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Mobilising Cambodia's Resources—Human, Natural, Financial—for Quality Development, Growth and Prosperity: The 2008 Cambodia Outlook Conference*

The 2008 Cambodia Outlook Conference in February, hosted by CDRI and ANZ Royal, a unique Cambodian partnership between a leading development policy research institute and a leading bank, brought together some 250 invited leaders from government, the private sector, civil society and the development and research communities, to discuss progress and challenges in Cambodia's development, with a particular emphasis on issues of concern to the private sector, and to generate policy recommendations and ideas for action.

Cambodian Prime Minister Hun Sen, in his keynote opening address to this second Outlook Conference, emphasised that a decade of peace and stability has enabled Cambodia to achieve impressive growth, with strong economic and social development, including a substantial reduction in poverty, increased government revenues and improved infrastructure, health and education. However, he also warned that the rapid transition to an open market economy meant continuing challenges for the government and its development partners, particularly the challenge of inequality and uneven distribution of the fruits of growth. He also highlighted natural resource management challenges, land conflicts, still limited human capacities and a mismatch of skills and labour market demand, especially for the booming but still underdeveloped private sector, as priorities for the next stage of Cambodia's development.

The 2008 conference theme was "Mobilising Cambodia's Resources—Human, Natural, Financial—for Quality Development, Growth and Prosperity" with five session sub-themes:

- Cambodia: A 2008 Macro View



Prime Minister Hun Sen delivering his keynote address to the Outlook Conference, February 2008

- Making the Most of Cambodia's Natural Resources I
- Making the Most of Cambodia's Natural Resources II
- Making the Most of Cambodia's Human Resources
- Cambodia 2008 and Beyond

This issue of the *Cambodia Development Review* focusses on the main issues discussed at the Outlook Conference and their policy implications. CDRI and ANZ Royal are also producing English and Khmer language summaries of the outcomes of the conference for submission to policy makers and influencers. The programme, presentations and other conference materials are available on CDRI's web site, www.cdri.org.kh.

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* Larry Strange, CDRI executive director, sums up the general views of the 2008 Outlook Conference.

Cambodia: A 2008 Macro View—Key Indicators, Major Development Challenges, Our Region, the Private Sector

Dr Hossein Jalilian presents an overview of the four presentations in session one of the 2008 Outlook Conference and the main results of the discussions that followed:*

One important feature of the 2007 Outlook Conference was a session confined to the macroeconomic overview of Cambodia. This was also the case in the 2008 conference, the first session of which was allocated to this important topic. The session was moderated by Dr Hang Chuon Naron.¹ The presenters for this session included John Nelmes,² who presented key macro indicators. Hossein Jalilian presented a brief on major development challenges. Gary Runciman³ discussed a number of issues that related to the private sector, from the point of view of banks and the financial sector. Finally, Zhang Yuyan⁴ discussed issues related to institutional factors in the region. In this brief, a summary of the key messages that came out of this session is presented, followed by the full presentation by John Nelmes.

This session provided an update on the issues addressed at the last Outlook Conference. John Nelmes, providing relevant data on the topic, pointed out that a very strong economic performance in the recent past has now slowed slightly due to a downturn in the garment sector and the US economy. At the same time, inflation has risen significantly, due in part to rising international oil and food prices. Moving on to discuss the local factors that have contributed to this rise, Nelmes attributed it to a rise in local demand that has pushed up labour costs, which in turn has contributed to rising prices, indicating a higher standard of living. The full text of his presentation follows after this summary.

Jalilian's presentation related to the important challenges that the Cambodian economy is faced with. Although the overall growth in Cambodia over the last decade has been impressive, poverty still remains serious, and the reduction in poverty over the period should have been higher than experienced so far. Comparing the growth and poverty performance in Cambodia with a number of regional blocs and China, he argued that, relative to growth, poverty reduction in Cambodia has

been rather limited. This poor performance, he argued, was due to the very narrow basis of growth, which is focussed on garments, construction and tourism. Growth in agriculture, which is critical to poverty reduction, has been erratic and low. He argued that to be more effective, growth needs to be more "inclusive", and there need to be more effective linkages between and within different sectors. Growth is considered inclusive where it creates equal access to the opportunities it creates. He emphasised the important role that the private sector, government and better governance structures can play in this process. Emphasising the importance of improving agriculture as a vehicle for poverty reduction, he stressed the important role of land titling and distribution, clearer property rights, infrastructure development and general market development. A lack of strong institutions and legislative and regulatory frameworks and enforcement is a continuing constraint on growth. It was stressed that regional institutions have an important role in fostering greater standardisation and enforcement and supporting open market development.

Gary Runciman's presentation focussed on the role of the banking sector and capital flow. He pointed out that the financial sector has grown extraordinarily well from a low base; deposits are outstripping lending. With improving trust in the banking sector, FDI in Cambodia is being placed in the banking sector; business surpluses are also being deposited. MFIs are still not generating deposits, and are not a real avenue into the formal sector. He mentioned that there has been a huge increase in lending, most of which is property backed, people leveraging equity in property. Citing the 22 banking institutions competing for business, he argued that the sector is competitive, so businesses can benefit from this.

He pointed out that the recent very rapid growth in the banking sector clearly reflects greater confidence, in terms of both deposits and lending, including greater confidence of local businesses and increasing FDI. However, most loans are still secured with land, and therefore lending is limited as a result of the high costs of land titling and difficulty of using land as collateral. Other limits on access to finance are the lack of enforcement of the commercial legislative framework, difficulty securing loans due to lack of documentary evidence and lack of ability to use other assets (such as business assets) to secure credit. Risks in the banking sector include low returns to the sector as a whole, in part as a result of the high proportion of non-performing loans, as well as lower levels of confidence as a result of non-enforcement.

Other significant challenges and issues that require priority attention include:

- Low returns: non-performing loans are increasing. Although banks' returns are increasing, they are still very low for a developing country.

* Hossein Jalilian is director of research, CDRI.

- A strong financial sector is critical to growth.
- Lack of financial statements and reliable data, leading to high transaction costs: people cannot show how they are going to repay loans, which increases risk and therefore the price of credit.
- Taxation enforcement, tax statements and returns allow more accurate determination of risk, but they are not readily available for all businesses. Those who have been banking longer get loans because their situation is known.
- High costs of obtaining land title documents restrict credit since only a small pool of banks can lend against land.
- Enforcement of commercial laws: without enforcement, lack of confidence increases. Better enforcement is likely to be accompanied by a move away from reliance on land to other assets as collateral.

Zhang Yuyan took a regional perspective to compare and contrast the experience of a few countries in the region in terms of growth and development. He pointed out that the strong GDP growth in China resulted from reform, the opening up of China and more well-functioning markets. He stressed the importance of regional integration in promoting more open and well-functioning markets across the region.

China, he pointed out, welcomes greater involvement of Cambodia in regional institutional arrangements such as ASEAN and sub-regional cooperation, e.g. Mekong sub-region. To be able to benefit from regional integration, however, member countries would have to take certain steps:

- Strict enforcement of property rights is essential for market development. The question that is posed, however, is which institutions have responsibility for this.
- Increasing regionalisation is likely to lead to standardisation of rules of trade, which supports enforcement of property rights.
- To enhance the role of regional institutions, all countries must be equal, and agreements must serve mutual interests. Strengthening regional economic cooperation takes patience, due to the complexity of relations among the countries involved.

The following is a brief overview of macroeconomic developments, which was presented by John Nelmes. It is based on a PowerPoint presentation to the conference.

Cambodia: Macroeconomic Developments

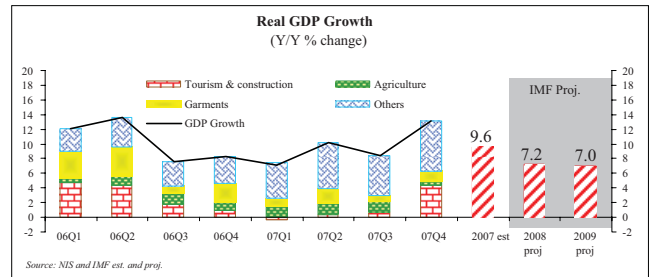
Nelmes addressed some recent developments in the economy as well as offering some policy options to enhance and sustain growth. Following the format of presentation, this note is also divided into two parts. The first deals with the recent developments and outlook, while the second considers some policy options.

Recent Developments and Outlook

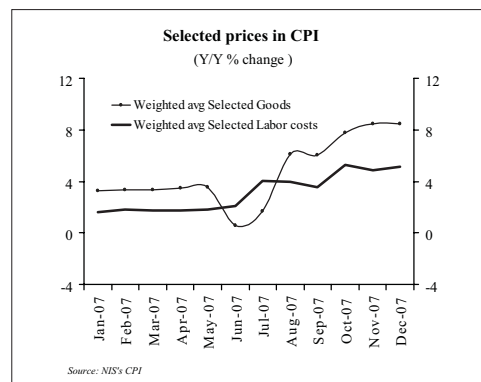
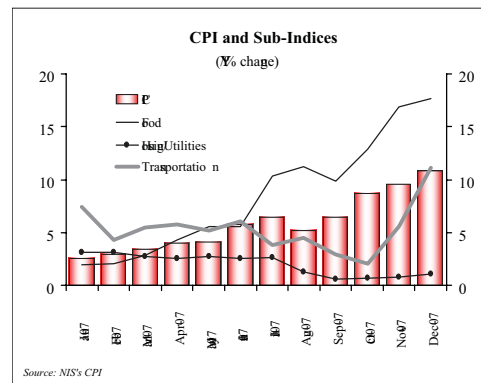
Nelmes’ presentation was generally upbeat about the state of economy and its management. He pointed out that

Cambodia grew at a rate of 9.5 percent in 2007. However, it is likely that growth will be slightly reduced in the near term, as illustrated below. There are a number of reasons for this slow-down, increased inflation being one.

Despite strong achievements, Nelmes warned, there are some significant challenges and risks in the medium term, including the likely continued slowing of the garment sector and rising inflation driven by international factors. In this context, it will be difficult to continue to achieve strong growth and poverty reduction.

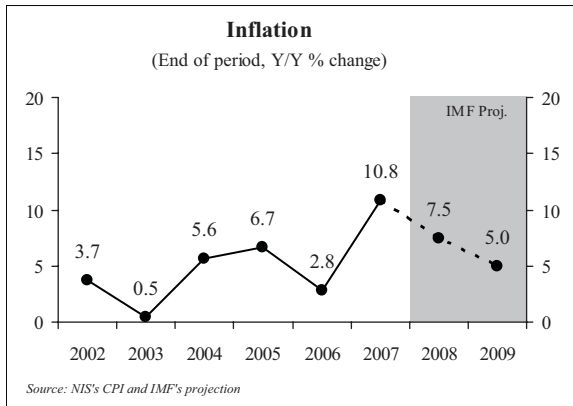


Within the period, the Cambodian economy has experienced higher inflation, which mainly reflects international food and oil price rises. As well, depreciation of the US dollar has added to inflation. There are also signs of domestic inflationary pressures, mainly generated by higher demand for labour.

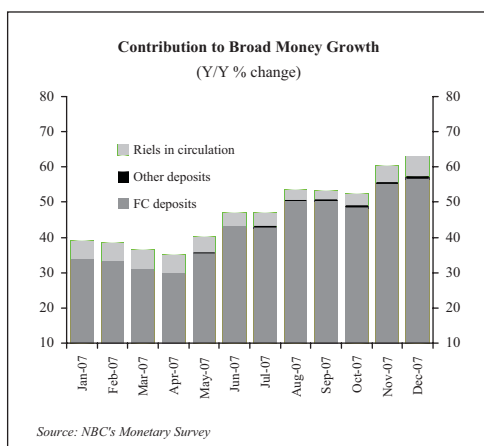
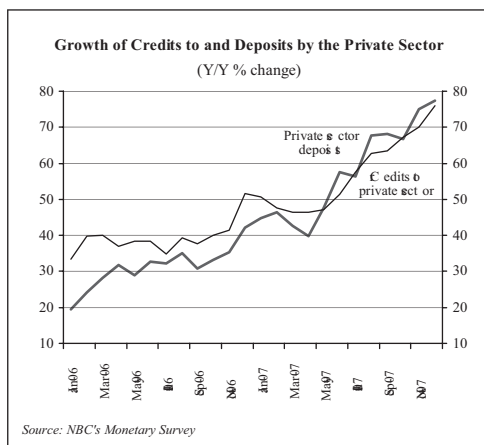


Although inflation is expected to decline in 2008, inflation risks have increased. The sources of these risks are mainly external, but internal factors also play an important role.

One reason offered for this increased pressure is that Cambodia has experienced a rapid expansion of the

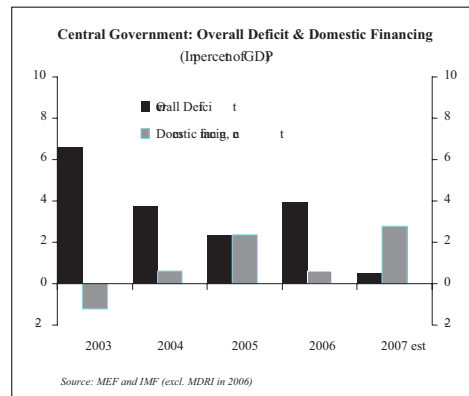
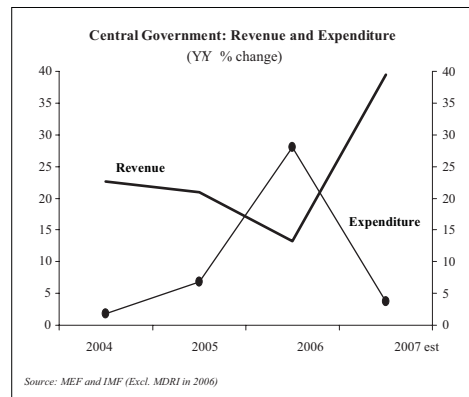


banking system, which has fuelled strong money growth, as shown graphically below. The graph shows a sustained increase in credit creation in recent periods, which in turn has affected the rate of money growth. If unchecked, this is likely to fuel further inflation. Unless monetary growth follows closely real growth in the economy, it is likely to lead to increased inflation.



The government has experienced high revenue growth combined with a slow growth of spending. As a sign of improved management of economic affairs, Nelmes pointed out that government revenue increased 22 percent in 2007, reflecting improved tax collection. This increased revenue has had positive effects for spending on infrastructure, education and health services. However, sustaining this improved condition is likely to become

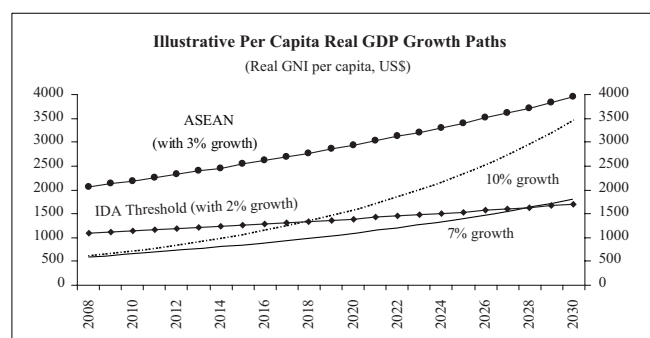
more challenging if growth slows in the medium term. Nelmes pointed out that growth in spending is slower than that in revenue, allowing the government to increase deposits and reduce the deficit, as illustrated below. This could dampen inflation. However, as will be discussed later, it is important that government capital expenditure be increased so that growth potentials are enhanced.



Policy Issues

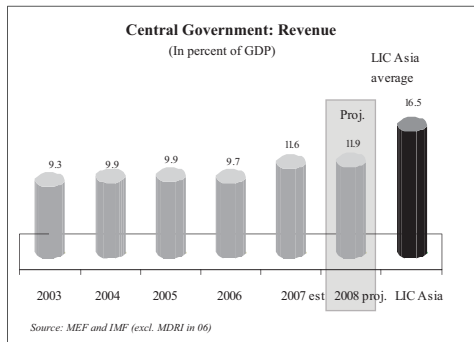
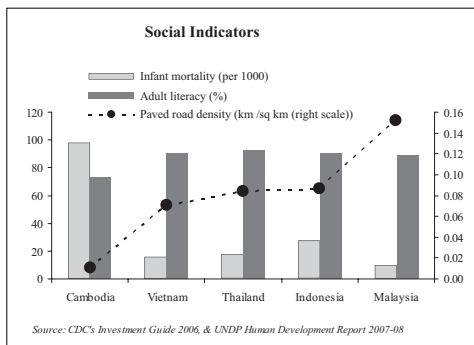
Given the above brief overview of the economy, a number of policy issues and options emerge; a few of these are briefly discussed below.

For a number of reasons, particularly to ensure a higher standard of living, sustaining high growth over the medium to long term is critical. The figure below shows the potential income per capita based on different sustained rates of growth over the next 22 years. As illustrated, a relatively small change in the rate of growth is likely to produce a substantially different level of GDP per capita over a relatively short period of time. The difference between scenarios presented is to a large extent

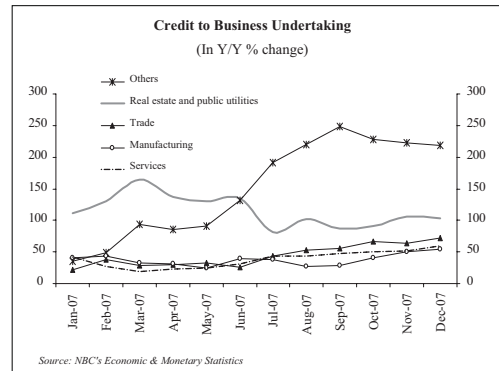
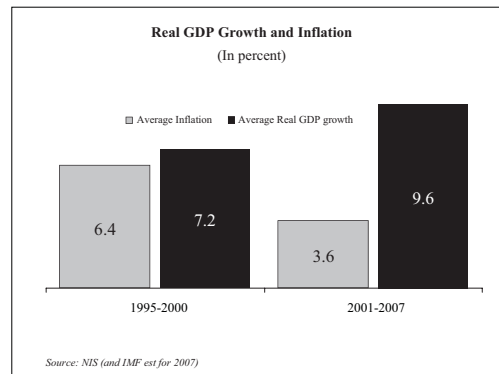


determined by differences in policies adopted. For a high-growth policy option, Cambodia should undertake a number of steps, among which the following are expected to be the most important.

In order to sustain a high rate of growth, it is important that the government spend more on infrastructure, health and education. Given the nature of these services and the reluctance and difficulties that the private sector generally has in investing in physical and social infrastructure, it is important that government take an effective role in these areas. There are serious gaps between Cambodia and some of its neighbours in terms of social and economic indicators, as shown below. These gaps need to be reduced. To be sustainable, however, it is important that such spending be financed by a continued strong revenue effort. The graph below shows a healthy growth in central government revenue in the recent past; the latest figure, however, is still well below the average for comparable countries in Asia.



For sustained economic growth, it is also important to ensure that inflation is under control; low inflation is key for both growth and poverty reduction. The graph below illustrates the link between inflation and GDP growth over the last decade; higher inflation is generally associated with lower growth (1995–2000), or a lower inflation period is associated with higher GDP growth (2001–07). The other important factor that would help growth is continued strong banking supervision. Increased access to finance and financial services is important for a growing economy. Reliance on these services is likely to be directly related to the trust that the users have in the sector. Strong banking service supervision would be one way of increasing this trust.



Concluding Remarks about the Session

The message that came out of this session of the conference was that the economy is generally in good shape, and the macroeconomic outlook remains promising. However, given the very low level of development of the country as measured by GDP per capita, a high growth strategy is important. To sustain this, there are a number of steps needed to make sure that economic stability is not adversely affected; hence the emphasis on the control of inflation. It is also important to make sure that growth is more “inclusive” and shared equally by all potential contributors. In this context, it is important that institutional and governance issues are addressed more effectively. One of the major challenges that Cambodia faces is the high level of poverty and a relatively low speed of poverty reduction. To address this challenge more effectively, agriculture needs to be made more dynamic; CDRI (2008)⁵ provides details on how this could be achieved.

Endnotes

1. Secretary-general, Supreme National Economic Council, Ministry of Economy and Finance, chair of CDRI Board of Directors.
2. Resident representative, IMF.
3. Head of Business Financial Services, ANZ Royal Bank.
4. Professor and director, Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences, People’s Republic of China.
5. CDRI (2008), Annual Development Report 2007–2008 (Phnom Penh).

Making the Most of Cambodia's Natural Resources: Forests, Fisheries and Minerals

Dr Brett Ballard summarises the main content of the four presentations in session two of the 2008 Outlook Conference and the results of the discussions that followed:*

In his opening address, Prime Minister Hun Sen observed that “the abundance of natural resources is a gateway for development, growth and prosperity, but it is a challenge to ensure the blessing”. He further observed that Cambodia “witnessed some problems in land, forest and fishery utilisation and management”, and that “under-utilisation of land, forest land encroachments and conflicts over land tenure and common resources remain challenging issues for the government”. The prime minister also indicated that “the confirmed discovery of oil and gas reserves has sparked debate over the management of oil revenue” and said that the most salient issue in Cambodia’s medium-term outlook concerns “whether oil and revenues translate into greater economic diversification and poverty reduction”.

Introduction: Key Messages

The four panellists during this session affirmed many of the issues regarding fisheries and forests that are already well known. Forests and fisheries are important natural resources for Cambodia and contribute substantially to the agricultural component of GDP, generate employment and provide food and fuel for a majority of Cambodians. Although legal and policy frameworks protect forests and fisheries, population growth, the widespread use of illegal methods for harvesting resources and weak law enforcement result in a rapid decline in availability of and access to natural resources. Such practices pose significant challenges for the effective management of these resources for poverty reduction.

The government understands the important role that natural resources play as a main source of income for millions of rural Cambodians. It considers the effective management of fish and forest resources as a major pillar of socio-economic development and poverty reduction, as outlined in the rectangular development strategy of the National Strategic Development Plan 2006–2010

(RGC 2006). The Cambodian Millennium Development Goals published by the Ministry of Planning clearly state that if the degradation of resources in Cambodia can be halted, overall targets for poverty reduction can easily be achieved. All four panellists agreed that concerted efforts should therefore be made to reverse the trend of natural resource degradation in order to maximise the benefits to the rural poor. The same is true for Cambodia’s fishing resources; if properly managed, they would contribute more to poverty reduction.

The panellists also observed that some aspects of policy reform, such as the reclamation of forest lands, introduction of logging bans and the establishment of community forestry and fisheries, are being now implemented. However, the enforcement of existing laws and regulations, including prevention of and penalties for illegal fishing and logging, remain very challenging. Land encroachment and conversion, land grabbing and conflicts have accelerated, including in restricted areas. Practices such as the use of wood for fuel and construction also constitute a significant barrier to conservation.

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Economic land concessions (ELCs) are failing to promote conservation and efficient resource management because they restrict productive uses of land and provide a shield for illegal logging. Two panellists suggested that ELCs may need to be reconsidered and in some cases terminated.

CDRI research and other studies show that the benefits of natural resource exploitation are not being equally shared but are instead fostering economic inequality and contributing to the concentration of assets in the hands of the wealthy and powerful. The political economy of natural resource exploitation requires further exploration.

Progress and Priorities

Chan Tong Yves, secretary of state of the Ministry of Agriculture, Forestry and Fisheries (MAFF), observed that fisheries are a critical resource and an important food source for all Cambodians. Also, 24.9 percent of agricultural GDP is from fisheries. Fishing serves 6 million people and creates jobs. About 45 percent of Cambodia’s population is in one way or another dependent on fisheries. The government has made important progress in preserving fish stocks through the establishment of community fisheries.

Chan Tong Yves also observed that policies are in place concerning the management of fisheries and forestry resources. Seven percent of GDP is derived from forests. Deforestation has impacted on forestry’s share of GDP. Measures are now in place to prevent illegal logging

* Dr Brett M. Ballard is senior research adviser, CDRI.

and deforestation, including the use of illegal tools. The government is now reclaiming forests and reserving forest lands. Cambodia is also involved in several international forest organisations. Community forestry committees have been established to manage forestry resources.

Dr Top Neth of CDRI observed that dependence on common property resources is an important characteristic of the rural population and that there is a serious need to halt resource degradation in order to reduce poverty. More than 80 percent of the total population lives in rural areas. Most of them are farmers who depend on fish and forest products for part of their livelihoods. A publication by UNDP (2007) reported that fish and fish products constitute about 75 percent of the total animal protein diet of Cambodians, and more than 1 million people currently earn a living from fishing.

The 1998 national population census indicated that about 92 percent of the total population is dependent on wood fuel for cooking.¹ Non-timber forest products also provide an important source of food and income for many rural households. For example, a recent study (Hansen and Neth 2006) of 502 households in 16 villages located in Kompong Thom, Pursat, Monduliri and Kratie found that poor households gained an average 42 percent (USD280) of their livelihood value from forests, while medium income households gained 30 percent (USD345).

Forest resources in Cambodia have declined by 2.6 million hectares in the last 30 years (1970–2002), corresponding to an annual loss of 81,000 ha (CMDGs 2005). After the cancellation of forest concessions representing more than 50 percent of land under concession, and suspension of timber logging since 2002, large-scale logging has been reduced significantly. Illegal logging, however, remains a concern in many parts of the country. In addition, expanding rural populations, forest land grabbing and land encroachments have emerged as major threats. More forest land has been converted to other uses, including cashew, cassava, soy bean, maize and rubber cultivation, while the use of wood for fuel continues unabated. Land price increases also contribute to more clearing of forest, and conflicts over land tenure have emerged in many parts of the country.

Another source of deforestation is economic land concessions. As of February 2007, land under ELCs amounted to 0.94 million hectares, involving 57 companies with signed agreements (MAFF 2007). However, at the end of 2005, the area they cultivated represented just 1.8 percent of the total land concession area (UNDP 2007). A brief analysis by CDRI of eight land concessions

compared with 1997 forest cover showed that up to 70 percent of their land was forests (Hansen and Neth 2006). In addition, UNDP (2007) said that some lands under this scheme reportedly are being used for timber harvesting. ELCs are not serving the interests of conservation: only 2 percent of the land is being used, and illegal logging continues.

CDRI's study on the Participatory Poverty Assessment of the Tonle Sap (2007) found that declines in fishing resources were reported in all five surveyed fishing villages (Prek Sramaoch and Treay [Siem Reap], Dei Roneat [Pursat], Koh Ta Pov and Pechakrei [Kompong Thom]). UNDP (2007) also reported that inland fish stocks accessible to small fishers have been declining.

Increased migration into fishing areas and damage to ecosystems have reduced fish availability in the past few years. Large-scale deforestation in the catchment areas of rivers alters the flow and quality of downstream water, affecting fish breeding and stocks. In addition, flooded forests are being cleared around the Tonle Sap Lake,

Illegal logging remains a concern in many parts of the country. In addition, expanding rural populations, forest land grabbing and land encroachments have emerged as major threats. More forest land has been converted to other uses, including cashew, cassava, soy bean, maize and rubber cultivation, while the use of wood for fuel continues unabated.

and this also negatively affects important fish breeding areas. Many small fishers take up illegal fishing and engage in ecologically unsound practices, such as the use of explosives and electric shock devices to catch fish. It appears that all fishers try to catch as many fish as they can without taking into account the sustainable fish catch in each area.

Chhith Sam Ath, executive director of the NGO Forum on Cambodia, observed that there

is increasing concern on the part of civil society about natural resource management. He commented on the threat of uncontrolled exploitation and inequitable sharing of benefits, including the problem of minimal revenues from forestry going into the state budget. He also observed the importance of balancing economic land concessions with environmental needs and poverty reduction. Currently there is a lack of environmental impact assessments and no way of addressing complaints about the negative impacts of ELCs on local livelihoods, including those of indigenous peoples. The recent fishery reform is welcome, but again implementation is a challenge because law enforcement is biased in favour of large-scale fishing.

Significant Challenges and Issues

Chan Tong Yves said that the continuing use of wood and timber for house construction means that demand for forest resources is still high. Laws are in place, but awareness and enforcement are weak. Challenges include land encroachment and deforestation, law enforcement and limited capacity of local forestry officials. There

is a need to promote forest products to reduce poverty. Ordinary Cambodians need secure access to forests. Forestry should be included in development planning and forestry management needs to be transparent.

The decline in fish stocks is related to the loss of flooded forests, over-fishing, increased population and the use of modern, and illegal, fishing equipment. Water resources have been reduced, especially the Mekong flooding, which affects the quality and number of fish. Stronger law enforcement is needed to safeguard fish stocks and prevent illegal fishing. The downstream impact of hydroelectric dams on water quality is also an important concern.

Lay Khim of UNDP raised an important point concerning how to measure the value of natural resources (natural resource capital), and in particular the value of their loss, in terms of GDP and national accounting systems. Natural resources are capital assets, but they are not reflected in the national accounts, nor is their loss. This can blind planners to their true economic value and mask the rate of degradation. In order not to continue to degrade these resources, income generated should be very carefully managed and channelled into generation of other forms of capital so as not to perpetuate reliance on these declining and contested resources. At present, government revenue from forestry exploitation is limited, and there is little transparency regarding revenues gained and how they are spent.

Lay Khim also observed that poor countries tend to rely on natural resources for socio-economic development, while more developed countries are able to rely more on intangible forms of capital. There are also difficulties with rehabilitating natural resources: once they are gone, they are truly gone. The presenter suggested that it is necessary to move away from reliance on natural resources toward intangible assets, including good governance and human capital and the skills base. In this sense, it is important now to channel income from natural resources into the development of other capitals.

Top Neth indicated that a top priority is to ensure effective management of community forests and fisheries. Much fishing involves illegal practices, such as the use of explosives and electric shock. This has sharply reduced fish stocks. Concerted action against illegal fishing is necessary. In addition, sustainable fish catches should be assessed and the amount of catch should be held to a sustainable level.

Expanding the area under community forestry (CF) and improving its management are promising approaches to participatory forest management, in order to ensure the livelihood of forest-dependent poor people while at the same time achieving the sustainable use of forest resources. As of 2007, the area under CF was around 0.18 million hectares (264 communities), representing only 1.6 percent of the total forest area. Moreover, most community forests are located in degraded areas. If CF

is to be self-sustaining, the government should allocate more valuable forests for CF projects.

Some ELCs are being used for timber harvesting. It is necessary to review existing agreements and possibly terminate those ELCs that are in violation. When reviewing ELCs grants, more attention should be paid to the benefits to local people and the cost of damage to natural resources.

Strengthening forest protection and promoting conservation are also important. In 1993, 23 protected areas were designated in Cambodia, covering an area of more than 3.13 million hectares. However, illegal logging and land grabbing have been reported within some protected areas. As a result, law enforcement and action against illegal logging and land grabbing are particularly crucial.

Mr Chhith Sam Ath also called for a review of ELCs. There is also a need for greater transparency regarding government revenues from forestry and other natural resources and how such revenues are used. Moreover, no matter how good policy and laws are, it is not simply a matter of putting them in place. What is most important is ensuring compliance and enforcement with appropriate penalties. A key component of natural resource management is that local authorities should see benefits from natural resource use. For the effective management of oil and gas, it is important to put accountability frameworks in place ahead of time. There also needs to be transparency in oil and gas revenues and expenditures.

Endnote

1. The figure may now be lower due to the availability of imported gas, but fuel wood dependency remains high due to the increasing price of gas.

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Making the Most of Cambodia's Human Resources

*Chan Sophal summarises the third session of the 2008 Outlook Conference and looks at the progress in matching skills to market demand.**

Cambodia's human resources were the topic of the third session of the conference. The session was chaired and moderated by Dr Ing Kantha Phavi, minister of Women's Affairs. Pich Sophoan, secretary of state, Ministry of Labour and Vocational Training (MoLVT), presented "Responding to Changing Labour Market Needs". He was followed by Dr Chea San Chanthan, the rector of Pannasastra University, who talked on "Quality Higher Education Reform and Cambodia's Future". Ms Sandra D'Amico, managing director of HR Inc Cambodia, presented the topic "What the Private Sector Needs". The session concluded with Chan Sophal, senior research manager, CDRI, talking on "Labour Market Policy Challenges". The following summarises issues that were discussed.

Key Messages

Cambodia faces significant challenges in developing human capital and a skilled workforce. These include low productivity and high youth unemployment, even among university graduates. Much of the population remains rural and poor. Most rural workers need only basic skills, while there is a limited demand for higher skills in urban areas. Several speakers stressed the need to move towards a skills-based economy rather than a resources-based economy.

There has been some progress in matching skills to demand and need, in particular through development of a national technical and vocational education and training (TVET) framework and the adoption of competency-based skills standards. Job matching (through creation of a national employment agency and job centres) is also part of this approach. However, public, private and employer-delivered vocational training is still limited and not tailored to employer needs. For example, most students are learning social sciences, not studying technology or engineering.

* Chan Sophal is senior research manager for Economy, Trade and Regional Cooperation.

In tertiary education, the number of providers has risen exponentially, but the quality of education remains a concern. Important steps include establishment of entry level requirements, creation of an accreditation agency and introduction of a standard first year of tertiary education to provide basic skills. Many students come out of tertiary education still lacking adequate or appropriate skills. There is a shortage of qualified people and of demand for courses in areas such as social work, as well as a lack of the generic skills employers are looking for, such as critical thinking, writing and leadership.

Employers experience significant difficulties in recruiting suitable staff. They express considerable frustration about the low skills, narrow qualifications, unrealistic expectations and general lack of work readiness among young university graduates. Certification of skills and experience is a critical gap, as is a better understanding among young people of the labour market and what skills they need to get and keep a job. Limited supply drives salaries up and creates high turnover as people shop around for better wages and conditions.

On broader labour market issues and the challenge of youth unemployment, two strategies were proposed: to increase the demand for basic skills by improving food security and meeting basic needs of the rural poor through freeing agricultural land (including land tied up in economic concessions) for productive purposes; reducing the costs associated with overseas migration, and introducing social protection mechanisms, to maximise returns from these jobs.

Presentations and Discussion

While overall population growth has slowed to 1.96 percent in recent years, the youth population (15–24 years) is growing at 3.2 percent. About 250,000 people are added to the labour force annually. Unemployment—those not working but available for work—among young people in Phnom Penh was 20.1 per cent in 2004, which is quite alarming. The rate was 27.8 percent for youths aged 15–19 years and 16.6 percent for those aged 20–24 years. Growing numbers of young people in need of job opportunities and appropriate skills will continue to be a challenge.

This high level of youth unemployment likely results from insufficient job opportunities to absorb the increased labour force; job opportunities are relatively limited, especially in agriculture. However, even at the current level of demand for labour, investors and businesses complain about a shortage of the skills they need. There are substantial deficiencies in education and training

services, while many youths cannot attend training because of overriding short-term needs to obtain food and other basic items.

Lack of job creation is partly due to an unfavourable investment climate in the past, although considerable efforts are currently being made to improve it. There is a serious shortage of employment in rural areas, leading many residents to migrate to urban areas or other countries, mainly Thailand. Cambodia has a contentious policy of aiming to keep 60 percent of the country forested. There is a question whether this is realistic when so many rural people need to make a living and much of the forest is already degraded. There is a trade-off between forest land and agricultural land. With the policy of keeping 60 percent forested, the status of much deforested land remains unclear and the land is not used productively, resulting in the waste of potential production and employment.

Meanwhile, there are serious constraints on gaining more from international labour migration. The cost of formally going to work in Thailand is too high, at USD600 to USD700 per person and three to six months of waiting, compared with USD100 and three days for informal migration. About 6000 people have chosen the formal way, while more than 180,000 are still engaged informally. However, informal migration involves risks and underpayment. Remittances were estimated at about USD200 million a year in 2005. This could rise to USD500 million if labour migration to Thailand were better managed (Vietnam and Thailand receive USD4 billion and USD1.5 billion respectively).

Foreign employment will likely continue to rise. Since 1998, 10,532 workers have been sent legally to Malaysia, 3984 to South Korea and 6114 to Thailand. Thailand forecasts a labour deficit of 6 million over a relatively short period of time so more labour demand from Thailand is expected. There are also more opportunities for Cambodians to work in Malaysia, South Korea, Japan, and Singapore. What is needed is lower costs of legal migration, especially to Thailand. There is a need for to reduce the passport fee to USD40 or less, and processing time to 10 working days or less. Actions of both Thai and Cambodian governments should reduce the total cost of sending workers to Thailand from USD700 to USD300. There is a need for special consideration for female migrants, who are vulnerable to abuse and trafficking.

Improving education and skills requires a balance between education supply and demand. The education budget was USD136 million in 2007. Food security and basic needs are met first before education is demanded. There should be a stronger policy to raise the income

of the poor by improving agricultural productivity and providing vocational training. This entails increasing the national budget for agriculture and vocational training. The Ministry of Agriculture, Forests and Fisheries (MAFF) was allocated only USD15 million in 2007 and the MoLVT only USD7 million. Income can be raised in one to two years through improved agricultural productivity or vocational training.

Creation of productive employment requires further improvement in the investment climate (the government and World Bank are working on improving trade facilitation), reduced energy and transportation costs and a re-think of land and forest policy. There is a need for clear boundaries of state land and forests. Technically, 80 percent of the country is state land. Is this not too large? Land titles and thus tenure are impossible on new land for average people when the Forestry Administration still claims 60 percent of Cambodia. Non-performing economic land concessions should be turned into social land concessions.

Universities provide many management, accounting and marketing courses. However, the following skills are badly needed but little provided by universities: road and bridge construction, building construction, irrigation, electrical repairs, plumbing and mechanics.

A young population presents both challenges and opportunities. To sustain high growth in the medium and long terms, there is a need to move from resources-based to skills-based growth. Improvement in the quality of labour is therefore needed. The means to achieve this should be a balance between long-term educational investment and short-term income/skills-raising investment. Educational investment will yield long-term gains only if short-term needs can be met. Securing food and raising income through improving agricultural and land productivity and increasing technical and vocational education and training are key. Thus, more resources should be provided to the MAFF and MoLVT.

HR Inc Cambodia highlighted that it is difficult for employers to recruit qualified human resources. Many young applicants have no skills. There is a shortage of Cambodian managers and management skills and of specialised skills. It is difficult to retain staff. High pay is provided because there is no other option, not because of skills. It is difficult to recruit because certification does not reflect skills. Everyone wants to be a manager. There is a serious lack of conceptual thinking skills. A big survey of employers' needs and young people's skills found that 76 percent of youths do not have the right skills; only 12 percent of employers were fully satisfied.

It takes an average of nine months for a graduate to find a job. It is difficult to find proactive workers. For basic jobs, what is missing is a good work attitude, technical skills, foreign languages and decision-making ability. It is very difficult to find specialised workers or those with analytical skills. At the professional level, it is very difficult to find people with analytical decision-making skills and relevant experience. Salary expectations are a big problem, leading to loss of staff to other jobs.

HR Inc calls for increased TVET and enhanced university education, ongoing training in employment and meaningful accreditation and certification linked to skills and ability. Young people need to understand the market and market expectations. Employers need to spend a lot of time identifying needed skills. Universities need to provide appropriate skills and link young people to jobs.

Pannasastra University provided evidence that most students do not want to read; they want teachers to create summaries of textbooks. Compromise on standards is not helpful. Reading is key to success and to better writing and knowledge.

There is limited publishing in Khmer, limited availability of resources including both novels and textbooks. More needs to be published. The availability of other media is discouraging reading.

Students are attending two or three universities at the same time, believing that one is not enough. This suggests that university education is not meeting demand. Graduates can have two degrees and know nothing. The curriculum is of poor quality; universities copy each other's curricula. There is a real need to comply with international standards and meet local needs. There is a need to match the student market and job market. Most students want to do management and accounting. There is no study of the employment market. What does Cambodia need? There is a bad need for key skills including critical thinking, not just passively but proactively. Reporting and writing skills are key. Students cannot write because they do not read. There are no courses in social work and other areas of need. Equally, areas such as gender and leadership studies are not well covered here.

There are now 60 public and private universities and institutes. A key concern is the quality of university education. The Accreditation Committee of Cambodia has established entry-level requirements, attempting to bring regulation and consistency to the sector.

Public universities take the better students, private universities take the rest. Attempts are being made to address the quality of entrants, e.g. through entrance

examinations. Textbooks are in English, so students have to study in another language.

The MoLVT described its mandate and responsibilities to provide leadership in matching the skills of the national workforce with the opportunities as well as creating an environment in which all partners understand, accept and perform their roles. MoLVT coordinates the national effort to match skills with needs, encourages partners to find workable solutions to skills development and creates new partners.

MoLVT has developed community-based skills training (Voucher Skills Training System) in which more than 60,000 villagers have improved their skills in order to earn more money in rural areas. "Earn and learn" is the basis of the urban TVET system and of MoLVT's response to a changing labour market in the formal economy.

Unemployment among secondary school and university graduates is another concern. If more of these graduates had marketable skills, they would be hired by companies. High school graduates are estimated at 53,500 in 2007/08. This will rise to 190,050 in 2014/15.

It is time to address the needs of the country for practical diploma and degree holders who meet business standards. Having a good system makes no difference if nobody knows it is there. MoLVT aims to begin a social marketing campaign to inform students, families and employers and change the public perception that a university degree is the only road to good employment and that TVET is just for bottom level jobs. It is the skilled workforce of technicians and engineers that drives the economy in Singapore and South Korea, and these workers earn attractive salaries and have good career prospects.

In response to changing labour market needs, MoLVT intends to provide the tools we need to adjust to change, to develop partnerships with enterprises and learners (cost sharing), to continue using skill development as a tool for poverty reduction, to improve productivity and management through skill upgrading, to raise capacity utilisation and lower average costs in factories, to establish enterprise-dictated competency standards (training leads to employment and to recognition), to create a national employment agency (to improve the functioning of the labour market), to expand the public provision of TVET (to train technicians and engineers), to encourage more TVET from employers, to support the growth of quality private sector training institutions through a national network of TVET trainers and to change the way young people and their parents view TVET.

Cambodia 2008 and Beyond: Public-Private Partnership

*Eng Netra summarises the main issues discussed at the fourth session of the Outlook Conference and highlights the frameworks for government-private sector partnership already in place and the need for independent mechanisms to promote coordination and cooperation between business and government.**

The discussion started with an overview of government policy and initiatives to enable private sector development presented by Cham Prasith, senior minister and minister of Commerce. Bretton G. Sciaroni, from the International Business Club of Cambodia, discussed the important and successful mechanisms for bringing government and the private sector together to exchange views and work out ways forward, and provided suggestions for future mechanisms. The third presentation, by Eng Netra from CDRI, outlined some major governance challenges, their implications for private sector development and measures to address some of them. Finally, Tim Duffy, the director of Oxiana company, gave an example of how the private sector works and contributes to and influences the community and development in Cambodia. Following are highlights of the four presentations.

Public-Private Partnership in Cambodia's Future

Cham Prasith, senior minister and minister of Commerce

The Cambodian government is very receptive to private sector development. There are a number of mechanisms in place to facilitate it. First, twice a year the prime minister meets with foreign and local investors in the Government-Private Sector Forum and addresses issues of interest to the private sector. This mechanism has been institutionalised since 2000. In addition to the Government-Private Sector Forums, there are eight government-private sector working groups that meet monthly to tackle urgent issues. Major issues from these working groups are submitted to the prime minister during the forums.

Second, the government has set up a Private Sector Development Steering Committee, and three subcommittees on: investment climate and private participation in infrastructure; trade development and trade-related investment; and small and medium enterprises.

Third, Cambodia has adopted a liberal trade regime designed to encourage FDI and support foreign companies

in setting up businesses. This regime allows local trading companies, either joint venture or 100 percent foreign companies, to import and export. There is no price control of goods by the government. There is no discrimination or differentiation between state-owned enterprises and private companies. The government does not allow foreign ownership of land, but it is possible to obtain a lease of up to 99 years.

Fourth, the government has adopted a sector-wide approach for trade in order to coordinate the efforts and resources of government, local actors and development partners on a single and shared strategy to develop Cambodia's trade. Three pillars of the approach are: reforms and related issues, product development and services, and capacity building. Each of the pillars has a design team with diversified membership from government, development partners and civil society. These pillars will look into how to assist our products and their markets; otherwise people just produce what they have always produced, and there is no market for it.

Finally, there are some ongoing challenges. These include regional integration of markets and reduction of production costs. For example, how can Cambodia compete, and how can we diversify when production costs, especially for infrastructure (e.g. electricity) are so high? Electricity is critical for education as well as for the private sector. The government has approved a number of electricity projects throughout the country to address the problem. There are initiatives to create special economic processing zones for diversification and job creation and to obtain electricity from neighbouring countries.

A Private Sector Enabling Environment

Bretton G. Sciaroni, senior partner of Sciaroni & Associates and chairperson of the International Business Club

There are many positive aspects about investing in Cambodia. Economic growth and political stability have been hallmarks in recent years. The investment environment includes the ability to form 100 percent foreign-owned companies, no restrictions on the transfer of funds and tax benefits for investing companies.

One major selling point for Cambodia is the partnership established for nearly a decade between business and government, the Government-Private Sector Forum. This forum is seen as means to influence laws and policies and to seek action from the government.

For potential investors, it is an important institution because it is a very visible indication of the government's positive attitude toward investment. The success of the forum, according to an International Finance Corporation (IFC) review published last year, indicates its effectiveness and importance to the reform process. Among the various criteria by which the forum's economic impact can be judged, the annual value of the private sector's pro bono

* Ms Eng Netra is CDRI research manager for Democratic Governance and Public Sector Reform.

input into the forum is US\$350,000, which compares favourably with donor funding, which is US\$160,000.

However, with this impressive record as a background, the forum is at a crossroads. What is needed is a road map as to how the transition should be done so that the business community can take over the coordinating role that is played by the IFC today. So I would like to suggest a path by which that objective can be achieved. That would be to strengthen those with the greatest stake in the forum—the Private Sector Working Groups (PSWGs) and the Cambodian Chamber of Commerce—to take over the coordinating role at some point in the future.

So what will be the future of the forum? Aside from its current mission, which is providing a mechanism for exchange of information with the government and problem solving, there should be new missions undertaken by the private sector working groups. These include:

- *Establishment of a focal point in each province:* There should be a single person or office to receive problems encountered in business and forward them to the Phnom Penh-based forum for resolution. Because the biannual forum is nationally televised, everyone in Cambodia should be familiar with it.
- *Regional forums:* The forum could be held in regional centres to extend its reach and familiarise businesses in the provinces with the dialogue.
- *Private sector initiatives:* The PSWGs should be more proactive in making proposals to improve the business climate. In the future, with adequate staffing and resources, the business community should be taking the initiative to introduce policy initiatives or proposals to improve the economy.
- *Public sector advisory role:* The PSWGs should be more active in providing input to major public policy. A recent example was the submission to the Financial Sector Blueprint 2006–2015.

Governance and Private Sector Development Challenges

Eng Netra, research manager, CDRI

Cambodia has enjoyed impressive economic growth over the past 15 years. Peace and the subsequent stability allowed rapid expansion of economic activity in all sectors. This success has been achieved despite a challenging situation with respect to human rights, rule of law and overall governance quality. Cambodian governance is easy to criticise but very complex and difficult to reform. Some of the major challenges follow.

CDRI poverty studies show that the poor are still far from the reach of policy and are often excluded from basic public services. The poor also experience unequal treatment and are adversely impacted by corruption of government officials. The studies further indicate that elite capture and patronage networks exert influence and

power as they wish, limiting access of the poor to natural resources and decision making. Other CDRI studies on accountability of sub-national government indicate that the Cambodian governance system has limited success in managing public funds rationally and with clear linkage to planning, and seems to fail in recruiting and rewarding qualified public officials according to merit.

While the World Bank's "Doing Business 2008" ranked Cambodia 145 out of 178 countries for ease of doing business, it noted that Cambodia had improved slightly in relation to starting a business, licensing and employing workers, but did not rank well on policy certainty, corruption, property rights, courts and crime. However, in plenary discussion at the 2008 Cambodia Outlook Conference, the role and influence of such comparative global indexes of factors contributing to a positive business environment, and related surveys on governance and corruption, were seen as being of questionable value by both Cambodian government and private sector representatives. They questioned whether such surveys actually give any real or useful picture of opportunities for private sector development and entrepreneurialism, and raised serious questions about their methodologies and legitimacy.

Overcoming constraints to private sector development in achieving poverty reduction goals remain challenging. However, some recent reform initiatives (decentralisation and public finance management) are positive and worth building on. Some specific measures are:

- *The government continues to focus on ensuring stability.* This would mean that any reforms and attempted changes would be incremental and maybe ad hoc.
- *Enhancing the decentralisation reform* by establishing indirectly elected district and provincial councils with adequate power and resources and a wide range of functions including natural resource management, assistance to agriculture, service delivery, land use planning and management and assistance to economic development.
- *Building on the success of public financial reform* by the Ministry of Economics and Finance, which aims to rationalise budgets, rendering public finances both more transparent and more effective. Important aspects will include revenue mobilisation at all levels of government into the state budget, and the strengthening of public financial management so that government can respond to citizens' demand for public services.
- *Enhancing the Government-Private Sector Forum, and its eight Private Sector Working Groups,* which have proven effective for direct and frank communication between the most senior levels of government and people who do business in Cambodia. These are serious and useful platforms that can create

stronger accountability and responsiveness from the government to private sector challenges.

- *Rising new business leaders and elites*, over time through their close relationship with the government, may demand certain types of reform.

Quality Minerals Exploration and Mining Development **Tim Duffy, general manager, Finance Asia, Oxiana Limited**

Oxiana overview: Oxiana is a successful growing company with operating mines, new projects under development and a portfolio of exploration projects. Oxiana owns and operates the Sepon gold and copper mines in Laos and the Golden Grove base and precious metals operation in Western Australia as well as being involved in exploration and project development in Cambodia, China, Indonesia and Thailand.

Vision: Our vision is to grow a major mining company. We aim to achieve this through growth in our base and precious metals business as well as through progressive diversification. Our focus is on Asia, Pacific and Australia as well as other domains. Our assets are high margin, long-life, with plenty of upside and our company has a strong pipeline of development projects.

The global economy and opportunities for mineral resource development: Oxiana's focus on

Asia means that it is well placed in the world's fastest growing region. However, Asia's growth has not flowed through to the mining sector. Asia consumes 51 percent of the world's copper but produces only 15 percent. The countries of the Pacific Rim are also blessed with high mineral resource potential. Having mining operations located in Asia means that we can deliver our product more quickly and with reduced transportation cost into these dynamic markets.

The benefits of mining to developing economies: Well-calibrated mining legislation can lead to stable long-term GDP growth, as demonstrated by the example of Ghana. Since Ghana introduced its mineral code in the 1980s, erratic growth patterns and historical periods of deep recession have all but been eliminated.

The Laos example: In Laos, Oxiana has been able to develop a world-class mining operation on time and within budget in what was one of the remotest areas of the country. The Sepon operation is now one of the largest mining projects in mainland south-east Asia. Our approach to project development aims to ensure that the benefits flow to all stakeholders.

Cambodia: Oxiana is exploring in eastern Cambodia, primarily for gold related to intrusive (granites) systems as well as copper and other metals. Our head office is in Phnom Penh, and we currently employ 60-plus

people (including contractors). During exploration, environmental impact is low, but international standards need to be followed and operations closely monitored.

Conclusion: Oxiana is ready for a period of extended worldwide economic expansion driven by Asia. We are looking for resource development opportunities with a view to delivering sustainable economic benefits for nations.

Summary of Key Contents of the Session

The main highlights of this session were:

Frameworks for government-private sector dialogue, partnership and joint planning are already in place, including the Government-Private Sector Forum, which is perceived very positively by business.

However, mechanisms to promote coordination and cooperation between business and government cannot continue to be led by donors, but need to be independent. One option proposed is to strengthen the Cambodian Chamber of Commerce—although currently the CCC lacks the capacity to take up such a leadership role.

Another option proposed was to strengthen the eight private sector working groups, with the longer term goal of merging them into a single independent bureau.

Decentralisation to the provincial level to promote government-business cooperation and establishment of regional forums are also important to stronger regional businesses environments.

Challenges to private sector development were addressed from two different perspectives. The first focussed on practical measures such as regional integration of markets and reduction of production costs. Secondly, there remain governance challenges that impact on the private sector and its capacity to do business.

Governance challenges for private sector development include difficulties with property rights and enforcement of contracts. However, there are also positive developments. These include decentralisation and devolution of planning, public sector financial reform and the private sector-government partnership arrangements. A key emerging trend is the growth and rise of new business leaders and elites who are likely to ask for certain types of reform and may contribute to good governance.

One emerging opportunity that is under-explored is mining. Asia is driving demand for minerals, and there are opportunities to establish mines and deliver mineral products to Asian countries. If projects are undertaken responsibly and with social and environmental accountability, there is significant potential for Cambodia to benefit in terms of infrastructure development, capacity building and poverty reduction. This is still in the exploratory phase.

Land, Property, Real Estate, Productive Land Use and Development

*Larry Strange summarises the main issues examined at the special dinner session of the Outlook Conference and points out some major policy questions that require attention in the next phase of Cambodia's development.**

Introduction—Land, Property and Real Estate in Cambodia

In the lead-up to the Cambodia Outlook Conference 2008, land issues had been hotly discussed by politicians and government officials, development partners, civil society organisations and the media. Ownership of land, its use, its economic value, its role in social and economic development and in rural and urban livelihoods, private sector business development and poverty reduction and, very importantly, its role as a source of conflict and resource competition had all featured prominently in public debate. In his opening keynote address to the conference, Prime Minister Hun Sen emphasised the importance of the government's rural and urban land titling programme, and the critical role of state land mapping and forest estate demarcation in managing state assets and reducing conflicts. He also stressed that the government's policy commitment to rural reforms, in particular increasing irrigation and land allocation, would lead to better agricultural performance and increased diversification in the medium term.

The Outlook Conference included a special session on land, "Making the Most of Cambodia's Natural Resources—Land, Property, Real Estate, Productive Land Use and Development", with speakers from government, banking, property development and CDRI. Cambodia's real estate sector has developed very rapidly in recent years, experiencing a property and real estate "boom" with both potential benefits and risks. Land prices have risen sharply for both residential and commercial land, particularly in urban centres. A senior official of the Ministry of Land Management, Urban Planning and Construction, Dr Beng Hong Socheath Khemro, explained to the conference that the government has implemented an ambitious land titling programme and developed a land policy paper with associated urban planning activities that recognise that rural development alone cannot alleviate poverty. Urban centres also have a crucial role to play in poverty alleviation, with small and medium towns acting as urban centres that can provide surrounding communities with access to markets for products and labour.

Rory Hunter of the property developers Brocon Group argued that the rapid pace of land and property development presents Cambodia with both planning and management challenges in ensuring the quality of property development and its contribution to wealth creation and broader community needs. The participants in property development in Cambodia have different interests in ensuring its quality. Company shareholders' interests lie in long-term profit maximisation and value creation, building trust with investors and purchasers, building stronger relationships with government and local communities and building a "brand", a new concept for most Cambodian developers. Purchasers' interests focus on access to properties that are built to last, whether as a home or investment, income generation with capital growth potential, confidence in developers' solvency and vigilance against false promises and misrepresentation. The community has interests in more generalised benefits to the local environment and community services, job creation, certainty and respect for the rule of law in property transactions and a commitment to the sustained quality of properties 30 years from now. The government's interests lie in clear guidelines for property developers to remove uncertainty, particularly for foreign companies coming into Cambodia, protection of purchasers against developer bankruptcies, the imposition of holding costs for not developing prime real estate, adding value to the economy and the community rather than encouraging unproductive property speculation and rational urban planning and zoning to promote investment in quality property development.

Key policy issues in addressing these multiple interests include the need for better regulations, building codes to help mitigate disputes and a way of increasing the holding costs associated with not developing land, for example through a tax on unused land. From a banking and credit perspective, as Charles Vann of Canadia Bank stressed, there is a need for greater protection for purchasers in a high-risk environment where developers can charge 60–80 per cent of the purchase price up front.

Productive Land Use and Cambodia's Development

CDRI focussed on "Productive Land Use and Cambodia's Development", from the perspective of a development policy research institute that is concerned with both wealth generation and poverty reduction. Recent research by CDRI and others shows clearly that productive land use and broader land management, along with security of land tenure, in both rural and urban areas, are fundamental to Cambodia's development and poverty reduction efforts. They affect access to livelihoods, access to credit, agricultural investment and diversification, land markets, housing and urban development and SME investment.

* Larry Strange is executive director, CDRI.

CDRI's recent poverty studies show that the poor are increasingly dependent on land and water-based natural resources to sustain their fragile livelihoods. While rich and upwardly mobile rural households have larger landholdings and generate higher yields and profits, many poorer households are increasingly unable to make a profit from rice farming, resulting in land sales and reliance on wage labour. A greater investment in and focus on increasing the productivity and the diversification of small farm holdings, as emphasised in current government policy, and a better understanding of the impact that rural-urban linkages have on land policy and its administration will bring dividends for both economic development and poverty reduction.

Natural factors such as droughts and floods, along with poor soils and lack of water management capacity, have in some areas eroded farming productivity, while traditional access to forests and fisheries is increasingly subject to the pressures of a growing population and conflict with elites and powerful actors from outside rural areas. As a result, in some areas, landlessness is increasing, either voluntarily or under pressure, with rising inequality in rural landholdings and a greater number of the poor selling their labour locally or migrating elsewhere within the country, or to Thailand or Malaysia, in search of employment.

Our research supports the view that Cambodia's very successful land titling is an important contribution to strengthening the institutional fabric of Cambodia's increasingly dynamic economic and social development. However, it also shows that land titles alone are not sufficient for promoting more equitable economic growth and reducing poverty. In the rural sector, land titles are only one of the key components of necessary development interventions, which must include access to affordable credit, knowledge and information through extension services and improved infrastructure such as roads and irrigation.

National policies governing land and natural resources are of course designed to promote the sustainable management of these assets, but uneven local implementation and enforcement are promoting the rapid degradation of the natural resource base, increasing landlessness and in some cases undermining community respect for the responsible public institutions. There is an urgent need to consider how land and natural resource-related conflicts, particularly where elite land grabbing and natural resource capture are involved, can be prevented and managed in ways that provide the poor with access to fair and impartial resolution, both within the village and where the conflict involves outside rich and powerful interests.

Our research clearly demonstrates the need for allocation of more resources, better targeting of agricultural and rural development inputs and a stronger and more impartial enforcement of laws and regulations governing access to and control of natural resource assets. There would be a greater impact on agricultural productivity,

poverty reduction and well-being if complementary local inputs included security of land tenure, irrigation and extension services and affordable credit.

Experience in other comparable agriculture-based developing countries shows clearly that where there is not equitable, diverse and productive land use, there will be poor agricultural development, limited agricultural diversification and limited benefits to the majority of small farmers. In some countries this has resulted in a "new feudalism" in which land ownership and use are concentrated in the hands of a small urban elite, and in which elite land and natural resource grabbing is common. In such scenarios, a certain level of development can be achieved but then it plateaus, with limited options for more sustainable development and poverty reduction. When this happens, it is very difficult to rectify. Cambodia can learn from this experience of others and avoid it.

The granting of economic land concessions is a controversial and complex issue in Cambodia, posing serious questions about the impartiality and transparency with which these concessions are granted and whether they are utilised for productive economic purposes. While economic concessions for the cultivation of cash crops and plantations can bring significant immediate economic benefits, they may have a limited impact on longer term agricultural productivity, rural livelihoods and poverty reduction. If poorly administered, they can also mean the acquisition of land for speculation and tax avoidance, the fencing off of large tracts for unproductive purposes and disincentives to badly needed rural and agricultural development by communities themselves. On the other hand, social land concessions have the potential to be an important mechanism for providing land to the landless, as well as providing policy guidance and structures for converting state forested land into productive agricultural uses. However, the implementation of social land concessions has been very slow and needs to be fast-tracked.

There are some major policy questions that require attention in the next phase of Cambodia's development:

- (i) How can Cambodia achieve a carefully balanced approach to land policy and management that promotes the productive use of land, creates wealth, and also ensures that rural land is available for the achievement of broader rural development and poverty reduction?
- (ii) How can agricultural frontiers be expanded by assigning state land to productive agricultural uses? Should the state try to retain land or allow it to be transferred to the private sector for agricultural development? If the latter, how can this be achieved through planned policy interventions rather than through the negative scenario of smallholder displacement and migration, commercial encroachments and corporate and elite land grabbing?
- (iii) How can economic and social land concessions be

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Economy Watch—External Environment

The section highlights the economic progress of some of the world's advanced economies and developing economies in the region and provides trends of some agricultural prices in international markets during the last quarter of 2007.

World Economic Growth

During the fourth quarter of 2007, US real GDP was 2.5 percent higher than a year earlier, backed by positive contributions from personal consumption expenditure, exports, non-residential structures, state and local government spending, equipment and software. Year-on-year growth was lower than in the previous quarter and the same quarter in 2006, which reflected a downturn in inventory investment, exports and federal government spending. Real GDP growth in the euro zone was at 2.2 percent for the year, down from 2.7 percent in the third quarter and 3.1 percent in fourth quarter 2006. In Japan, GDP was up by 2.0 percent in the fourth quarter compared with a year earlier.

Chinese real GDP grew by 11.2 percent from the same period a year earlier, slightly less than growth to the previous quarter. This high growth was particularly driven by strong and stable growth of industrial production and exports. The real GDP of South Korea increased by 5.7 percent in the year to fourth quarter, more than the 5.2 percent in the year to the previous quarter. This acceleration was particularly attributed to a growth in fixed investment of 1.6 percent and growth of exports of 7.0 percent. The real GDPs of Taiwan and Hong Kong grew by 6.4 and 6.7 percent respectively over the year. Hong Kong's real growth was higher than to the preceding quarter, while Taiwan's was lower than the earlier quarter.

Malaysian GDP growth for the 12 months remained strong at 7.3 percent, higher than the 6.7 percent to the previous quarter. High growth rates in manufacturing (5.6 percent) and services (9.1 percent) were key drivers. In Singapore, real growth of GDP was 6.0 percent for the year, less than the 8.9 percent to previous quarter and the 7.7 percent in the year to fourth quarter 2006. The drop was due to marked deceleration of growth in

manufacturing, construction and financial services. Real GDP in Thailand increased by 5.7 percent from a year earlier, more than in the 12 months to the preceding quarter (4.8 percent). This strong growth was due to a substantial rise in government consumption (16 percent) and significant growth in manufacturing.

World Inflation and Exchange Rates

During the last quarter of 2007, US consumer prices were up by 3.9 percent from a year earlier, more than the 2.4 percent of the preceding period. The increase was a result of the volatility in global commodity markets, particularly food and energy. The annual inflation rate in the euro zone reached 2.9 percent, higher than a year earlier, and also higher than in the preceding quarter (1.9 percent). In Japan, annual inflation was unchanged from the period a year earlier, but higher than in the preceding quarter (-0.1 percent). The rising consumer prices were probably driven by prices of oil and certain commodities.

In foreign exchange markets during the last quarter of 2007, the US dollar depreciated against major currencies, except for the Thai baht. The dollar traded at 113.07 JPY/USD, compared to 117.7 in the previous quarter, while against the euro, Chinese yuan and South Korean won, it also traded lower, at 0.69 EUR/USD, 7.43 CNY/USD and 921.23 KRW/USD.

Commodity Prices in World Markets

During the fourth quarter of 2007, prospects appeared high for agricultural producers as prices of commodities such as maize, palm oil, rice and soybeans were rising. Maize rose by 12 percent, palm oil by 13 percent and soybean by 22 percent, while the price of rice (Thai 100% B) increased by 6 percent. The prices of crude oil, gasoline and diesel were also on the rise during the same period. Crude oil was up to USD82.88/barrel, while gasoline increased by 7 percent to US 59.48 cents/litre and diesel increased 18 percent to US 66.54 cents/litre.

Prepared by Saing Chan Hang

Continued from page 16 **Land, Property, Real...**

better managed and utilised to contribute to productive investment in and use of land with benefits to both rich and poor? How can they be administered the better to ensure transparency and good governance in allocation, zoning, valuation and the generation of tax revenue?

(iv) How can the government and the private sector encourage property development and land use that is economically beneficial, meets community needs

for both the rich and poor and respects Cambodian heritage and environmental values?

Cambodians need to work together to develop policy responses and action on these questions. In addition to being an important economic resource, land, as a source of security, well-being and identity, also has many other positive yet intangible benefits that are important to any nation and to all communities.

Economy Watch—External Environment

Table 1. Real GDP Growth of Selected Trading Partners, 2002–07 (percentage increase over previous year)

	2002	2003	2004	2005	2006	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Selected ASEAN countries										
Cambodia	4.8	7	7.7	13.4	10.6	-	-	-	-	-
Indonesia	3.8	4.9	5.1	5.6	5.4	6.1	-	-	-	6.3
Malaysia	5.6	5.4	7	5.2	5.9	5.7	5.3	5.7	6.7	7.3
Singapore	2.6	1.4	8.5	5.7	7.7	7.0	6.0	8.2	8.9	6.0
Thailand	6.1	6.9	6	4.5	4.8	4.2	4.3	4.4	4.8	5.7
Vietnam	6.7	7	7.5	8.4	8.1	-	-	-	-	-
Selected other Asian countries										
China	8.1	9.9	9.5	9.6	10.5	10.7	11.1	11.5	11.4	11.2
Hong Kong	5.0	3.2	8.3	6.5	6.6	7.0	5.6	6.9	6.2	6.7
South Korea	6.1	3	4.7	4.7	5.0	5.0	4.0	4.5	5.2	5.7
Taiwan	4.2	3.1	5.7	4.1	4.6	4.0	4.1	5.07	6.9	6.4
Selected industrial countries										
Euro-12	0.7	0.5	1.8	1.5	2.7	3.3	3.0	2.5	2.7	2.2
Japan	0.4	2.6	3.4	2.5	2.1	2.3	2.2	2.3	1.9	2.0
United States	2.4	3.1	4.4	3.7	3.3	3.1	1.5	3.8	4.9	2.5

Sources: International Monetary Fund, Economist and countries' statistic offices

Table 2. Inflation Rate of Selected Trading Partners, 2002–07 (percentage increase over previous year—period average)

	2002	2003	2004	2005	2006	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Selected ASEAN countries										
Cambodia	3.2	1.2	4.0	5.8	4.7	3.4	3.0	4.6	6.0	9.6
Indonesia	13.2	8.3	8.3	10.5	13.4	6.1	6.4	6.0	6.5	6.7
Malaysia	1.8	1.1	1.6	3.1	3.7	3.1	2.6	1.4	1.8	2.2
Singapore	-0.4	0.5	1.7	0.5	1.0	0.6	0.5	1.0	2.7	4.1
Thailand	0.6	1.8	2.7	4.5	4.7	3.3	2.4	1.9	1.7	2.9
Vietnam	3.8	3.1	7.8	8.2	7.7	-	6.6	-	-	-
Selected other Asian countries										
China	-0.7	1.2	3.9	1.8	1.5	1.8	2.6	3.6	6.1	6.6
Hong Kong	-3.0	-2.6	-0.4	1.1	2.2	2.2	1.7	1.3	1.6	3.5
South Korea	2.7	3.5	3.5	2.8	2.4	2.4	2.0	2.4	2.3	3.3
Taiwan	-0.2	-0.3	1.6	2.3	0.6	-0.1	1.0	0.3	1.4	4.5
Selected industrial countries										
Euro-12	2.2	2.1	2.2	2.2	2.1	1.8	1.9	1.9	1.9	2.9
Japan	-0.9	-0.3	Nil	-0.3	0.5	0.3	-0.1	-0.1	-0.1	0.5
United States	1.6	2.3	2.7	3.4	3.2	1.9	2.4	2.7	2.4	3.9

Sources: International Monetary Fund, Economist and National Institute of Statistics

Table 3. Exchange Rates of Selected Trading Partners against US Dollar, 2002–07 (period averages)

	2002	2003	2004	2005	2006	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Selected ASEAN countries										
Cambodia (riel)	3912.1	3973	4016.3	4092.5	4103.2	4111.3	4046.7	4065.7	4078	4026
Indonesia (rupiah)	9311	8577	8938	9705	9134	9125	9107	8968.3	9257.8	9240.2
Malaysia (ringgit)	3.80	3.80	3.80	3.79	3.67	3.62	3.50	3.43	3.46	3.35
Singapore (S\$)	1.79	1.74	1.69	1.66	1.59	1.56	1.53	1.52	1.52	1.45
Thailand (baht)	42.9	41.5	40.2	40.2	37.9	36.5	33.9	32.5	31.4	33.87
Vietnam (dong)	15,280	15,510	-	15,859	15,994	16,077	16,356	-	-	-
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.19	7.97	7.86	7.76	7.68	7.55	7.43
Hong Kong (HK\$)	7.80	7.78	7.79	7.78	7.77	7.78	7.81	7.82	7.81	7.77
South Korea (won)	1251	1192	1145	1024	955	938	939	929	927	921.23
Taiwan (NT\$)	34.5	34.4	33.6	32.1	32.5	32.8	32.9	33.1	32.9	32.4
Selected industrial countries										
Euro-12 (euro)	1.06	0.89	0.80	0.80	0.80	0.78	0.76	0.74	0.73	0.69
Japan (yen)	125.4	115.9	108.2	110.2	116.4	117.8	119.4	120.8	117.7	113.07

Sources: International Monetary Fund, Economist and National Bank of Cambodia

Table 4. Selected Commodity Prices on World Market, 2002–07 (period averages)

	2002	2003	2004	2005	2006	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Maize (USNo.2)—USA (USD/tonne)	89.98	95.42	110.65	89.19	111.04	140.18	154.33	146.10	139.81	156.9
Palm oil—north-west Europe (USD/tonne)	353.91	402.03	427.47	381.32	433.85	494.92	552.06	691.44	745.86	841.39
Rice (Thai 100% B)—Bangkok (USD/tonne)	178.59	182.22	221.67	262.88	282.00	279.10	294.17	283.89	304.75	323.92
Soybeans (US No.1)—USA (USD/tonne)	182.58	218.86	262.03	224.25	213.88	230.17	255.33	259.95	299.99	366.59
Crude oil—Dubai (USD/barrel)	23.9	26.8	33.5	50.14	61.58	56.39	54.21	65.41	72.48	82.88
Gasoline—US Gulf Coast (cents/litre)	19.1	23	30.9	42.19	47.70	41.02	41.71	57.93	55.49	59.48
Diesel (low sulphur No.2)—US Gulf Coast (cents/litre)	17.85	21.63	29.48	44.35	51.35	46.11	45.61	53.90	56.62	66.54

Sources: Food and Agriculture Organisation and US Energy Information Administration

Economy Watch—Domestic Performance

Main Economic Activities

In the fourth quarter of 2007, investment in Cambodia fell by approximately 40 percent from the previous quarter, to USD741.5 m. Approvals for agriculture were USD102.4 m, more than eight times the figure in the preceding quarter. Industrial sector approvals nearly doubled to USD328.0 m, while those in services were USD311.1 m, a 68 percent decrease. Of the total approvals for industry, food processing accounted for 63 percent and garments for 21 percent. Garment industry fixed assets approvals rose by 70 percent from the previous quarter. The garment sub-sector topped the list of new jobs (31,492 persons) in projects approved in the fourth quarter. In services, tourism approvals were USD111.8 m, a decrease of 70 percent from the previous quarter. The approved tourism projects will need 4685 new workers. The agriculture sector approvals would employ up to 4281 persons.

In the last quarter of 2007, the value of approved construction was USD172.2 m, a 4.2 percent decline from the preceding quarter. Villa and house approvals fell by 6.8 percent to USD20.2 m, and flat construction approvals decreased by 51 percent to USD57.6 m. For the whole of 2007, total construction approvals, however, rose to USD635.8 m, almost double the value in 2006. Villa and house construction more than doubled to USD79.1 m. Flat construction was USD297.2 m, an increase of 45 percent from the previous year.

The trade deficit was USD189.3 m in fourth quarter 2007, larger than in the previous quarter. Total exports dropped by 11 percent to USD793.4 m. Garment exports fell by 14 percent to USD727.1 m. Fish exports declined by 21 percent to USD0.9 m, while rubber exports increased by 25 percent to USD14.6. Compared to the same quarter in 2006, total exports nevertheless rose by 7.7 percent.

Imports increased 6.3 percent from the preceding quarter, reaching USD982.7 m. Cigarette imports dropped by 1.9 percent to USD27.9 m, while imports of construction materials fell by 6.9 percent to USD32.5 m. There were declines in cement imports of 18 percent to USD12.1 m and in steel of 22 percent to USD9.3 m. Imports of petroleum products decreased by 18 percent to USD58.9 m. Imports of petroleum products, however, rose by 0.3 percent, compared with the same quarter in 2006.

In fourth quarter 2007, tourism arrivals increased by 42 percent from the preceding quarter to 607,964. Arrivals by air were 61 percent of the total arrivals, of which Phnom Penh International Airport received 153,743. Visitors by land were 37 percent of total arrivals and the rest arrived by water. Holiday visitors increased by 32 percent to 480,963, an increase of 13 percent from the same quarter of the previous year.

Public Finance

National budget operations in the fourth quarter of 2007 showed a deficit of KHR204.0 bn; compared to KHR78.7 bn in the previous quarter. Total revenue increased by 11 percent to KHR1141.8 bn, mainly due to tax revenue, which increased 14 percent to KHR963.7 bn. Domestic tax revenues were 69 percent of the total and taxes on international trade of 31 percent. Non-tax revenue was down by 7.2 percent to KHR173.5 bn. Property income, which includes rental from public land and revenue from public enterprises, declined by 8.1 percent to KHR13.6 bn. Sale of goods and services, which comprises market permits, administrative fees, income from investments and airport tax, rose by 22 percent to KHR122.6 bn. Capital revenue from financial investments was KHR4.5 bn, compared with nil in the previous quarter.

Total expenditure rose by approximately 20 percent from the previous quarter to KHR1345.8 bn. Expenditure on wages increased by 43 percent to KHR362.6 bn, and government subsidies and social assistance went up by 69 percent to KHR194.2 bn. Financial charges were KHR27.0 bn, of which interest on external debt was KHR16.0 bn. Capital spending rose by 30 percent to KHR463.4 bn. Domestic financing was KHR160.2 bn and external financing KHR303.2 bn.

Inflation and Foreign Exchange Rates

The overall consumer price index increased 15.9 percent in the last quarter of 2007 compared to the same period a year earlier. Food and non-alcoholic beverages, which take 58.04 percent of total livelihood expenditure, increased 21.7 percent. Housing, water, electricity, gas and other fuels rose by 11.5 percent; health care increased 10.8 percent; transportation rose 5.3 percent, while communication costs declined by 16.8 percent.

At a time of increasing prices of almost all consumer items in, the riel appreciated against the US dollar by 1.3 percent from the previous quarter, trading at 4030.1. The appreciation from the same quarter in 2006 was 2.4 percent. Against the Thai baht, riel's value rose by 0.5 percent, to 129.3 riels/baht. Against the Vietnamese dong, it took 25.2 riels to buy 100 dong.

Monetary Developments

As of December 2007, liquidity was KHR11310.7 bn, a rise of nearly 63 percent from the figure in December in 2006. Money climbed to KHR2052.0 bn, of which riels in circulation were 97 percent and demand deposits 3 percent. Quasi-money, which includes time and saving deposits and foreign currency deposits, rose by 75 percent

Economy Watch—Domestic Performance

to KHR9258.7 bn. Meanwhile, foreign currency deposits rose by 76 percent to KHR9137.7 bn.

Net domestic assets and net foreign assets both contributed to the increase of total liquidity. In December 2007, net domestic assets showed a positive sign of KHR576.0 bn. Domestic credit amounted to KHR4570.0 bn, a rise of 71 percent from the same period in 2006. Government credit

increased by 3.6 percent to KHR297.0 bn and private sector credit by 76 percent to KHR6386.0 bn. On the other side, deposits of government and other bank liabilities rose by 70 percent to KHR2112.9 bn and 35 percent to KHR3994.1 bn, respectively. Net foreign assets rose by 49 percent to KHR10734.7 bn in December 2007.

Prepared by: Phann Dalis and Pon Dorina

New Publications Released

1. *Cambodia Land Titling Rural Baseline Survey Report* (English and Khmer)

This report was prepared under the overall coordination and guidance of Dr. Brett Ballard (Senior Research Advisor) in collaboration with Mr. So Sovannarith (Research Fellow). The report was written by Brett Ballard with contributions from So Sovannarith on several key passages. So Sovannarith prepared and coordinated the data analysis that is reflected in the many tables throughout the text. Ms. Sin Niny prepared and Mr. You Sethirith reviewed the Khmer language translation of the report.

2. *Cambodia Land Titling Urban Baseline Survey Report* (English and Khmer)

This report was prepared under the overall coordination and guidance of Dr. Brett Ballard (Senior Research Advisor) in collaboration with Mr. Phim Runsinarith (Research Associate). The report was written by Brett Ballard with a section by Phim Runsinarith concerning methodology. Phim Runsinarith prepared the data analysis that is reflected in the many tables throughout the text.

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Economy Watch—Indicators

Table 1. Private Investment Projects Approved, 2002–07

	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Fixed Assets (USD m)											
Agriculture	40.3	3.7	12.3	26.8	126.5	216.9	0.0	154.6	19.1	2.1	12.0	102.4
Industry	67.7	137.2	187.9	914.6	40.1	76.9	171.7	76.6	142.7	51.2	187.2	328.0
<i>. Garments</i>	27.2	68.1	132.6	174.4	30.5	9.6	23.2	26.1	36.6	24.3	40.7	69.1
Services	145.3	168.4	91.8	155.5	60.7	2,043.2	94.5	740.7	335.7	138.0	957.7	311.1
<i>. Hotels and tourism</i>	47.1	124.1	55.9	102.6	0.0	26.2	3.5	315.3	140.3	55.0	653.8	199.2
Total	253.3	309.3	292.0	1096.9	227.3	2,337.0	266.2	971.9	497.5	191.3	1156.9	741.5
Total	-	-	-	-	90.7	928.1	-88.6	265.1	-48.8	-61.6	504.7	-35.9
Total	13.1	22.1	-5.6	275.6	-52.2	2331.2	-34.1	715.4	118.9	91.8	334.6	-23.7

Including expansion project approvals. Source: Cambodian Investment Board

Table 2. Value of Construction Project Approvals in Phnom Penh, 2002–07

	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Villas and houses	23.4	20.0	30.3	45.5	10.1	5.7	7.6	9.7	14.4	22.8	21.7	20.2
Flats	179.9	91.6	167.6	204.2	39.9	51.8	67.1	54.5	88.9	33.2	117.5	57.6
Other	16.6	87.3	65.6	109.1	17.4	24.7	20.8	13.9	35.9	88.8	40.6	94.3
Total	219.9	198.9	263.5	358.8	67.4	82.2	95.5	78.2	139.2	144.7	179.7	172.2
Total	-	-	-	-	-6.2	22.2	16.1	-18.1	78.0	3.9	24.2	-4.2
Total	12.0	-9.5	32.5	36.2	-36.5	-21.2	24.8	8.9	106.5	76.0	88.2	120.2

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3. Exports and Imports, 2002–07

	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Total exports	1453.2	1708.1	2108.1	2352.8	603.2	652.5	807.5	736.7	707.8	705.0	890.8	793.4
Of which: Garments	1355.8	1628.4	2027	2253.3	568.5	632.4	782.0	716.0	677.5	688.2	846.1	727.1
<i>. To US</i>	943.4	1099.8	1270.9	1546.1	402.5	438.6	522.8	483.2	499.1	451.2	-	-
<i>. To EU</i>	356.3	414.7	590.8	503.1	110.6	142.2	188.1	160.1	106.3	163.1	-	-
<i>. To rest of world</i>	56.1	113.8	165.3	204.1	55.3	51.6	71.0	72.8	72.0	73.8	-	-
Agriculture	97.3	79.7	81.2	99.5	34.7	20.2	25.5	20.7	30.3	16.8	-	-
<i>. Rubber</i>	29.7	35.1	38.3	36.7	7.8	9.8	13.6	10.2	8.4	6.9	11.7	14.6
<i>. Wood</i>	16.0	10.2	11.1	10.3	2.1	2.3	2.5	1.7	2.1	2.0	0.0	0.0
<i>. Fish</i>	4.3	2.8	10.6	10.1	1.9	1.0	1.6	1.4	0.7	0.4	1.2	0.9
<i>. Other</i>	47.4	31.6	21.3	42.6	22.9	7.0	7.7	7.5	19.0	7.5	-	-
Total imports	1707.8	1824.9	2149.0	2513	690.7	774.9	784.3	807.1	790.9	911.6	924.5	982.7
Of which: Petroleum products	157.5	191.6	187.0	184.8	57.6	59.8	62.4	58.7	66.5	68.5	71.0	58.9
Gasoline	25.9	33.2	30.2	40.2	10.9	12.4	13.1	13.2	15.7	20.2	-	-
Diesel	100.8	109.6	109.4	93.1	32.5	32.2	30.1	27.2	31.9	36.6	-	-
Construction materials	12.9	80.8	95.3	134.7	37.0	39.1	42.5	35.8	44.1	31.6*	34.9	32.5
Other	1568.2	1601.3	1914.0	2245	610.3	691.2	698.5	731.0	699.2	807.5	818.6	891.3
Trade balance	-254.6	-116.8	-40.9	-160.1	-87.5	-122.4	23.2	-70.4	-83.1	-208.1	-30.7	-189.3
Total garment exports	-	-	-	-	-5.4	39.8	-118.9	-403.4	18.0	150.4	-85.2	-14.1
Total exports	-	-	-	-	-6.4	8.2	23.7	-8.8	-3.9	0.4	26.4	-10.9
Total imports	-	-	-	-	-0.03	12.2	1.2	2.9	-2.0	15.3	1.4	6.3
Total garment exports	9.2	-54.1	-64.9	291.4	51.1	-19.5	-76.2	52.0	-5.0	70.0	-232.3	1.6
Total exports	14.6	17.5	23.4	11.6	30.3	26.7	10.6	14.3	17.3	8.0	10.3	7.7
Total imports	13.7	6.9	17.8	16.9	32.6	16.2	24.0	16.8	14.5	17.6	17.9	21.7

Import data include tax-exempt imports. Sources: Customs and Excise Department, cited by NBC

Table 4. Foreign Visitor Arrivals in Cambodia, 2002–07

	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Thousands of passengers											
By air	523.0	456.0	626.1	856.5	275.4	204.4	224.2	325.0	373.6	275.6	278.5	368.8
By land and water	263.5	245.0	428.9	565.1	181.9	153.6	146.4	191.0	177.2	148.9	153.3	239.2
Total	786.5	701.1	1055.0	1421.6	457.3	358.0	370.6	516.0	550.8	424.5	431.8	608.0
Total	-	-	-	-	9.9	-21.7	4.1	39.2	6.7	-22.9	1.7	40.8
Total	30.0	-10.9	50.5	34.7	20.2	21.2	14.7	24.1	20.4	19.2	16.5	17.8

Source: Ministry of Tourism

Economy Watch—Indicators

Table 5. National Budget Operations on Cash Basis, 2002–07 (billion riels)

	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	1744	1764	2126	2625	595.9	731.5	732.2	1199.6	824.9	1016.8	1031.4	1141.8
Current revenue	1728	1733	2107	2474	593.2	726.9	716.8	844.9	824.9	1012.4	1031.4	1110.3
Tax revenue	1227	1220	1577	1911	484.7	558.6	565.8	661.8	699.9	887.7	844.6	963.7
Customs duties	424	395	513	573	135.5	151.7	157.2	200.0	-	-	-	-
Domestic tax	-	-	-	-	-	-	-	-	487.9	642.1	584.8	660.7
Taxes on international trade	-	-	-	-	-	-	-	-	212.1	245.6	259.8	303.0
Non-tax revenue	501	513	530	563	108.5	168.3	151.0	183.1	125.0	124.7	186.9	173.5
Forest exploitation	15	7	2	3	0.5	0.7	0.3	0.9	-	-	-	-
Posts & telecommunications	123	120	94	123	11.4	30.0	11.7	30.0	-	-	-	-
Property income	-	-	-	-	-	-	-	-	27.9	15.5	14.8	13.6
Sale of goods and services	-	-	-	-	-	-	-	-	88.8	93.0	100.1	122.6
Capital revenue	16	31	19	152	2.7	4.6	15.4	354.7	0.0	4.5	0.0	4.5
Total expenditure	2948	2757	2932	3295	932.1	1020.1	1030.6	1191.9	923.9	1098.7	1126.1	1345.8
Capital expenditure	1388	1171	1163	1328	390.5	394.7	423.8	429.1	367.1	408.1	355.1	463.3
Current expenditure	1560	1586	1769	1967	541.7	625.4	606.9	762.8	556.8	681.6	771.0	882.5
Education and health	454	473	518	351	80.3	202.3	150.1	281.3	-	-	-	-
Defence and security	438	411	423	451	78.1	116.7	155.3	170.1	-	-	-	-
Other ministries	668	702	828	1165	383.2	306.4	301.5	311.4	-	-	-	-
Wages	587	615	640	711	140.5	210.3	230.6	240.6	199.7	242.7	253.4	362.6
Subsidies and social assistance	-	-	-	-	-	-	-	-	61.9	184.0	115.0	194.2
Overall balance	-1204	-993	-806	-706	-336.3	-288.5	-298.5	7.7	-99.0	-81.9	-78.7	-204.0
Foreign financing	1249	886	864	1127	308.0	341.3	335.2	376.2	344.0	313.9	290.3	383.2
Domestic financing	-45	106	148	-396	28.3	-52.8	-36.7	-383.9	-245.0	-213.0	-148.0	-140.6

Provisional for 2007. The third quarter data are not yet available. Source: MEF web site

Table 6. Consumer Price Index, Exchange Rates and Gold Prices (period averages), 2002–07

(October-December 2006:100)	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Consumer price index (percentage change over previous year)											
Provinces	-	-	-	-	-	-	-	-	5.9	9.0	14.4	16.6
Phnom Penh	-	-	-	-	-	-	-	-	4.7	5.8	7.7	12.4
Cambodia - All Items	-	-	-	-	-	-	-	-	5.7	8.5	11.9	15.9
- Food & non-alcoholic bev.	-	-	-	-	-	-	-	-	8.3	12.0	16.9	21.7
- Transportation	-	-	-	-	-	-	-	-	-3.4	1.1	2.0	5.3
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riels per US dollar	3912.1	3973.3	4016.3	4119.7	4,094.8	4106.6	4145.3	4129.4	4063.0	4075.4	4082.3	4030.1
Riels per Thai baht	91.1	95.8	99.9	102.6	103.5	108.0	110.3	113.0	113.7	118.0	130.0	129.3
Riels per 100 Vietnamese dong	25.6	25.6	25.5	25.8	25.4	25.0	24.9	25.0	24.6	24.7	25.3	25.2
Gold (US dollars per chi)	36.8	41.4	46.3	54.0	64.2	72.2	73.0	72.8	77.7	79.8	80.8	94.4
Diesel (riels/litre)	1521	1508	2088	2633	2867	3110	3333	3250	3067	3100	3203	3679
Gasoline (riels/litre)	2084	2150	2833	3442	3767	4000	4200	4050	3750	3900	4002	4368

Sources: NIS, NBC & CDRI

Table 7. Monetary Survey, 2002–07 (end of period)

	2002	2003	2004	2005	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Billion riels											
Net foreign assets	3737	4027	4797	5475	6410	6682	6958	7224	8056	9048	9768	10735
Net domestic assets	-849	-698	-467	-450	-699	-637	-497	-282	-263	-172	140	576
Net claims on government	-119	-128	-209	-421	-755	-831	-892	-953	-1176	-1403	-1547	-1816
Credit to private sector	1059	1337	1817	2394	2,778	2997	3288	3628	4066	4537	5376	6386
Total liquidity	2888	3329	4330	5025	5711	6045	6461	6942	7793	8876	9908	11311
Money	813	937	1153	1323	1449	1512	1563	1658	1794	1748	1750	2052
Quasi-money	2075	2392	3177	3702	4262	4533	4898	5285	5999	7128	8158	9259
	Percentage change from previous year											
Total liquidity	31.0	15.2	30.0	16.1	27.0	30.6	29.4	38.2	36.5	46.8	53.4	62.9
Money	33.5	15.3	23.0	14.7	20.9	24.4	22.2	25.3	23.9	15.7	12.0	23.8
Quasi-money	30.0	15.2	32.8	16.6	33.6	32.8	31.9	42.7	40.7	57.3	66.5	75.2

Source: National Bank of Cambodia

Table 8. Real Average Daily Earnings of Vulnerable Workers (at constant Nov 2000 prices)

	Daily earnings (riels)									Percentage change from previous year		
	2000	2003	2004	2005	2006		2007		2007			
	Nov				Nov	Feb	May	Aug	Nov	May	Aug	Nov
Cyclo drivers	7594	8572	7614	7469	7393	6534	9245	7126	9393	8	18	27
Porters	6233	6676	6895	6545	7045	6010	9798	7704	8852	33	47	26
Small vegetable sellers	5256	6532	6947	6000	6125	6125	8951	9116	8303	38	75	36
Scavengers	2718	3944	4446	4416	3903	4530	5533	6038	5560	23	42	42
Waitresses*	2111	4932	4448	4426	4498	4078	5150	4193	4508	21	-2	0
Rice-field workers	4198	4177	4139	4365	4653	4126	4531	4561	4790	0	10	3
Garment workers	6701	9577	9277	8816	8957	11146	8347	9033	8207	6	-2	-8
Motorcycle-taxi drivers	8610	10092	9204	8201	8386	9144	12,886	8979	13,060	47	33	37
Unskilled construction workers	5399	6558	6382	5918	6028	5263	6075	5901	7550	-5	-2	43
Skilled construction workers	13,127	13,111	12,679	10,316	9466	10,215	11,892	11,723	10,956	21	24	7

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

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environmental impacts of free trade within the GMS.

Until recently, the Human Security, Peace Building and Conflict Transformation unit did not engage in research. However, it is now being changed to be active in research on social development issues, including health, education and human security. The unit has attracted two UNICEF-funded projects, one on Child Poverty and Disparities in Cambodia and the other a Youth Situation Analysis in Cambodia. The unit has already produced and presented papers on these topics both within and outside CDRI.

The Natural Resources and the Environment unit published and distributed a literature review on framing research into water resources management and governance in Cambodia. A social assessment of water management in Cambodia is being finalised and is expected to be produced in July 2008. The unit conducted a consultative committee meeting for its water project, which was attended by representatives from partners, government agencies and others involved. The unit is finalising a report on a cost-benefit analysis of rubber plantation development in Cambodia. Also, the unit completed a second field survey of a joint project on tropical forests for poverty alleviation—from household data to global analysis—in five countries. In collaboration with the International Water Management Institute, the unit prepared a proposal on Value Added Farming as a Pathway to Improved Irrigation Management in the Greater Mekong Sub-Region. The proposal was submitted to Germany's Ministry for Economic Cooperation and Development in April.

The Poverty, Agriculture and Rural Development unit has been formally contracted by the ADB to act as an implementing agency for its project Building Community Capacity for Poverty Reduction Initiatives in the Tonle Sap Basin. The project was formally launched in May under the auspices of the Council for Agriculture and Rural Development and is being funded by the Japan Fund for Poverty Reduction. The unit is in negotiation with the World Bank to continue its financial support for the third round of Moving Out of Poverty, a poverty dynamics study. Activities for this study, including field surveys, have been conducted and are expected to intensify in September.

Since 2007, CDRI has been holding a bi-monthly Research Workshop Series on development issues. The purpose is to share research findings and strengthen research quality via discussion and sharing of findings, improving methodology and conceptualising and analysing research themes. The presenters in these workshops are from both CDRI and different institutions and NGOs in Phnom Penh. Since January 2008, outside presenters have included Dr Stephane Guimert, the senior economist of the World Bank office in Phnom Penh; Dr John MacAndrew, researcher at ADI/CCC Cambodia; and Mr Men Nimmith, the director of the Arbitration Council Foundation in Cambodia. The presenters from CDRI included Ms Eng Netra, Ms Thon Vimealea, Mr Chan Sophal, Mr Lim Sovannara, Mr Hing Vutha, Dr Han Phoumin, Dr Brett Ballard and Mr So Sovannarith. The presentations covered macroeconomic development, poverty, governance, trade and natural resources and agriculture.

New Publications Released

1. Working Paper 37: *Framing Research on Water Resources Management and Governance in Cambodia: A Literature Review*, by Chem Phalla, Philip Hirsch, Kim Sean Somatra, So Sovannarith, Suon Vanny, Khiev Daravy, Melissa Neave, Kate Griffiths, Nathan Wales, Jo Gillespie, Ham Kimkong, Lic Vuthy, Nong Keamony, Chea Phallika and Chan Sopheak, May 2008, 62 pages
2. *Annual Development Review 2007–08 in English*, in February 2008, 186 pages
3. *Khmer summary of Annual Development Review 2007-08*, in February 2008, 60 pages



CDRI UPDATE

Management

CDRI's 2007–08 annual report is in the final stages of preparation and will be published and posted on the web site in July. As part of the mid-term review of its 2006–10 Strategic Plan, and in response to local demand for CDRI research output, CDRI is moving to provide access free of charge to all its major research reports and findings, in both English and Khmer, as easily accessible downloads from the web site. CDRI will also continue to publish quality hard copy versions.

Sida and DFID have confirmed their extension and expansion of joint support for CDRI from 2008 to 2010, for both the Democratic Governance and Public Sector Reform Programme, and for core operating, capacity building and institutional strengthening. Sida will conduct a mid-term review of its support later in 2008. Sida and DFID are keen to support CDRI in promoting this model of resource partnership to other major development partners.

In early June, CDRI and the Community Based Natural Resource Management Learning Institute co-hosted the inception meeting for the establishment of the Development Research Forum in Cambodia, a partnership of IDRC-supported organisations that will promote development policy research collaboration, dissemination, information sharing and networking, with resources also provided for enhanced ICT capacity of partner organisations. Through this initiative, IDRC has made a significant contribution to the promotion of evidence-based policy research and its sharing and dissemination.

Since the 2008 Cambodia Outlook Conference, CDRI and ANZ Royal have entered into an agreement to co-host an annual conference in 2009, 2010 and 2011, with ANZ Royal as the exclusive sponsorship-organising partner.

CDRI is currently conducting a mid-term review of its 2006-10 Strategic Plan. The process includes an

assessment of achievement against the current plan, and its updating and refreshment to reflect changes since its adoption. A human resource management review is also in train, comprising a staff attitude/satisfaction survey, a review of staff classification structures, salaries and benefits and a review of the role, structure and professional developments needs of CDRI middle management.

Research

The Democratic Governance and Public Sector Reform unit has just finished the first round of fieldwork for the Leadership in Local Politics Study and will start analysis and writing of the first working paper, to be available for review by September. The Governance of Resources Study is progressing well with fieldwork and literature review. In early June, the unit organised a week of training on the commons with about 10 participants from both CDRI and outside partners. The training was led by Professor Phil Hirsch and his colleagues at the Mekong Resource Centre of the University of Sydney.

The Economy, Trade and Regional Cooperation unit has attracted several small research projects under ARTNeT: services and growth, a competitiveness study and the political economy of GMS integration. The unit has completed fieldwork on a multi-agency-funded study of the effects of high food prices on livelihoods, particularly of the poor, in Cambodia. It has also started work on new research on Cambodian services exports, funded by the International Trade Centre, Geneva. Several workshops were organised by the unit, including two in April: one in Hanoi to discuss the DAN's preliminary findings on labour migration in the GMS; the other in Kunming to discuss the DAN's preliminary findings on agricultural trade in the GMS. A dissemination workshop was held in June on the

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