ISSN 1560-7607

CAMBODIA DEVELOPMENT REVIEW

A Publication of the Cambodia Development Resource Institute

VOLUME 6, ISSUE 3 JULY-SEPTEMBER 2002 $4.00

Private Sector in Cambodia – Glimpses from Case Studies

This article aims to examine the growth and success of the private sector in Cambodia, with a view to determine impediments to and opportunities for growth, as seen from an entrepreneurial perspective. *

The findings are based on case studies conducted with enterprises to gather information on their establishment, growth, problems faced and coping strategies of individual enterprises. The problems themselves suggest a need for public policy.

A commercial farmer began with only 0.5 hectares of land in 2000, and in a year, was able to sell 4.7 million riels (about US$ 1,200) worth of vegetables.

The Data

Ten case studies were prepared on relatively successful entrepreneurs. The enterprises were selected from the primary, secondary and tertiary sectors. Small and large-scale enterprises were interviewed, and traditional as well as modern business units found place in the study. Efforts were made to seek representation of business units located outside Phnom Penh as well. The sample consists of a banker, a hotel owner, a diversified construction/ trade/ plantation company (C-T-P in short), a brick manufacturer, a fish-sauce maker, a plastics-manufacturer, a bakery, a handicrafts maker, a poultry farmer and a commercial vegetable farmer. The interviews were detailed, which helped to obtain a historical profile of the growth of business through the 1980s/1990s and beyond.

Origins of the Business Community

In Cambodia, historically, people migrating from outside came to control trade since the early times, with the help of technology and by monopolising transportation. Initially many were travelling merchants but gradually a small community settled locally, and created a new community of Sino-Khmer.[1] The Sino-Khmers possess knowledge about business and commerce that has been passed down from one generation to another. Additionally, being a progressive minority, they are a closely-knit community and community bonds are helpful in furthering business and commercial interests.[2] Most respondents admitted that they maintain their kinship network and invest time and resources nurturing it. As a result, they have become influential in the non-agricultural sectors. All 10 in this sample are of Sino-Khmer origin.

Growth of Business

Nine out of 10 businesspeople from the case studies began from relatively humble origins. All the entrepreneurs learnt the skills of doing business on the job and grew as the economy grew – some grew more rapidly than others.

The bank selected for the study grew rapidly from an asset base of about US$8 million in 1993 to over US

In This Issue

* This article is a shorter version of a paper to appear in CDRI's Annual Economic Review, 2002. It has been written by Sarthi Acharya, with inputs from Sok Hach, Chan Sophal, So Sovannarith, Chea Huot and Kang Chandararot, Pon Dorina, Prom Tola, Chim Charya and Kim Sedara.

$124 million in 2001. It opened several branches in provinces as well. Two main factors led to success: first, it mobilised money from the expatriate Khmer/Sino-Khmer community, and second, it created a niche for lending money among a wide base of Cambodian middle and upper-middle class businessmen who otherwise would not have found institutional finance. Similarly, the hotel grew rapidly from a small 27-room establishment (in 1993) to one that has 157 rooms of varied facilities (in 2002), in addition to a new semi-luxury category hotel in another city. The business currently has an annual turnover of over one million US dollars. This multi-fold rise in the assets/income has been the latest in a series of successful ventures by the owner and his family (in trading) before they came into the hotel business. Initially he earned money because UNTAC and its staff wanted all the possible space in Phnom Penh. Later, with considerable and consistent efforts lobbying international NGOs, medium budget officials and tourists, the hotel created a niche among certain types of foreign visitors. The C-T-P group, a tightly knit conglomerate of seven companies, also grew out of virtually nothing to over US$30 million in assets now. This group's story goes back to the 1980s, when the export of plantation products was among the few options in the country. Having earned some handsome profits from exporting plantation products, the owner began to diversify into construction, and finally moved into the vertical integration of plantation sector activities.

Among the relatively small companies and businesses, the one that showed a ten-fold increase in capital, from US$10,000 to US $100,000 between 1994 and 2001, was the poultry farm. Quality assurance and the creation of niche markets were the key elements to the farm’s success. The bakery began operations much earlier, in 1979. In the earlier days their products were marketed mainly in localised neighbourhoods but after 1994, the company climbed on to a high growth trajectory. The commercial farmer began with only 0.5 hectares of land in 2000, and in a year, was able to sell 4.7 million riels (about US$ 1,200) worth of vegetables. The fish sauce manufacturer, who began operations in 1986, has also experienced rapid growth. The handicraft enterprise began as a very small unit in 1997, but was able to sell more than US$20,000 worth of products in 2001. Problems of unequal trade conditions with neighbouring countries and acute competition have, however, disturbed the growth of the brick making unit (started 1991). The plastics-company, which started in 1993, has faced shutdown in the face of cheap imports on more than one occasion. It has not performed in the same fashion as the others in this sample.[3]

In short, many enterprises captured markets early enough in key areas where there was demand. They then grew as the markets expanded. International competition is low in these areas. Business success has been higher in the primary or tertiary sector.

Many enterprises captured markets early enough in key areas where there was demand. They then grew as the markets expanded. Business success has been higher in the primary or tertiary sector.

Technology and Management

The bank began in 1993 as a family business with 19 people (mainly relatives) employed. Employment has now grown to over 250; most are skilled. The owners are aware that ownership and management are separate concepts and that the roles of each should be clearly defined. The bank has acquired technology through strategic alliances with international groups like *Swift* (money transfers), *MasterCard,* and *Visa* (credit cards), and *Cirrus* (automatic teller machines). Modern technology is not cheap, but the productivity gains compensate for the expenses incurred. The hotelier family learnt the trade the hard way. Some learnt the business from other hotels in Cambodia and Thailand; others learnt information technology, while still others acquainted themselves with accounting, etc. Every mistake was consciously rectified and the lessons learnt. The owner and his wife alone are formally the ‘owners’ while the offspring are ‘salaried employees’. Despite this, they have not really tried to separate ownership from control; this may constrain further growth in the future. Until now, however, the concentration of skills and management within the family has guaranteed huge savings, no leak of funds and ensured each member works hard.

The C-T-P group, in contrast, has leaned on the technologies and management styles of multinational companies with whom it has collaborated. It has also engaged highly trained expatriate staff. In terms of management practices, initially cousins and uncles were relied upon but this practice is slowly giving way to hiring professional staff. However, tension between family control and professionalism does exist. The poultry farmer gets his technological expertise through a partnership with a Thai company. A relative of the present owner, who introduced him into the business, sent him to work in a well-established poultry enterprise in Thailand to learn the business and its technical details. The owner obtains his stock of poultry from the Thai company; he maintains that the fowl are more scientifically reared in Thailand. Birdfeed, too, is obtained from the Thai company. The farm has acquired skills to create optimal mixes of bird and animal feed to obtain the best results. The owner earlier tried to adapt locally available technology but did not succeed. The dependence on his Thai partner therefore continues.

The handicraft entrepreneur has not invested in developing or acquiring technology for either stone cutting or polishing. There is therefore wastage of stone in both carving and chiselling. This increases the costs of input as well as transport. The owner expresses his inability to do much about it: he has no resources to get better quality machines or trained manpower in his province. He finds it more profitable to contract skilled workers on a job-basis. He maintains that there are people who have artistic skills, and it requires no special effort to keep these alive. The owner’s belief that artistry, rather than modern technology holds the ultimate advantage, could be problematic in the long run. The owner of the bakery knew the trade from earlier than 1979, and therefore had the advantage of being among the first. All the machinery and equipment are of Chinese origin. Packaging material comes from China and Thailand, a cause of regular delays and high costs due to poor transport facilities and informal payments. Efforts at contracting local firms to supply packaging material have not been successful; both for want of quality and cost. The vegetable farmer, who obtained his earlier training from an NGO, is aware of the benefits of modern technology in increasing yields but feels financially constrained, and tends to make small, selective investments. The brick maker employs traditional methods for brick manufacture - his principal fuel is rice husk He is not undertaking modernisation for want of inputs and technologies. In the short-term modern equipment will raise costs, resulting in reduced competitiveness. In any case, coke is not available on an industrial scale in Cambodia, which limits the possibilities for development in this industry.

For fish-sauce, local materials including equipment are adequate. One of the factors inhibiting expansion is the bottling capacity. This manufacturer is therefore unable to penetrate the upper segments of the market. The plastics-factory acquired equipment in 1991 through a Taiwanese dealer. His technology is obsolete. While the owner thinks less of technical issues compared to commercial and market-oriented ones, the reality is that the technology, scale, and up-keep are all too expensive, making his unit less competitive. Earlier he imported raw plastic from Singapore and Korea; later he began to recycle used plastic waste. This cut costs, though his product quality deteriorated. He has now reduced the number of employees, and pays them on piece-rate. This has further cut costs and kept him in business.

In short, those who opted for modern technology have gained more than those who have not. Those who use old methods are not even aware that they are losing out. There is little in the form of locally available modern technology or an institutional means to access it from elsewhere. Many entrepreneurs have cut on labour costs to remain competitive rather than reap the benefits of modern technology. Earnings of workers are low in such cases. Almost every business studied here has had tight family control over the management. While in the initial stages this was both necessary and advantageous, this family-oriented approach may not be the most optimal choice as the sizes of operations grow.

Finance

In the context of the bank, it is meaningful to discuss the uses and circulation of money rather than source of money *per se*. This bank has obtained all its initial capital from overseas Cambodians, through a diversified investment corporation. The bank is one of these downstream companies. The bank now receives deposits from local business as well as private citizens. It lends to local small, medium as well as large organisations. Part of the risk that the bank takes is cushioned by ethnic and kinship factors. The Sino-Khmer community is tightly knit and the pressure on borrowers not to default is high. There is, though, virtually no transaction between banks and financial institutions in the country - this limits banking operations. The hotel, despite its present size, has been exclusively dependent on its own funds. In the 1980s, the owner first earned handsome profits from the bullion trade. Once the hotel was established in the early/mid-1990s, placement of family members in many key positions has reduced costs and ensured no financial leaks, and hence earned the owner yet more profits. The vertical integration of activities – having one’s own power generator, in-house laundry, a fleet of guest pick-up vehicles, ticketing arrangements, are some examples – also keep costs low. Part of the profits was used for working capital, and part, for accumulation and business expansion.

The C-T-P group has developed strategic associations with influential officials to obtain trading rights in some primary products, the original money-spinning activity. The cash was then used to lever more capital from the market, banks and overseas corporations. This is the only business, other than the bank, which seems to resemble modern practices in mobilising capital. The poultry farm earlier (in 1997) got 50 percent of its capital by contracting a loan from a bank at an annual interest rate of 24 percent. This is the only institutional finance that this business has obtained; all subsequent requirements for both fixed and working capital have been obtained from its own sources, or through arrangements with the partnering Thai company. The handicraft firm is located outside Phnom Penh and facilities for institutional finance outside the capital city are few, if any. The owner thus uses his own resources and savings, including borrowing from relatives. The bakery owner gets bulk orders, and payments are made only after the merchandise is delivered. For working capital, he is frequently ‘forced to borrow money’ from a bank at an annual rate of 22 percent.[4] Borrowing raises costs, and cheap products from Thailand begin to compete with his products, a phenomenon becoming worse with the dollarisation of the Cambodian economy. A similar attitude was expressed by the commercial vegetable farmer, who maintained that fixed capital needs should be met from one’s own resources while for working capital only occasional borrowing is acceptable, at low interest rates. The fish-sauce maker relies on his own savings and family sources (up to 70 percent) and on loans from a moneylender (30 percent, at an annual interest rate of 24 percent) for setting up and expanding his business. For working capital, internal funds are ploughed back in. He had tried once for a bank loan but the procedures, delays and unofficial fees thwarted his efforts. The brick maker had a similar story to narrate – that relatives and friends are the only reliable sources. He once underwent training at a micro-credit bank, but was unable to get a loan, as its loan ceilings were lower than his needs. The plastics-company owner got into partnership with a relative to raise money for fixed assets. The working capital needs are met from internal revenues.

In short, institutional finance is virtually absent in Cambodian business. In the process the leverage that institutional and market finance can provide for business to grow is absent. The problem is of inadequate supply, high costs and inadequate tenurial rights, and the consequent attitude of potential borrowers towards loans. This attitude also prevails because of very high interest rates. Most institutional finance agencies are rigid, offering very limited services. Ineffective legal and financial governance systems are often quoted as reasons. The institutional credit supply problem is higher outside the capital city.

Marketing Strategies and Problems

The bank offers loans to segments of business that are not served by others. It has also come out with innovative schemes for small and medium enterprise (SME) start-ups: loans of up to 90 percent of the value of the fixed assets of SMEs, along with profit-sharing arrangements and business advice. Many analysts think that the bank has 'spread too thinly' and is subject to risks. However, the owners feel that returns on capital are high – this is why people regularly pay such high interest in the open market – and therefore it is worth going for the spread, particularly when the loans are hedged by sufficient collateral. The bank also attracts customers because it takes very little time to process loan applications, offers credit card and ATM services, and encourages middle class depositors.

The hotel has created a market for itself among international NGOs and middle-budget tourists through a number of measures. These include continental food, credit card payments, hot and cold running water, etc. The strategic location of the hotel, where many international NGOs also have their offices, has helped. However, the owners see that the going may not be easy forever. There are many competitors emerging with attractive packages. The initial marketing strategy of C-T-P was to become the monopoly exporter, thus guaranteeing a safe market. As the business diversified, a number of approaches like strategic tie-ups with international partners, and diversifying in primary products and services where there is not much international competition, were adopted.

The poultry farmer supplies up to 80 percent of his products – chicken, eggs etc. – to large restaurants, hotels and supermarkets in Phnom Penh. In the egg market, one of the reasons why his product fetches a better price compared to many others is the larger size of the eggs, thanks to the transfer of quality technology from abroad. The market, though, is price sensitive, and there is stiff competition from local as well as cheap foreign products. While fair competition is welcome, illegal dumping/smuggling of eggs and other poultry products from both Thailand and Vietnam have been reported. Recent attempts by the government to crackdown on smuggling have been welcomed, but poor implementation, however, is a cause for concern. Next, wholesale merchants control the prices and can drive the buying price very low. There was once an attempt to form an association of poultry farmers to stabilise the prices, but lack of knowledge and experience thwarted this attempt. The weakening of the Thai baht and Vietnamese dong has also adversely affected profits.

The handicraft market is highly quality-conscious. Also, there is competition from Thailand. This entrepreneur keeps out of the competitive tourist market. He has so far sold his products to local art collectors, elites and overseas Cambodians, mainly against orders. Being near stone quarries helps to keep transport costs low, though they could be lower. He does not see easy times ahead. For one, he has no machinery that would ensure product standardisation and quality. Next, his workers are not skilled enough to meet international quality standards. Thirdly, being located outside Phnom Penh is a handicap. Lastly, marketing is expensive and requires a different expertise.

The baker had faced fluctuations in sales of 30-50 percent due to the 1997 crisis, as well as the Asian Financial Crisis. Part of his clientele, expatriate Cambodians, visit less frequently now. He also repeated the exchange-rate argument. Again, like earlier, smuggling of cheap products from across the border cut into his market. The owner also complained that Cambodia has become a high cost economy owing to expensive electricity, high transport costs and informal payments. An additional problem with regard to the market is defaults and delays in payment by many dealers.

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The commercial farmer sells his produce both through dealers and through direct marketing. In the dry-season, he faces price fluctuations. To overcome this problem he ferments and/or dries his vegetables to sell them later. He said that maintaining good relations with dealers as well as moto-drivers is critical to marketing his products. He complains that at times he has to pay informal fees to get his merchandise to the market. The fish-sauce maker has markets in Phnom Penh-based restaurants as well as those in at least three other provinces. Targeting the produce at middle-class Khmer restaurants and pricing the output competitively are key factors to his marketing success. He has no illusions about growing and diversifying beyond his present scale, he would have to target the higher segments in the market (bigger restaurants, larger hotels, international tastes), in which there are a number of imported products to compete with. Advertising is out of the question because of high costs and uncertain impact.

The brick maker has segmented the market according to the order of importance: schools, warehouses, and finally small retailers. Of late other local manufacturers have begun to crowd the market, which has affected his sales. Being outside Phnom Penh is another huge drawback. Next, while he is able to sell his products in Cambodia (three provinces), efforts to export bricks to Thailand despite a 1:3 price advantage, have not materialised. Both quality and trade barriers are responsible for this. Added to his problem are the defaults and delays in payments from his buyers. The plastics-manufacturer repeated what the others said: that repeated shocks in the economy; devaluation of currencies in neighbouring countries; smuggling of cheap plastic products from across porous borders; and high costs, particularly of electricity; have all but killed a nascent and fledging plastics industry. Additionally, small-scale producers of low quality products illegally fake the labels of well-known companies (like his) to obtain a market for themselves, which further affects genuine manufacturers.

In short, some entrepreneurs have created a monopoly-like position or a strong market niche. Macroeconomic factors like dollarisation and external shocks have been harmful; obsolete/ rudimentary technology, poorly endowed workers and a 'high cost, low productivity' infrastructure, have all kept Cambodian industry less competitive; a very open market has not permitted local entrepreneurs to grow in the tradable segments of the market; and lack of effective governance – porous borders, high informal fees, inability to give or get credit guarantees – has been an inhibiting factor.

Entrepreneurship

The *first-movers* had/have obtained near-monopolies or important places for themselves, and some have made tremendous strides. They have taken calculated risks at the right times and cashed-in on these. Some diversified while others entered new fields and yet others expanded on their existing activities. The better the business sense exercised – both with respect to the choice of the product and the market – the more the business grew.

It has paid to create and maintain strategic alliances. Besides the kinship links, there are business alliances reached with international companies and even contacts developed with influential figures that have helped further business goals. One may be tempted not to consider some of these modes of operation as ethical or fair business practices, but Cambodia in the 1980s and 1990s was not a classical market. It had emerged from ashes: law and rules had to be made, business systems had to be established, capacities had to be built, governance processes had to be put in place, people's confidence had to be won, etc. It is only rational that a few chose to take the route of finding favours with the powerful.

People who weathered the earlier years nurtured a vision. They halted at the right intervals to take stock of their progress and also undertook mid-course corrections and/or changes in direction. The entrepreneurs worked very hard – often seven days a week, round the year. They also deployed their family members and relatives for unforgiving numbers of hours each week, for endless weeks. Such an approach cut costs and kept them in competition. Many now are sending their offspring to business schools so that the next generation is able to do business using modern methods.

Why did some entrepreneurs grab early opportunities while others waited for better times? There is no unique answer; there are a number of conjectures, though, that are only partly supported by data. There is a typology of at least two types of businesspersons. First, there are those who are 'risk-taking entrepreneurs with foresight'. They had other choices, probably outside the country, but foresaw better times ahead here and risked their resources to become the first movers. Next, there were the 'no choice survivalists', who did what they did because they did not have many choices. Most business owners expressed that they had faith in the 'future of the society' and considered it a duty to work for its betterment.

In sum, entrepreneurship emerged in the form of taking risks at the right moment and using all possible approaches and means to further the business. It began as a fight for survival, which transformed into a triumph. Hard work and unfailing dedication paid.

Concluding Remarks

This paper finds the following: First, being an open market with porous borders, the nascent industry is unable to compete with imported products. Second, being a very shallow economy - unit value added per activity is low - there are few comparative advantages that this economy has. It can deploy very cheap labour, but this does not take an economy too far. Third, lack of finance, technology and marketing, all throttle private industry. Fourth, unavailable or overly expensive infrastructure, increase costs. Fifth, institutions necessary for modern business practises- rating agencies, audits, consultancy firms, to name but a few - are just not available. Fifth, the macroeconomics is not always to the advantage of the local business. Lastly, informal payments add to costs and therefore are a major disincentive.

In terms of solutions, the paper essentially proposes measures that would supplement or strengthen policies that the government and/or donor agencies are already contemplating - in macroeconomics, finance, infrastructure, and business development services. It additionally finds a role for private sector associations and commune councils for furthering the private sector.

Endnotes

1. Such communities have sprung up all over Southeast Asia.
2. There is nothing unique in this behaviour. Jewish communities in Europe and America and the Marwadi and Parsi communities in South Asia also exhibit similar patterns.
3. The reasons for success for each business in food related activities was/is identification of niche markets for non-rice food items in a period when urbanisation was on the rise and demand for non-rice and processed food products was rapidly growing.
4. This attitude towards credit is certainly archaic in today's world, and reflects that the opportunity cost of one's own resources is zero.

The Development of Micro Finance in Cambodia

Dr. Kang Chandararot, a researcher at CDRI, provides a short analysis of some of the key issues affecting micro finance in Cambodia.

The micro finance system in Cambodia was established at the beginning of the 1990s with the help of micro credit promoters and external aid.[1] In 1990, micro credit was mainly extended by GRET (Group de Recherches et d'Echanges Technologiques). The amount set aside was US$100,000, to serve round 4,000 people.[2] After the general elections in 1993, Cambodia had an internationally recognised government; consequently, additional foreign support was available, and a number of micro finance providers emerged. The number of (national and international) organisations providing micro credit exceeded 30 in 1994 and 55 in 2001. The loans outstanding up to February 2002 were about US $38 million, borrowed by 449,100 clients. At the same time, savings from 211,981 depositors in micro finance institutions amounted to about US$4 million.[3] Micro finance operations are countrywide, spanning across all the 24 provinces. The biggest institution is ACLEDA, providing 58 percent of the total loans outstanding up to February 2002. ACLEDA is presently operational in 14 provinces.

The credit needs of the rural poor are not being met. Up to February 2002, only 23 percent of the total number of families in rural areas had access to institutional finance.

A new national institution, the National Rural Development Bank, was established to promote micro finance in early 1998. It has been assigned the task of co-ordinating finance and refinancing all micro finance institutions and commercial banks that have the intention to support rural economic activities. Parallel to this, the National Bank of Cambodia has enacted a Law on Banking and Institutions, to govern and license micro finance institutions. This law has been created to provide opportunities to national and international financial organisations and credit providers, to undertake micro finance activities as well as link micro finance activities to the formal banking system.

Despite this systematic and co-ordinated effort, the credit needs of the rural poor are not being met. Up to February 2002, only 23 percent of the total number of families in rural areas had access to institutional finance. And, according to some, there is a shortage of up to US $ 120 million in credit available to this sector. In the final analysis, the needs of the rural poor can only be addressed if, either the present institutions are able to access additional finance, or new institutions begin to provide micro credit. This paper will examine these two issues in turn.

Accessing Additional Finance

For all practical purposes, micro finance institutions have three options in financing additional credit:

- through the savings of depositors, or/and
- through borrowing from other institutions, or/and
- through extra capital from shareholders and donors.

Thus far, savings with micro finance institutions are small. The average saving per member (up to December 2001) was just US$19, while the average loan per member reached US$81. The proportion of credit financed by savings was on average only 23 percent. The highest ratio between savings and credit was registered at 95 percent with the institution USG, while ACLEDA, by far the biggest institution, achieved a figure of just 10 percent. On this evidence, it would seem that credit is predominantly financed by loans from other institutions and/or from shareholders, and not from savings.

In terms of gaining additional credit The Rural Development Bank (RDB) is deemed the most important institution. But according to the requirements of the Asian Development Bank (ADB) - where RDB's credit capital is found – the RDB can serve only those institutions that are licensed by the National Bank of Cambodia (NBC). There are just two licensed micro finance institutions, E.M.T. and HATHA KAKSEKAR. As a result, only about US$1 million out of the US $20 million credit made available by the ADB, has been transferred by the RDB to users through its two (licensed) partners. This source of financing credit is very restricted if the present stipulation of the NBC and the ADB continues to be enforced.

Most of the micro credit lending institutions (including ACLEDA, which is a specialised bank) rely on the third option; i.e. credit from shareholders and donors. Conditions, however, apply here as well. Firstly, interest has to be paid, and second, an institution has to prove its "financial viability". If an institution does not prove to be financially viable over a reasonable period, it loses the trust of the shareholders, and hence the credit-supply as well. So, how can financial viability be achieved?

Financial viability depends on the lending institution and its clients. The institution has to design and monitor the entire process: the organisational structure, management and administration, and business policies. These elements determine the interest rate to be charged per loan, as the interest has to cover the operating costs of the institution. These include the costs of funds, risks, and expenses related to expanding the business. These costs determine the so-called *minimum rate of interest. The lending institution is financially viable only if the interest rate it charges is equal to or higher than this minimum rate.*

* This article was presented at the Forum Discussion on Micro Credit in Cambodia at Senate, May 09, 2002, organised by the Second Commission of the Senate.

Despite the wages of staff being low, the operating expenses in Cambodia are high. This is due to poor infrastructure in rural areas, high costs of communication, high credit risks, and high costs of funds from donors and shareholders.[4] For example, E.M.T. has fixed the annual interest rate at 48 percent, which breaks down to operating costs (31 percent), cost of funds (15 percent), and cost of business expansion (2 percent). [5] The interest rates for loans, in riel, range from 3-5 percent per month, and in dollars, from 2-4 percent. This was an example from one institution. It is not necessary that all institutions will have their costs covered within 48 percent per annum.

Next, covering costs by setting adequately high interest rates does not necessarily mean that financial viability will be realised. This would be realised only if the borrowers also agree to borrow at that rate and are able to pay the money back. *This is possible only if clients feel they can benefit from the credit despite the interest rate.* Thus, a minimum profit from the venture for which the money has been borrowed has to be ensured, to pay the minimum interest rate. The logical question then is what determines this profit? In every economic activity, there are output prices and input costs. In order to make a profit, prices must be maintained at a certain (minimum) level, and the costs should be contained within a (maximum) ceiling. Could the market and production conditions permit assurance of a profit?

In Cambodia there are three main factors suppressing output prices:

- *Low purchasing power*: Most micro credit clients work in agriculture and small enterprises. Products emerging from their activities are mainly meant for domestic markets, where the number of purchasers is small. Next, the demand for these products stems mainly from the low-income classes whose purchasing power is generally low.[6] This low demand limits the ability of the producers to command a high price for their produce.
- *Role of middlemen*:[7] Middlemen have an important influence in setting prices. Goods are produced in rural areas, while they are often sold in urban areas, and this opens the door for middlemen. Due to poor infrastructure linking the production areas to the market and the poor communication and transport system, only a small number of middlemen are able to operate; creating a near-monopoly situation. The situation is complicated by the procedures related to obtaining licenses for being middlemen, for which they have to incur costs. The smaller number of middlemen narrows the channel to the market for the producers (clients of micro credit). Consequently, they (the latter) are at a disadvantage *vis a vis* the middlemen. [8] The scope to reap sufficient profit, therefore, is small.
- *Competition*: Liberalisation of markets in ASEAN member states, especially for agricultural products, has forced Cambodian farmers (or rural people), who actually represent the main clients of micro credit, to face stiff competition against producers from abroad. The prices of imported products (especially from the agricultural sector) are lower than the ones domestically produced because of better production conditions prevailing there. The price of domestic products has to be kept low for domestic producers to stay in the market. In the recent past, data has shown that the food price index has been negative for some time. [9]

These three factors, affecting price levels, make the poor unsure about borrowing money, since they are not confident about making a profit. The situation is in fact worse, since production conditions too, are adverse - technology is rudimentary and management skills are low. In addition, costs associated with dealing with the authorities are high. Each of these pushes the production costs yet higher. [10]

It is clear that, in the present market and production conditions, clients of micro credit face huge difficulties in realising a profit large enough to cover interest rates set by the micro credit institutions. The high risk incurred by the borrower is transferred to the lender as well since defaults in repayments can and do occur, which in turn makes the whole micro credit a business risky investment. The fact that the poor borrow money, despite the high risk, could be explained because *it is the only chance people have as opposed to remaining poor*. Statistical data showing a relatively high repayment rate, between 94-98 percent (with the exception of CCB with 86 percent and KFA with 88 percent), may not mean that borrowers are better off. More studies on the internal economics of the borrowers may be essential before firm conclusions are drawn. Nevertheless, the conditions are not present for shareholders and donors to invest additional capital in micro credit institutions.

More credit could be provided if commercial banks expand their services to rural areas. At present, commercial banks concentrate their business in urban areas, reasoning that operating in rural areas is a "high risk" venture.

The Expansion of Commercial Banks into Micro Credit

More credit could be provided if commercial banks expand their services to rural areas. At present, commercial banks concentrate their business in urban areas, reasoning that operating in rural areas is a "high risk" venture. What is the high risk?

High risk, here, can originate from risk due to poverty and risk due to low profit in contrast to the investment. Perennial poverty adversely influences the ability to manage a loan. Poor people could use the credit in unproductive ways; for example for covering immediate costs like medical bills, funeral and wedding fees or even paying for food. Poverty can also affect the willingness and ability to repay.

Even if the risk due to poverty is discounted, commercial banks still foresee risk in extending credit to the rural people. For example, there is risk due to low profit on investment. It has been described that production and market conditions limit the ability of the poor to benefit from credit: the probability of the profit rate being less than the interest rate cannot be ruled out. Therefore commercial banks continue to provide credit at relatively low interest rates in urban areas, where there is less risk, instead of venturing into rural areas. As of April 2002, based on data collected by the NBC from 17 commercial banks (including Foreign Trade Bank of Cambodia), the average interest rate for 12 months credit, in riels was 21.30 percent, while in dollars, 17.14 percent. [11] The lending, however, was for low risk ventures in urban areas.

In order to get additional credit for micro credit activities, through expansion of commercial bank's services, conditions that ensure high profitability on investment must be met. How this can be achieved will be explicated in the next article in this series.

Summing Up

Micro finance in Cambodia can be an important tool in alleviating poverty but only if certain conditions are met. The institutions need to provide more credit and this has to be financed from somewhere. The licensing conditions of the NBC combined with the credit conditions of the ADB limit the amount of capital available to micro credit institutions. This certainly needs to be addressed through negotiation. It could be financed by encouraging the poor to save more. But this presupposes that the poor have money to save, and this occurs only if their investments make a sufficient profit. Other institutions and commercial banks could provide micro credit but are unwilling to do so due to unfavourable conditions, which makes lending a high-risk proposition in rural areas. The risk to the commercial banks and indeed all credit institutions is a risk transferred from the poor when and if they take out a loan. The rural poor face many difficulties economically. They are unable to get good prices for their products due to the bargaining position of middlemen and the local preference for imported goods. The roads are in a bad condition and communication can be problematic. They have little or no modern technology. These all need to be addressed before they feel confident that borrowing money is more an opportunity rather than a risk. Finally, credit institutions must ensure they charge the lowest possible interest rates.

Policy Recommendations

In light of the issues mentioned above, some policy recommendations can be drawn and need to be acted upon to improve the micro finance system in Cambodia.

1. To hold regular and open discussions between RDB, NBC, ADB, micro finance institutions and representatives from borrowers;
2. To set up a team or body to ensure that the prevailing interest rate is the same as the minimum interest rate required;
3. *To not target micro credit on the poor per se, but to target those people who do not have access to credit from commercial banks or whose applications have been rejected due to the size of their businesses (considered too small).* This will enable broader expansion of micro finance to the whole country, both rural and urban areas. The funds will also be used more productively.
4. To raise import duties on goods that are in competition with those produced by the poor (clients of micro credit). This is the 'infant industry argument', and it would reduce the external pressure on prices.
5. To make it easier for the poor to access markets. For example, laws can be enacted concerning monopolies and trade regulation. If the ability of middlemen to monopolise access to markets and thereby control on prices is reduced, the opportunity for the poor to obtain a better price for their products is correspondingly increased.
6. To improve the infrastructure, especially the roads, so that transportation costs can be reduced;
7. To reform the administration so that the costs caused by bureaucracy and administration will decrease;
8. To target training and education in order to develop the capacity of the poor. Their ability to make optimal use of credit, in the process, will be improved.

Endnotes

1. vg Snab (1985)
2. By interview (13.11.2001) with H.E. Son Koun Thor, Chairman and chief executive officer of Rural Development Bank.
3. Working paper (2002) of NBC and RDB obtained by interview (10.06.02) with H.E. Son Koun Thor.
4. An additional 7% interest is charged; 3% is the so-called country risk (the risk of lending to Cambodia) plus 4% LIBOR (London Inter Bank Offer Rate).
5. The Second Commission of the Senate (2002): Minutes of Forum Discussion on Micro Credit in Cambodia.
6. People from high-income classes prefer goods from abroad.
7. The term also refers to women who play this role in Cambodia.
8. This can be confirmed by a case study conducted in Koh Dach (Kandal Province), 02.04.2002.
9. See CDRI: Flash Report on the Cambodian Economy, monthly.
10. This can be verified by two case studies on brick making in Battambang and a Vegetable plantation in Kandal, conducted in 18.01.2002 and 14.01.2002, respectively.
11. Data document of NBC (2002).

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HIV/AIDS in Cambodia: A Development Issue

As the Barcelona 2002 Conference focuses world attention on HIV/AIDS, Dr. Tia Phalla, Secretary General of the National AIDS Authority in Cambodia offers a development perspective on the HIV/AIDS epidemic in Cambodia.

Although the latest data[1] on HIV/AIDS epidemic in Cambodia shows a decline in HIV prevalence rates among a number of selected target populations, Cambodia may need to consider a number of crucial issues to reverse the course of the epidemic. The first important step is to approach HIV/AIDS not only as a health problem, but also as a broader development issue. Without a broader understanding and broader response to address the structural determinants of the epidemic, such as poverty and other social forces, all the hard-earned achievements thus far attained by government institutions and civil society in the development sector may well be undermined.

Working with the Asian Epidemic Model (AEM), developed jointly by the National Center for HIV/AIDS, Dermatology and STDs (NCHAS) and the East West Center, Hawaii, a Cambodian working group on HIV/AIDS Projection (2002) estimated that since the beginning of the epidemic, 94,000 people have died of AIDS in Cambodia. More importantly, the group predicted that at this rate there could be 237,821 AIDS related deaths by 2010. What is striking about this number is that it exceeds the combined active population of four provinces (Sihanoukville, Stung Treng, Mondulkiri and Ratanakiri). This means a lot for a small country that is trying very hard to recover from two decades of civil war and instability.

The National Census of 1998 also reveals two significant demographic factors about Cambodia's population structure, which have a bearing on the AIDS issue. First, it is clear from the data on sex and age distribution, that during the period of civil war from 1970-1980, there was a remarkable reduction of births, and many of those born during that time could hardly survive. This reduction in the active population leads to an increase in the dependency ratio. Data from the National Census indicates that 1000 working adults support 920 dependants. Therefore, when 1000 adults die of AIDS, their 920 dependants will be indirectly affected by HIV/AIDS and seriously suffer as they loose their normal source of support. In addition to this, people who are now adults, aged from 20 to 30 years old have undergone enormous difficulties during their childhood, when basic infrastructure and services such as health and education were severely affected by the war. As a result, many of those unskilled adults are today ill equipped to survive in an age of globalisation where education and skills are key to productive employment. At the same time, increasing pressures on land, disenfranchisement (loss of land) and reduced access to common property resources has led many to leave their villages and their families, in search of jobs in the cities, and at the Thai border. In such situations they are increasingly vulnerable as they lose their links with their traditional safety net. Males become clients of sex workers, and women are directly or indirectly forced to sell sex. This unique situation is critical since HIV/AIDS hits the most important part of Cambodia's active population, who represent the remaining backbone of our country.

Secondly, another feature of the Cambodian population structure is the low number of males above the age of 45 years. This age group was over 20 years of age in 1975, at the time that Pol Pot took power. This means that in the near future, as result of the increasing number of HIV/AIDS related deaths, an increasing number of children affected by HIV/AIDS will be forced to quit school, to live on the street, and to work on their own as most of them will not have grandparents. This will mean not only unprecedented losses, but also increasing social, economic and security problems that will be difficult to solve unless there are timely interventions, as the direct and indirect costs to the families, the community and the country will increase exponentially.

In the near future, as result of the increasing number of HIV/AIDS related deaths, an increasing number of children affected by HIV/AIDS will be forced to quit school, to live on the street, and to work on their own as most of them will not have grandparents.

The following example may illustrate how the country can mobilise the resources to cope with this direct and indirect cost of the epidemic. A rough calculation shows that about 500 USD is needed to cover the treatment of one AIDS patient (Opportunistic Infections, Anti Retro Viral therapy, Laboratory tests and Home Based Care) per year. It requires 540 USD per year (80 USD from public and 460 USD from parents) to provide education to 10 pupils at primary school. However, both AIDS patient and pupil have their right to access public services.

National Strategic Plan (NSP) for a Comprehensive and Multisectoral Response to HIV/AIDS 2001–2005

Following a Situation and Response Analysis in Phnom Penh 2001, representatives from GOs, NGOs, the UN, local communities and especially PLWAs developed the "National Strategic Plan" (NSP) for a Comprehensive and Multisectoral Response to HIV/AIDS 2001-2005". The NSP calls for effective approaches that take into account both the unique dynamics of the local epidemic and the unique social, cultural and economic context of Cambodia.

As of July 2002, the concept of the NSP for a Comprehensive and Multisectoral Response to HIV/AIDS has been used as a tool for the development of a Strategic Plan in three ministries: the Ministry of National Defence, Ministry of Social Action, Labour and Youth Rehabilitation, the Ministry of Rural Development, and in two Provinces: Siem Reap and Pursat.

Building and Mobilising Social Capital

In the past decade, in addition to loans, donors have provided significant funding to Cambodia to build local capacity and support efforts in the prevention and care of HIV/AIDS. Now that the NSP calls for a deeper and broader involvement of every cell of society, the main question that is repeatedly asked is, "Where will Cambodia find the resources to tackle this epidemic? ".

To cope with this complex issue, there is a need to consider the existing resources in the community as shown in the figure below. And in order to understand the concept of social capital as it is presented here, it is useful to be familiar with some the terminology.

Social networking: Different components of the society are bound together in official and unofficial networks. At the Community level for example, the Village Development Committee and the Funeral Committee can be considered respectively as official and unofficial networks. Along with other elements in the community, they constitute a social safety net for people living in that community. At provincial level, and in the health sector, Prococom is a form of social network between the Health Department and a number of NGOs working to improve the health status of a given province. Moreover, the Health Department is linked by vertical and horizontal lines of coordination.

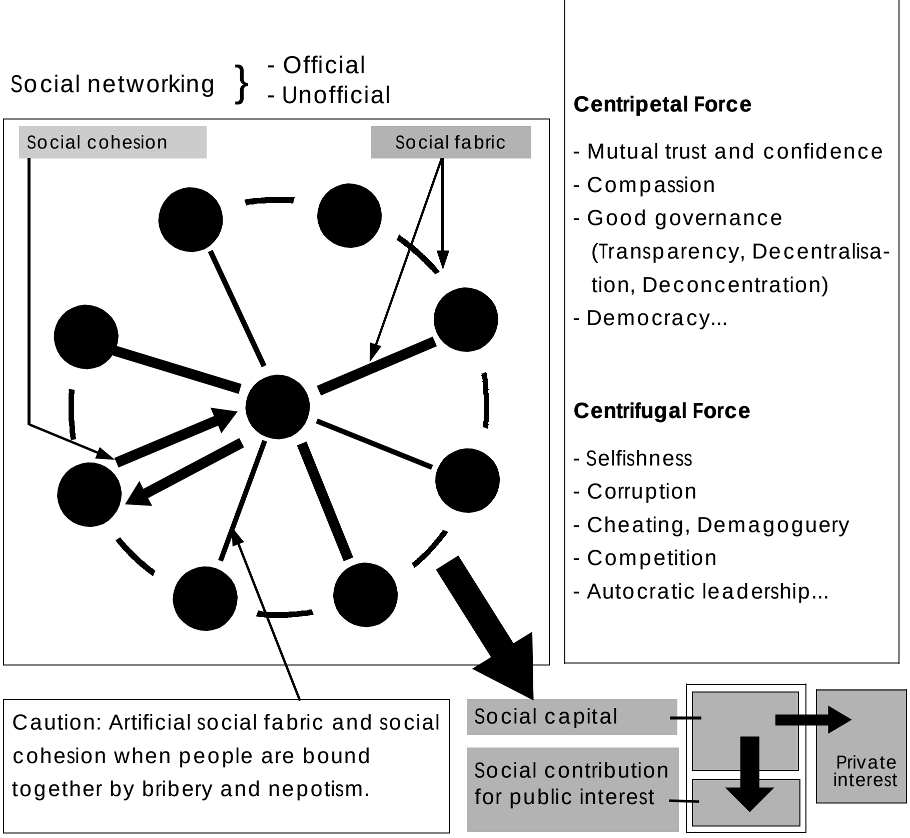
Social fabric refers to the existence and the quality of the relationship between different components of the network. Change and/or stress can damage or break this relationship. The adoption of a new regime, new social values and the massive movement of population in the Khmer Rouge period resulted in the social disintegration of Cambodian society, and destruction of the safety net. South Africa offers another example,"...an increasing number of orphans of AIDS, who grew up without parental support and supervision, may turn to crime. Crime will increase because of the disintegration of the social fabric of our society ".[2]

Social cohesion denotes the closeness of the relationship between those components. It is useful to consider two types of force:

- *Centripetal force*: a force that brings different components of the network closer together. Trust, confidence, compassion, good governance, democracy, the respect of human rights, rule of law, and the preservation of national and cultural heritage, are among the forces that bring people closer to each other and hence, contribute to social cohesion. "Building peace out of the bitterness and pain of Cambodia's past requires the re-establishment of trust, the transition from shame to dignity and pride, from desire for vengeance to acceptance and forgiveness, and a search for ways of living and working together. These contribute to healing and re-building communities. They create and strengthen social capital: a society's stock of inter-personal and inter-group relationships based on mutual trust and respect, and on a sense of the common good." [3]
- On the opposite side is the *Centrifugal force*: a force that increases separation of different components of the network. Selfishness, corruption, cheating, nepotism, autocratic leadership, demagoguery, and bad governance are barriers to social cohesion as they destroy trust and confidence in different components of the network.

Social capital is a feature of social organisations, as are trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions. Social capital is productive as it makes it possible to achieve ends that would not otherwise be attain-

Figure 1: Social Capital



able by individuals alone. Communities and societies where social capital is strong cope better with the epidemic and its impact than those where it is weaker.

Social contribution: Past and current experience would suggest that the individual's perception of social contribution is influenced by how much *s/he* can contribute to a particular activity/event that calls for support. Certainly personal attitudes and self-confidence may encourage or hamper the initiative for social contribution. For example, a farmer possesses a motorbike and some knowledge and experience in carpentry. If he trusts the Bridge Building Committee in his village and feels that he is bound to other village members, he may spend some time working with his friends to build the bridge and allow people to use his motorbike for transport. In contrast, if he has no trust and confidence, he will not contribute anything. In other words, an individual's perception may be the result of either centripetal forces or centrifugal forces.

Conclusion

HIV has up to now been perceived predominantly as a health issue to be treated with a global vertical programme with most of its associated funding being HIV-dedicated. Yet the causal linkages between the HIV epidemic and development are dense and tight.

Priorities are difficult to establish in resource-poor settings, and are often shaped by tied development assistance. By understanding HIV as a factor of development, development resources can be used for HIV, alongside their other aims. Similarly, the resources for HIV can also be used to achieve other related development goals. This is not just a matter of "adding" an HIV component to development programmes but rather of understanding, for example, that community development is a process into which HIV is woven by the way people live their lives, and needs to reflect this.

Therefore, by making use of the social networks established in the development arena, HIV/AIDS can be mainstreamed into existing programmes undertaken by governmental institutions and civil society with the assistance of UN agencies and other donors. Certainly, it is worth making use of the different opportunities at all levels to enhance centripetal forces and reduce centrifugal forces, in order to build a more cohesive society where every member is ready to contribute to the common struggle against HIV/AIDS, its prevention, reduction of vulnerability, care and support. Without strong commitment from academics, researchers, planners, community leaders, grassroots people, and especially policy makers, this social change will not occur. Peace, security and stability are directly related to the creation of social capital, the strength of civil society and its organisations, and to the emergence of moral leaders and socially conscious individuals and intellectuals. Each of these is needed for Cambodia to respond effectively to the HIV/AIDS epidemic.

Endnotes

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Economy Watch — External Environment

The most recent data show that economic recovery has begun in the US and Asia, but some doubts remain about economic recovery in Europe. Results of surveys indicate that consumer and business confidence rose almost everywhere in May. Interest rates have generally remained stable, though foreign exchange rates in the international markets have become more volatile. Commodity prices in the world markets have continued to increase gradually.

World Economic Growth

Economic indicators, until as late as mid-June 2002, showed that the US economic recovery gained strength, although the pace of recovery remained slow. US economic activity - represented by its GDP - rose by 1.5 percent between the first quarter of 2001 and the first quarter 2002. Both consumer and business spending boosted this growth. According to the US Conference Board, the consumer confidence index rose to 109.8 in May from 108.5 in April. However, consumer confidence about the future remains uncertain, as the board's expectation index, which assesses consumers' six-month outlook, declined slightly for a second month, to 109.4 in May from 109.6 in April. This situation is a reflection of the fact that US consumers and companies are heavily in debt.

The US Federal Reserve drastically cut short-term interest rates during 2001 in a bid to increase spending and bolster the economy. There is, however, a lack of clarity about the shape of things to emerge in the future, which in turn has affected the labour and money markets. After a sharp increase in March and April, the unemployment rate in the US declined to 5.8 percent in May from 6 percent in April 2002. Factories in the US are currently operating at 75.5 percent of their capacity, against about 85 percent on average, the lowest in 20 years. The extent of unemployment will change in the near future, depending on how busy the factories become. Data also show that the US stocks, including shares, bonds and foreign exchanges, fluctuated a great deal during May and June 2002.

In Europe, key economic indicators for the first quarter of 2002 showed that the economic situation had worsened, as real GDP growth in Germany and France, the two biggest European economies, continued to decline. On a year to year basis, the GDP growth was at -1.5 percent in Germany and 0.3 percent in France in the first quarter of 2002, compared to -0.1 percent in Germany and 0.9 percent in France in the fourth quarter of 2001. The most recent information, released in June, though, suggests that the German economy has begun to recover. According to the IFO (a German survey institute) index computed from a survey of 7,000 firms, the index of German business confidence climbed to 91.5 in May from 90.5 in April. In Japan, however, the economic situation has remained weak, as all principal indicators such as real GDP and industrial production continue to experience negative growth.

In Asia, South Korea, Taiwan, Thailand and Malaysia exhibited unmistakable recovery. Singapore's economy, however, continued to be troubled, though compared to earlier, the situation has improved. The decline in economic activity slowed: Singaporean GDP growth was -1.5 percent in the first quarter of 2002, against -7 percent in the fourth quarter of 2001. On a year to year basis, the real GDP growth in the first quarter 2002 increased to 5.7 percent in South Korea, 1.1 percent in Malaysia and 0.9 percent in Taiwan, up from 3.7 percent, -0.5 percent and -2.7 percent respectively, in the fourth quarter of 2001. Data on Thailand's GDP for the first quarter 2002 are not yet available, but based on the industrial production index, economic recovery seemed confirmed, as this index grew by 8.4 percent in March against almost nil three months earlier. China also staged a recovery, as its GDP rose to 7.6 percent in the first quarter of 2002, up from 6.6 percent in the fourth quarter of 2001.

World Inflation and Exchange Rates in the International Markets

Economic recovery in the US has pushed the inflation rate upwards, reaching 1.6 percent in April 2002, up from 1.1 percent in January. In Japan and the Euro area, the inflation rate remained stable during the first four months of 2002, reaching around 2.5 percent in the Euro area and -1.2 percent in Japan. In Asia, inflation varied considerably from one country to another. In Cambodia, Indonesia, Malaysia and Taiwan, the inflation rates increased slightly between January to April 2002, while in China, Hong Kong, South Korea, Singapore and Thailand, inflation rates continued their declining trend.

In the exchange rate markets, between January and mid-May 2002, the US dollar remained generally stable against the euro and the Japanese yen, trading respectively at around 1.12 euro and 130 yen per US$. However, the US currency has depreciated against these two main currencies since then, trading at 1.06 euro and 124 yen per US$ by mid-June. The US dollar experienced the same trend in Asia as well. Threats of further terrorist attacks in the US, continuing weakness in US stock markets, and uncertainty about the sustainability of the US economic recovery, have made US assets less attractive, and the dollar has been in gradual decline.

Commodity Prices in the World Markets

Commodity prices in the world markets rose steadily during the first five months of 2002. The price of rubber in Malaysia recovered significantly, trading at US$720 per tonne in April, up from US$610 per tonne in January. The price of crude oil in Dubai followed the same trend, trading at US$24 per barrel in mid-June, compared to about US$20 per barrel in January. However, the prices of rice, soybean and palm oil remained stable during the second quarter of 2002, after rising sharply during the first quarter.

by Sok Hach

Economy Watch—External Environment

Table 1. Real GDP Growth of Selected Trading Partners, 2000–2002 (percentage increase over the previous year)

	2000			2001				2002	2000	2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia	-	-	-	-	-	-	-	-	5.5	5.3
Indonesia	4.1	5.1	5.2	4.0	3.5	3.5	4.1	2.5	4.8	3.8
Malaysia	8.7	7.7	6.6	3.2	0.5	-1.3	-0.5	1.1	8.6	0.5
Singapore	8.0	10.4	10.5	4.5	-0.9	-5.6	-7.0	-1.7	9.9	-2.3
Thailand	6.6	2.6	3.1	1.8	1.9	1.5	2.1	3.9	4.3	1.8
Vietnam	-	-	-	-	-	-	-	-	6.8	6.0
Selected other Asian countries										
China	8.3	8.2	7.3	8.1	7.8	7.0	6.6	7.6	8.0	7.5
Hong Kong	10.8	10.8	6.8	2.5	0.5	-0.3	-1.6	-0.9	10.5	0.3
South Korea	9.7	9.3	4.6	3.7	2.7	1.8	3.7	5.7	8.8	3.0
Taiwan	5.4	6.6	4.1	1.1	-2.4	-4.2	-2.7	0.9	6.0	-2.1
Selected industrial countries										
Euro-11	3.9	3.3	3.0	2.5	0.2	1.3	0.6	0.1	3.4	1.2
Japan	1.1	0.5	2.5	0.2	-2.9	-0.5	-1.9	-1.6	1.7	-1.3
United States	6.1	5.2	3.4	2.7	1.2	0.6	0.4	1.5	4.9	1.2

Source: The International Monetary Fund and The Economist

Table 2. Inflation Rate of Selected Trading Partners, 2000–2002 (percentage increase over the previous year)

	2000			2001				2002	2000	2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia	-2.3	-1.4	0.5	-0.8	0.1	-0.4	-0.6	3.4	-0.8	-0.4
Indonesia	6.1	5.7	8.8	9.1	11.1	12.1	12.7	14.5	3.7	11.3
Malaysia	1.4	1.5	1.7	1.5	1.6	1.4	1.2	1.5	1.5	1.4
Singapore	0.8	1.5	2.0	1.7	1.7	0.8	-0.2	-0.9	1.4	1.0
Thailand	1.6	2.2	1.6	1.8	2.6	1.7	1.1	0.6	1.5	1.8
Vietnam	-2.4	-2.2	-0.4	-1.4	-0.8	-	-	-	-1.7	0.0
Selected other Asian countries										
China	0.1	0.3	0.6	1.3	1.6	0.8	-0.1	-0.5	0.3	1.0
Hong Kong	-4.4	-2.9	-2.2	-1.8	-1.3	-1.1	-1.3	-2.7	-3.7	-1.5
South Korea	1.4	3.2	2.9	4.3	5.3	4.3	3.4	2.5	2.3	4.3
Taiwan	1.4	1.0	2.0	-1.0	-0.0	-0.5	-0.6	-0.1	1.4	0.5
Selected industrial countries										
Euro-11	2.1	2.5	2.7	2.5	3.1	2.7	2.2	2.5	2.3	2.6
Japan	-0.7	-0.7	-0.5	-0.1	-0.5	-0.8	-1.0	-1.4	-0.6	-0.5
United States	3.3	3.5	3.4	3.4	3.4	2.7	1.9	1.2	3.4	2.9

Source: The International Monetary Fund and The Economist

Table 3. Exchange Rates of Selected Trading Partners Against the US Dollar, 2000–2002 (period averages)

	2000			2001				2002	2000	2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia (riel)	3,845	3,912	3,906	3,925	3,932	3,953	3,932	3,910	3,871	3,935
Indonesia (rupiah)	8,287	8,712	9,297	9,780	11,242	9,558	10,365	10,078	8,422	10,236
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Singapore (S$)	1.72	1.73	1.74	1.75	1.81	1.77	1.83	1.83	1.72	1.79
Thailand (baht)	38.6	40.9	43.3	43.2	45.4	44.8	44.3	43.8	40.1	44.4
Vietnam (dong)	14,075	14,120	14,423	14,556	14,670	14,999	15,084	15,142	14,168	14,827
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.27	8.28	8.28	8.28	8.28
Hong Kong (HK$)	7.78	7.79	7.79	7.80	7.80	7.79	7.80	7.80	7.79	7.80
South Korea (won)	1,116	1,115	1,167	1,272	1,306	1,295	1,290	1,319	1,131	1,291
Taiwan (NT$)	31.7	32.8	32.1	32.4	34.6	34.6	34.7	35.1	31.8	34.1
Selected industrial countries										
Euro-11 (euro)	1.07	1.10	1.15	1.08	1.15	1.11	1.12	1.15	1.09	1.12
Japan (yen)	107	108	110	118	123	121	125.5	133.3	108	122

Source: The International Monetary Fund and The Economist

Table 4. Selected Commodity Prices on the World Market, 2000–2002 (period averages)

	2000			2001				2002	2000	2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4
Hardwood (logs) - Malaysia ($/	192.7	192.1	186.0	171.0	163.8	159.4	146.2	137.6	190.1	160.1
Hardwood (sawn) -Malaysia ($/	633.2	592.7	529.8	507.0	492.2	482.0	471.8	479.7	599.2	488.3
Rubber – Malaysia ($/ton)	744.4	712.2	696.6	632.0	628.9	597.7	549.4	622.3	720.7	602.0
Rice - Bangkok ($/ton)	204.5	185.4	185.1	182.0	164.7	170.4	173.3	193.7	203.7	172.6
Soybeans – USA ($/ton)	223.0	200.7	209.0	202.0	186.7	205.6	188.0	179.9	211.3	195.6
Crude oil – Dubai ($/barrel)	25.0	27.6	27.5	24.0	25.1	23.9	18.2	19.9	26.1	22.8
Gold - London ($/fine ounce)	280.2	276.5	269.2	264.0	267.7	274.7	278.4	281.0	279.0	271.2

Source: The International Monetary Fund and The Economist

Economy Watch — Domestic Performance

The Cambodian economy performed reasonably well in 2001 with a GDP growth rate of 5.3% – the second highest in the ASEAN region. Signs of economic recovery in the region are expected to further accelerate Cambodia's economy in the year 2002. As the economies of the ASEAN are on their way to recovery, Cambodia continued to register moderate economic growth in the first quarter of 2002, despite a slight decline in garment exports during this period. The garment industry, however, continues to be a key contributor to Cambodia's economic growth, along with tourism. The exchange rate, on average, was fairly stable, at 3,910 riels for a US dollar in the first quarter of 2002. Cambodia maintains a flexible exchange rate policy, with the spread between the official exchange and market rates limited to 1 percent. The Cambodian riel gained ground against the US dollar for the second consecutive quarter, ending March 2002. Consumer price inflation of all items rose slightly to 3.4% in Phnom Penh, though it was -3.4% in the provincial areas. A healthy macroeconomic performance has induced positive growth in the daily earnings of skilled workers, but unskilled workers continue to suffer from low and/or falling daily earnings (according to a survey conducted by CDRI in May 2002). In effect, therefore, unskilled and low skilled workers continue to struggle in poverty, as the benefits of economic growth appear to reach mainly the urban skilled people.

Economic Activity

Cambodian economic growth continued to be strong in spite of weaker growth in the regional and global economies. This is led by the garment and tourism sectors, which have remained, and are expected to be, buoyant for all of 2002. The construction industry is also expected to recover soon, after a prolonged stagnation.

The garment industry, the country's biggest contributor to economic growth, experienced a decline in the first quarter of 2002, for the first time in 8 years. Exports during the first quarter of 2002 amounted to US $232.4 million, lower by 7.8% compared to the same period in the previous year. Garments worth US$158.7 million were exported to the United States (down by 16% compared to the same period in the previous year), Exports to European markets amounted to US$67.5 million (up by 14%) and the rest were shipped to other markets. Cambodian apparel products are primarily produced for export, and the EU and US are their major market destinations. Cambodia has a special trading status to export garments to these two markets. Cambodian exporters, however, find it difficult to penetrate other markets, especially in the ASEAN region. Many economists question the long-term sustainability of the Cambodian garment industry; they say, for example, what would happen if Cambodia is not able to join the World Trade Organisation by 2005, and its special trading status to the EU and US is withdrawn? In the event of such an occurrence, the industry would grind to a halt, and investors, in their pursuit to seek a better investment environment, may prefer to shift their investments to other countries. Some other experts maintain that the industry, in its present status, is reaching a saturation point, and the country should now work to raise productivity in the industry. According to CDRI research, Cambodia's garment industry would continue to expand, if the country's quest to join WTO is successful. The Cambodian government, with support from key trading partner countries, is optimistic about gaining WTO membership before or in the year 2005. To gain WTO membership, however, Cambodia's Parliament has to pass at least 45 pieces of legislation, to make its legal system fall into line with WTO requirements.

Tourism has continued to make an increasingly important contribution to economic growth, and in the process contributes to poverty alleviation. The net revenue that the Cambodian government received from tourism in 2001 amounted to US$15 million. According to the Ministry of Tourism and the Ministry of Interior, total tourist arrivals in the first quarter of 2002 was 217,700 persons (a 21% rise over the first quarter of 2001). Of the total arrivals, 91,100 persons entered Cambodia through Pochentong international airport, 54,700 persons came through Siem Reap (direct international flights), and another 71,900 persons arrived via waterways and land routes. Compared to the same period last year, the number of visitors arriving by air rose by 12% and by other means, by 43%. The international border checkpoints at Poipet and Osmach are the two main gateways for entry by road. During this quarter, Japanese tourists topped the list among the five countries (Japan, US, France, Taiwan and China) from where the largest numbers of tourists arrive. According to CDRI's projections Cambodia could receive up to a million international tourists by 2004.

The construction industry, which employs around 2% of Cambodia's labour force, rose impressively in the first quarter of 2002. According to the Department of Cadastre and Geography of the Municipality of Phnom Penh, 200 construction projects were approved in the first quarter of 2002 for Phnom Penh. Of the total approvals, 45 projects were for mansions, 132 for apartments and 23 for commercial buildings. Compared to the same quarter in the previous year, construction in Phnom Penh increased by 42%; the expansion was mainly in mansions and commercial buildings. However, apartment construction previously led the way. From 1993 till 2001, apartment construction in Phnom Penh accounted for 70% of all projects, mansions 20%, and commercial buildings 10%.

Inflation and Foreign Exchange Rates

According to the National Institute of Statistics, the inflation rate in Phnom Penh City hit a high in the first quarter of 2002, reaching 3.4%. However, as the government has targeted its annual inflation rate at around 5% in 2002, the current inflation is still under control. Meanwhile, consumer price inflation in the provincial

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areas continued to be negative at -3.4% in the first quarter of 2002. The large difference between the inflation rates in Phnom Penh and provinces is partly due to assessment criteria used for calculating the inflation rates in the two locales. Despite a slight rise in consumer prices in the city, the Cambodian riel rallied significantly against the US dollar, trading at an average rate of 3,910 riels per dollar in the first quarter of 2002. Despite a moderate rise in the supply of riel in recent quarters, the riel continued to be strong against the US dollar. In the first quarter of 2002, the riel was stronger against the Vietnamese dong compared to the previous quarter (25.8 riels per 100 Vietnamese dongs), but lost ground slightly against the Thai baht (89.3 riels per Thai baht). A Strong Cambodian riel could adversely affect exports. A strong riel is seen to have resulted from dollarisation and a dollar–pegged exchange rate system. An increasing number of economists no longer see dollarisation as a problem, instead it is seen as a remedy for inflation-prone developing countries. Some Latin American countries have recently adopted the US dollar as official tender in their economies. The debate over its benefits and costs, however, is far from conclusive, and it is hoped that more empirical studies will be carried out in the coming years.

Prices of petroleum products continued to be high – diesel and gasoline were sold for 1,480 riels (US$0.38) per litre and 2,100 riels per litre (US$0.54), respectively. Meanwhile, the price of gold in Phnom Penh rose dramatically in the first quarter, reaching US$34.6 per chi (one chi = 0.12 ounce); gold is deemed as a safe investment during times of economic uncertainty.

Poverty Situation – Earnings of Workers

CDRI's survey of vulnerable workers, conducted in May 2002, shows that, compared to February 2002, the earnings of workers in six categories of work have risen and, in the other four, fallen. Compared to last year, earnings rose in five categories of work while in the other five they fell. Earnings for all categories were at their lowest in November 2001. Since then, there has been an overall improvement: the minimum amount per day rose from 2358 riels in November 2001 to 3652 riels in May 2002, the maximum from 9866 to 13850 riels, and the mean, from 5919 to 7732 riels. Inequality in earnings between different occupations has fallen marginally – the coefficient of variation in all the four surveys conducted in 2001 was about 46 percent, which fell to 42 percent in May 2002.

In the context of poverty only moto-taxi drivers and construction workers earn more than $2 a day, the moderate poverty line set by the World Bank. Scavengers, waitresses/waiters and rice field workers earn closer to a $1 a day, the severe poverty line. Quarterly trends in aggregate earnings of vulnerable workers over the period 2000-02 show a gradual, albeit unmistakable, decline in daily earnings till November 2001 and a recovery thereafter. However, full recovery has not yet been achieved, except in the case of garment workers and rice field workers. Slow growth/stagnation in the economy, along with continued rural-urban migration, and changing labour demand in favour of more skilled workers, are possible reasons for this trend.

Cyclo drivers' earnings marginally fell in May 2002 compared to a year ago and February 2002. Over the last two years the trend has been that of a gradual decline. An increase in the number of workers, coupled with decreased demand for cyclos due to the expansion of motorised transport, are possibly responsible for this. On average, cyclo drivers work for 7-8 months a year. Sixty percent in the sample felt that their incomes over the last year have fallen, and 83 percent said that their numbers have risen, thereby increasing labour supply. Cyclo drivers, though, are not as badly hit as some others, probably because theirs is a semi-skilled activity, and it also requires access to a machine. Porters (and unskilled workers) have faced a sharper fall in their incomes since February 2002 as well as over the two-year period 2000-02. Since most migrants have few skills demanded by the urban labour market, many join the ranks of porters and unskilled workers. Porters work for 6-7 months a year. Ninety five percent of the porters interviewed feel that their earnings have either decreased or are the same compared to a year before, and almost all felt their numbers have increased – the possible reason for stagnation in earnings. Unskilled workers find work for about six months a year. Again, over 85 percent in the sample felt that their earnings are the same or have declined compared to the last year. Over 80 percent felt that their ranks have swelled.

Although moto-taxi drivers experienced a 16 percent decline in incomes compared to February 2002 (when their earnings sharply rose due to travel demands for the Chinese New Year) and also a small decrease compared to a year earlier, the trend over the last two years is positive. This is one of the highest paying jobs in this group – it is skilled, and requires modern capital – but rapid growth in earnings cannot be expected from a relatively high base, unless other incomes (i.e. incomes of users of motos) also rise. Moto-taxi drivers work for 9-10 months a year. Ninety five percent of the sample feel that their earnings have either decreased or are the same compared to a year before, and over 90 percent felt that their numbers have increased. Small vegetable vendors, scavengers, waiters/waitresses and construction workers, all experienced an increase in earnings in May 2002 compared to February 2002, and other than that for waiters/waitresses, the rise was substantial. However, the income of small traders has still not equalled the level of a year ago. It appears that this recent rise in earnings is a part of recovery after the crash in November 2001. Since some jobs, e.g. in construction, are more in demand (the construction sector is picking up), the labour supply has not fully neutralised the rising tendency in earnings. For scavengers and waiters/waitresses, the recovery perhaps has originated from the fact that in the

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past, their earnings were very low in absolute terms, and an occupational shift may have triggered a wage correction. Only the construction workers, however, felt that their incomes have risen; others felt that they have either experienced stagnation or decline.

Garment workers experienced a 13 percent increase in their earnings in May 2002 over February 2002, and 17 percent over the last year. Political/social pressure has been partly responsible for this, despite the fact that 90 percent of workers in the sample reported not being members of unions. The average working hours per week exceeded 50. Over 90 percent of workers send money home (about half their earnings) to support their families. Over 80 percent feel that productivity is on the increase, and they feel optimistic about the future.

Rice workers, the only rural workers in the sample, experienced a huge increase in earnings compared to February 2002, as well as since May 2001. The survey could not assess the reason for this increase, though a large number in the sample felt that their ranks have either fallen or remained the same. In any case, since rice workers earn the bare minimum, any change would be in the direction of an increase, unless the occupation is rendered unviable.

Monetary Developments

Although money supply into the markets has continued to rise, monetary performance has been well managed. According to the National Bank of Cambodia (NBC), the liquidity (M2) at the end of the first quarter of 2002, amounted to 2,408 billion riels (a 27% rise over the same period last year). Of the total liquidity, 676 billion riels were available in Cambodian currency (riel) and the other 1,731 billion riels were in foreign currencies (mainly the US dollar). The proportion of Cambodian riels in the total money supply (M1) has remained at around 28%, while that of foreign currencies at around 72%. Net foreign assets of the banking sector showed a large increase at the end of the first quarter of 2002, reaching 3,366 billion riels. They rose by 23% compared to the same period last year. The reasons behind this increase were the growing outflow of Cambodian savings. Net claims on the government, meanwhile, continued to grow, reaching 152 billion riels by the end of the first quarter of 2002.

Public Finance

According to the Ministry of Economy and Finance (MEF), Cambodia's domestic budget revenues for the first quarter of 2002 reached 423 billion riels and the expenditure (on a cash basis) amounted to 469 billion riels. The gap was offset by official transfers and concessional loans provided to the government. The revenues in the first quarter of 2002 were close to the planned target (454 billion riels). Revenue receipts during this period rose by 16% compared to the same quarter in 2001. Revenue mobilisation in the recent quarters has shown some progress and the reason behind this momentum stems from the (moderate) government fiscal reform programmes introduced in mid-2001, and new tax–collection measures introduced in early 2002. The new measures include extending tax coverage to five additional provinces, and raising excise tax on beer from 10% to 20%. The government is committed to additional taxes on petroleum products: 2 cents per litre on gasoline and 4 cents on diesel. The Tax Department and the Customs and Excise Department (CED) also plan to review taxation on motorbikes and motorbike parts.

On the expenditure side, total spending in this period amounted to 469 billion riels (including foreign financing). This was about 1% lower than the expenditure in the first quarter of 2001. Military outlays continued to fall, while more funds were earmarked for education and health (a 30% rise over the first quarter 2001). Some improvements have also been introduced in expenditure administration. The different measures include (1) strengthening government procurements, and (2) constituting a working group in the National Treasury to prepare reports on the stock of outstanding payment orders and for standardising accounting procedures for the public sector in line with international standards.

Private Investment and Employment

Inflows of foreign investment into Cambodia continued to be low according to figures obtained from the Council for Development of Cambodia (CDC). Only nine new investment and expansion projects were approved in the first quarter of 2002, worth US$27.2 million (in new fixed assets). Compared to the same period of 2001, new investment projects shrunk by 18%. Of the total new investment projects, five, worth US$20.3 million, were in the garment sector. The value of investments stated here is only a pledge; it does not reflect actual investment. The investment environment in Cambodia continues to be hazy, some economists believing that a clearer picture will emerge only after a full global and regional economic recovery. Others suggest that the government needs to do more to address its internal constraints, ranging from greater enforcement of the law to stiffer measures on issues of unfair competition.

Foreign Aid and External Debt

The World Bank and Asian Development Bank (combined) disbursed US$22.53 million in loans to Cambodia in the first quarter of 2002. Of these loans, US$11.62 million was used for infrastructure rehabilitation (project aid), and US$10.91 million for social funds (project aid). No part of these funds was spent on technical assistance during this period. According to the Asian Development Bank, Cambodia's cumulative loan approvals from ADB reached US$328.7 million as of 31 December 2001. At the same time, ADB's cumulative disbursements to Cambodia reached US$251.4 million by the end of 2001. These funds were mainly used for social infrastructure, natural resources, and energy.

By Chea Huot, Pon Dorina and Sarthi Acharya

Economy Watch—Indicators

Table 1. Cambodia: Main Macro-economic Indicators, 1994–2001

	1994	1995	1996	1997	1998	1999	2000	2001
GDP at current prices (billions of riels)	6,256	7,176	8,271	9,125	10,795	11,797	12,149	12,724
GDP at current prices (millions of dollars)	2,435	2,915	3,131	3,042	2,841	3,088	3,149	3,234
GDP per capita (dollars)	225	262	273	258	234	248	247	247
Growth rate of real GDP (1993 prices)	5.3	7.6	6.7	0.7	2.9	6.8	5.5	5.3
Agriculture	4.8	9.2	2.9	2.2	0.1	1.4	-2.4	0.7
Industry	7.3	11.8	19.5	0.6	16.8	12.6	16.7	11.2
Service	5.3	4.7	6.0	-0.6	0.1	9.4	7.5	6.1
Inflation (in riels, final quarter basis)	17.8	3.5	9.0	9.1	12.6	0.0	0.5	-1.3
Riel/dollar parity (annual average)	2,569	2,462	2,641	3,000	3,800	3,820	3,859	3,935
Budget revenue (percentage of GDP)	9.4	9.0	9.1	9.7	8.7	11.2	11.7	12.0
Budget expenditure (percentage of GDP)	16.1	16.7	17.4	13.8	14.4	16.4	17.3	18.4
Current public deficit (percentage of GDP)	-1.4	-0.8	-1.2	0.7	-0.2	1.6	1.6	1.3
Overall public deficit (percentage of GDP)	-6.7	-7.8	-8.4	-4.2	-5.7	-5.2	-5.6	-6.3
Exports of goods (percentage of GDP)	19.6	29.1	23.1	28.7	32.1	33.9	44.2	46.4
Imports of goods (percentage of GDP)	30.0	41.4	39.4	40.9	49.3	48.2	54.4	56.9
Trade balance (percentage of GDP)	-10.4	-12.3	-16.3	-12.2	-17.2	-14.3	-10.2	-10.5
Current account balance (percentage of GDP)	-9.1	-12.7	-15.3	-10.4	-15.5	-11.6	-7.2	-6.7
External contribution to the economy (percentage of GDP)	16.5	20.9	20.4	13.8	17.5	15.6	14.5	13.2
Total savings (percentage of GDP)	18.2	21.6	26.7	21.6	25.3	22.8	19.3	18.3
Gross foreign reserves (months of imports)	1.5	1.7	2.1	2.4	3.2	3.8	4.7	5.5
Population (million)	10.8	11.1	11.5	11.8	12.1	12.5	12.8	13.1
Labour force (percentage of population)	41.1	41.2	41.4	41.6	41.9	42.2	42.5	43.0

Sources: CDRI, Compiled from Government data

Table 2. Destination of Garment Exports, 1994-2002

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Millions of dollars											
United States	0.0	0.02	0.1	26.8	74.1	121.5	187.5	189.3	192.9	198.0	212.9	158.7
Rest of the world	1.0	6.6	19.6	30.0	20.5	17.0	58.8	62.8	68.8	102.7	89.0	73.7
Total	1.0	6.6	19.7	56.8	94.5	138.5	246.3	252.1	261.7	300.7	301.9	232.4
	Percentage change over previous year											
Total	–	560	200	187	66	47	78	29	16	0.5	13.8	-7.8

Source: Ministry of Commerce, Department of Trade Preferences Systems (1994-2000, quarterly average)

Table 3. Passenger Arrivals by International Flights at Pochentong and Siem Reap Airports, 1994-2002

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Thousands of passengers											
Tourist visas	27.9	38.7	55.3	46.3	38.1	44.9	57.4	64.6	53.2	53.5	58.1	67.3
Business visas	7.1	10.6	15.8	13.9	10.7	16.0	20.6	20.0	23.2	20.9	18.3	18.1
Official visas	3.3	3.9	3.2	3.6	4.4	8.8	4.8	3.8	4.7	4.6	5.9	5.7
Total Pochentong	38.3	53.2	74.3	63.8	53.2	69.7	82.7	88.4	81.1	79.0	82.3	91.1
Total Siem Reap	-	-	-	-	2.6	7.15	33.4	41.9	23.6	30.5	36.6	54.7
	Percentage change over previous year											
Total Pochentong	29.7	38.9	39.7	-14.1	-16.6	31.0	18.7	8.2	12.2	8.2	-4.6	3.1
Total Siem Reap	-	-	-	-	-	175	367	111	59	52	13.7	30.5

Sources: Ministry of Economy and Finance and Ministry of Tourism (1994-2000, quarterly average)

Table 4. Consumer Price Index (CPI), Exchange Rates and Gold Prices, 1994-2002 (period averages)

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Consumer price index (percentage change over previous year)											
Provinces	-	-	-	6.1	16.3	6.2	5.4	4.8	1.3	-1.1	-1.6	-3.4
Phnom Penh - All Items	-0.5	7.8	7.1	8.0	14.8	4.0	-0.8	-0.8	0.1	-0.4	-1.3	3.4
- Foods	-13.4	4.9	7.6	6.7	14.1	7.6	-3.3	-2.6	-2.2	-2.4	-3.8	-0.6
- Energy	-1.2	19.4	20.7	20.0	15.1	3.5	6.6	0.5	1.5	-3.0	-3.4	-0.4
	Exchange rates, Gold and Oil prices (Phnom Penh market rates)											
Riel per US dollar	2,582	2,479	2,666	3,029	3824	3832	3,879	3,925	3,931	3,953	3,932	3,910
Riel per Thai baht	102	99	105	98	88	101	96.3	88.5	86.6	88.2	88.7	89.3
Riel per 100 Vietnamese dong	23.5	22.3	24.0	25.6	28.6	27.8	27.4	26.9	26.8	26.4	26.1	25.8
Gold prices (US dollar per chi)	45.8	45.9	46.3	40.4	36.0	34.0	33.3	32.0	32.0	33.6	33.0	34.6
Price of Diesel (Riels/litre)	750	716	779	883	1,065	1,105	1,329	1,483	1,533	1,550	1,517	1,480
Price of Gasoline (Riels/litre)	698	847	1,118	1,378	1,613	1,760	2,113	2,100	2,100	2,100	2,033	2,100

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

Economy Watch—Indicators

Table 5. Average Daily Earnings of Workers, 1997–2002

	Daily earnings (riels)									Change from last year (%)		
	1997	2000		2001				2002		2001	2002	
	Pre-Jul	Aug	Nov	Feb	May	Aug	Nov	Feb	May	Nov	Feb	May
Cyclo drivers	12,250	9,511	8,398	8,200	9,568	9,057	6,262	9,450	9,375	-25.4	15.2	-2.0
Porters	9,675	8,068	6,893	7,300	7,058	7,189	5,000	8,137	6,675	-27.5	11.5	-5.4
Small vegetable sellers	7,050	6,611	5,813	6,400	7,386	6,670	5,096	6,062	6,712	-12.3	-5.3	-9.1
Scavengers	4,155	4,186	3,006	3,900	2,670	2,686	3,393	3,350	4,231	12.9	-14.1	58.5
Waitresses*	–	2,250	2,335	2,600	2,600	2,683	2,358	3,543	3,652	1.0	36.3	40.5
Rice-field workers	–	4,443	4,184	4,100	3,613	4,500	3,618	3,916	5,167	-13.5	-4.5	43.0
Garment workers	–	8,500	7,410	8,300	7,500	9,165	8,968	7,772	8,775	21.0	-6.4	17.0
Motorcycle-taxi drivers	–	11,044	9,522	10,000	12,050	10,559	9,791	14,327	11,978	2.8	43.3	-0.6
Unskilled construction workers	–	8,220	5,970	7,500	8,261	5,625	4,841	7,025	6,912	-18.9	-6.3	-16.3
Skilled construction workers	–	14,891	14,517	11,200	10,306	12,375	9,866	11,530	13,850	-32.0	2.9	34.4

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

Table 6. Monetary Survey, 1994-2002 (end of period)

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Billions of riels											
Net foreign assets	391	550	881	1,172	1,550	1,961	2,589	2,733	2,807	2,951	3,080	3,366
Net domestic assets	59	99	31	-109	-435	-591	-759	-834	-821	-827	-877	-959
Net claims on government	143	148	128	54	141	111	3	-69	-82	-73	-75	-152
Credit to private sector	237	293	435	637	682	731	898	905	947	992	936	976
Total liquidity	450	650	912	1,063	1,116	1,370	1,831	1,899	1,985	2,124	2,204	2,408
Money	200	279	329	385	466	515	540	548	544	569	610	676
Quasi-money	250	371	583	678	655	855	1,291	1,351	1,441	1,555	1,594	1,731
	Percentage change from previous year											
Total liquidity	35.1	44.3	40.3	16.6	4.9	22.7	33.6	9.6	8.4	18.5	20.4	26.8
Money	-1.9	39.5	17.9	17	21	10.5	4.9	-0.4	-0.4	5.4	13.0	23.4
Quasi-money	93.2	48.1	57.2	16.4	-3.4	30.5	51.0	14.2	12.1	24.2	23.5	28.1

Source: National Bank of Cambodia.

Table 7. National Budget Operations on Cash Basis, 1994-2002 (billion riels)

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
Total revenue	148	161	187	220	230	329	382	366	400	360	403	423
Tax revenue	91	111	134	149	169	239	274	263	291	261	281	252
Customs duties	70	80	86	87	94	108	94	98	105	83	90	81
Non-tax revenue	56	47	44	68	51	87	106	100	107	97	120	156
Forest exploitation	22	13	7	9	5	9	7	10	9	8	2	1
Post & Telecommunications	15	14	16	21	22	27	31	23	28	30	41	34
Capital revenue	0	2	10	3	9	3	2	3	2	2	2	15
Total expenditure	252	300	360	315	324	448	583	472	547	578	735	469
Capital expenditure	84	128	157	113	92	156	244	217	239	253	268	208
Current expenditure	168	172	203	202	245	291	339	255	308	325	467	261
Education and Health	23	25	31	32	33	70	86	27	47	52	217	34
Defence and Security	98	106	102	105	110	116	101	63	88	89	165	36
Other Ministries	48	41	71	65	83	103	159	59	139	167	272	91
Overall deficit	-105	-139	-173	-95	-95	-119	-201	-106	-147	-218	-332	-46
Foreign financing	108	140	170	111	67	104	192	184	189	205	188	341
Domestic financing	-3	-1	3	-16	28	15	9	-77	-43	-13	144	-294

Source: Ministry of Economy and Finance (1994-2000, quarterly average)

Table 8. Investment Projects Approved, 1994–2002*

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Number of investment projects											
Total	46	51	75	34	35	24	24	11	13	12	12	9
Garment	27	30	36	12	21	11	13	4	7	6	2	5
	Registered capital (millions of dollars)											
Total	116.0	89.0	97.8	69.5	104.1	61.7	25.6	5.1	15.2	15.2	93.4	10.9
Garment	26.8	28.0	39.2	8.6	22.9	13.9	6.4	1.0	6.0	8.8	2.0	6.6
	Fixed assets (millions of dollars)											
Total	303.0	76.2	186.7	190.4	212.3	118.5	66.6	10.1	29.1	16.5	161.7	27.2
Garment	25.1	25.4	39.6	9.7	30.2	19.9	19.2	5.7	8.2	10.0	2.0	20.3

Source: Cambodian Investment Board (1994-2000, quarterly average). * Including existing investment expansion projects

Glossary-Terms Used in This Issue

Vertical Integration – The process whereby a business provides its own services. For example, a farmer establishes a factory to process his/her produce, then buys vehicles to transport the product etc…

Dollarisation – Action or process of aligning a currency with the dollar.

Institutional Finance – Banks, credit agencies etc... that provide credit, loans, mortgages and other facilities.

Sino-Khmer – A Cambodian of Chinese and Khmer heritage.

HIV/AIDS – Human Immunodeficiency Virus. The virus which leads to AIDS (Acquired Immune Deficiency Syndrome), a disease which destroys the natural system of protection in the body.

Tenurial Rights – Formal rights to land or property enshrined in law.

Piece rate – Rate of pay where you are paid according to the amount you do not the length of time you work.

Entrepreneur – A person who undertakes or controls a business and bears the risk of profit of loss.

Vertical Programme – A top down hierarchial approach to dealing with an issue.

(Continued from page 20)

The group formed to assess training needs, and to build up confidence amongst users, to share software problems and solutions, and especially to encourage other libraries to use the same system so that we can help each other.

Publications

The Khmer edition of *An Investigation of Conflict Management in Cambodian Villages* was published, as was a Policy Brief on Social Assessment of Land in Cambodia. *Cambodia's Annual Economic Review* in English is currently being edited for publication.

CDRI Update

Management

CDRI management undertook a public relations visit to Japan in April in order to explore and establish long-term collaboration with Japanese research institutes and development agencies. On April 24, CDRI facilitated a consultative workshop for key stakeholders in the decentralisation process, in order to discuss and assess needs for research in this sector. CDRI, in cooperation with the MOI, organised its fourth Annual Development Workshops for provincial and municipal leaders from May 17-21. The workshop addressed a number of issues related to the promotion of development in the provinces, and also relating to support for decentralisation process. CDRI in collaboration with VBNK, completed a Baseline Survey of Current Practice in Parliament. The Survey's findings were presented at the President's Forum, organised jointly by both Chambers of Parliament with the support of the Canada Parliamentary Centre and CIDA. The President's Forum was presided over by both the President of the Senate and the President of the National Assembly. The survey was commissioned by the Canada Parliamentary Centre. From 17-21 June 2002, all CDRI staff participated in a retreat in Sihanoukville. The retreat focused on Strategic Life Management and was facilitated by consultants from Vision-Quest Africa, South Africa.

Research

CDRI commissioned a consultancy to elaborate a research framework to monitor, and contribute to Cambodia's decentralisation process. The framework forms the basis of a proposal for a 3-5 year research programme on decentralisation which has been submitted to key partners for funding. The Poverty Monitoring and Analysis Technical Unit in the Ministry of Planning is fully functional and organised its second Poverty Forum in July. *A Baseline Assessment of Natural Resources and Rural Livelihoods in Cambodia* has been completed and will be disseminated at a seminar to be held July 23, 2002. The DAN research on off-farm and non-farm employment, conducted in collaboration with CICP and with research Institutes in Laos, Thailand and Vietnam, has launched a number of field studies. The DAN researchers met to discuss the scope and methodologies for the studies at a seminar held at CDRI in June 2002. A Forum jointly organised by the Senate Commission on Banking and Finance and the CDRI, on May 9 2002, provided Parliamentarians, and microfinance providers from the public and private sectors an opportunity to openly debate issues and concerns surrounding credit schemes in Cambodia.

Centre for Peace and Development

The COPCEL meetings have continued on a monthly basis, and have focused on reform of the NEC. Ten participants in a training of trainers course conducted by CPD have completed Module 2 of *Training for Peace,* and will begin their practicum over the course of the year. In May, the CPD team met with BFD Peace and Development Volunteers in Banteay Meanchey to exchange experiences of building a culture of peace. The team also conducted a training needs assessment in Samlot district of Battambang, followed by a workshop on *"Managing Change"* for new Commune Council members. The first module of this year's *Working for Peace* course took place at CDRI in May, with 28 participants from civil society and public institutions.

Library

The CDRI Library has initiated the formation of a CDS/WINISIS user group. CDS/WINISIS is the library software which is used in many libraries in Cambodia.

(Continued on page 19)

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Cambodia Development Review **is also available in Khmer**

CAMBODIA DEVELOPMENT REVIEW

A Publication of the Cambodia Development Resource Institute

Volume 6, Issue 3 (JULY – SEPTEMBER 2002)

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

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

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

Publisher: Cambodia Development Resource Institute

Acting Managing Editor: EM Sorany

Production Editor: OUM Chantha

Translator: YOU Sethirith

Cover Photograph: HENG Chivoan

Printing: Japan Printing House, Phnom Penh

ISSN 1560-7607