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**InFocus Programme on Social Dialogue,  
Labour Law and Labour Administration**

**Social Dialogue and the Poverty Reduction Strategy  
Paper (PRSP) Process in Cambodia: an Assessment**

**Graeme J. Buckley**

**International Labour Office – Geneva**

**July 2003**

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## Preface

One of the main objectives of the IFP/Dialogue Programme is to build the capacity of ministries of labour, employers' associations and workers' organisations to participate effectively in PRSPs through a process of social dialogue.

This entails the provision of ILO technical assistance to tripartite constituents with a view to strengthening social dialogue and tripartism at country level around poverty reduction strategies. Through this process: a) government officials would acquire knowledge of how to initiate, stimulate and foster the machinery of tripartite cooperation around PRSPs; b) bi-partite and tripartite consultations would be carried out on a regular basis and the culture of problem solving and consensus replaces confrontational approaches to labour relations; c) national employers' associations and worker' organisations would have the necessary knowledge to perform this advocacy role in a successful manner and engage, in an efficient way, in bi-partite and tripartite cooperation.

Cambodia is one of the numerous countries where the ILO is actively implementing programmes of technical cooperation to assist the tripartite constituents in their participation in setting up and implementing poverty reduction strategies. In this paper, edited by Graeme Buckley, Senior Economist at the Integration/National Policy Group of the ILO in Geneva, we have summarised the experiences of the ILO's support to the PRSP process in Cambodia.

Several people have contributed to this paper. In particular, colleagues from the ILO Regional Office and Sub Regional Office in Bangkok have contributed to the overall process described in this paper and to the technical assessment presented in an abridged form in Chapter 3. Special acknowledgement should go to Moazam Mahmood who was principally responsible for drafting this technical assessment which was submitted to the Royal Government of Cambodia and formed the centre piece of the ILO's support to the PRSP process. He was assisted by a "core team" comprising Chang Hee Lee, Raghwan Raghwan, Franklyn Amerasinghe and Graeme Buckley. The group was assisted by Elena Pisani, an ILO expert, who provided valuable support to the process of integrating the ILO inputs into the PRSP process and in galvanising support for it. She also provided useful background material for the compilation of this working paper. Mention should also be made of Nuon Rithy of the ILO's Workers' Education Project in Cambodia who backstopped most of the social dialogue activities undertaken in Phnom Penh and Siem Reap. Seng Bunly, a national consultant, was also engaged to undertake follow up and advocacy activities with respect to the ILO's technical inputs to the PRSP process.

The work was undertaken in collaboration with other departments and sectors in the ILO, especially with the INTEGRATION/National Policy Group headed by Azita Berar Awad.

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Director  
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## Acronyms

ADB	Asian Development Bank
ADRA	Adventist Development and Relief Agency International
APPT	Alleviating Poverty Through Peer Training
ASEAN	Association of South East Asian Nations
BIS	Basai Irrigation System
BoIS	Bovel Irrigation System
CAMFEBA	Cambodian Federation of Employers and Business Associations
CAS	Centre for Advance Study
CG	Consultative Group
CIDA	Canadian International Development Agency
CREAM	Cambodia Road Economic Appraisal Model
CSD	Council for Social Development
CSO	Civil Society Organisation
DAC	Disability Advisory Council
DFID	Department for International Development
EFA	Education For All
FAO	Food and Agriculture Organization
GAP	Governance Action Plan
GDP	General Department of Planning
GID	Gender-in-Development unit
GSCSD	General Secretariat of CSD
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HRD	Human Resource Development
IFI	International Financial Institutions (esp. the World Bank/IMF)
IMF	International Monetary Fund
IPEC	International Programme on the Elimination of Child Labour
IPRSP	Interim Poverty Reduction Strategy Paper
Lao PDR	Lao People's Democratic Republic
JSA	Joint Staff Assessment (of the World Bank/IMF)
LBAT	Labour Based Appropriate Technology
MAFF	Ministry of Agriculture, Forestry and Fisheries
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
MoH	Ministry of Health
MOEYS	Ministry of Education, Youth and Sports
MOSALVY	Ministry of Social Affairs, Labour, Vocational Training and Youth
MOWRAM	Ministry of Water Resources and Meteorology
MOWVA	Ministry of Women and Veteran Affairs
MoRD	Ministry of Rural Development
MoP	Ministry of Planning
NGO	Non Governmental Organisation
MRD	Ministry of Rural Development
NPRS	National Poverty Reduction Strategy (the PRSP)
NSC	National Sub-Committee
NSSF	National Social Security Fund
NTB	National Training Board
OECD	Organisation for Economic Co-operation and Development
PIP	Public Investment Plan

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PMATU	Poverty Monitoring and Technical Unit
PRSP	Poverty Reduction Strategy Paper
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
RGC	Royal Government of Cambodia
SEDP I/II	Socio Economic Development Plan I and II
SES	Socio Economic Development
SES I/II	Socio Economic Survey I and II
SNEC	Supreme National Economic Council
TICW	Trafficking in Children and Women
TVET	Technical and Vocational Education and Training
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNMAS	United Nations Mine Action Service
VTAP	Vocational Training for Poverty Alleviation
VTEG	Vocational Training for Employment Generation
WFP	United Nations World Food Programme
WHO	World Health Organization
WRF	World Rehabilitation Fund
WTO	World Trade Organization

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## Chapter 1

### The principles: Empowering Social Partners and Integrating Decent Work into PRSPs

In 1999, the Bretton Woods institutions agreed that nationally-owned participatory poverty reduction strategies should provide the basis for all World Bank and IMF concessional lending and for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This approach, which builds on the principles of the Comprehensive Development Framework, is reflected in the Poverty Reduction Strategy Paper (PRSP) which describe a country's economic, social and political policies and programmes over a three year or longer horizon. It is intended to be a comprehensive document prepared by governments, with support from Bank/Fund teams, which identifies who the poor are and develops strategies for overcoming poverty, including policy and expenditure targets. It is supposed to be locally generated and owned and developed through wide participatory dialogue. Furthermore, the PRSP should encourage accountability of governments to their own people and domestic constituencies rather than to external funders, enabling the poor to become active participants in development and not just passive recipients.

In this context, the ILO identified five special focus countries on which to pilot its support to the PRSP process. Cambodia was identified as one of these five countries, together with Nepal, Tanzania, Mali and Honduras. In each of these countries, the ILO is working to ensure that employment and other aspects of decent work are addressed as an integral part of the economic and social analyses and policies comprising the initiative. The exercise provides a framework in which the ILO can work together with its constituents to introduce the decent work agenda into the development and poverty reduction process, as well as contributing, through social dialogue, to broader participation and national ownership of these processes. This involves preparing, in close collaboration with the national authorities, an analysis of the role of employment and other elements comprising decent work in poverty reduction, organizing tripartite meetings in the countries to influence the design and implementation of PRSPs and an on going process of networking, advocacy and influencing among a variety of stakeholders in addition to the ILO's social partners, such as bilateral donors, Non Governmental Organisations (NGO), the multilateral development banks, other UN organizations, think tanks etc..

The PRSP is seen as an instrument for achieving the Millennium Development Goals (MDGs), which were endorsed by nearly 150 heads of state or government and 189 member states in total at the UN Millennium Summit in New York in September, 2000. Decent work cuts across most MDGs and the ILO has a role to play in contributing to their attainment, including the major goal of halving the incidence of income poverty by 2015, but of particular concern is Target 16 on youth employment and Indicator 11 on the share of women in waged employment in the non agricultural sector which appears under Goal 3 on gender equality and the empowerment of women.

Many countries are not in a position to complete a full and comprehensive PRSP. In order to prevent delays for countries seeking debt relief under the HIPC Initiative as well as other concessional financing, an Interim PRSP (I-PRSP) can be formulated. An I-PRSP is meant to provide a road-map for the development of a full PRSP (a timeline for poverty diagnostics, recognition of policy areas that need evaluation and reform, envisaged participatory process, etc). With an I-PRSP in place, reports on progress (Joint Staff Assessments) need to be submitted for continued assistance and at yearly intervals once a full PRSP is in place.

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Both the International Monetary Fund (IMF) and the World Bank have aligned their respective lending programmes to a country's PRSP. In the case of the IMF, the Poverty Reduction Growth Facility (PRGF) – which has superseded the old Enhanced Structural Adjustment Facility – and the Financial Programming Framework are expected to derive from the PRSP. In the case of the World Bank's activities in low income countries, the Country Assistance Strategy and all loans – including the directly related Poverty Reduction Support Credit (PRSC) - and grants must be based on the PRSP. However, PRSPs have a leveraging role beyond debt relief and concessional credits. They have become the key policy instruments in the relations between low income countries and the wider donor community. Most Organisation for Economic Co-operation and Development (OECD) members have fully endorsed the PRSP approach and have agreed to base their respective aid programmes in low income countries on the results of the PRSP process. Many have also agreed to co-finance poverty reduction credits, grants and technical assistance in line with the PRSP. The United Nations Development Assistance Framework (UNDAF) process is also aligned to the PRSP.

## **The ILO and Poverty Reduction**

The conceptual framework for taking forward the ILO's work on poverty reduction is grounded in the twin concepts of entitlement and equity. The ILO is fundamentally concerned with social justice and fundamental principles and rights at work. A poor person, then, suffers a "deficit of entitlements and poverty reduction". The fulfilment of these rights or entitlements involves the development of both economic and social capability. Inclusion, integration and, of course, access to incomes all imply the centrality of employment creation as an economic priority for poverty reduction. More generally, the need to build social objectives into macro-economic policy implies a stress on redistribution, equity and solidarity.

This conceptual framework underlines the point that economic growth is an essential but not sufficient condition for poverty reduction. Poverty reduction involves growth with a substantial reorientation in favour of the poor (what is often referred to as "pro-poor growth"). It includes changes in institutions, laws, regulations and practices that are part of the process that creates and perpetuates poverty and detailed, targeted interventions that will enable all categories of the poor to more fully integrate into economic processes so that they can take advantage of opportunities to improve their economic and social well being. This is why the concept of decent work, which brings together the economic and social goals in people's lives, is so important to poverty reduction.

In principle, the ILO's comparative advantage in the design and implementation of PRSPs lies in the integrated approach of decent work which embraces rights, employment, social protection and social dialogue. Although it is generally accepted that the well being of any individual does not depend only on income, it is obvious that income from work is the overwhelmingly most important means of survival for poor people. It is, therefore, rather surprising how few PRSPs make explicit reference to, and even less, include an analysis of labour markets and employment issues (the same could also be argued with respect to social security/social protection policies). This may have something to do with the perspective in some quarters that equates employment with waged employment, the latter perhaps not being so relevant for many of the world's poorest people (in most PRSP countries less than 20 percent of the labour force is in waged employment) as well as the notion that labour markets are best left to the vagaries of the market. In some cases it is also evident that this relative neglect of employment policy probably reflects the relative absence of labour ministries and other social partners from the consultation processes for many Interim and full PRSPs.

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Furthermore, given that the PRSP process is usually driven by the World Bank and the Ministry of Finance and/or Ministry of Planning, it has not always been easy for the ILO to engage in the process, especially in those countries where the ILO does not have official representation. It is very difficult to develop a relationship with the aforementioned bodies or with other agencies and donors in a country on the basis of intermittent visits. Some stakeholders appear to question the value added of the ILO in poverty dialogues, especially those who are wary of the trade union movement; those who argue that the demand for labour should be left to the market; that social protection is affordable only for the formally employed; or that labour standards should not figure prominently in poverty reduction strategies.

Nevertheless, in many countries and most particularly in the five special focus countries chosen to pilot the ILO's support to the PRSP process, attention has been drawn to active labour market policy as a tool for poverty reduction. This typically includes an attempt to identify the economy's potential leading sectors in line with dynamic comparative advantage, the fiscal strategy and range of policies on interest rates, exchange rates, customs tariffs, wage rates, etc. that would best support such sectors and labour demand in other sectors; the crucial reforms of institutions and regulations that are needed to boost labour demand; policies to improve the quality and adaptability of labour to the benefit of productivity and hence demand for labour; and the special policies and programmes needed for social protection and to integrate the poor and particularly vulnerable groups such as indigenous people in the growth process.

## **Poverty Reduction and the Social Partners**

The ILO's social partners are fundamental stakeholders in PRSPs and should play a pivotal role in their design and implementation. The actual role played by the social partners and the issues which they focus on will vary from country to country but there are some common themes, not least the idea of participation as a process towards legitimising PRSPs. It has repeatedly been argued that without the voice of the social partners it is hard for either governments or the Bretton Woods institutions to claim that PRSPs represent the product of broad-based, national participation and dialogue.

In principle, ministries of labour will benefit from ILO involvement in PRSPs mainly because it will help bring them closer to the centres of policy making. The ministry of labour in a typical low income country has a wide range of technical powers and duties but they often do not include a role in the determination of policy on employment and rarely in the determination of policy on poverty reduction. Moreover, given that PRSP processes tend to be heavily budget orientated intra-governmental processes, it is often difficult for labour ministries to carry the same weight in PRSP discussions compared to other ministries such as health or education. The objective, then, is to secure a seat at the PRSP table for the ministry of labour thus raising its status and influence and increasing its capacity to analyse the interactions of employment and poverty and to contribute to the development of appropriate policies.

In most countries, the private sector is the principal engine of growth and this is clearly recognised in most PRSPs. Thus, the private sector is usually given a voice in PRSP dialogues and there are a number of common themes espoused by employers groups usually centred on what can be termed the enabling environment for private enterprise, including the importance of a stable macroeconomic environment; ensuring political stability, good governance and the rule of law; policies which promote open and transparent markets, including sound property rights and transparent fiscal policy; and the development of an adequate physical and social infrastructure. The PRSP is an important vehicle for taking forward this agenda which invariably has strong support from the Bretton Woods institutions and donors.

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Generally, trade unions have not been given the voice that they deserve in PRSP discussions and in several countries they have been effectively excluded from the participatory processes. Sometimes this is a reflection of “political issues” in a given country which contrive to marginalize or exclude trade unions, other times it might be based on the limited capacity of some trades unions to engage in national dialogues on poverty. On other occasions it may transpire that the principal architects or coordinators of a country’s PRSP perceive that trade unions, because they primarily represent the interests of organised labour in urban settings, do not add sufficient value to poverty reduction strategies which focus on the poor in rural areas and in the informal sector. This is probably a common point of view but it is also narrow and misguided and the ILO has sought to refute this viewpoint in its engagement on PRSPs. For example, the ILO has sought to emphasise the dynamic link between the rural and urban sectors (many urban workers come from rural areas and remittances from urban workers constitute a major income source for many rural areas); the importance of trade unions in improving the terms and conditions for public sector workers which is likely to impact significantly on the quality of public service provision (including primary education and basic health services), especially as it affects the poor; and of the role of trade unions as a vehicle for public education and advocacy, such as on HIV/AIDS policy. In some countries, the prevention of HIV/AIDS is essential to the achievement of the MDGs and the mobilisation of the social partners and other stakeholders in the world of work forms an essential strategy for mitigating the social and economic impact of the pandemic, especially for the poor, who bear the heaviest burden. It has also been argued that trade unions have a particularly useful role to play in terms of their experience in organising and giving voice to a significant part of civil society. They are often the leading exponents of the principle of solidarity, a good example of participation in action and an exemplar of democratic organisation.

It should be noted that a few workers’ organizations have themselves preferred not to get involved in what some regard as a continuation under a new acronym of previous policies to which they were opposed, and some employers’ and workers’ organizations have decided to concentrate their limited resources on other aspects of public policy. Finally, it is important to note that in some PRSP countries considerable restrictions on the freedom of workers and employers to associate and form or join organizations of their own choosing hamper the development of social dialogue on poverty reduction. Landless rural workers, small tenant farmers, small traders and producers are frequently excluded from laws providing for the legal establishment of workers’ and employers’ organisations or protecting such organisations and their members from intimidation and acts of violence. Reforms in these areas are essential if the poor are to be in a position to organise themselves and articulate their interests in society and the PRSP process.

## **Social Dialogue and Poverty Reduction**

Social dialogue plays a key role in achieving the ILO’s objective of promoting opportunities for women and men to obtain decent and productive work in conditions of freedom, equality, security and human dignity. Social dialogue is defined by the ILO to include all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. It can exist as a tripartite process, with the government as an official party to the dialogue or it may consist of bipartite relations only between labour and management (or trade unions and employers’ organisations), with or without direct government involvement. Consultation can be informal or institutionalised, and often it is a combination of the two. It can take place at the national, regional or enterprise level. It can be inter-professional, sectoral or a combination of all of these.

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The enabling conditions for social dialogue are as follows:

- Strong, independent workers' and employers' organisations with the technical capacity and access to the relevant information to participate in social dialogue.
- Political will and commitment to engage in social dialogue on the part of all the parties.
- Respect for the fundamental rights of freedom of association and collective bargaining.
- Appropriate institutional support.

Social dialogue institutions are often defined by their composition. They can be bipartite, tripartite or "tripartite plus". The key tripartite actors are the representatives of government, employers and workers. At times, and depending on specific national contexts, the tripartite partners may choose to open the dialogue to other relevant actors in society in an effort to gain a wider perspective, to incorporate the diverse views of other social actors and to build a wider consensus.

Social dialogue can take a variety of forms, ranging from the simple act of exchanging information to the more developed forms of consultation. The following is intended as a short list of the most usual forms of social dialogue.

- Information-sharing is one of the most basic and indispensable elements for effective social dialogue. In itself, it implies no real discussion or action on the issues but it is nevertheless an essential part of those processes by which dialogue and decisions take place.
- Consultation goes beyond the mere sharing of information and requires an engagement by the parties through an exchange of views which in turn can lead to more in-depth dialogue.
- Tripartite or bipartite bodies can engage in negotiations and the conclusion of agreements. While many of these institutions make use of consultation and information-sharing, some are empowered to reach agreements that can be binding. Those social dialogue institutions which do not have such a mandate normally serve in an advisory capacity to ministries, legislators and other policy-makers and decision-makers.
- Collective bargaining is not only an integral form of social dialogue – it is also one of the most widespread. It can be seen as a useful indicator of the capacity within a country to engage in social dialogue. Parties can engage in collective bargaining at the enterprise, sectoral, regional, national and even multinational level.

The main goal of social dialogue itself is to promote consensus building and democratic involvement among the main stakeholders in the world of work. Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress. Social dialogue is, therefore, both a means and an end in the quest for poverty reduction. It is an essential component of participatory processes inherent to the drafting of inclusive and meaningful PRSPs and a bedrock on which the foundations for an open, transparent and democratic society is laid.

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## Chapter 2

### The Participatory Process: Giving Voice to the Social Partners

The World Bank/IMF Joint Staff Assessment (2003) notes that the participatory process underpinning the PRSP in Cambodia has grown more open and consultative through time and has provided valuable lessons for the next iteration of the National Poverty Reduction Strategy (NPRS). The participation chapter candidly documents the overall NPRS process, clearly recognizes contributions and efforts of various stakeholders in the preparation of the strategy, and provides a plan for enhancing participation during the implementation phase, especially by the poor and vulnerable groups. A number of points are raised in this Joint Staff Assessment (JSA). First, the process was enriched by local level consultations, which complemented active interest and important contributions at the national level by NGO networks, in particular the NGO Forum. There was stakeholder involvement from fairly diverse groups, from women's groups, ethnic minorities, policy research institutes and academics, the private sector, trade unions, and representatives from different regions of the country. Second, after a slow start, the process successfully engaged virtually all line agencies in a series of iterations in the development of the strategy. However, parliamentarians' involvement was limited to workshop participation. Third, the openness of the NPRS team also allowed active contributions and support by a number of key development partners—with collaborative technical work or close involvement of a number of multilateral and bilateral agencies and the NGO community. The general conclusion of the JSA was that the NPRS team, and the final paper, demonstrated significant responsiveness to stakeholders' concerns within Cambodia's technical, political, and budgetary limits, and the staffs (of the World Bank/IMF) are confident that with support this responsiveness will increase.

Stakeholders have expressed a number of concerns about the NPRS, reflecting a perceived need to encourage more meaningful participation through the use of local language, set clearer priorities, ensure greater consistency across multiple strategic exercises, and examine more systematically and transparently the poverty and social impact of key policies that affect the poor. The NPRS acknowledges the concerns expressed by stakeholders in these areas. Stakeholders also urged that performance indicators under the Socio Economic Development Plan II (SEDP II), NPRS and sectoral strategies converge, particularly in the context of efforts to localize the MDGs and the Consultative Group (CG) benchmarks. Finally, local NGOs felt that the lack of written materials available in Khmer compromised the ability of the broader population to participate effectively, despite the Government's explanation that the working language for NPRS documents was English because of the need for external technical advice and support.

The Government intends to continue its consultations with key stakeholder working groups to agree on a detailed stakeholder participation action plan for the implementation and monitoring of the NPRS. Civil society participation will be critical to enhancing transparency and accountability. While the Government has a well-articulated strategy for public dissemination in Khmer, there is a need to focus on establishing a more strategic framework for communication. A key challenge will be to work out how the NPRS participatory process, including the continued engagement of various ministries and agencies, in particular the Ministry of Economy and Finance, can be integrated with the ongoing processes of the Government for policy and decision making—this is better established in some areas (such as education) than in others.

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## The ILO, the Social Partners and Participation in the PRSP in Cambodia

As part of the participatory process, the ILO held a series of consultations with representatives of workers, employers and the government, plus representatives of civil society such as NGOs, academics and intellectuals, members of the donor community - principally the World Bank, United Nations Development Programme (UNDP), and the Asian Development Bank (ADB). These consultations took place at the outset of the project, and during its course, individually and in bi-partite and tripartite fora, in both Phnom Penh and Siem Reap. This social dialogue identified, for the ILO, priority issues with regard to poverty in Cambodia, while also establishing directions for policy solutions. The dialogue enriched both the appreciation of poverty, and anchored the policy proposals contained in Chapter 3, firmly in the aspirations of the social partners.

Workers, employers, and government representatives clearly determined that poverty comprised predominantly the working poor. There was general appreciation that the low registered unemployment rate of 2.5% simply confirmed that the poor could not afford to be unemployed. Thus, the poor were poor not because they did not work, but because their conditions of work were not good. The poor lacked decent work.

The working poor were poor because:

- they worked long hours for low returns – especially in the absence of a minimum wage;
- issues such as low productivity, skills, education, even literacy, and poor nutrition and health all had their negative effects;
- women faced discrimination in the labour market and in education, making them poorer than men;
- their conditions of work were onerous, often without holidays or overtime – especially in the wake of the over stretched capacity of the Ministry of Labour to monitor and implement existing labour laws;
- they had low security and a poor frequency of work – indicated by the high under employment rate of about 13 per cent – especially given the weak investment climate in the major sectors, manufacturing, and agriculture, and the post September 11 drop in tourism;
- they had little or no social protection in work – such as occupational safety and health considerations or health insurance, nor outside the workplace – such as unemployment insurance at the end of a working life - such as pensions, or for the vulnerable – such as orphans, the disabled, and HIV/AIDS victims;
- their rights as workers and their voice at work were too weak to change these conditions;
- particularly glaring weaknesses in rights were with regard to child labour, especially in its most hazardous forms, and the trafficking of women and children;

Thus the only sustainable route out of poverty is through:

- the generation of work, and improvement in the conditions of work – generation of decent work, and enabling workers to do that work, by enhancing their capabilities.

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The workers, employers and government representatives further detailed problem areas and directions for policy solutions.

In the area of generation of decent work the policy challenges were identified as:

- a) expansion of markets;
- b) modernisation of industry, agriculture and tourism sectors;
- c) development of communications and transport, especially in the public sector;
- d) diversification of industries;
- e) improvement of governance and transparency in institutional structures and policies to improve the investment climate and increase enterprise growth and employment;
- f) mainstreaming consultation with workers and employers in policy decision making on socio-economic plans.

In the area of improving conditions of work, and enhancing workers capabilities, the policy challenges were identified as:

- a) low wage and income levels, and low productivity, based on low skills, education and literacy;
- b) virtual absence of social protection, especially in the areas of occupational safety and health, and health insurance, and for vulnerable groups such as orphans, the disabled, and HIV/AIDS victims;
- c) glaring weaknesses in rights, especially child labour, in its most hazardous forms, and the trafficking of women and children;
- d) transforming Cambodia's industrial relations system from a planned to a market economy based one.

## **The Government's Assessment of Participation<sup>1</sup>**

The Royal Government of Cambodia's (RGC) Poverty Reduction Strategy process was launched in early May 2000, while preparations were being made for the SEDP II. The process for the Interim-Poverty Reduction Strategy Paper was coordinated by the Ministry of Economy and Finance, and was completed on schedule, while the SEDP II was prepared under the supervision of the Ministry of Planning. A period of consultation followed, and the SEDP II was approved by the Council of Ministers in December 2001, and by the National Assembly in the process for the full PRSP was launched during a National PRSP Workshop held in April 2001.

At this workshop fundamental questions were raised about the relationships between the different strategic plans and multi-year budget instruments. There was discussion as to what the difference between the PRSP and the SEDP II was; and about how the detailed costing and priorities in the PRSP were to relate to the projects in the Public Investment Plan (PIP). As a result, it was decided that the National Poverty Reduction Strategy (NPRS) would be focused on reducing poverty and promoting growth, setting out priorities

<sup>1</sup> This section is taken from Chapter 2 of the National Poverty Reduction Strategy (NPRS).

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consistent with macroeconomic and fiscal constraints as well as implementation capacity, and be put together in an open and participatory process. The SEDPII would then be used as the key building block for the development of the PRSP. The following key areas where additional work was necessary in order to build on SEDPII were identified:

- improving monitoring and evaluation mechanisms;
- developing more comprehensive performance indicators and targets;
- improving the costing of priority public policies and programs and their linkage to the budget; and
- integrating the macroeconomic framework and the overall poverty reduction strategy.

It was also suggested that in the first full PRSP, the Government needed to focus on prioritising policy actions and on strengthening the process to ensure better coordination and participation. An existing structure was therefore strengthened to achieve these aims, based on the Council for Social Development and its Secretariat.

Prior to the commencement of the full NPRS process a great deal of participation had already taken place to develop the Interim Poverty Reduction Strategy Paper (IPRSP) and SEDPII. This provided an important basis on which to continue participation with stakeholders for the full NPRS process, such as an NGO Forum workshop on IPRSP (October 2000), National SEDPII Forum (March 22, 2001), a second National SEDPII Forum (October 15, 2001) and Cambodian Institute Cooperation and Peace 2 Overseas Development Institute (2002). Result Oriented Public Expenditure Management in Cambodia. Volume I – Main Report (Draft) “Roundtable on Governance and Poverty Reduction” (October 21, 2001). At this time a comprehensive participatory poverty assessment was conducted with the support of the ADB. More recently as part of the SEDPII process, a Cambodian NGO, the Centre for Social Development conducted a ‘Public Forum’ in Kampot province to disseminate information on the SEDPII. Feedback from stakeholders on these participation processes included the view that too much consultation had been in the form of circulating drafts for comment and workshops held in Phnom Penh and that there was inadequate time for meaningful consultation. There was also some criticism about the SEDPII and Interim NPRS being prepared in English without timely translations into Khmer. The fact that it is important to understand the capacity of stakeholders prior to engaging in dialogue was also learned. For example, Cambodian NGOs may need assistance in terms of understanding the NPRS process so they can effectively contribute. Unfortunately, neither of these problems was solved in time for the NPRS process, and it was also not possible to circulate drafts in Khmer.

Based on this important experience, the General Secretariat of the Council for Social Development (GSCSD) prepared a “Participation Action Plan” in January 2002. This action plan was used to define all participation activities, which underpinned the preparation of the full NPRS. The participation action plan included measures to conduct participation at the provincial and village levels, improving participation processes conducted by key line ministries and to allow for more time to prepare comments. The participation process was further discussed and developed at a National Workshop held in April 2002.

Responsibility for the full PRSP was transferred to the Council for Social Development (CSD), an inter-ministerial body chaired by the Minister of Planning. The CSD is assisted by a GSCSD, established in August 2001, which is chaired by an Under Secretary of State of the Ministry of Planning (MoP).

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The GSCSD holds monthly meetings attended by the General Secretariat, staff from the Poverty Monitoring and Technical Unit (PMATU) of the Ministry of Planning, and nominations from the Working Groups from the line Ministries, the Working Group nominated by the NGO's, and the donor Social Sector Working Group.

In January 2002, a full time local Participation Consultant was hired by the GSCSD, so that, in addition to the monthly GSCSD meetings which were to have representation by government and civil society nominees, continuous dissemination and feedback could be provided.

## **Engaging the Stakeholders: The Participation Process**

A series of consultation and participation activities was developed by the GSCSD, as defined in the Participation Action Plan, including national workshops, the Consultative Group Meeting, consultations organised by line ministries, direct consultations with the poor, and provincial consultation meetings.

In April 2002, the first PRSP National Workshop discussed the process of consultation, with strong and lively NGO participation. The NGOs previous input on the IPRSP and SEDPII was distributed to the participants of this workshop. NGOs recommended at that workshop that NGOs be invited to attend meetings of the GSCSD, which was accepted. At this stage GSCSD staff also individually contacted different NGO groups, and met with all the donors to elicit views about the NPRS.

At the first GSCSD meeting in early May the ministries were asked to share their matrices. It was decided that a joint National Workshop would be held at the end of May to involve NGO's, government, and long-term technical experts in the different sectors to come together and debate the matrices.

The second National Workshop of 28-29 May 2002, saw most of the line ministries present their draft PRSP matrices. Many of the sessions illustrated clearly the differing views of who the poor really were, and how best they could be reached. The matrices also showed the work still remaining in deciding the priorities.

The first draft of the PRSP was released at the third National Workshop of 26-27 August 2002 attended by over 200 people. The workshop had discussants from various NGOs and also from the private sector on this occasion. It appeared that one of the critical issues which will need further discussion is micro-finance - an umbrella under which banking and legal issues, land rights, health etc would come. At this point a focal point for the private sector was also identified.

The second draft of the PRSP was circulated before a fourth and final National Workshop of 12 November 2002. The purpose of this workshop was for government agencies to present the NPRS second draft once the comments provided by various stakeholders had been incorporated.

A further opportunity for discussing the PRSP was the Consultative Group meeting in June 2002. The Secretary General of the GSCSD presented some of the difficulties the ministries were facing in trying to prioritise their actions. The NGO Statement to the Consultative Group Meeting would focus on poverty reduction, and this statement would be the main source of new input to the NPRS.

An important lesson learned from the IPRSP and SEDPII formulation experience was the importance of the active engagement by line ministries and building on the existing participation processes they already have in place. For example, in September 2002 the

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Ministry of Education, Youth and Sports held extensive consultations to prepare and review their strategic plan. This was actively participated by NGOs and donors. It was on these consultations and the revised ministry wide strategic plan that the NPRS education inputs are based. Similarly, the Ministry of Health also held extensive consultations with civil society and international donors to develop their recent Health Sector Strategic Plan (August 2002) upon which the NPRS inputs are based. Other ministries in the rural development sector also conducted internal workshops to promote awareness and ownership of the NPRS within their ministries. The ministries' internal consultations were either informal or organized through specific meetings.

With regards to the crosscutting issue of gender, the Ministry of Women's Affairs actively participated in the NPRS. A PRSP "Gender Action Plan" was developed by a delegation that attended a World Bank supported conference on "Regional Gender Mainstreaming in Poverty Reduction Strategy" in Hanoi, Vietnam, in March 2002. Following this event, the Ministry hosted a number of discussions between donors and NGO leaders on the PRSP and they developed comments on various drafts.

Using the data from the poverty map developed by the World Food Program, the GSCSD organised three provincial consultations in Siem Reap, Prey Veng and Kep. A report on these consultations is available from the GSCSD. In an effort to ensure poor women's active participation, an NGO "Women for Prosperity", in close collaboration with the Ministry of Women and Veteran Affairs (MOWVA), conducted consultations with poor women in Pailin, Battambang, Pursat and Phnom Penh in June 2002. This was followed by a one-day workshop entitled "Gender issues in the NPRS Roundtable" held in October 2002 that was organized by "Women for Prosperity", the NGO Forum, and MOWVA where the findings from the grassroots consultations and recommendations were presented to the PRSP teams from four priority ministries.

An in-depth and comprehensive study of 154 villages had been completed just a few months earlier (the ADB Participatory Poverty Assessment) in 2001. The most important qualitative work was to provide constant feedback to the ministries, and focus attention on their own understanding of the problems of delivering services to the poor.

Towards the end of June/early July, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) joined in assisting with a series of consultations for the poor with the Ministry of Health (MoH) in Kampong Thom province and in Anlong Kngan, the resettlement area from the Tonle Bassac. The primary purpose was for the health officials involved in the NPRS process to extend and expand their personal perceptions of the needs of the poor and how the NPRS process will directly respond to these.

Whilst various consultations have been going on at the national and field levels, in Phnom Penh the Poverty Monitoring and Analysis Technical Unit of the Ministry of Planning, attached to the GSCSD, held a National Poverty Forum in early July to discuss plans for monitoring and analysis and to describe the monitoring tools they planned to put into operation.

### **Civil Society Stakeholders: NGOs, the Private Sector and Donor. Participation in the NPRS**

The NGO Forum on Cambodia is an organised forum of local and international NGOs that seeks to discuss debate and advocate the concerns of NGOs regarding Cambodia's development.

Activities/reports of NGOs include:

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Interviews and workshops in Phnom Penh and four provinces with NGOs to discuss the IPRSP. Efforts were made to meet with other informants, such as indigenous hill tribe leaders, industrial workers, commercial sex workers and urban poor community leaders. This two-month activity culminated in a National NGO Workshop held on 24-25 October 2000 and attended by 85 NGO representatives, mostly Cambodian.

The Forum's report "Cambodia's draft Poverty Reduction Strategy Paper - Has NGO Input Been Included?" (September 2002) summarises much of the relevant NGO input to date.

This includes:

- o Results of Initial Discussions among NGOs/CSOs on the National Poverty Reduction Strategy of Cambodia (November 2000), a publication of the NGO Forum on Cambodia, produced after two months of sectoral discussions and the holding of a national workshop on the IPRSP in October 2000 involving 85 NGO representatives.
- o Results of NGO Discussions on the Draft Socio-Economic Development Plan (August 2001), produced following a meeting of 32 NGO representatives from a variety of sectors in July.
- o The NGO Statement to the 2002 Consultative Group Meeting in June 2002 (see above).
- o NGO Recommendations to Enhance the Success of the RGC's Governance Action Plan (June 2002), a publication of the NGO Forum on Cambodia.
- A rapid comparison of the NGO Statement to the 2002 CG Meeting and the second draft of the PRSP in Cambodia was completed and was used to revise the final draft of the NPRS.
- NGOs were active participants in all the National Workshops (as described above) and GSCSD meetings.

The private sector focal person liaising with GSCSD assisted with the dissemination meeting, and provided excellent material from their database on topics such as agro industry.

The donor Social Sector Working Group in particular has provided representatives (from UNICEF, World Food Programme (WFP), UNESCO and World Health Organisation (WHO)) to attend the monthly GSCSD meetings to provide technical input. From May 2002 GSCSD staff has met with various donors. The Canadian Cooperation (CIDA) agreed to fund a consultant who could act as the link between GSCSD and the line ministries to ensure that there was continuous feedback from the GSCSD and indeed from the line ministries. The United Nations Population Fund (UNFPA) provided an assistant for the Secretary General and also agreed to assist with transport and the provision of small office supplies. UNESCO assisted with a consultant to work at the Ministry of Education, and also agreed to fund the education ministry personnel at different levels to attend dissemination workshops in the different provinces.

Between 28 and 29 October 2002 the Canadian International Development Agency (CIDA) project in collaboration with the UNDP and World Bank Institute organized a workshop on the role of parliaments and PRSP where senators, parliamentarians, certain NGOs and a number of representatives of the poor from Takeo, Pursat, Kampong Thom, Kratie and Kampong Speu were involved. These poor people represented different sectors

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important to their livelihoods including forestry, fishing, rice farming, the sex trade, drug addiction and the garment factory. The workshop participants also briefly discussed the contents and certain issues of interest of the NPRS. The workshop can be considered as part of the effort to involve the parliamentarians in the NPRS process and their capacity building.

Soon after the August 2002 national workshop a number of trade unions formed a 'Union Committee for PRSP.' The committee became actively involved in the process; met monthly, presented their views at the final workshop and prepared comments on the second draft of the NPRS. Their contributions focused on labour conditions (especially related to minimum wages), employment issues, and corruption.

The media was identified as a stakeholder in the NPRS process. Journalists were invited to attend all the National Workshops and some important events in the NPRS process were reported in the local press. The media will play an important role in monitoring the implementation of the NPRS.

The Government reports that since May 2002 significant progress has been made to promote participation between the Government and the people of Cambodia. During the on-going PRSP process the GSCSD has achieved significant participation from sectoral Ministries, donors, NGOs, communities, the private sector, communities of the poor, etc. In addition to the World Bank, the Government's other key donor partners including UNDP, UNFPA, WHO, UNESCO, UNICEF, Department for International Development (DFID), CIDA and GTZ, have actively supported the NPRS process. The process has so far ensured broad country ownership and extensive stakeholder consultation. However, not all of the activities planned in the Participation Action Plan were implemented for a variety of reasons, including limited time, lack of financial resources and capacity constraints. The GSCSD will continue to serve as the principal stakeholder coordination mechanism to ensure that line ministries, NGOs, private sector and donors are aware of opportunities for assistance and progress of grant supported activities.

## **ILO Assistance to the Social Partners: Enhancing their Participation in the PRSP**

Against this background, the ILO assistance to social partners and government focused on a series of activities and events, which can be summarised as follows:

### Stage 1: Formulation of ILO input for PRSP in Cambodia (January – July 2002)

In early 2002, in close cooperation and consultation with the social partners as well as government agencies, the ILO conducted research on important social and economic policy issues of relevance to the national poverty reduction strategy. The ILO's technical report, entitled *Generating Decent Work in an Emergency-Poverty Reduction in Cambodia*, rendered workers' and employers' organizations as well as government agencies including the Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation (MOSALVY) better aware and better able to assess and analyse social and economic data, and to develop their contribution to the PRSP process.

### Stage 2: Capacity building activities for social partners (July 2002)

As the first step for capacity building for effective social dialogue in the PRSP, the ILO organized two separate workshops for workers' and employers' organizations. The workshops aimed specifically at strengthening their capacity for effective participation in the PRSP formulation process. The ILO conducted a training workshop for trade union leaders, aiming at enhancing their awareness of the vital importance of their participation

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in the PRSP and at strengthening their capacity to participate in the PRSP process. Through the workshop trade union leaders gained knowledge on PRSP related issues and developed a check list for their effective participation in the PRSP. More importantly, at the end of the workshop, trade unions formed a joint trade union committee on PRSP, which was a very encouraging development, as rivalry among trade unions in Cambodia often undermines the scope for working together. At the same time, the ILO gave technical and financial support to a survey undertaken by the Cambodian Federation of Employers and Business Associations (CAMFEBA), the umbrella organization representing employers in all sectors of the economy. The sample survey of employers' views on the PRSP contributed to identification of the employers' priorities on policy measures.

Stage 3. National and provincial tripartite workshops on PRSP (August 2002)

Based upon outcomes of Stage 1 and 2, a national tripartite workshop on the PRSP process was held in July 2002. The national workshop was successful in several ways: first, representatives of workers' and employers' organizations jointly identified the barriers to poverty reduction in the country and presented their policy priorities for reducing poverty; second, the national tripartite workshop offered the first opportunity where the Ministry of Planning, the lead Ministry on PRSP in the country, established a constructive relationship with trade unions; finally the social partners were able to endorse the ILO policy proposals, which had been developed from the previous consultations. Immediately after the national tripartite workshop, a provincial tripartite workshop was organized, which was instrumental in bringing the voices of rural workers into the PRSP process. Finally, as a result of this whole process of empowering the social partners and increasing their "visibility", they were included in the national and provincial consultation meetings organized by the RGC in August and November 2002.

Stage 4. Technical support for line ministries in finalizing PRS paper

In September 2002, the ILO fielded a mission to undertake a series of meetings with line ministries with a view to incorporating ILO policy proposals - which reflected the views and priorities of the ILO constituents based on the above activities - into the policy matrices of each line ministry. There was a generally positive response from the line ministries and the ILO provided technical assistance to them in finalizing their policy matrices. Ultimately, the overall Government PRSP policy matrix went on to incorporate most - if not all - of the ILO policy proposals.

The most visible indicator of the success achieved by the ILO intervention through social dialogue on PRSP is the final version of the PRSP policy matrix, which embraces many issues related to decent work. Another important indicator of the success is the strengthened capacity of the trade union movement to coordinate policies between national trade unions centres. This work has also shown how trade unions can actively participate in the formulation of policy on poverty reduction, which is new ground for the trade union movement in Cambodia. But perhaps most importantly, the PRSP experience has enhanced the scope for fostering a constructive partnership between employers' and workers' organizations on issues of common interest, as shown in their joint identification of problems on poverty reduction through a bi-partite and tripartite dialogue process.

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## Chapter 3<sup>2</sup>

### The technical assessment: Generating Decent Work for Poverty Reduction in Cambodia

Since the era of conflict Cambodia has come a long way in terms of political reconstruction. Two national elections and a commune election have been held in the last decade – important steps towards democracy and decentralisation. Economic reconstruction has also been significant, a transition from a centrally planned economy to a market based economy. The macro instability of the 1980s was replaced by the concerted reforms in the 1990s. These reforms have yielded growth and development – but not enough. Poverty has remained very high. And growth has proved fragile.

The ILO holds that the only sustainable route out of poverty is by generation of productive work, and enabling workers to do that work. Because the poor for the most part work, poverty reduction implies even more importantly improvement in the conditions of their work – the generation of decent work. Generation of decent work has to be enabled by a number of elements including generation of demand for labour, increasing the productivity of labour and its returns, increasing the security and protection for labour, improving working conditions, enhancing workers' rights, and strengthening dialogue to underpin these. A critical element of decent work is the reduction and elimination of particularly glaring vulnerabilities, glaring deficits in decent work, in areas such as children in hazardous work, child labour in general, trafficking of children and women, discrimination against women, and protection for the vulnerable - the disabled, orphans, and HIV/AIDS victims. Then the only sustainable route out of poverty is by generation of decent work, and enabling workers to do that work, by equipping them for it.

A set of policy proposals for reducing poverty in Cambodia are being put forward by the ILO, based on identification of critical problems and directions for policy solutions by the tripartite constituents – representatives of workers, employers and the government, plus representatives of civil society. To this policy end, the ILO brings its cross country experience in the world of work.

The first section evaluates the growth and poverty dilemma for Cambodia, based on macro data and more importantly on the voice of workers, employers and government representatives identifying their needs and directions for policy solutions. The following policy proposals address the problems of poverty in two parts. The first set of policy proposals focuses on strategies to generate decent work. These are by their nature more demand generating strategies – enhancing the demand for decent work. The second set of policy proposals concentrates on strategies to improve the conditions of work and to enable workers to do that work, by better equipping them to do so. These are more supply oriented strategies, enhancing the capabilities of workers for decent work.

#### Current Macro Conditions

Prior to the Asian crisis the economy grew at 5-6 per cent. Compared to this Vietnam grew at 8-9 per cent over the last decade. The crisis lowered Cambodia's growth to 2 per

<sup>2</sup> This section is an edited version of a paper submitted to the Ministry of Planning, Royal Government of Cambodia by the ILO Regional Office for Asia and the Pacific. Although many people contributed to the report, the principal author was Mr Moazam Mahmood. However, the author of this working paper takes sole responsibility for any errors, omissions or inaccuracies in the process of editing the paper for inclusion as Chapter 3 in this working paper.

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cent. Recovery to trend growth has been short lived, over 1999 and 2000. The global synchronised recession has again pulled down growth in 2001 to 2-3 per cent. Projections for 2002 fear the persistence of low growth in this 2-3 per cent band range, and a weak recovery to 3-4 per cent by 2003. This growth has been narrowly based sectorally. Industry has the lead with growth rates above 10 per cent, while agriculture has lagged badly with growth rates ranging from negative to 5 per cent and services have fared no better. Accordingly, the share for industry has increased to almost a quarter of the GDP by 2000. The share for agriculture has dropped to 38 per cent of GDP. And the share for services has also dropped to 35 per cent. This industry led growth has been based strongly on exports, which have doubled in the past half decade to \$1.1 billion, contributing a third of GDP. Garments account for a half of these exports, and timber for another \$0.1 billion. Approximately 40 per cent of the garments are destined for the US and the EU. As a result of the export growth, Cambodia's reserves have risen to \$0.5 billion and the exchange rate has stabilised at just under R4000 to the US Dollar. The current account deficit has been stabilised at around 10 per cent of the GDP.

The fiscal performance has also improved in the last three years. Beginning with a very low revenue base of 9 per cent of GDP in 1998, the introduction of a value added tax has helped raise this revenue by 3 per cent. Defence expenditures peaked in 1995 at around \$170 million, and have now been brought down to \$114 million. The share of social expenditures in GDP has gone up. The fiscal deficit has been contained below 6 per cent of the GDP. Domestic financing of the budget has been avoided since 1999, allowing room for expansion of private credit. Inflation has been brought down to single digits in the last three years. The RGC has also undertaken administrative reforms to improve governance. These include a civil service reform strategy, restructuring the banking system, tabling a new forestry law, and approving a new Governance Action Plan (GAP).

## **Poverty, the Working Poor, and Agriculture**

The problem is that despite this reform and growth process over the last decade, poverty remains stubbornly high. Cambodia's per capita income of \$238 in 2000 made it the poorest country in South-East Asia. Demographic pressure does not account for this low per capita income in the usual way because Cambodia with a population of 12.2 million in 2000 has the lowest labour to cultivable land ratio in the ASEAN region.

The level of poverty was estimated at 36 per cent in 1997 by the first Socio-Economic Survey (SES I). Unfortunately the SES2 conducted in 1999 gives a higher figure of 51 per cent. There are serious problems of comparability across the two surveys, but poverty has probably not come down since 1997. Cambodia's growth strategy over the last half decade has a major shortcoming in that it has at the very least left a high level of poverty, with more than a third of the population falling below the poverty line. Furthermore, there is a possibility that poverty may even have increased. Over a third of the population implies a narrowly based growth strategy. The demographic and educational characteristics of the poor bear this out. Larger households, with a larger number of children tend to have a higher incidence of poverty. Illiterate heads of households and those with the least schooling also tend to have a higher incidence of poverty. Households with a lower proportion of working members, a lower number of jobs per person, and a lower average wage had a higher incidence of poverty.

However, the poor cannot easily be identified as the formally unemployed in the labour market. The rate of open unemployment in 2000 was 2.5 per cent of a labour force of 5.5 million. The poorest households are not the unemployed but the self-employed workers and the unpaid family workers. The poor cannot afford not to work – the opportunity cost of unemployment is too high. So the poor are largely the working poor. And the working poor and the poor are largely in agriculture. Seventy per cent of the poor

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are in households whose head worked in agriculture. Compared to this only 1 to 7 per cent of the poor were in households whose head worked in other sectors such as manufacturing, construction, trade or the government. The poor are also largely self-employed. Seventy-five per cent of the poor were in households whose head was self-employed. So most poverty is found in households whose head was a self-employed farmer. Furthermore, poverty in Cambodia has a strong gender dimension. Almost one-fifth of the poor household members were unpaid women workers. Virtually all female-headed households fell into poverty (SES II).

If the poor are largely the rural self-employed farmers, it is important to establish which parts of rural Cambodia are the poorest. Rural Cambodia divides into five regions. These regions are rural Phnom Penh in the south-east, the rural plains in the north-west, the rural areas around the Tonle Sap, the rural coast in the south-west, and the mountains in the north-east. The two main population densities are around Phnom Penh in the south-east, and the Siem Reap-Battambang-Banteaymeanchey in the north-west. The area around the Tonle Sap has the next highest population density, while the coast in the south-west and the mountains in the north-east have the lowest population densities. So the country's population densities run on a south-east to north-west axis, from Phnom Penh in the south-east, around both sides of the Tonle Sap to Siem Reap and Battambang in the north-west. Three-quarters of the rural poverty lies in the north-west rural plains and around the Tonle Sap rural areas. In contrast rural Phnom Penh in the south-east has the lowest incidence of poverty. What this implies is that rural poverty is concentrated in the areas distant from Phnom Penh, in the north-west population density of Siem Reap-Battambang, and along the south-east north-west population density axis around the Tonle Sap.

In summary, poverty is concentrated in agriculture, in the north-west population density of Siem Reap-Battambang, and along the south-east to north-west population density axis running around the Tonle Sap. Agricultural poverty is the lowest in the south-east population density of Phnom Penh. So the spatial dimension of poverty is remoteness from the Phnom Penh population density in the south-east, travelling along the population density axis around the Tonle Sap to the north-west. If there is one archetype, the face of poverty in Cambodia is the poor working woman in agriculture.

## **Generation of Decent Work**

### ***Expansion of Markets***

#### **Policy Proposal**

*Expansion of the domestic market for agriculture and industry by better integrating the two fragmented sectors. Expansion and maintenance of the national road network will link its industry concentrated in the South East of the country with agriculture concentrated in the North West. Expansion and maintenance of the local road network will integrate farms and urban markets better. Use of Labour Based Appropriate Technology for construction and maintenance of roads will generate both short term and long run employment.*

If there is one lesson in growth to be drawn from the Asian crisis, it is the need to rely on both external and domestic markets. Cambodia's current growth strategy faces a number of challenges. It is based on two main sectors, textiles and garments, and tourism. It has neglected the agricultural sector, resulting in the concentration of poverty in this sector. Such a strategy is sectorally narrow, and it faces a number of challenges.

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## The challenge of competitiveness in textiles and garments

The textile and garment sector has contributed remarkably to the growth of industry and the economy over the past 8 years, growing more than ten-fold to \$360 million. This sector now accounts for almost half of industry, and 12 per cent of the GDP. It employs 170,000 workers, nearly 4 per cent of the labour force. Eighty-five per cent of the workers are women. The average wage of \$60 per month compares favourably with alternatives. There appears to be a premium fee of half a month's wage paid by a significant number of workers to secure a job in the garment sector.

However a problem arises in that Cambodia does not appear to have an underlying comparative advantage in a cheap labour industry such as in the garment sector. Comparing the hourly wage rates in garments across Asia, currently Cambodia manages to match the low wage rates in labour surplus countries such as Vietnam, India, Indonesia, and Bangladesh. But unit labour costs in Cambodia are much higher than in countries with higher productivity like Vietnam. The Cambodian wage is also depressed because of the stagnating agricultural sector. In fact, the only reason that garment manufacturers have set up factories in Cambodia is to take advantage of the special concessions it has obtained in world markets. China's accession to the World Trade Organisation (WTO) has already eroded these, and they will be further weakened with the restoration of Vietnam's normal trade relationship with the US.

## The challenge of raising exports in a dollarised economy

Export competitiveness is also constrained by the dollarised economy. Cambodia is dollarised in that the US dollar is widely used as a store of wealth, a medium of exchange, and a unit of account; so essentially the dollar serves the function of money in the Cambodian economy. This constrains the use of exchange rate policy to boost exports in the usual manner. If the prices charged by foreign suppliers, the prices of these goods in Cambodian markets, and the prices of Cambodian goods in world markets are all denominated in dollars, this amounts to a nominally fixed exchange rate. Then the exchange rate cannot be varied to affect the price of exports.

## The challenge of a fragmented economy

A strong argument is emerging with regard to the fragmentation of the economy. Evidence for it is yet casual, but persuasive and warrants serious consideration and further work on it. The argument is that the two main loci of high population density, seen in Map 1, around Phnom Penh in the south-east, and around Siem Reap-Banteayminchey-Battambang in the north-west are weakly connected by road or water. To travel the 400 kms between Reap and Phnom takes 9–10 hours, and to travel from Battambang to Phnom Penh (300 kms) takes 8 hours. Water transport on the Tonle Sap is equally onerous. The poor road link appears to be as much a function of an initially weak infrastructure, as much as a lack of maintenance of what already exists. But what appears to be a mere logistic problem of a relative division between the two main areas of high population density, Phnom Penh and Siem Reap, becomes a relative division between industry and agriculture. Much of Cambodia's industry is located in the population density around Phnom Penh, and much of Cambodia's more fertile agriculture is located around the upper reaches of the Tonle Sap, in the Siem Reap-Banteayminchey-Battambang area. So what begins as a logistic fragmentation between the main population loci of Phnom Penh and Siem Reap, ends up as an institutional fragmentation of the economy, as a relative division between industry around Phnom Penh and the agriculture around Siem Reap.

The historical subtext to this fragmentation of the economy dates back to the 13th century AD. The Angkor civilization emerged on the upper reaches of the Tonle Sap, around Siem Reap in the 9th century AD. Its location while no doubt based on more

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complex reasons appears at least to have been a function of two strong factors, hydrology and conflict. The hydrology factor is the monsoonal swelling of the Tonle Sap, whose recession leaves a fertile flood plain for rice cultivation in the upper reaches. The flooding is so intense that the Mekong actually reverses its flow inland for that part of the year. This natural flooding was added to by the development of a large reservoir, river and canal network by the earliest Angkor kings. The Western Barai reservoir measures 8 kms by 3 kms and is estimated to have irrigated a command area of 8000 has, of which only 1800 ha have been rehabilitated currently. The Eastern Barai was several times larger, and had not been rehabilitated. This hydrology is estimated to have supported an Angkor population of up to 1 million, with a population density higher than the current.

The major conflict of the Angkor civilization was with the Chams from current Vietnam, and the Siamese from Thailand. The initial location of the Angkor civilization around Siem Reap was based on vanquishing the Siamese threats, and in fact extending into much of Siam in the 12th and 13th centuries. The name Siem Reap in fact means the defeat of Siem. The location around Siem Reap also implied a distancing of the Angkor civilization from the greater threat of the Chams. The Chams navigated up the Tonle Sap to attack Angkor, hence Angkor's location at the far end of it. The second half of the 13th century however saw a reversal in the threats to Angkor. This period of Jayavarman VII, the pinnacle of Angkor, with the building of the Bayon temple, the development of 1,700 hospitals, and the endowing of universities, also coincided with the neighbouring unification of Siam. So in the post-Jayavarman VII period the Siamese threat increased, while the Cham threat receded, and the capital of the Angkor civilization relocated down the Tonle Sap to Phnom Penh.

This historical subtext helps explain the location of the two main areas of population density in Cambodia, around Phnom Penh and Siem Reap. The hydrological factor also helps explain the north-west area around Siem Reap as a historical and continuing major producer of agricultural surplus in the country. The logistic division between the Phnom Penh and Siem Reap areas implies a division between the industry in Phnom Penh and a major area for production of agricultural surplus Siem Reap. This division takes the form of the north-west area around Siem Reap-Banteayminchey-Battambang marketing a large part of its agricultural surplus to Thailand, and buying a large part of its consumption and production needs from Thailand. So the agricultural sector of the north-west of Cambodia markets a large part of its output to Thailand, and buys a large part of its inputs from Thailand.

While more systematic evidence of this is needed, the ILO's market surveys of small district market towns show border trade as an overwhelming stylised fact. The main border town of Poipet straddles both the Thai and Cambodian sides, 140 kms from Siem Reap. The north-west of Cambodia markets a large part of its agricultural surplus through Poipet to Thailand. And the Thai market delivers to the north-west through Poipet, much of its consumer goods, apparel, durables, construction material and mechanical implements. Surveys of small district towns like Pouk with a population of 112,000 some 20 kms from Siem Reap are flooded with Thai consumer goods and durables. The Thai Baht is the parallel currency up to 60 kms inside Cambodia, and well accepted in Pouk.

Such evidence implies a fragmentation of Cambodia's economy. Its agricultural sector in the north-east around Siem Reap-Banteayminchey-Battambang markets a large part of its surplus to Thailand, and Thailand provides a large part of this area's industrial needs. Therefore, the agricultural sector in the north-west of the country does not market a large part of its surplus to the industrial sector in south-east around Phnom Penh, nor does this agricultural sector in the north-west buy a large part of its industrial needs from Phnom Penh.

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If industry is missing part of its domestic market – in the agricultural sector, and agriculture is missing part of its market – in the industrial sector, then both the domestic markets are narrowed down. With narrower domestic markets, for industry and agriculture, and relatively greater reliance on external markets, competition increases for both sectors. Cambodian agriculture has to compete with Thai agriculture and so will get a lower price. Cambodian industry also has to compete with Thai industry and so will also get a lower price. Since 80 per cent of the population are self-employed farmers, they get lower prices and incomes. As noted earlier, in the north-west most of the poverty lies in the agricultural sector. Therefore, as the Cambodian industry is struggling for competitiveness in external markets, while its quota advantage faces a clear sunset, it cannot afford to lose out on part of its domestic market.

### An emergency strategy to re-integrate the fragmented economy and generate employment

If the economy is fragmented spatially and institutionally, the south-east from the north-west, and industry from agriculture, for logistic reasons, then the policy implication is unequivocal. There must be a major infrastructure programme to create and maintain the national road network. The ILO has a decades' experience in creation and maintenance of rural roads and infrastructure in Cambodia. The impact of the roads on expansion of markets for outputs and inputs, on productivity, on incomes, and on social development such as schooling and health care are tremendous. Further, the Labour-Based Appropriate Technology (LBAT), used in the construction and maintenance generates significant employment on an emergency basis, while remaining cost effective.

Transport networks, particularly roads, are inadequate. The total road network in Cambodia (excluding tracks) is 41,000 km, comprising 4,200 km of national roads – (of which less than 12 per cent are paved), 3,600 km of provincial roads, and about 28,500 km of local or tertiary roads. This network provides only about 0.65 km of road for every 10 square km (1,000 hectares) of land. All roads have deteriorated following decades of conflict and political instability. Emergency improvements were carried out on arterial roads from 1991 to 1996, but many sections have deteriorated and are virtually impassable, particularly for heavy vehicles during the rainy season due to a lack of maintenance. The poor condition of bridges on sections that have not been rehabilitated continues to aggravate the situation. The secondary network is in a derelict state, virtually blocking access to rural areas. This category of road has been almost totally neglected, with all public funds having been spent on primary roads. Although there has been considerable investment in tertiary road improvements, maintenance and coverage are major challenges.

The Ministry for Rural Development (MRD) estimates that there are over 28,000 km of rural roads. This includes the tertiary and sub-tertiary roads. A desktop survey carried out in 1999, found that approximately 4,000 km of roads would fall into the category of Tertiary Roads (linking District Centres to each other). The remaining 24,000 km would be different categories of Sub-Tertiary Roads. The ILO's micro surveys of the impact of road construction and maintenance on the affected community of users show both financial and economic returns. Financial returns comprise reduction in travel costs. Economic returns comprise increased trips for producers, consumers and traders, for increased transactions, decreased trader's margins, reduced consumer prices, and increased returns to producers. In addition to income effects there were also wealth effects, with asset values for land and vehicles increasing, and social development effects of better access to schooling, health, and security including de-mining. A Cambodia Road Economic Appraisal Model (CREAM), with an economic internal rate of return of 12 per cent, shows the feasibility of low cost roads under \$15,000 per km. for areas with population densities as low as 100 persons per sq. km. For higher priced roads the feasibility requires population densities of 150 persons per sq. km.

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The ILO's use of LBAT lowers the costs of the road, as well as generates greater employment. LBAT when introduced widely in the mid-70s reduced the cost per km. from the equipment-based road of \$4,300 to the LBAT road of \$3,500. In addition the equipment-based road generated barely 10 per cent employment income, while the LBAT road at a \$1 per day wage rate generated 43 per cent of the budget in employment income. Back then the break-even wage rate between equipment and LBAT was \$1.8 per day. By 2000, the equipment-based road costs \$8,600, compared to the LBAT road cost of \$5,700. The equipment-based road generates 5 per cent of the budget in employment income, while the LBAT road generates 26 per cent in employment income. However, since the cost of equipment has escalated by far more than the LBAT wage rate which is still at \$1 per day, LBAT's feasibility has increased considerably. The break-even wage rate has now risen to \$3.8 per day. The ILO's current gravel roads in Cambodia cost between \$5,000 and \$13,000 per km., generate between a quarter and a third of the budget in employment income, and generate 1,600 to 3,700 workdays per km. The ILO projects were estimated to have generated some 2.3 million workdays over a 10-year project period. Perhaps the most telling numerical metaphor for the cost of non-integration of a fragmented economy is not the cost of non-construction of roads, but of the non-maintenance of roads. The World Bank estimates that for every \$1 not spent on maintenance of roads, there is a GDP loss of \$3.

## **Reviving Growth, Productivity, Incomes and Employment in Agriculture**

### Policy Proposal

*Increasing productivity in agriculture by easing the main constraint on dry season cropping – irrigation. Expansion of the canal network demonstrably raises productivity by its allowing multi-cropping and permitting higher fertilizer use. Use of LBAT in extension and maintenance of the canal network will generate both short-term emergency employment, as well as long-term employment.*

The primary challenge to the current growth strategy being pursued is the persistence of stubbornly high levels of poverty, at over a third of the population, largely accumulated in agriculture. The high growth in manufacturing – textiles and garments, and tourism, has not managed to affect the high levels of poverty in agriculture. Far from it, the poverty level may even have increased in the closing years of the decade. This growth strategy has been very narrowly based because it has allowed the predominant sector to stagnate. Agriculture still comprises 38 per cent of the GDP, roughly constant in the last half decade. Of a population of 12.2 million, and an employed labour force of 5.3 million, 71 per cent were still employed in agriculture. The second largest sector was trade at 8 per cent, followed by manufacturing at 7 per cent. Agriculture, the predominant sector of the country, both in terms of value added, and overwhelmingly in terms of population, is the weakest in South-East Asia. Cambodia's agriculture is rice based, and its rice yields at 1.5 tons/ha are the lowest in the region, with the next lowest country Laos at 2.7 tons/ha. These yields have barely crept up by 0.3 tons/ha. in the last decade, and by some estimates are still below their past level 30 years ago.

There is a clear irrigation constraint on expansion of output and productivity per hectare. Wet season rice is based on cultivation of just under 2 million hectares. Dry season rice, which requires irrigation, is constrained to one-tenth the cultivated area of wet season rice. The low level of multi-cropping in the year constrains total production and the productivity per hectare. Another input constraint is fertilizer use. Cambodia's lowest yields in the region are based on its lowest use of fertilizer in the region. Fertilizer input per hectare averaged 2.3 kg for Cambodia, compared to the next lowest user the Philippines averaging 63 kgs. This low fertilizer use is also dependent in large part on

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irrigation constraints, since the impact of fertilizer on yields is seen to be dependent on controlled irrigation.

The ILO has assisted in the construction, rehabilitation, maintenance and operation of the Bovel Irrigation System (BoIS) in Battambang Province and the Barai Irrigation System (BIS) in Siem Reap Province since 1992. There were several important outputs from the ILO intervention. The ILO renovated 76.74 km, constructed 7.14 km of secondary canals and maintained 94.83 km of primary and second canals. The ILO also constructed 81 new irrigation structures and repaired 214 structures. Another important output was the substantial number of workdays generated. The total employment effect of the irrigation works for the three ILO projects was 1,738,274 workdays. The BoIS now has a wet season area. The average irrigated area for the BIS is around 8,000 hectares including supplementary wet, receding and dry season crops.

Interviews with farmers using water in the BoIS showed increased rice production due to reliable irrigation water. New higher yielding rice varieties have been adopted and users have invested in fertilizer due to a secure water supply. Farmers are no longer forced to grow traditional varieties, which are tolerant to poor conditions but produce low yields. The NGO Adventist Development and Relief Agency International (ADRA) compared the area under cultivation in 1993 (before the ILO intervention), to 1996 (after the ILO rehabilitation). ADRA recorded a 3,000 ha increase in the annual area of rice cultivation, including increased land area cropped and double cropping. A second ADRA project found that farmers were using improved rice varieties, crop management and water management leading to improved average yields from 1-1.5 tonnes per ha to 3.45 tonnes per ha. ADRA found there needed to be an “agricultural and water” mix, for effective utilisation and to benefit from irrigation infrastructure rehabilitation and irrigation operation and maintenance. The Food and Agriculture Organization (FAO) found that agricultural extension building upon improved irrigation further increased yield.

A study by the Centre for Advance Study (CAS) found that the land cultivated with improved irrigation had increased significantly (16 per cent) since 1993. In addition, the area used for double cropping had increased by 45 per cent. CAS believes that this increase in double cropping demonstrates the impact of improved irrigation since the ILO intervention. There was a considerable increase in the land used for growing wet and dry season rice. Wet season rice land increased by 11 per cent, while dry season rice land increased by 23 per cent. This result, especially the increase in dry season rice cultivation, was due to improved access to irrigation. Total production (rice and other crops) increased by 28 per cent from 1993 to 1999. Thus the impact of irrigation on production and land productivity is considerable. The potential for irrigation in Cambodia is enormous. The existing 27,000 ha under irrigation form only 7 per cent of arable land, much less than Cambodia’s ASEAN neighbours, and less than its potential to irrigate 43 per cent of its arable land. Therefore, it is clear that surface and ground water irrigation expansion on a significant scale has to form an important part of the macro strategy to raise growth and reduce poverty in agriculture. In addition, surface water expansion using LBAT helps provide emergency employment generation.

## ***Reducing the Volatility in Tourism***

### **Policy Proposal**

*Tourism in Cambodia is highly import intensive, leaving a low value added and income share for the domestic economy. The import content in tourism must be reduced by better linkages with both domestic manufacturing and agriculture. Tourism must also be diversified, spatially from existing temple sites to others, and into niche markets such as mountain and sea resorts, herbal spas, and eco-tourism. Again LBAT to clear and*

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*maintain vast uncovered temple sites, and to develop infrastructure for the diversification of tourism will generate long- term employment.*

Tourism is the major sector in services. Cambodia's unique temples are the main attraction. After the setbacks of the conflict and instability, tourist numbers hit 400,000 by 2001. Unfortunately, this sector is also subject to external conditions – in this case global tensions. After September 11, the growth rate in arrivals dropped from 23 per cent in the first eight months of the year to 1 per cent in the last three months. This sector also has a very low money value at the moment. Estimates show that for every tourist dollar, 75 cents are returned to Thailand to import fresh vegetables, fruit, flowers, handicrafts and furniture. To reduce the import intensity in tourism, policy incentives must be provided to increase its links with domestic industry and agriculture. To reduce the volatility in external demand, the Tourist Authority Apsara can consider increasing the share of higher end tourism. Apsara can also consider diversification of the sector. There is great potential for spatial diversification from currently uncovered sites around Angkor to the large number of uncovered sites around the country. There is also potential for diversification of tourism into niche markets such as mountain and sea resorts and health spas. Again use of LBAT for uncovering sites and maintaining them generates significant employment as ILO experience in the Angkor sites show.

## **Governance and Consultation**

### Policy Proposal

*Improving governance and transparency to attract investment into Cambodia. Enterprise growth has to enable employment growth. Mainstreaming consultation with its workers and employers in decision-making on socio-economic planning will also aid improvement in the environment for growth of investment and employment.*

Declining investment especially in textiles, and the low level of investment in agriculture and other sectors such as services, call for an improvement in the environment to attract investment, both foreign direct investment, and domestic investment. This calls for the enunciation of a clear vision of the free market in the country. Judicial reforms are called for to provide capital with a secure base. Administrative and public sector reforms are needed to strengthen the investment environment, as well as to improve resource use. For instance some estimates of smuggling show a significant displacement of domestic production and revenue losses to the government. Security for the individual must also complement security for capital.

The RGC has a Governance Action Plan. Property rights, especially in land can be made more transparent. Investment incentives must also be based on modification of taxation laws, and administrative easing for entry of investment. Mainstreaming consultations with workers and employers on such issues of growth and employment, can only improve the economic environment. The consultation process for the PRSP for example, with workers, employers and representatives of civil society demonstrates this.

### Improvement in the Conditions of Work, and Enhancing Workers Capabilities

The strategy for poverty reduction examines the macro space for poverty reduction, by expanding the domestic market for both agriculture and industry through reintegration of its fragmented markets, by generating growth and employment in the lagging sector agriculture, by diversifying tourism, and by improving the investment environment. Generation of work however is not a sufficient condition for reduction of poverty. As noted, the poor largely work in Cambodia. So they are poor despite, and because of their conditions of work. So poverty reduction requires not only generation of work, but also

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improvement in their conditions of work – it requires generation of decent work, and it requires equipping workers to do that work, by enhancing their capabilities.

## **Low Wages, Incomes, Productivity, Gender Segmentation and Development of Human Resources**

### Policy Proposal

*Low wages and incomes accompany low productivity and weak development of human resources. Gender segmentation in the labour market is reinforced by lower education levels for women. To cut this vicious cycle, increased investment in education and literacy must be complemented by increased investment in vocational training, especially for women, and innovative reforms in its system. For example, linking vocational training to production as in China, allows better restructuring of the labour force, and orients skills towards demand.*

Four structural aspects of the Cambodian labour market are critical. These are the working poor, as noted earlier, low wage employment, low levels of education, literacy, skills, and training, and a bias against women in education and skills, reinforcing a bias against them in the labour market.

### The working poor – high labour force participation and low unemployment, particularly for the poor

Cambodia's labour force participation rates, reported by the Labour Force Survey for 2000 are very high at 65 per cent. Participation is higher in rural than in urban areas, and higher for men than for women, particularly in rural areas. For men between the ages of 25 and 50 the participation rate approaches 100 per cent, and for women in the same age group it is well over 80 per cent. Women tend to join the labour force earlier than men. This mainly reflects the difference in school enrolment rates between boys and girls. The participation rate in the 15-19 age group is higher both for males who are in school and for males who are not in school, but is higher overall for females in this age group because fewer of them are in school.

Unemployment, as defined in the Labour Force Survey (not working but available and actively looking for work), is not the most important labour market problem in a country where few can afford to be unemployed and on a full-time job search. The highest unemployment rates are among young men and women, and these rates are higher in urban than in rural areas. In general, women are more likely to be unemployed than men, but with variations between locations and age groups.

In urban areas, higher unemployment rates are seen in those who have a relatively high level of education as compared to those whose level is rather low, partly because their families are more prosperous and can finance job searching, and partly because they are unwilling to settle immediately for a job which is below the level that they have been led to expect. Urban males in the 20-24 age group with some tertiary education have the highest rate (31 per cent), followed by 15-19-year-olds with some secondary schooling (19 per cent for females, 16 per cent for males), and males with primary schooling or less in the 15-24 age group (12 per cent).

### Low wage employment – high unpaid family labour, especially for women

The number in employment in 2000 was estimated at 5.3 million, which was 97.5 per cent of the labour force and 63.6 per cent of the working-age population. 52 per cent of those in employment are women, representing 97.2 per cent of the female labour force and

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62.6 of the female working-age population. The fact that unpaid family labour is still the largest single category of employment status (particularly among women and in rural areas) is a sign of the relatively early stage of development of the Cambodian labour market – as is the low proportion in wage employment. Wage employment is particularly underdeveloped in rural areas. The incidence of wage employment is higher among men than women, particularly in urban areas, while women are over-represented among unpaid family workers. The sexes are equally represented in own account work (self-employment) in urban areas, but not in rural areas where men are over-represented in this category.

According to the 1999 SES, more than a third of wage employees work for government or state enterprises, 3.5 per cent for NGOs or international organisations and 62 per cent for private employers or joint ventures. Men are over-represented in government/state enterprises, women in private enterprises/joint ventures and international and non-government organisations. A high proportion of workers have more than one job – 32 per cent of women and 38 per cent of men in 1999, and particularly in education, agriculture, health and social work, and also in public administration and defence. By occupation, the incidence of multiple job-holding is highest among legislators, senior officials and managers (almost two thirds of whom have more than one job) and professionals and members of the armed forces, as well as skilled agricultural/ fishery workers.

The economy and labour market are overwhelmingly agricultural. Nearly three quarters of Cambodia's workers of both sexes are engaged primarily in agriculture, hunting, forestry, and fishing. The next sectors in order of importance – wholesale and retail trade, manufacturing, and public administration and defence – only account for small proportions of total employment. Women are over-represented in agriculture, manufacturing and trade, men in fishing, construction, transport, public administration and defence and education. The pattern of employment by occupation reflects that by sector. Skilled agricultural workers predominate, accounting for almost three quarters of the total. Women are again over-represented in agricultural work and in service, sales and craft occupations. They are substantially under-represented in the armed forces, and among legislators, senior officials and managers, professionals, technicians and associate professionals, and plant and machine operators.

### Women earn less than men

Data on average monthly earnings of wage earners shows a considerable difference in wages between the sexes. The differential is higher in urban than in rural areas. Men earn higher wages than women in all educational categories except upper secondary, and in all age groups except 15-24; this last exception may reflect over-representation of women in the garment industry (see below). In every sector for which data are available men earn more than women, especially in trade, construction and transport. For both sexes urban wages are much higher than rural, and the premium for post-lower-secondary education is considerable (though women seem to get a negative return from post-secondary education). Average wages only increase slightly for men as they get older, and women reach their earnings peak when they are at their youngest. Sectoral differentials are quite large, with utilities the highest paying sector for men and manufacturing for women.

Net daily earnings towards the bottom of the labour market are measured in regular surveys of vulnerable workers. Differentials between occupations are large for both sexes – it can be seen that male construction workers earn nearly four times as much as waiters, and the differential between female garment workers and waitresses is almost as large. For both sexes, the relatively high earnings of garment workers shows why these jobs are prized, in spite of problems with conditions of work. For both sexes, also, agricultural wages are higher than the lowest remuneration in urban areas. In the few occupations

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common to both sexes, men earn slightly more than women in all work except scavenging. Differentials between wage earners and the tip categories of self-employed do not appear to be large.

### Recent trends in the labour market

Analysis of labour market trends is made difficult by problems of comparability between successive surveys. Each one was carried out for a different purpose, with varying definitions, methodologies, supervisors and international sponsors.

The labour force participation rate increased steadily between 1993/1994 and 1999 as the transition to a market economy gathered speed. The rate dropped again in 2000, but was still considerably higher than it had been seven years earlier, particularly for women. Trends in the proportion of the population that is working are similar: for both men and women, it rose from around 40 per cent in 1993/1994 to around a half in 2000, signifying an important reduction in the dependency rate. Variations in definition vitiate the unemployment series – but the fact that the rate never rose above 4 per cent over the whole period underlines its relative unimportance as a measure of change in the labour market.

One sign of labour market development is the changes that have occurred with regard to employment status. Between 1996 and 2000, the proportion in wage employment increased considerably, particularly among women. The proportion of wage earners working for private employers has risen even faster, again especially in the case of women. The changes in self-employed and unpaid family workers are difficult to interpret: these categories have fluctuated widely between surveys, suggesting that enumerators have problems in distinguishing between them.

The sectoral structure of the labour market has changed comparatively little since the early 1990s. The proportion of workers in agriculture and fishing actually increased during the last decade. The only other sectors to show increases in their share were manufacturing, construction and, from very low levels, hotels and restaurants, financial services, private households and international organisations. The increase in the proportion of women working in manufacturing, reflecting the rise of the garment industry, apparently at the expense of their involvement in agriculture and trade, is remarkable, as is the fall in the proportion of men in trade, transport and communications, and public administration, defence and security.

Data on changes in wages since 1996 shows that men's average wages rose by more than 50 per cent and women's by almost two thirds between 1996 and 2000. With price inflation around 28 per cent over this period, this was a real increase. For both sexes, wages increased particularly fast for those with some secondary schooling. Differentials between men and women narrowed except for those with some primary schooling.

### Education and skills

One very important respect in which Cambodia is an outlier among its neighbours is the low average level of education of its labour force. Only 24 per cent have any schooling above primary and 23 per cent have no schooling at all. Among women the situation is even worse – only 17 per cent have any schooling above the primary level, and 29 per cent have no schooling.

With average levels of education as low as this, it is not surprising that illiteracy is widespread. A recent survey (Department of Non-Formal Education 2000) in fact suggests that the incidence of illiteracy is even higher than had been assumed on the basis of previous surveys (which had merely asked respondents to say whether they can read or write). Respondents were classified into three categories, based on test scores. Those who

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scored zero points in the test were classified as completely 'illiterate', those who could read and write only a few words and numbers as 'semi-literate', and those who could use their literacy skills in everyday life and income generation as 'literate'. The staggering implication of the results is that 63 per cent of Cambodians over the age of fourteen, over four million of them, are not functionally literate. The situation for women (for whom the proportion is 71 per cent) is even worse than for men (52 per cent). And, although those aged between 30 and 44 (whose schooling was disrupted in 1970-79) are over-represented among the functionally illiterate, 475,000 men and 732,000 women between the ages of 15 and 29 are also in this category. Illiteracy rates in Cambodia compare poorly with those of its ASEAN neighbours: as can be seen, they are far higher, both for the 15-and-over population as a whole and for the 15-24 age group, than in all the other countries except Laos. The contrast in female illiteracy rates is even greater.

Improvements in education affect the future rather than the current comparative advantage. The very high rates of return (social and private) on investment in basic education, observed all over Asia, derive from the resulting improvements in productivity and increased receptivity to new ideas in agriculture and in other sectors. Research has established a strong connection between the acquisition of literacy/numeracy and productivity gains in agriculture and in Cambodia illiteracy has been identified as an important barrier to access to information by women farmers and recruitment of female extension workers. A literate, numerate and trainable workforce is needed for international competitiveness based on productive rather than merely cheap labour.

The IPRSP reports that the government plans to more than double the recurrent budget for education by the end of 2003 and to reduce direct and indirect costs to parents through a significant increase in performance-based salaries for teachers. Increased school-operating budgets will increasingly be managed at provincial/district and school levels. These strategies, it is hoped, will help secure attendance at school by pupils and teachers and, along with better availability of instructional materials, lead to improvement in quality. These plans address many of the major complaints of focus-group participants. It will be crucial for their success, however, to achieve the planned increase in current spending on education – at less than one per cent of GDP, the lowest in Asia.

The most cost-effective way to reduce illiteracy rates over time may be to improve access to and reduce drop-out from basic education. But in some countries, and Cambodia is certainly one, adult illiteracy is so widespread that an emergency approach to the problem is also warranted. Mass campaigns, involving the majority of illiterate adults, rather than small selective programmes, have been an essential part of every successful effort to eliminate illiteracy. Cambodia had two such campaigns in the 1980s, covering more than a million people, but the short duration of the programmes and the absence of post-programme support reduced their effectiveness. A mass campaign should not be marginalized but should use a national network of educational facilities, with community participation. The poverty of those involved (which makes a literacy campaign the most effective, self-defining, anti-poverty programme) should be recognised: food will need to be provided to participants who may be missing a day's work. Literacy teaching should be linked to actual or potential income generation activities, to maximise productivity impact, give an incentive to attendance, and ensure that reading ability is subsequently maintained. For the same reason, community libraries (or in UNESCO terms development resource centres) should be established.

The SEDP II gives priority to the expansion of adult literacy classes, especially for disadvantaged groups and in currently under-served areas. The aim is to increase the functional literacy rate from the 37 per cent measured in 1999 to 56 per cent over the plan period. The plan recognises that direct user charges do not make sense for a programme of this kind, and that recurrent funding from government and donors will be needed. The idea of incorporating costs of literacy programmes into existing or new micro-credit schemes

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for the rural poor is also raised. This is an ambitious plan, with the right ideas. If it concentrates on 15-29-year-olds (of whom some 460,000 men and over 700,000 women were functionally illiterate in 1999), its target amounts to the elimination of functional illiteracy in this age group.

## Gender Segmentation

Women are at a disadvantage in the labour market, a bias reinforced by their much lower average level of education. Women have a higher functional illiteracy rate, are under-represented among wage earners (particularly government employees) and in senior and powerful positions, and over-represented among unpaid family workers, and tend to earn lower wages than men with the same level of education, except in the case of those with upper secondary education.

Women are estimated to have three-fourths of the jobs created in the garments sector. However with the decline of the sector, and job losses, women in this new export sector in Cambodia, as in much of South-East Asia have found themselves to be 'the last in and the first out'. In the garments sector too, which is noted to be amongst the better paid, there is evidence that women's incomes can fall below men's incomes by up to 40 per cent. This bias against women in the labour market is certainly not captured entirely by the bias in education and skills acquisition. However the removal of these biases against women in education and training must be an important basis for removal of all biases against them. Therefore important components of the education and skills training programs must be if anything positive discrimination in favour of women to allow them to overcome their great Human Resource Development (HRD) deficits. This also has major implications for girls in child labour and the trafficking of women which is examined ahead. Such a programme would not only have an immediate beneficial impact on the productivity and incomes of participants; it would also (while the longer term results in the labour market from educational reforms are awaited) considerably speed up the shift in the basis of Cambodia's comparative advantage from cheap labour to natural resources plus skill.

## Skills for Income Generation

In order to respond to the immediate needs to generate employment or self-employment in the context of the rehabilitation of Cambodia, UNDP approved the implementation of three projects, executed by the ILO under the Employment Generation Programme (vocational training, assistance to small enterprise and labour-based projects). One of the three, the Vocational Training for Employment Generation (VTEG) project, addressed the urgent need to provide income-generating skills in an environment of limited employment opportunities. The project promoted and provided direct demand-driven skills training for employment to both urban and rural poor, including returnees, internally displaced persons, including demobilized soldiers, the disabled and female heads of households and young girls. It focussed on short cycle vocational training programmes which identified income generating opportunities, largely through cost-effective training activities. In completing its work, the project laid the basis for the present technical and vocational education and training (TVET) system, establishing training needs assessment, curriculum and programme development, instructor training, and a Gender-in-Development unit (GID). A high proportion of the female population sought gender issues to be included in all aspects of planning and implementation of training. The second phase, Vocational Training for Poverty Alleviation (VTAP) project shifted its focus to building the Government's capacity to deliver flexible skill training programmes linked to employment or self-employment opportunities. This project was transferred to the Ministry of Education, Youth and Sports (MOEYS) under the ADB Basic Skills Project in October 1998.

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There were many lessons learned during the period of operation of the VTEG and VTAP projects, 1992-1998 – these should be considered when formulating poverty reduction strategies. The majority of government counterparts trained by the project are still employed by the MOEYS and a further seven provincial training centres were constructed, adding to the seven initially established by the ILO project. However, many of the useful strategies such as mobile training in villages (hairdressing, bicycle repair, radios, small engines used for agriculture, food processing, livestock and agro-business activities and other locally identified skills, linked to micro or small business training) have been dropped in order to focus on cost recovery training programmes.

Nevertheless, the institutional infrastructure and human resource are still in place and the National Strategy Plan for Technical and Vocational Education and Training developed with assistance from the ILO VTEG and VTAP projects and GTZ are still relevant. Several policy proposals can be considered.

- Linking vocational training to production improves its employment impact, and orients training towards the market. The ILO's recommendation in China resulted in SOEs transferring surplus labour from their books to small units of a dozen workers, who were then required to initially move into subsistence activities prior to more profit making ones.
- Literacy, education, and some vocational training in the large Cambodian army would equip a significant part of the labour force for employment and income generation after demobilisation.
- Technical and vocational education and training systems already exist with the Ministry of Education, Youth and Sport and the National Training Board (NTB). Therefore, linkages should be established with existing institutions.
- The NTB was established vesting the chair and secretariat within the Department of Vocational Education and Training of the MOEYS, against advice of the ILO projects and recommendations made under the National Strategy Plan. Furthermore, NTB membership is made up of a large number of high and low level officials from various ministries, government departments and the private sector, making unwieldy. Indeed, as the Chairman is exclusively the Minister of Education, Youth and Sports other ministries do not recognize the authority of the NTB – the full NTB rarely meets and all decisions are made by the MOEYS. To be functional a NTB should operate at an executive level with both bureaucrats and technicians as its members.

In Cambodia there are a number of ministries that purport to be the lead training providers: the MOEYS, the MOSALVY and the MRD among others, which often leads to a duplication of valuable resources.

## **Social Protection, Disabilities and Safety Nets**

### Policy Proposal

*The relatively small size of the labour force (compared to much of the region) will allow a phased expansion of social protection. The proposed National Social Security Fund (NSSF) must prioritise social health insurance given that much of the labour force's low incomes do not allow any health care. The NSSF should plan to expand its provisions from employment injuries, sickness, and maternity benefits to pensions. And it should plan to expand its coverage beyond the 15 per cent of the labour force in wage employment. Cambodia should reap the benefits of social investment in health.*

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## Social Protection

Social protection for workers, families and vulnerable groups is limited in Cambodia. With only 15 per cent of the total labour force in wage employment, the vast majority of workers and their families are without any form of social protection, in particular health care in rural areas. Without any form of social insurance scheme, workers, families and other groups' solidarity mechanisms are used to cope with major risks such as accidents, diseases, or disability. In many cases households have to sell their assets in order to be able to pay for health care.

Formal social security provisions are contained in the Labour Law (1997) for workers in enterprises with more than 20 workers. However these provisions cover a limited number of contingencies, namely employment injury, sickness and maternity benefits. All costs are met by the employers. In practice, many enterprises avoid meeting the requirements of the Labour Law. Civil servants are entitled to old age, invalidity and survivors benefits financed entirely by the State Budget. There is no national health insurance scheme operating in Cambodia although some pilot schemes are at various stages of implementation, concentrating in rural areas and services to vulnerable groups. Many donors and NGOs are involved in health care projects for the poorest households.

The ILO's concerns are with regard to:

- the health status among workers and their families and the negative impact of ill-health and health care on the poorest groups;
- the difficulties faced by the unemployed and those workers to be affected by job loss in the civil service and formal sector jobs; and
- the limited access to social protection for the majority of workers and their families.

## Social Protection Reform

The Government has undertaken a major step towards broader social protection of workers and their families. A draft law is undergoing further discussions before being passed by the National Assembly. The draft law includes old-age pensions, invalidity pensions, employment injury benefits, and survivors' allowances for a large proportion of workers including:

- public sector workers not covered by the Common Statute for Civil Servants;
- private sector workers;
- self-employed;
- students in vocational training schools, persons employed in rehabilitation centres and apprentices; and
- seasonal and occasional workers.

Health care reforms are proposed in order to increase access to health care services. The establishment of a national social health insurance scheme, or one that is similar (e.g. Thai 30 bath scheme) should be considered to ensure there is containment of the costs of health services and treatments to ensure equality of access and care. The social security scheme for civil servants also requires reform however this has not been given a high priority by government at this stage. Social assistance for vulnerable groups largely relies on external funding and the service provision by NGOS. There is an urgent need to assess

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the overall effectiveness of current policies and practices and to review the best use of limited state resources to those most in need.

## ILO Assistance and Support

The ILO has provided technical inputs to assist the Department of Social Security of MOSALVY and the Social Affairs Committee of the National Assembly to revise the draft law. However, the concept of social insurance and its financial management have yet to be incorporated by the policy decision-makers. The ILO encourages further detailed discussion and consideration of the law, for example, a policy that includes incentives for enterprises to reduce the incidence of employment injuries, accidents and occupational diseases.

The establishment of the NSSF proposed by the Government will require technical assistance in several areas including: Policy development, legislative drafting, financial and actuarial calculations, human resource development, organisational design, operations (such as registration, contributions collections, claims and payment of benefits), computerisation, public information and training. Workers and employers who clearly understand the benefits of participating in a well-structured social security system will ensure the on-going financial viability of the fund. It will be necessary to involve the tripartite partners in the management of the NSSF to facilitate the representation of members of the Fund.

The opportunity to introduce social health insurance as part of the establishment of the NSSF should be assessed in light of the development of a Health Master Plan. The ILO has recent relevant experience in the Lao People's Democratic Republic (Lao PDR) through the introduction of a capitation system of health insurance for private sector workers and their families with selected contracted hospitals. This system is designed to contain costs for members and provide a guaranteed income stream for hospitals and could be particularly relevant for Cambodia.

The public sector scheme is faced with state budget constraints and it does not provide protection for the other social protection needs of civil servants, such as maternity and sickness benefits. There is an opportunity to improve the adequacy of social protection provided to civil servants and their families.

In order to improve national, provincial and local social assistance policy development and sound financial management, develop a targeted national allocation of national and international resources for specific vulnerable groups. Using the ILO's Social Protection Performance and Expenditure Review model, existing income and expenditure on social protection can be quantified, financial projections can be made based on expected demographic and economic scenarios, and alternative resource distribution can be forecast for different policy reforms. Performance indicators to measure the impacts of social protection policies for vulnerable groups could be developed.

## Expected Outcomes

The expanded system of social protection that has been designed to meet the differing social security needs of the populations, including formal and informal sector workers and their families, and utilising the most effective and efficient form of service delivery (including private sector, community based, and public administration).

- a healthy and productive workforce, with equitable access to health care;
- reaping the benefits of social investment in health;

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- adequate and efficient resource allocation to the most vulnerable that provides essential income support and opportunities for self-provision.

### A safety net that creates and sustains assets – “employing the poor to help the poor”

An economy with a comprehensive road network passable in all seasons, widespread irrigation facilities and functionally literate farmers would be less vulnerable to natural and man-made crises, but a safety net would still be needed. The most efficient (and developmental) type of safety-net system for an economy at Cambodia's stage is one based on the labour-based appropriate technology (LBAT) recommended in an earlier section for road building, repair and maintenance. Such technology can be used to build, repair and maintain any kind of asset (e.g. schools, health centres, irrigation infrastructure etc.), not only roads. It should be embodied in a national public works/ guaranteed-employment scheme, offering work to all who want it (for wages rather than food). Appropriately enough for one of the world's poorest economies this is a safety net that creates and sustains assets.

Such a scheme creates employment:

- directly during the construction process (this is its safety-net aspect);
- indirectly through linkages to supplying industries;
- through the multiplier when workers spend their earnings; and
- dynamically when the assets that have been built help to raise productivity in the area and when the increase in demand raises the incentive to invest.

The simple slogan for such a scheme could be “Employ the poor to help the poor”.

A well-designed guaranteed employment scheme has a counter-cyclical and self-liquidating safety-net role. This means that decisions on wage rates in the scheme should be decentralised and should be low in relation to local market rates for the type of labour concerned. If programme wage rates exceed market wage rates, the numbers wanting to work on public works programmes exceed the numbers that can be hired (Sen 1975). This means that employment may have to be 'rationed' by local managers, increasing the temptation of corruption and making it more likely that those who work on the project will not consist only of those in the most desperate circumstances. If wage rates are realistically low in relation to market rates, a guaranteed employment is self-targeting (employing only the poorest) and becomes a means of monitoring the labour market situation. The number enrolled will rise or fall as that situation deteriorates or improves.

### Poverty and Disability

Post conflict Cambodia has a very high incidence of disabled, and both mine and war victims. Virtually half of the disabled are poor. Furthermore, the average deficit from the food poverty line of households whose heads have been disabled from mines or war is very large at 27 per cent. This group among the poor therefore deserves special attention because their standard of living falls so far below the poverty line, and their capacity for work is limited by their disability. In its effort to promote decent work for people with disabilities, the ILO disability programme has adopted a partnership strategy and is involved in the following activities:

- To address the needs of rural disabled persons, the ILO recently completed a project with funding from the Ministry of Labour in Japan that was informally called the

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Disability Resource Team. The project promoted the integration of people with disabilities in rural Provincial Training Centers in Pursat, Battambang, and Siem Reap and assisted disabled persons use their skills to find jobs, or more frequently establish small businesses. The project was deemed successful on all counts by an outside evaluator. As part of that project, the ILO began to field test a form of village-based, informal peer training which shows promising results.

- As a follow-up to that project activity, the ILO developed the Alleviating Poverty Through Peer Training (APPT) proposal, which the Finnish Ambassador will fund. It is expected to be operational in mid-2002. The project will work in collaboration with the World Rehabilitation Fund (WRF) project funded by UNDP and the United Nations Mines Action Service (UNMAS) to facilitate the reintegration of landmine survivors (as well as people with disabilities from other causes) and in collaboration with MOSALVY and POSALVY. Its purpose is to identify successful small business operators in villages, evaluate the success of their businesses and the market opportunities for replication of similar business activities. If appropriate and willing the small businessperson will train the disabled individual in business and technical aspects of the operation. Field workers will assist facilitate the training matches as well as assist with the business start-up once the training is complete. The project will include or have access to resources for small grants and loans.
- To ensure that people with disabilities are able to take advantage of the growing formal employment sector and opportunities in the burgeoning tourist sector, the ILO is actively collaborating with the World Rehabilitation Fund, the executing partner for the UN-funded project already noted. The ILO has provided technical support for the development of a Business Advisory Council of both international and Khmer business representatives who facilitate the training and employment of disabled workers. The group has been successful in facilitating the employment of more than 100 disabled workers in the past year, has established an on-the-job training fund and improved training approaches and activities at the Wat Than Training Center in Phnom Penh. This group serves as a critical link between organizations training and placing disabled persons at the workplace to ensure that services meet labour market needs. The ILO assisted in the development of a strategic plan and future activities that will include a major employer awareness event, web site and awareness materials, and the addition of job placement specialists who will work with employers in Phnom Penh and Siem Reap.
- To build capacity among government and non-governmental staff, the ILO held more than five workshops in 2001 under the DRT project. As resources allow, it plans to further develop disability focal points that were identified in the process of transitioning the aforementioned project to the government. The ILO hopes to work with the Disability Advisory Council in this regard. Additionally, through the APPT project the ILO will continue to build MOSALVY/POSALVY staff capabilities.
- To assist in developing legislation, policy and related implementation strategies (Cambodia has recently drafted disability rights legislation with the training and employment provisions), the ILO plans to include Cambodia as one of the target countries in the Ireland Aid funded project, executed from headquarters. The project, "Employment of People with Disabilities: The Impact of Legislation," will include technical consultation meetings and in country technical assistance.

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## **Glaring Weaknesses in Rights, Child Labour and Trafficking**

### Policy Proposal

*Elimination of the worst forms of child labour, through provision of education, nutritional support, legal support, awareness raising, monitoring of child labour, and provision of alternative livelihoods. Mobilisation against trafficking. Greater emphasis on income generation in the Five-Year Plan on Commercial Sexual Exploitation and Trafficking of Children.*

### Rights

Cambodia has ratified all the fundamental conventions of the ILO, except Convention No. 182 on the most hazardous forms of child labour. The RGC has also stated to the Committee of Experts on the Application of Conventions and Recommendations in 2000, its intention to apply all the core international labour standards to the garments sector. A tripartite Labour Advisory Committee was also formed in 1999. However, the observed weak labour market in terms of underemployment and incomes, the extremely low levels of education and skills, especially for women, and the segmentation of women in the labour market, all imply weak rights for workers, for women and children. The large self-employed-cum-informal sector reduces the application of rights to a small formal sector. Even in the formal sector, the low wage rates, and observed premiums on obtaining jobs in the garments sector, both imply a primary struggle for subsistence and survival rather than rights. And the most glaring deficit in rights is observed in the incidence of child labour, and trafficking of women and children.

### Child Labour

The Labour Force Survey did not cover children below the age of ten. However, some of its findings for young people in the 10-13 age group can be seen. The 1999 socio-economic survey had, in fact, suggested that the proportion of very young children (between 5 and 9) who are working in Cambodia is negligible (less than 3 per cent) but for 2000, the proportion rises as children get older, to about 7 per cent for 10-13-year-olds. The ILO International Project for the Elimination of Child Labour (IPEC), has a higher estimate of child labour in the age group 5 to 17 years. It estimates that 16.5 per cent of the children in this age group work, giving some 672,000 working children. The incidence of child labour is 4.5 per cent in the age group 5 to 9 years, 15 per cent in the age group 10 to 14 years, and 43 per cent in the age group 14 to 17 years.

The incidence of such child labour is higher in rural than in urban areas, and lower for girls in this age group (though beyond the age of twelve the difference in school enrolment rates begins to work in favour of boys). Child labour is not a completely part-time phenomenon: almost 30 hours are worked per week, on average. The conflict with schooling (one of the main problems associated with child labour) is clear. As can be seen, the overwhelming majority of working children are engaged in unpaid family labour, almost all of them in agriculture, helping on the family farm. Unlikely to have been captured by a household-based sample survey of this kind are the worst forms of child labour – prostitution, begging and scavenging (often the main activities of street children) and domestic work outside a child's own home. The Cambodia Human Development Report quotes rough estimates of 5,000 commercial sex workers under the age of eighteen, 1,000 street children, and 6,500 domestic workers aged 14-17 in Phnom Penh alone.

ILO-IPEC and other active stakeholders are undertaking a wide range of actions in combating child labour, including information collection, situation analysis, stronger laws, improved law enforcement, rehabilitation of children engaged in the worst forms of child

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labour, provision of livelihood alternatives to children and their families, raising community awareness of consequences of child labour, provision of education opportunity for working children and out-of-school children and other community child labour networks.

Legislation: Cambodia has ratified most of the relevant international conventions except convention 182 on the worst forms of child labour; however, the legal framework is not yet specific enough to provide adequate protection to children against exploitative child labour. For example labour inspectors have no legal right to go into hidden workplaces where the worst forms of child labour are problematic, nor can they go into brothels for inspection as prostitution is not recognised by law. A policy and operational framework has been established and is functioning. There is still a need to:

- strengthen and enhance the role and responsibilities of the National Sub-Committee on Child Labour (NSC) to effectively oversee the national policy and programmes on child labour;
- enhance the capacities of the Ministry of Social Affairs and Labour to design, implement, monitor and evaluate policies and programmes on child labour;
- undertake further research and situation analysis to develop more effective policies and programmes;
- continue to enhance the capacity of the Ministry of Education in formulating non-formal education curricula and textbooks for secondary level as well as capacity building for non-formal educators; and
- establish better collaboration and coordination mechanisms among all the concerned government agencies, international organizations, NGOs, and civil society.

## Trafficking

Trafficking in children and women and poverty are inter-linked. Throughout the Mekong sub-region the stakeholders of the ILO Mekong sub-regional project to combat trafficking in children and women (TICW-project) point at poverty, combined with the lack of decent work alternatives, as main root causes for trafficking. In turn, trafficking in children and women results in high opportunity costs, reduces the sustained economic potential of countries, is a burden on future health care expenses, and has direct harmful effects on individuals (human rights, physical health (HIV), and mental health).

The sustained relative high fertility rate in Cambodia and the high percentage of the population under 15 years of age means that at least 500,000 children will be searching for jobs over the next three years. This results in a huge pressure on the labour market, and – in combination with poverty – a likely continued push for individual households (in particular in rural areas) to send their children to urban settings for work within or outside Cambodia. With the current low awareness levels on dangers of exploitation, combined with low levels of education in rural areas, there is a serious danger that many of these children will be trafficked and/or end up in exploitative situations and hazardous sectors.

A two-pronged approach is suggested that (1) works towards the creation of an enabling environment for economic development in relatively weak government machinery, while at the same time (2) allowing for initiative of those affected in poverty stricken areas, and mobilization of individuals against trafficking. Ownership of the process to develop such a strategy, and participation by different layers of society (at different levels), is crucial in moving towards a meaningful longer-term impact on poverty.

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The enabling environment needs to guarantee a more diverse economy that will be able to absorb more labourers. Given the current status of education, a focus on non-formal education, rural skills training, and special education programmes for projected growth sectors seems appropriate. Such initiatives should be combined with infra-structural developments (e.g. dykes, irrigation systems, road infrastructure, and electricity), land reform, and a focus on business development (in particular market appraisal) and micro-finance (in particular rural savings schemes, and access to credit).

While efforts to create an enabling environment are underway, individual initiative needs to be stimulated through mobilization efforts. Improved access to services, a supportive environment, and access to good practices and lessons learnt are essential in this process. The individual initiatives and enabling environment need to be linked vertically, and be supported and maintained actively. If these efforts are combined with targeted awareness-raising on the danger of trafficking there is a good chance that trafficking in children and women can be addressed effectively. The following are suggested entry points for ILO inputs to combat trafficking in the poverty stricken context of rural Cambodia:

- The ILO TICW-project experience in creating an enabling environment for focused interventions in poverty stricken areas that are source areas of out-migration and trafficking, and its experience in building up a participatory intervention and monitoring mechanism;
- The ILO TICW-project mechanism of stakeholder involvement and ownership at different hierarchical levels with holistic pilot interventions in Battambang, Banteay Meanchay, Prey Veng, and Sihanoukville Province (the forthcoming round of National and Provincial Stakeholder Ownership Exercises could be used to discuss inputs to the PRSP-process);
- Cambodia's National 5-year plan on commercial sexual exploitation and trafficking of children (1998-2002) needs to have a more holistic approach, and a pronounced income generation component in its next phase;
- non-formal education materials for out-of-school children and working children as produced by the Ministry of Education Youth and Sports based on successful pilot tests in 6 provinces (and supported by ILO-IPEC);
- Revival of vocational training centres that were set up with ILO assistance in the period 1993-1998.

## **Strengthening Social Dialogue**

### Policy Proposal

*Transformation of Cambodia's industrial relations system from a planned economy to a market based one. Strengthening monitoring and enforcement of existing Labour Laws. Removing obstacles to Freedom of Association. Strengthening collective bargaining and tripartism.*

The transition of Cambodia's economy from central planning to market forces has not been accompanied by the development of a corresponding labour relations system. In Cambodia's emerging market economy, private investment has increased, as have the number of factories, in particular in the garment sector, and the number of workers that are engaged in regular wage employment. Numerous trade unions at enterprise and national level have been established. As a matter of course, these developments are accompanied by an increase in labour disputes, both individual and collective, over issues such as minimum

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wage, forced overtime, safety and health at the workplace, unjust dismissals, etc. Due to the lack of transparent, fair and expeditious dispute resolution machinery, many of these disputes unnecessarily end in (sometimes violent) industrial action. They lead, in general, to a deterioration of labour relations between employers and workers, thus affecting the climate for investment. In this respect, Cambodia's actual labour relations system must catch up with market forces by creating effective and workable arrangements for the prevention of disputes, the resolution of those disputes that do occur, and the enforcement of rights under the Labour Code.

The immediate problem to be addressed is the lack of a sound dispute settlement machinery and the lack of capacity to prevent disputes or resolve them at the earliest possible stage. With this end in view, the ILO's Labour Dispute Resolution Project contains an array of activities in the areas of dispute prevention, conciliation, arbitration and adjudication. More specifically, the project provides for, amongst others:

- activities in the field of capacity building of the Ministry of Labour, especially its Labour Inspection Department, and training of labour inspectors on dispute prevention and mediation/conciliation;
- training of employees and workers on workplace labour relations;
- establishment of a Council of Arbitration and training of arbitrators;
- establishment of Labour Courts and training of judges.

The training activities are linked to both poverty reduction (improving labour relations and the climate for investment, resulting in more jobs) and to the issue of "decent work" (increased and improved labour inspections, enforcement of labour code provisions through a sound dispute resolution system, resulting in better working conditions).

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## Chapter 4

### Social Dialogue: Some Critical Reflections on the PRSP Process in Cambodia<sup>3</sup>

Participation has been recognized as an important process in development. Many agencies acknowledge that the participation by civil society organisations has helped increase public awareness on PRSPs as well as development issues more generally. In many countries, NGOs and some other representatives of civil society have become members of task forces and steering committees and have thus lent some credibility to the ‘ownership’ agenda underpinning PRSPs. Unfortunately, the inclusion of the social partners in these processes has typically lagged that of NGOs and as the case of Cambodia shows, there is a need for a concerted effort to promote the role of the social partners as legitimate and important stakeholders in PRSP processes. In countries where relations between the government and the social partners are at an early stage of development and/or where there is some distrust between governments and the social partners, this is an especially difficult task and it is important to remain realistic about what can be achieved in the short term. Notwithstanding this, the experience of empowering the social partners to engage in the PRSP process in Cambodia has yielded some important lessons which can inform the ILO’s PRSP work more generally.

The ILO does not have a field office in Cambodia and has limited human resources which can be applied to work on the PRSP process and this has made it difficult to engage in the vitally important thematic working groups, Consultative Group meetings and other donor meetings which tend to mould the development of the PRSP. Furthermore, the social partners were, initially at least, rather marginalized in PRSP dialogues. Nevertheless, great progress was made in terms of empowering the social partners and influencing the architects of the PRSP in Cambodia. This has come about through a series of capacity building and awareness raising workshops with workers’ and employers’ groups and through discussions with Government officials and donors responsible for facilitating the PRSP process (see Chapter 2). Partly as a result of this, workers representatives were included for the first time in national consultations on the PRSP in August 2002 (employers’ groups already had a history of involvement). Furthermore, following a series of discussions in Cambodia with a variety of stakeholders and both bipartite and tripartite workshops, the ILO presented a comprehensive report, “Generating Decent work for Poverty Reduction in Cambodia: the Voice of Workers, Employers and the Government” to the RGC (see Chapter 3) which served to provide information on the drafting of the PRSP. To reinforce this approach a short-term consultant was employed to work directly with the architects of the PRSP during the final drafting process in Autumn 2002. This, in turn, was followed up by further support from the ILO Regional and Sub Regional Office in Bangkok and the drafting of short policy recommendation briefing notes to make it easier for the respective ministries to integrate the ILO’s policy recommendations into their respective PRSP policy matrices. It was important, then, to systematically programme the ILO’s inputs into the process and to make the inputs as “user friendly” as possible so that the architects of the PRSP could easily incorporate the concerns of the ILO and the social partners directly into the drafting framework of the PRSP.

For the ILO, the challenge in Cambodia was a big one. The Interim PRSP contained virtually no reference to decent work/ILO issues and the PRSP was a new concept for the

<sup>3</sup> This chapter, whilst applying the particular experience of the ILO and the social partners in Cambodia, draws on some generic findings contained in a report entitled « Participation in Poverty Reduction Strategy Papers : A Retrospective Study » by the Participation and Civic Engagement Group of the Social Development Department of the World Bank (January, 2002)

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social partners so, at first, it was not clear to them how best they could participate in the process. From the outset, it was clear that empowering the social partners for the purposes of giving them a voice and influence in the PRSP process in Cambodia was inextricably linked to more general capacity building. This was, perhaps, especially true for the trade unions, many of which are new organisations (or new incarnations of old organisations). The challenge is made even greater by the diverse nature and political orientation of the labour movement in Cambodia. Similarly, CAMFEBA, the employers' federation has been in existence for only a few years and has very limited human and financial resources. Thus, the issue of and need for broad based capacity building for social partners and for different types of capacity building to be integrated around important common themes like influencing national planning processes, is a key lesson to emerge from the ILO's PRSP work in Cambodia.

In Cambodia – as in many other countries - the conceptual understanding of participation is varied whilst the expectations of participation are high. There is a considerable variance among government, donors, and non-governmental entities on the understanding of the what, the how, and the who of participation. Typically, donors and most governments see participation more as a means, or an instrument to facilitate implementation of projects or conduct poverty assessments, while Civil Society Organisations (CSO) including trade unions, tend to opt for a rights-based view, seeing it as an end in itself, and thus calling for long, deep, and broad processes. On the information sharing, consultation, collaboration, empowerment continuum of participation, most governments typically equate PRSPs with consultations and these have not always been as well conceived, inclusive and organised as might have been desired. Initially, the RGC's constricted understanding of participation as information sharing or basic consultation was further worsened by a lack of clarity on what level of engagement they expected from non governmental stakeholders. Thus, some commentators complained that most consultations were superficial or even, in the most cynical view, merely a ploy to engineer legitimacy. This is, perhaps, too strong a description. The whole process is new and there is no magic formula for making perfectly open, transparent and participatory societies and, it must be acknowledged that the RGC made great strides to improve the participatory process for the PRSP compared to the process underpinning the Interim PRSP.

Those who see participation as a means to redistribute power by truly empowering the poor to transform their societies are likely to be disappointed by the PRSP process. But this should not provoke the establishment of alternative processes. Even in the face of a lukewarm response from government to the participation of the social partners, it is almost invariably better to engage as much as possible in national processes rather than seek to create parallel channels of consultations. Evidence demonstrates that parallel processes are almost invariably less effective than arrangements where groups engage constructively in joint initiatives. To some extent, some observers in Cambodia seem to be interpreting the mandating of participation by IFIs as a process conditionality, as opposed to a policy conditionality (implying the need to “tick the participation box” in order to satisfy process criteria). Linked to this is the view that the RGC was pre-adjusting to donor mindsets anyway by giving continuity to policy packages that the IFIs are known to favour (hence the questions asked by some during the tripartite meetings about the legitimacy of the PRSP process). Some go on to allege that there is often little difference between the content of the PRSPs and the Policy Framework Papers - an earlier tool piece of IFI lending - complaining that inputs from those consulted were “filtered” in or out depending on the nature of the inputs and whether they stacked up with the overall framework. This is an on-going concern and has led to the inclusion of an annex in some PRSPs (but not in the case of Cambodia's NPRS) illustrating the nature or content of inputs received during the participation process, even if the specific issues have not actually been taken up in the PRSP itself (this ensures that views are at least documented and seen by the World Bank/IMF Boards).

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Clearly, ownership is constrained in the face of pronounced power asymmetry between the IFIs and PRSP eligible countries. CSOs' engagement with the government is theoretically expected to allow the latter to enhance its credibility and bargaining power vis-à-vis the donors, who can then be seen as "brokers of participation", not overt dictators of policy options. This positive shift in power asymmetry between the donors and the government might have suffered however, as donors expand their mandates in a country's socio-political process. While a closer linkage between governments and CSOs demands greater transparency and accountability of the former, it can also lend credibility to home-specific policies that differ from standard IFI prescriptions. The fact that CSOs have often not been fully engaged in technical debates has however precluded this from happening in almost all countries. Further, national ownership can be made untenable by the "heavy hand of conditionality on economic policy". It has also been noted that while the nature of the relationship between the IFIs, governments and civic groups is changing with space opened for citizens' opinion on public policy, genuine power sharing over decisions remains an aspiration. In this sense, the power imbalance between the IFIs and the governments and between the governments and their poor people creates obstacles to genuine participation and ownership. It has been pointed out that because PRSPs are "endorsed" by the World Bank/IMF boards and not the citizens, or even parliaments, this means an IFI seal of approval is vitally important and this puts an implicit pressure on governments to conform to IFI development frameworks which may or may not have national support. Linked to this, externally imposed timelines have sometimes distorted the value of the participatory process. Time-bound commitments to complete the exercise have often made participation appear a little ritualistic.

It can be argued that the IFIs' promotion of participation but refraining from its evaluation is a little incongruous. Approval of PRSPs is conditional on the adoption of an acceptable participatory process for which a tool kit of methods has been suggested in the World Bank's PRSP Sourcebook, but what exactly constitutes an acceptable process has not been specified. An inherent tension is thus observed between the mandating of participation and the decision to not evaluate quality. Others have pointed out that placing the onus of responsibility for participation squarely on governments has created a situation in which the IFIs can show the best of intentions while disclaiming any failure in practice (further credence is given to this argument by virtue of the fact that despite the PRSP process, the World Bank's country operations are still driven by the Country Assistance Strategy, which is not always fully aligned with the country's own PRSP).

Participation has had a mixed influence on the content of the Cambodian PRSP. Among the most notable technical contributions the ILO has made to the drafting of the PRSP one finds the analysis on the important link between the urban and rural economies and the role of employment intensive investment using labour based appropriate technology. CSO presence in thematic committees has added diversity to perspectives, often to inform static technocratic understanding of issues with practitioner accounts from the ground. Probably the most significant impact has been on understanding and diagnosing the multi-dimensional nature, causes and spatial aspects of poverty, with income-focused approaches complemented by issues of voice, access and rights. CSO inputs have also forced under-covered, politically sensitive issues such as corruption and politico-bureaucratic apathy to be incorporated as explicit issues to reckon with. However, the PRSP process has been constrained by the lack of detailed technical knowledge of some stakeholders, their poor availability of time, their financial resources and staff capacities. While reluctance on the part of the government to open up discussions on technical topics is a hindrance, CSOs' or the poor's own "economic illiteracy" is a constraint that often leads to the endorsement of old policies. Thus, it is important that donors invest in institutional capacity building and enhance the skill base of national groups to equip them to engage in meaningful policy discussions. Capacity constraint is not only confined to the area of policy discourse, but also participatory data collection and budgeting. Social partners generally admit that they often lack the technical and analytical

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capacity to inform intelligent debates on macroeconomic policies and to propose alternative policy options. It is also a reflection of the wider PRSP process, but it was not surprising that the social partners struggled to prioritise strategic decisions and analyse and cost them so that they amounted to more than a shopping list of policies.

The PRSP process has facilitated the possibility of improving participation. Follow-up has been deemed necessary to ensure that it's not a one-off, but an iterated exercise not only in the formulation of strategies such as the PRSP, but which also influences other arenas such as budget formulation, public expenditure tracking and evaluation of public sector performance, as well as the multitude of other planning instruments in Cambodia. Participation fatigue and process overload have been noticed which requires pre-planning to ensure the momentum is not lost after the completion of the PRSP design process. The Cambodia NPRS mentions provisions for monitoring by involving stakeholders but as with other segments, this needs further enunciation. The emphasis on creating elaborate systems of monitoring might overshadow the real urgency of getting better data. It also cautions that the notable focus on carrying out household surveys and poverty assessments to measure impact of policies need to be complemented by quicker, participatory feedback processes when the implementation is ongoing. There is an urgent need to more systematically involve the social partners in the implementation, monitoring and evaluation processes in Cambodia.

There is always scope for improving the flow of information both prior to and after consultations have been made. Web based information dissemination especially by the World Bank has been laudable, but this has often not been complemented by national information dissemination strategies and this has meant that less technologically developed stakeholders such as the trade unions in Cambodia have struggled to grasp information in a timely way. Media coverage and popular debates on poverty issues have increased owing to the participation process but some groups (like the trade unions) remained poorly informed and unaware that they had the right to participate in policy processes until relatively late in the PRSP preparation cycle. The social partners were also sometimes hampered by receiving invitations to participate in events only at the last minute and in haste. There is a broad concurrence that inputs to the PRSP were written mostly by national officials with support from consultants and donors but there were some complaints aired during the discussions with the social partners that they were just invited to react to drafts, not debate alternative strategies and trade-offs right from the outset. Furthermore, language concerns need to be redressed. Even the most basic issue of language was sometimes overlooked, with documents, including information on PRSPs, often prepared only in English. Perhaps this is because documents are prepared with donor audiences in mind but this means that they are written in a foreign language replete with terminologies not easily accessible to most citizens. The sharing of drafts of the IPRSP was particularly poor but the RGC made great improvements with dissemination (into the public domain) of documents during the preparation of the full PRSP.

Intra-government participation was a notable feature of the PRSP process in Cambodia but was not comprehensive. The PRSP process is usually driven by the Ministry of Finance or Economic Planning (or CSD in the case of Cambodia). Line ministries got a seat in the thematic groups set up to contribute to the content of the Cambodia NPRS but intra-government participation was not as rich as it could have been, with some line ministries much more engaged than others (due, no doubt, to a variety of reasons). Thus, while the whole intra government PRSP experience has been relatively positive, there are areas to be improved upon. For instance, while the working group approach to having disparate agencies team up on common issues was generally a positive experience, the participatory process was not carried through with the same thoroughness regarding the task of aggregating thematic papers into a common strategy and this is one of the reasons why ILO issues did not have a higher profile in the final PRSP. Also, attempts to create synergy with the various other planning instruments in Cambodia need to be improved.

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Whether the PRSP process can lead to a shift to a more inclusive and open process in the mechanism or approach to formulating and implementing national policies remains to be seen. Discussion on sectoral priorities and public expenditures needs greater linkage to poverty reduction. While participation has influenced the debate on the dimensions of poverty significantly, efforts to link public spending with tangible poverty reduction outcomes are slow. The Cambodia PRSP largely avoids the difficult question of trade-offs in spending choices. Merely mentioning a wish list for increased expenditures without confronting the choices that have to be made including distinguishing high priorities from the low is unhelpful.

Some positive externalities of the participatory process have emerged. Spill over effects of pursuing a participatory process can be long lasting. The process has broadened the policy community, which spells a need for dynamics between the Government, CSOs and other stakeholders to be nurtured. Attitudes have changed, and governments are increasingly being more transparent because of scrutiny from civil society organisations, including trade unions and employer's groups. New networks and alliances for other tasks are being forged both within the trade union movement in Cambodia and between the social partners and other civil society groups. Cambodia has not ratified ILO Convention 144 on tripartite consultation and its ratification would seem inherent to success in participation. There is a tripartite body (the Labour Advisory Committee) but there are doubts as to how well it functions. In some small measure both the PRSP participatory process in general and specifically the ILO's support to the social partners to engage in the PRSP may have longer term implications in terms of strengthening the tripartite mechanism and giving impetus to the ratification of Convention 144 and this, in turn, has broader implications for improving governance, accountability and transparency in society.

Although there is no direct link between a political regime per se and the quality of a participatory process, correlates of democracy such as press freedom, history of and openness to civic organization, freedom of association etc. are essential. Cambodia is a state in transition from a patronage based political system to a democratic one but policy processes remain fragmented, there are low levels of accountability and high dependency on aid and foreign investment. Political will, domestic capacity to lead and manage a new and challenging process, and substantial donor assistance have combined to make the PRSP experience in Cambodia a generally encouraging one with major implications for how the country is governed: the social partners have played and will continue to play a role in this new vision of a more open and just society.

Participation and its goal of engendering national ownership are probably the most innovative and potentially wide reaching implication of the PRSP process. Without it, the PRSP process is likely to end up, as some critics allege, "little more than structural adjustment by another name". It is, therefore, very important to get participation right and although the experience in Cambodia (as in many other countries) points in the right direction, the challenge is great and a lot more remains to be done to consolidate the progress so far. Participation, then, marks a fundamental shift in the modus operandi of development cooperation. That the PRSPs have offered trade unions and employers' groups together with other CSOs a chance to participate, often for the first time, in government policy making is a welcome initiative. This has widened the content of dialogue, enhanced government credibility, and opened the door for future collaboration. It also allows the 'poverty agenda' to be more integrated with macroeconomic policies and public finance, ultimately holding out the prospect that poverty will be truly "mainstreamed" in development planning.

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## **Annex 1**

### **Executive Summary of the Cambodia PRSP**

#### **Cambodia: National Poverty Reduction Strategy**

The Royal Government of Cambodia (RGC) is committed to reducing poverty and inequality, and improving the quality of life of the vast majority of Cambodia's rapidly growing population, so that all Cambodians can enjoy the benefits of economic growth and participate in the development.

#### **1. The RGC's Vision for Poverty Reduction**

The Triangle Strategy for the sustainable development of Cambodia launched by Prime Minister Hun Sen following the 1998 elections is:

- the building of peace, stability and security;
- Cambodia's full integration into regional and international relations; and
- the promotion of economic and social development through the implementation of various reform programmes within the environment created by these policies.

The rapid reduction of poverty is perceived by the RGC as an integral part of this strategy. The RGC's vision of Cambodia is a socially cohesive, educated and culturally vibrant nation without poverty, hunger, illiteracy, and ill health. To achieve this vision, the RGC will implement the SEDPII and NPRS with the full support by all stakeholders.

This NPRS is the result of a truly national effort, reflecting the state of knowledge and capacity of the RGC. Further interactions will incrementally improve the quality of the NPRS. The next Socio-Economic Development Plan covering the period 2005 onwards will enfold the NPRS, building on the successes and lessons learned from current efforts to reduce poverty.

#### **2. The Participatory Process of NPRS Formulation**

The development of the Poverty Reduction Strategy started in early May 2000, parallel to work on the Second Socio-Economic Development Plan (SEDPII). The Interim-Poverty Reduction Strategy Paper was coordinated by the Ministry of Economy and Finance, while the SEDPII was prepared under the supervision of the Ministry of Planning. The SEDPII was approved by the Council of Ministers in December 2001 and by the National Assembly in June 2002.

Responsibility for the full PRSP was transferred to the Council for Social Development (CSD), an inter-ministerial body chaired by the Minister of Planning. The CSD is assisted by a General Secretariat (GSCSD), established in August 2001, which is chaired by an Under Secretary of State of the Ministry of Planning (MoP). A series of consultation and participation activities were developed and implemented by the GSCSD:

- In April 2002, the first PRSP National Workshop discussed the process of consultation, with strong and lively NGO participation.
- The second National Workshop of 28-29 May 2002 saw most of the line ministries present their draft PRSP matrices.

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- The Poverty Monitoring and Analysis Technical Unit of the Ministry of Planning held a National Poverty Forum in early July to discuss plans for monitoring and analysis.
  - The first draft of the NPRS was released at the third National Workshop of 26-27 August 2002 attended by over 200 people.
  - The NGO Forum of Cambodia organized dialogues on development issues, culminating in a National NGO Workshop held on 24-25 October 2000 and attended by 85 NGO representatives, mostly Cambodian.
  - The second draft of the NPRS was presented at a fourth and final National Workshop of 12 November 2002 to provide any additional inputs and comments prior to the finalisation of the NPRS, and to collectively discuss next steps in implementing the NPRS.

### ***3. The Multiple Dimensions of Poverty in Cambodia***

In 1990, the first year of the Human Development Report, Cambodia's Human Development Index (HDI) was calculated at only 0.501, placing the country at the "low human development" status. Today in 2002, Cambodia's HDI is 0.543, having moved up to the "medium human development" category, placing Cambodia at 130th among a total of 173 nations. Poverty in Cambodia, however, remains widespread.

- 36 percent of the Cambodian population lives below the poverty line of US\$0.46-0.63 at the current exchange rate.
- Poverty in Cambodia has largely resulted from high population growth, inadequate opportunities, low capabilities, insecurity, exclusion, and vulnerability.
- Although more than 70 percent of Cambodia's population are employed in agricultural production, between 12 and 15 percent of them have no agricultural land.
- The access of the poor to other natural resources such as forest- and fishery-related resources is constrained.
- The majority of the poor (79%) are those with household heads employed in the agricultural sector.
- In the period between 1998 and 2000 the average growth rate of agricultural employment only 1.6%. Employment opportunities in secondary and tertiary sectors are still limited (only 8% and 18%, respectively). Average employment growth for the service sector was only 1.08%, while that in the industry sector was a substantial 43.29% during 1998-2000. In spite of such industrial growth, only 8.4% of the population has benefited.
- Poor health is the major cause of impoverishment and other forms of social deprivation (e.g. loss of educational and employment opportunities). The cycle of poverty, ill health, and high health care expenditure by households economically cripples poor Cambodian families.
- Poverty rates are higher for households in which the head of the household has had either no formal education or only some primary schooling. The share of education in household consumption expenditure of the poor is less than 1.1 per cent.

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- The poor have little access to basic social services and facilities. Approximately 21 percent of people in the poorest quintile have to travel more than 5 kilometres to reach a health clinic. About 6 percent of the poorest two quintiles live more than 5 kilometres from the nearest road.
  - Illiteracy is a barrier for the poor to improve their lives for they are excluded from the development process.
  - Women in Cambodia do not enjoy equal access to education, paid employment, land ownership and other property rights. Women also suffer from poor to non-existent reproductive health services. They are generally in a disadvantaged position in both family and society.
  - Ethnic minorities are disadvantaged due to lack of representation at the management and legislative levels, and because of language barriers.
  - Lack of access to government information and decision-making has prevented the poor from participating in community activities, contributing to gaps between government policies and their implementation.
  - Lack of access to law and rights is a serious issue, since the poor are not able to understand the law, unaware of their rights and vulnerable to exploitation.

#### **4. Priority Poverty Reduction Actions**

The priority poverty reduction actions are:

- maintaining macroeconomic stability;
- improving rural livelihoods;
- expanding job opportunities;
- improving capabilities;
- strengthening institutions and improving governance;
- reducing vulnerability and strengthening social inclusion;
- promoting gender equity; and
- priority focus on population.

#### **Maintaining Macroeconomic Stability**

The central objective of the Royal Government's policy is to promote broad-based sustainable economic growth with equity, with the private sector playing the leading role. Economic growth is central to the promotion of income opportunities for the poor. As set out in the SEDPII, the RGC aims to achieve a sustainable real rate of inclusive broad based economic growth of 6 to 7 percent per year. Such an achievement translates into income per head (in 2000 prices) of approximately US\$320 at the end of 2005. This represents an annual growth rate in real income per head of 3.5 percent.

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Achieving macroeconomic stability with high economic growth of 6-7 percent would require serious actions in implementing the reform programs and supporting policies. This includes:

- no monetisation of fiscal deficit;
- sound financial system oversight;
- deepening banking reform;
- improvements in revenue;
- deepening banking reform;
- improvements in revenue;
- spending increase for social and economic sector, sound budget and treasury management;
- improving the investment climate;
- civil service reform; and
- legal and judicial reforms.

### Improving Rural Livelihoods

A stable macroeconomic environment and sound financial sector policies are important, but these will not guarantee improvements in livelihoods in the countryside, where the vast majority of Cambodia's poor live. The NPRS sets out the existing constraints and policy agenda in a series of key areas, with the overall objective of increasing incomes of Cambodians living in rural areas: land, water, agriculture, forestry and fisheries and transport. Improvements in these areas will contribute to improvements in other aspects of poverty, through better access to basic services, for example. There are also important links between actions in other areas, including decentralisation and rural livelihoods.

Improved rural livelihoods depend also on reduced poverty in other dimensions. Poor health, poor education, lack of agriculture infrastructure, and low productivity lead rural people to poverty.

### Expanding Job Opportunities

The poor work long hours for low returns; productivity is low and there is limited security. The generation of jobs and improved conditions of work are key to reducing poverty. The Royal Government's policies are intended to improve work opportunities specifically through:

- facilitating private sector development;
- expanding exports; and
- expanding tourism.

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The extent to which these policies will be effective is closely related to success in improving the capabilities (education, skills and health) of the Cambodian people, as well as efforts to improve governance and transparency.

### Improving Capabilities

The NPRS highlights the priorities that will particularly affect poor Cambodians in education, health and nutrition.

- To achieve Education for All (EFA), that is completion of nine-year basic education for all, the education sector will address simultaneously supply, demand and quality, and efficiency constraints, focussing especially on the poorest and the groups at risk. Education policy will facilitate economic growth through increasing equitable access to quality and relevant post-basic education, and will sustain institutional development towards pro-poor sector planning and management.
- The Health Policy Statement 2003-2007 seeks to provide high quality, evidence-based health services, with equity, and no discrimination by gender, age, place of residence, or ability to pay, that are pro-poor, and are based on trust between providers and users.
- To address the specific causes of malnutrition, the focus will be on prevention of malnutrition during the early years of life, with interventions starting before birth and focussing on the first two years of life. It is also necessary to improve the nutritional status of women of childbearing age and pregnant women with a view to the prevention of intra-uterine growth retardation.

### Strengthening Institutions and Improving Governance

The RGC is committed to the implementation of the Governance Action Plan (GAP), a rolling strategic framework that provides a consistent and transparent approach to coordinate efforts in eight priority areas:

- legal and judicial reform;
- administrative reform;
- decentralization and local governance;
- public finance reform;
- anti-corruption;
- gender equity;
- demobilization and reform of the Armed Forces; and
- reform of natural resources management (Land, Forestry and Fisheries).

The fight against corruption is crucial to reducing poverty. Cambodia will face difficult challenges to meet its objectives. Competition for investments is fierce among countries and industries. Cambodia controls few of the parameters for success. The only one it controls and that can make a significant dent in poverty is the pursuit of good governance and the fight against corruption. The Royal Government has elected to approach corruption with a holistic set of measures that address root causes. Increasing the risks associated with corrupt practices is an integral part of a strategy. But codes, rules and

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laws cannot do it alone. Effective and fair enforcement mechanisms are the necessary complement to any legal framework. The Royal Government is actively building such capability while it is putting the finishing touch to what would become an enforceable legal framework.

### Reducing Vulnerability and Strengthening Social Inclusion

Increasing environmental sustainability and improving natural resource management is a key dimension in reducing vulnerability. Priority issues are:

- disaster management – especially in the face of floods;
- land mine clearance, a legacy of long years of war;
- vulnerability of the disabled, those affected by HIV/AIDS, orphans, street and abandoned children, and the homeless;
- food security; and
- safety net programmes, limited by budget and capacity constraints.

### Promoting Gender Equity

Since 65 percent of agricultural labour and 75 percent of fisheries production are in the hands of women, poverty cannot be reduced unless policies and programmes equitably address the situation of Cambodian women. The RGC priorities, led by the MOWVA are:

- to reduce gender-based disparities and improve gender equity in health and education;
- to promote agricultural resources, socio-economic and political empowerment and legal protection;
- to ensure that women and girls receive full legal protection, as well as legal education concerning their rights and benefits such as access to land titles and natural resources;
- to promote gender mainstreaming in all government departments;
- to collaborate with MOH on health issues, MOEYS for matters on education, and MAFF, MOWRAM and MRD for agriculture and rural income generation issues;
- to address legal barriers to women's equal rights; and
- to direct gender education and awareness at key officials of the RGC at all levels.

The Royal Government will encourage political parties to place women on party lists in positions which will allow them an equitable chance with men of being elected to parliament. It will adopt affirmative action policies in the recruitment and promotion of women into decision-making positions in the public service. It will ensure that in all consultative processes, as well as in monitoring and evaluation teams, there will be an equal number of women and men.

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## Priority Focus on Population

The NPRS recognises the central, critical and crosscutting role of population as is reflected in three primary programmes with priority focus on:

- specially targeted reproductive health and family planning services for the poor by the Ministry of Health;
- increasing primary education enrolment for the poor by the Ministry of Education; and
- creating rural employment opportunities for the poor by the Rural Development sector Ministries.

## **5. Public Resources Requirements and Management**

A critical aspect of NPRS implementation is that:

- budget allocations need to be consistent with the NPRS; and
- the execution and management of the budget must follow as intended.

Revenue mobilisation has been the key element in the RGC's fiscal policies and the RGC has rigorously implemented reforms aimed at achieving the targeted increase in revenue ratio from 9 percent of GDP in 1998 to 14 percent by 2005. Meeting the revenue target of 14 percent of GDP by 2005 is critical for implementation of poverty reduction programmes.

- Over the next three years, Cambodia aims to increase revenue by 2 percent of GDP to finance growing social spending and debt services. This will require consistent implementation of existing fiscal measures (both tax and non-tax) and improvement in governance.
- The total costs of NPRS action plans for the next three years 2003-2006 are estimated at US\$1.5 billion. Government has to spend a minimum of US\$500 million per year to have a real impact on poverty alleviation in Cambodia. These planned expenditures will be financed by the Government's own capital budget resources (US\$230 million), Foreign Direct Investment (US\$250 million) and Overseas Development Assistance (US\$1.08 billion).
- The Government intends to spend more than US\$1 billion over the next three years on expanding job opportunities and strengthening capabilities of the poor, by focusing on health and education.
- To increase opportunity, the NPRS proposes more investment in the energy sector, part of which can be financed by the private sector under the BOT project. The NPRS proposes to spend US\$216 million on promoting income opportunities, especially on road and transport projects.
- Moreover, the Government intends to spend US\$102 million and US\$174 million respectively on institutional strengthening and governance and reducing vulnerability.

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## 6. Monitoring and Evaluation

Monitoring and evaluation (M&E) and capacity-building activities, including poverty and social impact analysis, are critical components of the NPRS. These activities are essential if the NPRS is to be periodically modified and improved, and established on a sustainable basis. The Poverty Monitoring and Analysis institutional framework was established early in 2002.

The NPRS monitoring and evaluation process will involve the participation of all stakeholder groups. Participation will be complemented by clear identification of the institutional responsibilities of the central and local administrative bodies and complete transparency. All stakeholders have free access to both preliminary and final information and data that they need to carry out their responsibilities.

The monitoring and evaluation process also requires the establishment and strengthening of relevant institutional capacities.

- The MOP is the principal agency responsible for coordinating efforts in monitoring the NPRS.
- Within the MOP, the National Institute of Statistics is responsible for designing and conducting socio-economic surveys, while the General Department of Planning (GDP) is in charge of policy analysis.
- The CSD is responsible for promoting, coordinating and monitoring development policies and programs related to the poverty reduction goals. The CSD has 14 members who are Secretaries of State. In the future nine additional members, representing eight other ministries and the Municipality of Phnom Penh will join the CSD.
- The PMATU is the research arm of the GSCSD, and will coordinate data collection and analysis, and help strengthen national capacity in data collection and analysis.
- The Ministry of Economy and Finance (MEF) will monitor budget execution and implementation of the MTEF, i.e., in monitoring whether necessary financial inputs have been made available to the line ministries to enable them to implement the Priority Public Actions.
- Line ministries and other government agencies responsible for implementing SEDP II and NPRS in their respective sectors will participate in monitoring of their own performance in terms of inputs and outputs, and for collecting and maintaining needed data.

Four key line ministries have been designated by the RGC to play a key role in poverty reduction: MAFF, MOH, MOEYS and MRD. These key line ministries have established working groups to set up and strengthen their technical units to monitor their own performance, collect data, and work with GSCSD to ensure the effectiveness of NPRS implementation.

- On an overall, strategic basis, the Supreme National Economic Council (SNEC) will assess the effectiveness of the NPRS and recommend necessary adjustments to the Prime Minister.
- The Parliament and Senate will be responsible for reviewing the progress of NPRS implementation, and for providing feedback and recommendations for necessary

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adjustments to the NPRS. They will also participate in meetings, workshops and national poverty forums organised by CSD and GSCSD.

- Commune Councils and civil society are the representatives of the targeted beneficiaries, and will provide feedback and be the source for signals in the NPRS “early warning system”. The commune councils and civil society will also provide information on natural disasters.
- NGOs, including both local and international organisations are expected to be key partners in monitoring and evaluating the NPRS. In addition to providing comments on the results of socio-economic household surveys and monitoring the progress of NPRS implementation, NGOs are expected to provide useful data and information from their own micro-level surveys and evaluation studies.
- The RGC looks to the private sector, through such organisations as the Chamber of Commerce and Worker Federations/Trade Unions, to play a crucial role in poverty reduction, especially, through job creation.
- Finally, the media will be key to poverty monitoring exercises. The media will be able to help provide regular information on the issues faced during the implementation of the NPRS and their progress, as well as intermediate outcomes of the NPRS execution.

### NPRS Monitoring and Indicators

Monitoring of annual progress towards NPRS poverty reduction goals is a key component for the NPRS process. Appropriate indicators and targets for the various Priority Public Actions in the NPRS will be sex disaggregated, and to the extent possible, will be consistent with those of other key RGC planning documents (SEDPII, MTEF), as well as the longer-term Millennium Development Goals.

The indicators for monitoring and evaluating the NPRS as presented in the Action Plan Matrix and M&E framework are selected to account for:

- resources from the RGC sources and donors;
- delivery capacity of institutions;
- timeframe of the NPRS;
- measurable and monitorable characteristics;
- poverty-sensitivity of the indicators;
- baseline information, and
- capacity of the line agencies in collecting, maintaining and analysing relevant information.

Annual Progress Reports on Implementation of the NPRS will be prepared by CSD.

### **7. Conclusions and Next Steps**

The NPRS has laid out the key priorities for Cambodia to implement over the next three years in order to meet the poverty reduction goals of the RGC. The NPRS has adopted a comprehensive approach, outlining pro-poor actions to improve rural

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livelihoods, promote job opportunities, ensure better health, nutrition and education outcomes, and to reduce vulnerability.

It is envisioned that the next Socio-Economic Development Plan and the corresponding NPRS will be merged and formulated and presented as a single document in 2005. This document will build on the successes and lessons learned from the current efforts to reduce poverty, managed by the Supreme National Economic Council (SNEC) and the CSD. The SNEC will exercise its role consistent with its nature as support to the Prime Minister in the area of strategy and policy, and thus contribute to the NPRS II with regard to overall strategy and policy formulation. The CSD will manage the monitoring of operational activities and implement the consultative processes that will ensure that the NPRS continues to be participatory in formulation as well as in execution.