

Accelerating Poverty Reduction

*Despite the high economic growth achieved in the past decade, Cambodia's poverty rate of 35 percent remains one of the highest in the region. It is now time to accelerate poverty reduction. At the CDRI Outlook Conference in February 2007, a panel consisting of Nisha Agrawal, Chan Sophal and Chhith Sam Ath discussed how poverty reduction could be targeted and accelerated.**

Nisha Agrawal—The World Bank

Cambodia made significant achievements over the decade 1994–2004. Peace and stability were attained after prolonged wars and chaos. It was a decade of high economic growth, about 7 percent per annum. Poverty reduction progressed moderately, the poverty level declining from 47 percent to 35 percent: roughly one percent of the population per year was lifted out of poverty during this decade. As well, social indicators overall improved, particularly in health and education.

However, inequality is on the rise. Inequality between the rich and the poor increased sharply during the last decade. The living standards of the richest fifth rose five times faster than those of the poorest fifth—an increase of 45 percent compared to 8 percent. Similarly, the gap has been increasing between regions, and poverty is worse in rural areas: poverty headcounts have fallen much faster in Phnom Penh and coastal regions than elsewhere. In addition, compared to its regional neighbours, inequality in Cambodia is high, with a Gini coefficient of 0.42 in 2004 compared to Vietnam's 0.35 in 2002 and Indonesia's 0.34 in 2000, for instance.

To politicians, inequality also matters. For example, the prime minister's speech on 22 February 2007 stated that domestically we are facing considerable challenges that could undermine social and political stability.

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Those challenges include the increase in land conflicts, population pressures and encroachment on natural resources, the narrow base of economic growth, the increase in inequality and, thus, the need to redistribute the fruits of economic growth to increase the benefits to the poor. These risks and challenges should be transformed into opportunities.

Who Are the Bottom 20 Percent?

The bottom 20 percent are living under the food poverty line. These people are concentrated in the rural plains, Tonle Sap and mountain/plateau regions and depend heavily on agriculture and common property resources, which makes them very vulnerable since the availability of and access to these resources have been declining. They have limited access to basic services and infrastructure.

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Three Most Important Actions Needed To Attain Shared Prosperity

One of the most important actions for attaining shared prosperity is to improve access to land and land tenure security for poor people in rural areas. The government has made economic land concessions (ELCs). Between 1992 and 2006, ELCs were granted under 70-year leases to 96 private companies in 16

provinces. Of these, about 57 are currently active (still not cancelled) in about 1 million hectares of concessions. Fourteen concessions exceed the 10,000 hectare per concession limit and thus require a special review, yet no review has been carried out. Despite the policy rationale that ELCs are necessary for productivity, growth and competitiveness, only about 10 ELCs are operational. In the rest, the land is left idle for speculative purposes. The question then is whether this is the best use of Cambodian land.

While large tracts of farm land remain idle under ELCs, there is a strong economic case for smallholder agriculture and for social land concessions (SLCs). Twenty percent of rural households are landless; an additional and growing number of households are nearly landless, or own very small plots. According to the SLC sub-decree in 2003, government policy is to cancel non-operational economic concessions and transfer the land to landless households. Such reallocation of land

has a clear rationale in terms of economic productivity and growth as well as poverty reduction. However, implementation of the SLC policy has been very slow and needs to be accelerated.

Another important action is to diversify the existing sources of growth and strengthen the linkages between growth and poverty reduction. Current economic growth is narrowly based, particularly concentrated in the garment and tourism sectors. The garment sector employed more than 300,000 workers by the end of 2006. It provides 80 percent of all merchandise exports. Such high reliance on one sector creates a narrow base, which is highly vulnerable to external shocks. In addition, the garment sector alone is not enough, since every year about 250,000 people enter the job market. Hence there is a need to diversify the manufacturing sector to create more jobs.

Backward linkages from tourism are needed to ensure that tourism growth contributes to poverty reduction. During the last five years, the tourism sector has grown at an average rate of 26 percent per annum. A majority of tourists visit Siem Reap, yet Siem Reap remains one of the poorest provinces in the country. Tourism will not result in major benefits for the poor without deliberate strategies that focus on the impact of tourism, rather than just on the number of tourists.

Finally, it is necessary to target services and infrastructure at lagging groups and to increase the participation of these groups in the development dialogue. Although net primary enrolment has improved for all income groups, the poorest of the poor still have limited access to most other services. For instance, the poorest 40 percent have virtually no access to water or sanitation. Hence, targeted efforts need to be made to reach the poorest of the poor for most services.

Chan Sophal-CDRI

While we are pleased with the overall progress in development so far, we are deeply concerned by the fact that a new set of problems has emerged and is likely to be more severe if faster development in certain rural areas does not occur in time. These new problems include increasing conflicts over water use between

farmers and fishing lot owners, massive encroachment and conversion of forests and flooded forests, increased vulnerability of the poor, especially women in the poorest households, high risks of thefts and robbery and drug use among youth.

Our longitudinal study in nine villages spread across the country revealed that progress in poverty reduction was not uniform. While some communities improved substantially within three years, some remained stagnant, and some even became poorer. Likewise, there were households that moved up or out of poverty, but also those that moved down or into poverty. The factors causing such mobility are crucial to policy discussion.

The reasons for communities moving up are primarily (i) increased agricultural income resulting from improvement in farming techniques, irrigation and markets; (ii) increased accessibility to outside opportunities made possible by road development; and (iii) expansion of small businesses partly supported by the expansion of micro-credit.

There is one important cause of communities and households moving down or remaining very poor. In the past decade there has been rapid degradation of forests, partly due to the failure of law enforcement. Although national statistics on fish catch have shown no sign of decline, fishery resources have been increasingly captured by the rich, mostly from outside the fishing communities. The poor

have been facing decreasing fish stocks as a result. In addition, the composition of the stock has changed towards smaller species, while the bigger, more valuable fish become rarer and rarer.

A great concern is that communities adjacent to the forests and the Tonle Sap Lake tend to be poorer. As existing degraded common property resources are unlikely to sustain many poor households, we wonder whether there will be alternatives for such households. A number of households dependent on forest resources have recently been employed by new landowners to clear and fence their farms, mostly for speculative purposes. Once these activities of land acquisitions are completed, these households will need alternative livelihoods.

It appears that the two leading sectors, namely garments and tourism, have so far not resulted in substantial poverty reduction due to their very limited

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backward linkages. While further growth in these two sectors is desirable, there is a broad consensus that agricultural development as a third engine of growth will be the most effective way to reduce poverty. It is now time for action.

Agricultural development requires a greater allocation of resources, primarily to irrigation and agricultural research and extension. Also of vital importance is improvement in land management and tenure, agro-processing and marketing and affordable credit. Spending on agriculture and irrigation so far has been too low. According to the official national budget published by the Ministry of Economy and Finance, government expenditure on agriculture in 2005 was only USD13 million, out of some USD800 million. Donors' spending was USD35 million out of some USD500 million. Expenditure by both government and donors on irrigation was about USD13 million in 2005, typical of the past few years.

There is a huge potential to develop agro-industry in Cambodia. So far, this sector has been negligible. Currently, most raw produce is exported to neighbouring countries for processing and re-export. Cambodia not only loses the potential to add value to the products, but such exports are also carried out informally and are therefore subject to many constraints. With increasing demand from China for agricultural produce, such as cassava and soybeans, there is ample opportunity to make gains from investment in agro-processing. However, to realise this potential, there is an urgent need to reduce the costs of business and trade in Cambodia. More can be done by the government to reduce transportation costs and border fees.

The costs of transportation and energy in Cambodia remain high. According to a comparative study in 2004 undertaken by research institutes in the Development Analysis Network managed by CDRI, the cost of transporting one tonne of maize, soybeans or cassava is USD10–12 per 100 km in Cambodia, while it is only USD4–5 in Vietnam and USD2.50 in Thailand. It is still expensive and cumbersome for agricultural exports to go through the border. For instance, for 10 tonnes of maize, the total fees were from USD50 to USD80 at some border checkpoints with Thailand. Traders have to go through a large number of authorities: the international police, customs, CAMCONTROL, economic police, soldiers, military police, border authorities and facilitation authorities of bilateral border. Some of these authorities can have different national, provincial and district offices.

Cambodia can do more to reap the benefits of increased access to regional and global markets. This can be done by increasing production and investment in agro-

processing, and by reducing marketing costs. Cambodia can make better use of land both in old areas and newly deforested areas in favour of the poor by improving irrigation, equitable distribution of land and market access. Non-performing economic land concessions should be seriously reconsidered. Land speculation and land grabbing, which have been rising rapidly, should be controlled by imposition of taxes on large blocks of land. This would help to increase production of crops to meet the rising demand. For instance, Thailand and Vietnam respectively exported USD500 million and USD50 million worth of cassava to China in 2005. It is estimated that Cambodia exported only about USD5 million of cassava in the same year. Our studies indicate that Cambodia can increase crop production many times if land is used more productively. Since many crops can be produced by the poor, increased production, processing and exports will directly contribute to poverty reduction.

For production, processing and marketing of crops to be profitable, there is a need for the following, among other things:

- incentives for the private sector to increase investment in agro-processing;
- efficient use of land and reduced business costs (including transportation and border fees) in order to make investment profitable;
- incentives for public servants to facilitate private efforts rather than obstructing them.

Chhith Sam Ath–NGO Forum

Cambodia has made substantial progress in the last 10 years. The country is now at peace. Economic growth has been consistently high. The poverty headcount has been reduced by approximately 8 percent. At the same time, inequality between rich and poor has widened, making Cambodia one of the more unequal countries in the region. The poverty headcount remains high, at 35 percent. Infant mortality has been reduced to 65 per 1000 live births, while maternal mortality remains high at around 472 per 100,000 live births.¹

The question now is how to target development interventions to achieve faster poverty reduction, greater equality and truly sustainable development. This requires us to think about 1) the best model to achieve equitable and sustainable development; and 2) actions that specifically target the poor and vulnerable.

Most NGOs are working with specific poor and vulnerable groups, such as the landless poor, remote rural villages, indigenous people, forest- and fisheries-dependent communities, disabled people, victims of trafficking and domestic violence, HIV/AIDS victims, urban poor communities and victims of human rights

violations. NGOs are often witness to how economic development and growth bypass the poor and vulnerable, and sometimes make them even worse off.

NGOs are therefore often critical of the view that Cambodia needs to attract “all kinds of foreign investment” and all kinds of economic growth. Indeed, some kinds of investment may destroy the livelihoods of poor communities and redirect resources away from the poor towards the rich and better off.

We do not need to go into detail regarding concerns about the impact of large agricultural concessions awarded to companies over land that rural villagers previously used for farming or for access to natural resources. NGOs and donors have frequently raised such concerns. Recently, NGOs in Cambodia had a chance to learn that these problems are not unique to Cambodia, but are common throughout south-east Asia. During a meeting in Kratie town on the impact of plantations, NGOs from across south-east Asia declared: “Plantations severely limit the amount of land available to rural communities for agricultural production. Many plantation concessions allow companies to take prime fertile land away from villages and divert it for monocultural production. This has serious negative impacts on local environments, including loss of biodiversity, soil degradation, increased aridity and pollution of local water sources”.²

A more appropriate model of rural development may be one which leaves resources under the management of Cambodian farmers. Given land security and access to information and resources, small farmers can increase their productivity, while at the same time building a better life for their families. Food security and nutrition can be improved through support to diversified and integrated farming (involving rice, fish, vegetables, dike

cropping, fruit trees etc). NGOs recommend expanding extension services to small farmers and the adoption of low-input methods of increasing crop production.

Similarly, in the urban sector, a better balance is needed between the interests of commercial development and the needs of the poor. Informal settlements are often considered illegal and an eyesore, but in fact provide much needed cheap housing, which is not being provided by the formal sector. The cheap labour and services provided by people living in these settlements are an important part of the urban economy. Instead of evicting these people, efforts should be made to provide services to them and improve their land tenure.

A balance between the needs and rights of the poor and the needs of business is necessary in all these cases. A strong legal framework is part of what is needed to restore this balance. Hence, the granting of economic land concessions requires the prior registration of state land and the conducting of social and economic impact assessments. Relocated people are eligible for adequate compensation. I would suggest, however, that our understanding of “development” should also be more balanced. Development should not be measured only in terms of economic growth or the number of investors attracted to the country. Development occurs when ordinary people, especially the poor and vulnerable, experience immediate and long-lasting improvements in their well-being and control over their own futures.

Endnotes

1. See World Bank, Cambodia Poverty Assessment 2006; and RGC, Cambodia Demographic and Health Survey 2005.
2. Statement of the Mekong Regional Conference on Tree Plantations, Kratie, November 2006.

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auspicious for investment and stability. I can't help but think that in order to ensure stability and wisely to invest in Cambodia's future, all the good traits of the pig—intelligence, gentleness, honesty, kindness and hard work—will be required.

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