

LOCAL DEVELOPMENT OUTLOOK CAMBODIA



TRENDS - POLICIES - GOVERNANCE

LOCAL DEVELOPMENT OUTLOOK

CAMBODIA



This Report was prepared by UNCDF for the Royal Government of Cambodia

Local Development Outlook Cambodia

April 2010

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Manufactured in Cambodia

United Nations Capital Development Fund

Two United Nations Plaza, New York, NY 10017, USA

Design: Graphic Roots, Phnom Penh

Production: Reaksmey Angkor Publications, Phnom Penh

FOREWORD


The World's least developed countries (LDCs) face tremendous challenges as well as real opportunities. Many of the key factors influencing their development dynamics - both positive and negative - are 'localized', and are thus best understood and addressed at Sub-National level.

On the one hand, as noted in the recent UNDP report *Beyond the Midpoint: Achieving the MDGs*, lack of progress towards the MDGs is often concentrated in specific regions and dependent on local circumstances. On the other hand, LDCs possess significant unexploited potential and their strongest assets are often localized just where poverty and exclusion is the greatest.

In this context, a strong consensus is emerging across both developed and developing countries that a new policy approach is needed, one that builds on local knowledge to tailor public policy to specific circumstances. This should allow the provision of public goods, when they are needed and where they are needed. This logic is behind recent efforts to 'localise the MDGs', and attack exclusion traps via deliberate, place-based strategies. This approach is also guiding local development strategies that seek to harness endogenous potential and exploit opportunities for economic diversification and development. Finally, place-based approaches are increasingly being adopted to drive policy responses to climate change that has significant - and territorially asymmetric - impact across developing countries.

A policy approach that is adapted to the challenges and potential of different places requires robust analytical tools. With this *Local Development Outlook* UNCDF pilots a new methodology that aims to provide National and local policymakers, as well as Development Partners, with a) a comprehensive analysis of local development trends, b) a rigorous review of policy and governance arrangements, and c) options to accelerate local development based on international good practices.

At UNCDF we believe that a 'local perspective' may not be *the* solution to economic, social and environmental challenges but it can certainly be part of the solution. It is my hope that the Outlook will be a useful tool for policymakers in Cambodia and that it will help them understand and address more effectively the Country's development challenges and opportunities.



David Morrison
Executive Secretary - UNCDF



ACKNOWLEDGEMENTS

This Report was prepared by a team led by Nicola Crosta, Chief Technical Advisor - UNCDF.

The final report was drafted by Nicola Crosta, Savy Thach, Eric Lampertz (UNCDF) and Livio Valenti (FAO). Key contributions were provided by: Julian Abrams, Li Ping, Elena Saraceno, Juliana Pigey, Ray Bollmann, Frédéric Mauret, Mark Flaming, Richard Friend and Khim Lay. Part of the data was supplied by the Economic Institute of Cambodia (EIC). Maps were developed with the support of Stephane Brun (AFD).

Excellent advice and inputs were provided by Stephane Guimbert (Senior Country Economist, World Bank), Ajay Markanday (FAO Representative), Eric Sidgwick (Senior Country Economist, ADB), Jo Scheuer (Country Director, UNDP), Scott Leiper, Khim Lay, Andrew Mears, Wisal Hin, Gonzalo Garcia and Melissa Sabatier (UNDP), Laure-Anne Courdesse (OHCHR), Bruno Maltoni (IOM), Leonardo Romeo (NYU) and Mohamed El Mensi (LDI). The Team benefited greatly from consultations held across Cambodia and at UNCDF Regional Center and Headquarters. The Team wishes to thank the participants to these meetings, which included Cambodian Government officials as well as Representatives of Development Partners, academic and private sector organizations. The report was prepared for publication with the support of Chiara Pace (UNCDF) and Aimee Brown (UNDP Cambodia).

The authors of the *Local Development Outlook* would like to thank **H.E. Sak Setha**, Secretary of State of the Ministry of Interior and Head of the National Committee for Sub-national Democratic Development Secretariat (NCDDS) and **H.E. Dr. Hang Chuon Naron**, Secretary General of the Ministry of Economy and Finance and Permanent Vice Chairman of Supreme National Economic Council (SNEC) for the guidance provided throughout the preparation of the Report.



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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AEICD	Spanish Agency for International Development
ART	Articulating Territorial and Thematic Networks of Cooperation
C/SF	Commune/Sangkat fund
CBT	Community Based Ecotourism
CC	Climate Change
CDB	The Commune Data Base
CDRI	Cambodia Development Research Institute
CMDGS	Cambodia Millennium Development Goals
CRC	Commission for Rural Community
CSES	Cambodia Socio Economic Survey
CSR L5	Cambodia Specific Rubber
D&D	Decentralization and Deconcentration
DPS	Development Partners
EDC	Electricite' du Cambodge
EU	European Union
EXCOM	Executive committee
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
GHG	Green House Gas
GMS	Greater Mekong sub-region
HPRS	Household production responsibility system
IDPS	Internally Displaced People
ILO	International Labour Organization
IOM	International Organization for Migration
IUCN	International Union for Conservation of Nature
IWRM	Integrated Water Resource Management
KHR	Khmer riel
KW	Kilo-Watt
LCSAM	Law on Commune/Sangkat Administrative Management
LDC	Least developed countries
LDF	Local Development Fund
MAFF	Ministry of Agriculture, Forestry and Fisheries

MDG	Millennium Development goals
MDIS	Microfinance Deposit Taking Institutions
MFIS	Microfinance Institutions
MOE	Ministry of Environment
MOI	Ministry of Interior
MOP	Ministry of Planning
MOPS	Moving Out of Poverty Study
MW	Mega Watt
NAPA	National Adaptation Action Plan
NBC	National Bank of Cambodia
NCDD	National Committee for Democratic Development
NCSC	National Committee for the Support to the Communes
NGOS	Non Governmental Organizations
NP-SNDD	National Programme for Sub-National Democratic Development
NSDP	National Strategic Development Plan
OECD	Organization for Economic Cooperation and Development
PFMRP	Public Financial Management Reform Program
PLG	Partnership for Local Governance
PPP	Public-Private Partnership
PRDC	Provincial Rural Development Committee
RGC	Royal Government of Cambodia
SN	Sub-National
SNAS	Sub National Authorities
SNEC	Supreme National Economic Council
SPS	Sanitary and Phyto-sanitary Measures
TFC	The Technical Facilitation Committee
TWG	Technical Working Group
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Fund
UNOPS	United Nations Office for Project Services
UNTAC	United Nations Transitional Authority of Cambodia
UXO	Unexploded ordnance
VAT	Value Added Tax
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization

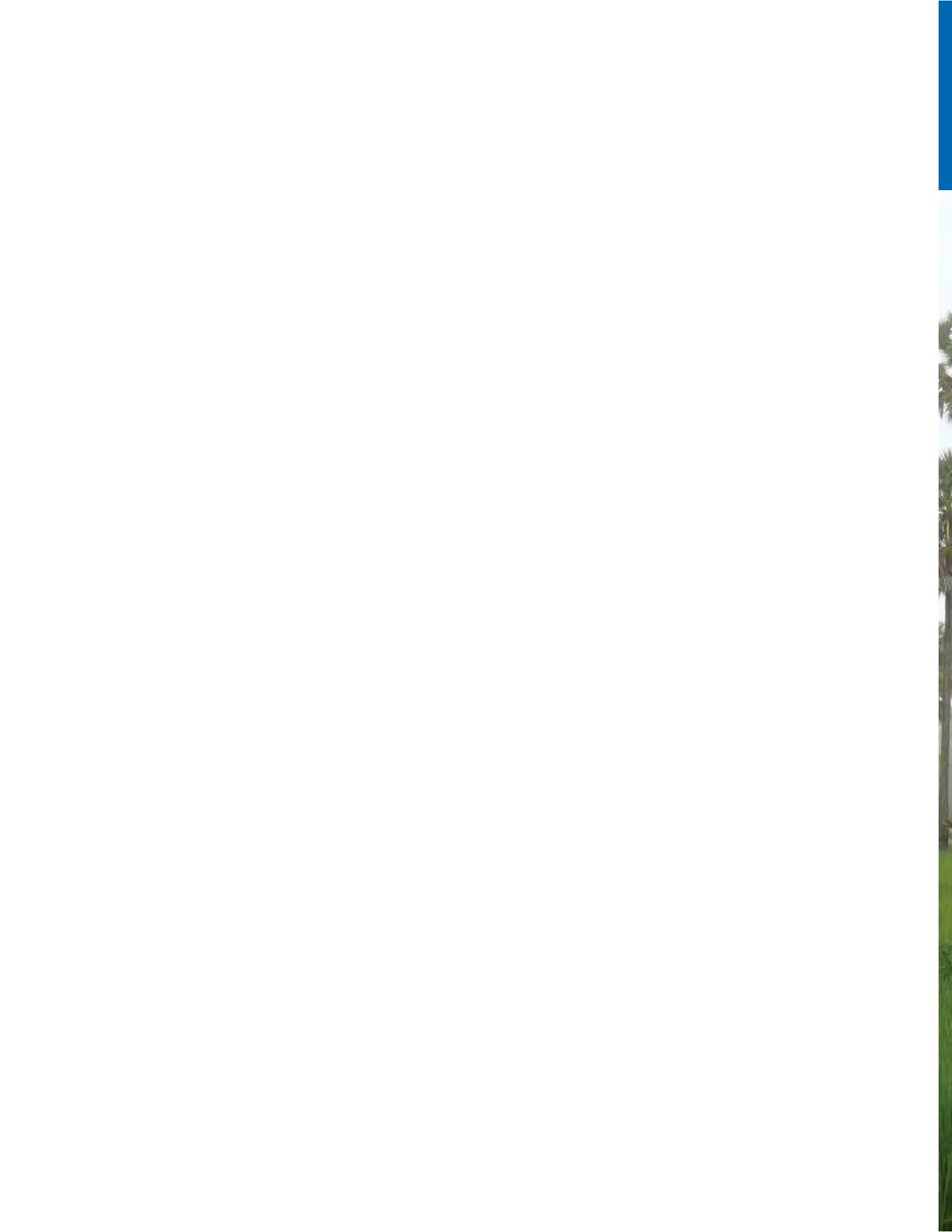
THE OUTLOOK AT A GLANCE

PART 1 of this report provides a comprehensive overview of local development trends (economic, social, demographic and environmental) in Cambodia. It evidences that individual and territorial disparities in Cambodia are stark and growing. This represents a problem socially, politically but also in terms of creating, in the medium-long term, a constraint to growth. Part 1 also highlights that there is significant unexploited potential across Cambodia, including in the poorest Provinces.

PART 2 of the report discusses the Cambodian approach to local development, which is characterized by an ambitious strategy to empower sub-National authorities but also a substantial lack of strategic direction for local development. This part of the report provides a discussion of the current decentralization and deconcentration reform agenda and its potential in terms of transforming significantly the way Government interacts with citizens and respond to their needs.

PART 3 of the report argues that for Cambodia's unexploited potential to contribute to more balanced, diversified and equitable development, action is needed in two areas. One, decentralization and deconcentration reforms need to advance in order to build an effective and efficient multi-level governance system that is more responsive and accountable to Cambodians. Two, a more deliberate policy for local development needs to be developed. This policy shall cover the three key dimensions of rural, urban and cross-border development and could complement the NSDP and the Government's current approach to economic development and CMDGs. It could provide the necessary vision and guidance for Sub-National planning, and to prioritize investments in rural, urban and cross-border areas. It will also provide the framework for Government action in key policy areas that have a strong local dimension such as 1) land use and 2) climate change adaptation.

The report concludes that stronger Sub-National governance and a deliberate policy focus on local development will contribute to further rationalize Development Partners' support across the territory and to ensure that local level actions are well aligned with National (NSDP) priorities. Evidence from around the World, as well as good practices in Cambodia, show that if these conditions are met all Cambodian Provinces can become sources of National economic growth and sustainable development.



EXECUTIVE SUMMARY



1 LOCAL DEVELOPMENT TRENDS

Cambodia enjoys a strategic geographical position in a dynamic regional economy, and is a land rich country with a young, growing, mostly rural population.

Cambodia's geographical position at the centre of the Greater Mekong Sub-Region and the dynamic economy of broader South-East Asia offers great opportunities for trade and development. The Country has suffered from a long period of internal conflict from the 1970s and ending only in the mid-1990s. Since the restoration of peace, with an open economy and relative political stability, Cambodia has enjoyed strong economic growth¹. In 2009 Cambodia has about 13.5 million citizens with an overall population density of about 75 persons per square kilometre, making it one of the least densely populated nations of South-East Asia. According to the official classifications (which **may largely overestimate rural population**² - see Part 2 and 3 of this report for more discussion on this important aspect) about 80% of Cambodians live in rural areas, 9% live in urban areas of Phnom Penh with urban areas outside the Capital accounting for only 10% of the population. Cambodia's population expanded by 17% between the 1998 census and the 2008 census. Cambodia experienced a major baby boom in the post-war period, with this generation having begun to enter the labour market around 1997. **For each year from 2009 until 2013 about 300,000 Cambodians will reach 15 years of age and begin seeking employment.** The demographic consequences of the war years and the subsequent baby boom are illustrated dramatically in the population pyramids. Most of the population growth in the decade to 2008 occurred in the upland provinces and in Phnom Penh. The share of population living in the plains fell from 43% in 1998 to 39% in 2008. Within provinces, urban districts seem to be growing fastest. However, both the level and the pace of urbanisation remain low compared to other countries within the region. The urban population is younger, better educated and more female.

Strong GDP growth has lifted many Cambodians out of poverty, but individual and territorial disparities are stark, increasing...

The major drivers of economic growth in Cambodia during the decade to 2008 were the garment industry (which alone accounted for 22% of total growth), tourism and construction. During this period household consumption increased by about 21%. The effects of this achievement are seen in reduced proportion and absolute numbers of the population living below the poverty line in all regions, and in improvements in important indicators of

¹ The average GDP growth rate in the last fifteen years was about 8.4%, with double-digit growth from 2004 to 2007. However the economic downturn of 2008-2009 has posed new challenges as the Country's major driving sectors (especially garment and tourism) have been severely affected.

² Applying the (internationally accepted) OECD definition of 'rural' to Cambodia gives strikingly different results than those obtained with the NIS definition: 48% of the Cambodian population would be considered as living in predominantly urban regions. This is close to the average for OECD countries.

social well-being and service delivery. The proportion of the population living in poverty fell from around 47% in 1993 / 94 to an estimated 30% in 2007. During the same period, Cambodia also reduced the depth and severity of poverty. While the poor benefited from the growth of the Cambodian economy a higher share of benefits went to the better off. Inequality of consumption measured by the Gini coefficient increased from an estimated 0.39 in 2004 to 0.43 in 2007. Analysis of Cambodia's **progress towards MDG 1, in terms of reduction of inequality, presents a performance of -76% against the 2015 target. Cambodia's unequal growth dynamics have strong territorial dimensions.** Growth was relatively uneven between provinces and regions and there are marked regional differences in the poverty headcount and severity indicators. The poorest province was found to be Kampong Speu, followed by Kampong Thom and Siem Reap, while the least poor provinces were found to be Phnom Penh, Kandal and the coastal provinces of Kep, Sihanoukville and Koh Kong. Poverty trends across Cambodian regions are related to GDP growth, but with some anomalies: GDP performance is often based on activities – ex. tourism in Siem Reap or natural resource exploitation in the cases of Mondulkiri – that do not necessarily spread wealth broadly amongst the population.

...and characterised by a marked rural-urban divide.

There are marked urban-rural differences in poverty levels and in the rate of reduction of poverty. In 1993 about 3% of all those living below the poverty line were in Phnom Penh; the estimated figures for 2004 and 2007 were 1.3% and 0.3% respectively, implying the total number of persons living below the poverty line in Phnom Penh in 2007 to have been about 11,000. It is likely that these figures underestimate the true number of urban poor as they are based on an household survey, and many urban poor are either homeless or living in informal accommodation. The poverty headcount index for Phnom Penh fell from 11% to 1% during this period, while in other urban areas the index fell from 35% to 22%. The fall in the proportion of rural Cambodians in poverty was comparatively modest: from 43% in 1993 to 35% in 2007, and at the end of this period about **92% of all the poor, or 3.7 million persons, lived in rural areas.** There are marked differences between the major geographical zones and **increasing disparities within rural areas.** The highest concentrations of poor as a percentage of population are to be found in the rural areas of the upland and Tonle Sap provinces, while the lowest concentrations are in the urban areas of the plains and in Phnom Penh. Of the total of about 3.9 million poor persons in Cambodia in 2007, about 1.4 million each lived in rural areas of the plains and the Tonle Sap provinces, while about 700,000 poor persons lived in the upland provinces. Overall about 76% of the poor live in the plains and Tonle Sap regions.

Despite remarkable achievements on an aggregate level, large differences persist in terms of access to services such as healthcare, education, infrastructure and household utilities ...

Individual and territorial inequality is not just, and not necessarily, a matter of differences in income or consumption. It is important to consider other indicators of well-being. Overall, Cambodia has achieved remarkable results in terms of service delivery to its population, however the patterns of disparities in terms of access and quality of services are significant. **In terms of health and education, Cambodia's progress towards the CMDGs varies greatly from place to place.** Where a child is born determines the healthcare it receives. For instance, about one expectant mother in three receives ante-natal care from trained medical personnel in the upland provinces while in Phnom Penh the ratio is about 85%. The average urban citizen lives within 1.7 km of a health centre, while the equivalent rural average is 4.7 km. There are strong regional disparities in outcomes: the under-five mortality rate is about half the national average in Phnom Penh. In terms of CMDG 6, rates of infection with key infectious diseases also vary substantially from Province to Province. **Disparities are stark also in terms of access and quality of education.** In Phnom Penh 72% of the population has completed primary school: in other urban areas less than half the population has completed primary school and in rural areas only 37%. Drop out and repetition rates are also major concerns. Distances to secondary schools show great variations with most inhabitants of rural areas of upland provinces living beyond easy reach of a lower secondary school, and average distances to upper secondary schools being 8 km or more in rural areas of all regions outside Phnom Penh. **Provision of household services varies greatly from place to place and between urban and rural areas.** Few households outside urban areas of Phnom Penh have access to garbage collection. The majority of urban dwellers in all regions reportedly have access to safe water supplies, electricity and toilets, although the proportion for all three indicators fall below two-thirds in the upland provinces. Less than 10% of all rural dwellers have electricity and only about 15% have toilets, while access to safe water supplies is reported as 48% overall. **Public investment in road infrastructure is heavily concentrated in urban areas.** Average reported distance from a rural village to an all weather road is 2 km in the plains and Tonle Sap provinces, 3 km in the coast provinces and 5 km in the uplands. Most inhabitants of rural areas of the Tonle Sap, coast and upland provinces live 10 km or more from the nearest market. Comparisons between provinces mask sometimes equally large variations within provinces. **In addition to services gaps, several rural areas are still affected by landmines.** The wars of the past are still killing Cambodians, despite rapid progress in recent years towards the achievement of CMDG 9. Cambodia remains among the three countries worldwide most affected by landmines in terms of numbers of casualties. Most landmine casualties occur

in Northwestern provinces. There are 121 districts (of 193) affected by mines but 93% of casualties occur in 21 districts. In addition to deaths and injuries incurred landmines and UXO can have a severe economic impact in terms of access to agricultural land or natural resources.

...as well as financial services, despite the successful expansion of microfinance.

The banking sector expanded rapidly in the last decade but credit markets remain underdeveloped in Cambodia. Banks maintain high liquidity with loans to customers representing only about half of assets. In 2007 domestic credit provided by the banking sector was around 10% of GDP, the lowest rate in Southeast Asia except for Laos. Credit is mostly short-term and bank lending interest rates are higher than those of other Southeast Asian countries with the exceptions of Laos and Myanmar. In sharp contrast, and also thanks to a sound regulatory framework, **the microfinance industry has sustained a continuous expansion of its service delivery** infrastructure throughout the country. Collectively, in September 2009, the industry had **593 offices in the country, covering all provinces**. Only 44 of those offices were in Phnom Penh. The combined credit portfolio of the industry grew by 55% and 65% respectively in 2007 and 2008, but growth slowed significantly through September 2009 to 5%. At that time, the industry was reaching over 1 million households, affecting roughly 4.8 million people or 36% of the population, in almost all of the country's 14,073 villages. The distribution of both credit and savings services is widespread, generally aligned with the geographic spread of the population. With the exception of ACLEDA, however, the MFI/MDI service providers have focussed almost exclusively on delivering credit services. The microfinance industry is led by ACLEDA, whose assets and branch structure are larger than the rest of the service providers combined. Likewise, the five largest MFI/MDIs account for 71% of that sectors total portfolio and clients. These institutions are financially strong and have a long track record of financial performance and portfolio quality. The main limitation of the sector derives from the reliance on foreign debt and its fragmentation in relatively small-sized institutions. Both conditions have contributed to a cost structure that has kept interest rates from declining in the past five years, and retarded the development of non-credit services. The microfinance service providers extend credit with a range of instruments, including loans secured with land titles, "soft" titles, and solidarity group guarantees. Most of the credit supply is concentrated in loans that are less than KHR1 million (USD 240), an indication of the service providers' focus on the lower end of the market. They do not, however, satisfy the entire demand for credit. A 2004/5 survey showed that while populations at all income levels had similar access to formal credit sources, only 23% of their borrowing originated from that source; the rest was obtained from friends and family, and from money lenders and commodity middlemen at much higher rates. Access to MFI/MDI loans increased almost seven times since that period. Nevertheless, a large portion of the rural population cannot demonstrate capacity to repay or provide the necessary collateral for a formal loan.

Differences in access to services and jobs fuel migration flows, which pose significant social challenges in both sending and receiving regions, but also opportunities linked to urbanisation, remittances and rural-urban linkages.

A high proportion of the Cambodian population – 31% in 2004 – are migrants in the sense that they reside in a village other than the one where they were born. Among older people, much of this migration results from disruption during the war years and the re-settlement of Phnom Penh and other urban centres after 1979. During recent years migration driven by economic push and pull factors has become increasingly important and follows **two main patterns**: migration from rural areas to urban centres in search of paid employment and migration from the densely populated plains to the outlying provinces in search of land. During 1998-2008, according to the current definition of rural and urban in Cambodia, the balance of population shifted from rural to urban areas by only about 243,000 individuals, or 2% of the total population. There is significant international labour migration from Cambodia: the largest destination country is Thailand, with 182,000 legally registered Cambodian migrant workers in 2005 (two-thirds male) and probably a much larger number of undocumented workers. It is likely that a high proportion of the migrants to Thailand are from the border areas. The most significant **push-factors** driving migration are pressure on rural livelihoods due to reduced availability of land, degradation of common property resources and lack of local opportunities due to factors such as poor local transport links. At the level of individual families, outstanding debts and poverty are important push factors for the decision to migrate or to send family members to work away. **Pull factors** include the opportunities for employment in the garment industry, in services and in construction in urban area, opportunities to acquire land in outlying provinces, and, probably, the attraction of urban living to rural youth. Even the lowest-earning groups of migrant workers earn cash incomes that are large compared to their rural family livelihoods. Migration flows generate significant social challenges: sending areas may experience problems related to the disintegration of family units and deteriorating social cohesion. In urban areas, the integration of often migrants represents an increasingly serious challenge. Migration to the cities fuels urbanisation which in turns can generate advantages linked to agglomeration economies. Migration also generates significant flows of remittances. Single migrants send an average of about 1 million riels per year – or 27% of their earnings - home to their families. Remittances had a major impact on the overall wellbeing of migrants' families. Significant amounts of remittances were invested in productive assets (20%) and in educating younger siblings (6%). Rural-urban migration and mobility implies stronger links between remoter and densely populated areas. Oftentimes, these links help connect urban demands and rural supply (products, land, leisure services) and thus opportunities for rural economic diversification.

Cambodia holds significant unexploited potential for local development, both in urban areas, and across rural regions, which are far from exploiting their potential in (1) the agriculture sector...

Cambodia's growth has been largely driven by foreign direct investment, open markets, and supported by development assistance. It remains concentrated in few urban centres and is characterized by a narrow base, highly vulnerable to external shocks. Some degree of concentration of economic activity is already a fact, but urbanisation is still largely to come. This is confirmed by the demographic and migration dynamics of countries at similar stages of development, particularly in Asia. It is thus clear that there is **enormous potential for urban economies to develop in Cambodia**. At the same time, **Cambodia's potential for economic diversification and development goes well beyond urban areas and is largely unexploited**. Agriculture is still the backbone of the Country's rural economy, but its role and performance have been lagging behind the overall economic growth trends and those of neighbouring countries. In 1990 agriculture accounted for about half of total GDP while industry accounted for only 12%; by 2008 agricultural and industrial output were about equal at 27% of GDP while the services sector had grown from 38% in 1990 to 46% in 2008. Agriculture is no longer the only source of revenue for rural households. Because of small plot sizes, low yields and the seasonal nature of production most rural households depend on multiple livelihoods, of which their home agriculture production may be the largest but is likely to account for less than half of the total. Rice production is still dominant vis a vis cash crops or high value farm products. and crop yields in Cambodia are significantly lower than in neighbouring countries. Many areas of Cambodia suffer from relatively poor soil fertility and inadequate or irregular rainfall. Cambodian farmers face higher input costs and lower farm gate prices than those in neighbouring countries. High transport costs, poorly developed markets, lack of irrigation systems (less than 10% of Cambodian agricultural land is irrigated in the dry season) and the cost of energy, as well as the high cost of credit, drive up the costs of agricultural inputs for Cambodian farmers. Consequently much land is farmed on a low-input, low-output basis. About 64% of farmers do not have access or do not own major farm machinery. In general, post-harvesting technology and management are among the main reasons that make Cambodian agriculture less competitive than many neighbouring countries. Associated with these constraints are the weaknesses of the extension services. In this context, there is enormous potential for Cambodian agriculture to become more productive. Also, there are emerging clusters (such as **rubber, pepper and silk**) that can substantially contribute to employment creation and poverty reduction thanks to higher value-added products compared with general crops like rice.

...(2) in terms of opportunities linked with Cambodia's great cultural and natural heritage...

Although the temple complex of Angkor in Siem Reap province gains most attention and the vast majority of international tourist visits, there are impressive archaeological remains, predominantly of Hindu temples and city complexes of the Angkorean period, in many provinces of Cambodia. Many of Cambodia's temples are located in areas which also have potential for **eco-tourism development** which, aside from the recent downturn due to the global economic crisis, is a rapidly growing sector. About **32% of Cambodia's land area is covered by protected areas** including national parks, wildlife sanctuaries, multiple use areas which are mainly inland and coastal wetlands, and protected forests. Cambodia is a sanctuary to about 1.6% of all globally threatened species on the IUCN Red List. This includes 2.5% of globally threatened mammals, 2% of globally threatened birds, 5% of globally threatened reptiles, 1.6% of globally threatened fish and less than 1% of globally threatened amphibians. Forests are the dominant habitat for approximately 33% of the threatened species in Cambodia but wetlands are equally important for conservation of biodiversity, as are arable and pasture lands. Some initiatives have been undertaken to involve local communities in the protection and management of local cultural and ecological sites and to enable communities to gain the benefits of tourism. However there appears to be potential for much greater activity in this area.

...and (3) large unexploited potential in the energy sector.

Only about 22% of Cambodians have access to electricity (Phnom Penh, which has around 10% of the population, uses more than 85% of total electricity consumed) and 94% of the population living in rural areas relies on wood, charcoal, car batteries and kerosene. Wood and wood charcoal accounts for approximately 80% of total national energy consumption: this is a major driver for deforestation and a barrier to livelihood development and security. **There are thus ample margins to build the future energy sector of Cambodia in a way that is both more efficient and environmentally sustainable.** Demand for electricity is projected to increase from 212 MW in 2002 to 2000 MW in 2025 as the economy develops and the transmission grid expands. Most of the investments in the energy sector are currently private-sector driven or funded by international donors. Private sector investments target areas in which population density is relatively high which leads to concerns related to the feasibility of electrification of rural areas. The Government envisages that in the long term Cambodia could become a net exporter of electricity. Several big dam projects are evidence of a growing interest of external actors in securing Cambodian electricity supply and raise concerns as to the public benefits to be expected and environmental aspects. Cambodia has recently become a net emitter of Green House Gas (GHG). The Country does not have a conducive policy, financing or institutional framework required to enable access to carbon markets; for mitigation of GHG

emissions using renewable energy or energy efficiency; or for reducing deforestation. There is potential for improving access to these carbon financing mechanisms and the promotion of increase private sector participation in the energy sector. Other types of renewable energy are mostly small-scale and driven by the lack of access to the electricity grid. Even though generally expensive and in need of financial incentives, the most common small-scale renewable energy source in Cambodia is **solar electricity**. Some upland areas have potential for **wind power** and there are some locations where **micro-hydroelectric power** would be feasible. There have also been initiatives to introduce **biogas systems** in rural villages as well as a national programme for providing households with “biodigestors” systems that provide biogas for lighting and cooking from animal waste. Improving access to carbon finance, especially for the more carbon efficient applications (e.g. institutional biogas, micro-hydro etc) has the potential to improve financial performance of these services. In terms of providing services to off-grid households or enterprises these and other small-scale renewable energy options may be cost effective when compared with grid infrastructure costs to Government and the relatively high cost of electricity to consumers.

However, local development potential is threatened by environmental degradation and the vulnerability of large parts of the Country to climate change.

Cambodia has a higher proportion of **forest cover** (59%) than any other country in Southeast Asia. It is estimated that in 1976 forest cover was 76% of the land area. Rapid depletion of the remaining areas of primary forest took place during the 1990s through poorly regulated logging and from 1997 to 2002 loss of forest cover was estimated at 1% - 5% per year. The Government imposed a logging moratorium in 2002 and this appears to have stabilised the situation although forest cover declined from 61% to 59% from 2002 to 2006. Clearing of forest land for agriculture and over-harvesting of fuel wood are also seen as threats to the health of Cambodia’s forests. About 55% of all forests including 45% of forests in protected areas are considered to be degraded. Cambodia is a country with globally significant freshwater fisheries including the Mekong River, the Tonle Sap and a preponderance of ecologically important wetlands that encompass about 30% of its land area. Fisheries provide full or part time employment for up to 2 million people and contributes significantly to domestic food security. There is alarming evidence of a significant decline in the quantity and quality of stocks. **Climate change is expected to affect Cambodia significantly**. Cambodia’s vulnerability to climate change is linked to its characteristics as a post-civil war, agrarian country, with weak adaptive capacity, poor infrastructure and low elevation of the central plain. During 20 years period from 1987-2007 succession of droughts and floods have already resulted a significant number of fatalities and considerable economic losses. Climatic variations are anticipated to further increase the severity and frequency of flood and drought events

with lowland areas more affected than highland areas. The impacts on agriculture and fisheries are likely to be dramatic. Climate change is also expected to increase the incidents of infectious, water-borne and vector-borne diseases, heat stress and mortality, with significant impact on public health costs.

In sum, large territorial disparities and different development dynamics call for a flexible, deliberate policy approach to foster local development and accelerate progress towards the MDGs.

Opportunities and challenges vary greatly across Cambodia. Whatever definition is used for 'rural' and 'urban' areas or territorial typology adopted, the analysis of local development trends reveals a high degree of spatial heterogeneity, calling for a strategic approach to local development and flexible policies, tailored to the characteristics of different places. In particular, progress in the achievement of Cambodia's Millennium Development Goals (CMDGs) varies greatly across different 'macroregions', Provinces and between rural and urban areas. Diversity and complexity are further exacerbated within Provinces, at a more micro level. This suggests the need for a strong focus on understanding and tackling local development dynamics by both Government and Development Partners. Against this background, the following section discusses the Cambodian policy approach to local development and to what extent it is able to address the Country's diverse and fast evolving local development trends.

2 POLICY ASSESSMENT: THE CAMBODIAN APPROACH TO LOCAL DEVELOPMENT

Over the last decade, the Cambodian Government has been successful in promoting economic growth, but this has been narrowly based and is now challenged by increasing social and territorial disparities.

Cambodia's recent history, marked by a long period of divisive internal confrontations and foreign conflicting geopolitical interests, has largely justified a focus on internal cohesion and a unitary vision for its policies, contributing to political stabilization and a centralized approach. For economic development, an open market and export led development model has been followed since the Nineties, similar to the liberal approach adopted by other regional neighbours, relying on macro-economic stability. The result has been sustained but narrowly based, and at least partially unsustainable, growth. As discussed in Part 1, the relatively high rates of growth registered since 1999 were driven by foreign direct investment, tourism, open markets, urbanization; they worked well at an aggregate level, as expected, but were accompanied by

widening disparities in income, a polarized social situation between the rich and the poor, and between urban and rural areas. The impact of the financial crisis in 2008-2009 has been severe on this system: many garment factories closed, construction shrank, tourism flows declined, exports became less competitive, remittances dwindled. As happened in many countries, a model that was working for only a part of the system before the crisis, was even less able to do so after the financial shock. Increasing territorial disparities and the need to identify potential for more diversified local economies suggest the need for a deliberate, strategic focus on local development.

Cambodia does not rely on an explicit National policy to address territorial imbalances: local development - as an objective - is closely linked with decentralisation and deconcentration (D&D) reforms.

Cambodia has not up to now defined an explicit policy for local development. The discussion on territorial disparities, spatial divides and the need for diversification of local economies is present in the public discourse. However, the RCG has not developed a clear policy focus to target places or 'types of areas' (rural, urban, remote, mountain, coastal etc.) to address these challenges. For instance, the rural-urban gap, although mentioned in all key policy documents, is not addressed via an integrated strategy for rural development. As recognized by recent Government documents, today's rural development policy in Cambodia is the result of many different activities, programs and projects carried out by numerous institutions - all linked more or less explicitly to rural development - but characterized by modest coordination and a marked sectoral (agricultural) focus. Similarly, urban development is not the object of an explicit, long-term Government strategy. In terms of the highest order policy documents, the RGC's 2004 *Rectangular Strategy* does not focus on disparities and local development as explicit objectives but does emphasize the central role of governance reforms (including D&D) as the "most important pre-condition to economic development with sustainability, equity and social justice". **The National Strategic Development Plan (NSDP)** for 2006-2010 and the draft NSDP update 2009-2013 do emphasize challenges related to inequality and recognize that progress is needed in terms of poverty reduction and spatial disparities (especially in rural areas) and that decentralization/deconcentration (D&D) is a tool to achieve this. Key D&D documents, in turn, mention local development as a key, explicit objective. In this context, **Cambodia's policy approach to local development is closely linked to reforms in the fields of decentralisation and local governance.** Therefore, the recent and current evolutions of such reforms play a key role in shaping what is, de facto, the Country's strategy towards local development.

D&D reforms have their roots in the early 1990s and have produced remarkable results, leading to the foundation of the system of local governance in the communes and sangkats and thus paving the way to participatory democracy.

Following the 1993 election, all power and functions were centralized to the line Ministries and the Royal Government of Cambodia (RGC) focused its energies on nation, Government and administration (re)building and political reconciliation. During this period, the process of developing structures at the Sub-National level was essentially driven by external donors, most notably the UN agencies. The key focus was to reintegrate and repatriate refugees and IDPs, and ensure quick implementation of infrastructure projects in order to re-establish basic services. These goals were implemented by UNDP - with UNCDF support - via the **CARERE 1 Project**, from 1992 to 1995 followed by CARERE 2 (1996 – 2001) and then the **Seila Program** to test and develop decentralized approaches to plan, finance and implement infrastructure projects, carried out initially in five provinces and in support of the RGC's rural development strategy. Under the Seila process, several structures were created at the province level, including the Executive Committee (ExCom), which is part of the **Provincial Rural Development Committee (PRDC)**, as a way for the provincial governor to provide capacity support to communes. Based on the experiences of the initial Seila program, from 1999, the RGC set out an agenda to put in place the first legal framework for decentralization, via the creation of the Inter-Ministerial National Committee for the Support to the Communes (NCSC), led by the Ministry of Interior (Mol). As the country stabilized, the RGC articulated national reform programs, forming an overall policy framework for the decentralization process building and expanding on the achievements and goals of the Seila Program. The first commune council elections were held in February 2002: they represented a considerable achievement of beginning to entrench democratic institutions at the local level only three years after the ceasing of all combat operations on the territory of Cambodia. The commune and sangkat councils also became the focus of the continuation of the Seila program activities for financing infrastructure, both continuing and expanding the participatory processes which had been piloted in the early phase. Support to developing and training the commune councils was provided through the Partnership for Local Governance (PLG) and the second phase of Seila (2001 – 2006). The financing of commune and sangkat councils was formalized largely via the successful introduction of the Commune/Sangkat Fund which is still the most important resource for C/S.

The Strategic Framework (2005), the Organic Law (2008) and the National Programme for Sub-National Democratic Development (NP-SNDD/ 2010) provide guidance to develop the Country's multi-level governance structure...

The **2005 Strategic Framework for Decentralization and Deconcentration Reforms** lays out the key characteristics of the new Sub-National administration system, which is to consist of indirectly elected councils, in order to strengthen and expand local democracy and a board of governors appointed by the RGC, to enable the establishment of unified administrations. The latter goal implies a significant institutional restructuring and redefinition of the roles, not only of the provincial/municipal and district/khan administrations but also of the deconcentrated line Ministry offices. The overarching vision of the Royal Government is to develop a system that will “...operate with transparency and accountability in order **to promote local development** and delivery of public services to meet the needs of citizens and contribute to poverty reduction within the respective territories³.” In order to develop the Organic Law, which would define the new administrative structures for provinces/municipalities and districts/khans, the NCSC was subsequently replaced by the National Committee for the Management of Decentralization and Deconcentration Reforms (NCDD-1) and its secretariat moved to the Ministry of Interior. Even with a clear vision, and relatively well-defined goals, the passage from strategy to organic law proved to be quite challenging and required almost three years, during which time the second elections of commune and sangkat councils took place, in April 2007. **The Organic Law** was promulgated in May 2008. The Organic Law extends representative deliberative bodies to all levels of Sub-National administration in the country. This potentially represents a fundamental shift of the locus of decision-making and accountability throughout the territory. The Organic Law clearly establishes that transferred functions and responsibilities should be accompanied with appropriate resources (finance follows function). The Organic Law paved the way for the process of developing the **National Program for Sub-National Democratic Development** (NP-SNDD, 2010). This key document - organized by three platforms and around five program areas, - aims at providing the framework for the implementation of the D&D reforms over a period of 10 years.

...but the D&D reforms' full implementation faces substantial challenges across the three key governance dimensions: national, vertical (across levels of Government) and local. (1) at the National level, modest awareness and sector by sector fragmentation pose numerous difficulties.

D&D represents one of the most complex, profound reforms that are on-going in Cambodia. It involves a sheer number of actors and poses substantial challenges in terms of engaging

3 Strategic Framework, p. 4.

Government agencies across and within levels of Government. The process of design of the NP-SNDD has evidenced a general lack of awareness of the details and implications of the Organic Law by officials across sector Ministries. Over several months of thematic dialogue discussions a wider range of central Government officials were made aware of the potential impact of the Organic Law on their own sectors. While awareness raising needs to be sustained, a sheer challenge is represented by the need to coordinate this reform at the National level and across levels of Government. Subsequent to the adoption of the Organic Law, and in accordance with its provisions, the management structure for piloting and implementing the Organic Law was re-founded as the **National Committee for Democratic Development (NCDD-2)**. For the reforms to advance, the NCDD will need strong support from the RCG leadership and good cooperation with line ministries. But the challenge of awareness raising and coordination is not only a Government one. On the one hand, the sheer number of Development Partners involved in the D&D reforms (over 15 agencies are directly involved in the TWG on D&D) highlights the challenges of harmonizing their support to the reform and thereby reducing inconsistencies as well as transaction costs for the Government. On the other hand, many DPs, with sectoral goals, are not directly involved with D&D but, if properly involved, could play a key role in terms of facilitating the contribution of different line ministries.

(2) 'Vertically' the challenge is to move away from a centralized, 'command and control' system and correct the shortcomings of the intergovernmental fiscal framework.

At present, Cambodia is a highly centralized country facing two key challenges: **a) Assignment of functions to SNAs**. The Organic Law sets out the criteria for transfer of functions and posits the principle of subsidiarity. The law also provides that a process of review of functions and responsibilities should be carried out in order to determine to which level of SNA they should belong, and whether they should be obligatory or permissive⁴. The process of functional assignment is key for the advancement of D&D reforms. It will be crucial that line Ministries comply with the Organic Law and thus facilitate and support the process of identification and assignment of functions to SNAs. **b) Assignment of resources to SNAs**. Cambodia is still characterized by an incomplete intergovernmental fiscal system that operates within a dysfunctional though slowly improving public financial management framework. Ongoing public financial management reforms have not yet fully addressed the weaknesses of treasury, accounting, and expenditure reporting systems. Within this framework, there are multiple challenges related to sub-national revenues and expenditures, intergovernmental transfers (including from national to province/municipal and to C/S as well as from province to district) and Sub-National public finance management including budgeting, accounting, reporting and auditing functions. Part 2 Figures highlight the degree of fiscal centralization in Cambodia.

⁴ Organic Law, Articles 217, 220, 222, 223, 224, 225, 227, 228, 233, and 234.

In 2008 the share of public expenditure at the level of Sub-National Administrations stood at only 6.18% (2.76% for C/S Administrations and 3.42% for Province/Municipality, and 0% for Districts)⁵. The C/S budget and the Salakhet budget are the two (quantitatively modest) exceptions to the centralized nature of Cambodia's public sector. Expenditure at Sub-National level (thus including expenditure of deconcentrated line departments) stood at 20.36% of total expenditures,. 2008 Provincial/Municipal Administration budget revenues indicate that 73% were revenues collected subnationally and 27% from the National Budget (see Figures in Part 2)⁶. **The provisions of the Organic Law require that this picture will need to progressively change.**

...and (3) locally, key challenges are related to weak planning systems, low capacity and limited citizens' participation.

As described in the previous section, donor interventions at Sub-National levels in Cambodia were initiated to provide emergency infrastructure support. Given that Cambodia's public finance and budget implementation systems were not (and in many respects, still not are) able to provide necessary accounting and management systems, the external donors established specific budget, accounting and reporting systems. These systems reflect a strong project approach. This project approach is reinforced by two other strands of actions influencing local governance in Cambodia. *First*, the patronage-based system may reinforce a preference for the project approach, thereby weakening demands to develop sustainable systems for administration and provision of services. The *second* strand is that the parallel political party financing of local investments in the territory (in some communes this can exceed the funds available through the CSF) has also reinforced the overwhelming project approach, and led to the creation of institutional layering. In this context, a key challenge in terms of development of local administration capacity, especially at district and municipal level is to ensure that as functions are transferred, Councils can *"identify and plan for the development of their territories and make allocative decisions that reflect hard budget constraints"*⁷. Addressing this challenge will require on the one hand, that the legal and regulatory framework for planning and implementing by SNAs is fully developed, and on the other hand, that capacity of personnel at SNA levels is brought to the level required by their new functions. The spirit of the Organic Law is to make local Governments *loci* for greater interaction across Government

5 The Organic Law groups Sub-national administrations as Province/Capital, District/Municipality/Khan and Commune/Sangkat. However, prior to 2009/2010, data for SNAs are organized according to the prior system, thus by Province/Municipality and Commune/Sangkat. Funds for districts are incorporated in the provincial budgets.

6 It should be noted for the Province and District levels that these resource allocations in the national budget are for provincial line departments via their respective ministries, and are not transferred directly to a Sub-National tier. The procedure for allocating resources to salakhets is different, as the budgets are included separately in the national budget, and not part of the Mol. However, these resources are not budgeted or transferred using a formula, but rather through a negotiating process. The C/S Fund is different in that it is allocated as a 'proper' intergovernmental transfer mechanism based on a formula and transferred to the Communes through the Provincial treasuries.

7 NCDD (Sept. 2009), p. 37.

agencies and between Government, citizens and the private sector. Currently, citizens' participation in the planning, executing and monitoring of local level decisions varies considerably across Cambodia. If the Organic Law is implemented as intended, it will thus require a substantial shift in the way local leaders interact among themselves and with citizens.

While D&D reforms can bring about the 'governance infrastructure' to foster balanced, sustainable development across Cambodia, the Country still lacks a strategic approach to local development.

D&D reforms can provide the 'governance infrastructure' that allows for an efficient and effective distribution of responsibilities and resources across levels of Government. But D&D cannot be considered a substitute for a deliberate policy for local development in Cambodia. **The Government has a key role to play and difficult, strategic decisions to make regarding the future of different parts of Cambodia. It can use various instruments (regulatory powers, fiscal instruments, infrastructure policy etc.) that influence the location of economic activity and people.** In the absence of a clear strategy, these decisions are likely to be taken casually and without transparency. Within the current 'spatially-blind' policy approach, local development and poverty objectives maintain an abstract character that often doesn't allow for the possibility of addressing the specific challenges and opportunities of different places with adapted tools. There are numerous 'local development' projects and programs – often driven by Development Partners – but these are not part of a strategic framework. Decentralization and deconcentration reforms and the design of a more deliberate, strategic approach to local development are also currently hampered by the limitations of a **weak system of disaggregated data collection, classification and analysis.** Firstly, the quality of disaggregated data available is modest and there are serious problems of coherence among different sources. Secondly, current territorial definitions (for instance the official definition of 'rural' areas) may need to be revisited to meet accepted international standards. Thirdly, analytical capacity needs to be strengthened at both National and SN levels to provide policymakers with clear strategic information rather than abundant, frequently confused and easily ignored data. Lastly, dissemination of statistics is still limited and largely dependant on Development Partners technical and financial contribution.

3 THE WAY FORWARD: REAPING THE BENEFITS OF DECENTRALISATION

D&D reforms are essential to build the multi-level governance system that allows tackling local development challenges across the Country.

As discussed throughout this report, Cambodia faces great challenges in terms of territorial disparities but also possesses enormous unexploited potential for sustainable, equitable development. As experience in many countries shows, a centralized approach is unlikely to

work. Most of the knowledge regarding what should and could be done is held at the local level. At the same time, experience shows that for this information to be translated into action, all different levels of Government have an important role to play. It is thus essential to build a multi-level governance system that assigns clear responsibilities and appropriate resources across and within levels of Government. In order to do this, and in the framework of the National Programme for Sub-National Democratic Development, a number of actions can be taken. Many of these actions do not necessarily imply large investments, but rather a sharp, deliberate policy focus.

First, at the National level, more can be done to promote awareness and to develop capacity within the NCDD and line ministries to perform the new functions required by the D&D process...

D&D is a complex, far reaching reform, which requires awareness of many actors and cross-agency coordination. As discussed in Part 2, there is often lack of clarity and inconsistent understanding of the vision and direction of D&D reforms among key Cambodian stakeholders. Critical to the success of the D&D reforms is thus to continue building awareness among National level agencies and their respective bureaucracies as to the benefits and challenges related to decentralization. NCDD, with the support of development partners, can play a key role in devising and **launching a well thought awareness and capacity development strategy** at all levels of Government. Challenges are even greater in terms of coordination and cooperation. This is both a Government challenge and an area for improvement for Development Partners. Implementing the National Program will require close cooperation among sectors, Ministries, reform programs, and external donors, in order to succeed. This will depend largely on the smooth functioning of the four NCDD Sub-Committees, supported by the NCCD Secretariat. Further, the NP-SNDD implementation must progress in parallel with the Public Finance Management Reform Program (PFMRP), with the National Program of Administration Reform (NPAR) and more broadly with the NSDP and the country's strategy for economic development. Based on the core NCDD policy group, a form of **hub and spoke policy network** could be set up, with links to the one or two policy point persons in each line Ministry or agency. The spokes could be activated on an as needed basis, for example, related to the agenda of NCDD Sub-Committee meeting, following up on the decisions of such meetings, and to review and legislation and other regulations. Joint trainings could be organized on a regular basis and joint retreats could be used to update all parties on progress towards the NP-SNDD implementation. Moreover, technical and policy analysis support capacity to the sub-Committees could be provided via a reformed 'Policy Unit' in the NCDD secretariat. In sum, D&D reforms imply great institutional and technical challenges for the whole of the National Government. NCDD and all relevant line ministries will need to

‘integrate’ the notion of decentralization and deconcentration and move away from a traditional ‘command and control’ role to a way of operating that is based on cross-sectoral coordination as well as sharing of responsibilities and resources across levels of Government.

...as well as to strengthen information systems, in terms of collection, classification and analysis of Sub-National data.

As decentralization and deconcentration reform advance, the quantity and quality of disaggregated data becomes critical to serve the information needs of both National and Sub-National Governments. Action is needed in at least 4 areas: *first*, methods to collect disaggregated data could be improved. The Commune Data Base (CDB) is an extremely useful tool but it is in need of analytic attention – both to uncover useful results and to point to areas needing improvements. For instance, CDB generated information can, at present, only be used as a *proxi* for MDGs analysis but not to measure progress towards MDGs as globally defined. Also, CDB could be revisited to make sure it can fully serve as the basis for the situation analysis carried out within the Sub-National planning processes or as the basis for revised intergovernmental transfers’ allocation formula. *Second*, territorial definitions need to be reviewed also based on international experience and on the evolution of Cambodia. *Third*, in the face of the large volume of data produced, it would be useful to set up a local development ‘Observatory’ and produce more and better analytic reports with a focus on understanding the difference across territorial units (for example rural, urban or cross-border areas). *Fourth*, the same can be said for the dissemination of statistics. The dissemination of the available Sub-National data could be improved for instance by strengthening the existing CAMInfo system and expanding the data content.

Second, in terms of ‘vertical’, multi-level governance. Functional assignment needs to progress according to a robust, widely shared methodology, aim at clarifying the role of different Government levels, according to the subsidiarity principle...

In the context of the NP-SNDD, a key priority is to develop a standard methodology for functional assignment to be applied uniformly across the RGC by each of the line ministries. The process will need to respond to a pressing demand for clarity from line ministries that need a clear roadmap to engage in D&D. While a coherent methodology is necessary, the process of functional assignment will not proceed at the same pace within each policy area. Some sectors and sub-sectors are more obvious candidates to move first. Also, pilots will have to be carefully used to clarify what works and what doesn’t when a specific function is decentralized or deconcentrated and to test administrative, finance and legal aspects without running the risk of major services disruption across the country. The process of functional assignment should be guided by the subsidiarity principle, which implies that

public goods and services should be provided by the lowest Government level that can do so efficiently. In this context, given the very small size of Communes and the distance of Provinces from the local level, there is a broad consensus that **a critical role will be played in the future by Districts**. The role of the District, vis a vis the Communes in particular, should be defined in the context of the Organic Law and by finding the right balance between two key factors: on the one hand, a focus on economies of scale and a critical mass for service delivery. This suggests a greater role not only for intermediate levels of Government but also for cooperation and association between SNAs, not necessarily coinciding with administrative boundaries. This is particularly important as local Governments in Cambodia move from being providers of very basic services towards drivers of economic development. On the other hand, the role of the District should not hamper but rather reinforce the commune level in terms of performing commune level responsibilities and, in its role of critical locus for citizens' participation. The District should evolve towards becoming a key 'service provider' to the Communes.

...and be accompanied by an appropriate allocation of financial and personnel resources, as well as effective vertical cooperation mechanisms across levels of Government.

Addressing the key weaknesses of Cambodia's intergovernmental fiscal system will be critical to the success of D&D reforms. The guiding principles are outlined both in the Law on Public Finance and in the Organic Law. These principles need to be detailed and made operational through the **Law on Financial Regime and Property Management for Sub-National Administrations (or Sub-National Finance Law)**, as well as through the implementing legislation and regulations. The objective is a management system for SNA financial affairs that is transparent, accountable and effective. According to these principles, SNAs budgets must reflect all sources of revenues and all items of expenditure as approved by the council. They should be distinct from the central Government budget and subject to review by the national authorities for compliance with the established formulation rules. Pending the assignment of specific service delivery functions, SNAs should be able to receive unconditional transfers to be used for their expenditures and be determined in accordance with objective and transparent criteria. This system could be designed in a way that can also respond to requirements posed by Development Partners to facilitate their support to different SNAs. The Sub-National Finance Law is most likely to provide for basic principles, but will not define some key factors on which will depend the ultimate evolution of the revenue and budget base of the new SNA councils. For example, decisions need to be taken on which local taxes / non-tax revenues should be allocated to SNAs, and to which level of SNAs; what formula and allocation criteria for national budget transfers to Capital/ provinces and districts/municipalities. These decisions will imply considerable changes in SNA finance roles and responsibilities and within the context of the public finance system.

Beyond functional assignment, it is essential to devise mechanisms for effective vertical cooperation. Abundant literature as well as policy practice, points towards the benefits of devising ‘contractual relations’ across levels that often adopt **the use of incentives** from the top to foster the performance of local authorities. These mechanisms have proven to be successful when based on systems designed with local Governments that agree on the indicators/targets set to monitor their performance and receive strong technical support from higher levels of Government.

Third, locally the planning system should decidedly move away from a ‘project’ approach, towards integrated planning of sectoral policies that allows for stronger citizens’ participation and greater interaction with private actors.

Experience from around the world shows that cross-sectoral coordination can be successfully enhanced at Sub-National levels. A reformed approach to Sub-National planning should aim at bringing together the actions of line ministries and of local councils in an integrated plan that maximizes synergies. This implies moving decidedly away from the production of ‘wish lists’ of disconnected project towards a rigorous, transparent prioritizing exercise. In particular, it will be essential that each Sub-National plan contain a clear link between the situation analyses of each target territory, the objectives established by the Council and the allocation of resources towards those objectives. This represents a paradigm shift in Sub-National policymaking. It will require that line ministries’ deconcentrated branches conform to the new integrated approach and that donors fully support the institutional structures and systems. It will also require effective vertical integration of plans developed at different levels of Government and ultimately covering the same territory. The legal mandates of the communes need to be clearly considered and the planning processes integrated within these limits. Also, the participation of youth, women and vulnerable groups to the Sub-National planning processes is key if these are to become effective loci of inclusion of all groups into decision-making. A wide array of tools could be introduced to foster information and participation and e-Government solutions could be further developed to allow easier and cheaper access to information.

Often times the drivers of local development are outside the public sector. A key factor to advance local development in Cambodia is thus the establishment of initiatives that can foster public-private partnerships particularly aimed at local economic development. This element should be considered in the process of functional assignment to SNAs and design of Sub-National planning system. The District level for instance could be assigned – even from its early stages – functions and resources aimed at identifying and valorizing its local economic potential. This will entail a great degree of cooperation with private actors and thus advantages in terms of local governance and the building of social capital.

A deliberate policy approach to local development could complement D&D reforms and could be built as an integral part of the NSDP to cover three key policy dimensions: rural development, urban development and cross-border regional development.

As evidenced by analysis of both trends and policies in this report, and recognized by the recent NSDP update 2009-2013, there is a need to address Cambodia's local development challenges in an integrated, more deliberate manner. A strategic approach to local development should help address disparities, identify unused potential and accelerate progress towards the MDGs. In the context of Cambodia, there are at least three dimensions of local development that need to be addressed explicitly and via stronger cross-sectoral coordination: rural development, urban development and cross-border regional development. Policies that address specifically the challenges of these areas could be developed in the framework of, and in support to, the NSDP. Their preparation could be led by ad hoc cross-Ministerial working groups, and with the support of MOP and key non-sectoral actors such as SNEC and NCDD. Policies for rural, urban and cross-border development could be considered as additional and complementary to the NSDP. These policies **could help to connect National level priorities with local practices**. Also, they would offer a framework for the increasingly important planning activities of sub-National authorities in rural, urban and cross-border regions. A more explicit local approach to development could bring several benefits: a) complement the service delivery and democratization objectives of D&D with an explicit focus on local economic development; b) contribute to accelerate progress towards the MDGs by fostering integration of sectoral policies at local level d) promote endogenous development and economic diversification; e) help developing informal markets into formal ones, strengthening the legality and expanding the tax base of the national economy.

(1) An ambitious rural development policy could provide the vision and framework to promote sustainable development across Cambodia's countryside...

Experiences from around the world (significant is the example of China and its recent strategy to bridge rural-urban divides) have shown that there are substantial advantages in terms of having a strategic approach to rural development. This is of particular importance in countries with a young, growing labour force and thus the need to urgently boost jobs creation and economic diversification. An effective approach to rural development should rest on a robust analysis of trends in rural areas and can help the Government understand the different impact that its policies have on both peri-urban and remoter rural regions. For a strategic approach to rural development to be effective **it is critical not to incur in two 'classical' policy mistakes: a) first, 'agriculture' should not be considered synonymous with 'rural', nor agricultural**

policy as synonymous with rural policy. This means that rural areas should be assessed in terms of their needs and potential across different sectors. b) second, while infrastructure is important, this should not be considered as a sufficient condition for rural development and the primacy of increased connectivity should not be overstated. An integrated approach to rural development should aim at maximizing the potential of the Cambodian countryside. To achieve this, two actions are key: *first*, developing a comprehensive, periodic **diagnostic of the status of rural areas** as a necessary instrument to guide strategic policymaking. This could be both a tool for the Government as well as an instrument to foster public information on the status of rural areas. This 'rural monitoring' function could be assigned to existing or ad hoc institutions that could also get to play, over time, the role of '**rural advocates**' and contribute to the elaboration of local development component of the NSDP. This has been successfully experimented in various countries. Second, 'rural proofing' mechanisms can be introduced. These allow monitoring, evaluating and correcting the impact of sectoral, 'spatially-blind' policies and donors' initiatives on rural areas. Proofing mechanisms are particularly important to help prioritize investments and foster the 'quality' of spending, which in a context of limited fiscal space is a key advantage.

...and economic diversification within the agriculture sector and beyond into tourism and energy production.

Rural development should be built on the potential within and outside agriculture. On the one hand, there are great opportunities for agricultural development and diversification. On the other hand, as highlighted in Part 1, **Cambodia's rural areas hold enormous unexploited potential for economic diversification**, and this is largely territorially differentiated (for instance between remote rural regions and rural areas in the plains). This calls for a modern, place-based approach to rural development. As discussed, the current mainstream policy approach to rural development across most of Cambodia is focused on agriculture and on the provision of social public goods, or social safety-nets. These are essential, necessary policies, but often not sufficient to promote local economic development. Agriculture itself is often supported more for its 'social function', than in relation to its potential as an economic sector. As experience across the world shows clearly, for many Cambodians the solution, in the medium to long-term will not be subsistence farming but the capacity to derive income from other sources. The starting point is agriculture but the objective is not the modernization of agriculture alone, but also and at the same time the diversification of the rural economy from its narrow base and the improvement of the living conditions in rural areas, which require a territorial policy approach, localized, capable of integrating the different sources of livelihood in a coherent local development strategy. **An integrated rural development policy can help identify and valorize the vast potential of the Cambodian countryside.** The richness of

national and cultural resources and the potential for energy production are an enormous asset on which to build local development strategies. Public policy and development aid can play a key role in supporting local public and private actors in their efforts to identify and exploit comparative advantages. Linkages between agriculture and tourism can be developed via smart territorial marketing strategies. Rural development networks can be successfully established to foster knowledge exchange across different areas, towards solutions for economic diversification. Stronger support to producer's organizations can also help private entrepreneurs in rural areas - and farmers in particular - to overcome fragmentation, improve their product and be able to compete with current imports. **Rural economic diversification should build on Cambodia's thriving microfinance sector, which could be further strengthened to provide a wider range of financial services, at a lower cost.**

(2) A forward-looking urban development policy will help reap the benefits of agglomeration economies, address negative urban externalities ...

Even though at lower rates than other countries in the region, increasing urbanization is a fact in Cambodia. Several cities are growing and have the potential to act as hubs for Provincial and National development. At present, however, Cambodia is not taking full advantage of agglomeration economies around urban centers. While market forces are key determinants of urban development and competitiveness, the Government can play a key role in fostering agglomeration economies and, at the same time, addressing the negative externalities that come with urban concentrations. Several policy instruments are available at both National and sub-National levels. National level sectoral policies – such as transport, energy or environmental regulations – have a significant impact on cities. On the other hand, there are specific tools that central and SN Governments can use to foster urban development: planning, management of urban services, housing policies, urban specific climate change adaptation and mitigation measures, policies that identify and exploit urban-rural linkages etc. A sound use of all these tools requires a vision, and a framework for urban development in Cambodia **that links National level priorities and policies with SN level planning process.** There are various examples of National urban policies across developed and developing countries. Some are explicitly linked with D&D reforms and lead to the assignment of specific functions to urban Governments or special 'regimes' for the Capital regions. A National policy for urban development need to rest on solid analytical basis (e.g. rigorous monitoring of urbanization trends) and reflect upon the linkages between different urban areas and the promotion of networks of cities, which is particularly important in countries with a diffuse population. At present, the quantity and quality of research in the field of urban development is modest in Cambodia and would greatly benefit from support and attention of the Government, Development Partners and academic institutions.

...and strengthen the role of the Capital and the other strategic centers as engines for National growth.

The role of the Capital is critical in the current process of urbanization and overall modernization of the Country. Phnom Penh's functional area now largely exceeds the 376 km² of its municipality. Its challenges are great and include service delivery to a growing population and avoiding pockets of poverty and social exclusion. Despite the existence of large residential and commercial development projects, there is little evidence of the use of master plan or of impact assessments that evaluate advantages and disadvantages of each project for the Capital's citizens and help planning for services and the use of public space. On the one hand, the lack of strategic planning can lead to costly economic, social and environmental consequences and uncontrollable diseconomies of agglomeration. On the other hand, as successfully experimented in several countries, there are still ample margins to devise **a robust strategy for 'Phnom Penh Metropolitan Area'** that supports the sustainable development of the Capital and its surroundings. Phnom Penh possesses significant potential to develop into a city that has unique visual landscape, which can attract tourism and investments and translate this into benefits for its population. This requires triggering a virtuous circle of public goods that attract private investments. Phnom Penh's urban development strategy could be accompanied by a careful review of responsibilities and resources allocated to its local authorities, which have fairly limited power and resources. **Siem Reap** and **Sihanoukville** are also examples of key urban poles deserving robust, long-term strategies. Both cities are, from various points of view, at a turning point: uncontrolled development of the Provincial Capital may further rural-urban disparities within the respective Provinces and lead to a degradation of their precious and vulnerable cultural and natural amenities. A modern strategy for urban Siem Reap and Sihanoukville would contribute to preserve their resources, spread the benefits to the whole of the two Provinces and maximize their contribution to the National economy. In the case of Siem Reap, the floods suffered during 2009 highlighted another critical issue: the urgency to have a well-designed plan that integrates climate change adaptation measures into the wider economic and social development strategy of the area. Climate change mitigation measures can also play an important role and contribute to a positive 'green' image of the city with significant dividends in terms of attracting investments and tourism.

(3) A policy for cross-border development could help the RGC engage more strategically in subregional development projects and make the most of large, unused potential in border regions.

Cross-border regions follow distinct development patterns and hold great unexploited potential given Cambodia's strategic geographic position. In this context, being a 'peripheral Province' with the respect to the Capital can represent a significant comparative advantage. The

specific challenges and opportunities of cross-border regions call for a strategic, place-based approach to these areas. In this framework, the on-going '**Greater Mekong Subregion – GMS**' program or other initiatives such as the 'Triangular Development Zones' can bring substantial benefits to Cambodia. Experience from across the world shows that large cross-border infrastructure development projects bring obvious connectivity benefits. However, the extent to which these translate into sustainable development in cross-border regions themselves can be significantly influenced by the adoption of forward looking local/regional development strategies and investments that build on new infrastructure to trigger local development. It also largely depends on effective cross-border governance mechanisms that act at both National and Sub-National levels to remove regulatory barriers and foster cooperation among public and private actors, while avoiding the unintended effect of providing unchecked access by private (often foreign) investors to Cambodia's natural resources. A comprehensive National policy for cross-border development could serve as a framework to guide Cambodia's participation into large regional initiatives and enable the country to extract maximum benefits from them. This would be in line with the current rethinking of the GMS program which calls for more participation of Member countries in defining the way forward and in particular a more holistic approach to cross-border development.

A strategic approach to local development by the RGC would benefit from a more deliberate, well coordinated focus on local development by Development Partners, built around the notion of 'localising the MDGs'.

In Cambodia, as it is the case in many countries, development aid tends to be territorially 'undifferentiated'. This system suffers from well-documented limits: on the one hand, it tends to disperse support through a high number of sectoral projects. On the other hand, many of these projects ignore territorial differences and the combined effects of different projects on the same target territory. There is substantial scope for increasing Development Partners' capacity to having a more strategic approach in terms of where resources are used and what impact those resources have in different places. This is the main rationale behind the recent push for 'localising the MDGs': a local, integrated approach can a) help to understand territorial asymmetries in terms of progress towards the MDGs (in other words where things are getting better and where they aren't) and b) provide precious information in terms of how to adapt policies to different places and how to exploit synergies among different sectoral interventions. This approach has been experimented with in several countries and could be successfully pursued in Cambodia. Sub-National Administrations and local plans can be used as the key loci for analysis, discussion and integration of actions towards the MDGs. This can accelerate progress and also make sure that necessarily 'top-down' objectives, such as the MDGs, get prioritized and pursued in a way that is consistent with locally determined plans. Nascent

work on **developing MDGs Provincial Scorecards** could help considerably to move in this direction as long as it can provide robust and 'usable' data sets. A smarter, 'localised' focus would require that Development Partners, not only Government, make progress in building their own capacity in terms of adopting a territorial approach to what they support as well as greater sharing of information in terms of the geographical scope of their work. To this extent, developing the existing development assistance databases to provide such information, and making it easily accessible, could help rationalize and target aid and make its coverage more transparent.

A stronger multi-level governance system and forward looking approach to local development should contribute to address two key National challenges that stand out because of their impact on local development: (1) Land use: progress is needed to resolve the land issue for both economic and social purposes.

The landless problem represents a key challenge for Cambodia and – in many areas – has a significant impact on local development. The incidence of landlessness rose from 13% of population in 1997 to an estimated 25% in 2007. Since the 1980s, 20%-30% of the land in Cambodia has been progressively concentrated into the hands of only 1% of the population. Only about 10% of the rural populations have title to their land. Since the end of multi-year war, Cambodia has adopted a series of land related laws and regulations, recognizing private ownership of land and attempting to resolve its landless problem through land concessions for social purposes. While Cambodian land laws are relatively well crafted, implementation of these laws is deficient, and often distorted. This report discusses options to advance in the following key areas: (a) Formalizing land rights through titling and registration; (b) Tilting the land concession policies to social land concessions, (c) Effectively monitoring and supervising the process of granting economic concessions; (d) Strengthening the land expropriation regime with a focus on property valuation and procedural safeguards; (e) Building capacity of an impartial and functional mechanism to adjudicate land disputes; (f) Adopt a comprehensive framework to guide eviction and resettlement processes and expedite the development of socially equitable urban development policies.

(2) Climate change: Cambodia is highly vulnerable to the impact of climate change and this impact will vary considerably from place to place and will thus require context specific actions.

As discussed in Part 1, Cambodia is highly vulnerable to climate change. This vulnerability is a function of its exposure, sensitivity and adaptive capacity and varies greatly across its territory and economic sectors. Different areas face different kinds of climate change impacts and consequently require different, contextually specific policy responses. D&D reforms provide an

opportunity to foster climate change resilience via a clear distribution of responsibilities and resources and the integration of climate change considerations into local planning and management processes. At present, there are serious shortages in the capacity of National and Sub-National Governments as well as private actors to cope with climate change. Five key areas for action can be identified: a) Clarify responsibilities and resources for CC resilience across levels of Government, before a large volume of financial resources is channelled towards climate change resilience objectives. While the National level will have a clear comparative advantage in terms of providing a framework for action, regional Governments (such as Provinces) may have a comparative advantage in terms of carrying out vulnerability assessments and providing technical assistance to lower levels of Government. Local Governments (Districts and Communes) are likely to play a prominent role in delivering climate change adaptation measures and in using their planning, regulatory and revenue raising responsibilities to foster resilience. b) Develop and provide robust and timely information on CC trends and impacts to line Ministries and Sub-National authorities. First, over the next few years, it will be key to design robust analytical tools that can provide the information that they National and SN Governments need. These tools should be able to bring together global and National level knowledge, with local level knowledge and assess CC as part of a complex system of factors that impact on local development. Second, data collection and analysis should be disseminated via effective and inclusive information and advocacy campaigns. c) Develop the capacity to plan for uncertainty and to integrate CC resilience into local planning processes. This will entail screening (or ‘proofing’) mechanisms of sectoral investments, planning across, different (often functional – not administrative) scales and according to multiple time-frames. d) Pilot climate change adaptation grants. A significant amount of resources earmarked for climate change is likely to be made available to Cambodian Sub-National Governments in the coming years. The risk is that many SNAs, especially the smallest, will be over-flooded with resources that they are not able to absorb or to handle properly. In order to avoid this, the piloting of climate change adaptation block grants seems urgent. Providing block grants to some Sub-National authorities, and monitoring the process of resource allocation based on local vulnerability assessments could help understand more deeply the role that SNAs could play in the future. This will then allow to scale up CC related grants more successfully and contribute to developing climate change resilience across Cambodia. e) Promote low-carbon emission growth and improved participation by private sector. Some key challenges need to be addressed before the potential for low-carbon development options (a key component of “green growth”) is realised. *Firstly*, energy services provision and energy demand considerations need to be integrated into local and sector development plans. Offering effective support through a variety of incentives, fostering private sector participation in energy services delivery, and linkages with production to ensure added value such as livelihood diversification, employment generation, skills development and

reduced conflict over resources; *Secondly*, facilitate new financing and market opportunities such as carbon financing for renewable energy, energy efficiency and conservation of forest carbon. *Thirdly*, promote analytical, policy and technical work to demonstrate the opportunities for low-carbon “green” growth options.

Summing up...

Part 1 of this report evidences that **individual and territorial disparities in Cambodia are stark and growing**. This represents a problem socially, politically but also in terms of creating, in the medium-long term, a constraint to growth. Part 1 also highlights that there is significant unexploited potential across Cambodia, including in the poorest Provinces. Part 2 of the report discusses the Cambodian approach to local development, which is characterized by an ambitious strategy to empower sub-National authorities but also a substantial lack of strategic direction for local development. Part 3 of the report argues that for Cambodia’s unexploited potential to contribute to more balanced, diversified and equitable development, action is needed in two areas. One, **decentralization and deconcentration reforms need to advance** in order to build an effective and efficient multi-level governance system that is more responsive and accountable to Cambodians. Two, a more deliberate **policy for local development needs to be developed**. This policy should cover the three key dimensions of rural, urban and cross-border development and could complement the NSDP and the Government’s current approach to economic development and CMDGs. It could provide the necessary vision and guidance for Sub-National planning, and to prioritize investments in rural, urban and cross-border areas. It will also provide the framework for Government action in key policy areas that have a strong local dimension such as 1) land use and 2) climate change adaptation. Stronger Sub-National governance and a sharp policy focus on local development will contribute to further rationalize DPs support across the territory and make sure that local level actions are well aligned with NSDP priorities. Evidence from around the World, as well as good practices in Cambodia, show that if these conditions are met all Cambodian Provinces can become sources of National economic growth and sustainable development.

1

TRENDS IN LOCAL DEVELOPMENT



1.1 KEY POINTS

- Strong GDP growth has lifted many Cambodians out of poverty, but individual and territorial disparities are stark and increasing. The proportion of the population living in poverty in 1993 / 94 was around 47%. By the time of the 2004 Cambodia Socio-Economic Survey this rate had fallen to 35% and the estimated proportion living in poverty in 2007 was 30%. While the poor benefited from the growth of the Cambodian economy a higher share of benefits went to the better off. Inequality of consumption measured by the Gini coefficient increased from an estimated 0.39 in 2004 to 0.43 in 2007. Cambodia's progress towards MDG 1, in terms of reduction of inequality, presents a performance of -76% against the 2015 target.
- Cambodia's growth dynamics have strong territorial dimensions. Growth was uneven between provinces and regions. Real GDP growth between 1998 and 2008 averaged 12% per year in Phnom Penh, 11% per year in the coastal zone, and 7% per year in the plains provinces. There are marked regional differences in the poverty headcount and severity indicators. The poorest province was found to be Kampong Speu, followed by Kampong Thom and Siem Reap, while the least poor provinces were found to be Phnom Penh, Kandal and the coastal provinces of Kep, Sihanoukville and Koh Kong.
- There are marked urban-rural differences in poverty levels and in the rate of reduction of poverty. The poverty headcount index for Phnom Penh fell from 11% to 1% during this period, while in other urban areas the index fell from 35% to 22%. The fall in the proportion of rural Cambodians in poverty was comparatively modest: from 43% in 1993 to 35% in 2007, and at the end of this period about 92% of all the poor, or 3.7 million persons, lived in rural areas. There are marked differences between the major geographical zones and increasing disparities within rural areas.
- Despite remarkable achievements on an aggregate level, large differences persist in terms of progress towards the MGDs and access to services such as healthcare, education, household utilities as well as financial services, despite the successful expansion of microfinance. In addition to services gaps, several rural areas are still affected by landmines. Differences in access to services and jobs fuel migration flows, which pose significant social challenges in both sending and receiving regions. During recent years migration driven by economic push and pull factors has become increasingly important and follows two main patterns: migration from rural areas to urban centres in search of paid employment and migration from the densely populated plains to the outlying provinces in search of land. Migration flows also generate opportunities linked to urbanisation, remittances and rural-urban linkages.

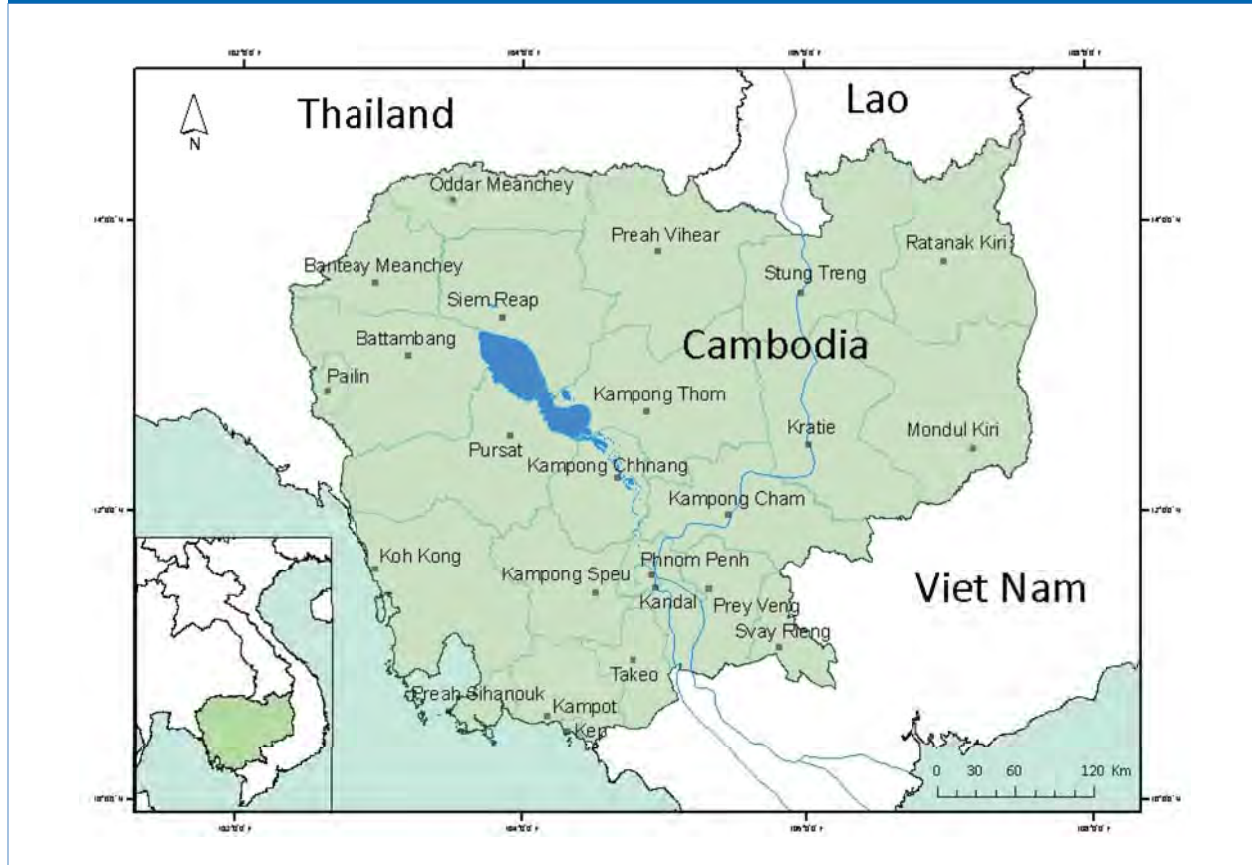
- Cambodia holds significant unexploited potential for local development. There is enormous potential for urban economies to develop but for the benefits of agglomerations to materialise sound public policy in terms of urban development and management will be a key factor. Cambodia's potential for economic diversification and development goes well beyond urban areas and is largely unexploited. Agriculture is still the backbone of the Country's rural economy and holds great potential for modernisation, but its role and performance have been declining. In 1990 agriculture accounted for about half of total GDP; by 2008 agricultural and industrial output were about equal at 27% of GDP. Agriculture is no longer the only source of revenue for rural households. Beyond agriculture there is enormous unexploited potential linked with Cambodia's great cultural and natural heritage and significant opportunities in the energy sector.
- Sustainable local development is threatened by environmental degradation and the vulnerability of large parts of the Country to climate change. Cambodia has a higher proportion of forest cover (59%) than any other country in Southeast Asia. Rapid depletion of the areas of primary forest took place during the 1990s through poorly regulated logging and from 1997 to 2002 loss of forest cover was estimated at 1% - 5% per year. This appears to have stabilised the situation although forest cover declined from 61% to 59% from 2002 to 2006. About 55% of all forests including 45% of forests in protected areas are considered to be degraded. Climate change is expected to affect Cambodia significantly with very different impacts across the territory, within Provinces and across economic sectors.

1.2 POPULATION

Cambodia enjoys a strategic geographical position in a dynamic regional economy...

Cambodia's geographical position at the centre of the Greater Mekong Sub-Region (see figure 1.1) and the dynamic economy of broader South-East Asia offers great opportunities for trade and development. Cambodia is considerably smaller in land area and population than either Thailand or Vietnam and in the past it has struggled to maintain its political independence and unique cultural identity. A long period of internal conflict from the 1970s and ending only in the mid-1990s left Cambodia economically under-developed in comparison with its neighbours, particularly Thailand. Since the restoration of peace, with an open economy and relative political stability Cambodia has enjoyed strong economic growth.

Figure 1.1: Cambodia: a strategic position



Source: UNCDF 2010

The average GDP growth rate in the last fifteen years was about 8.4%, with double-digit growth from 2004 to 2007. However the economic downturn of 2008-2009 has posed new challenges as the Country's major driving sectors (especially garment and tourism) have been severely affected⁸.

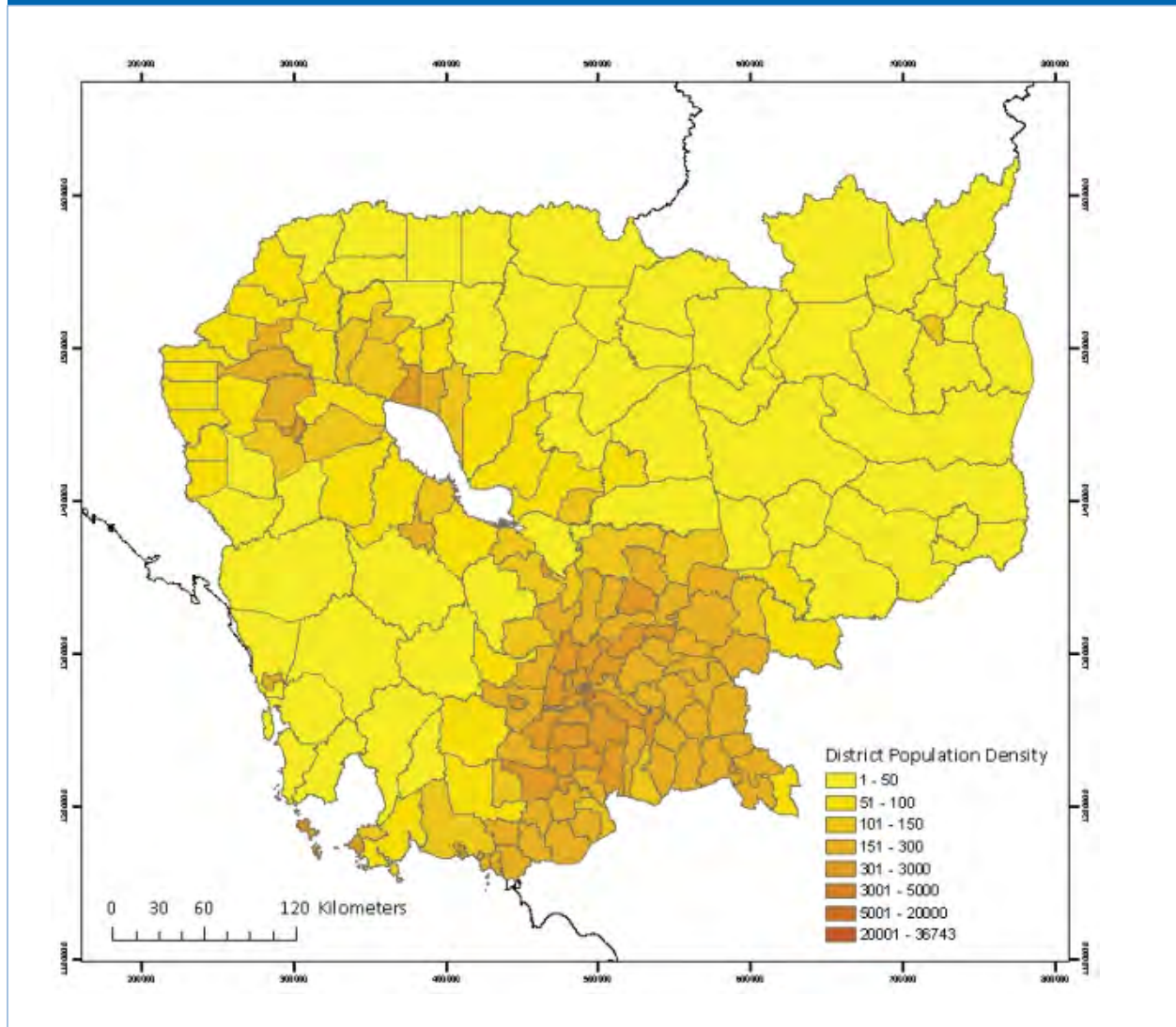
...and is a land rich country with a young, growing, mostly rural population

In 2009 Cambodia has about 13.5 million citizens⁹ with an overall population density of about 75 persons per square kilometre, making it one of the least densely populated nations of South-East Asia (see figure 1.2).

⁸ See 'The Global Economic Downturn: Opportunity or Crisis' (UNCT, 2009).

⁹ Extrapolating from NIS 2008: Provisional Population Totals

Figure 1.2: District population density



Source: UNCDF 2010

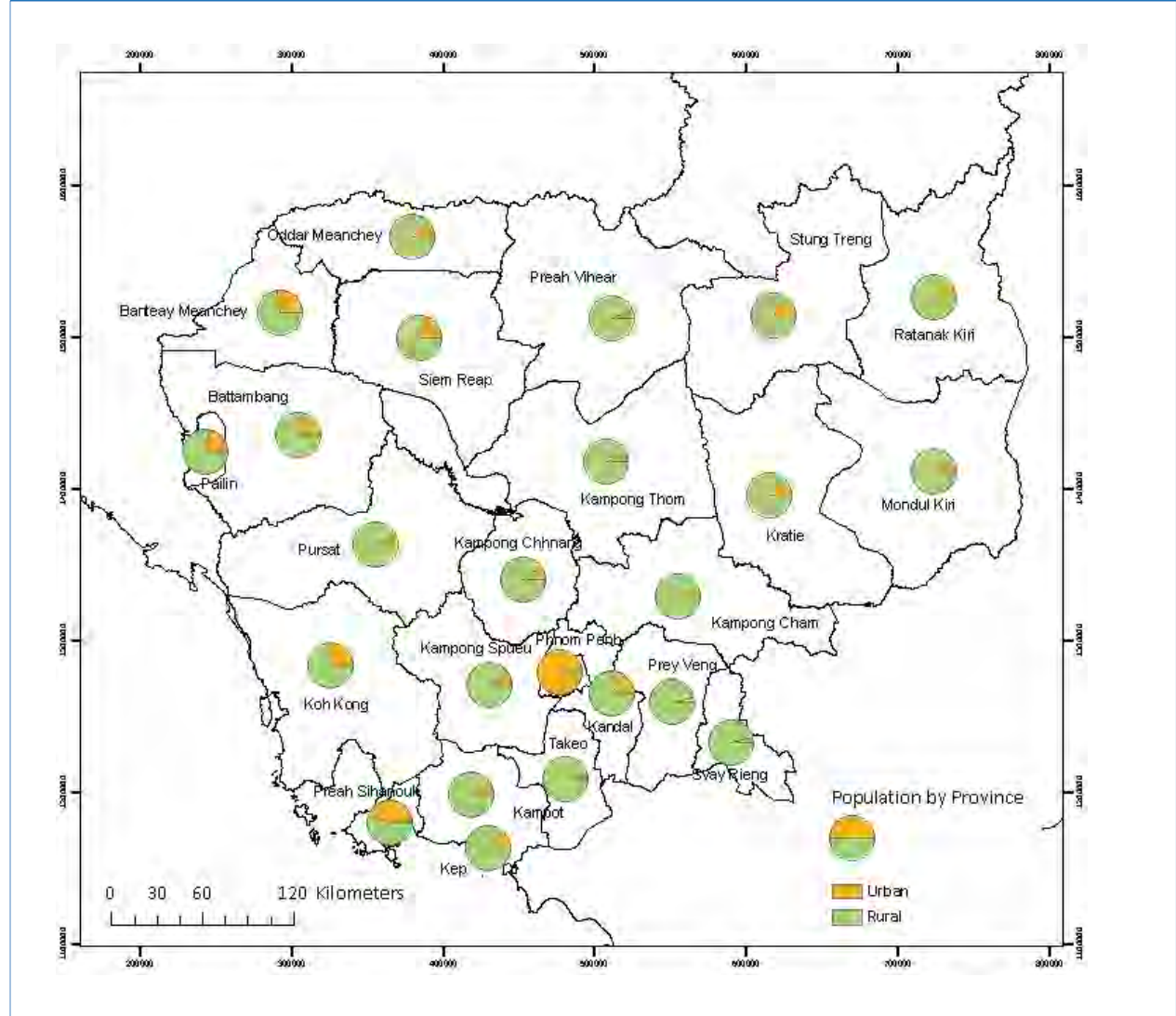
According to the official definition - which is used in this Part - (and which **may largely overestimate rural population**¹⁰ - see Part 2 and 3 of this report for more discussion on this important aspect) about 80% of Cambodians live in rural areas, 9% live in urban areas¹² of Phnom Penh with urban areas outside the Capital accounting for only 10% of the population. Cambodia's population is ethnically and linguistically homogenous, with about 90% of the population being Khmer-speaking Buddhists¹¹. Indigenous ethnic minority groups

¹⁰ Applying the (internationally accepted) OECD definition of 'rural' to Cambodia gives strikingly different results than those obtained with the NIS definition: 48% of the Cambodian population would be considered as living in predominantly urban regions. This is close to the average for OECD countries.

¹¹ See NIS 2004: *Reclassification of Urban Areas in Cambodia for definition of urban / rural areas*

live mainly in the upland regions, while there are substantial Islamic Cham minorities in the Tonle Sap and plains provinces and significant ethnic Chinese and Vietnamese concentration in urban centres¹². **Cambodia's population expanded by 17% between the 1998 census and the 2008 census**, an overall rate of increase of 1.6% per year¹³. In 1998, 50% of the Cambodian population was below 18 years old, while the equivalent figure was 22 years old in 2008. The ratio of men to women rose from 0.93 in 1998 to 0.95 in 2008, representing a continuing correction of an imbalance originating in the war years of the 1970s (see table 1.1 and figure 1.3).

Figure 1.3: Urban and rural population by provinces



Source: UNCDF, 2010. Data from 2008 census

12 NIS 2008 Statistical Yearbook

13 About 60% of all Chinese Cambodians are believed to live in Phnom Penh, which also has the largest Vietnamese community. There are Vietnamese fishing communities on the Tonle Sap river and lake.

Table 1.1: Cambodian provinces and weight of rural vs. urban population

Province	Communes		% Rural Population
	Urban	Rural	
Phnom Penh	66	10	6%
Plains Region			
Kampong Cham	7	166	93%
Kandal	12	135	84%
Prey Veng	4	112	97%
Svay Rieng	3	77	96%
Takeo	1	99	98%
Total for Plains	27	589	93%
Tonle Sap Region			
Banteay Meanchey	4	60	73%
Battambang	8	88	82%
Kampong Chhnang	5	64	91%
Kampong Thom	4	77	95%
Pursat	3	46	94%
Siem Reap	5	95	81%
Otdar Meanchey	1	23	90%
Pailin	0	8	78%
Total for Tonle Sap	30	461	85%
Upland Region			
Kampong Speu	2	85	92%
Kracheh	4	42	89%
Mondul Kiri	0	21	92%
Preah Vihear	2	47	94%
Ratanak Kiri	1	48	87%
Stung Treng	1	33	86%

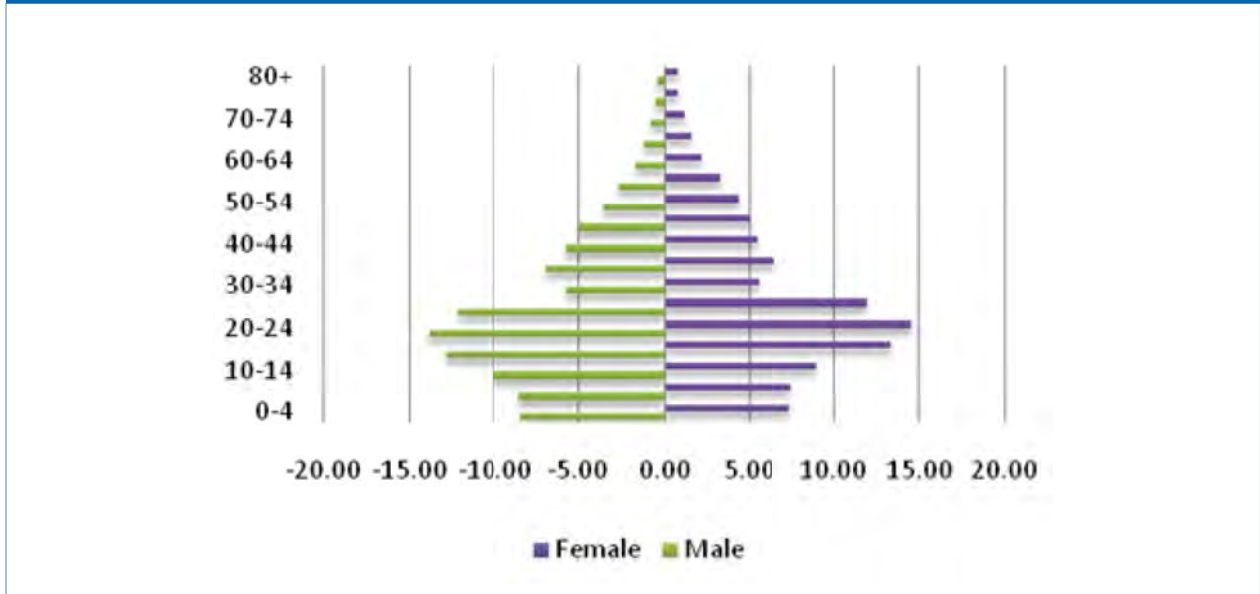
Total for Uplands	10	276	91%
Coastal Region			
Kamport	3	89	92%
koh Kong	2	27	74%
Preah Shihanouk	4	22	55%
Kep	0	5	87%
Total for Coast	9	143	81%
National Totals	142	1479	80%

Source: NIS 2008 census

Cambodia experienced a major baby boom in the post-war period, with this generation having begun to enter the labour market around 1997. **For each year from 2009 until 2013 about 300,000 Cambodians will reach 15 years of age and begin seeking employment.**

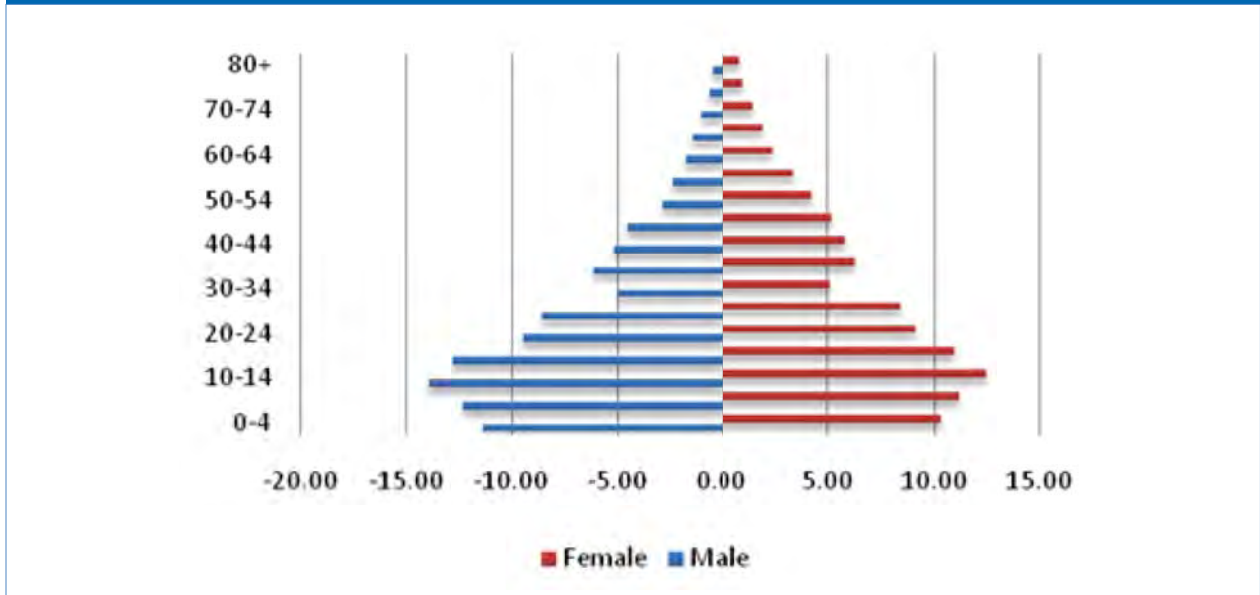
The demographic consequences of the war years and the subsequent baby boom are illustrated dramatically in the population pyramids. Most of the population growth in the decade to 2008 occurred in the upland provinces and in Phnom Penh. The share of population living in the plains fell from 43% in 1998 to 39% in 2008. Within provinces, urban districts seem to be growing fastest. However, both the level and the pace of urbanisation remain low compared to other countries within the region. The urban population is younger, better educated and more female. Fifty percent of the urban population is under 24 years of age while the equivalent figure for rural areas is 26 years. There are 0.88 males for each female in urban areas of Phnom Penh but equal numbers of men and women in urban areas of upland provinces. The urban-rural difference in sex ratios is strongest in the 15-24 age range, indicating that differential migration patterns of young men and young women may be the cause (see Figure 1.4a and 1.4b). Seventy-two percent of the population of Phnom Penh has completed primary education, compared with 50% in other urban areas and only 37% in rural areas. Seventy-five percent of Cambodia's graduates live in Phnom Penh.

Figure 1.4a: Ratio of females to males in urban areas



Source: Compiled from NIS 2008 Census

Figure 1.4b: Ratio of females to males in rural areas



Source: Compiled from NIS 2008 Census

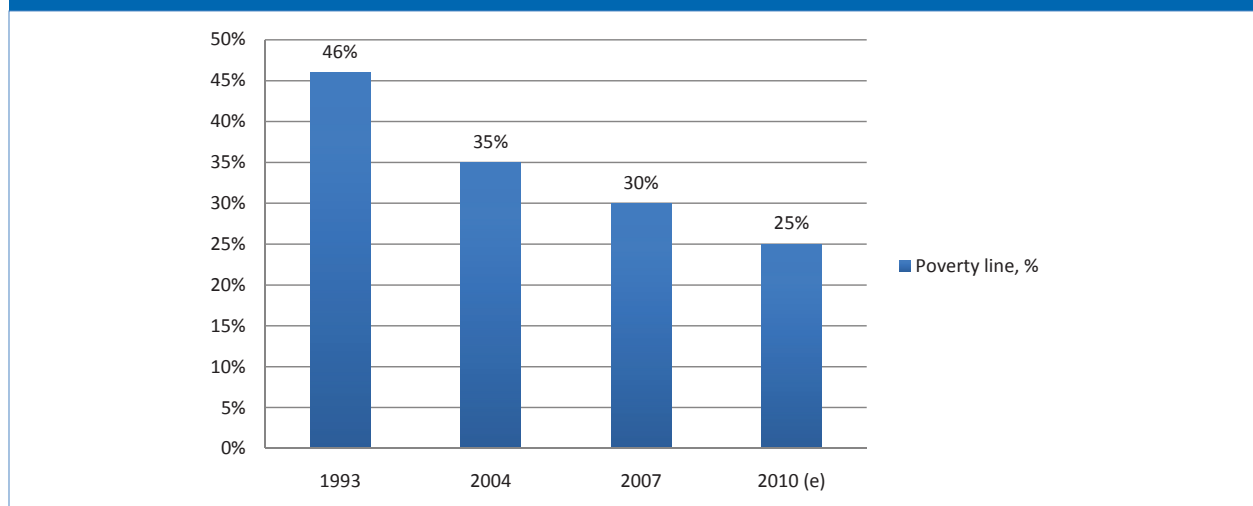
1.3 SOCIOECONOMIC TRENDS

Strong GDP growth has lifted many Cambodians out of poverty...

Cambodia achieved rapid growth in GDP in the decade to 2008, with growth in double figures each year from 2005 to 2007¹⁴. The major drivers of economic growth in Cambodia during the decade to 2008 were the garment industry (which alone accounted for 22% of total growth), tourism and construction. During this period household consumption increased by about 21%¹⁵. The effects of this achievement are seen in reduced proportion and absolute numbers of the population living below the poverty line in all regions, and in improvements in important indicators of social well-being and service delivery.

The best available estimate of the poverty headcount index – the proportion of the population living in poverty – for the year of the earliest modern survey in 1993 / 94 is around 47%¹⁶. By the time of the 2004 Cambodia Socio-Economic Survey this rate had fallen to 35% and the estimated proportion living in poverty in 2007 was 30%. The absolute number of Cambodians living in poverty was about 4.7 million in 1993, 4.5 million in 2004 and just under 4 million in 2007. During the same period, Cambodia also reduced the depth and severity of poverty¹⁷. (See figure 1.5).

Figure 1.5: The proportion of Cambodians living in poverty fell steadily from 1993 to 2007, and it is expected to fall further



Source: World Bank Estimated 2004 and 2007 and RGC forecasts for 2010 (e)

14 NIS Statistical Yearbook 2008

15 World Bank 2009: Poverty profile and trends 2007

16 World Bank 2006: Cambodia: Halving Poverty by 2015?

17 Cambodia's poor enjoy a higher standard of living and own more assets than previously. Among households in the bottom 20% of the population (measured by consumption per head) per capita daily consumption (at constant 2004 prices) increased from 1378 riels to 1524 riels between 2004-2007. Ten percent of these households owned motorcycles and 27% owned televisions in 2004; by 2007 these figures were 15% and 40% (World Bank 2009: Poverty profile and trends 2007).

However the food poverty headcount index (% of the population living below the food poverty line) fell less than the total poverty headcount, with the best available estimates of this index being over 20% in 1993/94, 20% in 2004 and 18% in 2007¹⁸.

...but individual and territorial disparities are stark and increasing...

While the poor benefited from the growth of the Cambodian economy a higher share of benefits went to the better off. Inequality of consumption measured by the Gini coefficient increased from an estimated 0.39 in 2004 to 0.43 in 2007¹⁹ (see table 1.2).

¹⁸ There was rapid food price inflation during the period 2004 to 2007 and this problem has since eased, so it may be that the fall in food poverty will begin to catch up with progress on the overall poverty indicator.

¹⁹ World Bank, *op. cit.* The increase is not statistically significant at the 10% confidence level.

Table 1.2: Poverty Estimate: A cross-country comparison

	Headcount Index (%)		Gini Coefficient			
	Consumption PPP	Poverty PPP	PS PPP	1993	Latest Year	
		ICP PPP				
Cambodia	35.4	36.2	36.9	0.318	0.43	2007
Indonesia	39.2	38.7	24.1	0.344	0.400	2005
Lao	48.8	52.5	53.6	0.304*	0.347	2002
Philippines	27.0	24.1	39.5	0.429**	0.441	2006
Vietnam	25.6	24.2	16.0	0.349	0.371	2004

Note: ICP= International Comparison Program, PPP= Purchasing Power Parities, PS= Poverty Survey
* Figure in 1992
** Figure in 1994

Source: Key indicators 2008, ADB

Even though inequality levels and trends are difficult to assess²⁰, this is widely considered to be a high level of inequality, even for an economy at Cambodia's current state of development and in comparison with its regional neighbours²¹. Analysis of Cambodia's progress towards MDG 1, in terms of reduction of inequality, presents a performance of -76% against the 2015 target²² (see table 1.3).

Table 1.3: CMDG Target 1: Remarkable progress, but not in terms of reducing inequality

Indicator	Benchmark		Most Recent		Target 2015	Progress
	Value	Year	Value	Year		
Proportion of people whose income is less than the national poverty line	47%	1993	30.10%	2007	19.50%	61%
Share of the poorest quintile in national consumption	8.50%	1993	6.60%	2007	11%	-76%

Source: UNCDF Background Paper on MDGs

There is cause for concern that in conjunction with weak governance increasing inequality in society may lead to the poor being increasingly shut out of opportunities to benefit from overall economic progress. **Cambodia's unequal growth dynamics have also strong territorial dimensions.** Growth was very uneven between provinces and regions. Real GDP growth between 1998 and 2008 averaged 12% per year in Phnom Penh and 11% per year in the coastal zone, but a more modest 7% per year in the plains provinces (see table 1.4).

20 For instance, during 2008 inequality most likely decreased in Cambodia given the effect of the rising food prices which have tended to affect 'richer' consumers and benefited poor farmers.

21 See World Bank 2009.

22 This refers to indicator 1.2 (share of poorest quintile in national consumption). UNCDF Background Paper on MDGs

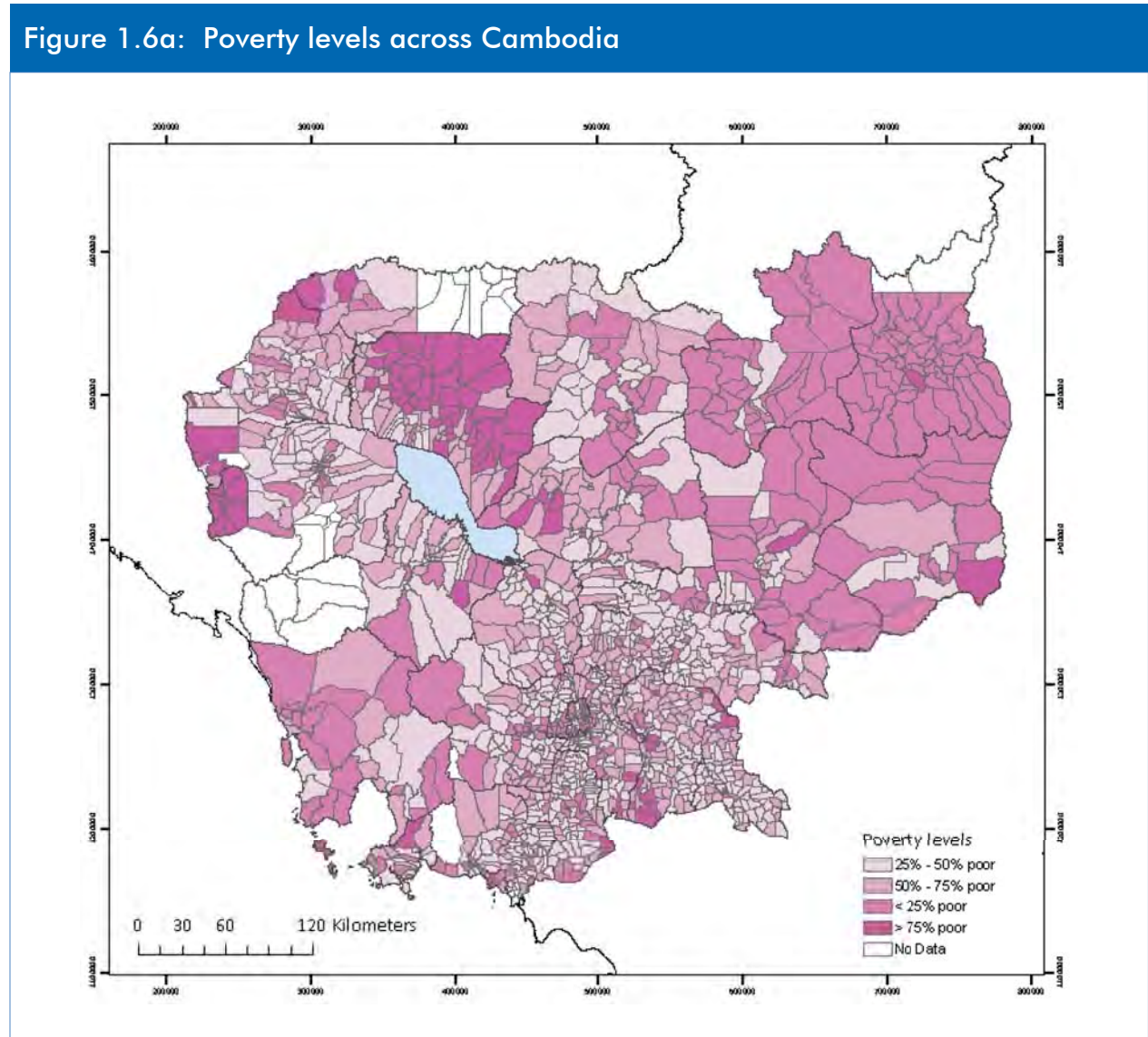
Table 1.4: Sectoral growth by province from 1998 to 2008

Province	% of each sector in provincial growth			Contribution of each province to growth in each sector		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Banteay Meanchey	31%	8%	61%	8%	1%	5%
Battambang	54%	7%	39%	28%	2%	6%
Kampong Cham	24%	11%	65%	12%	2%	10%
Kampong Chhnang	33%	14%	53%	6%	1%	3%
Kampong Speu	13%	20%	67%	2%	2%	4%
Kampong Thom	22%	12%	66%	4%	1%	4%
Kampot	-22%	24%	98%	-3%	1%	3%
Kandal	0%	63%	37%	0%	17%	7%
Koh Kong	49%	6%	45%	4%	0%	1%
Kratie	11%	19%	70%	1%	1%	2%
Mondul Kiri	35%	10%	54%	1%	0%	0%
Phnom Penh	0%	64%	36%	0%	63%	25%
Preah Vihear	20%	10%	70%	1%	0%	1%
Prey Veng	34%	9%	57%	11%	1%	6%
Pursat	23%	10%	67%	3%	1%	2%

Province	% of each sector in provincial growth			Contribution of each province to growth in each sector		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Rattanakiri	16%	12%	72%	0%	0%	1%
Siem Reap	14%	7%	78%	5%	1%	8%
Sihanoukville	-36%	71%	65%	-5%	4%	3%
Stung Treng	-13%	14%	99%	0%	0%	1%
Svay Rieng	30%	9%	61%	5%	1%	3%
Takeo	28%	10%	62%	7%	1%	5%
Oddar Meanchey	49%	5%	46%	3%	0%	1%
Kep	15%	10%	76%	0%	0%	0%
Pailin	88%	1%	11%	7%	0%	0%

Source: Compiled from EIC data 1998 – 2008

There are marked regional differences in the poverty headcount and severity indicators²³. The poorest province was found to be Kampong Speu, followed by Kampong Thom and Siem Reap, while the least poor provinces were found to be Phnom Penh, Kandal and the coastal provinces of Kep, Sihanoukville and Koh Kong (see figure 1.6a and 1.6b).



Source: UNCDF 2010

²³ Detailed estimates of poverty levels by province were calculated based on the 2004 Cambodia Socio-Economic Survey. Although the absolute levels of poverty have fallen since that survey it is unlikely that the relative positions of the provinces have changed significantly.

Figure 1.6b: Poverty levels within Siem Reap and Svay Rieng provinces



Source: UNCDF 2010

Poverty trends across Cambodian regions are related to GDP growth, but with some anomalies. Kep, Banteay Meanchey and Takeo having below-average levels of poverty despite low GDP per head, while Monduliri, Pailin, Stung Treng and Siem Reap have above-average levels of both poverty and GDP per head. These data indicates the need to use multi-dimensional measurements of inequality²⁴: GDP is based on activities – tourism in the case of Siem Reap, largely natural resource exploitation in the cases of Monduliri and Stung Treng – that do not necessarily spread wealth broadly amongst the population.

²⁴ See for instance 'Multidimensional Measures of Poverty & Well-being', Sabina Alkire, Moizza Binat Sarwar, Oxford Poverty & Human Development Initiative (OPHI), Oxford Dept of International Development, Queen Elizabeth House, University of Oxford, United Kingdom (2009).

...and characterised by a marked rural-urban divide.

There are marked urban-rural differences in poverty levels and in the rate of reduction of poverty. In 1993 about 3% of all those living below the poverty line were in Phnom Penh; the estimated figures for 2004 and 2007 were 1.3% and 0.3% respectively, implying the total number of persons living below the poverty line in Phnom Penh in 2007 to have been about 11,000²⁵. It is likely that these figures underestimate the true number of urban poor as CSES is a household survey, and many urban poor are either homeless or living in informal accommodation. The poverty headcount index for Phnom Penh fell from 11% to 1% during this period, while in other urban areas the index fell from 35% to 22%. The fall in the proportion of rural Cambodians in poverty was comparatively modest: from 43% in 1993 to 35% in 2007, and at the end of this period about 92% of all the poor, or 3.7 million persons, lived in rural areas. There are marked differences between the major geographical zones, as shown in Table 1.5 and increasing disparities within rural areas (see table 1.5).

Table 1.5: Poverty by macro region

Zone	Poverty headcount index			# of persons in poverty		
	Urban	Rural	Total	Urban	Rural	Total
Phnom Penh	1%	9%	5%	12,388	6,037	18,425
Plains	14%	33%	32%	47,848	1,556,799	1,604,647
Tonle Sap	28%	45%	43%	166,267	1,535,666	1,701,933
Coast	20%	30%	27%	34,634	223,111	257,745
Plateau / Mountain	36%	56%	52%	48,054	702,573	750,627
Cambodia	18%	38%	35%	309,191	4,024,185	4,333,376

Source: WB Poverty Estimate 2004

The highest concentrations of poor as a percentage of population are to be found in the rural areas of the upland and Tonle Sap provinces, while the lowest concentrations are in the urban areas of the plains and in Phnom Penh. Of the total of about 3.9 million poor persons in Cambodia in 2007, about 1.4 million each lived in rural areas of the plains and the Tonle Sap provinces, while about 700,000 poor persons lived in the upland provinces. Overall about 76% of the poor live in the plains and Tonle Sap regions.

²⁵ World Bank 2009: Poverty profile and trends 2007

1.4 ACCESS TO SERVICES

Despite remarkable achievements on an aggregate level, large differences persist in terms of access to services, such as healthcare and education...

Individual and territorial inequality is not just, and not necessarily, a matter of differences in income or consumption. As pointed out above, it is important to consider other indicators of well-being. Overall, Cambodia has achieved remarkable results in terms of service delivery to its population, however the patterns of disparities in terms of access and quality of services are complex and significant. In terms of health and education, Cambodia's progress towards the CMDGs varies greatly from place to place (see table 1.6 and 1.7).

Indicator	Benchmark		Most Recent		Target 2015	Progress
	Value	Year	Value	Year		
Under five mortality rate per 1000 live births	124	1998	83	2005	65	69%
Infant mortality rate per 1000 live births	95	1998	66	2005	50	64%

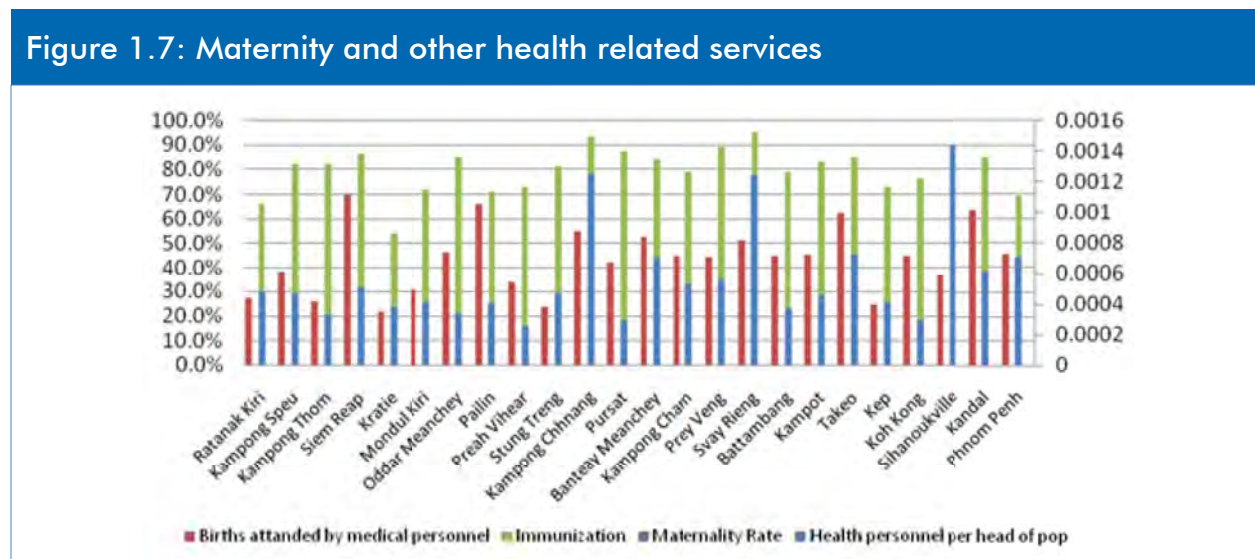
Source: UNCDF Background Paper on MDGs

Indicator	Benchmark		Most Recent		Target 2015	Progress
	Value	Year	Value	Year		
Net enrolment in primary school	87%	2001	94.4%	2008/9	100%	57%
Net enrolment in lower secondary school	19%	2001	33.9%	2008/9	100%	18%

Source: UNCDF Background Paper on MDGs

Where a child is born determines the healthcare it receives. For instance, about one expectant mother in three receives ante-natal care from trained medical personnel in the upland provinces while in Phnom Penh the ratio is about 85%. The average urban citizen lives within 1.7 km of a health centre, while the equivalent rural average is 4.7 km. There are strong regional disparities in outcomes: the under-five mortality rate is about half the

national average in Phnom Penh. The worst performing provinces with under-five mortality more than two times the national average include the upland provinces of Kampong Speu, Preah Vihear, Stung Treng, Ratanakiri and Mondulakiri but also the plains province of Prey Veng²⁶ (see figure 1.7).



Source: Report 2008 and Health Coverage Plan 2004-2005 of MoH, and Population Estimates from EIC Data

In terms of CMDG 6, rates of infection with key infectious diseases (malaria, tuberculosis and dengue fever) also vary substantially from Province to Province. Disparities are stark also in terms of access and quality of education (see table 1.8).

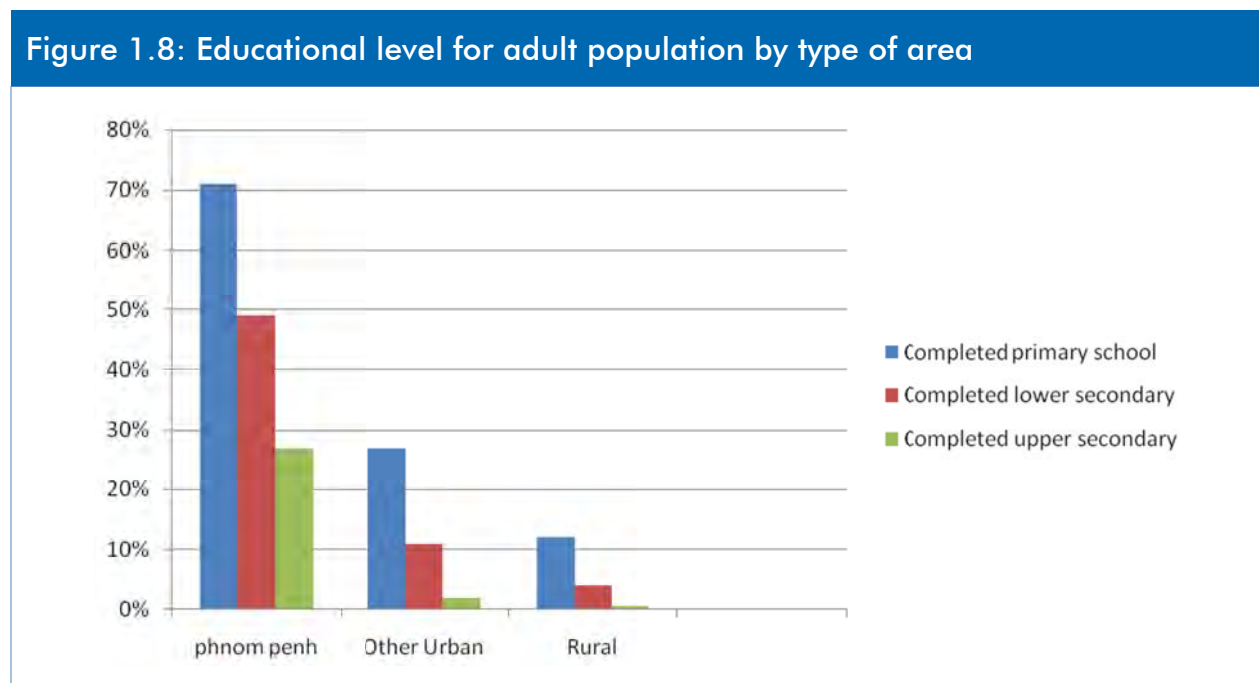
Table 1.8: School enrolment by type of area

Net Attendance Ratio, 2005: Primary School Poverty Headcount index of persons in poverty				
	Male	Female	Both Sex	Gender Parity Index
Urban	76.9	79.5	78.0	0.97
Rural	76.3	78	77.1	0.96
Net Attendance Ratio, 2005: Secondary School				
	Male	Female	Both Sex	Gender Parity Index
Urban	47.0	43.3	45.0	0.78
Rural	27.0	23.3	25.2	0.75

Source: NIS Statistical Yearbook, 2008

26 Cambodia Demographic Health Survey 2005 reported in UNCDF Background Paper on MDGs

In Phnom Penh 72% of the population has completed primary school and 27% has completed nine years basic education which is the Millennium Development Goal indicator. In other urban areas less than half the population has completed primary school and in rural areas only 37%. Cambodia has achieved near-universal enrolment of primary age children in school and net attendance ratio for the primary age group is similar in urban and rural areas (77%). However there are marked regional differences with only about 60% of the age group attending primary school in the coast and upland regions (see figure 1.8).

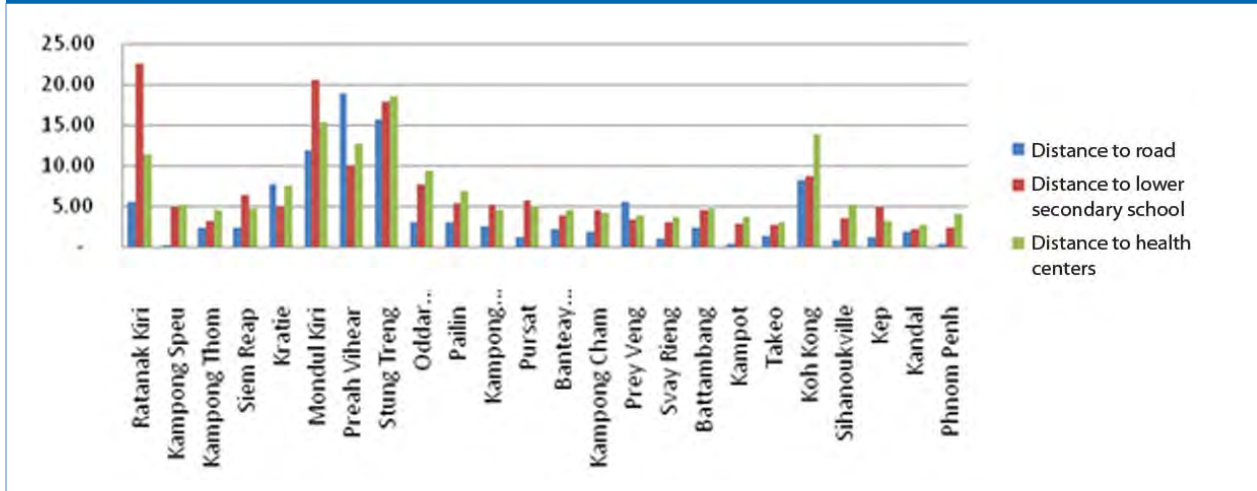


Source: Statistical Year Book 2008

Drop out and repetition rates are also major concerns. Slightly more boys than girls are in primary school but the difference is more pronounced in the upland provinces. Almost all parts of Cambodia are served by primary schools within walking distance of the village: the average distance from village of residence to primary school (weighted by village population) is less than 1 km in all regions except the uplands and only 1.6 km in the uplands. However distances to secondary schools show much more variation with most inhabitants of rural areas of upland provinces living beyond easy reach of a lower secondary school, and average distances to upper secondary schools being 8 km or more in rural areas of all regions outside Phnom Penh²⁷ (see figure 1.9).

27 Source: Commune Database, 2007 data.

Figure 1.9: Average distance from services

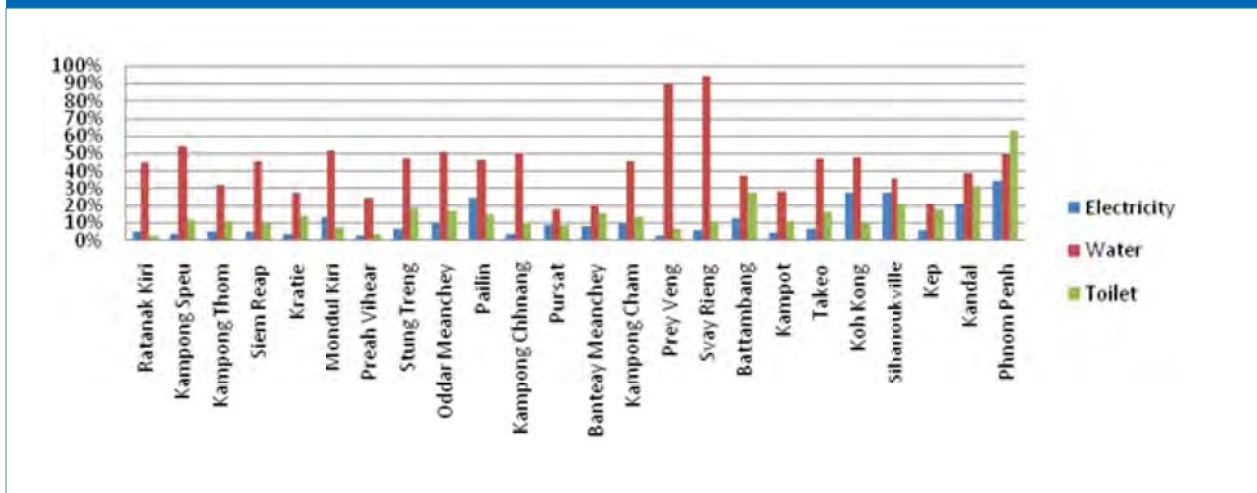


Source: CDB 2007

... public infrastructure and household utilities...

Provision of household services varies greatly from place to place and between urban and rural areas. Few households outside urban areas of Phnom Penh have access to garbage collection. The majority of urban dwellers in all regions reportedly have access to safe water supplies, electricity and toilets, although the proportion for all three indicators fall below two-thirds in the upland provinces. Less than 10% of all rural dwellers have electricity and only about 15% have toilets, while access to safe water supplies is reported as 48% overall (figure 1.10).

Figure 1.10: Rural dwellers in poor provinces have the lowest access to household services



Source: CDB 2007

Public investment in road infrastructure is heavily concentrated in urban areas²⁸.

The average rural inhabitant has less than 10 m of paved road per square kilometre and only about 300m of unpaved road²⁹. Average reported distance from a rural village to an all weather road is 2 km in the plains and Tonle Sap provinces, 3 km in the coast provinces and 5 km in the uplands. Most inhabitants of rural areas of the Tonle Sap, coast and upland provinces live 10 km or more from the nearest market. Comparisons between provinces mask sometimes equally large variations within provinces. To offer an example, Table 1.9 compares the variability (average vs. worst provision) of infrastructure and household services between provinces and between the districts within Siem Reap province (all values are averages weighted by population for rural areas only, see table 1.9).

Table 1.9: Provision of services varies as much within as between provinces

Rural Areas in all Provinces				
	Average	Worst	Value	Ratio
Distance to Health Centers (km)	4.66	Stung Treng	18.5	4.0
Distance to Road (km)	2.6	Preah Vihear	18.8	7.2
% with water	48%	Pursat	18%	2.7
% with sanitation	15%	Ratanakiri	3%	5.1
Rural Areas in Districts of Siem Reap Province				
Distance to Health Centers (km)	4.7	Svay Leu	12.2	2.6
Distance to Road (km)	2.3	Srei Snam	6.6	2.9
% with water	46%	Svay Leu	10%	4.6
% with sanitation	10%	Angkor Thom	2%	4.3

Source: UNCDF 2010

...as well as financial services, despite the successful expansion of microfinance.

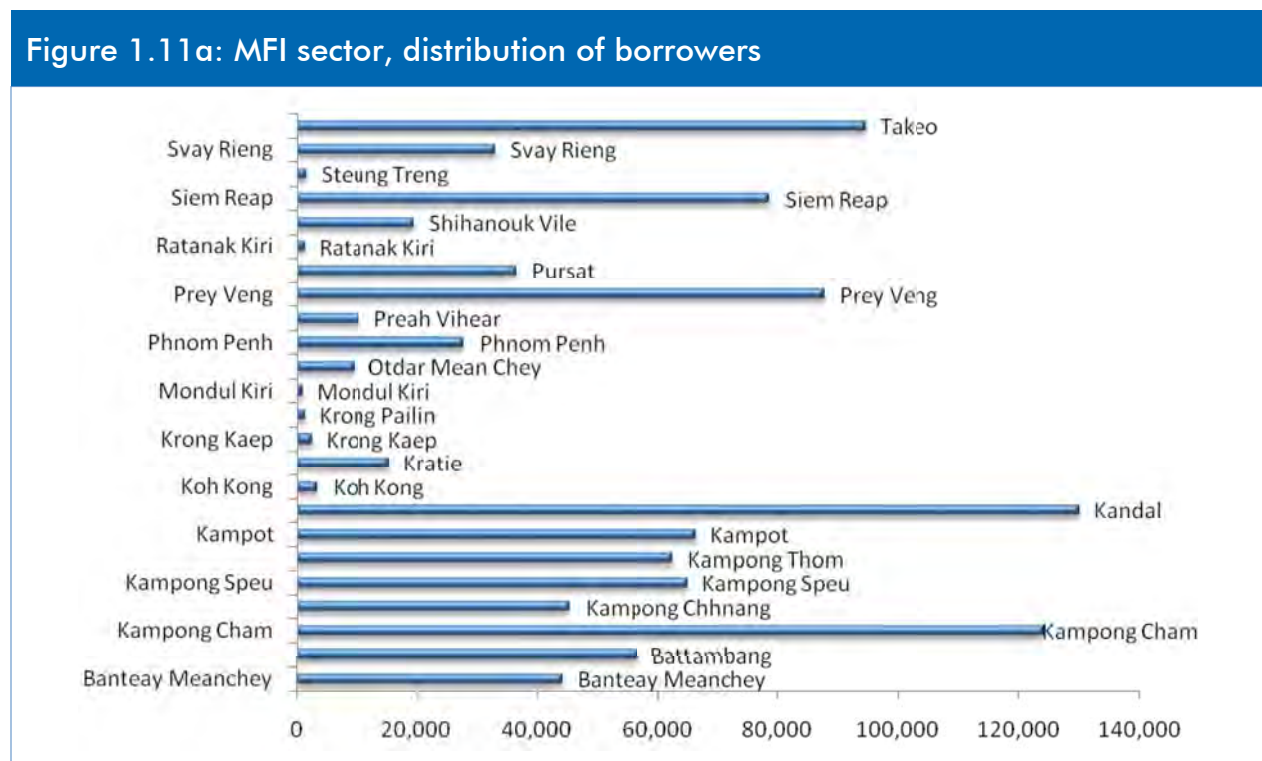
The banking sector expanded rapidly in the last decade³⁰ but credit markets remain under-developed in Cambodia. Banks maintain high liquidity with loans to customers representing only about half of assets. In 2007 domestic credit provided by the banking sector was around 10% of GDP, the lowest rate in Southeast Asia except for Laos. Credit is

²⁸ The average inhabitant of Phnom Penh lives in a commune with 3.6 km of paved roads and 2 km of unpaved roads per square kilometre.

²⁹ Source: Commune Database.

³⁰ Deposits held by banks in 2007 were almost 6 times the level of 2000 (USD 2.25 billion) but this represents only about 30% of GDP.

mostly short-term and bank lending interest rates are higher than those of other Southeast Asian countries with the exceptions of Laos and Myanmar³¹. In sharp contrast, and also thanks to a sound regulatory framework (see Part 3), the microfinance industry has sustained a continuous expansion of its service delivery infrastructure throughout the country. As of September 2009, the Cambodian microfinance industry is comprised of one commercial bank (ACLEDA), two newly licensed Microfinance Deposit Taking Institutions (MDIs), 16 licensed Microfinance Institutions (MFIs), and 26 registered rural credit operators³². Collectively, in September 2009, the industry had 593 offices in the country, covering all provinces. Only 44 of those offices were in Phnom Penh. The combined credit portfolio of the industry grew by 55% and 65% respectively in 2007 and 2008, but growth slowed significantly through September 2009 to 5%. A total of 1,080,000 credit clients held a combined portfolio of KHR 1.87 trillion (USD 448 million) and 697,000 savers held KHR 2.8 trillion (USD 661 million) on account. In total, the industry was reaching over 1 million households, affecting roughly 4.8 million people or 36% of the population³³, in almost all of the country's 14,073 villages³⁴. The distribution of both credit and savings services is widespread, generally aligned with the geographic spread of the population (see figures 1.11a and 1.11b).



Source: UNCDF elaboration from www.mftransparency.org

31 ADB Key indicators 2008

32 In addition there are an estimated 60 unregistered non-profit organizations or development projects that provide some kind of credit services on a very small scale.

33 Annual Report 2008. Cambodian Microfinance Association.

34 General Population Census of Cambodia 2008. National Institute of Statistics, Ministry of Planning. Kingdom of Cambodia

Figure 1.11b: MFI sector, distribution of depositors



Source: UNCDF elaboration from www.mftransparency.org

With the exception of ACLEDA, however, the MFI/MDI service providers have focussed almost exclusively on delivering credit services. The microfinance industry is led by ACLEDA, whose assets and branch structure are larger than the rest of the service providers combined. Likewise, the five largest MFI/MDIs account for 71% of that sector’s total portfolio and clients. These institutions are financially strong and have a long track record of financial performance and portfolio quality. The main limitation of the sector derives from the reliance on foreign debt and its fragmentation in relatively small-sized institutions. Both conditions have contributed to a cost structure that has kept interest rates from declining in the past five years, and retarded the development of non-credit services. Very importantly, the international liquidity crisis that began in late 2008 resulted in a scarcity of funding which limited growth to about 5% in 2009. The microfinance service providers extend credit with a range of instruments, including loans secured with land titles, “soft” titles³⁵, and solidarity group guarantees. Most of the credit supply is concentrated in loans that are less than KHR1 million (USD 240), an indication of the service providers’ focus on the lower end of the market³⁶. They do not, however, satisfy the entire demand for credit.

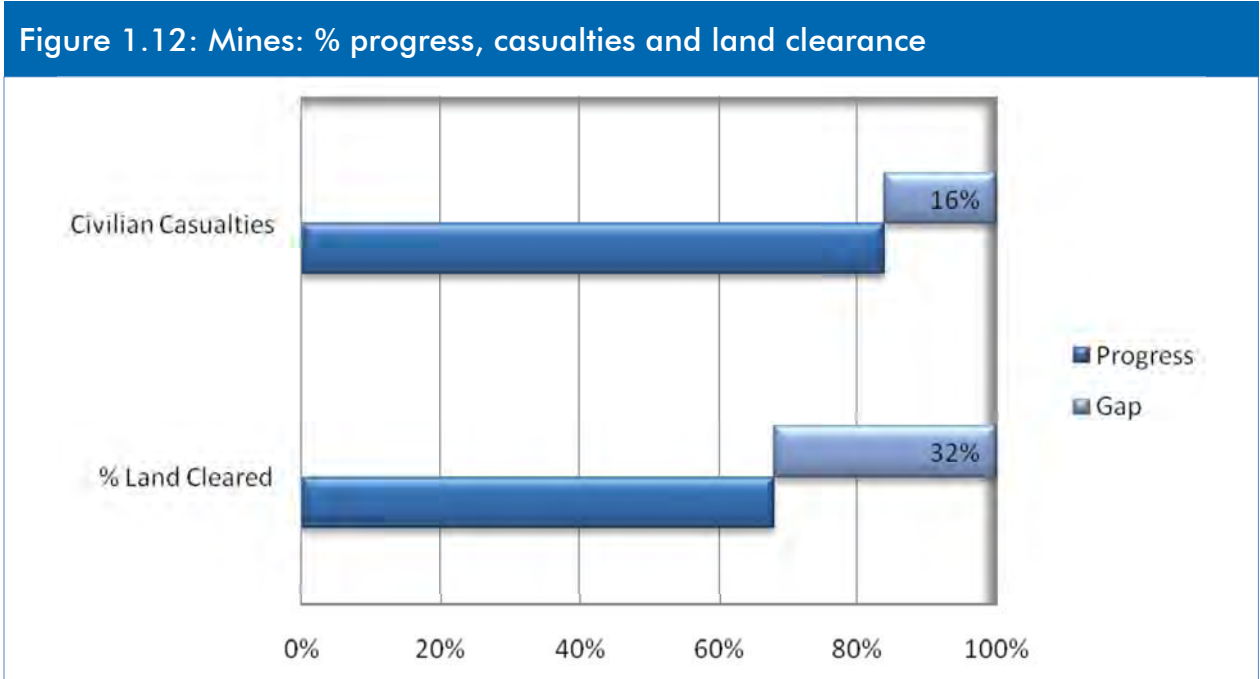
35 This is the cooperation of the village chief in verifying land ownership and enforcing contract compliance.

36 What is peculiar about the Cambodia market, and positive for small borrowers, is that the interest rates are not substantially higher for small loans. The range of interest rates in Cambodia is tightly clustered compared to other countries. While the relatively low average loan size is indicative of the service providers’ commitment to the low income population, it also reflects a gap in services available to the small business sector. ACLEDA is a notable exception, and has over 64,000 loans to small (average loans size of USD 2,046) and medium (average USD20,500) businesses.

A 2004/5³⁷ survey showed that while populations at all income levels had similar access to formal credit sources, only 23% of their borrowing originated from that source; the rest was obtained from friends and family, and from money lenders and commodity middlemen at much higher rates. Access to MFI/MDI loans increased almost seven times since that period. Nevertheless, a large portion of the rural population cannot demonstrate capacity to repay or provide the necessary collateral for a formal loan. There is also strong evidence that lack of clear-cut land titles is a major disincentive to invest in farm improvements³⁸ and that given title to their land, even the poorest farmers show increased willingness to invest.

In addition to services gaps, several rural areas are still affected by landmines.

The wars of the past are still killing Cambodians, despite rapid progress in recent years towards the achievement of CMDG 9 (see figure 1.12)³⁹.



Source: UNCDF Background Paper on MDGs

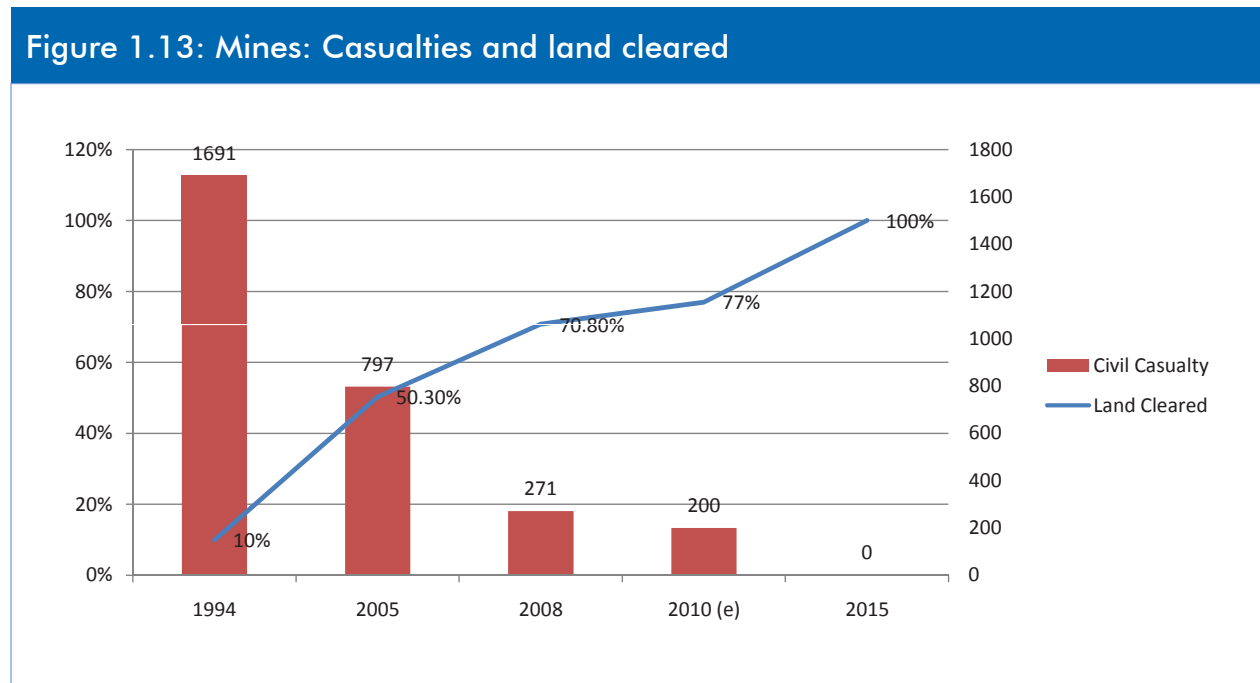
Cambodia remains among the three countries worldwide most affected by landmines in terms of numbers of casualties. Most landmine casualties occur in North-western provinces. Unexploded ordnance (UXO) remains a problem over considerable areas in the east of the country and casualties continue to occur from both sources. Most accidents occur in rice

37 CDRI 2007 Moving Out of Poverty?

38 World Bank 2007. Sharing Growth: Equity and Development in Cambodia Fig 4.4

39 See UNDP 2009.

fields, orchards, plantations and foraging areas or when heavily loaded vehicles trigger anti-vehicle mines. The highest rates of casualties occurred during the 1990s as populations returned to areas previously affected by fighting. In 1996 there were 4,320 casualties. The number recorded in 2009 was 241 with an increasingly high proportion of these being due to UXO mainly because of people tampering (see figure 1.13).



Source: UNCDF Background Paper on MDGs

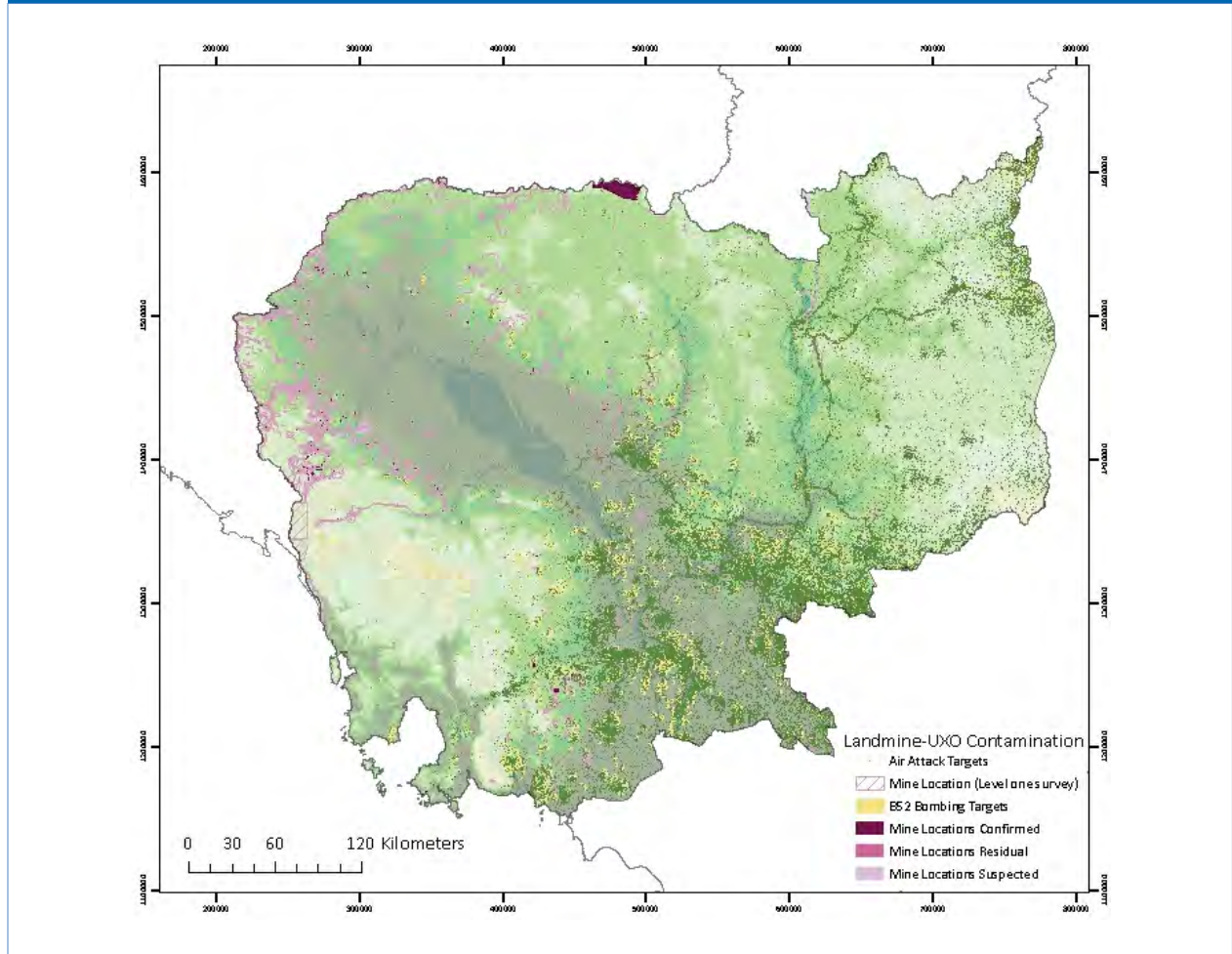
In addition to deaths and injuries incurred landmines and UXO can have a serious economic impact due to inaccessibility to agricultural land or access to natural resources. There are 121 districts (of 193) affected by mines but 93% of casualties occur in 21 districts. Current data show that some 649 square kilometres of land remain potentially contaminated although survey effort to record the exact location of remaining mined area is underway⁴⁰. In addition to formal demining efforts, local communities frequently reclaim land that is suspected to be mined. By 2008 a total of 865km² was reclassified on the basis of having been in productive use without accidents for three years. Conversely donor-supported development projects are unable to support development activities that may encourage people to enter dangerous areas⁴¹. Land cleared of mines is most frequently used for agriculture (35%), road construction (28%), agriculture and settlement (14%) or settlement (12%)⁴². (See figure 1.14).

⁴⁰ Cambodia Mine Action Authority 2009 Request for Extension of Deadline

⁴¹ For example, during 2009 a social land concession in Memot district, Kampong Cham, was delayed because the World Bank could not obtain a categorical assurance that the land involved was safe.

⁴² Cambodia Mine Action Authority 2009 Request for Extension of Deadline

Figure 1.14: Land-mines - UXO contamination



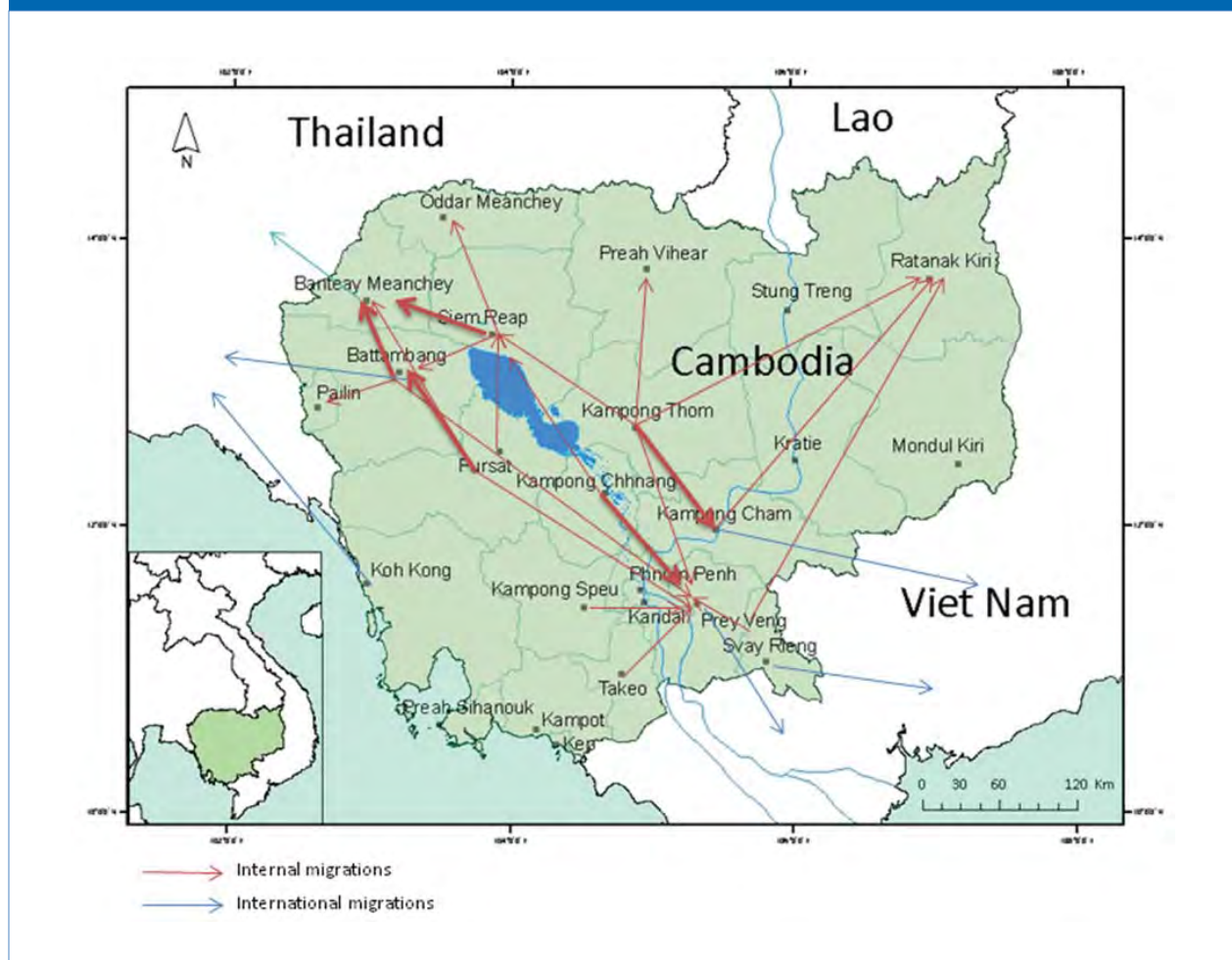
Source: Department of mines, RGC

1.5 MIGRATION TRENDS

Differences in access to services and jobs fuel migration flows...

A high proportion of the Cambodian population – 26.5% in 2008 – are migrants in the sense that they reside in a village other than the one where they were born. Among older people, much of this migration results from disruption during the war years and the re-settlement of Phnom Penh and other urban centres after 1979. However, during recent years migration driven by economic push and pull factors has become increasingly important. Available data taken together with studies of patterns of migration indicate two main types: migration from rural areas to urban centres in search of paid employment and migration from the densely populated plains to the outlying provinces in search of land. Examination of differential rates of population growth between 1998 and 2008 indicates that overwhelmingly the largest source of net migration is the rural areas of the plains provinces (see figure 1.15).

Figure 1.15: Migrations flows



Source: International Organization for Migrations, 2010

The population of these areas in 2008 was about half a million less than it would have been if the population had grown at the overall national rate of 17% during the decade. Overall, the balance of population shifted from rural to urban areas by about 243,000 individuals, or 2% of the total population. Over 22% of all urban residents had migrated in the five years to 2004, compared with 8% of rural residents. More than 40% of urban residents in the 15-24 age bands were recent migrants⁴³. There is also significant international labour migration from Cambodia. The largest destination country is Thailand, with 182,000 legally registered Cambodian migrant workers in 2005 (two-thirds male) and probably a much larger number of undocumented workers⁴⁴. Other important destination countries include Malaysia and South Korea. It is likely that a high proportion of the migrants to Thailand are from the border areas. For example, many of the service staff in the tourist resorts of Thailand's Koh Chang island come from coastal areas of Cambodia. However the province with the highest number of external migrants by percentage of population is Prey Veng in the southeast and many of these migrants travel across the country to Thailand (Maltoni 2007). Long-distance migration appears to be facilitated by organised labour recruiters.

...which pose significant social challenges in both sending and receiving regions...

The most significant **push-factors** driving migration are pressure on rural livelihoods due to reduced availability of land, degradation of common property resources and lack of local opportunities due to factors such as poor local transport links. At the level of individual families, outstanding debts and poverty are important push factors for the decision to migrate or to send family members to work away⁴⁵. **Pull factors** include the opportunities for employment⁴⁶ in the garment industry, in services and in construction in urban area, opportunities to acquire land in outlying provinces, and, probably, the attraction of urban living to rural youth. Even the lowest-earning groups of migrant workers earn cash incomes that are large compared to their rural family livelihoods⁴⁷. **Migration flows generate challenges in both sending and receiving areas.** There are important age and gender differences in migration patterns, with female migrants more likely to move to Phnom Penh and male migrants to rural or remote areas. Sending areas may experience social problems related to the disintegration of family units and deteriorating social cohesion⁴⁸.

43 Maltoni, IOM (2005) – *Impact of Remittances on Local Communities in Cambodia*.

44 Cambodia Mine Action Authority 2009 Request for Extension of Deadline

45 Maltoni, IOM (2007). *op.cit*

46 Migration is often seen as an investment with significant costs and for this reason migrants are not necessarily the poorest of the poor – the CDRI study “Youth, Migration and Urbanisation in Cambodia” categorised 40% of migrants’ families as “poor” and 54% as “medium” with only 6% being “very poor.” Twenty percent of migrations were financed by loans and another 17% by sale of assets.

47 CDRI (2007) *Youth Migration and Urbanisation in Cambodia*

48 CDRI did not find evidence of labour shortages resulting from migration, partly because significant numbers of migrants (about 20%) return to their villages in the peak agricultural seasons. Despite this finding, it has become common to hear villagers in areas with high levels of out-migration complain of the disruption to village social life and the lack of felt security due to the absence of so many young people (CDRI 2007).

For instance, youth gangs and theft committed by outsiders are seen as an increasing problem by Cambodian rural villagers⁴⁹ which has both negative economic and social consequences⁵⁰. Young migrants share the education levels of their rural counterparts and so are likely to be much less well educated than the bulk of the urban population, particularly in Phnom Penh. For this reason they tend to fill low-paid, unskilled jobs. Migrant workers tend to seek work through family connections and workers from particular areas or villages may congregate in particular workplaces. Migrant workers take little advantage of the higher quality social services available in urban areas. Their integration in urban centres represents an increasingly serious challenge⁵¹.

...but also opportunities linked to urbanisation, remittances and rural-urban linkages.

Migration to the cities fuels urbanisation which in turn generates advantages linked to agglomeration economies (see Part 3). Migration also generates significant flows of remittances. Single migrants send an average of about 1 million riels per year – or 27% of their earnings – home to their families. Remittances are used primarily to pay for food and medical bills and for repayment of debts⁵². Poor families are slightly more likely to receive remittance income from inside Cambodia than non-poor families, and those in the poorest 20% receive larger amounts of remittances than those in the middle three quintiles, though smaller than the amounts received by the best-off. **Remittances had a major impact on the overall wellbeing of migrants' families.** Significant amounts of remittances were invested in productive assets (20%) and in educating younger siblings (6%). However the remittance receiving families tended to over-rely on remittance income rather than continuing to engage in or expand their productive activities. In rural areas of Cambodia 40% of the population is either under 15 or over 65, compared to 29% in urban areas. It is also worth noting that the level of returns to agricultural labour have grown much faster than those for non-farm work in recent years⁵³ – perhaps a result of the effects of outward migration. Rural-urban migration and mobility implies stronger links between remoter and densely populated areas. Oftentimes, these links help connect urban demand and rural supply (products, land, leisure services) and can foster, over time, rural-urban complementarities and potential for rural economic diversification.

49 Ibid

50 *As young women or men who are not linked to the gangs are afraid to travel alone. Poor families without influence may suffer serious financial penalties from the participation of their young men in these gangs (CDRI 2007).*

51 *Only 3% of migrants in the CDRI survey were engaged in study and it was common for migrants to travel home in case of serious illness rather than go to the urban hospitals, where they would lack family support.*

52 *Amongst the CDRI sample of young urban migrants, food accounted for 40% of remittance-financed expenditures and debt repayment only 9%. However a study of Prey Veng families receiving remittances from Thailand found that 31% of expenditure was for health bills with 25% each for consumption goods and debt repayments (CDRI 2007). The difference may indicate that migration to Thailand is seen as a response to extreme stress, or simply that large debts are incurred in arranging the migration.*

53 *Economics Today July 2009 p31*

1.6 UNEXPLOITED POTENTIALS

Cambodia holds significant unexploited potential for local development, in urban areas...

Cambodia's growth has been largely driven by foreign direct investment, open markets, and supported by development assistance. It remains concentrated in few urban centres⁵⁴ and is characterized by a narrow base, highly vulnerable to external shocks. Some degree of concentration of economic activity is already a fact, but urbanisation is still largely to come. This is confirmed by the demographic and migration dynamics of countries at similar stages of development, particularly in Asia⁵⁵. It is thus clear that there is **enormous potential for urban economies to develop in Cambodia**. However, while urbanization and economic development are normally correlated⁵⁶, for the benefits of agglomerations to materialise sound public policy in terms of urban development and management will be a key factor (see Part 2).

...and across rural regions, which are far from exploiting their assets.

Cambodia's potential for economic diversification and development goes well beyond urban areas and is largely unexploited. Agriculture is still the backbone of the Country's rural economy, but its role and performance have been lagging well behind the overall economic growth trends and those of neighbouring countries⁵⁷ (see Table 1.10).

⁵⁴ Results of a nation-wide survey show about 375,000 business establishments of all types in Cambodia (official draft not available at the time of drafting). This represents about 28 establishments per 1,000 persons, which is a relatively low density. Phnom Penh has about 42 establishments per 1000 persons while the ratio in all other zones is between 24 and 28. Fifteen percent of all establishments were in Phnom Penh with a further 10% in the surrounding province of Kandal. The second highest concentration of establishments was in Kampong Cham where rubber, cassava processing and animal feed were found to be important.

⁵⁵ See World Bank 2009.

⁵⁶ World Development Report 2009: Reshaping Economic Geography.

⁵⁷ The average inhabitant of Phnom Penh lives in a commune with 3.6 km of paved roads and 2 km of unpaved roads per square kilometre.

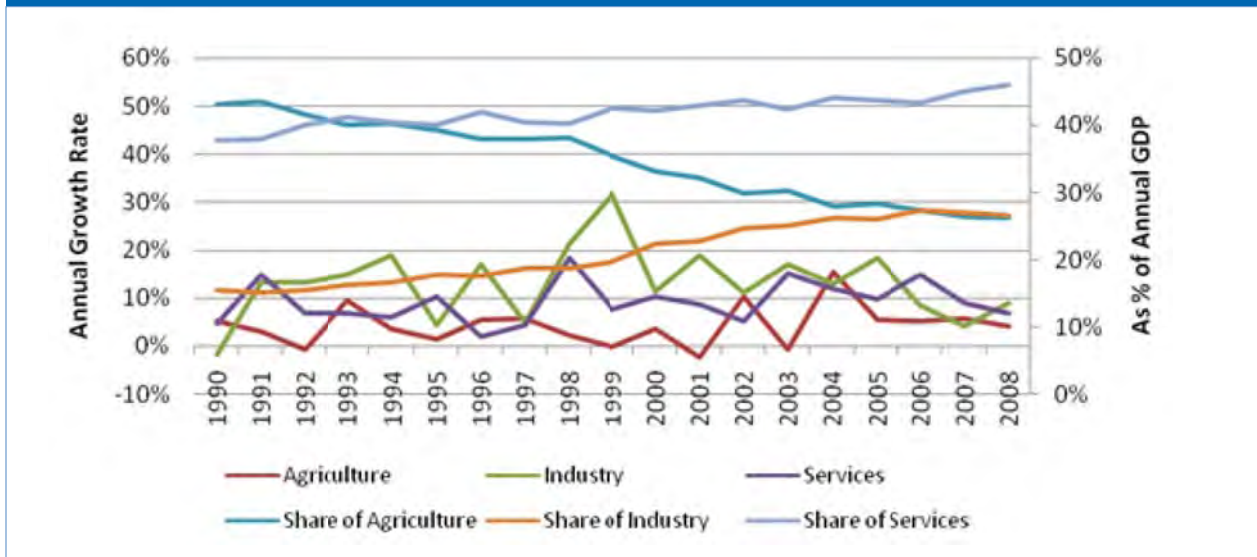
Table 1.10: Agricultural growth comparison with neighboring countries

Cambodia	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture	-1.2%	4.5%	-3.5%	10.5%	-0.9%	15.7%	5.5%	5.0%	5.7%
Industry	31.2%	11.4%	16.8%	12.0%	16.6%	12.7%	18.3%	8.4%	4.1%
Service	8.9%	8.7%	10.0%	5.9%	13.2%	13.1%	10.1%	10.1%	9.0%
% of Agriculture to GDP	37.9%	36.7%	32.9%	33.6%	31.2%	32.4%	31.7%	31.9%	32.5%
Lao PDR									
Agriculture	4.2%	-0.6%	1.9%	2.5%	3.4%	0.7%	2.5%	8.6%	2.0%
Industry	9.3%	-1.5%	10.8%	19.4%	3.7%	10.6%	14.2%	4.4%	10.2%
Service	6.9%	14.7%	11.3%	3.8%	12.0%	9.9%	9.7%	9.1%	9.7%
% of Agriculture to GDP	48.5%	45.5%	42.7%	41.0%	39.0%	36.7%	32.4%	33.4%	32.1%
Thailand									
Agriculture	7.2%	3.2%	0.7%	12.7%	-2.4%	-1.8%	4.6%	1.8%	5.1%
Industry	5.3%	1.7%	7.1%	9.6%	7.9%	5.4%	5.7%	5.7%	3.4%
Service	3.7%	2.4%	4.6%	3.5%	6.8%	5.2%	4.9%	4.7%	1.2%
% of Agriculture to GDP	9.0%	9.1%	9.4%	10.4%	10.3%	10.3%	10.7%	10.8%	11.6%
Viet Nam									
Agriculture	4.6%	3.0%	4.2%	3.6%	4.4%	4.0%	3.7%	3.8%	4.1%
Industry	10.1%	10.4%	9.5%	10.5%	10.2%	10.7%	10.4%	10.2%	6.1%
Service	5.3%	6.1%	6.5%	6.5%	7.3%	8.5%	8.3%	8.9%	7.2%
% of Agriculture to GDP	24.5%	23.2%	23.0%	22.5%	21.8%	21.0%	20.4%	20.3%	22.1%

Source: ADB key indicator, 2008

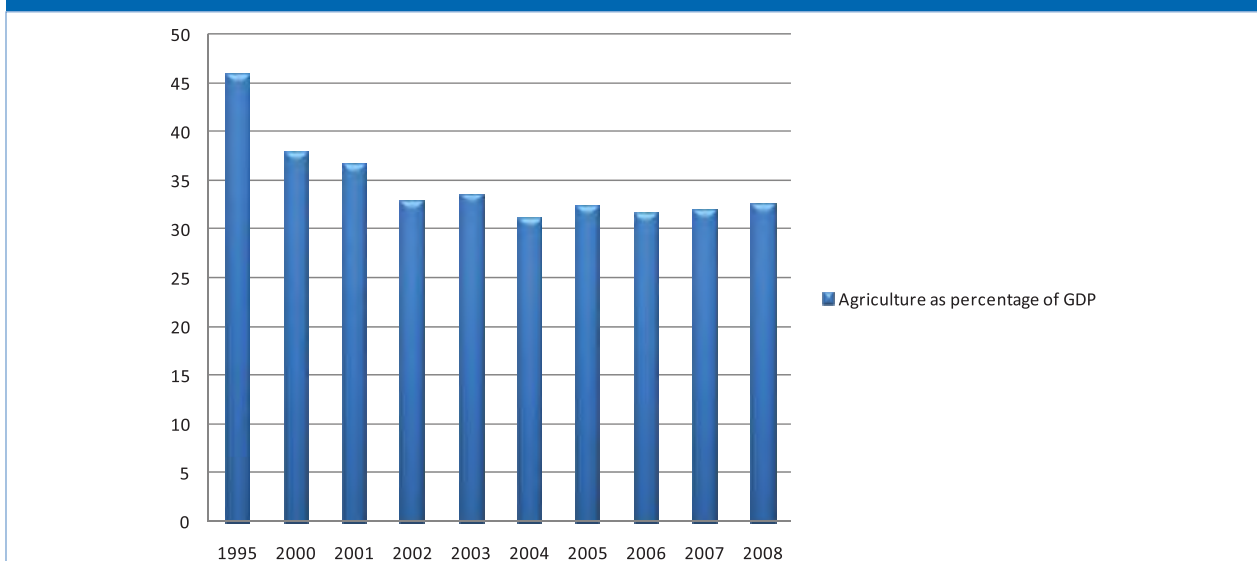
In 1990 agriculture accounted for about half of total GDP while industry accounted for only 12%; by 2008 agricultural and industrial output were about equal at 27% of GDP while the services sector had grown from 38% in 1990 to 46% in 2008⁵⁸ (see figure 1.16 and 1.17).

Figure 1.16: Growth in industry and services was faster and more consistent than in agriculture



Source: Compiled from EIC Data

Figure 1.17: Evolution of agricultural contribution to GDP (1995 - 2008)



Source: ADB, key indicators, 2008

58 Source: Commune Database.

Growth of the agriculture sector contributed about 15% of all growth in the economy during the period 1998 – 2008, while the share of industry was 35%. The largest share in overall growth came from the services sector which contributed half of the total growth. Growth in agricultural output was not only slower but more erratic than in the other sectors, influenced by climatic and other factors (table 1.11 and 1.12)⁵⁹.

Table 1.11: Agricultural growth comparison with neighboring countries

Province with Access to	Percentage of Farm Product Growth From		
	Paddy	Other Crops	Livestock
Vietnam rice type 1	76%	4%	20%
Vietnam rice type 2	30%	57%	13%
Thai Border	19%	76%	5%
Laos Border	-112%	284%	-72%

Compiled from EIC data

Table 1.12: Agricultural growth and Its contribution, 1998 - 2008

Sectors	% Growth	% Contribution
Paddy	87%	37%
Other Crops	125%	40%
Livestock	34%	11%
Fishery	29%	16%
Rubber	17%	0%
Forestry	-20%	-5%
All Agriculture	52%	100%

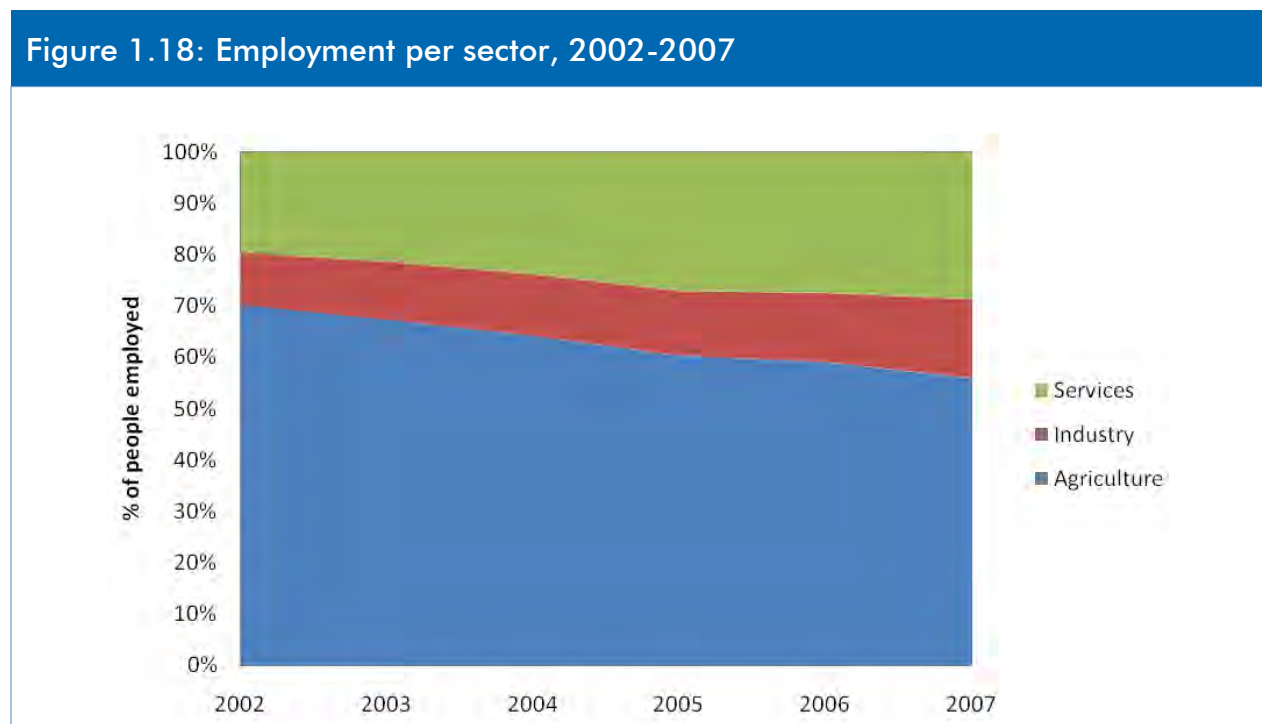
Source: Compiled from EIC data 1998 – 2008

Within the agriculture sector, forestry and fisheries have declined in importance. In 1998 forestry provided 13% of the total agriculture sector GDP and fisheries 29%. By 2008 the share for forestry had declined to 7% - representing a 33% decline in production at constant prices –

⁵⁹ The sector achieved double-digit growth in two years but also had two years of negative growth during the decade to 2008. Industrial growth was in double digits from 1999 through to 2006, then slowed in 2007 and 2008. Growth in services was above 10% in six of the last ten years.

while fisheries provided 25% of overall agricultural output. Productivity of labour in agriculture was much lower than in other sectors. In 2008 around 60% of Cambodia’s labour force was engaged in the agriculture sector which produced only 27% of GDP⁶⁰.

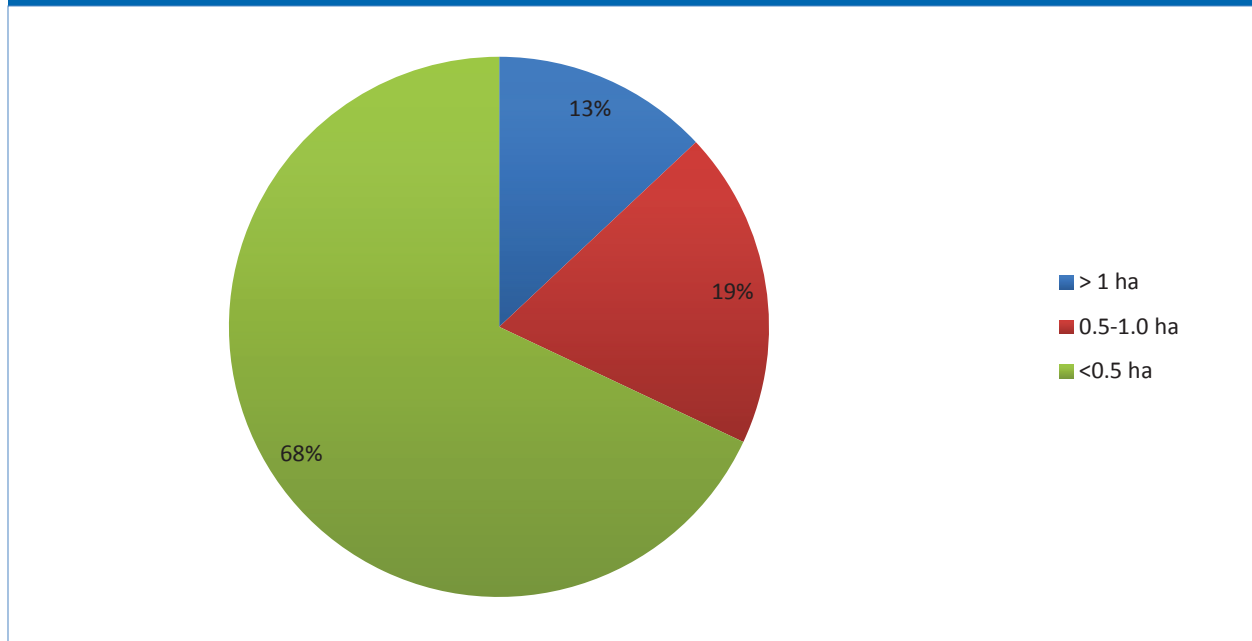
As in many other countries, the share of employment in agriculture is declining and **agriculture is no longer the only source of revenue for rural households (see figure 1.18)**. Because of small plot sizes (see figure 1.19), low yields and the seasonal nature of production most rural households depend on multiple livelihoods, of which their home agriculture production may be the largest but is likely to account for less than half of the total. In the CDRI Moving Out of Poverty Study (MOPS) sample about 32% of all household income was derived from agriculture in 2004/5, down slightly from 36% in 2001.



Source: 2008 Census

⁶⁰ However in recent years there has been a fairly rapid change in the structure of the labour force: in 2004 there were more than 8 workers employed in agriculture for every industrial worker; by 2007 this ratio was below 5. In 2007 GDP per worker employed in the industrial sector was about \$US 2,700 (at 2008 prices) while GDP per worker in the services sector was about \$US 2,400 and the equivalent figure in agriculture about \$US 500. Again there is evidence of catch-up: from 2004 to 2007 productivity of labour increased by about 10% per year in agriculture and about 8% per year in services, but fell by 3% per year in industry.

Figure 1.19: Land distribution



Source: UNDP Human development report, 2007

About 23% of income was earned by other self-employment activities, 21% by wage labour and 15% by exploitation of common property resources. The proportion earned from agriculture was roughly similar across all social groups except the poorest, who derived less than 30% of their income from agriculture. As much of agricultural production is for own consumption, the proportion of cash income earned from agriculture is much lower. From 2001 to 2004 the share of common property resources in household incomes fell from 24% to 15%, reflecting that these resources are becoming over-stressed. The proportion of paid labour in household incomes rose slightly from 19% to 21% while the share from self-employment increased from 15% to 23%.

The development of the countryside could be boosted by (1) a more efficient agriculture...

Rice production is still dominant vis-a-vis cash crops or high value farm products⁶¹, and crop yields in Cambodia are significantly lower than in neighbouring countries (see Table 1.14). Many areas of Cambodia suffer from relatively poor soil fertility and inadequate or irregular rainfall. However there is no doubt that Cambodia's fields can be made

⁶¹ Rice production contributed 37% of total agriculture growth during the last decade while other crops contributed 40% and livestock production a more modest 11%.

more productive by appropriate use of modern agricultural techniques,⁶² application of fertilisers and investment in irrigation (less than 10% of Cambodian agricultural land is irrigated in the dry season). Cambodian farmers face higher input costs and lower farm gate prices than those in neighbouring countries⁶³.

Table 1.13: Crop yield in SEA region

Crop/Yields (kg/ha)	Cambodia	Laos	Thailand	Viet Nam
Rice	2,489	3,500	2,906	4,891
Cassava	22,653	7,583	21,091	16,247
Rubber	1,039	n/a	1,811	1,067
Maize	3,580	4,332	4,116	3,702
Soybean	1,527	1,164	1,561	1,390

High transport costs, poorly developed markets, lack of irrigation systems and the cost of energy, as well as the high cost of credit, drive up the costs of agricultural inputs for Cambodian farmers. Consequently much land is farmed on a low-input, low-output basis with minimal use made of improved seed varieties, agricultural chemicals and irrigation⁶⁴. In order to obtain improvements in productivity when the fertility of the lowland areas is prevalingly low, soil use, fertilizer management and technologies employed in agriculture become central. In general, only 25% of cultivated land is now prepared with the use of machines. About 64% of farmers do not have access or do not own major farm machinery. Harvesting and threshing of crops is done mostly in the traditional way, even if by doing so, farmers incur in significant crop losses. Milling is still done following inadequate and obsolete technologies, which generate low-level quality of milled products. In general, post-harvesting technology and management are among the main reasons that make Cambodian agriculture less competitive than many neighbouring countries. Associated with these constraints are the weaknesses of the extension services. There are 4 to 5 extension workers for each district, covering about 10 communes on average (almost 100 villages), which may comprise as many as 10,000 households. Transport costs and lack of local markets drive down the value of outputs. Much production is for own consumption. Access to export markets appears to strongly influence the path of agricultural growth in Cambodian

⁶² There are only about 500 agriculture extension workers in Cambodia compared to 8,000 in Vietnam.

⁶³ Yields of paddy rice rose from around 1.5 tonnes per hectare to 2.4 t/ha in the decade to 2007. However these yields remain low compared to those achieved in neighbouring countries.

⁶⁴ UNDP 2009 Cambodia Country Competitiveness: Driving Economic Growth and Poverty Reduction

regions. In border areas Cambodian farmers have been able to forge effective linkages with the local economies of neighbouring countries⁶⁵. It is notable that in most of these examples there is no natural barrier to expansion of the initiatives away from border areas: regulatory obstacles may play a part as may access to information⁶⁶.

...and rural economic diversification based on (2) emerging clusters...

There are three emerging clusters holding great potential for further development. 1) Rubber: rubber is a perennial crop which plays an important role in supporting socio-economic development. Cambodia's total area of mature, rubber-producing trees is about 80,000 ha (about 74% of the total). In 2008, Cambodian rubber production reached around 107,900 ha, representing a 31% increase compared with the previous year and equivalent to 72% of the goal set in the Strategic Plan for 2015 (aiming at achieving 150,000 ha of rubber-cultivated area). It is also estimated that the total available area for rubber tree cultivation covers about 350,000 ha with appropriate soil properties suitable for the planting of rubber tree seedlings. Rubber producers are clustered under different categories, namely small-holder producers, large-scale estates and new investments. New investment in the sector increased by 6% while large rubber estates expanded their capacity by 2% and small-holder producers increased production by 17% between 2007 and 2008. Additional 16,000 ha of rubber plantation were created by small-holder producers and 6,470 ha of new investments are expected to be undertaken in 2008. Liberalization policies on free sale of smallholder producers gave a boost to the sector, coupled with increasing market prices since 2006. However, the sector still faces numerous challenges: the Cambodian Government has not established a certification system and as a result rubber products are exported without obtaining internationally recognized certification. Their competitiveness is relatively weak in terms of quality, and they are offered at a lower price, quantifiable as an approximately 20% discount. A large part of rubber is exported to Vietnam, which accepts "Cambodia Specific Rubber" (CSR 5L), recognized being of poor quality and only marginally accepted in the Chinese, Malaysian and Singapore markets. Natural rubber price reached its peak rate of US\$ 3,226/tonne in July 2008 and constantly declined to US\$ 1,397/tonne in March 2009. The total value of rubber export accounted for 157 million USD in 2007 but declined sharply in 2009 (estimated to decrease by about 10% according to MAFF) (see table 1.15).

65 The most striking success story is that of Malai district in Banteay Meanchey and nearby border districts of Battambang and Pailin provinces where smallholder based cash crop agriculture (maize, soybean, mung bean etc) has developed rapidly in the decade since the return of peace, supplying markets in Thailand. Contract farming, supplying cross-border buyers, has developed in areas close to Thailand and Vietnam. Cambodian farmers have also hired Vietnamese technicians to advise on rice intensification. Other examples include access to lower priced fuel and electricity from across the border and examples of contract-irrigation schemes which also seem to be associated with the Vietnamese border area.

66 Provinces with good communication links to Vietnam increased paddy rice production while non-rice crops were more important in provinces bordering Thailand and Laos (Table 3.4). However there is evidence of paddy rice grown in the northwest provinces being transported across the country to Vietnam.

Table 1.14: Production and Exports of Natural Rubber in Cambodia

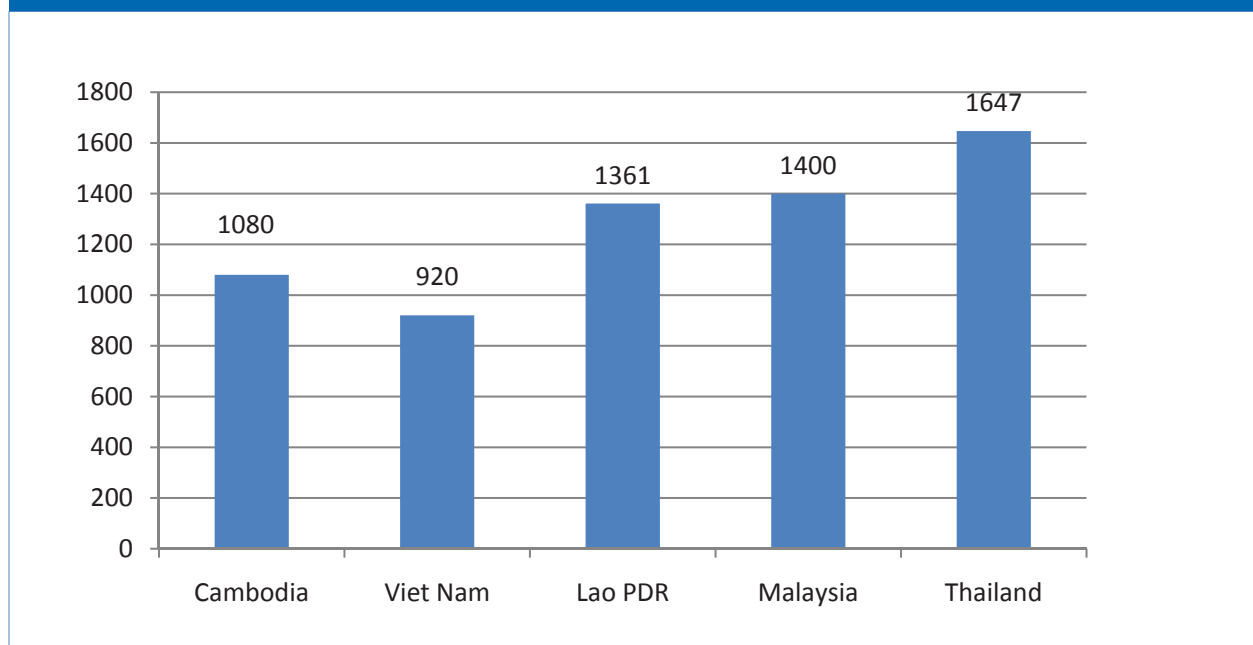
	Unit	2000	2001	2002	2003	2004	2005
Production Volume	Tonnes	42.007	38.492	32.385	32.383	25.928	20.382
Export Volume	Tonnes	40.067	35.674	37.136	32.764	26.029	21.071
Export Ratio	%	95.4	92.7	114.7	101.2	100.4	103.4
Export Value	US\$ mil.	22.3	17.8	23.7	31.2	30.6	29.3
Export Unite Value	US\$ mil.	556.6	499.00	638.2	949.2	1,175.6	1.390.5

The largest rubber plantations accounted for about 70% of total production, while smaller privately-run operations — mostly small investors with fewer than 10 hectares of land — made up the remaining 30 percent⁶⁷. In 2009, an additional 42,000 hectares of concessions were approved by the Government⁶⁸. However, estimates from the Ministry of Agriculture, Forestry and Fisheries predict a sharp decline (about 60%) in international demand for rubber due to the impact of the economic crisis. Moreover, other estimates from MAFF predict a slow down by 61 per cent from 2008 in rubber production (Phnom Penh Post, 2009). Productivity, used as one of the proxies for assessing rubber sector competitiveness, remains one of the lowest in the region, with only Laos performing worst (see figure 1.20).

⁶⁷ MAFF

⁶⁸ At present Cambodia's rubber sells at a discount of about 20% because of a lack of certification . The Government is addressing this issue: it issued a sub-decree on rubber certification in June 2007 that defined the framework and requirements for receiving the Cambodia Rubber Certificate.

Figure 1.20: Rubber yield, tonnes - A cross country comparison



Source: General Directorate of Rubber Plantation, Malaysian rubber board, 2009 and Thai rubber association

Relatively high wages (real daily wage of labourers rose by almost 50 per cent from Riels 6,632.2 in 2006 to Riels 9,938.5 in 2008) and high price for electricity and petroleum hinder the sector's competitiveness, together with high transportation costs and other hidden expenses. Another hindering factor is that rubber plantations are granted as 'economic land concessions' by the Ministry of Agriculture, a process that has been marred by irregularities and conflicts⁶⁹. This is particularly problematic when rubber concessions are granted on indigenous land, both from a legal viewpoint (as the Land Law protects indigenous land from being leased or sold) as well as from a socio-economic perspective, as rubber plantations lead to drastic changes in the affected community's lifestyle, with often no accompanying measures taken to support the development of the community in a sustainable manner.

2) Silk: Silk is an important component of Cambodia's rural economy. It has the potential to substantially contribute to poverty reduction, because it: (i) generates higher value-added products compared with general crops like rice; (ii) it comprises labour intensive activities that create rural employment, particularly for women and helps to preserve production activities of cultural value, and (iii) generates regular cash income for rural households. Moreover, silk production can be seen as an off-farm income generating activity that can be done at home during the dry season. Raw silk production in Cambodia is

⁶⁹ See Special Representative on the Human Rights Situation in Cambodia, "Economic Land Concessions: a Human Rights Perspective", 2007

concentrated in Phnom Srok District in Banteay Meanchey province⁷⁰. Private entities are increasingly engaging in the sector and new mulberry plantations have now been initiated in Kampot and Siem Reap provinces. According to many observers, China (producer of 70 percent of total silk) will gradually give up part of its silk subsector (mainly because of rising labour cost). Although Cambodia is endowed with good potential for silk production (including the availability of labour, land, and suitable climate), this potential has not been fully exploited in the production – processing – marketing activities. The reasons for this are related to an inefficient silk value chain. In fact, urban and rural weavers heavily depend on imported raw materials. Moreover, the main constraints of the sector are: (i) silkworm disease (more than 50 percent silkworm mortality);⁷¹ (ii) low productivity of cocoon production; (iii) low quality of yarn due to lack of proper reeling system (because most reeling is done manually resulting in a low quality yarn); and (iv) lack/shortage of technical capability especially in research and management of silk production. Local production can satisfy only 2% of the total, fast growing domestic and international demand. In order to satisfy this demand, raw silks need to be imported from neighbouring countries, namely Vietnam and China⁷². With the imported price of USD 25,000/tonne, the import bill is about USD 10 million paid to foreign producers every year. The annual local silk yarn production is estimated at less than five tons. Silk weaving activities are clustered in the following provinces: Takeo (Samrong, Bati and Prey Kapas), Kampong Cham (Prek Chankran), Prey Veng (Sithor Kandal), Banteay Meanchey (Phnom Srok), and in Siem Reap. In Cambodia, annual consumption of raw silk is around 400 tons. With approximately 237 hectares under of mulberry cultivation, around 700 people are employed to plant mulberry trees and feed silkworms for yarn production. In order to produce the annual consumption of raw silk of around 400 tonnes, areas under cultivation need to be expanded to approximately 10,000 ha. Under these conditions, total employment in the sector could reach an estimated 30,000. Considering that about 90% of labour is represented by women, the expansion of this sector represents an opportunity to improve women's economic and employment conditions.

3) Pepper: Cambodia was the fourth global pepper producer following India, Indonesia and Malaysia in the world during the late 1960s. Kampot province in southern Cambodia was long famous for the quality of its pepper, but under the Khmer Rouge regime in the late 1970s, almost all of the province's pepper plantations were uprooted to make way for rice. The production potential of Kampot province is estimated to be 200 tonnes over 40 hectares of land, even though the low productivity combined with high cost of production and maintenance discourage some producers that are currently abandoning this business.

⁷⁰ EIC (2007) *Cambodia Export Diversification and Value Addition*

⁷¹ *The current yield of cocoon production in Cambodia is less than 0.2 tonnes/ha of mulberry as compared to its potential of about one tonne/ha.*

⁷² *Around 98% of raw silks are imported primarily from Vietnam to produce silk products for domestic needs.*

The average plantation size is estimated to be 200 pepper poles per producer, with an average productivity of 0.75 Kg/pole (estimated to be easily increased to 2.5 Kg/pole) and maintenance costs being estimated around USD 4.50/pole. Average revenues for pepper producers are estimated to be around USD 167 /year, with potential to increase up to USD 1500 / year. Pepper farmers, have difficulties in marketing their products and reaching profitable markets. Encouraging signs of an increasing domestic and international demand started to be seen after 2007 and the Kampot Pepper Farmers' Associations reports the production of about three tonnes of pepper in 2007, and more than 10 tonnes in 2008. Kampot Pepper is a premium product that fetches a price four times higher than other peppers, namely that of Vietnam, the world's larger pepper producer⁷³. Better margins could be obtained by increasing quality to meet the requirement of export markets, increasing the average selling price from the actual USD 1.5 / kg potentially up to USD 4.5/kg. A local company⁷⁴ is leading an effort to revive Kampot pepper by earning it Geographical Indication protection and with the aim of doubling pepper production over the next five years.

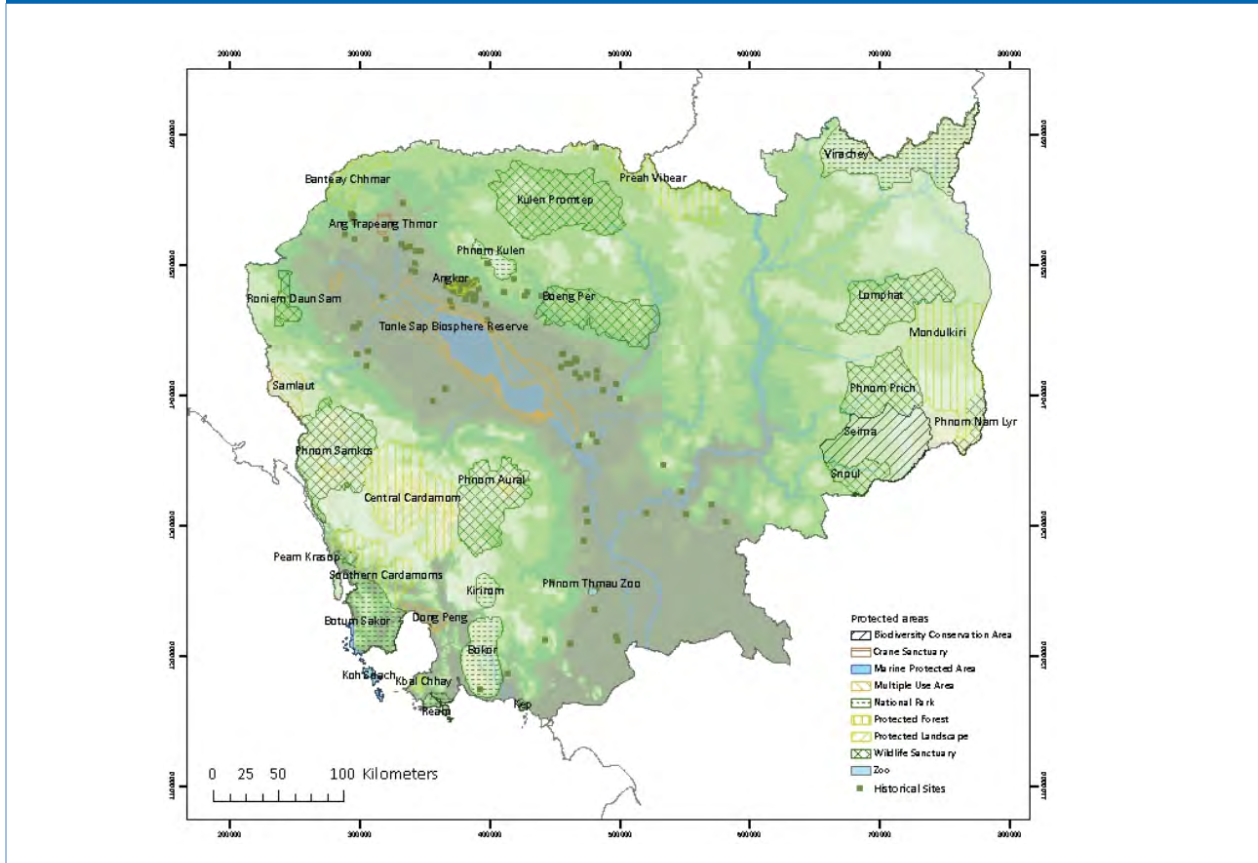
...(3) opportunities linked with Cambodia's great cultural and natural heritage...

Although the temple complex of Angkor in Siem Rep province gains most attention and the vast majority of international tourist visits, there are impressive archaeological remains, predominantly of Hindu temples and city complexes of the Angkorean period, in many provinces of Cambodia (see figure 1.21).

⁷³ Source: *The Cambodian magazine, Cambodia' new geographical indications, August 2009*

⁷⁴ Farm Link

Figure 1.21: A great wealth of historical sites and protected areas



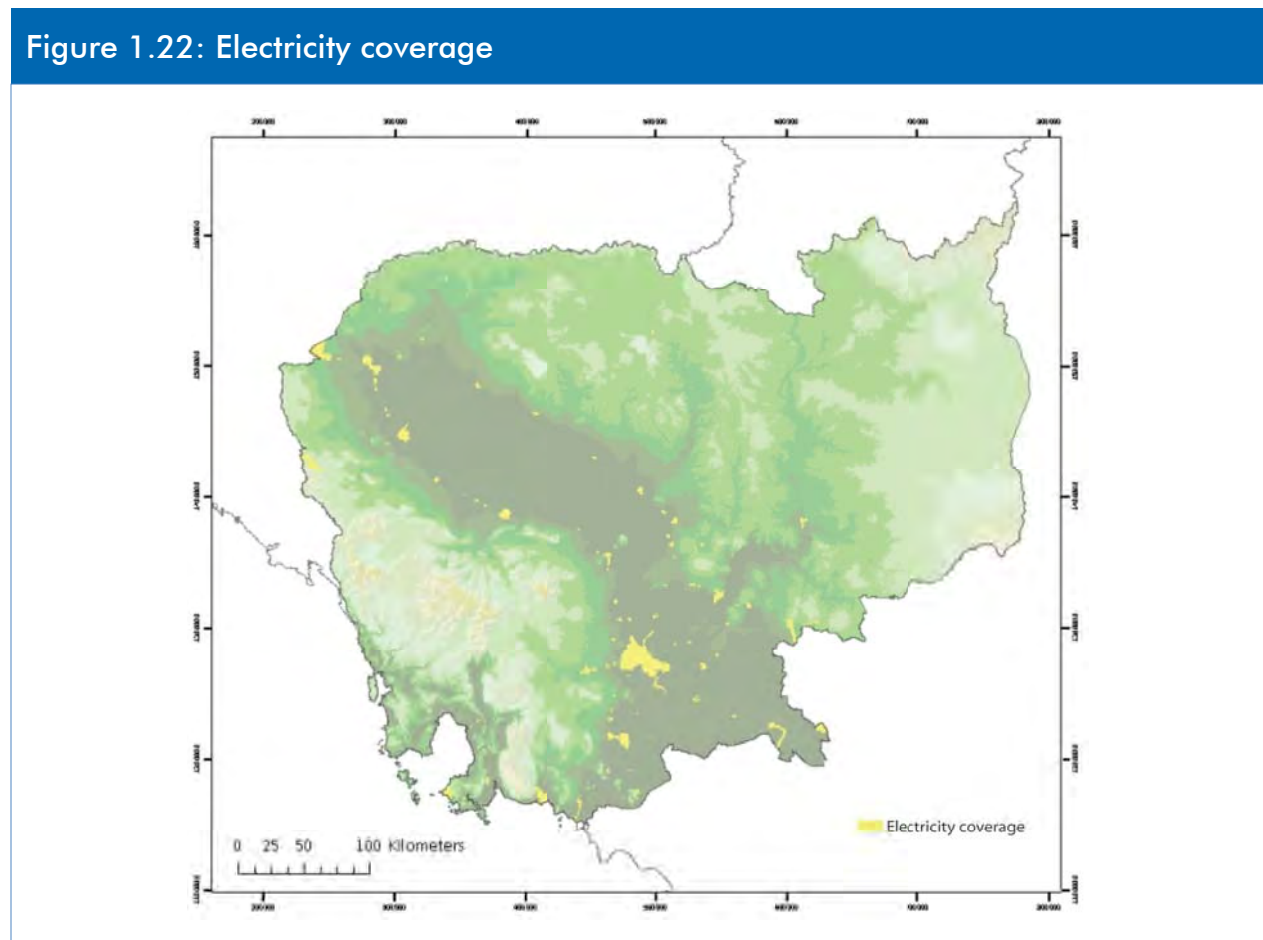
Source: UNCDF 2010

During the 1990s there was considerable looting of Cambodia’s cultural heritage, at the main Angkor complex but even more intensely of isolated and less well monitored sites. This large scale looting appears to have ceased. Many of Cambodia’s temples are located in areas which also have potential for eco-tourism development which, aside from the recent downturn due to the global economic crisis, is a rapidly growing sector. About 32% of Cambodia’s land area is covered by protected areas including national parks, wildlife sanctuaries, and multiple use areas which are mainly inland and coastal wetlands, and protected forests. Cambodia is a sanctuary to about 1.6% of all globally threatened species on the IUCN Red List. This includes 2.5% of globally threatened mammals, 2% of globally threatened birds, 5% of globally threatened reptiles, 1.6% of globally threatened fish and less than 1% of globally threatened amphibians. Forests are the dominant habitat for

approximately 33% of the threatened species in Cambodia but wetlands are equally important for conservation of biodiversity, as are arable and pasture lands. Some initiatives have been undertaken to involve local communities in the protection and management of local cultural and ecological sites and to enable communities to gain the benefits of tourism. However there appears to be potential for much greater activity in this area.

...and (4) large unexploited potential in the energy sector.

Only about 22%⁷⁵ of Cambodians have access to electricity and 94% of the population living in rural areas relies on wood or charcoal as a fuel for cooking, while lighting is provided by car batteries or kerosene (see figure 1.22 and 1.23)⁷⁶.

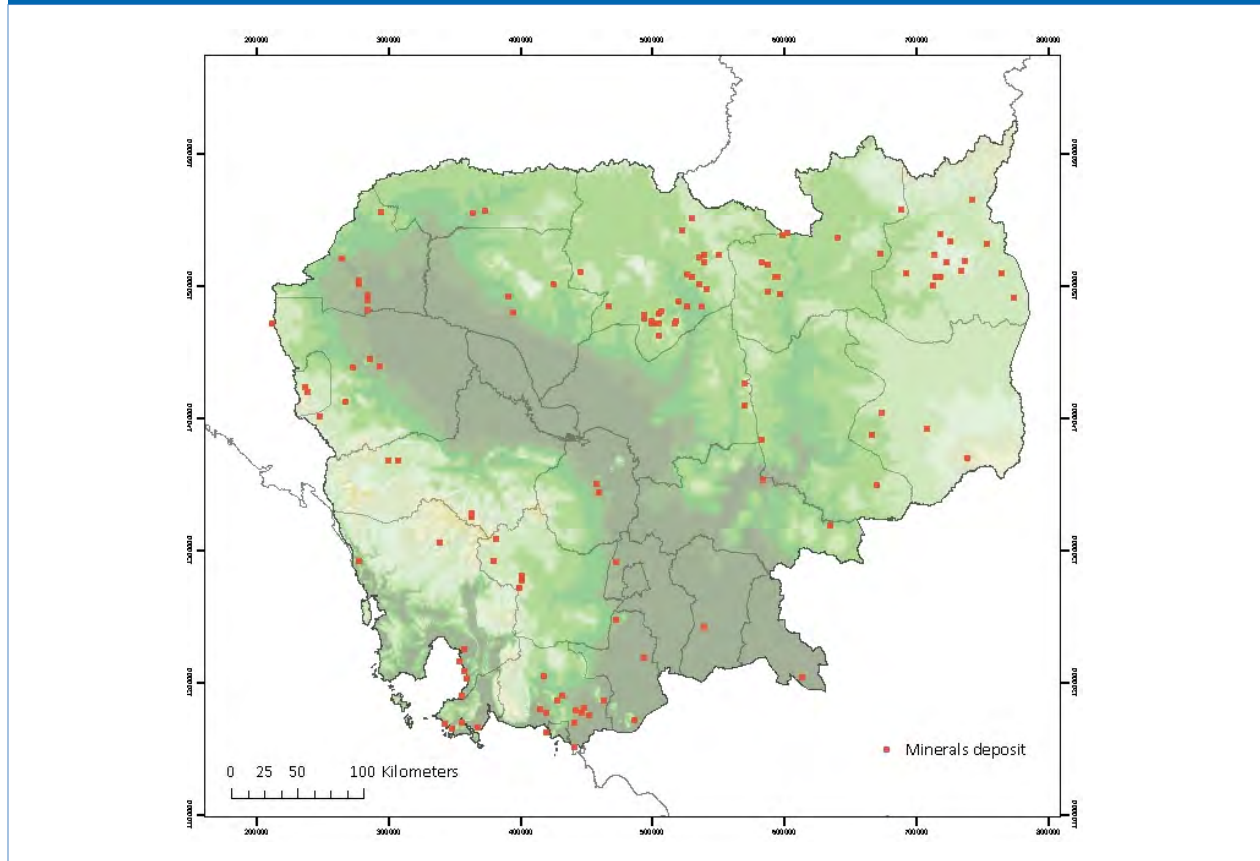


Source: Department of geology, MIME

⁷⁵ CSES (2007).

⁷⁶ UNDP (2008) Residential Energy Demand in Rural Cambodia

Figure 1.23: Mineral deposits



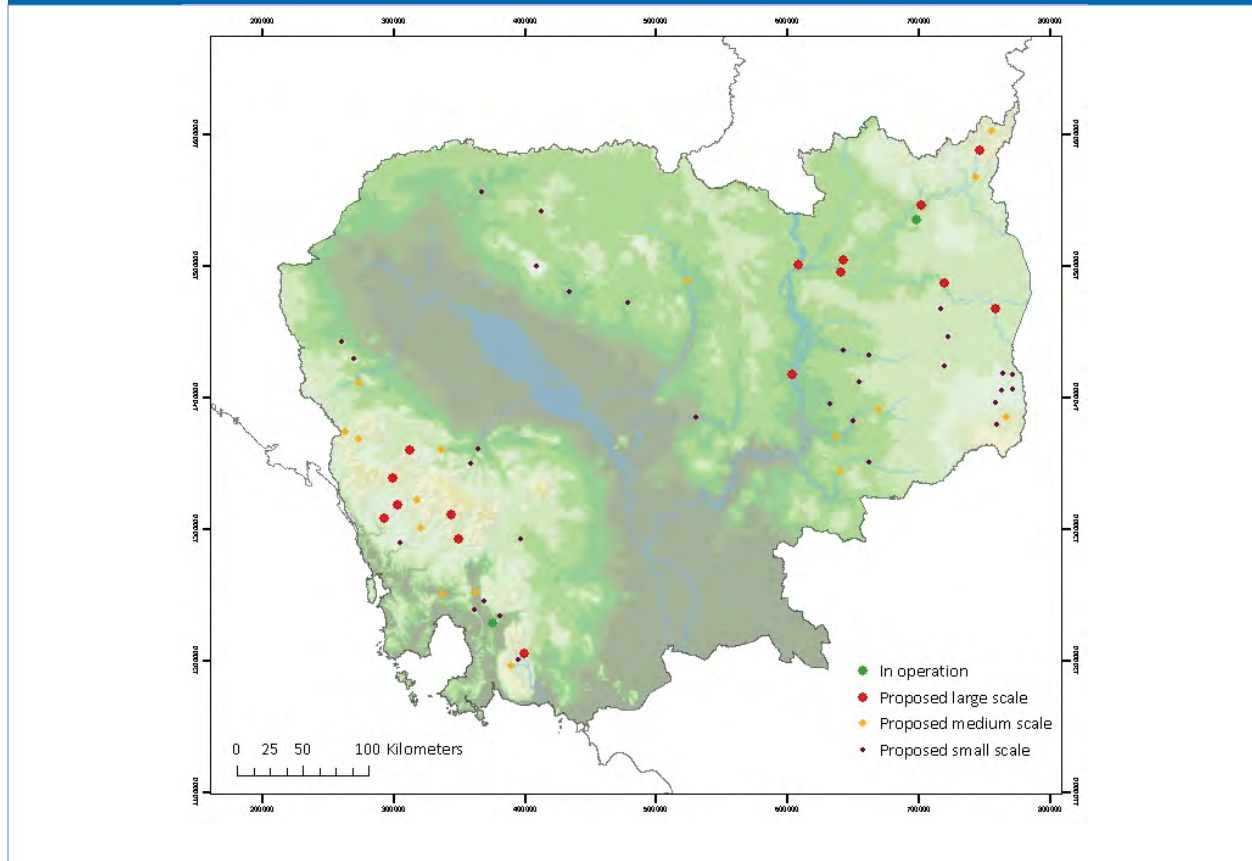
Source: Department of geology MIMÉ

Wood and wood charcoal accounts for approximately 80% of total national energy consumption. This dependence on wood energy is a major driver for deforestation and a barrier to livelihood development and security. Phnom Penh, which has around 10% of the population, uses more than 85% of total⁷⁷ electricity consumed in Cambodia. Agricultural machinery including irrigation pumps is typically diesel or petrol-driven. There are thus ample margins to build the future energy sector of Cambodia in a way that is both more efficient and environmentally sustainable. Hydro-power dams offer the opportunity of clean, sustainable power.

⁷⁷ Economist: country report 2008

Demand for electricity is projected to increase from 212 MW in 2002 to 2000 MW in 2025 as the economy develops and the transmission grid expands. At present Cambodian consumers experience restricted and unreliable supply from a fragmented and aging grid network with local mini-grids serving rural customers. Generation costs are high due to the high dependence on small diesel generators resulting in tariffs amongst the highest in the region being US\$0.35-0.90/Kw per hour. The Government plans to improve the situation by importing electricity and by construction of a high voltage transmission grid, but also by development of alternate generation options such as hydropower and solar. In 2000, a newly empowered regulator, the Electricity Authority of Cambodia, was established. The state-run Electricite' du Cambodge (EdC) accounted for 44% of installed capacity in 2003. The rest was comprised of eight independent power producers and 69 consolidated licences. However, nowadays most of the investments in the energy sector are currently private-sector driven or funded by international donors. Private sector investments target areas in which population density is relatively high, in order to spread infrastructure and overhead costs over a larger number of people and obtain higher return on the investment. This situation leads to concerns related to the feasibility of electrification of rural areas and the lack of incentives for the private sector to invest given the high infrastructure costs and low incomes of rural households. At present there are only two small hydropower schemes operational in Cambodia although the estimated total potential is about 10,000MW, about half of which could come from the Mekong River. The Government envisages that in the long term Cambodia could become a net exporter of electricity and is proposing to increase capacity to 2000 MW by 2020. Several big dam projects are evidence of a growing interest of external actors in securing Cambodian electricity supply in the future principally for export (see figure 24).

Figure 1.24: Hydroelectric dams location (potential and actual)



Source: Department of geology Ministry of Industry, Mines and Energy

However, there is some concern that these investments will not deliver expected benefits to Cambodia. For example, according to some estimates, the projected price of electricity from the proposed dam at Kamchay in Kampot Province is higher than the price at which Cambodia currently imports power from Vietnam and around twice the regional average for hydropower⁷⁸. Moreover, there are various environmental concerns related to hydroelectric power, especially for large scale projects⁷⁹. Further assessment of other options, especially renewable energy or low-carbon emission options for provision of rural energy services is required.

Cambodia has recently become a net emitter of Green House Gas (GHG)⁸⁰. This is primarily a result of increasing deforestation, agriculture and fossil fuel-based energy consumption

78 UNDP 2007 *Raising Rural Incomes in Cambodia*.

79 *International Rivers 2008 Cambodia's Hydropower Development and the Involvement of China*.

80 Ministry of Environment, *DRAFT Second National Communications to UNFCCC July 2009*.

giving rise to increasing GHG emissions and decreasing GHG sinks⁸¹. Despite substantial potential for reduction of GHG (in particular for biomass energy, small-scale afforestation and reforestation, and protection of existing forests through reduction of deforestation and degradation), Cambodia does not have a conducive policy, financing or institutional framework required to enable access to carbon markets; for mitigation of GHG emissions using renewable energy or energy efficiency; or for reducing deforestation. There is potential for improving access to these carbon financing mechanisms and the promotion of increase private sector participation in the energy sector.

Other types of renewable energy are mostly small-scale and driven by the lack of access to the electricity grid. The most common small-scale renewable energy source in Cambodia is solar electricity. However the systems in use are still very expensive – about USD 400 per household – and financial incentives are likely to be required to make these types of systems affordable. Some upland areas have potential for wind power and there are some locations where micro-hydroelectric power would be feasible. There have also been initiatives to introduce biogas systems in rural villages as well as a national programme for providing households with “biodigestors” systems that provide biogas for lighting and cooking from animal waste⁸². Improving access to carbon finance, especially for the more carbon efficient applications (e.g. institutional biogas, micro-hydro etc) has the potential to improve financial performance of these services. In terms of providing services to off-grid households or enterprises these and other small-scale renewable energy options may be cost effective when compared with grid infrastructure costs to Government and the relatively high cost of electricity to consumers.

1.7. ENVIRONMENT AND CLIMATE CHANGE VULNERABILITY

However, local development potential is threatened by environmental degradation...

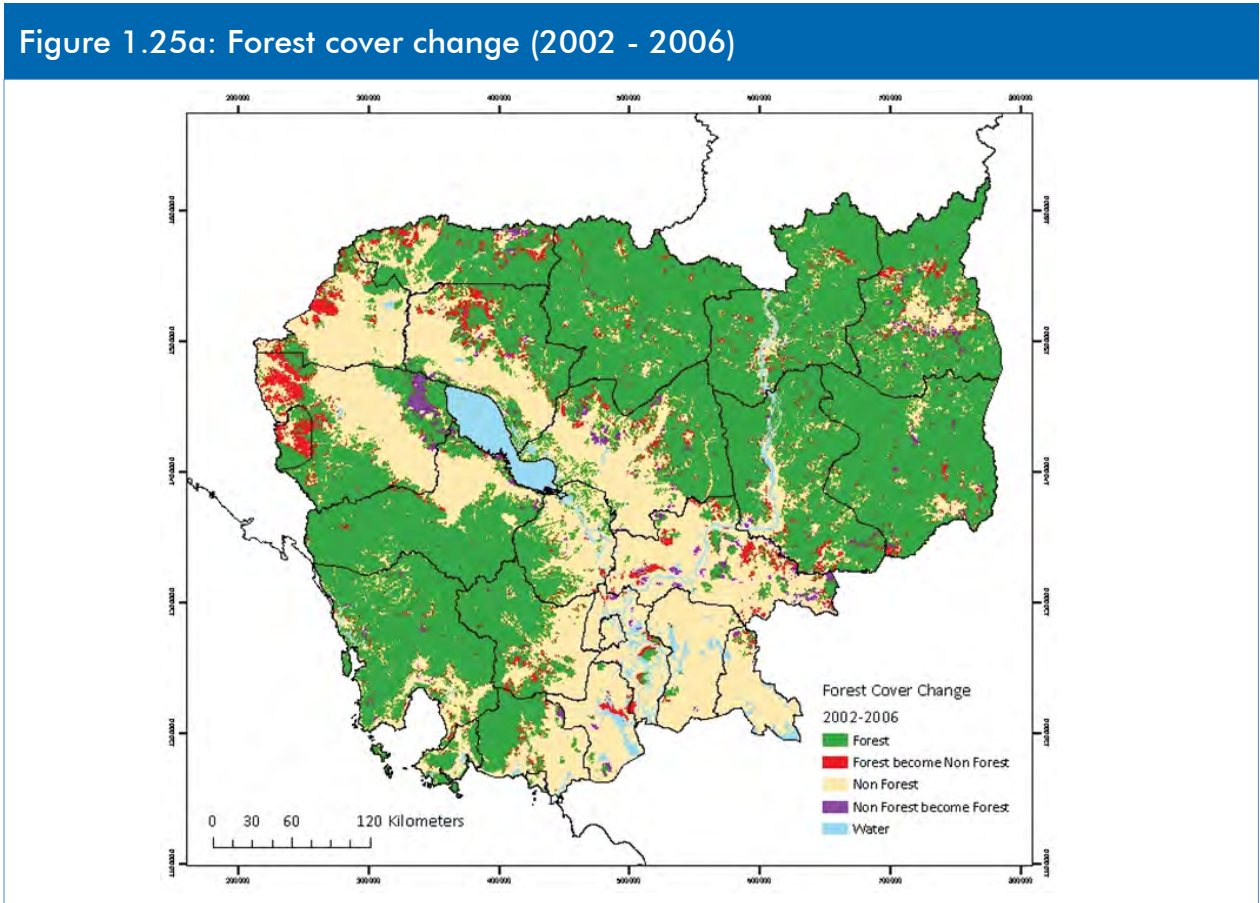
Cambodia has a higher proportion of forest cover (59%) than any other country in Southeast Asia. It is estimated that in 1976 forest cover was 76% of the land area. Rapid depletion of the remaining areas of primary forest took place during the 1990s through poorly regulated logging and from 1997 to 2002 loss of forest cover was estimated at 1% - 5% per year⁸³. The Government imposed a logging moratorium in 2002 and this appears to have stabilised the situation although forest cover declined from 61% to 59% from 2002 to 2006. There are continuing allegations of illegal logging and of complicity in forest crimes by persons

81 Forests are natural carbon sinks as they store carbon in the form of biomass which would otherwise be released into the atmosphere as Carbon Dioxide.

82 Since about 20 KG of animal waste are needed to run the “biodigestor”, only high income rural families having a large number of animals are able to install this system.

83 SCW 2006 Cambodia Atlas

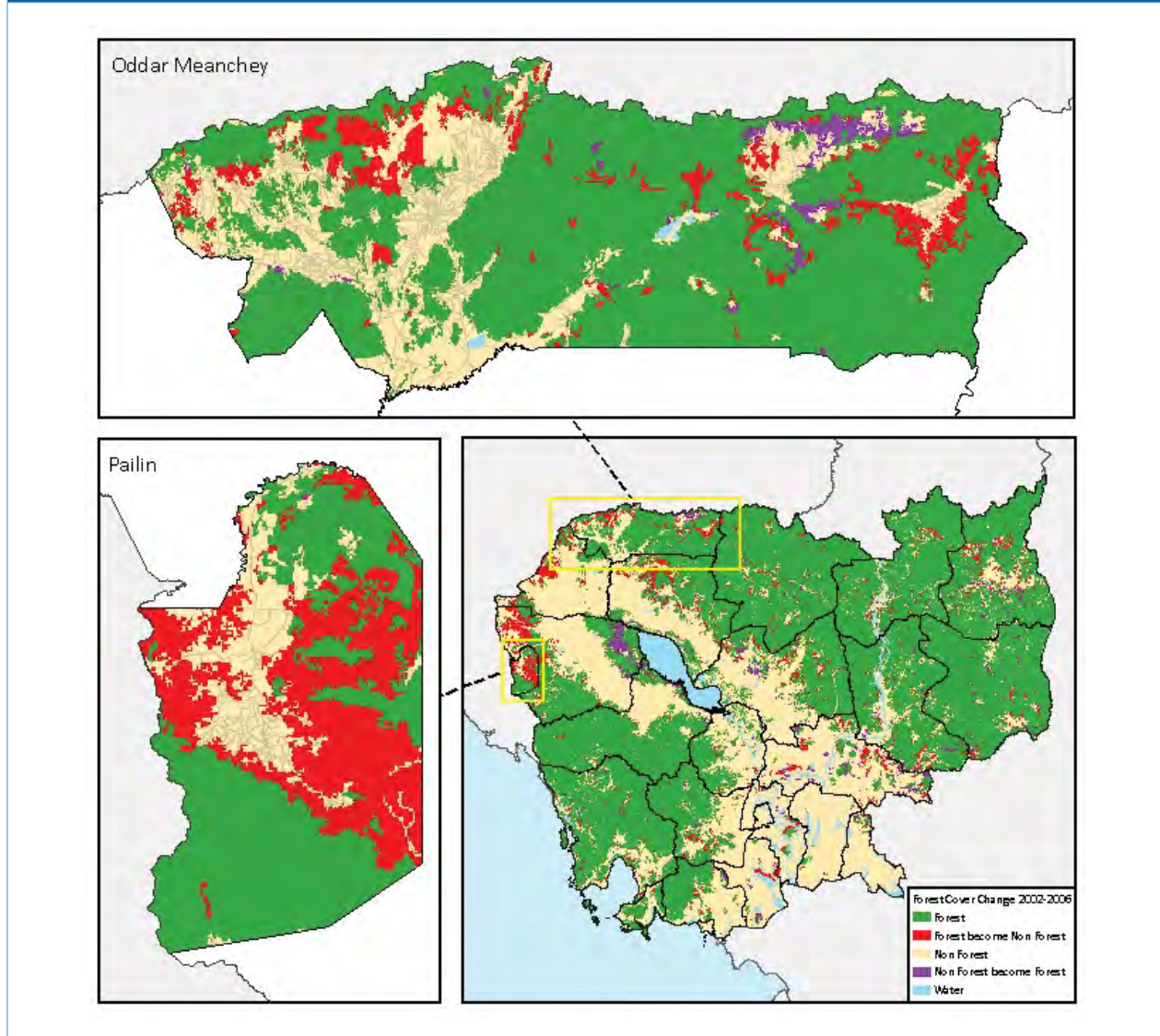
in authority although the nature of the problem appears to have changed from large-scale clear-felling of forest to selective targeting of relatively small quantities of the most valuable types of timber. Clearing of forest land for agriculture and over-harvesting of fuel wood are also seen as threats to the health of Cambodia’s forests. About 55% of all forests including 45% of forests in protected areas are considered to be degraded⁸⁴. (See figure 1.25a and 1.25b).



Source: MAFF Forestry administration 2008

84 Ibid.

Figure 1.25b: Forest cover change Pailin and Oddar Meanchey provinces



Source: MAFF Forestry administration 2008

Cambodia is a country with globally significant freshwater fisheries including the Mekong River, the Tonle Sap and a preponderance of ecologically important wetlands that encompass about 30% of its land area⁸⁵. Fisheries provide full or part time employment for up to 2 million people and contributes significantly to domestic food security⁸⁶. There is alarming evidence of a significant decline in the quantity and quality of stocks⁸⁷. **Energy production**

85 About 50% of the fish catch comes from five provinces around Tonle Sap lake and another 22% from Kampong Cham and Kandal on the lower reaches of the Mekong. Aquaculture is also important in the lower part of the Mekong around Phnom Penh, including Kandal and parts of Kampong Speu, and in Kampong Thom and Pursat on the Tonle Sap lake.

86 Providing over 75% of animal protein in the national diet and contributes about 7% of total GDP.

87 Catches increased from 72,500 tonnes in 1995 to 360,300 tonnes in 2003 before declining in the following two years to 250,000 tonnes in 2004. It is not clear whether there is a long-term downward trend.

may cause severe damage to other natural resources. Two hydropower schemes – in Kampot and in Pursat provinces – are currently under construction while six more are at the feasibility study stage and a total of fourteen have been identified. However there is concern that these developments may conflict with other natural resource management goals. About eighty percent of schemes are located in protected areas and may have damaging impacts on the environment as well as on local communities. Cambodia has a number of strong laws that should safeguard the environment and ensure adequate protection for communities affected by hydropower development. Enforcement of these laws is of only limited effectiveness due to inadequate resources and, on occasion, institutional disincentive. There are concerns that in this sector the interests of local development may be sacrificed to the needs of the wider national economy or, worse, that failure to recognise, negative impacts (and to incorporate them in the cost-benefit analysis) may lead to projects that have a net deleterious impact on national development.

...and the vulnerability of large parts of the Country to climate change.

Climate change is expected to affect Cambodia significantly as it is one of the most vulnerable countries in the region⁸⁸. Cambodia's vulnerability to climate change is linked to its characteristics as a post-civil war, least developed, agrarian country with 80% of the population living in rural areas, weak adaptive capacity, poor infrastructure and low elevation of the central plain. Climatic events such as floods and droughts are already recognised as one of the main contributors to poverty. During 20 years period from 1987-2007 succession of droughts and floods have already resulted a significant number of fatalities and considerable economic losses accounted about 1,125 deaths and 465 million USD damage⁸⁹.

Climatic variations are anticipated to further increase the severity and frequency of flood and drought events⁹⁰ with lowland areas more affected than highland areas.

Rainfall increases are anticipated predominantly in the central agricultural plains stretching from south east to northwest – a high population area historically of low rainfall yet known to be vulnerable to flooding and drought.

The Mekong region in general and Cambodia specifically will experience a shorter rainy season and a longer dry season (by approximately 2 months). For the Mekong basin, flows could increase by as much as 41% and for the delta area by 19% in the wet season.

88 Yusuf and Francisco (2009) *Climate Change Vulnerability Mapping for Southeast Asia* (www.eepsea.org).

89 National Committee for Disaster Management and Ministry of Planning (2008) *Strategic National Action Plan for Disaster Risk Reduction*.

90 Yusuf and Francisco (2009) *op.cit.*

In contrast, flows could decrease by 24% in the basin and 29% in the delta⁹¹. Changes in flows and seasonality could also have adverse impacts on sensitive and economically productive wetlands such as Tonle Sap⁹². Having one of the lowest proportions of arable land under irrigation in the region, this low level of infrastructure for water management makes the agriculture sector particularly vulnerable to any change in rainfall patterns. The low capacity for food processing and the high proportion of crop yields being for subsistence purposes underlines the high potential for severe impacts on food security and poverty. Fisheries are also highly vulnerable to climate change: in the Tonle Sap basin, the Mekong River and its tributaries, and the rice fields and floodplains – fisheries productivity is largely determined by the hydrological flow regimes, the timing, duration and extent of flooding and the quality of habitats that are inundated. It is also unclear the extent to which the local and regional impacts of climate change have been factored into national infrastructure planning, in particular in relation to proposed large hydropower developments. Finally, it is expected that climate change will increase the incidents of infectious, water-borne and vector-borne diseases, heat stress and mortality, with significant impact on public health costs.

1.8 SUMMARY

In sum, large territorial disparities and different development dynamics call for a flexible, deliberate policy approach to foster local development and accelerate progress towards MDGs.

Opportunities and challenges vary greatly across Cambodia. Whatever definition is used for ‘rural’ or ‘urban’ areas or territorial typology (see Box 1.1 and figure 1.24), the analysis of local development trends reveals a high degree of spatial heterogeneity, calling for a strategic approach to local development and flexible policies, tailored to the characteristics of different places. In particular, progress in the achievement of Cambodia’s Millennium Development Goals (CMDGs) varies greatly across different ‘macro-regions’, Provinces and between rural and urban areas.

Diversity and complexity are further exacerbated within Provinces, at a more micro level. This suggests the need for a strong focus on understanding and tackling local development dynamics by both Government and Development Partners. Against this background, the following section discusses the Cambodian policy approach to local development and to what extent it is able to address the Country’s diverse and fast evolving local development trends.

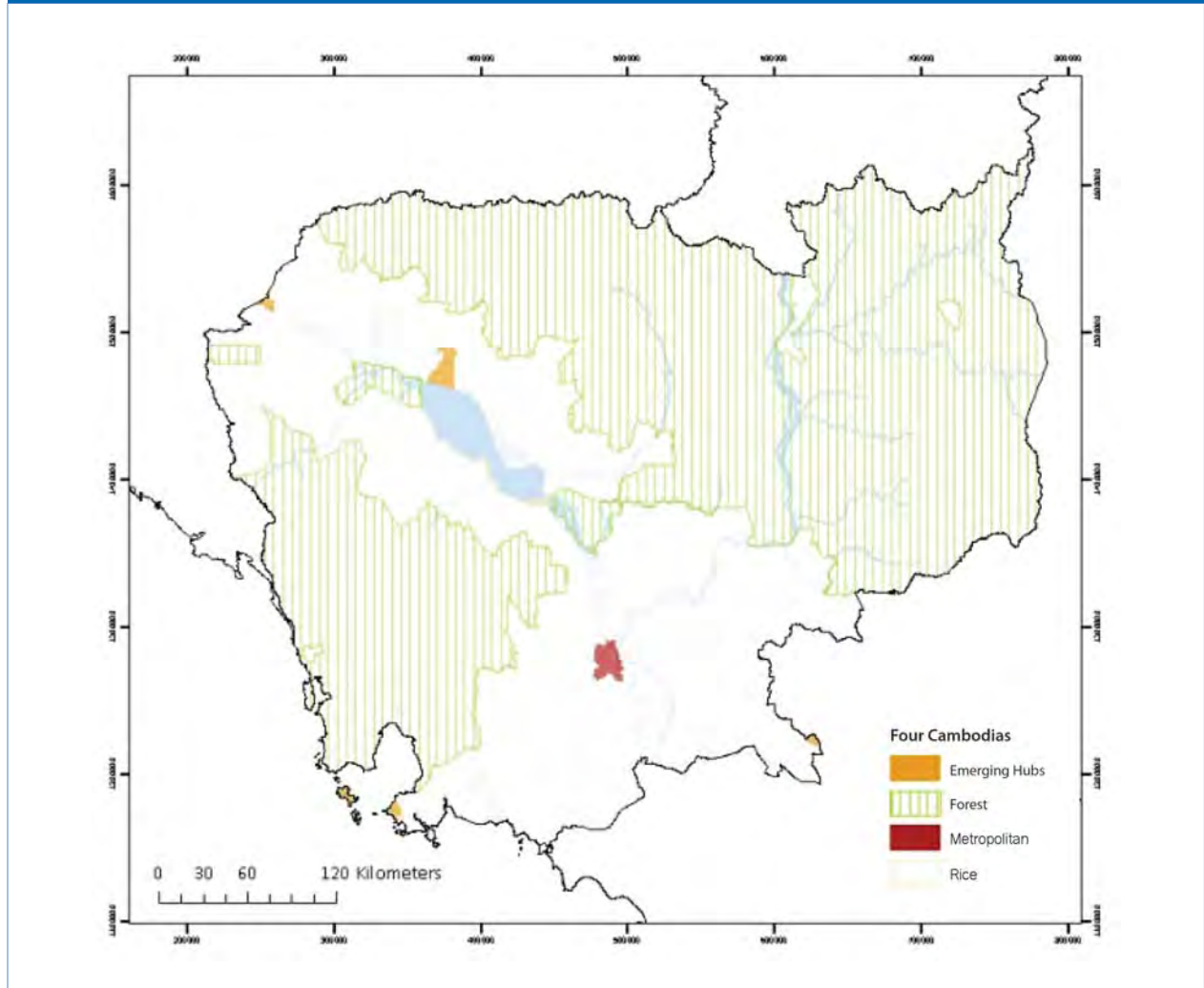
91 See Hoanh et al. (2004). These general predictions – of increased flow in wet season and decreased flow in the dry season, correspond with predictions of flow regime change associated with development of mainstream dams on the Mekong across the basin. This suggests that the combined effects of climate change and mainstream hydropower development could exacerbate the problems. Alternatively it could be seen as providing an opportunity for increased water storage of wet season flows for dry season uses.

92 World Bank (2007) *Environmental Monitor East Asia: Adapting to Climate Change*.

Box 1.1: Territorial typologies: how many Cambodias are there?

Different distinctions based on alternative definitions, that might require revision, can be made between rural and urban areas. However, limitations are related to the capacity to capture territorial diversity and thus to serve as useful categories to guide policymaking. Territorial typologies could be used to capture multiple dimensions of development and provide a representation of the key 'regional types'. For example the following "4 Cambodias" could be considered. The conventional way of characterizing regional differences in Cambodia are on to inform policy-making **(1) 'Metropolitan Cambodia'**, consisting of Phnom Penh plus contiguous predominantly urban districts in Kandal Province. Social-economic characteristics of the capital are very different from the rest of Cambodia. Industry and urban services dominate the economy. The population is younger, better educated and more mobile than in other areas. GDP per head is much higher and poverty levels much lower than elsewhere in Cambodia, but challenges include a growing population, competition for housing land and the need to integrate in-migrants and adapt services to meet changing settlement patterns; **(2) 'Rice Cambodia'**: predominantly rural areas grouped around market towns and administrative centres of local or regional significance. Land use is predominantly for annual crops. Population density is typically high with significant net out-migration. Agriculture is the main economic activity. Coverage of transport links and basic social services is typically quite good but quality needs to be improved. Intensification of agriculture and development of forward and backward linkages are the most obvious routes to poverty alleviation and development. Electrification, land titling and development of contract farming are attractive strategies; **(3) 'Forest Cambodia'**: Sparsely populated districts (overall population density <50 per km²) where significant in-migration is stressing the ecological balance, traditional land use and culture. Most of the land area is forest. Land use planning for sustainability and for productive use is a key issue. This could include cancellation of mismanaged or abandoned economic land concessions and transferring land to smallholders through social land concessions and under strict conditions to medium scale investors. Dispersed, community based tourism taking advantage of ecological and archaeological assets is a viable secondary strategy; and **(4) 'Emerging Hubs Cambodia'** : urban centres where the economy is dominated by external trade and is only secondarily connected to the surrounding rural areas. Urban Sihanoukville, Poipet and Bavet are the most important districts in this category, together with – for different reasons – Siem Reap. (See figure 1.26)

Figure 1.26: Four Cambodias?



Source: UNCDF 2010



2

POLICY ASSESSMENT: THE CAMBODIAN APPROACH TO LOCAL DEVELOPMENT



2.1 KEY POINTS

- Cambodia does not rely on an explicit National policy to address territorial imbalances: local development - as an objective - is closely linked with decentralisation and deconcentration (D&D) reforms. As recognized by recent Government documents, today's rural development policy in Cambodia is the result of many different activities, programs and projects characterized by modest coordination and a marked sectoral (agricultural) focus. Similarly, urban development or cross-border development are not the object of an explicit, long-term Government strategy. The National Strategic Development Plan (NSDP) for 2006-2010 and the NSDP update 2009-2013 do emphasize challenges related to inequality and recognize that progress is needed in terms of poverty reduction and spatial disparities and that decentralization/deconcentration (D&D) is a tool to achieve this. Key D&D documents, in turn, mention local development as a key, explicit objective.
- D&D reforms have their roots in the early 1990s and have produced remarkable results, leading to the foundation of the system of local governance in the communes and sangkats and thus paving the way to participatory democracy. The Strategic Framework (2005), the Organic Law (2008) and the National Programme for Sub-National Democratic Development (NP-SNDD/ 2010) provide guidance to develop the Country's multi-level governance structure over the next decade.
- D&D reforms' full implementation faces substantial challenges. (1) at the National level, modest awareness and sector by sector fragmentation among both Government agencies and development partners pose numerous difficulties. A key role to address these challenges is to be played by the National Committee for Democratic Development (NCDD) and will need strong support from the RCG leadership and good cooperation with line ministries. (2) 'Vertically' the challenge is to move away from a centralized, system, to proceed to with the process of functional review and assignment to SNAs and correct the shortcomings of the intergovernmental fiscal framework. (3) locally, key challenges are related to weak planning systems, low capacity and limited citizens' participation.
- D&D reforms can provide the 'governance infrastructure' to foster balanced, sustainable development across Cambodia, the Country still lacks a strategic approach to local development. The Government has a key role to play and difficult, strategic decisions to make regarding the future of different parts of Cambodia. It can use various instruments (regulatory powers, fiscal instruments, infrastructure policy etc.) that influence the location of economic activity and people. In the absence of a clear strategy, these decisions are likely to be taken casually and without transparency.

- Decentralization and deconcentration reforms and the design of a strategic approach to local development are also hampered by the limitations of a weak system of disaggregated data collection, classification and analysis. Firstly, the quality of disaggregated data available is modest and there are problems of coherence among different sources. Secondly, current territorial definitions (for instance the official definition of 'rural' areas) need to be revisited. Thirdly, analytical capacity needs to be strengthened at both National and Sub-National (SN) levels to provide policymakers with clear strategic information. Lastly, dissemination of statistics is still limited and largely dependant on Development Partners technical and financial contribution.

2.2 DECENTRALIZATION AND LOCAL DEVELOPMENT IN CAMBODIA

Over the last decade, the Cambodian Government has been successful in promoting economic growth, but this has been narrowly based and is now challenged by increasing social and territorial disparities.

Cambodia's recent history, marked by a long period of divisive internal confrontations and foreign conflicting geopolitical interests, has largely justified a focus on internal cohesion and a unitary vision for its policies, contributing to political stabilization and a centralized approach. For economic development, an open market and export led development model has been followed since the Nineties, similar to the liberal approach adopted by other regional neighbours, relying on macro-economic stability⁹³. The result has been sustained but narrowly based, and at least partially unsustainable, growth⁹⁴. As discussed in Part 1, the relatively high rates of growth registered since 1999 were driven by foreign direct investment, tourism, open markets, urbanization; they worked well at an aggregate level, as expected, but were accompanied by widening disparities in income, a polarized social situation between the rich and the poor, and between urban and rural areas.

The impact of the financial crisis in 2008-2009 has been severe on this system: many garment factories closed, construction shrank, tourism flows declined, exports became less competitive, remittances dwindled. As happened in many countries, a model that was working for only a part of the system before the crisis, was even less able to do so after the financial shock. Increasing territorial disparities and the need to identify potential for more diversified local economies suggest the need for a deliberate, strategic focus on local development.

⁹³ See the 1st Five years Socio-Economic Development Plan (SEDP I, 1996-2000).

⁹⁴ See *Sustaining Rapid Growth in a Challenging Environment* (World Bank, 2009).

Cambodia does not rely on an explicit National policy to address territorial imbalances: local development - as an objective - is closely linked with decentralisation and deconcentration (D&D) reforms.

Cambodia has not up to now defined an explicit policy for local development. The discussion on territorial disparities, spatial divides and the need for diversification of local economies is present in the public discourse. However, the RCG has not developed a clear policy focus to target places or 'types of areas' (rural, urban, remote, mountain, coastal etc.) to address these challenges. For instance, the rural-urban gap, although mentioned in all key policy documents, is not addressed via an integrated strategy for rural development. As recognized by recent Government documents⁹⁵, today's rural development policy in Cambodia is the result of many different activities, programs and projects carried out by numerous institutions - all linked more or less explicitly to rural development⁹⁶ - but characterized by modest coordination and a marked sectoral (agricultural) focus.

Similarly, urban development is not the object of an explicit, long-term Government strategy (see section below). In terms of the highest order policy documents, the RGC's 2004 Rectangular Strategy does not focus on disparities and local development as explicit objectives but does emphasize the central role of governance reforms (including D&D) as the "most important pre-condition to economic development with sustainability, equity and social justice"⁹⁷. The National Strategic Development Plan (NSDP) for 2006-2010 and the draft NSDP update 2009-2013 do emphasize challenges related to inequality and recognize that progress is needed in terms of poverty reduction and spatial disparities (especially in rural areas⁹⁸104). The NSDP makes an explicit link between rural development and decentralization/deconcentration (D&D)⁹⁹. Key D&D documents, in turn, mention local development as a key, explicit objective¹⁰⁰. In this context, Cambodia's policy approach to local development is closely linked to reforms in the fields of decentralisation and local governance. Therefore, the recent and current evolutions of such reforms play a key role in shaping what is, de facto, the Country's strategy towards local development.

95 *The recent NSDP 2009-2013, insists indeed on the need to introduce a strategy for 'broad-based development' in rural areas and entrusts the CARD (Council for Agriculture and Rural Development) with the responsibility to develop one and to 'put in place interministerial coordination mechanisms'.*

96 *These include the Ministry of Agriculture, Forestry, and Fisheries (MAFF); Ministry of Water Resources Management and Meteorology (MOWRAM); and the Ministry of Rural Development (MRD) but also from other angles the Ministry of Planning (MOP), the NCDD and several sectoral Ministries with projects focused on rural areas.*

97 *See 'Rectangular Strategy for Growth, Employment, Equity and Efficiency in Cambodia' (Phase I, 2004 and Phase II, 2008).*

98 *The NSDP emphasizes the objective of devoting the largest share of public investment to rural areas. See p. XIV and table 5.2 p. 87, indicating over 60% of total NSDP allocations by sector to be devoted to rural areas.*

99 *See NSDP, parag. 2.34, pp. 22-23.*

100 *The Strategic Framework on Decentralization and Deconcentration (see pp. 2, 4), adopted in 2005 as well as the separately developed Public Financial Management Reform Program (see pp. i-ii, PFMRF, Dec. 2004 and pp. i-ii, PFMRF Dec. 2008) and the National Program for Administrative Reform, do include the objectives to reduce poverty and achieve the Cambodian Millennium Development Goals. Two key instruments have been identified for addressing poverty issues: governance tools, namely, the D&D strategy; the provision of public goods, namely the improvement of social service delivery.*

D&D reforms have their roots in the early 1990s, with UNDP-led CARERE 1 Project, then evolved into CARERE 2 and the Seila Program...

The signature of the Paris Peace Accords in 1991 led to the establishment of the UNTAC administration, pending the national elections that took place in 1993. Prior to 1993, the district administrations held considerable responsibilities (through both the administration itself and the parallel party structures), both for ensuring security and for overseeing the activities of the line Ministries in their respective territories. Following the 1993 election, all power and functions were centralized to the line Ministries and the Royal Government of Cambodia (RGC) focused its energies on nation, Government and administration (re) building and political reconciliation.

During this period, the process of developing structures at the Sub-National level was essentially driven by external donors, most notably the UN agencies. The key focus was to reintegrate and repatriate refugees and IDPs, and ensure quick implementation of infrastructure projects in order to re-establish basic services. These goals were implemented by UNDP via the CARERE 1 Project¹⁰¹, from 1992 to 1995. Thus, and at least in its initial phase, external donor actions at the Sub-National levels were not reflective of defined policies of the Cambodian Government¹⁰². The key external donor programs implemented in the territory at local levels gradually evolved 1) from a focus on humanitarian and emergency actions to the establishment of a development approach which engaged the local populations in a participatory process; and 2) from donor-driven to greater involvement and strategic thinking by the RGC. In this context, UNCDF played an important role in terms of piloting fiscal transfer mechanisms and local planning procedures that would then become the basis for the Commune Sangkat Fund (CSF) and the Commune Planning Processes (CPP).

CARERE 1 was followed by CARERE 2 (1996 – 2001) with the main focus on rehabilitation and regeneration¹⁰³. **CARERE 2** was accompanied by the pilot phase of the **Seila**¹⁰⁴

¹⁰¹ Cambodia Repatriation and Rehabilitation Project.

¹⁰² In the process of funding and managing the construction of a considerable number of facilities, the external donors appear to have left aside whatever administrative or management structures may have been built under the Vietnamese period, even if they were centralized in 1993. This point is noted by one frequent observer and analyst of the evolution of decentralization and deconcentration (D&D) in Cambodia: "Initial donor assessments produced at the time [1991] began with a standard preamble emphasizing the absence of law, qualified personnel, and material resources in Cambodia and linking this to the appalling poverty observable in the country. These issues were usually attributed entirely to the destructive nature of the PDK regime; little attention was paid to the nature of reconstruction in the 1980's, which were regarded as insubstantial, of little impact and largely swept away by the late 1980's reforms which changed Cambodia from a command to free market economy." Hughes (2007), p. 7.

¹⁰³ Leading as well to a similar change in the title of the project, although, not the acronym.

¹⁰⁴ In Khmer, seila means "cornerstone". The program established elected Village Development Committees, whose representatives formed the Commune Development Committees to promote sustainable poverty reduction by improving local governance and did indeed lay the foundation for the development and adoption of the Law on Commune/Sangkat Administrative Management (LCSAM) in 2001.

Program to test and develop decentralized approaches to plan¹⁰⁵, finance and implement infrastructure projects, carried out initially in five provinces and in support of the RGC's rural development strategy¹⁰⁶. The Seila Task Force, a multi-ministerial structure based in the Council for Development of Cambodia (CDC), provided direction and oversight. External donors functioned as the driving force for the Government to develop the participatory planning and budgeting systems which were established at the commune and village level, as well as the provincial systems for capacity building, technical assistance and monitoring of commune processes. These systems and processes were ultimately formalized in sub-decrees and *prakas*¹⁰⁷. During the first phase of Seila, the small-scale development projects were designed and approved by province and commune development committees and implemented by line departments and private contractors. In 1999-2000, full execution responsibilities were transferred to the province and commune authorities.

...which have produced remarkable results leading to the foundation of the system of local governance in the communes and sangkats, thus paving the way to participatory democracy.

Under the Seila process, several structures were created at the province level, including the Executive Committee (ExCom), which is part of the Provincial Rural Development Committee (PRDC), as a way for the provincial governor to provide capacity support to communes¹⁰⁸. Based on the experiences of the initial Seila program, from 1999, the RGC set out an agenda to put in place the first legal framework for decentralization, via the creation of the inter-Ministerial National Committee for the Support to the Communes (NCSC), led by the Ministry of Interior (Mol)¹⁰⁹. As the country stabilized, the RGC articulated national reform programs, forming an overall policy framework for the decentralization process¹¹⁰. In this context, the main policy objective of the 2001 Law on Commune/Sangkat Administrative Management (LCSAM) could be summarized as "pluralist participatory democracy <...>

105 As noted in the Seila Task Force final report: "The original objective of Seila was to design horizontal provincial and commune management structures and systems owned and operated by Government that were acceptable to donors so that their assistance could directly finance activities designed by local authorities following national guidelines." Seila Task Force (2007), pp. 14-15.

106 Seila initially focused on Battambang, Banteay Meanchey, Pursat, Ratanakkiri and Siem Reap provinces, and worked with a total of 20 communes, expanding to 500 communes in 11 provinces by 2001.

107 Seila Task Force, op. cit.

108 Some observers argue that this has resulted in the creation of parallel systems and structures, which have ensured accountability to donor modalities and fiduciary responsibility requirements, but which has also led to de-motivation of large classes of provincial / line department personnel, as they were excluded from the salary supplements systems.

109 Rusten (2004), p. 14.

110 Starting from the early 2000s, the RGC began to elaborate a series of policy documents, of which some were developed specifically to define the Government's own goals (Government Action Plan – 2001; Triangle Strategy 2001-2005) while others corresponded to a framework for ensuring external donor support, such as the adoption of the Poverty Reduction Strategy Paper (PRSP) in 2002 and Cambodia's Millennium Development Goals (2003).

leading to poverty reduction through increased service delivery and local investment”,¹¹¹ which thus builds and expands on the goals of the Seila Program¹¹².

The first commune council elections were held in February 2002: they represented a considerable achievement of beginning to entrench democratic institutions at the local level only three years after the ceasing of all combat operations on the territory of Cambodia. The commune and sangkat councils also became the focus of the continuation of the Seila program activities for financing infrastructure, both continuing and expanding the participatory processes which had been piloted in the early phase. Support to developing and training the commune councils was provided through the Partnership for Local Governance (PLG)¹¹³ and the second phase of Seila (2001 – 2006) to: i.) contribute to poverty alleviation through local governance; ii.) institutionalize the “appropriate” decentralized systems to coordinate external assistance and national development efforts¹¹⁴. To work toward these goals, the financing of commune and sangkat councils was formalized largely via the Commune/Sangkat Fund (composed of transfers from the national budget and donor funds) and small amounts of non-tax revenues.

The C/S Fund is the most important resource for C/S and its implementation can be regarded as a success. First, the RGC has demonstrated a consistent commitment to the CSF; the share of the national budget allocated to the Fund increased from 1.5% of state budget recurrent revenues in 2002 to 2.75% in 2009, with 3-year periods of commitment. The most recent decree ensures the Commune/Sangkat Fund formula through fiscal year 2010. Second, the implementation and transfer of the Fund has improved over time, in parallel with the implementation of Platform 1 of the Public Financial Management Reform Program (PFMRP) which led to the improvement of the overall cash position for the implementation of the RGC budget. The CSF has enabled the commune/sangkat councils to improve the infrastructure of their communities by making available funds for participatory projects planned and managed by the councils. There are however weaknesses in the way the C/S Fund has been used. For instance, the large use of this instrument to fund roads is questionable and may also be in contrast with the actual demand of communes’ constituencies.

¹¹¹ Rusten, *op. cit.*, p. 15

¹¹² This message has been consistent throughout the past decade and indeed also underlies the intent of the 2008 Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans.

¹¹³ Successor to CARERE 2

¹¹⁴ Seila Task Force, *op. cit.*, p. ii

Box 2.1: The commune/sangkat fund

The Commune/Sangkat Fund (CSF) is the successor to the Local Development Fund (LDF) implemented under the Seila project. The CSF was institutionalized via Article 77 of the Law on Commune/Sangkat Administration and Management. The importance of the provision is not only that a fixed source of national (and other) revenues is to be transferred to C/S budgets, but also that the formula for setting the overall RGC contribution to the fund is to be established for a minimum of three years (and a maximum of five years). This multi-year formula commitment is relatively rare and enables communes and sangkats both a measure of resource stability and some measure of forward planning capacity¹¹⁵.

The CSF is funded by RGC revenues as well as by a supplemental grant from PLG/PSDD. The table below tracks the evolution of the Royal Government's contribution, set as a share of recurrent revenues. From 2008, this share is based on the prior year budget (and therefore, actual data). This change ensures additional predictability / stability for communes / sangkats¹¹⁶.

**Table Box 2.1.1: Defined state budget contribution to CSF
(percent of recurrent revenues)**

	2003	2004	2005	2006	2007	2008	2009	2010
% recurrent rev State Budget	2.00%	2.50%	2.52%	2.54%	2.56%	2.70% (of 2007 budget)	2.75% (of 2008 budget)	2.80% (of 2009 budget)

The CSF allocations should be transferred in three tranches so that at least 50% of the allocation is received by May 31, a further 30% is transferred by August 31 and the remaining 20% by October 31¹¹⁷.

¹¹⁵ The Sub-decree No. 16 ANKR (25 February 2002) on "Communes/Sangkats Fund" defines all key aspects of resources, allocation, uses, management procedures, and transfer procedures for the CSF. Subsequent sub-decrees make adjustments to the variables of resources (setting the pool of the CSF), allocation criteria (if any adjustments are made) and calendar of CSF disbursements.

¹¹⁶ The gradually increasing share of state budget revenues committed for the C/S Fund, combined with increasing tax receipts due to strong economic growth resulted in relatively significant annual increases of 13 to 17 percent (2002 to 2003 represented an atypical transition year). The donor partner contributions (from UNDP/DFID/SIDA, passed through PLG from 2002-2006 and through PSDD since 2007) were reduced from 2007; however, this change did not significantly impact the overall total of the CSF allocation. The slow growth for 2008 cannot entirely be explained by the economic crisis, given that the amount was based on actual 2007 budget receipts.

¹¹⁷ The improvement in public finance management since 2004 has improved the delays and functioning of the general transfer of CSF allocations to the provincial treasuries. However, given that C/S accounts are centralized in each respective provincial treasury, C/S officials must travel to the provincial capital in order to obtain their CSF funds.

Table Box 2.1.2: Total CSF allocation by sources 2002 - 2009

Million riels	2002	2003	2004	2005	2006	2007	2008	2009
Total Allocation	30,688	51,420	58,000	66,100	77,814	89,550	93,025	113,340
Royal Government	25,015	43,620	50,000	58,000	69,614	87,500	91,000	106,890
PLG or PSDD	5,673	7,800	8,000	8,100	8,200	2,050	2,025	6,150
Reserve Fund								300
Change per year		67.6%	12.8%	14.0%	17.7%	15.1%	3.9%	21.8%

The 2002 Sub-decree defines three purposes for the CSF (Article 2):

- to enable C/S to carry out local administration and promote local development;
- to reduce differences in revenue mobilization capacity (equalization objective); and,
- to provide an incentive to build good governance capacity of C/S Councils.

A significant innovation (in the budget context of Cambodia) requires that CSF allocations which have not been spent (or not transferred) at the end of the financial year are to remain as credit or cash balances of the respective commune or sangkat, to be rolled over to the following budget year (Article 3 of sub-decree no. 16 of 2002). Article 12 of the Sub-decree No. 16 divided the CSF into two components:

- General Administration Component, not to exceed 1/3 of total fund resources for distribution
- Local Development Component, not to be less than 2/3 of total fund resources.

The general administration component is allocated proportionately to the size of the respective council and these funds may be used for any “administration” and “development” expenditures, as further defined in the sub-decree. In practice the total amount of allowances for councilors and village chiefs is deducted from the General Administration Component for each C/S. The residual amount is then shared among all C/S, on the basis of the number of elected councilors. As can be seen in the table below for the general administration component, the salary share has increased overall in this part of the allocation, now accounting for about 80%.

**Table Box 2.1.3: CSF general administration component allocation
2002 - 2009**

Million riels	2002	2003	2004	2005	2006	2007	2008	2009
Administration Allocation	13,848	19,389	19,333	20,712	24,645	32,514	32,836	34,324
% of total CSF Pool	45.13%	37.71%	33.33%	31.33%	31.67%	36.31%	35.30%	30.28%
Salaries	9,367	14,050	14,050	14,050	14,050	25,347	27,026	27,127
Non-Salaries (residual amount)	4,481	5,338	5,283	6,662	10,595	7,167	5,810	7,197
Share of Salaries in total	67.6%	72.5%	72.7%	67.8%	57.0%	78.0%	82.3%	79.0%

The Local Development Component is allocated by a formula composed of three elements. The relative weights of the elements changed from 2003-2004 period to the 2005-2007 period, but has remained stable since then:

Table Box 2.1.4: Allocation formula for local development component of the CS

	2003-2004	2005-2007	2008-2010
Equal Share	40%	35%	35%
Population	40%	35%	35%
Poverty Index	20%	30%	30%

**Table Box 2.1.5: CSF local development component allocation
2002 - 2009**

Million riels	2002	2003	2004	2005	2006	2007	2008	2009
Development Allocation	16,840	32,031	38,667	45,388	53,169	57,036	60,189	79,016
% of total	54.87%	62.29%	66.67%	68.67%	68.33%	63.69%	64.70%	69.72%

Box 2.2: Sub-national Governments in Cambodia

With the adoption and promulgation of the Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans in April-May 2008, Cambodia has moved from a two-tier (provinces/municipalities and communes/sangkats) to a three-tier (Capital/provinces, districts/municipalities/Khans and communes/sangkats) sub-national administrative system¹¹⁸.

Province/Capital. At the first level, there is:

- one capital City, Phnom Penh, (subdivided into Khans and sangkats) and,
- 23 Provinces (subdivided into districts and municipalities).

District/Municipality/Kahn. The following level comprises:

- 159 districts (subdivided into communes and sangkats);
- 26 municipalities (subdivided into sangkats); and,
- 8 Khans (subdivided into sangkats).

Commune/Sangkat. The lowest tier of Cambodia's subnational is composed of:

- 1,621 communes and sangkats.

Prior to the elections of May 2009, the Capital, provincial, district and municipal administrations functioned as administrative offices of the Ministry of Interior, even if the 1998 Decree on Provincial/Municipal Budget and Durable Assets Regime, defined the provinces and municipalities as legal entities with a right to a budget and to own assets.

Organisation of the Communes/Sangkats

Communes/sangkats are legal entities, governed and administered on the basis of a council whose members are elected in universal, free, equal, direct and secret elections. The mandate of the C/S council is five years and has from 5 to 11 members, based on population. The first commune elections were held in 2002 and the second elections were held in 2007. The C/S council should meet at least once a month in a public meeting and requires a quorum of more than half of the councillors in order to be valid. An absolute majority of votes of all councillors are required for the following decisions:

- approval of C/S development plans
- approval of C/S budgets
- imposition of local fiscal taxes, non-fiscal local taxes and other service charges
- approval of by-laws and orders

¹¹⁸ The communes and sangkats are regulated by the Law on Commune/Sangkat Administrative Management, promulgated in March 2001.

The presiding councillor of the C/S council is also the C/S chief, and in this capacity, is responsible for the administration of the commune or sangkat. The C/S chief is assisted by two deputy chiefs, one responsible for financial and economic matters and the second responsible for administration, social affairs, public services and public order. The principal staff member of the C/S is the clerk, who is appointed and employed by the Minister of Interior and responsible to assist in the administration affairs of the C/S. In this capacity, the clerk is directly and permanently responsible to the C/S Council, as well as to the Ministry of Interior. The clerk does not have supervisory powers over staff hired and employed directly by the Commune/Sangkat Council.

Organisation of the Province/Capital and District/Municipality/Khan

The Capital, provinces, municipalities, district and Khans are legal entities, governed and administered on the basis of a council whose members are elected in indirect elections, by the commune and sangkat councillors. The mandate of the council is five years and includes the following number of members, based on the level of sub-national administration and its respective population:

- 21 councillors for Phnom Penh Council
- from 9 to 21 councillors for provincial councils
- from 7 to 15 councillors for municipal councils
- from 7 to 19 councillors for district and Khan councils

The council has the authority to make legislative and executive decisions; its legislative power is expressed through the issuance of by-laws (Deika) and its executive power is exercised through issuance of decisions.

The council should hold ordinary meetings at least twelve times per year. The council meetings are conducted in public and require a quorum of more than half of the councillors in order to be valid. The first Capital/province/district/municipal/Khan elections were held in May 2009.

The Capital, province, municipality and district have their own budget, while the Khan and sangkat of the Capital have their budgets included in the budget of the Capital and the sangkat in municipality has its budget included in the municipality budget.

The administration of Capital, province, municipality, district and Khan is ensured by a Board of Governors (from 3 to 7 members), headed by the Governor, with a mandate of four years, with the possibility of reappointment for a second 4-year mandate. Governors and deputy governors are appointed based on the following:

- Capital and province governor appointed by Royal Decree based on Prime Minister request following Mol proposal
- Municipality/district/Khan Governor and Capital/province deputy governor appointed by sub-decree based on request of Mol
- Municipality/district/Khan deputy governor are appointed by a Prakas of Mol

The Governor shall carry out a dual role which consists of :

1) *representing the RGC, ministries and institutions on issues related to security; social and public order; law and human rights and in this capacity is accountable the RGC, Mol and other Ministries;*

2) *Support to and accountability to the elected Council of the respective jurisdiction. In this, the Governor is responsible for ensuring that the respective jurisdiction's administration fulfils their roles and duties and implements the council's decisions. In this respect, the personnel of the council are under the direct management and supervision of the board of governors, on behalf of the council. The Director of Administration is appointed by the Mol, but reports to and is accountable to the council and its board of governors.*

Committees of the Councils

Each council is obliged to establish three committees:

1. *Technical Facilitation Committee*
2. *Women's and Children's Affairs Committee*
3. *Procurement Committee*

The Technical Facilitation Committee (TFC) is particularly important in that it will be the main vehicle for unified administration, one of the key principles of the Organic Law. The establishment of unified administration at sub-national administrations aims at strengthening the unity of the state in order to facilitate all public administrative activities within its territory. To achieve this goal, the TFC should ensure the integration of the development plans and budgets of Ministries, institutions, departments or units of the Government which provide services, equipment and infrastructure in the territory of the respective sub-national administration with the 5-year development plan, 3-year rolling investment plan, medium-term expenditure framework and annual budget plan of the sub-national administration.

Special Provisions for the District Council

District councils are responsible for promoting democratic development in their respective districts, notably in a two-way coordination with commune/sangkat council, whereby a) district councils are accountable to commune councils for their decisions and performance and b) district councils support commune councils to enhance and improve communes' administrative and management capacity

In order to ensure this function, the district council shall set up as part of its administration a commune councils support unit.

The Strategic Framework (2005), the Organic Law (2008) and the National Programme for Sub-National Democratic Development (NP-SNDD/ 2010) provide guidance to develop the Country's multi-level governance structure...

Both the success and the limits of the Commune/Sangkat councils led Cambodia's Government to articulate a clear vision for the next stage of decentralization and deconcentration reforms. The **2005 Strategic Framework for Decentralization and Deconcentration Reforms**¹¹⁹ lays out the key characteristics of the new Sub-National administration system, which is to consist of indirectly elected councils, in order to strengthen and expand local democracy and a board of governors appointed by the RGC, to enable the establishment of unified administrations. The latter goal implies a significant institutional restructuring and redefinition of the roles, not only of the provincial/municipal and district/khan administrations but also of the deconcentrated line Ministry offices, which are also expected to become more accountable for their results both to the Royal Government and to the citizens. The overarching vision of the Royal Government is to develop a system that will "...operate with transparency and accountability in order to promote local development and delivery of public services to meet the needs of citizens and contribute to poverty reduction within the respective territories¹²⁰."

In order to develop the Organic Law, which would define the new administrative structures for provinces/municipalities and districts/khans, the NCSC was subsequently replaced by the **National Committee for the Management of Decentralization and Deconcentration Reforms (NCDD-1)** and its secretariat moved to the Ministry of Interior. Even with a clear

¹¹⁹ RGC, 17 June 2005. Further referred to as "Strategic Framework" in the following text.

¹²⁰ Strategic Framework, p. 4.

vision, and relatively well-defined goals, the passage from strategy to organic law proved to be quite challenging and required almost three years of drafting, review and discussions, during which time the second elections of commune and sangkat councils took place, in April 2007. The Law on Administrative Management of Capital, Provinces, Municipalities District and Khans (**Organic Law**), and the Law on Elections of Capital Council, Provincial Council, Municipal Council, District Council and Khan Council, were both promulgated in May 2008. The Organic Law extends representative deliberative bodies to all levels of Sub-National administration in the country. This potentially represents a fundamental shift of the locus of decision-making and accountability throughout the territory. The districts in their new role of support to the communes appear to recover a legitimacy and function which they lost in the previous round of recentralization¹²¹. A strong role is being given to the elected councils over the governors. This vision incorporated in the Organic Law is also reflected in the draft sub-decrees on the roles, duties and working relationships between and among provincial, municipal and district councils and their board of governors, which have been approved by the NCDD-2. The Organic Law demarcates Capital, province, municipality and district, which have their own budgets, while the khan/sangkat budget is included in that of the Capital/municipality. The sangkats currently have their own budgets, which will need to be integrated/unified with their respective municipal/khan budget. The new legal framework defines the respective roles and responsibilities for financial management of Capital, province, district and municipality, whereby the SNA council is the decision-making body for annual budget, medium-term expenditure plan (MTEP), five-year development plan, and three-year rolling investment plan. These documents are prepared by the Board of Governors (BoG), which must also report to the council on a regular basis during the year and prepare an annual report on the implementation and on the SNA's financial situation. The Governor is the official delegated signatory on behalf of the council, while the chief of finance will be responsible for financial management, procurement and audit. The Organic Law clearly establishes that transferred functions and responsibilities should be accompanied with appropriate resources (finance follows function)^{122 123}.

¹²¹ During the Vietnamese period, a form of unified administration existed in the district, whose role was to maintain security, keep up military conscription and support agriculture. The district governor had ultimate power at the district level, and all offices under his command, including military and police. In 1993-94, the district status was reduced and the previous unified administration was broken. The line Ministries established vertical lines of accountability with their district offices, although few Ministries had any substantial presence at the district level (basically, MoH, MoEYS, MAFF and cadastral office). Since that time, district administrations have had severely limited authority and responsibility and have correspondingly limited administrative systems to draw upon in executing new responsibilities. Ojendal (2008), p. 14.

¹²² Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans or Organic Law, Articles 217 and 220.

¹²³ Finance, budget and asset management systems of sub-national administrations (SNAs) are defined within the principles of public financial management, as well as according to the main goals of the Organic Law, namely, the promotion of democratic development to carry out transferred functions, provide basic services and facilities, contribute to poverty reduction and respond to the needs of women, youth, children and the vulnerable.

The Organic Law paved the way for the process of developing the **National Program for Sub-National Democratic Development** (NP-SNDD, 2010). This key document - organized by three platforms and around five program areas¹²⁴, - aims at providing the framework for the implementation of the RGC's D&D reforms over a period of 10 years.

Box 2.3. Decentralization and Deconcentration - definitions and the Cambodian context

a. International definitions of Decentralization

Within the very extensive literature on decentralization throughout the world, scholars, consultants, and international donor organization have developed myriad, although not necessarily contradictory, nevertheless slightly nuanced and varied definitions of the terms for decentralization and related concepts within a decentralization framework. Despite this variation, a basic common skeleton of understanding of this terminology can be identified, which we attempt to reflect in the definitions below. These definitions reflect the narrower version focusing on inter-governmental decentralization ¹²⁵.

Decentralisation is the devolution by central (i.e., national) Government of specific functions, with all of the administrative, political and economic attributes that these entail to local (i.e., municipal, regional) Governments which are independent of the centre and sovereign within a legally delimited geographic and functional domain. Three forms of decentralisation are generally recognized: deconcentration, delegation and devolution.

Deconcentration is the process of dispersion of responsibilities (thus, decision-making power) within the central Government structure from central Government officials located within the capital to central Government officials that are located outside the capital, at the regional or local level. There is no transfer of power to sub-national levels of Government and all decision-making authority remains within the central Government structure¹²⁶.

¹²⁴ See Annex for Programme Areas description.

¹²⁵ Definition drawn from Faguet (1997).

¹²⁶ Definition drawn from Litvack and Seddon (1999), Boex (2009), Bird and Vaillancourt (1998) and the Namibia Directorate of Decentralisation Cooperation, http://www.decentralisation.gov.na/articles/decentralisation_concepts.html

Delegation is the transfer of certain functions to sub-national levels to be performed on an agency basis. However, the central Government still retains public accountability and responsibility to provide funds, resources and personnel for the delegated function(s). Local Governments basically have the responsibility for the function, but remain accountable to the central Government with respect to how well they perform it¹²⁷.

Devolution involves the transfer of functions, resources, and power to subnational levels of Government whereby the subnational Governments assume full responsibility, substantive decision-making authority and public accountability for decentralised functions. Thus, not only implementation but also the authority to decide what is done is in the hands of local Governments; they are fundamentally accountable to local residents¹²⁸.

Fiscal decentralisation refers to the public finance dimension of decentralisation, it defines how and in what way expenditures and revenues are organized between and across different levels of Government in a given country. Fiscal decentralisation is not just about the transfer of resources to different levels of local Government, it also extends to the extent of authority of these local Governments over the use and management of the financial resources which have been devolved to them¹²⁹.

b. Decentralisation and Deconcentration in the Cambodian context

Cambodia's Strategic Framework for Decentralisation and Deconcentration Reforms (2005), does not directly define what is meant by these terms in the Cambodian framework; these reforms are intended to ensure subnational democratic development by restructuring all levels of subnational administration in order to develop transparent and accountable management systems, "...to promote local development and delivery of public services to meet the needs of the citizens and contribute to poverty reduction within the respective territories." The review of functions which may be transferred to Cambodia's subnational administrations must take account of this objective (Organic Law, Article 216).

¹²⁷ Definition drawn from Bird and Vaillancourt (1998) and the Namibia Directorate of Decentralisation Cooperation.

¹²⁸ Definition drawn from Litvack and Seddon (1999), Bird and Vaillancourt (1998) and the Namibia Directorate of Decentralisation Cooperation.

¹²⁹ Definition drawn from UNDP Primer: Fiscal Decentralisation and Poverty Reduction, (November 2005).

A key aspect of anticipated management systems for the Capital and provinces as well as districts and municipalities is the establishment of unified administration to coordinate public administration activities within the territories, accountable both the RGC and to citizens. Thus, this would seek to make the deconcentration aspect within these territories more accountable. In terms of forms of decentralisation, the Organic Law plans for and clearly makes a distinction between devolved functions (referred to as assigned functions (Article 223) and delegated functions (Article 224).

- Assigned functions are those functions which do not require a permanent contribution by a relevant Ministry or Government institution, and the necessary resources are transferred to the designated category of council to manage, supervise and implement that function.*
- Delegated functions are those that require a permanent contribution by a relevant Ministry or Government institution; the necessary resources are transferred to the designated category of council to perform that function, but supervision remains with the ministry.*

2.3 POLICY AND GOVERNANCE CHALLENGES

...but the D&D reforms' full implementation faces substantial challenges across the three key governance dimensions: national, vertical (across levels of Government) and local.

(1) at the National level, modest awareness and sector by sector fragmentation among both Government agencies and development partners pose numerous difficulties.

D&D represents one of the most complex, profound reforms that are on-going in Cambodia. It involves a sheer number of actors and poses substantial challenges in terms of engaging Government agencies across and within levels of Government. The process of design of the NP-SNDD has evidenced a general lack of awareness of the details and implications of the Organic Law by officials across sector Ministries. In an initial phase and given that the NCDD is housed in the Mol, several RGC counterparts viewed D&D as a reform relevant for Mol, rather than as a whole of Government cross-cutting reform. Over several months of thematic dialogue discussions, focused working groups on specific topics or for the initial identification of functions to transfer to SNAs within sector Ministries, a wider range of central Government officials were made aware of the potential impact of the Organic Law on their own sectors.

While awareness raising needs to be sustained, a sheer challenge is represented by the need to coordinate this reform at the National level and across levels of Government. Subsequent to the adoption of the Organic Law, and in accordance with its provisions,¹³⁰ the management structure for piloting and implementing the Organic Law was re-founded as the **National Committee for Democratic Development (NCDD-2)**. For the reforms to advance, the NCDD will need strong support from the RCG leadership and good cooperation with line ministries. But the challenge of awareness raising and coordination is not only a Government one. On the one hand, the sheer number of Development Partners involved in the D&D reforms (over 15 agencies are directly involved in the TWG on D&D) highlights the challenges of harmonizing their support to the reform and thereby reducing inconsistencies as well as transaction costs for the Government. On the other hand, many DPs, with sectoral goals, are not directly involved with D&D but, if properly involved, could play a key role in terms of facilitating the contribution of different line ministries.

(2) 'Vertically' the challenge is to move away from a centralized, 'command and control' system and correct the shortcomings of the intergovernmental fiscal framework.

At present, Cambodia is a highly centralized country: while the distribution of financial resources results in a relatively deconcentrated level of recurrent resources, the control over capital expenditure remains highly centralized and concentrated. The challenge is to engage in a) a process of review and progressive transfer of functions and b) reallocation of financial/personnel resources across different levels of Government and reform of the Sub-National public finance management system.

a) Assignment of functions to SNAs. The Organic Law sets out the criteria for transfer of functions and posits the principle of subsidiarity, stating that the functions should be relevant to the council's jurisdiction, manageable and practical, beneficial for residents and have a major impact¹³¹. The law also provides that a process of review of functions and responsibilities should be carried out in order to determine to which level of SNA they should belong¹³². The **priority areas** for review of functions to be transferred include key sectors such as agriculture, education, forestry, health, land and tourism¹³³. The specific functions which in the future will be transferred from the above list of sectors are to be defined as

¹³⁰ Organic Law op. cit., Part 5, Section 1, Articles 192 to 212.

¹³¹ Ibid, Article 220.

¹³² Ibid, Article 217.

¹³³ Ibid, Article 215. The priority areas for review of functions to be transferred include: agriculture, education, forestry, natural resources and the environment, health, nutrition and services for needs of each group / category of the population, land use, electricity production and distribution, water management, particular needs related to tourism, historical sites and cultural heritage.

obligatory or permissive. Functions which are obligatory may be assigned to or delegated to the respective SNA, while permissive functions would be assigned. The Organic Law provides that functions that are assigned or delegated are transferred on a permanent basis and are accompanied with the maximum authority, the necessary resources and development of local capacity to enable the respective council to administer and implement the function¹³⁴.

The process of functional assignment is key for the advancement of D&D reforms.

It will be crucial that line Ministries comply with the Organic Law and thus facilitate and support the process of identification and assignment of functions to SNAs.

b) Assignment of resources to SNAs. As has been made clear earlier, Cambodia, as a centralized country is still characterized by **an incomplete intergovernmental fiscal system which operates within a dysfunctional though slowly improving public financial management framework**. Ongoing public financial management reforms have not yet fully addressed the weaknesses of treasury, accounting, and expenditure reporting systems. Within this framework, there are multiple challenges related to sub-national revenues and expenditures, intergovernmental transfers (including from national to province/municipal and to C/S as well as from province to district) and Sub-National public finance management including budgeting, accounting, reporting and auditing functions. Table 2.1 and 2.2 and Figure 2.1 and 2.2 highlight the degree of fiscal centralization in Cambodia. In 2008 the share of public expenditure at the level of Sub-National Administrations (that is, provincial/municipal/ and commune/sangkat administrations) stood at only 6.18% (2.76% for C/S Administrations and 3.42% for Province/Municipality, and by implication, 0% for Districts)¹³⁵. The C/S budget and the Salakheth budget are the two (quantitatively modest) exceptions to the centralized nature of Cambodia's public sector.

¹³⁴ *Ibid*, Articles 222, 223, 224, 225, 227, 228, 233, and 234.

¹³⁵ The Organic Law groups Sub-national administrations as Province/Capital, District/Municipality/Khan and Commune/Sangkat. However, prior to 2009/2010, data for SNAs are organized according to the prior system, thus by Province/Municipality and Commune/Sangkat. Funds for districts are incorporated in the provincial budgets.

Table 2.1: Expenditure by Government administration, FY2008

Unit: 1 M KR

#	Description	FY2008	Percentage
1	Expenditure of National Administration Budget	5,673,383.7	93.82%
2	Expenditure of Capital/Province Administration Budget	206,776.0	3.42%
3	Expenditure of Municipal/District Administration Budget	-	0.00%
4	Expenditure of Commune/Sangkat Administration Budget	166,838.0	2.76%
5	Total Expenditure Budget	6,046,997.70	100%

Source: MEF, National Budget 2008 and National Treasury Report on C/S Budget 2008

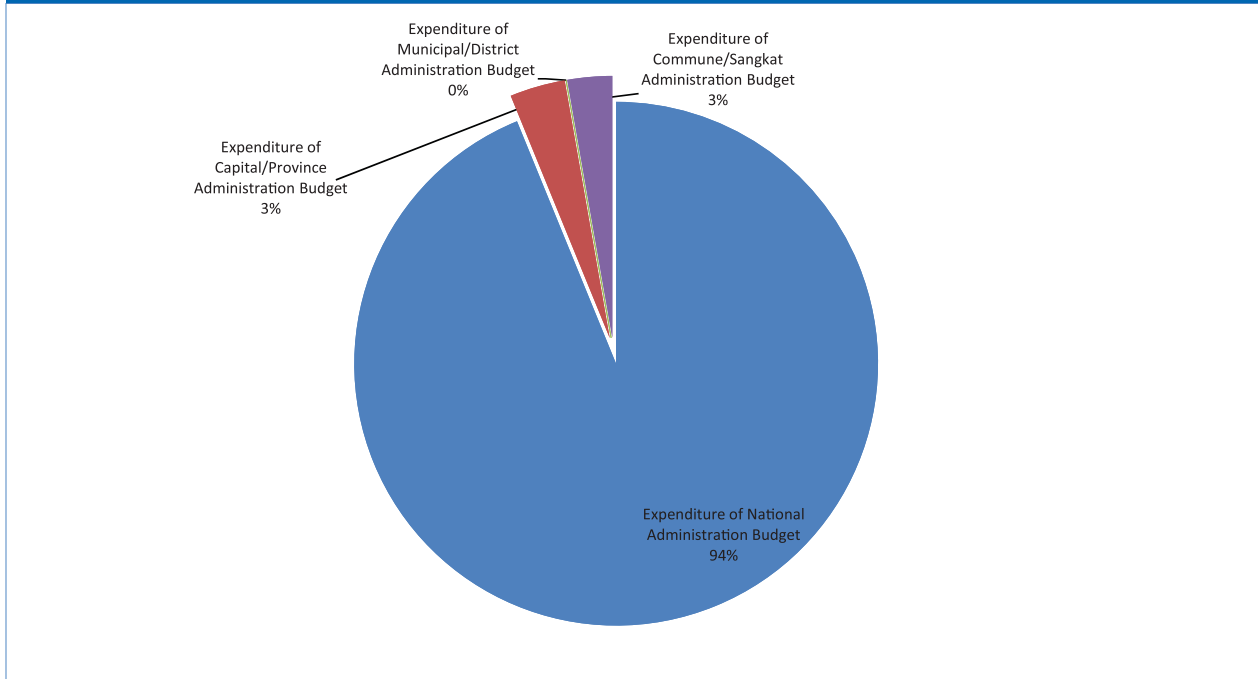
Table 2.2: Expenditure by Government level, FY2008

Unit: 1 M KR

#	Description	FY2008	Percentage
1	Expenditure of National Level Budget	4,815,738.5	79.73%
2	Expenditure of Sub-national Level Budget	1,231,259.20	20.36%
3	Total Expenditure Budget	6,046,997.70	100%

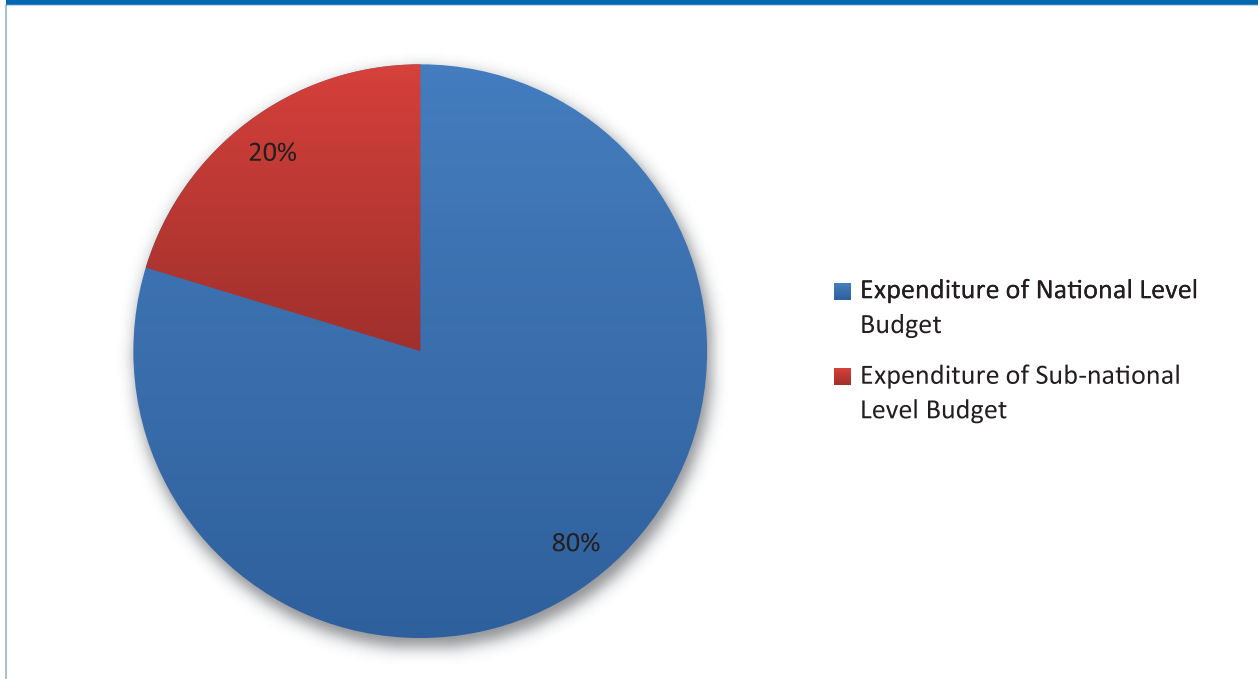
Source: MEF, National Budget 2008 and National Treasury Report on C/S Budget

Figure 2.1: Expenditure by Government administration, FY2008



Source: MEF, National Budget 2008 and National Treasury Report on C/S Budget

Figure 2.2: Expenditure by Government level, FY2008



Source: National Budget 2008 and National Treasury Report on C/S Budget

Expenditure at Sub-National level (thus including expenditure of deconcentrated line departments) stood at 20.36% of total expenditures. These data illustrate the greater degree of deconcentration of public expenditures in Cambodia, compared to decentralized expenditures. 2008 Provincial/Municipal Administration budget revenues indicates that 73% were revenues collected subnationally¹³⁶ and 27% from the National Budget. It should be noted for the Province and District levels that these resource allocations in the national budget are for provincial line departments via their respective ministries, and are not transferred directly to a Sub-National tier. The breakdown of planned spending is available by ministry, province and main economic classification. The procedure for allocating resources to salakhets is slightly different, as the budgets are included separately in the national budget, and not part of the Mol. However, these resources are not budgeted or transferred using a formula, but rather through a negotiating process¹³⁷. The C/S Fund is different in that it is allocated as a 'proper'¹³⁸ intergovernmental transfer mechanism based on a formula and transferred to the Communes through the Provincial treasuries.

There are several problems with the current system. For instance, in terms of revenues collected Sub-Nationally, there is a major incentive problem for provinces and municipalities with respect to revenue performance as any increase (or decrease) in revenues is off-set by transfers from the National treasury¹³⁹. Thus, they are not entitled to retain end of year surpluses but these are returned to the State budget. In terms of allocation of resources among and within levels of Government, given the deconcentrated nature of the Cambodian public sector, fiscal decentralization challenges are very much related to public financial management, including for example both the budget formulation process and treasury management. On the one hand, due to the peculiarity of the budget formulation process, the allocation of resources to different Provinces - whether for line ministries' departments or for Salakhets - is not carried out on a transparent basis nor clearly linked to objective criteria or a territorial development strategy. (See figure 2.3 and 2.4 and table 2.3). On the other hand, due to the absence of a computerized treasury system and electronic payments systems, a large amount of the treasury funding flows through cash transfers with obvious challenges in terms of transparency. All in all, the national treasury system and the public finance management system are extremely weak. The provisions of the Organic Law require that this picture will need to progressively change, by establishing a stable, predictable and transparent revenue base for SNAs.

¹³⁶ Including the unused land tax, land transfer tax, patente tax, vehicle tax, and some non-tax revenues derived from state assets (markets, parking, harbor), as defined in Article 17 of the Royal Decree on Provincial/Municipal Budget and Durable Assets Regime of 1998.

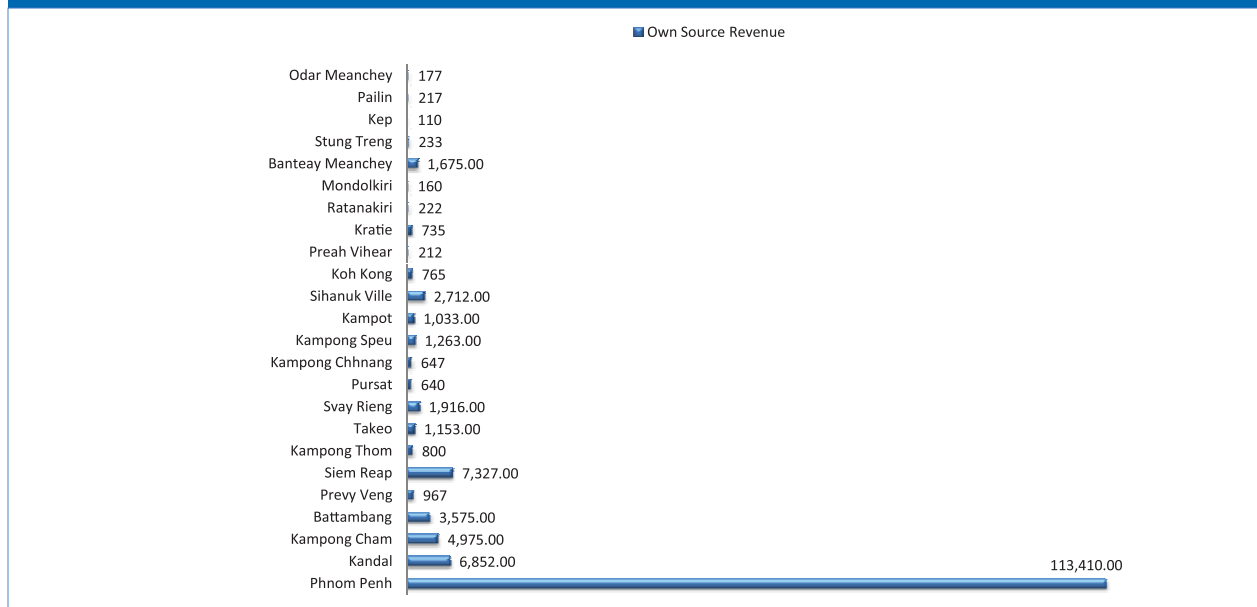
¹³⁷ See Boex (2009).

¹³⁸ Formally, the C/S Fund is not a 'transfer' as the allocation is recorded in the National treasury as an advance, while final expenditures are recorded as Government expenditures in the national treasury system; this recording process also reflects part of the overall PFM problems.

¹³⁹ See Boex (2009) p.10.

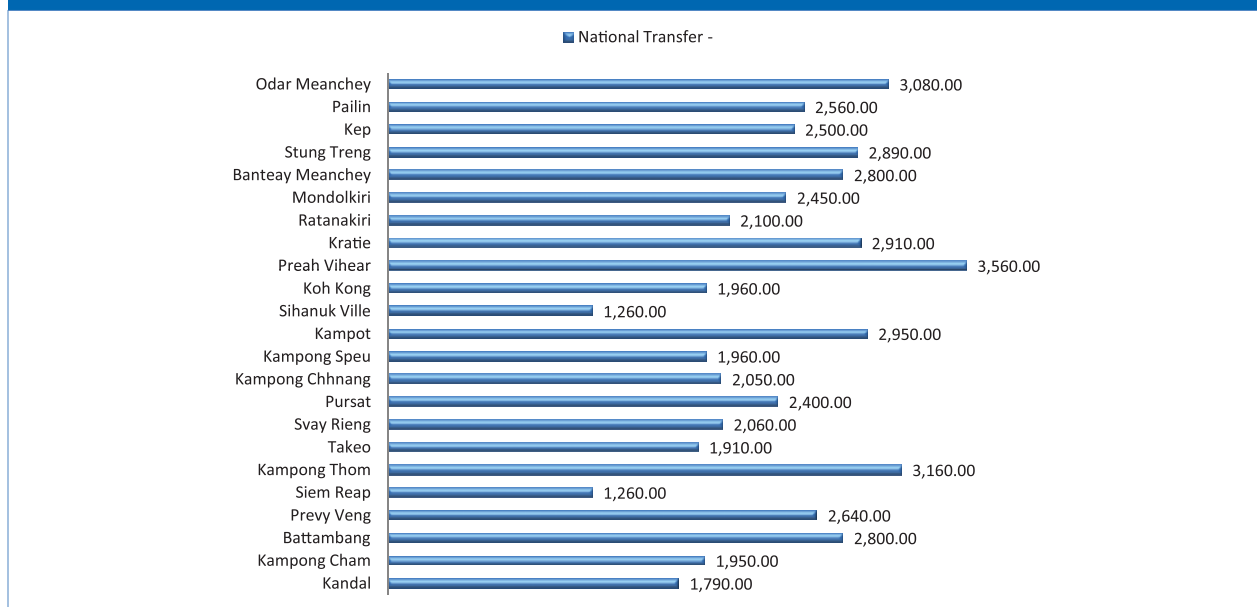
The Law clearly establishes that transferred functions and responsibilities should be accompanied with appropriate resources ('finance follows function')^{140 141}.

Figure 2.3: Own source across levels of Government, million riels



Source: National Budget 2008 and National Treasury Report on C/S Budget

Figure 2.4: National transfer, million riels



Source: National Budget 2008 and National Treasury Report on C/S Budget

¹⁴⁰ Organic Law, op. cit. Article 217.

¹⁴¹ The Organic Law demarcates Capital, province, municipality and district, which have their own budgets, while the khan/sangkat budget is included in that of the Capital/municipality. The sangkats currently have their own budgets, which will need to be integrated/unified with their respective municipal/khan budget.

Table 2.3: Own source revenues and transfers across levels of Government capital/province revenue budget (2008)

Unit: 1 M KR

No.	Capital/Province	Own Source Revenue	National Transfer	Total
1	Phnom Penh	113,410.0	-	113,410.0
2	Kandal	6,852.0	1,790.0	8,642.0
3	Kampong Cham	4,975.0	1,950.0	6,925.0
4	Battambang	3,575.0	2,800.0	6,375.0
5	Prey Veng	967.0	2,640.0	3,607.0
6	Siem Reap	7,327.0	1,260.0	8,587.0
7	Kampong Thom	800.0	3,160.0	3,960.0
8	Takeo	1,153.0	1,910.0	3,063.0
9	Svay Rieng	1,916.0	2,060.0	3,976.0
10	Pursat	640.0	2,400.0	3,040.0
11	Kampong Chhnang	647.0	2,050.0	2,697.0
12	Kampong Speu	1,263.0	1,960.0	3,223.0
13	Kampot	1,033.0	2,950.0	3,983.0
14	Sihanuk Ville	2,712.0	1,260.0	3,972.0
15	Koh Kong	765.0	1,960.0	2,725.0
16	Preah Vihear	212.0	3,560.0	3,772.0
17	Kratie	735.0	2,910.0	3,645.0
18	Ratanakiri	222.0	2,100.0	2,322.0
19	Mondolkiri	160.0	2,450.0	2,610.0
20	Banteay Meanchey	1,675.0	2,800.0	4,475.0
21	Stung Treng	233.0	2,890.0	3,123.0
22	Kep	110.0	2,500.0	2,610.0
23	Pailin	217.0	2,560.0	2,777.0
24	Odar Meanchey	177.0	3,080.0	3,257.0
Total:		151,776.0	55,000.0	206,776.0

Source: MEF, National Budget 2008 and National Treasury Report on C/S Budget

...and (3) locally, key challenges are related to weak planning systems, low capacity...

As described in the previous section, donor interventions at Sub-National levels in Cambodia were initiated to provide emergency infrastructure support. Given that Cambodia's public finance and budget implementation systems were not (and in many respects, still not are) able to provide necessary accounting and management systems, the external donors established specific budget, accounting and reporting systems. These systems reflect a strong project approach¹⁴². This project approach is reinforced by two other strands of actions influencing local governance in Cambodia. First, the patronage-based system may reinforce a preference for the project approach, thereby weakening demands to develop sustainable systems for administration and provision of services. It has been noted that the patronage system is "less good at maintaining high quality standards of service delivery on a routine everyday basis. This is because the cohesion of the system depends in part upon the provision and protection of opportunities for day-to-day rent seeking by individuals at all levels, and thus entails tolerance of absenteeism and petty corruption as pay-back for loyalty."¹⁴³ The second strand is that the parallel political party financing of local investments in the territory (in some communes this can exceed the funds available through the CSF) has also reinforced the overwhelming project approach, and led to the creation of institutional layering, resulting in dysfunctional approaches to SNA development¹⁴⁴.

In this context, a key challenge in terms of development of local administration capacity, especially at district and municipal level is to ensure that as functions are transferred, Councils can "identify and plan for the development of their territories and make allocative decisions that reflect hard budget constraints"¹⁴⁵. Addressing this challenge will require on the one hand, that the legal and regulatory framework for planning and implementing by SNAs is fully developed, and on the other hand, that capacity of personnel at SNA levels is brought to the level required by their new functions. For example, the personnel of the C/S consist solely of a clerk (the clerk is appointed by and an employee of the Mol. LCSAM, op. cit, Article 28). Given the lack of an administration, the councillors themselves act as both legislative body and as the commune administration (the first deputy is generally responsible for agriculture, economics and data collection; the second deputy is responsible for public works, social order, and security)¹⁴⁶. The commune/sangkat council may employ additional staff, but would clearly only be able to do so to the extent that its budget resources permit¹⁴⁷.

¹⁴² Budget discussion is oriented around administrative and development budgets, where administrative budgets cover personnel and development budgets include capital investment, personnel (especially as related to salary subsidies), and non-personnel operating costs.

¹⁴³ Hughes (2007), op. cit, p.33.

¹⁴⁴ This, notes Craig, is due to "... fragmented, parallel PMU execution, salary supplements, policy dominated by plural short term TA, and a disastrous split between project based development budgets and mainstream based recurrent budgets (which turns into a split between an impoverished fearful and incapable public sector workforce, and a mobile salary, narrowly accountable supplemented one). Craig (2009), p. 39.

¹⁴⁵ NCDD (Sept. 2009), p. 37.

¹⁴⁶ See Rusten, op. cit, p.75

¹⁴⁷ LCSAM op. cit. Article 29.

...and limited citizen's representation and participation.

Local development is largely about bringing together the knowledge and initiatives of key stakeholders in a given area. Often times the drivers of local development are outside the public sector. The spirit of the Organic Law is to make local Governments loci for greater interaction across Government agencies and between Government, citizens and the private sector. If the Organic Law is implemented as intended, it will thus require a substantial shift in the way local leaders interact among themselves and with citizens. Currently, citizens' participation in the planning, executing and monitoring of local level decisions varies considerably across Cambodia. Citizens' representation is limited given the extent to which local governance structures are subordinate to party structures and given the weaknesses of the election system. In many areas, the weakness of citizens, special groups and professional organizations (ex. farmers organizations) poses additional challenges in terms of effective and transparent representation of interests and accountability. Also, as well documented by recent research¹⁴⁸, there are significant challenges in terms of developing citizens' trust in public institutions, including local Governments. In this context, building inclusive local governance represents a challenging endeavour but, at the same time, offers great opportunities to increase the level and quality of interaction between Government and its citizens.

While D&D reforms can provide the 'infrastructure' to bring policy decisions closer to the needs and opportunities of different parts of Cambodia, the Country still lacks an explicit, strategic approach to local development...

D&D reforms can provide the 'governance infrastructure' that allows for an efficient and effective distribution of responsibilities and resources across levels of Government. But D&D cannot be considered a substitute for a deliberate policy for local development in Cambodia. As highlighted in Part 1, Cambodia's needs and opportunities are quite heterogeneous across its Provinces, across rural and urban areas and across different territorial typologies (remote rural vs. peri-urban, coastal vs. cross-border etc.). A development strategy that addresses inequalities, promotes local development and enables poverty alleviation needs to capture such diversity.

Within the current 'spatially-blind' policy approach, local development and poverty objectives maintain an abstract and general character that often doesn't allow for the possibility of addressing specific types of poverty with adapted tools. For example, any diagnosis of rural poverty in the densely populated central plain areas based on rice cultivation would certainly

¹⁴⁸ IRL. 2007. *Perceptions of inequality in Cambodia: a survey*. Phnom Penh: Indochina Research Limited.

suggest to tackle it through the difficulties faced by subsistence farmers during the production cycle, while poverty in the forested Cardamon mountains, with a much lower density of population, would suggest a different strategy, based on available natural resources and diversification of activities; the same is true for urban poverty where a social housing strategy might be more relevant for the urban poor. Current difficulties in promoting balanced local development and progress towards achieving the MDGs are closely linked to the fact that centralized, sectoral policies tend to ignore the substantial differences with which the same problem manifests itself across the territory. There are certainly many ‘local development projects’ – often driven by Development Partners – but these are not part of a strategic framework. The lack of an explicit approach to local development is also limiting the Government’s capacity to deal with territorial ‘efficiency’, that is to identify, preserve and exploit the comparative advantages of different areas. The consequences of a territorially undifferentiated approach to both equity and efficiency challenges often implies higher costs and lower impacts. The lack of a territorial approach in Cambodia is exemplified by the fact that, despite marked rural-urban disparities and different challenges, the country does not seem to possess a robust, widely shared strategy neither for rural nor for urban development. Also, despite significant resources invested and planned for projects in cross-border regions, there isn’t a comprehensive strategy for cross-border development.

...and relies on a weak system for disaggregated data collection, classification and analysis.

Decentralization and deconcentration reforms and the design of a more deliberate, strategic approach to local development – across rural, urban and cross-border areas) are currently hampered by limitations in terms of the information systems available to guide policymakers. This challenge has multiple dimensions. Firstly, the quality of disaggregated data available is modest and there are serious problems of coherence among different sources. A large volume of data is generated and used by different information systems under the MOP, the National Institute of Statistics, the NCDD and across line Ministries and Development Partners. These data and surveys are often based on weak or incoherent methodologies that create confusion when it comes to extracting strategic information for policymakers. Secondly, current territorial definitions may need to be revisited. For instance the official definition of ‘rural’ areas in Cambodia is based on criteria that are substantially different from accepted international standards. This also affects the way ‘urban’ areas are identified. For instance, applying the (internationally accepted) OECD definition of ‘rural’ to Cambodia gives strikingly different results from those obtained with the NIS definition. Thus 48% of the Cambodian population would be considered as living in predominantly urban regions. This is close to the average for OECD countries (see figures 2.5, 2.6 and 2.7).

This does not suggest that such definition shall be applied to Cambodia but it does suggest that this needs to be progressively revised as the country develops. In particular, the third criteria adopted to distinguish a 'rural commune', based on percentage of agricultural households should be debated, considering that it is the cut-of criteria that has the most influence on the number of communes – and this population – that end up classified as rural (see Box 2.4 and Figure 2.5, 2.6 and 2.7). Thirdly, analytical capacity needs to be strengthened at both National and SN levels to provide policymakers with clear strategic information rather than abundant, frequently confused and easily ignored data. At the National level strengthening this capacity is particularly important in bodies with cross-sectoral and/or planning responsibilities such as the NCDD and MOP. These bodies need a clear, strategic picture of what are the most important trends in local development. Lastly, dissemination of statistics is still limited and largely dependant on development partners technical and financial contribution.

Box 2.4: The definition of 'urban' and 'rural' in Cambodia¹⁴⁹.

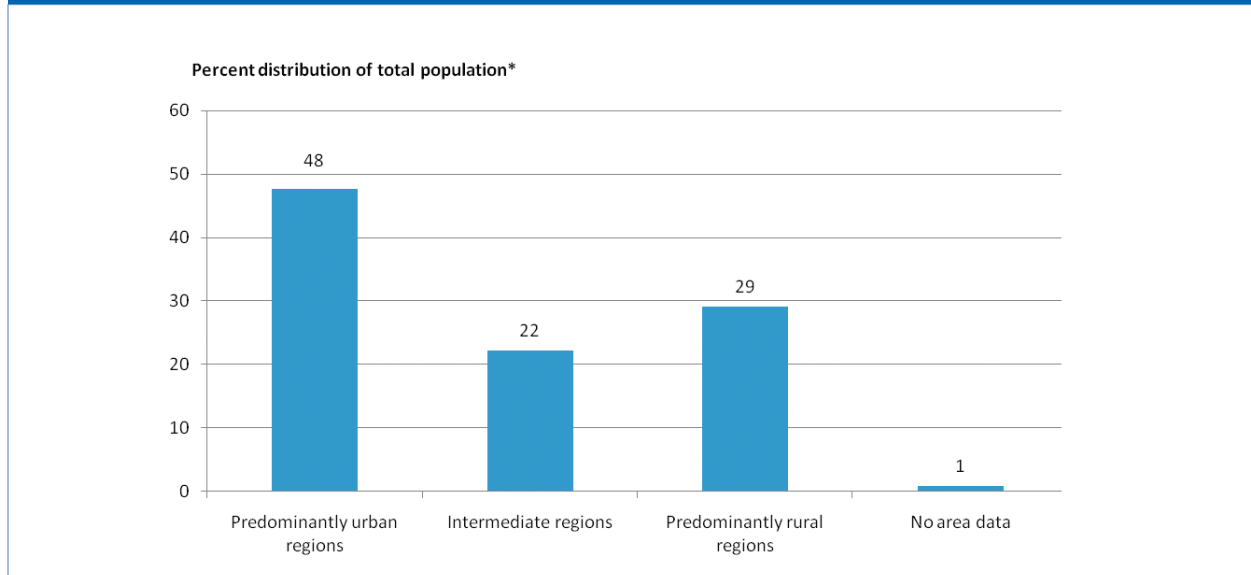
Using data from the 1998 Census of Population, the National Institute of Statistics (2004) developed a new urban classification using commune-level data, rather than district-level data as was used in the previous classification. Communes were classified as urban if:

- a) Population density exceeded 200 inhabitants per square kilometre; and if*
- b) The total population of the commune exceeded 2,000 inhabitants; and if*
- c) Less than 50 percent of employed males were employed in agriculture.*

After consultations, a few communes were classified as urban. For example, in provinces where no communes were classified as urban, the capital town was classified as urban. Compared to the previous classification using district-level criteria, the share of the 1998 population classified as urban increased from 15.7 percent to 17.7 percent. However, major changes occurred within some provinces due to the change from applying the classification at the district-level to applying the classification at the commune-level.

¹⁴⁹ UNCDF Background Paper- Sub-National Statistics

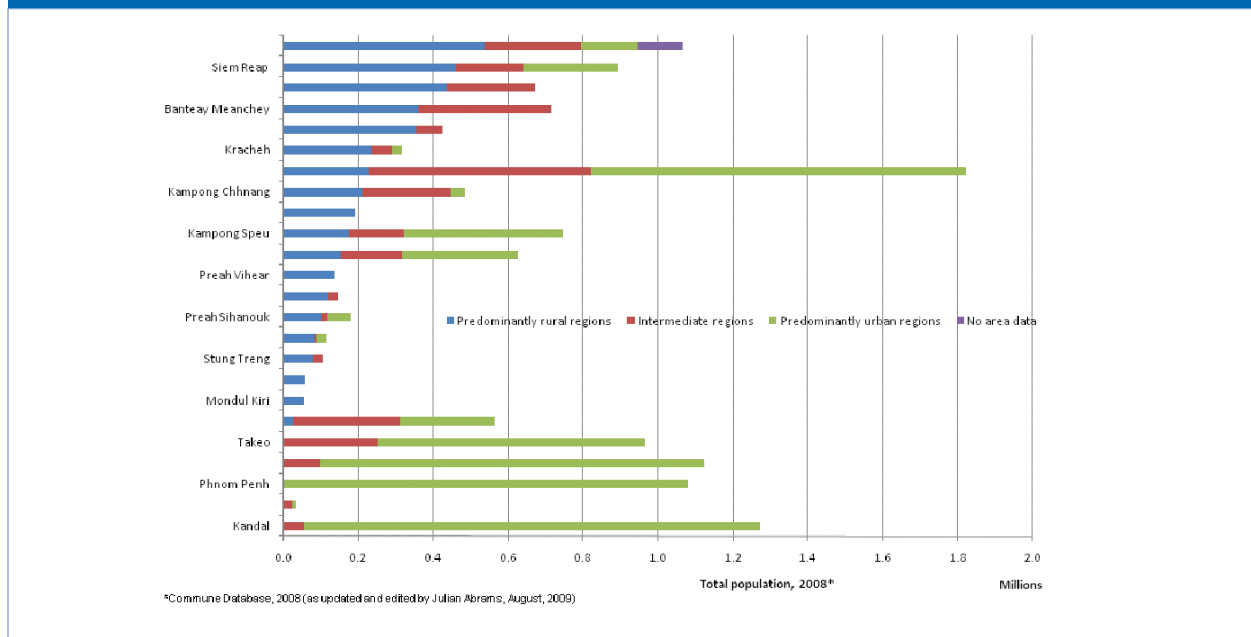
Figure 2.5: Applying the OECD definition of 'rural' to Cambodia



Source: *Commune Database, 2008 (as updated and edited by Julian Abrams, August, 2009)

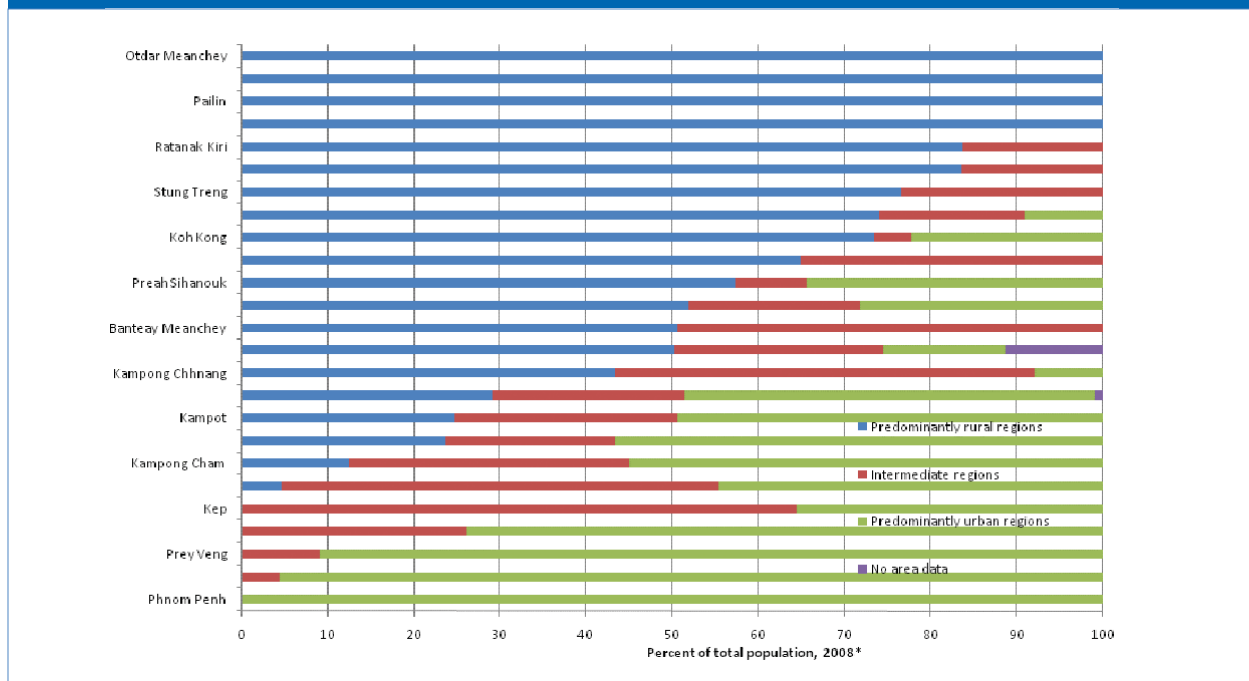
Districts are coded according to the OECD regional typology, where predominantly rural (PR) regions are districts with more than 50% of the population living in communes with a population density less than 150 residents/km²; intermediate is 15 to 49% and predominantly urban is less than 15%.

Figure 2.6: Provinces ranked by absolute size of population in predominantly rural regions using the OECD definition: how rural is Cambodia?



Source: Provinces ranked by absolute size of population in predominantly rural regions, Cambodia, 2008

Figure 2.7: Provinces ranked by percentage of population in predominantly rural regions using the OECD definition: how rural is Cambodia?

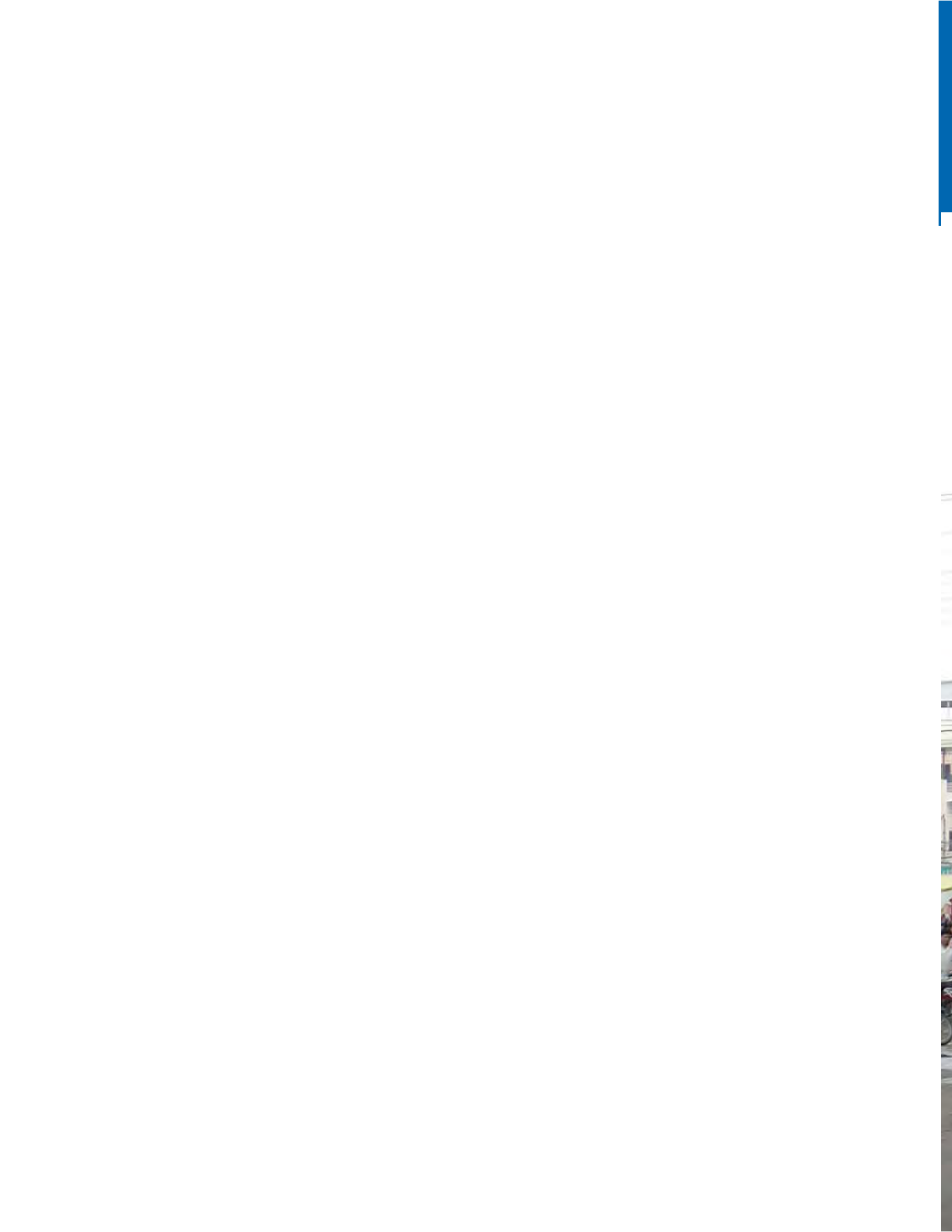


Source: Provinces ranked by absolute size of population in predominantly rural regions, Cambodia, 2008

2.4 SUMMARY

Part 1 of this report has evidenced that development challenges and potential are highly differentiated across Cambodia’s territory. It has shown that there are great challenges both in terms of equity (social inclusion¹⁵⁰) and in terms of territorial efficiency – that is the full utilization of the potential of different places across Cambodia. Part 2 of this report argues that for such equity and efficiency objectives to be met substantial progress is needed in at least two areas: on the one hand, D&D reforms need to advance to build a necessary multi-level governance structure that can allow Sub-National authorities to express their full potential. On the other hand, it is important to address the weaknesses of the current National policy approach to local development, which cannot rely on explicit policies for rural, urban and cross-border development. Part 3 will explore options for policy reforms in these critical areas.

¹⁵⁰ For the purpose of this report we refer to a commonly accepted definition of social inclusion as ‘the extent to which, with reference to multidimensional outcomes, all individuals (and groups) can enjoy essential standards and the disparities between individuals (and groups) are socially acceptable, the process through which these results are achieved is participatory and fair’. See Barca Report (2009).



3

THE WAY FORWARD: REAPING THE BENEFITS OF DECENTRALIZATION



3.1 KEY POINTS

- In order to address local development challenges across the Country D&D reforms need to advance and build an effective multi-level governance system that assigns clear responsibilities and appropriate resources across and within levels of Government. In the framework of the National Programme for Sub-National Democratic Development, a number of actions can be taken.
- 1) At the National level, more can be done to promote awareness and to develop capacity within the NCDD and line ministries to perform the new functions required by the D&D process as well as to strengthen information systems, in terms of collection, classification and analysis of Sub-National data. 2) In terms of multi-level governance. Functional assignment needs to progress according to a robust, widely shared methodology, aim at clarifying the role of different Government levels, according to the subsidiarity principle and be accompanied by an appropriate allocation of financial and personnel resources, as well as effective vertical cooperation mechanisms across levels of Government. 3) Locally, the planning system shall decidedly move away from a 'project' approach. A reformed approach to Sub-National planning shall aim at bringing together the actions of line ministries and of local councils in an integrated plan that maximizes synergies. The new planning system shall allow for stronger citizens' participation and greater interaction between local public and private actors.
- A deliberate policy approach to local development could complement D&D reforms and could be built as an integral part of the NSDP to cover three key policy dimensions: (1) An integrated rural development policy could provide the vision and framework to promote sustainable development across Cambodia's countryside, and economic diversification within the agriculture sector and beyond into tourism and energy production. (2) A forward-looking urban development policy will help reap the benefits of agglomeration economies, address negative urban externalities, and strengthen the role of the Capital and the other strategic centers as engines for National growth. (3) A policy for cross-border development could help the RGC engage more strategically in subregional development projects and make the most of large, unused potential in border regions. A strategic approach to local development by the RGC would benefit from a more deliberate, well coordinated focus on local development by Development Partners, built around the notion of 'localising the MDGs'.

- A stronger multi-level governance system and forward looking policies for rural, urban and cross-border development should contribute to address two key National challenges that stand out because of their relevance and potential impact on local development: (1) land use: progress is needed to resolve the land issue for both economic and social purposes. Cambodia needs to make progress in the following areas: a) Formalizing farmers' land rights through titling and registration. b) Tilting the land concession policies to social land concessions. c) Effectively monitoring and supervising the process of granting economic concessions. d) Reforming the land expropriation regime with a focus on property valuation and procedural safeguards. e) Building capacity of an impartial and functional mechanism to adjudicate land disputes. f) Introducing a moratorium on eviction and relocation of urban dwellers while developing socially equitable urban development policies.
- (2) Integrating climate change resilience and local development strategies. Cambodia is highly vulnerable to the impact of climate change and this impact will vary considerably from place to place and will thus require context specific actions. This vulnerability is a function of its exposure, sensitivity and adaptive capacity. The Country's vulnerability varies greatly across its territory and economic sectors. D&D reforms provide an opportunity to foster climate change resilience via a clear distribution of responsibilities and resources and the integration of climate change considerations into local planning and management processes. Five key areas for action can be identified: a) Clarify responsibilities and resources for CC resilience across levels of Government. b) Develop and provide robust and timely information on CC trends and impacts to line Ministries and Sub-National authorities. c) Develop the capacity to plan for uncertainty and to integrate CC resilience into local planning processes. d) Pilot climate change adaptation grants. e) Promote low-carbon emission growth and improved participation by private sector.

Based on the findings of Parts 1 and 2, Part 3 discusses options for action to a) advance multi-level governance reforms (decentralization and deconcentration) and b) build a National policy approach to local development in Cambodia. Policy recommendations are complemented with reference to good practices already experimented with, in the Country and abroad.

3.2 ADVANCING DECENTRALIZATION

D&D reforms are essential to build the multi-level governance system that will allow tackling local development challenges across the Country.

As discussed throughout this report, Cambodia faces great challenges in terms of territorial disparities but also possesses enormous unexploited potential for sustainable, equitable development. As experience in many countries shows, a centralized approach is unlikely to work. Most of the knowledge regarding what should and could be done is held at the local level. At the same time, experience shows that for this information to be translated into action, all different levels of Government have an important role to play. It is thus essential to build a multi-level governance system that assigns clear responsibilities and appropriate resources across and within levels of Government. In order to do this, and in the framework of the National Programme for Democratic Development at Sub-National level, a number of actions can be taken across the Three key governance dimensions. These are illustrated below. It should be noted that many of these actions do not necessarily imply large investments, but rather a sharp, deliberate policy focus.

First, at the National level, more can be done to promote awareness and to develop capacity within the NCDD and line ministries to perform the new functions required by the D&D process...

D&D is a complex, far reaching reform, which requires awareness of many actors and cross-agency coordination. As discussed in Part 2, there is often lack of clarity and inconsistent understanding of the vision and direction of D&D reforms among key Cambodian stakeholders. Critical to the success of the D&D reforms is thus to continue building awareness among National level agencies and their respective bureaucracies as to the benefits and challenges related to decentralization. NCDD, with the support of development partners, can play a key role in devising and **launching a well thought awareness and capacity development strategy** at all levels of government.

Challenges are even greater in terms of **coordination and cooperation**. This is both a government challenge and an area for improvement for Development Partners. Implementing the National Program will require close cooperation among sectors, Ministries, reform programs, and external donors, in order to succeed. This will depend largely on the smooth functioning of the four NCDD Sub-Committees, supported by the NCCD Secretariat¹⁵¹. Further, the NP-SNDD implementation must progress in parallel

¹⁵¹ The NP's program areas are closely interlinked. For example, the policy discussions on functional transfers under one Sub-Committee will need to be coordinated with those on determining the corresponding budget resources and assets and those on the transfer of human resources covered by other Sub-Committees.

with the Public Finance Management Reform Program (PFMRP), with the National Program of Administration Reform (NPAR) and more broadly with the NSDP and the country's strategy for economic development. Based on the core NCDD policy group, a form of hub and spoke policy network could be set up, with links to the one or two policy point persons in each line Ministry or agency. The spokes could be activated on an as needed basis, for example, related to the agenda of NCDD Sub-Committee meeting, following up on the decisions of such meetings, and to review and legislation and other regulations. Joint trainings could be organized on a regular basis and joint retreats could be used to update all parties on progress towards the NP-SNDD implementation. Moreover, technical and policy analysis support capacity to the sub-Committees could be provided via a reformed 'Policy Unit' in the NCDD secretariat.

In sum, D&D reforms imply great institutional and technical challenges for the whole of the National Government. NCDD and all relevant line ministries will need to 'integrate' the notion of decentralization and deconcentration and move away from a traditional 'command and control' role to a way of operating that is based on cross-sectoral coordination as well as sharing of responsibilities and resources across levels of Government.

...as well as to strengthen information systems, in terms of collection, classification and analysis of Sub-National data.

As decentralization and deconcentration reform advance, the quantity and quality of disaggregated data becomes critical to serve the information needs of both National and Sub-National Governments. The power of Sub-National data is to show diversity across territorial units as evidence that a national policy approach should be flexible to allow for different ways in different localities to attain a common objective. Sub-National data helps allocate resources where problems are worst or where potential is greatest, or in both cases, where public policy can have the greatest impact. From a bottom-up perspective, Sub-National data is key in that it informs local officials of the local situation relative to the situation of peers, allows negotiating with higher levels of Government based on evidence and helps to prioritize projects.

As discussed, there are **several weaknesses** in the current system. Action is needed in at least 4 areas: first, methods to collect disaggregated data could be improved. The Commune Data Base (CDB) is an extremely useful tool with great potential. At the same time, it is particularly in need of analytic attention – both to uncover useful results and to point to areas needing improvements. For instance, CDB generated information can, at present, only be used as a proxy for MDGs analysis but not to measure progress towards MDGs as globally defined. Also, CDB could be revisited to make sure it can fully serve as

the basis for the situation analysis carried out within the Sub-National planning processes or as the basis for revised intergovernmental transfers' allocation formula. Second, territorial definitions need to be reviewed also based on international experience and on the evolution of Cambodia (see Box 3.1). Third, in the face of the significant quantity of data produced there is shortage of robust analytical products, which are largely dependant on donors. Generally, for every data set, more analytic reports with a focus on understanding the difference across territorial units should be pursued. Using typologies that are relevant to policymakers could be helpful. For instance, territorial units could be grouped on the basis of their opportunities for local development or on the basis of having a similar "problematique" regarding local development (for example rural, urban or cross-border areas). Fourth, the same can be said for the dissemination of statistics. The CAMInfo¹⁵² CD-ROM by the National Institute of Statistics is an excellent initiative. The dissemination of the available Sub-National data could be improved for instance by strengthening the CAMInfo system and expanding the data content.

Box 3.1: Defining rural and urban areas: the OECD methodology

One way to understand the type of region in which a community is located to use the regional typology classification of the Organisation for Economic Co-operation and Development (OECD, 2009). The OECD has developed a classification of regions according to the settlement pattern in each region. Their first step is to determine the share of the population in each region that lives in a "rural community." A rural community has a population density of less than 150 persons per square kilometre. In Cambodia, there are 651 communes, representing 31% of the population, with a population density less than 150 inhabitants per square kilometre (Table 1, above)). The next step is, for each region, to classify the region as follows:

- a predominantly rural region has 50% or more of its population living in a "rural community;"*
- an intermediate region has 15% to 49% of its population living in a "rural community;" and*
- a predominantly urban region has less than 15% of its population living in a "rural community."*

¹⁵² National Institute of Statistics, 2007d, 2009b.

For our calculation for Cambodia, we have used the 2008 commune data base (as updated and edited by Julian Abrams, August, 2009) and we have selected “communes” as communities and “districts” as regions. Using the OECD classification of regions according to the settlement pattern of the population within each region, we see that:

- 48% of the Cambodia population lives in regions with a predominantly urban settlement pattern;
- 22% live in regions with an intermediate settlement pattern; and
- 29% live in regions with a predominantly rural settlement pattern

These results are typical for a typical OECD country. In terms of the share of the population living in predominantly urban regions (where less than 15% of the population lives in communes with a (relatively) low population density), the statistics are surprisingly “typical” of an OECD country.

Regardless of the choice of territorial grid and the methods of classification, we obtain the typical result – there is a wide variation in outcomes across territorial units within a country. The province of Battambang has over 1/2 million inhabitants in predominantly rural regions (Figure 3.1, where provinces are ranked by the absolute size of the predominantly rural population). Four southern provinces (Prey Veng, Kandal, Kep and Phnom Penh) have no districts classified as a predominantly rural region.

In terms of the share of their population living in predominantly rural regions, four provinces (Otday Meanchey, Preah Vihear, Pailin and Mondul Kiri) have all of their regions classified as predominantly rural regions (Figure 3.2), where provinces are ranked by the share of their population residing in a predominantly rural region). Recall that this indicates that 50% or more are living in communes with a population density of less than 150 inhabitants per square kilometre. This classification allows a sizeable regional town to be present within a predominantly rural region.

Second, in terms of ‘vertical,’ multi-level governance. Functional assignment needs to progress according to a robust, widely shared methodology...

As discussed in this report, the process of functional assignment will be critical to the success of the overall D&D reforms. At present, there are a number of activities that aim to clarify what functions are performed by what authorities, and to identify those functions to be decentralized across different sectors. Research into and review of the creation and establishment of institutions and existing legal framework have shown that some functions

are not yet clearly defined; different ministries or institutions have the same functions and departments. Some ministries have roles and functions that overlap and compete with those of other ministries¹⁵³. In the context of the NP-SNDD, a key priority is to develop a standard methodology for functional assignment to be applied uniformly across the RGC by each of the line ministries. The process will need to respond to a pressing demand for clarity from line ministries that need a clear roadmap to engage in D&D. While a coherent methodology is necessary, the process of functional assignment will not proceed at the same pace within each policy area. Some sectors and sub-sectors are more obvious candidates to move first¹⁵⁴. Also, pilots will have to be carefully used to clarify what works and what doesn't when a specific function is decentralized or deconcentrated and to test administrative, finance and legal aspects without running the risk of major services disruption across the country.

...that shall aim at clarifying the role of different Government levels, according to the subsidiarity principle...

The process of functional assignment should be guided by the subsidiarity principle, which implies that public goods and services shall be provided by the lowest Government level that can do so efficiently¹⁵⁵. The functional assignment process shall thus rest on a careful analysis of socio-economic and fiscal externalities¹⁵⁶. In this context, given the very small size of Communes and the distance of Provinces from the local level, there is a broad consensus that a **critical role will be played in the future by Districts**. Districts have an average population of 70,000 (ranging from 4,000 to 230,000) that, by international standards and in the context of a developing country, appears to be appropriate for the delivery of a broad range of services. The role of the District, vis a vis the Communes in particular, shall be defined in the context of the Organic Law and by finding the right balance between two key factors: on the one hand, a focus on economies of scale and a critical mass for service delivery. This suggests a greater role not only for intermediate levels of Government¹⁵⁷ but also for cooperation and

¹⁵³ UI/CDRI 2008.

¹⁵⁴ For example, in the Royal Decree on Provincial/Municipal Budget and Durable Asset Regime (1998), provinces and municipalities were made responsible (as mandatory expenditures) for administrative costs of public lighting, fire protection, garbage collection; maintenance and repair of administration buildings, schools, hospitals, sports and cultural equipment assigned to the province/municipality; maintenance of roads, public spaces/parks; maintenance of water pipes, pumps, wells and rainwater drainage systems (Article 14). This list could form the nexus of a fast track of first functions to transfer to the new SNA councils, although they could potentially be mostly allocated to districts/municipalities/khans, based on the principle of subsidiarity, discussed below.

¹⁵⁵ Given its two defining elements, a rigorous application of the subsidiarity principles has the advantage to help find the balance between the arguments and concerns raised by both the 'decentralists' and the 'centralists'. See Boex (2008)

¹⁵⁶ See UNCDF 2007

¹⁵⁷ Economic literature suggests that service delivery follows a U-shaped curve whereby the cost of delivering services (this obviously varies depending on what specific service is considered) tends to decrease greatly as target population increases, until an inflection point where diseconomies of agglomeration make it raise again. From an economic point of view, the allocation of service delivery responsibilities thus need to take into account as serious analysis and forecast of efficiency and effectiveness of service delivery in relation to the size of the responsible administrative unit.

association between SNAs, not necessarily coinciding with administrative boundaries. This is particularly important as local Governments in Cambodia move from being providers of very basic services towards drivers of economic development. As noted in a review of the potential role of the districts under the new OL: “CARERE/Seila is largely seen as a success (Evans 2000). This should not obscure the fact that the ‘methodology’ involved points towards infrastructure construction of ‘roads, schools and wells’ to an overwhelming degree. This was badly needed and in combination with the participatory imperatives in these processes, this was of great value. However, at some point, saturation for local infrastructure constructions sets in and more dynamic processes (improved quality of teaching, better natural resource management, enhanced gender equality, efficient extension services, etc.) should be introduced in order to systematically pursue rural development. Much of this cannot reasonably be driven from the commune level, but could potentially be driven from the district level¹⁵⁸.”

On the other hand, the role of the District should not hamper but rather reinforce the commune level in terms of performing commune level responsibilities and, in its role of critical locus for citizens’ participation¹⁵⁹. The challenge of establishing functioning districts is one of the steepest and will require a concentration and coordination of efforts, in order that districts will be able to rise to their expected roles, which is likely to incorporate significant responsibilities for service provision, as well as the support functions to C/S. In a context in which Districts will progressively rise in importance, Provinces will also need to see their role (and capacity) shift towards oversight, coordination and inspection of functions delivered at District and Communes levels¹⁶⁰. A number of pilot programs have been introduced in recent years at the district level, such as the **District Initiative** and one-window service. However, these primarily donor-funded operations pre-date the administrative structures that are to be established under the new district and municipal councils. Further, the operational systems necessary to carry out the projects have not been integrated into the overall operating systems of district administrations. The process of transfer to the districts/municipalities of functions and of responsibility for levying of service fees and charges will in some measure determine how and in what manner the District Initiative and the one-window service programs can be strengthened and adapted to fit within the contours of the new district / municipal councils.

¹⁵⁸ Öjendal (2008), p. 27

¹⁵⁹ District and municipal (as well as provincial / Phnom Penh) councilors have been elected by commune/sangkat councilors and they accountable to both their direct (councilors) and their indirect electors (district / municipal citizens). At the same time, districts and municipalities have been given a mandate for promoting democratic development in their territory including working with communes and sangkats to promote public participation and to provide support to commune councils in development, investment and budget planning, as well as enhance the administrative capacity of the communes. Organic Law, ...op. cit, Articles 96 - 105.

¹⁶⁰ However, Provinces are likely to retain some important service delivery functions not suited for lower levels, such as responsibility over regional health services/hospitals as it is the case in several countries.

...and be accompanied by an appropriate allocation of financial and personnel resources across and within levels of Government.

As discussed in Part 2, addressing the key weaknesses of Cambodia's intergovernmental fiscal system will be critical to the success of D&D reforms. The guiding principles are outlined both in the Law on Public Finance and in the (higher order) Organic Law. These principles need to be detailed and made operational through the *Law on Financial Regime and Property Management for Sub-National Administrations (or Sub-National Finance Law)*, as well as through the implementing legislation and regulations. The objective is a management system for SNA financial affairs that is transparent, accountable and effective. According to these principles, SNAs budgets must reflect all sources of revenues and all items of expenditure as approved by the Council. They shall be distinct from the central Government budget and subject to review by the national authorities for compliance with the established formulation rules. Pending the assignment of specific service delivery functions, SNAs shall be able to receive unconditional transfers to be used for their expenditures. The amount of such transfers should preferably be determined in accordance with objective and transparent criteria, and notified to the beneficiary Sub-National administrations in due time – at the start of the formulation process. This system could be designed in a way that can also respond to requirements posed by Development Partners to facilitate their support to different SNAs. As functions are transferred and the financial implications of these transfers incorporated into the conditional or unconditional transfer pools of the SNAs, this increase in resources (and accompanying personnel) should be mirrored by an equal reduction of resources allocated to line ministries, their line departments and other institutions¹⁶¹.

The SN Finance Law will need to address specifically: i) principles of SN budget and financial responsibility ii) formulation, adoption and execution of SNA budget; iii) accounting and reporting; iv) management of SNA revenues; v) public procurement; vii) property management and, vii) internal and external audit¹⁶². Several drafts of this law have been developed by the Ministry of Economy and Finance during 2008 and 2009. The adoption of the Law (expected during 2010) is made difficult by the complexities of the issues it has to address, which require difficult technical and political decisions.

The Sub-National Finance Law is most likely to provide for basic principles, but will not define some all key factors on which will depend the ultimate evolution of the revenue and budget base of the new SNA councils. For example, decisions need to be taken on which

¹⁶¹ Experience in many countries has demonstrated that transfers of responsibilities and resources implied by decentralization are often opposed/resisted by central Ministries and their deconcentrated offices, as they reflect a shift of the balances of power and interests.

¹⁶² Organic Law op. cit. Article 47.

local taxes / non-tax revenues should be allocated to SNAs, and to which level of SNAs; what formula and allocation criteria for national budget transfers to Capital/provinces and districts/municipalities. These decisions will imply considerable changes in SNA finance roles and responsibilities and within the context of the public finance system. The budget formulation process as currently centralized/concentrated at line departments at the province/municipality level and in the person of the Governor will need to be adapted to the new SNA structures of the Capital – province – district – municipality council, Board of Governors and administration. The intense and consistent functioning of the NCDD Sub-Committee on Fiscal and Financial Affairs will be all the more important to ensure that i) required implementing laws, decrees and prakas are developed to complete the budget and resource framework for SNAs; and, ii) that these are consistent with the intent of the Organic Law and with public finance management principles.

Box 3.2: International experience with intergovernmental transfer formulas

a. Background and principles of intergovernmental transfers

Intergovernmental fiscal transfers are an inherent element of any system of decentralized Government, firstly in order to ensure vertical equity of the distribution of resources between the center and local Governments. In virtually all public finance systems, the revenue sources available to the local Government sector, such as through levying of own local taxes, fees and non-tax revenue, as well as from shared national taxes, is generally insufficient to fully finance the tasks for which the local sector has been made responsible.

There is no single or “right” way to distribute funds to local Governments to ensure basic service delivery. It is important that :

- beneficiary local Governments understand the system;*
- they have access to the data on which the criteria and calculations of the formula are based; and,*
- they can generally estimate the amount of their grant when preparing their local budget (or the estimated amount is notified to them in a timely manner by the Ministry of Finance).*

There are three basic ways to determine how much is to be distributed through intergovernmental fiscal transfers (the pool of funds):

- as a fixed proportion of central Government revenues¹⁶³;
- on an ad hoc basis; or
- on a formula-driven basis (proportion of specific local expenditures to according to some general characteristics of the recipients).

However, an important aspect of intergovernmental finance, "...is who determines the rules of the game and how those rules are changed". (Bird and Vaillancourt) Many systems have defined mechanisms for consultation between the central Government and local Governments, which may consist of a specific committee (as was also intended by the creation of the Commune/Sangkat Fund Board) or via the participation of LG associations in negotiations on the transfer mechanism and/or pool.

Once the vertical equity question has been addressed by defining the overall amount of funds which will be transferred to local Governments, a mechanism must be defined to distribute these funds among local Governments in order to ensure horizontal equity. This serves to acknowledge and correct the unequal distribution of revenue raising capacity among local Governments, in relation to the tasks and services they are expected to provide. However, the system of calculation should not punish LGs which improve administration and collection of own revenues by reducing the transfer; it is possible to incorporate a reward for fiscal effort. The system should also not reward LGs for rent-seeking behavior; for example, the data used in the formula should not be subject to manipulation by local officials.

Intergovernmental transfer systems may have several different objectives, which may often include:

- equalize revenue effort
- equalize expenditures
- equalize outcomes in terms of services provided
- income redistribution
- everyone can enjoy minimum standards of key public services
- ensure that the poorest areas can sustain a certain level of public services

Four key criteria should be considered as intergovernmental transfer systems are defined and adjusted over time: stability, predictability, transparency and equity.

¹⁶³ As has been the practice with Cambodia's Commune/Sangkat Fund.

Stability: Significant year-on-year changes in the overall amount of transfers do not allow local Governments to plan their budgets and manage their services and activities in a rational and coherent manner. Thus, transfers should aim to ensure stability. The three-year minimum commitment of the share of the State Budget contribution to the Commune/Sangkat Fund is one example of the stability of an intergovernmental transfer system.

Predictability: Local Governments cannot manage their finances successfully or effectively if they cannot predict what their revenues will be for future years. Local Governments should be able to anticipate the amount of the transfers they will receive in the current and subsequent fiscal years within reasonable bounds. One way to achieve this is to adopt the formula used to allocate the transfers at least one budget year in advance.

Transparency: Whatever the policy, its implementation should be through an objective mathematical formula. The formula should be used to calculate the transfer amount, without subjective adjustments. This applies to general transfers as well as to some conditional or earmarked transfers. If there is a need to modify the State budget up or down in mid-year, the same formula should be applied to the larger or smaller pool of funds available to recalculate the transfer amounts. The formula should use only data that is readily available to everyone. Also, simple formulas are better than complicated ones. The objective is to make it possible for local Governments to use the formula on their own to estimate in advance and subsequently to verify the size of the transfer to which they are entitled.

Equity: Local Government officials should be able to understand the transfer system, the reasons for any changes and also be able explain budget changes to the local council as well as to the public. Equity has several dimensions, including differential needs (providing more to those with greater need where the need factor includes variations in unit costs of producing public services) and differentials in the ability to raise own resources.

b. International experience

Comparing across countries, it can be noted that there are four sets of commonly used allocation criteria for calculating intergovernmental transfers:

- Population (which may be weighted if certain LG expenditure responsibilities increase more than proportionally with the size of the local Government);
- Population age-structure (i.e. number of young children, young people, elderly...);

- Socio-population structure including number of people of certain categories (school children, residents of retirement homes) or groups (unemployed, disabled) who require special care; and,
- Structural features of the local authority (surface areas, number of buildings or residential structures, length of the road network, etc.).

The table below provides brief information for how transparency and predictability are addressed in seven countries in Europe:

Examples of Transparency and Predictability in Transfer Systems		
Country	Criteria / Formula	Predictability
France	Basic elements: population, length of roads; fiscal capacity and fiscal effort	Criteria are known. Overall system is complex. Government compensates for changes to basic framework
Greece	Population; climate; surface area; fiscal potential; length of road network	Criteria are known
Portugal	Population; Equal distribution; Surface area; Amount of Personal Income Tax (PIT); Number of parishes	Criteria are known
Spain	Population Number of schools Fiscal effort	Distribution criteria reviewed every five (5) years
Hungary	Numerous criteria by types of expenditure: Population Beneficiaries of social services Service capacity	Not predictable - Criteria and their allocation coefficient change each year
Poland	Population (weighted for larger towns) Fiscal capacity (tax revenues per capita compared to average)	Basic formula elements set in law
Albania	Basic elements: population, surface area, urban population, fiscal equalization according to small business tax	Detailed criteria, coefficients and explanation published as annex to annual State Budget System in transition: generally stable, with small annual adjustments

As can be observed in the table below, the most common criteria used in transfer formulas in numerous European countries include population and surface area. It is also the case that the most common formula elements found in developing countries are population and land areas, with some adjustment for specific factors (remoteness or size of LG).

For example, in the Philippines, 20% of national internal revenue collections is distributed among local Governments, on the basis of population and land area. In Colombia, 25% of non-earmarked national current revenues are distributed to department Governments, in part equal proportion and in part on the basis of population.

Examples of most frequent allocation criteria		
Country	Population	Surface
Finland	√	
France	√	
Greece	√	√
Italy	√	√
Portugal	√	√
Spain	√	
Hungary	√	
Poland	√	
Slovakia	√	
Albania	√	√

This table provides additional detail of the general and equalization transfer criteria for most countries of the European Union, as of around 2002-2003. There is considerable variation in the importance of the intergovernmental transfer as a share of LG revenues, ranging from a low of 10% in Lithuania to a high of 60% in Greece, Spain and Poland.

The following table examines in more detail the functioning (positive and negative) of both the vertical and horizontal equity aspects of intergovernmental transfers in five countries: France, Poland, Albania, Romania and Montenegro.

Box 3.2.3: Local taxes, shared taxes and non-tax revenues: theory and international experience

a. Background and principles of local taxes

There exists in almost all countries a vertical imbalance between the expenditure responsibilities which have been transferred to local Governments and the revenues which have been assigned to them. Those taxes which generate the most revenues (VAT, customs and excise taxes, corporate profit taxes, natural resource taxes) are generally assigned to the central Government. The tax bases of these taxes are also the most unevenly distributed across territorial jurisdictions and therefore not appropriate as direct local source revenue from the point of view of revenue equity or efficiency.

However, theory and practice have demonstrated that there are common technical criteria to consider in assigning a tax to a local Government

- **Tax base distribution:** the tax assigned to or shared with SNGs should have a tax base which is fairly well-distributed nationally, so that all or most local Governments will receive revenues.
- **Immobile:** the tax base should be relatively immobile thus enabling local authorities some maneuvering room to vary tax rates.
- **Evolves with economic activity:** the tax yield should be adequate to meet local needs (taking account of the overall LG financing framework) and be buoyant over time (otherwise local Governments will face a scissor effect if local tax revenues stagnate while expenditures increase).
- **Tax burden on local population and entities:** the taxes assigned to or shared with SNGs should be those that are likely to be paid by taxpayers who live/work/operate in the local Government and that will not be exported to the taxpayers of other localities.

Other basic fiscal principles which should be considered when defining which taxes to allocate to local Governments are efficiency, equity and stability:

- **Efficiency:** The cost of administration, collection and enforcement of the tax should not be disproportionate to the revenues obtained.
- **Equity:** The tax base assigned to local Government should apply equally (without differentiation) to all, and should not be overly unevenly distributed within the country.

- *Stability*: The tax base should not increase or decrease dramatically from one year to another, but should ensure a relatively constant and predictable stream of revenues.

b. Background and principles of shared taxes

Sharing of national tax bases or tax revenues has also been adopted as a means to ensure sufficient resources to local Governments. The criteria for selecting the taxes most appropriate for sharing are similar to those for own local taxes: fairly well-distributed nationally, and likely to be paid by those most directly involved with and receiving services from the local Government. In sharing national taxes, it has generally been viewed as most appropriate for a shared national tax to be implemented through a tax base sharing or through a piggyback tax, which is an additional tax rate determined by local Governments (usually within a maximum and minimum scale).

Shared tax revenues may be distributed based on derivation (origin of revenue payment), population criteria, or other allocation formula.

The principle of redistribution of national financial resources to local self-Governments through revenue sharing is all the more effective when the latter can predict with some certainty the share and/or amount of funds which will be allocated to them. For example, if a shared national tax is to be given to local self-Governments as percent share of total collections of the tax (such as a personal income tax), then the rate of sharing should be set in legislation, to ensure stability of future revenue levels for local Governments.

c. Background and principles of local fees

Local fees may include a wide variety of charges for the use of specific services, or for the use of a public good, or for obtaining a permit or license to carry out certain activities. A few typical examples (not an exhaustive list) of each of these types of local fees are listed in the table below:

Classification and types of local fees		
Service fees or charges	Fees for use of a public good	Fees for permits or licenses
sanitation / solid waste fee	fee for market stalls	construction permit fee
water/wastewater fee	fee for advertising space	trade permit fee
gas fee	museum entrance fee	driver's license fee

In the case of many fees for use of a public good and fees related to a service, the direct provider often may be an entity other than the local Government itself, such as a water or waste collection company or a museum. These, in turn, may be owned by one or more local Governments or they may be privately owned. In all these cases, the local Government could still have a role in approving the corresponding fee.

There are two key issues regarding the setting of local fees. The first concerns who adopts the method used to calculate the amount of the fee. In some cases this may involve a formula or algorithm. The second is who approves the actual amount of the fee, if there is no formula or if the formula does not produce a single calculated amount. If these are truly local fees, then by definition there must be some local discretion in determining the amount of the fee. This may involve some authority to determine the method for calculating the fee or the actual amount of the fee or both.

d. International experience

The OECD recently carried out revenue comparisons of sub-national Governments across its member countries. The key findings of this analysis are summarized below:

- on average, about 50% of sub-national expenditures of OECD countries is covered by own taxes;*
- for individual countries, the share of tax in total SN revenues ranges from 13% for the Netherlands to 90% for Iceland;*
- countries where the SN tax base consists mainly of property taxes have a lower rate of taxes compared to total SN revenues, which suggests that property taxes have a low potential to generate sufficient revenue;*
- sub-national taxation appears to be a stable feature as the taxing power of SNGs is usually anchored in constitutional provisions or fundamental laws on decentralization and local autonomy;*
- the predominant tax at the sub-national level is the income tax (usually as a part of tax sharing or piggy-back tax share), followed by diverse property taxes and consumption taxes.*
- the share of property taxes in sub-national revenues has declined, in favor of tax sharing arrangements*

Annex 1 presents international experiences in the assignment of own taxes to local Governments.

Beyond functional assignment, it is essential to devise mechanisms for effective vertical cooperation...

The allocation of functions and related resources shall not be seen as a static exercise. Whatever the attribution of responsibilities and resources, vertical relations across levels of Government require mechanisms for effective, efficient and transparent cooperation across different levels. Often times, complex, multi-dimensional policy challenges require the intervention of different levels of Government acting in a coordinated way (for instance in addressing environmental concerns or in response to financial, food or health crisis). Experience across European countries for instance has shown that, in relation to some Government functions, the critical element is not so much what level is responsible, but that there exists a well designed system of vertical cooperation through which different levels share responsibilities and contribute to the same objective (see Box 3.3).

Abundant literature as well as policy practice, points towards the benefits of devising 'contractual relations' across levels that often adopt the use of incentives from the top to foster the performance of local authorities. Incentive instruments can be used to a) encourage local fiscal revenue collection (e.g. through fiscal matching); b) to foster the 'quality' of local public expenditure and c) also to promote more broadly good governance practices and local cooperation. A contractual approach across levels of Government may take different forms. In several countries, performance reserves have been successfully used to foster a healthy competition between local Governments based on the quality of their local development plans. These mechanisms have proven to be successful when based on systems designed with local Governments that agree on the indicators and targets set to monitor their performance. The use of performance-based mechanisms can help to spread a 'culture of evaluation' according to which evaluation is not seen as the result of a top-down arbitrary power, but rather a consensus-based exercise. Also, these mechanisms need to be accompanied by strong technical support from higher levels of Government, especially to low-performing Governments in order to allow them to catch up with the leading ones (see Box 3.4).

Box 3.3: Vertical cooperation: The European experience

The European experience of centralization and decentralization is extremely varied in terms of competences and functions attributed to the different levels of Government in different countries. There are highly centralized countries, like France, Portugal or Sweden, where the central administration is not perceived as a problem for democracy, which nobody questions. The aim is rather to improve efficiency in decision-making and implementation on different matters, generally related to economic development, the provision of services, environmental concerns and the allocation of funding for local needs. There are also highly decentralized countries, like Germany, Spain or Italy that have devolved important rural planning competences to the regional level. Comparing centralized and decentralized systems in Europe, they are generally assessed as equally efficient and differences attributed to history that will evolve gradually over time. The European Union pushed in favor of decentralization, privileging the regional level, in the late '80s and '90s, but reverted to more "coordinated" approaches since the beginning of 2000, when economic growth became stagnant and the "European Growth and Employment Strategy" was launched, with Member States and Regions having to demonstrate their compliance with the EU's overarching strategy when using EU funding. The moral of this experience is that the accent is placed on the importance of "vertical partnerships" between different institutional levels of governance, rather than in pushing for a similar model of governance for every Member State. The European experience also shows that what is considered a suitable competence for the local level at one time, may change significantly with new events. For example, everyone agreed that veterinary services were a very "local" competence until the '90s, but when the BSE crisis struck, in a very short time everyone changed opinion and agreed that the European level should have a role in the implementation of veterinary services, because of the single internal market where cattle moved around. Today it is a shared competence. There are many examples of good arguments in support for "subsidiarity" -which is the European jargon for taking decisions at the lowest most efficient level of governance- which have become more moderate over time, as problems are perceived as more complex and requiring the intervention of different institutional actors acting in a coordinated way: this approach has been more frequent for addressing environmental concerns, the financial crisis or the closure of a factory in a locality, where the local and the global dimensions are closely interrelated. The emphasis is therefore no longer on a well-defined attribution of functions to different levels, but in understanding better what is the role that each institutional level should play in relation to a specific competency and how actions can be better coordinated across levels.

Box 3.4: Performance-based grants: lessons learnt from UNCDF pilots.

UNCDF has piloted Performance Based local Government financing systems (PBGS) that are now adopted in a variety of countries. By linking the level of fiscal transfers to performance, PBGS can provide incentives for Local Governments to improve themselves in a range of areas (such as revenue collection, planning, budget execution, downward/upward/ horizontal accountability, financial management, and good governance in general). The calibration of grants to performance can give capacity-building more meaning and greater purpose, encourage Local Governments to do better all round, and significantly reduce the fiduciary and other risks associated with fiscal decentralization. However, getting things “right” (and avoiding some major pitfalls) is indispensable in making the most of the potential offered by PBGSs and the incentives that they provide for improvements in performance. PBGSs have most often been developed for general-purpose block grants and tend to focus on leveraging generic aspects of Government performance (such as planning, budgeting, public financial management, governance, etc.), where improvements to such processes can impact on a broad spectrum of end-outputs or outcomes. Nonetheless, PBGS principles can be applied to more sector-specific grants – which may focus on more sector-specific dimensions to performance. PBGSs typically consist of two inter-related and mutually reinforcing elements:

- the capital grant scheme itself, which usually covers multi-purpose and largely discretionary grants. Transfers need to be of a size such that gaining access to them (or part of them, or increases/decreases in them) operates as a significant incentive;
- a performance-assessment process, which most commonly relies on the use of indicators that measure general, institutional or functional performance, and which are measured on a regular annual basis. Getting the indicators “right” is fundamental to ensure that local Governments are being assessed against actions or failures for which they are genuinely responsible and to ensure that the indicators are targeting intended performance areas in a balanced manner. And, perhaps as importantly, the process whereby indicators are assessed/measured needs to be robust, technically sound, credible, transparent and politically neutral.

Through the piloting of PBGS, UNCDF projects in several countries have demonstrated that local catalytic capital can be relied on to bring about significant improvements in local development and poverty reduction by encouraging local Governments to improve their capacity and focus on results. For more information please see “Performance-Based Grants Systems: Concepts and International Experience (UNCDF, 2010).

...without overlooking the benefits of improving the transparency of existing deconcentration, especially in the short-medium term.

The stated key objectives of the D&D reforms are democratic accountability and poverty reduction to be achieved via stronger local Governments and thus devolution of power and resources. While these objectives are widely shared, and pending the decisions on which functions are to be transferred to the various levels of SNAs, it is important, especially in terms of making sure the reform advances in the short-medium term, not to overlook the benefits of improving the transparency and efficiency of existing deconcentration¹⁶⁴. The implementation of unified administration in each SNA should lead to three positive effects. First, in terms of improved vertical fiscal balance: greater information on budgetary deconcentration can expose the share of the national budget that is allocated for the administrative level where services are actually provided, thus encouraging a greater share of the budget to be directed towards the funding of public services, instead of allowing Government resources to be devoted to overhead. Second, in terms of improved horizontal fiscal balance. An advantage of deconcentration via the unified administration (compared to centralized financing of the public sector) is that it makes more transparent the allocation of ministerial resources throughout the territory. Particularly, it requires central officials (including line ministries) to justify why one province or district receives greater or fewer resources than other provinces or districts. This can set the basis for more transparent and fair allocation of Sub-National resources. Third, in terms of improved transparency. Deconcentrated budgets of unified administrations can bring about greater budget transparency by presenting the budget in a manner that allows local communities to consider the resource allocations to their local jurisdiction. Providing communities with the budgetary information can help them in engaging more effectively the public sector and in holding Sub-National officials accountable for the delivery of services. Ultimately, deconcentration can also be a mean to achieve decentralization in the longer term. In any case, decentralization and deconcentration need to be coordinated and the respective advantages of both well weighted depending on specific functions and not on an ideological preference for one mode or another.

Third, locally the planning system shall decidedly move away from a 'project' approach, towards integrated planning of sectoral policies...

As described in the previous section, a key shortcoming of the way policies are currently implemented at the local level is that they tend to be strongly 'projectised', while deconcentrated line ministries branches act as silos, reporting upward by vertical lines and with very modest

¹⁶⁴ See Boex (2008) pp. 21.

horizontal coordination. Experience from around the world shows that cross-sectoral coordination is difficult to achieve but that there is great scope to do so at Sub-National levels. A reformed approach to Sub-National planning shall aim at bringing together the actions of line ministries and of local councils in an integrated plan that maximizes synergies. This implies moving decidedly away from the production of 'wish lists' of disconnected project towards a rigorous, transparent prioritizing exercise. In particular, it will be essential that each Sub-National plan contain a clear link between the situation analyses of each target territory, the objectives established by the Council and the allocation of resources towards those objectives. This represents a paradigm shift in Sub-National policymaking. It will require that line ministries' deconcentrated branches conform to the new integrated approach and that donors fully support the institutional structures and systems. It will also require effective vertical integration of plans developed at different levels of Government and ultimately covering the same territory.

...that allows for stronger citizens' participation...

The Organic Law has laid out and in many respects, reiterated a vision which relies on a democratic approach via citizen participation, which is intended to lead to the goals of better service delivery and poverty reduction. The RCG has promulgated a sub-decree to regulate the development planning process at the Provincial, district and municipal levels which acknowledges the lessons learned from past citizen participation experiences and seeks to establish a system which turns away from the wish list and project auction methodology. At the time of writing of this report guidelines are being drafted to guide the implementation of the sub-Decree. There are models which can be used as reference to ensure that these guidelines and their effective implementation and further revisions will lead to a planning system that fosters both local economic development¹⁶⁵ and democratic participation. In any case, planning procedures will require time, consultation and revisions. People involved at all levels will require extensive training in participatory techniques.

As the contours and areas of action of each tier of SNA are defined, several issues will need to be carefully addressed. An important one concerns to what extent should all or even most of a commune's decisions on projects to invest in be taken on the basis of a participatory process. The legal mandates of the communes need to be clearly considered and the planning processes integrated within these limits. Also, the participation of youth, gender and vulnerable groups to the Sub-National planning processes is key if these are to become effective loci of inclusion of all groups into decision-making. A wide array of tools could be introduced to foster information and participation. These include community newsletters, citizen advisory

¹⁶⁵ See for instance the "Local Development Manual – Croatia Local Government Reform Project Development", developed by M. Mikelson, P. Dusenbury and K. Chmura – UI-USAID (2003).

boards, “one stop shops,” budget-in-briefs, and citizen satisfaction surveys, among many others. Finally, e-Government solutions could be further developed to allow access to information on local Government functions, and communication with Government officials, saving time, resources and increasing citizen participation in local governance. An important element to be considered is once more the issue of territorial differentiation of policies: international experience shows that promoting participation and representation can be much more difficult and costly in rural areas than in urban areas¹⁶⁶. Methods that have proven successful in one place are not directly transferable to other areas. This calls for careful proofing of planning and participation processes.

...and greater interaction between local public and private actors.

Local development is largely about bringing together the knowledge and initiatives of key stakeholders in a given area. Often times the drivers of local development are outside the public sector. They are found among private entrepreneurs or NGOs. A key factor to advance local development in Cambodia is thus the establishment of initiatives that can foster public-private partnerships particularly aimed at local economic development. This element should be considered in the process of functional assignment to SNAs. The District level for instance could be assigned – even from its early stages – functions and resources aimed at identifying and valorizing its local economic potential. This would have two advantages: on the one hand, such function would not conflict with any specific sectoral interest, thus avoiding difficult negotiations with line Ministries.

On the other hand, local economic development entails a great degree of communication and cooperation between public and private actors and thus carries multiple advantages in terms of local governance and the building of social capital. There are numerous successful examples across developed and developing countries of programs focusing on local economic development and local public-private partnerships (PPPs, see Box 3.5). While there is no one-size-fits all model, these have three common ingredients: a target territory (often functional, not necessarily administrative), a widely shared strategy, and strong partnerships bringing together both public and private actors in both the design and implementation phases. A particularly interesting reference is offered by the experience with the “LEADER Programme” which has been very successfully applied to support over 2000 “Local Action Groups” across European rural areas. The Leader approach has been tried successfully in contexts characterized by small subsistence farms, little diversification and poverty (see Box 3.6).

¹⁶⁶ See *Delivering the Goods* (UNCDF, 2007).

Box 3.5: Channeling remittances to local development programs: The 3x1 Program in Mexico.

Mexico's Tres por Uno (3x1) programme, which matches each dollar remitted for community-development projects with 3 dollars from Federal, State and Municipal funds, is an example of a public policy to encourage channeling remittances to local development. The Program was introduced in 2002 and managed by the Ministry of Social Development (SEDESOL) in cooperation with networks of Mexican migrants. 3x1 has produced remarkable results in terms of mobilizing resources for local development and contributed to strengthen the ties between migrants and their original places as well as migrants and local Governments. The Program has adopted a deliberate pro-poor approach and contributed to investments in various fields. These include: urban regeneration projects, social services, sports or cultural facilities, basic infrastructure, social services and economic development initiatives.

For more information: <http://www.sedesol.gob.mx>.

Box 3.6: Local action group in the EU: Portugal

8 artisans of Sao Pedro do Sul in Northern Portugal, formed an association with the aim of promoting local products and creating new ways of marketing them. The project started with the "Fight against Poverty" project, prior to the EU Leader Programme, were products like tiles and weaving in looms were first learnt in training courses and then put into practice. After this, six of the artisans participating in the training with two more local artisans that joined, created a craft association with the participation of the Municipality and the Social Center. In a first phase the products were sold in fairs and spas around the country. This was not efficient because of the long-distance transportation of products. Leader stepped in and provided support for the restoration of the old railway station building, no longer in use, reconverting it into a workspace, exhibition room, reception, administrative services and ateliers for tile painting, basketry and weaving, catering and restoration services.

The Leader approach brought several benefits to the area: the restoration of the station had a high symbolic value for the local population as a meeting place and linkage with the outside world, it was also valued as a local historical heritage building. It has

provided workspace for the artisans and other local people: a cooperative of women selling local processed farm products and other traditional crafts (cork products). It has strengthened the links with the local thermal springs (health and spa) attracting many visitors. A local tourist train now stops at the “Station of Arts and Flavors”. More partners have joined the Local Action Group (LAG), both from the private and public sector. The public funding by the EU and the national level contributed 50% of the investment while the other 50% was financed by the private sector (the craft association). The problems it has contributed to improve include: a higher commitment of local partners towards the area through the LAG; it has reduced the isolation of local businesses; it has made better use of the opportunity provided by the proximity of a tourist spa, it has improved the poor economic diversification of the area by creating jobs for the local underemployed and valorizing traditional products through modest innovations. It is the combination of various activities that has made the initiative economically viable (economies of diversification).

http://ec.europa.eu/agriculture/rur/leaderplus/gpdb_en.htm

3.3 DESIGNING EFFECTIVE POLICIES FOR RURAL, URBAN AND CROSS-BORDER DEVELOPMENT

A deliberate policy approach to local development could reinforce, and benefit from, D&D reforms.

The Royal Government of Cambodia can play a key role in addressing disparities and in promoting local development. A critical action in this direction could be the adoption of a **deliberate policy for local development, one that addresses both equity and efficiency objectives across the country**. As discussed in this report the current D&D reforms are advancing in the direction of building the governance ‘infrastructure’ that is necessary to address more efficiently and more effectively the challenges and opportunities of different places across Cambodia. But D&D reforms are not a substitute for an explicit, deliberate strategy for local development. Experience in many countries shows that there are substantial benefits from having a clear Government vision in terms of what the key local trends are, and how the Government intends to respond to them. This is particularly true for countries with rapid growth accompanied by increasing territorial disparities, as it has been the case across Asia but also across East Europe. Recent examples are provided by EU new Member countries that have rapidly built up territorial development strategies, with the support of the European Commission

(see Box 3.7), with the explicit objectives to reduce regional as well as individual disparities¹⁶⁷. Experience with the EU Cohesion policy can provide precious indications of how multi-level governance and local development policies can be used to better target public spending, to increase 'territorial cohesion' and ultimately 'territorial efficiency' and economic development¹⁶⁸ (see Box 3.7).

Box 3.7: Local development, cohesion and conditional grants: The EU approach

The European Union Cohesion Policy is a key feature of Europe's approach to territorial development. This is one of the most prominent examples across the world of a decided approach towards reducing regional disparities and exploiting the potential of different territories. The policy aims specifically at promoting a wide spectrum of integrated public goods and services (22% transport, 15% environment, 15% research and innovation, 8% education and training, 7% labour market measures, etc.) in all Regions of Europe. This policy is financed via conditional grants based on "contracts" between the European Commission and Member States or administrative Regions and is endowed with 50 billion euro per year, about 36% of the EU 7-year budget. After 20 years of experimentation, the Cohesion Policy is currently being reviewed. The core of the discussion focuses on how to move more decidedly from a logic of financial redistribution between Member States and Regions - with a focus on convergence of GDP per capita – to a logic of place-based development with a focus on results to be measured in the multiple dimensions of people's well-being. Both the Cohesion Policy experience and the debate surrounding its review provide precious information to countries considering the adoption of a deliberate approach to regional/local development.

For more information, see http://ec.europa.eu/regional_policy/index_en.htm

¹⁶⁷ "The tendency to overlap the efficiency and the equity goal and to assume implicitly that a reduction of regional disparities in GDP per capita is a good proxy - which it is not - of a reduction in interpersonal inequality. Existing data show, however, that no given, natural correlation exists between interpersonal inequality and growth in GDP per capita. We know today that the other inverse-U curve – suggested by Kuznets - that was supposed to link the level of development (measured by GDP per head) with inequalities in the distribution of personal income – by which at the first stage of development, inequalities would tend to grow with GDP per head, while at a later stage they would tend to decrease - does not hold. In the last twenty years, the rebound in income inequalities in some industrial countries and its resilience in others show that "if there was an inverse-U, the pattern has now become a U", or more precisely that "it is misleading to talk of 'trends' when describing the evaluation of 'episodes' when inequality rose or fell" (see Barca 2009, and also Atkison A.B. 2008).

¹⁶⁸ Territorial cohesion has been one of the guiding principles of the European Union from its origins. The key objective is to make sure that each region can make the most of the process of market integration and growth. This approach is also theoretically grounded in the evidence (see OECD 2009 and Barca 2009) showing that the correlation between economic growth and regional disparities isn't clear. While disparities tend to initially increase, there isn't strong evidence (see Williamson and Kuznets inverse U-shape curves) that at some point regional convergence kicks in. See Barca (2009).

A more strategic approach to local development in Cambodia could be built as an integral part of the NSDP. It could cover three dimensions that emerge as key in the context of Cambodia: rural development, urban development and cross-border regional development.

As evidenced by analysis of both trends and policies in this report, and recognized by the recent NSDP update 2009-2013,¹⁶⁹ there is a need to address Cambodia's local development challenges in an integrated, more deliberate manner. A strategic approach to local development should help address disparities, identify unused potential and accelerate progress towards the MDGs. What does this mean, in practice? In the context of Cambodia, there are at least three dimensions of local development that need to be addressed explicitly and via stronger cross-sectoral coordination: rural development, urban development and cross-border regional development. Policies that address specifically the challenges of these areas could be developed in the framework of, and in support to, the NSDP. Their preparation could be led by ad hoc cross-Ministerial working groups, and coordinated by MOP with the support of key non-sectoral actors such as SNEC and NCDD.

Policies for rural, urban and cross-border development could be considered as additional and complementary to the NSDP. Based on successful experience in other countries (see Box 3.8), these strategies could help to connect National level priorities (or even international goals – e.g. in the field of climate change) with local practices. Also, they would offer a framework – a long-term, explicit vision – for the increasingly important planning activities of sub-National authorities in rural, urban and cross-border regions. A more explicit local approach to development could bring several benefits: a) complement the service delivery and democratization objectives of D&D with an explicit focus on local economic development; b) bring more attention and transparency in the identification and valorization of local resources, c) contribute to accelerate progress towards the MDGs by fostering integration of sectoral policies at local level d) promote endogenous development and economies of scope;¹⁷⁰ e) provide options to transit from subsistence farming and towards economic diversification adapted to the local context; f) help developing informal markets into formal ones, strengthening the legality and expanding the tax base of the national economy. Linking the D&D reform with an explicit local development policy can help ground governance reforms in socio-economic processes and is likely to mutually reinforce both and contribute to their success.

¹⁶⁹ The NSDP Update 2009-2013 makes a strong argument for developing an explicit, integrated policy approach to rural development. It does not recognize 'local development' as a concept that captures the linkages between urban and rural development.

¹⁷⁰ Which tend to be less vulnerable to external shocks and better able to counterbalance more difficult to achieve economies of scale in low-density rural areas.

Box 3.8: Building a national strategy for local development: The portuguese approach

Several developed and developing countries are moving away from the view that regional and local development are to be dealt with via top-down 'spatial planning' and are designing more forward looking, integrated policies for regional development. An example is Portugal: the Government has adopted a National Spatial Policy Programme (NSPP) which aims at assessing trends in local development and proposing lines of actions to the whole Government. The NSPP was launched by Law in 2007 and entail both research and participatory processes. The NSPP is essentially composed of two main elements: 1) a report identifies 24 challenges for territorial development (ranging from economic development to social and environmental issues); 2) an action plan focused on 6 strategic objectives, 36 specific objectives and 197 measures. At Sub-National level, 7 Regional Spatial Plans are developed mainly under the leadership of the Commission for Regional Co-ordination and Development. These plans have binding power for local Governments. For more information, see www.territorioportugal.pt

(1) An ambitious rural development policy could provide the vision and framework to promote economic diversification and sustainable development across Cambodia's countryside...

Experiences from around the world (significant is the example of China and its recent strategy to bridge rural-urban divides – see Box 3.9) have shown that there are substantial advantages in terms of having a strategic approach to rural development. This is of particular importance in countries with a young, growing labour force and thus the need to urgently boost jobs creation and economic diversification. An effective approach to rural development should rest on a robust analysis of trends in rural areas and can help the Government understand the different impact that its policies have on both peri-urban and remoter rural regions. For a strategic approach to rural development to be effective it is critical not to engage in two 'classical' policy mistakes: a) first, 'agriculture' should not be considered synonymous with 'rural', nor agricultural policy as synonymous with rural policy¹⁷¹. This means that rural areas should be assessed in terms of their needs and potential across different sectors. In this context, agriculture – albeit at present the most important sector of the rural economy – shall be seen as one sector among others and agricultural policy shall not be confused with an integrated approach to the development of rural areas. b) second, while infrastructure is important, this shall not be considered as a

¹⁷¹ See *The New Rural Paradigm: Policies and Governance* (OECD, 2006)

sufficient condition for rural development. In particular, the primacy of increased connectivity should not be overstated¹⁷².

An integrated approach to rural development shall aim at maximizing the potential of the Cambodian countryside. To achieve this, two actions are key: first, developing a comprehensive, periodic diagnostic of the status of rural areas as a necessary instrument to guide strategic policymaking. This could be both a tool for the Government as well as an instrument to foster public information on the status of rural areas. This ‘rural monitoring’ function could be assigned to existing or ad hoc institutions that could also get to play, over time, the role of ‘rural advocates’ and contribute to the elaboration of local development component of the NSDP. This has been successfully experimented in various countries (see Box 3.9). Second, ‘rural proofing’ mechanisms can be introduced (see Box 3.10). These allow monitoring, evaluating and correcting the impact of sectoral, ‘spatially-blind’ policies and donors’ initiatives on rural areas. Proofing mechanisms are particularly important to help prioritize investments and foster the ‘quality’ of spending, which in a context of limited fiscal space is a key advantage¹⁷³.

Box 3.9: China’s new approach to rural development

China’s new policy approach to rural areas began with the reform period, starting in 1978. The period initiated under a new political leadership after the Cultural Revolution and directed by Deng Xiaoping involved important political transformations. As part of the “four modernisations” targeting agriculture, industry, national defence as well as science and technology to promote the Chinese economy’s long-term rise, substantial changes in the approach to developing rural areas were implemented. People’s communes were abolished and gradual moves towards a more market-based approach involved a relaxation of agricultural controls and a less centralised production system called household production responsibility system (HPRS). The HPRS provided individual farm households with land use rights through contracts and farmers became more autonomous in their production and business management decisions. Related reforms allowed local Governments to promote economic diversification through rural enterprises and introduced a more autonomous rural governance system based on counties, townships and villages. The Guidelines of the 11th Five-Year Plan (2006-2010) include as a key objective a new strategy for rural development which calls for “Building a New Socialist Countryside” (jianshe shehui zhuyi xin nongcun – NSC from now on).

¹⁷² Connectivity, if not accompanied by the right measures, can generate the ‘leaking by linking’ phenomena described by Hirshman (1958). When interregional transport costs are reduced, firms continue to find it cheaper to concentrate in core areas and simply ship their goods to the periphery.

¹⁷³ See World Bank (2009)

This approach to rural areas recognises China's economic and social transformation and follows increasing concerns about rural-urban and rural-rural imbalances. Aiming to solve the "three rural" (or sannong) issues which concern agriculture, rural communities and farmers, the NSC strategy broadens the scope of rural policy and targets, together with agricultural productivity, land use, rural residents'

Box 3.10: Rural proofing and the commission for rural communities – UK

In England, the Government's rural white paper (2000) obliges departments and public bodies to put a "rural-proofing" mechanism in place through which policy design and implementation were systematically checked for their impact on rural areas, and to take action to mitigate adverse impacts where appropriate. The process has served as mechanism for interdepartmental co-ordination in a similar way to the "rural lens" approach in Canada. Knowledge and interest in rural proofing has spread from the central Government and it is becoming a tool for analysing and improving rural services among local authorities, by making more public sector bodies aware of rural issues. An annual "rural-proofing report" is published by the Commission for Rural Communities (CRC) which acts as a supervisory body to verify that rural-proofing has been undertaken. The CRC was established by an act of parliament in 2006, which defines the commission's general purpose as being to promote:

- awareness among relevant persons and the public of rural needs; and*
- meeting rural needs in ways that contribute to sustainable development; where "rural needs" means the social and economic needs of persons in rural England. the act also directs the commission to pay particular regard to the needs of:*
 - persons suffering from social disadvantage, and*
 - areas suffering from economic under-performance.*

The act specifies three key roles for the commission, specifically:

- rural advocate: representing rural needs to relevant persons.*
- expert adviser: providing relevant persons with information and advice about issues connected with rural needs or ways of meeting them.*
- independent supervisory body: monitoring, and making reports about the way in which relevant persons' policies are developed, adopted and implemented (by rural proofing or otherwise) and the extent to which those policies are meeting rural needs.*

Box 3.11: Rural proofing of sectoral policy through Canada's rural lens

In Canada, rural proofing was established at the end of the 1990s: Accordingly all new policy development was subject to a form of rural policy impact assessment. As Canada developed its institutions to serve a rural policy, several more components were put in place in 1998. "A Rural Lens" with a checklist of considerations was initiated to determine if a policy or programme addresses priorities for rural Canada. The checklist of considerations is as follows:

- How is this initiative relevant to rural and remote Canada?
- Is the impact specific to a selected rural or remote environment or region?
- Have the most likely positive and negative effects on rural Canadians been identified and, where relevant, addressed?
- Is the initiative designed to respond to the priorities identified by rural Canadians?
- Have rural Canadians been consulted during the development or modification of the initiative?
- How the benefit to rural Canadians is maximized (e.g. co-operation with other partners, development of local solutions for local challenges, flexibility for decision making)?

Within Canada's Rural Secretariat, a group of five public servants administer the Canadian Rural Lens with colleagues in other departments in applying the Rural Lens to new policy initiatives. Of course, they only get involved with policies that have a rural angle. When the system works well, the Rural Lens unit is involved early, but involvement may not come until a few weeks prior to Cabinet meetings. The power of this mechanism is that the Rural Lens staff can advise the Minister to support (or not support) the new policy proposal. Although the Minister has only one voice at the Cabinet table, opportunities to involve the several Regional Development Agencies (and their ministers) are sought. This mechanism provides departments with an incentive to take the Rural Lens comments into account. If the Rural Lens staff thinks that the rural perspective has not been properly presented, then they try to influence the policy proposal accordingly. The objective is not to advocate for putting rural considerations first, but to ensure that decisions are fully informed (i.e., of the implications for rural communities).

Source: OECD *The New Rural Paradigm: Policies and Governance*.

...within the agriculture sector...

There are great opportunities for agricultural development and diversification. These opportunities need to be understood in the framework of evolving international markets, as well as new challenges brought by climate change. At least four conditions are required in order to take advantage of opportunities for import substitution in agriculture and promoting agriculture exports: (a) a competitive price; (b) good quality of production; (c) reliability of supply; and (d) an easy access to markets (including a good marketing network, ensuring effective development of markets and linkages between farmers/producers, wholesalers, and consumers or export links). A mix of sound public policies is required at both National and Sub-National levels to accelerate progress in these areas. Two key facts illustrate the potential for diversification and development: first, rice is the dominant crop produced in Cambodia, but rice exports are mostly in the form of paddy. (See table 3.1)

Table 3.1: Agricultural sector: Sub-sectors contributions to overall GDP in billion riels at constant 2000 prices

Year	2002	2003	2004	2005	2006	2007
Total	5,108	5,645	5,596	6,476	6,830	7,184
Agricultural crops	2,168	2,643	2,582	3,295	3,470	3,753
Contribution	42.44%	46.82%	46.14%	50.88%	50.81%	52.24%
<i>Paddy</i>	1176	1437	1262	1813	1891	2033
<i>Maize</i>	72	151	123	119	181	259
<i>Cassava</i>	20	35	56	74	187	198
<i>Soya beans</i>	38	62	108	175	96	104
<i>Vegetables</i>	256	253	250	255	273	277
<i>Tobacco</i>	16	48	17	89	89	75
<i>Rubber</i>	197	187	183	167	176	195
<i>Other cash crops</i>	151	211	320	336	304	337
<i>Other crops</i>	243	259	263	268	272	275
Livestock and poultry	861	910	945	998	1,080	1,120
Contribution	16.86%	16.12%	16.89%	15.41%	15.81%	15.59%
Fisheries	1,615	1,642	1,614	1,705	1,770	1,784
Contribution	31.62%	29.09%	28.84%	26.33%	25.92%	24.83%
Forestry and logging	464	450	454	477	511	527
Contribution	9.08%	7.97%	8.11%	7.37%	7.48%	7.34%
	100%	100%	100%	100%	100%	100%

Source: ADB, key indicators 2008

This implies modest benefits for the farmers, limited spillover in the local economy and most value being captured abroad. Second, **70% of Cambodia's consumption of fruit and vegetables is imported**, providing an obvious opportunity for "import substitution". The production of fruit and vegetable is unjustifiably depressed in Cambodia, while the country imports massive volume of these products from neighboring countries. The potentials are high, but progress is needed to tackle challenges in terms of: modest local expertise, limited working capital, underdeveloped marketing chains, small volumes of production of good quality standards, and in general inadequate storage and marketing facilities and skills, and potentials for high post-harvest losses. Action is needed to meet international standards of hygiene and safety regulations. Potential SPS (Sanitary and Phytosanitary Measures) problems exist for several products. More investments to improve technical monitoring and inspection systems as well as to develop capacity for certified organic production (for example for organic fruit) will be critical. There are difficulties in controlling the level of antibiotics used as well as the residues for some fruits. In some cases (e.g. mango), infestation of insects has produced massive damages. Cassava production could also be competitive, but the unreliable volume of supply may be a deterrent to keep processing plants working at their full capacity. Exports have been concentrated in Thailand and Viet Nam, and been mostly limited to raw material rather than processed product. While productivity is very high, transportation costs and reduced post-harvest processing facilities are a big limitation. As discussed in Part 1, the emerging **rubber, silk and pepper clusters** possess very substantial unexploited potential. This again calls for a mix of agriculture and industrial cluster policies to support the specific characteristics of these production in the specific places where they are located.

Exports from fisheries also hold great potential, given the abundance of marine and inland water resources. However, they face strong limitation from the food safety side and will need to be managed effectively in the context of climate change. The EU has banned import of fish from Cambodia since 1997 due to failure to comply with EU legislation regarding hygiene and sanitary conditions. Poor infrastructure and processing facilities could hamper expansion in the future. Most exports are informal and still provide low value added to the country. Training of fishermen in modern SPS handling and processing is a requirement to improve competitiveness in this industry, where conformity with SPS guidelines, both for domestic consumption and exports is crucial. Aquaculture and capture fisheries (fetching premium prices) are becoming promising subsectors of fisheries in the country both from the food security and economic points of view. They may provide a major alternative income opportunity for farmers and a way out of poverty. However, once more, these are very competitive markets, especially given the position acquired by neighboring countries such as Thailand and Vietnam.

Box 3.12: How developed countries dealt with subsistence farming?

Historically in Europe there have been two ways of overcoming subsistence farms, which were dominant in most EU member states up to the Second World War. The first, characteristic of Northern European countries, went hand in hand with rapid industrialization: as jobs in manufacturing grew in urban centers, subsistence farm families, especially those without secure tenure, found more convenient to move out of rural areas, abandon farming and establish themselves near the new workplaces. Land made available in this way passed in the hands of the few “modernizing” farmers who stayed on the land; without cheap labor, they invested in machinery and equipment, improving productivity and providing food to urban markets, growing gradually in size as industrialization consolidated.

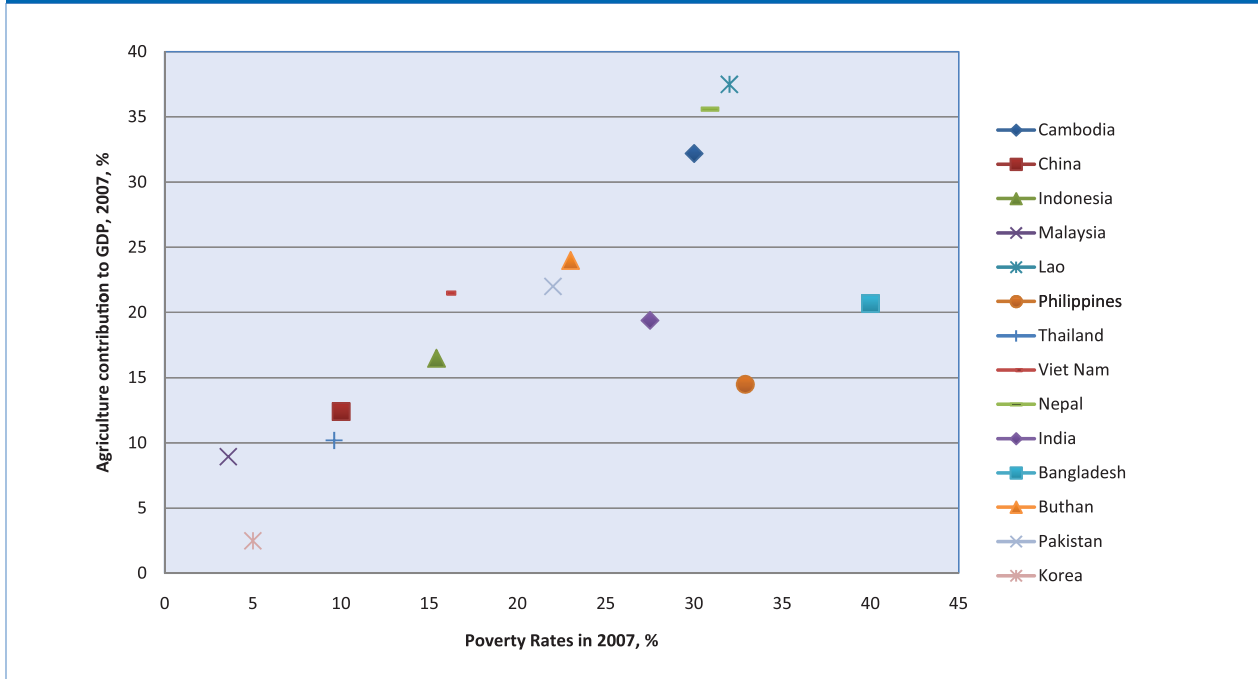
The second way developed more recently (after the War), in late development countries (Mediterranean, Eastern countries) and with an intermediate step. In this case poor subsistence farms, especially if with secure forms of tenure, try to diversify household income sources through temporary migration and sending remittances, working seasonally on other farms, initiating artisan activities, selling directly local products, working in construction for periods, maintaining farm activities as the basis of subsistence but engaging in other irregular, seasonal or temporary activities to increase income. Farm workers decline but rural residents do so much less, because some members stay and the farm-house continues to be the stable residence. In a second step, usually with the following generation, there is a further decline in agricultural work, with farm-work contracted out to other local farmers for its work, while off-farm work becomes more stable in rural areas and off-farm income becomes the main source of income.

The two “models” have quite different rural development impacts: the first losing most of its agricultural and rural population, few modern farms, a non diversified rural area. The second loses farm workers but much less the rural population, land becomes available on the market more gradually and thru rent and sub-contracting, the rural economy diversifies more or less spontaneously. There is evidence that both these systems are working in Eastern countries who have recently joined the EU, in Mexico, in Brazil.

...and beyond, into tourism and energy production.

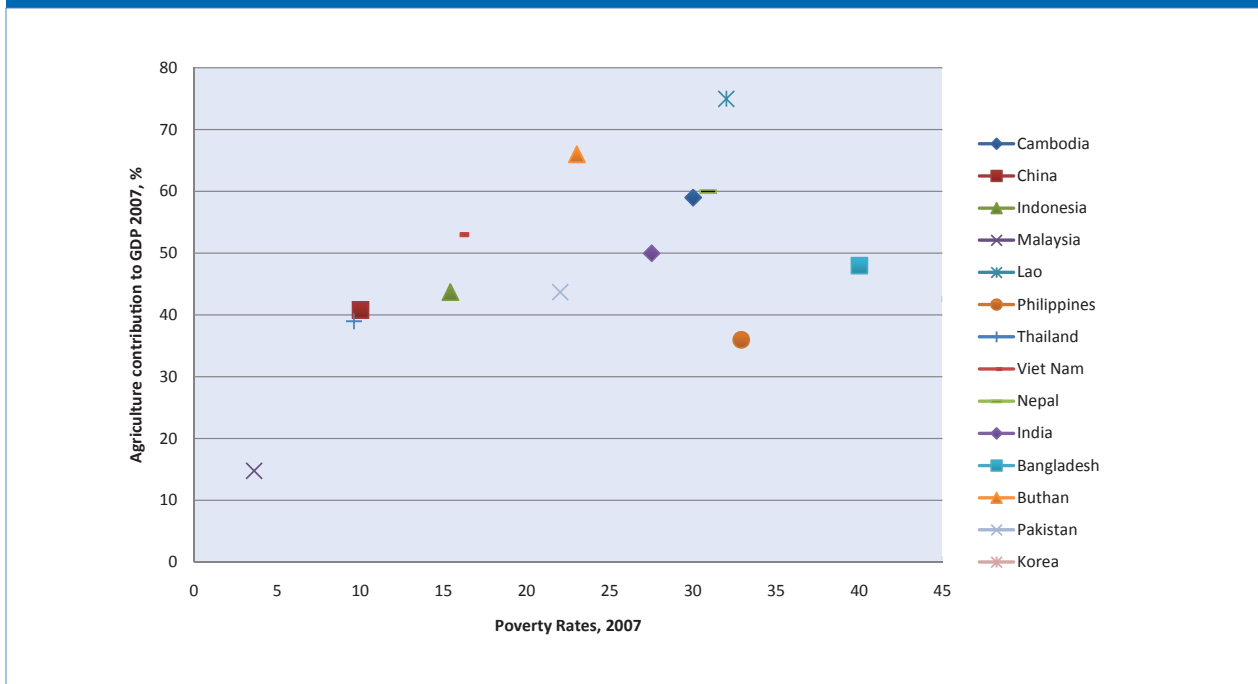
As highlighted in Part 1, Cambodia's rural areas hold enormous unexploited potential for economic diversification, and this is largely territorially differentiated. This calls for a modern, place-based approach to rural development. As discussed, the current mainstream policy approach to rural development across most of Cambodia is focused on agriculture and on the provision of social public goods, or social safety-nets. These are essential, necessary policies, but often not sufficient to promote local economic development. Agriculture itself is often supported more for its 'social function' (subsistence farming, small farm-holders, social infrastructure, soil conservation etc), than in relation to its potential as an economic sector (production for the market). Policies address the challenge of rural development in a very traditional, 'defensive' way, by supporting the expansion of subsistence farms, which is reasonable so long as there are no job alternatives in other sectors and this is the only social safety net available. But, as experience across the world shows clearly, for many Cambodians the solution, in the medium to long-term will not be subsistence farming but the capacity to derive income from other sources. This implies considering other options, through migration, on-farm or off-farm diversification, acting jointly to obtain higher shares of the value-chains, the valorization of local resources, collective projects, providing more than just food to urban domestic markets. In this transition, the starting point is agriculture but the objective is not the modernization of agriculture alone, but also and at the same time the diversification of the rural economy from its narrow base and the improvement of the living conditions in rural areas, which require a territorial policy approach, localized, capable of integrating the different sources of livelihood in a coherent local development strategy (see figure 3.1 and 3.2).

Figure 3.1: Agriculture's contribution to growth and poverty rates



Source: ADB, Key indicators for Asia and Pacific, 2008

Figure 3.2: Share of population employed in agriculture and poverty rates



Source: ADB, Key indicators for Asia and Pacific, 2008

A modern rural development policy can help identify and valorize the vast potential of the Cambodian countryside. As discussed in Part 1, natural and cultural amenities represent an obvious starting point. The richness of Khmer culture and heritage and the wealth of natural resources are an enormous asset on which to build local development strategies. Energy also represents a sector with great potential, although its development – when it entails large investments - needs to be assessed on the basis of trade-offs with wider economic, social and environmental objectives. Public policy and development aid can play a key role in supporting local public and private actors in their efforts to identify and exploit comparative advantages. Linkages between agriculture and tourism can be developed via smart territorial marketing strategies. There are many successful experiences across Cambodia that can be valorized, disseminated and scaled up (see Box 3.13). Rural development networks can be successfully established to foster knowledge exchange across different areas, towards solutions for economic diversification (see Box 3.14). These networks could be over time connected with already existing, dynamic international networks of rural actors and local Governments¹⁷⁴. Stronger support to producer’s organizations can also help private entrepreneurs in rural areas - and farmers in particular - to overcome the fragmentation of producers, provide a more organized and better quality product for the market, able to compete with current imports (for example of fruits and vegetables from Thailand), improve the cash income of semi-subsistence farmers, provide a way to introduce modernization into the farm and tourism sectors through associations (see Box 3.14).

Box 3.13: Cambodia’s “One Village, One Product” program

Inspired by the successful experience of the “One Village One Product” movement originated in Japan in the 80s’, and by other examples across the region, the “One Village One Product National Committee” was created by the Royal Government of Cambodia in 2006 and its strategic importance emphasized in the RGC Rectangular Strategy. The OVOP National Committee is chaired by the Prime Minister. The main goal of this top-down initiative is to foster rural economic development and poverty reduction, revitalizing value chains of high quality Cambodian products, from production to commercialization, leveraging traditional cultural heritage, creativity and local expertise, as well as employing natural resources locally available.

¹⁷⁴ There are several Asian, European and Global ‘rural networks’ that provide space for exchange of good practices within the public, private and academic sectors. For example the Spanish based ‘World Rural Forum’ or the EC supported European Network of Rural Leader Groups.

The main development objectives envisioned by the Royal Government are employment generation, increasing value-added of local products through processing, quality control, packaging design and marketing promotion, reducing depopulation of rural areas, and providing sustainable income generating activities to poor people. Focus is on, but not restricted to, consumer goods products, souvenirs, and agricultural products for the national and international markets. In order to achieve these goals, the OVOP National committee is primary engaged in identifying high potential products in different rural areas matching local capacity and market demand and to improve management skills of local producers. Other support activities include facilitating market accession and the provision of credit and transferring of technology across villages.

Different actors operate in close cooperation, such as the Chamber of Commerce, Cambodian Chamber of Professionals and Micro-enterprises, National Training Board, and Rural Credit Service. Moreover, the OVOP National Committee works in partnership with several private actors. Some example of products are: orchid and silk production in Takeo province, wooden and stone sculptures and souvenirs in Siem Reap, grape wine in Battambang, ceramic in Kampong Chhnang, Rattan furnitures in Kraties, red baskets and scarves in Kandal and silkworm rearing in Kampot.

Box 3.14: Eco-tourism and other success stories in Cambodia¹⁷⁵

Ecotourism and community based tourism (CBT) have been increasing in importance over the last few years. Ecotourism can be best defined as responsible travel to natural areas that conserves the environment and improves the welfare of local people. Globally, it is estimated that ecotourism generates about 7% of all international travel expenditure. The Southeast Asia region represents one of the mayor ecotourism destinations. Up to now there are roughly 20 CBT sites in Cambodia. A study conducted in 2008 in 8 sites showed that less than 1% of all international visitors coming to Cambodia had visited CBT sites. In 2007, community based ecotourism at those 8 sites generated roughly US\$ 75,377 of which 55% was allocated to the villagers providing the service, 23% to environmental conservation, 7% to community

¹⁷⁵ For instance, the island of Koh Dach situated on the Mekong River, only about 10 kilometres from Phnom Penh is renowned for the thousands of silk weavers and the quality of the silk they produce, the Koh Pdao Community-based ecotourism site, the floating eco-lodge in Koh Kong.

development funds and 15% to other purposes such as supporting the poorest families and projects in general. It is estimated that around 2000 families are directly or indirectly involved in CBT activities. The main challenges faced by CBT in Cambodia are: 1) a disconnect between CBT and Private sector (Tour Operators) 2) limited sharing of CBT information and experience between community and Private sector and 3) modest understanding of CBT among planners, policy makers, academia and public. Most of the CBT sites are not properly marketed and suffer from lack of expertise on tourism markets and demand. There is also limited awareness and understanding among the communities and among the general public of how this form of tourism can have positive impacts on rural livelihoods. Ecotourism and CBT development here has been developed by NGOs (at least in the initial setting up phase). Almost each community running CBT is assisted in marketing and promotion by an NGO which helps/ helped them to start up. Given the little experience of CBT in Cambodia and the need for assistance (especially in terms of building the capacity of the communities) almost all the CBT projects are part of a network, called Cambodia Community Based Ecotourism Network (CCBEN). This is the only ecotourism network in Cambodia, established to promote, serve and support communities for poverty alleviation and conservation. The main activities of CCBEN are networking, capacity building, marketing and promotions of activities that benefit its members and communities. There are currently 15 CBT sites which are members of the network and which benefit from trainings, regular meetings among the organizing members, forums, fairs and dialogue with tourism stakeholders. CCBEN was established in 2002 and since 2007 is running 4 capacity building project financed by the Spanish Agency for International Development (AEICD), EU-Asia Invest Program, SNV and UNWTO. CCBEN has also established its own training unit to provide capacity building programmes to its members and this unit is self-financed by the revenues of the training.

More info on ecotourism and list and description of Cambodian CBT sites on:
www.ccben.org

Sources: c.f. Lindberg, 1994 and www.ccben.org

Box 3.15: The micro-regions strategy for rural development (Mexico)

The Micro-regions Strategy, launched in 2001, was a particularly innovative policy initiative to respond to the challenges of sparsely populated rural areas in Mexico. The Strategy, managed by the Ministry of Social Development (SEDESOL) identified the 263 most marginalized rural regions in the country and selected within these regions a number of “micro-poles of development”, called Strategic Community Centres (Centros Estratégicos Comunitarios - CECs) based on their potential for economic development, and the ability to act as catalysts for surrounding areas. The strategy contemplated an innovative approach to integrating Government agencies at subnational level and involved 12 ministries in the delivery of public services and infrastructure investment in CECs based on minimum standard of services in 14 specific fields. The precise scope of the Micro-regions Strategy (263 regions, 14 indicators) allows monitoring progress in each of the areas of support. An innovative mechanism - that also encouraged advocacy and participation - was set up: for each of the CECs, the stated objective was to reach 14 “banderas blancas” (white flags). Each white flag certified that a CEC had been endowed with a certain level of infrastructure or service. Fulfilling the deficit of white flags in the 100% of the CECs was the quantifiable medium term goal that oriented the direction of the strategy. The strategy proved to be extremely successful and was continued through different political terms. For more information see: *Place-Based Policies for Rural Development: the Micro-Region Strategy for Rural Development* (OECD, 2003).

Box 3.16: Providing support for setting-up producer’s organizations

A long-standing measure within the EU Common Agricultural Policy has provided support for setting-up farmers’ associations with the aim of adapting production standards to consumer needs and increasing the bargaining power of small producers on the market and within food chains. It includes the preparation of products for sale, the centralization of sales and supply for bulk buyers, the establishment of common rules on product information. The support given may finance the administrative costs of the setting-up and operation of the producer group for a period of time; its beneficiaries are producers groups already recognized by the State or being created with the aims just mentioned. The producers are associated through different legal forms (cooperatives, non profit associations, private companies) produce the same product

(wine, olive oil, fruits and vegetables..) without limitations on the size of production. They may perform various tasks, of a collective nature for all members, include handling, processing and marketing of all or part of the product. Producer's organizations often also provide services (price information, quality controls) for its members or buy inputs (packaging material, inputs) at better conditions.

Producer's organizations have a long experience within Member States, even before joining the EU. International organizations (FAO) have also experimented with promoting producer's groups in contexts where agricultural recovery is needed after a disruption, to strengthen farmers self-reliance and cooperation (see example below), with the aim of adapting products to market demand in developing countries, contributing to improve their cash income. They are particularly adapted also for contexts characterized by small farms, semi-subsistence farm families, that individually have a very weak bargaining position on the market. They play a key role in the initial phases of the development process since they are able to get a larger share of the value added for the producer within the food chain. How is it financed? In general a flat-rate aid is granted in annual installments for five years of operation, calculated on the basis of the group's annual marketed production and not exceeding an established percentage of its production, with a maximum limit. Investments such as market research, branding and labeling, establishing standards, may also be financed.

Rural economic diversification shall build on Cambodia's thriving microfinance sector...

The RGC has created a sound enabling framework for a robust private sector led microfinance industry. The Government of Cambodia's primary policy instrument for enabling the development of inclusive financial service has been the regulatory and supervisory regime of the National Bank of Cambodia (see Box 3.17). The NBC engaged the emerging microfinance industry in its early stages and has continually adapted the regime to enable the development of the institutions and their integration into the formal financial system. The NBC's regulatory regime facilitated the core driving forces in the microfinance industry: shareholder ownership of the service providers, prudential supervision and robust reporting requirements, and access to deposit-taking licenses. As a result, Cambodian MFIs/MDIs have been able to attract foreign investors and lenders to fund their first phase of growth, and are now positioned to fund future growth with deposit services. At present, few countries in the world have a microfinance sector as strong and geographically disbursed as Cambodia (see Part 1).

Box 3.17: Microfinance in Cambodia – a sound regulatory regime

The Government of Cambodia's primary policy instrument for enabling the development of inclusive financial service has been the regulatory and supervisory regime of the National Bank of Cambodia. The NBC engaged the emerging microfinance industry in its early stages and has continually adapted the regime to enable the development of the institutions and their integration into the formal financial system. The NBC's regulatory regime has been innovative within a sound prudential framework, and ranks among the best in the world. The key features of this regulatory regime merit summary here.

In 2000, the NBC issued *Prakas* (regulations) that created two ways for non-profit credit organizations to be formally associated with the NBC. Organizations that are structured legally as a limited liability company or a cooperative, and have KHR 250 million (USD60,000) in capital, are eligible for an MFI license. Alternatively, organizations can register with the NBC, though with a more limited operating mandate. In both cases, the licensed and registered MFIs are subject to regulation, reporting requirements, and off and on-site supervision.

In 2007, the NBC issued regulations that created the Microfinance Deposit Taking Institution license. This allowed licensed MFIs with a minimum of KHR 10 billion (USD2.4 million), and meeting other requirements, to collect savings and fixed deposits.

These specialized microfinance licenses complement the existing tiers in the banking system, which are also accessible to microfinance organizations that grow to the point of qualifying for the requirements. The Rural Credit Specialized Bank also has a minimum capital requirement of KHR 10 billion. As of September 2009, a full commercial banking license requires a minimum capital of KHR 50 billion (USD 11.9 million). However, that minimum will be raised to KHR 150 billion (USD36 million) in 2010, to encourage a consolidation of the banking system.

In addition to the tiered licensing regime, the NBC has also issued *Prakas* that align regulations and supervision with international best practice for related to microfinance operations (e.g. loan classification and loss provisioning).

...which could be further strengthened to provide a wider range of financial services, at a lower cost.

The broadest distribution of economic benefit associated with access to finance will be gained by enabling service providers to grow by mobilizing deposits, and **extending the reach of savings and payment services**. One important decision that Cambodian policy makers will have to make in the current environment is to maintain their focus on adapting the regulatory and supervisory framework of the sector to enable innovation and growth, especially around savings and payment services. Mobile banking and payment service initiatives have already been launched in the Cambodian market. The regulatory framework will likely need to evolve to maximize the potential of these new branchless service channels. Anti money laundering regulation, particularly customer due diligence requirements, typically require periodic review to avoid excess regulations that impede access to financial services. Regulations related to currency also deserve special attention in the Cambodian environment. Current regulations governing currency position limits are well justified. However, some services are currently restricted because of monetary policy regulations on the currency denomination of some bank transactions. For example, many companies pay wages in dollars and banks are apparently prohibited from making this transaction electronically because of these regulations. Ongoing dialogue between the industry players and regulator should facilitate timely adaptation to business models and regulations to ensure synergy between the two. The public sector of Cambodia may also play a key promotional **role as a purchaser of financial services, particularly fund transfer (payment) services to remote areas**. The geographic distribution of financial services will depend ultimately on the financial viability of the delivery channel, whether that be branch offices, ATMs or merchants with POS machines.

The public sector is probably the single largest user of the financial system for payment of salaries, pensions and other social payments. How the public sector uses the payment system will heavily influence the income stream of the financial institutions that own the payment channels, and their ability to maintain those channels in remote areas¹⁷⁴. **The microfinance industry is well positioned to expand access to financial services as the rural economy develops**. In the short term, both the service providers and the clients will perceive immediate and significant benefits from an expansion of savings and payment services. The recently licensed MDIs will provide savings services beyond the current ACLEDA network, and new services such as the ANZ/Wings mobile money service will help reach customers beyond the bricks and mortar

¹⁷⁴ *The role of government in promoting access through its use of the payment system is explored in depth in Pickens, Mark, David Porteous and Sarah Rotman (2009), Banking the Poor via G2P Payments. Focus Note No. 58. CGAP.*

infrastructures. Customers from even the lowest income levels are likely to benefit from these developments. But a significant increase in access to formal credit, and investment in general, will likely require improvement in the challenges rooted in the rural economic environment (for example land titling and its relation with collateral – see dedicated section below).

(2) A forward-looking urban development policy will help reap the benefits of agglomeration economies, address negative urban externalities ...

As discussed in Part 1, even though at lower rates than other countries in the region, increasing urbanization is a fact in Cambodia. Several cities are growing and have the potential to act as hubs for Provincial and National development. At present, however, Cambodia is not taking full advantage of agglomeration economies around urban centers¹⁷⁵. While market forces are key determinants of urban development and competitiveness, the Government can play a key role in fostering agglomeration economies and, at the same time, addressing the negative externalities that come with urban concentrations. Several policy instruments are available at both National and sub-National levels. The central Government has a key role to play: National level sectoral policies – such as transport, energy or environmental regulations – have a significant impact on cities. On the other hand, there are specific tools that central and SN Governments can use to foster urban development: planning, management of urban services, housing policies, urban specific climate change adaptation and mitigation measures, policies that identify and exploit urban-rural linkages etc.

A sound use of all these tools requires a vision, and a framework for urban development in Cambodia. It requires a National, long-term ‘vision’ for urban development that links National level priorities and policies with SN level planning process. There are various examples of National urban policies across developed and developing countries. Some are explicitly lined with D&D reforms and lead to the assignment of specific functions to urban Governments or special ‘regimes’ for the Capital regions¹⁷⁶. A National policy for urban development would rest on solid analytical basis (e.g. rigorous monitoring of urbanization trends) and reflect upon the linkages between different urban areas and the promotion of networks of cities, which is particularly important in countries with a diffuse population. At present, the quantity and quality of research in the field of urban development is modest in Cambodia and would greatly benefit from support and attention of the Government, Development Partners and international academic and research institutions.

¹⁷⁵ See World Bank (2009).

¹⁷⁶ For example the Spanish Government passed in recent years legislation aimed at creating a special regime for large metropolitan areas. Other countries, such as Canada, have experimented ‘amalgamation’ to merge municipalities within urban areas.

...and strengthen the role of the Capital and the other strategic centres as engines for National growth.

While several urban areas are developing throughout the country, three cities stand out as essential to the development of Cambodia: Phnom Penh, Siem Reap and Sihanoukville. The role of the Capital is critical in the current process of urbanization and overall modernization of the Country. Phnom Penh's functional area now largely exceeds the 376 km² of its municipality. Its challenges are great and include service delivery to a growing population and avoiding pockets of poverty and social exclusion. Despite the existence of large residential and commercial development projects, there is little evidence of a well thought and respected master plan or of impact assessments that evaluate advantages and disadvantages of each project for the Capital's citizens and help planning for services (from transport, to sewage to water management) and the use of public space.

On the one hand, the lack of strategic planning can lead to very costly economic, social and environmental consequences and uncontrollable diseconomies of agglomeration. On the other hand, as successfully experimented in several countries¹⁷⁷, there are still ample margins to devise a robust strategy for 'Phnom Penh Metropolitan Area' that anticipates these trends and supports the sustainable development of the Capital and its surrounding Provinces. Phnom Penh possesses significant potential to develop into a city that has unique visual landscape, which can attract tourism and investments and translate this into benefits for its population. This requires triggering a virtuous circle of public goods that attract private investments and once more requires careful planning. Phnom Penh's urban development strategy could be accompanied by a careful review of responsibilities and resources allocated to its local authorities. At present, Phnom Penh administration has fairly limited power¹⁷⁸ and, despite enormous potential for public revenues out of private sector projects¹⁷⁹, works with relatively modest resources. This has numerous negative consequences, including a de facto 'privatization' of services across the city, further reinforcing social exclusion.

A comprehensive urban/metropolitan development strategy for the Capital could also provide a much needed framework for more coordinated interventions by Development Partners especially in terms of infrastructure development and technical assistance to the Capital's authority. Support to develop more and better data and cartography could be particularly useful: several technical services in Phnom Penh still work on 1993 maps. A

¹⁷⁷ See for instance the Dutch National level approach to the development of the Randstad Metropolitan Region or the South Korean strategy built around the 'Capital Region Readjustment Planning Act (1982)'.

¹⁷⁸ Legislature restraining Governor's authority over project under 3000 m².

¹⁷⁹ Over 4 millions m² built each year in 2007 and 2008.

public information center could also help also foster transparency in terms of both public and private investments and their relevance for the city's inhabitants. A sustainable, dynamic, well-connected Phnom Penh could be the hub of a Cambodian city network, rather than acting as the sole, progressively overcrowded urban center.

Siem Reap and Sihanoukville are also key urban poles deserving robust, long-term strategies. Both cities are, from various points of view, at a turning point. Uncontrolled development of the Provincial Capital may further rural-urban disparities within the respective Provinces and lead to a degradation of their precious and vulnerable cultural and natural amenities. A modern strategy for urban Siem Reap and Sihanoukville would contribute to preserve their resources and help spread the benefits to the whole of the two Provinces. This would in turn maximize the contribution of both urban areas to the National economy. In the case of Siem Reap, the floods suffered during 2009 and the significant damage they inflicted on the local population and businesses highlighted another critical issue: the urgency to have a well-designed plan that integrates climate change adaptation measures into the wider economic and social development strategy of the area. There are several interesting practices internationally that could serve as a source for inspiration both in terms of assessing climate change vulnerability and in terms of maximizing mitigation efforts (see Box 3.18). Climate change mitigation measures can also play an important role in terms sustainable development as well as contributing to a positive 'green' image of the city with significant dividends in terms of attracting investments and tourism.

(3) A policy for cross-border development could help the RGC engage more strategically in subregional development projects and make the most of large, unused potential in border regions.

Cross-border regions follow distinct development patterns and hold great unexploited potential given Cambodia's strategic geographic position. In this context, being a 'peripheral Province' with the respect to the Capital can represent a significant comparative advantage. The specific challenges and opportunities of cross-border regions call for a strategic, place-based approach to these areas. In this framework, the on-going '**Greater Mekong Subregion – GMS**' program or other initiatives such as the 'Triangular Development Zones' (see Box 3.18) can bring substantial benefits to Cambodia. Experience from across the world (see Box 3.18) shows that large cross-border infrastructure development projects bring obvious connectivity benefits. However, the extent to which these translate into sustainable development in cross-border regions themselves can be significantly influenced by the adoption of forward looking local/regional development strategies and investments that build on new infrastructure to trigger local development. It also largely depends on effective

cross-border governance mechanisms that act at both National and Sub-National levels to remove regulatory barriers and foster cooperation among public and private actors¹⁸⁰. Finally, it is key to accompany these cross-border projects with appropriate regulatory instruments (ex. to protect specific areas from exploitation) to prevent them to produce the unintended effect of providing unchecked access by private (often foreign) investors to Cambodia's natural resources. A comprehensive National policy for cross-border development could serve as a useful framework to guide Cambodia's participation into these large regional initiatives and enable the country to extract maximum benefits from them¹⁸¹. This would be in line with the current rethinking of the GMS program which calls for more participation of Member countries in defining the way forward and in particular a more holistic approach to cross-border development¹⁸². In the absence of such strategy the risk is high that regional initiative may end up missing synergies with other local development projects in border areas or even support conflicting objectives being captured by private – often foreign – business interests.

Box 3.18: The GMS and its relevance for local development in Cambodia

More than 325 million people live in the Greater Mekong Subregion (GMS) mostly in rural areas. GMS is a regional programme created by ADB and other donors in 1992 contributing to regional integration and cooperation among countries in this area. In order to jointly address shared environmental and social concerns of countries in the Mekong Region, and in turn contributing to regional stability and better understanding among member countries, ADB assumed a leadership role in catalyzing regional cooperation and integration. The GMS Program aims at realizing the potential of the subregion through:

An enabling policy environment and effective infrastructure linkages for enhanced economic cooperation

- Development of human resources; and*
- Respect for environment and social interests to ensure sustainable and equitable development*

¹⁸⁰ Several studies of the regional impact of integration within the European Union have shown that an excessive emphasis on infrastructure is to be avoided in favor of well-balanced interventions mixing infrastructure and investments for instance in education in the areas that are getting better connected. The right mix of investments in infrastructure and human resources development, as part of targeted territorial development strategies largely explains success stories of local development. See Rodriguez Pose (2004 and 2008).

¹⁸¹ See also for analysis on how to maximize the benefits of pro-poor tourism in cross-border areas, "Pro-Poor Tourism in the Greater Mekong Region" (CDRI, 2007).

¹⁸² See Greater Mekong Subregion: Maturing and Moving Forward (ADB, 2009). On the need for a more holistic approach see also ADB analysis on the impact of large infrastructure projects on HIV and gender objectives in 'Intersections – Gender, HIV and Infrastructure Operations' (ADB, 2009)

GMS focuses on nine priority sectors identified in transport, energy, telecommunications, human resource development, environment and natural resource management, trade facilitation, private investment, tourism and agriculture. ADB loans, summing up to more than \$1.92 Billion, contributed to the development of about 30 large-scale projects. Main projects include the creation of sub-regional road networks, improvements of airports and railway systems, creation of hydropower plants for cross-border power supply. Up to now, the overall value of the projects implemented under the GMS programme is estimated to be \$10 billion. Countries involved in the GMS are Cambodia, People's Republic of China, LAO PDR, Myanmar, Thailand and Viet Nam.

<http://www.adb.org/GMS/default.asp>

A strategic approach to local development by the RGC would benefit from a more deliberate, well coordinated focus on local development by Development Partners, built around the notion of 'localising the MDGs'.

In Cambodia, as it is the case in many countries, development aid tends to be territorially 'undifferentiated'. This system suffers from well-documented limits: on the one hand, it tends to disperse support through a high number of sectoral projects (over 350 projects during 2009). On the other hand, many of these projects ignore territorial differences and the combined effects of different projects on the same target territory. There is substantial scope for increasing Development Partners' capacity to having a more strategic approach in terms of where resources are used and what impact those resources have in different places¹⁸³. This is the main rationale behind the recent push for 'localising the MDGs': a local, integrated approach can a) help to understand territorial asymmetries in terms of progress towards the MDGs (in other words where things are getting better and where they aren't) and b) provide precious information in terms of how to adapt policies to different places and how to exploit synergies among different sectoral interventions¹⁸⁴. This approach has been experimented with in several countries¹⁸⁵ and could be successfully pursued in Cambodia. Sub-National Administrations and local plans can be used as the key loci for analysis, discussion and integration of actions towards the MDGs. This can accelerate progress and also make sure that necessarily 'top-down' objectives, such as the MDGs, get prioritized and pursued in a way that is consistent with locally determined plans. Nascent work

¹⁸³ The NDSP update 2009-2013 places considerable emphasis on the need to find mechanisms that can enhance the coherence of DPs support with NSDP priorities, as well as their targeting to beneficiaries.

¹⁸⁴ On the extent to which MDGs are interdependent, see lessons learned from the ADB on the impact of large infrastructure projects on HIV and gender objectives in 'Intersections – Gender, HIV and Infrastructure Operations' (ADB, 2009). On cross-sectoral links in service delivery, see also WB 2007.

¹⁸⁵ See <http://www.undg.org/?P=84> for instance for the cases of Brazil, Vietnam, Honduras.

on developing MDGs Provincial Scorecards could help considerably to move in this direction as long as it can provide robust and 'usable' data sets. A smarter, 'localised' focus will require that Development Partners, not only Government, make progress in building their own capacity in terms of adopting a territorial approach to what they support as well as greater sharing of information in terms of the geographical scope of their work. To this extent, developing the existing development assistance databases to provide such information, and making it easily accessible, could help rationalize and target aid and make its coverage more transparent.

Box 3.19: The ART programme: decentralized cooperation for MDGs achievement

The ART Programme (Articulating Territorial and Thematic Networks of Cooperation for Human Development), is an international cooperation initiative created in November 2004 through a partnership involving UNDP, ILO, UNESCO, UNIFEM, WHO and UNOPS, in collaboration with other UN Agencies. It aims at supporting national and local Governments in the implementation of their decentralization policies. The ART framework operates both at the country, regional and global level through complementary objectives, outputs and activities and it aims at achieving local ownership of collaboration to ensure countries own participation in such initiatives in the future. To this end, ART supports and promotes the implementation of a legal, operational, administrative and planning framework and involves different stakeholders ranging from National Governments, Regional and Local Communities, Donor countries, Civil society, Universities, Private Sector and NGOs.

Improved engagement and assumption of responsibilities of sub-national actors will be enhanced in the context of the supported capacity building activities, aimed at improving decentralization and regional/local development policies promoting the active role of regional and local communities as main player in the context of local development.

Up to now, more than 400 partnerships have been established within the ART Programmes and involve actors from countries such as Belgium, Brazil, Canada, France, Guatemala, Italy, Monaco, Spain, Sweden, Switzerland, Venezuela, among others. Currently ART is active in the following countries: Albania, Bolivia, Colombia, Cuba, Dominican Republic, Ecuador, Indonesia, Lebanon, Morocco, Mozambique, Senegal, Serbia, Sri Lanka and Uruguay.

<http://www.undp.org/geneva/art-gold.html>

A stronger multi-level governance system and forward looking policies for rural, urban and cross-border development should contribute to address two key National challenges that stand out because of their relevance and potential impact on local development: (1) land use and (2) climate change resilience.

3.4 FOSTERING LOCAL DEVELOPMENT VIA EFFICIENT LAND USE

Land use: progress is needed to resolve the land issue for both economic and social purposes.

As explicitly recognized by several strategic documents of the RGC, the landless problem represents a key challenge for Cambodia and – in many areas – has a significant impact on local development¹⁸⁶. The incidence of landlessness rose from 13% of population in 1997 to 16% in 1999 to 20% in 2004, and as of 2007 was estimated to be close to 25%¹⁸⁷. Since the 1980s, 20%-30% of the land in Cambodia has been progressively concentrated into the hands of only 1% of the population¹⁸⁸. Only about 10% of the rural populations have title to their land¹⁸⁹. Since the end of multi-year war, Cambodia has adopted a series of land related laws and regulations, recognizing private ownership of land and attempting to resolve its landless problem through land concessions for social purposes.

While Cambodia's land law establishes basic rights and modern institutions reflecting contemporary international norms, the formal legal system has to compete for dominance with a deeply embedded patrimonial institutions of land management and administration with the result that formal law and policy reform are only weakly projected at the local level¹⁹⁰. As a result, certain groups, and particularly the urban poor, those farming flood plains and river banks, indigenous peoples and those living in areas that were once forest, suffer from acute tenure insecurity¹⁹¹. The lack of effective institutions to address land disputes further intensifies tenure insecurity. The Cambodian Government has introduced a mechanism to allocate state private land to landless people for free in the form of social land concessions and make it possible for such landless people to become landowners after five years. However, implementation of the social land concession policy is losing ground in competition with economic land concessions and other instruments for allocating land to

¹⁸⁶ See for instance, on this point, the draft NSDP 2009-2013.

¹⁸⁷ World Bank, *Halving Poverty by 2015* at 85.

¹⁸⁸ See USAID, *Cambodian Corruption Assessment*.

¹⁸⁹ See COHRE, *Title through Possession or Title through Position* at 14; UNDP, *The Macroeconomics of Poverty Reduction in Cambodia* at 23; "Tenure Insecurity and Inequality in the Cambodian Land Sector" (BABSEA et al. 2009).

¹⁹⁰ Adler, Daniel, Porter, Douglas J. and Woolcock, Michael., *Legal Pluralism and Equity: Some Reflections on Land Reform in Cambodia*. World Bank Justice for the Poor Briefing Note, Vol. 2, No. 2, April 2008. Available at SSRN: <http://ssrn.com/abstract=1133690>

¹⁹¹ See e.g. *ibid.*

investors¹⁹². Since the creation of land concessions by the 2001 Land Law, for every hectare of land allocated to the landless people, 68 hectares were granted to investors as economic land concessions. While regulations on economic land concessions set forth rational principles, there is a serious absence both of functional rules governing compensation and of procedures to effectively protect property interests of owners and possessors of the land to be taken, including those of indigenous communities, whose land is granted special protection under the Land Law. In order to revitalize the rural sector and reduce poverty, Cambodia needs to make progress in the following areas:

(a) Formalizing land rights through titling and registration. Tenure insecurity not only has a negative impact on farmers' investment in land and development of rural land markets, but also facilitates land grabbing that further intensifies the landlessness problem. Cambodia has made good progress in setting up and implementing its land registration program with Development Partners' support, and it will be essential that this endeavour continues¹⁹³. As anywhere in the world, land titling is very costly and may thus require continued international support.

A detailed discussion on how to build a functional land titling system is clearly beyond the scope of this report, but several key parameters have emerged: First, legal possessors' land rights could be formalized and registered without any additional conditions¹⁹⁴. Government has legal power to reclassify state public land into state private land; the prohibition of legalizing possession of state public land can be lifted through land reclassification. Some distinctions should be drawn, however, between possession of land in continuous and active use and possession of land for speculation or superficial use. Government titling program could treat the former type of possession more leniently. Second, the system could be made more affordable and accessible to land possessors in practice. This is particularly significant to those possessors most vulnerable to land expropriation for economic gains, such as those living in urban informal settlements. Successes in land titling in rural areas have not been matched in urban areas,¹⁹⁵ where land disputes would appear to rise and fall with the electoral cycle¹⁹⁶. In this context, titling could be prioritized for those in urban areas most in need of tenure security. In addition,

¹⁹² The 2001 land Law creates two kinds of land concessions on state private land: social concessions allocated to the landless or nearly landless poor for free and economic concessions granted to investors for economic development upon their payment of a granting fee.

¹⁹³ As of December 2009, 1.6 mio parcels had been adjudicated and surveyed, among which 1.2 mio had been fully registered.

¹⁹⁴ The current law recognizes the legal rights to land (as "possession rights") for those who have actually occupied and used state private land for five years prior to adoption in 2001 of the Land Law. However, applications for landownership of many of such legal possessors were denied on the ground that they entered into the land without Government approval in accordance with law. While legal rules should be complied, certain consideration should be given to the fact that these possessors, many of whom are poor farmers, entered the land when Government was not functioning and land management was in a state of anarchy. Even if some of these possessors entered the land that was later classified as state public land, this reason alone seems insufficient to negate the legitimacy of the possession because they were not aware of such classification at the time of possession.

¹⁹⁵ As at December 2009, 10-12 per cent of parcels registered systematically had been in urban areas.

¹⁹⁶ Analysis based on data by Sahnakum Teang Tnaut (STT), Facts & Figures: Displaced Families Phnom Penh (No.11, April 2009).

although Government charges on land possessors for formalizing their land rights using the systematic process are not high, actual cost to legal possessors under the sporadic titling system for obtaining a formal title for their land rights runs beyond the ability of poor farmers to pay, because of hidden costs such as bribery. Third, no indigenous land has been titled yet, leaving indigenous communities without adequate protection against land alienation. Since 2009, procedures to register indigenous land communally are in place,¹⁹⁷ therefore it would seem important to prioritize the legal registration of indigenous communities and their application for land titles.

(b) Tilting the land concession policies to social land concessions. No legal obligation is imposed on Government with respect to setting priority between the competing goals of economic and social concessions. As a result, Governments at all levels have often been over-zealous in granting economic concessions while overlooking the need for solving the landless problem. Clearly, if this over-balance in favor of economic concessions continued, there would be less possibility to find land available for social concessions. It appears urgent to reconsider the priority of land concession policies. First and foremost, the Cambodian Government may consider more actively implementing its social concession policy and setting this as high priority. Allocating land to landless farmers and strengthening tenure security for their land rights will not only help achieve the Government's social agenda, but also provide vital means for these farmers to earn incomes and thus contribute to overall economic development of the country. Notably research suggests that small holder farms are currently much more productive than large holdings in Cambodia. Second, current economic concessions that have been granted need to be systematically inspected by supervising authorities to check whether such granted concessions have been under development. For those that have not been actively developed for 12 months, the concession contract could be revoked and the land be taken back by the Government for reallocation to landless farmers. For the concessions that exceed the legal limit (10,000 hectares), the reduced part of the land could also be used for social concessions. Third, if the land freed up through such adjustments still cannot meet the demand for social concessions, Government could consider identifying suitable state public land and reclassify it as state private land for subsequent distribution among landless farmers.

(c) Effectively monitoring and supervising the process of granting economic concessions. The goal of economic concessions is to open up land to investment for sustainable economic development and generate revenue for the Government. The 2001 Land Law and the Sub-Decree on Economic Land Concessions establish a system of granting, managing and monitoring such concessions. Unfortunately, implementation and enforcement of such laws

¹⁹⁷ The Royal Government adopted a 'Sub-Decree on procedure to register indigenous communal land' on 24 April 2009.

are often unsatisfactory. As a result, many irregularities have occurred in the granting and running of economic concessions, leading to a number of conflicts –sometimes violent–between affected communities and companies. The Cambodian Government could re-examine its economic concession policy to ensure its implementation is in compliance with its objectives and existing laws. First, procedural safeguards already included in the Sub-Decree on Economic Land Concessions should be fully respected¹⁹⁸. Of particular importance is the requirement that land be registered as State private land prior to the granting of a concession contract, which is key to protecting public land, including forests, and indirectly to protecting those communities dependent on forests for their livelihoods. Of equal importance is the conduct of environmental and social impact assessments prior to granting concessions. Second, the process of granting economic concessions could be made more open and transparent, with public participation. Because economic concessions are granted with consideration, any non-transparency may invite rent-seeking activities by officials with authority to review and approve such applications. Currently, there is no mechanism guaranteeing transparency and public participation,¹⁹⁹ and all concession contracts are kept as internal documents not accessible to the public. The Cambodian Government may consider adopting rules requiring full disclosure of existing economic concession contracts, including the contract revenue realized, land rental and use fees, environmental and social impact assessments, and full information on the concessionaires and any other stakeholders. For future granting, the rule could also require full disclosure of applications under consideration. Third, a decisive action could be taken to correct unlawful activities of existing concessions including improving processes for resolving disputes between local villagers and concessionaires. Fourth, in light of new procedures to register indigenous land communally (see previous point), the Cambodian Government could adopt an operational procedure whereby as soon as a particular community is identified as ‘indigenous community’ and applies to be recognized legally, the Government should ensure no concession is granted on the territory of this particular community. These recommendations are also relevant to other types of concessions, such as for extractive operations or tourism, although these are regulated by other Government institutions and regulations.

(d) Strengthening the land expropriation regime with a focus on property valuation and procedural safeguards. Although Cambodia’s land laws set forth rational principles to safeguard landowner’s interest in land takings, there is a serious lack of functional rules and approaches with respect to eligibility for compensation, valuation of the property to be expropriated and procedures governing the process. A reform seems imperative considering the fact that the country’s infrastructure lags far behind its neighbours and increasing

¹⁹⁸ See Article 4, Sub Decree on Economic Land Concessions.

¹⁹⁹ Although the Sub-Decree on economic land concessions at Art.4(5) requires the conduct of public consultations prior to the granting of a concession.

Government expropriation is foreseeable. First, lack of title or formal evidence of land possession should not necessarily be a bar to compensation. Six groups of people²⁰⁰ are not entitled to compensation under the law. Among them, people who settled on state public land or on state private land after the cut-off date have often done so in good faith and because they had no other options. Squatting on state public land can be traced back to the years after the Khmer Rouge regime collapsed when the country was in anarchy and there was no law defining state land. These settlers have established existence by farming and building structures on the then-unclaimed land.. It appears reasonable that some assistance be made available to those people whose livelihoods will drastically deteriorate should they be expropriated. The Cambodian Government is in fact well-aware of this situation and to this end has been developing a “Circular on Resolution of temporary settlements on illegally occupied land in city and urban areas²⁰¹.” The draft Circular provides three solutions to those living illegally on urban land, namely on-site upgrading, resettlement, and ‘humanitarian’ financial or in-kind assistance. A similar mechanism could be developed for those settled in rural areas²⁰². Obviously a proper balance should be struck to discourage future squatting on state land.

Second, the constitutional mandate of “fair and just compensation” could be defined explicitly together with a method for applying the standard. Progress has been made in this area, with the recent adoption by Parliament of a Law on Expropriation. Most market economies define the amount of just compensation for expropriation of private land as the fair market value of that land achieved through free, open negotiation under no pressure between a willing buyer and a willing seller. The Law on Expropriation to a large extent reflects such definition, although it gives no further guidance as to the determination of compensation²⁰³. The Government could establish specific regulations on the establishment of adequate compensation, with rules against discretionary or arbitrary endeavors of valuing properties to be expropriated below the fair market value. Moreover, the field officers of the expropriation agency could be trained to use this standard in asset valuation, whether it is land, structures or standing crops.

²⁰⁰ They are those who: (1) enter into possession of state public land at any time; (2) enter into possession of state private land after the cut-off date (August 30, 2001, when the Land Law took effect); (3) transformed possessory rights to state private land into ownership not pursuant to relevant rules effective at the time of transformation; (4) transformed an economic land concession into ownership; (5) acquired land concession not in conformity with rules governing such concessions; (6) occupied privately-owned land without a title after the cut-off date.

²⁰¹ The Circular has been developed by the Ministry of Land Management in the latter part of 2009. It has not been adopted yet, but is expected to be before May 2010. The discussion here is based on the latest draft available, as at February 2010.

²⁰² Another Circular adopted in 2007 (Circular 2 on Measures against Illegal Holding of State land) already proposes that poor families and those with little land may receive preferential treatment in obtaining alternative land (section 6.2). It does not go into more detail nor does it envisage other solutions as proposed in the new Circular.

²⁰³ Art.22 states that financial compensation will be at market price or replacement price.

Third, a set of procedural rules could be introduced and widely publicized in order to protect affected people's existing land rights, as well as their right to notice, participation and appeal. The expropriation procedure should specify the process by which to identify the rightful 'owners' of property, including those with possession rights who have not yet obtained titles. While land taking is compulsory, the process can be made participatory;²⁰⁴ such process is to some extent envisaged in the Law on Expropriation and the Circular on temporary settlements. It remains to be seen whether these procedures, when implemented, fully ensure people's right to adequate notice and remedy.

(e) Building capacity of an impartial and functional mechanism to adjudicate land disputes. It is important to reform the dispute resolution system to quickly and effectively resolve land disputes in order to avoid land-triggered violence. First, the existing Cadastral Commission should play an enhanced role in adjudication. Responsibilities for hearing disputes over unregistered land rest with district, provincial and national Cadastral Commissions. However, the Cadastral Commission is underequipped to decide cases²⁰⁵. While it is desirable to have parties come to an agreement over their disputes, decision-making authority is required in cases where no agreement can be reached. The Government is attempting to address this issue by delegating the decision making authority of the Cadastral Commissions to the provincial level, however, significant support will be needed to ensure that the provincial authorities exercise this power in a just and effective manner. Second, as successfully practiced in other countries, it would be desirable if the National Authority for Resolving Land Disputes be developed into an independent land tribunal as it is the case with land tribunals in Australia and Hong Kong²⁰⁶. Such land tribunals may adopt a hearing procedure that is more simplified and more convenient to farmers than formal court procedures so that it can be more responsive to cases filed with it. To promote accessibility to farmers, the tribunal could operate in the form of several "circuit" courts, with rotating panels travelling to districts throughout the province to hear land disputes according to a pre-announced hearing schedule. Meanwhile, it is equally important to widely publicize relevant land laws and procedures so that farmers understand their choices and become participants of the system.

²⁰⁴ The key components of this procedural rule should include, but not be limited to, notifying affected people well in advance, in the language they understand; holding public hearings on all issues concerning the land expropriation; and allowing affected people to seek for impartial judicial review of the Government's plan and compensation package.

²⁰⁵ GTZ/World Bank/CAS, *Towards Institutional Justice? A Review of the Work of Cambodia's Cadastral Commission in Relation to Land Dispute Resolution* (October 2006). GTZ & The World Bank, 2006. Available at SSRN: <http://ssrn.com/abstract=1012490>

²⁰⁶ A land tribunal is a semi-judicial body specialized in land issues, with exclusive original jurisdiction over cases involving requests to adjudicate all land disputes. Members of the tribunal should include judges with minimum qualification requirements and personnel with knowledge and training on land issues.

Box 3.20: Village development and land reallocation in Shandong (China)

The village of Nanzhanglou (4,260 inhabitants) in China's coastal Shandong province has implemented innovative village development measures with the support of German rural development experts. This included the integration of the following measures: the upgrading of roads; the promotion of traditional local construction methods and designs; a new village centre; the construction of public service institutions such as a kindergarten, a primary and middle school, a small hospital, sport facilities and a community centre; the development of local businesses and locally designed ecological protected areas.

Particularly innovative was the reallocation and re-cultivation of fragmented farmland. Villagers agreed in rearranging use rights for arable and residential land. Voluntary trade-offs between villagers facilitated the exchange of land use rights and the rearrangement of so called "husbandry groups" (management organisations uniting each about 40 to 45 households). The space required for the construction of public service institutions was provided by voluntary exchanges of land use rights agreed upon after extensive meetings, talks and training measures. Based on this experience, the Chinese Ministry of Land and Resources (MLR) established a Centre for Land Reallocation and Rural Development in the nearby city of Qingzhou to train local Government officials and village representatives from all over China. For more information see: OECD Rural Policy Review: China (2009).

(f) Adopt a comprehensive framework to guide eviction and resettlement processes and expedite the development of socially equitable urban development policies. An estimated 133,000 residents of Phnom Penh – over 10% of the total urban population – were evicted between 1990 and 2008, and the numbers continue to rise²⁰⁷. A partial list of land grabs and forced evictions in Phnom Penh during 2009 shows that 7,797 families²⁰⁸ – or 42,884 individuals²⁰⁹ – have been relocated or await imminent eviction due to large commercial development projects.

²⁰⁷ Bank Information Centre, press release: "Cambodian Communities Facing Forced Eviction Launch Inspection Panel Complaint against World Bank" (Oct. 1, 2009), available at <http://www.bicusa.org/en/Article.11515.aspx>. Also, an incomplete list shows that at least 17,000 individuals were evicted from their homes in Phnom Penh during the years 2006 and 2007. LICADHO, *Land Grabbing and Poverty in Cambodia: The Myth of Development* at 8 (May 2009), available at <http://www.licadho-cambodia.org/reports/files/134LICADHOREportMythofDevelopment2009Eng.pdf>

²⁰⁸ *Id.* at 8-9.

²⁰⁹ RDI calculation based on average urban household size of 5.5 persons. See Cambodia Factsheet, *supra* note.

Evictions and relocations – whether lawful or not – have serious consequences. Displaced evictees are exacerbating the landlessness crisis as they search for other housing options. Those who are relocated often forfeit their livelihoods (e.g., moving from urban areas to the countryside) or are resettled in areas unsuitable for farming or lacking public services and infrastructure. Eviction of lawful residents is of particular concern and its harmful effects could be mitigated by (1) making procedural safeguards available and fully accessible (i.e., allowing for public notice, participation, and appeal – see point (d) above) and (2) expediting and clarifying the adjudication and titling process: No eviction should take place before relevant cadastral authorities or courts have thoroughly examined and decided upon affected households' claims of land possession. Until rights of possession are fully and properly adjudicated and registered, and guidelines are in place to regulate the conduct of evictions and establish minimum resettlement conditions, Cambodia could consider instituting a moratorium on evictions and relocations²¹⁰.

3.5 COMBINING LOCAL DEVELOPMENT AND CLIMATE CHANGE RESILIENCE

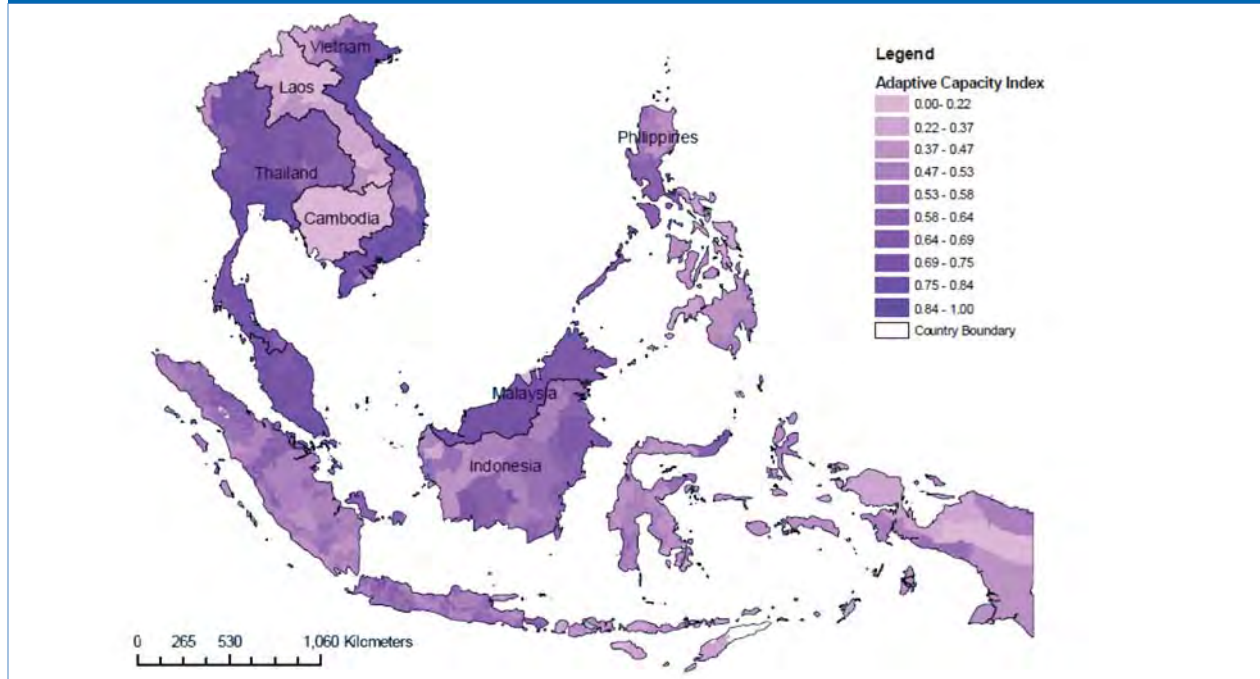
Integrating climate change resilience and local development strategies. Cambodia is highly vulnerable to the impact of climate change...

As discussed in Part 1, while Cambodia does not appear to be particularly exposed to climate change, it does face a high degree of vulnerability²¹¹. This **vulnerability is a function of its exposure, sensitivity and adaptive capacity** – with the weakness in the area of adaptive capacity being a key factor that raises Cambodia's vulnerability above that of other countries in the region. This itself is related to the high degree of dependence on natural resources and ecological processes on which these resources depend, rapid land use changes and degradation of the natural resource base and - significantly - weakness of policy, institutions, legal and regulatory frameworks and capacity (see figure 3.3).

²¹⁰ Numerous international organizations and bodies, observing the alarming rise of evictions in Cambodia, share this view. See, e.g. UN Human Rights Council Resolution (A/HRC/RES/12/25), October 2009; 'Development partners call for halt to evictions of Cambodia's urban poor', public statement of July 2009; Concluding Observations by the UN Committee on Economic, Social and Cultural Rights (E/C.12/KHM/CO/1), May 2009.

²¹¹ See for instance, Yusuf and Francisco 2009.

Figure 3.3: Adaptive capacity to climate change



Source: *Climate change vulnerability mapping for Southeast Asia, Anshory and Francisco, 2009*

Climate change threatens the functioning of natural resources and ecosystems, and the condition of ecosystems in turn influences exposure and sensitivity to the impacts of climate change. The process of environmental change in Cambodia has been dramatic over the last two decades. Most prominently Cambodia has witnessed rapid and extensive changes in land use, forest coverage (both in terms of area and quality), and changes affecting all major ecosystem types - watersheds, river basins, floodplains, wetlands and coastal zones. Much of this change has been unplanned, and in many cases, the result of poorly conceived and implemented planning processes. Conversely, healthy ecosystems that support biodiversity can strengthen resilience to climate change for example, with wetland systems buffering against both droughts and floods, and mangrove forests along coastal zones reducing the impacts of storms (IIED December 2009). The large tracts of forest that remain in Cambodia are argued to act as important buffers and reduce the vulnerability of forested areas of the country (Yusuf and Francisco 2009).

...this impact will vary considerably from place to place and will thus require context specific actions.

The vulnerability of different regions and sub-regions, as well as different sectors, varies significantly across the country. This indicates the need for a Sub-National level adaptation strategy, well connected with the on-going D&D reform process. The RGC's first NAPA (National Adaptation Action Plan – RGC 2006) report identified five provinces most likely to experience increased flooding - Prey Veng, Kampong Cham, Kampong Thom, Takeo, Battambang, with three provinces likely to experience increased drought - Prey Veng, Battambang, Banteay Meanchey. More recent studies have suggested that four regions are particularly vulnerable:

(1) The North East is an upland area, heavily forested but increasingly degraded with land use becoming dominated by large-scale plantation forests (rubber, cassava) and in Monduliri, by land concessions for mining. The area has poor soils and limited potential for agriculture intensification but traditionally has been utilized according to subsistence livelihood strategies that have been based on combinations of forest and fishery resources, with small-scale swidden agriculture. The landscape of the North East is dominated by the river systems of the Mekong mainstream (passing through Stung Treng and Kratie) and the tributaries of the Sekong, Sesan and Srepok (the 3S basin contributes around 18% of the overall flow of the Mekong). These water resources are targeted for hydropower development both within Cambodia, but also within the upstream countries of Lao PDR and Viet Nam. Significantly, the sources of these key water resources lie outside Cambodian territory. (2) Tonle Sap supports the heart of the Cambodian capture fishery and again is dependent on the hydrological flow, sediment load, and flooded forest and floodplain habitats. Anticipated changes in water regimes and rainfall patterns constitute the main climate change threats. Similarly (3) the low-lying areas of the Delta (bordering the Mekong Delta in Viet Nam) are the main rice production areas of the country and are most vulnerable to floods and droughts, that are predicted to intensify as a result of climate change. (4) The coastal area and the near shore fisheries that it supports are vulnerable to sea level changes and potential impacts of storms, exacerbated by clearance of mangrove forests and poorly planned coastal zone development, with tourism a growing economic activity and area for large-scale financial investment. Each of these areas faces different kinds of climate change impacts and consequently, each of the areas requires different, contextually specific policy responses. However, there are no functioning institutional arrangements for managing these areas of climate change vulnerability²¹².

²¹² *The Tonle Sap Basin Authority has not yet become fully functional). Significantly for each of the inland areas, hydrological regimes that are themselves influenced by status and functionality of watersheds and river basins, are key factors in climate change vulnerability.*

D&D reforms provide an opportunity to foster climate change resilience via a clear distribution of responsibilities and resources and the integration of climate change considerations into local planning and management processes.

At present, there are serious shortages in the capacity of National and Sub-National Governments as well as private actors to cope with climate change. First, sectoral approaches prevail. Climate change is largely seen as related to natural resources, agriculture and disasters risk management, with adaptation responses as lying in these key areas. Currently climate change as a policy area remains within the remit of MOE with limited moves towards mainstreaming across sectors and scales. Moreover, the MOE's engagement at Sub-National level is limited. Second, Sub-National authorities largely lack the awareness, power, resources and capacity to exercise the role they could play in CC adaptation and mitigation. For instance, Communes do not have a remit to manage the key natural resources identified as necessary for increasing resilience, such as forestry. Moreover, District and Provincial levels of planning boundaries do not correspond with eco-systems and landscape planning scales – nor with the areas of vulnerability. There is currently no mechanism for introducing this landscape scale of planning within the D&D framework – beyond potential linkages with IWRM and establishment of river basin institutions. Third, the role of the private sector is unclear. Despite the key contribution that the private sector could and should bring to CC adaptation and mitigation, the role of the private sector and its relation with Government actions remains unclear. In particular, the role of the private sector in mobilising finance especially from carbon markets for renewable energy, energy efficiency and conservation of forest carbon, has untapped potential.

In this context, as recognized by recent RGC strategic documents²¹³, D&D offers a framework for greater responsiveness at Sub-National level to many of the challenges related to climate change and for greater accountability and transparency in the allocation of resources related to climate change. Five key areas for action can be identified:

a) Clarify responsibilities and resources for CC resilience across levels of Government.

Climate change adaptation requires action at multiple, inter-connected scales. All levels of Government have a specific role to play. Their respective role will need to be clarified as much as possible before a large volume of financial resources is channelled towards climate change resilience objectives. The National level – and in general higher levels of Government – will have a clear comparative advantage in terms of providing a framework for action, in negotiating agreements with external donors and in designing National regulations, in accordance

²¹³ Such as the National Programme for Sub-National Democratic Development.

with International guidelines and commitments. Intermediate levels of Government (such as provinces) may have a clear comparative advantage in terms of carrying out vulnerability assessments, performing monitoring functions and providing technical assistance to lower levels of Government. Finally, local Governments (districts and communes) are likely to play a prominent role in delivering climate change adaptation measures and in using their planning, regulatory and revenue raising responsibilities to foster resilience. These responsibilities will need to be defined in accordance with the process of functional review and assignment that is on-going as part of the D&D reforms. Also, as for other policy areas, it will be essential to clarify vertical coordination mechanisms across different levels.

b) Develop and provide robust and timely information on CC trends and impacts to line Ministries and Sub-National authorities. Climate change is a relatively ‘new’ topic for public administrations at both National and Sub-National levels. There is a very little awareness and knowledge about the impact that CC will have on different parts of Cambodia and the implications for local communities and economies. This presents the Government with two obvious challenges. First, over the next few years, it will be key to design robust analytical tools that can provide the information that they need. These tools should be able to bring together global and National level knowledge (ex. on trends in temperature variations), with local level knowledge (ex. on specific impacts on the territory). Climate change shall be assessed as part of the complex system of factors that impact on local development. Second, data collection and analysis shall be disseminated via effective and inclusive information and advocacy campaigns. The weak institutional linkages between and within sectors that hampers cross-ministry flows of data and information must be addressed. On the one hand, there is the need to supply ‘technical’ information to National and Sub-National policymakers. On the other hand, there is the need to increase the level of awareness and knowledge among rural and urban populations and businesses, which are affected in different ways across Cambodia. Once more, the role that Sub-National Government will play in disseminating this information will be key.

Sharing information is also a matter of rights. With climate change predicted to impact on some of the most vulnerable groups (according to wealth, gender and age), there is also a need to ensure that adaptation responses do not intensify the vulnerability of these groups. A rights based approach to CC shall ensure the access rights enshrined in Principle 10 of the Rio Summit²¹⁴. For Cambodia, this will require setting up information systems that address the limited access that many people have to official media, lower levels of education and, in some areas, limited fluency in national language.

²¹⁴ Access to information, access to participation and access to justice.

c) Develop the capacity to plan for uncertainty and to integrate CC resilience into local planning processes. One critical challenge that needs to be addressed before large volumes of climate change related resources are channeled to SNAs is related to their planning capacity and processes. Progress in this area will be key to avoid misuse of resources and to make sure that actions taken in the framework of climate change resilience do not conflict with, but rather complement and reinforce, other socio-economic objectives. There are several dimension to this: first, integrated planning and proofing mechanisms. As climate change creates a range of inter-related impacts, affecting a broad cross-section of sectors, there is a need for more integrated planning and implementation. Putting genuine integration into practice requires support in conceptual strategic planning. It also requires screening (or ‘proofing’) mechanisms in order to determine whether individual and combined sectoral investments increase or decrease vulnerability or resilience to climate change, within and beyond particular sectors and localities.

Second, planning across, different (often functional – not administrative) scales. Administrative boundaries do not necessarily correspond with the ecosystem boundaries or environmental resources – or with how resources and the benefits they generate are used. CC impacts spanning across administrative boundaries may require setting-up ad hoc authorities or associations of SNAs that cover such areas and share similar problems. The role of the ‘community’ in natural resource management shall also be reconsidered since SNAs do not necessarily correspond with Community level. For management of natural resources to strengthen climate change adaptation a number of scales can be considered also, based on a review of existing experiences in Cambodia and abroad²¹⁵. Linking of scales also requires a degree of Sub-National, cross-border coordination, particularly for river systems that originate in neighbouring countries. At the very least this is a requirement for Disaster Risk Reduction – for example, in order to respond to floods that originate outside Cambodia.

Third, planning for longer time-frames. Climate Change adaptation requires planning according to multiple time-frames – with the need to combine both the long-term planning with a degree of flexibility in more short-term planning and short-term responsiveness. Current planning time-frames are 10 years for national sectoral policy (eg. current forest planning), but 5 years for strategic planning, 3 years for investment frameworks and 1 year for budgeting. Climate change adaptation requires making decisions that will take time to reach fruition or deliver tangible benefits – such as reforestation – that will also require heavy initial investments and appropriate mechanisms for management of financial resources.

²¹⁵ *While river basins constitute the basic unit for managing water and related resources (and supported under the Water Law), experience from the Mekong region suggests that building up to the river basin scale from watersheds within river basins is a more effective process of establishing appropriate institutions and a workable degree of stakeholder participation. Despite a long history of commitment to IWRM there is only limited experience of establishing appropriate institutions –and none can be considered to be fully functional yet. Along the coast there is some degree of coordination at the ecosystem scale, with the National Coastal Steering Committee – charged with setting direction of coastal projects and activities related to natural resources, chaired by the Prime Minister and Provincial Governors.*

Fourth, planning for uncertainty. Predictions of climate change are characterized by a high degree of uncertainty. Yet recommendations of planning for uncertainty are not easily put into practice and do not fit easily with the ways in which institutions operate. There is very little experience from other parts of the world – particularly from the developing world. In principle, coping with uncertainty requires a high degree of institutional flexibility in planning, allocation of responsibilities and resources. But these approaches are also data intensive and will thus require efficient data collection systems, and responsive analysis as the basis for institutional flexibility. Funding requirements would include a combination of fiscal and budgetary rigour, and a degree of flexibility that would allow space for reviewing and shifting funding if required. With the prospect of increased climate variability, and the increased risk of disasters, there is also a need to establish early warning systems, often across remote areas, and to ensure the rapid provision of emergency welfare where again, coordinated action of National and local authorities is critical.

d) Pilot climate change adaptation grants. A significant amount of resources earmarked for climate change is likely to be made available to Cambodian Sub-National Governments in the coming years. These resources will materialize in a context of an on-going effort towards capacity development of such administrations. The risk is that many of them, especially the smallest, will be over-flooded with resources that they are not able to absorb or to handle properly. In order to avoid this, the piloting of climate change adaptation block grants seems urgent. Providing block grants to some Sub-National authorities, and monitoring the process of resource allocation based on local vulnerability assessments could help understand more deeply the role that SNAs could play in the future. This will then allow to scale up CC related grants more successfully and contribute to developing climate change resilience across Cambodia.

e) Promote low-carbon emission growth and improved participation by private sector. Some key challenges need to be addressed before the potential for low-carbon development options (a key component of “green growth”- see Box 3.21) is realised. Firstly, energy services provision and energy demand considerations need to be integrated into local and sector development plans. Offering effective support through a variety of incentives, fostering private sector participation in energy services delivery, and linkages with production to ensure added value such as livelihood diversification, employment generation, skills development and reduced conflict over resources; Secondly, facilitate new financing and market opportunities such as carbon financing for renewable energy, energy efficiency and conservation of forest carbon to reduce financial barriers to improved energy services and conservation of natural resources enhancing livelihood security. Build on the value adding potential of these “green” initiatives, promote sector diversification and in particular promote access to “green” premium markets such as eco-tourism and organic produce. Thirdly, promote analytical, policy and technical work to demonstrate the opportunities for low-carbon “green” growth options.

Box 3.21: Climate change and local Governments: Building a green city (Malmö, Sweden)

The Swedish city of Malmö provides a good example of a deliberate strategy that contributes to climate change resilience (both adaptation and mitigation) and at the same time contributes to diffusing a positive, attractive image of a 'Green City'. Over the past few years the city has undertaken broad-based efforts covering traffic, energy and city planning, and also consumption, education and lifestyles. Emphasis is placed on cutting emissions and on energy efficiency but at the same time several initiatives are undertaken to help the city adapt to the impact of climate changes (extreme precipitation and drought). As part of this strategy Malmö's Western Harbour and the area of Augustenborg are examples of how to work with sustainable urban development in a climate-smart way. Both areas feature leading applications of renewable energy, traffic solutions, greenery, and sustainable buildings. Malmö has joined the European mayors' charter, The Covenant of Mayors, on reducing causes of climate change. In supporting the initiative, Malmö undertakes to go beyond the EU's energy target of reducing CO2 emissions by 20 % by 2020. Part of Malmö strategy will also include a 'Local Climate Fund' to compensate greenhouse gas emissions from municipal activities through increased investments both in renewable energy, for example solar cells and wind generation, and in technologies that increase energy efficiency. The target is to become Sweden's first climate-neutral city by 2020 for municipal sector activities. In terms of climate changes adaptation Malmö is working on various demonstration projects, for example open storm-water system, green façades and green roofs, as ways for cities to adapt to climate change. For more information, see www.malmo.se

3.6 SUMMARY

Part 1 of this report evidenced that individual and territorial disparities in Cambodia are stark and growing. **This represents a problem socially, politically but also in terms of creating, in the medium-long term, a constraint to growth.** Part 1 also highlighted that there is significant unexploited potential across Cambodia, including in the poorest Provinces. Part 2 of the report discussed the Cambodian approach to local development, which is characterized by an ambitious strategy to empower sub-National authorities but also a substantial lack of strategic direction for local development (across three key dimensions rural, urban and cross-border). Part 3 of the report argues that for Cambodia's unexploited potential to contribute to more balanced, diversified and equitable development, action is needed in at least Two areas. One, **decentralization and deconcentration reforms need to advance** in order to build an effective and efficient multi-level governance system that is more responsive and accountable to Cambodians. Two, a more **deliberate policy for local development needs to be developed. This policy shall cover at least the three key dimensions of rural, urban and cross-border development and could complement the NSDP** and the Government's current approach to economic development and CMDGs. It could provide the necessary vision and guidance for Sub-National planning, and to prioritize investments in rural, urban and cross-border areas. It will also provide the framework for Government action in key policy areas that have a strong local dimension such as 1) land use and 2) climate change adaptation. Finally, a deliberate policy approach to local development will contribute to further rationalizing DPs support across the territory, by maximizing synergies and making sure that local level actions are well aligned with NSDP priorities. Evidence from around the world, as well as good practices in Cambodia, show that if these conditions are met all Cambodian Provinces can become sources of National economic growth and sustainable development.

Summary of recommendations

Advancing the D&D agenda

National level governance

- *Develop capacity within NCDD and line ministries to perform new functions implied by D&D*
- *Consider establishing an internal think tank/strategic policy unit within NCDDS*
- *Design and implement an awareness campaign on D&D across line ministries*
- *Set up a D&D network across line ministries, with a stable focal point in each line ministry*
- *Link up more explicitly D&D reforms with PFMRP, NPAR and the NSDP*
- *Strengthen information systems and quality/quantity of aggregated data collection. Harmonize disaggregated data sources.*
- *Review territorial definitions and typologies (ex. definition of rural areas).*
- *Invest in analysis of disaggregated data, in addition to collection and compilation.*
- *Strengthen dissemination of disaggregated data and related analysis to line ministries and SNAS*

Vertical relations across levels of Government

- *Adopt a common methodology for functional review and assignment across LMS.*
- *Proceed swiftly with the assignment of functions to SNAS, according to the subsidiarity principle.*
- *Clarify the expected role, lines of accountability, vertical coordination mechanisms across levels of Government.*
- *Clarify the role of district vis a vis communes and related forms of financing*
- *Proceed swiftly with the approval of the sub-national finance law*
- *Match assigned functions with appropriate resources.*
- *Increase unconditional transfers to SNAS*
- *Review allocation formula for inter-governmental transfers*
- *Introduce incentives to promote local revenues, quality of local spending and good governance.*
- *Introduce performance-based mechanisms - based on agreed upon, transparent criteria - into intergovernmental transfers.*
- *Improve the transparency and efficiency of current deconcentrated settings.*

Local governance and planning

- Move away from 'projectised' planning, towards integrated planning.
- Clarify the respective roles of elected officials and technical staff in SN planning processes.
- Strengthen citizens' information about local planning processes, via newsletters, advisory boards and other instruments for open and inclusive local governance. Use, when appropriate, different instruments in rural and urban areas.
- Strengthen citizens' participation in local planning processes, including youth and more vulnerable groups and strengthen gender dimension.
- Foster local private-public partnerships for both planning and delivery of services.

Designing and implementing policies for rural/urban/cross-border regions

- Include a 'local development approach' to link the NSDP with local level actions
- Review and harmonize current approaches to local development (D&D, spatial planning, rural dev., urban development, cross-border dev., land use)
- Develop CMDGs provincial scorecards to link national and sub-national targets.
- Engage actively in international schemes for 'localising the MDGs'.
- Carry out a survey (updating and analyzing existing data) of development assistance across SNAS. Clarify what DP do and where.

Rural development policy

- Design an explicit, national policy for integrated rural development
- Focus on rural economic diversification, within and outside agriculture, via place-tailored strategies. Distinguish interventions in remote rural areas from those in peri-urban areas.
- Carry out a periodic 'status of rural areas' report, as an input to NSDP and sectoral policies targeting rural areas.
- Introduce 'rural proofing' mechanisms to sectoral policies.
- Further strengthen the microfinance sector to provide a wider range of financial services at a lower cost
- Urban development policy
- Design a national policy for urban development
- Invest in research on urbanization trends and urban development in Cambodia
- Conduct a metropolitan review on the capital

- Conduct urban development reviews on high potential cities (Sihanoukville, Siem Reap and other).
- Strengthen technical capacity of urban planning offices.
- Develop explicit strategies for the capital and the other emerging urban centres, linked to a national urban development policy.

Cross-border development

- Design a policy for cross-border regional development
- Carry out an extensive analysis of the challenges and potential of cross-border regions as a basis for national and sub-national planning as well as for designing and negotiating cross-border regional agreements.

Land use

- Address land use issues by
 - A) formalizing farmers' land rights through titling and registration.
 - B) tilting the land concession policies to social concessions.
 - C) effectively monitoring and supervising the process of granting economic concessions.
 - D) reforming the land expropriation regime with a focus on property valuation and procedural safeguards.
 - E) building capacity of an impartial mechanism to adjudicate land disputes and introduce moratorium on eviction and relocation of urban dwellers.

Climate change resilience and integration of adaptation mitigation actions with local development strategies

- Strengthen national and local Governments' climate change resilience by:
 - A) clarifying responsibilities across levels of Government.
 - B) develop and provide robust and timely information on CC trends and impact to line ministries and sub-national authorities.
 - C) develop the capacity to plan for uncertainty and to integrate CC resilience into local planning processes.
 - D) pilot climate change adaptation and mitigation grants.
 - E) promote public-private partnerships for the design and implementation of climate change mitigation strategies.

ANNEX: INTERGOVERNMENTAL TRANSFERS - INTERNATIONAL EXPERIENCES



Examples of general and equalization transfer criteria and coefficients in the European Union ²¹⁶				
	Type of Transfer	Surface	% Share of nat. revenues to LG	Notes
Finland	General grant	<ul style="list-style-type: none"> - population - geographic dispersion - islands - public transport expend. (>40,000 population) - bilingual region 	23%	
Greece	General grant for communes	<ul style="list-style-type: none"> - population - climate - fiscal potential - surface area - length of water and wastewater network - length of road network 	60%	
Italy	Base Fund	<ul style="list-style-type: none"> - population - surface area - socio-economic criteria (these are elements of cost of essential services) - revenue of property tax 	18%	The evolution of general transfers is linked to the rate of change of operating expenditures of the State; however, the overall pool has declined since 1991 and over time, these revenues should be eliminated.

²¹⁶ Excluding Federal systems (Austria, Belgium, Germany), the United Kingdom, Cyprus and Malta.

Netherlands	Communal fund	- fiscal capacity - structural cost differences (based on population, social structure, number of buildings)	62%	A large share of the communal fund is earmarked
Portugal	(1) General municipal fund (2) Municipal cohesion fund	(1) -surface area - population - amount of PIT - number of parishes (2) -social inequality - difference of fiscal wealth	49%	
Spain	General transfer	- population - number of schools - fiscal effort	59%	Amount is indexed to the increase of GDP. Distribution criteria are reviewed every five years.
Sweden	General grant	- age pyramid (level of support differs by age group) - population	13%	Additionally, there is an equalization transfer, financed by the LGs, including equalization of costs and equalization of tax base.

Estonia	<p>(1) Support fund to rural and city budget (Objective: reduce disparities among communes by equalization)</p> <p>(2) Education grant</p> <p>(3) Regional aid fund</p> <p>(4) Grant to communes in budget straits</p> <p>(5) Grant to support LG mergers</p>	<p>(1) Equalization based on population, fiscal wealth compared to national average</p> <p>(2) Finance teachers</p> <p>(3) For lower than expected revenues</p> <p>(4) For isolated communes, compensate revenue loss</p> <p>(5) Encourage mergers among communes w/ additional budget support.</p>	38%	(1) Under consideration to take account of expenditure levels
	Type of Transfer	Surface	% Share of nat. revenues to LG	Notes
Hungary	<p>(1) General normative transfer</p> <p>(2) Earmarked normative transfers</p> <p>(3) Specific grants for housing, district heating</p> <p>(4) Transfer for communes in budget straits</p>	<p>(1) Numerous criteria based on types of expenditure: population, beneficiaries of social services, number of beds in social centers, etc.</p>	44% (64% of which is earmarked)	<p>(1) To ensure for LGs a regular base of resources</p> <p>(2) Support to priority actions defined by Parliament</p> <p>(3) Finances tasks in the sectors of hospitals (health), heating, wastewater treatment, cultural activities</p> <p>(4) Finance the operating deficit of certain communes</p>

Latvia ²¹⁷	<p>(1) Transfer for education</p> <p>(2) General transfer for commune mergers</p> <p>(3) General transfer to create regional development agencies</p> <p>(4) General equalization fund transfer (includes notion of “fiscal need”, minimum amount necessary to carry out local tasks).</p>	<p>(4) For expenditures: population, number of children by age groups, number of retirees. For revenues: amount of fiscal revenues (own & shared)</p>	<p>28% (more than 90% earmarked)</p>	<p>(1) Finance teachers salaries</p> <p>(2) Incite voluntary cooperation among LGs</p> <p>(3) Create 5 planning regions. Equalize revenues & expenditures of communes</p> <p>(4) Guarantee a certain level of revenues for communes. LGs with revenues 10% greater than expenditures contribute to the equalization fund.</p>
Lithuania	<p>(1) General transfer to compensate revenue loss</p> <p>(2) Equalization fund</p> <p>(3) Specific grants to finance delegated functions</p>	<p>(1) Guarantees that LG will not suffer a loss of more than 1% of revenues, compared to estimates.</p> <p>(2) Beneficiaries have average per capita PIT less than national average and are equalized up to 90% of the difference</p> <p>Distribution formula includes:</p> <ul style="list-style-type: none"> -school children (11%) -children in kindergarten (25%) -size (area) of school buildings (13%) -area of LG (17%) -retired inhabitants (13%) -road length (13%) 	<p>10% (almost 100% earmarked)</p>	<p>(1) Guarantee a minimum level of revenues to LGs</p> <p>(2) Equalize revenues and expenditures of municipalities</p> <p>Funded by contributions of 8 LG, with a variable proportion of their PIT share</p> <p>(3) Finance expend. for education, social assistance and aid to needy (heating, water bills)</p>

²¹⁷ This information represents the intergovernmental transfer system in place through at least 2008. Changes were prepared in anticipation of the reduction of the number of Latvian local Governments.

Poland	<p>General transfer to communes</p> <ul style="list-style-type: none"> a. basic allocation b. education allocation c. compensation allocation 	<p>a. one part distributed based on relative population, weighted for larger towns; second part to communes with tax revenues / capita < 85% of the national average</p>	<p>59% (38% of which is earmarked)</p>	<ul style="list-style-type: none"> a. The basic allocation has an equalization goal, and is partly financed by communes with tax revenues / capita > 150% of the national average. b. education allocation accounts for 78% of the general transfer to communes c. compensation allocation is to mitigate revenue losses due to changes in fiscal legislation for LG revenues (abolition of a transport tax, exemptions and deductions on property tax, etc.)
Slovenia	Equalization grant	<p>Cover disparity between “pertinent expenditures per inhabitant”</p> <ul style="list-style-type: none"> -length of road network -pop. < 15 yrs -pop. > 65 yrs and “own funds” -fiscal revenues -non-fiscal revenues (excl. income from real estate management) 	<p>21% (also includes some transfers earmarked for investments)</p>	<p>Equalization principle included in the Constitution</p> <p>Compensate disparity of revenues among LGs</p> <p>Amount agreed each year between MoF, Treasury and each LG</p>

Detailed comparison of intergovernmental transfers in 5 European countries

	France	Poland	Albania	Romania	Montenegro
Vertical equity and determination of the pool					
Setting pool	Annual change depends on rate of inflation and evolution of GDP	Amount of pool set as a share of the state budget; the law determines the minimum amount of this percentage share.	Determined annually in budget negotiations Commitment of Central Government (CG) through MTEF process	Transfers of PIT defined in Law on Local Public Finance, can be modified by annual state budget law. The latter also defines PIT amounts, for further equalization and some mandates.	Amount of pool set as share of PIT, in the Law on Local Government Finance (LLGF).
Consultation mechanism	Local Finance Committee, with mostly LG representatives	Joint Central – Local Government Commission, two monthly meetings of full Commission, seven specialized sub-committees.	Group of experts for decentralization and National decentralization committee. In 2003, held first CG-LG fiscal dialog on impact of draft state budget for LG. In 2004 and 2006, dialog between LG and Parliament.		The LLGF established a Local Government Finance Commission (LGFC), comprising 7 members, 1 from MoF, 1 from Ministry of Justice and 5 representatives of local Governments.

Horizontal equity and criteria					
Existing conditions	Aspects of fiscal capacity and fiscal effort are based on average national tax rates.	Population and education needs are the basic indicators. Fiscal equalization is calculated for potential LG revenues, assuming maximum tax rate, to discourage LG setting local fiscal policy as means to obtain greater revenues from CG.	Equalization is based on amount of local small business tax and simplified profit tax, which was originally collected by the General Tax Directorate, so out of control of LG manipulation.	Fiscal equalization is based on revenue estimates for the coming year, so open to under-estimation by local Government officials, in order to manipulate the amount of transfer (moral hazard).	The fiscal capacity index is based on the actual collection of own revenues. The budget expenditure index is based on actual budget expenditures, including capital expenditures. These criteria tend to reward performance, rather than account for existing conditions.
Transparency	Although complex, detailed information and calculation worksheets are published each year in the "Guide to the Local Budget".	The parameters and rules of the formula are included in the Law on Revenues of Local Government Units.	The formula (elements and coefficients, and amount transferred to each LG) is published in annexes to the annual State Budget since 2002.	The vertical equalization and tax sharing is transparent. Distribution of funds by counties to their localities is not transparent.	The basic parameters and rules of the formula are included in the LLGF. Details on the coefficients are issued by the LGFC and are published in the Official Gazette.
Predictability	Formula by which overall pool will evolve is known, parameters for horizontal equalization have also remained stable.	The formula parameters have remained stable, the pool is set on shares of the state budget.	Although the formula is recent, and in a transition period, it has provided more predictability to LGs.	The vertical equalization and tax-sharing is predictable. Horizontal equalization, which depends on the counties is neither predictable nor fair.	As the key elements are included in a law, there is some guarantee of the stability of the pool and the coefficients for distribution.

	France	Poland	Albania	Romania	Montenegro
Revenue adequacy and growth	The overall pool increases with inflation and GDP. Changes to local tax bases (reduction of revenues) are compensated by funds added to the pool.	The pool is tied to the revenues of the state budget.	Increase of pool is based on general increase of state budget, with additional support to LG.	Pool is based on sharing of PIT.	Pool is based in sharing of the PIT, so if economic growth continues and tax evasion is mopped up, these revenues could continue to grow. Note that the Parliament reduced the tax rates of the PIT in 2004, in an attempt to increase PIT compliance and collections.
Explicitability	Overall system is relatively complex.	Formula is simple and easy to comprehend and incorporated in the law.	Requires a bit of study, but as all elements of the formula are included in detail in the state budget law, can be understood.	System has become more complex. Further, individual decisions by counties in distributing equalization grants to their localities adds confusion.	Formula is simple and easy to comprehend and is incorporated in the law.

Effect on local tax effort	No impact.	Fiscal capacity calculation intentionally set based on maximum tax rates to prevent moral hazard.	Fiscal equalization is based on taxes which LG do not collect.	Equalization is based on estimated revenue collection, which encourages LGs to underestimate their tax revenues.	Effect on local tax effort No impact. Fiscal capacity calculation intentionally set based on maximum tax rates to prevent moral hazard. Fiscal equalization is based on taxes which LG do not collect. Equalization is based on estimated revenue collection, which encourages LGs to underestimate their tax revenues. The incentive grant (10% of total equalization funds) should take account of (and reward) improved tax collection. However, the share of funds is quite minor. Further, use of actual revenue collection for the fiscal capacity index (50% of the equalization fund) is more likely to discourage efforts to increase own revenues.
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Examples of assignment of own taxes to local Government

	Taxes assigned as	Fees for use of a public good	Fees for permits or licenses
France	Taxe d'habitation Taxe sur le foncier bâti Taxe sur le foncier non bâti Taxe professionnelle ²¹⁸	All four taxes are administered and collected by the national Tax Administration	Local councils set tax rate up to a maximum (which is based on a multiple of average tax rates). These taxes are levied by municipalities, counties (départements) and regions.
Spain	Property Tax Tax on profits from economic activities Tax on motor vehicles	These taxes are administered by the local Governments themselves.	Local councils can freely set the tax rate for these taxes.
Poland	Real estate tax	Administered and collected by the local Governments	Maximum or ceiling tax rate determined by law. Local Governments may set rate up to the maximum. Tax base is the surface area.
Hungary	Property tax –building and land Business tax Communal tax Tourism tax	Administered, collected and enforced by municipalities.	Local council sets tax rates up to a maximum determined by law. Tax base of property taxes may be set based on surface area or on corrected market value (50 percent of assessed price).

²¹⁸ In a reform to be implemented from 2010, the *taxe professionnelle* has just been replaced by a new tax called the *Contribution économique territoriale*, which is set according to a different base.

National Tax Sharing in the European Union (%Share) ²¹⁹						
	Personal Income Tax	Corporate Profit Tax	VAT	Other	Notes	
Denmark						
Finland						
Germany	15.00		2.10			
Greece	20.00			50.00 vehicle registration 3% property transfer	These funds provide the pool for general transfer to municipalities.	
Italy			38.50	gas (part)	Funds the inter-regional compensation fund	
Portugal	33.00		33.00			
Spain			(R) 35.00	(R) 40.00 gas (R) 40.00 tobacco (R) 40.00 alcohol		
Czech Republic	(M) ²²⁰ 20.59 (R) 3.10	(M) 20.59 (R) 3.10	(M) 20.59 (R) 3.10		Distributed based on population + a coefficient to take account of costs taken on by largest municipalities	
Estonia	56.00				Distributed based on origin (50% of amount shared goes to 5 largest cities)	
Hungary	40.00					

²¹⁹ Excludes Federal countries (Austria, Belgium, Germany), the United Kingdom and non-transition countries (Cyprus, Malta).

²²⁰ Key: M = municipalities first level of local Government. C = County (2nd level of local Government in Poland). R = Regions (autonomous communities in Spain, 3rd level of LG in Poland, 2nd level in Czech Republic).

Latvia	71.60				Distributed based on residence and on equalization mechanisms
Lithuania	30.00				Accounts for 78% of revenues. Distributed based on origin. Share of PIT was reduced from 45.77% in 2002, compensated by earmarked transfers.
Poland	(M) 27.60 (C) 1.00 (R) 1.50	(M) 5.00 (R) 0.50			Accounts for 16% of revenues of communes, 1% for counties and 12% for regions. Shared taxes are distributed on origin basis.
Slovakia	23.85	6.27			Accounts for one-third of municipal revenues. PIT distributed according to geographic criteria, benefiting small and medium LG. CPT is distributed 60% by population and 40% according to location of companies. Thus, the shared taxes incorporates an equalization effect, through the rules for allocation among LGs.
Slovenia	37.4%				Accounts for 42% of local revenues. Distributed on the basis of a ratio of tax collected at local level compared to national level. This ratio is defined by the MoF.

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This Outlook provides a comprehensive overview of local development trends in Cambodia. It discusses policy and governance reforms aimed at reducing disparities and exploiting the enormous potential of Cambodian territories.

The report will be valuable for policy makers, Development Partners, researchers, NGOs and others interested in the dynamics of Cambodia's economic and policy development.

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United Nations Capital Development Fund (UNCDF)

Two UN Plaza
New York, NY 10017
United States of America
www.uncdf.org

United Nations publication
Printed in Phnom Penh, Cambodia
978-92-1-126287-2—March 2010—150

USD 46

ISBN 978-92-1-126287-2

