



# CAMBODIA DEVELOPMENT REVIEW

A Publication of the  
Cambodia Development Resource Institute

VOLUME 7, ISSUE 4

OCTOBER-DECEMBER 2003

\$4.00

## Poverty Reduction through Decentralisation? Lessons from Elsewhere and Challenges for Cambodia

Dr Caroline Rusten, Programme Manager of CDRI's Policy Oriented Research Programme on Decentralisation, and Dr Joakim Öjendal, Professor at Gothenburg University in Sweden, assess the challenges of the recently launched decentralisation process to address poverty reduction.\*

Cambodia has seen significant investment in the restructuring of development assistance, including rural development, but this has had little effect on poverty. Recently a major decentralisation process with great ambitions with regard to poverty alleviation has been launched in Cambodia. Experience from other countries indicates, however, that there is no clear link between decentralisation and poverty reduction. This article assesses the significance of the commune election law; the features of 'pro-poor' policies; central-local relations; the impact and prevalence of social capital; the institutional set-up; and particular dimensions of the overall political economy. We conclude that in spite of the major difficulties revealed, a certain degree, and certain kind, of poverty alleviation may be within reach.

The recently launched decentralisation reform has explicit poverty alleviation ambitions. Its objectives are defined by the Royal Government of Cambodia (RGC) as: (i) promotion of pluralist participatory democracy at the local level, (ii) promotion of the culture and practice of participatory development at the local level, and (iii) contribution to reduction of poverty in the country.<sup>1</sup> Great hopes have been pinned by both the government and the donors on its ability to meet these objectives. Globally, however, there is no empirical evidence suggesting there is a clear connection between decentralisation and poverty reduction.<sup>2</sup> Rather, lessons learned from other countries show that decentralisation programmes thus far have generally had little impact on



Commune Council members in Samlot district, Battambang province, in CDRI training seminar on Conflict Management, 05 June 2002.

poverty reduction. Decentralisation, when managed badly, has in fact the potential to further increase marginalisation and poverty. This is partly because those with political and economic power may capture the process (this is what is known as 'elite capture'). This is partly too because of local government fiscal deficits. Both these 'dangers' are the results of poor design, procedural weaknesses, political immaturity, and capacity problems.<sup>3</sup> However, decentralisation does have the potential to effectively address poverty if properly designed and wisely managed. This certainly is a complex task as decentralisation often takes place in the context of unstable political situations, structural poverty (which is both income poverty and poverty rooted in impedi-

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\* This is a revised version of a paper presented at the Inception Seminar of CDRI's Policy Oriented Research Programme on Decentralisation (PORDEC) in Phnom Penh, March 27, 2003. The paper is based on field work by Öjendal conducted between 1999 and 2003 and field work carried out by the PORDEC team in 2003.

ments to achieve poverty reduction, such as distrust and lack of local state legitimacy), fragmented donor involvement, and unclear long-term government policies.

Decentralisation in Cambodia is in agreement with the common objectives of the decentralisation reforms sweeping the developing world, with the hypothesis that elected representatives at sub-national and local levels are better able than the central government to understand and address the needs of the people. Drawing on this and guided by a wide range of literature,<sup>4</sup> this article will investigate six 'requirements' for decentralisation to result in poverty reduction, namely:

- 1 The political process is open and transparent with equal access for every citizen (election law);
- 2 The identified priorities of the majority of the constituency are the chief concerns guiding council resource allocation (pro-poor policies);
- 3 The local authorities establish a certain degree of independence and integrity (central-local relations);
- 4 The local civil society holds a minimal degree of social capital (local-local relations);
- 5 The 'institutional set-up' is adequate; and,
- 6 The specifics of external support and influence are conducive (external political economy).

#### **Equal Access to Decentralisation - the Election Law**

Two specific issues that have bearing on the ability of a decentralisation reform to address poverty have frequently been mentioned regarding a country's election law. The first aspect is the *level of constituency*. The concern is that higher levels of constituency create greater space for elite capture of the development process than when the constituency is at village level. The argument for elite capture is based on experiences from Ghana, India, and Thailand.<sup>5</sup> Elite grabbing in Cambodia may be facilitated by two processes: one, the history of political centralism, and two, the widespread prevalence of vertical and exclusive patronage. One question is therefore to what extent priorities of the elite would enhance commune investment benefiting (all) the poor. CDRI's ongoing research<sup>6</sup> shows that concern regarding elite capture of the development process at the commune level is still premature.

The second aspect of the Election Law is to what extent it makes councillors upwardly or downwardly accountable. Experience shows that electoral systems based on party lists make councillors vulnerable to central decisions within their own party and so enhance their upward (semi-legitimate) accountability. Bangladesh is a case in point, where central level party politicking to some extent dashed the developmental intentions of the decentralisation process. This was effectuated through the establishing of chains of patronage in which the rural elite was co-opted by central level politics, where party structures were the key vehicle. The only possible way to avoid this seems to have been to reinforce the degree of local self-sufficiency by reducing centrally provided state services.

The Cambodian election law enables the central party structures to establish the names on the local party list, which allows a degree of central level political control over commune councils. While potentially unfortunate, it works in the reverse too in that it enabled the recruitment of a large number of new – locally popular – Commune Chiefs *prior* to the first commune elections. The reason was that popular people in the commune were placed on top of the party list. This could be viewed as an example of local democracy working. However, CDRI's ongoing research indicates that councillors tend to be more accountable to the party than to the government (or the public).

The two major risks with the design of the election law may be that: one, a local elite-consensus emerges, or, two, party structures re-establish a hierarchical order where top-down policies are exercised. Does this mean that 'pro-poor' policies are unlikely to emerge?

#### **Pro-poor Policies – What Are They?**

To what extent must a policy or intervention be 'pro-poor' in order to improve the situation of the poor? It seems, no matter what the approach, poverty reduction on any measurable scale is hard to achieve despite agendas that claim to be pro-poor. There seems, however, to be a renewed global focus on economic growth as the best way of addressing poverty. The concern, however, is that this renewed approach may fail to address the demands of the poor, as the focus is on the supply, rather than the demand side. Economic growth in Cambodia has therefore had little impact on the poverty situation.<sup>7</sup>

Thus, macroeconomic changes in isolation seem to be questionable for poverty alleviation purposes. Also, experience from Africa shows that attempts to address poverty in a targeted sense in donor projects also tends to be difficult, because projects are inclined to be focused on poor people in isolation of markets and local government revenues. As a result, options for commune council revenues tend to be lost.

In Cambodia, the CAREERE/Seila project 1996-2001 attempted to address poverty in a structural sense and it is generally regarded as having been successful. Even so, tangible poverty alleviation – understood as income poverty alleviation – on a national (or local) scale was not detectable. Poverty alleviation seems to be stuck between macroeconomic growth with little effect on poverty and the unsustainability of targeted interventions.

In terms of making decentralisation conducive to poverty alleviation, therefore, legitimate commune councils with the required capacity to effect the implementation are required to combine a 'structural' and a 'targeted' approach, and thereby to turn growth into poverty alleviation. The challenge here might be that while growth in Cambodia is urban rather than rural, poverty is rural rather than urban, hence, equalisation grants and taxation policies are fundamental for this change to take place. This is a central government responsibility and not within the jurisdiction of the commune councils.

### **Central-local Relations – The Challenge of Commune Council Independence and Integrity**

The major overall determinant for the success or failure of decentralisation in achieving poverty reduction lies in the character and politics of central-local relations rather than in the technical aspects of the particular system of decentralisation adopted. Three important aspects should be considered.

#### ***Central-local relations***

The social, cultural and political context may enforce other power relations than those stated by the law. This is what is called the ‘political culture’. In Bangladesh and Ghana, local governance has been under the watchful eye of authoritarian regimes. Performance has been controlled by the elite. Also, activities at the local level have been dominated by considerations of higher levels of government. This is exacerbated by the fact that local leaders have been co-opted into national policy building exercises. In Cambodia too, lower levels of government habitually seek authorisation from higher levels of government although they now have the legal power to make decisions themselves. The decentralisation reform, through its strong emphasis on commune independence, local development, and bottom-up thinking, would represent a break with Cambodian political culture should the commune councils succeed with their task.

The ineffectiveness of decentralisation processes is often rooted in reluctance among sector ministries to participate, and also in the fragmentation of responsibility for different aspects of the reform to different agencies. The future success of decentralisation processes lies in improving the balance between central state guidance and local initiative. This applies to Cambodia as much as anywhere, where despite local government autonomy to articulate their needs within the political system, central state guidance gives meager space for local initiative, and local actors are extremely worried about making mistakes. Also, the centre does not necessarily possess greater knowledge about what constitutes ‘good’ decentralisation processes than does the local administration. Proper institutions for instituting these changes are in short supply, and even the legal framework is, as yet, incomplete.

#### ***Power relations at the local level***

Any potential positive impact of reforms has failed to materialise in cases where elite capture takes place at the local level such as in Kenya, Bangladesh, Ethiopia and Nigeria. In Cambodia, local elite capture may not be a particularly urgent issue. Land ownership is more equal (comparatively speaking) and the economic elite does not necessarily overlap with the political elite, a set of circumstances that produces a rather weak (or at least fragmented) local elite. The general lack of a strong local elite may thus make local elite grabbing less likely than in other places. After all, commune councillors and

village chiefs are often rice farmers themselves, like most others in the villages.

Making local government accountable requires that a civil society demands this. Perhaps the key issue for successful decentralisation in Cambodia is how civil society will be able to hold commune councils accountable, and particularly how *the poorer strata* of civil society will manage this. However, keeping authorities accountable is not a regular feature of rural Cambodian political life. Here, even the commune is viewed as fairly distant from the people. Also, there is a strong tendency to avoid interference with the activities of the State. There is therefore an imperative for any development programme to create space for villagers to interact with the local state.

#### ***Transfer of funds and revenue collection***

Experiences from India and other places indicate that achievement of poverty reduction can take place only if adequate financial resources support the devolution of power.<sup>8</sup> Communes in Cambodia have two sources of funds: the central government and donors (the Commune/Sangkat Fund), and their own funds from civil registration. In contrast to most other countries in the world, neither land tax nor income tax is currently collected (in rural areas). However, there are clear indications that a system of informal taxation is widespread and that greater revenue potential exists for the Commune

Council than that which has been identified thus far. At present, market taxation by district authorities in Cambodia is irregular and lacks transparency.

As informal taxation provides a more direct link between the ‘tax’ being paid and the benefit achieved at the local level than the general taxation imposed by the state, it has been argued that the informal taxation is more acceptable.<sup>9</sup> Decentralisation may serve as a mechanism to start to reverse this ‘collapse’ which has its origin in public distrust vis-à-vis the state. This may be one of the major long-term tasks of the decentralisation process.

In weak administrative systems, a transfer of resources requires two things: (i) reliable and secure financial systems, and (ii) simple systems that can be understood and accessed at the local level by people with limited education and minimal exposure to modern management systems. This is a great challenge in Cambodia as the training provided (albeit substantial) is still insufficient for the majority of councillors with low education. Also, the absence of a rural banking system makes secure and flexible transfer of resources difficult, and this results in circumscription of commune council independence because funds need to be kept in the provincial administration treasury. Finally, late transfers from the central government delay implementation of commune development projects. This challenges the trust that the commune councils need to build with their constituencies and investors.

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***The future success of decentralisation processes lies in improving the balance between central state guidance and local initiative.***

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### **Social Capital as a Lever for Decentralisation that Alleviates Poverty**

One important requirement is that the commune/community has a certain degree of 'social capital' that can be drawn upon. This is currently rarely the case in Cambodia. It would, however, be worth exploring the extent to which the local private sector, the Wats and other local institutions are drawn upon in the decentralisation process. There are emerging tentative linkages between commune councils and civil society organisations. Although the latter are extremely weak in rural Cambodia, in communes in Battambang, Takeo and Kep provinces, cooperation between the commune council and local associations has been observed. Although far from conclusive, this is taken as an interesting trend emerging in sharp contrast to previous patterns, since in at least two of the three cases the linkages had a direct and positive impact on poverty reduction.

From a historical perspective, local collective organisation has always been weak. The legacy of recent atrocities has exacerbated this weakness. Where collective organisation has existed, it has been based on limited family and kin networks rather than on any larger units of collective rural identities.<sup>10</sup> Although CDRI's preliminary research indicates emerging engagement and empowerment in some places, the pattern of weak organisation seems to persist in most areas, despite increased local participation. This weak collective organisation may continue to complicate politics and the establishment of trust among policy makers. There is an uphill journey before decentralisation can utilise any substantial social capital in rural Cambodia.

### **Institutional Set-up**

It has been observed that countries that have been able to build commune administrations on the foundations of pre-existing well-established bodies have proven most successful in overcoming the challenges of institutional weakness and poor individual motivation. However, Cambodian local leaders lack self-confidence and although commune councillors are elected they tend to be reluctant to make independent decisions.

Although to some extent avoided by the Seila structure, some donors, NGOs and political parties bypass existing, albeit weak, government structures. Despite the existence of the District Integration Workshop, it seems that the line departments tend to carry out their duties more or less as they did before the commune elections. This is an increasing concern among the provincial governors. Furthermore, the future role of the province and the district is still unclear, but is being negotiated through the establishment of the law, rather than by an overall transparent vision and strategy to guide it.

### **The Political Economy of Decentralisation—The Need for a Conducive Environment**

Decentralisation in less developed countries often takes place in a context of unclear policies, emerging laws, and limited strategies for implementation. A common

challenge is that reform policies often outpace the capacity to implement them. In Cambodia, however, the Seila programme has made huge efforts in terms of building capacity and support for the communes through the involvement of, and support from, the provincial administration. Although the efforts made by the facilitation and support staff to assist the communes are commendable, technical issues, especially those related to procurement processes and financial accounting, remain problematic.

One of the major strengths of this decentralisation reform is that it appears to satisfy the agendas of all major actors. For the government it represents a long awaited reform of local governance. The centre (the dominant party) was losing influence in rural areas. Decentralisation and externally financed local development constitute a legitimate means of regaining this influence. The donors, for their part, see ahead of them major democratic and poverty alleviation achievements, triggered by decentralisation, and they are keen to engage in public sector reform. It seems reasonable to assume as well that rural society can only gain from more resources being made available at the local level and from a reformed local governance system. For the moment, financial resources and political will are available, and few 'spoilers' are around. For these reasons alone it is possible that the reform will, at least initially, be successful.

### **Decentralisation in Cambodia**

When designing a decentralisation reform there is a delicate balance between accepting blueprints emanating from different circumstances somewhere else and of inventing the wheel anew under misplaced perceptions of uniqueness.

Neither Cambodia's political culture, nor her historical experiences make the country a malleable recipient of democratic decentralisation. Both central and local levels lack capacity and resources for implementation, and they receive little help from civil society in this regard. Donors have different ideas about both the potential of decentralisation to bring about poverty alleviation and how this potential could be tapped.

The *election law* has a 'weak spot' in that it makes councillors primarily accountable to the party. So far, however, the process of introducing local elections has gone smoothly and gathered wide acceptance. To launch the commune as the level of constituency was a bold move, which in fact was met with surprisingly little resistance.

The possibility of establishing *pro-poor policies* may appear slim given the extreme vulnerability of the poorest inhabitants of rural Cambodia. However, with 40% of the rural population below the one-dollar-a-day poverty line and the majority of the rest just a little better off, it is likely that even if the poorest of the poor are neglected considerable numbers of poor people will benefit. In other words, elite capture is likely to occur to some degree but even this may constitute a form of poverty reduction given that even the 'elite' in rural Cambodia is also poor. The very existence of a democratic de-

centralisation reform encouraging bottom-up thinking suggests that the denigrated Cambodian political culture is more complex than generally assumed. It is truly capable of change given the right incentives, and it is capable of acting differently at the local level.

As for establishing *well-balanced central-local relations*, there are two risks: there may be either too much or too little higher-level involvement. The commune councils are likely to continue to be dominated by higher levels for some time to come. Over the short-term this is hardly a problem since the commune councils would be utterly uncomfortable being 'on their own' from day one, but gradually they will need to develop independence.

Decentralisation seems to either encourage existing, or trigger the founding of, *civil society* organisations with distinct poverty reducing effects. While this is not yet evident in Cambodia, it is a very interesting possibility since the lack of such citizen initiatives is one of the key development impediments at the local level. In terms of *institutional set-up*, the basics of the reform seem to be well conceived, although the obvious lack of administrative capacity is worrying. This must, however, be considered in the context of the *overall political economy* of the decentralisation reform, where the donors and NGOs alike bear a huge responsibility for respecting the intentions and evolution of the reform, while simultaneously not behaving with indifference. Historically, this has been handled fairly well in Cambodia, but there are distinctly diverging agendas in the aid community and long-term commitment is a key issue.

Cambodia faces a major challenge: decentralisation is not the automatic poverty reduction mechanism it may have appeared to be in the 1990s. Also, it is important that the 'structure of poverty' is assessed properly. 'Real poverty' in Cambodia may not be entirely based on the mainstream understanding of poverty, namely material conditions (income poverty). Instead it is likely that legacies of the violent past, such as fear, distrust, lack of local state legitimacy, endemic low levels of education, and general fatigue, both impoverish the people and impede their attempts to achieve (income-based) poverty reduction. Decentralisation has a bearing on all these issues, and thus has relevance for a wider poverty concept. Rather than delivering 'simple' poverty alleviation projects, a comprehensive approach is required in which societal reconstruction in the broadest sense is required.

However, although this may appear daunting at a first glance, a finer analysis reveals that a number of factors are working in favour of a reasonably successful reform in Cambodia. So far, on the design level, the RGC seems to have got it right: commune independence is protected by law, financial resources come with political responsibility, the democratic content is real, and the initial elections worked fairly well. Moreover, government – from local to central level – is largely committed to the idea of decentralisation. In fact, many of the pitfalls of decentralisation seem to have been

avoided. And although this reform challenges deep-seated patterns, its time may simply have come.

The long-term challenge for the Cambodian decentralisation reform process is essentially twofold: firstly, it must bring about poverty reduction both via developmental effectiveness and via responsiveness to local demands through participation and empowerment. Secondly, it must maintain the social and political dynamics that are able to promote the reform even in the absence of the current massive external interventions. It is these two factors that will eventually define the degree of success of decentralisation as a poverty reducing mechanism in Cambodia.

#### Endnotes

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## Envisioning a New Paradigm of Development Cooperation in Cambodia

In this article, Eva Mysliwiec, Director of CDRI, reflects on development practice in Cambodia over the last two decades and argues for more effective development partnership, and change in donor behaviour and practice.\*

There are a number of compelling arguments that suggest that it might be time to consider a new paradigm of development dialogue and cooperation. At the start of the twenty-first century the challenges to development cooperation are unprecedented. Among the many challenges is the fact that the number of disasters which the international community is called upon to respond to has increased fivefold, and they are nearly all of human creation. The relief, reconstruction and development efforts of today must respond not only to the alleviation of physical human misery, and restructuring of basic institutions and infrastructure, but must also attend to the healing of a damaged humanity. What is so challenging in such situations is that the context, circumstances, culture, nature of the transitions, and national and international considerations will affect understanding between partners and the effectiveness of cooperation. A factor which adds urgency to the need for change in the donor partner relationship is the failure of development cooperation to reverse the widening gap between rich and poor nations.

The Cambodian experience of the last two decades offers a rich source of food for reflection on development cooperation, having been witness to some of the best and worst of development practice. Many factors, both internal and external, have contributed to shaping the relationship and partnership between Cambodians and the aid community, requiring difficult adjustments on both sides. The relationships and nature of the cooperation have changed over time with Cambodians today assuming a more active role in defining the terms of the relationship, which includes a broad range of interlocutors and stakeholders. The imperative to reduce poverty, and the unsatisfactory results to date of development interventions and reforms towards this goal may be, at least in part, behind recent and encouraging initiatives undertaken by both the Royal Government of Cambodia (RGC), and a number of donors in Cambodia to explore

ways of enhancing partnership. On the Cambodian side, Council for the Development of Cambodia (CDC) has proposed the formation of a Government-Donor Partnership Working Group (and three sub-groups) to participate in three studies on: Analysis of the Capacity Building Practices of Cambodia's External Partners, National Operational Guidelines for Development Cooperation, and Practices and Lessons Learned in the Management of Development Cooperation.<sup>1</sup> Multilateral and bilateral donors have also recently initiated a formal dialogue amongst themselves to enhance the effectiveness of cooperation through improved coordination and harmonisation. The following summary draws on lessons learned from the Cambodian experience of the last two decades and highlights a few of the elements deemed necessary for an effective partnership.

### Requirements for meaningful development dialogue and effective partnership

In the last decade Cambodia has undergone dynamic change and the nature of the development dialogue and of development cooperation has changed as well. Development organisations have become significantly better at evaluating their work, and generating development knowledge. Making the link between learning and integrating that learning into development practice, however, remains a significant challenge to development cooperation. Also, organisations for whatever reasons, are slow to change; much of the expectation of change in a donor-partner relationship has been largely one-sided. Yet, if donors do not sufficiently appreciate the need to change, it is unlikely that they will be able to stimulate change in others. One need only look at the poor record of development cooperation in reversing the widening gap between rich and poor nations to realise that there is a need for a new paradigm in development dialogue and cooperation.

Post-conflict societies, which are today making unprecedented demands on ODA, pose complex challenges and special opportunities in development cooperation. They offer rare opportunities to change past systems and structures which may have contributed to economic and social inequities and conflict. In such situations development dialogue can make an invaluable contribution to fostering positive social change. At the same time opportunity engenders a responsibility to understand the context, the culture, the traditional forms of social organisation and power, lest ignorance leads to new forms of disempowerment or replicates old forms of inequity. Making the time to build and nurture relationships of trust, based on mutual respect, and making the effort to learn about and understand the societies we are attempting to assist are fundamental pre-requisites to any meaningful development dialogue and partnership.<sup>2</sup>

Where development dialogue provides an opportunity to transmit values caution must be exercised. The

*if donors do not sufficiently appreciate the need to change, it is unlikely that they will be able to stimulate change in others*

\* This article is a summary of *The Case of Cambodia*, in "Dialogue in Pursuit of Development", Jan Olson and Lennart Wohlgenuth (eds), 2003; EDGI 2003-2.



level of conscientisation of indigenous groups may differ widely from that of foreign agency staff acting as catalyst. There is always the danger that foreign agencies unintentionally manipulate and impose their own ideological frameworks and priorities on local groups by promoting, for example, Western models of 'empowerment' or 'participatory development', or Western economic frameworks, especially where the process of the local people's 'critical consciousness' has not yet had time and sufficient opportunity to ripen and mature. In Cambodia, Western concepts of self-reliance and independence (encouraging communities to be independent) have not always been suitable and a development strategy based on the concept of inter-dependence between villagers and their government institutions would often have been much more appropriate, and more realistic in terms of long-term sustainability.

*Coherence* is essential for the effectiveness and credibility of a donor country's stance on good governance and participatory development. The conflicting signals of the donors, and inconsistency between rhetoric and action with respect to human rights over the last two decades has damaged their credibility, and weakened their position in the current discourse on a tribunal for example. A largely exclusive focus on civil and political rights only, has resulted in lost opportunities to sensitise Cambodians on other basic rights. Gender awareness and balance is another area where donor example is inconsistent.

*Participation* is still more rhetoric than reality.<sup>3</sup> There is a need to improve the rhetoric of dialogue between donors and recipient countries. There remain a number of obstacles to genuine participation. In many cases the existing focus of participation is too narrow. Often, donors negotiate with governments or existing non-representative institutions; donors also relate mostly to other donors and do not always share information with civil society. Even though there is a perceptible increase in workshops which engage civil society and local actors, there is seldom time for meaningful participation, and too little information available in the local language. Other prerequisites for real participation include: *interdependence and equality*; *mutuality* - sharing information and analysis (translation of reports); *inclusion* - government and civil society being involved in design and planning, with Cambodians taking the lead in developing their development objectives and priorities; and *respect for local capacity* - aid should complement and supplement local resources.

*Ownership* is a subtle concept because it is in the minds of people. Governments or people can be said to own an activity when they believe that it empowers them and serves their interest. Government ownership is not something to be awaited, however; it sometimes needs to be nurtured. Whereas accountability to the do-

nor increasingly takes precedence over the needs of communities, reversing this trend would go a long way towards strengthening local ownership of development goals and interventions. Time, which allows for reflection and internalisation of new ideas, is a critical factor in ownership and for meaningful participation as well. Timetables need to respond more to Cambodian needs than donors' programming needs, and the process needs to take precedence over getting things done. Giving partners a say in the selection of technical assistance and greater responsibility for the financial management of projects will also contribute to greater ownership, particularly of grant aid.

*Accountability and transparency* are essential elements for partnership and should extend both ways. Non-transparent donor requirements and procedures, and tying aid to donor conditionalities, particularly in relation to procurement of goods and services from donor country suppliers, contribute to a lack of trust regarding the donor's motives and discourage national ownership of the process. Adopting practices that encourage trust, such as incorporating technical cooperation into the budget and the opening up of procurement markets, would enhance the accountability and transparency of technical cooperation and contribute to national ownership as well. On the other hand, a partner government must be able to convince donors, also through transparent mechanisms, that donor resources will be used efficiently, for the purposes mutually agreed upon. Accountability has too often been seen by the donor as a one-way process. Establishing mechanisms through which donors can be held accountable by communities or individuals, and introducing performance indicators for technical assistance would contribute to restoring some balance in the relationship between the partners in development dialogue.

*Alignment and harmonisation of assistance* are key to increasing the effectiveness of external assistance and to reducing transaction costs. The SWAP approaches implemented by some donors in support of the health, education, and decentralisation sectors in Cambodia stand out as an emerging example of donor alignment. The commitment of donors to align their support strategies with National Poverty Reduction Scheme (NPRS) priorities is a logical next step in a partnership based on shared responsibilities. This means that the Government has to manage resources effectively, transparently, and in line with NPRS priorities while donors should support the country by providing sufficient resources that are predictable in their level and timing and in a form that will yield the greatest benefit for the country.

Other types of alignment might also be considered. For example, donors could consider basing partnership

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(Continued on page 12)

## Farming and Flooding in Takeo – Responses to External Pressures

New research by Chamroeun Cheit Khmer (CCK) and Oxfam GB looks at the current agricultural situation in Takeo, and the changes that have occurred since the completion of the nearby dam in Vietnam. Sophie Bown, the research leader, summarises the main findings.

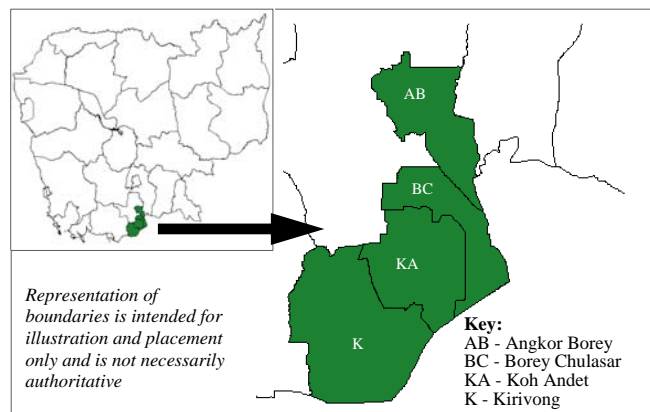
CCK is a Cambodian NGO based in Takeo, focusing on food security and disaster preparedness in four districts, namely Borey Chularsar, Kirivong, Angkor Borey and Koh Andet (see Map). Although the area is subject to flooding, the villagers usually experience a large flood only every 5 or 10 years. However, since 1999 large floods have occurred every year. Villagers attribute this unusual pattern of flooding to the construction of an irrigation dam located across the border in Vietnam. Constructed in stages, it seems that the dam was largely completed in 1999, and the final stages finished in 2000. The problematic flooding hence coincides with the completion of the dam: villagers reported that the flood in 2000 was the worst in living memory. In addition, the villagers assert that the type of flooding is different from that which they usually experience, with water rising faster than before, staying longer, and receding slower, a pattern consistent with the restriction of water movement by a dam.

During visits to the villages, it became apparent to CCK workers that problems caused by this unusually high flooding were seriously affecting agricultural activities in the area. Despite changing from wet to dry season rice to adapt to the flooding, many families were saying that they didn't have enough to eat. In order to identify the extent and nature of the impact the flooding was having on the population, and to recommend appropriate policy strategies, CCK implemented a systematic research project, supported by Oxfam GB. A team of local government and NGO researchers designed and carried out a Rapid Rural Assessment-based survey over a three week period in August 2003. Three villages in each of the four target districts were visited so participants could be sought for individual and group questionnaires. A total of 214 individual and 24 group interviews were conducted over a 12-day period. Due to the staggered nature of the dam's construction, participants were asked about their situation in the years 1998 and 2000. For the individual questionnaires, both comparatively rich and poor villagers were interviewed about their personal livelihood activities and income,

their use of agricultural inputs, their level of debt and their level of food security. Group interviews focused on discussing the wider impact on the community, with an emphasis on uncovering the influence of gender on the experience of the floods.

This article briefly summarises the research findings; the full report will be presented in an upcoming Oxfam GB publication. The results indicate that responding to the floods by changing rice varieties has altered the amount and type of agricultural inputs purchased, caused an increase in the level of debt in the population, and has had negative repercussions on food and livelihood security in the area.

### Map of Cambodia Showing the Four Target Districts in Takeo



### Implications of a Change in Rice Cultivation

Takeo is a major rice-growing region - only two to three percent of agricultural land is used for non-rice products (Takeo Provincial Agricultural Office, personal communication). Although each village is unique in its experience, the general trend that emerged in interviews with the villagers is that before 1998 farmers predominantly grew wet season rice (WSR), but turned to dry season rice (DSR) in the wake of the recent floods. The most notable exception to this is Pak Dai village in Angkor Borey district, where farmers have grown only DSR since 1979. In some other villages a few farmers grew both rice varieties.

The succession of extreme floods from 1999 to 2002 destroyed much of the WSR crop each year in the affected districts, the amount destroyed varying between villages. This made it unfeasible, if not impossible, to continue to grow WSR: in many cases, farmers lost all their seed stock in the successive floods. When the floods receded, DSR was grown as a replacement. However, DSR is more costly to produce than WSR, requiring significantly higher levels of inputs (agrochemicals, labour, irrigation) than WSR, which grows easily with very low levels of both labour and agrochemical inputs, and which also has very little need for extra water, with only occasional introduction of irrigation towards the end of the season. Moreover, DSR fetches a lower price on the market as it is of a

\* The author wishes to thank Dr. Carl Middleton at CEDAC for providing the maps and much constructive advice.



**Table 1: The Change In Rice Cultivation, Degree of Market Participation and Relative Cost of Inputs For Interviewees in the Four Districts**

Type of Cultivation	Average Yield/ha in kg	Percentage Respondents Cultivating <sup>1</sup>	Percentage Respondents Buying Inputs <sup>1</sup>	Percentage Respondents Selling a Proportion of Their Crop <sup>1</sup>	Percentage of Income from Rice Selling Spent on Agricultural Inputs
WSR (1998)	1661	72	39	40	21
DSR (1998)	3198	31	8	25	52
WSR (2000)	1367	18	18	6	- <sup>2</sup>
DSR (2000)	2926	82	79	71	119

(Total Number of Respondents = 214) <sup>1</sup> Numbers participating are expressed as a percentage of the total interviewees. Note: some interviewees grow both wet and dry season rice. <sup>2</sup> No satisfactory information was available, but figures up to 92% were recorded for farmers who managed to grow some WSR. This is because flooding destroyed part of the crop, decreasing profits.

lower quality than WSR (around 350 riels/kg compared to 380 or 400 riels/kg for WSR). This makes higher yields essential to recoup the costs of production.

Table 1 shows the change in cultivation in the study population and the average yields attained. The data show a drop in the proportion of farmers cultivating WSR from 72 percent in 1998 to 18 percent in 2000. Over the same period, there was an increase in the proportion of DSR growers, up from 31 percent to 82 percent. Although DSR yields were higher than for WSR in both 1998 and 2000, the average DSR yield actually shows a slight decrease from over 3000 kg/ha to just under 3000 kg/ha. This is most probably due to a large number of farmers taking up DSR out of necessity rather than choice: being inexperienced, many were unable to attain the higher yields that more experienced farmers can attain. However, problems with the supply of irrigation water were also identified: non-delivery or late delivery of water purchased from private water companies decreased DSR yields in several cases.

Looking at the percentage of respondents buying inputs for DSR, it is notable that in 1998 a far smaller proportion of farmers purchased inputs than in 2000. This is borne out by the comments of villagers in these areas who said that the need for inputs has increased dramatically over recent years due to an increased pest problem. A possible explanation given for this was inappropriate or excessive use of pesticides either in Cambodia or Vietnam, causing either resistance or migration of insect populations.

Table 1 also shows an increase in the number of farmers selling their rice for cash. In 1998, although 72 percent of farmers grew WSR, only 40 percent sold some or all of their crop. Thirty-two percent therefore did not sell any of the rice they grew, instead storing it as food for their family. At this time, inputs were generally only used if the crop was being grown for sale. Yields were low (on average 1661 kg/ha), but farmers reportedly made a comfortable living. In comparison, nearly all of the farmers growing DSR in 2000 found it necessary to buy inputs, and a greater proportion were selling their output than before. The research interviews indicated that this arose from their need to sell the rice crop in order to pay back debts

accrued to cover the cost of inputs. One of the implications of the change in rice cultivation is therefore that many farmers have had to move into the cash economy, whereas before many would more accurately have been described as subsistence farmers. A further implication is that the type of inputs purchased and the amount spent on them has changed, altering the flow of money in the community.

### Increasing Inputs

To compare the difference in input spending at different times and levels of agricultural intensification, the amount farmers spent on inputs each year is calculated as a percentage of their profits (final column, Table 1). In 1998, DSR farmers spent around 50 percent of their rice yield income on inputs, whereas WSR farmers spent only 20 percent. The figure for DSR farmers in 2000 is 119 percent. The problem facing the farmers is clear: they are currently spending more on inputs than they earn in profit, making a clear loss over the season, even before considering the impact of monthly loan repayments. In reality many farmers compensate for this loss with income from other activities such as livestock raising, but in the long-term DSR does not seem to be a viable proposition for most farmers unless productivity (i.e. ratio of costs to profits) improves.

The research indicates that DSR farmers in 2000  
**Table 2: Average spend per ha on DSR inputs, year 2000**

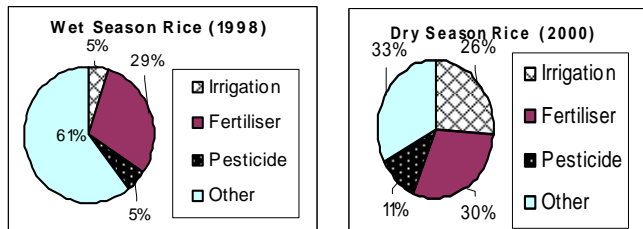
	Irrigation	Fertiliser	Pesticide	Other	Total
Cost per ha (in US\$)	45.74	51.28	19.15	64.70	180.86

(Exchange rate: 4000r to \$1)

spent on average \$180 per hectare on inputs (see Table 2). Unfortunately it was not possible to obtain reliable information on the cost of WSR inputs in 1998 as most farmers did not use inputs, and those that did were unable to recall costs accurately. However, it is clear from talking with them that covering the cost of inputs for WSR was not a problem for them. In the case of DSR, however, synthetic pesticides and chemical fertilisers have to be purchased, along with irrigation water and gasoline to operate the water pumps. Most

Table 3: Percentage of Total Input Spending Going to Each Input Category (%)

Type of Cultivation	Irrigation	Fertiliser	Pesticide	Other
WSR (1998)	5	29	5	60
DSR (2000)	26	30	11	33



farmers mentioned the high cost of irrigation as a particular problem.

Contrasting WSR in 1998 and DSR in 2000 (i.e. the predominant type of agriculture in each of these periods), Table 3 shows the proportion of input spending allocated to each of four input categories - irrigation, fertiliser, pesticide, and 'other', representing hire of labour and machinery for harvesting purposes. The data show that the proportion of money being spent on pesticides and irrigation has increased, as would be expected, but the figures also indicate an almost 50 percent decrease in the proportion spent on labour and machinery hire. In other words, when cultivating WSR, at least \$60 out of every \$100 spent on inputs stayed in the local area, whereas for DSR the equivalent figure is only \$33. This seems to indicate a significant opening up of the local economy, which could be detrimental to the local community. The situation could arise where, even though farmers are making more money in absolute terms, in reality the local community does not benefit as much as it could, since profits generated go to external water and agrochemical companies to pay for inputs. In this respect it is worth noting that a large part of the money spent on fertiliser for WSR was paid to local farmers for the purchase of manure, rather than to buy chemical fertiliser from agro-chemical companies, whereas DSR cannot grow without chemical fertiliser.

### A Cycle of Debt

Since the series of severe annual floods destroyed or damaged the assets of many families, the only way most families could afford to buy the inputs necessary to grow DSR was by borrowing the initial investment. The research found that, although 65 percent of the families interviewed had never borrowed money before, 69 percent found it necessary to borrow at some point between 2000-2002. The average lump sum borrowed at first was equivalent to \$1696. Many families paid back their debt by selling their rice harvest, but then had to borrow again to buy inputs for the next season. On average, families who had borrowed still owed \$117 at the time of interview.

The average interest rate on the amounts borrowed

was 15 percent per month, but interviewers observed that richer families usually secured more favourable terms, borrowing at a lower rate of 3.5 percent per month, while poorer families had to accept higher rates of 10-25 percent. On a loan of \$169 this represents a difference in monthly repayments of \$42.25 (25 percent rate) against \$5.92 (3.5 percent rate). Over the standard three month season, that adds up to \$126.75 for the higher rate compared to only \$17.76 for the lower rate. If the money is borrowed for longer, monthly repayments continue to be paid. To clear the debt the full amount originally borrowed also has to be repaid, so total repayments of over 200 percent of the amount borrowed are easily accrued. In this way even farmers who are managing to keep their input spending below their profit levels can be making a loss if repaying high-interest loans.

### Impact on Health and Nutrition

The food security of the interviewees has been jeopardised by the current situation. In particular, selling all their rice yield to repay loans meant that many families were then put in the position of having to buy rice. The research found that the average number of months per year in which families experience a food shortage has increased from just over one month per year in 1998, to four and a half months in 2000. Villages visited in Borey Chularsar district have been particularly badly hit, with an increase of nearly five months per year (see Table 4). The lack of food has hit women the hardest; practically all the women interviewed said they frequently ate less in order to give more to their husbands and children.

In times of want, villagers increasingly turn to 'free' sources of food and income such as fishing, catching crabs and snails, and collecting wild vegetables. Increased harvesting of these items could explain why many villagers reported a decrease in their availability. However the scarcity may in fact be due to the increased use of pesticides in the area, or, in the case of fish, caused by the use of illegal fishing methods, which farmers alleged are frequently employed by Vietnamese fishermen in the area.

Decreased nutrition has had predictable effects on health: many men mentioned that co-workers increasingly looked pale and weak and mothers said their children got sick more often. Another source of illness, especially diarrhoea, was the lack of clean water when villages were flooded and the village ponds and wells were filled with flood water. Additionally, the increased use of pesticides by relatively untrained and

Table 4: Average Food Shortage (Months / Year)

District	Pre 1998	Post 1998	Increase
BC Total	0.9	5.8	4.8
K Total	1.2	4.0	3.3
AB Total	1.2	3.9	2.9
KA Total	1.2	4.2	3.0
Overall Average	1.1	4.5	3.5

ill-equipped farmers appears to be having some serious immediate and long-term health impacts. The majority of farmers using pesticides cited effects such as dizziness, nausea, headaches and stomach aches, which they experienced during or after their use of the chemicals. Other more serious effects included vomiting, fatigue coupled with an inability to eat, and permanent or long-lasting changes in vision and speech. Health problems such as these can be expensive to deal with, and represent an extra financial burden and source of worry for many families.

### **Living with the Flood**

As well as having to cope with the economic problems caused by the agricultural changes, villagers have had to cope with the physical difficulties that result from flooding. In some cases water levels were reported to rise to over half a metre inside the villagers' houses and remain there for a month. Loss of possessions including houses, death of animals through disease and even loss of human life have been recorded. This may be expected to some extent in extreme flood years but, as mentioned earlier, such flooding used to occur comparatively rarely and not on an annual basis as has happened in recent years.

Children's education often suffers extensively during times of flood, with schools closing for up to 5 months. Transport is a major problem when the area is flooded as roads are often cut off and the only way to travel is by boat, which villagers said was a very expensive way for those who do not have boats of their own. This problem of transport applies to everyday travel requirements, such as going to the market, finding animal fodder or even going to the toilet (for women), but it also increases the difficulty of reaching the hospital or health centre when medical attention is required. Participation in traditional cultural activities is also affected: lack of money and transport prohibited many villagers from visiting the pagoda on ceremony days. When they could go, villagers found it impractical to wear their traditional ceremonial clothes because of the weather and the need to travel by boat.

At the height of the flood season, fierce winds make it dangerous, and on occasion impossible to go outside. Villagers in Sangke Cheau and Anchanh, Borey Chulasar district, were confined to their houses for up to two weeks at a time each season. Restriction to a small area for a long period of time has caused some serious leg problems due to a lack of exercise. In a few cases, villagers could no longer walk normally. The danger of leaving the house makes it difficult to go outside to find food for the family or for the animals, and villagers often cannot venture out to share food with vulnerable neighbours. This can have tragic consequences; in Andong Samrith village two families were said to have died from a lack of food. In other cases, villagers have drowned in the stormy waters whilst out trying to gather food for the family.

### **The Result: Community Disintegration and**

### **Lack of Livelihood Security**

The problems faced by the villagers over the last few years have already started to affect community solidarity. The widespread lack of money and food has raised tensions between husbands and wives and between neighbours as the necessity to borrow becomes ever more frequent. More long-term problems are the issues of decreasing food and livelihood security. As families slide into debt they are forced to sell their land, or give it up as payment to a moneylender; they then have no alternative but to work as labourers to earn money to buy rice, rather than growing their own. In the 12 villages surveyed, 151 families had already moved away to look for work elsewhere as migrant labourers. Many more villagers sought out seasonal work in other provinces. Husbands would often be away for months at a time, leaving their wives at home to care for the children. It was also becoming common for girls to be taken out of school and sent to work in Phnom Penh to find income as garment workers or domestic help.

When asked how they intended to cope with their problems of debt, most interviewees replied that they would try to sell enough labour (at \$1.25/day) to pay back their debts. Many of them requested agricultural assistance in terms of irrigation or subsidies on inputs, and were keen to grow dry season rice if it were made financially viable. However, there was a small number of respondents who said they did not know how they would ever pay back the amount they currently owed.

### **Policy Recommendations**

#### ***Provide support, particularly affordable irrigation, if villagers are to grow DSR***

Current government policy is to grow more DSR as it is less vulnerable to flooding. District governors in Takeo have been encouraging this in areas that have the capability to grow dry rice. However, to do this villagers need more support in terms of irrigation and education on effective input use.

#### ***Look for lower cost methods of growing DSR***

Levels of input spending could be reduced if agro-chemicals were replaced to a certain extent by labour. Organic rice-growing techniques such as SRI (System of Rice Intensification) are more labour intensive, use fewer inputs, and produce a high quality, high value rice yield. This fits in with current government policy of promoting 'pro-poor' or labour intensive production of goods for market.

#### ***Increase availability of low-interest credit***

Money-lenders are exacerbating the problems faced by poor villagers by providing loans at high interest rates. Lower interest sources are available, such as from the European Commission funded PRASAC project, but the accessibility of this type of loan should be increased to support long-term growth of farmers' livelihoods.

#### ***Research ways to improve market access***

Many villagers said they would like to sell their produce in a local market rather than taking it to Vietnam. A local market could be an effective mechanism for strengthening the local economy, and also help restore community cohesion. Crucially, improved market access should ensure farmers get a better deal when buying or selling goods.

#### ***Implement effective regulation of fishing methods***

The issue of the use of illegal fishing techniques was particularly frustrating for law-abiding fishermen. Their natural resource base should be given effective protection to support the growth of the local economy.

#### ***Consider high level negotiations with respect***

(Continued from page 7)

## Envisioning a New Paradigm of Development...

arrangements on the comparative advantage of a donor, including expertise and track record in the sector, as well as flexibility in timing and use of resources. Translated into concrete terms, the donor community as a whole could assign roles based on each donor's capacity, so that a lead donor could be effective in each of the critical sectors. A strong leadership role on the part of the RGC in this area would greatly facilitate the process.

Harmonisation is thus far the least explored area of partnership. Harmonisation of donor operational policies, including financial management and procurement, and of procedures and practices related to the aid cycle, would go a long way towards increasing efficiency and reducing transaction costs related to parallel management systems, inflexible procurement and inappropriate technical assistance, excessive demands of multiple missions on the time of key Cambodian officials, disbursement delays related to conditionality, and bureaucratic procedures, among others. On the benefit side, harmonisation leads to enhanced efficiency, strengthened local capacity and local systems, and facilitates stronger alignment and effectiveness. Ideally, the RGC must lead the harmonisation effort as well.

#### **Conclusion**

There is no shortage of knowledge on what is needed to transform the development partnership into a meaningful process of dialogue and effective cooperation. Today's development discourse reflects many of the principal elements of an effective partnership, genuine participation, and local ownership of the development process. While a number of recent initiatives of donor alignment of assistance and donor-donor coordination in Cambodia<sup>4</sup> are encouraging, evidence until now suggests a huge gap between rhetoric and actual practice. Changing donor behaviour, and implementing effective partner-

#### ***to the dam***

If the flooding problems continue and the dam in Vietnam is responsible, the issues should be discussed at governmental level as an infringement of sovereign rights. The Mekong River Commission has a mandate to arbitrate in these cases, although other organisations could potentially be involved, such as the UN.

#### ***Provide a safe area for people and animals***

Until the issue is resolved, the villagers requested the urgent provision of safe areas for the people and their livestock to be used in times of flood.

ships is hard work. The real question is whether there is within the donor community the commitment and capacity to change, and to envision in Cambodia a new paradigm of development cooperation.

#### **Endnotes**

- <sup>1</sup> RGC, CDC Ref: 1473/03 CDC/CRDB
- <sup>2</sup> Mysliwiec, 2003
- <sup>3</sup> The next three paragraphs are drawn from *CDRI's study of technical assistance in Cambodia*, Godfrey *et al.*
- <sup>4</sup> Joint economic and sector work by WB, ADB, DFID. Joint WB-ADB Integrated Fiduciary Assessment and Public Expenditure Review. Joint Staff Training on Partnership for Poverty Reduction (involving ten bilateral donors), World Bank Institute; Hanoi, September 2003.

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## ECONOMY WATCH – EXTERNAL ENVIRONMENT

The quick end to the US-Iraq war removed some of the uncertainties facing the world economy in the second quarter of 2003. In Asia, however, the SARS outbreak led to weaker economic growth in the same period.

### World Economic Growth

*The US economy* expanded by an annual growth rate of 2.5 percent in the second quarter of 2003, faster than the first quarter growth rate of 2.1 percent. A 52-year record surge in defence spending, strong consumer spending, an extremely active housing market and recovery in business investment accelerated overall GDP growth, according to the Business Times online edition. Government defence spending increased by 44.1 percent, the strongest growth since a jump of 110 percent in the third quarter of 1951, as President George Bush's administration opened up the coffers for the Iraq war and anti-terrorism efforts. Real personal consumption expenditure in the US rose by 3.3 percent in the second quarter of 2003 on an annualised basis. According to the Business Times, business investment showed definite signs of revival in the second quarter of 2003 as non-residential spending - the largest category of investment in the US - climbed at an annual rate of 6.9 percent after decreasing by 4.4 percent in the first quarter of 2003. This was mainly due to lower long-term interest rates and the rally in US equity prices in recent months, which led to lower financing costs for business.

*The Euro region's economy* experienced a slower growth at 0.2 percent year-on-year in the second quarter of 2003, from 0.8 percent in the first quarter. The German economy - the region's largest economy, which accounts for more than half the economy of the Euro zone - shrank by 0.1 percent in the second quarter, compared to the first quarter, according to the Federal Statistics Office. France - the second largest economy in the region - also shrank by 0.3 percent in the same period. The Italian economy fell into the first recession in more than a decade in the second quarter of 2003. The European economy may have to rely on exports, as unemployment across the region puts pressure on consumer spending, according to Bloomberg News. However, the Euro continued to appreciate by 5.37 percent against the US dollar in the second quarter, compared to the preceding quarter, peaking at 0.88 Euro/US\$, hurting sales and profits of exporters in the region. According to Buhrmann NV (the world largest distributor of office supplies), a 10 percent increase in the Euro against the US dollar reduces the Amsterdam-based company's profits by 5 percent.

Japan's economy grew at an annual rate of 3.0 percent in the second quarter of 2003, faster than the first quarter growth rate of 2.6 percent. Despite slower growth in industrial production of 2.6 percent year-on-year in the second quarter 2003 (compared to 5.5 percent in the first quarter), improved consumer confidence led to an increase in personal spending of 0.3 percent between the first and second quarters of 2003. According to "The Economist", machinery orders jumped by

17.5 percent year-on-year in June 2003, a positive sign for capital investment. Also, Japan's current account experienced a larger surplus of US\$ 112.6 billion in June compared to US\$ 109.9 billion in March 2003. This increase is likely to be related to the weaker Yen in the second quarter.

Most Asian economies were affected by the SARS outbreak in the second quarter, which began to have an impact from mid-May onwards. Singapore, Hong Kong and Taiwan were particularly heavily hit by SARS. Singapore's economy contracted by 4.2 percent year-on-year, compared to a positive growth of 1.6 percent in the first quarter of 2003. With the exception of the financial services and the construction sectors, the performance of all industries deteriorated from the previous quarter, according to the Singapore Ministry of Trade and Industry. Hong Kong's economy also contracted by 0.5 percent in the second quarter over a year earlier. In Hong Kong, inbound tourism and the travel-related sectors were most severely hit. Taiwan's economic growth rate slowed to just 0.4 percent year-on-year as consumer spending and exports contracted during the SARS outbreak, according to the China Post. Other East Asian and ASEAN countries also experienced slower growth in their economies.

### World Inflation and Exchange Rates in the International Markets

Consumer prices in the US grew at a slower pace of 2.1 percent in the second quarter, compared to 2.9 percent in the first quarter. Excluding food and energy, the core inflation rate declined to 1.5 percent, down from 1.8 percent in the previous quarter, which led to deflationary concerns. The inflation rate in the Euro area fell to 2.0 percent in the second quarter of 2003, down from 2.4 percent in the previous quarter. The slower rise in consumer prices partly reflected declining energy prices in recent months in the Euro area. Japan continued to experience deflationary pressures. However, the drop in prices was smaller, just 0.2 percent in the second quarter, compared to 0.3 percent in the first quarter. This is associated with higher personal spending in the second quarter.

The value of the US dollar against the Euro continued to fall, to 0.88 Euro/US\$ - a 4-year low - in the second quarter 2003. In contrast, the US dollar strengthened to 119.1 Yen/US\$ against the Japanese yen, an appreciation of 0.93 percent from the previous quarter.

### Commodity Prices in World Markets

After rising for the sixth consecutive month, the price of crude oil dropped by 16.3 percent to US\$ 24.5/barrel in the second quarter of 2003. An additional supply of Iraqi oil in the world market reduced prices. The price of first quality rice in the Bangkok international market declined to US\$ 197.5/tonne, from US\$ 198.3/tonne in the first quarter of 2003. In contrast, the price of rubber in the Malaysian international market surged to US\$ 975.8/tonne, a 3.2 percent increase from the previous

## ECONOMY WATCH—EXTERNAL ENVIRONMENT

**Table 1. Real GDP Growth of Selected Trading Partners, 2000—2003 (percentage increase over the previous year)**

	2000	2001	2002				2003		2001	2002
		Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Selected ASEAN countries										
Cambodia	-	-	-	-	-	-	-	-	-	4.18
Indonesia	4.4	4.1	2.5	3.5	3.9	3.8	3.4	3.8	3.8	3.8
Malaysia	8.7	-0.5	1.1	3.8	5.6	5.4	4.0	4.4	0.5	5.6
Singapore	9.5	-7.0	-1.7	3.9	3.7	3.0	1.6	-4.2	-2.3	2.6
Thailand	4.4	2.1	3.9	5.1	5.8	5.6	6.7	5.8	1.9	6.1
Vietnam		-	-	-	-	-	-	6.9	6.0	6.7
Selected other Asian countries										
China	8.0	6.6	7.6	8.0	8.1	8.1	9.9	6.7	7.5	8.1
Hong Kong	10.6	-1.6	-0.9	0.5	3.3	5.0	4.5	-0.5	0.3	5.0
South Korea	9.1	3.7	5.7	6.3	5.8	6.8	3.7	1.9	3.0	6.1
Taiwan	6.0	-2.7	0.9	3.0	4.8	4.2	3.2	-0.4	-2.1	4.2
Selected industrial countries										
Euro-11	3.5	0.6	0.1	0.7	0.8	1.3	0.8	0.2	1.4	0.7
Japan	1.6	-1.9	-1.6	-0.7	1.3	2.8	2.6	3.0	-1.3	0.45
United States	5.0	0.4	1.5	2.1	3.2	2.9	2.1	2.5	1.2	2.4

Sources: *The Economist and Country's National Statistics offices and Central Banks*

**Table 2. Inflation Rate of Selected Trading Partners, 2000—2003 (percentage increase over the previous year—period average)**

	2000	2001	2002				2003		2001	2002
		Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Selected ASEAN countries										
Cambodia	-0.3	-0.6	3.4	3.3	3.5	3.0	1.8	1.6	-0.4	3.3
Indonesia	3.7	12.7	14.5	12.6	10.2	10.3	7.7	6.5	11.3	11.9
Malaysia	1.5	1.2	1.5	1.9	2.1	1.9	1.3	0.9	1.4	1.9
Singapore	1.4	-0.2	-0.9	-0.4	-0.4	0.1	0.7	0.1	1.0	-0.4
Thailand	1.6	1.1	0.6	0.2	0.3	1.4	2.0	1.7	1.8	0.6
Vietnam	-1.7	0.1	2.3	2.7	2.9	3.7	2.2	2.3	0.0	2.8
Selected other Asian countries										
China	0.3	-0.1	-0.5	-0.7	-0.8	-0.6	0.5	0.6	1.0	-0.7
Hong Kong	-3.7	-1.3	-2.7	-3.1	-3.5	-2.9	-2.0	-0.25	-1.5	-3.1
South Korea	2.3	3.4	2.5	2.7	2.5	3.2	4.1	3.3	4.3	2.7
Taiwan	1.4	-0.6	-0.1	-0.1	-0.3	-0.5	0.3	-0.1	0.5	-0.3
Selected industrial countries										
Euro-11	2.3	2.2	2.5	2.0	2.0	2.3	2.4	2.0	2.6	2.2
Japan	-0.6	-1.0	-1.4	-0.9	-0.8	-0.5	-0.3	-0.2	-0.5	-0.9
United States	3.4	1.9	1.2	1.3	1.6	2.2	2.9	2.1	2.9	1.6

Sources: *The International Monetary Fund and the Economist*

**Table 3. Exchange Rates of Selected Trading Partners Against the US Dollar, 2000—2003 (period averages)**

	2000	2001	2002				2003		2001	2002
		Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Selected ASEAN countries										
Cambodia (riel)	3,871	3,932	3,910	3,916	3,935	3,948	3,948	4,008	3,935	3,927
Indonesia (rupiah)	8,421	10,365	10,078	9,076.6	8,940	9,027	8,884	8,428	10,236	9,280
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.8	3.8	3.8	3.8	3.80	3.80
Singapore (S\$)	1.72	1.83	1.83	1.81	1.76	1.77	1.74	1.75	1.79	1.79
Thailand (baht)	40.1	44.3	43.77	42.78	42.09	43.4	42.7	42.2	44.4	43.0
Vietnam (dong)	14,083	15,084	15,142	15,231	15,314	15,297	15,427	15,470	14,827	15,246
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.28	8.27	8.28	8.28	8.28
Hong Kong (HK\$)	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Korea (won)	1,131	1,290	1,319	1,273	1,197	1,214	1,199	1,206	1,291	1,251
Taiwan (NT\$)	31.8	34.7	35.1	33.8	33.8	34.8	34.7	35.0	34.1	34.4
Selected industrial countries										
Euro-11 (euro)	1.08	1.12	1.15	1.09	1.02	1.00	0.93	0.88	1.12	1.07
Japan (yen)	108	125.5	133.3	127.6	119.6	123.0	118	119.1	122	126

Sources: *The International Monetary Fund and The Economist and National Bank of Cambodia*

**Table 4. Selected Commodity Prices on the World Market, 2000—2003 (period averages)**

	2000	2001	2002				2003		2001	2002
		Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Hardwood (logs) - Malaysia (\$/m3)	190.1	146.2	137.6	153.0	178.7	181.2	186.3	182.1	160.1	162.5
Hardwood (sawn) -Malaysia (\$/m3)	599.2	471.8	479.7	493.0	536	565.4	550.4	552.4	488.3	518.5
Rubber - Malaysia (\$/ton)	720.8	549.4	622.3	754.0	863	834.1	945.5	975.8	602.0	768.4
Rice - Bangkok (\$/ton)	203.7	173.3	193.7	196.6	192.6	189.6	198.3	197.5	172.6	193.1
Soybeans - USA (\$/ton)	211.3	188.0	179.9	189.8	219.3	220.0	224.5	237.6	195.6	202.3
Crude oil - Dubai (\$/barrel)	26.1	18.2	19.9	24.3	25.4	26.2	29.3	24.5	22.8	24.0
Gold - London (\$/fine ounce)	279.0	278.4	281.0	280.9	313.7	317.8	352.1	346.7	279.0	298.3

Sources: *The International Monetary Fund and The Economist*



## ECONOMY WATCH—DOMESTIC PERFORMANCE

### Economic Activity

After falling at the end of 2002 and in the first quarter of 2003, the value of Cambodia's exports grew by 23 percent to US\$ 408.5 million in the second quarter of 2003, from US\$ 331.5 million in the first quarter, according to the Ministry of Commerce. The main contributor was increasing exports of garment products (by 24 percent), reaching US\$ 389.9 million in the second quarter, compared to US\$ 314.7 million in the first quarter. Of US\$ 389.9 million, US\$ 267.8 million (69 percent) was accounted for by the US market, and the remaining US\$ 122.1 million (31 percent) by the rest of the world. Cambodia's garment exports to the US rose by 16 percent compared to the first quarter of 2003, and by 32 percent compared to the same quarter last year. Past trends suggest that garment exports are lowest in the first quarter and peak in the third quarter of the year. An increase in garment exports therefore could be expected in the third quarter of this year.

The tourism sector, which plays an important role in Cambodia's economic growth, was adversely affected by SARS, the anti-Thai riots in January 2003, and the national elections of July 2003. In the second quarter of 2003, the total number of international arrivals dropped sharply to 103,000, 51 percent less than in the first quarter, or 37 percent less than in the same period last year. International arrivals by air totalled 59,600 in the second quarter, 41 percent less than that of a year ago, while international arrivals by land and boat reached 43,500, 31 percent less than the previous year. In terms of the purpose of visit, the number of visitors with tourist visas rose to 83,800 in the second quarter of 2003, from 24,900 in the same period last year. However, the number of visitors with official visas dropped dramatically to 4,600 from 57,400 a year ago. Also, the number of visitors with business visas declined to 14,700 in the second quarter of 2003, from 19,500 a year ago. According to the Ministry of Economy and Finance, both tourism income and visa fees fell by 7.4 percent and 37.3 percent, respectively, in the second quarter of 2003, compared to the same quarter last year.

The construction sector began to recover in the second quarter. According to the Department of Cadastre and Geography of the Municipality of Phnom Penh, the value of construction projects approved rose to US\$ 59.6 million in the second quarter of 2003, up from US\$ 39.1 million in the first quarter. Apartment construction, which accounts for the largest share of total construction activities, reached US\$ 34.3 million, 23.4 percent more than in the first quarter of 2003, although the number of projects approved declined from 125 in the first quarter to 104 in the second quarter. Other construction activities such as commercial buildings expanded to US\$ 17.4 million (23 projects) in the second quarter of 2003, from US\$ 7.6 million (21 projects) in the first quarter. Despite the recovery in the second quarter of 2003, the performance of the construction sector during the first half of 2003 was poorer than in the first half of 2002. During January to July 2003, the value of construction

projects approved declined by 8 percent to US\$ 98.7 million, or the number of projects by 10 percent to 341, compared to the same period last year.

### Inflation and Foreign Exchange Rates

In the second quarter of 2003, the inflation rate in Phnom Penh declined marginally to 1.6 percent, from 1.8 percent in the first quarter. This is largely due to the movement of prices in the segment of "food, beverage and tobacco", which has the largest share of the household budget, where prices fell by 0.9 percentage points between the first and second quarters of 2003. In contrast, the price of energy in Phnom Penh increased by 5.2 percent, from a 4.8 percent increase in the first quarter. Prices of petroleum products declined slightly between the first and second quarters of 2003: the gasoline price by 2 percent, and the diesel price by 0.8 percent. Compared to the second quarter of 2002, however, the price of gasoline in Phnom Penh jumped by 10 percent in the second quarter of 2003, resulting in the costs of transport and communication rising at an annualised rate of 5.4 percent.

After stabilising for the second consecutive quarter, the Cambodian riel began to lose its value against the US dollar in the second quarter of 2003, trading at 4,008 riels/dollar – a depreciation of 1.5 percent compared to the first quarter. The rate of 4,008 riels/US dollar was the lowest recorded rate (quarterly average) for 10 years. Against the Thai baht and Vietnamese dong, the riel also depreciated by 2.7 percent and 1.2 percent, respectively, in the second quarter, compared to the first quarter 2003. The depreciation of the riel is likely to relate to a lower inflow of dollars into Cambodia and increasing demand for foreign exchange, mainly the dollar, which are associated with a declining number of tourists, a slowdown of foreign direct investment, slower growth of exports, and the national elections in July 2003.

### Monetary Development

According to the National Bank of Cambodia (NBC), liquidity (M2) by the end of the second quarter 2003 amounted to 2,953 billion riels (or US\$ 737 million), a decrease of 1.7 percent from the end of the preceding quarter. Foreign currency deposits, which account for the largest share of total money supply, fell notably by 5.7 percent to US\$ 502.9 million by the end of June 2003, from US\$ 533.2 million by the end of March 2003. In riel terms, the value of foreign currency deposits also declined by 4.6 percent, overcompensating for the increase in the riel component of 45 billion riels during March to June 2003. The withdrawal of foreign currency deposits may reflect fears relating to the elections in July 2003. A contracting supply of dollars reduces the financial resources available for investment and consumption, hampering growth of the dollarised Cambodian economy. The consequent increase in demand for the dollar is likely to result in devaluation of the Cambodian riel, causing higher inflation (in riel terms).

## ECONOMY WATCH—DOMESTIC PERFORMANCE

### Public Finance

According to the Ministry of Economy and Finance, the national budget deficit continued to rise for the second consecutive quarter to 280 billion riels in the second quarter 2003, from 252 billion riels in the first quarter. In the first six months of 2003, the national budget operated with a deficit of 532 billion riels (or US\$ 134 million), 19 percent higher than in the same period last year. While total revenues increased by 2 percent, total expenditure (including expenditure adjustments) rose by 12 percent. The large increase in budget expenditure is attributed to higher expenditure on public investments. Capital expenditure amounted to 576 billion riels (or US\$145 million) between January-June 2003, 14.5 percent more than a year ago, although the sum reached just 55 percent of the target set by the Budget Law for 2003. Of this capital, 395 billion riels (69 percent) was raised from foreign sources, and 181 billion riels (31 percent) from domestic sources. Foreign assistance of 395 billion riels (or US\$ 99 million) consisted of grants of 180 billion riels (or US\$ 45 million), and loans of 215 billion riels (or US\$ 44 million). Of loans of 215 billion riels, the Asian Development Bank's share was 55 percent, the World Bank's 33 percent, and the remaining 12 percent was derived from bilateral assistance. Current expenditure, which usually accounts for the largest share in total expenditure, rose by 5.5 percent to 772 billion riels during the first six months of 2003, compared to the same period last year. During the same period, there was little change in total budget revenue compared to the previous year.

### Private Investment and Employment

The national assembly passed the New Investment Law on February 3rd 2003, simplifying administrative procedures. In the second quarter of 2003, fixed assets approved by the Council for the Development of Cambodia (CDC) declined by 55.5 percent to US\$ 48.3 million, from US\$ 108.5 million in the first quarter, despite a rise in investment projects in the garment sector from US\$ 6.5 million to US\$ 10.5 million. Of the US\$ 48.3 million, the service sector absorbed 70 percent (US\$ 33.7 million), and the industrial sector the remaining 30 percent (US\$ 14.6 million). Nonetheless, only 711 additional workers were hired in the service sector during the second quarter of 2003, whereas the industrial sector employed 8,998 additional workers during the same period. In the second quarter of this year, the United States was the top foreign investor in Cambodia, followed by Malaysia and Taiwan.

### Poverty Situation – Earnings of Vulnerable Workers

A CDRI survey of 10 groups of vulnerable workers over the period 4-22 August, 2003, revealed that seven groups have improved their daily nominal earnings, while the other three groups earned less, compared to

the same period last year. Average nominal earnings were found to be around 2 dollars per day, close to the moderate poverty line set by the World Bank.

Despite a 2 percent decline compared to May 2003, the nominal daily earnings of cyclo-drivers rose by 5.4 percent over a year ago, to 9,380 riels. Some of the cyclo-drivers claimed that their experience contributed a lot to their earnings.

Moto-taxi drivers' nominal daily earnings fell by 5 percent in August 2003 over the previous year. The decline was mainly due to the fact that most people travelled less than usual after the national election on 27 July 2003. Sixty-six percent of moto-taxi drivers reported that daily nominal earnings were not enough to support their families. They added that after spending on food, accommodation and repairing their motorcycle, there was little left to save. The survey also indicated that 73 percent of moto-taxi drivers were from the provinces, and 50 percent had agricultural land of less than one hectare.

The average nominal daily earnings of a porter decreased by 9 percent compared to the last survey in May 2003. This reflects increasing migration from the provinces. Nonetheless, 42 percent of porters claimed that their nominal daily earnings remained unchanged, while 44 percent of porters said their earnings declined compared to the same period last year.

In August 2003, 58 percent of small vegetable traders said that their nominal daily earnings declined, while 34 percent reported that earnings remained unchanged, compared to the same period last year. The decline was due to an increase in some vegetable prices and a large influx of "teenager traders" who, mostly, were pupils on vacation between the months of July-September.

The nominal daily earnings of scavengers in August 2003 increased by 36 percent compared to May 2003--the largest gain among all groups. In August 2003, the houses of scavengers living at the Stung Meanchey rubbish site were burned down by the local authorities, making it more difficult to live there. Eighty-four percent of scavengers are from the provinces, in particular from Prey Veng, Svay Rieng, Takeo and Kandal provinces.

Garment workers' earnings rose by 5 percent in August 2003, compared to the same period last year. An increase in daily nominal earnings reflects their overtime work, not an increase in salary. In general, garment workers spent about US\$ 26 (33 percent of their monthly income) on food, accommodation, transportation and personal care. The survey also indicates that 83 percent of garment workers support their families. Eighty-two percent reported that monthly savings were not enough to run a small business after quitting work at the garment factory.

Skilled construction workers--the highest paid group--experienced a fall in nominal daily earnings of 4.7 percent from May 2003. Seventy percent of skilled construction workers reported that there is more work available than in recent months. *By Dr. Kang Chandarot,*

## ECONOMY WATCH—INDICATORS

**Table 1. Private Investment Projects Approved**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
Number of investment projects												
Total	204	300	136	140	96	96	188	9	11	8	20	14
Garment	120	144	48	84	44	52	76	4	5	2	6	7
Registered capital (millions of dollars)												
Total	356.0	391.2	278	416.4	246.8	102.4	129.2	4.5	12.1	20.3	41.6	10.4
Garment	112.0	156.8	34.4	91.6	55.6	25.6	60	1.0	5	1	5	4.1
Fixed assets (millions of dollars)												
Total	304.8	746.8	761.6	849.2	474	266.4	217.2	23.3	127.6	60.9	108.5	48.3
Garment	101.6	158.4	38.8	120.8	79.6	76.8	100	2.4	5.5	1.7	6.5	10.5

Sources: Cambodian Investment Board (1995-2003) \* Including existing investment expansion projects

**Table 2. Projects Approved of Construction in Phnom Penh (1995-2003)**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
Mansion	201	205	179	143	136	111	108	38	36	40	29	39
Apartment	542	537	528	678	864	520	499	126	154	123	125	104
Other	91	116	117	132	74	64	57	20	22	14	21	23
Total	834	858	824	953	1074	695	664	184	212	177	175	166

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

**Table 3. Exports and Imports, 1995-2003**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
Millions of dollars												
Total exports	379.2	387.1	493.4	784.4	941.1	1055.5	1267.0	314.1	451.7	412.9	331.5	408.5
Of which:- Garment	26.4	78.8	227.2	378	554	962.1	1201.0	289.5	431.7	385.4	314.7	389.9
. To U S	0.08	0.4	107.2	74.1	486	714.1	840.9	203.5	295.2	269.2	230.6	267.8
. To Rest of the world	26.4	78.4	120	82	68	248.0	360.1	86.0	136.5	116.2	84.1	122.1
- Agriculture	-	-	-	-	-	90.5	66.0	24.7	20.1	27.4	16.8	18.7
. Rubber	-	-	-	-	-	29.6	25.9	5.5	9.2	9.1	6.3	6.7
. Wood	-	-	-	-	-	32.5	22.3	5.3	4.1	3.3	2.8	2.8
. Fisheries	-	-	-	-	-	5.4	6.0	1.6	1.0	0.5	0.8	0.7
. Other	-	-	-	-	-	26.0	11.8	12.3	5.8	14.5	6.9	8.5
Total Imports	1100.8	1114.4	1094.5	1112.2	1237.4	1417.7	1501.4	470.4	484.4	438.7	393.8	507.3
Trade Balance	-721.7	-727.3	-601.2	-327.8	-296.3	-362.2	-234.0	-156.3	-32.7	-25.8	-62.3	-98.8
Percentage change over previous year												
Total Exports Garment	560	198	188	66	47	74	24.8	2.8	27.5	33.2	26.3	34.7
Total Exports	-	2.1	27.5	58.9	12.4	19.7	20	5.5	28.0	35.3	20.7	30.0
Total Imports	-	1.2	-1.8	1.6	11.3	14.5	5.9	29	59	27	22	7.8

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

**Table 4. Passenger Arrivals in Cambodia**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
Thousands of passengers												
Tourist visas	162.3	194.4	163.0	141.9	199.6	209.6	335.4	24.9	46.9	58.7	183.7	83.8
by air	162.3	194.4	163.0	141.9	199.6	209.6	335.4	24.9	46.9	58.7	124.6	44.4
land and boat	-	-	-	-	-	-	-	-	-	-	59.1	39.4
Business visas	43.9	58.4	48.6	37.6	55.4	46.9	62.4	19.5	15.6	16.1	20.4	14.7
by air	-	-	-	-	-	-	-	-	-	-	-	43.9
land and boat	-	-	-	-	-	-	-	-	-	-	3.2	3.5
Official visas	13.5	7.6	7.2	6.8	7.9	95.2	10.6	57.4	52.0	92.9	4.7	4.6
by air	13.5	7.6	7.2	6.8	7.9	95.2	10.6	57.4	52.0	92.9	4.0	4.0
land and boat	-	-	-	-	-	-	-	-	-	-	0.7	0.6
Total by air	219.7	260.4	218.8	186.3	262.9	351.7	408.4	101.8	114.5	167.7	145.8	59.6
Total Land and boat	-	-	-	100.2	104.8	114.7	196.5	62.8	59.3	69.6	63.0	43.5
Total of passenger	219.7	260.4	218.8	286.5	367.7	466.4	604.9	164.6	173.8	237.3	208.8	103.1
Percentage change over previous year												
Total of passenger	-	18.5	-15.9	30.9	28.3	26.8	29.7	26.9	24.7	41.3	-0.9	-37.4

Sources: Ministry of Tourism

## ECONOMY WATCH—INDICATORS

**Table 5. Consumer Price Index (CPI), Exchange Rates and Gold Prices, 1995-2003 (period averages)**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
	Consumer price index (percentage change over previous year)											
Provinces	-	-	6.1	16.3	6.2	5.4	0.9	0.0	2.0	-0.3	7.4	5.9
Phnom Penh - All Items	7.8	7.1	8.0	14.8	4.0	-0.8	-0.6	3.3	3.5	3.04	1.8	1.6
- Food	4.9	7.6	6.7	14.1	7.6	-3.3	-2.8	1.02	2.0	2.00	3.20	2.3
- Energy	19.4	20.7	20.0	15.1	3.5	6.6	-1.1	-0.02	0.9	2.25	4.75	5.2
	Exchange rates, Gold and Oil prices (Phnom Penh market rates)											
Riel per US dollar	2,479	2,666	3,029	3824	3832	3,879	3,935	3,913	3,935	3,948	3948	4008
Riel per Thai baht	99	105	98	88	101	96.3	88	91.4	93.5	90.9	92.4	94.9
Riel per 100 Vietnamese dong	22.3	24.0	25.6	28.6	27.8	27.4	26.6	25.7	25.7	25.8	25.6	25.9
Gold prices (US dollar per chi)	45.9	46.3	40.4	36.0	34.0	33.3	32.7	36.2	38.0	38.5	39.8	40.0
Price of Diesel (Riels/litre)	716	779	883	1,065	1,105	1,329	1,521	1,450	1,550	1550	1697	1683
Price of Gasoline (Riels/litre)	847	1,118	1,378	1,613	1,760	2,113	2,084	2,167	2,200	2200	2433	2383

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

**Table 6. Monetary Survey, 1995--2003 (end of period)**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
	Billions of riels											
Net foreign assets	550	881	1,177	1,726	2,019	2,589	3,080	3,614	3,693	3,737	3,741	3,588
Net domestic assets	99	31	-114	-496	-576	-759	-876	-965	-943	-849	-737	-635
Net claims on government	148	128	54	178	103	3	-75	-165	-106	-119	-72	-19
Credit to private sector	293	435	637	655	763	898	936	928	971	1,059	1,125	1,224
Total liquidity	650	912	1,063	1,230	1,443	1,831	2,204	2,648	2,751	2,888	3,004	2,953
Money	278	329	385	543	531	540	609	748	771	813	829	871
Quasi-money	371	583	678	687	911	1,291	1,594	1,901	1,979	2,075	2,175	2,082
	Percentage change from previous year											
Total liquidity	44.4	40.3	16.6	15.7	17.3	26.9	20.4	33.4	29.5	24.1	24.6	11.5
Money	39.0	18.3	17.0	41.0	-2.2	1.7	12.8	37.5	35.5	33.4	22.6	16.4
Quasi-money	48.4	57.1	16.3	1.3	32.6	41.7	23.5	32.0	27.3	30.2	25.7	9.5

Sources: National Bank of Cambodia.

**Table 7. National Budget Operations on Cash Basis, 1995—2003 (billion riels)**

	1995	1996	1997	1998	1999	2000	2001	2002			2003	
								Q2	Q3	Q4	Q1	Q2
Total revenue	644	748	880	920	1326	1528	1529	369	457	481	428	379
Current revenue	-	-	-	-	-	-	1521	369	456	481	399	377
Tax revenue	444	536	596	676	956	1096	1096	302	323	339	273	287
Customs duties	320	344	348	376	432	376	376	104	116	122	92	94
Non-tax revenue	188	176	272	204	348	424	424	66	133	142	127	90
Forest exploitation	52	28	36	20	36	28	29	1	9	5	1	1
Post & Telecommunications	56	64	84	88	108	124	122	13	30.7	44	19	18
Capital revenue	8	40	12	36	12	8	9	0	1	0	0	2
Total expenditure	1200	1440	1260	1296	1792	2332	2332	714	704	668	680	659
Capital expenditure	512	628	452	368	624	976	977	272	303	343	305	271
Current expenditure	172	812	808	980	1164	1356	1355	442	401	325	384	388
Education and Health	100	124	128	132	280	344	343	108	85	96	36	88
Defense and Security	424	408	420	448	464	404	405	117	105	110	70	119
Other Ministries	164	284	260	332	412	636	637	217	212	120	269	181
Overall deficit	-556	-692	-380	-380	-476	-804	-803	-346	-248	-187	-252	-280
Foreign financing	560	680	444	268	416	768	766	237	273	287	178	200
Domestic financing	-4	12	-64	112	60	36	37	110	-25	-100	74	80

Source: Ministry of Economy and Finance: Quarterly average [1995-2001 (Q1-Q4), quarterly average]

**Table 8. Average Daily Earnings of Vulnerable Workers, 1997-2003**

	Daily earnings (riels)									Change from last year (%)		
	1997			2001			2002			2003		
	Pre-Jul	Nov	Feb	May	Aug	Nov	Feb	May	Aug	Feb	May	Aug
Cyclo drivers	12,250	6,262	9,450	9,375	8,900	8878	9200	9572	9380	-2.65	2.10	5.4
Porters	9,675	5,000	8,137	6,675	7,600	6312	7600	7955	7240	-6.60	19.18	-4.7
Small vegetable sellers	7,050	5,096	6,062	6,712	6,862	7158	7250	6674	6860	19.60	-0.57	-0.3
Scavengers	4,155	3,393	3,350	4,231	3,440	4012	3875	3605	4900	15.67	-14.80	42.7
Waitresses*	-	2,358	3,543	3,652	4,225	4000	4600	4341	4520	29.83	18.87	7.0
Rice-field workers	-	3,618	3,916	5,167	3,833	4219	4180	3712	4600	6.74	-28.15	20.0
Garment workers	-	8,968	7,772	8,775	9,800	10000	10127	9123	10300	30.30	3.97	5.1
Motorcycle-taxi drivers	-	9,791	14,327	11,978	11,300	12075	11400	7137	7600	-20.43	3.26	16.7
Unskilled construction workers	-	4,841	7,025	6,912	6,525	5850	6162	9883	10900	-12.28	-17.49	-3.5
Skilled construction workers	-	9,866	11,530	13,850	12,695	13350	12500	13335	12700	8.41	-3.72	0.0

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

**GLOSSARY – TERMS USED IN THIS ISSUE**

**Elite capture/grabbing (ការក្តោបក្តាប់របស់ក្រុមវណ្ណៈខ្ពស់)**

'Elite capture' means that people with political or economic influence 'capture' or take charge of the development process. Elite capture would take place if, for instance, commune councillors or businessmen made sure that they received more benefit than average from development projects. An example would be if most wells or waterways were placed near their houses.

**Political culture (វប្បធម៌នយោបាយ)**

The political culture is a more or less harmonious mixture of values, beliefs and emotions dominant in a society. This political culture influences support for authority and compliance with its laws. These are not a fixed set of values, and they will not be consistent. The political culture changes over time and among groups of people within the society.

**Patronage (ការឧបត្ថម្ភគាំពារ)**

'Patronage' is the act of providing approval and support. The term is often used in politics to describe the relationship between levels of government. For instance, 'vertical patronage' would mean the consent that the commune would seek from the district. Although a commune is autonomous by law, it might be patronised by the district. A 'patron' would often be a powerful person (politically and/or economically).

**Structural poverty (ភាពក្រីក្រជាលក្ខណៈរចនាសម្ព័ន្ធ)**

When we talk about poverty, we often mean 'income' poverty: the resources we have available to invest in service delivery, schools and so on. 'Structural poverty' is more deep-rooted. In Cambodia, structural poverty is related to fear, distrust, a lack of legitimacy of the local state, and low levels of education. All these aspects impede the opportunities to address income poverty.

**Social capital (ទុនសង្គម)**

Social capital is to be understood as the degree to which local communities are able to utilise available resources justly and efficiently without exploiting certain groups or using violence in order to favour any particular group (cf. Dasgupta & Serageldin 2000; cf. Coleman 1988).

**Harmonisation (សុខុមនីយកម្ម)**

A reduction in the proliferation of donors' operational policies, procedures and practices with the aim of reducing transaction costs and strengthen local systems and procedures.

**Alignment (ការត្រឹមតំរង់)**

A process to increase coherence, synergy and complementarities of external assistance with country-owned strategies and procedures.



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## CDRI UPDATE

### CDRI

On September 9, 2003, the CDRI conducted a media workshop for its research and programme staff in order to enhance understanding of the role of media in influencing policy and debate, and to strengthen staff skills for managing media relations. The workshop was facilitated by Ms. Alison Mee, Media Consultant for the Asia Foundation in Cambodia. CDRI's Manager for Information Technology completed a three-day study tour to the Thailand Development Research Institute in Bangkok. The main purpose of the study visit was to exchange experiences in contemporary information technology and learn about the various uses of IT in support of research, publications, and library management.

Staff changes: CDRI bade farewell to Ms. Henny Andersen, Senior Economist in the Poverty Monitoring and Analysis Programme, on completion of her mission. At the same time CDRI welcomed new staff member and Fulbright scholar, Mr Pak Kimchoeun who joined the decentralisation research team in August. CDRI also welcomed two new student volunteers for six-month internships. Ms Khat Laykim, will assist the publications section while Mr Hin Meatophum will work as library assistant.

### Research

Members of the Development Analysis Network (DAN) representing research institutes from Vietnam, Thailand, Laos and Cambodia met at CDRI on September 5, 2003 in order to discuss their research concept papers and to identify the next topic of research collaboration. The group agreed to conduct joint research on the 'cross border economy'.

CDRI also completed a short study on the competitiveness of the Cambodian Economy, which will be presented at a CIEM facilitated workshop in Hanoi in October. Two additional studies have been launched, namely, a study on Small and Medium Enterprises and another regional study on agricultural competitiveness of cash crops. CDRI held a workshop on September 29

for the participating research institutes from Thailand, Vietnam and Cambodia to work out conceptual and methodological issues relating to the agricultural competitiveness study. The NRE program of CDRI has finalised two working papers during this period – one on fish exports and the other on the resin trade. PORDEC (Policy Oriented Research Programme on Decentralisation) completed all fieldwork for the study on Decentralisation Design. Important collaborative links were established with the University of Gothenburg, New York University, the Norwegian Institute for Urban and Regional Research and the Ministry of Interior.

In July, CDRI also launched a comparative study of Cambodian election processes, with financial support from AUSAID. The study is expected to be completed in November 2003.

A member of CDRI's research staff, Mr Tong Kim-sun, attended a three-week course on microeconomics at the University of Ankara in Turkey.

### Centre for Peace and Development

On July 24, 2003, the CPD team met with colleagues from other agencies involved in peacebuilding work in order to review the status of peace work in Cambodia, and to identify gaps and priorities for the future. The workshop contributed to help CPD develop its next three-year plan. The last three COPCEL roundtable meetings addressed issues relating to the voting, counting and complaints processes of the National Election. The participants assessed the process of elections and offered practical recommendations for further improving future elections. The CPD training team conducted a needs assessment mission in the reconciliation area of Phnom Vor, Kampot, and will commence a series of training programmes there on Managing Change, in October. A Working Group to develop a peacebuilding and conflict management lexicon has completed its first draft, which has been circulated for review. The Lexicon will be published in December 2003.

ទស្សនាវដ្តីអភិវឌ្ឍន៍កម្ពុជា ក៏មានចុះព្រមផ្សាយជាភាសាខ្មែរផងដែរ  
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**CAMBODIA**  
DEVELOPMENT REVIEW

A Publication of the  
Cambodia Development Resource Institute

Volume 7, Issue 4 (October-December 2003)

*Cambodia Development Review* is published four times a year in simultaneous English- and Khmer-language editions by the Cambodia Development Resource Institute in Phnom Penh.

*Cambodia Development Review* provides a forum for the discussion of development issues affecting Cambodia. Economy Watch offers an independent assessment of Cambodia's economic performance.

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Publisher: Cambodia Development Resource Institute

Acting Managing Editor: EM Sorany,

Editor: Andrea Struik

Production Editor: OUM Chantha

Cover Photograph: CPD Training Team

Printing: Japan Printing House, Phnom Penh

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