

Towards Understanding Social Protection in Cambodia¹

Sophal CHAN and Sophal EAR discuss how risk and vulnerability are addressed through social protection efforts in Cambodia*

Social protection refers primarily to a system of formal and/or informal safety nets that aim to reduce poverty and vulnerability. Social protection can encompass a wide range of measures, including labour market interventions, social insurance, targeted income support and other forms of assistance. These measures help individuals, households and communities manage risks that threaten to push them into extreme poverty. The Cambodian government, donors and NGOs all have programmes that address social protection.

Social Protection Efforts by the Government

The constitution of Cambodia contains articles on the rights of citizens and the responsibilities of government. A number of articles are directly related to social protection. For instance, Article 36 states, "Khmer citizens of either sex shall enjoy the right to choose any employment according to their ability and to the needs of the society ... Every Khmer citizen shall have the right to obtain social security and other social benefits as determined by law ..." Article 72 stipulates, "The health of the people shall be guaranteed... Poor citizens shall receive free medical consultation in public hospitals, infirmaries and maternity wards ..."

The government is mandated by the constitution to provide a number of social protection measures to the people. Despite its good intentions, the government has not yet met these constitutional demands. For example, the quantity and quality of public hospitals, infirmaries and maternity wards are far from adequate.

The government allocates a significant share of its funds to social interventions, which fall under Chapter 31 of the budget, "Interventions in Social and Cultural Sectors." The allocation in 2003 was \$31 million, but the actual expenditure reached \$38 million, accounting for 10 percent of total current expenditure. This is the chapter most related to social protection, in our view. However, as in many other developing countries, the government has narrowed the scope of its interventions to the formal sector, and as a legacy of state-led development, this has meant that the beneficiaries are largely civil servants and their immediate families. Most pro-

grammes aimed at reducing the vulnerability of the poor are funded by external assistance.

As of 2003, the Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation (MOSALVY), and the Ministry of Women's and Veterans' Affairs (MOWVA)² were allocated \$8 million and \$16 million, respectively. Most of this funding was spent on pensions, allowances and wages. Few resources were available for the provision of practical activities such as vocational training programmes. However, other line ministries also have their own Chapter 31 allocations. These are modest and intended to fund welfare transfers and allowances. For instance, the Royal Palace, the Council of Ministers, the National Assembly and the Senate enjoy relatively large allocations under Chapter 31. Expenditures by these institutions can be significant in the form of "gift-giving"³ or donations to the poor and victims of natural disasters.

Retirement Pensions for Civil Servants

Retirement pensions deserve a close examination as the most readily recognisable form of a formal social protection measure. There is a division of administrative responsibility for veterans' and civil servants' pensions. The former are the responsibility of the Department of Veterans' Pensions of MOWVA; the latter are under the Department of Retirement Pensions of MOSALVY.

According to MOSALVY, there are about 22,000 retired civil servants, including the disabled, receiving an average of 70,000 riels (\$17.50) per month. A retired civil servant can receive as little as 27,000 riels per month. These figures represent an average of \$0.58 per person per day and a minimum of \$0.22 per person per day, assuming the full amount is actually transferred. In the event of death, an official's dependants receive from eight to 10 months of their salary, depending on length of government service. In addition, a child of the deceased is provided, until adulthood or longer if certified as in school, with between 3,100 and 4,000 riels (\$0.80–\$1.00) per month, the lower amount for deaths unrelated to work. A spouse continues to receive about 4,000 riels or \$1 per month. Given the Cambodian poverty line of circa \$0.50 per person *per day* (based on 2,100 calories per day), these transfers are totally insufficient.

Pension reform has been under consideration for some time. It is well recognised that the current pension system, which is entirely the administrative responsibility of the government, is not sustainable. A new proposal is to transfer the task to other institutions or private health insurance companies, but this is unlikely to succeed without a prerequisite of civil service compensation reform. Because of the low monthly pay of some civil servants (less even than garment factory workers, whose legal minimum wage is \$45 per month), moonlighting and unofficial payments are not uncommon.⁴ Civil service compensation reform was an important element of the 73 points agreed to in the negotiations leading to the formation of the current government, but there appears little sign of progress in this area.

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Table 1: Breakdown of Current Expenditure by Chapter

Chapter	Budget Law 2003 (\$ million)	Actual 2003 (\$ million)	Actual 2003 (% share)
Total Current Expenditure		377	100%
Chapter 10: Salaries	155	147	39%
Chapter 11: Operating costs	145	114	30%
Chapter 12: Subsidies to provinces and municipalities	26	25	7%
Chapter 13: Specific programme activities (PAP)	40	25	7%
Chapter 20: Interest on loans	7	8	2%
Chapter 30: Economic interventions	8	14	4%
Chapter 31: Social interventions	31	38	10%
Chapter 32: Contributions to international organisations	2	2	0%
Chapter 40: Other current expenditure	24	4	1%
Chapter 41: Unexpected expenses	3	-	-

Source: Budget Implementation 2003, Ministry of Economy and Finance.

Vocational Training

Vocational training is a crucial labour market intervention, which is a major part of social protection. There are two vocational training centres in Phnom Penh, one supported by Thai and one by Korean assistance, and five small vocational training centres in five provinces: Kampot, Koh Kong, Siem Reap, Kompong Thom and Pursat. These were previously under MOSALVY. These centres have existed for only two to five years. The provincial training centres are small, taking in 15–20 individuals for a few skill areas. They receive limited support from donors and NGOs. The latter usually wish to target specific beneficiaries or skills.

It is foreseen that the state-owned vocational training centres will be transformed into public institutions and will be empowered to charge official fees (unofficial fees may or may not currently prevail) to address problems of inadequate funding and financial sustainability. While this is arguably an efficient way to run an institution, a public-private vocational training centre could be no different from a purely private one. The poor and vulnerable will be excluded unless the centres specifically target them or cross-subsidise their tuition from students who can afford to pay.

Veterans' Affairs

Decades of war have left Cambodia with tens of thousands of deceased and disabled soldiers. According to the Department of Veterans' Affairs, the government has taken responsibility to support (i) 253,500 dependants (categorised as spouses, children and parents) of 56,833 deceased soldiers and policemen, (ii) 31,500 disabled soldiers and policemen, plus their 160,183 spouses and children, (iii) 4,712 retired soldiers and their 16,465 spouses and children and (iv) 1,195 incapacitated soldiers and their 3,697 spouses and children through monthly payments. In total, 471,252 people are entitled to transfers from the government.

The total expenditure on these transfers was \$13.7 million per year in 2003 or an average of \$29 per beneficiary per year. This total expenditure is relatively substantial for the government. However, at the family level, the compensation is extremely small and does not

allow for even a minimum level of subsistence, especially for the dependants of deceased soldiers. Spouses and/or the parents of a deceased soldier are given 3,200 riels (\$0.80) per month. Children under 18 (or adult children if certified in school) are provided 4,000 riels (\$1) per month (allowances for dependants have not been increased since they were set in the 1980s). This is extremely low when compared to the Cambodian poverty line (\$0.50 per person *per day*). Even if fully and effectively transferred, the monthly allowances

can meet the dependants' minimum caloric needs (2,100 calories per person) for only one or two days. In fact, for various reasons, chief among them unofficial payments and leakages, recipients receive only around 50 percent of their nominal monthly payments.

Public Health Services for the Poor

In Cambodia, household health expenditures consume a non-trivial portion of total household expenditures and represent 75–85 percent of total health funding (\$20–30 per capita per year). Under pressure from the donor community and in recognition of the severe shortage of public health care provision, the government over the last few years has substantially increased the budget allocation for health. However, problems persist partly due to the fact that actual expenditure has consistently been less than specified in the budget. As a result, the burden of out-of-pocket expenditures is high, especially among the poor.

Two schemes directly related to social protection are partly under way. These are the Social Health Insurance (SHI) and the Equity Funds, both of which were recently created by the Ministry of Health. Social Health Insurance is intended to insure health risks of Cambodians, while the Equity Funds are designed to assist the poorest of the poor by pooling money from government and donors for health expenditures.

Ideally, a SHI scheme can be required of civil servants and factory workers (at the moment, this would mean garment workers primarily). However, on the civil servant side, this requires the government to raise civil servant salaries based on market comparators and functional analysis (formulation of actual job descriptions). Civil service reform is a *sine qua non*, as has been mentioned before. With respect to factory workers, both management and workers should contribute to the scheme. Currently, there is no such health insurance for ordinary civil servants and private sector workers, because the Law on Social Security Schemes for Persons Defined by the Provisions of the Labour Law has yet to be implemented.

To serve the very poor, the Ministry of Health has established Equity Funds with a total budget of \$20 million for the first three years (2003–2005). However, so

far, no part of the government plan for Equity Funds has been implemented. The success of the Equity Funds will depend on whether referral hospitals and health centres will provide effective services while their salaries and incentives remain far from adequate.

Social Protection by Donors and NGOs

As an aid-dependent country, Cambodia has enjoyed foreign aid accounting for approximately 40 percent of its total budget expenditure. While current expenditure has not exceeded \$400 million, *total* external assistance per annum has been about \$500 million, of which some \$40 million has been contributed by NGOs. With 36 percent of the population living under the national poverty line, donor countries and NGOs have made strides in filling the gaps in poverty reduction programmes, most of which directly address the needs of the very poor, the disadvantaged and vulnerable groups.

A number of categories, such as disaster preparedness and humanitarian aid and relief, fall squarely under social protection. Other social protection-related sectors include agriculture, natural resources, education, health and social development, since these are largely aimed at assisting or protecting the poor from falling into extreme poverty.

Humanitarian aid and relief accounted for nearly 17 percent of total development assistance in 1993. This component fell substantially from 1994 to 1998, averaging 5.2 percent, as the country moved from rehabilitation and reconstruction towards development. However, humanitarian aid and relief bounced back to nearly 12 percent of development assistance on average per year between 1999 and 2002, in the face of severe droughts and floods.

In a broad sense, about 23 percent of total external development assistance, or nearly \$110 million, went to social protection in 2001 (the year for which the most recent data are available). This by far outweighed government's social protection expenditure, which was \$38 million in 2003.

Effectiveness of External Interventions

The 500 (by some accounts 1,000) NGOs and donor programmes are far too numerous to permit a fair representation of successful or unsuccessful social protection interventions in Cambodia. Instead, key sectors and NGOs have been selected to illustrate the effectiveness of interventions.

Assistance to Women and Children

Assistance to women and children is another area of social protection in which donors and NGOs have been active. Women, especially those who are heads of households or widows, are more vulnerable than men for various cultural and social reasons. Children, whether abandoned or orphaned, who end up on the streets have even fewer avenues for survival. The work of UNICEF and NGOs (e.g. Friends and SABORAS) is particularly helpful in shedding light on the situation of women and children and on recent experience of the effectiveness of social protection programmes.

UNICEF has been active in formulating policies as well as supporting other institutions in implementing them. Areas of intervention by UNICEF in Cambodia include social exploitation and abuse, child trafficking, street children and youth-at-risk behaviour (drug use, guns, HIV/AIDS etc.). UNICEF also provides capacity building for the staff of MOSALVY. As well, it has a number of programmes to support poor women and children through both government and NGOs.

Mith Samlanh (Friends) was established in 1994 as an NGO to support street children. At present, it runs 13 programmes in Phnom Penh and Kandal. With MOSALVY as the official partner, Friends has achieved great success in integrating a large number of street children into society, schools and families. It has helped street children to achieve career development and has made their parents more aware of family planning and community development.

SABORAS can serve as an example of how an NGO can participate in providing social protection to the very poor. Based in Battambang province, SABORAS is a local NGO launched in 1993, primarily to prevent very poor women, who already live precariously, from having to become sex workers. In five SABORAS projects that are all linked to social protection, the targeted beneficiaries are the poorest of the poor in their communities. The programmes deal with day care, rural development, vocational training, community sewing workshops and micro-credit.

SABORAS' vocational training project is unique in Cambodia. It was the initial concept for which SABORAS was created. Since 1993, more than 800 "very poor" women aged 16–30 have been trained in three areas: sewing, beauty salon skills and cake making. They have been recruited from 12 provinces through NGOs operating locally. After five months of training, they are lent \$100 to start their own small business and are monitored by SABORAS.

Integrated Community Development

Lutheran World Federation (formerly Lutheran World Services) has been in Cambodia since 1979. The special character of LWF is its ability to target the more remote communities. LWF assisted 37,250 families or 179,483 people living in 311 villages in 2002. The number of beneficiaries increased to 331,195 in 2003.

A recurring issue for WLF is that of striking the right balance between a process approach and an output approach. At present, the tendency is to move towards results while also developing a rights-based approach.

Conclusions

Poverty in Cambodia is more severe than merely the lack of economic empowerment. It relates in large part to vulnerability, disability and hopelessness caused by prolonged civil war and state failure across three decades. The fact that the formal sector is small while the demand for social support is acute leads to reliance more on external assistance and informal safety nets than on

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Even though US and Japanese economic growth slowed down, most of Asian economies still grew faster than in the second quarter 2004. However, a sharp increase in crude oil prices and prices of other commodities have raised concerns about inflation in most countries.

World Economic Growth

According to the economic indicators compiled by the Bureau of Economic Analysis, the US economy decelerated to 4.7% in the second quarter of 2004 compared to a growth rate of 5.0% in the first quarter. This largely reflects a drop in personal and government consumption expenditures, and was partly offset by an increase in exports and in residential fixed investment. In the second quarter of 2004, personal consumption expenditures slowed to 3.4% year-on-year basis, compared to 4.2% in the first quarter. The slowdown resulted mainly from weakened demand for motor vehicles and lower energy consumption, which in turn was affected by energy (oil) prices.

During the same period, growth in government consumption expenditures dropped to 3.8% from 12.1% in the previous quarter. Despite the fact that the US economy decelerated in the second quarter, the Federal Reserve retained its optimism as demonstrated by an increase in benchmark interest rates from 1% to 1.25% in June 2004, and 1.5% in August 2004. If the price of crude oil keeps rising however, this will obviously adversely affect the growth prospects of the third and fourth quarters of the year.

The Euro area's GDP grew more quickly at 2.2% in the second quarter of 2004, compared with 1.5% in the first quarter, strongly supported by both domestic and external demand. According to a press release of the European Commission (EC), domestic demand rose by 1.3% in the second quarter of 2004, 0.2 percentage points faster than in the first quarter. During the same period, exports rose by 8.1% over the previous year (and by 3.5% compared to the preceding quarter). Due to slow economic growth in some countries in the Euro Area (i.e. Italy, Greece, Spain), the European Central Bank decided to leave its monetary policy unchanged, by keeping its main refinancing rate at the six-decade low rate of 2%.

Japan's economy expanded by 4.2% year-on-year basis in the first quarter of 2004, 1.4 percentage points lower than in the previous quarter – arising largely from a fall in private sector inventories and government spending. According to Bloomberg News, private inventories were reduced in the face of a slow down in demand in the US and Chinese economies, which are crucial markets for the Japanese. Lower economic growth in these two countries combined with oil price increases does not bode well for the Japanese economy.

As a result of tightening macroeconomic policies, China's economy decelerated slightly, to 9.6% in the second quarter of 2004, compared to 9.7% in the first quarter. For 2004 as a whole, the growth rate may decel-

erate further due to higher oil prices, higher inflation and lower demand. According to Channel News Asia, growth may slow down to 9.0% this year, compared to the predicted rate of 9.8%.

Comparing to the second quarter of 2003 when the SARS outbreak spread out to the whole region, the Singapore economy saw stronger growth at an annual rate of 12.5% in the second quarter of 2004, up from 7.5% in the first three months of the year. The Ministry of trade and Industry of Singapore reported that external demand rose significantly (by 26.3%) over the year, and remained the main engine of growth. During the same period, exports of both goods and services rose significantly (by 25.7%). According to the latest quarterly survey of the Monetary Authority of Singapore, GDP is expected to grow at an annual rate of 7.7% in the third quarter and 8.4% for 2004 as a whole. The Malaysian economy grew by 8.0% in the second quarter of 2004, the biggest gain since the second quarter of 2000 when the economy grew by 8.1%. According to the Central Bank of Malaysia, the growth was led by the manufacturing and services sectors, which recorded annual growth rates of 12.1% and 7.4%. However, it is expected to slow down later in the year as higher oil prices take its toll and semiconductor exports fall off. Similarly, the Hong Kong economy expanded by 12.1% in the second quarter of 2004, compared to 6.8% in the preceding quarter. The main reason would appear to lie in a rise in domestic consumption, helped by lower unemployment and increased tourism. The Hong Kong economy is also expected to weaken during the second half of the year in the face of Chinese economic slowdown, and US interest rate hikes.

Unlike other ASEAN countries, the Thai economy rose at an annualized rate of 6.3% in the second quarter of 2004, decelerating from 6.6% in the first quarter. The economic slowdown was mainly due to the Avian Influenza and the rise in oil prices, according to the National Economic and Social Development Board. As a result of the epidemic combined with drought, the agricultural sector contracted further in the first quarter of 2004.

World Inflation and Exchange Rates

Higher crude oil prices caused the inflation rate in many countries to come under pressure. In the second quarter of 2004, consumer prices in the US surged by 2.9% over the previous year, 1.2 percentage points higher than in the first quarter. During the same period, consumer prices in the Euro area rose at an annual rate of 2.1%, compared with 1.6% in the previous quarter. In contrast, consumer prices in Japan continued to fall further in the second quarter of 2004. To deal with this persistent deflation, the Bank of Japan decided to maintain its expansionary policy stance in its July meeting. In Hong Kong, however, deflationary pressures continued to ease off, as consumer price declines slowed down. On a year-on-year basis, consumer prices in Singapore rose by 1.8% in the second quarter of 2004, largely reflected by a rise

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in the price of consumer goods and services.

In the second quarter of 2004, the value of the US dollar strengthened by 2.3% and 5% over the previous quarter, with respect to the Japanese yen and the Euro respectively. Despite the fact that the US dollar came under pressure in June (weakening against both the Japanese yen and the euro) in the face of the record deficit in the US current account, the announcement effect of raising interest rates by the Fed and the lack of confidence in the prospects of a quick Japanese economic recovery, kept the US dollar relatively firm over the quarter as a whole. During the same period, the US dollar gained against the Thai baht and the Singapore dollar, an appreciation of 3% and 0.6% from the first quarter of 2004, respectively.

Commodity Prices in World Markets

In the second quarter of 2004, most commodity prices were higher than in the first quarter. The price of first quality rice in the Bangkok international market rose for the second consecutive quarter. It reached US\$ 235.8/tonne in the second quarter of 2004, an increase of 8.7% over the first quarter. The price of rubber in the Malaysian international market rose by 7%, to US\$ 1,333.4/tonne in the second quarter of 2004, from US\$ 1,246.4/tonne in the previous quarter. During the same period, the price of soybeans continued to rise for the second consecutive quarter, reaching US\$ 249.7/tonne. Compared to the same quarter last year, soybean prices increased by only 1.6%. The price of crude oil increased sharply in the second quarter – by 13.6% over the previous quarter, to reach US\$ 33.3/barrel.

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national resources for social protection.

Formal insurance is still in its infancy in Cambodia. Few people generate adequate income to be voluntarily insured. However, steps have been taken to pass insurance laws and draft sub-decrees in order to create an appropriate regulatory framework. Policies have also been considered to move towards sustainable insurance providers and pension schemes. Success of these initiatives will critically depend on other related factors, mainly good governance and in particular an appropriate salary and incentive system (civil service reform). These are political economy considerations constrained by history and social pressures (patron-client relations and informal networks).

As part of the external assistance that has filled in a number of the gaps left by the government, quite large donor and NGO funds have been channelled to programmes providing social protection. In a loose definition, almost half of the total \$500 million disbursed in 2002 by donors and NGOs could be considered as related to social protection, including overhead and delivery costs. This is far larger than the \$38 million disbursed by the government. NGOs seem to be effective in reaching the poorest and those most in need of social protection. However, the fact that donors and NGOs in many ways fill the role of government permits the government to reallocate its funds to other uses, not always in the most productive manner.

Social protection in Cambodia currently plays a major role in poverty reduction, a goal which dominates both the global and national agenda. There is plenty of room for intervention in social protection. However, from an efficiency point of view, there is a need for further practical research to compare the cost effectiveness of different ways and approaches for providing social protection programmes.

Endnotes

1. This article is adapted from a report entitled "Cambodia: Expenditure Analysis and Stocktaking of Social Protection Efforts" presented on 19-20 July 2004 at a "Dialogue on Social Protection Issues in Cambodia" hosted by the World Bank in Phnom Penh. The report was commissioned in order to contribute to the World Bank's preparation of a forthcoming *Cambodia Social Protection Strategy Note*. The findings, interpretations and conclusions expressed in this article are entirely those of the authors and should not be attributed in any manner to the World Bank, its affiliated organisations or members of its Board of Executive Directors or the countries they represent. The authors are grateful to government and NGO representatives for the excellent cooperation they extended to us during our research. Dena Ringold, Maryam Salim and Minna Hahn provided excellent comments on earlier versions of the main report. M.S. Shivakumar provided unwavering support throughout the process. Any remaining errors or omissions are the authors' responsibility.
2. Recently, these have been reshuffled into three ministries: the Ministry of Social and Veterans' Affairs, the Ministry of Labour and Vocational Training and the Ministry of Women's Affairs.
3. Gift-giving in Cambodia is the focus of a forthcoming study by Caroline Hughes in which she argues that the practice has evolved from a symbolic "tradition" into one containing elements of threats and coercion.
4. According to a survey of 800 firms in Cambodia, 5.2 percent of total revenues go to unofficial payments (see World Bank, *Seizing the Global Opportunity: Investment Climate Assessment and Reform Strategy for Cambodia*, Report No. 27925-KH, 12 August 2004).