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Liquidity and Credit Squeeze: Impact of the Global Financial and Economic Crisis on the Domestic Banking System[1]

Introduction

The impact of the global financial and economic crisis on Cambodia has been all too clear. From one of the fastest growing economies in the world, Cambodia is expected to experience one of the steepest growth contractions in developing East Asia in 2009 (CDRI 2009c; World Bank 2009a, 2009b; ADB 2009; IMF 2009b, 2009c). The crisis has been felt chiefly through its blitz against trade, capital flows and, ultimately, the country's growth engines. While sheltered from the first-round effects of the shock due to its lack of exposure to toxic sub-prime products, the domestic banking system eventually had to deal with mounting strain as the real economy soured and global liquidity and credit dried up. Like the global economy, the Cambodian economy appears to have bottomed, but serious downside risks remain (see Jalilian et al. 2009; CDRI 2009a, 2009b, 2009c). Here we consider the impact of the crisis on Cambodia's banking sector.

The National Bank of Cambodia, main regulator for the banking sector

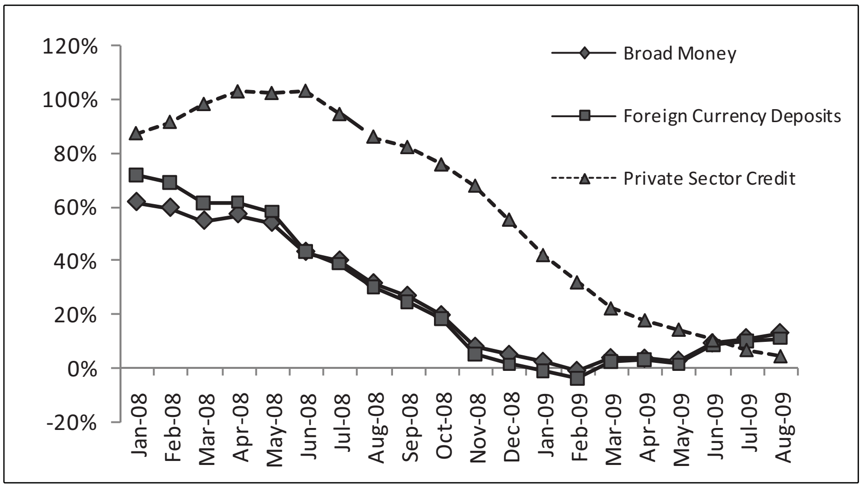
Impact on Domestic Banking System

The squeeze in domestic liquidity and credit underpinned the clear tightening in broad money conditions from the middle of 2008, although improvements have been tracked in the past months in line with the recent pick-up in economic activity.

1 This article is prepared by Hossein Jalilian and Glenda Reyes contains excerpts from the draft report prepared for the Overseas Development Institute's Global Financial Series Discussion Papers. The report is soon to be finalised. Consultations with banking sector representatives were held to support and substantiate assessments of the impact of the crisis on the banking system.
Acknowledgement and gratitude also go to Saing Chan Hang for his involvement in the stakeholder consultations.

In This Issue

Figure 1: Broad Money Growth (year-on-year change)



Source: NBC

Year-on-year broad money growth dropped from nearly 60 percent in February 2008 to -1 percent a year later, then made a slight rebound to about 13 percent in August 2009 (Figure 1).

Earlier, financial soundness indicators showed that domestic banks on the whole maintained a robust position alongside their expansion, with adequate capital cushions and liquidity on top of few problematic loans (Jalilian *et al.* 2009; IMF 2009a). The number of banks rapidly grew to the current composition of 27 commercial banks, one state-owned bank and five specialised banks. Though concentrated in few banking institutions, total bank assets as a share of GDP grew from 26 percent in December 2006 to 47 percent in December 2008, while loans as a proportion of GDP grew by about 11 percentage points over the same period (National Bank of Cambodia).

Since then, however, signs of greater strain have become evident as banks confronted heightened liquidity and credit risks. About 70 percent back in February 2008, year-on-year growth of foreign currency deposits, which are about 97 percent of total bank deposits, dropped to -4 percent a year later (Figure 1). Some major foreign currency withdrawals have reportedly been made as well as infusions of emergency funds from overseas parent companies, the banking system being significantly reliant on foreign capital.[2]

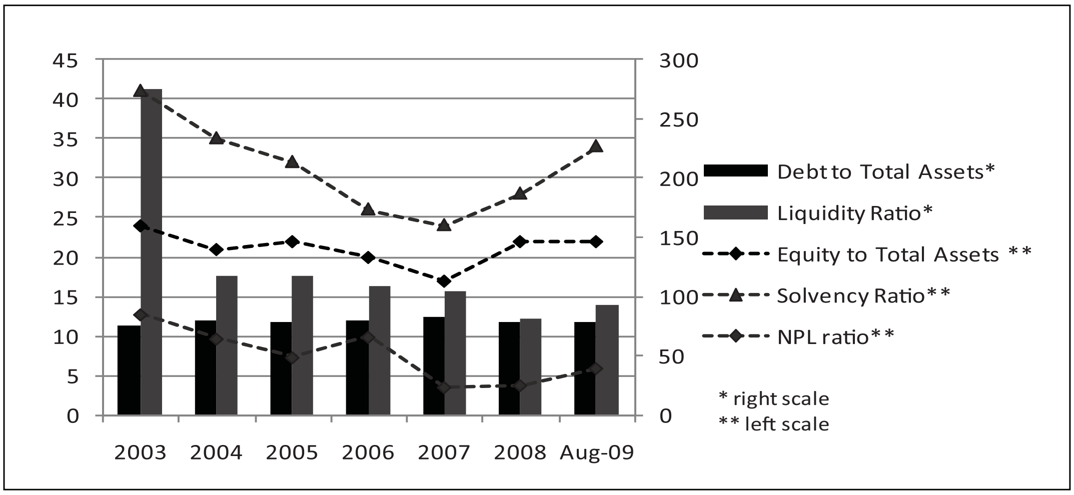
2 Foreign capital constituted about 67 percent of the commercial banking system's total paid-up capital at the end of December 2008 (NBC).

At the start of 2009's second half, however, a small but definite upturn in liquidity took place, prompting assessments that the liquidity threat had passed. The growth of foreign currency deposits year on year rose to 11 percent by August. Liquidity ratios were well up (and above the prudential limit), from 81 percent at the end of 2008 to 93 percent by August 2009 (Figure 2). The IMF has agreed that there is now ample liquidity in the system (IMF 2009b), and domestic banking sector representatives concur, although caution has been expressed regarding how liquidity is concentrated in big banks and how downside risks can easily overturn the situation (stakeholder consultations).

In contrast, concern over credit risks, as reflected in the continued guardedness over private lending, has not yet dissipated although sentiments vary as to the gravity of such risks. Private sector credit grew year-on-year by more than 100 percent in each month of the second quarter of 2008 and remained strong with 50 percent growth at the end of that year.

This boom, however, appeared to have occurred on the back of some problems that the National Bank of Cambodia sought to resolve as part of its efforts to help shield the domestic banking system from further strain. From about 3.7 percent at the end of December 2008, the share of non-performing loans (NPL) in total loans rose to 5.9 percent by August 2009 (Figure 2). Still, this is a small share, especially considering the past rapid expansion of credit. Furthermore, the increase is partly attributable to

Figure 2: Bank Prudential Ratios* (%)



Source: NBC

* Bank prudential ratios are indicators of the financial health of banks. Liquidity and solvency ratios indicate the ability of the bank to pay off its short-term and long-term debt respectively, while capital adequacy ratio (equity to total assets) indicates the bank's ability to cover any potential loss. The debt to total assets ratio indicates the share of bank assets that is financed by debt rather than equity, while the non-performing loan (NPL) ratio indicates the proportion of bank loans that are unpaid or close to being unpaid.

the loan reclassification implemented by the NBC according to its earlier toughened regulation on asset classification and provisioning (stakeholder consultations).[3]

The portfolio share of bank lending to real estate (Figure 3), whose risks more than intensified due to the domestic real estate bust and the pinch of the crisis, also turned out to be modest, although this may not be completely accurate because part of personal lending, for instance, may have been channelled to real estate activities. Given the close link between construction and real estate development in the country, bank credit to the construction sector also carries part of the risks associated with the latter. In addition to these concerns, loan reschedulings may continue to mask NPL problems.[4] The NPL ratio is expected to reach 10 percent at the maximum by the end of this year (*Phnom Penh Post,* 27 August 2009).

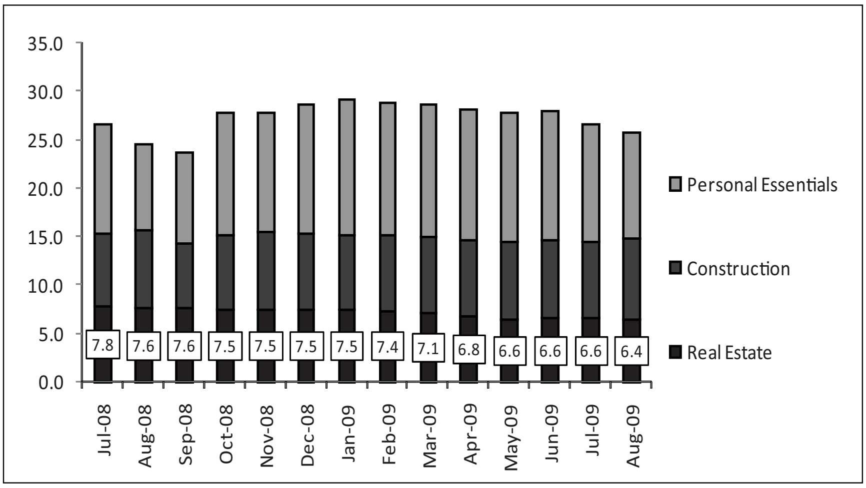
Proving continued cautiousness in lending, year-on-year growth of private sector credit fizzled out to a mere 4 percent by August 2009. Bank lending to the real estate sector in particular dropped to 6.4 percent in the same month from 7.6 percent a year earlier (Figure 3). Performance against other prudential indicators such as the liquidity ratio cited above and capital adequacy ratio suggestthat the banking system may have adequate cushion to cover potential credit and other risks.

Not only commercial and specialised banks but also micro-finance institutions (MFIs) have been feeling the second-round effects of the crisis after appearing unperturbed earlier on. Due to their proximity to rural clients and extension of loans to small and medium enterprises and the agricultural

3 See also the Prakas on Asset Classification and Provisioning in Banking and Financial Institutions issued in early 2009 and downloadable at http://www.nbc.org/read-prakas/asp?id=63. Due significantly to the expansion of the banking sector in 2008 and said Prakas which also increased provisioning requirements, return on earnings fell from 13.11 percent at the end of 2008 to 3.69 percent, while return on assets dropped from 2.88 percent to 0.82 percent (NBC data).

4 It was expressed during the stakeholder consultations that some "window dressing" of balance sheets may be occurring. Some very problematic loans may be restructured as longer term liabilities with smaller amortisation payments. This practice may only postpone the problem for those banks implementing it.

Figure 3: Bank Lending Shares (% of total loans)



Source: NBC

sector, MFIs have become increasingly popular over the years although the sector remains small compared to the commercial banking system (Jalilian *et al.* 2009). As of August 2009, there were 20 licensed MFIs as well as 25 registered and over 60 unregistered NGOs extending micro-finance (NBC).

While having fewer holdings of riskier loans such as those to real estate and construction, MFIs nonetheless experienced greater strain as the crisis deepened. The sector is heavily reliant on foreign capital[5] and eventually felt the effects of the global choke-up in liquidity and increase in risk aversion. Foreign lenders to domestic MFIs have reportedly tightened loans, causing cancellation of contracts in some cases, upping the cost of available financing and augmenting the burden on their clients as some or all of the interest hike is passed on (Chhun 2009).

More so than in the case of commercial banks, prudential indicators seem to suggest, however, that MFIs have been able to bypass most of the impact of the crisis. Their NPL ratio climbed to 2.7 percent in August 2009 from 0.4 percent at the end of 2008, but this remains a low level, considering especially how fast micro-credit has expanded. Part of the increase is also attributable to the loan reclassification mandated by the NBC. Capital adequacy ratios also climbed from 20.4 percent in 2008 to 23.5 percent in August 2009 (NBC and stakeholder consultations).

On the whole, therefore, the banking sector in Cambodia, together with the MFIs and other financial service providers, seems not to have been severely affected by the crisis. However, there is a possibility that the impact on the banking sector is underestimated, and associated problems may come later, at least for some banks.

Policy Responses

The underdevelopment of Cambodia's financial sector can be credited for the country's immunity to the first-round impact of the crisis. However, such underdevelopment also acted as a constraint on the ability of the government and financial institutions to respond more effectively to the second-round effects. While the NBC's responses to the strain experienced by the financial sector have been timely and well deserving of praise, the capacity of the central bank to do more has been restrained by the heavy unofficial dollarisation of the economy. Limited supervisory capacity of the NBC and regulatory constraints are other important factors in this context.

While the exploration of the issue on Cambodia's bi-currency economy is beyond the scope of this article, three important points will be made. First, the nature of Cambodia's current dollarisation is not straightforward. As argued, it is composed of both "good news" and "bad news" dollarisation;

5 Foreign capital constitutes about 73 percent of the MFI sector's total paid-up capital (NBC).

that is, it reflects both the country's economic take-off in the past decade and the underdevelopment of the domestic financial sector, institutions and legal framework (CDRI 2009c; Menon 2008).

Second, the case for or against dollarisation is also not clear-cut. The claimed chief costs of dollarisation include loss of seignorage, loss of the central bank's ability to act as lender of last resort and loss of independent monetary policy, all of which restrain the ability to respond to external shocks. Without needing to mention the benefits of dollarisation, these losses must not be assessed by themselves, that is, without taking stock of other considerations, not least the factors that can and do moderate them. For instance, the fiscal benefits of macroeconomic stability emerging from the beneficial effects of dollarisation (lower inflation, interest rates and currency risk) can well counter the seignorage loss

Third, there are sources of liquidity other than the central bank, and this cushions the feared greater liquidity and solvency risks associated with dollarisation in times of crisis. When monetary institutions are also facing credibility problems, the scenario minus dollarisation can be more problematic and miss out on the benefits of dollarisation's role as commitment device (see for instance Chang & Velasco 2002; Schmitt-Grohé & Uribe 2000; Alvarez-Plata & Garcia-Herrero 2008; Antinolfi & Keister 2001; Edwards & Magendzo 2003; Baliño *et al.* 1999).

With the above in consideration, there has been an inevitable limit on what the NBC can do in response to the crisis. However, whatever it has done has proven timely, pre-emptive and worthy of recognition. Especially with the global crisis coming on the heels of exceptionally high price levels, the central bank had to time carefully monetary easing with inflation easing. With prices having come down from their high levels, the NBC slashed the reserve requirement from 16 percent to 12 percent to inject more liquidity into the system. It removed the cap on real estate lending to stem the effects of the bubble burst. It created an overdraft facility (though backed by a limited initial amount of USD100 million [CEW 2009]) to help solvent banks struggling with temporary liquidity shortages. It issued a tougher regulation on asset classification and provisioning to diagnose more accurately the NPL situation and ensure that banks are in a better position to cover potential losses. It toughened regulation on reporting of major exposures to better assess credit risk concentration. It strengthened regular and targeted, off-site and on-site surveillance. It has started granting licences allowing MFIs to directly access public deposits (Keat 2009; CEW 2009; Jalilian *et al.* 2009; Chhun 2009; see also NBC's web site, www.nbc.org.kh/index.asp).

To be more effective and avoid future problems, further steps should be taken. Potential loopholes on NPL monitoring must be sealed because misled diagnoses lead to a false sense of security, which in turn results in neglect or off-track responses. More than quick fixes directly responding to the short-term requirements of the crisis, bigger steps aimed at deepening the financial system are also necessary to fortify the capacity to withstand an external shock or avoid the system itself being the source of a crisis. The financial structure remains immature, with a limited number of financial instruments, underdeveloped interbank market, absence of official deposit insurance and rating agencies and limited credit information sharing (Pak *et al.* 2008). The NBC has been weighing its choices in addressing these deficiencies, careful to consider the pros and cons of possible remedies and the system's absorptive capability. Internally, the NBC is also trying to build the capacity of its manpower given the resources available to it (stakeholder consultations).

The financial infrastructure also noticeably lacks equity markets. While this shielded the country from some major direct and contagion effects of the financial crisis, it also constrained the generation of additional funds for stimulating the sour economy and stale bank balance sheets. While the exploration of this topic is also beyond the scope of this article, suffice it to point out that while the government's Financial Sector Blueprint 2001–2010 and Financial Sector Development Strategy 2006–2015 set off some preparatory steps, including enactment of some of the necessary laws and regulations and establishment of the Securities and Exchange Commission, a lot of the prerequisites for the successful operation of a bourse are still missing. A basic aim of capital market development is to capture savings, but the domestic savings rate is low, partly due to the still low level of public financial literacy and confidence in the financial system. Other problems include a narrow investor base, problematic compliance with transparency and corporate governance standards, which affects the size of eligible issuers, and absence of security intermediaries.

Outlook and Risks

Even with the recent upturn in the global and Cambodian economies and encouraging performance against financial soundness indicators, concerns remain about the robustness of the banking sector. The gravity of such concerns, however, varies. Those less pessimistic point to a recovering real estate and tend to focus on how any potential worsening of, say, NPL holdings will only affect selected banks; those more pessimistic direct attention to hidden problems, the already overstretched capacity of the central bank, and external risks such as a potential global double dip upon withdrawal of fiscal stimulus programmes. The former's verdict is that the danger has passed while the latter warn that the worst may yet to come.

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Implications of the Global Recession on Poverty and Social Development in Cambodia[1]

Background

The global financial crisis became visible in September 2008 with the failure of several large financial firms based in the United States. It has spread into many countries across the globe, including developing countries such as Cambodia.

With financial and technical support from the Overseas Development Institute and the World Bank, CDRI has conducted an assessment of the impact of the global financial crisis at macro (Jalilian *et al.* 2009), sectoral (agriculture, garments, tourism and construction) (Jalilian *et al*. 2009), household (Tong *et al*. forthcoming) and individual levels (Tong *et al*. 2009). This paper highlights the key findings and examines the public sector response to date.

It has been widely acknowledged that the impact of the global economic downturn on Cambodia's economy is severe, mainly due to the contraction in garments, tourism and construction. The most severe impact is in the garment industry, 18 percent of its total of 352,000 workers (many of them women) having been laid off between September 2008 and May 2009 because of a considerable fall in exports. According to the National Institute of Statistics, this sector employs 4 percent of the total workforce and accounted for 38 percent of total employment in manufacturing in 2007.

The number of tourist arrivals in the first half of 2009 amounted to 1,086,518—roughly the same as in the first six months of 2008, and an increase of 12 percent from January–June 2007. However, tourism experienced a contraction at an average of 3.9 percent per month for six consecutive months from October 2008 to March 2009. As a result, many hotels had low occupancy rates, and some luxury hotels temporarily closed. Hotel staff are taking unpaid leave or are being temporarily laid off.

Construction activity is also set to decrease severely as foreign investors in real estate either scale back or suspend large projects due to credit crunches at home.

The Impacts of the Crisis on Poverty

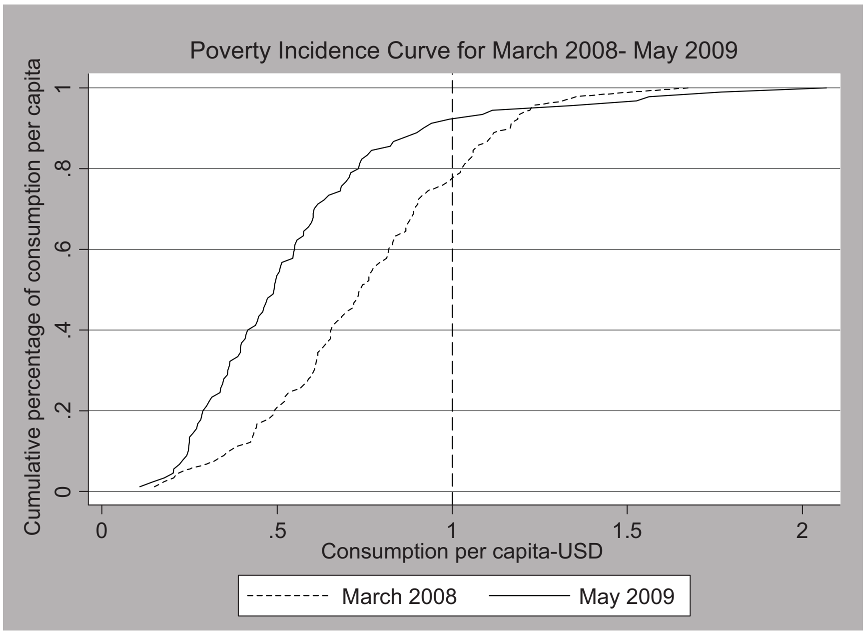
The poverty headcount was estimated in 2007 to be 35 percent in rural areas, compared with 0.8 percent in Phnom Penh and 22 percent in other urban areas (World Bank 2009). The country's overall rural poverty line was equivalent to USD0.58 in 2007 (World Bank 2009). Based on the international poverty line with purchasing power parity, about 40.2 percent of the Cambodian population of 13.8 million lived below USD1.25 and 68.2 percent below USD2 per day in 2004 (Bauer *et al.* 2008). Since poverty in Cambodia is heavily rural based and most rural activities are agricultural, it is important to consider the effects of the global financial crisis on the rural economy and agriculture.

Agriculture accounted for an estimated 27 percent of GDP in 2007, and about 59 percent of the population is estimated to rely on this sector for their livelihood. Over the past decade, agriculture has been growing at an annual rate of 4.6 percent compared to 13.1 percent for hotels and restaurants (a proxy indicator for tourism), 25.4 percent for textiles, clothing and footwear (a proxy indicator for garments), 13.9 percent for construction and 9.1 percent for the total economy. Offsetting the declines in the rest of the economy, agriculture is expected to grow significantly in volume this year and is unlikely to be much affected by the global financial crisis (Jalilian *et al*. 2009).

To assess the impact of the global financial crisis on Cambodian households, CDRI in collaboration with the World Bank conducted a panel 90-household survey in Poverty Dynamics Study research sites in May 2009. The data, collected in nine rural villages in seven provinces in March 2008 and May 2009, revealed that both per capita income and per capita consumption shrank significantly during the period, by around 30 percent and 23 percent, respectively.

1 This article is a policy brief prepared by Tong Kimsun, programme coordinator in the Economic, Trade and Regional Cooperation Programme of CDRI, for the Asia Regional Conference held 28–29 September 2009 in Hanoi, Vietnam.

Figure 1: Poverty Incidence Curve for March 2008 and May 2009



Source: CDRI survey of 90 households in nine villages in March 2008 and May 2009

While there was no significant change in residential or agricultural landholding size, the value of non-land assets fell by 38 percent over the same period, durable assets declining by 30 percent and livestock by 45 percent. As a result, the poverty incidence increased in 2009, using the poverty line of USD1[2] (Figure 1).[3]

For urban areas, a survey of daily earnings of vulnerable workers in Phnom Penh and two other provinces conducted by CDRI over several years reveals that the crisis hit garment workers the hardest, because the garment sector relies heavily on US and European Union demand.[4] More precisely, the real daily earnings of garment workers fell 17 percent between February–May 2007 and February–May 2009. This largely reflects a fixed wage rate, a decline of working hours and a high inflation rate. Despite this fall in earnings, real daily consumption increased by 14 percent during the same period, possibly due to sampling and measurement error. Meanwhile, real daily savings declined by 21 percent. Obviously, garment workers' daily consumption cannot be sustained if both real daily earnings and savings continue to decline.

The survey also reveals that average monthly nominal remittances from garment workers amounted to USD18.40 in May 2009, down from USD24.40 in February 2009, a decrease of 32 percent. This significant decline put great downward pressure on their relatives' livelihoods.

The crisis impacted on the other nine groups less substantially. It should be noted that the survey purposively selected currently employed or self-employed workers, so the results are unable to capture an overall view of the groups.

Focus group discussions held in May 2009 in Siem Reap province, Cambodia's tourist hub, confirmed that tourism workers, particularly hotel and restaurant workers, have been affected by the decline in tourist arrivals. Some staff have been encouraged to take unpaid leave or have been temporarily laid off, which means that they have to engage in informal jobs such as driving taxis or part-time English teaching. This kind of labour mobility

2 The 2007 rural poverty line was about 2006 riels, equivalent to USD0.49 using the exchange rate of 4063 riels per USD (World Bank 2009).

3 However, the sample size is small and cannot be taken to be representative.

4 Since 2000, CDRI has conducted a quarterly survey of 10 selected vulnerable worker groups: cyclo drivers, porters, small vegetable traders, scavengers, motorcycle taxi drivers, unskilled construction workers, skilled construction workers, waiters/waitresses, garment workers and rice-field workers.

Table 1: Strategies of Affected Households

	Percentage of households	
	March 2008	May 2009
Adaptive strategies [a]	3.13	5.56
Active strategies	81.25	94.4
Social network strategies [b]	2.5	13.8

a. Changing consumption pattern.

b. Assistance from friends, family and non-government and government organisations.

Source: CDRI survey of 90 households in nine rural villages in March 2008 and May 2009

has led taxi drivers and small traders to work even harder amid low demand.

Coping Mechanisms of the Poor and Vulnerable

The panel data show that in 2008 about 35 percent and in 2009 40 percent of survey households were hit by shocks, particularly idiosyncratic shocks. The affected households reported that they had spent an average of USD158 each to cope with these shocks. More than 80 percent of the affected households adapted to shocks by adopting active household strategies making use of physical, financial and human assets, including putting further household members into the labour force, working longer hours, selling assets, using savings, borrowing and migration (Table 1). However, there was no clear evidence that such strategies—particularly selling non-land assets, land, and livestock—were used in response to the crisis.

A different dataset collected in March and September 2008 covered 1003 households in the same nine villages and shed more light on households' coping mechanisms during food price increases. As shown in Table 2, the consumption of non-food items dropped by 20 percent between March and September 2008,[5] while food items declined by only 11 percent. Although food consumption fell in absolute terms, its proportion in total household expenditure remained unchanged, suggesting that households were restricting consumption of non-food items to preserve food consumption.

Despite the fact that different case studies yield different conclusions, they share a common message: rural households in Cambodia are likely to cope with the impact of shocks by themselves, adapting their activities and consumption and utilising informal community safety nets that are likely to diminish during hard times.

Government Policy Responses

To respond to the global economic downturn, the government introduced a stimulus package that included:

- increasing budget expenditure to offset the

5 Inflation reached 26 percent in May 2008, the highest level in three decades.

Table 2: Per Capita Real Consumption by Quintile (USD)

Quintile	Total Consumption		Food		Non-food		Total Consumption	Food	Non-food
	Mar 08	Sep 08	Mar 08	Sep 08	Mar 08	Sep 08	% change Mar-Sep 2008	% change Mar-Sep 2008	% change Mar-Sep 2008
1 (lowest)	0.53	0.48	0.42	0.38	0.11	0.10	-9.04	-8.99	-9.26
2	0.71	0.64	0.55	0.49	0.16	0.14	-10.45	-10.09	-11.64
3	0.85	0.76	0.65	0.58	0.20	0.18	-10.41	-10.88	-8.86
4	1.07	0.92	0.76	0.68	0.31	0.24	-13.68	-10.79	-20.86
5 (highest)	1.86	1.51	0.98	0.85	0.88	0.66	-18.94	-13.21	-25.29
All	0.97	0.86	0.67	0.60	0.33	0.26	-11.38	-11.16	-20.06

Source: CDRI survey data in nine rural villages, March and September 2008.

decline in private investment (to promote economic activity);
- suspending the monthly turnover tax of 1 percent on garment factory expenditures;
- a 10 percent reduction in export management fees and other costs;
- setting up the Agriculture Support and Development Fund for the private sector, especially small and medium enterprises, providing low-interest, short-term credit to farmers in order to increase agricultural productivity and food security;
- establishing the Prime Minister's Special Fund to provide short-term vocational training to workers who lose their jobs. Up to July 2009, 40,140 laid-off and unemployed workers had attended short-term vocational training by the Ministry of Works and Vocational Training, of whom 30,720 (76.5 percent) had been trained in agriculture and 9420 (23.5 percent) in industry and mechanics;
- negotiating with the World Bank to finance approximately USD13 million for various programmes associated with the social safety net.

However, it is widely recognised that the effect of these measures is unlikely to pass onto the poor and vulnerable groups in either rural or urban areas.

Recommendations for the Short and Medium Term

The role that policy makers, donors and NGOs take may well determine the final impact of the crisis on growth and poverty in Cambodia. The impact is likely to be severe for poor and vulnerable groups: because of their economic and social status, they are likely to be the first to suffer from any sort of shock, either loss of job and income or diminished purchasing power due to price increases (Jalilian *et al*. 2009). Given the prevalence of these groups in Cambodia, it is particularly important to emphasise policies to assist them. In some countries, when faced with increased hardship, the poor are assisted (directly or indirectly) by their governments, donors and NGOs. This support may come in kind or in the form of price subsidies, food rations, food coupons, work for food, school meals etc.

The crisis not only results in high variability in living standards, but the lack of means to cope with risk is a cause of persistent poverty. Therefore, both ex-ante and ex-post coping strategies, such as promoting credit and savings as insurance, as well as a credible social safety net, could play a very important role in protecting the poor and vulnerable. On the other hand, informal social insurance should be strengthened because poor and vulnerable groups could also use their local social capital to protect consumption from income fluctuations to some extent.

Conclusion

The impact of the global economic downturn on poverty and vulnerable groups is severe in both rural and urban areas. The immediate impacts appear to hit the poor through employment and remittances, and the impact is likely to worsen over the medium term due to weak formal ex-ante and ex-post coping strategies, informal social insurance and the lack of public response.

The government should be able to promote insurance to the poor by setting up a regulatory framework for micro-finance institutions and providing credibility to the social safety net system.

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Analysis of the Cambodian State in the Context of Developmental State[1]

Is contemporary Cambodia a state of development? This is the overarching question the two-year Developmental State research programme will address. Nearly two decades after the demise of civil war[2], with stability and social order restored and remarkable economic growth achieved, the government has declared Cambodia a state of (economic) development. However, some argue that the state remains weak, dysfunctional and neo-patrimonial (Öjendal and Lilja 2009; Hughes and Un, forthcoming; Pak *et al.* 2007; Kim (forthcoming). While many studies have sporadically revealed those characteristics, there has been no study on the nature of the Cambodian state in the context of developmental state.

Between the early 1980s and the early 1990s, neo-liberals argued for minimising the state's role and letting the market rule (Thorbecke 2007; Fukuyama 2004). However, the failures and limits of privatisation in the developing world and the lack of state capacity (ability of the government to effectively implement policies) and scope (intervention and penetration into the market, ability of the government to initiate policies) to uphold the market did not necessarily enhance sustainable and equitable economic growth. A new line of thought, putting state capacity and institutional quality as the important prerequisite to promote economic development, has gained momentum since the early 1990s (Fukuyama 2004). The new paradigm has proved relevant when insufficient state intervention (market regulations and enforcement) in the US has been blamed for the outbreak of the world economic crisis. The reaction even in the *laissez-faire* US government has been to reactivate state intervention in the economy. In the same vein, the effective state response to the crisis by the Chinese government affirms the state-led development model for tackling financial turmoil while sustaining growth. Hence, it is high time to revive the notion of "bringing the state back in" (Skocpol 1985).

Recognising the necessity and effectiveness of state-led development, the Democratic Governance and Public Sector Reform unit, the Economy, Trade and Regional Cooperation unit and the Poverty, Agricultural and Rural Development unit of CDRI initiated this research programme to understand the Cambodian state.

This programme primarily aims at exploring the nature of the Cambodian state from both historical and comparative perspectives. It attempts to do so by reflecting the state's key historical and institutional characteristics against the different types of state models illustrated below. The study will contribute to the theoretical study of the Cambodian state as well. Particularly, we attempt to answer some important questions: How effective is the Cambodian state in development? What are the state's strengths? How autonomous is the Cambodian state in relation to social (dominant) classes? And to what degree does the state penetrate the economy?

Research Justification

Hughes and Un (forthcoming) contend that Cambodia has graduated from the post-conflict era and moved to a new phase of economic transformation. Moving beyond their study, we intend to reveal comprehensively the fundamental Cambodian state characteristics and anticipate the direction in which the state is heading—whether it will take the real development path or others, especially given looming enormous oil and mining revenues. Anecdotal evidence shows that key government policy makers, donors, business elites, civil society actors and even academia lack reliable understanding of such profoundly important

1 This article is prepared by Ou Sivhuoch, Lun Pide, Khieng Sothy and Ouch Chandarany, with the advice and under the supervision of Kim Sedara (CDRI research fellow), and Dr Un Kheang (assistant professor, Northern Illinois University). It is a brief concept note for the Developmental State Programme begun in the last quarter of 2009 and scheduled to be completed by mid-2011. The paper aims primarily to introduce the programme to target audiences (policy makers, donor community, academics and civil society groups, and the private sector).

2 The civil war came to a complete end in 1998 when the Khmer Rouge faction was fully integrated into the Royal Government of Cambodia.

research findings. Therefore, the study will fill in these theoretical and empirical gaps. Further, it will suggest who will do what to ensure Cambodia takes the right developmental path. We intend to review developmental experiences of other countries and select good lessons that are appropriate for Cambodia.

Planning the Research

To realise the above programme objectives, this study is designed in three stages:

1. analysing the Cambodian state from the historical and comparative perspectives: is it developmental?
2. state and taxation in Cambodia;
3. the Cambodian state and agricultural policies.

The first project intends to analyse the nature of the Cambodian state utilising the theoretical categories of states presented below. It will also address essential elements, such as state capacity, autonomy and scope. The other two projects will serve as empirical case studies of the state's strengths and weaknesses. Each project will be completed with a working paper published by CDRI. To enhance the impact and dissemination of our research findings, we will endeavour to write up shorter versions for regional and international journals and chapters for edited books.

The following section provides background details on this study. It discusses different types of state model that will be used to measure the Cambodian state's characteristics. It also presents some arguments on the close relationships between state capacity and tax revenues and agricultural policies, particularly for a developing country like Cambodia. The summary that follows will serve as the framework for the research.

Literature Review of State Models and Their Relevance for Cambodian State Studies

Various studies have come up with a variety of state models for analysis. Evans (1989), Evans (1995) and Hutchcroft (1998) formulate an ideal continuum on which different models of state are placed, ranging from the most potent, called developmental states, to the least effective, predatory states. Somewhere in between lie the intermediate states, viz. crony capitalist states, bureaucratic capitalist states and booty states. For Evans (1989; 1995: 44), predatory states are those that "extract such large amounts of otherwise investable surplus and provide so little in the way of collective goods". Zaire (since renamed Democratic Republic of Congo), which according to Evans (1995: 44) is "almost purely a predatory state", provides *par excellence* the features of that kind of state. The preoccupation with rent-seeking by a small group of political elites who have command over the state apparatus, a defective bureaucracy that enables the sales of the state apparatus and collusion between bureaucrats, politicians and business to loot state resources are all perverse characteristics of the Zairian state. Of course this kind of state is an obstacle to economic transformation.

At the other end of the continuum, developmental states are those capable of enhancing long-term entrepreneurial skills and activities among private business through the promotion of incentives for and safeguard of "transformative investment", examples being South Korea, Taiwan and Japan (Evans 1989, Donald 1998). Developmental states also possess "embedded autonomy"—or bureaucratic insulation—characterised by collaboration between the private sector, state agencies and bureaucrats. Although the state is embedded with leading business sectors, Leftwich (2000: 160–167) further proposes a number of common traits of developmental states. Among those are: resolute developmental elites who are "relatively uncorrupt" such as Lee Kuan Yew of Singapore and General Park Chung Hee of South Korea; the relative autonomy of the state from the dominant interests so as to guard national interests; strong bureaucratic machinery reinforced by competent state officials who frame the policies for economic development; feeble civil society, which the state has power over to ensure political consolidation; state capacity to promote economic interests, i.e. the accumulation of capital; poor human rights practices as noted in various developmental states such as Singapore and Taiwan in the earlier stage of growth; and legitimacy and performance—developmental state regimes are legitimate and achieve rapid growth.

Haber (2002: 12) provides a view of crony capitalism as a system in which those who have strong connection with state elites receive large economic benefits. Those include, for example, the privilege to acquire cheaper credit from state-owned banks or the dispensation to charge higher prices than those of market equilibrium. The economic rents cronies gain are then shared with their companions who have authority to devise economic policies. Hence it is not sensible for state elites to come up with policies that impede the benefits of cronies. Sharafutdinova (2007) also suggests that Russia's crony capitalism undermines the legitimacy of the state.

Hutchcroft also develops a typology of the state with two subcategories: bureaucratic capitalism and booty capitalism. In the former "bureaucratic elites extract privilege from a weak business class"; in the latter "a powerful business class extracts privilege from a largely incoherent bureaucracy" (Hutchcroft 1998: 20). Hutchcroft argues that Thailand represents bureaucratic capitalism while the Philippines represents booty capitalism.

Historically the transformation into modern states of European countries, as observed by Moore (2004), was driven neither by a rational bureaucracy as theorised by Weber nor by the Marxist model of capitalism. Rather, it was achieved by the transition through wars and accompanied by taxation. Such states have strong institutions, the capacity to pursue development policies and are accountable to their citizens. Modern developmental states of East Asia such as Japan, Taiwan and South Korea all have a strong tax base. In contrast, some other states, that are able to obtain financial resources by extracting their country's natural resources, e.g. oil or timber and/or through foreign aid, are called "rentier states". Countries in the Middle East and North Africa whose revenues mostly come from the sale of natural resources are described as rentier states. Empirically, this type of state receives less demand for accountability from its own citizens (Moore 2004; Ross 2004).

Policy makers and most scholars of the developing world emphasise exports based on manufacturing as a critical component of rapid and sustainable economic growth. This risks overlooking the significance of agriculture as a base for economic take-off, as experienced by some countries in Asia. Taiwan, for example, at the early stage of development, strengthened its agricultural sector through deliberate reforms and various state interventions. The spill-over effects from agriculture were substantial for the advance of industry, which then became a major driver of economic growth (Amsden 1985: 87–88). Likewise, Japan during the Meiji period (1868-1912) developed significantly as a result of a strong agricultural sector. Growth in agriculture expanded development in other sectors through provision of inputs such as raw materials as well as transfer of labour and capital (Akino and Hayami 1974). Hence it is important for developing countries, especially for a resource-rich country like Cambodia, to base development on the strengthening of agriculture in the early phase. Furthermore, as around 80 percent of Cambodian people are rural farmers, agriculture involves most of the Cambodian people.

Given the different models of state, one might doubt whether a country falls exactly into any model. Even the categorisation of such countries as Singapore and Taiwan as developmental is still debatable. A quick look at the mounting literature on Cambodia reveals different conclusions on the country's development patterns. Positive income growth for the last decade, with four consecutive years of double digit increases (2004–07), reflects the efficacy of state policies to promote economic development. The combined growth of agriculture, industry—particularly garments—and tourism is the key force behind economic growth. In this remarkable achievement, one should not neglect the impact of the government's ability to maintain peace and social order, which are a prerequisite of economic transformation. For political consolidation, the claim of a weak Cambodian civil society that is co-opted by the state (Ou *et al.* 2009) seems to resemble one of the characteristics of other developmental states such as Singapore and Taiwan.

However, some scholars have argued otherwise. Un (2004) and Hughes (2003) conclude that Cambodia is still a weak state with widespread corruption and weak rule of law. Cock (forthcoming) notes the emergence of a patrimonial oligarchic system in which oligarchs exploit the privilege of having access to land concessions or other types of state property. He sees this phenomenon as an obstacle to the formation of a legal state. Similarly, Pak and Craig (2008) point out that the state's accountability is based on patronage networks, loyalty and rent-seeking. This study will take account of the views of different scholars and compare them with our empirical information in order to analyse the nature of the Cambodian state. The main area for analysis is taxation and agricultural policies.

To sum up, understanding the concepts of state as contributed by various scholars is a cornerstone for grasping the nature of the Cambodian state, which is the main aim of this research programme. This study's framework for analysing empirical information of the Cambodian state will focus on key characteristics of a developmental state.

Research Methodology

The team will first review various international and regional (comparative) studies on states and their functions, state formation and building, different types of state, characteristics of southern and northern states, state structure, autonomy and scope, state bureaucracy and informal institutions (neo-patrimonial networks), colonialism, taxation, state policy design and implementation, state strengths and weaknesses, the relationships between state elites and the dominant classes and the relations between the state and international donors and actors, especially the regional power, China. This will prove extremely useful for the understanding and analysis of the Cambodian state. Related to that, relevant studies, policies, laws and regulations on Cambodia will be visited.

The next phase will concentrate on in-depth interviews of policy makers, business elites, civil society group leaders and representatives of the donor community.

To conclude, the research is being undertaken at a very crucial time, when the state is economically transforming itself[3]. The findings will explain if it is travelling along the right development track and, if not, how the actors involved should react to bring the state back to the course it should take.

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3 Hughes and Un (forthcoming) suggest that Cambodia has moved from the post conflict period to the economically transformed phase. Cambodia, according to the two commentators has integrated itself much regionally and globally; prior to the global financial downturn, the economy as a whole grew by an average of 8.7 per cent per year through the period from 1996 to 2006, and an economic slowdown has revealed itself as a result of the financial crisis. However, the Asian financial crisis in 1997 hardly touched Cambodia.

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Economy Watch—External Environment

The section highlights economic changes in some of the developed economies and Asian developing economies during the third quarter of 2009.

World Economic Growth

During the quarter, US year-on-year real GDP growth contracted by 2.5 percent, which was slightly less severe than the second quarter contraction. This slower decline resulted from a positive contribution from personal consumption expenditure, exports, private inventory investment, federal government spending and residential fixed asset investment, offset by a negative contribution from non-residential fixed investment. During the same period the contraction of annual output in the euro area remained severe at 4.7 percent. The continued downturn stemmed primarily from a decline in household final consumption expenditure and gross fixed capital formation, offset by a slight rise in government final consumption expenditure. Japanese real output continued to contract, but less acutely than in the previous quarter. The source of the improvement was improved trade and private consumption.

Chinese year-on-year real GDP growth in the third quarter continued to gain strength, reaching 8.9 percent, higher than the 7.9 percent in the second quarter. The key sources of the growth were fixed asset investment and exports. Signs of recovery were evident in Hong Kong, where output growth was -2.4 percent, better than the -3.6 percent of the second quarter. There was positive growth of private consumption expenditure and domestic capital formation, but continued negative export growth. Similar signs of recovery were seen in South Korea, where year-on-year output growth turned positive at 0.7 percent in the third quarter, after -2.2 percent in the previous quarter. The slight uptick came primarily from positive growth of private and government consumption expenditure and exports, offset by a significant contraction in gross capital formation. Output growth in Taiwan remained sluggish at -1.3 percent, but better than the -7.5 percent in the second quarter. The improvement resulted from positive growth of private final consumption expenditure (2.2 percent) and government final consumption expenditure (3.6 percent), countered by growth in the figures for gross fixed capital formation (-6.1 percent) and exports (-8.5 percent).

Signs of recovery were also visible in Malaysia, Singapore and Thailand. Year-on-year real output growth in Malaysia was -1.2 percent, an improvement on the -3.9 percent in the second quarter. The easing of contraction resulted mainly from positive growth of government final consumption expenditure (10.9 percent) and private consumption expenditure (1.5 percent), while growth of gross fixed capital formation and exports of goods and services remained negative at -7.9 percent and -13.4 percent respectively. Singapore seemed to be recovering faster than the other two countries, with positive growth of 0.6 percent. This was driven primarily by growth in government consumption expenditure (10.2 percent) and gross fixed capital formation (0.3 percent), offset by private consumption expenditure (-0.9 percent) and export of goods and services (-10.9 percent). Real GDP growth in Thailand was -2.8 percent, a smaller decline than in the previous quarter. The improvement came primarily from a 4.7 percent expansion in government expenditure and net exports.

World Inflation and Exchange Rates

Fear of deflation in several developed and developing countries continued during the third quarter of 2009. US year-on-year consumer prices continued to slide (-1.6 percent) in the third quarter. Overall consumer prices in the euro area slid by -0.3 percent. Consumer price inflation in Japan followed a downward trend similar to that in the US and euro area.

During the third quarter of 2009, the US dollar depreciated against the South Korean won and Japanese yen, trading at 1239.04 KRW/USD and 93.58 JPY/USD. It also traded lower against Taiwanese dollar at 32.77 TWD/USD. The US dollar remained stable against the Chinese yuan, Hong Kong dollar and euro.

Commodity Prices in World Markets

During the third quarter there was a slump in prices of a number of major agricultural commodities. There was a significant drop in prices of maize (14.2 percent) and rice (38.4 percent) from the previous quarter, and a milder decline in prices of palm oil (8.3 percent) and soybeans (2.1 percent). Energy prices continued to surge from the second quarter. Crude oil increased by 18.9 percent and diesel by 14.7 percent, while gasoline went up by 8.8 percent.

Prepared by Saing Chan Hang

Table 1: Real GDP Growth of Selected Trading Partners, 2004–2009 (percentage increase over previous year)

	2004	2005	2006	2007	2008	2008			2009		
						Q2	Q3	Q4	Q1	Q2	Q3
Selected ASEAN countries											
Cambodia	7.7	13.4	10.6	10.2	6.8	-	-	-	-	-	-
Indonesia	5.1	5.6	5.4	6.3	6.1	6.4	6.1	5.2	4.4	3.9	4.2
Malaysia	7	5.2	5.9	6.3	4.6	6.3	4.7	0.1	-6.2	-3.9	-1.2
Singapore	8.5	5.7	7.7	7.7	1.1	1.9	-0.6	-4.2	-10.1	-3.5	0.6
Thailand	6	4.5	4.8	4.9	2.6	5.3	3.9	-4.3	-7.1	-4.9	-2.8
Vietnam	7.5	8.4	8.1	8.5	6.2	-	-	-	-	-	-
Selected other Asian countries											
China	9.5	9.6	10.5	11.9	9.0	10.1	9.0	6.8	6.1	7.9	8.9
Hong Kong	8.3	6.5	6.6	6.4	2.4	4.2	1.7	-2.5	-7.8	-3.8	-2.4
South Korea	4.7	4.7	5.0	4.9	2.2	4.8	3.8	-3.6	-4.4	-2.2	0.7
Taiwan	5.7	4.1	4.6	5.2	0.1	4.3	-1.0	-8.4	-10.2	-7.5	-1.3
Selected industrial countries											
Euro-12	1.8	1.5	2.7	2.9	0.9	1.4	0.6	-1.3	-2.5	-4.8	-4.7
Japan	3.4	2.5	2.1	2.0	-0.7	1.0	-0.5	-4.6	-9.1	-6.0	-4.7
United States	4.4	3.7	3.3	2.2	1.1	2.8	-0.5	-6.3	-2.6	-3.9	-2.5

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

Table 2: Inflation Rate of Selected Trading Partners, 2004–2009 (percentage increase over previous year—period averages)

	2004	2005	2006	2007	2008	2008			2009		
						Q2	Q3	Q4	Q1	Q2	Q3
Selected ASEAN countries											
Cambodia	4.0	5.8	4.7	10.5	19.7	24.9	21.7	15.7	4.3	-4.8	-3.0
Indonesia	8.3	10.5	13.4	6.4	10.1	10.1	11.9	11.4	8.5	5.6	2.7
Malaysia	1.6	3.1	3.7	2.0	5.3	4.8	8.4	5.9	3.7	1.3	-2.2
Singapore	1.7	0.5	1.0	2.1	6.5	7.5	6.5	5.5	2.1	-0.5	-0.4
Thailand	2.7	4.5	4.7	2.2	5.5	7.7	7.2	2.2	-0.2	-2.8	-2.1
Vietnam	7.8	8.2	7.7	8.3	23.3	24.4	29.0	23.6	-	-	-
Selected other Asian countries											
China	3.9	1.8	1.5	4.8	5.9	7.8	5.3	2.5	-0.6	1.5	-1.2
Hong Kong	-0.4	1.1	2.2	2.0	4.3	5.7	4.6	2.3	1.7	-0.1	-0.8
South Korea	3.5	2.8	2.4	2.5	4.6	4.8	5.5	4.5	3.9	2.8	2.0
Taiwan	1.6	2.3	0.6	1.8	3.2	4.2	4.5	1.9	0.0	-0.8	-1.3
Selected industrial countries											
Euro-12	2.2	2.2	2.1	2.1	3.3	3.8	3.8	2.3	1.0	0.9	-0.3
Japan	Nil	-0.3	0.5	0.1	1.4	1.4	2.2	1.0	-0.1	-1.0	-2.2
United States	2.7	3.4	3.2	2.9	3.8	4.4	5.3	1.5	-0.2	-0.9	-1.6

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

Table 3: Exchange Rates of Selected Trading Partners against US Dollar, 2004–2009 (period averages)

	2004	2005	2006	2007	2008	2008			2009		
						Q2	Q3	Q4	Q1	Q2	Q3
Selected ASEAN countries											
Cambodia (riel)	4016.3	4092.5	4103.2	4062.7	4054.2	4030.3	4117.4	4089.8	4108.0	4128.55	4164.44
Indonesia (rupiah)	8938	9705	9134	9419	9699.0	9,265.3	9,216.3	11,060	11,630.8	10,225.0	9887
Malaysia (ringgit)	3.80	3.79	3.67	3.31	3.34	3.21	3.37	3.56	3.63	3.52	3.50
Singapore (S$)	1.69	1.66	1.59	1.51	4.58	1.37	1.43	1.49	1.51	1.45	1.44
Thailand (baht)	40.2	40.2	37.9	32.22	33.36	32.25	34.0	34.83	35.29	33.98	33.96
Vietnam (dong)	15,777	15,859	15,994	16,030	16,382	16,881	16,517	16,537	16,954	-	-
Selected other Asian countries											
China (yuan)	8.28	8.19	7.97	8.03	6.94	6.96	6.82	6.83	6.84	6.83	6.83
Hong Kong (HK$)	7.79	7.78	7.77	7.8	7.78	7.80	7.77	7.75	7.75	7.75	7.75
South Korea (won)	1145	1024	955	929.04	1137.23	1,018.84	1,207.0	1,367.2	1,412.5	1,273.9	1,239.04
Taiwan (NT$)	33.6	32.1	32.5	32.85	31.54	30.45	31.20	33.0	34.0	33.1	32.77
Selected industrial countries											
Euro-12 (euro)	0.80	0.80	0.80	0.7	0.84	0.64	0.71	1.32	0.76	0.71	0.70
Japan (yen)	108.2	110.2	116.4	117.8	102.46	104.53	104.03	96.1	93.72	95.95	93.58

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

Table 4: Selected Commodity Prices on World Market, 2004–2009 (period averages)

	2004	2005	2006	2007	2008	2008			2009		
						Q2	Q3	Q4	Q1	Q2	Q3
Maize (USNo.2)—USA (USD/tonne)	110.65	89.19	111.04	149.08	218.15	238.03	254.99	181.22	183.12	171.16	146.85
Palm oil—north-west Europe (USD/tonne)	427.47	381.32	433.85	707.68	912.23	1086.89	949.03	564.50	636.53	719.35	659.16
Rice (Thai 100% B)—Bangkok (USD/tonne)	221.67	262.88	282.00	305.36	615.32	839.58	657.88	519.41	522.13	499.45	307.31
Soybeans (US No.1)—USA (USD/tonne)	262.03	224.25	213.88	294.59	460.41	479.97	529.30	382.72	434.40	420.10	411.18
Crude oil—OPEC spot (USD/barrel)	33.5	50.14	61.58	69.25	95.44	117.48	115.30	55.23	42.34	57.46	68.32
Gasoline—US Gulf Coast (cents/litre)	30.9	42.19	47.70	53.58	62.22	80.90	81.27	34.52	31.97	43.11	46.92
Diesel(low sulphur No.2)—US Gulf Coast (cents/litre)	29.48	44.35	51.35	55.51	76.2	95.37	88.46	46.98	34.17	40.51	46.46

Sources: Food and Agriculture Organisation and US Energy Information Administration

Economy Watch—Domestic Performance

Main Economic Activities

In the third quarter of 2009, total investment approvals increased dramatically, by 8.8 times, from the previous quarter. This was due to a substantial increase in agriculture and services. Agricultural approvals rose from nil to USD176.1 m. Services jumped from nil to USD150.2 m. Hotels rose to USD7.2 m, tourism to USD133.3 m and other services to USD61.6 m. The investment surge in services, a major source of economic growth in Cambodia, may have been related to an increase of visitors from the previous quarter, which was a depressed period. Industry grew by 54 percent, rising from USD39.4 m in the previous quarter to USD60.6 m. The garment sub-sector decreased by 37 percent to USD21.9 m; the sub-sector is still remarkably exposed to the recession in the USA, Cambodia's primary export market, accounting for more than 50 percent of the country's export earnings. Additionally, energy dropped from USD2.7 m to USD2.5 m, while shoe manufacturing approvals rose from nil to USD13.8 m and mining from nil to USD5.9 m. Pharmaceuticals moved up to USD3.9 m and other industry rose to USD12.8 m.

The value of construction approvals in Phnom Penh dropped by 88 percent compared with the previous quarter and 85 percent compared with the same quarter a year earlier. Villas and houses fell by 67 percent to USD2.2 m, flats and other construction approval by 66 percent to USD6.3 m and to USD12.2 m. Construction activities slowed because South Korean property developers were still suffering from the global economic crisis.

In the third quarter, total foreign visitor arrivals rose by 5.0 percent from the previous quarter. Arrivals by air increased by 12 percent to 247,173; Phnom Penh airport received 51 percent and Siem Reap 49 percent. Visitors by land rose to 25,677 and by water to 13,556. Among ASEAN countries, Vietnam had the most visitor arrivals (80,973), followed by Laos (25,220), while Brunei had the fewest (105). Although many tourists arrived from neighbouring countries, they tended to spend less on accommodation, food, transportation and other expenses.

The trade deficit improved from USD627.3 m in the second quarter to USD91.2 m in the third quarter. The improvement originated from fewer total imports, while exports dropped slightly. Imports decreased 68 percent from the previous quarter to USD336.5 m due to a 68 percent drop in the import of construction materials. Cement import increased by 15 percent to USD10.6 m, while steel decreased by 22 percent to USD9.8 m. Other imports slumped by 75 percent but the import of petroleum products increased 23 percent.

During the same period, exports dropped 43 percent to USD245.3 m. This was due to a 36 percent decrease of garment exports to USD240.0 m, a 40 percent decrease of rubber exports to USD4.9 m and a 47 percent decrease of fish exports to USD0.4 m, while there were no wood exports.

Public Finance

The budget deficit worsened in the third quarter by 76 percent from the previous quarter, to KHR904.8 bn. Current revenue collection shrank by 5.0 percent to KHR1174.9 bn. Tax collection decreased by 9.0 percent to KHR999.5 bn, while non-tax collection increased by 18 percent to KHR 176.0 bn. Total expenditure rose 18 percent, resulting from an increase of capital expenditure by 25 percent and of current expenditure by 21 percent. Within current expenditure, wage expenditure went up by 2.0 percent to KHR526.6 bn, and expenditure on subsidiaries and social assistance climbed 47 percent to KHR272.6 bn.

Inflation and Foreign Exchange Rates

The overall consumer price index in Phnom Penh decreased by 3.0 percent in the year to the third quarter, the second consecutive quarter of deflation. Food and non-alcoholic beverages declined by 2.7 percent and the cost of housing and utilities by 9.6 percent. Transportation subsided 13.8 percent and communications 8.6 percent. An increase occurred in education (14 percent), restaurants and hotels (8.4 percent), health care (8.0 percent), clothing and footwear (5.3 percent), alcoholic beverages, tobacco and narcotics (8.0 percent).

Economy Watch—Domestic Performance

During the same period, the riel depreciated 0.9 percent against the US dollar compared with the previous quarter and appreciated 1.0 percent compared with the same quarter in 2008. In this quarter, the riel fell to a low of KHR4164.4/USD. It dropped by 3.0 percent against the Thai baht and 0.9 percent against the Vietnamese dong. The baht traded at KHR122.9/baht and dong at KHR23.5 per 100 dong.

Monetary Developments

In September 2009, broad money (M2) was up 3.0 percent from the previous quarter to KHR2773.0 bn. The rise was due to a rise of 2.0 percent to KHR2657.6 bn of currency outside banks, of 25 percent to KHR115.0 bn in demand deposits and of 9.0 percent to KHR12,139.0 bn in quasi-money.

During the same period, domestic credit escalated by 6.0 percent to KHR7663.0 bn. Net claims on the government were negative KHR2463.0 bn, comprising KHR270.5 bn claims on government and negative KHR2734.0 bn government deposits. During the same period, credit to the private sector dropped by 0.02 percent to KHR10,127.0 bn. Other liabilities increased by 10 percent to KHR6621.0 bn. This resulted in a decrease in net domestic assets of 17 percent to KHR1042.0 bn.

Poverty Situation

In November, real daily earning of vulnerable workers declined by 15.6 percent compared with November 2008. However, five out of 10 groups reported that their earnings increased slightly (see Table 8).

In November, the real earnings of cyclo drivers dropped by 41 percent, from 12,628 riels in the same period last year to 7446 riels. The earnings of cyclo drivers have fluctuated since early 2009, according to 82.5 percent of interviewees. Normally, cyclo drivers spent around 4300 riels for food; therefore, they could not save much to send home, reported 60 percent. Household livelihood had improved since coming to work in Phnom Penh for 32.5 percent of interviewees; 40 percent reported no change within their households; 27.5 percent had a worse situation. Sixty percent of cyclo drivers said their households had gone into debt because of the income fall.

Small vegetable traders' earnings declined 23 percent compared with the same month in 2008; the figure was down from 9926 riels last year to 7647 riels. A lack of capital was a factor in the fall in income, 72.5 percent of interviewees revealed. Approximately 80 percent of small traders had investments of less than 50,000 riels. The traders increased their spending on food by 20 percent compared with last year, to 4300 riels per day. Borrowing was the only way to survive when income fell, said 60 percent of the interviewees.

In November, real daily earnings of motorcycle taxi drivers decreased by 38.2 percent from a year earlier to 9696 riels. About 95 percent of motorcycle taxi drivers said that their earnings were not enough to support the whole family, because it provided them just enough to support themselves. Almost 93 percent of motor-taxi drivers were from the provinces. They usually spent around 4700 riels for food daily.

The real daily earnings of skilled construction workers increased 2.4 percent from a year earlier to 13,011 riels per day. The increase was not enough to support their household's expenditures, according to 85.7 percent of the interviewees. This caused 35 percent of interviewees' households to go into debt. Most of the skilled construction workers were from rural areas. Therefore, they had to pay not only for food but also house rent.

The earnings of unskilled workers decreased by 7.4 percent compared to November 2008. The decline was mainly due to an increase in the number of workers, as reported by 75 percent of the interviewees.

The earnings of scavengers rose 0.9 percent compared to November 2008. However, they dropped compared with other surveys in 2009 (Table 8).The scavengers expressed concern at not having enough savings to send home because they are living from hand to mouth.

In November the real earnings of garment workers increased by 18.2 percent over the same month in 2008 to 7745 riels. There was no overtime work for 35.8 percent, while 26.7 percent had extra work steadily and 37.5 percent worked occasional overtime.

Prepared by Sry Bopharath and Pon Dorina

Table 1: Private Investment Projects Approved, 2003–09

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Fixed Assets (USD m)											
Agriculture	3.7	12.3	26.8	498.0	102.4	52.3	16.7	18.6	4.4	175.3	0.0	176.1
Industry	137.2	187.9	914.6	365.3	328.0	52.9	95.0	91.6	485.4	257.7	39.4	60.6
. Garments	*68.1*	*132.6*	*174.4*	*89.4*	*69.1*	*42.3*	*47.8*	*31.3*	*21.4*	*16.4*	*35.0*	*21.9*
Services	168.4	91.8	155.5	2939.1	311.1	148.2	4064.9	4450.5	1339.6	495.6	0.0	150.2
. Hotels and tourism	*124.1*	*55.9*	*102.6*	*345.0*	*199.2*	*93.7*	*4015.0*	*3481.3*	*1168.1*	*254.1*	*0.0*	*150.2*
Total	309.3	292.0	1096.9	3802.4	741.5	253.4	4176.5	4560.7	1580.3	928.6	39.4	386.3
	Percentage change from previous quarter											
Total	-	-	-	-	-35.9	-78.1	1548.2	9.2	-65.3	-41.2	-95.7	882.0
	Percentage change from previous year											
Total	22.1	-5.6	275.6	246.6	-23.7	-49.1	2083.2	294.2	113.1	266.5	-99.0	-91.5

Including expansion project approvals. Source: Cambodian Investment Board

Table 2: Value of Construction Project Approvals in Phnom Penh, 2003–09

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	USD m											
Villas and houses	20.0	30.3	45.5	33.1	20.2	45.3	17.6	52.1	39.7	32.1	6.7	2.2
Flats	91.6	167.6	204.2	213.3	57.6	40.9	55.1	65.6	60.0	95.2	18.9	6.3
Other	87.3	65.6	109.1	76.8	94.3	51.2	68.2	369.3	252.2	53.7	36.7	12.2
Total	198.9	263.5	358.8	323.3	172.2	137.3	140.9	486.9	351.9	181.1	62.3	20.7
	Percentage change from previous quarter											
Total	-	-	-	-	-4.2	-1.4	2.6	245.6	-27.7	-48.5	-65.6	-66.8
	Percentage change from previous year											
Total	-9.5	32.5	36.2	-9.9	120.2	-1.4	-2.6	170.9	104.4	31.9	-55.8	-95.7

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3: Foreign Visitor Arrivals, 2003–09

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Thousands of passengers											
By air	456.0	626.1	856.5	1029.0	368.8	402.0	262.0	259.2	316.2	335.2	221.2	247.2
By land and water	245.0	428.9	565.1	672.9	239.2	242.2	192.0	186.3	261.4	287.1	243.0	240.2
Total	701.1	1055.0	1421.6	1701.9	608.0	644.2	454.0	445.5	577.6	622.3	464.2	487.4
	Percentage change from previous quarter											
Total	-	-	-	-	40.8	6.0	-29.5	-1.9	29.6	7.7	-25.4	5.0
	Percentage change from previous year											
Total	-10.9	50.5	34.7	19.7	17.8	17.0	6.9	3.2	-5.0	-3.4	2.2	9.4

Source: Ministry of Tourism

Table 4: Exports and Imports, 2003–09

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	USD m											
Total exports	1708.1	2108.1	2352.8	2799.9	793.4	803.1	539.6	928.7	728.6	721.4	433.5	245.3
Of which: Garments	1628.4	2027	2253.3	2698.9	727.1	*773.4*	*463.8*	*868.8*	*678.8*	*606.9*	377.3	240.0
Rubber	35.1	38.3	36.7	41.4	14.6	7.0	11.0	12.9	5.2	11.8	8.2	4.9
Wood	10.2	11.1	10.3	8.6	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0
Fish	2.8	10.6	10.1	5.9	0.9	0.7	0.3	0.6	0.6	0.9	0.7	0.4
Total imports	1824.9	2149.0	2513.0	3057.0	982.7	983.8	1178.5	1027.1	916.3	987.7	1060.8	366.5
Of which: Petroleum products	191.6	187.0	184.8	238.5	58.9	60.0	64.6	68.3	62.9	67.3	72.2	89.0
Construction materials	80.8	95.3	134.7	154.4	32.5	39.7	40.7	35.6	29.9	41.4	30.9	9.9
Other	1601.3	1914.0	2245.0	2731.0	891.3	884.1	1073.2	923.2	823.5	879.0	957.7	237.5
Trade balance	-116.8	-40.9	-160.1	-257.1	-189.3	-180.7	-638.9	-98.4	-187.7	-157.6	-627.3	-91.2
	Percentage change from previous quarter											
Total garment exports	-	-	-	-	-14.1	6.4	-40.0	87.3	-21.9	-10.5	-37.8	-36.3
Total exports	-	-	-	-	-10.9	1.2	-32.8	72.1	-21.5	-0.9	-39.9	-43.4
Total imports	-	-	-	-	6.3	0.1	19.8	-12.8	-10.8	7.8	7.4	-68.3
	Percentage change from previous year											
Total garment exports	-54.1	-64.9	291.4	19.8	1.6	14.2	-32.6	2.7	-6.6	-21.5	-18.6	-72.4
Total exports	17.5	23.4	11.6	19.0	7.7	13.5	-23.5	4.3	-8.2	-10.2	-19.7	-73.6
Total imports	6.9	17.8	16.9	21.6	21.7	24.4	29.3	11.1	-6.8	0.4	-9.9	-67.2

Import data include tax-exempt imports. Source: Customs and Excise Department, cited by National Bank of Cambodia

Table 5: National Budget Operations on Cash Basis, 2003–09 (billion riels)

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total revenue	1764	2126	2625	3259.2	1146.1	1194.1	1463.6	1297.0	1335.3	1101.7	1252.7	1184.7
Current revenue	1733	2107	2474	2881.8	1141.6	1189.4	1447.0	1288.3	1286.0	1097.7	1245.7	1174.9
Tax revenue	1220	1577	1911	2270.9	965.2	978.0	1255.0	1071.2	1105.7	947.4	1096.5	999.5
Domestic tax	-	-	-	-	661.8	719.9	955.5	776.7	796.3	712.0	838.7	731.8
Taxes on international trade	-	-	-	-	303.5	258.1	299.5	294.5	309.4	235.4	257.8	268.0
Non-tax revenue	513	530	563	610.9	176.4	211.4	192.1	217.1	180.2	150.3	149.2	176.1
Property income	-	-	-	-	13.6	2.9	53.9	11.0	10.2	13.1	9.7	27.5
Sale of goods and services	-	-	-	-	124.3	118.9	96.3	99.7	109.8	93.5	100.9	91.7
Other non-tax revenue	-	-	-	-	38.5	89.6	41.9	106.4	60.3	43.7	38.6	56.5
Capital revenue	31	19	152	377.4	4.5	4.8	16.5	8.7	49.3	4.0	7.0	9.8
Total expenditure	2757	2932	3295	4174.7	1689.7	1059.1	1744.7	1662.8	1831.2	1650.6	1766.1	2089.5
Capital expenditure	1171	1163	1328	1638.1	807.4	411.0	648.2	641.2	874.0	693.6	607.1	759.2
Current expenditure	1586	1769	1967	2536.8	882.3	648.1	1096.5	918.0	1146.4	752.4	1064.7	1290.4
Wages	615	640	711	822.0	362.6	250.7	367.0	363.6	415.7	327.4	515.5	526.6
Subsidies and social assistance	-	-	-	-	194.2	104.3	325.7	111.9	385.2	217.3	185.9	272.6
Other current expenditure	-	-	-	-	325.5	193.1	403.8	442.6	345.4	207.7	363.2	491.2
Overall balance	-993	-806	-706	-915.6	-543.6	135.0	-281.1	-365.8	-495.9	-548.9	-513.4	-904.8
Foreign financing	886	864	1127	1360.7	741.5	299.2	615.8	435.0	705.1	507.8	326.7	484.5
Domestic financing	106	148	-396	-445.1	-185.8	-294.1	-236.5	234.7	168.9	-310.3	236.5	316.4

Source: MEF web site.

Table 6: Consumer Price Index, Exchange Rates and Gold Prices (period averages), 2003–09

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
(October-December 2006:100)	Consumer price index (percentage change over previous year)											
Phnom Penh- All Items	-	-	-	-	12.3	20.6	33.3	28.7	17.8	4.3	-4.8	-3.0
- Food & non-alcoholic bev.	-	-	-	-	18.9	29.5	47.6	37.4	24.1	6.1	-5.2	-2.7
- Transportation	-	-	-	-	9.6	21.7	28.9	27.8	4.1	-13.0	-16.5	-13.8
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riels per US dollar	3973.3	4016.3	4119.7	4119.0	4030.1	3995.3	4030.2	4117.5	4089.8	4111.6	4128.6	4164.4
Riels per Thai baht	95.8	99.9	102.6	108.7	129.3	129.1	125.4	121.9	117.7	116.6	119.2	122.9
Riels per 100 Vietnamese dong	25.6	25.5	25.8	25.1	25.2	25.2	24.9	24.8	24.3	23.6	23.3	23.5
Gold (US dollars per chi)	41.4	46.3	54.0	70.6	94.4	111.6	107.7	106.0	98.2	105.6	110.7	123.2
Diesel (riels/litre)	1508	2088	2633	3140	3679	3982	4975	5495	3768.9	2873.7	3056.9	3867.0
Gasoline (riels/litre)	2150	2833	3442	4004	4368	4580	5171	5391	3861.3	3112.6	3452.4	3371.1

Sources: NIS, NBC and CDRI

Table 7: Monetary Survey, 2003–09 (end of period)

	2003	2004	2005	2006	2007	2008				2009		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Billion riels											
Net foreign assets	4,027	4,797	5,475	7,224	10,735	10,911	11,353	10,809	10,345	11,222	12,611	13,869
Net domestic assets	-698	-467	-450	-282	576	1,136	1,345	1,748	15,13.3	1,266	1,249	1,042
Net claims on government	-128	-209	-421	-953	-1,816	-2,400	-2,678	-2,653	-2,987	-3,048	-2,889	-2,463
Credit to private sector	1,337	1,817	2,394	3,630	6,386	8,050	9,206	9,781	9,894	9,814	10,129	10,127
Total liquidity	3,329	4,330	5,025	6,942	11,311	12,047	12,698	12,557	11,858	12,488	13,859	14,912
Money	937	1,153	1,323	1,658	2,052	2,389	2,467	2,335	2,399	2,545	2,695	2,773
Quasi-money	2,392	3,177	3,702	5,285	9,259	9,658	10,231	10,223	9,459	9,942	11,164	12,139
	Percentage change from previous year											
Total liquidity	15.2	30.0	16.1	38.1	62.9	54.5	43.1	26.7	4.8	3.7	9.1	18.7
Money	15.3	23.0	14.7	25.3	23.8	33.2	41.1	33.4	16.9	6.5	9.2	18.7
Quasi-money	15.2	32.8	16.6	42.8	75.2	61.0	43.5	25.3	2.2	2.9	9.1	18.7

Source: National Bank of Cambodia

Table 8: Real Average Daily Earnings of Vulnerable Workers (Real daily earnings base on November 2000)

	Daily earnings (riels)									Percentage change		
	2005	2006	2007	2007	2008	2009				Feb 09	May 09	Nov 08
				Nov	Nov	Feb	May	Aug	Nov	-May 09	-Aug 09	-Nov 09
Cyclo drivers	8,085	7,469	8,075	9,675	12,628	8,534	8,896	7,738	7,446	4.2%	-13.0%	-41.0%
Porters	6,734	6,545	8,588	9,119	9,005	10,476	10,319	8,159	9,566	-1.5%	-20.9%	6.2%
Small vegetable sellers	7,739	6,390	8,220	8,552	9,926	7,614	9,764	8,323	7,647	28.2%	-14.8%	-23.0%
Scavengers	5,167	4,416	5,422	5,727	4,652	5,170	6,637	7,087	4,693	28.4%	6.8%	0.9%
Waitresses*	4,344	4,412	4,482	4,643	4,327	4,283	4,346	4,574	5,568	1.5%	5.3%	28.7%
Rice-field workers	4,370	5,306	5,516	6,426	8,697	7,044	7,126	5,785	5,003	1.2%	-18.8%	-42.5%
Garment workers	7,359	7,649	7,568	7,240	6,554	6,754	6,691	7,410	7,745	-0.9%	10.8%	18.2%
Motorcycle-taxi drivers	10,595	8,201	10,634	11,872	15,691	11,655	12,148	9,569	9,696	4.2%	-21.2%	-38.2%
Unskilled construction workers	6,712	5,918	6,155	7,777	8,779	6,115	9,956	9,444	8,132	62.8%	-5.1%	-7.4%
Skilled construction workers	12,049	10,316	11,154	11,286	12,710	11,771	13,688	11,918	13,011	16.3%	-12.9%	2.4%

* 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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of DAN, and develop a strategy for how DAN can be strengthened and sustained as an effective collaborative development research network in the Greater Mekong Sub-region (GMS). The final DAN project under the current Rockefeller support programme on Assessing the Impact of China of Poverty Reduction on the GMS will conclude mid-2010. CDRI and its DAN partners will then approach target resource partners for a 'New GMS-DAN' partnership for 2011-15.

In February 2010 CDRI's Executive Director participated in the *Launch of the 2009 ADB-ESCAP-UNDP Regional MDG Report and Workshop on MDGs Beyond 2015* at the ADB Headquarters in Manila.

Research

The following research and research-related activities took place at CDRI over the period January–March 2010.

Economy, Trade and Regional Cooperation Unit: A study of Chinese investment in Cambodia and a rural wage survey have been completed. The second draft of "Maximising Opportunities of Chinese Investments in Natural Resources in Cambodia", is being revised and will be finished by mid-March 2010. The third round of a rapid assessment of the impacts of the economic crisis on Cambodian households-a joint research project with the Poverty, Agriculture and Rural Development programme—has been submitted to the World Bank. A survey of 750 households and data processing for assessing the socio-economic effects of GMS projects has been completed, and the research team has started analysing The first draft of a study on the second round of impacts from the global financial crisis has been sent to the Overseas Development Institute (ODI) for comments. The revised country research proposal for a project titled "Different Streams, Different Needs and Impacts: Managing International Labour Migration in ASEAN" has been submitted to and accepted by PIDS (Philippine Institute for Development Studies).The DAN 8 joint research project on China's impact on poverty reduction in the Greater Mekong Sub-Region has made good progress. The network members held a retreat and research workshop on 12–14 January in Kunming, China, at which preliminary results were presented and discussed.

The Democratic Governance and Public Sector Reform Unit: Five research projects have been carried out. "Local Governance of Common Pool Resources: The Case of Irrigation Water in Cambodia" is finalised and in the stage of language editing. For "A Qualitative Impact Assessment of the One-Window Service Project", the team has finished its fieldwork in three provinces and is currently producing a report for the World Bank. The team had a video conference to present its preliminary findings to the World Bank in early February; a first draft report was sent at the end of February. A second draft of "Understanding Civil Society-Parliamentarian Engagement in Cambodia" has been sent to ODI for comments; ODI has accepted the paper and asked the team to address a few further comments (should ODI have any) when the parallel papers from the other three countries (Thailand, Vietnam and Indonesia) are synthesized later. "Analysing the Cambodian State: Is It Developmental?" has progressed to the stage that the team has discussed with the external adviser (Un Khieng) and developed a preliminary outline. An additional literature review, especially on Cambodia, was scheduled from February to March to consolidate the outline, along with a few key informant interviews. "Gender in Local Government: Collaboration with a Local Governance Organisation" has begun. A concept note has been produced in which three topics related to gender in local government are proposed. Once it is decided which topic is to be undertaken, a literature review will be carried out.

Natural Resources and the Environment Unit: The Water Resources Management Research Capacity Development Programme has collected and entered data from 300 households in Kompong Chhnang, Pursat and Kompong Thom provinces) for the core module of the economic component and conducted focus group discussions on the governance component. The water team is conducting provincial workshops in the three provinces to disseminate and verify research findings of the three components (governance, physical and economic). The programme is seeking to recruit an adviser in water governance and hydrological modelling. The programme has been working with provincial departments of Water Resources and Meteorology to map the 10 targeted irrigation systems. A technical person from Institute of Technology of Cambodia has been invited to join the physical component to assist the hydrological modelling. The programme "Tropical Forests for Poverty Alleviation—from Household Data to Global Analysis" is continuing cleaning and analysing data in collaboration with the Centre for International Forestry Research's data management person. For "Building Community Capacity for Poverty Reduction Initiatives in the Tonle Sap Basin", a series of commune workshops has been conducted. For "Building Resilience of Community Fisheries in the Tonle Sap Lake: Collective Action and the Capacity to Manage Resource Competition", a working paper entitled "Environmental Resource Conflict in Cambodia" is being drafted with a view to its publication in the near future; the section on fisheries conflicts is completed and four other sections are in progress. "Sustainable Pathways for Attaining the Millennium Development Goals" is a one-year project supported by Stockholm Environment Institute. A draft report was submitted to the SEI's regional office in Bangkok and is being revised in accordance with comments from the donor.

Poverty, Agricultural and Rural Development Unit: The Poverty Dynamics Study quantitative data analysis has almost been completed with external expert assistance. We will consult on the results with the World Bank to finalise and draft the technical report. Progress on the rapid assessment of the impact of the economic crisis on Cambodian households is described in the paragraph on Economy, Trade and Regional Cooperation. A research article entitled "Informal Risk Management/Safety Net Practices: Experiences of Poor and Vulnerable Workers and Households" was written for Annual Development Review 2009/10. Projects to assess the socio-economic effects of the Greater Mekong Sub-region southern coastal corridor and GMS communicable disease control, funded by the ADB, have completed fieldwork and data cleaning and entry. The research teams are working on data analysis and draft outline country reports. "Building Resilience of Community Fisheries in the Tonle Sap Lake: Collective Action and the Capacity to Manage Resource Competition" is commissioned by WorldFish, funded by the Consultative Group on International Agricultural Research. Five case studies using participatory action research were completed and a report written and sent to WorldFish for feedback.

Social Development Unit: The "Key Manager Baseline Study for Health Sector Support Programme" is in the final stage of analysis and reporting. The project was slightly delayed by a health problem of a key partner's staff. The project "Incentives and the Retention of Health Workers in Rural and Disadvantaged Areas of Cambodia" is going well. The research team has just completed the fieldwork and data entry and is now analysing and writing the report. The project is expected to meet the deadline at the end of March. International Conference on Improving Heath Sector Performance: Incentive, Motivation and Institutions is going well. "Safety Diagnosis of Crime and Violence in Five Urban Poor Communities in Phnom Penh" is at the final stage. A final report is being developed after comment from a UN expert team and a consultation workshop with stakeholders to validate the findings. A conference on health sector institutions, incentives and motivations, to be held 26–28 April, is on track. All the speakers have confirmed, and the review committee is reviewing the commissioned papers. CDRI has entered a contract with University Research Co. to financially support the publication of conference papers.

The unit's Peace-Building Training Programme has concluded its three-year project and is now engaged in another one-year project with support from Oxfam Novib, Netherlands. The team is working on reorienting towards research-based training. A review of the programme's training curriculum was conducted by an internal consultant and now the training team, with involvement from researchers, is designing two pilot projects: water conflict training in Kompong Chhnang and decentralisation and deconcentration-related training. After the pilot projects, there will be a reflection session on strengths and weaknesses. During this period, Net Neath was promoted to research fellow and Sok Sethea to research associate. A research associate with education and peace expertise and a research assistant joined Social Development. Ongoing capacity building is provided to programme staff.

Since 2007, CDRI has been regularly holding bi-monthly research workshops on development issues to share findings and strengthen research quality by discussing, improving methodology and conceptualising and analysing research themes. The presenters in these workshops are from CDRI as well as researchers and practitioners from different institutions, and NGOs in Phnom Penh. During this period the presenter from CDRI was Dr Tong Kimsun, the programme coordinator of the Economy, Trade and Regional Cooperation unit. An outside presenter was Prof. Bent Jorsensen from School of Global Studies at Goteborg University, Sweden. The topics included macroeconomic development, poverty, governance, trade and natural resources and agriculture.

CDRI UPDATE

Management

2010 marks CDRI's 20th anniversary. The anniversary will be celebrated with three major activities during the year – a display and photo essay of major milestones and achievements, launched at the 2010 Cambodia Outlook Conference in March 2010; a mid-year party celebration for current and former staff, Board members and stakeholders, and an end of year CDRI staff retreat for reflection on CDRI's role in Cambodia and its priorities for the future. CDRI also launched its redesigned and technically enhanced website at the Outlook Conference, along with its 2009-10 Annual Report.

The 4th annual Cambodia Outlook Conference, a partnership of CDRI and ANZ Royal Bank, on the theme *'Returning to a High Growth Economy – Policy Priorities and Action for Growth and Sustainable Development',* was held in Phnom Penh on 17 March 2010. The opening keynote address to more than 300 participants was again presented by Cambodia's Prime Minister Hun Sen. The programme, presentations and associated conference materials are available on CDRI's redesigned website. A series of Cambodia Outlook Briefs reflecting the major issues and recommendations for policy and action are in preparation for distribution to conference participants and others in the Cambodian development community. The mid-2010 issue of CDRI's Cambodia Development Review will be a special issue featuring articles on the Outlook Conference theme and session topics.

Following the Outlook Conference, CDRI held its 2010 full Board of Directors meeting on 18 March. The Board endorsed the preliminary framework for a 2020 Cambodia Country Research Strategy to guide its future research and policy agenda, its 2011-15 Strategic Plan, and to be as the basis for resource mobilisation, including broad longer term development goals. This will be further developed in consultation with the government and other major stakeholders throughout 2010, then promoted to development partners as the basis for coordinated future support for CDRI. The Country Strategy will include a focus on the role of China and other major players in the Greater Mekong Sub-region, what sorts of change might be anticipated, and what this means for Cambodia's development, and for China-Cambodia-Laos-Thailand-Vietnam relations and sub-regional and regional integration.

CDRI management also reported a healthy financial result for 2009 to the Board of Directors meeting, with a further expansion of its resource base, both in finance and people, and a modest surplus generated as a contribution to reserves, with similar prospects for 2010. However the challenge of longer term sustainability remains, and CDRI will be seeking to secure longer term resource partnerships its international development partners and other agencies, and a better balance of programme and project based resourcing over the life of the next 2011-15 Strategic Plan.

CDRI and its partner institutes in the Development Analysis Network (DAN) from Laos, Thailand, Vietnam and Yunnan province of China, have held two planning retreats, one in Luang Prabang in August 2009, and one in Kunming in January 2010, to review the role, value, achievements, strengths and weaknesses

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