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Options for Initial Development of Commune/Sangkat Own-Source Revenues in Cambodia

The PORDEC programme at CDRI has conducted a study of commune/sangkat own revenue sources. Eng Netra, governance and decentralisation researcher, summarises the findings.*

Why Study Own Source Revenue?

Like local governments around the world, commune/sangkat (CS) councils in Cambodia will need to develop local sources of revenue if they are to function effectively. Intergovernmental transfers, such as those provided through the Commune-Sangkat Fund, are an indispensable source of revenue in most countries. Locally derived revenues also provide important income to supplement national transfers and serve as a means for citizens to contribute to the costs of the local public services they receive.

The main purpose of CDRI's study is to assist the Ministry of Economy and Finance (MEF) to pilot a number of CS own-source revenues as provided for in the 2001 Law on the Administration and Management of Communes and endorsed by the prime minister. In addition, the development of CS own-source revenues has been identified as one component of the government's recently adopted reforms of public financial management.

Based on data collected from seven CS in four provinces—Tram Kak and Chumreah Pen in Takeo, Samraong and Kouk Chak in Siem Reap, Prey Nob in Sihanoukville, and Boeng Prolit and Olympic in Phnom Penh—the study (i) identifies feasible options for sharing or reassigning collected revenues from the provinces and municipalities (PM) to the CS and (ii) considers potential new sources of CS revenue. The field work included semi-structured and structured interviews with stakeholders at different levels of government and administration, and informal discussions with business owners and local people.



Commune councillors working on civil registration at Prek Tnaot commune, Kampot.

This article is based on a CDRI report prepared in cooperation with the MEF and the National Committee to Support the Communes (NCSC). It also includes comments and recommendations received during a national workshop on CS own sources of revenue in July 2004, in which all stakeholders and agencies discussed (i) potential new sources of revenue for the CS and (ii) spe-

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* The full report on which this article is based will be published in a forthcoming CDRI research paper.

cific options and instruments to be piloted. It is hoped that, based on this information, the MEF can now move forward with pilot initiatives and eventually with specific policies and regulations.

Present Revenue Sources

A discussion of CS own-source revenues can not proceed without understanding the overall government revenue structure. Of greatest relevance are the current revenue sources of the PM (those included in the *salakhet*¹), which are the most likely to be shared with the CS. The main sources of tax revenue currently assigned to the PM are: (i) tax on unused land, (ii) tax on property transfers, (iii) tax on means of transportation, (iv) *patente*², (v) slaughtering tax and (vi) public lighting tax. The PM collect other non-tax revenues, such as *pheasie*³ (market fees) and user charges. In general, the four provinces under consideration collect their largest revenues from taxes on property transfers and means of transportation, as well as the *patente*. The collection of *patente* and tax on transfers usually meets the targeted amounts,⁴ whereas the yield of the tax on means of transportation is quite low relative to targets.

Options for Revenue Sources

Based on field work conducted in the sample CS and the available data on PM tax collection, a number of options for piloting CS own-source revenues have been identified. These include (i) sharing of tax revenues from means of transportation and *patente*, (ii) partial reassignment or sharing of one non-tax revenue source (*pheasie*) from the PM to the CS, (iii) adoption of service-specific user charges and (iv) development of a general CS service levy based on simple land and property characteristics to help cover the cost of services that cannot be directly charged for. These options, including the basic rationale for their selection, how arrangements might be structured and possible roles of the CS, are discussed below. In some cases these options will have significant implications for PM revenues, and consideration would have to be given to how to replace the revenues lost by the PM as part of overall public sector fiscal reforms.

Tax on means of transportation

Selection rationale: CS already commonly assist in the collection of this tax, albeit in an informal way. It is a relatively simple tax to collect, and there is potential for continued growth of the tax base. CS could take some responsibility for local road maintenance with the revenues from this tax.

Tax-sharing arrangements: Although CS in some provinces informally assist with the tax on means of transportation, a true CS source of revenue should be formalised on the basis of rules, not on informal negotiation. The fixed percentage of the tax collections to be shared with the CS would be decided by the NCSC in

consultation with relevant ministries. The share could be determined simply by designating a percentage that would provide a certain amount of revenue to the CS, or it could be more specifically tied to the estimate of the CS road maintenance costs. In the latter case, taxpayers could be informed that a portion of the CS tax share would be used specifically for this purpose.

Possible roles of the CS: A tax-sharing experiment would involve collaboration between the district tax office and the CS councils. The CS could be required to perform the following functions:

- prepare and maintain an up-to-date vehicle registration list and register vehicles;
- inform villagers about the tax through village meetings and public posting of relevant regulations and guidelines;
- collect the tax based on the registration list;
- prepare collection reports and make them available for public review and audit;
- deposit revenues into the PM treasury or a CS bank account;
- enforce collection.

Patente

Selection rationale: All types and sizes of business currently pay *patente*, and it is easy for CS to identify local businesses. The base is fairly stable and tends to grow over time. Devoting this revenue to visible local services may improve taxpayer compliance, which is currently poor in many areas.

Tax-sharing arrangements: The *patente* in the CS survey areas is already informally shared where the CS assist the district tax office with collection. Sharing should be formalised under the CS budget according to clear rules. One option, for example, would be to assign the tax bases of all businesses within the “estimated” (small business) regime⁵ from the PM to the CS, leaving the PM with the “real” (larger businesses) regime. Another option would be to share some portion of the “estimated” and/or “real” regime revenue with the CS.

Possible roles of the CS: A tax-sharing experiment would involve collaboration between the district tax office and the CS councils. The CS could be required to perform the following functions:

- prepare and maintain an up-to-date *patente* register, working with the district tax office to classify businesses into their *patente* categories;
- collect the *patente* based on the classified register;
- deliver to taxpayers the *patente* certificates issued by the PM tax branch;
- prepare collection reports and make them available for public review and audit;
- deposit revenues into the PM treasury or a CS bank account;
- enforce collection.

The collection of *patente* and tax on transfers usually meets the targeted amounts, whereas the yield of the tax on means of transportation is quite low relative to targets.

Pheasie and user charges for CS services

Selection rationale: PM currently outsource market management, including *pheasie* collection, to the private sector. CS might be able to manage or even take over ownership of smaller markets. *Pheasie* is a relatively simple revenue to collect and can be significant in areas with busy markets. It also creates linkages between revenue and expenditures, as some portion of the collected funds could be used for local market services, such as cleaning, waste collection and maintaining order.

Reassignment of revenues: One option would be to share or reassign to the CS *pheasie* revenues collected from small and unregistered markets, leaving revenues from the larger markets to the PM. Another option is to turn over small market assets to the CS and allow them to manage the markets themselves or outsource this function. It may also be worthwhile to consider sharing revenue collected from larger PM markets with the CS, as some CS would realise little revenue from their market or do not have one within their boundaries.

Possible roles of the CS: Whether they own or manage markets, CS would need to take responsibility to:

- provide services to ensure safe, orderly and clean markets;
- collect daily *pheasie* from all vendors in accordance with established practice;
- separate *pheasie* from other CS revenues to ensure that they are protected for use for market-related expenditures;
- create an enabling environment for businesses in the market to improve and grow;
- keep proper records and make them available for public review and audit;
- deposit collected revenue to the CS bank account or PM treasury;
- enforce collection.

In addition to being assigned the *pheasie*, CS could also adopt user charges for services that can be directly charged for, such as drinking water and irrigation services. User fees for particular services would be collected from the users of that service. CS will have to identify the services for which direct charges can be collected and set fees that meet local revenue needs for the service, following national guidelines.

General CS service levy

Rationale: A general CS service levy could be used to help finance CS services for which direct user charges cannot easily be collected. The CS service levy could raise significant revenues and might be the only major source of revenue in some CS.

Arrangements for administration and collection: The general CS service levy could be collected from every household and business within the CS as an annual fixed fee that would depend on (i) the category of land use

(agricultural, residential, commercial), (ii) the size classification of land used and perhaps (iii) a few basic characteristics of land use (developed or undeveloped, size and quality of structure etc.). Of course, more work would have to be done to develop an appropriate classification system and to assign appropriate charges to each category.

Possible roles of the CS: The roles of CS could include the following:

- record and update a communal land register regularly with assistance from the Land Management and Administration Project and the current land register;
- classify plots for levy collection based on MEF regulations and the CS register list;
- assess and collect the appropriate payments from each liable payer;
- prepare collection records and reports for public review and audit;
- deposit revenues into the PM treasury or a CS bank account;
- enforce collection.

Next Steps

There was broad support during the national workshop in July for piloting the sharing of selected provincial revenues and considering how the CS can adopt user charges. A service levy was not ruled out, but given the sensitivity about land taxes in Cambodia, the discussion made clear that additional research would be needed before considering this option for piloting. Other ideas for sharing revenues with the CS, like unused land taxes, were also raised.

The MEF would like to pilot CS own-source revenues as soon as possible. However, further discussions and more work will need to be done with regard to the ideas raised above for sharing and/or assigning selected PM revenues to CS and for adopting new CS sources of revenue. Major issues for discussion concern administrative arrangements for each of the CS own-source revenues, capacity building and support for administering these new sources at the commune level, the structures of new revenue sources (e.g., the percentage of the *patente* to be shared with the CS and the types of markets to come under the jurisdiction of the CS councils) and whether rural and urban areas should have different revenue structures.

There will be some challenges in developing CS own-source revenues that will need to be dealt with as new sources of CS revenue are piloted and adopted. These include:

- collecting additional information required to develop detailed guidelines for piloting the new revenue options;
- structuring the new sources in a way that will not unduly burden those who cannot afford to pay;
- building the capacity of the CS councils to administer the new sources of revenue effectively;

Pheasie is a relatively simple revenue to collect and can be significant in areas with busy markets.

Short-term Trend or Long-term Shift?: Institutional Credit in Rural Cambodia

There is evidence that rural households are borrowing more often from institutional sources. In this article, Brett Ballard looks at changes in the structure of rural credit markets in terms of loan source, use and size.*

Introduction

Two recent CDRI studies show that people in agriculture and business continue to rely primarily on their own resources for expenditures and investments, followed by borrowing from family and friends and institutional sources (Ballard and So, 2004; Kang, forthcoming). While own sources and informal credit arrangements with trusted sources may provide sufficient capital for financing small-scale activities, larger amounts of capital are often required for improving agricultural productivity and business expansion. Although some degree of economic growth occurs in the absence of a well-developed banking system (Kang, forthcoming), the low level of integration between investors and institutional credit is an obstacle to long-term equitable growth and poverty reduction.

There are some indications, however, that an increasing number of borrowers are now obtaining credit from institutional sources. This may signal an important step in the institutional development of credit markets in rural Cambodia, although the scope and scale of this trend are not yet clear. Such a transition raises important policy and programming questions for government planners and donors about the extent to and pace at which farmers should be encouraged to borrow in the formal sector. Another question concerns the conditions under which such objectives can be achieved most efficiently.

This article looks at changes in rural credit markets in terms of loan source, use and size. It observes that small-scale NGO savings-and-loan groups and micro-finance institutions (MFIs), as well as specialised and commercial banks, all have important roles in meeting the credit needs of rural investors. Additional efforts are required, however, to make affordable credit available to more people in rural areas if pro-poor economic and social policies are to be achieved.

Credit Sources in Cambodia

The range of informal and institutional sources of credit is modeled in Figure 1. Researchers have identified a wide

* Brett Ballard is technical adviser for agriculture and rural development at CDRI.

range of sources in the informal sector (Murshid, 1998), including family and friends, moneylenders and traders/merchants. Credit arrangements with family and friends are characterised by low or non-existent interest rates, little or no collateral and flexible usage and repayment terms. Moneylenders may allow some flexibility in terms of repayment and use, but they tend to charge higher interest rates, in the range of 10–20 percent per month, and may require collateral. Traders or merchants provide cash or in-kind loans of varying amounts for specific uses, with a wide range of repayment arrangements.

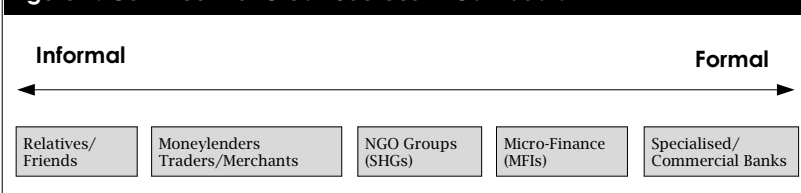
The institutional sector is currently composed of nine MFIs and four specialised banks, including the state-owned Rural Development Bank (RDB), and several commercial banks, including ACLEDA. The MFIs have evolved from smaller NGO-sponsored credit associations and often retain certain elements of their original structure (e.g., small groups) and objectives (e.g., modest loans targeting the poor). The MFIs are licensed by the National Bank of Cambodia (NBC) and as such are eligible to borrow capital funds from the RDB. The MFIs and banks usually require some form of collateral and charge interest rates in the range of 3–5 percent per month. They may also lend only for specific purposes, and some have ceilings on the size of loans. Although their interest rates are lower than those often found in the informal sector (e.g., moneylenders), they are still too high for many low-income households, especially when collateral requirements and transaction costs (e.g., travel time, paper work) are added (Kang, 2002).

The institutional sector also includes approximately 90 NGOs, 18 of which are registered with the NBC. Beresford *et al.* (2004) classify these credit sources as “semi-formal” along with MFIs, while Urashima (2002) excludes MFIs from her definition of semi-formal institutions. Regardless of their exact location on the credit continuum, these groups generally receive advice, training and various modes of capital assistance from NGOs or other donors, often in conjunction with other community development projects. They tend to provide smaller loans with flexible terms (e.g., interests rates of 1–3 percent, minimal or no collateral) that enable people to obtain credit for a variety of purposes in ways that are both economically manageable and socially familiar. In this way, these programs perform an important “bridging function” by providing rural people experience with structured credit arrangements.

Loan Source

Table 1 below suggests that significant changes in the distribution of credit sources along this continuum have

Figure 1: Continuum of Credit Sources in Cambodia



occurred since 1996. The 1996 SESC (NIS, 1997) survey found that 813,148 (about 47 percent) of all rural households obtained loans in 1994-95. Of these loans, 88 percent were obtained in the informal sector. CDRI's 2001 rural livelihoods survey (RLS) of 1,005 households found that 50-52 percent of households had obtained cash loans during the previous wet and dry seasons, with some seasonal variation. Some 77.6 percent of the loans were obtained in the informal sector. CDRI's land titling survey (LTS) of 1,232 rural households in early 2004 found that 52.7 percent of households had obtained cash loans in the six-month period prior to the study. About 62.1 percent of these loans were obtained in the informal sector. The reduced percentage of borrowing from informal sources corresponds to an increase of borrowing from semi-formal and formal institutional sources between 1996 (11 percent) and 2004 (37.9 percent).

Table 1: Credit Sources (percentage of loans)

Lenders	SESC: 1996	Rural Livelihoods	LTS 2004
Relatives	51	44.5	46.5
Friends	15		
Moneylenders	15	33.1	15.6
Traders	7		
NGOs	10	8.6	9.4
MFIs			22.9
ACLEDA		7.1	5.6
Others	1	6.6	
Banks	1		

The two CDRI surveys found a similar percentage of households obtaining cash loans (50 and 52.7 percent), which was higher than the 1996 SES study. The two studies differ, however, in that the frequency of loans from institutional sources increased from 15.7 percent in the 2001 RLS to 37.9 percent in the 2004 LTS. This appears to be largely a function of people borrowing less often from moneylenders (and perhaps traders to a certain extent) and more from NGO groups and MFIs. People's apparent preference for NGOs groups and MFIs compared to moneylenders could be attributed to lower interest rates and a wider range of services and products, as well as organisational reach at the local level.

Such factors may also, under certain circumstances, adequately explain why people might borrow less from traders.¹ Any such shifts, however, could represent short-term fluctuations in market cycles, or may depend on the location and type of products being traded. Fishers and resin tappers, for example, with few viable credit alternatives, may prefer cash or in-kind credit from traders as easier and less costly to arrange. Such arrangements may also help ensure market access for their products (Prom and McKenney, 2003). Farmers, however, might prefer cash credit from institutional sources for purchasing productive inputs rather than take such inputs on credit from traders or merchants at higher interest rates.

People across all income levels and/or landholding sizes borrow from multiple sources depending on needs

and circumstances (e.g., emergencies, seasonality). As a result, decisions about the source and use of loans are both strategic (e.g., investments) and tactical (e.g., household cash flows). For example, although some people may prefer borrowing from an NGO or MFI, medical emergencies or an inability to meet collateral requirements for agricultural inputs may push them to continue borrowing from moneylenders or traders. Rural financial markets remain highly fragmented, and therefore any long-term shift from informal to formal borrowing sources may not follow a linear progression.

The observed trend toward more borrowing from institutional sources may be more clearly attributed to the increasing supply of lower cost credit and range of products and client services. For example, ACLEDA's growth from 14 branches in 34 districts in 2000 to 15 branches in 82 districts has been accompanied by an increase in the number of loans from 102,473 in 2000 to 159,510 in 2003, an increase of 55.6 percent. During the same period, the average size of loans increased from \$299 to \$466. There is also some indication of expansion among MFIs. For seven of the nine MFIs, NBC data show a combined total of 151,102 borrowers at the end of 2002 and 184,348 in June 2004, an increase of 22.0 percent.²

As for NGO groups, there is evidence to suggest that some degree of expansion is taking place in at least some areas. For example, Padek reported 1,363 membership loans in 22 groups in Kompong Speu in 1997 (Rao and Swift, 1998). Since then, there have been an additional 4,429 membership loans in 445 new self-help groups (SHGs) in five provinces (Padek, forthcoming). Beresford et al. (2004), however, have also observed that some NGO groups are only "marginally viable" and may be near collapse. This suggests that donors need to complement their financial assistance with additional technical support to help semi-formal credit associations, as well as MFIs, improve management practices.

One final comment is warranted regarding the impact that semi-formal and formal institutions might have on informal sector interest rates as they expand their operations in rural areas. There is anecdotal evidence to suggest that some moneylenders have reduced interest rates in order to compete with institutional lenders. However, the distribution and impact of the benefits to rural households from lower informal interest rates from such competition are not clear. For example, Murshid (1998) and Sophal and Acharya (2002) have observed that poor households are routinely charged higher rates than richer households. By how much are interest rates actually reduced, and to what extent are such reductions passed on to poorer households? More research on such questions is clearly required.

Loan Use

Any assessment of reported loan use must bear in mind that people sometimes give one reason for borrowing but then use the money for other purposes. The difference between production and consumption loans is also sometimes blurred, as in the case of loans for transporta-

tion. Nevertheless, the distinction remains sufficiently useful for the purpose of identifying general patterns in loan use.

The LTS data show that loans for productive investments accounted for 37.1 percent of all reported credit activity, including rice farming and other cultivation (16.2 percent), small-business-related activities (11.6 percent) and animal raising (9.3 percent). Consumption expenditures accounted for almost 40 percent of all credit activity, including "distress borrowing" for health care (20.9 percent) and food shortages (16.8 percent). Housing accounted for 6.5 percent of loans, while other activities (e.g., ceremonies, transportation), accounted for the remaining 18.7 percent.

This contrasts with an EMT study (Benkirane, 2003) that found that 64 percent of loans were for productive purposes, including 28 percent for crop cultivation, 27.6 percent for animals and 8.4 percent for "investment," which probably included micro or small business. About 20 percent of loans were for consumption, although the study did not break this category down further. The remaining 15.9 percent of loans were for other reasons. This distribution of production and consumption loans roughly approximates the distribution found in the Padek SHGs since 2000 (Padek, forthcoming).

The difference in the distribution between production and consumption loans in the LTS, on the one hand, and EMT and the Padek SHGs on the other, may be explained in part by the role that groups play in assessing members' loan usage. Although there is some flexibility that allows loans for consumption, the emphasis within these groups tends to be more on income-generating activities. Some NGOs, including Padek, also provide extension services (e.g., small business management, cultivation, animal health) that support loans for productive purposes. This impression holds for NGOs and PRASAC in the LTS, in which 65.9 and 64.0 percent respectively of their loans were for production. However, only 42.3 percent of the MFI loans were for production. The relatively high percentage (40 percent) of loans for food and health costs among the MFIs may be related to

seasonal or locational variations (see below).

The questions associated with loan use are especially problematic when people borrow for social ceremonies (e.g., weddings) or immediate costs (e.g., health care, food shortages), and then have to sell productive assets such as animals or land to repay. Researchers have observed that short-term distress borrowing places a significant burden on the poor and may crowd out potentially productive investment (Murshid, 1998, Chan and Acharya, 2002). Researchers have also linked health care costs with asset sales (e.g., Biddulph, 2004). Health care and food security are thus two areas requiring concerted attention if policies designed to direct financial resources to their most productive uses are to succeed.

Loan Size

The LTS data in Table 2 show that loan size varies according to source and use. People tend to obtain larger loans from institutional sources than they do from informal sources, although the frequency of borrowing is higher in the informal sector. The largest loans were obtained from ACLEDA, averaging 85 moeun riels. The average size of NGO and MFI loans was 24.69 and 20.6 moeun riels respectively. This figure, however, excludes the 25 PRASAC NGO loans, which averaged 79.6 moeun riels. In the informal sector, the average size of loans from relatives and friends was 32.6 and 19.8 moeun riels respectively. The average size of loans from moneylenders was 24.65 moeun riels, which is almost the same as NGO sources at 24.69 moeun riels. The data suggest, then, that the location of the loan source on the credit continuum is not necessarily a good indicator of loan size.

ACLEDA also provided the largest loans (68.5 moeun riels) in the 2002 RLS, followed by moneylenders and then relatives and friends. This differs from the LTS pattern, where loans from relatives and friends were, on average, larger than the loans from moneylenders. Although the RLS does not specifically refer to other MFIs or NGOs, this change could reflect the fact that people are using the increased supply of institu-

Table 2: Loan Size by Credit Source & Loan Use

Purpose	Family/Friend		Moneylender		NGOs		MFIs		ACLEDA		Total **	
	No.	Amt.*	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Agriculture	62	17.7	27	20.5	23	15.4	22	24.8	7	53.6	147	22.5
Business	29	57.8	15	23.5	14	20.8	26	21.3	16	128.2	105	49.7
Food	84	12.3	26	20.3	4	30.5	26	11.3	10	27.7	152	15.2
Health	99	29.7	24	20.6	9	35.9	47	13.2	7	45.0	189	25.6
Livestock	20	48.1	7	16.1	19	19.8	29	19.8	4	140.0	84	35.5
Housing	40	68.5	5	44.4	5	40.0	9	48.3	0	0.0	59	60.9
Other	87	33.6	37	32.8	11	39.4	23	31.4	7	107.9	169	47.7
Total/average	421	31.8	141	24.7	85	24.7	182	20.6	51	85.0	905	32.1
% of Total	46.5		15.6		9.4		20.1		5.6			

* Average amount in moeun riels. 1 moeun riels = 10,000 riels = \$2.50; ** Includes 25 PRASAC loans not included under NGOs
Source: CDRI Land Titling Baseline Survey (Jan.-Feb. 2004)

tional credit (i.e., NGOs and MFIs) to obtain lower cost loans when possible. Once again, this observation suggests that any shift from informal to institutional sources is not necessarily following a linear progression.

The largest loans in the LTS were for housing (60.9 moeun riels) and productive purposes, including business activities (49.7 moeun riels), followed by livestock (35.5 moeun riels) and rice farming and other cultivation (22.5 moeun riels). Loans for consumption purposes were generally less for health (25.6 moeun riels) and food (15.2 moeun riels). The largest loans for rice farming and other cultivation were obtained from institutional sources, although there was a higher frequency of loans for such purposes in the informal sector. People borrowed more frequently from family and friends for short-term needs (e.g., food, health), although the average amounts were between ACLEDA and the MFIs. These observations generally coincide with the RLS, which speculated that loans from institutional sources are generally larger because they are intended for productive uses, while loans from informal sources are generally used to cover short-term or seasonal needs.

Such a relationship between loan source, use and size, however, may not always hold. For example, in the LTS, people obtained larger loans from relatives and friends for housing (68.5 moeun riels) than they did from MFIs (48.3 moeun riels). In the business sector, the largest loans were indeed obtained from ACLEDA and PRASAC (128.2 and 59.0 moeun riels respectively). People then, however, obtained larger loans more frequently for business investments from family and friends (57.8 moeun riels) than from NGOs and MFIs (20.8 and 21.3 moeun riels respectively). This observation may provide some support for Kang's (forthcoming) hypothesis that when people borrow for business purposes, they tend to borrow more from trusted family and friends for start-ups, while obtaining larger loans from institutional sources for maintenance and/or expansion. If this is the case, any evidence of increased borrowing from institutional sources for business start-ups would indicate a significant achievement in the development of rural financial markets.

Locational Variation

The RLS observed that people tend to borrow more in villages where activities are commercialised because of a larger degree of market integration. People also borrowed larger amounts in some villages compared to others. Chan and Acharya (2002) suggest that the fre-

quency, size and use of loans may be related to the degree of modernisation of agriculture or the vibrancy of non-farm activities.

The LTS also found some variation in loan sources and uses across communes. For example, Trapeang Sab (Takeo), Srayov (Kompong Thom) and Sambour (Kompong Cham) are among the most economically active areas in the survey sample in terms of their location along major highways and proximity to commercial centres. They have three of the highest loan frequencies, three of the highest borrowing rates (number of loans per borrowing household) and the highest percentages of loans from formal sources, which in this case include MFIs and ACLEDA. Ti Pou (Kompong Thom) is less integrated with area markets and less economically diverse due to its location. Ti Pou also has the lowest frequency of borrowing and the lowest percentage of formal borrowing.

The distribution of borrowing for production and consumption also varies somewhat according to commune. For example, in Sambour and Srayov, production accounted for 56.1 and 36.6 percent of the loans respectively. In Ti Pou, however, only 14.3 of the loans were for production, while 63.6 percent were for consumption.

Conclusion

Borrowers in the rural sector are likely to shift increasingly to institutional sources over the next few years. The pace and direction at which people move along the credit continuum in any particular area will depend on factors including (1) the range of available credit options, (2) the level of economic activity and market integration and (3) people's propensity (e.g., institutional trust, expected returns, information) and capacity (e.g., wealth, assets, occupation) to borrow. The distribution of the benefits of increased access to institutional credit, particularly among poorer households, will also depend on a variety of factors, including food security and access to affordable health care.

NGO and MFI credit programs are reaching an increasing number of people in the rural areas. The organisational reach of these programs, however, is still limited, and despite the general flexibility of terms, some programs remain too costly for the rural poor. Donors can continue playing a vital role in the development of rural credit markets by increasing their financial and technical support for micro-finance programs, especially in areas where other institutional options are not available. The government can also help to promote credit associations by establishing a legal status and associated regulations that would enable them to obtain credit from specialised or commercial banks without incurring the administrative costs of the current MFI model. This would promote sustainability and release donor resources to support new rural credit programmes.

The specialised and commercial banks should continue expanding their operations in rural areas and liberalise their terms of credit (e.g., reducing interest rates, amending collateral requirements) as appropriate so that more rural people have access to loans. For example, the

Table 3: Distribution of Loans by Commune and Source (%)

Commune	Informal	Semi-Formal	Formal	Total Loans	
				No.	No/HH
Trap. Sab	52.7	13.7	33.6	131	1.03
Roveang	69.7	8.3	22.0	109	1.18
Srayov	58.1	11.8	30.1	93	1.50
Ti Pou	80.5	2.6	16.9	77	.65
Sambour	70.2	0	29.8	114	1.16
Srangle	85.7	1.1	13.2	91	1.12

rate at which the RDB lends to MFIs could be lowered, which in turn would enable them to lower interest rates for rural customers. These institutions should also continue their efforts to provide expanded services and products to rural clients. More competition in rural credit would also stimulate better terms and services for customers. Government also has an important role to play in ensuring that liberalisation and competition do not induce irresponsible lending.

In terms of improving access to formal credit, the government is already taking important steps by providing land titles that can be used as collateral. If anything, these efforts should be expanded and accelerated, particularly in areas where semi-formal and formal credit institutions exist alongside developing markets. Such efforts would be most effective in areas with accessible and affordable extension (e.g., crops, livestock) and social services (e.g., health care).

Endnotes

1. Traders may have been included with moneylenders and others in the RLS, while traders are not referred to in the LTS, perhaps in part because LTS data refer to cash rather than in-kind loans.
2. Of the seven MFIs, four were registered as NGOs in 2002 and have since become licensed MFIs.

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Options for Initial Development ...

- ensuring the transparency and accountability of fund management;
- educating CS residents about the purposes and uses of the new sources of revenue;
- reducing the collection of informal revenues that divert resources needed by the CS councils.

This study has helped promising and feasible pilot projects to progress despite the remaining challenges and issues that need to be dealt with in the course of developing CS own-source revenues. Several follow-up studies have been identified to address issues that this study does not address. These include: (i) assessment of CS responsiveness and accountability after introducing CS own-source revenues, (ii) impact and outcome indicators on improved livelihoods and poverty reduction, (iii) assessment of the tax burden on local people and businesses, (iv) efficiency and effectiveness of tax col-

lection in comparison between PM and CS levels, (v) identification and assessment of other feasible options for CS own-source revenues and (vi) assessment of the distribution and allocation of CS own-source revenues.

Endnotes

1. Provincial governor's office.
2. An annual business licence tax collected from all established businesses.
3. A daily market fee collected from vendors.
4. Target amounts are the amount of tax revenue that each PM tax branch is responsible for collecting. It is based on the previous year's collection, adjusted for changes in the tax base.
5. According to the Law on Taxation (1997), the tax regime is a system which categorises businesses and taxpayers into different legal obligations for tax collection purposes.

Towards Understanding Social Protection in Cambodia¹

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

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

Social Protection Efforts by the Government

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

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

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

* Sophal CHAN was formerly a researcher at the Cambodia Development Resource Institute, and Sophal EAR is a PhD candidate at the University of California, Berkeley, and Center for Khmer Studies Fellow, e-mail: sophal@alumni.princeton.edu.

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

Retirement Pensions for Civil Servants

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

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

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

Vocational Training

Vocational training is a crucial labour market interven-

Table 1: Breakdown of Current Expenditure by Chapter

Chapter	Budget Law	Actual 2003	Actual 2003
Total Current Expenditure	442	377	100%
Chapter 10: Salaries	155	147	39%
Chapter 11: Operating costs	145	114	30%
Chapter 12: Subsidies to provinces and	26	25	7%
Chapter 13: Specific programme	40	25	7%
Chapter 20: Interest on loans	7	8	2%
Chapter 30: Economic interventions	8	14	4%
Chapter 31: Social interventions	31	38	10%
Chapter 32: Contributions to	2	2	0%
Chapter 40: Other current expenditure	24	4	1%
Chapter 41: Unexpected expenses	3	-	-

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

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

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

Veterans' Affairs

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

The total expenditure on these transfers was \$13.7 million per year in 2003 or an average of \$29 per beneficiary per year. This total expenditure is relatively substantial for the government. However, at the family

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

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

Public Health Services for the Poor

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

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

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

To serve the very poor, the Ministry of Health has established Equity Funds with a total budget of \$20 million for the first three years (2003-2005). However, so far, no part of the government plan for Equity Funds has been implemented. The success of the Equity Funds will depend on whether referral hospitals and health centres will provide effective services while their salaries and incentives remain far from adequate.

Social Protection by Donors and NGOs

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

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

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

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

Effectiveness of External Interventions

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

Assistance to Women and Children

Assistance to women and children is another area of social protection in which donors and NGOs have been active. Women, especially those who are heads of households or widows, are more vulnerable than men for various cultural and social reasons. Children, whether abandoned or orphaned, who end up on the streets have even fewer avenues for survival. The work

of UNICEF and NGOs (e.g. Friends and SABORAS) is particularly helpful in shedding light on the situation of women and children and on recent experience of the effectiveness of social protection programmes.

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

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

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

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

Integrated Community Development

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

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

Conclusions

Poverty in Cambodia is more severe than merely the lack of economic empowerment. It relates in large part to vulnerability, disability and hopelessness caused by

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

World Economic Growth

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

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

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

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

As a result of tightening macroeconomic policies, China's economy decelerated slightly, to 9.6 percent annual growth in the second quarter, compared to 9.7 percent in the first quarter. For 2004 as a whole, the growth rate may decelerate further due to higher oil

prices, higher inflation and lower demand. According to Channel News Asia, growth may slow to 9.0 percent this year, compared to the predicted rate of 9.8 percent.

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

Unlike other ASEAN countries, the Thai economy decelerated from an annual rate of 6.6 percent growth in the first quarter to 6.3 percent in the second quarter. The slowdown was due mainly to avian influenza and the rise in oil prices, according to the National Economic and Social Development Board. As a result of the epidemic and drought, the agricultural sector contracted further in the first quarter of 2004.

World Inflation and Exchange Rates

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

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of consumer goods and services.

In the second quarter of 2004, the value of the US dollar strengthened by 2.3 percent and 5 percent over the previous quarter, relative to the Japanese yen and the euro respectively. Despite coming under pressure in June (weakening against both the yen and the euro) in the face of the record deficit in the US current account, the US dollar was kept relatively firm over the quarter as a whole by the Fed's announcement of raised interest rates and the lack of confidence in a quick Japanese economic recovery. During the same period, the US dollar gained 3 percent and 0.6 percent respectively against the Thai baht and the Singapore dollar.

Commodity Prices in World Markets

Most commodity prices were higher in the second quar-

ter of 2004 than in the first quarter. The price of first quality rice in the Bangkok international market rose for the second consecutive quarter, reaching \$235.80/tonne, an increase of 8.7 percent over the first quarter. The price of rubber in the Malaysian international market rose by 7 percent, to \$1,333.40/tonne, in the second quarter, from \$1,246.40/tonne in the previous quarter. During the same period, the price of soybeans continued to rise for the second consecutive quarter, reaching \$249.70/tonne; compared to the same quarter last year, soybean prices increased by only 1.6 percent. The price of crude oil increased sharply in the second quarter—by 13.6 percent over the previous quarter, reaching an average daily price of \$33.30/barrel over the three months.

Prepared by Tong Kimsun

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Towards Understanding...

prolonged civil war and state failure across three decades. The fact that the formal sector is small while the demand for social support is acute leads to reliance more on external assistance and informal safety nets than on national resources for social protection.

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

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

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

of different ways and approaches for providing social protection programmes.

Endnotes

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

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Table 1. Real GDP Growth of Selected Trading Partners, 2000–2004 (percentage increase over the previous year)

	2000	2001	2002	2003				2004		2003
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia	7.3	6.7	-	-	-	-	-	-	-	5.0
Indonesia	4.4	3.8	3.8	3.4	3.8	3.9	4.3	4.5	4.3	4.1
Malaysia	8.7	0.5	5.4	4.0	4.4	3.5	6.4	7.6	8.0	5.3
Singapore	9.5	-2.3	3.0	1.6	-4.2	1.7	3.7	7.5	12.5	1.1
Thailand	4.4	1.9	6.0	6.7	5.8	6.6	7.8	6.5	6.3	6.7
Vietnam		6.0	-	-	6.9	-	-	-	-	7.0
Selected other Asian countries										
China	8.0	7.5	8.1	9.9	6.7	9.1	9.9	9.7	9.6	9.1
Hong Kong	10.2	0.5	4.8	4.4	-0.6	4.0	4.9	6.8	12.1	3.2
South Korea	9.1	3.0	6.8	3.7	1.9	2.3	3.9	5.3	5.5	3.1
Taiwan	5.8	-2.2	4.2	3.2	-0.4	4.2	5.4	6.3	7.7	3.2
Selected industrial countries										
Euro-12	3.5	1.4	1.3	0.8	0.2	0.3	0.6	1.5	2.2	0.6
Japan	2.8	0.4	1.7	2.7	2.1	1.9	3.1	5.6	4.4	2.5
United States	5.0	1.2	2.8	2.1	2.4	3.6	4.3	5.0	4.7	3.1

Source: *The Economist, Far Eastern Economic Review and countries' national statistics offices and central banks*

Table 2. Inflation Rate of Selected Trading Partners, 2000–2004 (percentage increase over the previous year – period average)

	2000	2001	2002	2003				2004		2003
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia	-0.3	-0.4	3.0	1.8	1.6	0.7	0.5	0.8	2.2	1.5
Indonesia	3.7	11.3	10.3	7.7	6.5	5.6	3.7	4.8	6.7	5.8
Malaysia	1.5	1.4	1.9	1.3	0.9	1.0	1.1	0.9	1.2	1.0
Singapore	1.4	1.0	0.1	0.7	0.1	0.5	0.7	1.4	1.8	0.5
Thailand	1.6	1.8	1.4	2.0	1.7	1.8	1.5	1.9	2.7	1.8
Vietnam	-1.7	0.0	3.7	2.2	2.3	3.5	2.2	-	-	3.1
Selected other Asian countries										
China	0.3	1.0	-0.6	0.5	0.6	0.8	2.7	2.8	-	1.2
Hong Kong	-3.7	-1.5	-2.9	-2.0	-2.5	-3.7	-2.5	-1.2	-0.7	-2.5
South Korea	2.3	4.3	3.2	4.1	3.3	3.1	3.5	3.2	3.3	3.5
Taiwan	1.3	-0.01	-0.5	0.3	-0.1	-	-	-	-	-0.3
Selected industrial countries										
Euro-12	2.3	2.6	2.3	2.4	2.0	2.0	1.9	1.6	2.1	2.1
Japan	-0.6	-0.5	-0.5	-0.3	-0.2	-0.3	0	-0.1	-0.3	-0.2
United States	3.4	2.9	2.2	2.9	2.1	2.2	1.9	1.7	2.8	2.3

Source: *The International Monetary Fund, the Economist and the National Institute of Statistics*

Table 3. Exchange Rates of Selected Trading Partners Against the US Dollar, 2000–2004 (period averages)

	2000	2001	2002	2003				2004		2003
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia (riel)	3,871	3,935	3,948	3,948	4,008	4,015	3,999	3,991	4,016	3,992
Indonesia (rupiah)	8,421	10,261	9,054	8,905	8,479	8,441	8,482	8,469	9,001	8,577
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Singapore (\$)	1.72	1.79	1.77	1.74	1.75	1.75	1.72	1.69	1.7	1.74
Thailand (baht)	40.1	44.4	43.4	42.7	42.2	41.3	39.7	39.1	40.3	41.5
Vietnam (dong)	14,168	14,725	15,376	15,426	15,472	15,522	15,618	16,208.6	15,733	15,510
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.27	8.28	8.28	8.28	8.28	8.28	8.28
Hong Kong (HK\$)	7.80	7.80	7.80	7.80	7.80	7.79	7.75	7.77	7.80	7.78
South Korea (won)	1,131	1,291	1,219	1,202	1,207	1,174	1,182	1,171	1,163	1,192
Taiwan (NT\$)	31.8	34.1	34.8	34.7	35.0	34.2	34.0	33.4	33.3	34.5
Selected industrial countries										
Euro-12 (euro)	1.08	1.12	1.00	0.93	0.88	0.88	0.84	0.79	0.83	0.88
Japan (yen)	108	122	123.0	118.8	118.4	117.6	108.9	107.2	109.7	115.9

Source: *The International Monetary Fund, the Economist and National Bank of Cambodia*

Table 4. Selected Commodity Prices on the World Market, 2000–2004 (period averages)

	2000	2001	2002	2003				2004		2003
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Hardwood (logs) – Malaysia (\$/m ³)	190.1	160.1	181.2	186.3	182.1	183.0	197	197.7	195	187.1
Hardwood (sawn) – Malaysia (\$/m ³)	599.2	488.3	565.4	550.4	552.4	552.0	545.5	547.8	576.9	550.2
Rubber – Malaysia (\$/tonne)	720.8	602.0	834.1	945.5	975.8	1,017.4	1,261.4	1,246.4	1,333.4	1,050
Rice – Bangkok (\$/tonne)	203.7	172.6	189.6	198.3	197.5	199.6	196	215.3	235.8	197.8
Soybeans – USA (\$/tonne)	211.3	195.6	239.0	243.3	245.7	244.3	219.7	238.5	249.7	238.3
Crude oil – Dubai (\$/barrel)	26.1	22.8	26.2	29.3	24.5	26.5	27	29.3	33.3	26.8
Gold – London (\$/troy ounce)	279.0	279.0	317.8	352.1	346.7	363.3	391.9	408.5	393.1	363.5

Source: *The International Monetary Fund and Far Eastern Economic Review*

ECONOMY WATCH—DOMESTIC PERFORMANCE

Main Economic Activities

In general, the major economic activities declined between the first and second quarters of 2004. The value of construction activities diminished, while tourism remained steady. Likewise, the overall trade deficit recorded a rise over this period. The slowdown in these activities overshadowed an increase in private investment.

The total number of visitors to Cambodia remained almost unchanged during the second quarter (including both international and domestic visitors). The number of foreign visitors declined by 24 percent to 193,802 persons, but there was a huge increase in the number of domestic tourists (by 69.4 percent, to 149,984 persons). According to the Ministry of Tourism, domestic tourists have gradually begun to account for a higher share of Cambodia's tourism sector—a trend that became evident from early 2004. Domestic tourists accounted for 44 percent in the second quarter. Domestic tourists using land and boat routes rose by 72 percent to 146,853 persons, from 85,402 persons, while tourists by air remained at around 3,130 persons.

International visitor arrivals to Cambodia usually decline in the second quarter. They dropped to 193,802 persons in the second quarter of 2004, down from 254,437 persons in the preceding quarter. Compared to the second quarter 2003, however, the number of international visitors rose by 89 percent.

Construction also fell in the second quarter, compared to the first. According to the Department of Cadastre and Geography of the municipality of Phnom Penh, the total value of construction approvals in Phnom Penh dropped by 33.4 percent to \$48.5 million between the first and second quarter, although the number of project approvals rose to 237 from 229. There was a decline of 41 percent and 34 percent in the value of apartment and "other construction" projects, respectively. On the other hand, there was a 15 percent increase in the value of mansion construction projects. Compared to the second quarter one year earlier, the value of construction project approvals fell by 43.2 percent from \$85.5 million.

Cambodia's trade deficit increased to \$112.2 million in the second quarter of 2004, compared with \$59.3 million in the first quarter. Exports grew to \$494.7 million, an increase of 23.8 percent. Garment exports alone accounted for \$479.4 million, a 25 percent increase. Exports of agricultural products declined by 4.4 percent to \$15.3 million. In comparison to a year ago, total exports rose 21 percent from \$408.5 million.

Total imports reached \$606.9 million, private sector imports amounting to \$231.8 million and public sector imports being valued at \$375 million. Compared to the first quarter, total imports soared by 32.3 percent, from \$458.9 million. Among the major imports, steel rose the most, by 98.4 percent, followed by a rise of 45.5 percent in cigarettes and an increase of 21 percent in gasoline. Moreover, compared to the second quarter one year earlier, total imports rose by 19.6 percent.

Compared to the second quarter of 2003, total private investment approvals more than doubled, with sharp increases in three main sectors: tourism, industry and agriculture. In terms of employment, industry planned to hire 11,510 employees (9,938 for garments) during the second quarter. Employment effects on services and agriculture were expected to be small (1,397 and 225 persons respectively).

The Council for the Development of Cambodia approved 19 private investment projects in the second quarter, valued at \$113.3 million, 79 percent more than in the first quarter. This increase was associated with an increase of approved investments in the service sector and the existence of approved investments in agriculture. Investment approvals for the service sector rose from \$9.5 million to \$76 million, of which 52 percent (\$39.2 million) were in tourism. In the meantime, investment in agriculture increased from zero to \$9.4 million, while in industry there was a fall to \$28 million (a 48 percent decrease). In the garments sub-sector, there was a dramatic 80 percent drop in investment in the second quarter, to the meagre level of \$10.1 million.

Public Finance

In the second quarter, the budget deficit reached 180.2 billion riels, higher than in the first quarter, when it was 123.2 billion riels, according to the Ministry of Economy and Finance. There was a drop of 6.7 percent in total budget revenues (to 488.6 billion riels) and an increase of 3.6 percent in total budget expenditures (to 668.7 billion riels).

Tax collection, which is the largest source of revenue, was 15 percent lower in the second quarter than in the preceding quarter. Similarly, revenues from customs and excise duties dropped despite an increase in the total value of exports and imports during this time. Compared to the second quarter of last year, total revenues increased 29 percent from 379 billion riels, led by an increase in non-tax revenues such as visa fees and tourism income. For the first six months of 2004, total revenues are estimated at 1,012.5 billion riels, 48 percent of the target set by the budget law for 2004.

From the first to the second quarter, total budget expenditures, including expenditure adjustment, rose to 668.7 billion riels from 645.3 billion riels. Current expenditure increased by 6.2 percent and capital expenditure increased slightly, by 0.5 percent. Current expenditure consists of three main elements: defence and security, civil administration and interest on loans. Thus, the increase in current expenditure was associated with a rise in expenditure on civil administration (by 6 percent) and interest payments (by 99 percent).

Inflation and Foreign Exchange rates

On a quarter-to-quarter basis, consumer prices in Phnom Penh rose by 1.5 percent in the second quarter, compared to a 0.46 percent increase in the first quarter, according to the National Institute of Statistics. The in-

ECONOMY WATCH—DOMESTIC PERFORMANCE

crease in consumer prices during the second quarter reflects a rise in the costs of transportation and communication (3.6 percent) and of food (3 percent). Clothing and footwear prices declined by 1.4 percent. Compared to the second quarter of 2003, consumer prices in Phnom Penh were 2.2 percent higher in the second quarter of 2004.

After appreciating by 0.2 percent against the US dollar in the first quarter, the riel depreciated by 0.6 percent in the second quarter. However, the riel gained marginally against the Thai baht, trading at 100.5 riels per baht in the second quarter, compared to 101.9 riels in the preceding quarter. Meanwhile, the exchange rate between the riel and Vietnamese dong remained almost stable for the fourth consecutive quarter, trading at around 24.7 riels per 100 Vietnamese dong.

Monetary Development

At the end of the second quarter, Cambodia's total liquidity (M2) expanded to 3,844 billion riels, 5 percent higher than in the first quarter, according to the National Bank of Cambodia. This was mainly led by a 4.7 percent rise in foreign currency deposits, with riel expansion estimated at 4 percent.

Foreign currency deposits, which make up about 70 percent of total liquidity, jumped to \$672.4 million in the second quarter, up from \$642.5 million in the first quarter (an increase of 4.7 percent). The riel component rose to 1,138 billion riels in the second quarter, from 1,095 billion riels in the preceding quarter (rising by 3.9 percent). Twelve percent consisted of riels deposited in banks while the remaining 88 percent was in the form of riels circulating outside the banking system.

Poverty Situation—Earnings of Vulnerable Workers

A CDRI survey of vulnerable workers conducted 2–20 August 2004 showed a decline in the daily earnings of cyclo drivers, rice field workers, garment workers, moto taxi drivers and unskilled workers compared to the same period last year. Moto taxi drivers and unskilled workers were the biggest losers, followed by cyclo drivers.

The daily earnings of garment workers fell slightly in nominal terms, by 1.3 percent to 11,163 riels in August 2004, down from 11,300 riels in August 2003. Two-thirds of garment workers interviewed claimed that factory activities had decreased, while one-third took the opposite view. Their daily earnings, however, recorded a rise of 4.3 percent compared to the previous survey, in May 2004.

Around 48 percent of garment workers were found to be single and female, their ages ranging from 20 to 25. The majority (65 percent) of respondents were permanent residents of Kompong Cham, Kandal, Prey Veng and Svay Rieng. More than half reported at least a secondary education. Garment workers spent an average of 2,124 riels (20 percent of daily earnings) per day for meals.

Higher gasoline prices have clearly affected the earnings of taxi drivers. The daily earnings of moto taxi drivers fell in August 2004 by 11 percent from a year ago, to 9,700 riels. Moreover, an increase in the number of moto taxi drivers has also served to lower their earnings through stiffer competition. Around 60 percent of moto taxi drivers were from another province, 42 percent living in rented accommodation. Almost all moto taxi drivers reported that they primarily depended on their daily earnings to support their families, and more than half reported finishing secondary school.

The daily earnings of unskilled workers and cyclo drivers declined by 11.8 percent and 10.3 percent, respectively, compared to August 2003. Their daily earnings declined slightly compared to the previous survey in May 2004. A majority of unskilled workers claimed that there were more of them in the current reporting period compared to the last. Similarly, most cyclo drivers claimed that their numbers have swelled in recent months. Most unskilled workers and cyclo drivers were from the provinces of Prey Veng and Svay Rieng. Even though more than 80 percent of unskilled workers and cyclo drivers reported owning land of more than one hectare, they had to leave their farms because of drought. Cyclo drivers reported spending around 3,545 riels per day for food, while unskilled workers spent 3,057 riels. Around two-thirds of cyclo drivers and unskilled workers reported completing primary school. The daily earnings of rice field workers registered the least fall among our selected groups—a decline of 4.8 percent compared to the same period last year.

The daily earnings of skilled construction workers have increased gradually since the beginning of the year. They rose by 17.5 percent from a year earlier, and 20 percent from the previous survey in May 2004. This is mainly attributable to a rise in construction activities. Surprisingly, only 30 percent of the sample respondents admitted that their daily earnings increased, with 52 percent claiming that they remained unchanged. More than half of the skilled workers completed secondary school.

Among the remaining groups, the daily earnings of porters increased slightly, by 1 percent, in August 2004 relative to the same period of 2003. The daily earnings of waitresses, small traders and scavengers showed increases of 12, 7.2 and 7 percent, respectively. Most waitresses (75 percent) reported graduating from secondary school, while around 50 percent of scavengers and vegetable traders reported completion of primary school. A rise in the daily earnings of scavengers may reflect increased assistance from their children, who were on school vacation at the time. It should be noted that each child could earn from 1,000 to 2,000 riels per day, twice as much as five years ago.

*Prepared by Ms. Pon Dorina
and Ms. Ouch Chandarany*

ECONOMY WATCH—INDICATORS

Table 1. Private Investment Projects Approved, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004			
									Q2	Q3	Q4	Q1
Number of investment projects*												
Total	300	136	140	96	96	188	37	14	17	15	15	19
Garment	144	48	84	44	52	76	15	7	12	6	11	9
Registered capital (millions of dollars)												
Total	391.2	278	416.4	246.8	102.4	129.2	48.9	10.4	4.0	15.4	11.9	10.0
Garment	156.8	34.4	91.6	55.6	25.6	60	12.6	4.1	1.0	5.8	8.4	1.0
Fixed assets (millions of dollars)												
Total	746.8	761.6	849.2	474	266.4	217.2	239.6	48.3	95.1	62.1	63.3	113.3
Garment	158.4	38.8	120.8	79.6	76.8	100	18.0	10.5	43.3	14.5	49.9	10.1

Source: Cambodian Investment Board (1995-2003) *Including investment expansion projects

Table 2. Construction Projects Approved in Phnom Penh (1996-2004)

	1996	1997	1998	1999	2000	2001	2002	2003	2004			
									Q2	Q3	Q4	Q1
Mansion	205	179	143	136	111	108	159	39	25	48	52	47
Apartment	537	528	678	864	520	499	535	104	148	116	157	161
Other	116	117	132	74	64	57	75	23	17	22	20	29
Total	858	824	953	1074	695	664	769	166	190	186	229	237

Source: Department of Cadastre and Geography of the Municipality of Phnom Penh

Table 3. Exports and Imports, 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004			
									Q2	Q3	Q4	Q1
Millions of dollars												
Total exports	387.1	493.4	784.4	941.1	1055.5	1267.0	1453.7	408.5	492.3	475.7	399.5	494.7
Of which: Garments	78.8	227.2	378	554	962.1	1201.0	1356.2	389.9	475.2	448.5	383.6	479.4
. To US	0.4	107.2	74.1	486	714.1	840.9	943.8	267.8	303.2	298.2	255.8	306.3
. To rest of the world	78.4	120	82	68	248.0	360.1	412.4	122.1	172.0	150.3	127.8	173.1
- Agriculture	-	-	-	-	90.5	66.0	97.5	18.7	17.0	27.2	16.0	15.3
. Rubber	-	-	-	-	29.6	25.9	29.7	6.7	10.0	12.1	8.0	6.6
. Wood	-	-	-	-	32.5	22.3	16.0	2.8	2.1	2.4	1.8	2.8
. Fish	-	-	-	-	5.4	6.0	4.3	0.7	0.6	0.7	0.8	1.2
. Other	-	-	-	-	26.0	11.8	47.5	8.5	4.3	12.0	5.4	4.8
Total Imports	1114.4	1094.5	1112.2	1237.4	1417.7	1501.4	1707.8	507.3	436.2	487.6	458.8	606.9
Of which: - Gasoline	-	-	-	-	-	-	25.9	8.0	5.8	9.0	7.1	8.6
- Diesel	-	-	-	-	-	-	100.8	34	25.7	24.5	30.4	27.7
- Construction materials	-	-	-	-	-	-	12.9	4.8	3.9	4.4	4.0	6.3
- Others	-	-	-	-	-	-	1568.2	460.6	400.9	449.6	417.4	564.3
Trade Balance	-727.3	-601.2	-327.8	-296.3	-362.2	-234.0	-254.1	-98.8	56.1	-11.9	-59.3	-112.2
Percentage change over previous year												
Garment Exports	198	188	66	47	74	24.8	12.9	34.7	10.1	16.4	21.9	22.9
Total Exports	2.1	27.5	58.9	12.4	19.7	20	14.7	30.0	9.0	15.2	20.5	21.1
Total Imports	1.2	-1.8	1.6	11.3	14.5	5.9	13.7	7.8	-10.0	19.6	16.5	19.6

Source: Ministry of Commerce, Department of Trade Preferences Systems and Customs and Excise Department including tax exemption

Table 4. Visitor Arrivals in Cambodia, 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004			
									Q2	Q3	Q4	Q1
Thousands of passengers												
Tourist visas	194.4	163.0	141.9	199.6	209.6	335.4	447.4	83.8	132.0	209.1	230.7	165.3
by air	194.4	163.0	141.9	199.6	209.6	335.4	447.4	44.4	76.2	131.3	139.6	99.6
land and boat	-	-	-	-	-	-	-	39.4	55.8	77.7	91.1	65.8
Business visas	58.4	48.6	37.6	55.4	46.9	62.4	58.3	14.7	20.3	15.5	15.8	20.8
by air	58.4	48.6	37.6	55.4	46.9	62.4	58.3	11.2	16.3	15.5	11.5	16.9
land and boat	-	-	-	-	-	-	-	3.5	4.0	-	4.3	3.9
Official visas	7.6	7.2	6.8	7.9	95.2	10.6	17.3	4.6	5.9	6.1	7.9	7.6
by air	7.6	7.2	6.8	7.9	95.2	10.6	17.3	4.0	5.1	6.1	6.8	6.3
land and boat	-	-	-	-	-	-	-	0.6	0.8	-	1.1	1.3
Total by air	-	-	186.3	262.9	351.7	408.4	523.0	59.6	97.6	152.9	157.9	122.8
Total Land and boat	-	-	100.2	104.8	114.7	196.5	263.5	43.5	60.6	77.7	96.5	71.0
Grand total	260.4	218.8	286.5	367.7	466.4	604.9	786.5	103.1	158.2	230.6	254.4	193.8
Percentage change over previous year												
Grand total	18.5	-15.9	30.9	28.3	26.8	29.7	30	-37.4	-8.9	-14.2	21.8	87.9

Sources: Ministry of Tourism

ECONOMY WATCH—INDICATORS

Table 5. Consumer Price Index (CPI), Exchange Rates and Gold Prices, 1996-2004 (period averages)

	1996	1997	1998	1999	2000	2001	2002	2003			2004	
								Q2	Q3	Q4	Q1	Q2
	Consumer price index (percentage change over previous year)											
Provinces	-	6.1	16.3	6.2	5.4	0.9	0.3	5.9	-1.9	1.8	4.6	11.5
Phnom Penh - All items	7.1	8.0	14.8	4.0	-0.8	-0.6	3.3	1.6	0.8	0.5	0.8	2.2
- Food	7.6	6.7	14.1	7.6	-3.3	-2.8	1.8	2.3	1.5	-0.04	0.6	3.4
- Energy	20.7	20.0	15.1	3.5	6.6	-1.1	0.3	5.2	5.1	5.1	4.8	8.1
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riel per US dollar	2,666	3,029	3824	3832	3,879	3,935	3,926	4008	4015	3999	3991	4016.5
Riel per Thai baht	105	98	88	101	96.3	88	91.3	94.9	96.9	100.5	101.9	100.5
Riel per 100 Vietnamese dong	24.0	25.6	28.6	27.8	27.4	26.6	25.7	25.9	24.9	24.8	24.6	24.7
Gold prices (US dollar per chi)	46.3	40.4	36.0	34.0	33.3	32.7	36.8	40.0	41.5	44.4	46.0	46.0
Price of diesel (riels/litre)	779	883	1,065	1,105	1,329	1,521	1,508	1,683	1,683	1,700	1,867	1,983
Price of gasoline (riels/litre)	1,118	1,378	1,613	1,760	2,113	2,084	2,150	2,383	2,367	2,400	2,567	2,767

Sources: CDRI, IMF, NIS, Ministry of Planning, Ministry of Economy and Finance

Table 6. Monetary Survey, 1996-2004 (end of period)*

	1996	1997	1998	1999	2000	2001	2002	2003			2004	
								Q2	Q3	Q4	Q1	Q2
	Billions of riels											
Net foreign assets	881	1,177	1,726	2,019	2,589	3,080	3,737	3,594	3,624	4,027	4,265	4,337
Net domestic assets	31	-114	-496	-576	-759	-876	-849	-641	-617	-698	-606	-493
Net claims on government	128	54	178	103	3	-75	-119	-19	18	-128	-133	-130
Credit to private sector	435	637	655	763	898	936	1,059	1,224	1,287	1,337	1,389	1,499
Total liquidity	912	1,063	1,230	1,443	1,831	2,204	2,888	2,953	3,007	3,328	3,659	3,844
Money	329	385	543	531	540	609	813	871	886	937	1,007	1,040
Quasi-money	583	678	687	911	1,291	1,594	2,075	2,082	2,121	2,391	2,652	2,804
	Percentage change from previous year											
Total liquidity	40.3	16.6	15.7	17.3	26.9	20.4	31.0	11.5	9.3	15.2	21.8	30.2
Money	18.3	17	41	-2.2	1.7	12.8	33.5	16.4	14.9	15.3	21.5	17.4
Quasi-money	57.1	16.3	1.3	32.6	41.7	23.5	30.2	9.5	7.1	15.2	21.9	36.7

Source: National Bank of Cambodia. * Q4 2003 revised.

Table 7. National Budget Operations on Cash Basis, 1996-2004 (billion riels)*

	1996	1997	1998	1999	2000	2001	2002	2003			2004	
								Q2	Q3	Q4	Q1	Q2
Total revenue	748	880	920	1326	1528	1529	1744	379	401	557	523.9	488.6
Current revenue	-	-	-	-	-	1521	1728	377	399	557	523.3	475.6
Tax revenue	536	596	676	956	1096	1096	1227	287	273	387	409.3	348.4
Customs duties	344	348	376	432	376	376	424	94	92	117	137	108.4
Non-tax revenue	176	272	204	348	424	424	501	90	126	170	113.9	127.1
Forest exploitation	28	36	20	36	28	29	15	1	4	1	0.9	0.3
Posts & Telecommunications	64	84	88	108	124	122	123	18	33	50	16.1	23.1
Capital revenue	40	12	36	12	8	9	16	2	1	0	0.6	13.0
Total expenditure	1440	1260	1296	1792	2332	2332	2948	688	683	746	647.1	668.7
Capital expenditure	628	452	368	624	976	977	1388	299	301	306	295.6	295.4
Current expenditure	812	808	980	1164	1356	1355	1560	388	382	440	351.5	373.3
Education and Health	124	128	132	280	344	343	454	88	122	227	31.4	80.6
Defense and security	408	420	448	464	404	405	438	119	75	147	67.6	66.0
Other ministries	284	260	332	412	636	637	668	182	184	65	252.6	226.7
Overall deficit	-692	-380	-380	-476	-804	-803	-1204	-309	-282	-189	-123.2	-180.2
Foreign financing	680	444	268	416	768	766	1249	228	251	295	-223	195.4
Domestic financing	12	-64	112	60	36	37	-45	81	31	-106	99.8	-15.2

Source: Ministry of Economy and Finance. * 2002, Q2, Q3, Q4, 2003, revised, and Q2 2004 provisional.

Table 8. Average Daily Earnings of Vulnerable Workers, 1997-2004

	Daily earnings (riels)									Change from last year (%)		
	1997		2002		2003		2004			2004		
	Pre-Jul	Nov	Feb	May	Aug	Nov	Feb-04	May-04	Aug	Feb	May	Aug
Cyclo drivers	12,250	8,878	9,200	7,000	9,380	9,817	9,500	8,425	8420	3.26	20.36	-10.25
Porters	9,675	6,312	7,600	6,225	7,240	6,500	8,700	7,847	7310	14.47	26.06	0.91
Small vegetable sellers	7,050	7,158	7,250	6,162	6,860	6,700	7,400	7,625	7337	2.07	23.74	6.95
Scavengers	4,155	4,012	3,875	3,605	4,900	3,900	4,800	4,600	5262	23.87	27.60	7.17
Waitresses*	-	4,000	4,600	4,380	4,520	4,435	4,900	4,500	5065	6.52	2.74	12.01
Rice-field workers	-	4,219	4,180	3,712	4,600	4,450	4,700	4,300	4380	12.44	15.84	-4.78
Garment workers	-	10,000	10,127	9,123	10,300	10,000	9,675	9,740	10163	-4.46	6.76	-1.33
Motorcycle-taxi drivers	-	12,075	11,400	9372	10,900	10,000	11,200	9,000	9700	-1.75	-3.97	-11.01
Unskilled construction workers	-	5,850	6,162	7,100	7,600	6,200	7,200	6,900	6725	16.85	-3.16	-11.73
Skilled construction workers	-	13,350	12,500	12,050	12,700	16,900	13,800	12,450	14925	10.40	3.32	17.52

Notes: The surveys on the revenue of waitresses, rice-field workers, garment workers, skilled and unskilled construction workers and motorcycle taxi drivers began in February 2000. * Waitresses earnings do not include meals and accommodation provided by shop owners. Source: CDRI.

GLOSSARY

TERMS USED IN THIS ISSUE

Market Comparator

This refers to standards or features that can be used to compare different items offered for sale in markets. In this issue, the term is used in regard to labour markets.

Output Approach

A method of implementing programmes that emphasises obtaining desired results, and which selects the particular methods used based on their ability to contribute to those results.

Process Approach

A method of implementing programmes that emphasises particular procedures because they are considered desirable in themselves, rather than because they are likely to produce a desired result.

Safety Net

Specific measures or programmes designed to protect vulnerable people who might otherwise be injured by some larger programme or by a dangerous situation.

Social Intervention

Spending or other measures by the government designed to assist particular sections of the population who are defined by their social role or position—for example, students, disabled people, single parents.

Taxpayer Compliance

This refers to citizens' payment of taxes in full, as required by law. It may suggest voluntary payment, because citizens understand the importance of tax revenue for society, rather than payment because of fear of punishment.

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CDRI UPDATE

Management

In September 2004, a CDRI partnership building and fundraising delegation visited Europe with the support of the Swedish International Development Agency (SIDA). The delegation visited more than 20 institutions in the Netherlands, Germany, Denmark, Norway, Sweden and the United Kingdom. CDRI is now following up several promising potential partnerships in collaborative research, provision of technical assistance to key research programmes and education and professional development opportunities for CDRI staff.

CDRI's executive director participated in the inaugural meeting of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)'s Sub-Committee on International Trade and Investment in Bangkok in October 2004. The meeting included the launch of the Asia Pacific Research and Training Network on Trade (ARTNET), hosted by the UNESCAP Secretariat and funded by the International Development Research Centre (IDRC). CDRI will be the key Cambodian research institute member of ARTNET, which will promote collaborative research on trade and WTO issues in the Asia Pacific region and support the trade-related capacity development of research institutes in least developed countries (LDCs) like Cambodia.

In November 2004 CDRI will begin construction of a much needed new two-storey building with research offices and meeting accommodation on its Tuol Kork site. The building will be completed in time for Khmer New Year celebrations in early April 2005.

Research

The research department of CDRI experienced rapid expansion over the latter half of 2004 when seven new researchers were appointed from a range of backgrounds:

economics, gender and development, public administration and peace studies. This is reflected in a much larger research program involving new initiatives on poverty, governance and decentralisation, land titling, service delivery, natural resource management and capacity development for public administration. A number of studies have also been completed and accepted for publication or are undergoing review. These include papers on high value forests, economic performance for 2003, land titling, fiscal decentralisation, the role of SMEs and the cross-border economy. Various research institutes/universities in Europe and the UK, including Uppsala University (Stockholm), ISS (Hague), IDS (Sussex) and ODI (London) were visited to explore institutional collaboration by CDRI partnership building and fundraising delegations.

Centre for Peace and Development

CPD activities during the second six months of 2004 have focused on training, a two-day follow-up workshop and publication of a peacebuilding lexicon. Continuing CPD's conflict management training in reconciliation areas, a follow-up assessment will be conducted in Veal Veng district, Pursat province in early December. A four-module Working for Peace course was held from June to September 2004 with 27 participants from local and international NGOs, the MOI, Phnom Penh municipality, military and police.

Library

The CDRI Library in 2004 has expanded its collection on Cambodian social and economic development issues. Library orientation for four groups of international and national students and researchers was conducted. The CDRI Library will publish its general collection catalogue in early 2005.

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Cambodia Development Review welcomes correspondence and submissions. Letters must be signed and verifiable and must include a return address and telephone number. Prospective authors are advised to contact CDRI before submitting articles, though unsolicited material will be considered. All submissions are subject to editing. CDRI reserves the right to refuse publication without explanation.

CAMBODIA DEVELOPMENT RESOURCE INSTITUTE

PO Box 622, Phnom Penh, Cambodia

Tel: (+855-23) 881-701 / 881-916 / 883-603; Fax: (+855-23) 880-734

e-mail: cdri@camnet.com.kh / pubs@cdri.forum.org.kh

website: <http://www.cdri.org.kh>

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