

**PUBLIC PARTICIPATION AND PUBLIC FINANCE: THE STUDY OF INEQUALITY
IN CAMBODIA**

By

NY SOKHOM

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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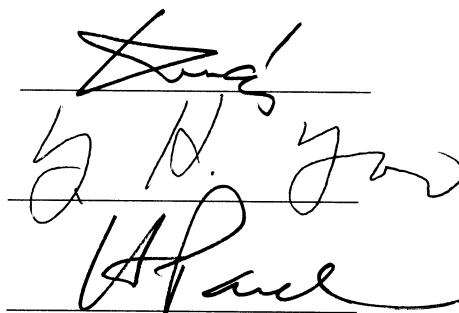
MASTER OF PUBLIC POLICY

Committee in charge:

Professor Dong-Young KIM, Supervisor

Professor Yoon Ha YOO

Professor Hun Joo PARK



The image shows three handwritten signatures, each written over a horizontal line. The top signature is for Professor Dong-Young KIM, the middle one for Professor Yoon Ha YOO, and the bottom one for Professor Hun Joo PARK. The signatures are written in black ink and are somewhat stylized.

Approval as of August, 2010

ABSTRACT

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By

NY SOKHOM

Planning in Cambodia has historically been a highly insulated and top-down affair. The paper suggests that area of planning should also be occurred at the level of districts which encompasses hundreds and even thousands of citizens. In that sense, particularly, the paper is aimed at introducing a new mechanism ‘public participation’ in government policy decision making in Cambodia, especially in public finance, which is currently under its major reform, targeting for efficiency and transparency in its management system (PFM). The planning of public budget spending on development projects which affects the livelihoods of people should be incorporated with the involvement from the citizens, which will not only increase transparency and efficiency of the public budget, but also enable the government to use the budget in the right directions that meet the needs of the citizens; ultimately, this approach will contribute to achieving the long-term goal of poverty and inequality reduction.

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Dedicated to my parents

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While I myself spending a few hours looking at some of the ‘one sentence’, trying to figure out how best to put that in, so that I would get just the right message on paper, I believe my supervisor was doing the same thing, especially, I appreciate his giving me quality of his time, regardless of his tight schedule, either by face or email interaction to brush me up and show me the way and direction. This paper would not be placed in front of you right now, without his kind guidance. Therefore, I would like to extent my greatest gratitude to this very important contributor, Dr. Kim Dong Young, my supervisor.

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Time management is very challenging while we have to complete the research during the working period. Under this pressure, I would not have been able to complete this writing by the time set, if I had not been given very good working environment and appropriately good and sufficient time to work on my research paper. Therefore, I would like to thank my company, ALPHA INTERNATIONAL CORPORATION LTD, colleagues, and especially my president; they give me great support in terms of sources of information, sufficient time, and enthusiasm.

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Chapter I Introduction

1.1 Background

During the Cambodian genocide that occurred under the leadership of Pol Pot in the late 1970s, economic growth was completely ignored by the government, largely for political and ideological reasons. Education was not a topic of discussion; the government's main focus was on evacuating people from the city to provinces and concentrated on agriculture only. During the era, information concerning government revenues and expenditures was generally unavailable to average citizens. Yet the notion of "equality" was achieved in an unpleasant respect; that is to say the people were made equally poor. Income from the 'social agriculture' was not distributed to citizens; rather what was given was merely two-time of lack of nutrition and quantity meal.

That was what happened during the Pol Pot regime over the course of three years, eight months, and twenty days; and the painful legacy of those years continue to haunt all Cambodian survival victims to this day. The aftermath of the 1975 Cambodian genocide left the country in a state of ruin with nothing but deaths, widows, orphans, disables and poor families. The results were manifested in pain, nightmare, devastation, destruction, and mass poverty, as a country that had once been truly developed and modernized became a land occupied by ghosts. Since the relieve from the era in January 07, 1979, to reconstruct the nation, the new Government of Cambodia has begun working from scratch to new infrastructure while nurturing a more qualified workforce and instituting economic, politic, financial and social sectors reform.

The Cambodian recovery, after then, started slowly and has taken place in the context of international isolation. The pace of development increased after the first historical general election in 1993; (World Bank, 2006) when this nation embarked on a transition from civil war to peace, evolving from a state of one-party rule to one governed by multi-party system,

and from an isolated and subsistence-oriented economy to one with greater openness to international trade. This is reflected in Cambodia becoming a member of ASEAN and WTO. As a result, Cambodia has been able to experience growth in many spheres, particularly its economy. According to the Cambodian Human Development Report of Ministry of Planning, Cambodia's GDP growth in 2005 was 13.5% as compared to its prior growth rates of only 8.6% and 10% in 2003 and 2004 respectively (MOP, 2009). The overall average growth rate is close to 8% per annum.

Nevertheless, while economic growth is exciting to see, it does not necessarily mean that Cambodia is free from poverty and, even more severely, inequality. In other words, even though Cambodia is shown statistically to be experiencing economic growth, poverty is still a prevalent in the pervasive and uneven distribution of income, so some important issues remain to be solved. Indeed, it remains inconveniently and yet undeniably true that Cambodia is one of the poorer nations in the world. The 2008 HDI (Human Development Index) *listing of the United Nations Development Programs* places Cambodia at 131st out of 177 nations based on figures for 2005. Beyond that, the poverty rate deems decrease from time to time, the poverty remains very high—with around 35%–40% of the population living below the poverty line of one U.S dollar per day; and 15%-20% falls in extreme poverty—while inequality appears to be increasing (World Bank, 2009); according to Socio-economic Survey Cambodia, 1993 and 2003-04, inequality in the country measured by Gini Coefficients of real per capita consumption rose considerably from 0.347 to 0.403 in these ten years. The World Bank (2004) claims that recent economic growth has been narrowly based, and has not led to a significant reduction in poverty. *In other words, the economic growth may even have widened the gaps in income between the rich and the poor.*

It is interesting to consider why this has been the case in Cambodia. Specifically, why has economic growth not been accompanied by greater economic equality? As such, this research

paper aims at discerning the reasons underlying this situation and most especially identifying possible solutions so that Cambodia will be able to experience growth while simultaneously reducing poverty at a much faster rate and minimizing inequality in the country. The goal, after all, should be able to make every citizen of Cambodia wealthy, rather than equally poor, as occurred during the genocide period. The vision of this paper is to set forth for making Cambodia a better place for its citizens by focusing on the role of public finance as well as the encouragement of better and more active public participation mechanisms in this important public issue.

1.2 Statement of the problem

During the process of recovery that has followed decades of civil wars, people have been talking a great deal about economic growth; however, less thought has been given to whether or not the growth would benefit everyone in Cambodia. This is fundamentally supported by MOP (2009) “The poor and vulnerable groups may not have the ability to benefit from growth”. Even though the universal complaint among disadvantaged people, “*The rich are getting richer and the poor are getting poorer*” might not be a hundred percent true, we cannot actually deny the fact that *the rich have been getting richer at a much faster rate than the poor*; and this has resulted in larger gaps in income between the rich and the poor in both urban and rural areas in Cambodia.

Having mentioned that, the increase in inequality is the central focal problem of this research. Specifically, although the issue of rising income or consumption inequality has been raised generally ranging from family to educational institutions, to government agencies, as well as in public as a whole, yet for some reasons, solutions and any actions have yet been taken rigorously for improving the stated issues for the poor victims. There could be question regarding with *why would we care about that?* This is because, neglecting the issues, the consequences brought about by pervasive inequality and poverty are unspeakably severe and

tragic. Neglecting the issues, that is why millions of children especially from poor families could not afford to go for formal education, even though it is free. Neglecting the issues, that is why many girl victims end up being illegally sexually abused. Neglecting the issues, that is why the poor find it extremely hard to find one dollar for survival while the rich spend thousands of dollars in just a night. Apparently speaking, in addition to direct impact of poverty on the poor which makes them unable to reach the standard level of living, not having enough nutrition, shelter, clothes, education, and other basic needs as well as social values, the indirect impact would be the slower economic growth, the increase in crime rate, human trafficking and thus along with HIV diseases, which ultimately causes instability and insecurity in the society. Therefore, these poverty and inequality issues should be neglected no more; it is just too painful to see the starving faces, inhumane acts, crimes and death; thus more efforts and consideration should be put forth to deal with these poverty epidemic.

In that respect, the severity of poverty and inequality issues cannot be detached from the matter of public finance. No country in the world has been able to develop without having efficient management of budgets and expenditures, and Cambodia is no exception. In Cambodia, the lack of transparency in the management of the public budget management has led to great losses financially, economically, and socially. For example, in a speech at a conference on corruption and its impact on National Reconstruction and Reconciliation, the Cambodian Finance Minister, Minister Keat Chhon, estimated that the state [Cambodia] was losing up to USD 100 million a year due to corruption (GOPAC, 2005, 3). This money could have been used to benefit both pro-growth and pro-poor projects; rather than being given away to some powerful people at the expense of the poor and the entire nation.

To sum up, Cambodia continues to face two big issues-poverty and inequality; one of the major causes could be the lack of transparency in Public Finance. In other words, by humbly admitting other essential factors that could help reduce poverty in Cambodia, this paper

suggests that increasing transparency in Public Finance would lead to a more rapid decline in the rate of poverty and inequality in Cambodia

1.3 Objectives of the study

Having mentioned of the two main issues Cambodia is facing, poverty and inequality, this paper aims primarily at finding a mechanism which might serve as a policy recommendation for the Royal Government of Cambodia, in order to contribute to solving the issue and improving the country efficiently. Thus, the current research designed to answer the major question:

“What kinds of policy changes could be made to possibly reduce poverty at a much faster rate and improve opportunities so that the vast majority of citizens, especially the poor, can also reap the benefits as a result of the reduction and the economic growth?”

In addition, the research paper will seek to accomplish the following objectives:

- To identify the issues of poverty and inequality; sometime the one might be the issue while the other is not, but Cambodia is facing the two at the same time
- To seek out the link between poverty and inequality and the link of the two to transparency in public finance
- To explore the relationship between efficient public finance and economic growth
- To discern the relationship between economic growth and inequality
- To consider the link between public finance and growth in a way that may reduce poverty and decrease inequality
- And, ultimately, to encourage public participation as a means of solving the transparency issue, while working toward reducing poverty and inequality.

1.4 Significance of the study

The poverty and inequality issues happen in almost every country; while some countries are experiencing either of them, some else are experiencing both simultaneously. For instance, the United States is facing inequality with relatively high income gaps, and yet the country is not poor. Brazil is also facing inequality and at the same time this country is also facing

poverty. In a simple sense, while the population in the former is unequal, they are still rich; those of the latter have big gaps between rich and poor. Cambodia is said to be like Brazil, and could probably in a worse situation.

The linkages between poverty and inequality are highlighted in the 2005 Report on the World Social Situation: The Inequality Predicament. The report states that the goal of sustained poverty reduction cannot be attained unless equality of opportunity and access to basic services is ensured. It also stresses that the goal of reducing inequality must be unequivocally incorporated in policies and programs which aim at poverty reduction (Social Perspective on Development Branch, Division for Social Policy & Development, Department of Economic & Social Affairs, UN). Therefore, Cambodia could not neglect inequality issue in their strenuous poverty reduction efforts and strategies.

1.5 Methodology of the study

This study will be based on theories, journals, academic articles and other previous studies related to public finance, poverty and inequality, and on public participation as illustrated in the literature review and background of the studies. More importantly, it will also consult government documents including official and unofficial reports, as well as studies conducted by national and international NGOs and other official entities, in order to obtain a broad understanding of the history and current situation in Cambodia. To achieve the goals and objectives, the research will be based on a comparative case study method.

Beyond that, it is interesting to note that Cambodia is such a special and unique case when it comes to the phenomenon of growth and inequality issues, as well as the extent of public participation in public budgeting. In fact, other countries including Ghana, Ethiopia, China, and India, as well as other Asian countries, have been confronting the same problems. Therefore, this paper will examine both successful and unsuccessful case studies, dealing with economic development and inequality in Asia while comparing and assessing the public

financing systems across several regions; to eventually discern a potential lesson for Cambodian situation. Interestingly, field interviews will be conducted in Cambodia to a small group of citizens as well as government officials to learn more about people's ideas on the issue and assess the possibility of their involvement in the policy-making process in the country.

1.7 Scope and limitation of the study

The following chapter motivates the paper's approach with reference to the literature reviews on some key studies about related themes including public finance, poverty deduction, inequality as well as public participation, which will provide a broader scope of related theories as well as what is happening relevantly and similarly in other countries. While Chapter 3 offers a general understanding of the country and the situation occurring which the study is focusing on, next chapter will be about public financial reform in Cambodia, followed by policy recommendation in response to the problem Cambodia is facing.

Though the study has been done vigorously, it is not without limitations. Due to time constraint, limited effort and capability, as well as availability of resource and statistical data in Cambodia, especially concerning inequality condition, proving the impact of public finance on economic development as well as poverty deduction has not yet possibly done quantitatively. Therefore, the paper uses the comparative studies of other countries' available results to generalize it for Cambodia's context. Also, the research assumes that there is a strong correlation between transparency in public financial management and poverty and inequality reduction, neglecting other variables that could also relate and be the solutions toward the deduction of poverty and inequality issues. Therefore, further research is strongly encouraged on seeking to statistically and quantitatively test the performance of public finance as well as its impact on economic development, and poverty reduction in Cambodia.

Chapter II Literature Review

One of the most important issues in Cambodia is poverty with increasing inequality. The main focus of this paper is to find the way to curb the tendency by looking at the potential of public participation in the realm of public finance. To set the stage for the following chapters, I start here with a general knowledge of the related theories and practices in other countries in order to have a broader understanding of the issues. The chapter is aimed at establishing the inter-link among the four variables: poverty and inequality, public finance, and public participation.

2.1 Poverty

Poverty has become a concern for almost every country, especially for less and least developing countries. It thus has top the priority list among government major policies. Despite the pervasiveness of poverty, theoretically speaking, it is hard to define who the poor are and how much poor is considered poor. Followings, nonetheless, are some definitions describing poverty from previous studies.

2.1.1 Definition

What is meant by being poor? And who are the poor? Looking from the social dimension, Sen (1981), the specification of certain ‘consumption norms’, or of a ‘poverty line’, may do part of the job: ‘the poor’ are those people whose consumption standards fall short of the norms, that is to say, socially speaking, they could not afford to fulfill their basic needs and the society’s basic norms. According to the five human needs theorized by Abraham Maslow in his 1943 paper ‘*A Theory of Human Motivation*’, the basic and yet very substantial basic needs is the human’s ‘physiological needs’, which are the literal requirements for human survival, including shelters, clothes, food, water, sleep and others which help to support basic survival of human. The poor are those who find it hard to satisfy these needs-failing to have

enough nutrition or even food, to have proper place to stay, to have poor access to clean and safe water, for example. Looking from the Economic dimension, the poor are those whose incomes lie below the poverty line. If we talk about poverty line, different standards are applied; in other words, the poverty line in developed countries is actually higher than that in less and least developing countries. Simply put, people might be ‘relatively’ poor and at the same time ‘absolutely’ non-poor. For example, a person living in a developing country can be considered non-poor in his country, in an absolute term; however, in relative term, he is actually considered poor if he is to compare, by means of income, with people living in a developed country. That is to say, the USD800 of income he earns annually could hardly support a normal standard living for one year in other developed countries. The theory has captured this poverty concept by focusing on ‘absolute’ and ‘relative’ poverty. In reality, relative poverty, World Bank (2006), could be as damaging to human dignity and social cohesion as absolute poverty. Therefore, policy makers must take into consideration of both absolute and relative poverty. There could be various approaches to definition of poverty, ranging from biological approach, which takes into account the minimum requirement of nutrition, to inequality approach, relative deprivation, value judgment, and even definition by policy.

2.1.2 Measures of poverty

‘How much poor is considered poor?’ This has been a concern remained to be solved. In some traditions, the over-all measure of ‘poverty’ is done simply by just counting the number of the poor, and then expressing the poverty as the ratio of the number of the poor over the total number of population in the targeted area. That was the so-called ‘head-count index’ measure, shortly known as HCI. Even though it is widely and commonly used, Sen (1981) mentioned two drawbacks of HCI measurement. First, it measures only the number of people under poverty line; the changes of income are not touched. So it does not capture the severity

of poverty. For example, the HCI does not change if a poor person becomes much poorer. Second, it is insensitive to the distribution of income among the poor; in other words, no transfer of income from a poor to another who is richer can increase this head-count index. Given those drawbacks are acknowledged, HCI could still provide a useful indication of the likely costs of eliminating poverty.

In response to the limitations of HCI, other two measures of poverty are employed-the poverty gap index and poverty severity index. Among these last two measures, the former is the average difference in the total population between individual's recorded per capita consumption and the poverty line, with zero value assigned to those above the poverty line; while the latter is calculated by first squaring individual poverty gaps before averaging them. Poverty severity index gives greater weight to the larger poverty gaps and provides insights into the distribution of very low consumption values. These three mathematically interrelated indices of poverty are firstly presented by Foster, Greer and Thorbecke in 1984, known as FGT measures. The calculations of the three could be summarized mathematically as follow:

- 1) Head-count index, $H = q/n$

q: number of people who live below poverty line

n: total population size

- 2) Poverty gap index,

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]$$

z: poverty line

y: income per capita

- 3) Poverty severity index or distributionally sensitive index,

$$P_2 = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]^2$$

2.1.3 Externality of Poverty

In economic term, 'externality' is used to explain the negative or positive impact resulting from the activity of an individual or group on a bystander. It might be funny, but this is true; by being poor, the negative impact is not only on the poor individual themselves, but in many ways, such poverty could produce even worse effects on the non-poor in the society. Sen (1981), said poverty is a funny thing. She extracted a view of poverty from Rein (1971):

People must not be allowed to become so poor that they offend or are hurtful to society. It is not so much the misery and plight of the poor but the discomfort and cost to the community which is crucial to this view of poverty. We have a problem of poverty to the extent that low income creates problems for those who are not poor.

This implies that to live in poverty is already sad, but to offend or be hurtful to the society, creating problems for those who are not poor is actually the real tragedy. Sen (Ibid) focused on the negative externality that poverty could bring to the society. There is little doubt that the penury of the poor does affect the well-being of the rich. The question would be to what extent does the poverty severely affect the non-poor or the whole society? How serious could that be? And how should that be tackle with? These have been the major goals for many governments in developing world.

Because poverty affects everyone in the whole society and understanding that growth could not reach its potentiality under the existence of poverty, government feels a much needed actions and policies to combat this epidemic 'disease'. In addition, outside factor could also serve as incentive for government to focus on poverty reduction scheme. For example, Poverty Reduction and Growth Facility Program from IMF, which is the IMF's low-interest lending facility for poor countries established in 1999, intended to be more favorable to reducing poverty and promoting growth than previous policies. Therefore, in order to receive

more lending with such lowest interests or even non-payable funds from the international funding organizations, many countries, especially the Least Developing ones (LDCs) are encouraged to focus on poverty reduction in the nation.

2.1.4 Poverty Convergence in the Third World

Poverty Convergence could be considered a new term in economics, used to refer to the fact that if there is such a poverty convergence in a region, it implies that the countries started with most severe poverty could reduce this pervasiveness in a faster progress than otherwise; so that at the end, both types of countries could reach to a similar line of development. A World Bank Policy Research Working Paper by Ravallion (2009a) of “Why Don’t We See Poverty Convergence?” shows that there is no faster progress against poverty amongst the poorest developing countries. In other words, a high initial incidence of poverty entails a lower subsequent rate of progress against poverty at any given growth rate.

The lack of poverty convergence suggests that something about the initial distribution is offsetting the “advantage of backwardness”. Thus for many poor nations, the growth advantage of starting out with a low mean is lost due to their high poverty rates. Ravallion found out also that the size of the middle class (measured by developing country-not Western-standard) is an important channel linking current poverty to subsequent growth and poverty reduction. To put it in a simpler term, growth and poverty reduction seen in developing countries contemporarily is due to the large number of middle class people. However, inequality in those countries is still prevalence. In short, this research analyzes 100 developing countries in the world; the result shows there is no convergence among those countries, suggesting that the extent of how much poverty is reduced in each country is independent from its initial poverty incidence.

There are some significant in this finding. First, the study implies that without outside force, the countries that originally start with poverty do not seem to be able to reduce it in a much better speed. That mentioned 'outside force' could be the government intervention. Different types of policies and interventions would produce different results; for the countries whose government policy is more of pro-growth rather than pro-poor, we could see that the countries are able to witness great increase in GDP every year; nonetheless poverty is still an issue, more or less. Second, the finding somehow encourages government in third developing countries to be not offset by their initial serious pervasiveness of poverty; as regardless of how serious the poverty is at the first place, reducing it relies more on their policies, not totally on how bad condition poverty is in their countries. Third, the study also brings attention of government especially in the third country on the significant choice between 'growth' and 'equity'. In other words, the rising of GDP yearly could be the result of greater number of middle class person; it does not necessarily mean that the poor is having better living standard; having said that government should not be camouflaged by figures. This is what government should be really looking at when designing and implementing any policies.

2.3 Inequality

2.2.1 Definition

Inequality is a broad term used to describe being not equal among individuals or groups of people in terms of many things ranging from the most intangible values like social status, rights, opportunities, to tangible assets like wealth, and income so on and so forth. Inequality exists everywhere; there is almost nothing equal on earth due to the diversity of people, resource, characteristics of nature alike. For example, almost no country in the world has the same status for every single individual; there must be differences in terms of power, culture, age, and so on.

Despite the vague definition of ‘inequality’, the term is usually referred to and thus captured by the difference in terms of wealth or income of individual or groups of people or even in country levels. Due to the fact that the data on ‘wealth’ is extremely hard to capture, income is used over wealth when considering of measuring inequality; in that sense, inequality is about the gaps of income among individual household. More importantly, consumption based inequality is also popular, especially in developing countries. Consumption is used because the goal is to examine whether people have enough ability to consume the most basic needs for survival, regardless of how much income they have.

2.2.2 Measures of inequality

As briefly mentioned above, in short, inequality can be expressed by income or expenditure, even though other factors such as education and health status, political power, or access to justice are important and contribute to economic wellbeing (World Bank, 2008). More often than another, inequality in terms of consumption expenditures is usually used by developing countries, and that of income is used by international standard in developed countries. The reason why consumption expenditure is used over income in many developing countries is because of the difficulty in collecting information on income in those countries; that is to say, agricultural employment and self-employment are important components of total employment in such developing countries; simply put, these employment does not show in the income figure even though they actually produce ‘income’ for themselves; therefore, it is more rational for using data on the distribution of consumption expenditure across household to analyze income inequality. In addition to income and expenditure consideration, another issue in measuring inequality is whether inequality should be computed in terms of absolute or relative term. For example, if we compare the difference in average incomes of the top 20% versus the bottom 20%, we are looking at absolute inequality; while relative inequality would be looking at the share of the top 20% versus the bottom 20% in total income. While most

economists prefer to analyze measures of relative inequality and many among the lay public think about distributional issues in terms of absolute inequality (World Bank, 2008), these two types of inequality are fundamentally different concepts. Which concept to be employed is important in determining how one sees inequality evolving in a society as well as in terms of its relationship with economic growth.

Popularly, inequality is statistically measured by ‘Gini Coefficient’. The Gini Coefficient provides a useful summary measure of inequality in the distribution of income or consumption. It is ranged from 0 to 1 (or from 0-100%). A low Gini coefficient indicates a more equal distribution, with 0 corresponding to perfect equality, and vice versa.

The classical definition of G appears in the notation of the theory of relative mean difference:

$$G = \frac{\sum_{i=1}^n \sum_{j=1}^n |x_i - x_j|}{2n^2 \bar{x}}$$

Where x is an observed value, n is the number of values observed and x bar is the mean value.

2.2.3 Urban Economic growth and Inequality

The connection between urban development and poverty is finely discussed in “Cities, Poverty, and Development” by Alan Gilbert & Josef Gugler. They claimed that the world continues to be organized in a profoundly unfair way. The process of planning might pretend to allocate resources fairly between groups, yet in practice it did not operate that way. This shows the inequality of resource distribution among groups in the society. It also stresses that the dominant of patterns of world trade, investment, and cooperation operate to the detriment of the great majority of humankind. “To a significant degree, the Third World is poor because the First World is rich.” It is undeniably true that the economic growth occurred in many parts of the Third World, and that inequalities were reduced in some instances, but there can be little doubt that such development were only partially realized. Most economic growth and

income distribution are little geared to increasing the welfare of the masses. They also stressed that economic development occurs unevenly across space and time. In response, people are on the move, migrating from the poor regions to areas of economic growth. In such a process, big cities are growing even bigger. They mentioned as well the fact that urban migration can be actually a trapped, seeing the illusion of urban environment. They might end up earning little, if not nothing at all, with so expensive living standard in the city. Some are even being exploited. Some end up coming back home in poverty. These and other reasons make these poor even poorer. In conclusion, there is no way in which the process of growth can be understood in isolation from the process that generates inequality. This gives important policy implication. While both are highly needed between growth and equity, both usually do not go toward the same direction. Especially where budget is limited, government has to make a difficult choice between growth and equity.

2.2.4 Reasons for Inequality

The phenomenon of inequality in Asia happened due to different development experience. World Bank (2008) pointed out the different development incident of Asia between 1960s and the 1980s which has been characterized as one in which one group of economies grew rapidly, newly industrializing economies of East Asia and some Southeast Asia, while another group like those of South Asia did not. It proves that even though “high rates of economic growth have become more common in the region, it is widely believed that inequalities have also grown in many countries”, and that includes Cambodia, one of the poor nation in Southeast Asia.

So what is the driving increase in inequality?

The first answer to the question given by World Bank (2008) when explaining inequality in Asia is regarding the unevenness in growth. There are different ways in which growth has

been uneven. The first dimension is that growth has been uneven across sub-national locations, for example across provinces, regions, or states. Second, it has been uneven across sectors of production; for example, industry or services might grow in a much faster speed than agriculture nowadays, leaving the poor who depends almost totally on agriculture devastated for survival. Third, growth has also been uneven across households; for instance, the incomes of the top distribution have risen faster than those in the middle or bottom. As evidence, Nepal's unequal growth across urban and rural areas has been a crucial factor underlying significant increase in inequality. While real per capita expenditures increased by 42% in urban areas between 1995 and 2003, that of rural areas was merely 27% (World Bank/ DFID/ ADB 2006). This phenomenon of lower growth rates only served to widen the gaps between urban and rural areas.

The second answer explaining increasing of inequality is the policy drivers. Two types of policies top this discussion- 'pro-growth' and 'pro-poor' policies. There is not much doubt that the bulk of the poor in developing countries rely on agriculture for their livelihoods; its slower growth driven by policy will thus account for slower growth in the poor's incomes. According to World Bank (2008), slowdown of public investment in rural infrastructure and stagnation in resources devoted to improving and spreading new agricultural technologies in the face of rapid depletion of natural resources, as well as policy environment that keeps private investment away from agriculture have resulted in slower growth of agriculture. In other words, when the policy is given preference to growth, rather than given more resource to help reduce poverty, and that the growth benefits, usually, to the top and middle distribution groups, such will of course induce faster income of those top and middle group than that of the bottom. As a result, gaps between these two groups are widened.

The last but never the least, globalization and integration which are proved to be beneficial for growth, have actually given some certain side effect of increasing in inequality. This is

supported by the fact that ‘closer international integration has introduced skill biased technologies in developing world’ (World Bank, 2008). More generally, where globalization and regional or international integration take place, it is the more educated who will typically benefit from this because they are likely to be in the best position and thus make most of the opportunities from the new market, resulting from integration phenomenon. Simply put, the poor who are less educated are not able to compete with the newly ‘skill biased’ market and thus benefit less from such ‘growth’. Apparently, this lessens their bargaining power of labor and led to slower growth in their labor income; ultimately, the middle and top distribution groups’ incomes will go further than this low-skilled people. This phenomenon undeniably results in increasing of inequality.

2.2.5 Redistribution Challenges

In spite of the fact that choice is difficult to make between growth and equity for policy makers, most policies are in tendency of growth, whether it is designed to be so or it naturally goes that way. As a result, inequality exists and continues to increase. To fix this problem, usually the government uses ‘retribution’ policy which includes tax system, subsidies, government transfer and other types of expenditures. However such policy has its own challenges; for if it is not used correctly, the remedy for equity might cause other problems. World Bank (2008) asserts that resource allocation is critical to understanding how public policies affect both the static and the dynamic efficiency of an economy or, in other words, the best allocation of resources to achieve the highest standard of living. In terms of tax policy, distribution is concerned with the support given to the people who are the least well-off in society, while ensuring that policies are applied equally to those who are similarly well-off. For that rational, rich people are paying more tax than the poor. But this is not easy; it is still controversial in some countries where the rich complain about the reason why they should be giving up their pocket money to the others; some economists also assert the drawback of such redistribution system by claiming that resource should not be taken from

those who work very hard (non-poor) to those who do not work at all (poor and unemployed). Equity to them means those who work deserve to be paid and those who are 'lazy' do not deserve anything from those who work. Joining in the discussion of this issue, Ravallion (2009b), popular judgments about "inequality" appear to give greater weight to redistributions from the rich to the poor than redistributions amongst the middle class or from the middle class to the poor¹.

In addition to the remedy through the use of tax system, public expenditure is also popularly used to serve the purpose of redistribution. The constraint of this is the limited budget the government has; and as earlier mentioned, on top of such budget constraint, the major issue to be considered as well is the leakages and corruption which reduce the amount of the budget that could have been effectively used to manage redistribution in a more equitable way. Unfortunate enough, this efficiency is usually hindered by the lack of transparency procedure.

2.2.6 Why Inequality Matters

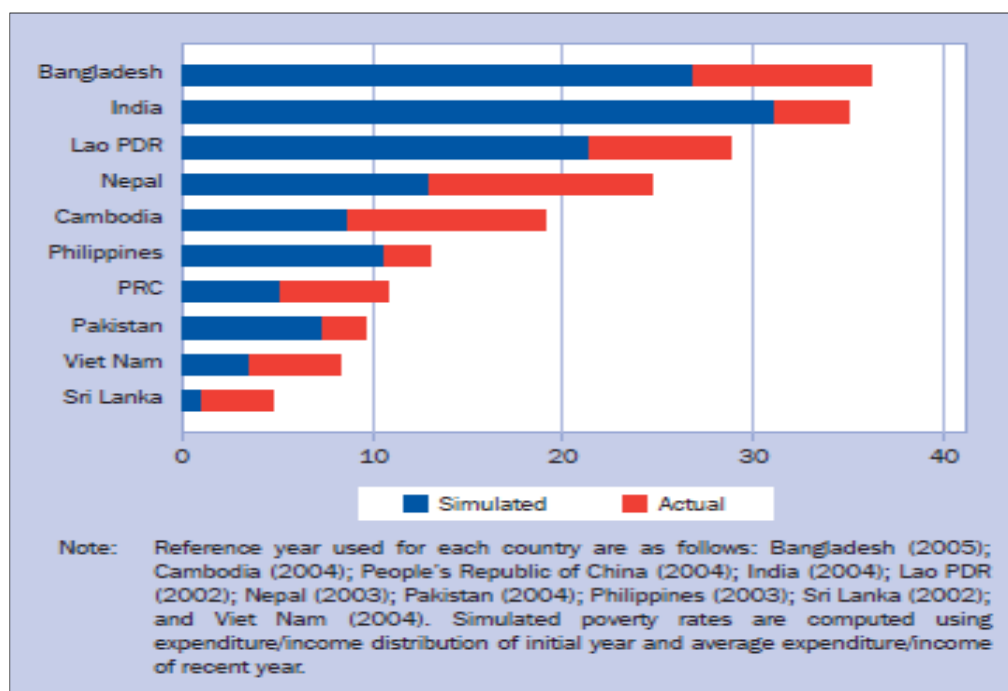
If we refer back to our concern regarding growth and equity, the major question arising would be the reason why should policy makers make such hard decision between growth and inequality? In other words, does inequality matter that much, and why?

For most policy makers, the most important goal in addition to growth is reducing poverty. To realize that policy reducing inequality is required, because increasing in inequality (World Bank, 2008), damp the poverty reducing impact of a given amount of growth. In other words, growth could, to some extent, reduce poverty in the long run. However, due to inequality matters, this poverty reduction strategy through growth could not realized to the optimum

¹ Amiel and Cowell (1999, Chapter 4) study attitudes to redistribution in a series of experiments, in which people were asked to say which of two hypothetical distributions was more "unequal," and this was repeated for various redistributions. Respondents were found to be much more likely to identify redistributions from one income level to a higher one as making the distribution "more unequal" as the income gap between the two levels rose.

level as it should have. This can be explained by figure 1, which illustrates the \$1-a-day poverty rates, extracted from the World Bank (2008) report on inequality in Asia. The figure shows that poverty rates would have been lower, had the growth been accompanied by their previous and more equal distributions, which is not the actual case. The actual case that realistically happened was that the growth was not able to reduce poverty rate greater as a result of the existence of inequality.

Figure 1: \$1-a-day Poverty Rates, Actual versus Simulated



In conclusion, inequality happens in the context of uneven growth as well as uneven reduction in poverty. What is significant for policy makers is the fact that it is indeed difficult to choose between growth and equality; however, with substantial increase in inequality, the growth could not reach its potentiality either. Together with poverty still pervasive, the society would be at risk if it is still concentrate on growth only. In support to this, World Bank (2008) mentioned that ‘the historical record of today’s developed countries does not show declining inequalities to be an automatic outcome of continued economic development.’ Nonetheless, provided that high levels of inequality and/or rapidly rising inequality can entail

slow progress in the economic well-being of the poor even in a growing economy, and can also undermine both social cohesion and the quality of policies and institutions; hence, public policy cannot simply ignore inequality. Still the question in doubt for policy makers is what should be the policy change that could induce growth and simultaneously allow the vast majority of citizen to enjoy this prosperity together, not merely benefit the small group of people.

2.3 Public Finance

“Public finance” is one of the very important fields of government public policy. Its whole literature is so vast that this paper could not hold all of which. The paper will include only some significant literatures of public finance that is most related to the research question of this paper.

2.3.1 General concept framework

It is probably quite hard to tell when exactly ‘Public Finance’ was born, but the fact is that it should be existed since the existence of ‘government’ as it is strongly involved in government activities in finding the budget ranging from tax, seigniorage (the net revenue resulting from issuing currency), to commerce, to security trading and to international funds as well as borrowing; and then use those budget on their public goods and services for the sake of their public-citizens. In shorts, it deals with government revenues and expenditures.

A. Definition

By simply defined, public finance is, in general, encompassing both the spending by government and the methods used to pay for that spending, in particular taxation and borrowing. More modernly defined, Public Finance, by Richard Musgrave, is described as a field of study concerned with the government’s functions focused on resource allocation,

distribution, and stabilization of an economy. Moreover, it is appropriately concerned with administrative practice, and provides attention on some new approaches to improving fiscal, spending, and tax policies in least-developed economies (World Bank, 2008). Theoretically speaking, public finance is such a broad field and one of the most important considerations in government public policy. In modern times public finance includes four major divisions: public revenue, public expenditure, public debt, and certain problems of the fiscal system as a whole, such as fiscal administration and fiscal policy. The so-called public finance in this research paper is specifically defined as the government functions of resource allocation and reallocation, in a fairer and more transparent means, within the budget constraint, for the purpose of improving equality and reducing poverty in a nation. In other words, this paper is focusing on government public expenditures in relation to poverty and inequality alleviation issues.

B. Public Expenditure

Economists classify government expenditures into three main types. First, government purchases of goods and services for current use are classed as government consumption. The second type is known as government investment which includes government purchases of goods and services anticipated to create future benefits such as infrastructure investment or research spending. Government expenditures that are not purchases of goods and services, and instead just represent transfers of money such as social security payments are called transfer payments (World Bank, 2008).

The second type aforementioned could also be simply called public expenditure, which is one of the major parts in the field of public finance and the important consideration of government. The major concern for every government would be on ‘How should the choice of public expenditure be determined so that the goals set could be achieved efficiently?’

The World Bank (2008) in the report of 'Public Finance for Poverty Reduction' stated that Government expenditure policies are implemented, in general, in the search of two main objectives. The first objective is to increase overall efficiency in the allocation of resources through the provision of certain goods and services that private markets fail to provide or could not provide at an optimal level, or unable to provide. These public goods and services are usually referred to the infrastructure like school, housing, hospital, roads, bridges, and so on. The second objective is to improve equity in the distribution of income. In other words, this goal touches more on social issue of reducing the gap between the rich and the poor; which can be accomplished through income transfers and through the provision of goods and services that maybe greater benefit to the poor population. This is generally known as 'pro-poor policy'.

The goals sound very ideal, but usually another concern for government especially in developing countries is the constraint to actually finance those expenditures. Despite of such constraint, as noted by Selowsky (1979), government expenditures even in the poorest countries, where government public budget is very limited, tend to be quite large by comparison with the income received by the poorest groups of the population (World Bank, 2008, 151). The finding implies that the benefit incidence of public expenditures does have a potential significant impact for changing the welfare of the poor people. For example, increasing the supply of certain services like education, health care, and clean water, has been vital to lift people out of endemic poverty and increasing equality among citizens.

C. Issues in Public Finance

In general, in spite of the importance of public finance for government in their policy decision making, there often exists some problems which are the obstacles for government to make effective decision on the policy that could induce significant impact on the welfare of

the people. The most prominent issue that most people could think of, associating with public finance, is psychological issue which determines that public finance, like economics, generally deals with people, that is to say many of its problems lie on human behavior which is the subject matter of psychology. For example, taxation requires a study of human motivation. People who are the burden of the tax might perceive unfair while those who are beneficiaries of the tax might complain government is not doing enough job to help them. In that sense, it is hard for policy makers to decide on how to manage public finance so that the policy could effectively serve the needs of the people as well as to increase the welfare of the nation.

More important than psychological issue would be the fact that public finance is usually associated with the lack of transparency and thus creates inefficiency which makes the targets set by policy makers difficult to achieve. Despite the vast literature studies in Public Finance, establishing the one with transparency and efficiency is still a challenging problem for almost every single country, ranging from the most developed to the least developing countries. When talking about lacking transparency and thus inefficiency of public finance, usually the first thing people would think of is corruption in collecting as well as the use of public budget.

Nonetheless, another salient factor that could lead to such inefficiency is the so-called leakage. Leakage, according to the World Bank (2008, 250), is defined as the portion of public funds that does not reach its ultimate targeted beneficiaries, but instead is diverted for other purposes, including private gain or other potentially legitimate but clearly unintended purposes. Leakage could be different from corruption in a way that it could be less illegitimate. Corruption studies examine the diversion of public funds and the taking of bribes by public officials—actions that are both clearly illegal and fraudulent in intent (Rose-Ackerman 1999; Treisman 2000; Seligson 2002). Due to this legitimacy matter, more attention seems to be on corruption rather than leakage in concerning about efficiency of public finance.

As aforementioned, inefficiency in public finance is also explained by corruption which is one of the most vital concerns for every country. “The people who can best describe corruption are those themselves engaged in corruption” (Hillman, 2004). This implies it is not easy to define just exactly what corruption is and how it works. This varies among people, institutions, regions, and nations. What is understood and agreed upon is that corruption produces adverse effects on growth, and poverty and inequality reduction. In that sense, corruption, being described as cancers which if left unchecked, can quickly spread and destroy the society, economic, and political structures and process, is one of the major problems in almost every single country, with merely different level of severity. The key issues to be analyzed in assessing the quality of the budget process are degree of discipline, efficiency in revenue mobilization and extent of transparency, accountability and control in the tax system.

The inefficiency and lack of transparency issue is not a merely local concern, the matter has also aroused attention from the globalized world. In response to such concern, many international initiatives have been taken to ensure that countries try their best to abide by the international standard of good public finance management. For example, International Monetary Fund (IMF) has increased its concern on the issues and strengthened its policy for fund providing, through motivating the borrowing countries to have a clear guidelines on the project planning as well as implementation to ensure that the fund is transparently and efficiently used. In that sense, the IMF has offered its ‘Code of Good Practices on Fiscal Transparency’ which contains four key elements:

- The government’s responsibilities should be clear and publicly disclosed
- Comprehensive and reliable information on fiscal activities should be made available to the public

- The process of preparing, executing and reporting on the budget should be open and widely publicized
- Independent arrangements and procedures must exist to confirm the integrity of the information made available to public.

More importantly, lack of transparency and corruption in the public expenditures and revenues is not only ethical issues, but they strike at the heart of good public finance management. They deprive governments of desperately needed resources for development, engender criticism and disillusionment with the process of economic development and can result in political alienation and withdrawal of legitimacy and instability. These inefficiency problems like poor targeting, deficient financial management, and funding leakage, may undermine pro-poor public spending severely (World Bank, 2008, p233).

Furthermore, IMF (2004) research also stressed the important of reducing corruption and project success by showing that “the coefficient on the program level of corruption is positive and significant, and its magnitude is impressive.” It specifically found out that on average, a one-point improvement in the ICRG corruption index coincides with a 35.8% of the success of program implementation. So it is empirically true that reducing corruption is important in leading to the success of policy implementation. Therefore, in a context of extremely scare resources, particularly in developing and least developing countries, addressing these inefficiency and transparency shortcomings is critical to the success of the country’s poverty alleviation agenda.

2.3.2 Impact of public budget on the poor

Two of the most important goals of government policy are to address inequalities in the distribution of income and to improve the welfare of poor people. In that retrospect, public finance plays its important role. But is public expenditure always good for the poor? The answer depends on what it is used on and more importantly how it is spent. World Bank

(2008) explains the impact of budgets on the poor through tax and expenditure benefit incidence analysis. One of the articles in this every special report written by Jorge Martinez-Vazquez mentioned that an important part of the theory and practice of public finance is dedicated to conceptualizing and measuring of how the revenue and expenditure of government budgets affect the distribution of income among individual households. This effect is recognized as *tax and expenditure incidence* or, in shorter form, *fiscal incidence*. Research on this incidence enables us to understand how government policies affect the distribution of income; how equitable those changes may be; and, in particular, how government policies actually help poor people.”

Eventually the result of the study shows that fiscal incidence analysis is an effective tool for deciding whether government tax policies and expenditure programs have the desirable effect on income distribution and on the poor. Main tax reforms and large public expenditure programs are carried out routinely in many countries with specific re-distributional objectives, including shifting tax burdens borne by lower-income groups and directly helping poor people. For instance, understanding the incidence of expenditures on education and health care for the poor is vital, because improved education and health status have been proved to be the most effective means of poverty eradication. Therefore, he concluded that tax policy and, especially, public expenditures are potentially powerful tools to combat poverty. Thus, it is important to ask whether government tax and expenditure policies have achieved its intended effects— and that is what fiscal incidence analysis does.

While both tax and expenditure incidence in ‘fiscal incidence’ has vital impact on the poor, Vazquez study found out that the impact of tax policy on the welfare of the poor is actually very limited. The fact is reflected in the old maxim in fiscal incidence that ‘taxes cannot make poor people rich’. According to Vazquez, it is generally admitted that the impact of the government expenditure side of the public budgets plays more important role, than tax policy, in improving the status of the poor (World Bank, 2008, 136), encouraging the government to

not only on tax policy yet more attention on their expenditures-targeted points and the means of expenses.

Further studies by World Bank 'Public Finance for Poverty Reduction' also suggests for government's attention on public expenditures in the domain of public finance in order for poverty and inequality to be reduced efficiently. The research examines public finance's role in reducing poverty through case studies from Africa and Latin America. Its findings show that the most important tool for providing the poor with opportunities, empowerment, and protection is not public revenue policy, but rather the resources channeled through public spending programs (World Bank, 2008). This offers a simple implications and recommendation that in considering public finance for poverty reduction, more focus should be on public expenditures rather than public revenues. The studies also show that there are actually very limited instruments available for policy makers to make income distribution less uneven (decreasing inequality) and also to alleviate poverty, particularly in developing countries. If not taken care vigilantly, like an example from the studies, this big machine could occasionally produce unwanted effects. For instance, certain policies that can reduce inequality do so at the cost of damaging a country's long-run growth prospects. Other policies can promote growth by paying no or little attention to their effects on the individuals who are excluded from the material improvements that growth can generate.

Even though it is largely accepted the great impact of government expenditure on income distribution, Vazquez asserted, studying this incident is not easier than studying the tax incidence. In other words, it is rather difficult to measure the impact of public expenditure on individual. How such expenditures affect different groups depends on the composition of public expenditure among other things like what programs are being implemented; how much funding is going to each program; and how to guarantee the efficiency of this implementation? Specifically, after the budget plan is already decided, the most imminent concern, when

budget is very limited, is how to make sure that the budget is used transparently as planned to reach the target set. Hence, this still addresses back the problems in public finance, and in particular public expenditure, which actually is the main factor to determine the impact of public finance on poverty and equity reduction.

2.4 Public Participation

‘Public Participation’ is also known as ‘Citizen Participation’, a citizen and community engagement mechanism in order to deal with certain issues or making citizens involve in policy decision making ranging from local to national level. Similar definition from Nagel (1987) claim citizen participation that influences or seeks to influence policy decisions or an action that incorporates the demands and values of citizens into public administration services (Zimmerman, 1986). Tikare, S., Youssef, D, Roak, P., & Shah, P. (2002) define participation as “the process by which stakeholders influence and share control over priority setting, policy making, resource allocations, and/or program implementation.”

Public participation has become very popular, useful, and important for policy makers and the center of focus for donor community as a tool toward transparency political and administrative objectives. For example, both UNDP and DFID regard public participation as human right. UNDP includes participation with equality as the principles of its work while DFID endorses the rights of all citizens ‘to participate in, and access to information relating to, the decision-making processes that affect their lives’ (DFID, 2001: 86). For international aid community, participation is important in two aspects: increasing the effectiveness of state intervention as well as empowering people, especially the poor.

2.4.1 Why Public Participation is needed

Traditionally, the leaders and government of many countries would generally decide their policies without having any engagement from their people. People will be just informed after

decision is made. This mechanism is still practiced in today world, and we cannot deny that somehow it is more effective and very successful in some ways and some aspects of policies, but not always and all aspects.

Public Participation is a new mechanism, served as an alternative to traditional government governed and dominant system. It is designed to make sure that all members of the public have a stake in government's decisions, and they shall have the opportunity and encouraged to participate in developing solutions and making any decision that could affect their lives and standard of living. It transforms the democratic system, empowering it, by establishing a permanent connection between the governed and those who governed (FARN, 2009). This joint venture allows more reasoned decisions, achieves higher consensus, enables better understanding of the problems, and thus permits the two parties to work cooperatively toward possible solutions. Public participation does not involve only for decision making, but also participation before and after decision could enhance and improve the quality of decision made. Above all, it is important for authorities or government to be informed on technical issues and particularly the citizens' needs before making decision. More important than that, after decision is made, there is more likely to have stronger support and better implementation and compliance from public.

Also, public participation allows government actions to become transparent, effectively avoiding corrupt behavior (FARN, 2009). It is commonly agreed that transparency in government is an important factor of good governance. The more public could be informed and involved, the more meaningful role they could play in communicating with government and each other (Pope, 2005). However, this does not simply mean that publics are entitled to know everything single work of their governments. This only suggests that not only there should be clear explanations as to what is and what is not in the domain of public but also

that there should be clear and convincing reasons for any secrecy, justified by the demands of ‘public interests’ and not merely the interest of those holding powers.

Furthermore, big part of citizen needs is the right to information. ‘An open society recognizes that no one has a monopoly on the truth’ (Pope, 2005), citizens are able dynamically to debate over government policies and the future direction of their country and freedom is maximized, while the weak and the poor are protected. Informing citizens before decision is one type of getting them involve in policy making process. The purpose of information access and public involvement is to build and nurture public trust, which in turn safeguards against corruption. That is to say political leaders who feel themselves under concentrated, regular public scrutiny are more inclined to act, ethically, honestly, and in the public interest and simultaneously less inclined to sell out public interest in favor of their own.

2.4.2 Types of Public Participation

There could be many categories types of ‘Public Participation’. What category could be by the means of participation or by its results. Usually, in terms of the former category, we would see public participation is typed as direct or indirect participation. Indirect participation is when people decide exclusively through their representatives in governmental bodies; indirect participation is also known as collective participation. Direct participation is when all or some of the citizens or stakeholders are gathered to decide. Example of direct participation would be the national election for their political leaders, while their representative in the parliament is making a decision on certain policy is recognized as indirect participation.

Types of public participation could also be categorized base on its legal effects-what kinds of legal consequences it would produce. In terms of legal effects, public participation is contented into two kinds: Public participation with binding effect and public participation

without binding effects. FARN (2009) defines participation with binding effect as referendum, plebiscite, and/or recall whose decision is by the public; in this case, public decision is government decision. On the other hand, participation without binding effect is public consultation, public hearings in the decision making process, which complements the government decisions. Public should be informed before they involve their participation about the effects of the results or decisions, whether or not their decision will become government decision or final decision or merely recommendation for government to decide, for example.

There are different forms and mechanisms of public participation. Certain popular uses of mechanisms of public participations include public hearings, participatory budget process and referendums (FARN, 2009).

Public Hearing is a formal meeting between citizens and government bodies to discuss a particular subject or other type of decision to be made by the government. It thus is usually carried out during decision-making process. Its objective is to promote communication between government and citizens so as to take into account the opinions of the citizens while making decision and thereby strengthening the decision. Above all, public hearing is not legally binding.

Referendum is when citizens vote for or against a proposal to create a new norm or to make change or revoke an existing one. Usually it is legally binding and thus has the legal effects. That is to say, government must accept and implement citizens' decisions. Generally, countries establish the legal criteria, forms and topics that can be involved in referendum on a case-by-case basis. Referendum type of public participation is used in many countries including Hungary, Lithuania, Poland, Slovakia, and Slovenia (FRAN, 2009).

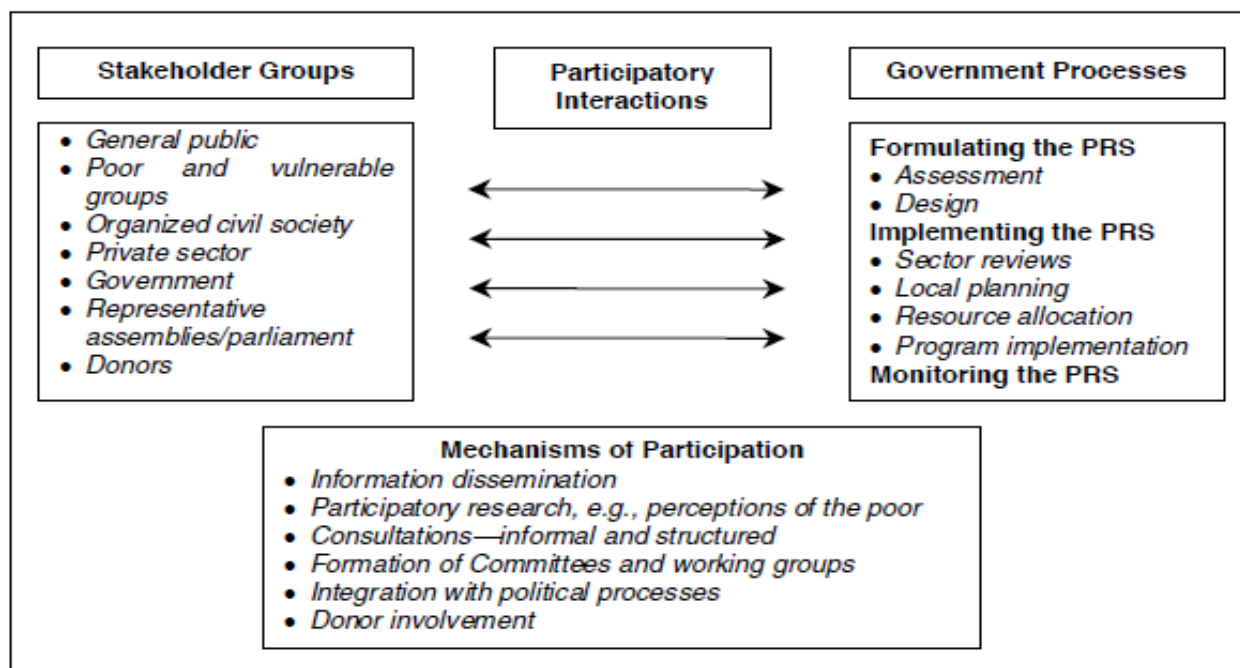
Participatory budget process is another revolutionary mechanism whereby citizens have the opportunity to participate in elaboration and control of the state budget; so far only used at Municipal level (FRAN, 2009). In practice, the authorities meet the public to reach an agreement on how to transfer public priorities into public policy agenda, making sure the right amount of budget is going to the right agenda which meets the needs of the people. The purpose is to allow for people's controlling or influencing the government uses of public resources.

Each mechanism has its own characteristics and effects, strengths and weaknesses. And it is tough to state which mechanisms are better than others; generally speaking, validity and efficiency as well as effectiveness of each mechanism depends on social, political, economic, cultural context, and time frame, where and when it is developed and practiced.

2.4.3 Design Public Participation Program

Mechanisms of Participation, according to Tikare, S., Youssef, D, Roak, P., & Shah, P. (2002) includes information dissemination, participatory research (for example, perceptions of the poor), consultations—informal and structured, formation of Committees and working groups, integration with political processes, and donor involvement. They also elaborate on how participation is done in government process. Figure 2 shows a scheme for visualizing the the process of designing a participatory process moving from inputs to out outcomes and to impact. They assert that “it [figure 2] suggests a range of options, given the objectives of increased transparency and accountability, and the ultimate impact of effective development and poverty reduction policies and programs.

Figure 2: Participation in Government Process



Source: World Bank.2002. A Source book for Poverty Reduction Strategies. Volume 1: core Techniques and Cross-cutting Issues, Chapter 7: Participation. P.238

Participation process start from defining the stakeholder groups-the affected directly or indirectly by the policy or project. Those stakeholders could be general public, the poor, civil society, private sector, donor, parliament, or even the government themselves. This participation, for a simple example, could be the involvement of the poor (stakeholder) in participatory research (mechanism) in designing a policy could be induced to benefit the poor in the country. This includes doing survey, asking questions, seeking for the poor’s opinions in order to design the kind of policy that could meet with their needs.

Besides, ‘there is no such thing as a one-size-fit-all public participation process’, as mentioned by Creighn (2005), yet there are a systematic way to assist thinking through the issues which will help produce a successful plan that would fit unique requirements of a particular decision or issue. Thus, he set out three stages in developing a public participation process. The first stage consists of Decision Analysis, which is to clarify the decision making process, consider whether there are issues about the process itself that could affect the

credibility of the public participation process and thus make a decision whether or not public participation is needed for this decision. Even though it's a decision context and not about public participation, integrating public participation in this process is a precursor necessary. The second stage is contented as Process Planning, used to specify what needs to be accomplished with the public at each step of the decision-making process. That includes identify the stakeholders, internal and external, identify techniques to use at each step in the process and link the techniques in an integrated plan. The third stage is known as Implementation Planning; the last but certainly not the least stage to do. It is about planning for implementation of participation activities.

There is no rule of thumb on how public participation process is going on; mechanism and techniques vary from countries to countries, from one policy to another; it also depends on political ideology, nature of project, mindset and perception of public as well.

2.4.4 Successful Public Participation Cases in Other countries

Public participation or sometime call citizen participation which is a type of citizen empowerment is not a new idea. It has been initiated and implemented in many countries in order to help citizen taking part in policy-decision making, help them to address their needs and successful solve and better many policy projects. Following the section will be the three famous cases of public participation in the United States, in Brazil, and in India.

A- Minneapolis: Neighborhood revitalization program (NRP)

In recent decades, there have been a few initiatives to invite the citizen to participate directly in public decision making at the sub-local, the neighborhood level in the United States. Among the American local government experience, the city of Minneapolis, Minnesota offers perhaps the most empowered experience of citizen participation in neighborhood government. Particularly, in 1900s, the state and city approved to devolve some \$400 million, to be spent

over 20 years, to neighborhood level decision-making over priorities, planning, and projects under the rubric of Neighborhood Revitalization Program (Fung & Fagotto, 2005).

The program was initiated during the time of a suburban flight and consequent central city depopulation, which ranked one among the highest concerns of Minneapolis citizens and leaders. At the time, 14% of its population of the neighborhood population was lost to growing suburban areas, leaving the poor behind; the neighborhood faced increasing crimes and declining school quality. In coping with the arising problem, the NRP program was established, intending to seed money to create neighborhood capacity and opportunities to coordinate city departments and agencies in order to optimize the use of resources in tune with citizens' needs (Fung & Fagotto, 2005). The program was made into 2 phases of Phase I for the first decade, and Phase II for the next. The Phase I (1990-2000) of the program has achieved some of the objectives. It has revitalized many parts of the city, improving the housing stock and commercial corridors, facilitated the construction and improvement of school, parks, and other public facilities. Property values have thus increased. Besides serving as a contribution to solve the aforesaid matters, the program also results in better resource allocation that was systematically favored disadvantaged neighborhoods. For example, some of the poorest neighborhoods had allocations of \$2,800 per household, while some affluent protection neighborhoods received \$400-500 per household (Fung & Fagotto, 2005). The success of the program is also marked by the increasing involvement of residents in NRP related activities.

The success is a result from the cooperation of all stakeholders-the state government, the city government, the local authorities and agencies, and the citizens at large. In the case of Minneapolis, neighborhoods depend upon the cooperation of the city agencies to implement various projects and upon the city and state for continued financing and political authority.

Should there be no cooperated participation from among the citizens, the projects might not turn out convincing for the city and state government; the same way should there be no involvement and support from the upper government, the local authorities and the citizens could not have a chance to be empowered, to initiate, to express their thoughts and needs, and to raise and get the project implemented. For instance, the NRP governing body comes from all fields; particularly, the policy board is formed of representatives from jurisdictions, neighborhood representatives, foundation, labor and business representatives, city councilors and the State Legislature. This board meets every month to discuss action plans, modification plan, major re-allocation of resources, and the creation of special dedicated funds, in overall, any decision that shape NRP's policies. Though it is a citizen empowerment program, NRP involves certain level of centralization through having the city council to decide for the final step for plan adoption and fund appropriation; nonetheless, it is at the board level that participants evaluate the plans and decide to approve them or send back for modifications.

B- Participatory budgeting (PB) in Brazil

Beside participation in policy projects like the aforementioned NRP in Minneapolis, participatory budgeting (PB) also began more than a decade ago in Porto Alegre, one of the most populated cities in South Brazil. Participatory Budgeting describes a process through which citizens present their demands and priorities in terms of civic improvement, and influence through discussion, negotiations on the budget allocations made by their municipalities.

Although the Porto Alegre, the city of 1.3 million enjoyed high social and economic indicators, with its life expectancy of 72.6 years, and literacy rates of 90 percent, well above national average, and well above that in Cambodia, the city is high segregated economically. In other words, almost one third of the population lived in irregular housing. This socio-

economic matter poses distinctive strategies to drawing solutions; one of which is 'Empowered Participatory Governance (EPG)'. Eight neighborhoods associations or groups are to elect their own delegates, who will be attending the deliberation with major and staff, in order to reply to the citizens' needs and concerns in the projects in the districts. As part of this joint-strategy to make improvement of the lowest-income area while 'cleaning up' public finances, the participatory budget (PB) has also improved the quality of governance. For example, the percentage of the public budget available for investment projects increased from 2 percent to almost 20 percent in 1989 and 1994 respectively. The property tax increases and higher tax collection rates were also made possible.

What is more, expenses provided to administration have been approved; hundreds of projects and investment in the poorer residential districts have exceeded that in wealthier areas; so on. It has thus resulted in improved facilities for the people, especially the poor, in Porto Alegre. For instance, sewer and water connection was improved from 75 percent of total household in 1988 to 98 percent in 1997 (Bhatnagar & Rathore, 2003). The PB strategy has resulted in redistributive of investment and led to greater shares of investments provided to higher levels of poverty areas and districted, lifting the standard of the citizens, especially the poor. Satisfying with all these fruitful results, PB has become popular and been increased since then. The number of participants in PB process in Porto Alegre reached 40,000 per year in less than a decade, implying PB's ability in encouraging increasing citizen involvement. To sum up, the Porto Alegre has achieved efficient and redistributive decision-making within a deliberate framework that has also attracted broad-based participation from poorer strata of the citizens.

After the initiation of the program in 1989, budget allocations for public welfare tasks in Porto Alegre have been made only after the recommendations of public delegates and approval by city council. The achievement in PB has given some good lessons for other

participatory cases to get a success. First, it is important that information is disclosed to public representatives through the meeting and that they should be facilitated a learning process that would lead to a more active citizenship. This awareness raising help participants see new possibilities and assist them in deciding on the matters that influent their everyday's lives; therefore make better participation process. Second, PB has encouraged the active participation of various segments of civil society in a process which earlier involved only elected representatives.

Furthermore, as supported by professor Bhatnagar and Rathore (2003), transparency is still the core of participatory budgeting, even though the procedure of participation might defer from one to another. The involvement of people, the poor especially, in PB has enhanced its transparency in budgeting, proving the important of consideration of public opinion and accountability from municipalities and central government. Accountability is not only necessary from the two aforementioned, but delegates and the local authorities must also be held accountable toward their deliberation as well as recommendation proposed; otherwise they could their public trust and support.

C- India (Kerala): Empower Participatory Governance (EPG)

Another form of participation is Empower Participatory Governance, EPG, a model of governance developed by Archon Fung and Erik Olin Wright asserting that the institutions of liberal democracy have limited ability to address the challenges of just and equitable development and that a more citizen empowered participatory form of governance would be a better reform.

Acknowledging and witness the vast benefits provided by EPG initiated in some cities in India, the Kerala city, the Southwestern part of India, adopted and extent the EPG in 1996. The ruling party of India/Marxist (CPM) pursued a devolutionary campaign of village level participatory planning as a tool to both shore up its waning electoral base and enhance

administrative effectiveness. Under the campaign, around 40 percent of the state's public budget was delegated to village planning council. In order to endure the effective spending, each village was required to produce detailed development plan for specified monitoring and assessments of needs. The plan will be finalized and approved by the village assemblies. However, limitations are fore set by categories; for example, around 40-50 percent of each fund should be invested in economic development, while 40 percent for social spending involving slum improvement, road renovation and construction, and the other 10 percent was to be targeted to program for women. Despite financial constraints faced by the state government, one of the most important achievements of EPG to date is the sustaining of political will to maintain and increase the scale of participation in subsequent years.

One of the major factors that lead to successful campaign is the 'development seminars' training, equipping some hundred of participate the basic skill of self-governance skills. The actual planning process was involved by more than a hundred thousand volunteers to develop the project and more than twenty-five thousands to combine those projects together to form village-level plan. This formulation has surpassed the central state government's ability to assess the quality of the plan. To augment the capacities, some five thousand volunteers including retired professional were formed 'Voluntary Technical Corps' to review the projects and plan. The availability of resources, funds and human capital, participatory from government, citizens, volunteer professionals and other agencies are crucial factors in enhancing effective participation.

To sum up, all though the cases differ from the others in its concrete aims and scope, it shares some similarities. The participation cases above were working toward deepening democracy in their countries, empowering their citizens to influence their policy decision making. The cases proved successful and effective; nonetheless not every participation scheme is

successful in achieving the goals set and in solving the problems. Even the participation in a country might defer from one region to another. For instance, if we have a look at the experiments of EPG in India, in term of participatory process and technical effective, the overall progress by far has been promising yet not fully complete. Some villages produced thoughtful and concrete plans while some produce poor plan and failed to produce any plan at all. Some plans were poorly integrated with poor credit and financing scheme. However, failure was not to demotivate those villages and the government; instead these give them better opportunities to make their participation process a different in the next planning with better learning and observation of other villages and carefully organize their participation, planning process and outcome.

2.5 Relationship of Four Variables

We normally see many debates about economics and environmental issues as a confrontation in development. On top of that, another one of the biggest challenges in development pattern is striving to harmonize economics with social issues. That is to say, when focus is driven on economic growth, less attention would be on social issues. A country, particularly developing, less and least developed countries, could not be fully developed with the pursuance of only economic growth and care less about social issues like poverty and inequality of the whole population. 'Both [Government and Economists] will no longer be able to hide behind the argument that poverty reduction is a goal that can be ignored because growth alone will be sufficient to eliminate poverty' (World Bank, 2008). For that reason, while economic growth is good to see, attention should be on whether or not this growth has spread across and benefits the whole population and not some certain groups of people. Policy research has also shown that poverty reduction will be faster in countries where income growth is combined with falling inequality (Bourguignon, 2003). Therefore, policy of economic growth must be reaching out to contribute to solving poverty and inequality matters as well.

This harmonization could be achieved through active government role in terms of public expenditures. Professor Richard Musgrave, known as the father of Modern Public Finance (1910-2007) was convinced that the governments' important roles in taxes and public expenditures could be used to improve social welfare. The government intervention or non-intervention has been debated over time. There are many reasons in favor of government intervention for a nation to grow, and for growth to be evenly or at least almost evenly distributed so that vast majority of citizens could also benefit from the growth. By the means of public expenditures; government could affect economic growth and at the same time affect the poverty and inequality issues through means of redistribution.

However, even though the concern for equity is typically associated with the role of government, that does not mean that only government should or could contribute to reducing poverty and inequality. If one thinks of poverty as a result from a lack of opportunities, empowerment, and social protection, it is clear that the government is not solely responsible for filling that lack (World Bank, 2008). Particularly, when talking about public expenditures, the involvement from public, as mentioned earlier, could contribute to increasing the transparency as well as to direct government policy in budget spending to meet the needs of the citizens.

Above all, addressing social issues while maintain economic growth simply seeks for the benefits of the growth to be reaching out to the poor which could ultimately contribute to reducing poverty and inequality. The government could achieve this goal by focusing its intervention in public budget expenditure with the involvement from public.

Chapter III Cambodia Current Situation and Problem Framework

This chapter describes the present situation in Cambodia in terms of its general background including geographic, population, culture, as well as economic situation evolving from civil

wars, conflict until present day. The chapter will also provide basic understanding regarding followed by the poverty and inequality circumstances faced by Cambodia recently, along with government strategies and actions to combat these ‘epidemic diseases’. It is closed with insight historic and current public finance as well as public participation framework in Cambodia.

3.1 General Background of Cambodia

Cambodia is a least developed, low-income country, emerging from decades of civil wars, internal conflicts, and genocide as well as economic stagnation. First and foremost, it is beneficial and interesting to have an overall picture of this used-to-be-prosperous poor nation, whose history is the center of attention for vast international publics.

3.1.1 Cambodia Geographic

Cambodia, also known as Kampuchea, is geographically located in Southeast Asia, or more precisely in the Southwestern part of Indochina peninsula. With a surface area of 181,035 square kilometers, Cambodia is the third smallest ASEAN countries after Singapore and Brunei. It shares the border with Vietnam, Thailand, and Laos. The capital city is Phnom Penh, which is also the largest and most dense city. The country consists of low plains crisscrossed by many rivers that flow into the Mekong River and the Great Lake of Tonle Sap. The Mekong River, which is the tenth largest river in the world and the longest river in Southeast Asia, is the most important river in Cambodia. This river is connected with the Tonle Sap lake, which enlarges to four times its normal size when the Mekong rises during the monsoon season thus causing the Tonle Sap lake to flow northward into the lake. Beside for essential navigation purpose, the Mekong as well as the Tonle Sap lake is also a source natural resources-natural view and fishery.

With tropical monsoon climate, Cambodia has two distinct seasons which are the dry season and the rainy reason. While the former one is from November to May, the later one is from

June to October. Nonetheless, rainfall is uneven and irregular which leads to periodic droughts or floods, sometime concurrently in different part of the country.

Administratively, Cambodia is divided into 24 provinces and Phnom Penh municipality. Provinces are further divided into districts and municipalities; whereby districted are divided into communes and quarters, then villages as the smallest part of the province, and municipalities are divided into quarters, which further divided into villages and then villages divided into groups. Phnom Penh, a capital city of Cambodia, is divided into sections (Khan), which further divided into quarters and then villages. Phnom Penh is the densest region in Cambodia (4,571.3/square km). It is now home to almost 2million out of 14 million Cambodian populations. Above all, first-level divisions is provinces and capital city; second-level divisions is districts, municipalities, and sections; and the lower-divisions include communes (Khum), villages (Phum), and city quarters (Sangkat).

3.1.2 Population

The 2008 population census final results show that the Cambodia population has augmented by 1.96 million over the last 10 years from 11.4 13.4 million in 1998 and 2008 respectively. The population density increased from 64 to 75 persons per square kilometer, but the annual growth rate declined from 2.49% in 1998 to 1.54% in 2008. Cambodia accounted for 2.3 percent of the Southeast Asian population, of 8.6 percent of the world's population of 6.7 billion in 1998. Even though great decline in population 1979 was seen as a result of genocide Pol Pot, gradual increase is seen after that. According to Central Intelligence Agency (CIA), Cambodian population in 2009 is estimated to be roughly 14,494,293. Majority of population is middle age people in the labor force period; for example, 63.8% age 15 to 64, and under 14 population accounts for 32.6% who will be needing jobs in the next decades, and the rest are senior citizens age over 65, the living rest from the genocide.

Table 1: Population in Urban Phnom Penh 1998-2008

Year	Total Population	(%)
1998	1,039,607	8.57
1999	1,077,286	8.72
2000	1,114,479	8.86
2001	1,152,572	9.0
2002	1,191,668	9.14
2003	1,231,630	9.27
2004	1,272,386	9.40
2005	1,313,851	9.52
2006	1,355,934	9.63
2007	1,398,555	9.74
2008	1,441,692	9.84
Total	13,589,660	9.27

Source: National Institute of Statistic 2009

Table 1 shows the increase of Phnom Penh total population throughout the years, compared to other urban areas and provinces. The politically and economically-centered city has attracted numbers of people from rural areas (De Ville & Westfall, 2001). Phnom Penh is growing annually by 4% relatively to the country's overall 2.5% growth level. In the last 5 years the city's population has increased by 300,000 people, indicating real increased population pressure (Crosbie, 2004).

The rural-urban migration, along with the shaky economy and weak infrastructure, has made the city unable to provide adequate housing, jobs, and services for the growing population. As a result, currently over 30% of city population is living without enough housing and basic services (Municipality of Phnom Penh, 2005); and 3.3% of people are unemployed (Census 2004). CIA reports Cambodian urban population in 2008 amounts to 22% of the total population; it estimated that urbanization rate would be 4.6% annual rate of change (2005-10 est.), which implies the increase of urban population in the next few years to come.

3.1.3 Cultural Aspects

Cambodian nationality is Khmer-descendants of the Angkor Empire that extended over much of Southeast Asia and reached its zenith between the 10th and the 13th centuries (CIA, 2009)-who constitute about 91% of the total population. Besides, Cambodia also consists of a diversity of ethnic groups including Chinese, Vietnamese, Chams and hill tribes called Khmer Loeu as well as other minority groups living isolated from majority Khmer, whose language and culture is quite different and traditional.

Cambodia history dated back around two million years ago; this nation has developed a unique culture, living style, and belief. The milestone period for Cambodians was back to Angkor period, between the 9th and 14th century, which is known to be the most prosperous and flourishing era in history. Brahmanism was widely practiced before Angkor period. Later, various Hindu sects were promoted by the Angkor Kings especially the cults of Shiva and Vishnu, which is still be seen in the art and architecture of that period. Later in the 13rd century, Theravada-Buddhism entered the country and began to spread under King Jayavarman VII in the whole nation. It became the state religion in the 15th century. Nowadays, almost 91% of the total population is Theravada-Buddhists, besides 1% Christian and the remaining follow Islam, atheism, or animism.

Like many other Asia culture, Khmer culture is very hierarchical; that is to say the higher a person's age, the greater level of respect must be granted to them. Thus, the way the young address the seniors, the way they greet elders, and the way they behave in any situations is different from that they do it to their peers. They must do it in a very respectful and gentle way. Even though the trend is moving toward modernization and Westernization, Cambodians still prefer collectivism to individualism. In other words, family bond is very important, and supporting the parents when they are old is highly expected; failing to do so, the children are highly likely to be condemned by the society.

3.1.4 Cambodia's Economic Situation

Cambodia may be the country who suffered the most pain and had experienced the most severe catastrophe. At the first glance of Cambodia timelines, people would be able to see that this nation has come across a lot of civil wars ranging from Lon Nol Coup or the Overthrow of Sihanouk King in 1970, Pol Pot genocide, Vietnam War, and other political instabilities during the 1990s, which apparently are the hinders to the development of the country. These resulted in destruction, death, pain, and especially slower growth of economy.

a- The economic during Pol Pot Genocide:

During the Pol Pot Genocide from 1975 till 1979, officially called “Democratic Kampuchea”, also known as Khmer Rouge, “agriculture first” policy was implemented. The “Angka” or leaders built the nationwide irrigation system like canals, dams, and reservoirs in the purpose of producing rice on a year-round basis. Other industries were destroyed, urban citizen (known at that time as “new people”) were evacuated to provinces to jointly do the agriculture. This extreme policy mainly put the “new people” in “high cooperatives” in which private property was abolished and the harvest became the collective of the peasants. Communal dining was instituted. State-own farms were also established. The Khmer Rouge relentlessly pursued the ideal of economic self-sufficiency. Extreme measures were taken. Currency was abolished, and domestic trade or commerce could be conducted only through barter. Rice became the most important medium of exchange, although some could also use gold, jewelry, and other personal possession. Foreign trade was almost completely halted, though there was a limited revival in late 1976 and 1977. China was the most important trading partner, but commerce was also conducted with France, Britain, and the United State

through Hong Kong intermediary². To sum up, the whole economy was 'destroyed'³, there were no other industries and services produced beside rice which was not needed; even though rice was abundant, it was owned by the state and many people were suffered and died of hunger due to the limited food and nutrition provided by the “Angka” as well as the violent torture and killing. As a result of 3 years 8 months and 20 days, the regime took away more than 3million lives.

b- The Economy Recovery after the Genocide and Civil wars

The most fortunate thing that could happen to Cambodia was to be free from the Pol Pot genocide on the 7th of January, 1979. After the Khmer Rouge was dismantle, the new regime started with Cambodia’s economy that was totally a ‘new baby’ who was learning to stand up and trying to move forward. Millions of people resume their lives as farmers, and mostly at a very substantial level. Growth has been done in a slow progress while many other fields need to be constructed ranging from new government establishment, new administrative rebuilt, infrastructure, reform of formal education at the time, so on. Everything was improved gradually with the help by massive influx of foreign assistant.

Cambodia’s economy saw a better progress after the first national election in 1993, where it works toward a more open economy, by adopting market economy. World Bank (2005) indicates Cambodia’s gross domestic product grew by an average 6.8% from 1999 to 2002, compared to only 5.6% from 1995 to 1998. Having had a peak at 10.8% in 1999, GDP growth actually declined consistently, falling to 5.3% in 2003. This growth was held back by the SARS epidemic and the anti-Thai riots, which adversely affect tourism, one of the major income for Cambodia. Beside tourism, the other two major factors standing important in promoting development in Cambodia are industry and agriculture. Over the past decade, the industrial sector was the main engine of growth, (World Bank, 2005) with industry's share of

² http://www.wordiq.com/definition/Democratic_Kampuchea

³ <http://www.angelfire.com/mac/egmatthews/worldinfo/asia/cambodia.html>

GDP increasing from 13 percent in 1992 to 26 percent in 2002, and unfortunately that of agriculture falling from 48 percent to 33 percent during this period.

c- Present Condition of Economy and Related Social Issues

Currently, according to the Central Intellectual Agency (CIA) report, from 2004 till 2007, the Cambodian economy grew around 10% per year; this is largely because of the expansion of garment sector, construction, agriculture, and tourism. Similar to other countries around the world, as a consequence of global financial crisis that just happened recently, Cambodia was negatively affected, even to small extent, which led to the drop in GDP growth to below 7%. Additional in January 2005 marked the expiration of a WTO agreement on Textiles and Clothing that forced many garments factories in Cambodia to shut down, being unable to compete directly with lower-priced countries such as China, India, Vietnam and Bangladesh. As a result, many jobs were lost and huge numbers of people was unemployed. For example, as reported by Chun Sophal in Phnom Penh Post, Cambodia News Paper, on October 01, 2009 that 130 garment factories shut down this year, and the closure resulted in more than 30,000 lost jobs. Unemployment rate was reported to rise at 3.5% in 2007, compared to only 2.5% in 2000. Beside exportation of textile and clothing, which accounts for 85% of Cambodia's exports, Cambodia also exports other commodities including timber, rubber, rice, fish, tobacco, and footwear. Its major exporting country is the U.S, accounting for 54.4% of total exports; other exporting partners include Germany, Canada, UK, Vietnam and others. Cambodia is said to be one of the major importing countries in the world with its import figure outweighs exporting figure by \$6.534 billion and \$4.708 billion respectively, under 2008 estimation, reported by CIA. On year basis, Cambodia imports petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products, etc from Thailand, Vietnam, China, Hong Kong, and Singapore alike.

There is a strong link between economic growth and social issue in Cambodia. According to the CIA report, the major economic challenge for Cambodia over the next decade would be to fashion its economic environment, so as to attract foreign investment that would be able to create jobs to handle the country's demographic imbalance; more than 50% of the population is less than 21 years old, who lacks education and productive skills. This group of people will be the disastrous harm for the nation if nothing is done to improve the situation. Acknowledging this concern, Cambodian government is working with bilateral and multilateral donors, including the World Bank and IMF to address the country's many pressing basic needs; to remedy the situation before something worse could happen in the near future.

On top of the issues mentioned above, rural Phnom Penh has become overload by population through migration over time from other urban as well as rural areas. The major reason, among others, is the job seeking opportunities. Since many factories and other available jobs in the city, together with the decrease in agricultural productivity, many people in the provinces and other rural areas decided to move into the city to find the jobs to support themselves as well as their families. This could be an advantage provided that urban Phnom Penh is able to hold that amount of increasing population, providing enough facilities for the standard of living, and labor market is big enough to hold this number of population. However, this has not always been the case; when those conditions are not met, the adverse effects are those who are migrating for the jobs become moving to join the poverty. The market could become very competitive that those less qualified workers from rural areas could not compete with the rest and thus end up facing the challenging affordability of expensive living standard in the city. In such a case, the concentration of these migrants in this town not only depresses urban wages but also creates pressures on the supply of public services and deteriorates their qualities.

Moreover, since the manufacturing, the largest contributor to incremental increase in GDP, garments being the key driver of such growth (World Bank, 2005). However, as mentioned earlier this industry has decreased and construction growth becomes slower, the market for labor has thus shrunk, which contributes to the increase in unemployment, leading to bigger numbers of urban and migrant poor. The impact of this slow down in the two industries is actually offset by the growth in tourism; therefore, merely looking at the overall increase in GDP of Cambodia might be very misleading. In response to such, the World Bank (2005) suggested that with 90% of the poor living in rural areas, promoting agriculture is considered to be the best strategy to accelerate growth, absorb a large part of the growing labor force, and address poverty more directly.

3.1.5 Political Goals and Objectives

Acknowledging the dying needs for development of economic and social situation in Cambodia, the Royal Government of Cambodia takes into account both growth and equity and believe that these priorities could only be achieved under political stability, peace, and security of the nation. Its political goals and objectives are reflected in its Rectangular Strategy as well as Cambodia Millennium Development Goals (CMDGs).

With the peaceful formation of a coalition government on 15 July 2004, the Government has moved quickly to seize the reform agenda through launching out a ‘Rectangular Strategy for Growth, Employment, Equity, and Efficiency’ which is aimed at directing implementation of its economic agenda during the remainder of its term in office (ADB, 2005). According to WFP, the strategy has been conceptualized as a structure of four interlocking rectangles, including: i) enhancement of agricultural sector, ii) further rehabilitation and construction of physical infrastructure, iii) private sector growth and employment, and iv) capacity building and human resource development. Apparently, improvement in agriculture sector tops the list,

implying the government priority policy in poverty alleviation, the socially and economically urgent issue in need to be solved.

More importantly, the Government also views ensuring safety and peace within the nation and building trust between civil society and Government as important elements of its role in social protection. In that respect, the World Bank (2005) gives good evaluation toward Cambodia's overall progress. It suggested that much has been achieved in recent years. Cambodia has made important progress in ensuring peace and security, rebuilding institutions, establishing a stable macroeconomic environment, and a liberal investment regime. In its commitment to achieve the Millennium Development Goals, notwithstanding the possibility and feasibility in achieving it by the time set 2012, one special goal adding to the 8 major goals is 'De-mining, UXO and Victim Assistance', indicating enhancing security for citizens especially farmers from being victims of landmine, left over from civil wars, especially Khmer Rouge Genocide.

In short, the RGC has committed to work out the best effort in developing the nation, regardless of limited resources it has, under the theme of political settlement and stability, Growth and sustainability, Poverty alleviation, and Citizen Empowerment through the framework of democratic practices and decentralization policy reform.

3.2 Poverty And Inequality in Cambodia

Under reform and stable political situation, Cambodia has enjoyed growth and poverty reduction; however inequality has risen. Follows are some deeper inside into situation of poverty and inequality in Cambodia.

3.2.1 Poverty in Cambodia

Poverty is certainly not a recent problem in Cambodia. According to MOP (2009), "there are many different concepts and definitions of well-being of people and hence of poverty. People

are better off if they have greater command over resources and commodities; alternatively, they can be better off if they have limited command over specific type of consumption goods, such as food or housing. Similarly, people who lack capability to live with dignity in the society or are more vulnerable to shocks and disasters have lower well-being and are likely to be poor.” According to the World Bank (2005), despite data limitations, there is consensus on the principal characteristics of poverty in Cambodia.

The poverty in Cambodia is more overwhelmingly in rural, with poverty headcounts ranging from a low of 10-15 percent in Phnom Penh to 40-45 percent in the rural areas, worsening 70-80 percent in some areas around the Tonle Sap Basin (World Bank, 2005). Even though the figure declines modestly recently, Cambodia remains one of the poorer nations in the world. The 2008 listing places Cambodia at 131 out of 177 nations on the United Nations Development Programs according to Human Development Index (HDI) based on figures for 2005.

Table 2: Estimated number of poor in Cambodia, 2004

(In Thousands)

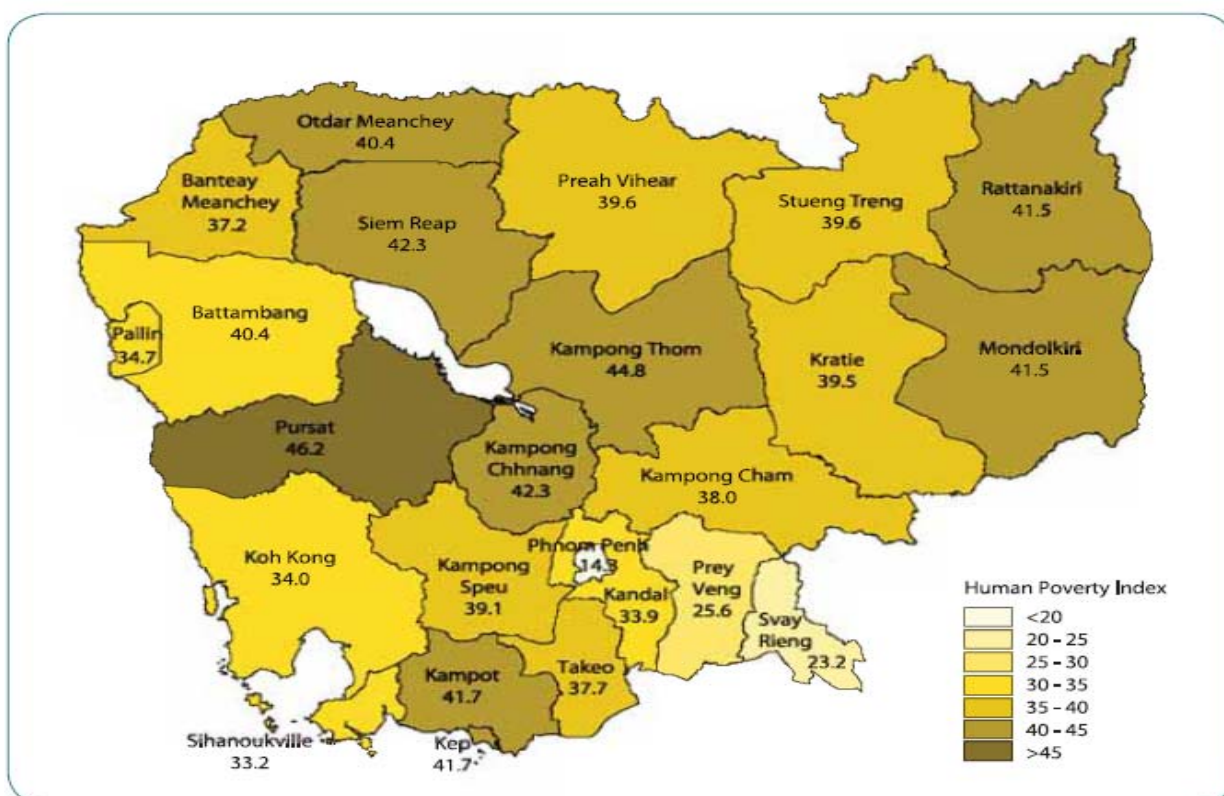
	Cambodia	Urban Phnom Penh	Other urban areas	Rural Areas
Total Population	13,035	610	1,417	11,008
Number of food poor	2,607	6	162	2,439
Number of poor	4,681	15	296	4,374
% of food poor	100	0.2	6.2	93.4
% of poor	100	0.3	6.3	93.4

Source: Johansson and Backlund 2005, CSES 2003.04

The table shows that out of a total population of only 13 million in Cambodia, 4,685 thousand people are still living in poverty. Among those, merely 0.3% resident in Phnom Penh and 90% of the poor lives in rural areas and the highest rates of poverty are found in households where agriculture is the primary source of income (World Bank, 2005).

Base the measurement of poverty of Human Poverty Index (HDI) by the Ministry of Planning, the index were around 35%-40% in various provinces in Cambodia, implying poverty are quite severe in rural provinces; while that in the capital Phnom Penh is only 14.3%. Therefore poverty is more of a problem in provinces than in Phnom Penh city. Figure 3 illustrates further detail about HDI by city and provinces in Cambodia.

Figure 3: Human Poverty Indices by province, 2004



Source: Cambodia Human Development Report, MOP 2007

However, poverty issue seems to get better after time for both regions of urban and rural areas, if we have a look at the poverty index of 2004 and 2007.

Table 3: Poverty Incident by Regions in Percentage, 2004 & 2007

Regions	2004	2007
Phnom Penh	4.6	0.83
Other Urban	24.73	21.85
Rural Area	39.18	34.7
Cambodia	34.68	30.14

Source: CSES 2004-2007

Table 3 shows the amazing drop of urban poverty rate to only 0.83% in 2007 while poverty rate in rural areas decline at a much slower rate than urban areas and Phnom Penh.

3.3.2 Inequality in Cambodia

The benefits of economic growth in Cambodia have been unevenly distributed. With slow reduction in poverty rates and overall steady progress in Cambodia, the nation is still bothered by the uneven distribution of growth that has been skewed to the richest 20% (top quintile) as illustrated in the World Bank Poverty Assessment 2006. This has widened the gap between the rich and poor, and between rural and urban areas, a major concern shared by many stakeholders at present. This suggests that inequality with connotation of ‘the richer is getting richer than the poor’ vastly exists and continues to extent further gaps if nothing is done to improve the situation.

According to the report by World Bank regarding ‘Inequality in Cambodia’, average living standards (measured as consumption of goods and services per capita per day) rose by 32 percent in real terms between 1994 and 2004, in the parts of Cambodia in which trends can be compared directly, for example those areas which were covered by the survey in 1993/4. Nonetheless, this rise was associated with broadening differences between rich and poor, (World Bank, 2007). As shown by figures from SESC 1993/4, CSES 2004, the living standard of the poorest fifth of the total population in 2004 were only 8 percent higher than they were a decade earlier. However, over this same period, that of the richest fifth was 45% higher (roughly five times as fast as that of the poorest fifth), implying that the connotation of ‘the rich is getting richer than the poor’; simultaneously, the standard of living of rural areas rose more slowly than those in Phnom Penh-the capital city, and other urban centers.

Statistically, the Gini Coefficient of the whole country rose from 0.35 in 1993/4 to 0.42 in 2004; this rise in national inequality has been driven by growing inequality within the

countryside, especially, (World Bank, 2007). However, that does not necessarily mean inequality is not an issue in urban areas. Figures from SESC 1993/4, CSES 2004, show that urban consumption inequality appears to remain stable; yet it is still much higher than in the countryside, implying that inequality is an issue concerned both in rural and urban areas, even though the increasing rate of inequality in urban area appears almost stable.

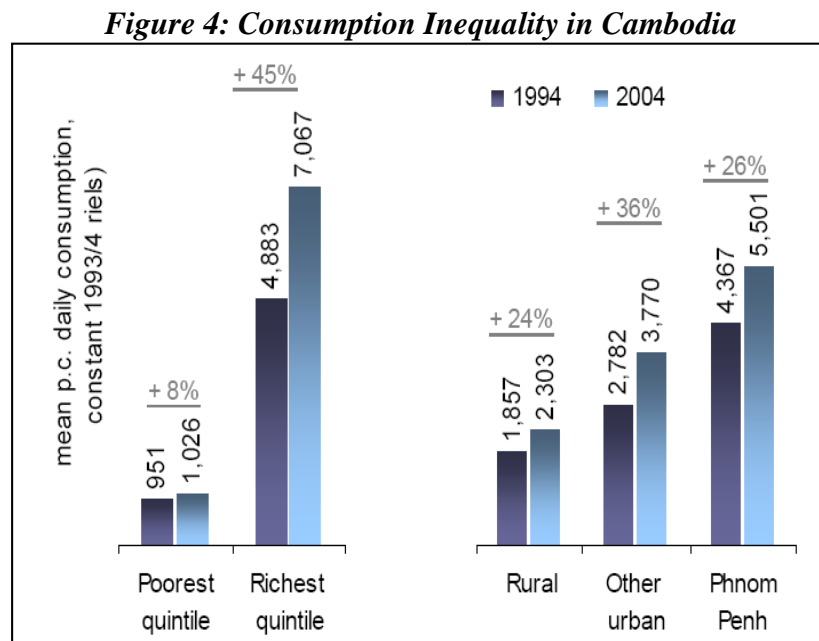


Figure 4 shows that the gap between the rich and the poor, and urban and rural area has grown from 1993/4 till 2004. Inequality is only 8% among the poorest quintile, while the gap from the poorest to the richest quintile is amazingly big. Inequality between rural area and urban is also becoming larger.

Besides inequality in consumption, inequality in Service delivery and human development are also considered:

- Inequality in literacy is closing over time. The literacy rate was in total as high as 77.6 percent in 2008 (Source: General Population Census 2008, NIS), sharing almost similar rate between male and female; and almost similar rate for compulsory education (Junior high school from grade 7-9) of both rural and urban areas.

- Yet inequality in health care is still a problem. For example, children born in richer households receive better preventative care from before they are born and are less likely to be malnourished. Also many poor households lack the resources to cope with health shocks (World Bank, 2007).
- Landownership is highly unequal while it used to be in a highly equal distribution and effective zero landlessness in 1989 (World Bank, 2007). There are vast majority of lands acquisition belongs to the rich, while many rural farmers sold their agriculture lands when the land price was boom in 2002 till the global financial crisis in 2008. As a result, there is around 20% rural landlessness in 2004. With huge amount of working-age population, roughly 62% (CDC, 2010), and limited off-farm opportunities, landlessness is a serious concern.
- Gender-based inequalities, especially in terms of employment opportunity remain significant.

Growth is said to be accounted for the increase in inequality in Cambodia. As GDP per capita continues to rise steadily, the World Bank report (2007) on 'Sharing Growth: Equity and Development in Cambodia' suggested that this growth has contributed to widen the gap between rural and urban areas and the rich and the poor within those areas. Acknowledging that the spectacular economic growth, averaging 10 per cent in the last decade, has contributed to reduce poverty by only one per cent per year, for example, from 45 per cent in 1993 to 35 per cent in 2004 and to 31 per cent in 2007 according to the World Bank and the RGC estimates (Chanthou, 2009), this small improvement offers not much help to reducing the existing inequality. With the gini coefficient of 0.42, Cambodia is among the most unequal society in the region. It is notable that in the last few years there has been a consensus among development partners (RGC and donors) that these phenomena took place because of the neglect of the rural poor and the agricultural sector. This is also supported by

World Bank (2004) claiming that recent economic growth in Cambodia has been narrowly based, and has not led to a significant reduction in poverty. Because most development is central around urban areas, especially the capital city, rural areas witness slower economic growth.

Up to this point, we can conclude that economic growth does happen, though not very significant, in Cambodia. Simultaneously, there is a proof of poverty reduction in the last 10 years. In other words, the living standard of Cambodian citizens has been improved to some extent. However, both this improvement and economic growth has been uneven by households and by regions. Growth has been benefited more to the rich and middle income rather than the poor and poverty reduction was seen better in urban areas rather than rural areas. This creates inequality in the country. And the rate of increase in inequality is seen unusually fast in Cambodia. Though this is the case, majority of people are mostly conscious about poverty, less mention about inequality. For example, in a national public opinion poll done by World Bank, when asked to specify the most important problems facing Cambodia, 33 percent focus on poverty, and only roughly 2 percent mentioning inequality and unfairness.

3.3.3 Poverty and Inequality Reduction Strategies in Cambodia

Though economic growth is the major factor in increasing the national income, it does not necessarily induce to better poverty and inequality reduction. Having understood this, most policies of pro-poor growth have been emerged. Likewise, in its Rectangular Strategy of Development, the Royal Government of Cambodia (RGC) has made poverty alleviation strategy, including inequality reduction, as its top priority of development.

A- National Poverty Reduction Strategy

The rapid poverty reduction has always been the focus of the Royal Government of Cambodia's vision. Aggressive plan of such was perceived by the RGC as an integral part of its "Triangle Strategy" for sustainable development which was launched in 1998 national

election of Cambodia. Later in early May 2001, the government started the development of the so-called “National Poverty Reduction Strategy” (NPRS) with consultation from many stakeholders including central government, local government, international and local NGOs alike. The plan was launched one year later in May 2002.

Stated in the government’s NPRS, the priority poverty reduction actions are maintaining macroeconomic stability; improving rural livelihoods; expanding job opportunities; improving capabilities; strengthening institutions and improving governance; reducing vulnerability and strengthening social inclusion; promoting gender equity; and priority focus on population. With the initiation of NPRS, government determines to make more aggressive steps in reducing poverty and thus allocate more resources to achieve the plan. For example, according to NPRS 2002 report, Government has to spend a minimum of US\$500 million per year to have a real impact on poverty alleviation in Cambodia. These planned expenditures were financed by Government’s own capital budget resources (US\$230 million), Foreign Direct Investment (US\$250 million) and Overseas Development Assistance (US\$1.08 billion).

In the first annual report of NPRS (MEF 2004), improvement on the aforementioned poverty reduction priority actions have been seen. The Cambodian economy grew by 5.2% in 2003, compared to 5.5% in 2002. Growth was seen in many key Macroeconomic indicators of Cambodia and many sectors ranging from agriculture, garment factories, construction, private investments, and tourism. Poverty has been reduced; inequality is still persisted though.

One of the major strategy in poverty reduction stated in NPRS is ‘corruption is an endemic problem worldwide that can only mitigated through close cooperation among countries. Corruption activities are the result opportunity, behavior, and risk. The approach can only be holistic, participative, gradual, and sustainable’ (MEF, 2004). Understanding the adverse effect of corruption on growth and poverty reduction, the RGC has set up many initiatives in

combating corruption in the countries. Significant advances were made in government revenues and expenditure management. Other commitment in government anti-corruption effort includes its proposal draft of Anticorruption Law submitted to the National Assembly as well as its participating in the Anti-Corruption Action Plan for Asia and the Pacific. Currently, the legislative body approved in March 2010 the anti-corruption law enabled the country to establish the mechanism of national anti-corruption committee and the anti-corruption unit. Recently, the draft law of anti-corruption required the government official appointed by the decree and above will have to the declarations of assets to public. Even though all these are just established and thus not many actions have been taken, this at least shows the government's acknowledgment the importance of corruption reduction and its attention and commitment in so doing.

B- Rectangular Strategy

After the national election in 2003, the RGC has transformed the Triangle Strategy into *Rectangular Strategy* For Growth, Employment, Equity and Efficiency for Cambodia. Therefore, the forefront of the political agenda of the RGC has clearly reflected in its Rectangular Strategy, putting forth for the promotion of economic growth; at the same time generation of employment for all Cambodian workers; while implementation of the governance Action Plan and thereby ensuring equity, social justice, and enhanced efficiency and affectivity of the government; and accelerated the implementation of broad reforms in all sectors to reduce poverty and achieve sustainable development.

One of the major structures for Rectangular Strategy is good governance. With that, the RGC was focusing on fighting corruption, resulting in the establishment of anti-corruption committee aforementioned and many reforms including judicial and legal reforms, public administrative reforms, reforms of the royal Cambodian Armed Forces, as well as public financial reforms, just to name a few. Understanding that poverty is causing tremendous

economic waster and loss and morally unacceptable and causing social polarization, serving the successor of the Triangle Strategy, the Rectangular Strategy putting up equity on top priority with poverty reduction and thus setting out for four major objectives. Collectively speaking, it aims for higher economic growth and sustainable development, while ensuring equitable distribution of the gains for the growth among the rich and the poor, between countryside and cities. Among many successful implementation of the strategy, Cambodia was able to integrate itself into regional and world economy, allowing for greater opportunity for majority of citizens. Economic situation continues to make good progress; poverty declined to 30.14% in 2007 and yet inequality was increased from 0.34 in 1993 to 0.4 in 2004. This slight reduction in poverty does not make Cambodia get itself out of the severe poverty countries in the list of World Bank and inequality becomes a bigger challenge for government which requires better policies and more strenuous efforts.

C- Seila Program

Understanding that the 90% of the poor are those from rural and very remote areas, in order to touch down deeper into the poor, the RGC and UNDP commonly decided to launch a program called SEILA in 1996, which was approved by the Council of Minister on 5th January, 2001 (RGC, 2006). Seila Program, an aid mobilization and coordination framework to support the country deconcentration reform, is a national effort to achieve poverty reduction in rural areas through improved local governance. Seila means ‘Foundation Stone’ in Khmer Sanskrit. Due to the legacies of prolong and extreme violence and deep widespread poverty, lack of trust, and suspicious with respect to government intentions, the people in general, especially rural population avoided engagement with the state. Thus, there was a need to develop a program that could at the same time address social fragmentation at the local level while increasing the legitimacy of local administration. This resulted in the birth of Seila program.

Seven years after the onset of the program, as of 2003, Seila program covers the whole communes/sangkats of 24 provinces and municipalities. Through Seila, the commune gained experiences through training on how to collect information, analyze, prioritized information, and plan their development activities with local participation. One of the major successes of Seila program is its ability to cover all of provinces and communes in the country within 6 years from its approval of establishment in 2001. Table 4 shows the process of the program expansion coverage.

<i>Table 4: Seila Expansion of Coverage</i>				
Year	Provinces	%	Communes	%
2001	12	50	509	31
2002	17	71	1,283	79
2003-2006	24	100	1,621	100

Source: The Royal Government of Cambodia's Seila Program, Annual Work Plan and Budget 2006

During the first five years of implementation, 1996-2000, Seila piloted and enhanced new system for decentralize and deconcentrated planning, financing, and implementation in one-third of Cambodia's provinces and communes. It emphasized on village level and the election of Village Development Committees (VDCs), who were different from top down appointment village leadership. During this first phase, the program was also focusing on the involvement of women and men through a quota system. After the phase I, decentralization and participation has slowly emerged; the civil administration has been transformed from one uninterested in development and beleaguered by inefficiency to one that consists of technocrats concerned with administering bottom up process and good governance (Anderson, 2004). The Second phase, 2001-2005, Seila continues to support the design and implementation of decentralization policies. Furthermore, it has been tasked with external development assistance in support of the Cambodia national decentralization and deconcentration policies including the commune level Local Development Fund (LDF) and

the Provincial Development Fund (PIF). Particularly speaking, Seila program seems to have struck the good balance piloting new ideas of additional resource, creating the foundation for participation among local and sub-national authorities, without posing threats to the central government (Anderson, 2004).

Recently, the Seila Program of the Royal Government of Cambodia has offered a working model for Government Donor coordination and partnership, providing a framework for multi-donor financing of rural development and poverty reduction through technical and program support and direct investments in local services and infrastructure (Sothearith, 2004). According to RGC (2006), the Seila Program's goal is to contribute to poverty alleviation through good governance. It seeks to provide the foundation for rural poverty alleviation and good local governance using a two-pronged approach:

- a) developing and strengthening local institutions in support of D&D rural development;
and
- b) providing efficient and effective grant financing for investments in locally managed infrastructure, identified as priorities through a participatory process, at both the provincial and commune levels. Under the first phase of implementation, 1996-2000, the Seila Program enabled the Royal Government to formulate and fully test in five provinces deconcentrated and decentralized systems focused on the province and commune as the two sub-national levels for budgeting, planning, financing and implementation of local development.

Seila program is one of the Royal Government of Cambodia's strategy to harmonize and mobilize all internal and external sources and funds in reaching down to province and commune levels, so as to address the issues of poverty existing in those areas that could have been overseen at the higher level of institutions.

To sum up, we see poverty and inequality issues have been in the center attention of government from the first legislative till today. Cambodia with its developing partners is determined to do their best to widen and deepen the reforms in all aspects of developments. The Rectangular Strategy, the National Poverty Reduction Strategy, the Governance Action Plan and other programs, trying to achieve which is ambitious. Nonetheless, through its significant times and tremendous efforts, both in its national strategy and its effort in partnership, some progress has been made especially to the reductive in poverty in Cambodia.

3.3 The Public Financial Reform in Cambodia

A country can influence its national economic and social development (poverty and inequality alleviation) through several channels and instruments. The first, mentioned by World Bank (2007), is through raising revenue and directing public spending. In fact, Cambodia public financial Management (PFM) system has a number of serious problems, but its reform program over the last two years has begun to make significant headway in bettering this system.

At the beginning of 1999, the Government of Cambodia decided to launch a broad reform agenda program on its implementation with donor countries. Simultaneously, the Government Action Plan (GAP) was formulated to guide and assist the reform agenda. The agenda of reform includes improvement to legal system, the comprehensive reform of public administration, security force reform, military reform, and especially the reform of public finance management, shortly known as PFM.

The public finance reform, whose long term objective is to incorporate what are generally accepted as best international standard and thus make an effective public finance, started in 2003. According to MEF (2004), the reform program consists of: first, a prioritized and sequence strategy and action plan which bases clearly on setting vision of the PFM as well as prioritization government plans and other policies to permit development of a rolling, multi-

year, annual work program; second, complementary capacity building and organizational change, which stresses on the building capacity to support the PFM reform through identifying approaches to address key capacity weaknesses that would need to overcome for successful implementation; third, performance management or indicators which is about the establishment of a performance management system to handle program formulation in order to improve transparency, accountability, monitor progress and enable international comparison; fourth and certainly not the least, coordinated donor support mechanism, focusing on developing a coordinated donor mechanism to assist the RGC with implementation of its PFM reform agenda.

This PFM reforms would open up possibilities for more effectively and efficiently directing public expenditure toward poverty reduction. Its priorities would include (World Bank, 2007):

- Increasing revenue collection, especially through improving tax administration
- Striving for strong, transparent measures for the effective use of the very considerable revenue
- Reallocating spending toward priority goals, shifting spending from general administration to priority sector and changing the balance of ODA (Official Development Assistance) from technical assistance to capital spending
- Mounting capital spending with emphasis on economic sectors including roads, irrigation, and energy that would shape the distribution of opportunities and pattern of growth
- Increase current spending, both on maintenance (to sustain the value of capital investment) and on public sector salaries.

The PFM reform program, volume one, designed by MEF, stated the four intermediate objectives of the reform: a more credible budget, effective financial accountability, the RGC's policy agenda becomes fully affordable and prioritized, and RGC managers become fully accountable for program performance. These objectives will be formalized into four platforms; each platform will be done at four stages. Recently, the RGC has just

finished stage I in support of platform I, which was evaluated to have quite a satisfying result. "Cambodia is under a busy agenda of Public Financial Management Reform Program (PFMRP), which is now crystallizing its first stage success, a more credible budget, while moving into the second stage, an efficient financial accountability" said Senior Minister Keat Chhon, Minister of Ministry of Economic and Finance. Therefore, now RGC is proceeding to achieving stage II for platform II. As stated in the program, the RGC implies that to achieve the vision of Public finance Management will require a long term commitment and much effort. Furthermore, the success of this reform program, as it stresses, depends on progress made in other sector reforms as well as support from all level of government, private sectors, donor community, civil society, as well as participation from the citizens.

3.4 Public Participation in Cambodia

Good governance rests on four pillars including accountability, transparency, predictability, and participation (World Bank, 2007b). In pursuing 'Good Governance' as a structure in its Rectangular Strategy, the RGC understands the necessity of participation from its lower authorities and the citizens at large.

After transforming from a monarchy state to a democracy one in 1993, newly elected government born from the national election of citizens has made many significant policy reforms in the framework of democracy. It has come to understand as well that centralization excludes the people from meaningful participation in the dynamics of governance. Acknowledging the importance of people participation in their democratic policy wheel, the government in its reform in 1999 has introduced the "Decentralization" policy to open for more involvement of their citizens in the nation's development path. Cambodia's decentralization process commenced in 2001 with the enactment of laws on commune

administration, management and election. With the commune election in February 2002, Cambodia is said to have taken a bold step toward deepening democracy. During such, 1621 councils were elected, follow-on with 11,261 councilors taking office and assuming responsibilities for local governance and local development (Pack Cambodia, 2005).

In an interview of the World Bank Newsletter Volume 2, Number 5 on May 04, 2009, Mr. Louise Scura, task team leader of Rural Investment and Local Governance Project explained the idea of decentralization as “Decentralization in Cambodia refers to the delegation of political authority from the national government to the newly elected local governments at the commune level.” This give rights to citizens to elect who to lead their own district; such empowerment to some extent shed light on people’s participation in government policy. The objective of the decentralization is to make government more responsive to and accountable for the needs of the people at the local level.

Along with decentralization, the government of Cambodia has also introduced another reform known as “Deconcentration” to de-concentrate the power and administrative tasks at the higher level institutions. Deconcentration is needed to enhance public participation in a sense that it distributes some tasks and decision making power in a certain level to the local government. In that sense, the influential power of the citizens on local government is more meaningful. In contrast, given that all power lies in the upper institution, even though citizens are able to persuade local government in some policies or project, the local government could not do anything, given that power and decision making do not lie in them. In short, decentralization and deconcentration (D&D) of power from the central government to local government is one of among major reforms of the government in allowing for participation from citizens and thus making ways for poverty alleviation, development, and democratization in Cambodia.

In practice, some example of public participation includes Public consultation on the draft of law and participation in local development project and planning. After drafted with experts and before being sent to the parliament, usually some draft laws are put for public announcement through media like newspapers, television, and website and so on to call for participation from citizens at large. Beside public announcement, other means of attracting participation is by hot line, telephone calls to defined specific participants based on the objectives of the participation and the participants' relations to the law. Direct participation is also being employed as another option by getting the local authorities at district or commune levels to inform and make decision on selection of citizens to participate in the discussion or deliberation of the draft law. The results of the participation are generally served as policy proposals to the government and parliament. Another example of public participation in Cambodia is citizen participation in the development project and planning in provincial or city or district and commune level. Usually, after studying the situation of the village, commune, district, provincial or city, the local government makes the draft of development proposal to be sent to the government for decision and decision. Before the draft is sent the local government does sometime seek for discussion from their own citizens to see if the proposal meets with their needs or should there be anything else to propose to the government and its priority so on and so forth. As a result, they would send the report of the discussion together with the edited proposal to the government.

To sum up, since the elections, the RGC, in collaboration with both the donor community and citizens, has made substantial progress in pursuing democratic local governance through decentralization and deconcentration (D&D) reform, providing the Cambodian people with greater opportunities to influence the decisions that affect their lives and therefore contributing to creating better policies that would meet with the needs of the citizens.

Chapter IV Analysis and Policy Recommendation

“Aggregate success in economic development hides a great diversity of development experiences; among and within countries, not all have shared equally in the benefits of the region’s growth”, mentioned in ADB (2001) in its ‘Moving the Poverty Reduction Agenda Forward: In Asia and the Pacific’ report. The same is also true in Cambodia, one of the developing countries in Asia and the Pacific.

As a result of finding in previous chapter, *there is indeed progress in economic and social sectors in Cambodia*. For example, economic grows at around 10.6 percent in the last 5 years and poverty was reduced from some 45-50 percent to approximately 35 percent within 10 years. However, success also creates its own problems; behind this growth, there is increasingly unequal distribution of income and wealth. In other words, with this improvement, Cambodia is still under challenges of poverty pervasiveness and its reduction; *simultaneously, it is facing the inequality matters* as well. Economists do propose for better attention on whether or not the growth has spread and benefits the whole population and not merely certain group of people, implying that while economic growth is good to see, focus should also be on poverty and inequality alleviation because poverty will be faster in countries where income growth is combined with falling inequality. Therefore, in a sense when Cambodia is trying to alleviate its poverty, inequality reduction should as well be included.

In addressing poverty, and in some part as well of inequality reduction, the Royal Government of Cambodia (RGC) has put quite tremendous efforts and resources, producing out planning, strategies, programs, and implementation in coping with the foresaid matters. Some examples of which are National Poverty Reduction Strategy, Rectangular Strategy, and Seila Program. The first two strategies are initiated by the RGC, while the last

one is cooperation between outside donor and RGC. Through these, some progresses have been made; local investment and development has been focused. Clearly, some infrastructures particularly in rural areas, where majority of the poor population are residing, are being built and repaired; those involve schools, hospital, roads, electricity and water supply, which give them better access to quality education, health care, and better quality of living. However, the progress is still limited; many citizens in rural areas do not have access to acceptable accommodation, quality education, convenient accessibility to other regions, and electricity and water supply. Their income is very low and totally dependent on their family-supported crop. This is because the coverage of the programs and services are not spread equally over the country, especially remote areas. The resources, man power, time, and budget are also limited, forcing the government to be able to touch only the superficial phase of the plan, at least for the time being.

Moreover, *decentralization and deconcentration policy (D&D) has been introduced in 1999 by the Royal Government of Cambodia*. Cambodia's D&D commenced in 2001 with the enactment of laws on commune administration, management and election, when citizens have the right to indirectly participate in their commune development through the election for their own commune leader, who will also be in charge for the administration, development, and the inter-link between the central government and the local citizens. Seila program also serve as a catalyst in pushing and deepening decentralization, particularly enhancing D&D in Cambodia, especially in provincial and remote regions. With these efforts, *some participation from the local citizens and their good interaction and cooperation with their local authorities has been seen*. As a result of D&D policy, public participation in Cambodia slowly emerged, indirectly, ranging from national election for the central government, to provincial and commune, as well village authorities, and directly ranging from the participation in commenting on draft law, participation in development plan in commune and

village level so on and so forth. However, participation progress is still rather limited. ***Citizen participation has not been widely practiced.*** The implementation has not covered all provinces, and thus not to mention smaller administrative divisions of communes and villages in Cambodia. In many rural areas, majority of citizens do not even have good access to information and knowledge about their rights in participation; also interaction with commune and village authorities and provincial government is very narrow, even though they are given chances to do so. The challenging in participation is the citizens' limitation of knowledge; many of people in rural areas do not even understand what development plan, decentralization and deconcentration is. Moreover, they have clue of why they should participate, what benefits they will gain from participation, so on; therefore, they find no incentives and have restricted capacity in participating. Hence, the RGC need more efforts and techniques in enhancing and increasing real participation to happen.

While discussing about poverty and inequality matters and strategies for the equity growth to happen, a lot of ***economic theories and studies intrigue an idea of effective public finance as one of the key factors in contributing to poverty and inequality reduction.*** By the means of public expenditures; government could affect economic growth and at the same time affect the poverty and inequality issues through means of redistribution. This is associated with the government functions of resource allocation and reallocation, in a fairer and more transparent means, within the budget constraint, for the purpose of improving equality and reducing poverty in a nation. While allocation and reallocation should be made through fair and transparent procedure, it should also be indicated for a more equity in distribution as well; in other words, this is to be accomplished through income transfers and provisions of goods and services that maybe greater benefit to the poor population. This pro-poor policy implies that the benefit incidence of public expenditures does have a potential significant impact for changing the welfare of the poor people. For instance, some experiments show that increasing

the supply of certain services like education, health care, and clean water, have been fundamental to lift people out of prevalent poverty and increasing equality among citizens.

Despite the vast literature studies in Public Finance, establishing the one with transparency and efficiency is still a challenging problem for almost every single country, ranging from the most developed to the least developing countries, and Cambodia's is no different. ***Cambodia public finance is not yet strong enough to take its vital role in achieving efficiency in coping with aforementioned problems of poverty and inequality for the public finance itself is facing its own matter of transparency and management.*** The lack of transparency in the public finance is not only ethical issues, but they negatively affect good public finance management. They deprive governments of desperately needed resources for development, engender criticism and disillusionment with the process of economic development and can result in political alienation and withdrawal of legitimacy and instability. These inefficiency problems like poor targeting, deficient financial management, and funding leakage, may undermine pro-poor public spending severely (World Bank, 2008, p233). Furthermore, most financing sources of the strategies and programs for pro-poor and equity growth policy are in some parts or all financed by international donors. Therefore, there is a need for a more transparent in terms of planning, financing, and implementation procedure. Having acknowledged and understood the situation, Cambodia is making its best efforts under the cooperation with the World Bank in reforming its public financial system, while phase I implementation has been completed with some fruitful results. Still, more have to be done.

Likewise, improving public finance, the role is not merely on the government. Citizens are as well the major key factors in increasing transparency and directing as well as improving redistribution matters towards the right target for a development where economic should meet with equity.

This gets us back to the inter-link of the four variables - poverty, inequality, public finance, and public participation. It was proven that inequality, which is usually ignored when economic growth and poverty reduction is seen, is actually important for a greater elimination of poverty and enhancement of equity growth. It makes the vast majority of people, especially the poor, able to reap the benefits from this development, and thus not merely a certain group of people. This inter-link between poverty and inequality is thus necessary especially for developing countries whose majority of people are the poor. In this response, public finance can have positive impact in contribution to equity growth and poverty reduction. However, this requires for effective and transparent public finance, which could be achieved through public participation mechanism. In short, poverty reduction should link to the decreasing in inequality which could be realized by the efficient and transparent in public finance, especially public expenditures through the mechanism of participation from the citizens.

Therefore, many governments in Europe and Asia have employed public participation mechanism in their good governance strategies which have been very successful, especially in their fiscal policy particularly in public expenditures. In another sense, public participation mechanism could also help the government produce better policies which suit with the needs of the citizens better and thus to a large extent contribute to good progress in poverty alleviation and especially inequality reduction, which as a result, able to achieve satisfaction and support from the citizen at large. Examples and experiments from the cases aforementioned of the United States, Brazil, and India show the effectiveness of public participation in dealing with social and policy issues, and in diverting a certain budget to village level, who are given chance to discuss about their development plan and policy recommendation to be proposed to central state government, tailed to their citizens' needs. However, it must be admitted that not every public participation practice is successful and

needed. Some villages in India did not experience successful citizen participation as others did. That was due in some parts to how participation was made, the knowledge of those who participated, the weak management of local authorities, and the lack of resources and budget and so on.

The three case studies indicate some *common factors for successful public participation* that is able to achieve the goals set:

- First and foremost, the commitment and cooperation is highly needed; without such, nothing could ever happen, or at least not effectively. The commitment should be from the government both central state and local government; as long as they have the strong willing in pushing public participation wheel, to increase the transparency in its administrative and budget management. When these are met, cooperation and commitment from citizens is as well required. With them both working out together, the goals set could be in no time achieved.
- Second, of course, these are only realized with the availability of resources. Without having enough time, man power from private and public sectors, and sufficient budget, public participation could not take place. The resources are also tremendous stimulus for citizen to mobilize and participate not only in planning but also with their 'sweat equity' in thousands of volunteer hours.
- Third, they look at capacity building of their administrative staff, local authorities, as well as the citizens before the onset of the program through facilitating a learning process for delegates and stakeholders, making sure they understand why they are here, what the goals of the participation are, how to participate, and how to make a good planning or project by taking into consideration the resources they are having.
- After that regular meeting and revision of plan and projects, revised and addressed to urgent needs is made, making it flexible to any changes occurs after the planning.

Cambodia has also taken some steps for public participation, as mentioned earlier. However, the form and the scope of participation are still limited to the types of policies and among the regions. *There are some rationales proposing that participation in Cambodia should also be touched deeper and its implementation should be strengthened*, particularly when it comes to policies that affect their lives, like rural development planning and budgeting procedure:

- First, Cambodia is under a reform of achieving a bottom-up approach in some of their policy decision making;
- Also, this will serve as a chance to implement genuine decentralization in the interests of the local poor people and communities. The decentralization defined as a policy process to delegate and transfer the power to local political structure in the purpose to provide opportunities to revitalize democratic framework and increase citizens' participation in politics and political decision making to achieve a more equitable allocation of resources to poor and marginalized people is rarely realized and is constantly being undermined and challenged by those who benefits from the current status quo. Therefore, public participation attempts to implement and reinvigorate decentralization by enhancing and enforcing the abilities of citizens to take part in the opportunities provided by decentralization;
- To bring about real change through targeting, engaging with, and monitoring local government official-making them to account for their works and responsibilities;
- To increase transparency in public finance expenditures for local communities and districts and even higher level in budgeting planning and implementation;
- To enhance communication and interaction between citizens and local government and indirectly to central government as well. That will bridge better understanding

and trust between the two parties, resulting in stronger relationships that could be beneficial for both sides;

- Participation will produce vary policies of each development projects and budgeting strategies while a one-size-fits-all policy model is too dangerous and would complex processes of governance and democracy;
- The last but never the least reason for such participation is for the sustainability of the development project and program. The citizens can analyze the on-going project, its problem, reflect and take action to correct the mistakes before it is going too far to correct.

The purpose of rural development project objective is working toward poverty and inequality reduction. This pro-poor project thus could not be detached from the participation from the poor itself. However, this is not to be done without challenges. *The roadblocks involving in public participation in Cambodia could be:*

- The lack of resources would be the major challenge for the government to put public participation into practice. The first resource would be the capable human resource in the government administration, especially local authorities. The second one would be the limited education of local citizens. They have low understanding about how to participate, why to participate, and what huge benefits they would gain upon participation. On top of this, time consuming would be another challenging factor, not to mention about the inadequate budget for such practice.
- Because of the limited knowledge, the participation process might face some challenges. That includes the domination by some certain group of participants, and the other weaker participants could be easily swayed; thus the planning might be set tailed to the benefits of the dominators which results in the lack of trust and less motivation to continue participation from the rest. That would be more serious if they

are swayed by political will people, who make take this opportunity to induce people for their own goals and benefits.

- Under the circumstance of limited of knowledge, and the fear of other political will, some participants feel reluctant to involve in the process; also they find no benefits of doing so. There are also those who join merely for the sake of joining and little benefits like provision of clothes, rice, cooking ingredients so on. This type of participation will not produce the result that is fruitful enough to achieve the real intention of participation.
- It might come under criticism on several fronts. First, it could be the criticism for the lack of inclusiveness. Of course not every single person in the community will be involved. The same thing also happened in NRP in Minneapolis. It is difficult to involve racial, ethnic minorities, and new immigrants. This might not be the problem for public participation in Cambodia nowadays; since all are invited but very few are willing to come. But this could be exploited as criticism for political reason, resulting from the arousing of complaint starting from some opportunists working against the government. Public participation could thus be a tool for political manipulation if not taken with care.

Of course these challenges are not the only ones and they are not unique to Cambodia. Many countries and regions practicing public participation are facing almost the same difficulties.

In response to those challenges, Cambodia will need more tremendous efforts and serious consideration of those. In addition to some common factors for successful public participation mentioned in the cases above, following are some recommendation for tackling those challenges aforementioned so that public participation would be a smoother and more effective practice in Cambodia:

- Cambodia must be dealing with limited financial resource and funding for the initiation of public participation.
- Also, the government need to raise awareness of citizen participation, not only to provincial but smaller division regions must be touched.
- One of the utmost important works not to be neglected is the law on citizen participation, especially in the aspect of budgeting. This will take long time, yet once such law is made, the citizen participation process will be made a systematic and more organized. This will also provide the local government a comprehensible guideline of how they might involve citizens and to what extent.
- To enhance the initiation and implementation process, an organization responsible for citizen participation like the government board or committee on citizen participation should be establish. They will ensure transparent and just procedure of the on-going of the program. For example, they will announce publicly the availability of the budget for each local level to all media in the country; they will also make sure that the citizens have the opportunity to involve in planning, where necessary, and inspect over those budget spending.
- Capacity building is highly needed, for both types of stakeholders including local administrative government and the citizens. Various types of capacity building should be made to ensure and increase the capacity performance of the public staff. They should be encouraged and given the opportunity to experience administrative management and diverse public participation practice in other countries. More training facilitation should be provided to citizens to enhance their participation procedure, the best practice to produce good planning, and how the planning and participation they are attending will positively affect their lives so on and so forth. With continuous training and experiences, public participation will be a great practice for Cambodia.

- Regular stop and check: adaptability, flexibility, and efficiency will be the key considerations in the review of the participation process as well as its planning results.

Once a step on public participation has been taken; it is easier to begin a second step. Given that public participation that is to begin in the lowest level of government-village, more participants and bigger participation is expected to be initiated. When the village level is effective, participation process could also be considered for district, provincial or city level.

It is difficult to predict what changes may occur in the country and its regions, yet public involvement should be designed to provide sufficient flexibility and adaptability to address the diverse and changing needs to the people in the region.

Chapter V Conclusion

In conclusion, the Royal Government of Cambodia has devoted significant time and tremendous efforts to rehabilitate and redevelop the nation from ashes of genocide by Khmer Rouge and protracted wars, until the restoration of peace, political stability, and gradual growth, which have positively acknowledged, nationally and internationally. However, rebuilding and reforming in striving for the development is already a very difficult task to achieve; it is even more difficult when a nation has to do so with its limited financial and human resource capital.

Indeed, we understand that making Cambodia free from poverty and inequality is a long term and admirable challenges for the government. These challenges could not be solved in one month or one year. Still with well designed program and combined efforts and actions would be a great stepping stone enable Cambodia to achieve positive changes in enhancing the better living standard of our people. This requires not only from the government, yet other stakeholders including donor community, the private sector, non-governmental organizations, civil society and officials, civil servants in all ministries and institutions, members of assembly and senate, executive and juridical branches, members of armed forces, the authorities in all levels, and more importantly every citizen to provide support and active participation to contribute to achieving the goals set in a more effective and efficient way.

As far as we have found out, growth is not always good for the poor because it could be unevenly distributed to the top and middle distribution; simply put, growth usually, at least in the case of Cambodia, benefit more to the rich and middle income people and merely less to the poor, resulting in ‘the rich is getting richer than the poor’, producing bigger and bigger gaps between the two from time to time. This phenomenon describes the increasing inequality in the country.

To tackle that problem is not to tackle growth because growth does not absolutely give no benefit to the poor. Somehow the poor could enjoy the advantage from growth, even though the growth itself is very small relatively. Growth is needed; and so does poverty and inequality reduction. Therefore, Cambodia should be working more on pro-growth policies, the government needs to make sure the vast majority of the population, not only the top distribution, could also benefit largely from this growth. Furthermore, policy programs should also be designed to cater to the needs of the poor. What is most important is to make sure that the implementation of that pro-poor policy program is effective and efficient enough to achieve the targeted goal. To conclude, both pro-growth and pro-poor policy needs ‘transparency’, which could be achieved by involving citizens.

Any types of policy, pro-growth and pro-poor cannot go alone without the efficiency in public finance. Transparent and efficiency budgeting is the most challenging for every government, not to mention that in developing countries like Cambodia where finances and resources are already very limited. The new paradigm requires for citizen participations, particularly in this budgeting and planning process, especially from local level of authorities, as a solution toward a more efficient and transparent of public finance at local level, and in a huge part building trust and good relationship between the public and private sectors. This is to include the previously excluded residents in involving in policy-decision making that would affect their daily lives.

Citizen participation in transparent budgeting, toward the ultimate goal of poverty and inequality reduction is not a new idea. It happened as early as the emerging of democracy in Western countries. It has been used in many countries and supported by a lot of scholars. “Reducing poverty is not just a matter of economic development...it is also a matter of good governance with concern for the participation of the entire population in the development process for reasons of social justice and long-term development prospects” said Jean Bonvin,

President of OECD Development Center (Carvalho, 1998). However, in order to involve, citizens must be equipped with enough capacity; otherwise, their participation would be just meaningless or could be exploited in a worse case.

Therefore, capacity building is required if public participation is to be practiced. Besides, Cambodia still needs to face and deal with many challenges in achieving a smooth and efficient public participation, particularly in budgeting. This requires longer time and more efforts; however, witnessing the efforts and progress Cambodia is making nowadays, realizing the public participation in Cambodia is deemed to be positive.

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