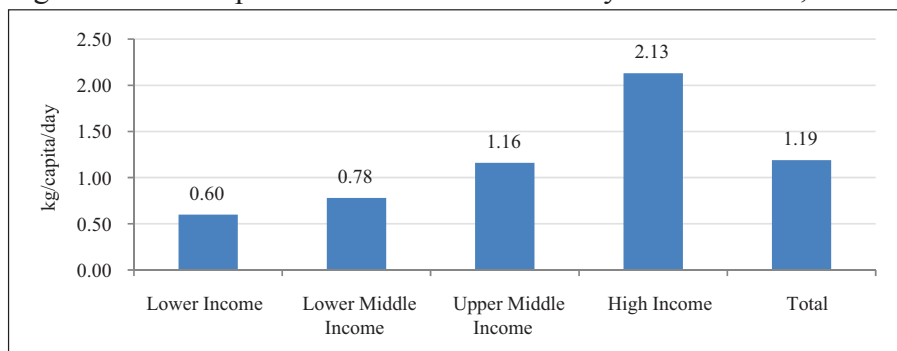


Source: World Bank (2012b); * Seng *et al.* (2011)

Since waste disposal in Phnom Penh follows the method of “dumping and burning” in open sites, which is common in low-income countries, there is the added concern that the smoke from burning waste is detrimental to the health of the people living nearby (Rathana 2009). The lack of a waste recycling plant in Phnom Penh limits the scope for recovering value from waste. Smaller cities also face waste management challenges, and towns lack waste collection and disposal facilities (UNESCAP 2012). Further problems include illegal dumping and waste thrown into rivers and open spaces, causing pollution and health problems. As the country sustains its growth and development processes, urbanisation and urban waste generation are likely to increase. Indeed, there is a strong positive correlation between income level and per capita urban solid waste generation (Figure 31).

As a country graduates from low income to high-income status, the volume of urban waste generated per capita almost quadruples. Global experience shows that as a country grows richer, the composition of its urban solid waste changes – the volume of organic waste falls and that of in-organic waste rises. There is merit then in Cambodia taking pre-emptive measures to manage urban waste effectively in all its dimensions – generation, collection, recovery and disposal. Although the 3Rs concept of “reduce, reuse, recycle” is not yet well known in Cambodia, there are signs that the government will integrate the 3Rs into its solid waste management policies (UNESCAP 2012).

Figure 31: Municipal Solid Waste Generation by Income Level, Latest Year



Source: World Bank 2012b

Cambodia has developed solid waste management guidelines and policies, but in common with many developing countries, financial and administrative difficulties have led to inadequate implementation. As a result, waste collection rates in most urban areas are around 50 percent at best (UNESCAP 2012). There is large scope for recovering value from waste. For instance, as in other developing countries, the solid waste generated in Cambodia is mainly organic and therefore suitable for making compost. The fact that the informal sector already recycles much of the waste generated in urban areas in Cambodia is another plus, but possibly disguises the pressing need for reform in solid waste management. Reform can take advantage of the growing waste market, improve conditions and income for informal waste pickers, contribute to poverty reduction, and cut or avoid methane emissions. For this to happen, the country has to integrate informal waste collection with more formal, modern methods using technologies that are low-cost, appropriate, and easily maintained by the communities that use them (Rathana 2009).

In addition to much better coordination among ministries and all levels of government, effective waste management would require environmental awareness campaigns, development of waste dumping sites, cooperation and self-regulation among waste generators, proper pricing of waste disposal (say, by applying the polluter pays principle), and above all, stricter enforcement of environmental regulations (UNIDO 2012). A new initiative is the development of integrated resource recovery centres (IRRCs) being piloted in Kampot and Battambang by a partnership of ESCAP, the Community Sanitation and Recycling Organisation (CSARO), the Cambodian Education and Waste Management Organisation (COMPED) and Waste Concern working with local governments. The main aims of the IRRCs are to improve solid waste collection, separate waste at source, cut municipal costs and provide fair employment for informal waste workers.

Building on the ESCAP “Waste to Resource” initiative, it would be to Cambodia’s advantage to develop an integrated urban waste management system. Such a system could be “based on the hierarchy of waste management: reduce, reuse, recycle – often adding a fourth ‘R’ for recovery” (World Bank 2012b: 25). As industrialisation and urbanisation gather pace, urban waste management will increasingly become an integral part of urban development strategies. Overall, urban development itself will have to integrate the three key elements of planning, connecting and financing cities (World Bank 2013a).

Section 6

GLOBAL INTEGRATION, SAVINGS-INVESTMENT AND BUSINESS ENVIRONMENT

6.1 Global Integration

During their periods of fast growth, these 13 economies all made the most of the global economy. This is their most important and shared characteristic and the central lesson of this report.

(CGD 2008: 21)

Cambodia's growth and structural changes have been inextricably linked to the rapid opening of the economy and its consequent integration with the global and the regional economies. Because of the liberal trade and investment policies followed by the government, Cambodia today is one of the most open economies in the region. The lack of established, and often entrenched, domestic industrial and business lobbies as Cambodia started on its path to recovery and development must have made the government's task of pursuing liberal, outward-oriented trade and investment policies somewhat easier. The country's accession to the World Trade Organisation (WTO) in 2004 gave a big push to the opening up of the economy and its continued integration with global and regional economies.

Table 18: Trade-GDP Ratios, 1990-2011

Country	1990	1995	2000	2005	2011
Vietnam	81	75	113	143	178
Cambodia	NA	78	112	137	114
Laos	36	61	74	81	82
Bangladesh	20	28	33	40	55
Nepal	32	59	56	44	42
Pakistan	39	36	28	35	33
Myanmar	6	3	1	NA	NA
Indonesia	49	54	71	64	51
Thailand	76	90	125	148	149

Source: World Bank – World Development Indicators 2013

In 2011, the simple average tariff rate on imports was 11 percent, with 14 percent of tariff lines subject to zero duty, 40 percent subject to a duty of 7 percent, 37 percent subject to a duty of 15 percent, and the remaining 10 percent subject to the highest rate of 35 percent (Hing 2013: 13). The country has also eliminated several non-tariff barriers since its accession

to the WTO. Not surprisingly therefore, Cambodia's external trade to GDP ratio has increased sharply from about 78 percent in 1995 to 114 percent in 2011 (Table 18). Among the comparator countries, only Vietnam has seen a faster pace of integration with the world economy through trade.

It is not just trade flows that make Cambodia highly open to the global economy; the country is also highly integrated with the global economy in terms of international tourism and capital flows. With about 3 million annual tourist arrivals in recent years, tourism has been an important source of foreign exchange earnings, income generation and employment creation for Cambodia. Indeed, as per the World Travel and Tourism Council's estimates, tourism contributes more to annual income and employment generation in Cambodia than in any of the comparator countries (Table 19). In 2012, the direct contribution of travel and tourism to GDP was 11.5 percent and to employment about 10 percent. However, factoring in the indirect effects of tourism earnings on a whole set of tourism-related economic activities (the well-known multiplier effects through the backward and forward linkages of tourism with other sectors in the economy), the total effects on income and employment are more than twice the direct contributions. The total effect on income is about 26 percent of GDP and that on employment about 22 percent of the country's total employment (Table 19).

Table 19: Contribution of Travel and Tourism to Income and Employment 2012

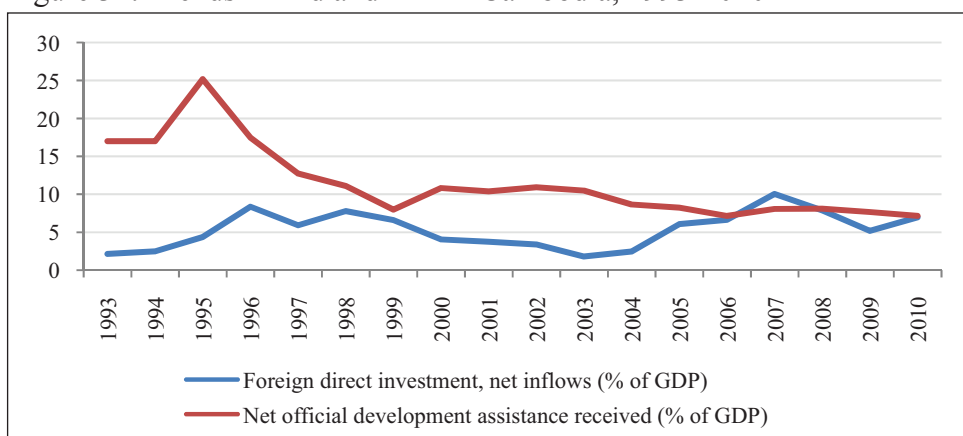
Country	Contribution to Income (percentage share of GDP)		Contribution to Employment (percentage share of total employment)	
	Direct	Total (Direct + Indirect)	Direct	Total (Direct + Indirect)
Cambodia	11.5	25.8	9.7	22.3
Laos	5.3	16.7	4.5	14.6
Myanmar	1.3	3	1.1	2.6
Vietnam	4.5	9.4	3.8	8.1
Bangladesh	2.1	4.3	1.8	3.7
Nepal	4.3	9.4	3.6	8.2
Pakistan	3	7	2.6	6.1
Indonesia	3	8.9	2.6	8
Thailand	7.3	16.7	5.2	12.4

Source: World Travel & Tourism Council, Economic Impact 2013

In terms of capital flows, over time, the share of official development assistance has fallen while the share of foreign direct investment has risen (Figure 32). Most of the private capital inflows came in the form of foreign

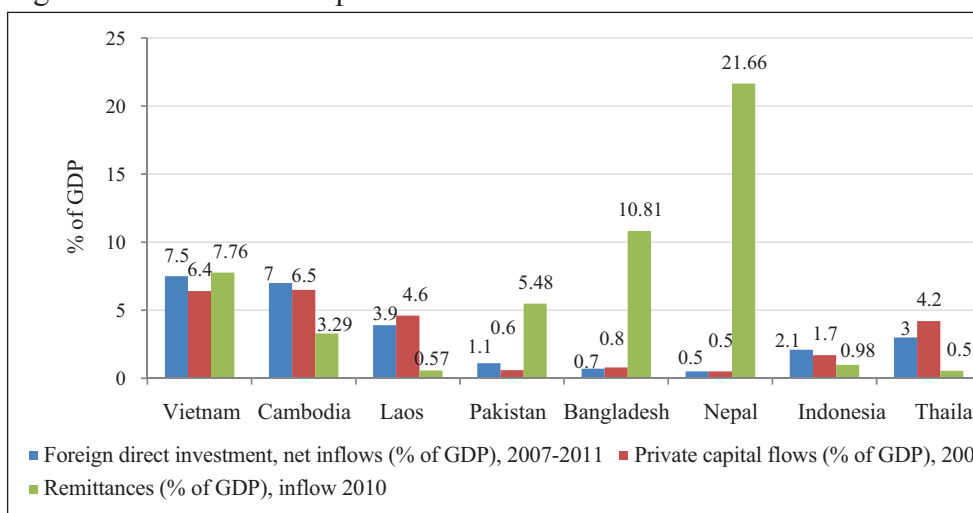
direct investment and private financial inflows (Figure 33). Cambodia has a liberal policy on foreign direct investment. For example, the country allows 100 percent foreign ownership for most industries, without restrictions on currency transfers or discrimination against foreign businesses. The liberal policy has helped the country attract FDI to the tune of about 7 percent of GDP in recent years, with private financial flows accounting for another 6.5 percent of GDP – figures very comparable to Vietnam's. Most of the FDI goes to garment manufacturing, but in recent years, commercial agriculture such as rubber plantation has also attracted foreign investment. Within the industrial sector, there are some initial signs of foreign investments flowing into electronics and automotive components manufacturing.

Figure 32: Trends in Aid and FDI in Cambodia, 1993-2010



Source: CDRI (2013)

Figure 33: Net Private Capital Inflows



Source: UNDP – Human Development Report 2013

Keeping an open policy regime has enabled a small economy like Cambodia to sustain strong growth by exploiting its comparative advantage in labour-intensive manufacturing sectors such as garments. This strategy has at the same time made the country vulnerable to external shocks, as was demonstrated during the 2008-09 global financial crisis when a sharp reduction in exports, FDI inflows and tourism caused a major downturn in Cambodia's economy (Hang 2009; Jalilian 2009; Saing 2009). Managing Cambodia's openness to the global economy is likely to emerge as a key policy challenge in the future, with the forthcoming ASEAN Economic Community (AEC) in 2015 and beyond (ADB 2013a; also see Section 9 for more detail).

6.2 Savings-Investment

The central problem in the theory of economic development is to understand the process by which a community, which was previously saving and investing 4 or 5 percent of its income or less, converts itself into an economy where voluntary saving is about 12 to 15 percent of national income or more.

(Arthur Lewis 1955 cited in World Bank 1991:33)

This was the consensus in the 1950s. Since then, however, that threshold of savings and investment has been raised from the 12 to 15 percent range to over 25 percent (CGD 2008:34). The high performing East Asian countries maintained investment rates of closer to 30 percent during their rapid growth phases (World Bank 1991, 1993; Gill and Kharas 2007; Yusuf 2009).

Table 20: Average National Savings and Investment Rates, 1993-97 and 2007-11

Country	Average national saving rates (% GDP)		Average national investment rates (% GDP)	
	1993-1997	2007-2011	1993-1997	2007-2011
Cambodia	-1.4	13.6	12.3	17.9
Laos	NA	21.0	NA	29.7
Myanmar	12.0	NA	12.8	NA
Vietnam	17.4	27.8	25.7*	35.0
Bangladesh	13.2	17.0	19.2	24.5
Nepal	13.2	8.0	21.7	21.5
Pakistan	15.0	11.0	17.6	16.7
Indonesia	31.4	32.0	28.0	29.6
Thailand	17.4	32.6	39.1	25.8

Note: * 1994-1997

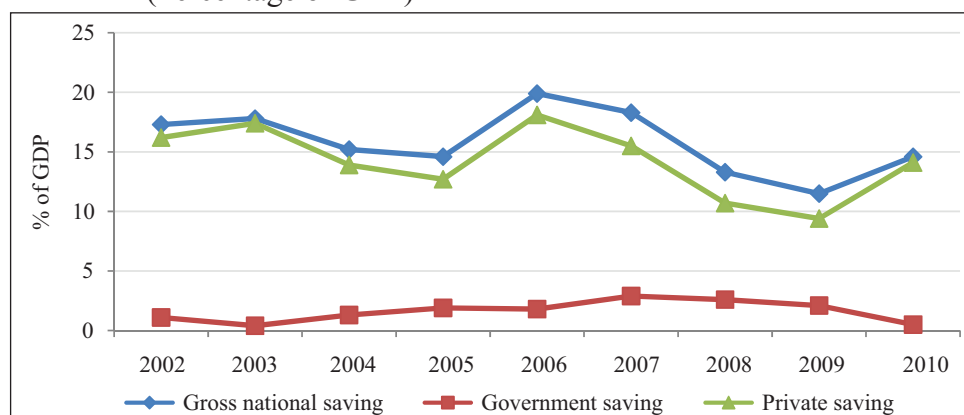
Source: World Bank – World Development Indicators 2013

Although Cambodia's savings and investment rates show large yearly variations, they have followed a gradual upward trend since the mid-1990s. Cambodia's savings rate has gradually risen from less than zero in the mid-1990s to about 14 percent in the late 2000s – a creditable achievement. Among the comparator countries, Cambodia has registered the highest increase in national savings (Table 20). Despite this impressive increase since the mid-1990s, Cambodia's savings rate today is much lower than in Vietnam and Laos and more or less comparable with the other comparator countries.

Most of Cambodia's domestic savings is accounted for by the private sector. Therefore, yearly changes in total savings have mirrored changes in private savings (Figure 34). Government savings has generally been minimal. After increasing from about 1 percent of GDP in 2002, government savings had fallen to close to zero by 2010.

External aid has declined sharply from an average of 17 percent of GDP during 1993-1997 to the 7-8 percent range in recent years (see Figure 33). Investment rate has thus shown a more modest increase than the savings rate – up from about 12 percent during 1993-97 to about 18 percent during 2007-2011 (Table 20). An investment rate of this magnitude compares poorly with most comparator countries, except for Myanmar and Pakistan. The experiences of East Asian countries suggest that savings and investment rates of this magnitude will be nowhere near adequate for Cambodia to sustain strong growth in the next stages of its industrialisation and economic development. Major efforts aimed at increasing the investment (and savings) rate will be required if the country is to achieve strong growth in the years ahead. Among other things, the country's business environment and investment climate has a key role in influencing investment and savings.

Figure 34: Composition of Cambodia's Domestic Savings
(Percentage of GDP)



Source: IMF Cambodia Article IV Consultation Report 2006, 2011, 2013

6.3 Business Environment

Private firms are at the heart of the development process....
 Improving government policies and behaviours that shape
 investment climate is fundamental to driving growth and
 reducing poverty. (World Bank 2005:1)

In recent World Bank executive opinion surveys, corruption and bureaucratic red tape featured as the top two factors constraining business and investment in Cambodia, followed by inadequate infrastructure and lack of educated labour (Saing 2012). To a large extent, corruption and government red tape are inextricably linked to regulatory frameworks and business approval procedures – the more complicated the approval procedures, the larger the scope for corruption and red tape.

Cambodia has made notable progress in improving its overall business environment in recent years, especially in two aspects – getting credit and trading across borders. Cambodia has moved up several notches in the World Bank's Ease of Doing Business ranking, from 141 in 2012 to 133 in 2013 (Table 21). Improvement is particularly impressive in terms of business owners' access to credit. Cambodia undertook a major reform in 2009 by enacting a new secured transactions law that allows a broad range of movable assets to be used as collateral for credit. In addition, the law ensures that secured creditors have priority in case of debtor default.

In 2012, the country strengthened its credit information system through a new regulation that allows credit bureaus to collect and distribute positive as well as negative credit information, and in 2013, it established its first private credit bureau. As a result, Cambodia's ranking in terms of getting credit for businesses improved substantially from 97 in 2012 to 53 in 2013. Similarly, the number of days required to export from Cambodia has been cut by almost half, from 43 days in 2006 to 22 days since 2009, and the number of days required for importing into the country has been more than halved from 54 days in 2006 to 26 days since 2011. The administrative burden of business taxes has generally been relatively low in Cambodia; hence, the country's global ranking has been quite high.

However, there have been fewer or no improvements in other parameters of the business environment. First, the number of days required to start a business has been cut only marginally, from 94 in 2009 to 85 in 2013. Second, there have been virtually no reforms or procedural simplifications in other areas: for example, the number of days required for getting electricity (183 days), enforcing contracts (401 days), and resolving insolvency (6 years) have remained high and unchanged since the mid-2000s. Finally, the

number of days required to get a construction permit has increased from 632 days in 2009 to 652 since 2011. As a result, except for paying taxes and the cost of trading across borders, Cambodia's business environment parameters compare less favourably with, say, those of Vietnam. Starting a business in Vietnam takes only 34 days, getting electricity connection – 115 days, obtaining construction permits – 110 days, and resolving insolvency takes 5 years (Tables 21 and 22).

Infrastructure – roads, ports, airports, electricity and telecommunications – plays a key role in creating an investment climate conducive to private sector development. In recent executive opinion surveys by the World Bank, inadequate infrastructure was ranked as the top third/fourth out of the 15 most problematic factors for doing business in Cambodia (Saing 2012). Being a largely land-locked country, adequate and high quality land transportation is crucial for enabling investment. “Cambodia's transport infrastructure was nearly destroyed over 30 years of war, civil strife and damaging floods. Nearly 8000 km of primary roads, and more than 600 km of railway lines and bridges built in the 1950s were badly damaged by war or lack of maintenance, and by the 1990s, many still needed repairs” (ADB 2012a: 2).

The country has made major strides in restoring the badly damaged land transportation system since the mid-1990s. In terms of road density – a key indicator of land transportation – Cambodia now fares better than Myanmar, Nepal and Laos (Table 23). However, at 21 km (per 100 km² of land area), Cambodia's road density is much lower than in Vietnam (67 km), Bangladesh (166 km) and Pakistan (32 km). Moreover, only about 6 percent of the road network in Cambodia is paved – the lowest figure among the comparator countries. The picture is not much better in terms of rail lines. Rail line density in Cambodia is 0.36 km per 100 km² – only marginally higher than in Laos and Nepal but much lower than in Bangladesh, Pakistan and Vietnam.

Despite major improvements in electricity production, at about 37 percent in 2012, Cambodia's electrification rate continues to be one of the lowest in Southeast Asia. Moreover, the cost of electricity in Cambodia is the highest among ASEAN countries, except Singapore, for all three types of electricity consumers – residential, commercial and industrial. For industrial users, electricity tariffs are more than double that in Laos and a little less than double that in Vietnam (Saing 2012). In surveys conducted by the ADB and the World Bank, investors continue to identify cost of electricity and unexpected power cuts as major constraints to running a business in Cambodia (ADB 2012a).

Table 21: Business Environment (Rank out of 185 Countries), 2012 and 2013

Economy	Ease of doing business rank		Starting a business		Dealing with construction permits		Getting electricity		Registering property		Paying taxes		Trading across borders		Enforcing contracts		Resolving insolvency	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Cambodia	141	133	174	175	147	149	128	132	114	115	61	66	118	144	142	152	152	185
Laos	166	163	93	81	80	87	131	138	71	74	122	126	162	113	114	185	185	
Vietnam	99	99	109	108	27	28	157	155	48	48	153	138	74	41	44	145	149	
Bangladesh	124	129	89	95	83	83	185	185	175	175	95	97	120	119	182	116	119	
Nepal	107	108	102	105	88	97	96	96	23	21	109	114	170	136	137	119	121	
Pakistan	104	107	97	98	105	105	166	171	126	126	160	162	80	85	156	77	78	
Indonesia	130	128	161	166	72	75	158	147	99	98	129	131	40	37	145	149	148	
Thailand	17	18	79	85	13	16	9	10	27	26	92	96	20	26	23	52	58	

Source: World Bank Doing Business 2013

Table 22: Business Environment (Duration), 2012-2013

Economy	Ease of doing business rank out of 185 countries		Starting a business (days)		Dealing with construction permits (days)		Getting electricity (days)		Registering property (days)		Paying taxes (hours per year)		Trading across borders (days)		Enforcing contracts (days)		Resolving insolvency (years)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Cambodia	141	133	85	85	652	183	183	56	56	173	173	22	22	26	26	401	6	6
Laos	166	163	93	92	108	134	134	98	98	362	362	33	26	33	26	443	no	no
Vietnam	99	99	38	34	110	115	115	57	57	941	872	22	21	21	21	400	5	5
Bangladesh	124	129	19	19	201	295	404	245	245	302	302	25	25	34	34	1,442	4	4
Nepal	107	108	29	29	115	70	70	5	5	326	326	41	41	35	38	910	5	5
Pakistan	104	107	21	21	222	206	206	50	50	560	560	21	21	18	18	976	2.8	2.8
Indonesia	130	128	47	47	158	108	108	22	22	266	259	17	17	27	23	498	5.5	5.5
Thailand	17	18	29	29	157	35	35	2	2	264	264	14	14	13	13	479	2.7	2.7

Source: World Bank – Doing Business 2013

Table 23: Infrastructure –Road, Rail and Air Transport, 2005

Country	Road, total network (km per 100 km ²)	Road, paved (% of total roads)	Rail total route (km per 100 km ²)	Air freight (million tonnes per km)
Cambodia	21.13	6.29	0.36	1.2
Laos	13.18	14.41	0.21	2.5
Myanmar	4.13	11.44	0.38	2.7
Vietnam	67.47	25.1	0.81	230.2
Bangladesh	166.13	9.5	1.98	183.5
Nepal	11.81	30.3	0.29	6.9
Pakistan	32.45	64.7	0.98	407.9
Indonesia	19.34	58	1.93	439.8
Thailand	11.19	98.5	0.79	2002.4

Source: ADB and ADBI (2009)

High telecommunications cost is also a problem for businesses in Cambodia. The cost of internet connection, for example, is the second highest among ASEAN countries after Laos due to low coverage of fixed telephone lines and high charges by Telecom Cambodia (UNDP 2009). High operating costs deter firms that depend on information and communications technology (ICT) from investing in Cambodia.

In terms of overall competitiveness of the economy, the World Economic Forum (WEF) ranks Cambodia ahead of the South Asian comparator countries but behind Vietnam (Laos and Myanmar are not included in the WEF country coverage). WEF's 2013 global competitiveness index – a composite measure that encompasses twelve sets of factors ranging from infrastructure facilities to innovation capabilities – ranks Cambodia at 85, ahead of Bangladesh (118), Pakistan (124) and Nepal (124) but behind Vietnam (75). Similar relative rankings emerge if, instead of the overall index, a much more relevant sub-index of “basic requirements for competitiveness” (that takes into account only infrastructure, institutions, macroeconomic environment and health and primary education) is used to make the comparison.

Improving business environment and competitiveness in Cambodia is not a challenge limited to just the industrial sector. Given the importance of travel and tourism for growth and employment generation, continuously improving the attractiveness of the country for tourists is as important as bettering the industrial business environment and investment climate. In terms of a composite measure of travel and tourism competitiveness brought out by the WEF – that factors in fourteen sets of indicators ranging

from tourism infrastructure to safety and security, health and hygiene and cultural resources – Cambodia has improved its ranking from 109 out of 139 countries in 2011 to 106 out of 140 countries in 2013. Despite this improvement, while Cambodia is ahead of the South Asian comparator countries in terms of tourism competitiveness, it is behind Vietnam (ranked 80). Within the 25 Asia-Pacific countries covered by the WEF, Cambodia is placed at 20 while Vietnam is ranked 16.

Besides putting in place the measures required at the national level, Cambodia could also benefit in reducing the costs of doing business and improving the country's competitiveness by forging stronger regional ties as part of its membership in subregional and regional forums such as the GMS, ASEAN, and ASEAN+3.

Section 7 GOVERNANCE, DEMOCRATISATION AND CIVIL SOCIETY

7.1 Governance

The important thing for government is not to do things which individuals are doing already, and to do them a little better or worse; but to do those things which at present are not done at all.

(John Maynard Keynes cited in World Bank 1991:128)

It is no doubt a step in the right direction to limit the agenda of 'things that must be done' by adopting the concept of good enough governance and using it to target fewer, more useful, and more feasible interventions.

(M.S. Grindle 2007: 571)

In the development literature, governance, broadly defined, refers to “the process and institutions through which decisions are made and authority in a country is exercised” (World Bank 2012c: 3). Defining governance is easier than measuring it. In practice, various indicators such as political stability, voice and accountability, government effectiveness, rule of law, regulatory quality and the extent of corruption are used to evaluate governance both over time and across countries and societies. This is the “gold standard” in empirical measurement, assessment and comparison of governance across countries. The nature of these indicators means that a degree of subjectivity and arbitrariness in assessing the quality of governance and comparing it both over time and across countries cannot be avoided (Madhur 2012a). Since some of these indicators are a compilation of perceptions collected in surveys and cross-country assessments, the subjectivity in their measurements could be more than in the case of other development indicators such as for income, poverty, inequality, health and education. This limitation needs to be kept in mind when drawing strong conclusions from governance indicators.

How has Cambodia performed in terms of delivering good governance? Moreover, where does it stand today in terms of governance, especially in relation to the comparator countries? The World Bank puts together governance indicators and measures for 215 countries covering the period from 1996 to the present. Going by these indicators, Cambodia has made great strides towards delivering good governance, though improvements are somewhat uneven across the various dimensions.

In terms of improvements over time, Cambodia has done better than all the comparator countries in fostering political stability and voice and accountability (Table 24). Except for Vietnam, it has also performed better in improving government effectiveness. Relative changes in the other areas are more mixed. In fostering rule of law, Cambodia has done better than Pakistan, Laos, Nepal and Myanmar but worse than Bangladesh and Vietnam. In controlling corruption, Cambodia has done better than Bangladesh, Nepal, Vietnam and Laos but not as well as Pakistan or even Myanmar. However, when it comes to improving regulatory quality, all the comparator countries have done better than Cambodia.

Table 24: Cambodia's Governance Performance, 1996-2011, in percentile rank (0-100)

Indicators	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
Voice and accountability	3.7	▲	▲	▲	▲	▲	▲	▼	▲
Political stability/ no violence	19.1	▲	▲	▲	▲	▲	▲	▲	▲
Government effectiveness	7.1	▲	▲	▼	▲	▲	▲	▼	▲
Regulatory quality	-15	▼	▼	▼	▼	▼	▼	▲	▼
Rule of law	1.6	▲	▲	▼	▼	▲	▲	▲	▲
Control of corruption	-4.3	▲	▼	▲	▲	▲	▼	▼	▲

Note: Cambodia's performance is better ▲; worse ▼; similar □

Source: World Bank (2012c) Worldwide Governance Indicators

Despite significant improvements in several areas of governance in the last fifteen years, there remains a wide scope for improvement to strengthen governance in Cambodia. This is reflected by the country's much more mixed performance in the level of scores (rather than changes over time). For example, despite the relatively better performance in improving voice and accountability over the last decade and half, the 2011 score indicates that Cambodia is doing better than Vietnam, Laos and Myanmar but lags behind the South Asian comparator countries (Table 25). In a similar vein, Cambodia's score on political stability is better than that of Myanmar and the three South Asian comparator countries but lower than that of Vietnam and Laos. Similar mixed result is evident for government effectiveness. Where Cambodia scores better than most of the comparator countries is in regulatory quality. In sharp contrast, Cambodia lags behind all the comparator countries, except for Myanmar, in rule of law and control of corruption.

For several years now, Cambodia has ranked quite low in terms of the International Corruption Perception Index; between 2006 and 2012, Cambodia was in the bottom 10 percent of countries covered by Transparency International. Among the comparator countries, only Myanmar and Laos had lower rankings than Cambodia. For example, in 2012, Cambodia was ranked 157 out of the 174 countries covered globally – ahead of Myanmar (172) and Laos (160), but behind Vietnam (123), Pakistan and Nepal (139), and Bangladesh (144) (Transparency International 2012 Corruption Perception Index). In its 2013 Global Corruption Perception Barometer, Transparency International reports that 57 percent of those surveyed on Cambodia reported paying bribes to at least one of the eight basic public service providers; only nine countries – all in Africa – among the 96 countries covered in the survey reported higher figures than Cambodia (Laos and Myanmar were not included in this survey).

Conclusions similar to the above are drawn on the state of governance in Cambodia if the number of comparator countries is expanded to cover all of the Asian countries. For example, a comparative study of governance that develops benchmark governance indicators for 36 Asian countries by adjusting for levels of per capita income indicates similar results (Nye 2013). The study finds that Cambodia has governance “surpluses” in political stability and regulatory quality, but governance “deficits” in voice and accountability, rule of law and control of corruption. In terms of government effectiveness, Cambodia is more or less on the multi-country benchmark.

Table 25: Cambodia's Governance Indicators, (Latest) 2011 in percentile rank (0-100)

Governance Indicators	KHM	LAO	MNR	VNM	BGD	NPL	PAK	IDN	THA
Voice and accountability	24.9	▲	▲	▲	▼	▼	▼	▼	▼
Political stability/violence	33	▼	▲	▼	▲	▲	▲	▲	▲
Government effectiveness	25.6	▲	▲	▼	▲	▲	▲	▼	▼
Regulatory quality	35.1	▲	▲	▲	▲	▲	▲	▼	▼
Rule of law	15.5	▼	▲	▼	▼	▼	▼	▼	▼
Control of corruption	12.8	▼	▲	▼	▼	▼	▼	▼	▼

Note: Cambodia's performance is better ▲; worse ▼; similar □

Source: World Bank (2012c) World Wide Governance Indicators

7.2 Democratisation

When we talk about democracy, we usually refer to three most important components: elections, judicial independence, and supervision based on checks and balances ... We have to move toward democracy. We have many problems, but we know the direction in which we are going.

(Wen Jiabao, Former Premier of China,
cited in K. Mahbubani 2008: 14)

Despite various documented shortfalls during implementation, democracy, as a key component of the liberal peace project introduced and enforced in Cambodia and beyond, remains “the only deal in town” (Ginty 2010: 399). Cambodia embarked on governance reforms in the mid-1990s – around the same time that it embarked on the daunting task of democratising the country’s polity. Indeed, democratisation has been the lynchpin of Cambodia’s governance reforms. Bringing about governance reforms at the same time as a post-conflict country undertakes the transformation from an autocratic to a democratic polity is beset with additional hurdles. Looking at Cambodia’s achievements in such a perspective places the country’s status in a much better light.

Delivering better governance for development has been a key plank of Cambodia’s democratisation process, but it also had much broader social and political goals. In the mid-1990s, Cambodia was characterised by social insecurity and political instability. Politically motivated violence against opposition party members and activists was common. Any state institutions that were left behind also faltered as a result of elites’ prioritisation of a patronage network over a rational state bureaucracy, and incursions by Khmer Rouge remnants that continued until 1998 (Le Billon 2002).

By the mid-1990s, there was huge distrust between the citizens and the “rulers”, and between the society and the political system left behind by the previous regime. As one expert put it, “...Cambodia remains, in fact, a divided, artificial nation, with little governmental authority outside the capital” (Mehmet 1997: 682). It was realised that the only way to bridge such huge gaps within the country was through a democratic process. From this perspective, the political democratisation process initiated at that time should be viewed as a major confidence-building measure. No other political system could have had the support of the Cambodian public then, nor would it have had much support from the international development community that was so crucial for the reconstruction of Cambodia.

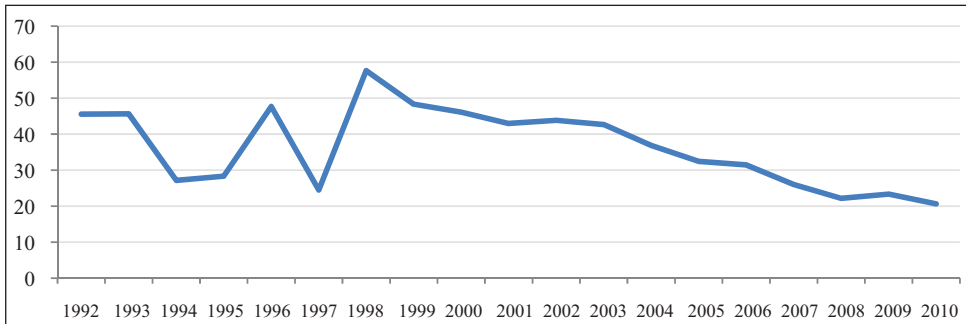
The goal was to work towards a democratic political system based on regular elections, multi-party pluralism, rule of law, civil and political liberty and structural balance among the judiciary, legislative and executive powers. While democratic quality in these areas remains thin on the ground, the local outcome is quite encouraging, as a major thrust of Cambodia's democratisation process has been the decentralisation and deconcentration (D&D) of electoral and decision-making processes to sub-national levels (CDRI 2011; Öjendal and Kim 2011; Thon *et al.* 2009). Although the dominant political party – the Cambodian People's Party (CPP) – has been able to capitalise on its long monopoly of local government, well organised networks, abundant financial and human resources and political control to retain its dominance, the process of D&D has opened critical new entry points for opposition parties' engagement in local politics, governance and development. This has been particularly evident in recent years, a sign of progress in hastening the country's democratisation process.

D&D has helped create political pluralism by setting up multi-party local councils. Local elections terminated the CPP's sole control over local politics and opened a new vista of competition for opposition parties that can now establish a presence in the hinterland. This puts pressure on the ruling party to nominate popular candidates, contributing to responsiveness and accountability and creating space for women's participation (albeit shaped by unequal gender relations) in local politics and development. Second, decentralisation has produced "new attitudes and practices" at local level (Ninh and Henke 2005: 33), mainly an increase in inter-party collaboration leading to a reduction in politically motivated violence (Rusten *et al.* 2004: 107). Finally, D&D has increased collaboration between local government and non-governmental organisations resulting in improved service delivery, thereby generating further demands by people from their elected councillors and deviating from the previous era when "people have never expected much from the commune" (Rusten *et al.* 2004: 170).

Cambodia's tumultuous modern history means it has had just about two decades of experience with democracy since peace was brokered, with the first general democratic election held in 1993. Achievements to date are regular elections to elect members of parliament (since 1993) and local commune (*sangkat*) councillors (since 2002), reduction/near absence of politically motivated violence, overall political stability, and a relatively functioning state bureaucracy. Important local democratic progress is notable following the introduction of decentralisation and local elections in 2002 (CDRI 2011; Öjendal and Kim 2011; Thon *et al.* 2009). As a result, Cambodia has seen increasing political stability, security and formal economic activities directed at long-term investments that contribute to the country's overall economic

performance (Hughes and Un 2011). Violence against political activists has been substantially reduced (Un 2008), and overall crime has declined since the mid-1990s (Figure 35).

Figure 35: Number of Crimes per 100,000 People, 1992-2010



Note: Population (data in 2009 and 2010 are estimates)

Source: IMF (2012b) World Economic Outlook Database in 1992-2010; Broadhurst and Bouhours (2009) for annual returns; MOI (2010) for crime rates in 2000-10

Cambodia's achievements in the democratisation of its polity are reflected in the country's scores for democracy. The Economist Intelligence Unit (EIU) publishes scores on democratisation for 167 countries. The EIU's aggregate score – the democracy index – puts Cambodia ahead of all the comparator countries, except Bangladesh (Table 26). Cambodia also compares well in terms of the EIU's scores on the functioning of government (ahead of all the comparator countries), electoral process and pluralism (second after Bangladesh), and civil liberties (behind Bangladesh, Pakistan and Nepal). In terms of press freedom, a 2010 UNDP index ranks Cambodia higher than all the comparator countries, while the 2013 press freedom rating by Freedom House ranks Cambodia behind the South Asian comparator countries but ahead of the others.

Cambodia does not compare well with the comparator countries in terms of political participation and political culture. Indeed, in these dimensions of democracy, Cambodia is more or less at the same level as neighbouring Laos and Vietnam. Interestingly, even India – the world's largest democracy that has now had democracy for more than six decades – shares similar weaknesses in terms of political participation and culture (Madhur 2012a).

Despite Cambodia's impressive achievements, there is substantial scope for further improvements to strengthen the democratisation process in the future. For example, the current democratic system is characterised by a highly politicised judiciary, weak legislative body to counterbalance the executive power, and dominant ruling party (Peou 2008). Moreover, political decentralisation and de-concentration has not been accompanied

by significant fiscal decentralisation. The revenue raising and spending capacities of the various layers of the sub-national governments are thus severely limited. That, in turn, constrains them from playing a substantial role in local development.

Table 26: Democracy Index, 2011

Country	Rank	Overall score	Electoral process and pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Thailand	58	6.55	7.83	6.07	5.56	6.25	7.06
Indonesia	60	6.53	6.92	7.5	5.56	5.63	7.06
Bangladesh	83	5.86	7.42	5.43	5	4.38	7.06
Cambodia	101	4.87	6.08	6.07	2.78	5	4.41
Pakistan	105	4.55	5.17	5.71	2.22	4.38	5.29
Nepal	108	4.24	1.83	4.29	3.89	5.63	5.59
Vietnam	143	2.96	0	4.29	2.78	6.25	1.47
Laos	156	2.1	0	3.21	1.11	5	1.18
Myanmar	161	1.77	0	1.79	0.56	5.63	0.88

Note: Each category has a rating on a 0 to 10 scale, and the overall index of democracy is the simple average of the five category indexes: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture.

Source: Economic Intelligence Unit 2013

7.3 Civil Society

Civil society organisations (CSOs) play a vital role in enabling people to claim their rights, in promoting rights-based approaches in shaping development policies and partnerships, and in overseeing their implementation. They also provide services in areas that are complementary to those provided by states.

(Busan Declaration on Development 2011)

Civil society is broadly defined as “an intermediate associational realm between state and family populated by organisations which are separate from the state, enjoy autonomy in relation to the state and are formed voluntarily by members of society to protect or extend their interests or values” (White 1994: 337-338). In Cambodia, the mushrooming of NGOs, understood as civil society, first gained attention in the late 1980s, but especially since the 1990s and the end of Cold War animosities, as donors such as the World Bank, the IMF and the UNDP realised the potential and utility of the concept as “a key ingredient in promoting good governance” (Howell and Pearce 2002:4). Civil society is associated with two aspects

of the good governance agenda: spreading democracy and evolving cooperative state–civil society relations (Putnam 1995: 65-78).

However, building a vibrant civil society in Cambodia faces unique challenges. Contextually, the concept of civil society does not fit well with Cambodian culture and history, characterised as it is by steep social hierarchies and a huge social distance between the rulers and the ruled (Mabbett and Chandler 1995). Again, historically and culturally, “civil society” was found in the religious sphere of pagodas and evolving around kinship-based relations (Collins 1998; Ebihara 1968; Ledgerwood 2002). Three decades of war and a succession of different authoritarian regimes left these limited forms of civil society further weakened or even closed (Hughes 2009).

The “gap” between state and people/society is dangerous for healthy, democratic and sustainable state building. Hence the emergence of space for state-civil society relations and the central role of civil society in filling that void for post-conflict reconstruction work (Öjendal and Lilja 2009). Yet, as the UNDP, after being around for two decades on the ground and having provided significant technical capacity building support for institutions, admits “...little effort has been made to strengthen CSOs and thereby develop the democratic space for citizens at large. This has reduced the effectiveness of UNDP efforts towards democratic governance in Cambodia” (UNDP 2010b: 5). In a similar vein, a recent study points out the lack of “intermediate institutions” as one of the key challenges for developing a sustainable democratisation (Kim 2012).

Generally, Cambodian civil society’s contribution to promoting democracy over the last two decades has been somewhat limited (Un 2006; Yonekura 1999). There are several reasons for this. First, the political development of Cambodia in the wake of decades of conflict has not been conducive to the flourishing of civil society; the recent drive to conquer and co-opt NGOs via the enactment of the NGO law, which has drawn intense reactions from numerous NGOs, is highly indicative (Christie 2012; Downie and Kingsbury 2001; Laundau 2008). Although the situation is better at the local level, where there is more room for civil society to prosper (Öjendal and Kim 2012), the picture is somewhat mixed. The government, for example, recently declared its intentions to control around 8000 Village Development Committees across Cambodia’s rural areas, suggesting there may be moves to gradually co-opt civil society at sub-national level as well (Ou 2013).

Second, Cambodian civil society, especially at the national level, is broadly composed of NGOs that share few of the characteristics of civil society

(Christie 2012; Un 2006; Ou and Kim 2013a). These NGOs lack meaningful connectivity with the grassroots communities they are supposed to represent, are more accountable to their donors than to the intended beneficiaries, and have democratic deficits. Third, the NGO-isation strategy – prioritising short-term effectiveness of money spent on civil society strengthening – means only certain groups (mostly NGOs) have been allocated resources, while other civil society groups (trade unions and ad hoc civil society movements) have been financially excluded (Christie 2012; Hughes 2009). It would seem then, that civil society can be weakened, not strengthened, by the funding of NGOs and thus has little impact on democratic advancement. “NGOs may not be representative of civil society; nor do they necessarily act in ways that are likely to achieve the presumed benefits of providing for a vibrant civil society. Indeed, in some instances, NGOs may actually erode local forms of civil society as resources are moved into formal associational forms that echo Northern Development agencies” (Christie 2012: 65).

On the state-civil society gap, which a strengthened civil society was expected to narrow, the outcome has at best been mixed, depending on what sectors and levels one looks at. NGOs in Cambodia are broadly categorised into two groups, one advocating human rights and democracy and the other focussing on development. The former accounts for 7 percent of NGOs and the latter for the other 90 percent plus (World Bank 2009). Some studies conclude that human rights and democracy NGOs have not built fruitful relationships with the government, whether at the national or local levels; to the contrary, relationships have soured (Öjendal and Kim 2012; Un 2006).

Although some NGOs have tried to protect the interests of the people, for instance, around natural resources (land, fisheries and forests) and human trafficking, they have neither the strength nor the ability to help victims. More often than not, they are afraid of confronting the state and prioritise their own survival rather than protecting the interests of the people (Christie 2012). A recent study on NGOs working to defend the interests of local people affected by hydro dam development in north-eastern Cambodia found that local communities felt isolated and bitterly disappointed because NGOs only helped them before and during protests, abandoning them when the government reacted and arrested the local protestors (Ly 2013). Over time, NGOs and the state appear to have reached tacit agreements on the boundaries between the state and civil society. In other words, NGOs limit their activities by not crossing the “tacitly inferred” line between themselves and the state, which in turn limits their ability to support the people they were set up to serve (Christie 2012).

On a more optimistic note, NGOs focusing on development seem to have contributed to better service delivery in many areas of socioeconomic development. They have also been able to forge better partnership with the government. There are clear signs from top government officials acknowledging the contribution of these NGOs (Christie 2012; Un 2006). Even so, it is imperative to note that within this development area, the civil society-state relationship is not homogenous because the state is heterogeneous as well. For instance, there is better engagement between NGOs working in the health sector and the Ministry of Health than in the education sector, where there is far less trust between the Ministry of Education and education NGOs (Christie 2012). Further, engagement between members of parliament and civil society organisations remains thin despite a few ad hoc positive relationships (Ou *et al.* 2011).

Similar to civil society-state relations at the national level, civil society-state engagement at the local level has been uneven. Generally, decentralisation has helped bridge the local government–society gap (Thon *et al.* 2009). This is both a result of the reform itself and because local civil society organisations have joined forces (Kim and Öjendal 2007, 2011). Yet again, the sectors involved and location determine the quality of the relationship. For instance, local authorities largely welcome development work, but are cautious about advocacy, human rights and democracy activities (Öjendal and Kim 2012) and restrict space for activities concerned with natural resource (land, water and forests) conflicts, thus providing less than favourable conditions for civil society to operate (Ou 2013).

The contribution of NGOs to the democratisation process has been limited, their relationship with the state remains uneven, and they still barely constitute civil society. However, looking ahead, a number of NGOs have empowered grassroots civil society groups, especially savings groups, across various provinces (Ou and Kim 2013b). These grassroots organisations are growing in number and their influence should not be underestimated. If this trend continues, they could help bring about transformational shifts that would strengthen the demand for a responsive, transparent and accountable state, at least slowly from the ground up at the commune level, thus contributing to the promotion of good governance from the bottom and the democratisation process at large.

With liberalisation, operating across major cities and provinces, beyond the sphere of external NGOs and CBOs, is the emergence of various homegrown civil society groups, notably trade unions and their federations. The civil society space allowed for such democratic practices and the potential of the groups and their movements to extend their economic and political

interests gradually constitute pressure on the government and employers to learn, improve their capabilities and reorient themselves to respond to civil society demands and abide by democratic rules. While the proliferation of NGOs is waning as donors re-evaluate their strategies and divert resources to the government instead of NGOs, islands of genuine and homegrown civil society across various layers seem to be slowly emerging in their own fashion.

Section 8

EMERGING DEVELOPMENT PRIORITIES AND A LONG TERM VISION

8.1 Emerging Development Priorities

Cambodia's development performance in the last two decades has been impressive in the three core elements considered crucial for human development – growth, health and education. To realise rapid economic growth, solid social development and substantial democratisation simultaneously is no mean feat. Overall, the country has travelled a long distance and overcome many obstacles on its arduous journey of socioeconomic development. Yet it has to cover an equally long distance over the next two decades, as the remaining development agenda is substantial and challenging. Emerging socioeconomic priorities are many, but sustaining strong and inclusive growth, improving health and strengthening education are critical.

Close to reaching a quadrupling of its per capita income in the two decades since 1993, Cambodia is on the verge of graduating to lower middle-income country status – a country with a per capita gross national income (using the World Bank's Atlas method) of USD1035 – a feat that Vietnam achieved in 2010 and Laos in 2011. Strong growth has contributed to significant poverty reduction. However, even after cutting the poverty rate by more than half since 1994, about one in five Cambodians was subsisting on a daily consumption of less than USD1.25 in 2009 while one in two was living on a daily consumption of less than USD2. Moreover, these poor are highly vulnerable to even small fluctuations in growth and income. Such vulnerabilities are accentuated by the country's fragile food security, insecure land titling system, recurrent natural disasters, exposure to climate change, and many health and education-related constraints. Income inequality has improved and economic polarisation between the richer and the poorer segments of society has moderated somewhat. However, if the country's experience between 2004 and 2007 is any guide, both could suddenly worsen, negating recent gains. Cambodia thus faces the dual challenge of sustaining strong growth while forging a more inclusive economy where the benefits continue to be shared more equitably.

In the last two decades, Cambodia's health indicators have made large gains in most areas, from improvements in overall life expectancy, maternal mortality, and infant and child mortality to incidence of HIV and tuberculosis. On average, Cambodians live healthier lives today than they did two decades ago. Viewed against the comparator countries, however,

Vietnam has done much better in most health indicators, and Cambodia lags far behind the rest in reducing the incidence of tuberculosis. Large scope exists to improve health in many other areas as well, as indicated by specific outcome measures for a variety of illnesses and conditions of children and young people, including infant mortality, under-five mortality, neonatal mortality, stunting, wasting and malnutrition. Similarly, a high percentage of the population suffers from exposure to water and indoor air pollution, conditions that are readily controlled by access to affordable and safe drinking water, improved sanitation and cleaner cooking fuel. Moreover, large disparities in health and access to health services exist between the rich and poor and between rural and urban areas. As the country embarks on the next stages of development, closing these gaps will become an increasingly urgent socioeconomic priority.

Cambodia has done a creditable job in educating its children in the last two decades. In primary education, both enrolment and completion rates have improved significantly and universal primary education is within reach. Progress in secondary and tertiary education, however, has been slower. Although Cambodia's mean years of schooling of around 6 years compares well with its regional peers, indicators in secondary and tertiary education are much less impressive in terms of both enrolment and completion rates and education quality. Improving the quality of primary education to lay a strong foundation for future academic and vocational skills development is emerging as a priority area for action. Despite the abundance of talent, the wide gaps in access to education between the rich and the poor and between urban and rural areas hamper the country's ability to harness the full capacity of its workforce for development. Partly a reflection of the disparities in access to quality secondary and tertiary education, and partly the outcome of the skills the education sector produces, Cambodia faces a shortage of skilled labour across industries, even for low-to-medium skill intensive sectors. To some extent, the skill mismatch reflects the lack of focus on science, technology, engineering and mathematics (STEM subjects) in the Cambodian education system. Lack of technical and specialised skills is only part of the problem, however, as there seems to be inadequate human resources with even soft skills for such service sectors as hospitality and tourism.

8.2 A Long Term Vision and Goals

The three somewhat intertwined priorities of sustaining strong and inclusive growth, improving health and strengthening education constitute what is generally referred to as human development. Building on past successes, Cambodia could thus set broad-based human development that heralds a "prosperous, healthy, and educated" society as its long-term development

vision. Global development experience in the last several decades shows that these core development priorities are mutually reinforcing since progress in one area can enable and enhance progress in the other two.

Such a long-term vision then needs to be translated into strategic plans, and the strategic plans need to be broken down into policies, programmes and projects. The Rectangular Strategies (RSs) and the National Strategic Development Plans (NSDPs) – each of which has a five-year time horizon – have a key role in developing the vision as well as translating the vision into strategic options. The various ministries, government departments and public institutions then break the strategic plans down into smaller action steps and follow up with concrete policies, programmes and projects on a continuous, year-round basis. Figure 36 illustrates the conceptual framework depicting the broad interrelationship between vision, strategic plans and policies, programmes and projects.

Figure 36: A Long Term Vision and its Operationalisation – A Conceptual Framework

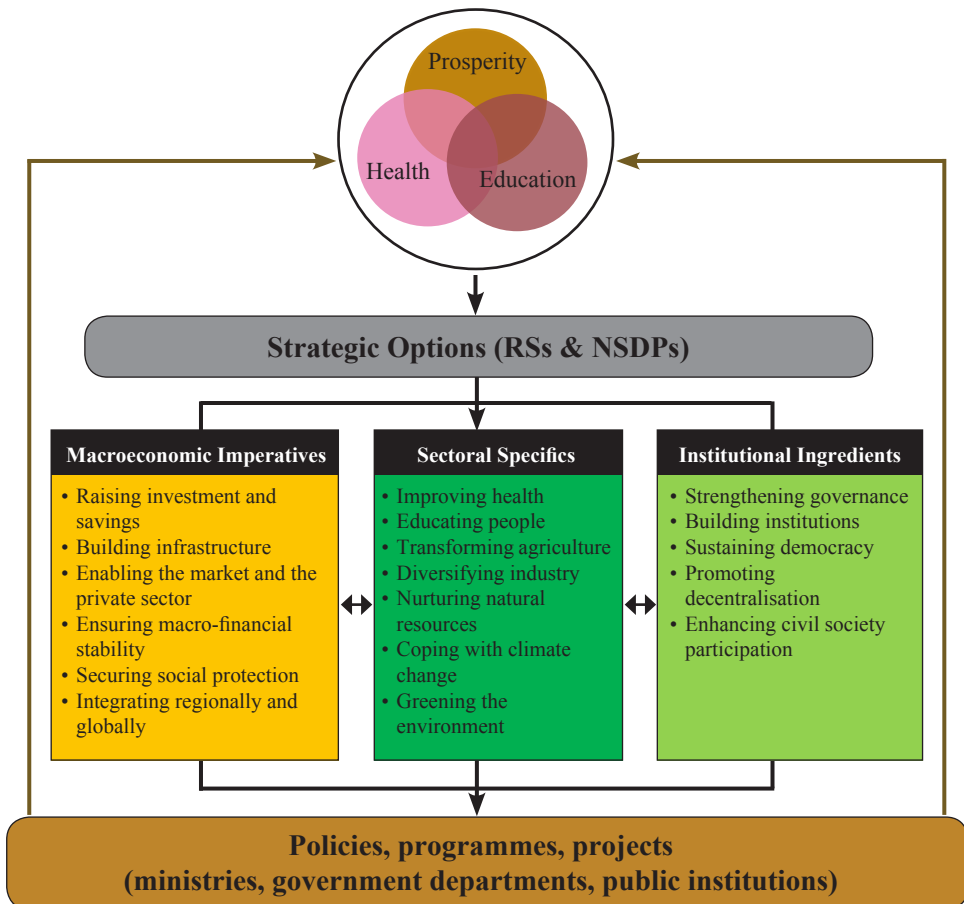


Table 27: Long Term Development Goals

Indicators	1990s	2008-2013	2033 (indicative goals)
<i>Prosperity: Income, Poverty, and Living Standards</i>			
GDP per capita (current USD)	240 (1993)	1000 (2013)	>4000
Poverty headcount ratio at USD1.25 a day (PPP)	49 (1994)	22.8 (2009)	< 2 (2025)
Poverty headcount ratio at USD2 a day (PPP)	85 (1994)	49.5 (2009)	< 5
Gini coefficient (consumption)		31.0 (2011)	<35
Consumption share of the bottom 20% of the population		9 (2011)	15
Consumption share of the bottom 40% of the population		21 (2011)	30
Improved sanitation facilities (percent of population with access)	11 (1990-99)	31 (2010)	90-100
Improved water source (percent of population with access)	35 (1990-99)	64 (2010)	95-100
Households with access to modern cooking fuels (percent of total households)	<2 (1990-95)	10 (2012)	100
Electrification rate (percent of households with electricity)	5 (1990-1995)	37	75-100
<i>Health</i>			
Life expectancy at birth (years)	56 (1994)	64 (2012)	74
Infant mortality rate (per 1000 live births)	87 (1994)	36 (2011)	10
Under-5 mortality rate (per 1000 live births)	121 (1994)	43 (2011)	10
Maternal mortality rate (per 100,000 live births)	690 (1990)	206 (2011)	50
Under-five stunting (percent of under-five children)		40 (2010)	10
Under-five wasting (percent of under-five children)		11 (2010)	0
Under-five underweight (percent of under-five children)	45.4 (1988-92)	28 (2010)	5
Under-five anaemia (percent of under-five children)		55 (2010)	10
Undernourishment (percent of the population)	40 (1990-92)	17 (2010)	5
Prevalence of HIV (percent of the population 15-49 years)	1.3 (1994)	0.6 (2011)	<0.2

Incidence of tuberculosis (per 100,000 people)	537 (1994)	424 (2011)	100
Education			
Adult literacy rate, total (percent of people 15 years and above)	67 (1998)	78 (2005-10)	100
Primary school enrolment (percent gross)	94 (1990)	126 (2011)	
Secondary school enrolment (percent gross)	24 (1990)	47 (2011)	85
Tertiary school enrolment (percent gross)	1 (1990)	14 (2011)	50
Population with at least secondary education (percent)		16 (2006-11)	50
Tertiary enrolment in STEM subjects (percent)	Negligible	3.8	25

For the long-term vision to serve as a broad roadmap for the future there is a need to break it down into reasonably measurable and monitorable development goals. Otherwise, two decades on, it would be difficult to determine to what extent the country had been able to accomplish the many elements of its long-term vision. One option therefore is to articulate the vision in terms of measurable development indicators in the three areas of growth/wealth, health, and education. Set against the parameters used to define Cambodia's performance over the last two decades, Table 27 summarises some of these key monitorable elements.

8.2.1 Shared Prosperity

Prosperity should not be viewed as just higher incomes and more wealth, but as an improvement in the overall standards of living for the people – shared prosperity. In other words, the goal should be one of inclusive growth that eliminates poverty, keeps income inequality under check, and reduces the deprivations of certain basic human needs for the people – such as improved sanitation, safe drinking water, clean cooking facilities, and access to electricity. Continued strong growth is crucial for achieving these objectives. Not only that, strong growth will also enable the country to achieve the other two core objectives of health and education, as it would enhance the financial resources available for investing in these sectors.

The central question is whether Cambodia can repeat its growth performance of the last two decades in the next two. Specifically, can it quadruple its per capita income in the next two decades, from about USD1000 in 2013 to over USD4000 by 2033? If it does that, then the country would graduate to what the World Bank classifies as an upper middle-income country (UMIC),

currently defined as a country with per capita gross national income of above USD4035 but less than USD12,476 – the status Thailand reached a few years ago and that Indonesia is now on the verge of achieving.

A recent IMF study has combined a small quantitative macroeconomic model of the Cambodian economy with a more qualitative growth diagnostic approach. Modelling different investment scenarios, the study projects (i) a potential long-term GDP growth rate of about 7.5 percent with an investment rate of about 20 percent, and estimates that (ii) for every additional percentage point growth over the 7.5 percent benchmark, the investment rate has to increase by about 5 percentage points (Rungkhareoenkitkul 2012). Cambodia's annual savings and investment rates have fluctuated widely during the six years 2005-2010, with average investment rate of about 20 percent and average savings rate of about 15 percent for the period. Hence, a yearly GDP growth of 8.5 percent would require an increase of at least 5 percentage points in the investment rate (and a similar increase in the savings rate would be desirable so that the savings-investment balance is sustainable). Similar growth potential is indicated by ADB's assessments. ADB places Cambodia's potential annual per capita GDP growth for the period 2010-2030 at about 7 percent – the second highest rate among the ASEAN countries, only slightly lower than Myanmar's figure (Petri and Thomas 2013: 35-36). CDRI's assessment also places Cambodia's long-term growth prospects quite close to these figures (Hing *et al.* 2013).

It is difficult to come up with a long-term trajectory of poverty that can be associated with a given GDP growth rate. For the period 2004 to 2009, on average, a four percentage-point growth in GDP has led to about one percentage-point decline in poverty rate (headcount using the USD1.25 a day norm). As poverty has already fallen below 20 percent, it would become increasingly difficult to sustain this magnitude of poverty elasticity of growth. As the remaining poor are harder to reach through growth trickle down effects, the extent of poverty reduction would be smaller for a given growth in GDP. It is thus possible that incremental income growth in the future will have lower trickle-down effects on poverty.

Assuming a lower elasticity of poverty with respect to growth in the future thus appears reasonable. For example, on the assumption that every one percentage point reduction in poverty requires an annual GDP growth of 6 percent, an 8.5 percent GDP growth from 2014 could result in a reduction in the USD1.25 a day poverty rate to about 2 percent or less by 2022. Lower poverty elasticity would postpone the date of similar poverty reduction by a few more years, say, to 2025. On balance, it is perhaps reasonable to project that the USD1.25

poverty rate would fall to negligible levels, say, less than 2 percent by 2025. Making similar assumptions and projections, Cambodia has the potential to reduce the USD2 a day poverty rate to less than 5 percent by the early 2030s – something similar to what Thailand had achieved by the late 2000s. A drastic change in income distribution, especially at the bottom 20 to 40 percent of the population, could make a huge difference to the above poverty trajectory over the next two decades. A worsening of income distribution would postpone the sharing of prosperity, whereas an improvement could usher in shared prosperity earlier than envisaged above.

Based on the above growth and poverty scenario, long-term goals for a prosperous (and inclusive) Cambodia over the next two decades could be:

- **Upper middle-income country status by 2033:** comparable to Thailand in 2010 and Indonesia in 2012-13;
- **Extreme poverty eradicated by 2025:** reduce poverty headcount under the USD1.25 a day line to negligible levels, say, less than 2 percent by 2025 – something that Thailand achieved in the late 1990s;
- **USD2 a day poverty reduced substantially by early 2030s:** it could be under 5 percent – similar to what Thailand has had since the late 2000s;
- **Income disparities kept under a threshold:** keep Gini coefficient (consumption-based) below a threshold of, say, 35 or 40;
- **Incomes of the poorest to grow faster than the average:** the consumption share of the bottom 20 percent of the population to increase from 9 percent in 2011 to, say, 15 percent by the early 2030s; similarly, the consumption share of the bottom 40 percent to increase from 21 percent to about 30 percent;
- **Modern sanitation for most:** close to 100 percent access to improved sanitation (96 percent in Thailand today and 73 percent average for upper middle-income countries (UMICs) globally);
- **Safe drinking water for all:** close to 100 percent access to safe and affordable drinking water (96 percent in Thailand today and 93 percent average for UMICs globally);
- **Clean cooking fuel for all:** increase the access to modern cooking fuels from about 10 percent now to 100 percent (household reliance on firewood and charcoal for cooking to be eliminated);
- **Electricity for most:** percentage of households with access to electricity to double from 37 percent now to more than 75 percent;

- **A well-designed and selective social protection programme for the most vulnerable:** to cover old age and disability, unforeseen natural calamities, and huge economic shocks.

8.2.2 A Healthy Society

In the development literature, health is increasingly seen as an end in itself since it is crucial for strengthening people's capabilities. However, the fact remains that health does have a beneficial effect on growth. Focusing on strengthening people's health could thus be a means of improving the country's growth potential. Therefore, it is only logical to set the vision of achieving a healthy society with basic health for all as the goal over the next two decades. Within this framework, possible 2033 goals that the country could set for itself include:

- **Longer, healthier life for all:** life expectancy to increase to 74 years (the same as Thailand's figure now and close to the average of 73 years for UMICs globally);
- **Safe childbirth:** maternal mortality rate to decline by at least three-fourths to about 50 (the current figure for Thailand is 48 and the average for UMICs is 62);
- **Healthy early childhood:** infant and under-five mortality rates to fall by at least two-thirds to 10 and 12 (the current figures for Thailand are 11 and 12 and the averages for UMICs are 18 and 23 percent, respectively), underweight children under-5 to decline from 28 percent now to less than 5 percent, and child malnutrition (in the first 1000 days of life) to be fully eliminated;
- **Control of contagious diseases:** incidence of tuberculosis to decline by three-fourths to about 100 (the current figure for Thailand is 137 and the average for UMICs is 90); reduce HIV incidence to less than 0.2 percent;
- **Nutrition for all:** the percentage of population that is undernourished to be reduced from 17 percent now to less than 5 percent.

8.2.3 An Educated People

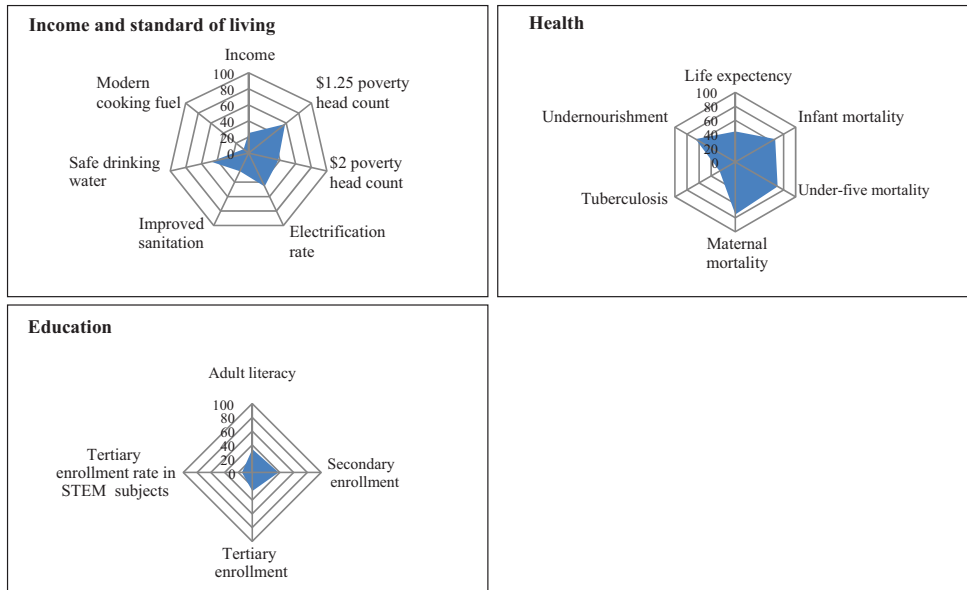
Education, like health, could be treated as an end in itself as well as a means to growth and prosperity given that a better-educated labour force could contribute immensely to growth and development. Against this background, the long-term vision should be one of changing the perception of Cambodia as a country with a largely low-skilled labour force. Some of the 2033 goalposts for education could be:

- **Putting education to work:** align education with labour market needs. This bridge between education and work is not easy to build, but without it, more education may simply result in more youth unemployment and the attendant problems;
- **Quality universal primary education for all:** improve the quality of primary education to build a foundation for future academic and vocational skills development;
- **Quality secondary education for most:** improve quality and increase the enrolment rate to 85 percent (presently 79 percent in Thailand, 77 percent in Vietnam and 85 percent for UMICs globally); a more ambitious target could be universal secondary education;
- **A threefold increase in the percentage of the population with at least secondary education:** secondary enrolment to increase to about 50 percent (32 percent in Thailand, and 50 percent average for medium human development countries);
- **A close to fourfold increase in tertiary enrolment (along with increases in completion rates):** tertiary enrolment to increase to about 50 percent (48 percent in Thailand and an average of 35 percent for UMICs globally);
- **A sixfold increased in tertiary enrolment in STEM subjects:** to increase from less than 4 percent now to 25 percent;
- **A strong TVET integrated with secondary and tertiary education:** raise the status of vocational training and education to reorient the perception that it is inferior to mainstream secondary and tertiary education – Singapore exemplifies the integration of TVET in mainstream education.

Taking into consideration these long-term goals for the next two decades the key message of this Report becomes clear. In the last two decades, the country has travelled a long distance in many areas of socioeconomic development, but the distance to the potential destination of an upper middle-income country, along with a healthy people and an educated society is also quite long. Figure 37 depicts this. The blue-coloured part on each of the lines in these diamond charts gives the distance covered by the country in the last two decades or so, while the un-coloured portion gives the distance that needs to be covered in the next two decades. For example, Cambodia's per capita income has increased from USD240 in 1993 to almost USD1000 in 2013. That means that the country is one fourth of the way to reaching the long-term goal of per capita income above USD4000 by 2033.

For most of the other indicators, the blue-coloured portion represents the latest year for which data is available rather than up to 2013 as such. For example, the USD1.25 a day poverty rate had fallen from 49 percent in 1994 to 18.6 percent by 2009 and the potential goal is to reduce it to, say, 2 percent by 2025. This is depicted in Figure 37 – between 1994 and 2009 the country covered about 60 percent of the way towards achieving the long-term goal of 2 percent (distance covered) and the remaining 40 percent is to be covered between 2009 and 2025 (distance to be covered). Similarly, in 1990 maternal mortality rate was 690 (per 100,000 live births) and by 2011 it had been reduced to 206. Given the long-term goal of reducing it to 50 by 2033, the country covered about 76 percent of the distance to destination between 1990 and 2011 and thus has to cover the remaining 24 percent of the way between 2011 and 2033. As a final example, in 1994, the incidence of tuberculosis was 534 (per 100,000 people) and by 2011, it had been reduced to only 424. Given the goal of reducing it to 100 by 2033, between 1994 and 2011 the country has covered only about 26 percent of the way towards the long-term goal and hence the remaining distance to destination is 74 percent – much longer than the distance already covered.

Figure 37: Cambodia's Development Dynamics – Distance Travelled and Distance to Destination



Interpreted in this way, the country has quite a long distance to cover to reach the 2033 goals, especially in areas such as reducing USD2 a day poverty rate, improving sanitation facilities, providing safe drinking water, connecting homes to electricity, and raising households' access to modern

cooking fuels. Similarly, formidable challenges remain in several areas of health and education. The distance to destination seems quite long in terms of controlling communicable diseases, reducing child mortality, and strengthening nutrition, both for children and for the population at large. The challenges seem equally formidable in education, especially in improving secondary and tertiary education (including TVET), and raising the quality of education across the board.

Section 9

STRATEGIC OPTIONS

Articulation of a vision and setting the long-term goals go a long way in addressing the emerging development challenges. The vision and the goals will have to be then concretised by identifying the strategic options (this section) and the policies, programmes, and projects required for accomplishing the vision and achieving the goals (Section 10). This Report groups these strategic options into three distinct yet interdependent categories – macroeconomic imperatives, sectoral specifics, and institutional ingredients (Figure 36, Section 8).

9.1 Macroeconomic Imperatives

Macroeconomic imperatives, in turn, fall into six broad areas: raising investment and savings, building infrastructure, enabling the market and the private sector to function efficiently, ensuring macro-financial stability, securing social protection, and integrating regionally and globally.

9.1.1 Raising Investment and Savings

Experience, including in East Asia, shows that having savings and investment rates of above 25 percent of GDP is almost a necessary condition for strong long-term growth (Gill and Kharas 2007; CGD 2008). Cambodia's current savings and investment rates are inadequate to sustain strong growth in the next stages of its industrial and economic development. Major efforts aimed at increasing the investment (and savings) rate would thus be required if Cambodia is to maintain robust growth in the years ahead. "Fast growth has a high price tag" (Yusuf 2009: 85). "Strong, enduring growth requires high rates of investment. By investing resources, rather than consuming them, economies make a trade-off between present and future standards of living. That trade-off is quite steep. If the sustained, high growth cases are any guide, it appears that overall investment rates of 25 percent or above are needed... they often invested at least another 7-8 percent of GDP in education, training, and health..., although this is not treated as investment in the national accounts" (CGD 2008: 34).

Savings and investment rates are determined by a complex set of factors. Moreover, experience shows that there is a self-reinforcing, two-way relationship between savings and investment rates on the one hand and growth on the other, especially during the high growth phase of an economy. From a policymaker's perspective, the key factors that seem to have a strong

effect on savings and investment rates are infrastructure facilities, the overall business environment and investment climate, and macro-financial stability (World Bank 2005; CGD 2008).

9.1.2 Building Infrastructure

Continued efforts that build on the major strides made in the last two decades to provide infrastructure facilities at competitive costs are crucial for sustaining growth and fostering development in the coming decades. In surveys conducted by ADB and the World Bank, investors continue to identify the cost of electricity and unexpected power cuts as major constraints to doing business in Cambodia (ADB 2012a). In addition, high telecommunication costs deter investments in areas where information and communication technology forms a significant cost of business. The government's plan to encourage investments in renewable energy is a welcome initiative. As part of this plan, more than 12 hydro-electricity projects and two thermal projects are at various stages of negotiation and commission. It is envisaged that once these projects are successfully completed, Cambodia could indeed become a net exporter of energy by 2020 (UNIDO 2012).

There is also a regional dimension to improving Cambodia's infrastructure. The country is located in the dynamic sub-region along the Mekong River, and is a member of the Greater Mekong Subregional (GMS) Program of Cooperation and Integration. A key plank of the GMS Program is strengthening connectivity among the GMS member countries through sub-regional infrastructure development – transport corridors, power systems, and telecommunications networks. With assistance from ADB, ongoing GMS infrastructure initiatives focus on transportation, in particular roads and railways, with the long-term objective of transforming the existing domestic and sub-regional cross-border transport corridors into full-fledged economic corridors (ADB 2012a). Cambodia is also at present rehabilitating and modernising its rail system linking Phnom Penh to its borders with Thailand and Vietnam. These “hard infrastructure” projects need to be complemented by continued efforts at facilitating a smooth, transparent and cost-effective movement of goods and people across the borders (Hing *et al.* 2013).

9.1.3 Enabling the Market and the Private Sector

Cambodia has made significant improvements in the overall business environment in recent years. Yet, the large gap with neighbouring countries constrains private sector investment in Cambodia. Except for the cost of paying taxes and trading across borders, Cambodia's business environment parameters are much less investor-friendly than in Vietnam, not to speak

of Thailand. This is particularly so in the time taken to start a business, get electricity connected, obtain construction permits, enforce contracts, and resolve insolvency. In many of these areas, there have virtually been no procedural reforms in recent years. Major procedural reforms and simplifications would be required to create a more investor-friendly business environment. The expected heralding of the AEC in 2015 makes the case for such reforms even more pressing.

Moreover, Cambodia's private sector has uneven understanding of the implications of trade agreements and their potential costs and benefits; it also has inadequate knowledge of global and regional export markets and trading procedures (Chan and Strange 2012; WTO 2011). Part of the reason for this is the rather high cost of obtaining such information, while inadequate capacity of the private sector further aggravates the information-asymmetry problem. As in most developing countries, the trade promotion department of the Ministry of Commerce in Cambodia has a mixed track record in terms of providing the private sector with cost-effective information on potential export markets (Rah and You 2011). Its capability to play the role of an effective enabler for the private sector has been hampered by a variety of factors – limited human and financial resources, insufficient clarity in its trade promotion strategy and inadequate capacity to conduct export market research (Gipouloux 2011). As Cambodia moves up the industrialisation ladder in the next decades, strengthening the information dissemination and trade promotion initiatives will become increasingly important on the part of the government. Strengthening the capacity of the Trade Promotion Department in the Ministry of Commerce is critical in that effort.

9.1.4 Ensuring Macro-financial Stability

Cambodia has done an impressive job of maintaining macro-financial stability in the past. Yet, as Section 2 explains, continued macro-financial stability cannot be taken for granted, especially with financialisation of the economy gathering momentum. Experience both globally and within Asia shows that middle-income countries with relatively high financial openness to the rest of the world are prone to sudden external shocks. The current rapid expansion of bank credit, especially against the backdrop of shrinking fiscal space (in the face of sluggish tax revenues) and the potentially large contingent liabilities (incurred by the government in relation to public-private partnership projects in the power sector), could pose risks to macro-financial stability (IMF 2013).

It is also important to keep in mind that high credit growth relative to GDP has occurred, even though a very large part of the population does not even use the banking system. Financial risk then is concentrated in a few large

borrowers, thus amplifying the risk of financial contagion arising from the failure of any one of these few large borrowers. The key lesson from global experiences of financial crises in the past eight centuries is that while such crises have occurred under varying country and institutional contexts, their adverse socioeconomic impacts have usually been substantial (Reinhart and Rogoff 2009).

Cambodia would also benefit much by drawing the right lessons from the 1997-98 Asian financial crisis that not only caused a huge economic slump but also unprecedented social unrest and political instability in the affected countries (Lee and Rhee 1999; Knowles *et al.* 1999; Azis 2009). In many of these affected countries, the crisis was a major setback to the large socioeconomic gains made in the previous decades – whether in reducing unemployment and poverty, or in improving health and education status of the population, not to mention the huge ethnic violence and the political instability that accompanied the crisis in countries such as Indonesia. The much less devastating, yet significant, turmoil that the more recent financial crisis Vietnam faced in 2010-2011 should be another wake-up call for Cambodia. Moreover, once the AEC is in place, macroeconomic interdependencies among ASEAN countries would grow, thus leading to faster contagion of crises among ASEAN economies (Madhur 2011).

All these underscore the need for Cambodia to put in place measures for both crisis prevention and crisis management. At the same time, given that the country's financial sector is still in its nascent stage of development – both in terms of breadth and depth – it is important to ensure that regulatory and supervisory framework should not stunt its future growth and development. This is the typical problem of balancing financial development and financial stability in most Asian developing countries, and that balancing act has become ever more difficult since the 2008-09 global financial crisis (Madhur 2012b). Some of the specific actions required for the country's financial development – broadening and deepening of the sector – are indicated in the IMF's recent work (IMF 2013). In terms of financial crisis prevention and management, there is huge merit in the country developing a three-fold strategy focusing on: (i) an early warning system with a more accurate measurement and monitoring of financial risks, (ii) an appropriate regulatory framework for the financial sector, and (iii) adequate technical capacity building of the central bank.

9.1.5 Securing Social Protection

As Section 3 explains, the extent of publicly funded social protection in Cambodia is the lowest among the comparator countries. As the country traverses middle-income status in the next two decades, implementing a well

designed social protection system that shields the poor, the near-poor and other vulnerable population groups (the elderly, unemployed, and the sick) from unexpected shocks would become increasingly important. Effective implementation of the recently enacted National Social Protection Strategy (NSPS) will be the first step towards that.

Building on the NSPS, the long term objective should be to have a fiscally sustainable social protection programme that covers a set of well targeted beneficiaries, offers an adequate financial safety net for clearly defined purposes, is easy to implement in practice and user-friendly for potential beneficiaries. While striving for such a system, it is important to keep in mind that a social protection system is only a safety net for a small group of easily identifiable beneficiaries for a small set of well-defined purposes, and is not a substitute for the provision of efficient and affordable basic social and public utility services. Selectivity and targeting, rather than comprehensiveness, should be the guiding principle in developing the social protection system. That would prevent the dangers of spreading the limited public resources too thinly to be effective in securing social protection for the most vulnerable.

9.1.6 Integrating Regionally and Globally

Cambodia has done well to integrate its economy both with its immediate neighbours and the global economy more generally. This has served the country well. Further integration will be almost inevitable, especially with the 2015 AEC fast approaching. Adjusting to the AEC will require major strategic shifts for the country. To some extent, the recent opening of the economy in trade and investment should work to the country's advantage in adjusting to the AEC.

However, adjustment may be less smooth in other areas, particularly in the case of labour migration. Under the AEC, member countries will have to allow a freer movement of certain kinds of skilled labour across borders. To some extent, imported labour should help Cambodia tide over the domestic shortage of skilled labour, which in turn should attract larger foreign investment and accelerate industrialisation. At the same time, from a longer-term perspective, a large influx of migrant workers could put pressure on the country's growing labour force causing even higher youth unemployment. A smoother adjustment to the AEC would thus require Cambodia to invest more in education at all levels, but particularly in secondary, tertiary and TVET, so that over time, Cambodian youth would be better prepared to compete with foreign skilled labour and increasingly fill skill-intensive jobs.

The AEC is only one of the milestones that Cambodia has to pass in addressing this challenge. Even as ASEAN is aiming to herald the AEC by 2015, the region is already negotiating two other broader economic partnership agreements. One is the Regional Comprehensive Economic Partnership (RCEP) that involves ASEAN economies, China, Japan, Korea, India, Australia and New Zealand. The second is the Trans-Pacific Partnership (TPP), a trade agreement among the United States, Canada, Mexico, Peru, Chile, Brunei, Malaysia, Singapore, Vietnam, Japan, Australia and New Zealand, with many of which Cambodia has growing trade, investment and strategic links. The RCEP negotiations are supposed to be completed by the end of 2015 (coinciding with the AEC deadline), while the TPP is supposed to be finalised by the end of 2013, although that deadline is likely to be extended with the recent decision of Japan to join it.

Simplifying the many technical and strategic complexities of the two mega initiatives, the primary aim of the RCEP is to harmonise the existing rules and their implications within the various ASEAN Free Trade Agreements (FTAs) by focusing mainly on at-the-border issues. By contrast, the TPP has a much more ambitious agenda that encompasses many beyond-the-border matters such as intellectual property rights, environmental protection, labour, financial services, technical barriers, and regulatory issues (Madhur 2013; Petri and Plummer 2013). As a highly open ASEAN economy, the key challenge for Cambodia is to understand the specifics of these emerging regional and trans-regional partnership arrangements and strategically position itself to maximise the opportunities they would present to the country while at the same time minimising the adjustment costs (Hing *et al.* 2013; Strange 2013). Given the human resource constraints that the country continues to face, this challenge cannot be underestimated.

9.2 Sectoral Specifics

Five broad categories of sectoral strategies deserve mention – improving health and education, transforming agriculture, diversifying industry, and managing natural resources and the environment. The broad directions of efforts in health and education should be to both increase access and improve their quality (discussed in the previous section). Needless to emphasise, the relatively young population of Cambodia now offers a huge window of opportunity for benefitting from timely access to quality health and education services at affordable costs. That window of opportunity will gradually close as the population ages. So the time to act on the provision of better healthcare and education facilities is now, and not a decade or two later.

9.2.1 Transforming Agriculture

Cambodia's future agricultural transformation should focus on enhancing agricultural productivity and at the same time enabling people to move away from agriculture to non-agricultural jobs. As Section 2 argues, raising agricultural productivity needs a two-pronged strategy – improving smallholder farm yield and gradually moving away from traditional food crops to higher value-added commercial crops. Encouragingly for Cambodia, there appears to be large scope for raising smallholder farm productivity, especially given the low fertiliser usage in Cambodia. The country can follow the conventional, fertiliser-based, green-revolution strategy as a major plank to raise agricultural yield, opt for smallholder-based ecological farming, or adopt a hybrid strategy that identifies some crops for conventional production and others for ecological farming.

A 2011 United Nations report argues that small-scale farmers can double agricultural productivity in a decade by adopting ecological farming methods (UN 2011). A more recent IFAD report, while highlighting the huge environmental costs of conventional, green revolution based agriculture strategy, shows how smallholder agriculture can be highly productive and at the same time environmentally-friendly and socially desirable (IFAD 2013). Given this, the environmental footprint of the country's agriculture can be minimised by a careful calibration of the future agricultural development policy. At the same time, the country has the opportunity to develop higher value, niche agricultural products for export based on ecological farming – an opportunity that does not exist for those countries that have already gone down the traditional route of chemical fertiliser-based (green revolution) agricultural development, as shifting from such farming to ecological farming is prohibitively costly.

Going forward, it is important that the country strikes the right balance between these strategic options. Whatever options it chooses, it is critical that it works towards evidence-based agricultural development strategy and greater coherence in overall agricultural policies for the future (Kem *et al.* 2011; Theng 2013).

9.2.2 Diversifying Industry

Industrial diversification needs to go hand in hand with agricultural transformation. Some degree of industrial concentration is to be expected in a poor country's initial growth phase, as the country exploits its comparative advantage in a limited number of highly labour-intensive products – mostly clothing and footwear. Yet, industrial concentration in garments is perhaps too high to be sustainable in the next stages of Cambodia's development.

Here is where the second structural transformation of moving people away from agriculture to other sectors comes into play by developing productive non-farm economic activities and jobs.

With continued productivity improvements in agriculture, there would be growing scope for developing agro-processing industries and related services both in rural and urban areas, especially in the smaller towns and cities. That is not all. Given the large informal sector engaged in activities such as electrical, electronic and automobile repairs, Cambodia has substantial scope to move into the production of parts and components for established foreign companies in these sectors. However, that would require systematically developing the technical and other skills of the labour force, building on the raw talents already acquired in the informal sectors largely through “learning by doing”. Such industrial diversification strategy would also require significant improvements in the country’s infrastructure and business environment.

9.2.3 Nurturing Natural Resources and Managing the Environment

Continued strong growth and rapid structural changes will place further stress on natural resources and the country’s overall environmental sustainability. That, in turn, underscores the need for effective management of not only natural resources but also the environmental consequences of agricultural transformation, industrialisation, and urbanisation –“...benefits from low-carbon green growth are an imperative, not a luxury, for developing Asia” (ADB 2013b xi). This is as true for Cambodia as it is for Asia in general.

Cambodia has plentiful natural resources, and a significant portion of the country’s population depends on these natural resources for daily subsistence. It has ample land, yet many landowners are insecure because of inadequate formal land titling. The country is water-abundant, but is far from being water-secure. Its hydrology that entails too much water in the rainy season and too little during the dry season amplifies the adverse shocks of climate change. As often happens in a developing country’s initial growth phase, past practices have put increasing pressure on natural resources leading to land degradation, soil erosion, deforestation, overfishing, and water quality degradation. Other facets of environmental management such as water pollution, air pollution and urban waste disposal have come under pressure from the country’s gradual industrialisation.

All these underscore the need for a coherent strategy for effective and equitable management of these resources. An integrated natural resource and environment management strategy should incorporate several elements: reforestation and bio-diversity conservation, better water resource

management including the country's hydrology, stronger resilience to climate-change, higher energy efficiency, a transparent regulatory framework for extractive industries, tighter regulation of industrial and transport sector emissions, and environment-friendly urban waste management.

9.3 Institutional Ingredients

From a strategic perspective, the key institutional ingredients that are needed for achieving the long-term goals could be grouped into five categories: (i) strengthening governance, (ii) building institutions, (iii) sustaining democratisation, (iv) promoting decentralisation, and (v) enhancing civil society development and participation.

9.3.1 Strengthening Governance

Despite significant achievements over the last several years, progress has been uneven across many dimensions of governance. Hence, there is substantial scope for strengthening many facets of governance. On balance, while the scope for improvements exists across most dimensions of governance, two areas needing special focus stand out – rule of law and control of corruption – areas where Cambodia lags behind most of the comparator countries and is far behind the benchmark countries (see Section 7).

Cambodia has in the past decade or so put in place most of the core elements of a modern judicial framework. Building on that, there is a need for a more transparent and impartial administration of the rule of law. Less politicisation and more independence of the judiciary are crucial for that. An encouraging step in that direction is the establishment of the National Arbitration Council as an alternative to the country's rather slow court system for handling industrial and business-related disputes. Following that initiative, in 2011 the government enacted an Anti-Corruption Law. Effective implementation of the law (along with a strengthening of the existing Anti-Corruption Unit of the government) is as important as enacting it.

9.3.2 Building Institutions

As the on-going civil service reform enters its fifth phase, salaries for public civil servants are expected to increase by more than the annual average rate of 20 percent that the government has already committed and implemented. Along with that, there is a need to limit the size of the civil service (so that the higher salaries are fiscally sustainable), and to re-orient the promotion system and salary scales based on performance and accountability for public services delivery and programme implementation. These measures should go a long way in strengthening the country's development institutions. Other

measures such as merit-based recruitment and promotion could also help in furthering civil service reforms. More generally, credible public institutions that are more responsive and accountable to the citizens are a necessary condition for strengthening governance. The goal should be to achieve a strong state bureaucratic machinery that is capable of executing the planned strategies and goals. In addition, institutions should be equipped with competent and disciplined state officials who are insulated from political interference. Further, there is a need for effective coordination—“internal coherence”—among these institutions.

Care should, however, be exercised to ensure that the institution-building process is grounded in local realities. Hasty transplantation of institutions from developed countries and mature democracies to Cambodia, which is still at the lower-end of the development ladder, may not yield the intended development-effectiveness. It could even prove counterproductive, as well-designed modern institutions located in less developed socioeconomic-political environments often fail to deliver their potential benefits. Local conditions thus matter as much as the institutional design. That said, the country could benefit immensely from gradually adapting to international best practices in strengthening its existing institutions as well as building newer ones. Striking the right balance between localisation of international best practices and internationalisation of local practices is the key for building institutions for development and democratisation. Then there is the additional compulsion to ensure that the country's development institutions are compatible with the forthcoming AEC. Such an institution-blending exercise that factors in local, regional, and international elements is likely to be an extremely challenging task.

9.3.3 Sustaining Democracy

Cambodia embarked on its development agenda at the same time as charting a course of political democratisation and decentralisation. While much progress has been made in the democratisation of the country's polity, substantial scope exists for strengthening this process and harnessing its benefits for economic growth, social cohesion, and political stability. Cambodia would benefit from an orderly movement towards a mature democracy. That is, a democracy characterised by an independent genuine multi-party system, a better balance between the legislative and the executive arms of the government, an independent judiciary, a more independent and impartial National Election Committee, and above all, a change in the political culture that enables better citizen participation in decision-making. “The cure for the evils of democracy is more democracy” (H.L. Mencken 1926: 4).

By their very nature, the process of bringing about these political reforms is likely to be slow and gradual. Note that one party ruled India – the world's largest democracy – for almost a quarter century until 1977. Indeed, during the more than six decades since the early 1950s, except for sporadic intervals totalling about ten years, virtually the same party led by members of a single family has been in power in India at the national level. Results from the July 2013 national elections seem to indicate that Cambodian democracy is taking the first steps towards tipping the balance away from single party dominance towards a two-party system.

9.3.4 Promoting Decentralisation

The development benefits of further democratisation could be hugely increased with continued decentralisation of the polity. The implementation of the 10-year National Plan for Sub-national Development is expected to be completed by 2019. Effective implementation of the Plan should contribute to better public service delivery in such areas as agricultural extension, health, education, and overall rural development, as these would be delegated to the sub-national governments.

However, for this to be realised in practice, significant fiscal decentralisation that devolves revenue raising and spending powers to the various layers of the sub-national governments would be required. For example, within the current D&D framework, the communes could generate more revenues through taxes on land, immobile property and rental incomes. In addition, building on the encouraging results from the experiments with OWSO and DO in more than 20 provinces, it would be desirable to expand the scope of this programme to cover the entire country. All these could make sub-national governments much more accountable and responsive to the local people and at the same time enhance local people's participation in governance.

9.3.5 Enhancing Civil Society Development and Participation

There is an observable improvement in the awareness among citizens about their rights and responsibilities in a democratic polity. Civil society has played an important role in that awareness raising. NGOs have also complemented the state in promoting the country's development over the years, especially through provision of basic services in health, education and other social sectors. Nevertheless, their role in strengthening civil society and enabling it to play a greater role in the country's democratisation process has at best been mixed. The relationships between NGOs and the government largely depend on the nature of the NGOs and the locations they operate in and the characteristics of the government; the latter is never homogeneous. In broad

terms, NGOs that advocate human rights (about 7 percent of the total) tend to have rocky relationships with the government. Development-oriented NGOs have better relationships.

As the democratisation and the decentralisation process gathers momentum in the next two decades, NGOs will have to play a much bigger and constructive role in enhancing genuine civil society participation. Most NGOs spend about 80 percent of their funds in and around Phnom Penh. While this may have been appropriate in the initial stages of the country's development, in the next two decades NGOs will increasingly be required to focus on developing rural Cambodia. That underscores the need for them to be working much more at the sub-national levels, especially at the commune level. That would help in strengthening civil society at the grassroots and further bridging the state-society gap. Coupled with better citizen awareness and education about their rights and responsibilities, such a reorientation of the role of NGOs is crucial for enhancing civil society participation in the country's development and democratisation process.

Section 10

POLICY CONSIDERATIONS

The strategic options highlighted in the previous section should guide the policies, programmes and projects to be initiated and implemented by various ministries and departments. This Report does not attempt to identify the detailed policy options for achieving the strategic options. The Cambodian government is currently formulating the next medium-term strategic plan and the policies needed to achieve and implement them. The strategic plan will be detailed in the RS and NSDP 2014-18. A wealth of research studies has identified a whole gamut of policies, programmes and projects required for addressing the strategic challenges highlighted in this Report. Evidence-based operationalisation of the strategic options would greatly benefit from this body of policy research and studies.

The discussion in this section thus highlights only a few general policy considerations. These are grouped into two broad categories: things the government should do – better policy coherence, enhanced access to opportunities (for inclusiveness), efficient public resource use, gender equality and women's empowerment, and effective and equitable management of extractive industries – and a few “bad ideas” that it must eschew.

10.1 Better Policy Coherence

With the rapid growth and structural changes of the past two decades, Cambodia's economy is changing rapidly. As this Report explains, the country is currently in the midst of several development transformations. As these transformations work themselves out over the next two decades, interdependencies across sectors and subsectors within the economy will increase. Global development experience of countries shifting from low-income to middle and upper middle-income status generally points towards growing within-country interconnectedness. That then underscores the need for better coordination and coherence in development policies, programmes and projects across sectors and subsectors. A more coordinated approach to policymaking is needed to bring about such increased policy coherence.

Take, for example, rural development. Integrated rural development would require much better coordination among ministries and departments responsible for each aspect of rural development – road construction, electricity provision, and access to sanitation, safe drinking water and primary healthcare. If policymakers responsible for each of these aspects of rural development act as “silos”, the total effect of the policies, programmes

and projects will be less than the sum of individual components. What is applicable to rural development will increasingly be relevant to other areas such as fostering overall investment, managing urbanisation, nurturing natural resources, providing primary healthcare and educating the youth. More than at any time in the past, Cambodian policymakers would be increasingly required to factor such interconnectedness into policymaking. Without better policy coordination and coherence, the development impact of individual policies will be vastly reduced.

A key component of better policy coherence for Cambodia is stronger external aid coordination. This would be especially important since aid flows are likely to decline modestly in the coming decades, even as the share of South-South aid to Cambodia is likely to increase in total aid. Maximising the development effectiveness of a smaller pool of aid will be crucial for better resource allocation across sectors (RGC 2011). Encouragingly, the government is finalising stronger institutional modalities for monitoring and maximising the development effectiveness of aid as a follow-up to the December 2011 Busan Declaration. Thus, now is an opportune time to work towards a set of key mechanisms for effective aid coordination in order to maximise the development effectiveness of aid.

10.2 Enhanced Access to Opportunities

This Report emphasises the need for fostering inclusive development. Promoting broad-based inclusiveness is not a luxury but almost a necessity for countries in their development journey in the 21st century. The conventional model of “growth first and inclusion later” is becoming increasingly untenable and unsustainable, just as the old model of “pollute first and clean up later” now is (Basu 2011; ADB 2012a; Petri and Thomas 2013; UN 2013; Madhur and Menon 2013). This is just as true at the national level as at the global and regional levels. Given the imperatives for inclusiveness, Cambodian policymakers have perhaps a more limited degree of freedom in policymaking than, say, many of the East Asian and Southeast Asian countries had during their fast growth phases in the second half of the 20th century. Hence, there is a need for finding innovative ways of fostering inclusiveness in the country’s development strategy.

The key element of such a strategy should be to remove barriers that hinder better access and utilisation of affordable basic services, sanitation, drinking water, electricity, public roads and transportation, cleaner cooking fuels, healthcare and education. That would increase people’s opportunities to both contribute to and benefit from the country’s growth and development. Fostering inclusiveness should thus be anchored on enhanced opportunities,

rather than on populist redistributive policies involving cash and in-kind transfers of public funds. The latter should be sparingly used to supplement opportunity-enhancing policies by investing in highly selective and targeted social protection programmes. Making growth and development more inclusive should not thus be seen as a return to socialism and the welfare state that focuses almost exclusively on income redistribution and equality of outcomes rather than on equality of opportunities.

As ADB President Takehiko Nakao succinctly put it, “For growth to be sustainable, it also needs to be inclusive... We must address issues of income inequality, access to good education and health services, gender equity and provision of social safety nets... Weak governance, in particular, increases the cost of essential services and denies opportunities to those who need them most.... Inclusive growth is ultimately an issue of empowerment – a concept much emphasized by Nobel Laureate Professor Amartya Sen. Empowerment is not just a means of development, but should also be a primary objective of development” (ADB 2013c).

10.3 Efficient Public Resource Use

In Cambodia, as in many developing countries, there is apprehension among policymakers that focussing on social sector issues such as health and education would divert somewhat limited public resources away from more profitable investments in infrastructure – roads, electricity, airports and seaports. To some extent, this is a misplaced concern, since long-term social returns on public spending on primary healthcare and basic education are much higher than the immediate returns. Indeed, there is some evidence that over the long run, a dollar of investment in education could contribute as much as USD10-15 to national income (UNESCO 2012: 205). Research also indicates “...that it is not the increased financing, per se, that increases educational outcomes, but how that money is used. The nature of policy and structural reforms in the education sector is more important than the amount of financing” (ADB 2011: 3). Similar results can be expected from healthcare. In both these social sectors, big positive impacts can often be obtained with very little spending, focusing instead on raising awareness, behaviour changes, better incentive mechanisms and proper regulatory frameworks (Banerjee and Duflo 2011).

A good example of such initiatives is Cambodia's Baby-Friendly Community Initiative that provided education and counselling to women on infant and young child feeding. That initiative has led to a huge rise in breastfeeding since 2000, and contributed to a substantial improvement in infant health. As a result, Cambodia is now ranked 7 out of 73 developing countries around

the globe in terms of infant nutrition, far ahead of many Asian neighbours (Save the Children 2012: 31). Another set of high impact initiatives is that undertaken since the mid-1990s to combat HIV/AIDS, which drastically reduced HIV prevalence within a few years. There are several other similar initiatives with low financial costs but with huge improvements in health and education tried and tested in other countries around the globe (Banerjee and Dufflo 2011). There is huge merit in Cambodian policymakers exploring such “low-cost high-impact” strategies to optimise development outcomes in social sectors such as health and education, while reforming the public sector to make budget allocation more efficient in order to provide more financial support to social sectors.

Public services delivery in Cambodia can be significantly improved by institutional and administrative reforms. For example, in higher education, consolidating and streamlining the numerous government agencies governing higher education would enhance both the quantity and quality of education (Sen 2013). Similarly, there may be merit in extending the country’s innovative approach to the provision of public health facilities through the internal contracting system of Special Operating Agencies in nine provinces to the rest of the country; however, for service delivery to be effective, cost-efficient management and performance monitoring of the system will be required (Vong 2013). In essence, “Investing in people’s capabilities – through health, education, and other public services – is not an appendage of the growth process but an integral part of it” (UNDP 2013: 69).

10.4 Gender Equality and Women’s Empowerment

As Cambodia traverses the middle-income status, the imperative to empower women – economically, socially, and politically – will become more pressing. Higher female participation in the workforce will help the country tackle the already emerging skills shortages. For greater inclusion of women in the economy, gender-sensitive policy measures that increase women’s access to healthcare and higher education and reduce workplace discrimination against them will be key.

Economic empowerment is a prerequisite for the social and political empowerment of women. Social empowerment of women will also help eliminate entrenched social and cultural bias that can perpetuate discrimination against women – a process that is likely to be a long drawn-out one. Political empowerment of women depends on women’s economic and social status. In recent years, political participation of women in the country has increased, yet there is huge scope for increasing women’s representation at both the national and sub-national levels. Encouragingly, in recent years,

the government has put in place legal and institutional framework for better gender balance and women's empowerment. Going forwards, the pro-active implementation of the key principles of that framework will be the main challenge.

10.5 Management of Extractive Industries

Until now, Cambodia's natural resource management has been confined mainly to primary industries in forests, fisheries and water sectors. Extractive industries such as mineral mining and oil exploration could increasingly become a source of revenues and growth for the economy in the next decades. In itself, that would be good news. However, global experience shows that effective and equitable management of extractive industries is much more challenging, even though they represent a windfall for the nation (see Section 5).

Should Cambodia discover significant deposits of commercially viable minerals and oil, the country will need to implement a well-designed system for managing those resources. First, transparency is critical in designing such a system; the country could benefit from joining the global Extractive Industries Transparency Initiative (EITI). Second, since by their very nature extractive industries are location-specific (i.e., they are located in particular geographical areas and not moveable, unlike other industries), local communities have a huge stake in the way they are managed. That then calls for involving local governments and communities in designing the resources management framework as well as in implementing it. Third, extractive industries tend to attract large foreign investment, hence their management is always viewed with suspicion by local communities; managing this local-foreign tension transparently is crucial for an equitable management of these resources. Last, extractive industries tend to have big environmental impacts and credible environmental and social (resettlement etc.) impact assessments are a prerequisite for environmentally friendly and equitable management of these resources.

10.6 Avoiding a 'Few Bad Ideas'

Finally, as Cambodia traverses the middle-income leg of its development journey, it would vastly benefit from avoiding what the 2008 Commission on Growth and Development refers to as "a few bad ideas in development". More often than not, not pursuing these bad ideas is the right thing to do for policymakers in developing countries. Paraphrasing the Commission on Growth and Development, the following policies should be best avoided or used only as a last resort (CDG 2008: 68-69):

- Open ended protection for domestic industry, bans on imports and exports, and tax concessions for investment
- Premature exchange rate appreciation to diversify into higher-productivity industry
- Energy and food subsidies except for a well-targeted group of the poor
- Cutting public infrastructure investment and social spending to balance the budget
- Resisting urbanisation and restricting rural-urban labour migration
- Measuring educational progress solely through the number of schools, teachers and enrolments rather than through the extent of learning and quality of education – need to qualify quantity and quantify quality
- Creating jobs through civil service expansion; underpaying civil servants; and seniority-based, instead of performance-based, promotion system – jobs without growth is as dangerous as growth without jobs
- Ignoring environmental implications of growth as an “unaffordable luxury”
- Inadequate, or “light-touch” regulation of the banking/financial system to promote financial development
- Open-ended administrative price controls to contain inflation.

Section 11 CONCLUSION

Cambodia's growth performance in the last two decades has been remarkable. Data on a few other development indicators seems to be subject to unresolved issues and may be somewhat less reliable than the figures on growth for drawing firm conclusions. Subject to this caveat, however, available data indicates that rapid growth has been accompanied by significant reduction in poverty, notable improvements in income distribution, solid progress in human development, robust gains in health and education, and better gender equality. Equally importantly, the country has made this socioeconomic progress while simultaneously charting a course of democratisation and decentralisation of its polity.

Overall, Cambodia's development dynamism has been noteworthy, especially considering that it started on its development journey in the mid-1990s from uniquely adverse initial conditions. Rebuilding the economy, society and the political system from extremely adverse initial conditions and bringing them up to where they are today has been a commendable feat, whether one looks at it from a global or an Asian perspective.

As this Report demonstrates, progress has been uneven across the many dimensions of socioeconomic development and political democratisation. Yet, making progress in each one of these areas – economic, social, or political – let alone in all three of them together, seemed a distant dream at the time of the Paris Peace Agreement in 1991. Indeed, what the country had set for itself then was nothing short of what John Maynard Keynes succinctly refers to as the key problem of mankind, “The political problem of mankind is to combine three things: economic efficiency, social justice, and individual liberty” (cited in UNDP 2013:20). In the post-war years, few countries can claim to have achieved these three transformations synchronously.

However, Cambodia's development transformations are still incomplete. The country thus has significant unfinished development agenda. As this Report surmises, the country has travelled a long distance on its rather arduous development journey, yet the distance to destination of, say, a prosperous, healthy, educated society is also quite long; and the goal of securing a mature democracy may take equally long to attain. Based on current trends, what appear to be reasonable assumptions for the future, and conditional on the political leadership and policymakers successfully addressing a set of strategic development challenges, this Report argues that over the next two

decades Cambodia has the potential to reach upper middle-income country status with a healthy and educated society.

Cambodia's past development dynamism does point towards these future possibilities. However, while past performance gives countries and societies much-needed self-confidence to push ahead, it does not necessarily assure future success. Deft handling of the many development challenges that lie ahead – many of them dealt with in this Report and many more that may suddenly emerge on the country's potential development paths – will be critical to turning vision into reality.

The economic landscape, both at global and regional levels, is changing rapidly and this momentum of change is expected to continue in the next two decades. There is growing consensus worldwide that over the next few decades the centre of the global economy will shift towards Asia, and within Asia towards China (ADB 2008; Kholi *et al.* 2011; USNIC 2012). The global industrial transformation will also be nudging many high-technology knowledge-intensive manufacturing industries – such as automobile manufacturing, pharmaceuticals, and even aircraft building – from the developed countries towards emerging markets. Moreover, “As innovation goes global, countries that traditionally imported ideas are increasingly developing their own...” (Hepburn *et al.* 2013: vi).

Amid these transforming global and regional landscapes, ASEAN leaders plan to achieve the AEC at the end of 2015, although considerable uncertainties persist as to whether the ASEAN will be able to meet this deadline. Beyond the AEC, negotiations are already under way for even broader and deeper regional cooperation and integration initiatives such as the RCEP. Although the AEC and the RCEP hold opportunities for Cambodia, they will also present significant competitive pressures. Even as Cambodia adjusts to these changing global and regional landscapes, its national policy space will be shrinking because many of the country's policies will have to be compatible with the AEC and the RCEP. The shrinking of policy space could be an added constraint that Cambodian policymakers will have to contend with in the decades to come.

Within the country too, profound changes will follow continued growth and development. A growing middle class will emerge as Cambodia traverses through the middle-income path. Many of the now poor households will be part of that growing middle class. “The influence of the middle class is positive—they prize stability, spend, save, and invest in education, health, and residential assets. ... They are also an important force in politics, especially with leverage provided by emerging information and communications technologies” (Petri and Thomas 2013:11). A growing

middle class often tends to be the agent for further change – economically, socially and politically. Such development dynamics would result in rising expectations from the Cambodian society. Citizens are more likely to expect better provision of public services, governance that is more transparent, a bureaucracy free of corruption, a stronger voice in how public services operate, and greater political accountability in development policymaking. More of the same things by the government will not be enough to keep pace with these rising expectations. Well-sequenced changes for a faster and more transparent government decision-making will be required to respond to these emerging development needs. Such reforms will also be critical for transforming Cambodia into a durable democracy; otherwise the hard-earned gains of the last decades could easily be lost.

The latest results of the just concluded national elections – a parliamentary majority for the ruling party, the Cambodia People's Party (CPP), along with a substantial increase in parliamentary seats for the united opposition, the Cambodia National Rescue Party (CNRP) – do signal increasing empowerment of the people, a key objective of the country adopting democracy two decades ago. The increasing parliamentary authority (if the CNRP is able to sustain itself) and popular engagement could help drive substantive governance reforms in key areas such as the legal and judicial system, public administration, D&D, public financial management and corruption control. Both the ruling and the opposition parties have a huge stake in cooperating and working together to bring about these governance reforms in the interest of Cambodia's continued democratisation and socioeconomic development.

Overall, this Report is optimistic about Cambodia's potential to build on its past development dynamism and march ahead towards a prosperous, healthy and educated society in the next two decades. Yet, it is also cognisant that the outcomes could fall short, even far short, of that goal. That could happen for many reasons – constant bickering and power struggle among the political parties, waning of interest in sustaining democratisation and decentralisation processes, lack of government commitment to the next phases of governance reforms, bureaucratic inertia and policy paralysis, inability to adjust to the evolving regional integration architecture, and inability to balance the country's commercial interests and geopolitical imperatives – to name a few. An alternative, much less promising development outcome for the country is thus not out of the reckoning.

There is huge merit in the political leadership and the policymakers constantly reminding themselves about the possibility of the less favourable outcomes so that they are prepared to take the required corrective measures

without undue delay. Such pragmatism and flexibility – and above all the willingness to rely on experimentation, adaptation, and evidence-based mid-course corrections – are what the country needs in order to navigate the uncharted contours of its middle-income journey. With a fresh parliament elected and a new government in place after the recent national elections, this is an opportune time to initiate the much needed policy measures to shore up the economy, sustain social cohesion and keep up the momentum towards achieving a mature democracy.

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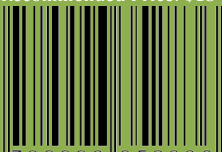
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