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# **Cambodia**

## **Toward integrated employment and social protection policies**

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# **Cambodia**

## **Toward integrated employment and social protection policies**

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

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## Abbreviations and acronyms

ADB	Asian Development Bank
ALMP	active labour market policy
CAAFW	Cambodian Association for Assistance to Families and Widows
CARD	Council for Agricultural and Rural Development
CBHI	community-based health insurance
CMDG	Cambodia Millennium Development Goals
CPP	Cambodian People's Party
EC	European Commission
FDI	foreign direct investment
FFW	food for work
GDP	gross domestic product
HEF	health equity fund
ILO	International Labour Organization/International Labour Office
MOEF	Ministry of Economy and Finance
MOH	Ministry of Health
MOLVT	Ministry of Labour and Vocational Training
MOP	Ministry of Planning
MOSVY	Ministry of Social Affairs, Veterans and Youth Rehabilitation
MRD	Ministry for Rural Development
NBC	National Bank of Cambodia
NCDD	National Committee for Sub-National Democratic Development
NES	National Employment Strategy
NFV	National Fund for Veterans
NSDP	National Strategic Development Plan
NSPS	National Social Protection Strategy for the Poor and Vulnerable
NSSF	National Social Security Fund
NSSFC	National Social Security Fund for Civil Servants

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PFMRP	Public Financial Management Reform Programme
PWP	public works programme
RGC	Royal Government of Cambodia
SNEC	Supreme National Economic Council
SPER	Social Protection Expenditure Review
SPF	Social Protection Floor Initiative
TVET	technical and vocational education and training
WFP	World Food Programme

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## 1. Introduction

### 1.1. Improving social protection and promoting employment

The ILO and the European Union have initiated a project entitled: “Improving Social Protection and Promoting Employment”. The overall objective of this project is to assist three pilot countries in the development of integrated social protection and employment policies. Cambodia is one of the three countries selected under this project; the other two are Burkina Faso in Africa and Honduras in Latin America.

The main thrust of the project is the recognition that employment and social protection problems cannot be solved through fragmented and isolated interventions. Sustained and concerted action is required over a wide range of policy areas and involving a great number of stakeholding agencies.

The approach is based on social dialogue and involves consultation and participation between line ministries, ministries of finance and planning, employers’ and workers’ organizations, non-governmental agencies and development partners. Social dialogue is a cornerstone of the process, because without the active involvement of all these organizations no integrated perspective can be established, nor can the broad basis required for implementation of the proposed interventions be mobilized. Social dialogue is a defining element in the ILO’s Constitution; it is also the means of addressing social and economic challenges which characterizes most if not all the Member States of the European Union.

For the countries selected the project further aims to support the achievement of the Millennium Development Goal on poverty reduction, in line with the European Consensus on Development and the EU commitment to decent work for all, as well as the 2008 ILO Declaration on Social Justice for a Fair Globalization. The project intends to propose national plans to extend social protection coverage and to promote employment, in the context of a decent work strategy response to the global financial and economic crisis.

### 1.2. First glance at the economic situation

Cambodia’s economic development since 1989 can be categorized in three phases (RGC, 2009, pp. 75-9): (i) the rehabilitation phase from 1989 to 1998, with an emphasis on privatization and decollectivization, and with difficulties similar to those observed in other transition countries; (ii) the reconstruction phase from 1999 to 2003, characterized by institutional reforms and consolidation of market reforms; and finally (iii) the high-growth phase from 2004 to 2008 lasting until the onset of the global financial crisis, with GDP growth rates at around ten per cent per year on average.

During the period 2009-2010, annual GDP growth averaged an impressive 7.9 per cent in real terms. Growth rates were even higher before the financial crisis, at 9.9 per cent per annum during 2002-2008. For the same period, real output in the primary sector (agriculture, forestry and fishery) increased on average at 6.8 per cent per year, while the industrial sector increased at an impressive 11.9 per cent. Output growth was also high in the tertiary sector (trade and services) at 10.2 per cent per year. Despite the rapid expansion of the industrial and service sectors in real terms, the share of agriculture in total output, measured at current prices, increased over the period (2002-2010) from 31.1 per cent to 36 per cent due to important price increases of agricultural commodities during the period.

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The GDP Deflator increased on average by 5.6 per cent per annum during the period 2002-2010. However, due to the global financial crisis and economic downturn, price pressures have eased a little since 2008. In 2010, for example, the CPI increase was a rather moderate 4 per cent.

### **1.3. Institutional reform: Decentralization and improved governance**

Over the past decade, the governance reform agenda has embraced decentralization, referred to in Cambodia as subnational democratic development. Already in 2001 a law on commune/sangkat governance was adopted and commune/sangkat elections were held in 2002 to establish democratically elected commune councils.

In the following years the objectives of the D&D reform were further elaborated in the 2005 *Strategic Framework for Decentralization and Deconcentration Reforms* (the Strategic Framework), which envisages a reform process aiming to (i) consolidate and deepen the process of democratization at the grass roots; and (ii) promote local development and poverty reduction. The reform entails the establishment of district and provincial councils and the creation of accountable and unified subnational administrations to support these councils.

In parallel with the development of the policy and legislative framework, decentralization activities proceeded at the local level. In 2007, the second elections of commune/sangkat councils were held in 1,621 communes and sangkats, and in 2009 elections were organized for provincial and municipal councils.

The Organic Law (2008) established a new National Committee for Sub-National Democratic Development (NCDD), an inter-ministerial body entrusted with overseeing implementation of the Organic Law. In 2009 the NCDD formulated the National Program for Sub-National Democratic Development (2010-2019) (the National Program) aiming to operationalize the implementation of the D&D Strategic Framework and the Organic Law over the decade. In 2010, a three-year Implementation Plan (IP3) was developed by NCDD with detailed objectives and activities for the first three years of implementation.

Along with political authority, some resources were decentralized early on during the reform. The Commune/Sangkat Fund (C/S Fund) was established in 2001 as the first step in an intergovernmental fiscal transfer system to finance both administrative and development expenditures to be controlled by commune/sangkat councils. These councils use the C/S Fund to provide basic infrastructure and services. They have thus been empowered through a small budget which provides some flexibility and requires participatory planning processes and the need to put in place the downward accountability mechanisms envisaged in the policy framework.

In December 2004, the Prime Minister of Cambodia launched the 10-year Public Financial Management Reform Programme (PFMRP). Given the situation on the ground, PFMRP is designed as a step-by-step reform process or platform approach built on four sequenced platforms: (1) a more credible budget; (2) effective financial accountability; (3) a fully affordable and prioritized government policy agenda; and (4) government managers become fully accountable for programme performance. Tangible results achieved to date under PFMRP Platform 1 include improvements in tax administration, revenue collection, expenditure control, cash management and budgeting.

### **1.4. Organization of this report**

Chapter 2 places the social and economic developments in Cambodia in a broader international perspective and prepares the ground for the important message that

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employment and social protection policies are mutually reinforcing and most effective when integrated into one overall consistent framework.

Chapter 3 briefly describes the Government's National Strategic Development Plan (NSDP) *Update 2009-2013* and the National Social Protection Strategy (NSPS). This NSPS aims to complement and coordinate the plans and strategies of line ministries and other stakeholders in the area of social protection. The Council for Agricultural and Rural Development (CARD) has been responsible for coordinating the development of the NSPS.

Chapter 4 argues that Cambodia needs a national employment strategy (NES). The past decade of massive economic growth has not succeeded in providing sufficient paid jobs with decent working conditions to all Cambodians of working age who would be willing to work. The NES, therefore, would be the missing link in the existing strategic framework.

Chapter 5 describes in some detail the main programmes under the integrated social protection/employment services framework. The chapter focuses on the challenges in the areas of social protection floor programmes and active labour market measures.

Chapter 6 discusses how to establish a service network that can deliver all these services in an integrated manner throughout Cambodia, and outlines a structure for coordinating the broad range of policies and programmes at the inter-ministerial level.

Finally, Chapter 7 elaborates the concept of "growth diamonds". An important element of this concept is that it helps to concentrate and coordinate policies within various ministries and in different areas. It provides a focus: targets can be set and milestones defined. It is in the identification of these "growth diamonds" and in the assessment of the needs of these sectors in developing their economic potential that the NES could contribute to the existing strategic framework.





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## **2. Economic and social developments in Cambodia in a global perspective**

### **2.1. Introduction**

This chapter places the social and economic developments in Cambodia in a broader international perspective. It argues that Cambodia's challenges are not unique and that effective solutions exist. It further prepares the ground for the central message in this report: that employment and social protection policies are mutually reinforcing and most effective when integrated in one overall consistent framework.

### **2.2. Economic growth and social objectives**

One of the UN Millennium Development Goals (MDGs) was to reduce the global rate of poor households by 50 per cent by 2015. However, recent developments in food prices and the global financial crisis have hit the world's poorest most severely. The impact of these price rises on the poor and vulnerable are enormous. It has been observed that a 20 per cent rise in the cost of food would push around a hundred million people back below the US\$1 per diem threshold. In a number of countries this would undo all the gains in poverty reduction that were made during the previous decade of economic growth.

Cambodia has a well-deserved reputation for economic growth, which from the late 1990s until about 2007 was associated with a tangible reduction in poverty. However, for some of the other MDG goals, indicators and achievements of targets the picture is more mixed.

Some of the recent literature in development economics focusing on the relationship between economic growth and social outcomes in a global setting has cast doubt on what is known as the "trickle down" argument. In other words, judging from empirical evidence it is doubtful whether growth *per se* benefits the poor.

Although Cambodia's recent success in poverty alleviation is impressive, the poverty incidence still remains high, especially in the rural areas, in specific regions, and among particular groups of the population. Moreover, a large percentage of the population has a per diem income between the lower (US\$1.25) and the higher (US\$2) thresholds and this group is particularly vulnerable to economic shocks or negative income consequences of life events. Further, there has been a strong rise in income inequality which, according to the argument above, could jeopardize further progress in poverty reduction.

### **2.3. Trade, technological developments and the labour market**

Real wage and employment growth rates in a number of countries have fallen behind, despite their opening to internationalization and despite sometimes high GDP growth rates. In fact, in a considerable number of countries, opening to international trade has caused entire industries to collapse.

The impact of competition on a global scale, and the manner in which this affects both developed and developing countries, illustrates that the argument put forward by some developing countries that labour standards are unaffordable until a higher level of economic welfare has been attained is short-sighted. These countries do not want to sacrifice their perceived comparative advantages – and that is understandable. However, the same arguments have been voiced in the industrialized countries: competition from countries with low labour costs allegedly does not permit them to advance or even

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maintain their labour and social standards. The consequence in these industrialized parts of the world has been a development towards dual labour markets. The upper segment is characterized by well-paid jobs, with – at least on the surface – sound social protection against a wide range of contingencies, and legal protection in the areas of working hours and dismissal. Large numbers of people, however – in most cases the less skilled, but also those from minority ethnic backgrounds – fall into a lower segment where workers are paid less and jobs are insecure, sometimes hazardous, without much legal protection against dismissal, and with variable and often long working hours.

This segmentation also applies to, and is obviously more pronounced in, developing countries – where the informal economy can be regarded as equivalent to the lower segment in the dual labour markets of the industrialized countries. In this informal segment – which in a number of countries includes well above 50 per cent of the workforce – working conditions tend to be precarious. Workplaces are undefined, work conditions are unsafe and unhealthy, incomes are low and irregular, working hours are long, and access to social protection and training facilities is nonexistent. Moreover, informal activities have expanded rather than diminished in recent decades. Informal enterprises often provide products and services through subcontracting arrangements with formal enterprises, not only for the domestic market but also for international export. The trend is that workers are hired not under formal contracts but rather as own-account workers.

The process of globalization has created a rapid pace of social and economic change for participating countries. While the potential benefits of these changes are large, not all individuals or households have benefited, and this has generated social tensions. While a large number of countries – and this includes Cambodia – do not have access to much the technological knowledge that would enable them to render agriculture more productive, other countries a little further advanced on the economic ladder find themselves with a pool of redundant workers migrating to overpopulated urban areas or overseas, with poor perspectives of putting their skills to productive use.

Despite the fact that agricultural output in Cambodia has been increasing recently, the country's agricultural productivity remains low compared to the average in the ASEAN countries (ILO, 2010). The output of agricultural crops grew on average by about 10.7 per cent per year at constant prices, which is in itself impressive. However, paddy rice productivity in tons per hectare still stands at half the level of Viet Nam.

The ILO has estimated that global unemployment increased from 100 million people in the 1990s to 183 million in 2003. Almost half of these are young people in the age group 15 to 24 years. Moreover, underemployment is a serious problem worldwide. According to ILO estimates, in 2007 about one-third of the global labour force was either un- or underemployed. The share of working poor (people who are poor despite having a job) in low- and middle-income countries varies; although it has declined globally in the past decade it remains high in some parts of the world such as South Asia and sub-Saharan Africa. The share of working poor in the South-East Asian region has declined rapidly during the past decade, but two-thirds still remain in vulnerable employment, as recent ILO statistics reveal (see tables 2.1 and 2.2).

**Table 2.1. Vulnerable employment, world and selected regions, 2000, 2007 and 2010**  
(percentage of labour force)

	Both sexes			Females		
	2000	2007	2010	2000	2007	2010
World	52.8	51.1	49.6	55.7	53.5	51.0
Developed economies and EU	10.8	9.9	10.0	10.2	8.6	8.5
Central and South-Eastern Europe (non-EU) and CIS	25.5	20.6	20.9	25.1	20.1	20.5
East Asia	58.0	54.8	49.6	64.3	60.5	53.9
South-East Asia and the Pacific	65.3	62.3	62.3	70.7	67.3	66.7
South Asia	80.9	80.0	78.4	88.1	86.3	84.6
Latin America and the Caribbean	35.9	32.3	31.9	36.8	33.1	32.3
Sub-Saharan Africa	80.7	77.6	76.9	87.6	85.5	84.7

Source: ILO, 2012a.

**Table 2.2. Working poor, world and selected regions, 2000, 2007 and 2010**  
(percentage of total employed)

	< US\$1.25/day			< US\$2/day		
	2000	2007	2010	2000	2007	2010
World	26.4	16.7	15.1	45.9	33.1	30.2
Central and South-Eastern Europe (non -EU) and CIS	4.6	1.8	1.4	13.0	5.5	4.8
East Asia	29.9	10.9	8.1	53.2	25.6	19.1
South-East Asia and the Pacific	31.1	14.5	11.4	60.5	38.3	33.0
South Asia	46.7	37.8	36.8	81.2	70.8	68.7
Latin America and the Caribbean	7.0	4.2	3.5	15.1	10.4	9.1
Sub-Saharan Africa	54.8	43.4	39.1	75.7	67.0	63.2

Source: ILO, 2012a.

This is highly relevant for Cambodia. Since current unemployment is low, at 1.6 per cent, a reduction in unemployment does not appear to be a policy priority. However, most of the jobs created during the decade are neither adequately remunerative nor adequately productive. Useful policy targets should instead pursue progress in the four indicators of MDG target 1b – that is: the incidence of working poor, employment-to-population ratio, proportion of vulnerable population, and labour productivity. Facilitating the growth of paid formal-sector jobs in both the private and public sectors would be an appropriate way forward. Currently, the Cambodian labour market is characterized by a limited formal sector, with the bulk of employment being in the informal economy. The share of young people in total unemployment is relatively high. And while the female employment-to-population ratio is increasing, there still exists a significant gender disparity in access to training and education, and to better-paid jobs.

One level deeper, two factors are accountable for this. One is the mismatch between skills available and skills demanded, and the other is labour market deficiencies. Large numbers of workers lack the skills that would make their efforts more productive, while others find themselves locked into jobs that are not utilizing their capacities to the full. In more flexible labour markets the latter tend to find their way into jobs that are more demanding and more rewarding – even if this may take some time. Some may become unemployed, but when the labour market operates in a sufficiently flexible way unemployment spells tend to be of limited duration. Both factors will figure in this report as prominent parts of an integrated social protection and employment strategy.

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## 2.4. Where does Cambodia's economic potential lie?

An ILO background report (2011) examines the potential of selected sectors in Cambodia (agriculture, industry and trade, construction, and services) toward employment generation. The labour-intensive garment and footwear industry, for example, grew at 13.7 per cent per year over the period 2002-2008. Accounting for over 10 per cent of total output, the sector is an important contributor to employment growth in the formal sector. Construction expanded at 13.1 per cent annually over the same period, and by 2008 represented 6 per cent of total value added. In the trade and services sector, financial intermediation was the fastest-growing segment, expanding at 18.5 per cent per year. Other segments also expanded, such as hotels and restaurants at 9.6 per cent and "other services" at 15.2 per cent per annum. Sector strategies need to be reviewed in the light of competitive advantages, such as through capacity utilization and increasing productivity and incomes in land-intensive production and exports.

Thus far Cambodia has followed, like many of its South-East Asian neighbours, a labour-based, export-oriented growth strategy. While this has been successful in some respects, for example in the rapid growth of garment exports, the success has been ascribed to a set of fortuitous circumstances which are unlikely to be sustained in the future. The most important of these is the strong dependence on foreign direct investment (FDI). Those countries in the region that have been successful in the past have organized their industrial base. The designing of "backward-forward linkages" and concomitant policies to encourage appropriate factor use, domestic investment, entrepreneurship and skills to capture the markets has been crucial to their success. These economies pursued a broad-based, employment-generating growth strategy which was supported by an export-oriented industrialization strategy. The export sector in Cambodia, with little presence of domestic investment and skilled workers, has yet to manifest such industrialization dynamics.

Industrial development will require diversification, which, in turn is necessary for a diversified export portfolio. Active attention is needed to encourage domestic entrepreneurs, and specifically small and medium-sized enterprises (SMEs). The current high proportion of expatriate workers in high-end jobs in the export industries needs to be brought down through a well-designed programme to teach Cambodian workers targeted skills. In the long run, Cambodia's export competitiveness should not rest on cheap labour, but on enhancing productivity and on skills competitiveness. Skills policies would need to be further tuned to reduce mismatches in the job market.

## 2.5. Social protection

One of the Government's priorities is to have a social protection framework in place that provides transfers in cash or in kind during periods when people cannot work, after retirement, or when work is not sufficiently rewarding to sustain the household.

Social transfer programmes are effective in their own sphere and in their main aims of compressing income inequality and reducing poverty. Most developing countries suffer from imperfect capital markets that prevent borrowing by the poor. The absence of credit requires inefficient and costly consumption smoothing mechanisms and restricts the poor from investing in productive assets such as education and health. Numerous recent studies support the evidence of positive effects from income transfers in developing countries in terms of productivity and growth, in particular with respect to increased school attendance and improvement of health conditions. This leads to a much more productive labour force and, eventually, a higher GDP growth rate.

Programme design matters, of course. This is what is meant by "establishing a virtuous circle". Social protection programmes need to be efficient – but when they are, they are

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also affordable. The ILO has conducted a number of studies demonstrating that developing countries can afford a basic level of social security. It is calculated that in most of these countries such a benefit would cost between 1 and 2 per cent of GDP, or between 5 and 10 per cent of national budgets. Implementing this benefit would be a rapid first step towards attacking chronic poverty in these countries.

It takes generations to build up the intellectual and social capital required for a productive workforce. Children who are not allowed to attend school because their labour is needed to fill the gaps in household income cannot become productive workers in their adulthood and will not earn sufficient income for their families. And children who are raised on the edge of starvation will not develop the intellectual capacities that enable them in their prime age to make the difference for their societies – so the circle remains closed.

The World Bank has labelled these circles “inequality traps”; situations where economic, political and social inequalities reproduce themselves over time and across generations. The challenge is to overcome these vicious circles.

## **2.6. The Social Protection Floor Initiative**

In 2004, the World Commission on the Social Dimension of Globalization concluded that “a certain minimum level of social protection for individuals and families needs to be accepted and undisputed as part of the socio-economic floor of the global economy” (ILO, 2004, p. 110). The Commission called for a global commitment to deal with social and economic insecurity as a necessary condition to provide legitimacy to the globalization process. This recommendation has greatly contributed to the ILO’s efforts to promote the extension of social protection for all as one of the strategic objectives of its Decent Work Agenda, as emphasized in the ILO Declaration on Social Justice for a Fair Globalization. In particular, it contributed to shaping the Global Campaign on Social Security and Coverage for All launched at the 91st Session of the International Labour Conference in 2003 to promote the extension of social security.

Over the last few years the economic crisis has highlighted the importance of structural progress towards extending social protection in a coherent manner, reinforcing the World Commission’s call for a social protection floor. Social protection measures have served as a macroeconomic stabilizer, cushioning the impact of the crisis on people while maintaining aggregate demand and enabling people to overcome poverty and social exclusion as well as to find decent jobs.

Having recognized the importance of ensuring social protection for all, the United Nations System Chief Executives Board for Coordination (CEB) adopted, in April 2009, the Social Protection Floor Initiative, as one of the nine UN joint initiatives to cope with the effects of the economic crisis.

The Global Jobs Pact, adopted by the International Labour Conference at its 98th Session in 2009, also reiterated the call to build adequate social protection for all, drawing on a basic social protection floor in order to implement “sustainable social protection systems to assist the vulnerable [and thereby] prevent increased poverty, address social hardship, while also helping to stabilize the economy and maintain and promote employability” (ILO, 2009, para. 12).

The Resolution and Conclusions on social protection (social security), adopted by the tripartite delegations represented at International Labour Conference in 2011 endorsed the two-dimensional strategy for the extension of social security coverage and agreed on the need to discuss a possible Recommendation on Social Protection Floors at the 2012 Conference.

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In recent years the social protection floor approach has gained widespread acceptance, including at both the Millennium Development Goals (MDG) and G20 summits. It has been accepted as a core social policy tool not only to respond to the economic crisis and accelerate recovery, but also as a component of a human-centred and inclusive development strategy. As stated by ILO Director-General Juan Somavia, on the occasion of the 2011 World Day of Social Justice, the extension of “fiscally sustainable social protection to the eight out of ten people who lack any form of social security in the world today, starting with a basic floor of universal social protection”, is a necessary step to “move toward a new era of social justice”.

The notion of the social protection floor is anchored in shared principles of social justice and in the Universal Declaration of Human Rights’ call for adequate life standards, access to health, education, food, housing and social security. The core ideas are that no one should live below a certain income level and that everyone should be able to have access to at least basic social services in order to enhance decent work opportunities.

A social protection floor, as defined by the United Nations, is an integrated set of social policies designed to guarantee income security and access to social services for all, paying particular attention to vulnerable groups. It includes guarantees of:

- (a) basic income security, in the form of various social transfers (in cash or in kind), such as pensions for the elderly and persons with disabilities, child benefits, income support benefits and/or employment guarantees and services for the unemployed and underemployed; and
- (b) availability and affordable access to essential social services in the areas of health, water and sanitation, education, food security, housing, and others defined according to national priorities.

The Social Protection Floor Initiative calls for policy coherence and coordination among different social policies to prevent individuals and their families from falling into poverty and deprivation. It also aims to protect those who are unable to earn a decent income through employment, and to empower workers to seize economic opportunities and work their way out of poverty. It is a life-cycle approach comprising human development-integrated programmes for vulnerable children and their families, the underemployed and working poor, the elderly and people with disabilities. It is a framework for coordinated public interventions at the household level, addressing multidimensional causes of poverty and social exclusion and aiming at unlocking productive capacity. Particular attention is given to gender empowerment because women are often entrusted with a prominent role within the household as part of the income transfer and social service schemes.

While adopted as a global concept, social protection floors are nationally shaped within a framework of nationally-specific institutional structures, economic constraints, political dynamics and social aspirations. Their implementation process will usually be progressive and gradual according to national priorities and capacities, building on existing social protection schemes and based on sustainable funding sources.

The social protection floor should be understood as the first step towards higher levels of protection. As economies grow and financial and fiscal space widens, further expansion in the levels of protection should be envisaged. In countries with already existing comprehensive but segmented social protection systems, the social protection floor approach should not be seen as a way to weaken levels of protection, but as part of the process of filling eventual coverage gaps and promoting coherence among social policies.

More than 30 middle- and low-income countries have already successfully taken measures to introduce elements of national social protection floors. Their experiences have shown that social security schemes are a vital and flexible policy tool to counteract and soften the

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social and economic consequences of financial shocks and crises. They have also demonstrated the feasibility of building the social protection floors, showing that with the necessary political will, adequate resources for capacity building and a sound implementation process, a strong national consensus in favour of social protection floor policies can be created and developed.

## 2.7. Outlines of an integrated employment and social protection strategy

At the end of this chapter, it is helpful to summarize what has been said so far. High labour standards and good economic performance are complements, not alternatives. In addition, social transfers are effective in their primary aim: reducing the number of the poor. Also, there is no automatic trade-off between equity and efficiency when it comes to social protection and economic performance: social protection and economic performance can be reconciled and social protection programmes are affordable if designed and managed well. Pro-active social security benefits, that avoid the negative incentive effects of “reactive” social security, can foster long-term economic growth by investing in the productive capacities of people and facilitating necessary labour market adjustments. Consequently, the recent literature points to the positive economic impact of social protection.

There is no single social model: countries are free to choose their own paths. However, some elements seem to be important and universal enough to list here:

- *Investment in human capital*
  - This starts with enabling all children to attend school and ensuring that teachers are present and qualified. It also includes securing that the gender balance in education is equalized – and this includes facilities over the working career that enable people to maintain and upgrade their skills.
- *Introducing institutional arrangements in the labour market that reduce inefficiencies and underutilization of productive resources*
  - This would mean striking the right balance between protective measures (in Cambodia, the Labour Law) and measures that further the functioning of the labour market as a market.
- *Securing labour market transitions*
  - This takes place, for example, through active labour market policies and social protection schemes that allow job search for a restricted time span.
- *Activating and including groups that are not participating at present*
  - Paid employment is preferable, as it leads to social inclusion and provides opportunities for skill acquisition and economic advancement.
- *Providing income transfers for those who are unable to participate on a permanent basis*
  - This is first and foremost a moral imperative, as it combats social exclusion. It also may avoid economic lock-in effects that hamper a smooth performance of the labour market.

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- *Linking these social objectives into the broader macroeconomic policy framework*
    - This includes the use of fiscal instruments such as tax incentives to develop economic sectors such as agriculture and the industrial sector and a well-planned development of infrastructure; it may include access to financial means for credit-constrained households.
  - *Establishing a framework for sound governance, with appropriate checks and balances and a platform for social dialogue*
    - This guarantees that the interests of elite groups are checked and that those of the remaining groups are voiced.

These are the – mutually reinforcing – elements of a balanced decent work and social protection strategy aiming at economic growth, full and productive employment, and universal social protection. The strategy is just as relevant and valid for industrialized countries as for emerging economies and developing countries. It can be tailored to the situation and specific needs of countries.

The next chapter will view the initiatives undertaken so far by the Cambodian Government – in particular the National Social Protection Strategy (NSPS), and will assess the extent to which the envisaged National Employment Strategy (NES) can supplement and further strengthen the process embarked upon by the Government.

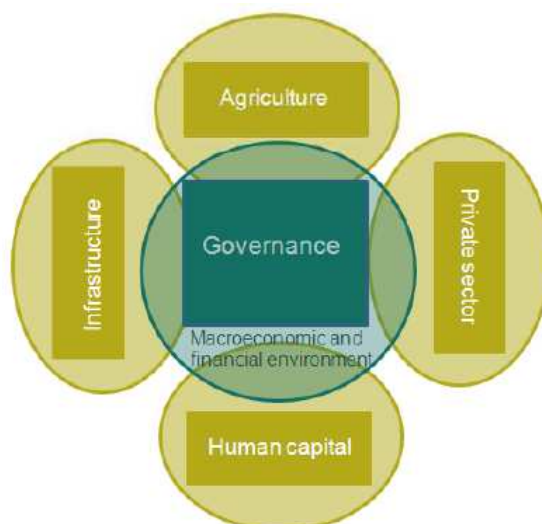


### 3. Government initiatives

#### 3.1. The NSDP Update 2009-2013 and the Rectangular Strategy

*The Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase II* explains the Government’s socio-economic policy agenda of its political platform for the Fourth Legislature (2008-2013). Figure 3.1 shows a simplified version of the strategy.

Figure 3.1. The Rectangular Strategy



The National Strategic Development Plan (NSDP) *Update 2009-2013* is the implementation tool or roadmap for the implementation of the Government’s priorities for the Fourth Legislature, as outlined in the Rectangular Strategy. It identifies the actors (WHO is responsible), actions (WHAT is undertaken), and costs (HOW will objectives be achieved), and it is meant to ensure that bottom-up activities from the various ministries and other stakeholders are consistent with top-down priorities and the financial framework. Following the “Rectangular framework”, the NSDP *Update 2009-2013* systematically lists the Government’s achievements during the past period and its objectives for the current Legislature. The core of the rectangle consists of measures to improve (i) the governance regime; and (ii) the responsiveness of public finance to the macroeconomic environment. The priorities for economic development are set out at the four angles: the agricultural sector, infrastructure, the private sector and the development of human capital. With no ambition to provide a complete list of all the measures here, a number of elements relevant to this document because they have obvious employment and/or social protection links are highlighted below.

*The governance regime.* This is at the core of the rectangle. Measures include the strengthening of budgeting capacities at the lower levels of administration; public finance management reform (the implementation of the measures under Platform 2); the establishment of agencies responsible for the economic development of areas (Special Economic Zones), in particular with a view to facilitating the increasing inclusion of SMEs in the formal sector; and the establishment of the Single Window Service at local level. In general, all measures under this chapter are aiming at “transforming the Public Administration into an effective provider of public services”.

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*Macroeconomic and government finance framework.* This chapter sets out the Government's public finance framework and the targeting of financial resources to Cambodia's industrial needs. On the agenda are:

- adopting a “prudent” fiscal stance – that is, accommodating to economic needs but with a view to the financial possibilities;
- enhancing the tax base, strengthening compliance, and exploring alternative revenue sources;
- rationalizing government expenditures with a view to optimizing the resources available for the priorities set in the NSDP agenda;
- expanding microfinancing facilities, in particular to remote areas; and
- measures to secure land ownership and ownership rights in general.

*Agriculture.* Improving productivity and diversification in agriculture are among the most urgent priorities, given the importance of this sector for the livelihoods of most Cambodian families. Challenges in this area include the need for more intensive farming on existing land; introducing multi-cropping techniques; establishing agro-industries, for example rubber plantations; promoting or creating an enabling environment for investors; transforming know-how; and improving infrastructure. This also relates to the infrastructure angle of the rectangle.

*Infrastructure.* This chapter contains measures that aim to reinforce the existing infrastructure and enable economic activities. Among the priorities are the improvement of transport infrastructure; flood and draught management (irrigation networks); and the creation or improvement of an IT network.

*Private-sector development.* With respect to private-sector development there are four “corners” of the NSDP agenda:

- improving the investment climate;
- facilitating the setting up of SMEs in the formal sector;
- creating jobs and improving working conditions; and
- establishing social safety nets.

Measures listed in the NSDP *Update* include “taking appropriate actions to improve fiscal and non-fiscal measures to support prioritized industries”, and establishing a comprehensive National Social Security Fund. A further focus in the Update agenda is on designing programmes that build human capital and contribute to infrastructure investment (here, for example, food-for-work programmes are mentioned).

*Human capital building.* The measures under this chapter target the building of social capital. The social policies listed here – education and health – are clearly an end in themselves, but can also act as a productive factor. Initiatives include the following:

- improving the outcomes of the education system;
- enhancing participation in technical and engineering programmes in higher education through TVET programmes; and
- improving the provision of health services.

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It will be obvious even from this limited listing that the various programmes in the NSDP *Update 2009-2013* are closely interlinked. Success in any area is dependent on progress in all the others.

### **3.2. The National Social Protection Strategy (NSPS)**

Following an extensive consultation process with national stakeholders, the Government published its National Social Protection Strategy (NSPS) in 2011 (RGC, 2011). The NSPS aims to complement and coordinate the plans and strategies of line ministries and other stakeholders in the area of social protection. Moreover, it elaborates upon the priorities laid out in the NSDP *Update 2009-2013* and the *Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase II*. The Council for Agricultural and Rural Development (CARD), one of the existing four high-level inter-ministerial coordination councils in Cambodia, has been responsible for coordinating the development of the NSPS.

In the short and medium term the NSPS focuses on establishing and extending social protection for the poor and the vulnerable. It prioritizes the development of effective and sustainable social safety nets targeted to these groups in particular. Most programmes under the NSPS would be funded from general revenues, but the establishment of a contributions-funded community-based health insurance scheme is also included in the strategy. For the longer term the NSPS envisages a further extension towards a comprehensive social protection framework, including the establishment and enhancement of new and existing social insurance schemes.

The next step consists in further elaborating and implementing the action plan, with its priorities, in the period 2011-2015. For 2013, a mid-term review is envisaged and in 2015 the implementation of the NSPS will be evaluated.

The NSPS is well embedded in the framework of the Constitution and legislation of Cambodia, as well as in government White Papers such as the *Rectangular Strategy* and the NSDP, and recent statements from the office of the Prime Minister, the Honourable Mr Hun Sen. Cambodia has signed and ratified a significant number of international conventions aimed at the realization of the right to social protection, and the Government perceives the NSPS and the actions that follow from it as being in line with these international commitments.

The NSPS document (RGC, 2011) describes a number of risks and vulnerabilities to which individuals and households are exposed. These include emergencies and crises – for example due to rises in food and fuel prices; natural disasters – for example, floods and droughts; human development constraints – for example, illiteracy; seasonal factors causing food insecurity; and health shocks which tend to have an impact on individuals and households with regard to both cost and income.

The document lists several particularly vulnerable groups: children, girls, women in their prime ages, people with lesser skills or health deficiencies, the elderly and ethnic minorities. The situation is further aggravated when households resort to detrimental coping strategies when placed in a vulnerable position or facing adverse shocks. Some examples include signing up to loans with high rates of interest, or withdrawing children from school to help the family to earn a subsistence living.

The NSPS also takes stock of the social protection programmes that exist at present. Table 3 in the NSPS document is an inventory of the current arrangements and the ministries responsible for them. For reasons of convenience, this table is not copied here (see RGC, 2011).

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Table 4 of the document lists the gaps and challenges (ibid.). The Government has identified a number of institutional and implementation constraints with respect to the effective and efficient provision of social protection:

- agendas tending to be ruled by immediate priorities rather than a long-term vision;
- weak development on the local government level to implement measures;
- limited coordination leading to gaps/duplications in coverage;
- lack of universal geographic coverage and poor prioritizing of areas;
- ad hoc programmes, poor monitoring of impacts;
- absence of feedback mechanisms, non-transparent governance; and
- weak coordination of funding inputs.

The Government's long-term vision is to ensure a basic guarantee of social protection for the entire population. It comprises both targeted general revenue-funded services to the poor, and social insurance schemes. The strategic goals of the NSPS are to:

- protect the poorest and most disadvantaged;
- prevent the impact of risks that lead to negative coping behaviour and further impoverishment; and
- help to build human capital and expand opportunities for the poor to work themselves above the poverty line.

These goals are to be achieved through the following steps: covering existing gaps; scaling up and harmonizing existing programmes and coordinating the efforts of the agencies involved; ensuring regular financing; and improving administration and monitoring practices. Following the listing of risks, disadvantaged groups, vulnerabilities and gaps, the NSPS identifies five objectives and highlights the instruments to achieve them:

1. Access to basic provisions.
2. A social safety net targeted at children and mothers.
3. Active labour market policies (ALMPs) to connect inactive prime-aged people to the labour market.
4. Access to affordable health-care services and financial protection for the poor and vulnerable.
5. Special provisions for disadvantaged groups.

Each of these objectives and their respective instruments are considered later in this report.

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CARD has a mandate to coordinate the NSPS with a view to ensuring the effectiveness and efficiency of the measures that will follow from it. The actual implementation of the various measures will fall under the responsible line ministries. The NSPS will provide an overall framework to guide these activities – more specifically, to avoid duplications or gaps; harmonize procedures; enhance capacities in ministries, local government and other agencies involved; strengthen monitoring and compliance mechanisms; and coordinate the use of available funds. The NSPS document identifies a number of actions, some of which will be further elaborated in the course of this report.



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## 4. The missing link: A national employment strategy (NES)

### 4.1. Introduction

We can infer from the previous chapter that much of the groundwork at the strategic level has been done. The basic ingredients are there, and the NSDP *Update 2009-2013* and the NSPS have been effective in establishing momentum in pursuit of an encompassing agenda towards the social and economic inclusion of all Cambodian nationals. Hence, one may wonder: does Cambodia still need a national employment strategy (NES)? This chapter will argue that it does. First, the “situation on the ground” will be assessed: the current labour market situation. The past decade of massive economic growth has not succeeded in providing sufficient paid jobs with decent working conditions to all Cambodians of working age who would be willing to work. Hence, it is obvious that economic growth alone is not sufficient to avoid underemployment. Economic growth has offered opportunities to some, but also has left others behind – many others, and this includes a large number of working poor.

*What is a national employment strategy?* It is both a vision and a concerted and coherent framework that links policies across government and the various stakeholders involved in the area of employment. It takes a long-term view: where does Cambodia envisage itself in a five- to ten-year time frame? And it is based on social dialogue to establish a common platform with a shared focus.

The NES will complement the existing strategic documents – the NSDP *Update 2009-2013* and the NSPS. Careful consideration needs to be given to these milestone documents in setting up and elaborating the NES in order to ensure that its initiatives fall on fertile soil. This chapter will provide an outline for an NES.

### 4.2. The current labour market situation

The labour force participation rate in Cambodia is high compared to international standards. The total rate for the population aged 15 and above increased from 77 to more than 78 per cent between 1998 and 2008. Over 25 per cent of the total labour force is in the age group 15 to 24. The total labour force has been expanding by about 3.3 per cent per annum on average during the past decade.

The employment-to-population rate in Cambodia is estimated at 77 per cent, which is very high by international standards and compared to the region, as we can infer from table 4.1. However, it should be noted that total employment comprises a large share of unpaid family workers, the majority of whom are women. Most (71 per cent) of the employed work in the primary sector, including agriculture. However, the share of the primary sector is on a declining trend in relative terms. The share of employment in the secondary (industrial) sector has been expanding to 8.6 per cent of total employment, mainly due to the growth of the garment and footwear industries. Employment in the tertiary sector (trade and services) has also been expanding, reaching 19.3 per cent towards the end of the past decade.

**Table 4.1. Employment indicators, world and selected regions, various years 2000-2010**

Clusters of countries	Employment-to-population ratios						Annual employment growth		
	Both sexes			Females			2000-2006	2007-2009	2010
	2000	2007	2010	2000	2007	2010			
World	61.2	61.2	60.2	48.6	48.9	47.8	1.8	1.1	1.3
Developed economies and EU	56.6	57.1	55.0	48.0	49.5	48.6	0.9	0.0	-0.2
Central and South-Eastern Europe and CIS	52.5	53.5	53.5	44.0	45.1	45.1	0.9	0.7	1.5
East Asia	72.7	71.3	70.4	67.1	65.6	64.6	1.2	0.7	0.9
South-East Asia and the Pacific	66.9	66.2	66.7	55.6	55.1	55.5	1.7	2.0	2.2
South Asia	57.2	57.2	54.9	33.4	33.6	30.1	2.5	0.8	0.7
Latin America and the Caribbean	58.5	60.9	61.4	42.9	47.2	48.4	2.5	1.8	2.8
Sub-Saharan Africa	63.3	64.4	64.4	56.4	58.6	58.7	3.1	2.9	2.7

Source: ILO, 2012a.

The vast majority of the employed (83 per cent) can be attributed to the so-called informal economy; they often lack income security and generally have no entitlements to social protection benefits through their employer, or occupation if self-employed.

Internal labour migration is high in Cambodia; it is estimated that about one-third of the labour force are domestic migrants. Internal migration relates predominantly to the primary sector, in particular to agriculture.

The official unemployment rate is very low: only 1.7 per cent of the labour force in 2008 (see table 4.2). Despite this, underemployment and seasonal unemployment are estimated to be high, particularly in the informal economy.

**Table 4.2. Unemployment rate, Cambodia and selected countries in the region, various years (percentage of labour force)**

	Both sexes	Females	Aged 15-24	Share aged 15-24 in total unemployment
Cambodia (2008)	1.7	1.8	3.4	52.3
Indonesia (2009)	7.9	8.5	22.2	53.8
Lao PDR (2005)	1.4	1.4	..	..
Malaysia (2009)	3.7	3.8	10.9	62.2
Philippines (2009)	7.5	7.4	17.4	50.7
Singapore (2009)	5.9	6.5	12.9	19.8
Thailand (2009)	1.2	1.1	4.3	48.1
Viet Nam (2008)	2.4	..	4.6	46.2

Note: .. Unavailable.

Source: ILO 2012a.

The global economic crisis has disclosed the structural imbalances in Cambodia, and has highlighted the labour market challenges. A major economic and social challenge is to create employment opportunities for new entrants to the labour force while at the same time increasing earnings and raising productivity for the vast majority of workers employed in rural areas and the informal economy. The population in the prime ages (25-54) will grow at an average annual rate of 3.4 per cent. This high growth rate in the working-age population will enormously increase the labour force in the next decade.

Another fundamental challenge is the need to accelerate productivity growth and ensure that productivity gains are translated into better working conditions and higher wages.



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Cambodia has one of the lowest levels of productivity of all countries in the Asia–Pacific region.

Certain groups in society are in particular need of assistance when it comes to productivity, because of their low skills and limited employment opportunities. These include those living under or close to the poverty line; young people, who comprise a disproportionately high percentage of the unemployed (see table 4.2); women, who still face constraints relating to traditional attitudes and comparably poorer educational performance; and those living in particularly isolated and poor rural areas.

Despite notable improvements in recent years, Cambodia faces significant challenges in building a strong human capital base and a skilled workforce responsive to its labour market needs. There is a growing mismatch between the skills of the labour force and those required by employers – a situation exacerbated by both the fast-growing labour force and the slow pace of economic diversification. At its current level of development, Cambodia needs skilled labour in professions and trades such as mechanical engineers or electrical technicians, because this is where the bulk of new industrial employment is being created. There is also a huge mismatch between the labour market demand for vocational training certificates and the current supply of university qualifications, which are predominantly in the social sciences and business-related studies.

Since high economic growth has not been successful in solving these issues, an NES is required to complement the NSDP *Update* and the NSPS. The NES will focus on generating a sufficient quantity of quality employment – that is, productive and well-paid job opportunities for those who are on the sidelines at present, and for those who will shortly enter the labour market. In this respect the NES can be the missing link in Cambodia’s development framework and can bring about one of the Government’s main priorities: a reduction in the number of poor and vulnerable households.

#### **4.3. A national employment strategy in the broader development framework**

The National Strategic Development Plan 2006-2010 placed poverty reduction among the highest national priorities: in it the Government expressed the need for “focused attention and targeted action to reach the Cambodian Millennium Development Goals (CMDGs) in reducing poverty”. The NSDP *Update 2009-2013* notes that “creating jobs and ensuring improved conditions are the Government’s continuing long-term goals, aimed at enhancing the living standards of the population and ultimately alleviating poverty and accelerating economic growth”. This provides the context and justification for designing a national employment policy/strategy – a policy that will focus on employment promotion, on improving the quality of employment and on non-discrimination – and for embedding it into the national development framework.

Increasing the productive employment opportunities and employability of Cambodians of all backgrounds is a critical requirement, particularly in the rural areas where poverty is most widespread (and severe) and diversified economic activity scarcest. This is well reflected in the country’s national strategic plans, which emphasize the importance of sustainable long-term job creation to the country’s economic and social development. Demographic and economic trends make this challenge particularly pertinent in the Cambodian context. Coupled with the fact that there is a significant and growing mismatch between the skills provided to the workforce and the skills required in the labour market, it is clear that the employment challenge in Cambodia is only likely to intensify in the coming years.

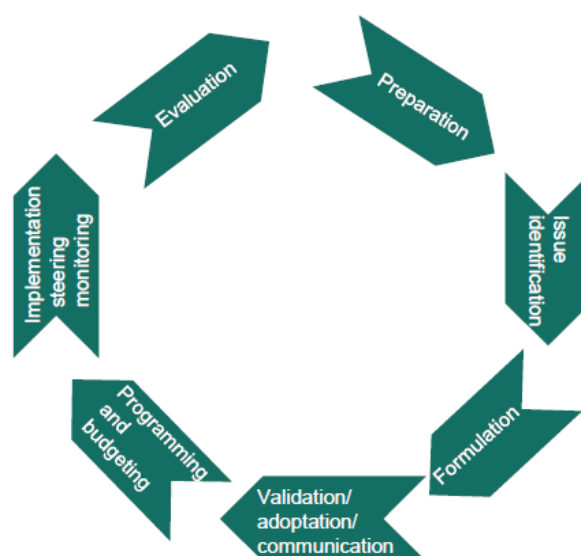
While the NSPS has already been articulated (see Chapter 3 above), the formulation of an NES is still some stages behind. This is not an ideal situation. Chapter 2 has argued that Cambodia needs an emphasis on pursuing progress in the four indicators of MDG target 1b: that is, the incidence of working poor, the employment-to-population ratio, the proportion of the vulnerable population, and enhancing labour productivity. Chapter 2 further argued that facilitating the growth of paid formal-sector jobs in the private and public sectors is crucial in this respect. The labour market in Cambodia is characterized by a limited formal sector with huge disparities in access to better-paid jobs and training facilities between males and females, various age groups and skill levels. Solving this will also help to make progress in the objectives formulated in the NSPS document. Not tackling both sides of the same coin simultaneously and in a consistent and coherent manner will lead to inefficiencies and a suboptimal use of public resources.

Some issues that should be part of the NES have been dealt with in the NSPS. This refers to the measures stated under NSPS objective 3. This is commendable in itself, but it would be a missed opportunity not to embed these ALMP instruments (public works and vocational training) within the broader framework of an employment strategy.

#### 4.4. Setting up a national employment strategy

The setting up of the NES would ideally follow the policy cycle procedure shown in figure 4.1.

Figure 4.1. The employment policy cycle



One of the first steps in formulating an NES is the identification of:

- *The economic sectors that could be developed into “growth diamonds”* (see Chapter 7). These are sectors with a high economic development potential. Identifying these sectors would need to be decided on a national planning level (MOP/MEF/SNEC) and should link with the mainstream planning agenda: the NSDP *Update 2009-2013*, and the coordination structure that has been established under that framework.
- *Needs assessments for these sectors* (see below). This would be the next element.

- *The actors involved.* This is an important third element and would include the various line ministries, coordinating councils (for example CARD for the agricultural sector), the social partners, and perhaps other organizations.
- *Indicators* that can be used to monitor progress and outcomes.

The needs assessment would include:

- *The enabling technical conditions.* What are the current technological and infrastructure deficiencies of the sector? What is required to bridge these gaps and enable the sector to realize its potential?
- *The enabling economic conditions.* What is the current investment climate and what does it take in terms of incentives and securities to attract domestic and foreign investors into the sector? How can entrepreneurship be encouraged? What does this take in terms of credit constraints?
- *Legal and institutional constraints.* What are the obstacles in terms of legislation and institutional organization that hinder the mobilization of required resources?
- *The social requirements.* What are the vulnerabilities in this specific sector? Which work conditions are precarious? What does it take to establish a standard of decent work in this sector?
- *The human capital requirements.* What are the skills required and what are the gaps in this respect?

Following up on this identification of the needs, a detailed roadmap can be drafted to address all these issues. The roadmap should then be discussed with the stakeholders and translated into an operational plan with actions stipulated for the various actors. In this respect, it is advisable to form sector-specific committees or “platforms” consisting of representatives of the various line ministries involved, together with the social partners, to conduct and coordinate this needs assessment. It is crucial that there is an effective platform for social dialogue in place. Representatives participating in the platform need to have a clear mandate; this might require a streamlining of the various representative organizations. The appropriate level of organization should be the sector.

In a consistent approach towards the objective of achieving full and productive employment, the NES will cover the following areas:

- labour law;
- industrial relations;
- vocational education and training (TVET);
- active labour market policies (ALMP);
- tax relief measures;
- infrastructure and technological improvements;
- macroeconomic measures.

The NES does not have the lead in the design of policies in all these areas. In particular, in the last three – tax relief, infrastructure and technological improvements, and macroeconomic policies – the NES just needs to ensure that it is consistent with

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developments which have been initiated elsewhere. The NSDP *Update 2009-2013* provides the overall planning framework. However, in the other areas – labour law, industrial relations, TVET and ALMPs – the NES is much more at the forefront of design and planning.

NES indicators need to be defined for each of the areas, and they need to be SMART (specific, measurable, attainable, relevant, time-bound). The following set of indicators is particularly important from the perspective of the NES:

- share in the working-age population economically inactive;
- share in the labour force officially registered as unemployed;
- share of formal-sector employment in total employment;
- share in the labour force that is (probably unofficially) registered as *underemployed*;
- number of working poor;
- gender balance in the formal sector (in terms of earnings levels and working conditions);
- some measure of real earnings – for example, pre-tax earnings differentials;
- some measure of productivity or productivity growth (with a sector breakdown);
- number of working children (below age 15);
- school enrolment ratios at the various education levels;
- number of people with vocational skills;
- number of (domestic and international) labour migrants;
- number of industrial conflicts (with sector breakdown);
- number of workers covered under collective labour agreements.

The common denominator under these indicators is that they all say something about the *quantity* and/or the *quality* of employment. Hence, these would be the “key performance indicators” for an NES. In other words, with these 15 indicators – provided they are properly translated into SMART measures – the success of the NES could be monitored.

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## 5. Social protection floor programmes, ALMPs and social insurance

### 5.1. Introduction

The right to social security is firmly embedded in Cambodia's Constitution. Social security is regarded as the foundation for building a more inclusive, cohesive and less conflict-prone society. The Government and the social partners have recognized the need for a social security reform that will meet, within the available resources, social and economic requirements.

The extension of social security to workers in the informal sector and their families is regarded as particularly important in this respect. This may be conceived as the horizontal dimension in a two-dimensional approach to extending social security coverage in Cambodia. The horizontal dimension adopts the idea of a social protection floor (SPF) consisting of a set of social protection schemes providing: (i) universal access to basic/essential health-care benefits; (ii) family/child benefits aimed at facilitating access to nutrition, education and care; (iii) targeted income support for the non-working poor in the active age group; and (iv) some arrangement providing pension benefits to the elderly and disabled.

A number of social protection arrangements are already in place in Cambodia at present. The challenge for the horizontal approach will be to bring the current programmes into a more coherent framework, and to trace and address those pockets of the population – social, regional or ethnic groups – that are not covered by any of the existing programmes. Much of what the NSPS describes in its Chapter 5, in terms of objectives and medium-term instruments, and in its Chapter 6 in terms of implementation and monitoring efforts, deals with this horizontal approach.

The fifth objective in the NSPS: “providing the working-age poor and vulnerable with work opportunities”, has not been explicitly mentioned under the SPF concept. In fact, it is in the listing of ALMP measures, for example: public works and TVET programmes, where the NSPS links or overlaps with an NES (see figure 5.1).

The second dimension would be the vertical extension of social insurance coverage. Such an extension is mentioned in the NSPS as a longer-term objective. The ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) provides guidance in this respect. To date, there are several social insurance schemes under the NSSF, the National Fund for Veterans (NFV) and the National Social Security Fund for Civil Servants (NSSFC) and there are plans for a further extension in the immediate future.

Figure 5.1. Overlap between NSPS and NES instruments



## 5.2. The “horizontal dimension”: The social protection floor

The reform process along the “horizontal dimension” would encompass consolidating a “basic and modest set of social protection guarantees” suitable and affordable in given national conditions, as expressed in the Social Protection Floor Initiative. A national social protection floor consists of a minimum package of rights, transfers and services to be guaranteed by the State. This package of benefits should be delivered in such a way as to reach all potential beneficiaries irrespective of their class, caste, ethnicity, socio-economic status or geographical location. It should be accessible to people in the informal sector and those not covered by the existing system. The floor, therefore, consists of some core interventions which should be universal in terms of coverage, and the State is solely responsible for financing the package. The NSPS has identified five major objectives constituting the social protection floor for Cambodia. These interventions are not entirely new; rather, what is proposed is consolidation and extension in the coverage of existing programmes. The package includes:

- social assistance to senior citizens, widows, people with disabilities and from endangered ethnic groups;
- universal child protection grant;
- free education up to grade 12 in community (government) schools;
- free basic health-care services; and
- an employment guarantee scheme.

This proposed floor is not only consistent with the UN Social Protection Floor Initiative as promoted by the ILO and other UN organizations and as mentioned under section 2.6 above, but is also suitable in the context of Cambodia. If pursued with political will and commitment, this package can definitely make a difference in reducing poverty and vulnerability in the country. However, much depends on the amounts of benefits and the quality of services made accessible by the social protection floor. Much work in this area still needs to be done.

### 5.3. Social safety net programmes for the poor and vulnerable

In the NSPS various categories of programmes have been identified, as shown in table 5.1:

**Table 5.1. NSPS strategic objectives and interventions proposed, 2011**

Strategic objective	CMDG nos.	Interventions proposed
1.	Addressing food security and basic needs in case of emergency	1, 9 Targeted food distribution  Distribution of farm inputs  Emergency support operations
2.	Addressing poverty and vulnerability of children and mothers	1, 2, 3, 4, 5 Cash, vouchers, food, or other in-kind transfers for children and women in one integrated programme  School feeding, take-home rations  Outreach services and second-chance programmes for out-of-school youth
3.	Addressing seasonal un-employment and under-employment	1 National labour-intensive public works programmes  Food for work and cash for work schemes
4.	Promoting affordable access to health care for the poor and vulnerable	4, 5, 6 Expansion of health equity funds (HEF) and community-based health insurance (CBHI)
5.	Improving social protection for vulnerable groups	1, 6, 9 Social welfare services for special vulnerable groups  Social transfers and social pensions for the elderly and people with chronic illnesses and/or diseases

Note: CMDG = Cambodian Millennium Development Goal.

Source: ILO, 2012c, based on RGC, 2011.

The ILO has estimated the costs of several combinations of programmes (ILO, 2012c). Providing food relief for the ultra-poor (cash transfers) would cost 2.4 per cent of GDP in the short run, decreasing to 0.7 per cent towards 2020 (see table 5.2). Including the vulnerable in the cash transfer scheme would cost 4.5 per cent of GDP immediately, decreasing to an estimated 1.5 per cent in 2020. Various options for cash transfer schemes for families with small children (income support for pregnant women and various child allowance options) together would cost an estimated 1 per cent of GDP in the short run, levelling off to 0.3 per cent towards 2020, if targeted to poor families.

**Table 5.2. Costing of NSPS measures: Food relief and transfers to families with children, 2012, 2016 and 2020 (percentage of GDP)**

Programme	2012	2016	2020
Targeted food relief (ultra-poor) <sup>1</sup>	2.43	1.33	0.66
Targeted food relief (all poor)	4.53	2.63	1.48
Targeted cash transfers (poor families with children) <sup>2</sup>	0.95	0.56	0.31
Universal cash transfers (all families with children)	3.77	2.89	2.33

<sup>1</sup> Ultra poor corresponds to ID-1, all poor corresponds to ID-1 and 2 (including the vulnerable). <sup>2</sup> Includes all transfers to pregnant women, children aged 2-4 and in primary school.

Source: Calculated from ILO, 2012c.

Further options for the horizontal extension of social protection would include social pensions for vulnerable groups such as the elderly and disabled. There is a distinction between targeted social old-age pensions (to the poor) and universal social old-age pensions (see table 5.3). The costs for the targeted option would range from 0.1 to 0.5 per cent of GDP in the short run to less than 0.05 to 0.2 in the longer run, depending on the pensionable age and the benefit replacement rate (benefit level as related to the subsistence income level). For the universal package this would range from 0.9 to 2.2 in the short run to 0.7 to 1.7 in the longer run, again depending on the same parameters. Last, social pensions for the disabled would range from 0.1 to 0.4 in the short run to less than 0.05 to 0.25 in the longer run, again depending on whether the scheme is a targeted or a universal one.

**Table 5.3. Costing of NSPS measures: Old-age pensions and transfers to the disabled, 2012, 2016 and 2020 (percentage of GDP)**

Programme	2012	2016	2020
Targeted old-age pensions (all poor) <sup>1</sup>	0.50	0.33	0.21
Universal old-age pensions <sup>2</sup>	1.39	1.22	1.10
Targeted income support for the disabled (all poor)	0.10	0.06	0.03
Universal income support for the disabled	0.42	0.32	0.25

<sup>1</sup> All poor from age 60. <sup>2</sup> Universal from age 65.

Source: ILO, 2012c.

In aggregate, the estimated costs of all these schemes under NSPS objectives 1, 2 and 5 would be around 10 per cent of GDP in the most generous variant upon introduction in 2012. These costs would decrease to an estimated 5 per cent of GDP towards the end of the projection period in 2020. Targeted, instead of universal benefit schemes, would cost a considerably smaller share of GDP (see table 5.4 and figure 5.2). Annex III provides further details.

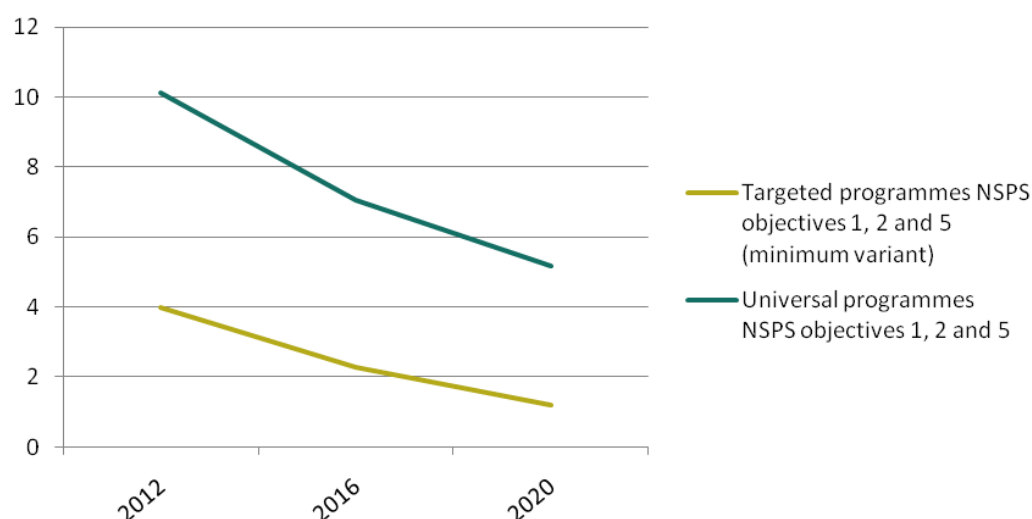
**Table 5.4. Costing of NSPS measures: Aggregate expenditures for objectives 1, 2 and 5, 2012, 2016 and 2020 (percentage of GDP)**

Programme	2012	2016	2020
Targeted programmes, NSPS objectives 1, 2 and 5 (minimum variant)	3.98	2.28	1.21
Universal programmes, NSPS objectives 1, 2 and 5	10.11	7.06	5.16

Source: Calculated from ILO, 2012c.



**Figure 5.2. Costing of NSPS measures: Aggregate expenditures for objectives 1, 2 and 5, 2012-2020 (percentage of GDP)**



Some additional suggestions for programme design could include the following:

- a “tiered” social assistance scheme with higher benefits when there are children and even higher benefits when these children are attending school and college; and
- the introduction of individualized case management (perhaps in several pilots first) to address multidimensional problems (overlaps in vulnerabilities) and make cross-referrals between various services. This could be implemented in relationship with the PEOPLE Services (see Chapter 6).

#### **5.4. Active labour market policies: Public works and vocational training**

Two general categories of ALMP programmes are identified under NSPS objective 3:

- public works (PWPs)
- targeted vocational education and training (TVET)

##### **5.4.1. Public works programmes**

Public works programmes (PWPs) address severe underemployment and poverty. They aim to provide support through income transfers while creating or maintaining economically or socially valuable assets. This entails significant and sustained government expenditure commitments over some years to supplement the incomes of the beneficiaries. The sustained investment in income generation and asset creation is expected to lead to additional economic and social benefits. Ensuring satisfactory and balanced performance of the twin objectives of income support and asset creation is challenging, especially since very often such programmes are implemented in contexts in which institutions are diverse and technical capacities are weak.

By developing rural infrastructure while also providing income, PWPs contribute to the achievement of a number of MDGs related to health, education and overall poverty. Improved infrastructure results in better access to economic and social services. This has a direct impact on school enrolment, the use of health services and access to markets and government services. But although PWPs can meet some of the demand and need for the

rehabilitation or construction of rural infrastructure, the maintenance of public infrastructure in Cambodia suffers from a chronic lack of funding. PWP can also help to fill this funding gap and address needs for routine maintenance of roads, irrigation canals, flood protection structures and public buildings. PWP can also contribute to investments in climate proofing of rural infrastructure against climate change.

PWP can be devised to provide income throughout the year at a level commensurate with the need. This would not be intended to act as a substitute for agricultural activities but to provide additional income to rural households while they continue their farming activities. In addition, a PWP can be enlarged during times of severe seasonal food and income insecurity.

Cambodia has a considerable track record in the implementation of cash- and food-for-work programmes. While food-for-work programmes, supported by the World Food Programme (WFP) have been implemented since 1993, the Asian Development Bank (ADB) has more recently piloted projects substituting cash for food but using the same systems and procedures as the WFP programmes. Labour-based appropriate technology has been used in programmes supported by the ILO and the ADB over the last 15 years, where the objective is to substitute labour for equipment whilst retaining the objectives of quality and cost. The difference between the two approaches is the extent to which emphasis is placed on non-wage costs.

The experience, expertise and capacity built up in Cambodia's several years of experience in implementing these programmes give it a distinct advantage when it comes to harnessing this experience for a public works programme. A whole range of systems, procedures and training materials have been developed, providing a well-documented wealth of experience. In addition, there exists a cadre of personnel who have been involved in these projects, providing the human capacity both in the public and private sectors. The challenge now is to harness that project experience into the development of an effective nationwide programme.

The ILO has also calculated the estimated costs of introducing two options for public works programmes (ILO, 2012c). The first targets the ultra-poor and the second also targets the vulnerable categories (ID-Poor 1 and ID-Poor 1 and 2, respectively). This would mean that just over 42,000 households or 75,000 households would benefit from the scheme, respectively, in 2012. The per diem wage has been assumed at US\$2.50. The estimated costs for both options would be 0.12 or 0.21 per cent of GDP in 2012, decreasing to 0.04 or 0.09 per cent of GDP towards 2020, as shown in table 5.5).

**Table 5.5. Costing of NSPS measures: Public works programmes, 2012, 2016 and 2020**  
(percentage of GDP)

<b>Programme</b>	<b>2012</b>	<b>2016</b>	<b>2020</b>
Targeted public works programme (ultra poor)	0.12	0.07	0.04
Targeted public works programme (all poor)	0.21	0.14	0.09

Source: ILO, 2012c.

Box 5.1 lists some considerations for the design of PWP. It is clear that designing and implementing public works programmes requires a strategic approach and involves many organizations representing a broad range of policy areas at the national and regional/local level.

### Box 5.1. Public works programmes for Cambodia: Some strategic considerations

**The Cambodian public works programmes (PWP) will be designed on the understanding that programme funds are seen as investments.** [...] Moreover, a public works programme can provide opportunities for skills development in the implementation of the works. This could be in relation to the supervision of the workforce, the construction of simple structures, which requires masonry and carpentry skills, and in the management of the ongoing works. The enhancement of skill levels can lead to higher employability of those taking part in the public works programmes.

**Diversity would be another basic principle of the PWP.** The programme would encompass a range of infrastructure amenable to the creation of employment. The more technically demanding projects would principally be focused on projects which aim to provide sustainable infrastructure.

**There is a need also for flexibility in the programme.** It will be channelled through several line agencies according to the sector of work that is being targeted. It will be implemented at different levels of government administration from provincial down to commune council level.

**The overall PWP will be designed based on the criteria discussed above.** The logic of developing an overall PWP rather than a set of individual line agency projects is both to ensure coherence of the PWP and to present government and donor partners with a comprehensive programme of public works which will provide social transfers to the poor. The responsibility for the implementation would remain with the line agencies. The responsibility for the development of the PWP has been given to CARD. However, CARD is not an implementing agency. Its responsibility therefore will be to provide coordination for the overall programme.

**In general, the PWP would be implemented at the local level.** In the case of the line agency components this would be through the provincial departments at the province level. The village infrastructure component would be implemented with the commune councils with technical support from the provincial departments.

Considering that (i) provincial and commune councils already carry out some rural infrastructure works; (ii) they are located in close vicinity of the work sites; and (iii) they closely interact with the end users, it seems natural to increase their capacity to also deal with the PWP. Much of the rural infrastructure works in the PWP will consist of simple structures and standard work methods and technology. Implementation of such works can be carried out adequately by provincial engineers and technicians. If the works contracts are packaged into appropriate sizes it is possible to utilize local contractors based in the provinces where the works are located. Contracts of this size can easily be handled by the provincial departments of the line agencies.

**A PWP should target those most in need of food or cash.** A PWP needs to clearly set out who are the intended beneficiaries. Cash or food-for-work programmes are often designed to be self-targeting by setting the wage rate at or just below the current market wage. However, in the Cambodia context the food-for-work programmes have used poverty mapping, the ID-Poor programme and food insecurity tracing as the first rough guide to where these programmes should operate. There is little evidence regarding the actual impact on the beneficiaries of these programmes and it is therefore not possible to state with any certainty that the programmes are or were targeting the poorest or the most vulnerable in the rural areas.

**Linkage to other elements of the NSPS strategy.** The PWP component will provide food, cash income and sustainable infrastructure assets. There are of course other components of the NSPS which will provide support to those in need. Care will need to be taken to ensure that the PWP is coordinated with these components, in the first instance to limit duplication but also to assess how elements of the PWP can contribute to the objectives of those components. For example, increasing physical access to schools and health centres enhances the impact of health and education components of the NSPS. The Integrated Rural Accessibility Planning process, applied with ILO support in several provinces, aims to ensure that the implementation of physical infrastructure interventions is integrated with the non-physical inputs of agencies dealing with health, education and agriculture. In this way, for example, the construction of health centres is coordinated with the provision of health personnel and medical supplies.

In the case of the NSPS, therefore, the same approach can be used so that the implementation of the PWP is coordinated with the activities on cash transfers for education and health. In addition, the PWP would aim to also support the overall objectives of the NSPS by providing employment to certain vulnerable groups such as unemployed youth, single mothers and, to the extent possible, the disabled.

Source: ILO, 2012d.

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The human resources situation in Cambodia is characterized by a lack of adequate skills in most sectors. The education system remains weak and the vocational training structures are limited and concentrated in urban areas.

#### **5.4.2. Technical education and training<sup>1</sup>**

Under the Ministry of Labour and Vocational Training, the Department for Technical and Vocational Education and Training (TVET) has developed a National Development Plan aiming at strengthening the quality and accessibility of non-formal education. The plan consists of 15 policies:

1. Poverty reduction
2. Decentralization
3. Supporting enterprise growth with a skilled workforce
4. Out-of-school youth
5. Self-employment
6. Micro-credit access
7. Small enterprise support
8. Community & enterprise-based training (outreach)
9. PPP – Beneficiary financing TVET
10. PPP – Enterprise involvement in TVET
11. PPP –Expanding the provision of TVET
12. Assuring quality of TVET provision
13. Quality of TVET leadership, management & coordination
14. Labour market information
15. Skills competency standard.

The development of National Competency Standards comprises a national qualification system between general education and TVET, which enables the student to earn equivalencies. Based on the principle of accumulation of credit, students can earn certificates equivalent to those in the formal education sector. However, National Competency Standards are so far being implemented only in three main sectors: construction, ITC for business, and mechanics.

*The apprenticeship programme.* The Labour Law stipulates that all companies with more than 60 workers are under the obligation to hire 10 per cent of their staff under an apprenticeship programme. At the end of the apprenticeship, a certificate attesting the execution of the contract by both parties and the professional skill of the apprentice is to be

<sup>1</sup> This section is based on Taïeb, Kong, Ok and Schmitt, 2012.

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awarded after an official examination. An additional prakas regulates the specific application of this obligation for the garment sector.

*Coordination and responsibilities.* There is a coordination and quality assurance structure led by the National Training Board, with the Directorate General of the TVET Department and the National Employment Agency as the planning and executive branches. From the list above two main tracks can be inferred: (1) providing basic skills for the rural poor; and (2) providing demand-driven higher level skills for industrial development. Programmes include both formal training courses for which a certificate or diploma can be obtained and a range of informal training courses.

Among the challenges for TVET are the following:

*Difficulty in attracting students.* This is a common issue for many training centres. Students are reluctant to enrol into training programmes in so far as many of them face short-term financial problems and cannot afford the opportunity cost of vocational training. Besides, no food or accommodation are provided during training, which increases the costs for the beneficiaries. Vocational training centres are consequently unable to attract those who would probably need and benefit most from TVET: the unemployed, underemployed, disadvantaged, drop-outs. In addition, from the students' perspective the status of a TVET diploma or certificate is not considered equally valuable to an academic diploma, whereas from the perspective of industries the value of TVET is considered to be of high value, as it is in TVET, not the universities, that vocational, technical and engineering skills are taught.

A further point is that vocational training centres tend to be in the cities. As a result, people living outside the cities are not likely to attend the on-location programmes, all the more so as the transportation costs are not covered.

*Lack of funding.* Most public vocational training centres lack funding, while providing free training. Since they are at present entirely subsidized by the Government, finding additional sources of income (such as charging those students who can afford to pay) may be a way of ensuring the financial sustainability of the centres.

*Limited physical, human resource and financial capacity.* Most public training centres have limited coverage. The commune-based training they provide does not cover every commune; some communes are not easy to reach. Moreover, in most public training centres, there is a lack of facilities, of effective electronic systems and of regular maintenance of the building. Most facilities are not functioning as well as they could and need serious revitalization. As regards human resources, the salaries of training staff are not in line with their skills, nor are teachers provided with accommodation, means of transportation or allowances. As a result, the most skilled teachers go to the private sector.

*Lack of monitoring of post-training experience.* So far, the monitoring and evaluation systems of most training centres have been very limited. Comprehensive data regarding their capacity, funding and performance are difficult to acquire. No surveys are effectively researching, for example, how long it takes to find a job after training, how long workers stay in the job, or which graduates find jobs faster. As a result, it is difficult to reshape the programmes so as to adapt them to demand from employers and to be responsive to the labour market.

*Lack of links with industries and enterprises.* Most courses provided aim to develop skills related to cropping, post-harvesting, cooking, sewing or construction, without being linked with employers or industries. Most of the time, the industries and companies prefer to conduct their own training when they recruit employees. As a result, TVET may not respond to labour market expectations. Sometimes, after being trained, workers decide to migrate to other countries such as Thailand, where jobs are easier to find.

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There is a shortage of programmes teaching the entrepreneurial skills that are useful for starting SMEs. Besides, there is no financial support for micro-business creation – despite the fact that that this is one of the priorities of the NSDP Update 2009-2013.

Some suggestions for rendering TVET more effective include the following:

- Set up public-private partnerships and create post-training monitoring systems. Training programmes should be provided in direct collaboration with agricultural and industrial enterprises, hotels, social enterprises and so on, to ensure that the curriculum corresponds to their needs and that following their training workers can be provided with job opportunities.
- Follow up the job situation of TVET beneficiaries, to evaluate the impact of training and adjust the strategy of the vocational training centres as appropriate.
- Establish district training centres. This could be one of the services performed by the PEOPLE Service (see Chapter 6), to encourage families to come frequently to the centre.
- Ensure that benefits cover the additional costs of training, and that training centres can provide accommodation and food allowances.
- Cross-subsidize costs among students. A mechanism could be implemented whereby resources from students who can afford to pay for their courses could also subsidize poor students who are being offered free courses. This would ensure the financial sustainability of the training centres and ensure the accessibility of the vocational training programmes.
- Create technical partnerships between the training centres, which so far do not collaborate with each other.
- Last but not least, design TVET programmes tailored to the needs of prioritized industries. This is especially important (see Chapter 7 on growth diamonds).

#### **5.4.3. Other challenges in the design of ALMP programmes**

Another major item for further ALMP programme design would be to establish close linkages between active labour market measures, education and benefit schemes. Some suggestions in this direction follow:

- Social assistance for older workers could be made conditional, so that in order to be eligible for benefits such workers would either have to be in education or training, be responsible for raising small children, have a medical certificate proving incapacity for work, or otherwise be immediately available to join a public works scheme.
- Although school is free and compulsory in Cambodia, opportunity costs remain. Families have to pay additional costs such as transportation, books, uniforms, and so on. These can represent high barriers to access. Transportation is especially important for vulnerable children such as orphans, children of migrants, and families living in remote areas. It is also specifically important for girls, in so far as families are reluctant, for reasons of security, to let their daughters travel to remote schools. Provisions to compensate for these opportunity costs and barriers would help to avoid early drop-outs from the regular education system and, hence, ease the pressure on the TVET system.

- An integrated programme could be created, combining school meals and scholarship programmes with public works programmes and vocational training. MOLVT's vocational training centres could support farmers who sell rice to the programmes, in order to help them increase their productivity and develop food processing. The public works programmes could implement local irrigation projects to further support these farmers. The mothers of the children enrolled in the school could be employed to cook the meals.
- A minimum wage for teachers could be implemented, with a clear salary scale for teachers and school directors, depending on the poverty level in the districts. In addition, a grievance referral system could be created in the communities (at district and commune level) to avoid under-the-table payments and enable the reporting of such issues to higher levels.

## 5.5. Social health

The social health insurance sector remains limited and fragmented. In general, formal-sector workers have no access to any kind of health insurance, although the development of such a system is planned for 2013. As for fragmentation, there are 44 health equity funds (HEF) operating in 23 provinces and in Phnom Penh municipality, and 18 community-based health insurance (CBHI) schemes being implemented in 17 operational districts (ODs) in 10 provinces and in Phnom Penh.

In the NSPS under objective 4, four approaches have been identified:

- HEFs;
- CBHI;
- user fee exemptions; and
- health insurance schemes under NSSF and NSSFC (section 5.6)

### 5.5.1. Towards a more integrated framework for health coverage<sup>2</sup>

With the adoption of the Master Plan for the Development of Social Health Insurance in 2003, Cambodia made the first step towards a unified social health protection system. Since then, a series of national policies and guidelines have been developed to supervise the expansion of various forms of a social health protection mechanism in a coordinated way, with the ultimate goal of universal coverage. The Health Financing Strategic Framework (2008-2015), groups the various existing forms of health financing in Cambodia (government budget, user fee, HEF, voluntary health insurance) under a single coherent plan. An Annual Health Financing Report is developed every year by the Department of Planning and Health Information of the Ministry of Health (MOH) in order to consolidate information on all these financing mechanisms.

*Health equity funds.* Health equity funds (HEF) are a pro-poor health financing mechanism. They are currently the most widespread and the most effective form of social health protection provided in Cambodia, together with the fee exemption scheme. Populations identified as poor by the ID-Poor national targeting system are entitled to use the health services they need free of charge at the point of use. The HEFs are donor-

<sup>2</sup> This section is based on Taïeb, Kong, Ok and Schmitt, 2012.

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funded, with the funds covering the fees charged by the health-care facilities. It is worth noting that these fees are already subsidized by the Government.

*Community-based health insurance.* Community-based health insurance (CBHI) is based on the principles of risk pooling and pre-payment for health care. It is a voluntary insurance scheme whereby the premiums are sold at low cost to individuals and their families, who are entitled to be reimbursed for the cost of defined health services at contracted public health facilities – health centres and referral hospitals. So far, 18 CBHI schemes are being implemented in 10 provinces and in Phnom Penh.

*User fee exemption issues.* Some categories of the population are eligible for exemption from fees. However, this is not consistently implemented across health facilities. In reality, unofficial demands for payment are frequent. HEF patients may be discriminated against through the provision of lower-quality treatment or by experiencing longer waiting times before being treated. Out-of-pocket payments may be requested from them to cover medications or other costs (despite their health insurance coverage). Such out-of-pocket expenses have significantly decreased, however, since the establishment of HEF staff at the health facilities.

Beneficiaries who do not know what they are entitled to cannot appeal when health-care services are unavailable or when they are refused free access to treatment. Ad hoc monitoring procedures developed by HEFs aim to get feedback from beneficiaries. So far, however, these procedures vary across the schemes; no standard procedures have been institutionalized.

### **5.5.2. Challenges in social health**

Challenges in the area of social health include limited coverage, deficiencies in benefit levels, low take-up, limited portability and low quality of service.

*Coverage.* To date, most of the population remains uncovered. The formal private sector and the civil service have no access to any kind of social health protection. Besides, all the existing health schemes fail to have a substantial outreach; broad coverage gaps remain. For example, the ID-Poor methodology fails to capture statistics on vulnerable people such as the urban poor, migrant workers and homeless people.

These issues do not apply to CBHI, as these schemes operate on a voluntary basis under a self-targeting system. However, it is worth noting that the CBHI schemes have very limited coverage rates; this reveals the difficulties in enrolling vulnerable households.

*Benefit inadequacy.* The specific needs of some vulnerable people are not taken into account in benefit packages (neither of HEFs nor CBHIs). This pertains in particular to the disabled, pregnant women, and the elderly, who have specific needs for transportation which are not accommodated in the scheme.

Some CBHI schemes exclude a list of specified high-cost treatments. Currently, the Cambodian Association for Assistance to Families and Widows (CAAFW) does not cover the referral of patients to high-level facilities (for instance, national hospitals). Thus, the highest level of care provided is at provincial hospitals.

*Low take-up.* Even for those covered by insurance, other barriers to access may remain, such as lack of information and awareness among the potential beneficiaries about their entitlements. In some CBHI cases there is also a lack of understanding of the benefits of social health insurance: the schemes have difficulty in convincing households to enrol, and they easily drop out. For example, having paid a premium in one month during which they



did not need to use the health facilities, households may not register the following month. This is reflected in the high drop-out rate from the scheme.

*Portability.* CBHI schemes are not portable: households registered under a scheme in a specific district will not be covered if they have to move to another district. Since the CBHI schemes operate under different organizations, their payment mechanisms are not harmonized, which makes it difficult to ensure portability. While beneficiaries of HEFs are theoretically covered anywhere in the country, some practical issues arise in so far as the schemes are managed by different operators in different areas.

As regards CBHIs, the guidelines developed by the Ministry of Health (MOH) are not consistently implemented across all schemes. There is thus a critical need to further strengthen the implementation of the CBHI guidelines in more consistent and coordinated way.

*Service quality.* At the provincial level health facilities appear to be insufficient. Existing facilities lack modern equipment such as delivery rooms, waiting rooms, updated water systems and so on. There is a lack of health personnel. The transportation infrastructure is in bad repair, preventing people from reaching health-care facilities easily.

### 5.5.3. Some suggestions for reform

One of the main items on the agenda would be to align the HEF and CBHI schemes through a harmonization of processes. This would include the development and application of a common benefit package to be guaranteed by all the different HEF and CBHI programmes. Further, it would be good to establish a checklist of services and interventions that should be available at the different health-care facilities; to ensure that staff are sufficiently trained and available to provide at least the services included under the benefit package; to inform beneficiaries about the guaranteed benefit package; and to establish control/monitoring and appeals mechanisms (for example a hotline). A list of the services available could be displayed on the door of the hospital or health centre, with the fee charged for each service clearly marked to increase transparency. This alignment of the schemes should be conducted through an accreditation system, for example by further implementing the CBHI guidelines.

Another item on the agenda would be the harmonizing of the financial mechanism. The ILO (2012c) has calculated the costs of extending HEF coverage to all poor, nationwide. The total cost is estimated at US\$13.7 million for the year 2012, an amount equivalent to about 0.1 per cent of GDP (see table 5.6). The relative cost of extended HEF coverage is projected to decrease to 0.06 per cent of GDP by the year 2020, due to the projected decrease in poverty and the assumption of sustained GDP growth over the period. The average cost per capita of HEF coverage is projected to increase from US\$3.97 in 2012 to US\$8.85 by the year 2020 due to an assumed increase in utilization and taking inflation into account (ibid.).

**Table 5.6. Costing of NSPS measures: Extending social health protection, 2012, 2016 and 2020 (percentage of GDP)**

Programme	2012	2016	2020
Extending social health protection (all poor)	0.10	0.09	0.06

Source: ILO, 2012c.

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## 5.6. Further extension towards social insurance schemes

The Labour Law (1998) provides the legal framework for the protection of workers and employees. It applies to all wage employees in the private sector, with a number of exceptions which include civil servants, the armed forces and police, the legislature and domestic workers.

The law on social security schemes for persons defined by the Labour Law was passed in 2002 and stipulates the establishment of a social security scheme for private-sector employees. Benefits to be provided under the scheme include pensions, employment injury benefits, and other benefits as relevant. In addition, there are separate regulations that relate to social security benefits for specific groups: civil servants, the armed forces and police, and veterans.

The National Social Security Fund (NSSF) covers employment injuries and occupational diseases (including provisions for medical servicing, funeral costs and survivor pensions). So far, the Fund covers workers in enterprises with eight employees or more, with an extension of coverage to workers in smaller enterprises envisaged in the future. Under the NSSF some 480,000 workers are covered, of which almost 80 per cent are working in the garment sector. Further extensions under the NSSF planned for the near future are social health insurance (including maternity and sickness benefits) towards the end of 2012, and pensions in 2015. The determination of the conditions, contribution mechanisms and benefit entitlements for these schemes still needs to take place.

This National Social Security Fund for Civil Servants (NSSFC) was established in 2008. The legal framework is the Law on the Common Statute of Civil Servants (1994) and some other regulations (see Annex II, from ILO, 2012b). Some 175,000 civil servants are covered together with their families – a grand total of 675,000 persons. The range of contingencies currently covered includes sickness, work injury benefits, maternity benefits, retirement benefits, invalidity benefits and death benefits. There are plans to extend the range of contingencies covered with social health insurance. So far, these benefits have been financed from general revenues; there are plans to turn it into a contributory system but this has not yet been implemented.

The third social insurance (SI) scheme in place is the National Fund for Veterans (NFV). This has been established even more recently, in 2010. It covers the same contingencies as those covered under the NSSFC, albeit with some further provisions. With respect to funding, the same applies as with the NSSFC.

Only private-sector workers and civil servants have access to most of the benefits, through NSSF and NSSFC. And only companies with more than eight employees are liable to offer them NSSF benefits. Furthermore, NSSF tends to have its local offices in the major cities, which makes it more difficult to register enterprises in other districts. This further reduces the proportion of persons covered.

The benefits provided are far from sufficient to respond to the needs of the people. Moreover, the time between the occurrence of a situation that is covered under a specific scheme and the time of the actual transfer of the benefit can sometimes be extensive.

On the implementation side, social evasion is an issue: some companies appear reluctant to register. As regards NSSF, even when registered under the scheme some companies under-report the number of their workers. Another issue relates to the under-reporting of accidents. Even when reported, there may be delays between the occurrence of the accident and the actual report to NSSF. This points to a need to strengthen the monitoring system.

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From this overview of the current state of affairs it can be inferred that there remains much work to do on the extension of SI schemes. This would include (i) the number of workers covered under existing schemes; (ii) the range of contingencies covered; (iii) specific conditions (eligibility, contribution and benefit levels, and duration); and (iv) the need to establish an improved monitoring and supervisory infrastructure.



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## 6. Implementing the NSPS and NES strategies

### 6.1. Introduction

Integrating the employment and social protection strategies is an important aspect – but in the end the most crucial part will be to establish a service network that can deliver all these services in an integrated manner at the individual and household level throughout Cambodia. This chapter will discuss the main elements to be considered.

### 6.2. Tasks and role of the National Employment Agency

The recently established National Employment Agency (NEA) has a major executive role. It is responsible for the matching of supply and demand. This includes: (i) identifying infrastructure projects in cooperation with the responsible ministries and local or regional authorities and identifying individuals who would be eligible for enlisting under a PWP in cooperation with benefit agencies (for example local governments); and (ii) identifying current and future sector skill demands in cooperation with employers' and workers' organizations, and identifying education institutes which can deliver targeted skill upgrading programmes.

#### 6.2.1. Challenges

*Lack of labour market information system.* There is still a lack of information about the labour market in Cambodia and a limited understanding of the needs of the corporate sector.

*Job placement centres still have limited impact.* The registration of companies and vacancies is still limited and needs to be expanded. Moreover, firms appear still reluctant to hire applicants through the job placement centres because of doubts about their skills. The NEA therefore needs to increase its communication with the public and to build trust among both jobseekers and employers.

*Outreach to remote areas.* The job placement centres face difficulties in registering people living in remote areas.

*Capacity building.* The job placement centres still need to strengthen the capacities of their staff in how to provide career and vocational guidance, and in how to collect and process information on the beneficiaries and more broadly on the labour market.

*IT infrastructure.* So far, the NEA has no management of information system (MIS). It is currently looking to develop software that would formalize most operations performed by the job placement centres, but this has yet to be implemented. In the absence of such an MIS, monitoring and evaluation remain limited.

*Migrant job placement.* There are many issues related to the migrant job placement agencies. It is very difficult to monitor these agencies, which are sometimes unreliable. They tend to charge high prices and send workers abroad without following up; in addition, applicants are ill-informed on the risks they may face in deciding to migrate.

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## 6.2.2. Recommendations

*Link the job centres with public works programmes.* People registered under the public works programmes should be automatically entered into the NEA database as workers looking for a supplementary income. Public works programmes are potentially a very efficient mechanism for mass registration. There has so far been no coordination on this issue between the Ministry for Rural Development (MRD) and the Ministry of Labour and Vocational Training (MOLVT).

*Register companies at the NEA.* The ILO provincial-level consultation report lists some examples which indicate that there still are major gaps. For example, the job centre in Siem Reap has not yet contacted Apsara Authority, although the Authority is one of the main employers in Siem Reap city. Today, workers in the temple are employed and trained by Apsara and are hired locally from the region. Employees include, among others, those in charge of conservation in the temple, or housekeeping – there are about 2,000 housekeepers. However, when a department decides to recruit new employees it publishes an announcement in the press rather than getting in touch with the job placement centre in Siem Reap.

*Create public-private partnerships.* There is a need to adapt vocational training to a labour market demand. First steps in this direction should identify promising economic sectors in the provinces, select relevant companies that will need to recruit massively in the coming years, identify their needs and involve them in the establishment of training programmes through the provincial training centre (including creation of the curriculum, facilitation of the programmes), with the guarantee that they will employ the workers at the end of their training.

A further avenue to explore could be the subcontracting of programmes to not-for-profit organizations or, even further, to commercial service providers. The NEA would act as the commissioner of services and still be responsible for the coordination and service quality. Australia, the United States and a number of countries in Europe have experience of this service model. The rationale for Cambodia would be that it is less time-consuming to contract the required skills than to develop them. Should it be decided to follow this path, specific capacity building at the NEA will be required in commissioning skills (writing invitations to tender, drafting contracts, contract management, and so on).

## 6.3. Services delivery: The PEOPLE Service <sup>3</sup>

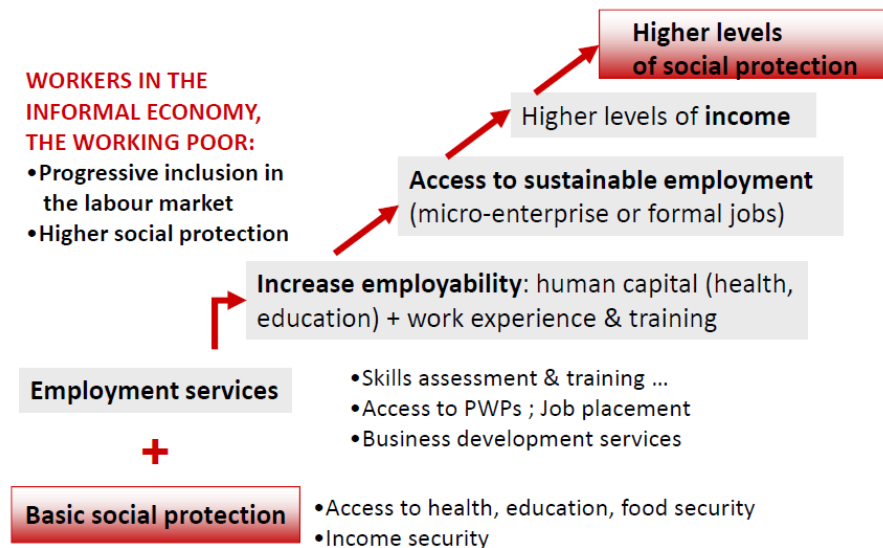
Many developing and middle-income countries in the Asia-Pacific region are exploring the implementation of social protection floors and have employment generation and decent work at the heart of their development agenda. However, existing programmes often face challenges of outreach and effectiveness, and the services are not always delivered to the most vulnerable and the poor. The institutions in charge of these programmes do not sufficiently coordinate their interventions and do not have at hand the necessary information systems to monitor and evaluate policies and programmes.

In the framework of the decentralization processes, local governments at district and commune levels need to play an active role in the implementation and oversight of social protection and employment policies and programmes. There is also an increased need to provide a framework and practical solutions to effectively address the absence of social protection and economic security encountered by informal-sector workers and the poor.

<sup>3</sup> This section and section 6.4 are based on Schmitt, Taïeb and Satriana, 2012.

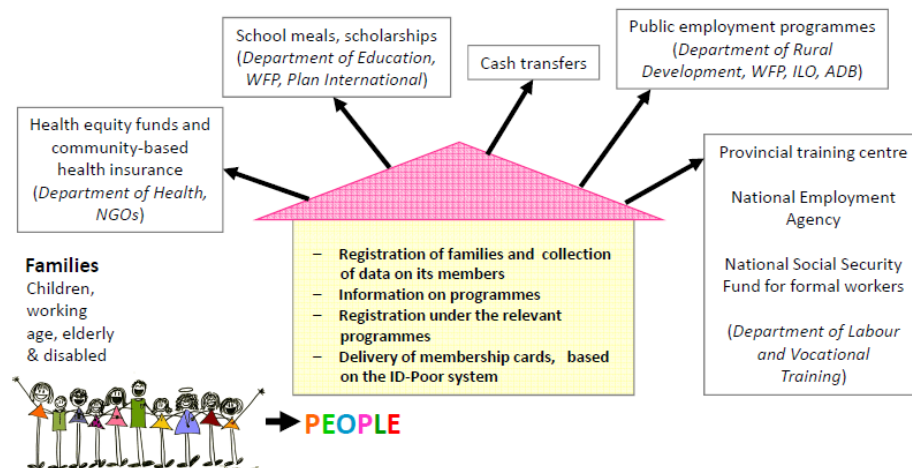
The integration of social protection and employment services would provide beneficiaries with opportunities to progressively graduate from being mere receivers of basic social protection to finding a decent job and being able to contribute to social security (see figure 6.1).

**Figure 6.1. The staircase to higher levels of social protection**



In Cambodia, the ILO is piloting an innovative mechanism that intends to better coordinate, monitor and deliver integrated social protection and labour market interventions. It is called the PEOPLE Service (see figure 6.2). The service was adopted as the central implementation mechanism of the NSPS by the Social Protection Coordination Unit.

**Figure 6.2. The PEOPLE Service**



The PEOPLE Service has five objectives:

1. Provide a coherent framework for the implementation of the NSPS and facilitate coordination between line ministries.
2. Simplify procedures and develop synergies between the components of the NSPS, reduce costs, share administrative tasks: (registration, vulnerability assessment, skills assessment, etc.).

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3. Empower subnational levels: the PEOPLE Service will be established at district and commune/sangkat level. The districts and communes will be involved in its design and oversight.
  4. Facilitate the establishment of a monitoring and evaluation system through a common database of beneficiaries, based on ID-Poor.
  5. Facilitate access to existing social protection schemes for those families who lack access to information and services. The offices will be close to the people, at district and commune level.

The PEOPLE Service would be an office within government structures at local level, bringing social protection and employment services together under one roof. It would be administered at the subnational level and linked with the central level through different layers of reporting. It would identify poor households, assess their vulnerabilities, register them under the relevant social protection and employment programmes, update the poverty/vulnerability databases (for example ID-Poor) with information on the utilization of social protection and employment programmes.

Tailoring services to individual needs, the PEOPLE Service would facilitate access to adequate social protection and employment services, channel information on all the social services people are entitled to, provide support in the registration under the schemes, deliver social protection ID cards, facilitate access to benefits in cash or in kind and collect contributions, if any. It would represent the interests of the final beneficiaries through a grievance referral system and contribute to the increasing availability and quality of social services.

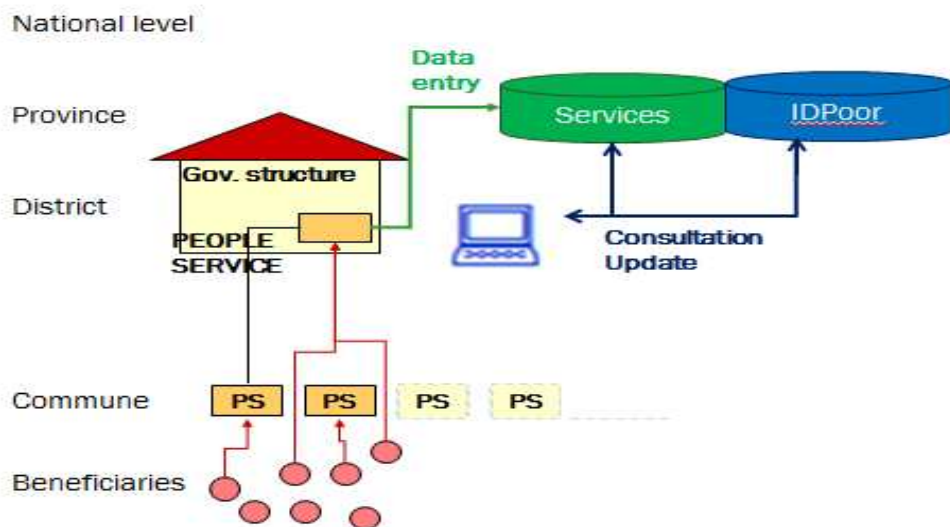
Through giving local communities a role in implementation and oversight, the service would also help to empower them and contribute to the decentralized administration of national social protection strategies.

An integrated information system, using the latest technology available such as fingerprints, Smart cards and Internet-based platforms would allow governments and implementing institutions to track the beneficiaries and monitor their coverage, their progressive inclusion in the labour market and the impact of the services on poverty reduction. It would also contribute to building a coherent system, limiting overlaps and fragmentation of the schemes in place and by doing so improving their efficiency.

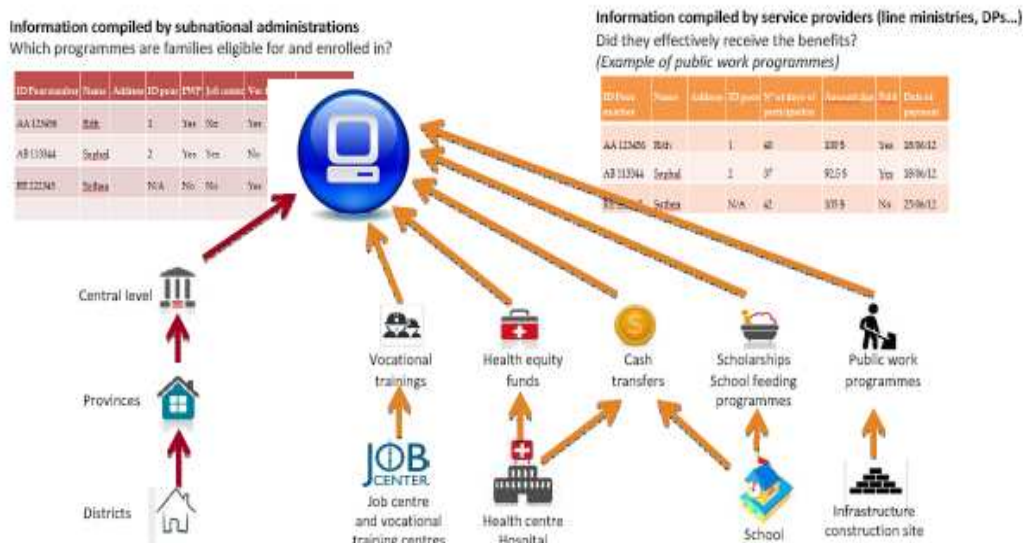
The PEOPLE Service would increase synergies between existing programmes through the sharing of some administrative functions and by creating or reinforcing development linkages between programmes. It could find benefit recipients for participation in ALMPs, and could become the link between the beneficiaries at commune level and the job centres in the cities, collecting data on jobseekers and transmitting the information to the job centres through the integrated database. Moreover, it could contribute to the establishment of a single database between TVET and the job centre's database. This database could also be linked to the NSSF database.



Figure 6.3. The harmonized database



- Connecting information from 2 different sources
- Based on the same identification number
- Verification of coherence and cross-checking
- Identification of issues and reporting



### 6.4. Coordination at the ministerial level

Implementing the NSPS is a challenging venture, and will become even more challenging after the NES has been formulated. NES activities will need to be coordinated and integrated at the operational level with the activities under the NSPS. The integrated SP/EP framework will require a coordination board to be established at national – that is, ministerial – level:

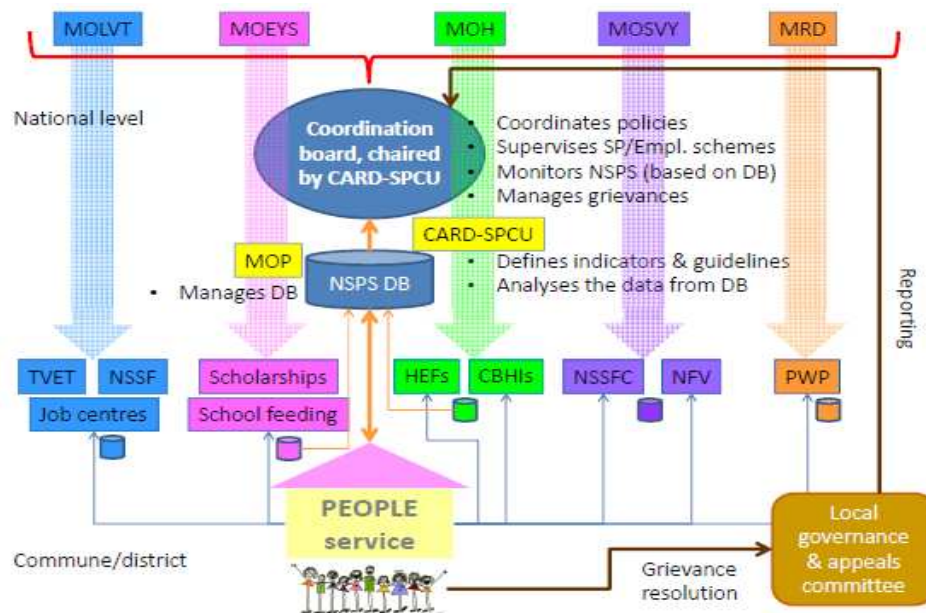
- Composed of representatives of all line ministries (the social protection task force comprising 11 line ministries), representatives of the provincial governors and final beneficiaries (the people), the board would be chaired by CARD-SPCU.

- The functions of this board would include (i) sharing of information and coordinating policies; (ii) establishing a list of indicators to monitor the NSPS/NES and extension of coverage; and (iii) establishing assessment protocols of the impact of the integrated NSPS/NES on poverty reduction, productive and remunerative employment and other indicators.
- CARD-SPCU would use the information from the consolidated database managed by the Ministry of Planning.

This leaves existing line responsibilities intact. The line ministries would implement their own policies through the relevant institutions and agencies, as shown in figure 6.4:

- Ministry of Labour and Vocational Training (MOLVT) → NTB, TVET, NEA, job centres, NSSF
- Ministry of Education, Youth and Sport (MOEYS) → scholarships and school feeding
- Ministry of Health (MOH) → HEFs, CBHIs
- Ministry of Social Affairs, Veterans and Youth Rehabilitation (MOSVY) → NSSFC, NFV
- Ministry for Rural Development (MRD) → PWP

**Figure 6.4. Outline of the coordination structure**



At commune/district level, a grievance and feedback mechanism would ensure that issues of access to services or availability of the integrated package would be solved. A direct mechanism would ensure that grievances can be reported to the provincial and central levels.

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## 7. Integrating NSPS and NES strategies: Growth diamonds

### 7.1. Introduction

This chapter elaborates the idea of “growth diamonds” – a concept which helps to concentrate and coordinate policies within various ministries and in different areas. Growth diamonds provide a focus: targets can be set and milestones defined. It is in the identification of these growth diamonds and in the assessment of the needs for these sectors to develop their economic potential that the NES could contribute in a very practical sense to the existing strategic framework.

Growth diamonds would be identified in economic sectors in which Cambodia could achieve a competitive advantage in the near or more distant future. This would require a careful coordination of policies targeted at these sectors.

#### 7.1.1. *Providing a competitive advantage*

First, some explanation is warranted on what is meant by “competitive advantage”. It is a more encompassing concept than just “comparative” advantage, which usually refers to a static endowment that enables countries to produce at lower costs than other countries. Examples of such comparative advantages are natural endowments (oil, arable land), or low factor costs (such as low wage costs). These advantages, however, tend to vanish over time. Natural resources become depleted at some point and low wage costs will disappear when economic wealth increases. Comparative advantages that are not renewed will lose ground in the long run. An example are labour costs in the industries in the Republic of Korea, Taiwan (China) and Hong Kong (China) in the 1970s and 1980s, or coastal China in the 1990s. Over time, the advantage of low wage costs tends to shift to other countries in the region or to areas further away from the coast, as in the case of China. The challenge for these industries therefore – and, indeed, for these countries – is not how to maintain low labour costs, but how to become more productive.

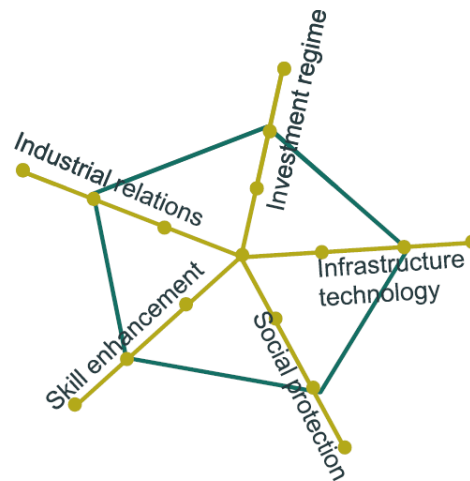
Competitive advantage, on the other hand, is deliberately created and requires continuous nurturing – it is, therefore, a much more dynamic concept. Well-known examples are the competitive advantages acquired by countries such as the Republic of Korea and Taiwan (China) in terms of skill-intensive industries. Skilled labour was unavailable when these countries staged their economic take-off. It required an enormous and concerted effort in terms of planning and resource mobilization to build the required human capital, and the role of government in facilitating this has been crucial to the success of these economies. The combination of government policies directed towards skill enhancement (education), the investment climate (tax and regulatory relief policies), infrastructure improvement (harbour construction, transport logistics), and various social policies were the drivers of productivity growth.

#### 7.1.2. *What are growth diamonds?*

Growth diamonds are economic clusters guided by well-coordinated government policies. The concept is loosely based on the work of Michael Porter, who describes how clusters of economic activities can be mutually reinforcing and can drive performance to international competitive levels (see, for example, Porter, 1985). In the work of Porter the existence of home markets is also an enabling factor, but the development of competitive industries is not conditional upon this condition, as the successes of Singapore and Hong Kong (China) illustrate. Their industries were set up to cater for international markets (notably the United States and Europe) and the development of a domestic consumer market only came later.

An important element of the growth diamond concept is that it helps to concentrate and coordinate policies within various ministries and in different areas. Figure 7.1 provides an example.

**Figure 7.1. The “growth diamond” and its dimensions**



On the five axes of the diamond the main policy areas are defined. For example, in an integrated employment and social protection strategic framework the following five dimensions could be identified: (1) the investment regime, including the various regulations and tax incentives that are aiming to stimulate investment in a certain sector; (2) infrastructure and technological improvements; (3) social protection schemes and programmes – both universal and tailored to the specific sector (for example, social insurance schemes); (4) skill enhancement programmes (for example TVET programs), and (5) the industrial relations regime.

Together, the five dimensions would constitute a strategic agenda for a specific sector. Targets can be formulated and progress measured in each dimension, as shown in figure 7.1 where the various points on the axes could be the milestones – for example, those listed in the roadmap. Over time, as these milestones are achieved the growth diamond becomes larger.

## **7.2. Example of a growth diamond: Rice production**

The identification of Cambodia’s future growth diamonds is a task that could be taken up in the NES. Several economic sectors have the potential to become growth diamonds: rice production, the silk manufacturing industry, rubber plantations, agro processing and the hotel sector, to list just a few. To have SMEs spread across the sectors could be a focus in itself. This section will start with a tentative elaboration of the idea for the rice production sector (see figure 7.2).

Table 7.1 shows the various dimensions (corresponding to the branches/axes of the growth diamond).

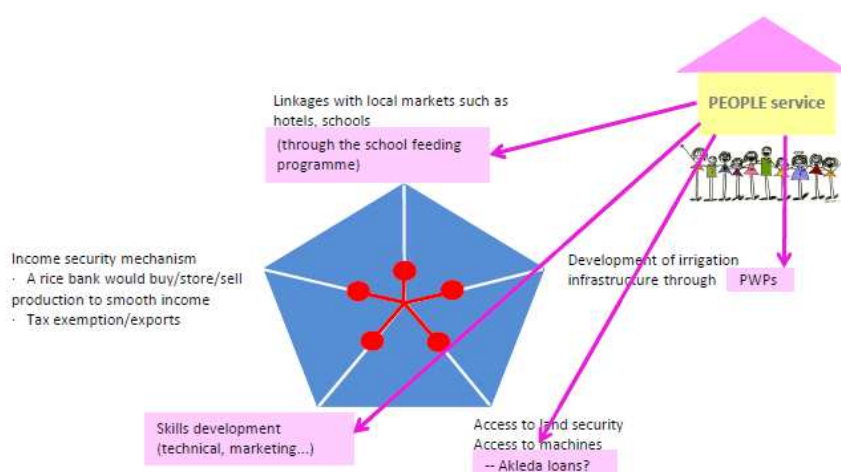
**Table 7.1. Application of the growth diamond concept to the rice production sector**

Branch of the diamond	Example	Social protection and employment services (NSPS/ES)
Technical conditions	Development of irrigation infrastructure through PWP	PWPs
Economic conditions and legal constraints	Access to land security (enforcement of land reform) and to assets (capital/machines)	Income security for those of working age
Social requirements	Establishment of a rice bank which would buy/store/sell the production and smooth the income of rice producers	Income security for those of working age
Human capital requirements	Skills development (technical, marketing, etc.)	Vocational training
Economic conditions and social requirements	Linkages with local markets such as hotels and schools (through the school feeding programme); tax exemption to facilitate exports	School feeding programme  Income security for those of working age

Source: Schmitt and Taïeb, 2012.

Moreover, the diamond can be linked to the combined benefit packages that can be designed at national level. These combinations of social protection and employment services would contribute to economic growth, the generation of productive and decent job opportunities, and the reduction of poverty by reducing the share of households in vulnerable circumstances. Figure 7.3 provides an illustration.

**Figure 7.2. Linking the PEOPLE Service to the growth diamond**



## 7.4. Conclusion

As we have seen, Cambodia needs an emphasis on pursuing progress in the four indicators of MDG target 1b: that is, the incidence of working poor, the employment-to-population ratio, the proportion of vulnerable population, and enhancing labour productivity. Facilitating the growth of paid formal-sector jobs in the private and public sectors is crucial in this respect.

The current labour market in Cambodia is characterized by a limited formal sector and huge disparities in access to better-paid jobs and training facilities between males and females, various age groups and skill levels. Facilitating the transition to decent, productive and remunerative employment will also help to make progress on the objectives which have been formulated for the NSPS. Failing to address both sides of the same coin simultaneously and in a consistent and coherent manner will at the end of the day lead to inefficiencies and a suboptimal use of public resources.

The growth diamond concept can help to avoid this and to build on Cambodia's outstanding record of the last decade.



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## Annex I

### **Cambodia: Toward a national employment strategy for sustained poverty reduction**<sup>4</sup>

1. The study has attempted to contextualize the significance of planning for the generation of productive employment as critical to sustainable reduction of poverty. While growth is indeed a necessary condition, it will not by itself yield satisfactory poverty outcomes since the relationship between growth and poverty incidence is not always straightforward. A key lesson that is often derived from historical experiences and empirical evidence from contemporary development is that growth that generates productive jobs is more likely to reduce poverty than when growth is jobless. In order to pursue an employment-friendly growth strategy, there arises the need for articulating and embedding a National Employment Strategy (NES) in the development framework of a country.
2. Cambodia's pursuit of attaining the MDGs also warrants that it develops a strategy toward the achievement of target 1b, i.e. the goal of "full, productive employment and decent work". This, in itself provides a strong rationale for designing and formulating a National Employment Strategy.
3. Further, while a NES would likely remain a medium-term goal, it will need to be complemented by a strategy of gradually extending social protection and safety nets (e.g. the ILO's minimum "social protection floor") in order to support income and employment entitlements of the poor and vulnerable. Development planning, in the post-crisis era, will need to shift policy measures to address the twin objectives of promoting productive employment and improving social protection. This study focuses largely on the relevance and construct of a NES in Cambodian development planning.
4. Cambodia is staunchly committed to attaining the Millennium Development Goals (cf. *The Rectangular Strategy*; NSDP *Update 2009-2013*); in particular to reducing poverty. The country's rapid growth since the late 1990s until about 2007 has been associated with tangible reduction in poverty, whether defined by the national poverty line, or by the globally standardized US\$1.25 per day. Regarding the other MDG goals and their indicators of target achievements, the results provide a mixed picture. Some indicators, such as female-male enrolment ratios in primary and secondary education, are on track, while others, such as infant mortality ratios, are not so. Heightened public interventions will be necessary to ensure that some of these MDG goals are achieved by 2015. The focus of this study is, however, on the MDG goals of poverty reduction, and of attaining full productive employment and decent work.
5. The country's recent success with poverty alleviation is impressive. Nevertheless, it needs to be noted that the poverty incidence still remains high, especially in the rural areas, in particular regions, and among particular groups of population such as the self-employed farmworkers and the domestic workers. Moreover, the "poverty gap" measure tends to show that there exists a large percentage of vulnerable population in Cambodia, especially those close to the poverty line. Further, the economy has been, in the recent years, experiencing a rise in income inequality, which may likely slow down the progress in poverty reduction unless high growth rates bring about a rise in mean income of the vulnerable groups.

<sup>4</sup> This annex reproduces the executive summary from ILO, 2011.

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6. As observed, the economy, by and large, pursued a growth-induced poverty alleviation strategy. Here, the study underscores the need for a rigorous analysis of the channels through which growth induces positive poverty outcomes. Furthermore, now that growth has been adversely affected by the recent global crisis, and that poverty incidence and vulnerability have likely risen, doubts are being expressed on whether, and how soon, the economy could return to high growth of the recent past. The *NSDP Update 2009-2013* appears to address these doubts; it has revised the growth rates sharply down, to an average of 5-6 per cent, from the double-digit growth attained in the recent past. This is likely to slow down job generation and poverty elevation.
  7. More significantly, the crisis has provided policy planners a pause for reflecting on the very growth strategy of Cambodia. Thus far, it has followed, like many of its East Asian and ASEAN neighbours, a labour-based, export-orientated growth strategy. While this has resulted in some early successes, e.g. the rapid growth in garments exports (and hence jobs and enterprises), analysts attribute this to a number of fortuitous circumstances (guaranteed markets, especially the US; global boom of 2002-2007), and an overdose of incentives, policies and resources directed to attract FDI. One thus observes FDIs accounting for the bulk of the investment in garments sector. The study points out that the East Asian export-orientated growth was not simply labour-based; it was designed with backward-forward linkages and with concomitant policies to encourage appropriate factor use, domestic investment, entrepreneurship and skills to capture the markets. These economies pursued a broad-based, employment-generating growth strategy, which was supported by an export-oriented industrialization strategy. The export sector in Cambodia, with little presence of domestic investment and skilled workers, is yet to manifest such industrialization dynamics.
  8. In fact, the *NSDP Update 2009-2013* provides an implicit recognition of the need to move towards a broad-based development strategy, without forsaking the goals of macroeconomic stabilization and openness of the economy. Thus, much greater emphasis is being placed, quite rightly, on rural development; this is a shift from poverty reduction being seen simply as a function of growth to being contingent on the patterns of growth. It remains to be seen how a broad-based development strategy evolves in Cambodia, and how the intended goals and targets of the new plan are implemented, to bring about much-needed diversification and structural change. It is within the framework of such a renewed development outlook that a national employment strategy would help articulate and enhance the employment content of growth. After all, it would be the growth of wage-based employment, and mobility of labour to higher-productivity jobs, that would likely indicate the process of structural transformation of the economy.
  9. In order to design and formulate an NES, it is foremost necessary to understand and assess specifics of the employment and labour market situation. The study has provided some insights on the employment challenges of the economy, and on its labour market dynamics. During the decade 1998-2008, there appears to have been a significant growth in employment, with wages being pushed up in certain sectors. The study argues that since current unemployment is low at 1.6 per cent, the reduction of unemployment cannot be a meaningful *policy target*. Also interesting to note is the coexistence of low unemployment with a high incidence of poverty and low levels of productivity. This implies that most of the jobs created during the decade are neither adequately remunerative nor productive. Useful policy targets could instead lie in pursuing *progress* in the four *indicators of MDG target 1b* (namely, the incidence of working poor, employment-to-population ratio, proportion of vulnerable population, and labour productivity); and/or facilitating and monitoring the *growth of paid formal sector jobs* in the private and public sectors. The study cautions that one needs to be mindful of definitional problems of the MDG indicators, especially regarding vulnerable population, and of the need to design indicators of targets and progress. In the case of the latter, i.e. the growth of formal sector jobs, this will depend on the economy's growth patterns and structural transformation. Currently, the



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Cambodian labour market is characterized by a limited formal sector, with the bulk of employment being in the informal economy. The youth share in total unemployment is relatively high. Women's employment-to-population ratio is increasing, but there exist significant disparities in access to training and education, and better-paid jobs.

10. Employment generation is a complex phenomenon, and is influenced by the entire range of economic and social policies; hence, the design and formulation of a national employment strategy would need to be conducted as an *integrated approach*, possibly through an inter-ministerial platform. Macroeconomic policies, sectoral and social policies, skills development programmes, labour and social protection policies as well as institutional reforms and regulatory frameworks need to be closely reviewed in order to formulate the necessary reforms toward an articulated employment strategy, and an Action Plan.
11. In the above context, the study has cursorily examined some of these policies. The macroeconomic policy stance of Cambodia is perceived to be conducted within the framework of the Washington Consensus, and is overwhelmingly concentrated on the goal of macroeconomic stability. Such other goals as employment generation and/or social protection do not feature in the macroeconomic framework. Even on the stability goal, due to the highly dollarized nature of the economy, use of the traditional instruments is restricted. Inflation targeting is done not through variations in policy rates; NBC has limited intervention, except through buying/selling of US dollars to regulate money supply. Often the fiscal levers are used to control investment and consumption to stabilize prices. Since such stability is yet to generate a momentum in domestic investment, the study calls for a prudent use of fiscal policy for expanding *social* and *physical* infrastructure, and an appropriate monetary/credit policy for boosting investment and employment generation.
12. While Cambodia has registered rapid employment growth, most of this has taken place in low-income, low-productivity activities. An indicator of this is that the employment share in the modern industrial sector is still quite low, implying that the economy, despite rapid growth, is yet to witness any major structural transformation. The study examines the potential of selected sectors (agriculture, industry and trade, construction, and services) toward employment generation. Sectoral strategies need to be reviewed in the light of the economy's comparative advantages, such as through the capacity utilization and increasing productivity and incomes in land-intensive production and exports. The *NSDP Update* in this context has enhanced allocations for rural development which is likely to improve the earnings and job prospects of the rural poor. This study notes that while agriculture growth has been increasing in the recent period, its productivity remains low compared to that in the ASEAN countries. Cambodia can invigorate productivity and labour absorption in the sector both through the development of small-holder farming and through large-scale production, including forestry development and plantations. This would require addressing several constraints, such as moving to multiple-cropping, use of high-yielding varieties, dedicated public policy and expenditures on expansion of irrigation, facilitation of access to credit, inputs and training.
13. The industrial sector in Cambodia is expanding, greatly spurred by the rapid growth of the garments sector. However, its employment share, though increasing, is still very low (8 per cent!) to effect any structural transformation, e.g. through inducing labour from low-productivity to high-productivity sectors. The industry sector will require diversification, which, in turn, is necessary for a diversified export portfolio. Aggressive attention is needed to encourage domestic entrepreneurs, and specifically the small and medium enterprises. The high proportion of expatriate workers as currently exist in the high-end jobs in the export industries needs to be brought down through a well-designed programme of Cambodianization of targeted skills. The study contends that Cambodia's export competitiveness does not necessarily rest on cheap labour, but on enhancing productivity and skills competitiveness. For micro- and informal enterprises, MFI loans need to be boosted, various barriers (such as collaterals) need to be removed, and access to credit,

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technology and training facilitated. Skills policies need to be further tuned to reduce mismatches in the job market, and to support youth and women to enhance their employability in better-paid jobs.

- 14.** The study has maintained that Cambodia needs to articulate and develop the existing labour policy, in order to complement the NES. The LM regulatory framework, guided by the Labour Code 1997, and the institutions needed to enforce the regulations, would need to be further strengthened and expanded, including those of the workers' and employers' organizations. On ALMPs, various elements exist, such as employment interventions (public works, etc.), formal and non-formal training establishments, and the newly initiated public employment services. A streamlining and coordination of ALMPs (such as the "active employment policies" in China) is warranted.
- 15.** Country experiences of Europe have shown how policies toward full employment and social protection need to go hand in hand in the development and institutionalizing of social welfare. In Cambodia, with a low proportion of market-based formal job creation, and with severe constraints on the budget, it has been difficult to embody such policies in the planning framework. Social protection, in the traditional sense, is still in its very early stages even in the formal sectors, and will require major efforts and resources at institution and capacity building. A National Social Protection Strategy (NSPS) has recently been enunciated, but whose implementation and finance mechanisms are yet to be spelt out. The study observes that some of the sub-elements of the NSPS could be synergized through establishing interrelationships between employment and social protection programmes. Through "solidarity" and "redistribution" principles, the NSPS will need to raise resources and set up an implementation mechanism to be able to pursue its mandate to extend social protection to all who are poor and vulnerable. The present study further contends that it would make good economic sense for the Government to enhance its fiscal space and expand public expenditures in order to boost employment and social protection.
- 16.** In conclusion, the study recalls the importance of employment-friendly growth strategy not only for a sustained reduction in poverty, but also to effect structural transformation in the economy. This would require policy reforms and policy shifts towards a broad-based development strategy that engages the labour of the poor in a productive, remunerative way. Such a strategy would also require coordinated social protection and safety net measures in order to support the vulnerable, to sustain the employment and income gains of growth, and to move toward a full-employment society. The RGC, through its *NSDP Update 2009-2013*, has given recognition to the need for a renewed framework of growth and poverty alleviation. The study maintains that an employment generation strategy would need to be embedded in this framework to move towards achieving the MDGs, to which the RGC is fully committed.

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## Annex II

### Cambodia: Social protection expenditure and performance review<sup>5</sup>

The Social Protection Expenditure and Performance Review (SPER) presented in this report was carried out under the EU-funded ILO project “Improving Social Protection and Promoting Employment Policies in Cambodia” during 2010 and 2011. SPER is a diagnostic tool developed by the ILO that aims to establish a comprehensive overview of a country’s social protection system. It comprises an assessment of the country’s demographic, economic, and labour market context, and of the main social protection schemes in terms of coverage, expenditure and benefit levels. The main objectives of the exercise are to assess system financing, to identify coverage gaps, and to discuss policy issues for consideration by national policy-makers.

Cambodia’s population is estimated at 13.4 million according to the last population survey undertaken in 2008. With a median age of only 21.0 in 2008, the population of Cambodia is young on average. Children aged under 15 represent about 34 per cent of the total population, whereas the elderly aged 65 or above make up only about 4 per cent. The total fertility rate is still high at 3.1, although it shows a decreasing trend; the population growth rate is estimated at 1.5 per cent per annum. At 62.5 years on average, life expectancy at birth is relatively low, mainly due to high child and infant mortality rates. The majority (80 per cent) of Cambodia’s population still live in rural areas, while only 20 per cent are urban dwellers.

With a high labour market participation rate of about 78 per cent among the population aged 15 and above, Cambodia’s economically active population in 2008 was estimated at approximately seven million persons. Total employment that year was estimated at 6.8 million persons, including about 2.9 million unpaid family workers. Among the 3.9 million paid workers in 2008, about 1.2 million were paid employees, whereas the remaining 2.7 million were self-employed or own-account workers. Despite an increasing trend in formal-sector employment, a high share of employment remains informal, with workers uncovered by social protection provisions. The share of employees in the formal economy is estimated at 17 per cent of total employment including public administration and defence. Given the steady expansion of formal types of employment, there is a window of opportunity for the extension of social security through employment-based social insurance provisions. Nevertheless, since employment formalization is a slow and gradual process, informal types of employment will persist and there is also a need to extend social protection provisions for informal workers through targeted or universal benefits.

Cambodia’s economy has witnessed a sustained expansion over the past decade. Real GDP expanded during 2002-2010 at approximately 8 per cent per annum. The main drivers of growth were foreign direct investment, a young and fast-growing labour force, and emerging industrialization in the garment and footwear industries. Output in agriculture also expanded due to the increasing employment engaged in agriculture, whereas the services sector benefited from a steady increase in tourist arrivals. The average value added per worker increased by about 5 per cent per annum in real terms over the period 1998-2008. The ongoing increase in labour productivity is expected to result in higher wages, improved livelihoods and an enlarged national tax base. Productivity increases in agriculture will help to improve the livelihoods of the rural workforce and accelerate

<sup>5</sup> This annex reproduces the executive summary from ILO, 2012b.

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poverty alleviation among the rural poor. Higher wages overall will increase the capacity of workers and employees to participate in contributory social security systems.

Fiscal revenue collection has improved markedly over the past decade, with total revenues collected reaching 12.3 per cent of GDP in 2010 compared to less than 10 per cent in 2000. Along with sustained economic expansion, new fiscal space is opening up, creating opportunities for new government projects, including those aiming at the expansion of the social protection system. The planned costing of priority interventions outlined in the National Social Protection Strategy for the Poor and Vulnerable (NSPS) is expected to create a sound basis for resource-based policy planning with regard to the extension of social protection programmes.

In governance, the ongoing reform process of decentralization and deconcentration (D&D), which aims at strengthening local governance and public service delivery, is creating new perspectives for the delivery of social protection benefits at the community level. The strengthened administrations at subnational level could be instrumental in the future for the delivery of a comprehensive package of social protection benefits. However, any novel approaches will need to be carefully designed and piloted first before they can be mainstreamed on a national scale. Overall, an efficient and effective public administration system is a key requirement for the functioning of a comprehensive social protection system. Further efforts aimed at developing administrative capacities and strengthening national social protection agencies will be required in the future.

Despite ongoing achievements in poverty alleviation, many Cambodians are still poor or live in precarious livelihood conditions, particularly in rural areas. Rural populations engaged in subsistence agriculture are often highly vulnerable to climatic shocks, including droughts and flooding. Other factors contributing to the vulnerability of Cambodians include high levels of poor maternal and child health and nutrition, high seasonal unemployment, income insecurity, health shocks and poor education. Hence the need remains for social protection provisions that cater to basic needs, including food and income security, emergency aid, access to basic primary health care, and child support. The identification of the poor, largely achieved in Cambodia through the ID-Poor project, allows for targeted social protection measures benefiting the poor. The benefits of targeted interventions have been demonstrated by the successful implementation of health equity funds that currently ensure access to basic health care for the majority of the poor.

Cambodia's health status is among the poorest in South-East Asia. A heavy burden of communicable diseases and high child and maternal mortality rates still affects many Cambodians caught in a vicious cycle of ill health, debt and poverty that is delaying the country's development. Although progress has been achieved in strengthening the national health system and improving access to health care for the poor, continued efforts are required to further improve the access to quality health-care services and the protection of households against catastrophic health expenditures. Household out-of-pocket spending for health remains high, at an estimated 55 per cent of total national health expenditure. Furthermore, a high percentage thereof (67%) is spent outside the public health system. Total national health expenditure in the year 2010 is estimated at US\$848 million, representing 7.1 per cent of GDP, and an amount per capita of about US\$61.

The main social protection provisions and programmes as currently existing in Cambodia have been reviewed based on scope and relevance in relation to the NSPS; they include the following:

- Statutory provisions, adopted in accordance with the fundamental rights to social protection enshrined by the Constitution of Cambodia, and stipulated in the following laws: the Labour Law, the Law on the Common Statute of Civil Servants, the Law on War Veterans, the Law on Pensions for Members of the Armed Forces, the Law on Suppression of Trafficking, and the National Disability Law.

- The National Social Security Fund for Civil Servants (NSSFC), providing social security benefits to around 175,000 civil servants and to their family dependants. Benefits provided include maternity and sickness cash benefits, funeral grant, employment injury benefits, and pensions. In the year 2009, a total of 67,500 pension benefits were disbursed including 28,000 retirement pensions. Total benefit expenditure in 2009 amounted to US\$22.7 million.
- The National Fund for Veterans (NFV), established in 2010 and providing social security benefits to members of the armed forces and the national police. The scheme also provides pensions to persons qualifying as war veterans. Total benefit expenditure in the year 2010 is estimated at about US\$19.5 million.
- The National Social Security Fund (NSSF), established in 2008 to administer social security benefits for private-sector workers as stipulated by the social security law, 2002. So far only the employment injury branch has been implemented, covering about 600,000 workers mainly in the garment and footwear industries. Total benefit expenditure in 2010 amounted to about US\$0.6 million. Other statutory social protection provisions for private-sector workers are stipulated by the Labour Law (1997), including paid sick- and maternity leave, and severance pay for employees dismissed by their employer.
- Social health expenditure, comprising supply-side subsidies to hospitals as funded from the national budget and through ODA grants, and demand-side social health protection schemes including the fee-waiver scheme for the poor, the voucher scheme for maternal health, the health equity funds for the poor, and the community-based social health insurance schemes. Total social health expenditure for the year 2010, including administration costs, is estimated at about US\$385 million, including about \$4.6 million spent by health equity funds and \$1.2 million by community-based health insurance (CBHI) schemes.
- Social assistance or welfare services as provided by the Government of Cambodia through different line ministries, mainly the Ministry of Social Welfare, Veterans, and Youth Rehabilitation (MOSVY), which provides support to orphans, the disabled, the elderly and the poor. The Ministry of Education, Youth, and Sport (MOEYS) runs a scholarship programme to support poor students. Other benefits provided include emergency food assistance as coordinated through the National Committee for Disaster Management (NCDM), and vocational training through the Ministry of Labour and Vocational Training (MOLVT).
- Social protection benefits, as also provided under donor-funded programmes, including the WFP-supported school feeding programme, under which school meals are served and take-home rations are provided to school children. Other interventions comprise public works programmes implemented under the Rural Investment and Local Governance Project (RILGP), and the ADB-funded Emergency Food Assistance Project (EFAP). Total social expenditure under all ODA- and NGO-funded programmes in the year 2010 is estimated at US\$68 million.

Total social expenditure in the year 2010, including ODA-funded programmes and subsidies for the health sector, is estimated at about US\$634 million, an amount equivalent to 5.5 per cent of GDP. Social spending on health accounted for about 60 per cent of total social expenditure.

Overall, the social protection system in Cambodia is relatively fragmented and there is little coordination between the different stakeholders. The adoption of the NSPS is a positive step towards a more coherent and coordinated national social protection system. The overall coverage of the social protection system is currently still incomplete, and there are few statutory provisions apart from those benefiting public-sector workers. It is

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recommended that efforts be continued towards the development of a more institutionalized system. This, however, will require the further strengthening of institutional capacity, particularly at the national social protection agencies, including the social security funds catering to workers employed in the formal economy. Along with the development of social security provisions in the formal sector, there is a need to pursue policies and programmes that relieve the plight of the most needy, the poor and the most vulnerable. The introduction of basic social protection provisions for all, as promoted under the global Social Protection Floor Initiative (SPF) launched by the UN family under the lead of the International Labour Organization (ILO) and the World Health Organization (WHO), therefore deserves due consideration for the design of social protection provisions within the overall strategic framework defined by the NSPS.

The vast majority of Cambodians remain without coverage under any social health protection scheme and therefore face the risk of catastrophic health expenditures, in particular the near-poor, who still remain largely unprotected. There is a need to move ahead with the implementation of social health insurance for formal-sector workers, both for public and private employees. This could be a critical step forward, resulting in additional demand-side financing for the public health system and improved quality standards through the use of performance-based contracting arrangements between the new purchasers and public health-care providers.

In order to achieve a lasting impact on poverty alleviation and the extension of social protection for the poor, the vulnerable and the non-poor, a strong commitment is required from both government and donors to ensure the allocation of the resources required. Since ODA funding cannot be relied on forever, the allocation of fiscal resources will be indispensable for the extension of social protection coverage in the future. In light of the limited resources available, a gradual and step-wise approach is the only viable option towards the development of a more coherent, institutionalized, and financially sustainable system under the full ownership of the Government. Further efforts to upgrade administrative capacities and to strengthen national social protection agencies will no doubt be crucial; they are a precondition for lasting progress on the path towards universal coverage.

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## Annex III

### **Cambodia: Financial assessment of the National Social Protection Strategy for the poor and vulnerable (NSPS)<sup>6</sup>**

The objective of the assessment presented in this report was to undertake a preliminary costing of the priority social protection programmes outlined in the NSPS. A series of policy options was selected for each strategic objective of the NSPS and their costs were projected over the period 2012-2020. The purpose of costing alternative options was to illustrate the impact of programme design on resource requirements, aiming thereby to support the policy formulation process.

It should be noted that some of the programmes proposed are complementary, while others overlap or reflect alternative provisions. In the case of concurrent implementation of different programmes, it is relevant to consider any possible overlaps and adjust the benefit provisions of the respective programmes accordingly (e.g. between old-age and disability pensions). It is equally relevant to consider cumulative welfare effects on the household in case of the concurrent implementation of complementary programmes. Further assessments will be required that take into account any cross-effects of different interventions once the respective policy instruments have been selected.

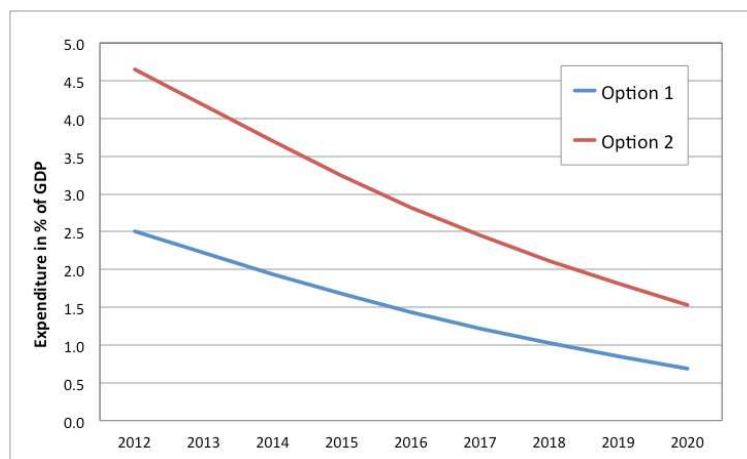
The key findings of the financial assessment presented [...] are summarized below. It is deemed relevant to distinguish between the following types of interventions: (i) programmes targeting all the poor; (ii) programmes targeting selected vulnerable groups among the poor; and (iii) universal programmes targeting selected vulnerabilities among the whole population.

#### **5.1. Cash transfers for all the poor**

Policy options 1 and 2 comprise cash transfers for all the poor, aiming at providing food security and attending to the basic needs of the poor. Despite a trend of decreasing poverty rates in Cambodia, an estimated 3.4 million persons are currently living below the poverty line, of whom an estimated 1.9 million are extremely poor. The projected cost of the two proposed very large-scale cash transfer schemes for the poor is illustrated in figure 5.1. It can be observed that the cost of the two programmes would be sizable over the short to medium term. In comparison to GDP, however, the relative cost of the two programmes is projected to decrease rapidly, and a national programme targeting extreme poverty (policy option 1) may become a realistic possibility before the end of the decade. Until then, programmes targeting specific population groups (policy options 3-12) are suitable options, and existing interventions aiming at food security for the poor should be maintained or scaled up if possible. The feasibility of a comprehensive national programme for all the poor will also depend on whether the assumed pace of decline in poverty headcount rates and the assumed pace of economic expansion will materialize during the decade.

<sup>6</sup> This annex reproduces the summary and conclusions (Chapter 5) from ILO, 2012c.

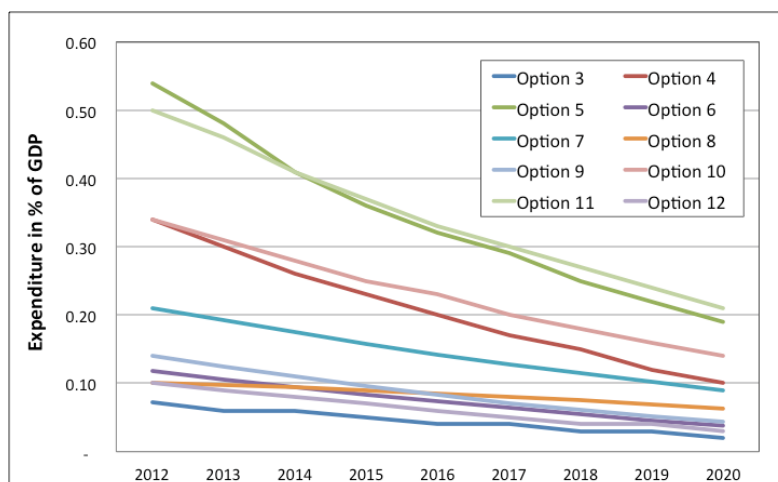
**Figure 5.1. Cash transfers for the poor, cost projections 2012-2020 (percentage of GDP)**



## 5.2. Programmes targeting vulnerable groups among the poor

The projected cost of the proposed programmes targeting specific vulnerable groups among the poor (policy options 3-12) is shown in figure 5.2. It can be observed that for the year 2012, the relative cost of these programmes is estimated at between 0.1 and 0.5 per cent of GDP. For programmes targeting minor groups of the vulnerable, the relative cost is estimated at approximately 0.1 per cent of GDP; this applies to the proposed programmes targeting pregnant women among the poor (option 3), the elderly aged 70 and above and extremely poor (option 9), and the disabled poor (option 12). For the two programmes addressing vulnerabilities that relate to larger target groups among the poor, i.e. primary-school children who are poor (option 5) and the elderly poor aged 60 and above (option 11) the relative cost is estimated at around 0.5 per cent of GDP for the year 2012. By the year 2020, however, their relative cost is expected to have decreased to below 0.2 per cent of GDP. The rapid decrease in relative cost for all programmes considered can be explained in large part by the assumptions of (i) a rapidly decreasing poverty headcount rate; and, in conjunction, (ii) the sustained economic expansion and GDP growth. For the programmes targeting children and pregnant women, the ongoing trend of declining fertility rates further contributes to the projected decrease in relative cost over the projection period.

**Figure 5.2. Programmes targeting vulnerable groups among the poor, cost projections 2012-2020 (percentage of GDP)**



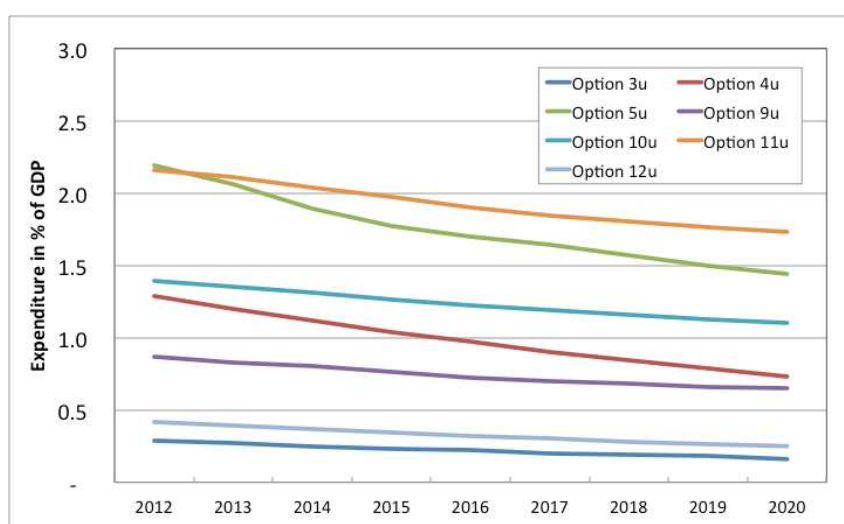


### 5.3. Programmes comprising universal benefits

The projected cost of the proposed programmes comprising universal benefits is displayed in figure 5.3. It can be observed that, in comparison to GDP, the relative cost of all selected programmes is projected to decrease gradually over the whole projection period. For programmes targeting pregnant women and children (policy options 3u, 4u, and 5u), the projected decrease in relative cost is largely explained by the ongoing trend of declining fertility rates that is expected to result in a decline of the birth rate and of the child dependency ratio throughout the projection period.

It can further be observed that for the universal old-age pension programmes assessed (options 9u, 10u, and 11u), the projected cost declines at a slower pace throughout 2012–2020 compared to the other universal programmes. With population ageing expected to occur, the age dependency ratio is projected to increase for the three respective retirement ages of 70, 65, and 60. Despite the projected increase in the number of old-age pensioners and the resulting cost increase in real terms, the projected expansion in GDP growth outweighs this, and the cost ratio to GDP is projected to decrease for the three universal pension programmes, assuming CPI indexation for pension benefits. The relative cost of a universal pension programme for the disabled is also projected to decrease at a relatively slow pace due to the assumption of a constant disability prevalence rate during 2012–2020.

Figure 5.3. Universal benefits



### 5.4 Conclusion

The financial projections presented in the report show that new perspectives are emerging in the near to medium-term future for the extension of social protection in Cambodia. In light of the declining trend in poverty prevalence rates and increasing national income, the projections show that realistic possibilities are opening up for the implementation of social protection programmes, particularly those targeting the poor and vulnerable. The planning and implementation of new programmes will, however, require the commitment of the Government and development partners to allocate the financial resources required.

Tight fiscal means have been so far the main constraint, limiting the scope of social protection interventions to the most basic, this alongside the different interventions supported by development partners. With the ongoing expansion of national income and improving revenue generation by the Government, new fiscal space is emerging and providing means for new government projects and the expansion of existing ones. The NSPS provides a strategic framework that should guide the choice and design of new social protection programmes as more resources become available. Since funding will

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remain constrained in the near future, it is recommended to adopt a step-by-step approach where selected programmes are given priority. In order to ensure their financial sustainability, a careful design of priority programmes and appropriate sequencing for their implementation will be required.

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