
Cambodia

Social security for the formal economy

Outlook and challenges ahead

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**“Improving Social Protection and Promoting Employment”,
an ILO/UE project**

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Abbreviations and acronyms

CARD	Council for Agricultural and Rural Development
CBHI	community-based health insurance
CPI	consumer price index
CSES	Cambodia Socio-Economic Survey
EI	employment injury
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Institute for Technical Cooperation)
HEF	health equity fund
HIV	Human Immunodeficiency Virus
ILO	International Labour Organization/Office
ISSA	International Social Security Association
KHR	Cambodian Riel
MOD	Ministry of Defence
MOEF	Ministry of Economics and Finance
MOH	Ministry of Health
MOI	Ministry of the Interior
MOLVT	Ministry of Labour and Vocational Training
MOSVY	Ministry of Social Affairs, Veterans, and Youth Rehabilitation
NFV	National Fund for Veterans
NGO	non-governmental organization
NIS	National Institute of Statistics
NSDP	National Strategic Development Plan
NSSF	National Social Security Fund
NSSFC	National Social Security Fund for Civil Servants
NSPS	National Social Protection Strategy
RFPL	Rural Food Poverty Line

RGC	Royal Government of Cambodia
SHI	social health insurance
SPER	Social Protection Expenditure and Performance Review
TFR	total fertility rate
UN	United Nations

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1. Background

The assessment presented in this report was prepared under the EU/ILO project “Promoting Social Protection and Employment Policies” in cooperation with the Cambodian Ministry of Labour and Vocational Training (MOLVT), the Ministry of Social Affairs, Veterans, and Youth Rehabilitation (MOSVY), the Council for Agricultural and Rural Development (CARD), the National Social Security Fund (NSSF), and the National Social Security Fund for Civil Servants (NSSF-C). In the same context, a social protection expenditure and performance review (SPER) was carried out during the year 2011, and the findings thereof compiled in a comprehensive report (ILO, 2012a). The project also undertook a financial assessment of policy options proposed under the National Social Protection Strategy (NSPS) launched in December 2011 (ILO, 2012b).

The objective of this report is to discuss the development of social security in the formal sector in Cambodia. The findings are based on the background research undertaken by the consultant during 2010–11 in the framework of the aforementioned ILO/EU project, and during an earlier assignment on the review of the employment injury branch of the NSSF and costing of social health insurance for NSSF and NSSF-C, undertaken in cooperation with GIZ and partners of the Providing for Health (p4H) initiative (GIZ/ILO, 2012).

In light of the rapid economic development experienced during the past two decades, Cambodia is witnessing a transition from a mainly rural-based economy with a predominant primary sector towards a more diversified economy featuring both a growing industrial sector and an expanding service sector. While the primary sector, comprising agriculture, forestry and fisheries, still accounts for about 72 per cent of total employment (NIS, 2009a), its share is on the decrease while the secondary and tertiary sectors are expanding. In the year 2008 the secondary and tertiary sectors, as a share of total employment, were estimated at about 19 per cent and 9 per cent respectively.

Emerging industrialization, urbanization, and migration of rural populations are generally accompanied by a loosening of family bonds and the break-up of traditional communities. While the traditional social protection mechanism was built mainly on solidarity within the extended family and food donations to the poor and needy at Buddhist temples, these informal arrangements can no longer be relied upon. In light of the profound changes in economic activity, employment characteristics and labour mobility, there is a need to develop statutory provisions that protect all Cambodians against the main contingencies they face in everyday life: food insecurity, illness, and loss of income due to unemployment, sickness, maternity, disability, old age, employment injury, and/or death of the breadwinner.

While state employees have generally benefited in one way or another from different social security provisions as part of their conditions of service, this has not been the case so far for workers and employees of the private sector. Although the Labour Law (1997) mandates employers to grant certain benefits to their employees, the liability of employers cannot be extended beyond the limits of what is considered affordable and commensurate with wage levels and duration of employment. Furthermore, given the limited ability of individual employers to deal with adverse events, absorb social expenses, and deal with contingent liabilities, there is a strong rationale to organize social security provisions collectively so as to share the financing burden and risk among all. The situation therefore calls for the progressive introduction of employment-based social insurance benefits for private-sector workers, along the common path of socio-economic development witnessed during the past century in most industrialized countries. Many countries in South-East Asia have followed this path, including the Lao PDR and Thailand.

In Cambodia the entitlement of workers and employees to social security benefits is enshrined in the Constitution and in concrete policy objectives laid down in the main national development frameworks, including the Rectangular Strategy, the National Strategic Development Plan (NSDP), and the Financial Sector Strategy adopted in 2011. The recent implementation of the Social Security Law (2002) through the establishment in 2008 of the National Social Security Fund (NSSF) is a large step forward along the path defined in the NSDP; it reflects a political commitment to fill the void and enhance the protection of workers and employees. These policy developments aimed at enhancing social security for workers and employees in the formal sector go hand in hand with national efforts aiming at protecting the poor and workers in the informal economy, as laid out in the National Social Protection Strategy (NSPS) launched in early 2012. The focus of this report lies with the former.

The objective pursued in this report is to provide an overview of the current situation regarding social security provisions in the formal sector, to discuss planned policy developments and prevailing challenges, and to reflect on the way ahead. The report is organized as follows:

Section 2 provides background information regarding the socio-economic, historical and institutional context, and a review of the main policy developments in social protection.

Section 3 presents information on the National Social Security Fund for Civil Servants (NSSFC) and a discussion of relevant policy issues for consideration.

Section 4 provides an overview of the National Fund for Veterans (NFV) and an assessment of critical policy issues.

Section 5 presents information on the National Social Security Fund (NSSF) and an outlook on planned developments and future challenges.

Section 6 provides an overview of voluntary insurance provisions, including community-based health insurance (CBHI) and private insurance.

Section 7 summarizes the main findings of the report and provides selected policy recommendations regarding the future development of social security in Cambodia.

2. Introduction

Cambodia's total population was estimated at 13.4 million persons at the time of the last population census undertaken in 2008 (NIS, 2009a). With a total fertility rate (TFR) of 3.1, the population is growing at an estimated 1.5 per cent per annum. The median age currently stands at 21 years and the population is young on average. Overall an estimated 36 per cent of the population are aged 15 or younger, while only 6.3 per cent are aged 60 or above.

Cambodia still counts among the world's least-developed countries. In 2010, GDP per capita reached US\$860, or about US\$2.40 per capita per day. Poverty is still endemic, particularly in rural areas, although poverty prevalence rates are on the decline. The overall poverty headcount rate was estimated at 30.1 per cent in 2007, including 18 per cent in "extreme" poverty.¹

The composition of GDP reveals that in 2010 the primary sector (agriculture, fisheries and forestry) accounted for about 36 per cent of total national output, while industrial output made up 20 per cent (IMF, 2011). The tertiary sector (trade and services) accounted for about 38 per cent of GDP and was the largest economic sector in 2010.

Cambodia's labour force or economically active population reached about seven million in the year 2008, this among a total working-age population of 8.9 million.² Due to demographic dynamics, the labour force is growing rapidly: according to the census figures it increased from 1998 to 2008 by 1.9 million persons, i.e. by 3.3 per cent per annum on average. The sustained economic growth witnessed in Cambodia during the past decade can be explained in part by the fast-growing workforce.

Total employment in Cambodia was estimated at 6.8 million persons in 2008, or about 77 per cent of the total working-age population (15+). A large share (72.1 per cent in 2008) can still be attributed to the primary sector, although a gradual decline has been observed since 1998 (77.4 per cent), this due to the rapid economic development, sectoral diversification, and emerging industrialization (NIS, 2009a). Employment in the secondary sector (manufacturing and industry) increased from 4.3 per cent to 8.6 per cent of total employment during 1998–2008. This marked increase relates to the expansion of the garment and footwear manufacturing industry driven mainly by foreign direct investment. Employment in the tertiary sector (trade and services) also expanded in relative terms, from 18.3 per cent of total employment in 1998 to 19.3 per cent in 2008.

Despite these sectoral shifts, employment in Cambodia is still to a large extent unregulated or "informal" as commonly referred to. Formal employment relationships governed by employment contracts, the Labour Law, and subject to entitlements such as employment injury insurance coverage are, however, gaining ground and there are indications that the economy is "formalizing". This trend can be attributed mainly to the expanding employment in the secondary and tertiary sectors, comprising industrial garment and footwear manufacturing, the hotel industry and other related service sectors. Informal employment on the other hand can be attributed largely to the primary sector (agriculture, forestry and fishery) and the low-productivity tertiary sector, including petty traders, street vendors, motorbike taxis and other trades. For the year 2008, the share of informal

¹ The latest unofficial estimate by the World Bank based on CSES 2009 data, suggests that the total poverty headcount rate has declined to 14.6 per cent.

² The working-age population as defined here comprises all persons aged 15 and above.

employment was estimated at 83 per cent, with only 17 per cent of total employment considered formal (ILO, 2012a).

The predominance of informal employment is the main obstacle to the extension of social security to all Cambodians, together with an overall low income level and limited ability to pay or contribute to any scheme based on collective arrangements. Achieving universal coverage through contributory schemes alone will therefore not be achievable in Cambodia in the near future, and other policy measures are required in conjunction with contributory systems to achieve social protection coverage for all, particularly for the poor and near-poor engaged in subsistence-type occupations. The development of contributory schemes is nevertheless deemed necessary and is recommended, for it caters to a sizable and growing share of the workforce, and the social insurance mechanism has proved successful around the world in delivering social security benefits to workers. Also, it has been found that financial sustainability is achievable without fiscal subsidies being required. Furthermore, the development of contributory schemes leads to the development of human and institutional capacity, which can be instrumental in the planning and successful implementation of non-contributory social protection instruments.

Social security by way of statutory entitlements was first introduced in Cambodia in 1955 through the adoption of Royal Decrees Nos. 55 and 306. These provisions were abolished by the Khmer Rouge in 1975, when change and destruction were brought upon most public institutions by a revolutionary and radical ideology. After the end of the genocide, in 1979, free access to health-care services was granted to all Cambodians. The Department of Social Security was established in the year 1993 under the Ministry of Social Affairs, Veterans, and Youth Rehabilitation (MOSVY), and mandated with policy formulation regarding statutory social security provisions.

1994 saw the adoption of the Law that redefined the status of civil servants and introduced comprehensive social security provisions as part of their conditions of service. Shortly afterwards (in 2007) the current Labour Law was adopted, stipulating a series of mandatory provisions for employers that aim at ensuring a minimum level of social protection benefits for workers and employees in the private sector.

The first social security law, entitled Law on Social Security Schemes for Persons Defined by the Provisions of the Labour Law, was passed by the Parliament of Cambodia in September 2002. The law stipulates the introduction of social insurance benefits, including employment injury benefits, age, invalidity and survivors' pensions, and other benefits to be specified later. It took until the year 2007 before the National Social Security Fund (NSSF) was finally established following the adoption of the relevant sub-decree necessary for the implementation of the law. The new agency started operations in 2008 by introducing mandatory employment injury insurance as stipulated in the law, initially with larger enterprises in Phnom Penh and later on in other provinces, covering all enterprises with more than eight workers and/or employees.

New legislation was also passed in relation to the administration of social security benefits for public-sector workers; this through the adoption of two royal decrees in 2008 and 2010, which resulted in the establishment of the National Social Security Fund for Civil Servants (NSSFC), and the National Fund for Veterans (NFV) respectively. Although the benefit provisions for public-sector workers remain unchanged at present, further policy developments are planned once the two funds are fully established and operational.

3. The National Social Security Fund for Civil Servants (NSSFC)

3.1. Background and scheme provisions

The main social security provisions for civil servants are laid down in the Law on Common Statute of Civil Servants of the Kingdom of Cambodia, 1994, which defines the rights, obligations and conditions of service of civil servants, including their entitlements to various social security benefits. The law is complemented by a series of other enactments that are relevant with regard to benefit entitlements.³ Until recently, benefits were administered by MOSVY and financed exclusively from the national budget.

In January 2008, the National Social Security Fund for Civil Servants (NSSFC) was established by Royal Kret (Decree). The new administrative body started operations in May 2009 under the governance of a board of directors, comprising amongst others the Minister of Economics and Finance and the Minister of Social Affairs, Veterans and Youth. At the time of writing, the NSSFC employs 34 persons at the central level and about 500 employees at provincial and municipality levels.

The NSSFC was established with the twofold objectives to:

- (i) centralize the administration and disbursement of social security benefits for civil servants in order to increase efficiency, improve service standards, and strengthen the overall governance of the system; and
- (ii) establish an autonomous and contributory social security fund for civil servants, which is supposed to reach financial sustainability.

A reform of benefit provisions for civil servants is planned but so far the details of the reform have not been worked out in detail. All benefits currently disbursed to civil servants and their family dependants are still assessed based on prior entitlements, mainly those defined in the Common Statute of Civil Servants and related enactments.

Currently, according to data provided by the NSSFC scheme covers around 175,000 civil servants, including about 60,000 women. Family dependants of civil servants and public-sector pensioners benefit from survivors' pensions in case of death of the civil servant or pensioner. The total number of family dependants who could potentially benefit is estimated at about 465,000 (see table A.1).

Civil servants are entitled to the following benefits (see table A.2):

- **Sickness cash benefit**, comprising full salary including allowances for up to three consecutive months of illness, and 90 per cent of salary thereafter for up to 12 months duration depending on the number of past service years.
- **Employment injury benefits**, comprising medical care, cash benefit at full salary during treatment and convalescence, and permanent invalidity benefits for permanent disability.

³ These include Ministerial Decisions No. 245 SSR, 1988; No. 150 SSR, 1985; No. 184 SSR, 1990; and Sub-Decree No. 59 ANKR.BK, 1997.

-
- **Maternity benefits**, including maternity leave for 90 days at full salary and a cash allowance of KHR 600,000 (US\$150) per child.
 - **Retirement benefits**, comprising:
 - (a) Lifetime pension payable after 20 years of service (minimum) at the normal retirement age of 55. The minimum benefit amount is 60 per cent of the final basic salary plus allowances (excluding position allowance). The maximum benefit is 80 per cent of final salary for 30 years of service. The pension amount is subject to a minimum amount depending on the salary grade.
 - (b) Retirement allowance (lump sum benefit) equal to eight months of total final salary
 - **Invalidity benefits**, comprising:
 - (a) Lifetime pension payable after 20 years of service (minimum). The minimum benefit amount is 50 per cent of final salary plus allowances (not including position allowance). The maximum benefit is 65 per cent of final salary payable for 30 years of service. The pension amount is subject to a minimum based on the respective salary grade. If less than 20 years of service a lump sum benefit is payable equal to 4–10 months of final salary.
 - (b) Invalidity allowance equal to six months of total final salary.
 - **Death benefits** in case of death of an active civil servant, comprising:
 - (a) Cash allowance of six months final salary of the deceased.
 - (b) Funeral allowance.
 - (c) Survivor pension payable to the widow/er at KHR 6,000 per month (US\$1.50) and KHR 5,000 per month (US\$1.25) for each child under 16 years of age.
 - **Death benefits** for the death of a pensioner, comprising:
 - (a) Funeral allowance of 12 months of pension of the deceased;
 - (b) Survivor pension payable to the widow/er at KHR 6,000 KHR per month (US\$1.50) and KHR 5,000 per month (US\$1.25) for each child under 16 years of age.

In addition to the benefits outlined above, civil servants are entitled to family allowances, comprising a “spouse allowance” and a “child allowance”. Family allowances are not paid through NSSFC but directly by MOEF as a salary allowance, in conjunction with other salary allowances.

Civil servants, pensioners, and family dependants are currently not entitled to any form of medical benefits (in kind), apart from treatment for employment injuries. The introduction of social health insurance (SHI) for civil servants and civil service pensioners was under discussion in 2010 and a draft Sub-Decree was prepared. A preliminary costing of an SHI branch was undertaken in 2010–11 (see GIZ/ILO, 2012). Due to other priorities and limited capacity at NSSFC the introduction of SHI has been postponed for the time being. The estimated total coverage, including pensioners and family dependants (spouse and children) is estimated at 675,000 persons, comprising about 5 per cent of the total population. The introduction of SHI would ensure the protection of civil servants against the risk of catastrophic health expenditures. This is particularly relevant for public-sector

pensioners, who are likely to face financial hardship when they need high-cost medical care.

The number of old-age and invalidity pensioners in 2009 totalled about 28,000 and 5,000 respectively (see table A.3). These figures do not include retired members of the Cambodian Royal Armed Forces and the National Police, who receive pensions from the National Fund for Veterans (see section 3). Due to historical reasons, the number of retirement pensions in payment is still relatively low for civil servants, with currently only about 17 retirees per 100 active civil servants. It can be expected, however, that this ratio will increase sharply during the next decade as the generation of civil servants who entered service after the war (i.e. during the early 1980s) reaches retirement age in the coming years.⁴

In 2009 the average retirement pension amounted to about KHR 199,200 per month (~US\$48). Although this represents only about KHR 6,650 per day (~ US\$1.60), the replacement rate for retirement pensions is relatively high, at an estimated 63 per cent compared to the average total salary of active civil servants (see table A.4). Both retirement and invalidity pensions are regularly increased to account for the rising cost of living based on a specific index that is adjusted on an ad-hoc basis.

During 2011 the NSSFC carried out a comprehensive registration of old-age pensioners and organized, in cooperation with a local bank, the opening of bank accounts for them all. The disbursement of retirement pensions will in future be processed via bank transfer so as to speed up the process of disbursements and increase administrative efficiency, including the avoidance of administrative charges being levied at different levels. It is hoped that this reform will also reduce and prevent fraud such as the disbursement of pensions to non-existing or deceased pensioners. All other benefits are currently still disbursed through the respective line ministries, but a gradual transfer to NSSFC is planned for the near future.

The number of survivors' pensions in 2009 totalled about 34,000 including about 23,000 widow/er pensions and about 11,000 orphans' pensions.⁵ With a benefit amount of only 6,000 KHR/month (US\$1.50) for widow/ers and KHR 5,000 per month (US\$1.25) for orphans, the replacement rate for survivors' pensions is low, only 2 and 1.7 per cent respectively in comparison to the average wage of civil servants. Unlike retirement and invalidity pensions, survivors' pensions are fixed in nominal amounts, and are not adjusted regularly to account for increases in the cost of living.

So far, all benefits for civil servants are financed through the Treasury, i.e. via the national budget. In the meantime a Prakas (Ministerial Regulation) has been adopted, stipulating that the fund will be financed from salary contributions at 24 per cent of civil servants' salaries, to be shared between by the Government as the employer (18 per cent) and civil servants (6 per cent). It is as yet unclear when contributions will be collected and whether the income from contributions will be sufficient to cover benefit expenditure. It is also still unclear whether contributions will be levied on salary allowances or on the basic wage only.

The total amount of benefits disbursed in 2009 amounted to about KHR 91 billion (~ US\$22 million), including about KHR 71 billion (~ US\$17.8 million) for retirement pensions (see table A.5). Equivalent to about 2.1 per cent of recurrent government budget expenditure, the fiscal burden for social security benefits is still deemed relatively modest

⁴ Unfortunately, the age distribution of civil servants could not be made available from CAR, the Council for Administrative Reform, which manages the data on civil servants.

⁵ Technically, these are half-orphans if there is a surviving spouse or widow/er.

by international comparison. Furthermore, with improving revenue collection and economic growth, the national budget is expected to expand sizably over the coming years.

3.2. Issues for consideration

3.2.1. Medical benefits for civil servants

The introduction of medical benefits for civil servants, public pensioners, and their respective family dependants is recommended in order to ensure social health protection for this occupational group. However desirable, the introduction of social health insurance for public-sector workers faces a series of challenges that need to be overcome:

- The relative cost and contribution rate of an SHI scheme for civil servants and pensioners would be comparatively high due to the high number of family dependants, the age profile of the respective population, and the low salary level in the public sector.⁶
- The design of SHI scheme provisions would be a challenging task given the absence of comparable schemes in Cambodia. The design of adequate contracting arrangements with providers would require particular attention so as to provide incentives to ensure quality of care, cost efficiency, and to limit the risk of moral hazard. Design challenges include the selection of an adequate provider network throughout the country, the adoption of adequate provider payment provisions, and the administration and monitoring of the scheme.
- In order to ensure the effective administration and good governance of an SHI branch, the required institutional capacity of NSSFC would need to be developed. Its current capacity is still quite limited, both in terms of human resources and financing means. Sizable efforts and time would be required for the development of the human and institutional capacity required for the management of a SHI branch (see also 3.2.5 below).

3.2.2. Survivors' benefits

The current level of pension benefits for surviving spouses and children is clearly inadequate. With a replacement rate of only 2.0 and 1.7 per cent respectively, a substantial readjustment is overdue. At such low benefit levels, little income security is provided to survivors, and the benefit appears to be purely symbolic.⁷ Furthermore, since the administration costs involved for the management and monthly disbursement of these pensions may be very high compared to the benefit expenditure, there are little grounds on which such low pension benefits can be justified.

⁶ The contribution rate was tentatively assessed at 3.9 per cent of total wages and pensions (GIZ, 2012).

⁷ The ILO Minimum Standards (Social Security) Convention, 1952 (No. 102) recommends a minimum replacement rate of 40 per cent for widows and at least 10 per cent for each surviving child. The Convention is the flagship of all social security conventions; it stipulates minimum standards for all nine social security contingencies, including medical, sickness, maternity, employment injury, unemployment, old age, invalidity, survivors', and family benefits.

3.2.3. Indexation of benefits

There seems to be no convention in place regarding the periodical adjustment of benefit levels to account for the loss of purchasing power due to consumer price inflation and/or to reflect increases in wage levels. Such adjustments are currently undertaken on an ad-hoc basis. In order to prevent the erosion of benefit levels in real terms and ensure equity between successive generations of pensioners, the adoption of an indexation rule for all pension benefits would be advisable.

3.2.4. Scheme financing

The NSSFC was created with the objective of establishing an autonomous social insurance fund for active civil servants, public-service pensioners and family dependants. In light of the planned introduction of social security contributions to finance benefits, the following considerations are deemed relevant:

- The NSSFC was established without technical reserves to cover pension liabilities accrued in the past. If all benefit liabilities are to be borne by the NSSFC (e.g. through the pay-as-you-go financing mechanism), adjustments to the contribution rate will be required in future in order to ensure the solvency of the fund. In light of the growing pool of pensioners, the financial burden on the scheme is bound to increase in the near future, and the contribution rate is likely to increase over the coming years. If, on the contrary, future financing gaps are to be covered from the government budget, the rationale for establishing of an autonomous fund would be undermined, since financial sustainability will not be achieved.
- In order to set up a social insurance fund that is financially sustainable over the long term, the following steps are usually required:
 - (i) Undertake an actuarial valuation to estimate the pension liabilities from the past and those to incur in the future.
 - (ii) Separate liabilities from the past (old system) from those incurring in the future (new system) and fix an age limit that determines membership for the new system (e.g. all civil servants aged under 30 or 40 on a given date).⁸
 - (iii) Adopt a contribution schedule that would ensure the sustainability of the new system over the long term by allowing for the accumulation of a technical reserve as relevant.
 - (iv) Undertake, if required, a reform of pension provisions applicable to future pensioners under the new system to ensure long-term financial sustainability within the desired financing framework (i.e. level of contribution rate and reserve ratio). Such reforms often comprise changes in the pension formula and/or a gradual increase in the retirement age.
- To achieve financial sustainability, the separation of pension liabilities accrued in the past from those to incur in the future is deemed necessary, particularly if civil servants are required to contribute a fixed share of the financing burden. Since the total amount of pension liabilities accrued from past service years is usually

⁸ A change in pension provisions for existing pensioners and/or civil servants close to retirement is uncommon; it is politically difficult to enact, and therefore only considered in extreme cases. It is not uncommon, though, to see changes in indexation rules being adopted to curb the future cost increases of pensions in payment.

substantive, it is considered inequitable to overburden the current generation of active civil servants with contributions for paying off liabilities relating to the past.⁹

- Notwithstanding, it is common practice nowadays that civil servants participate in the financing of their social security benefits through wage-based contributions. The determination of a contribution rate considered equitable for employees is, however, foremost a matter for negotiation and hence a political issue that relates to the overall conditions of service in the public sector. Since the Government has pledged to increase public-sector salaries progressively over the coming years (the Prime Minister has reportedly announced wage increases of 20 per cent per year), a reduction in net salaries as a result of the introduction of social security contributions is unlikely. Furthermore, in the absence of a reserve fund, both salaries and social security benefits represent recurrent fiscal expenditures, and the issue is fundamentally a question of trade-offs, i.e. a decision as to how to “share the cake” between active civil servants and pensioners, and whether to make provision (i.e. accumulate reserves) to account for accruing liabilities.

In summary, the establishment of the NSSFC as an independent fund does not in itself result in financial sustainability unless additional steps are undertaken, including possibly a reform of pension provisions if necessary. The first step would be an actuarial valuation in order to estimate the future financing requirements for the scheme, notably the assessment of current and future pension liabilities. Once the scope of liabilities has been established, policy-makers will be able to plan ahead, allocate fiscal resources over the medium term, and assess the need for reforms in case the future fiscal burden is deemed unaffordable in the long run.

It must be stressed however that, given the low level of civil servants’ salaries at present, pension levels are also comparatively low in absolute terms. Nevertheless, in light of the planned wage increases in the public sector, it is relevant that long-term implications on pension liabilities are taken into account when wage levels are adjusted upwards. Although the indexation of pensions is not linked explicitly to wage levels but to a separate index, wage increases should be taken into account to some extent in order to avoid marked inequities between successive age cohorts of pensioners. Since pension reforms cannot be undertaken overnight and need to be phased in over many years (or sometimes decades) in order to avoid sizable inequities between successive age cohorts, it is considered prudent to assess long-term financial implications of benefit entitlements early on.

3.2.5. Governance

So far NSSFC has been administering only the disbursement of civil servants’ pensions. For other benefits, the disbursement is still administered through the respective line ministries of beneficiaries, although the transfer of all benefits into the NSSFC is planned for the future. In order to ensure the effective management of the scheme as an autonomous body, there is a need to further strengthen the institutional capacity of the new agency. If the introduction of social health insurance for civil servants and pensioners is pursued, considerable administrative preparations will be required in order to adopt adequate scheme provisions and establish an effective administration system throughout the country. This will require the development of human resource capacities, new administrative procedures and processes, and the setting up of appropriate data management systems. Investments aiming at the development of NSSFC institutional capacity are highly recommended in order to ensure that the scheme will be able to successfully manage the challenges ahead.

⁹ Existing pension liabilities can be considered as a debt from the past, and should therefore be funded from the national budget or other public resources.

4. The National Fund for Veterans (NFV)

4.1. Background and scheme provisions

The National Fund for Veterans (NFV) covers social security benefits provided to war veterans and to personnel of the Royal Cambodian Armed Forces and the National Police Force. The new fund was established by Royal Kret (Decree) on 15 July 2010 and started operations in late 2010. The benefit provisions are laid down in a number of enactments, including the Law on Pensions and Invalidity Pensions for the soldiers of the Cambodian Armed Forces, as amended by the Royal Decree NS/RKT 0406/008 in 2006; and Royal Decree NS/RKT 0710/595 on social security for veterans (2010), which stipulates the establishment of the NFV.

According to Anu-Kret (Sub-Decree) No. 79, 2010, the NFV is a legally and financially autonomous body governed by a board of directors comprising 11 members, including an executive director, a representative of war veterans, a representative of the Council of Ministers (COM), and representatives of different line ministries, including MOSVY, MOI, MOD, and MOEF. At the time of writing, NFV is not yet fully established and still operates under MOSVY at the central level only, although plans exist to open offices in Kandal and Konpong Speu provinces in 2012.

The NFV was established mainly in order to centralize the administration of social security benefits for veterans, army, and the police, as well as to increase efficiency, improve service standards, and strengthen the overall governance of the system. Another objective pursued according to Sub-Decree No. 79 is to establish a contributory and financially sustainable social security scheme for veterans, army personnel, and members of the national police force.

The benefits provided under the scheme are similar to those provided to civil servants and include the following:

- **Sickness cash benefit**, comprising full salary including allowances for up to three consecutive months of illness, and 90 per cent of salary thereafter for up to 12 months duration depending on the number of past service years.
- **Maternity benefits**, comprising maternity leave for 90 days at full salary and a cash allowance of KHR 600,000 (US\$150) per child or miscarriage.
- **Marriage allowance**, consisting of a cash allowance payable for the first marriage of the insured.
- **Employment injury benefits**, comprising medical care (in kind), cash benefit at full salary during treatment and convalescence, and permanent invalidity benefits (pension) for cases of permanent loss of working capacity.
- **Retirement benefits**, comprising:
 - (i) Lifetime pension payable after 20 years of service (minimum) at the normal retirement age of 55. The minimum benefit amount is 60 per cent of the final basic salary plus allowances (excluding position allowance). The maximum benefit is 80 per cent of final salary for 30 years of service. The pension amount is subject to a minimum amount depending on the salary grade.
 - (ii) Retirement allowance (lump sum benefit) equal to eight months of total final salary.

- **Invalidity benefits**, comprising:
 - (i) Lifetime pension payable after 20 years of service (minimum). The minimum benefit amount is 50 per cent of final salary plus allowances (not including position allowance). The maximum benefit is 65 per cent of final salary payable for 30 years of service. The pension amount is subject to a minimum based on the respective salary grade. If less than 20 years of service a lump sum benefit is payable equal to 4–10 months of final salary.
 - (ii) (ii) Invalidity allowance (lump sum benefit) equal to six months of total final salary.

- **Death benefits** in case of death on mission (i.e. work-related), comprising:
 - (i) Cash allowance of six months final salary of the deceased
 - (ii) Funeral allowance.
 - (iii) Survivors' pensions payable to the widow at KHR 6,000 per month (US\$1.50) and KHR 5,000 per month (US\$1.25) for each child under 16 years of age.

- **Death benefits** in case of civilian death, comprising:
 - (i) Funeral allowance of 12 months of pension of the deceased.
 - (ii) Survivors' pensions payable to the widow at KHR 6,000 per month (US\$1.50) and KHR 5,000 per month (US\$1.25) to each surviving child under 16 years of age.

Data on the total coverage of the NFV could not be made available. The labour force data reported in the last population census (NIS, 2009a) suggests an estimated 112,000 active members.¹⁰

So far, all benefits have been financed through the budget of MOSVY. Plans exist, however, to establish the NFV as an autonomous fund to be financed from contributions at 24 per cent of salaries (of active members), shared between the Government as the employer (18%) and active members (6%), in the same way as for the NSSFC. A date has not yet been set for the introduction of contributions, and it is unclear whether the income from contributions will be sufficient to cover benefit expenditure.

Total NFV expenditure for pension benefits was reported at about KHR 6.5 billion (~US\$1.6 million) for the month of December 2010 (see table A.6). This yields an estimated annual expenditure of US\$19.2 million, including about US\$12 million for war veterans' pensions.

The number of pensioners totalled about 199,000 in December 2010, among whom were about 28,600 war veterans, and about 162,000 survivors' pensions (see table A.7). The large number of survivors can be explained by the fact that the dependants qualifying for a

¹⁰ Preliminary estimate based on total public employment as reported in the population census (304,500), after deduction of the reported number of civil servants (175,000) and state-owned enterprise workers (~17,500).

survivors' pension include not only the spouse and children (as is common) but also parents and the “guardian” of the deceased.¹¹

The average pension amount disbursed to war veterans in December 2010 amounted to about US\$35, whereas retired police and army personnel received on average about US\$46.30 per month (see table A.8). Survivors received on average US\$1.40 per month, which is very low in comparison to the average amount of retirement and invalidity pensions disbursed.

4.2. Issues for consideration

Since the main features of the NFV are similar to those of the NSSFC, in general the same issues are of relevance.

4.2.1. Health insurance

At present, persons covered under the NFV do not benefit from health insurance provisions and are likely to face hardship when they need high-cost medical care, particularly existing pensioners and war veterans. For the introduction of social health insurance (SHI), the NFV would face the same challenges as the NSSFC (see section 3.2.1) and the critical issues are the same, i.e. a limited institutional capacity, the lack of comparable schemes to inform the design, and potentially a high cost per capita in comparison to current wage levels.

4.2.2. Survivors' benefits

The current level of pension benefits for survivors is clearly inadequate. At an average benefit level of only US\$1.50 per month for widows and US\$1.25 per month for surviving children, the level of income security provided is marginal and the benefit appears mainly symbolic.¹² Furthermore, the administration cost involved for the management and disbursement of these pensions is probably disproportionately high when compared to total benefit expenditure. Given the high number of survivors' pensions (162,000) in payment, a readjustment of the benefit level to a more decent level, would have sizable financial consequences that must be taken into consideration.

4.2.3. Scheme financing

Sub-Decree No. 79 suggests that the NFV is meant to operate as a financially “autonomous” fund, i.e. a sustainable social insurance scheme. It is not fully clear, however, to what extent self-financing is a goal, and whether the fund is intended to operate in future without subsidies from the national budget. Self-financing is unlikely to be achieved under the current arrangements, due to the following:

¹¹ The term “guardian” refers to a personal assistant or guard who has been employed by the deceased.

¹² ILO Convention No. 102 recommends a minimum replacement rate of 40 per cent for widows and at least 10 per cent for each surviving child.

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- the large number of pensions in payment, including the large number of war invalidity pensions; the scope of pension liabilities is likely to be sizable and the annual financing burden is expected to increase in future years;¹³
 - the need to readjust the benefit level for survivors' pensions and the financial consequences thereof; and
 - the amalgamation of war invalidity pensions with public service pensions (armed forces and the police). Since war invalidity is a specific contingency that does not fall within the normal scope of social security, these pensions should be separated, at least for financing purposes.

In order to assess the scope of pension liabilities and the future fiscal burden, it is recommended that an actuarial valuation be carried out. This would also allow for the assessment of policy options regarding the adjustment of benefit levels for survivors' pensions.

4.2.4. Institutional capacity

The level of institutional capacity at the NFV is relatively low at present. In order to ensure the effective management of the scheme as an autonomous body, there is a need to develop the required expertise and management instruments, including IT systems and administrative tools (rules and regulations, operational procedures, etc.).

Since both the NSSFC and NFV operate under the supervision of MOSVY, it may be relevant to reconsider whether two completely separate administrations operating in parallel are necessary. In light of the existing capacity gaps, it may be sensible to consider merging the two schemes, or certain administrative functions, in order to avoid duplication of efforts and staff positions. A merger of administrative functions would not preclude the consolidation of the two funds as separate entities, each governed by its own committee representing the respective stakeholders of each scheme.

¹³ Due to the lack of data, it was not possible to assess the scope of pension liabilities, but the age pyramid estimated from the census data suggests that a high proportion of active members in the older age brackets are due to retire in the coming decade.

5. The National Social Security Fund (NSSF)

5.1. Background and scheme provisions

The National Social Security Fund (NSSF) was established in the year 2007 with the mandate to administer social security provisions for private-sector workers. The legal basis for the NSSF is the Law on Social Security Systems for Workers Defined by the Provisions of the Labour Law, 2002, which laid the ground for the establishment of a social insurance fund for workers employed in private enterprises. The law stipulates the provision of employment injury benefits, pensions, and other benefits as relevant, and applies to all workers covered under the Labour Law, i.e. excluding civil servants, judges, army and police force, domestic workers, and workers employed in enterprises in the maritime and air transport sector.

The establishment of the NSSF followed the adoption of Sub-Decree (Anu-Kret) No. 16 E.S. in March 2007, which defines the administrative arrangements and governance structure of the new agency. A Prakas (regulation) on benefit entitlements was then adopted by the MOLVT in February 2008 and the scheme started operations in November of that year.

According to the Social Security Law, the NSSF covers all persons defined by the provisions of the Labour Law. Due to limited administrative capacity and some provisions of the Labour Law, the coverage of the NSSF scheme has been restricted initially to enterprises with at least eight employees (the Labour Law is ambiguous on the scope of its application to enterprises with fewer than this number). The extension of coverage to smaller enterprises is, however, planned for the future. In December 2010 the NSSF had already registered more than 1,500 enterprises and reported a total of 522,685 insured workers, or about 7.5 per cent of total employment. The average number of workers insured over the twelve months of 2010 totalled 480,446, among whom were an estimated 386,678 women, accounting for 80.5 per cent of all insured persons (see table A.9 and figure A.1).

In 2010 the majority of insured workers (78 per cent) were engaged in the garment and footwear industry, the main industrial sector in Cambodia. Given the specifics of this industry, the majority of NSSF-insured members are young female workers under the age of 30. The estimated total number of workers potentially to be covered is estimated conservatively at around 760,000,¹⁴ yielding a total coverage rate of approximately 69 per cent as of December 2010. With the extension to all remaining provinces planned in 2012, the coverage rate is expected to increase swiftly and the number of insured may reach 700,000 workers by the end of 2012.

So far, the NSSF provides only employment injury (EI) benefits to those insured. Other benefit branches (health insurance, pensions, and others) are planned but their implementation is currently pending although preparations for the SHI branch are being made. The existing branch on employment injury benefits, based on Article 15 of the 2002 Social Security Law, covers workplace accidents and work-related diseases, including road accidents during commutes between home and work. More specifically the EI branch provides the following benefits:

¹⁴ Based on the Establishment Survey (NIS, 2009b), the number of persons working in enterprises with eight or more employees is estimated at 757,685.

- Medical care (in kind)
- Nursing cash allowance
- Temporary disability allowance (income replacement benefit)
- Funeral (death) benefit
- Permanent disability benefit (pension) and carer benefit
- Survivors' benefit (pension)
- Rehabilitation benefit (in kind)

The number of cash benefits disbursed in 2009 and 2010 is shown in table A.10, while total benefit expenditure in those years amounted to about KHR 1.1 billion (US\$275,000) and KHR 2.4 billion (US\$600,000) respectively (see table A.11). Payments for medical care for the treatment of work-related accidents represents the main share of benefit expenditure so far, totalling KHR 1.94 billion (US\$485,000) in 2010, about 80 per cent of total benefit expenditure. Since the scheme has only been introduced recently, the number of pensions in payment is still relatively low but is expected to increase in future. Expenditure for long-term benefits is therefore expected to increase as a share of total benefit expenditure in the future as the pool of pensions in payment expands.

The financing of the scheme is assured through employer contributions at 0.8 per cent of insurable wages of workers and employees.¹⁵ In 2009, the Government reduced the effective contribution rate for garment-related industries to 0.5 per cent of insured wages via the provision of subsidies; this in order to mitigate the impact of the global financial and economic crisis on employment in the respective sectors. Total contributions collected in 2010, including government subsidies, reached about KHR 20 billion, an amount equivalent to US\$5 million, while the average insured monthly wage was about KHR 446,000 (US\$111.50) in the same year.

By international comparison, the incidence rate of occupational accidents as reported so far in Cambodia is relatively low. This could be due to underreporting of accidents by employers, for although the reporting of work-related accidents to the Ministry of Labour is mandatory in principle, there are indications that employers do not always report, particularly in case of minor accidents. Larger factories operate on-site infirmaries staffed with a nurse or doctor according to the Labour Law which stipulates such arrangements for all factories employing 100 workers or more, and minor injuries are often treated on site and therefore not reported to NSSF. However, since the introduction of the scheme is recent, it is expected that the reporting of accidents will gradually improve. Due to the low number of benefits disbursed so far, a sizable surplus was achieved in 2009 and 2010 and reserves have been accumulated. Total reserves of the EI branch amounted to about KHR 17.5 billion (~ US\$4.4 million) at the end of 2010.

5.2. Planned developments

In accordance with the stipulations of the Social Security Law, 2002, the NSSF is preparing the introduction of other benefit branches including a social health insurance (SHI) branch and a pension branch.

¹⁵ Insurable earnings are subject to a ceiling of KHR 1 million (~ US\$250) per month.

5.2.1. Social health insurance (SHI)

The social health insurance branch is the second branch of NSSF planned for implementation, possibly towards the end of the year 2012. The design of provisions is ongoing at the time of writing, and a final agreement on scheme provisions including financing (i.e. contribution rates) has yet to be reached between workers and employers. A preliminary costing was undertaken in 2010–11 by GIZ in cooperation with the ILO and p4H partners with the objective of clarifying financing requirements and supporting preparations ahead of implementation (GIZ/ILO, 2012).

Benefits under consideration for the SHI branch comprise medical care (inpatient and outpatient care), sickness cash benefits (i.e. income replacement during illness), and maternity cash benefits (i.e. income replacement during maternity leave). The coverage of family dependants (spouse and children) is also under consideration and is strongly recommended. Since most insured members are young and in their reproductive ages, their main concern regarding health relates to the cost of maternity and medical care for their children and parents. Given that a high percentage of members are young unmarried women working in the garment industry, the dependency ratio is low and the estimated additional cost for covering dependants is not deemed prohibitive. Furthermore, with relatively low user fees charged at public hospitals, the estimated cost of medical care for NSSF-insured members and their family dependants is reasonable and deemed affordable (see below); so that the introduction of SHI for insured workers and their family dependants will not create an excessive financial burden for employers.¹⁶

Despite the feasibility in terms of financing, the coverage of family dependants would represent a serious administrative challenge for the scheme. Many Cambodians do not possess identification cards and/or marriage certificates, and establishing proof of identity during registration and/or at the point of service (i.e. hospital) will be a challenge. Furthermore, many workers are migrants originating from rural areas where family dependants often continue to live with the elderly or the extended family. In order to ensure access to medical care for family dependants, the NSSF would need to find ways of ensuring access to health providers across the country.

Another major issue regarding public health providers in Cambodia is the low quality of care, particularly at health centres. This can be related to a multitude of factors: general under-funding, a culture where the element of duty often seems missing in public service provision, and low salary levels in the public sector. Furthermore, dual practice¹⁷ by state doctors and nurses is common in Cambodia, creating further disincentives at public health facilities to provide decent services to patients when no extra compensation is provided. Due to this fact, the majority of Cambodians avoid the public system altogether and visit private providers when they need medical care or medication.

In order to ensure minimum quality standards for medical services provided under the future SHI branch, it is therefore important to create the right incentives for public providers and to monitor quality. The use of appropriate provider payment mechanisms and contracting arrangements could be instrumental for addressing this issue.

¹⁶ Public health providers benefit from extensive state subsidies that cover salaries of medical staff, infrastructure cost, and the procurement of pharmaceuticals. User fees at public hospitals are fixed based on affordability criteria (ability to pay) rather than full recovery of the cost of care provided.

¹⁷ Dual practice refers to the situation where public-sector doctors operate a private practice or clinic in parallel to their posting at a public hospital, a common practice in the region.

The contribution rates required for the financing of the planned provisions of the scheme has been estimated as follows (GIZ/ILO, 2012):

- medical benefits: ~ 1.6–2.3 per cent of insurable wages, depending on provisions
- maternity benefits: ~ 1.2 per cent of insurable wages
- sickness (cash) benefits: ~ 0.4 per cent of insurable wages

With an estimated dependency ratio of 0.98 (dependant per insured) on average (GIZ/ILO, 2012), the potential future coverage under the SHI branch could reach up to 1.5 million members, or about 11 per cent of the total population (including dependants), with total future payments to health-care providers estimated at US\$15–20 million per year. This compares to about US\$4 million spent by all health equity funds (HEFs) in Cambodia in 2010, including about US\$2.8 million in payments to providers for medical services. Since the new funding would be channelled through the demand side to the public health-care system, it could be instrumental in inducing positive changes, particularly on staff motivation and quality of care. This would, however, require that the NSSF would leverage its position as a powerful purchaser to induce the said changes by using appropriate contracting arrangements and continuous quality monitoring.

5.2.2. Pensions

The introduction of social security pensions, as specified in the Social Security Law, 2002, is planned for the year 2015 by the NSSF. According to the law, the pension branch will comprise retirement, invalidity, and survivors' pensions for surviving widow/ers and children. The benefit provisions for pensions have not yet been designed, but it is expected that the scheme will follow the standard provisions for defined benefit pension schemes. A crucial question for the design will be the degree of funding to be achieved and the provisions to be adopted in relation to the phasing-in of benefits. Given the youth of the pool of contributors, it will take two to three decades before the first generation of contributors retires, so that few retirement pensions are likely to be disbursed before the year 2035 unless special provisions are adopted that would allow for early disbursement of pensions to scheme members due to retire over the coming two decades. Since these members will not be able to accumulate sufficient entitlements for a decent pension benefit, special qualifying conditions could be applied.

Since reserves will be accumulating during the waiting period, during which entitlements of members accrue, a sound investment of reserves will be an important aspect of the design, in particular the adoption of adequate risk management provisions, particularly for investment risk, conflict of interest, fiduciary risk, and political misappropriation.

It should also be noted that the introduction of social insurance pensions is only realistic and sensible if the formal economy continues to expand such that the current generation of young contributors will be given the opportunity to contribute until retirement and accumulate sufficient entitlements for a decent pension. It would thus be realistic to adopt provisions that allow for voluntary contributions by scheme members who discontinue their employment with a registered employer and seek employment in the informal economy.

5.3. Issues for consideration

Apart from the issues outlined above with regard to the planned SHI and pension branches, the following issues are considered critical in connection with the future development of the scheme.

5.3.1. Scheme coverage

The coverage of the scheme currently extends only to incorporated enterprises with at least eight workers or employees. The extension of coverage to all enterprises, including smaller ones, is recommended so that all private-sector employees in Cambodia may benefit from the scheme. This step would help to bring the potential membership of the scheme to over one million workers. According to the Establishment Survey (NIS, 2009b), the total number of enterprise employees is reported at 1.47 million, including those engaged in family businesses. Since family members working in family businesses generally work without an employment contract or regular wage, clear regulations are required for their registration. But the registration of smaller enterprises, however desirable, is a challenging task that requires a sizable force of inspectors for its effective implementation. The adoption of new regulations may be required so as to define clear guidelines to deal with micro-enterprises that are not incorporated.

How the coverage of the scheme could be extended to the self-employed, many of whom who operate on the borderline between the formal and informal economies, should also be further explored. Many of the trades occupied by the self-employed (e.g. taxi and tuk tuk drivers) are subject to registration and annual licensing requirements. The annual licensing fee levied for most of these trades is comparable to a flat-rate tax that could be built on for the collection of social security contributions.

5.3.2. Benefit provisions

Apart from social health insurance, maternity and sickness cash benefits, and pension benefits – the introduction of which is already under consideration – the following benefits should be considered in the future:

- **Death or funeral benefits** normally consist of a lump sum (i.e. cash) benefit, payable in case of death of an insured worker. The purpose of the funeral benefit is to support the family of deceased for the payment of funeral costs and other related expenses. A funeral benefit is already payable under the EI branch (at KHR 1 million or US\$250) for cases of work-related death. So far no benefit is payable in cases where a worker dies from other causes (i.e. accidents that do not qualify as occupational).
- **Unemployment benefits** are intended to provide income support to workers laid off or whose contract is terminated, until they find a new job. The current Labour Law has severance pay provisions mandating employers to pay a lump sum benefit to workers dismissed or laid off and stipulating severance pay amounting to half a month of wages per full year of employment. In addition, workers are entitled to an allowance of the same amount if the employer does not respect a given notice period to inform the worker of his/her dismissal. Employers sometimes refuse to pay or are unable to do so when their company runs out of business or faces bankruptcy. In order to ensure that all those dismissed can benefit, the introduction of unemployment benefits should be considered and coordinated with the policy regarding the severance payments. The payment of unemployment benefits through the NSSF, in lieu of severance pay, would redistribute evenly (and potentially reduce) the cost employers face for the replacement of workers, thereby increasing labour mobility and improving the allocation of labour inputs overall.
- **Family allowances** are normally payable to workers with family dependants, e.g. a non-working spouse and/or children under working age. The purpose of these allowances is to share the burden of child-rearing more equally within the population. In light of increasing costs for education and medical care in Cambodia, the introduction of family benefits would help families with children to support these costs by sharing the financial burden among all workers and employers.

5.3.3. Scheme governance and administration

The governance and administration of a social security scheme is a challenging task; the development of the required institutional capacity often takes several years and sometimes decades. A lot has been achieved already by the NSSF since it started operations in late 2008, by extending coverage to over 500,000 workers and managing the payment of benefits on a daily basis. Further efforts are required for strengthening its institutional capacity and preparing for the challenges ahead, notably the planned introduction of the social health insurance and pension branches.

The introduction of social health insurance is particularly challenging; it requires specific expertise and a system design adequate to ensure its smooth operation. It is particularly important that the system be designed in a manner that ensures cost-effectiveness through standardized provider payment mechanisms that create incentives for providers to provide quality services, and that at the same time limit moral hazard and/or the provision of costly and unnecessary services.

The challenges for the establishment of the pension branch will be to adopt rules and procedures adequate to protect the fund against investment risk, fiduciary risk, and conflict of interest. The investment of future pension fund reserves will require the development of capacity of the investment managers responsible. It is also highly recommended to consider the adoption of prudent regulations to ensure that investments are safe at all times and are undertaken in the best interests of the workers, i.e. by limiting the risk of losses and ensuring the best possible returns on investment.

6. Voluntary provisions

Aside from the statutory or public provisions presented in sections 3, 4 and 5, other provisions exist that cater to the emerging class of labourers, workers, and employees, some of whom are engaged in the formal economy. Although these provisions are generally voluntary, they cater to the growing need of workers for social security, mainly protection against catastrophic health expenditures. The main types of voluntary arrangements are summarized below.

6.1. Community-based health insurance (CBHI)

Community-based health insurance schemes have been developed extensively in Cambodia since 1998, mainly through extensive efforts and support by development partners and foreign non-governmental organizations (NGOs). Although many of these schemes are operating in rural areas and target communities engaged mostly in the primary sector, they are contributory and therefore out of reach for the poor and many of the near-poor. Instead, the majority of the poor in Cambodia are covered under the health equity funds (HEFs) that ensure access to free health care for the poor. HEFs already cover more than three million Cambodians, and, according to MOH, the extension of coverage to all the poor is planned to take place by the year 2014.

The number of CBHI schemes has increased over the years to 18, operating in 17 operational districts (ODs) in ten provinces and in Phnom Penh Municipality. The total membership for the year 2010 was reported at about 170,000, including about 96,000 newly recruited members. The microinsurance programme 'SKY', the largest CBHI scheme to date in Cambodia, operates in Phnom Penh and targets mainly the emerging middle class. SKY was developed by the French NGO GRET (Groupe de Recherche et d'Échanges Technologiques) and has been operating since 1998, covering an estimated 40,000 persons in 2009.

Benefit packages vary among CBHI schemes, but all cover user fees for access to primary health-care services delivered through local health centres, and the cost of care at public hospitals as contracted by the respective scheme. In addition, most schemes cover the costs of transportation to hospital in emergency cases and provide a funeral grant in case of death. While premium payments are often sufficient to cover the costs of direct medical and non-medical benefits, most CBHIs rely on external funding from donors to cover administration costs.

The financial sustainability of CBHI schemes is generally considered weak, since most of the schemes rely on donor support and foreign experts. Furthermore, they have high utilization rates and a high turnover of members, indicating that despite family coverage, adverse selection is an issue. In light of the known shortcomings of voluntary microinsurance schemes (adverse selection, lack of capacity of local operators, actuarial risk, high administration costs, fiduciary risk and overall weak financial sustainability), and the lack of international evidence that scaling up is a realistic possibility, the future of CBHIs in Cambodia is not deemed overly promising, and the coverage of the non-poor informal sector remains a conundrum, in Cambodia, as elsewhere in the developing world.

6.2. Private insurance

Private insurance companies are also gaining ground in Cambodia, offering insurance policies that cover social security contingencies including death, old age, occupational hazards and medical care. For the latter, total gross premiums paid in 2009 for health

insurance policies were reported at US\$2.75 million, an increase of 22 per cent over 2008 (MOEF, 2009). The main providers of private health insurance are the companies Infinity and Forte. In the absence of statutory health insurance for the private sector, a growing private sector, and increasing income levels, the market for private health insurance is likely to grow swiftly in the coming years.

There are, however, some negative aspects to private health insurance that apply particularly to developing countries:

- The main interest of private insurers generally lies with high-wage earners and low-risk customers, a natural behaviour sometimes referred to as “cream-skimming”. This leads to the exclusion of the poor and all those considered to be high-risk individuals. These include the chronically ill, the elderly, the disabled, and so on, who generally need medical care more urgently than those targeted and qualifying – mainly the young and wealthy.
- Resources tend to be allocated to a specific set of services and benefit packages, comprising mainly curative care and luxury nursing services and often delivered in private clinics and hospitals. The allocation of resources for health as channelled through private insurers is therefore generally sub-optimal from a national public-health perspective, taking into account factors such as the need for and importance of primary care, disease prevention and health promotion efforts, and the cost-effectiveness of care within the health-care system as a whole. There is well-documented evidence that countries relying on private insurance as the statutory mechanism of public health protection spend a larger share of their GDP on health, and reach collective health outcomes that are far from superior to those achieved by countries that rely mainly on public statutory provisions (whether tax-financed or via employment-based social insurance).
- There is an increased risk of moral hazard and a need for tight regulation of the sector. Due to the information asymmetries that naturally exist between doctor and patient, and insured and insurer, even the strictest regulation is unable to completely eliminate the adverse and costly effects related to moral hazard in the private health insurance sector.
- In developing countries in particular, the development of private insurance may lead to vested economic interests that are likely to become a major impediment obstructing the development of more inclusive national health insurance programmes that benefit society as a whole and that aim to maximize utility in aggregate, from a collective national point of view.

Regardless of these possible negative aspects, the current absence of public provision protecting the majority of Cambodians from catastrophic health expenditures will continue to fuel the development of private insurance in the short-to-medium term. It is as yet unclear whether the political commitment and the institutional capacity of the respective public institutions will materialize sufficiently over the coming years to ensure the social health protection of all Cambodians in a collective and cost-effective manner, through public arrangements administered by transparent and accountable institutions. As long as this uncertainty prevails, the private health insurance sector will continue to thrive and may well become dominant.

7. Conclusions and recommendations

7.1. Conclusions

The majority of workers and employees outside the public sector have not benefited so far from extensive social security provisions that go beyond the basic employer obligations stipulated in the Labour Law. Compared to most other countries in the region, the development of social security has lagged behind in Cambodia; this is due to several factors, which may include the following:

- *The economic fabric* of Cambodia, consisting mainly of subsistence agriculture in rural areas, and featuring predominantly informal types of employment. With meagre incomes for the majority, and a limited ability to pay or contribute to any collective arrangement systems, rural populations continue to rely on informal social protection arrangements built around kinship and solidarity within the wider family.
- *The tragic history* of Cambodia during the 1970s, when the country's development was disrupted by the Khmer Rouge regime and witnessed the destruction of most public institutions and the genocide of the educated class including the established bureaucracy. The rehabilitation of Cambodian society has largely been achieved; new governance structures and public institutions have been established, ensuring public order and the transition towards a market-based economy. But the process is far from complete and much remains to be done for Cambodia to develop to a modern State run by an effective and accountable public administration system.
- *The limited means* of the Government and a tight national budget due to a narrow tax base and weaknesses in revenue collection. With many competing spending priorities, including capital investments for infrastructure, basic public services, and the remuneration of low-paid civil servants, little fiscal space remains for the design and implementation of social protection programmes, including those targeting the poor and vulnerable.
- *Cultural barriers*, such as a lack of trust in public institutions that can be related to a missing culture of public service, a limited enforcement of the rule of law, and a lack of transparency and accountability in general. It is relevant to note here that, in historical terms, the nation-state is a relatively new concept for many Cambodians, particularly for those living in rural and mountainous regions (Scott, 2010). In addition, most Cambodians have so far had little exposure to insurance arrangements, so that at their understanding of insurance principles may be limited.

Despite these limiting factors, there are indications that suggest current improvements in governance and rapid socio-economic development in Cambodia. The progress achieved calls for the development and strengthening of statutory social security arrangements in the formal economic sector, both for public-sector employees and for workers and employees in the private sector. Such efforts should be pursued in conjunction with efforts aiming at the extension of basic social protection provisions for the poor and vulnerable, as part of the two-dimensional strategy promoted by the ILO for the extension of social security.

Three new public agencies have been established in recent years to administer statutory social security benefits for the formal sector: the National Social Security Fund (NSSF), the National Social Security Fund for Civil Servants (NSSFC), and the National Fund for Veterans (NFV). While the creation of these schemes is a positive step that reflects the Government's commitment to extending social security along the lines spelled out in the

main national strategic development frameworks, continued efforts will be required to strengthen the capacity of these institutions and to further develop the underlying policy framework.

The NSSF has been operating since 2008 and currently provides employment injury benefits to over 500,000 insured workers. Continued efforts are required to expand coverage to all enterprises in Cambodia, including the smaller ones. The introduction of new benefit branches, as planned by NSSF, should also be pursued in order to expand vertical coverage – the range of benefits available to members. This will require further capacity development, notably for the design and management of the health insurance branch. Efforts will also be required to develop an appropriate regulatory framework for branches to be introduced in the future.

The new public-sector schemes, NSSFC and NFV, are mandated to manage benefit payments for civil servants, the army, police and war veterans. For both agencies the development of institutional capacity will be essential to ensure that they are able to administer benefit provisions effectively throughout the country. Since both agencies operate under the supervision of MOSVY, a merger of certain administrative functions may be appropriate so as to pool resources for administration and avoid duplication of efforts. The financial status of these two funds is currently unclear, notably the future financing burden for state employees. Benefit provisions should also be reviewed and adjusted if needed, for example, the level of survivors' pensions that are considered inadequate at present.

7.2. Recommendations

The main recommendations of this report are summarized below.

7.2.1. Policy and legislation

Despite recent developments, the policy framework regarding social security provisions in the formal economy is still incomplete. It is recommended that efforts be continued to ensure the further development of an appropriate policy, legal, and regulatory framework underpinning the three national social security schemes for formal economy workers (NSSFC, NFV and NSSF).

In connection with the implementation of the Social Security Law, 2002 for private-sector workers, regulations will be need to be adopted for the introduction of the new benefit branches including SHI and pension benefits. It is also recommended that a regulatory framework be adopted for the investment of reserve funds, to address all relevant issues including investment policy, risk management, regulation, and conflicts of interest. This is particularly relevant for the planned pension branch, under which a sizable amount of technical reserves are expected to accumulate (see ISSA, 2008, 2011).

Regarding the NSSFC and NFV, the development of new legislation will be required for the planned introduction of new benefit branches (e.g. SHI), and for the revision of benefit provisions already in force.

7.2.2. Benefit provisions

It is recommended that benefit provisions under the three schemes be brought into line with ILO minimum standards as defined by Convention No. 102. This is notably relevant for survivors' benefits under the two public-sector schemes (NSSFC and NFV), as the levels of these benefits are deemed inadequate.

Apart from the level of benefits at the time of award, it is also relevant to consider adopting a mechanism for the indexation of benefits over time so as to avoid the erosion of their relative value due to price inflation.

7.2.3. Institutional capacity

It is recommended that efforts be continued to develop the institutional capacity of the three national social security agencies so as to ensure that they have the capacity required for the administration of benefits in a cost-effective and efficient manner. This will require further training of staff, the development of management information systems, and the streamlining of administrative procedures.

Since the three schemes operate independently, it may be worthwhile to explore options aiming at their progressive integration so as to develop synergies and pursue gains in administrative efficiency. This is particularly relevant for NSSFC and NFV, both of which operate under the oversight of MOSVY. Their separation in two distinct organizations with parallel administration structures may be unnecessary duplication, particularly at the local level. A merger of certain administrative functions could be considered.

7.2.4. Social health insurance

It is recommended that the planned introduction of social health insurance be pursued for all workers and employees in the formal economy, in both the public and private sectors. The introduction of SHI would ensure the protection of formal-sector workers and their family dependants from catastrophic health expenditures. This would be a critical step forward that would benefit the health sector as a whole through the additional funding it would generate for the public health system. Furthermore, since these financial resources would be channelled through the demand side, it would lead to the creation of powerful health purchasers that could be instrumental in improving quality standards in the public health system, e.g. through the consistent use of performance-based contracting arrangements. Inputs by development partners are highly recommended for the design of the SHI branches (for each of the NSSF, NSSFC and NFV) in order to ensure a scheme design compliant with international best practice and to draw from lessons learned elsewhere, both in Cambodia and in other countries.

7.2.5. Scheme financing

The introduction of new benefit branches under the NSSF would require a tripartite agreement on scheme design and financing arrangements. A detailed financial assessment of scheme design options would help to inform tripartite partners and facilitate the design and negotiation process. A preliminary costing has already been undertaken for the SHI branch (GIZ/ILO, 2012). For the pension branch, a preliminary actuarial assessment will be required for a sound design of benefit provisions (i.e. pension formula) and the long-term financial sustainability of the fund.

It is recommended that the financial status of the NSSFC and NFV be assessed in detail in order to determine the future financing burden for the national budget. Undertaking an actuarial valuation of the two schemes would help to determine the scope of liabilities accrued and future financing requirements. It is also recommended that financing arrangements for the two funds be defined more clearly so that a long-term financing strategy can be adopted. If these funds are to operate autonomously within the financing framework recently defined and without additional government subsidies, a systemic reform may be required to ensure their financial sustainability.

7.2.6. Extension of NSSF coverage

It is recommended that efforts be continued for the extension of coverage of the NSSF, both horizontally and vertically. Horizontal coverage refers to the number of workers covered under the scheme, while vertical coverage refers to the benefits provided. The extension of the scheme to smaller enterprises should be considered, and the present efforts in the inspection and registration of all employers should be maintained and scaled up if necessary. The introduction of other benefit branches, as stipulated in the Social Security Law, 2002, should also be pursued, aiming at a higher level of social health protection and income security for workers and their families.

Annex: Data tables

A.1. National Social Security Fund for Civil Servants

Table A.1. Civil servants, public-sector pensioners, and respective dependants, 2010

	Male	Female	Total
Civil servants	114 709	60 316	175 025
Dependants of civil servants	197 024	240 538	437 563
Spouses	48 253	91 767	140 020
Children	148 771	148 771	297 543
Subtotal 1	311 733	300 854	612 588
Public sector pensioners	28 863	7 216	36,079
Old-age pensioners	24 589	6 147	30 737
Invalidity pensioners	4 274	1 069	5 343
Dependants of pensioners	21 648	32 471	54 119
Spouses	3 608	14 432	18 040
Children	18 040	18 040	36 079
Subtotal 2			90 198
Grand total			702 786

Note: Preliminary estimates.

Source: GIZ/ILO (2012).

Table A.2. Civil servants and public-sector pensioners, benefits disbursed, 2007–2009

Benefits	2007	2008	2009
Pensions¹	61 840	63 723	67 506
Retirement	22 521	25 456	27 972
Invalidity	5 228	5 108	5 224
Widow/er	19 222	21 151	23 031
Orphan	14 869	12 008	11 279
Cash benefits	3 318	3 906	4 526
Maternity allowance	557	656	812
Invalidity lump sum	138	163	121
Retirement allowance	2 440	2 871	3 235
Retirement lump sum	137	162	141
Severance pay	46	54	217

Notes: ¹ Number of pensions in payment, paid monthly.

Source: ILO, 2012a

Table A.3. NSSFC pensioners, demographic ratios, 2009

Type of pension	Number of beneficiaries	Demographic ratio (%) ¹
Retirement	27 972	16.8
Widow/er	23 031	13.9
Orphan	11 279	6.8
Invalidity	5 224	3.1

Note: ¹ Number of beneficiaries divided by the number of active civil servants.

Source: ILO, 2012a.

Table A.4. Civil service pensions, average amounts and replacement rates, 2009

Type of pension	Average benefit (KHR/mth)	Replacement rate (%) ¹ (estimate)
Retirement	192 219	62.9
Widow/er	6 000	2.0
Orphan	5 000	1.7
Invalidity	173 384	56.7

Note: ¹ Average benefit divided by average total salary including allowances.

Source: ILO, 2012a.

Table A.5. Benefit expenditure, 2007–2009 (KHR billions)

Benefit	2007	2008	2009
Retirement pension	55 675.9	63 759.1	70 943.9
Invalidity pension	10 107.4	9 954.8	10 078.6
Survivor pension	2 276.1	2 243.4	2 335.0
Death grant	3 769.8	4 626.6	6 259.5
Maternity grant	334.2	393.6	487.2
Work injury pension	521.0	613.0	722.0
Total	72 684.5	81 590.5	90 826.2

Note: ¹ Number of pensions in payment, monthly average.

Source: ILO, 2012a.

A.2. The National Fund for Veterans (NFV)

Table A.6. NFV pension benefits, expenditure 2009 and 2010 (KHR billions)

Type of pension	2009	2010
Monthly total ¹	5 462	6 446
War veterans	3 604	4 003
Retirement	751	1 266
Invalidity	150	240
Survivors	956	936
Annual total ²	65 540	77 354
War veterans	43 250	48 042
Retirement	9 013	15 190
Invalidity	1 804	2 886
Survivors	11 473	11 236

Notes: ¹ Expenditure as of the month of December. ² Estimated from monthly data.

Source: ILO, 2012a.

Table A.7. Number of NFV pension benefits disbursed, 2009 and 2010

Type of pension	2009	2010
Total ¹	199 484	198 761
War veterans	28 393	28 626
Retirement	5 238	6 829
Invalidity	1 101	1 476
Survivors	164 752	161 830
<i>Parents</i>	58 040	57 192
<i>Widow/er</i>	36 923	38 735
<i>Orphan</i>	69 714	65 719
<i>Guardian</i>	75	184

Note: ¹ Number of pensions disbursed in December 2009 and 2010.

Source: ILO, 2012a.

Table A.8. NFV pensions, average amounts, 2010

Type of pension	Average benefit amount ¹	
	KHR	US\$
War veterans	139 854	35.0
Retirement	185 359	46.3
Invalidity	162 934	40.7
Survivors	5 786	1.4

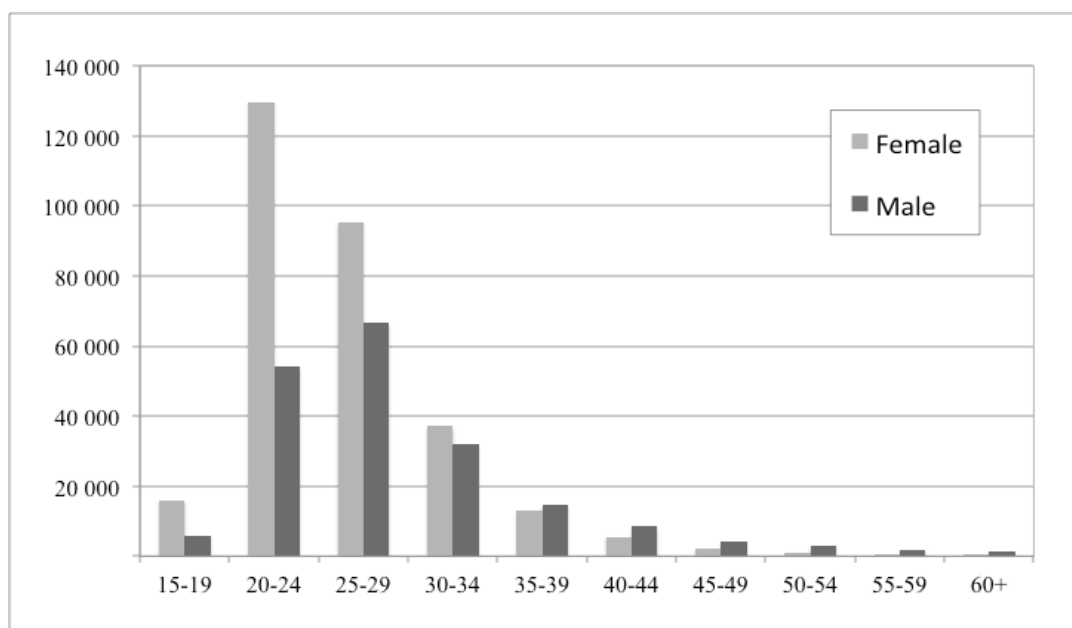
Note: ¹ Estimated from pension benefits disbursed in December 2010.
Source: ILO, 2012a.

A.3. The National Social Security Fund (NSSF)**Table A.9. Enterprises by sector and number of employees, 2009 and 2010**

Economic sector	No. of workers insured ¹	
	2009	2010
Garment and footwear industries	274 911	373 445
Manufacturing (other)	5 808	13 031
Mining and construction	1 171	2 188
Transport and telecommunications	5 501	9 344
Wholesale and retail trade	3 369	7 108
Services	31 148	75 330
Total (all sectors)	321 908	480 446

Note: ¹Annual average.
Source: National Social Security Fund of Cambodia, IT Division.

Figure A.1. Number of insured workers, by age group and sex, July 2010



Source: ILO, 2012a.

Table A.10. Number of beneficiaries, cash benefits, 2009 and 2010

Benefit	2009	2010
Nursing allowance	3	413
Temporary disability benefit	794	2 445
Funeral benefit (death grant)	15	37
Permanent disability allowance ¹	12	16
Permanent disability pension ²	6	3
Survivor benefit (pension) ²	8	22
Rehabilitation benefit	-	-

Notes : ¹An allowance is paid if the degree of loss of working capacity is less than 20%. ² New pensioners.

Source: GIZ/ILO, 2012.

Table A.11. Benefit expenditure by type of benefit, 2009 and 2010 (KHR billions)¹

Type of benefit	2009	2010
Medical benefits	915.4	1 937.7
Nursing allowance	0.4	18.1
Temporary disability benefits	132.5	356.2
Funeral benefits (death grant)	15.0	37.0
Permanent disability benefits ²	10.1	45.6
Survivor benefits	2.7	29.0
Rehabilitation benefits	-	-
Total (all benefits)	1 076.1	2 423.6

Note: ¹Total amounts incurred in the respective calendar year (cash basis). ² Including lump sum benefits and permanent disability pensions.

Source: GIZ/ILO, 2012.

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