

Assessment and recommendations

Cambodia's social protection needs are evolving

Since 2000, Cambodia has posted one of the strongest and most sustained periods of economic growth in the world. Between 2000 and 2015, annual growth in its gross domestic product (GDP) averaged 7.8%, raising GDP per capita to USD 1 225 and reducing poverty rates from over 60% to 13.5%. The national poverty gap, which indicates the severity of poverty, fell from 21.8% in 2004 to 2.2% in 2014.

The sharpest reduction in poverty occurred between 2007 and 2009 and took place predominantly in rural areas, driven by increases in crop prices and agricultural wages. In urban areas, the sharpest decline in poverty occurred between 2004 and 2007 and was associated with a significant increase in the proportion of the workforce in salaried employment.

Inequality has declined sharply since 2009 and is the lowest in Southeast Asia. The Gini co-efficient fell by 22% between the 2004 and 2014, from 0.38 to 0.30. However, this overall fall in inequality hides a trend towards increasing inequality up to 2009 followed by a strong decline thereafter. Between 2004 and 2009, consumption growth was highest for households in the middle of the distribution; between 2009 and 2014, it was highest for households in the lowest deciles.

A large proportion of non-poor households are at risk of falling back into poverty. Imposing a vulnerability line at 1.5 times the level of the national poverty line shows that 55% of households were either poor or vulnerable in 2014. As a consequence, a relatively small income shock could dramatically raise the poverty rate.

Data from the Royal Government of Cambodia's (RGC) Identification of Poor Households Programme (commonly called IDPoor), a targeting mechanism administered by the Ministry of Planning (MoP), show significant movement in and out of poverty between 2011 and 2014. However, while transient poverty is dominant, chronic poverty persists. The determinants of poverty have changed since the early 2000s: it is no longer a predominantly rural phenomenon and working poverty is a growing problem. Household composition is a major determinant of poverty, with caregiving responsibilities, whether for children,

people with disabilities or the elderly, as well as single-parenting representing a higher risk of poverty.

Despite progress in monetary poverty reduction, multi-dimensional indicators reveal significant deprivation. In 2014, the multi-dimensional poverty rate was 33%, more than twice the money-metric measure. In 2015, Cambodia ranked 143rd in the United Nations Development Programme (UNDP) Human Development Index (HDI), with a score of 0.555, the lowest in Southeast Asia after Myanmar. While most measures of deprivation have fallen, nutritional deprivation increased between 2005 and 2010 and remained above the 2005 level in 2014. While the regions affected by income and multi-dimensional poverty differ, non-income poverty is concentrated in rural Cambodia.

Maternal and child mortality remain high. In particular, the number of maternal deaths per thousand live births in Cambodia exceeds the rate in other countries in the region despite an almost threefold decline between 2000 and 2014. The chief causes of infant deaths in Cambodia are communicable diseases, maternal and neonatal diseases followed by water-borne and infectious diseases. Access to clean water and proper sanitation, preventive measures and adequate awareness would significantly reduce this toll.

Sustaining school attendance to the end of secondary school is a major challenge. Net enrolment in primary school (children aged 6-11) rose from 77% in 2004 to 85% in 2014. Enrolment was 40% for lower secondary, 20% for upper secondary and 12% for tertiary in 2014. Only 40% of those enrolled in lower secondary and only 20% in upper secondary were expected to complete the respective cycle in 2014/15.

At the same time, child employment rates are declining but remain high: 30% of individuals under 18 not in school cited the need to contribute to household income. Youth employment is high by international standards. In 2013, 74.5% of males and 68.1% of females aged 15-24 were employed.

Among the workforce as a whole, the level of labour force participation is among the highest in the world while the unemployment rate was below 3% in 2015. However, informal and vulnerable employment remains the norm. Cambodia also has one of the highest levels of working poverty in the world and the proportion of the labour force working excessive hours exceeds 40%. Pay and working conditions are especially poor for women.

Labour force participation is also high among the elderly. Poverty among this group is lower than for the population as a whole but the current reliance on informal assistance networks to support the elderly will be increasingly problematic as the population ages. Living with a disability in Cambodia is associated with increased risk of poverty and destitution.

Looking ahead, high rates of economic growth and continued structural transformation are forecast over the medium term. However, there are risks on the horizon: Cambodia's recent growth has been driven in part by the garment sector, which is highly vulnerable to a loss in global competitiveness, a downturn in key markets or automation. Diversification is necessary but won't be easy; across the economy, productivity levels are low relative to the rest of the region. Meanwhile, the agricultural sector is unlikely to sustain its recent robust performance but will nevertheless remain a critical source of livelihoods for many households. Rural areas' vulnerability to climate change, in particular rising temperatures, is a major source of concern.

Cambodia has a clear window of opportunity both for advancing its economy and for establishing a social protection system. Rapid economic growth has coincided with a declining dependency ratio – the number of young and old individuals as a proportion of the working-age population – as a large young population has reached working age. However, the population will age fast in the future and the dependency ratio will increase rapidly from the mid-2040s onwards. Moreover, the size of the labour force and population dynamics as a whole will be affected by international migration.

An emerging social protection system

The RGC has finalised the Social Protection Policy Framework (SPPF), which lays the foundation for an integrated social protection system. The SPPF sets out an ambitious agenda for reforming and scaling up social protection and is intended to realise the right to social protection enshrined in Cambodia's Constitution. The SPPF is aligned with the country's Third Rectangular Strategy, the socio-economic policy agenda for the Fifth Legislature (2013-2018).

Social assistance coverage is extremely low and the sector is highly fragmented. It also has a clear rural focus, meaning that the rapidly-growing urban population is largely excluded. Social assistance has two principal objectives: human development and emergency response. In the first case, the largest programmes are school scholarships (currently limited to certain grades) and school feeding programmes; both are intended to improve school attendance. There is a lack of interventions earlier in the life cycle that might improve health outcomes among mothers and infants and thus enhance the outcomes of the scholarship programmes. In terms of emergency response, the RGC has established a new programme to support parts of the population vulnerable to climate change and also makes emergency relief funds available on an ad hoc basis. However, it also continues to rely heavily on external humanitarian aid.

Cash for Work (CfW) and Food for Work (FfW) programmes have operated in Cambodia for close to two decades. However, labour market policies have gradually shifted from public works programmes towards initiatives designed to improve workers' skills. Technical vocational education and training (TVET)

is the most important labour market programme, providing skills training to individuals of working age (18-59) in informal employment who dropped out of secondary school.

In general, social protection provision for vulnerable groups is very limited. Public care facilities for the most vulnerable children are being scaled back. The RGC does not provide direct financial support for the elderly. Plans to roll out an allowance for people with disabilities exist but are experiencing major implementation challenges.

On the other hand, there has been impressive progress in terms of health provision, particularly among the poor. Basic health coverage is at the forefront of social protection and universal health coverage (UHC) is an explicit goal of the SPPF. In order to achieve UHC, the RGC intends to consolidate and expand the Health Equity Funds (HEF) and social health insurance (SHI), which is being rolled out for formal private-sector workers.

HEF is a nationwide programme that has significantly improved access to health care services for poor and vulnerable households and has lowered out-of-pocket expenditures. However, even for those covered by HEF, non-financial barriers to accessing healthcare remain at play, meaning that those who have access to free or subsidised care often choose to visit private facilities instead.

Social insurance arrangements are poorly developed for formal-sector employees and non-existent for the informal sector, which accounts for the majority of the workforce. A statutory pension arrangement does not exist for private sector employees, though these workers are entitled to healthcare and income benefits in the event of employment injuries. Since 2016, a growing proportion of private-sector workers, especially in the garment industry, are covered by SHI.

Meanwhile, the public sector does not yet have access to statutory health insurance, though a decree for such an arrangement was signed in 2017 and awaits implementation. However, these workers have access to pension arrangements: the National Social Security Fund for Civil Servants (NSSF-C) and the National Fund for Veterans (NFV). Both these arrangements are run on a non-contributory basis, which raises major issues about their sustainability. Replacement rates for retired civil servants are adequate but pensions are low in absolute terms.

Statutory unemployment insurance does not exist for any part of the labour force. However, workers who have been with an employer for six months or more and are dismissed for any reason other than gross misconduct are entitled to severance pay. Female employees are entitled by law to 90 days of maternity leave.

Social protection and fiscal policy are currently not realising their pro-poor potential

The low coverage of social assistance means it currently has little impact on reducing poverty or inequality. Health spending, on the other hand, is pro-poor and coverage is growing. In rural areas, the percentage of persons living in a household with access to subsidised health care is 9.2%, compared with 4.9% in urban areas. The population reporting having access to free or subsidised health care is highest among the poorest consumption quintile.

Public spending on social protection is low by regional standards and it is not pro-poor. While spending on social protection increased between 2009 and 2015, transfers to the NSSF-C and NFV accounted for the majority of this expenditure and have absorbed any fiscal space that might have existed to expand or introduce other social protection programmes. Spending on retirement benefits by the NSSF-C and the NFV increased approximately sixfold and fourfold respectively between 2012 and 2016. These payments are received predominantly by wealthier households in urban areas.

A successful domestic resource mobilisation strategy and strong economic growth have significantly increased the RGC's spending power in recent years. This should facilitate the implementation of the SPPF in a gradual manner. Priority should be given to expanding social assistance and direct transfers. At present, the overall effect of fiscal policy is to increase poverty, even though the tax system is progressive. This is because existing social assistance benefits have little impact on inequality or consumption levels, while social insurance payments mostly reach the better-off. As a result, the social protection system is unable to offset the impact of paying taxes on poor households.

Key recommendations

Expand social assistance, placing an emphasis on human capital development

- Establish a comprehensive scheme for early childhood development, which includes health, nutrition, education and social care initiatives.
- Expand scholarships to cover more school grades and operate nationwide.
- Establish social assistance programmes in urban areas.
- Prioritise permanent social assistance programmes over emergency interventions in areas at high risk from droughts or other climate shocks.
- Promote public works programmes by linking them to infrastructure projects and schemes that improve resilience to climate change.
- Establish an appropriate mechanism to provide income support for people with disabilities.

Establish a long-term financing strategy for the SPPF

- Develop a costed action plan for the different measures proposed by the SPPF which takes into account likely timeframes and priorities, as well as different scenarios.
- Integrate the long-term financing strategy for social protection within the RGC's broader spending plans.
- Incorporate distributional analysis into the financing strategy to ensure that social protection and its financing sources do not worsen poverty overall.

Integrate pension arrangements for efficiency and equity

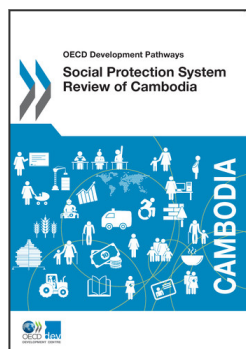
- Expedite the implementation of contributions by active civil servants to the NSSF-C.
- Explore the possibility of establishing a single statutory pension fund for the public and private sectors.
- Establish a single forum for planning pension arrangements for all population groups.
- Properly calculate the long-term financing requirements for the current NSSF-C and NFV and ensure this debt is explicit in the government's balance sheet.

Promote systematisation to achieve universal health coverage

- Expand and harmonise HEF to be a national system in preparation for its consolidation within a single operator.
- Develop the package of health services covered by HEF and consider extending its coverage to workers in the informal sector with a low capacity to pay into a contributory system.
- Leverage the consolidation of HEF, the extension of social health insurance and formalisation policies as ways of crowding-in informal sector workers.

Improve the information framework for an evidence-based social protection system

- Integrate monitoring and evaluation processes into the design of social assistance programmes and policies to ensure rigorous assessments of results and the identification of potential improvements.
- Increase the frequency and geographic coverage of the Identification of Poor Households Programme (IDPoor) targeting mechanism and promote on-demand registration, allowing it to gradually evolve into a single registry.
- Incorporate a social protection module within the Cambodia Socio-Economic Survey so that it can serve as a resource for assessing the impact and coverage of social protection.



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