



Kingdom of Cambodia



Cambodia

## CAMBODIA HUMAN DEVELOPMENT REPORT 2007



# *Expanding Choices For Rural People*

## OVERVIEW





Kingdom of Cambodia  
Ministry of Planning



*Cambodia*

## **CAMBODIA HUMAN DEVELOPMENT REPORT 2007**

# ***Expanding Choices For Rural People***

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This report is the outcome of a joint effort by the Ministry of Planning, the Royal Government of Cambodia and the UNDP Country Office in Cambodia. It has been prepared through a broad-based consultation process with academics, policymakers and field professionals. Close to a dozen formal consultations were held, in addition to individual meetings that facilitated the work. The report also incorporates firsthand experiences from the field.

An Advisory Panel comprising senior Government officials, academics, NGO representatives and key development professionals working on Cambodian issues was constituted in October 2006 to steer the report to its logical conclusion. The panel met several times to deliberate upon and approve the report outline, provide new insights and sharpen the findings. Members read two earlier drafts of the report and offered comments. Some were kind enough to send individual feedback and share research material in addition to participating in lengthy meetings.

Panel members included: H.E. Mr. Ngy Chanphal (Under Secretary of State, Ministry of Interior), H.E. Mr. Sao Chivoan (Under Secretary of State, Ministry of Rural Development), H.E. Dr. Hang Chuon Naron (Secretary-General, SNEC, and Ministry of Finance), Mr. Sar Sovann (Deputy Director-General, Ministry of Land Management, Urban Planning and Construction), Ms. Heang Siek Ly (Deputy Director-General, Ministry of Planning), Mr. Kith Seng (Director, Planning Department, Ministry of Agriculture, Forestry and Fisheries), H.E. Mr. Eng Roland (Ambassador-at-Large), Ms. Pok Panha Vichetr (Director, CIDA), Mr. Ok Serey Sopheap (Consultant, CDRI), Mr. Russell Peterson (Advisor, NGO Forum), Mr. Von Monin (Dean, Royal University of Agriculture), Mr. Kang Chandararath (Director, Cambodia Institute of Development Studies), Mr. Chan Sophal (Senior Research Manager, CDRI), Mr. Huot Pum (Senior Economist, RULE), Mr. Hor Soneath (Programme Officer, Mekong Private Sector Development Facility), Mr. Tim Conway (Poverty Specialist, The World Bank), Ms. Meike Pasch (GTZ, Cambodia), Mr. Peter Kooi (Board Director, ACLEDA Bank), Representatives from Mong Rethy Group, Dr. Yang Saing Koma (President, CEDAC), Ms. Delphine Vann Roe (Oxfam GB), Mr. Douglas Gardner (UN Resident Coordinator, and UNDP Resident Representative), Ms. Anne-Isabelle Degryse-Blateau (UNDP Programme Director), Mr. Robert Glofcheski (Chief Economist, UNDP Cambodia, Lao PDR, Vietnam), Mr. Scott Leiper (Senior Programme Advisor, UNDP) and Ms. Anna Collins-Falk (Senior Policy Advisor at the Ministry of Women's Affairs, UNDP).

The theme and early results were also formally presented in meetings held with the United Nations Country Team in Cambodia, NGOs working on development issues, UNDP staff, senior officials of the Ministry of Planning, and an inter-Ministerial expert team. Comments of each have been incorporated in the report.

The report has been externally reviewed by four international experts: Dr. G. Edgren (former Ambassador of Sweden to Vietnam), Mr. H. Bjorkman (Country Director, UNDP Indonesia), Dr. A. Rajivan (Regional Programme Coordinator, Human Development Report Unit, UNDP Regional Centre in Colombo), and Dr. John Kurien (Consultant, Tonle Sap Programme, FAO).

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The process of preparing and finalising the report was carried out under the overall direction of Ms. Dinravy Khorn, Senior National Manager, UNDP Insights for Action Initiative. The principal facilitators were Dr. Sarthi Acharya (UNDP), Dr. Andrew Pinney (UNDP Advisor, Ministry of Planning), Mr. Muan Sarath (Ministry of Planning), Mr. Raksa Pen (UNDP), Ms. Margaret A. Lamb (UNDP), Mr. Brooks Evans (UNDP), Ms. Moun Soparat (UNDP), and Ms. Kay Kirby Dorji (Consultant).

Extreme gratitude is extended to all of the above mentioned professionals, who dedicated countless hours in the preparation of this NHDR. Through the collaborative efforts of all those involved, we have been able to successfully achieve a report with a scope and depth that will hopefully provide a useful contribution to the policy debate on rural livelihoods, natural resources and Cambodian development in general.



**H**uman development is about fostering an environment wherein people can develop their potential, create more choices for themselves and live a long, healthy and productive life. UNDP has produced Human Development Reports for the last 17 years, which have promoted 'people-centred' development. National Human Development Reports (NHDRs) are designed to be advocacy documents based on thorough research. Globally, over 400 of these have been produced in 135 countries. Cambodia began to produce NHDRs in 1997.

This report is the sixth, focusing on natural resources and rural livelihoods. The Cambodian NHDR is the outcome of a joint effort by the UNDP Country Office in Cambodia and the Ministry of Planning. This report describes the status of human development in Cambodia at the regional and provincial levels. The different human development indices have also been constructed for each province, distinguishing high performance areas from those which require more attention.

The report makes an independent assessment of human development, the state of rural livelihoods and their relationship with the natural resource base of the country. It also delves into policy recommendations and opportunities to galvanize rural areas.

The Cambodian society and economy have gradually matured since the end of civil conflict. The economy has grown briskly — one of the more rapidly expanding growth rates in Asia — albeit built on an extremely narrow base: garment manufacturing, tourism, construction and more recently, paddy cultivation. In the social sector, literacy has risen by one percentage point each year and the infant mortality rate has fallen. Cambodia's HDI ranking is 129 in 177 countries; higher than that of most Sub-Saharan African countries and a few Asian countries.

There are, however, problems: widening inequality in incomes and opportunities, as well as persistent rural poverty are realities widely recognised by the government, NGOs and other development partners alike. Women in rural areas continue to die in unacceptably large numbers during childbirth. Children are malnourished, particularly in provinces located on the plateau and near the Tonle Sap. Poor students enrol in primary schools, but poverty compels them to leave school at an early age. Finally, land issues continue to pose serious challenges to ordinary people's livelihoods. Excessive fragmentation, inequality and landlessness, as well as land conflicts are some manifestations of the contested issue natural resources have become. Developing rural areas, therefore, is an issue of serious concern that has yet to be adequately addressed.

Development of rural areas calls for a dedicated focus of human and financial resources. Rural communities must have access to education and health care, their earnings must rise, and they should be socially, politically and economically empowered.

# FOREWORD



Translated into actionable points, rural development requires institutional reforms to ensure farmers' access to land and natural resources, market reforms to increase rural workers' returns on their labour, and concerted investment in rural infrastructure and human capital to scale up people's skills and quality of life. These proposals dovetail with those contained in the *National Strategic Development Plan, 2006-2010* (NSDP) and the further decentralisation, de-concentration and governance improvement processes taking place in the country.

The Ministry of Planning and UNDP Cambodia sincerely hope and believe that this report will contribute to furthering the debate on the various facets of human development in rural areas of Cambodia and also help to strengthen policy formulation and implementation for the benefit of all Cambodians in both rural and urban areas.



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## Promoting rural livelihoods for prosperity and peace

Cambodia has achieved remarkable progress over the past decade in a number of areas important to human development. Peace and stability have been restored and maintained. Economic growth has risen to double-digit rates, averaging 11.2 percent in the last three years. Successive multi-party elections have been held, with a third set of national elections on the horizon in 2008. A vibrant media and civil society are developing. Access to education and health services has improved, poverty has steadily declined, and further moderate progress has been made toward a number of other Cambodia Millennium Development Goals (CMDGs). These are major achievements in light of challenges that had to be overcome.

Nevertheless, poverty and near-poverty remain high, and other human development indicators continue to reflect difficult living conditions, especially in rural areas, where the vast majority of Cambodians live and work, largely at a subsistence level. Most of the high growth over the past decade has been urban-based and narrowly focused on surging garment exports that may be vulnerable, record levels of tourism and a boom in the construction industry. Similarly, the base of major beneficiaries of development over the past decade also has increasingly narrowed.

Building upon recent achievements and avoiding major setbacks will require well-targeted efforts to broaden the sources and benefits of economic growth, while mitigating the emerging risks.

The onset of political stability and high economic growth rates in urban areas provide a major opportunity to accelerate implementation of long-overdue reforms and better share growing prosperity with the less fortunate half of the Cambodian population, again primarily in the rural areas. This also will help secure longer-term peace and stability by greatly diminishing some of the growing risks from rising land tensions, rapidly widening inequalities, perceived widespread corruption and the potential for 'resource curse' outcomes from future offshore oil and gas revenues.

The Government's Rectangular Strategy and the *National Strategic Development Plan, 2006-2010* (NSDP) provide a broad roadmap toward this end, emphasising improved governance, a considerable increase in public investments in rural areas, and support to the development of a job-creating private sector. However, the quality of implementation will be critical.

Given the still-weak institutional capacities, implementation efforts will best be prioritised and targeted at areas offering the highest returns for improving human well-being, achieving shared prosperity and securing longer-term peace and stability.

The analysis in this report concludes that some of the highest rates of return are likely to be generated from targeted efforts in the following areas:

### 1. Fair and effective governance of land

Especially important is the need for much greater transparency, equal access to relevant information, and genuine participation by rural people and communities in land-related decisions that affect their livelihoods, security and well-being. Accelerated land titling is urgently needed, with priority given to the more vulnerable half of the Cambodian population, especially smallholder farm families.

Strong economic efficiency and equity arguments exist for doing so. Smallholder farms generate higher yields per hectare and become economically viable above a minimum size of three to ten hectares. Similarly, accelerated access to reasonable-quality surplus land is needed for landless and near-landless farm families through Social Land Concessions (SLCs) supported by basic infrastructure and essential public services. In general, strong legal action is needed against land grabbing and land encroachment. A well-designed land tax also can help curb speculators while providing additional revenues to local and national governments for financing improved quality of basic social services.

*Smallholder farms generate higher yields per hectare and become economically viable above a minimum size of three to ten hectares*

As allowed in the 2001 Land Law, communal land titles should be issued to indigenous communities heavily reliant on traditional common property resources like forests, and capacities developed for sustainable management of such resources. In the case of common-property fishing resources, more of the commercially restricted fishing lots should be converted to protected fish sanctuaries to promote sustainable breeding and to enrich fishing waters generally.

In addition, major reform of the system of Economic Land Concessions (ELCs) is urgently needed for the sake of economic efficiency, equity and national well-being. An open review of ELCs is urgently needed, as is a rollback on ELCs generating low to negative value-added. In the meantime, ELCs should be revoked where concessions have been allocated outside the terms clearly specified by law, or where concession agreements have clearly not been honoured. Similarly, the awarding of new ELCs should be suspended, at least until adequate institutional review and monitoring capacity can be put in place. This would reduce the risk of ELCs encroaching on the lands and common property resources of vulnerable rural communities. Similarly, effective safeguards will help guard against ELCs set up purely for purposes of land speculation or as a veil for illegal logging. The equally urgent passage and implementation of an effective anti-corruption law will greatly support these efforts.

## 2. A substantial increase of public investments in agricultural productivity

Especially needed are the following: improved access to quality extension services, some of which are readily available in neighbouring countries, and easy access to up-to-date market information; a major expansion of irrigation, rural electrification and investment in rural feeder roads; and much-improved access to credit at reasonable terms. The reported substantial jump in yields from the simple application of the System of Rice Intensification (SRI) is but one example of what is possible with better knowledge. Extension services also can facilitate the adoption of a 'farming systems' approach, where multiple crops (including tree crops), along with livestock and fisheries, form an integrated system. This can diversify activities away from the widespread mono-cropping of paddy. As demonstrated in neighbouring countries like Thailand and Vietnam, the farming systems approach can work very well for smallholder farms and help lift families above the poverty line. Similarly, the promotion of voluntary farmers' groups and associations may contribute to better negotiated prices for farm inputs and outputs and can facilitate the development of contract farming arrangements for selected crops.

The criteria on which all such public investment decisions should be taken include cost efficiency and affordability for rural end-users. Ensuring adequate local capacities for operations, maintenance and sustainability also will be crucial.

### 3. Broadened and diversified job-creating sources of growth in both rural and urban areas

For the well-being of the vast majority of Cambodian people and their future livelihoods, the root causes of Cambodia's unnecessarily high-cost economy must be uprooted to bring down prohibitive costs for transportation, port handling, energy and other essential business services. Such informal costs are especially onerous on the poor. In one striking example, field research observations indicate that between the Tonle Sap and the Thai market, fish exporters make payments up to 28 times. This could largely explain why fisher families get only 25 to 35 percent of the price paid by consumers.

A substantial improvement in economic governance, including reduced corruption and the elimination of layers of informal fees, is needed to lower costs and motivate private-sector investments in agricultural diversification, cash crops, agro-processing, off-farm income-generating activities and job-creating enterprises in manufacturing. An important immediate objective should be ensuring that costs and pricing of such essential services are at least as competitive as in neighbouring countries. Here again, the urgent passage and implementation of an effective anti-corruption law will greatly support an improved environment for private investments in diverse job-creating enterprises.

### 4. Substantial investments in human capabilities

Further increasing literacy rates, and enrolment and completion rates in primary and lower secondary schools, has become urgent in today's intensely competitive regional and global economies. Incentives to stay in school, such as school feeding programmes, motivated teachers with adequate salaries, and investments in adequate school facilities, including water and sanitation, must underpin such efforts. Market-linked vocational training and business skills development are also needed. Development of a university hydrology/irrigation programme and basic training at the provincial level will help head off a shortage of skills needed for effective water management. Affordable and effective public health services are clearly essential to the well-being and productivity of the rural labour force. Inexpensive methods of making raw water potable through the simple use of sunlight's ultraviolet rays are now available and need to be popularised.

### 5. Ensuring a 'resource blessing' from offshore oil and gas

Avoiding a 'resource curse' from future oil and gas revenues, and ensuring a 'resource blessing' will by no means be automatic without advance planning and putting in place the needed institutional safeguards to ensure transparency and effective management and investment of such resource revenues.

An immediate need exists to begin planning institutional safeguards against potential 'resource curse' outcomes from future offshore oil and gas. Needed safeguards include a revenue management law and a well-designed, transparent petroleum fund where all types of petroleum-related revenues (signature bonuses, royalties, production sharing and dividends) will be deposited before disbursement to the budget in alignment with the NSDP at a rational rate of investment. Furthermore, borrowing against future unknown oil and gas revenues has proven dangerous to the financial stability of other oil-exporting developing countries and may require safeguards. Preliminary results from quantitative modelling simulations indicate that investing a large share of future oil and gas revenues in rural infrastructure and human capital will generate the highest rates of return to sustained economic growth, diversification, human development and longer-term peace and stability.



### *Some recent achievements...*

Cambodia has recorded impressive achievements in recent years, especially in light of some of the challenges of the past decades. Most importantly, peace and stability have been largely restored, thereby greatly increasing human security. This, combined with a robust regional and global economy, has enabled steady to high economic growth rates for the past ten years.

Despite earlier pessimism over garment exports following the end of the Multi-Fibre Agreement, such exports have maintained positive short-term growth and generated increased employment and incomes among mainly female workers from the countryside. Tourist arrivals have grown at 25 percent per annum and are expected to reach a record two million in 2007. Growth in the construction industry has boomed, and those fortunate enough to own well-located land have enjoyed substantial gains in personal wealth. The agricultural sector also demonstrated strong potential because of improved weather and initial investments in irrigation. On the political front, the country peacefully concluded a second set of Commune Council elections in early 2007, with the third set of national elections on the horizon in 2008.

Especially important, poverty has continued to decline at a moderate but steady pace of around one percentage point per annum. Infant and child mortality rates, although still high, have decreased to 66 and 83, respectively, per 1,000 live births. Primary school net enrolment rates have risen significantly, to 76 percent. Adult literacy rates likewise have risen, to 74 percent, and the gender gap in literacy is narrowing. Child nutrition has further improved. HIV/AIDS has been sharply curtailed. These and other achievements have contributed to a moderate increase in the country's Human Development Index (HDI), which ranks Cambodia 129 of 177 countries.

### *Despite achievements, growth needs to be more inclusive of rural people...*

Substantial disparities exist in human development indicators between urban and rural areas, especially the more isolated rural areas. Of the one-third of the country's population that live below the poverty line, 90 percent live and work in rural areas, especially in the mountainous/plateau regions, the rural plains and the Tonle Sap. Most worrisome, the gap in living standards between the large numbers of rural poor and urban elites has continued to widen rapidly, as has the gap between the rural poor and a minority of rural rich.

A substantial 20 percent of the country's population remain food-poor and do not get the minimum average of 2,100 calories per day to satisfy basic nutritional needs. Another significant share of the rural population survives just above the poverty line and remains vulnerable to renewed poverty from bad weather, ill health and other such risks. Malaria, dengue, diarrhoea and water-borne diseases are rampant, and each year 30,000 children die from largely preventable causes. Access to potable water is well under 40 percent in rural areas and, alarmingly, less than ten percent for the poorest half of the rural population.

Maternal mortality rates in rural areas remain very high, at well over 450 per 100,000 live births. Rural women continue to carry a disproportionately high share of family work, and studies show that domestic violence haunts the lives of women and children. The Gender Empowerment Index (GEI) remains quite low, reflecting the low share of women in senior political and public decision-making positions.

While primary school enrolments are up significantly, completion rates are alarmingly low. Fewer than 50 percent of enrolled children complete to Grade six, implying a highly uneducated future labour force unable to compete in the knowledge-based regional and global economies.

The current political stability and economic growth in urban areas provides an ideal time to enact long-overdue reforms to share prosperity with the less fortunate half of society that is concentrated in rural areas. The many benefits of such policy implementation include peace and stability by decreasing the rising

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*Further beneath the surface of double-digit growth rates, potentially serious imbalances and challenges to recent achievements are emerging*

tensions over land, significant inequalities, perceived government mismanagement and the potential for a 'resource curse' from future oil and gas revenues. In particular, land grabbing by the stronger, and land encroachment by powerful outside commercial interests, have greatly increased uncertainty and insecurity for many of the rural poor.

### *Rural investments long overdue...*

For a variety of reasons, public-sector investments supporting agricultural productivity and related rural infrastructure have been modest over the past decade; as a result, productivity and rural incomes remain low and poverty high. Notably, statistical analysis shows a strong correlation between lower crop yields and a higher incidence of poverty among smallholder farmers.

Extension services reach fewer than ten percent of farm households. The share of arable land with controlled irrigation may be as low as seven percent. As a result, crop yields are well below half those in neighbouring Vietnam where 45 percent of arable land is irrigated. Access to electricity in rural areas is strikingly low, at around ten percent, thereby greatly impeding productivity and human development.

Backward and forward linkages to sources of high growth in urban areas are also weak. While tourism is growing at 25 percent per annum and creating direct employment in the construction, hotel and tourist industries, backward linkages to rural areas surrounding major tourist attractions must be developed. Notably, Siem Reap province, home of Angkor Wat, remains one of the poorest provinces in Cambodia.

Although garment exports surged further ahead and related employment increased significantly – to more than 300,000 mostly female workers from rural areas – this still represents a modest fraction of the underemployed rural labour force. While female garment workers remit a significant share of their earnings to their families in the countryside, this also represents a modest share of rural family incomes. In general, only 13 percent of rural households report receiving remittances from relatives working in urban areas, and such remittances accounted for less than ten percent of the recipients' household incomes.

Advances in rural development will, therefore, require sizable public investment to improve agricultural productivity and diversification through increasing access to extension services, strengthening economic linkages, and dramatically improving infrastructure such as roads, irrigation, and electrification. These changes are particularly urgent given the rapidly growing number of youths entering the labour force and limited employment opportunities.

### *Emerging challenges and risks, as well as new forms of insecurity...*

Further beneath the surface of double-digit growth rates, potentially serious imbalances and challenges to recent achievements are emerging. These will require urgent action to consolidate and build upon past gains, and to better secure longer term socio-economic stability. Available data indicate that consumption, income and wealth have become highly concentrated at this very early stage of Cambodia's transition from a largely impoverished, agrarian-based society to a more prosperous, urban one with a broad-based, stable middle class. In light of the low average income per capita in Cambodia, the consumption-based Gini coefficient is already quite high, at 0.42. While real per capita consumption for the poorest one-fifth rose only eight percent in the past decade, it grew 45 percent for the richest one-fifth of the population.

*The sudden liberalisation of land markets... without first putting in place adequate institutional safeguards... left these weaker and less-informed members of society highly vulnerable*

Equally worrisome is the extremely high and rising concentration of landholdings, still the main form of family savings and economic and social security in Cambodia. Without direct and indirect offsetting measures, this high concentration of land wealth will in turn almost automatically generate even wider disparities in future incomes, wealth and opportunities. Available data suggest that the best off one-fifth of the population already control up to 70 percent of available land. In addition, land conflicts have been rising because of land grabbing and the encroachment of large ELCs, often backed by powerful land speculators who are able to push out weaker and less-informed rural people.

In retrospect, the sudden liberalisation of land markets from 1989 onward, without first putting in place adequate institutional safeguards, laws and effective governance, left these weaker and less-informed members of society highly vulnerable to unregulated market forces and information asymmetries – to the advantage of the better-informed, influential and powerful. Landlessness among rural households has already risen to 20 percent and may be increasing by as much as two percentage points per year. Moreover, most of the up to 80 percent of rural households that own land are without secure title, leaving them vulnerable to the land grabbing and encroachment noted above.

Access to common property resources like fish and forests, which provide a partial safety net and traditional insurance for the poorest of the poor against negative contingencies such as bad weather and poor crops, also has been diminishing due to encroachment and overexploitation. This is especially true in the northeastern provinces, where many indigenous people still lack community title to their traditional lands despite provisions in the 2001 Land Law. Available data suggest that indigenous minorities have already lost 30 percent of their traditional forest lands, and that poverty has risen from 40 percent to 58 percent in the mountainous/plateau provinces – the only region in the country where poverty appears to have gained during the past decade.

Landlessness and the search for alternative livelihoods have also put pressure on available common property fishing resources such as the Tonle Sap. As a result, vulnerability and economic insecurity for the poorest fisher families also has risen substantially. While the Government freed up half the area tied up in large commercial fishing lots in 2001, this was reportedly the less productive half, contributing little to poverty reduction.

At the more macro level, high growth rates have been so narrowly based that recent economic gains remain vulnerable to sudden setbacks from outside factors such as a global/regional economic downturn; the ending of US and EU safeguards against Chinese garment exports, currently scheduled for 2008; increasing competition from Vietnam following that country's entry into the World Trade Organisation (WTO); or a potential H5N1 epidemic/pandemic that would greatly affect local health, tourism and even foreign investment. Therefore, diversification of both the urban and rural economies will be essential to broaden the economic base and provide better insurance against potential external shocks.

Adding to the emerging opportunities and challenges will be the potentially substantial revenues from offshore oil and gas beginning in the near future, as well as inland mining of other minerals like bauxite. For many other developing countries, the sudden surge of revenues from such extractive industries has negatively affected the competitiveness and growth of employment-generating sectors ('Dutch disease'), fuelled corruption, left the majority of people worse off, and in a number of cases proved destabilising. Cambodia's weak institutional capacities and somewhat fragmented public finance system suggest a high risk of 'resource curse' outcomes in the absence of needed safeguards.

<sup>(1)</sup> Agrawal, Nisha, "Opening Remarks at the Launch of the Cambodia Equity Report 2007: Sharing Growth", The World Bank, Phnom Penh, Cambodia, June 12, 2007, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CAMBODIAEXTN/0,,contentMDK:21368954~menuPK:293861~pagePK:2865066~piPK:2865079~theSitePK:293856,00.html>

### *Rectangular Strategy and NSDP provide broad 'road map'...*

International experience indicates that the best time for a government to accelerate the implementation of reforms, including long-overdue, politically difficult reforms, is when economic growth is high and the majority of a country's people would support such reforms on the basis of efficiency, equity and national well-being. Consolidating and building upon recent gains and diminishing some of the emerging risks will require well-targeted interventions to arrest and reverse the more worrisome underlying trends.

Fortunately the Government's Rectangular Strategy and the NSDP point the direction to improved governance, increased investments in rural areas and a more enabling environment for private enterprise. Nevertheless, the quality of implementation will be critical in moving from plan to action and securing the needed outcomes.

In light of still-weak institutional capacities, implementation will best be focused on a realistic set of priorities that will have the biggest positive impact on improving human well-being and securing longer-term peace and stability for the nation.

*"Opportunities multiply as they are seized..."*  
*His Excellency Prime Minister Samdech Hun Sen, 22 February 2007*

Clearly, reaching the CMDGs by 2015 and substantially improving human well-being in Cambodia will require an unprecedented focus on improving rural livelihoods. In other successful developing countries in the region, a vibrant rural economy based on smallholder family farms has provided a solid bedrock of rural stability with adequate livelihoods for rural labour, allowing for greater economic diversification that also includes higher-value-added manufacturing and service industries, typically in urban areas.

Fortuitously, the timing is right to take the needed decisions and actions to elevate Cambodia to a much higher level of development, with shared prosperity and longer-term stability. Effective implementation of the Rectangular Strategy and the NSDP will be crucial. Given still-weak institutional capacities at the central, provincial and sub-provincial levels, a greater focus on existing implementation capacities is needed in areas likeliest to generate the highest socio-economic returns. All of these efforts can be reinforced through the careful management and investment of potentially large revenues from oil and gas beginning in upcoming years. Together, these will boost efforts to substantially improve human well-being, equity and long-term socioeconomic stability, ensuring that the outlook for Cambodia and its people is truly blessed over the coming decades.

# CONCLUSIONS







*"Opportunities multiply as they are seized..."*

*His Excellency Prime Minister Samdech Hun Sen, 22 February 2007*

Over the past decade, Cambodia has made significant progress in many areas important to improving human well-being. Nevertheless, poverty and near-poverty remain widespread, especially in rural areas, where the vast majority of Cambodians still live and work. Similarly, a wide range of other human development indicators continues to reflect difficult living conditions in rural areas. Clearly, reaching the CMDGs by 2015 and substantially improving human well-being in Cambodia will require an unprecedented focus on improving rural livelihoods.

A major challenge facing the country will be managing a smooth transition from a still-largely impoverished, agrarian-based society with 85 percent of the population in rural areas to a modern, urban-based one with shared prosperity and longer-term stability. In other successful developing countries in the region, a vibrant rural economy based on smallholder family farms provided a solid bedrock of rural stability with adequate livelihoods for rural labour until more attractive employment was generated in higher-value-added manufacturing and services industries, typically in urban areas.

In the case of Cambodia, consumption, incomes and wealth, especially land, already have become highly concentrated at this early stage of transition from rural poverty. An avoidable worst-case scenario involves land becoming so concentrated and inefficiently used in rural areas that vast numbers of rural people would have little choice but to migrate to urban areas in search of better livelihoods, well before urban-based industries have sufficient time to develop and create needed jobs. The risk of resource curse outcomes from future offshore oil and gas revenues compounds the challenges ahead. Timely remedial measures clearly will be needed to arrest and reverse some of the more worrisome underlying trends.

The timing is right to take the needed decisions and actions to elevate Cambodia to a much higher level of development, with shared prosperity and longer-term stability. The onset of political stability over the past eight years, combined with high economic growth rates in urban areas, provide optimal conditions to accelerate the implementation of some long-overdue reforms needed to redress Cambodia's high-cost economy; to broaden and diversify growth in agriculture and manufacturing; and to generate much more abundant opportunities and choices for the less fortunate half of the Cambodian population.

Fair and effective implementation of the Land Law and Forestry Law is clearly needed. Similarly, increased transparency, much greater public access to essential information and meaningful participation in decision making at the local level also are necessary. This will help reduce information asymmetries in a range of areas that have in turn left rural people vulnerable to exploitation by a minority of better-informed interests.

The passage and full implementation of an effective anti-corruption law will help underpin such efforts by eliminating layers of bureaucratic informal fees and reducing the scope for decisions and actions that result in much higher costs throughout the economy than is the case in neighbouring countries. Such higher costs have rendered much of the Cambodian economy uncompetitive and narrowly based.



As noted elsewhere in this report, the Government's Rectangular Strategy and NSDP 2006-2010 are aimed at much-improved governance as well as at directing more investments to rural areas, specifically in human capital (education and health), agricultural productivity, infrastructure and private-sector development.

Clearly, effective implementation of such strategies and plans will be crucial. Given still-weak institutional capacities at the central, provincial and sub-provincial levels, a greater focus on existing implementation capacities is needed in areas likeliest to generate the highest socio-economic returns. All of these efforts can be reinforced through the careful management and investment of potential revenues from oil and gas beginning in 2010. Together, this will boost efforts to substantially improve human well-being, equity and long-term socioeconomic stability, ensuring that the outlook for Cambodia and its people is truly blessed over the coming decades.

### Box 7.1: Essential Ingredients for Prosperous Rural Livelihoods

#### *Effective Governance*

1. Fair and effective implementation of laws on land, forestry and fisheries.
2. Greater transparency, public access to needed information, and meaningful participation in decision making at a decentralized level.
3. Approval and full implementation of an effective anti-corruption law to help attack underlying causes of Cambodia's high cost economy.

#### *Efficient and Equitable Land Use*

1. Accelerate land titling for small holder farm families.
2. Distribute quality surplus lands to rural landless and near landless farming families through SLCs with adequate support services and infrastructure.
3. Substantially reform ELCs for both economic efficiency and equity reasons.
4. Implement a well-designed land tax to discourage speculation and generate local revenues for essential public services.
5. Check excessive land fragmentation and promote community management of excessively small lands that cannot be consolidated.
6. Protect indigenous ethnic minorities' traditional land rights, issue needed community land titles, and ensure meaningful participation of indigenous communities in local development decision making.

#### *Elevate Farm Productivity*

1. Improve availability of timely market information, quality extension services and new bio-technologies. Popularise innovations like SRI.
2. Expand various types of irrigation, especially irrigation that also increases potable water supply.
3. Reduce impediments to competitive input and output markets.
4. Increase access to affordable credit through improved microfinance regulations and incentives.
5. Invest substantially in rural electrification. Extend power lines from Thailand and Vietnam.

6. Invest in development and rehabilitation of rural feeder roads.
7. Facilitate development of farmer groups and associations to improve price negotiating power, post harvest systems, and conditions for contract farming.

#### *Enrich Fishing*

1. Constitute and strengthen community fisheries to strengthen price bargaining power.
2. Convert select commercial fish lots to protected fish sanctuaries needed to enrich fishing waters and ensure sustainability.
3. Facilitate private sector and community fishery investments in fish processing and higher value-added fish products.
4. Help diversify occupations of vulnerable fisher families.

#### *Broaden and Diversify Off Farm Employment*

1. Attack root causes of unnecessarily high costs for transportation, port handling, energy, and other essential services to the production and marketing process.
2. Promote investment and competition in rice milling.
3. Promote diversification for small holder families through “farming systems” approach and cash crops for larger farms.
4. Promote rural industrialisation in agro-processing, handicrafts and other higher value-added goods through training, credit and market linkages.
5. Promote economically rational public works programmes aimed at creating/maintaining rural infrastructure while also providing jobs for the poor in the off seasons.
6. Explore potential benefits of resurrecting railway system to encourage commercialization and multi-nodal rural industrialization.

#### *Invest in Human Capital*

1. Increase net primary school enrolments and completion rates by reducing costs to poor rural pupils, providing mid-day meals to encourage attendance and completion, and motivating teachers with adequate salaries.
2. Enlarge technical and vocational education/training, particularly at more elementary levels.
3. Diversify health services and reduce the cost of health services and medicines.
4. Popularize readily available inexpensive techniques for cleaning drinking water.



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