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The Challenges of the Decentralisation Design

The Policy Oriented Research Programme on Decentralisation (PORDEC) at CDRI has explored the challenges of the design of the decentralisation reform in Cambodia in achieving its aims of poverty reduction and improved democracy. Dr. Caroline Rusten, Programme Manager of PORDEC, summarises the findings.*

The decentralisation reform of the Royal Government of Cambodia (RGC) sets out to help reduce poverty and improve democracy in the country. This is a challenging and a long-term task and not always one where the links between the two are easily recognisable. Cambodia has however come a long way in her attempt to establish the institutions and systems that are necessary to help achieve the aims of the reform. However, several pressing challenges remain to be addressed. The following will first explore the major achievements and secondly the current most pressing challenges faced by the RGC in its decentralisation reform.



CDRI/MEF/MOI meeting with commune councillors in Siem Reap province on 3 March 2004.

Achievements of the Decentralisation Reform

Perhaps one of the most important aspects of the decentralisation reform in Cambodia is the emphasis placed on *learning by doing through participatory processes that involve all stakeholders*. In many other countries, a chief argument amongst government institutions *against* decentralisation is lack of capacity at the local level. In Cambodia, this is not used as an argument against the process to decentralise, despite the fact that much is still to be desired in terms of human resources and flow of funds to the local level. Rather, as a way of ensuring capacity building amongst stakeholders at central, provincial and local level, as well as ownership to the reform, larger aspects of the reform process have been implemented as participatory processes. While this creates

some challenges (see further below), it has nevertheless resulted in an impressive change in governance that not many thought was possible a few years back. Also, this process has prepared the ground for a reform that has many opportunities to continue to move in the right direction.

Other major achievements of the reform have been (i) the creation of ownership, (ii) the building of support structures, and (iii) the establishment of a legal framework. We will deal with each of these three issues. First, the government has, through its Seila programme, managed the very challenging task of *creating ownership* of the decentralisation process, most particularly at the commune level, and to some extent at the provincial

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* This article is based on a presentation by the author at CDRI seminar of The Challenges of the Decentralisation Design, presented at Sunway Hotel January 29, 2004. A full report of this study, which was funded by the Swedish Government's SIDA and the British Government's DFID will be published by CDRI in March 2004, co-written by Dr. Caroline Rusten, Kim Sedara, Eng Netra and Pak Kimchoeun.

level. This ownership and the demand for change also at the central level is now so strong that it is in fact decentralisation reform that is driving reform in the public sector, not the other way around. This ownership has come through some very distinct activities:

- An extensive national process of involving relevant stakeholders in the design of the reform, and through piloting of decentralisation projects by different ministries.
- Through implementation on the ground from which people see real effects of their participation in commune development planning and financial contribution to local development projects financed through the Commune/Sangkat Fund (CSF).¹
- Reasonable transparent and accountable usage of the CSF has hindered elite grabbing on the ground and provided projects that to a large extent benefit all.

A second achievement of the reform is that the RGC has managed to *ensure support structures* to the commune that in effect build capacity both at the provincial level, and at the district level, albeit to a lesser extent. These support structures have enabled the provincial governors to fulfil his support role vis-à-vis the communes. It has also enabled the provincial governors to coordinate between some of the sectors, an opportunity that was not available to them some few years back. It has also enabled the communes to have a clearer understanding of what their roles and functions are. Hence, it is important

to emphasise that capacity building also of the support structures to the local government is crucial for the reform process, and one which is lacking in many countries, but one which Cambodia addresses reasonably well.

Third, in quite a short time, the National Committee for Support to the Communes (NCSC) has passed two major laws² and a number of sub-decrees regulating the reform. This has enabled the reform to move forward despite the fact that many gaps still remain.³ Other achievements might also be emphasised, such as the initiation of civil registration and election registration at the commune level.

Having said this, many of the achievements also point to challenges that the reform faces in reducing poverty and improving democracy in Cambodia.

Major Challenges of the Decentralisation Reform

Four major challenges of the reform are (i) the legal framework, (ii) the institutional design, (iii) mechanisms to achieve the aims of the reform, and (iv) local dynamics. Different policy options are available to the government to address these challenges.

The Legal Framework

The Election Law (2001) *encourages upward accountability* by councillors to their political party rather than to the electorate because if a political party chooses to

dismiss a councillor s/he will also lose the council position. No councillor has yet been dismissed through the party structure, but the danger is that councillors tow party lines rather than feel accountable to the electorate. In the near future with increasing capacity of councillors and perhaps increased resource flow to the communes, one might expect them to be more able than at the present time to address the needs expressed at the local level. Downward accountability lines will be important to enhance the process of local government responsiveness.

A policy option to enhance downward accountability of locally elected leaders to local people is to change this aspect of the Election Law.

Another aspect of accountability is the employment of the Village Chief and the Commune Clerk. Currently, these are the only staff at the local level and they are both employees of the Ministry of Interior (MOI). In the transition to elected local governments this has probably been important in order to ensure continuity at the local level. However, this aspect hinders accountability of the so-called 'bureaucracy' at the commune level to the locally elected councillors. Experiences from other countries⁴ show that lack of accountability of the bureaucracy to locally elected leaders is one example of decentralisation working 'less than well'.

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A policy option to enhance accountability of the bureaucracy to the locally elected leaders would be to look into the opportunities to elect the village chief (in line with the Law on the Administration and Management of the Commune/Sangkat Council - LAMC), and ensure accountability lines to the council rather than to the central government. Alternatively, the central government could allow for a reappointment of the village chief and make him/her an employee of the council. This could be done fairly soon, not least because the salary of the village chief will be drawn from the CSF from 2004. Likewise, the clerk also needs to be accountable to the council. It might however be too soon to allow the council to employ the clerk due to the importance of continuity at the commune level, and also due to lack of capacity of the councillors to consider the capacity of the clerks. However, with the anticipated and much needed amalgamation of the communes, and hence larger commune entities and more capacity among councillors, it might be possible for the councils to appoint and employ the clerk. This will not be possible in the very near future. Meanwhile, other options to ensure accountability of the clerk to the council should be considered.

Another major challenge related to the legal framework is the *lack of an overall policy to guide the reform*. Cambodia has laws that regulate the reform. Often policies precede the law and give guidance to the formulation of the legal framework and also to the strategic plans to achieve the aims of the reform. However, it is not always the case that a policy comes before the law, and while it is possible to carry on without a policy, it is

potentially more difficult.

Cambodia has a policy statement⁵ (and laws and sub-decrees) that has three main aims guiding the decentralisation reform. These aims say one major thing, namely that pluralist participatory democracy is going to lead to poverty reduction through increased service delivery and local investments. What is a policy statement as opposed to a policy? A policy statement is an indication of intent. It tells us what the government wishes to achieve with the reform, but it tells us little about how this will be achieved. A policy sets out agendas. A decentralisation policy would allow the policy makers to engage more thoroughly in the decentralisation reform and provide necessary guidance such as to how the reform should unfold, which institutions are going to take the lead, and what links that shall join the institutions. Hence, a decentralisation policy could give clearer guidance on the roles of the various institutions, collaboration between the communes, the vision for the future commune, district and province, sector collaboration and so on.

At the moment, many of these decisions are left to the bureaucracy, and without a policy, some decisions cannot be made at all. Rightly, policy makers sit in the NCSC and pass laws, but they are not engaged in the further necessary vision making in terms of the direction of the reform. A policy would allow the government to take a stronger lead in the decentralisation reform. At the moment the bureaucrats have to deal with conflicting and differing signals from donors who, on their part, are not always certain of where the government wants to take the reform.

In the Cambodian situation it was necessary to get the reform moving and perhaps not wait for a lengthy policy process. This far down the line, however, it is time for the government to start to consider whether to further develop the policy statement through a more comprehensive policy process. This would allow the government to make some overall decisions for example on whether the communes should be amalgamated and what principles shall guide this process, and whether the decentralisation and deconcentration reforms will be treated as one rather than two separate processes.

Institutional Design

The second major group of challenges can be labelled institutional design. In Cambodia, *conceptualisation of decentralisation and deconcentration as two separate rather than interlinked processes* has led to division of roles between separate interministerial committees, i.e. the National Committee for Support to the Communes (NCSC) and the Council for Administrative Reform (CAR), and donors supporting one rather than both reforms. This has led to difficulties within the government and amongst its donor partners in terms of coordinating initiatives that need coordination. Perhaps the most unfortunate effect of this so far can be exemplified by the

current separate processes at the commune level and the district level to look for revenue sources. One project called the Open Window Service Delivery and linked to the Konrad Adenauer Foundation and CAR aims at improving services at the district level by piloting them in two urban areas. Financing of these services is supposed to be drawn from new revenue sources. At the same time, as a follow up of the LAMC which gives authority to the commune to collect local government own revenue, the Ministry of Economy and Finance is currently engaged in a process to identify potential local government own source of revenue, which can help them give the commune the actual mandate through a sub-decree to collect and manage certain taxes and levies. The idea is to look for taxes that can be shared between the province and the commune as well as taxes that can be re-assigned from the province to the commune. The danger now is that these two interventions look for revenues in the same market. As taxation by the commune has been emphasised as a priority by the LAMC, many stakeholders might have expected that the focus be placed on revenue sources to the commune rather than the district. Perhaps a more coherent institutional design might have helped avoiding such parallel processes.

A policy statement is an indication of intent. It tells us what the government wishes to achieve with the reform, but it tells us little about how this shall be achieved.

In order to ensure a more consolidated reform process one option for the government would be to consider a reconceptualisation of the reforms into ONE local government reform which can capture the current deconcentration and decentralisation reforms. In line with this it might also be relevant to consider placing this reform under one institution. What type of institution this might be would be a typical and relevant issue for a decentralisation policy process to address.

Seila activities and structures are an integrated part of government structure. There is, however, a challenge to *further integrate the Seila structure into existing government structures*. We anticipate that there will be a need for the Seila Task Force (STF) and its Secretariat's support to the reform for still some years to come. This is because it provides highly relevant support at many levels of government. At the central level STF collaborates closely with the interministerial committees, the ministries involved and the donor partners. An issue here, however, and really a question for the future, might be on the further integration of Seila into central government structures. At the provincial level one may anticipate that the support functions to the province and the commune through ExCom will continue in substance but that in the future it may be further integrated into the Office of the Provincial Governor, the *Salakhet*.

One policy option for the further integration of the Seila programme may be anticipated in the near term at the provincial level by increasing the role of the governor in sector collaboration. Piloting of experiments within more sectors may be relevant at this time and it might be useful to use Seila structures for this. Furthermore, a nation wide change of functions and roles of the

governor related to sector coordination and integration must await the planned Organic Law on Deconcentration, anticipated for 2005. If the government in the future decides to establish a separate ministry of provincial and local government, a further integration of the STF Secretariat into such a ministry might be considered. Such a ministry would however need a solid basis to ensure it enables to coordinate potentially strong sector interests.

Another key issue is *enhancing regulation for funding of local government*. A very urgent challenge is that the CSF is regulated by a sub-decree in effect throughout 2004 only. Beyond this, these transfers, which currently secure some level of development on the ground, might meet an insecure future.

One policy option would be to give this fund a higher legal status, preferably regulated by Law.

Mechanisms to Achieve the Aims of the Reform

The third major group of challenges are related to mechanisms to achieve the aims of the reform. A comprehensive challenge is *capacity building* of councillors. A lot of effort has been put into enhancing the capacity of the councillors, and it has largely made them aware of how processes are being run, what is required to move these processes ahead, and which forms to complete in the planning and budgeting cycle. The knowledge gaps lie in the details, such as how to fill in these forms, and whether they can prioritise one thing before another. Hitherto, the communes have depended largely on advice from 'higher levels' of government.

One option for improving both capacity and not least confidence is to increasingly focus on horizontal peer learning to improve inter communal collaboration and sharing of experiences. This would also help increase the demand from and identification by the commune on what capacity they need. Some argue that this may await the formation of a local government association, but as such formation is a long-term process, peer learning and horizontal sharing of information might be a niche for capacity building focus for the government as well as for actors who are looking for a relevant role to play in the decentralisation reform.

A crucial aspect of improving local democracy has been reflected in the reform through *the comprehensive planning processes for the Commune Development Plan (CDP)*. The logic for this is to change the mentality of councillors towards participatory processes. While on the one hand this is a crucial part of building democratic procedures on the ground, it nevertheless creates expectations that the council has difficulties meeting, and it also appears very comprehensive compared to what is being received at the commune level in return. The solution is not, however, to simplify the process, as it is an important building block for the development of the local democracy, but rather to enhance the necessary flow

of funds to support it. According to stakeholders at all levels of government that were interviewed during the study⁶, a steady and increased flow of funds will be necessary already in 2004 and 2005. The shortfall of government funds in 2003 due to the Thai riots, effects of SARS and the costs of the election, seriously affected disbursement of the government share of the CSF. The burden of this therefore falls on the communes and the local private sector that largely have been at loss as to why funds are not flowing. The serious long-term effect of this might be that the building of trust in the local government among local people and the local private sector, which the government has spent so much effort in building, is under threat because funds do not flow properly.

The government faces serious challenges at the moment due to the fact that the new government has not yet been established. This might also have financial implications for implementation. It would however be important that the government give first priority to the CSF to ensure that the momentum is kept up and that the trust that has been built so far is not eroded. This will be crucial in 2004. Another, more long term issue, is to start identifying local government own source revenue as a way of further increasing predictability of commune funds and ensuring a closer link between taxation and service charges and provision of services.

Linked to both the above issues is the question of *commune amalgamation*, which means that the number of communes is reduced by enlarging the commune boundaries. There are provisions in the law for this. Commune amalgamation has been mentioned by Blunt (2003)⁷ as one important aspect to speed up the capacity building of the communes. Four challenges related to such amalgamation can be emphasised. These are: (i) Will the district, as we know it survive the amalgamation? This question is related to what might happen to staff at the district level. For instance, will we see deployment of staff from the district to the commune? Even without amalgamation, deployment of staff for example from the district agricultural office in average sized districts to the communes can take place without further employment of staff. With amalgamation, this might be possible also in other sectors. (ii) What criteria would be used for the amalgamation? If one assumes that some important criteria might be economic potential of the communes, and availability of natural resources, then the question is: (iii) Does Cambodia have data to assist in the selection of the criteria? And finally (iv) this would need coordination with the Organic Law on Deconcentration, setting out the roles and functions of the province and the district, which is anticipated for 2005.

The policy option available to the government would be to first have a process where the future role of the districts be discussed. This is linked to decisions on what services can be delivered by the commune, and by

other agencies. The process to start identifying this is likely to start in late 2004, with pilots perhaps in late 2005. Furthermore, data are needed on natural resources and economic potentials of the communes before the demarcation process can start. It is hence not likely that the results of these activities will be available in time to carry out the demarcation before the next mandate of the commune (i.e. the next commune elections in 2007). Perhaps the government should target the third mandate and then give itself time to carry out these processes. Meanwhile, during the second mandate, and in line with the tradition within the decentralisation reform, amalgamation could be piloted in some selected areas. This will provide information on what major challenges commune amalgamation might face, and hence help the government be prepared to meet these challenges.

Local Dynamics

The fourth group of challenges is related to the situation at the commune level and the many activities going on to try to enhance their role, not all of which are well coordinated. Councillors feel that the workload is heavy and difficult. This is particularly so for women who in many cases feel that their influence is minimal compared to the workload and most of those we spoke with doubted they would have the capacity to run for elections next time. Their capacity, it seems, is not less than men, as most of them have NGO experience and have attended school at least as long as their male colleagues. The issue is not lack of capacity but rather lack of access to decision making. Along with this, female councillors are by law given the responsibility of women's and children's affairs, which further limits their influence as currently there are hardly any funds allocated for such activities.

Another issue at the local level is party funding of local development projects. In many places, businessmen have been asked to contribute to party funded projects that later on have been presented as a party gift. This reduces the feeling of ownership among people who contribute and may not be very helpful to the process that will be initiated in the future, namely local taxation. There are also many cases of NGOs who bypass the local council for project development as permission for such activities often are requested and given by district or provincial authorities.

There are initial and so far anecdotal indications also of a strong politicisation at the local level, where one of the indications seem to be that it is difficult to secure support and local contributions from people whose political convictions differ from those of the commune council

chief. This might indicate that the level of distrust at the local level still runs high, and that it will be necessary to increasingly focus on the development of so-called 'weak ties'. Weak ties are developed through networks and associations. Cambodia is an example of a country with solid 'strong ties' such as family and political party affiliation, and that individual decision making to a large extent is influenced by 'strong tie' structures. What Cambodia does not have, or has to a very meagre extent, is 'weak ties' such as associations and networks, which are typically such institutions that one would label as agencies for social capital. Weak tie institutions work across strong tie institutions and help create loose networks and relations that in turn might reduce suspicion and be conducive to community action. This is very much needed in the current political culture of Cambodia.

The political parties might take the opportunity to ensure quotas of more women in top positions in the party to ensure further influence by women. Increased use of the commune council for channelling of resources would help build local ownership, which in turn is crucial for the development of the local democracy. Finally, there is a need to support the development of weak tie institutions to help enhance community involvement and action in support of council work.

Endnotes & Selected References

1. The Commune/Sangkat Fund is funds transferred from the national government and donors where the RCG puts in a 2,5 percent share of its domestic revenue and donor support covers approximately 16 percent of the total fund transfers.
2. The Law on the Administration and Management of the Commune/Sangkat Council (2001) and the Law on the Election of the Commune/Sangkat Council (2001)
3. See Robert Oberndorf's article in this issue of CDR.
4. Manor, J. 2003. *Local Governance*. Paper presented at a SIDA seminar on Good Governance. Stockholm. September 2003.
5. Sar, K. 2002. Thematic Paper of the Deputy Prime Minister Sar Kheng at the National Symposium on Decentralisation and Local Governance on May 15-16 2002. Unpublished.
6. The study was carried out in 15 communes across 15 districts in eight provinces, and with stakeholders at village, commune, district, province and central government level.
7. Blunt, P. 2003. *The Strategic Management of Capacity Building for Decentralisation and Deconcentration in the Kingdom of Cambodia: Positioning the contribution of the Royal Government of Cambodia/ADB*

New publications available at CDRI

English and Khmer Working Paper (WP) are WP28: *Trading Forest Products in Cambodia: Challenges, Threats, and Opportunities for Resin*; WP29: *Domestic Fish Trade: A Case Study of Fish Marketing from the Great Lake to Phnom Penh* and Occasional Paper on *Envisioning a New Paradigm of Development Cooperation in Cambodia*. The reprint publication is the four volumes of *Buddha as Peacemakers* in Khmer. Forthcoming publications in English are WP30: *The Evolution of Democratic Process and Conflict Management in Cambodia: A Comparative Study of Three Cambodian Elections* and WP31: *Law Harmonisation in Relation to the Decentralisation Process in Cambodia*

Challenges of Fiscal Decentralisation Reform in Cambodia: Identifying Own Revenue Sources for the Commune/Sangkat

PORDEC research activities in 2003 and 2004 address the fiscal decentralisation reform. Eng Netra, researcher, summarises some of the findings so far.*

Progress and Challenges So Far

Commune/Sangkat councils are now taking on several new responsibilities. One of their most important tasks has been to provide services both in administrative and development activities. Typical service delivery by the Commune Councils thus far has been small basic infrastructure projects such as wells, water pumps, cement ring bridges, and minor construction projects like classrooms, roads, water channels, and public toilets.

On the revenue side, commune/Sangkat councils currently have three major sources of funds. First, Article 75 of the Law on Administration and Management of the Commune (LAMC) specifies the rights of the Commune/Sangkat to receive grants from the national revenue for its budget. Also, the national government is obliged to create a Commune/Sangkat Fund (CSF), which can be used to both receive deposits and function as a source of transfers for the commune/sangkat. The CSF includes both national transfers and donor funds for the Commune/Sangkat level earmarked for development and administration. A second source of funds is fees from civil registration and other appropriate fees and payments that are made for the commune's performance of agency functions, delegated by ministries and other institutions. Today, the only fees and revenues received by the commune for performing agency functions are civil registration fees. This amount is minimal. Pending the issuance of necessary regulations to back the LAMC, the communes are entitled to a third category of funds, namely that from own-sources of revenue, through the collection of taxes, non-taxes and service charges. Currently

Today, the only fees and revenues received by the commune for performing agency functions are civil registration fees. This amount is minimal.

the commune does not collect any tax except for local contributions for development projects. The local contribution to the projects funded over the CSF can be seen as the first stage in a local taxation system.

Other than the above discussion on revenue sources of the commune/sangkat, two years after the election of the Commune/Sangkat councils there have been few decisions and little progress on the establishment of guidelines and regulations to allow the communes to collect their own sources of revenue.

Several issues have slowed down this process, the most important being lack of available data and information to help identify potential local government own source revenue, to identify candidates for reassignment from the province to the communes, and candidates for sharing between the province and the communes. For example, the LAMC gives the communes permissive authority to collect land taxes, taxes on immovable properties, rental taxes and user charges, but issuing of actual mandates through sub-decrees remains. Discussion within the MEF has identified some potential taxes the communes can collect including taxes on unused land, taxes on means of transportation, taxes for business licenses, slaughtering taxes, a betterment levy, entertainment taxes, and shared taxes on turnover and VAT.

There are other potential sources of funds including fees for services.

Concerns have been voiced regarding the types of taxes because of the potential conflicts of interest it may cause among the different institutions. Taxes that are likely to face resistance from the national level are

property and land taxes, which will affect the policy of not taxing farmland and agricultural properties.

A second aspect that has slowed down the process of identifying local government own source revenue is the current practice of informal taxation. Hence, establishment of formal taxes and levies may to some extent lead to a degree of 'double' taxation, which in turn may be another burden on the poor. The challenge therefore is to identify potential taxes and levies that in the current climate can be collected while avoiding 'double' taxation. A further expansion of taxation and service levying may then await a greater general compliance with the rule of law. This in turn depends on the establishment of greater accountability at the local level. This is a great challenge which cannot easily be addressed, and which is certainly beyond the fiscal decentralisation reform to handle.

A third challenge is how these own source revenues will be handled. This is both a logistical issue (as the communes lack safety deposit boxes, and there is an absence of a commune banking system) and a capacity issue (as commune accountants are not available). Some pilot experimentation on two options for increased fiscal accountability is in progress. The UNCDF will assist the MEF in 2004/2005 to pilot commune banking as one option, and district treasury offices (rather than the current provincial treasury deposits) as another option.

* This article is based on a presentation by the author at the CDRI seminar 'The Challenges of the Decentralisation Design', presented at Sunway Hotel January 29, 2004. The article appears in full in Rusten *et al.* (2004). Information to this article is drawn also from the ongoing efforts by the Ministry of Economy and Finance, United Nations Capital Development Fund and CDRI to identify the existing tax structure, as well as potential tax candidates for sharing between the province and the commune.

A fourth challenge has to do with the capacity and willingness of the national government to address the local government own source revenue issue, and options for revenue sharing and reassignment between the province and the commune. This process is to some extent made difficult by the Open Window Service Delivery project as it is now unclear whether the government will allow for a reassignment and sharing of revenues between (i) the province and the district or (ii) between the province and the commune.

In addition, a common challenge within such a process is coordination between institutions at the national level. The decision to go ahead with a proposed plan on commune own-sources of revenue rests at the national level, dependent upon the agreement of the National Committee for Support to the Commune (NCSC) and the relevant line ministries. The task of strengthening local government finance will need to be led and regulated by a strong central government.

Current Tax Collection

A large number of taxes, licences, fees and charges are currently levied at the commune level. The distinction between taxes, fees/charges, and licences is unclear. A number of levies are referred to as charges although in reality they are taxes, since no service is rendered directly or indirectly to those paying the levies. In addition, a wide variety of fees for forms and permits exist. There are six different formal types of tax currently collected for the province budget, the *salakhet*. These taxes are patent tax, tax on means of transportation, tax on unused land, tax on animal slaughtering, tax on transfers and tax for public lighting.

Revenues from these tax sources are 213 million Riel for Takeo, 2299 million Riel for Siem Reap, and 7668 million Riel for Phnom Penh in fiscal year 2003.⁵

Management and Structure of Existing Tax Collection

The Provincial and Municipal Tax Department is the only responsible agent for tax collection with actual collection being assisted by district tax offices at the district. All the collected income is transferred into the provincial treasury. Other line departments collect some fees and charges at the commune level. Depending on the types of taxes some are to be shared among stakeholders such as the centre, province, and commune. Most of the tax collection is the responsibility of the Tax Department.

In practice, tax collection organisation varies according to the types of taxes and the places of collection. Some taxes and areas delegate staff at the district level to levy tax; some taxes and areas have mixed central and provincial staff to collect tax. Also some fee and charge collection is delegated to private companies ('pheasie' collection from markets and slaughterhouses). The divi-

sion of assignments between the different levels of governments provides a challenge. This is because each level of sub-national government is involved in tax collection. It is clear neither to the tax collectors themselves nor to the taxpayers which institutions actually hold responsibility for the different types of tax collection.² This extensive involvement creates space for rent seeking. Civil servants who get involved in the tax collection seek to find benefit for themselves as a payment for their "responsibilities"; often responsibilities that they have manoeuvred themselves into (often through payment) in order to benefit.

The amount of tax collected varies from business to business and between places. Bargaining or negotiation is possible. The negotiations can be done collectively (i.e. groups of rice millers, all sellers at a market) or individually. There might be established regulations in a system for assessment of taxes that are in place but not in use. Interviews with other small businesses in all provinces show that no fixed assessment system for levying taxes on businesses is used. This issue might also be a result of the structure of the markets and businesses. Some well-structured markets have regular taxation⁴ while other markets rarely or never pay, and when they do, the enforcement of tax collection is hampered by nepotism and lack of transparency.⁶ Hence, the rate and amount of tax levied varies between the different tax authorities across time and space.

Potential revenues for the Commune/Sangkat councils are user-fees for services provided by the councils, and tax collection from simple tax bases and small businesses.

Potential Revenue Sources

Potential revenues for the Commune/Sangkat councils are user-fees for services provided by the councils, and tax collection from simple tax bases and small businesses. Well-designed *user-fees* could potentially improve the benefit incidence of public services, particularly in health and education spending, but this decision must be taken with great care to ensure that the poorest groups do benefit and have better access to quality services. The second potential source of commune own-revenue is from tax collection. There are a number of activities and businesses within the communes and villages (in the provinces under this study) that have high potential as revenue sources (excluding big industries and companies). Tax collection from markets may be one of the biggest sources of own-revenues for the Commune Councils. Commune markets operate during the morning only, and may have as many as 200 stands and dozens of other houses around. The markets are commonly managed and run by the provincial agents. Agents who are assigned as government fiscal agents collect market fees (the *Pheasi*). Anybody wishing to become a state agent must submit their bids to the government specifying how much they are willing to pay for the privilege of market tax collection. In principle, the highest bidder will win the contract for a one-year period.

In addition to tax collection from markets, there are several other sources for tax collection from some of the most commonly found taxable businesses at the commune level⁷ including rice millers, winemakers, brick makers, icemakers, catering service providers, grocery stores, firewood and forest products sellers, businesses related to natural resources, and battery chargers. These businesses in general pay patent taxes where the amount of tax collected varies from 5,000 Riel to 35,000 Riel per year. Rice millers, for example, usually only pay patent taxes in an amount ranging from 5,000 to 15,000 Riel per year.

Average numbers of businesses per commune can include ten rice millers, three battery chargers, several service providers, couples of small scale industrial businesses, several crafting businesses, and a few other types of businesses in addition to markets (if any).

Prospects and Challenges in the process of establishing commune taxation

The debate on taxation by the commune often produces arguments that the local level cannot sustain taxes. It is often portrayed as a poverty issue. However, studies conducted by CDRI on resin trade and fish products show that an "informal" tax and fee system is common. The different individuals in these businesses have to pay fees to the many different officials for all types of required permissions for transporting their products to the markets (Prom and McKenney 2003). The presentation above indicates that there is no need in the near future to impose new types of taxes and fees since many activities at the commune level are being taxed already; what is needed is a sharing and reassignment of these revenues.

There are several challenges that might potentially arise in the process of identifying and establishing commune/*sangkat* own sources of revenue. Among them, the chief challenge will be what taxes and revenue bases are sensible to be reassigned or shared among the *salakhet* and the commune. Given extensive involvement of many different levels of government in tax collection, local resources are being tapped into and hence erode revenue bases for commune/*sangkat*. The second challenge is pervasive corruption in the form of informal collection and rent seeking practice as part of the tax collection process. Moreover, double and triple taxation is evident on some goods and services leading to excessive burden, which to some extent encourages the informal system of tax payment. The challenge within this

process is further exacerbated by the fact that the Commune/*Sangkat* lack institutional capacity and formal records to keep and account for collected revenues. This is a great challenge at this stage of the decentralisation reform, as the commune does not have its own accountants, bank account, proper records for public control, or a strong financial structure in place. These are important transparency and accountability challenges in the process of establishing commune taxation. Another aspect is that the commune/*sangkat* needs to equip itself with an administrative capacity that is experienced and competent in tax collection. Another equally important factor is the political will of relevant ministries at the national level. Despite the fact that there is legal authority and some degree of political will to move forward with the fiscal decentralisation reform, a consultative process to reach consensus among the relevant stakeholders is needed in order to establish mechanisms and strategies for how this process should proceed.

Endnotes

1. The example of the market in Pouk commune is discussed in the following pages.
2. Interview with district governors and councillors in the provinces visited during this research study.
3. Interview with brick maker in Siem Reap on June 17, 2003 (see Rusten *et al.* 2004).
4. Market survey in Battambang province in May 2003 (see Rusten *et al.* 2004).
5. Interviews with Province Departments of Treasury during this research study.
6. Market survey in Kep municipality (August 2003) and Kompong Speu province (June 2003) (See Rusten *et al.* 2004).
7. Not all businesses and markets are being taxed although most of these businesses do currently pay taxes.

Despite the fact that there is legal authority and some degree of political will to move forward with the fiscal decentralisation reform, a consultative process to reach consensus among the relevant stakeholders is needed in order to establish mechanisms and strategies for how this process should proceed.

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Law Harmonisation in Relation to Decentralisation

Robert Oberndorf, an independent legal consultant, examines the legislative context in which decentralisation reforms are occurring in Cambodia*

The Royal Government of Cambodia (RGC) is undertaking decentralisation reforms to devolve power to semi-autonomous elected governments at the Commune level, and to move towards enhanced roles for provinces and municipalities as deconcentrated entities of the centre.¹ In March of 2001 the RGC embarked on a bold experiment in decentralisation and deconcentration of government, with the enactment of the Law on Administration and Management of the Commune (LAMC), and the Commune Election Law, followed by elections of Commune Councils in February of 2002. A range of functions, spending authorities, and resources has been devolved to local governments and the provincial governors have been given responsibilities of support to and supervision of Commune Councils. In support of this effort, a large body of rules and regulations has been passed in a relatively short period of time. Understanding how these rules and regulations fit together with each other and already existing legislation, plus how the ongoing government efforts towards decentralisation fit within the overall legislative structures in Cambodia, is critically important for the continuing success of the decentralisation process.

Legislative Framework

To understand the rules and regulations that have been enacted in support of the decentralisation reforms, not to mention the rules and regulation that have yet to be drafted, a basic understanding of the legislative framework in Cambodia is needed. The laws and regulations of Cambodia are hierarchical, and each of these derives its validity and authority from a rule placed above it in the hierarchical structure of laws. The following is a general outline of the hierarchy of law within the Kingdom of Cambodia: i) Constitution ii) Laws (Chhbab) iii) Royal Decree (Reach-Kret) iv) Sub-Decree (Anu-Kret) v) Prakas vi) Circulars (Sarachor) vii) Deika.

Within this hierarchy of law are general observations that can be made on time and scope. The higher the level of the instrument that is being enacted, the greater

the amount of time for actual enactment due to various levels of reviews it must go through. For example, a law that is drafted at the level of the RGC must go through a review process within a line Ministry, at the Council of Ministers, the National Assembly and finally the Senate, while a Prakas is simply reviewed within the Ministry that is promulgating it.² Any decisions related to enactment or amendment of legislation must take into account this ever-present element of time.

Another aspect that should be considered is scope of the legal document. Laws have broad scope and apply to all government entities and geographic locations within the country, unless specifically limited within their text. Prakas tend to be only binding within the Ministry in which they are promulgated, and Deika only apply to the geographical area of the province or commune that enacts them.

Law: Laws, or Chhbab in Khmer, are the primary source of law in Cambodia. Chhbab are the laws passed by the National Assembly (lower house) and the Senate (upper house). The Chhbab is at times confused with the Kram, which is a form of Royal Decree used for the promulgation of a Chhbab by the King or Head of State.

The following is a general outline of the hierarchy of law within the Kingdom of Cambodia: i) Constitution ii) Laws (Chhbab) iii) Royal Decree (Reach-Kret) iv) Sub-Decree (Anu-Kret) v) Prakas vi) Circulars (Sarachor) vii) Deika.

Royal Decree: The Constitution states that "upon proposal by the Council of Ministers, the King (or Head of State) shall sign decrees (Kret) appointing, transferring or ending the mission of high civil and military officials..."³ This provision has been utilized by the RGC to create high level multi-ministerial bodies such as

the NCSC and Supreme Council for State Reform.

Sub-Decree: Sub-Decrees, or Anu-Kret, are legislative documents that are generally used to implement and clarify specific provisions within Laws, though they are also utilized to outline the roles, duties and responsibilities of government entities, such as a ministry, or for the appointment of high-ranking government officials. Sub-Decrees tend to be drafted within a ministry or amongst several ministries that have subject matter competence on the area to be legislated. Once drafted, the Sub-Decree is submitted to the Council of Ministers for examination and adoption. Once adopted by the Council of Ministers, the Sub-Decree is signed by the Prime Minister and counter signed by the minister or ministers in charge of implementation and enforcement. Authorization for the Sub-Decree, whether direct or indirect, must come from a higher-level legal instrument, such as a Law. Since Sub-Decrees are adopted at the Council of Ministers level, their scope can be quite large.

Prakas: Prakas are ministerial or inter-ministerial regulations that are used, like Sub-Decrees, to implement and clarify specific provisions within higher-level legislative documents. They are also often used for the creation of guidelines that are necessary for the implementation of Laws or Sub-Decrees. Prakas are usually drafted at the technical department level and then signed into effect by the minister (or ministers) in charge of the

* This article is based a presentation by Oberndorf at the CDRI seminar on "The Challenges of the Decentralisation Design" at Sunway Hotel, January 29, 2004. A full working paper will be available at CDRI in March. The opinions of this article do not necessarily reflect the opinion of CDRI.

ministry within which the regulation or guidelines apply. It should be noted that Prakas are largely used to implement Law in Cambodia, and that lessons learned can be quickly incorporated since the process for enacting a Prakas are relatively simple and quick. The drawback to Prakas is that their scope is limited to the subject matter jurisdiction of the ministries that enact them, such that other line ministries or government entities will not always feel bound to follow them.

Circulars: Circulars, or Sarachor, are instruments that are issued by the Prime Minister or a minister to explain or clarify certain legal or regulatory measures, or to provide instructions. Like Prakas, these are limited in scope, but easily issued.

Deika: Deika are orders given by provincial governors or Commune Councils that have the force of law within the geographical limit or their territorial authority. Deika cannot conflict with other rules and regulations at the national level. Deika at the commune level cannot conflict with provincial Deika.

Primary Legislation Enacted

The following is a list of the primary rules and regulations that have been enacted in support of the decentralisation reforms since 2001. The entire body of rules and regulations, including all of the Prakas and guidelines, is much larger than this.

Law on the Administration and Management of the Commune (LAMC): This is the Law, which has acted as the key policy document and blueprint for the program of decentralisation. It lays out the key elements related to the roles, duties and functions of the various entities involved in decentralisation, and gives authorization for the supporting legal documents that need to be enacted, though no time frames were spelled out for the enactment of these other documents. As is common with Laws in Cambodia, the LAMC is very broad and at times rather vague in terms of its provisions, as details are usually worked out in the supporting Sub-Decrees and Prakas that are authorized.

Law on the Elections of the Commune Councils: This Law spells out all of the relevant rules and provisions for the election of commune councils in the country. As opposed to other laws, this piece of legislation is very detailed and long. This is largely a function of the fact that all the rules and regulations had to be in place prior to the first Commune Council elections in February of 2002. It is indicative of the strong political commitment to the decentralisation process that this document was passed in the form that it was. It should also be noted that this was clearly drafted with substantial outside technical assistance.

Royal Decree on the Creation of the National Committee to Support the Commune (NCSC): This Royal Decree outlines the roles and responsibilities of the NCSC.

Sub-Decree on the Decentralisation of Powers, Roles and Duties to Commune Councils: This Sub-

Decree fills in much of the detail that is lacking within the LAMC and introduces concepts that are more fully explained in other supporting documents, such as the Prakas on the Commune Clerks.

Sub-Decree on the Establishment of the Commune Fund: This Sub-Decree provides details for the establishment and management of the Commune Fund, including basic rules for Commune Fund deposits to the Provincial Treasury, and rules outlining the roles and duties of the Provincial Governor and Provincial Treasury.

Sub-Decree on the Commune Financial Management System: This Sub-Decree provides details for commune financial management, including rules on the formulation, approval and implementation of the commune budget, the accounting and payment system, financial reporting, revenue and expenditure management, management of durable assets, and auditing of accounts and operations. An important piece of the puzzle, as financial planning and management is one of the few clearly defined roles of the Commune Councils. This Sub-Decree also further defines the role of the Provincial Treasury as accountant for the Commune Council.

Prakas on the Roles, Duties and Structures of the Department of Local Administration (DOLA): An important, and often times misunderstood, element of this Prakas is that it represents a delegation of many of the communication, monitoring and evaluation duties from both the NCSC and the Ministry of Interior (MOI) to Department of Local Administration (DOLA).

Prakas on the Delegation of Powers to Provincial Governors in Support of Commune Councils: This Prakas represents a temporary fix until the Organic Law on provincial and district government is drafted and enacted. This Prakas also acts as a further delegation of communication, monitoring and evaluation roles from the national level, specifically the NCSC, MOI and DOLA, down to the Provincial level. What is sometimes misunderstood is that the delegation is not just to the governor, but also to the provincial level of government, since one individual alone could never handle the delegated responsibilities.

Prakas on the Roles, Responsibilities and Organizational structure of the Provincial Rural Development Committee of the Seila Program: Like the Governors Prakas above, this Prakas represents a temporary fix until the Organic Law is drafted and enacted.

Prakas on Roles, Duties and Rights of Commune Clerks: This Prakas outlines the general functions of the commune clerks that primarily act as secretaries to the Commune Councils.

Inter-Ministerial Prakas on Commune Development Planning: This Prakas outlines the general structure and procedure for the commune development planning process. This Prakas is important since, like financial management, it is one of the few clearly defined roles of the Commune Councils that has been established and understood.

Comments on the Legislation Enacted to Date

Credit should be given to the RGC for managing to put into place this legislative framework in such a brief period of time, especially considering the fact that it has enabled the implementation of decentralisation policy in Cambodia. This large body of rules and regulations enacted in support of decentralisation is quite complex and can be difficult to understand, especially for those who have no legal training. In addition to this, the drafting is not always precise and is generally not up to the standards of more developed countries.⁴ With this being said, it is important to note that for those that are actually implementing the rules and regulations, there are few reports of stumbling blocks that are a direct result of problems in the legislation. This is most likely due to the fact that legislation in Cambodia tends to be implemented through Prakas/guidelines. To put it quite simply, the current body of rules and regulations can be implemented. The problems that are reported overwhelmingly relate to the critical rules and regulations that are currently missing.

What should be guarded against are calls for wholesale re-drafting of the body of rules and regulations that have been enacted due to issues surrounding problems in the drafting. Such an exercise would consume valuable resources that could be better spent elsewhere, and there is no guarantee that the system put in place to replace that which has already been drafted will be any better; in fact it could be worse.

Problems with Legal Interpretation

One of the problems with interpretation of the rules and regulations currently in existence is that different legal experts can come up with different interpretations depending on the conclusion they are trying to reach. This is the role of lawyers and advocates the world over. The situation is even worse when non-legal experts start interpreting the law. In the context of Cambodia, it is a commonly accepted principle that the government entity with the competence over a specific subject matter is generally the party responsible for interpreting the meaning of the rules and regulations within that subject matter. For example, the Ministry of Land Management Urban Planning and Construction (MLMUPC) would state that the only entity that can interpret the meaning of the Land Law is the MLMUPC. Likewise, MOI would argue that rules and regulations related to the Commune Councils should be interpreted by MOI. This can get complicated since the Ministry of Economy and Finance will argue that interpretation of provisions related to commune finance is their responsibility, etc.

Ultimately, if there is a conflict over the interpretation of the rules and regulations, it should be the role of the judiciary and the courts to be the final arbiter over the meaning and intent. Unfortunately the judicial

branch of government is quite weak, and there is no clear mechanism established in Cambodia for administrative appeals where such questions of interpretation can be handled.

Currently, the interpretation and implementation of the rules and regulations in Cambodia is more a question of political will than anything else. No matter how well a set of rules and regulations are drafted, there is no guarantee that they will be implemented as written. Government bureaucrats are left to interpret and implement the law based on directives and support from the superiors above or on their own.

Critical Rules and Regulations Currently Missing

In terms of identification of current legislative gaps, the most obvious is the lack of the Organic Law for provincial and district levels of government; drafting and enactment of this legislation is scheduled to take place in 2006, prior to the next Commune Council elections. In addition to this, the primary pieces that need to be put

One of the problems with interpretation of the rules and regulations currently in existence is that different legal experts can come up with different interpretations depending on the conclusion they are trying to reach. This is the role of lawyers and advocates the world over.

into place in the near to medium term include: Rules and regulations on the determination of types, rates and procedures for the collection of the revenues from the fiscal taxes, non-fiscal taxes and service charges for Commune Councils (this must be done in the context of the harmonization of fiscal management throughout the government at all levels); Rules on administrative fees for delegated agency functions to the Commune Councils; Procedures for selection, taking office and changing of the village chiefs, appointment of assistants to village chiefs, and the working procedure and duties of the village chiefs; Guidelines on Commune Councils hiring staff as needed; Drafting of commune Deika (local regulations); Guidelines on creation of committees to assist in carrying out the Commune Council's duties; and Guidelines on the roles and responsibilities of multiple communes working together.

Conclusions and Key Issues Moving Forward

Though it can be criticized for not being perfect, the legislative framework that has been put into place is functional and is being implemented by the various parties involved. This is no small achievement in a country like Cambodia where legislation can at times take years to enact or is never properly implemented. With that being said, there are several key issues that need attention as legislation related to decentralisation is further developed.

One of these is the issue of granting or delegating agency functions to the Commune Councils. Any legislation that is enacted that gives additional roles and duties to the Commune level of government must be carefully aligned with already existing rules and regulations. In addition, budgets must be made available for the Commune Councils to carry out the mandated activity.

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ECONOMY WATCH – EXTERNAL ENVIRONMENT

World Economic Growth

The world economy remained in stagnation during the early months of 2003, mainly due to fears about the coming war in Iraq, weakened investor confidence and the threat of rising oil prices. With the end of the war, signs of recovery began to emerge, as leading economies around the world appeared to be bouncing back.

Global economic growth picked up significantly by the latter half of 2003, ending the year with a much rosier outlook. The IMF estimates world GDP in 2003 at 3.2 percent and forecasts growth for 2004 at 4.1 percent. The rebound seems to be led by the U.S. economy as well as that of Japan, with India and China helping out by retaining their 'normally' high growth rates.

The **U.S.** which accounts for 20 percent of the world economy experienced a whopping 8.2 percent growth in the third quarter of 2003 – the fastest in 20 years. Although fourth quarter growth dropped to 4.1 percent, it still remained substantially above historical trends, yielding an overall growth rate of 2.6 percent for the year as a whole. The IMF estimates a growth rate of 4 percent for the US in 2004 – painting an optimistic picture for the year.

The main factors behind the more positive performance in 2003 include a surge in investment in equipment and software and an expectation of falling oil prices. The deceleration of GDP in the last quarter, 2003 reflects a deceleration in per-capita expenditures and in residential fixed investments, as well as acceleration in imports.

The **Euro area** performance for 2003 as a whole remained depressed. For EU15, growth fell from 1.0 percent to 0.7 percent while for the Euro zone together, it fell from 0.9 percent to 0.4 percent. Last quarter performance for 2003 remained roughly the same as in the preceding quarter.

Recent EU Growth Rates

	Q4-03	Q3-03	'03	'02
Euro Zone	0.3	0.4	0.4	0.9
EU 15	0.4	0.4	0.7	1.0

Source: Eurostat, 4 March, 2003

These trends underline a relatively faster expansion in investment and imports compared to private consumption and exports. Generally, industrial performance improved but the trade, transport and communications sectors fell back.

Japan's economy grew by 1.6 percent in real terms in fourth quarter 2003 over the preceding quarter, implying an annualised growth rate of 6.4 percent. Even this was below the expected growth of 7.0 percent. It may be pointed out that this was significantly stronger than that registered by the US economy over the same period.

The Japanese balance of payments data underscore the strength in export growth that was instrumental in fuelling recovery. Capital spending went up by 6.3 percent. A rapidly rising trade surplus exerted pressure on

the yen leading to strong market interventions to prevent a sharp rise in the currency, especially against the US dollar. However, the yen depreciated against the Euro by almost 11 percent since 2002, helping to boost exports to Europe. Apart from buoyant exports, domestic demand also picked up as consumer confidence returned.

China's economy rose by 9.9 percent in the fourth quarter of 2003, leading to an expansion of 9.1 percent in 2003, as a whole – the fastest rate since 1997. The growth in 2003 was fuelled by a substantial rise in investment and a surge in external demand, according to a report released by Channel News Asia. Exports of electronic products (which accounts for a third of capital exports) increased by a massive 50 percent over the year. Industrial output expanded from 13 percent in 2002 to 17 percent in 2003.

In the **ASEAN** countries, there were further signs of recovery. The growth rate in 2003 was only 1.1 percent, well below the 1.5 percent realised in 2002. Economic activity picked up during the latter half of 2003 so that last quarter growth was 3.7 percent, compared to the same period in 2002 – riding on increased demand for electronics and pharmaceuticals (according to Channel News Asia).

The Ministry of Trade and Industry (MTI) has revised upwards its forecast for **Singapore's** economic growth in 2004, after a surprisingly strong 11 per cent annualised expansion in the last quarter of 2003. In the wake of the 2003 economic results MTI said that it was now forecasting economic growth of 3.5 to 5.5 per cent, up from 3 to 5 per cent, in 2004.

Growth in the fourth quarter had topped the Government's advance estimate of a 7.9 per cent seasonally adjusted annual rate. Likewise, the year-on-year figures also outperformed the Government's advance estimate of 3.7 per cent, turning in a growth of 4.9 per cent. The gross domestic product (GDP) growth in the last quarter had slowed, however, from the third quarter's 16.1 per cent, the highest quarterly growth since 1997, as Singapore rebounded from the Sars outbreak. Together, the two healthy quarters pushed up growth for the whole of 2003 to 1.1 per cent, which exceeded MTI's January estimate of 0.8 per cent. Last year's GDP growth was very much boosted by external demand, which rose 9.5 per cent, as more electronics and chemical products were exported.

Thailand's GDP grew by 7.8 percent in fourth quarter 2003 compared to the same period in 2002 – the fastest increase in seven years. In 2004, the Thai economy is projected to grow by 7.7-8.1 percent, compared to the previous forecast of 7.5 percent (according to the Government Fiscal Policy Office). The 2004 GDP growth would benefit from Thailand's major trading partners' improved economies and the supplementary budget of 135.5 billion baht. However, the growth will be crowded out by the negative impact of Avian influenza together

ECONOMY WATCH – EXTERNAL ENVIRONMENT

with the Baht appreciation. Internal and external stability is expected to be well maintained. The current account balance is projected to continue to be in a surplus of 1.7 percent of GDP, slightly lower than that of last year, due to an increase in imports following an expansion in domestic demand. The inflation rate is expected to remain low at 2.4 percent.

According to the 2004 Economic Outlook for East Asia released by the Institute of Developing Economies (IDE) of the Japan External Trade Organisation (Jetro), the Philippines' GDP will grow at 4.7 percent in 2004, 0.3 percentage point higher than last year's GDP growth. IDE-Jetro's forecast is lower than the Philippine government's 4.9 percent minimum to 5.8 maximum GDP growth forecast.

Indonesia is forecast to have the slowest GDP growth at 4.5 percent among the Asean countries. IDE said the East Asian economy, excluding Japan, will grow at a steady rate of 6.7 percent this year, up by 0.8 points from last year.

The Asean countries Indonesia, Thailand, Malaysia, Philippines and Vietnam together will grow 5.6 percent, up 0.6 points in 2004.

World Inflation and Exchange Rates

Consumer prices in the US rose at a slower pace at 1.9 percent in fourth quarter 2003, compared to 2.2 percent in the preceding quarter, amidst a strong economic recovery. For 2003 as a whole, US consumer prices rose by 2.3 percent, 0.7 percent higher than in the previous year. In the Euro area, consumer prices remained stable at 2.0 percent in 2003 compared to 2.1 percent in 2002. Higher energy prices were off set by a stronger Euro.

In Japan deflationary pressures eased off by the fourth quarter 2004 with no change in the price index although for the year as a whole, consumer prices declined by 0.3 percent – a smaller decline compared to 2002 when it fell by almost 1 percent.

The value of the US dollar eroded rapidly, reaching the lowest point over 18 succeeding quarters, to 0.84 Euro/US dollar in fourth quarter 2003. It also continued to weaken against the Japanese currency for the third consecutive quarter reaching 109 Yen per US dollar.

By Tong Kimsun

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Law Harmonisation...

Finally, due to the current capacity of the Commune Councils, the RGC must be careful to not place too many responsibilities on this level of government which is already having some difficulties in digesting what administrative burdens it already has.

Another issue will be ensuring that the Organic Law on provincial and district governance will mesh well with the current legislation supporting decentralisation. Enactment of this law could require amendments to the LAMC and supporting legislation, so it will be critical that any necessary amendments are identified early on so that the lengthy process for passage or amendment of a Law can be taken into account. In a more general sense, careful attention must be paid to any amendments that are called for to the existing legislation.

There is a serious question as to the mandate of the NCSC, which is to end prior to the next mandate of the Commune Councils according to the language in the LAMC. Will the mandate of the NCSC be extended, and if not, what entity will pick up its responsibilities? What changes or amendments in the exiting body of rules and regulations will be required under either of these scenarios?

Finally, there needs to be a comprehensive systematic review of the financial/budgetary system if Commune Councils are to start generating actual tax revenue

instead of just fees, as is envisioned in the LAMC. There needs to be a clear system in terms of what revenue is gathered by the national treasury, the province and the commune in order to avoid issues of over taxation or double taxation of the citizenry.

Endnotes

¹ The English term “commune” is used to cover the Khmer terms “*khum*” and “*sangkat*,” the English term “district” is used to cover the Khmer terms “*srok*” and “*khan*,” and the term “provincial” is used to cover both provincial and municipal government entities.

² After promulgation, laws may also be reviewed for constitutionality by the Constitutional Council, but only upon request of the King, President of the Senate or National Assembly, the Prime Minister, ¼ of members of the Senate, 1/10 of the members of the National Assembly or the Courts. The Constitutional Council has no authority to review laws on non-constitutional issues, nor does it have authority to review other legal instruments such as Sub-Decrees or Prakas.

³ Constitution, Article 21

⁴ The rules and regulations that have been passed are consistent with the quality of drafting usually found within Cambodia.

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

	2000	2001	2002			2003				2002
			Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Selected ASEAN countries										
Cambodia	7.3	6.7	-	-	-	-	-	-	-	4.2
Indonesia	4.4	3.8	3.5	3.9	3.8	3.4	3.8	3.9	4.3	3.8
Malaysia	8.7	0.5	3.8	5.6	5.4	4.0	4.4	3.5	6.4	5.6
Singapore	9.5	-2.3	3.9	3.7	3.0	1.6	-4.2	1.7	3.7	2.6
Thailand	4.4	1.9	5.1	5.8	5.6	6.7	5.8	6.5	7.8	6.1
Vietnam		6.0	-	-	-	-	6.9	-	-	6.7
Selected other Asian countries										
China	8.0	7.5	8.0	8.1	8.1	9.9	6.7	9.1	9.9	8.1
Hong Kong	10.6	0.3	0.5	3.3	5.0	4.5	-0.5	4.0	-	5.0
South Korea	9.1	3.0	6.3	5.8	6.8	3.7	1.9	2.3	-	6.1
Taiwan	6.0	-2.1	3.0	4.8	4.2	3.2	-0.4	4.2	5.4	4.2
Selected industrial countries										
Euro-11	3.5	1.4	0.7	0.8	1.3	0.8	0.2	0.3	0.6	0.7
Japan	1.6	-1.3	-0.7	1.3	2.8	2.6	3.0	1.8	3.6	0.5
United States	5.0	1.2	2.1	3.2	2.9	2.1	2.5	8.2%	4.3	2.4

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

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

	2000	2001	2002			2003				2002
			Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Selected ASEAN countries										
Cambodia	-0.3	-0.4	3.3	3.5	3.0	1.8	1.6	0.7	0.5	3.3
Indonesia	3.7	11.3	12.6	10.2	10.3	7.7	6.5	5.6	3.7	11.9
Malaysia	1.5	1.4	1.9	2.1	1.9	1.3	0.9	1.0	1.1	1.9
Singapore	1.4	1.0	-0.4	-0.4	0.1	0.7	0.1	3.2	0.5	-0.4
Thailand	1.6	1.8	0.2	0.3	1.4	2.0	1.7	1.8	1.5	0.6
Vietnam	-1.7	0.0	2.7	2.9	3.7	2.2	2.3	3.5	2.2	2.8
Selected other Asian countries										
China	0.3	1.0	-0.7	-0.8	-0.6	0.5	0.6	0.8	-	-0.7
Hong Kong	-3.7	-1.5	-3.1	-3.5	-2.9	-2.0	-2.5	-3.7	-2.5	-3.1
South Korea	2.3	4.3	2.7	2.5	3.2	4.1	3.3	3.1	3.5	2.7
Taiwan	1.4	0.5	-0.1	-0.3	-0.5	0.3	-0.1	-	-	-0.3
Selected industrial countries										
Euro-11	2.3	2.6	2.0	2.0	2.3	2.4	2.0	2.0	1.9	2.2
Japan	-0.6	-0.5	-0.9	-0.8	-0.5	-0.3	-0.2	-0.3	0	-0.9
United States	3.4	2.9	1.3	1.6	2.2	2.9	2.1	2.2	1.9	1.6

Source: The International Monetary Fund and the Economist

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

	2000	2001	2002			2003				2002
			Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Selected ASEAN countries										
Cambodia (riel)	3,871	3,935	3,916	3,935	3,948	3,948	4,008	4,015	3,999	3,927
Indonesia (rupiah)	8,421	10,236	9,077	8,940	9,027	8,884	8,428	8,482	8,484	9,280
Malaysia (ringgit)	3.80	3.80	3.80	3.8	3.8	3.8	3.8	3.8	3.8	3.80
Singapore (S\$)	1.72	1.79	1.81	1.76	1.77	1.74	1.75	1.75	1.71	1.79
Thailand (baht)	40.1	44.4	42.78	42.09	43.4	42.7	42.2	41.5	39.8	43.0
Vietnam (dong)	14,083	14,827	15,231	15,314	15,297	15,427	15,470	15,693	16,151	15,246
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\$)	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.79	7.75	7.80
South Korea (won)	1,131	1,291	1,273	1,197	1,214	1,199	1,206	1,184	1,183	1,251
Taiwan (NT\$)	31.8	34.1	33.8	33.8	34.8	34.7	35.0	34.2	34.0	34.4
Selected industrial countries										
Euro-11 (euro)	1.08	1.12	1.09	1.02	1.00	0.93	0.88	0.88	0.84	1.07
Japan (yen)	108	122	127.6	119.6	123.0	118	119.1	117.7	109.1	126

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

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

	2000	2001	2002			2003				2002
			Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Hardwood (logs) – Malaysia (\$/m3)	190.1	160.1	153.0	178.7	181.2	186.3	182.1	183.0	197	162.5
Hardwood (sawn) –Malaysia (\$/m3)	599.2	488.3	493.0	536	565.4	550.4	552.4	552.0	545.5	518.5
Rubber – Malaysia (\$/ton)	720.8	602.0	754.0	863	834.1	945.5	975.8	1017.4	1261.4	768.4
Rice - Bangkok (\$/ton)	203.7	172.6	196.6	192.6	189.6	198.3	197.5	199.6	196	193.1
Soybeans – USA (\$/ton)	211.3	195.6	189.8	219.3	239.0	243.3	245.7	244.3	219.7	202.3
Crude oil – Dubai (\$/barrel)	26.1	22.8	24.3	25.4	26.2	29.3	24.5	26.5	27	24.0
Gold - London (\$/troy ounce)	279.0	279.0	280.9	313.7	317.8	352.1	346.7	363.3	384.4	298.3

Source: The International Monetary Fund and The Economist

ECONOMY WATCH—DOMESTIC PERFORMANCE

Main Economic Activities

In the last quarter of 2003, the Cambodian economy experienced a mixed trend in main economic activities, compared to the third quarter. The rise in the tourism and construction sectors was offset by a slowdown in private investments and external trade.

Cambodia's tourism sector flourished in the fourth quarter 2003. The total number of international visitors by 'all means of transport' rose by 45.6 percent to 230,600 persons, compared to the third quarter. Arrivals by air grew by 56.4 percent to 153,000 persons, mainly due to a substantial increase at Siem Reap airport, where arrivals rose to 73,000 persons from 31,000 in the third quarter. Although in past years the number of visitors has increased between the third and fourth quarter, both at Phnom Penh airport and Siem Reap airport, this year's sharp increase at Siem Reap airport can be partly attributed to new direct flights, e.g. from Vietnam. During the fourth quarter 2003, the number of visitors from Vietnam reached 36,484 persons, jumping from 14,148 persons in the preceding quarter.

In addition to the higher number of foreign visitors, domestic tourists increased their contribution to the tourism sector. In the fourth quarter 2003, 37,780 Cambodians visited Siem Reap, 50.4 percent more than the third quarter. Also, compared to the same quarter 2002, the number of domestic visitors to Siem Reap rose by 18.7 percent. The growing contribution of domestic tourism is likely related to improvements in infrastructure. During the period 1992-2001, multi-lateral and bilateral donors as well as NGOs disbursed loans and grants of US\$ 1,049 millions to the sector "Rural development" and "Transport". According to the Council for the Development of Cambodia, the Royal Government of Cambodia planned to invest US\$ 168.7 million into roads for the period 2002-2004. This could stimulate more domestic tourism in the years to come.

The second major contributor to the Cambodian economy in the fourth quarter 2003 was the construction sector. The Department of Cadastre and Geography of the Municipality of Phnom Penh approved construction projects worth US\$ 54.7 millions in the fourth quarter, 24 percent more than the preceding quarter. Approved construction for commercial buildings in Phnom Penh more than doubled to US\$ 35.6 million. In terms of construction area, projects approved during the last quarter 2003 reached 290,206 m², compared with 259,058 m² in the third quarter. Of this, construction for commercial building accounted for 61.4 percent, covering an area of 178,197 m², compared with just 73,536 m² in the preceding quarter and with 30,954 m² in the fourth quarter 2002.

An increase in bank loans for construction also indicates greater activity in the sector. In the fourth quarter 2003, commercial banks provided credit worth US\$ 20.8 million for construction activities in Phnom Penh, 3.7 percent more than in the preceding quarter. Compared to the same period in 2002, however, credit for construction rose by 36.6 percent.

Growth in the tourism and construction sectors, however, was counterbalanced by contraction in private investments and external trade. Private investment projects approved by the Council for the Development of Cambodia (CDC) in the fourth quarter 2003 were worth US\$ 62.1 million, 34.7 percent less than in the third quarter. Of this, approved investments in the garment sector dropped markedly to US\$ 14.5 million, from US\$ 43.3 million in the third quarter 2003. According to past trends, however, the number of project approvals by the CDC generally decreases between the third and fourth quarter each year.

As forecasted, Cambodia's external trade experienced a deficit of US\$ 48.7 million in the last quarter of 2003, in contrast to the third quarter surplus of US\$ 56.1 million. This reflects the dual effect of falling exports and rising imports. Total exports fell by 3.4 percent to US\$ 475.7 million in the fourth quarter, from US\$ 492.3 million in the third quarter. Garment exports, which make up 95 percent of Cambodia's total exports, dropped by 5.6 percent, but were still 16.4 percent higher than during the same period a year ago. Data on garment exports over a number of years indicate that exports are lowest during the first quarter of the year and peak during the third quarter. Following this trend, Cambodia can expect to see a drop in garment exports in the first quarter 2004.

The value of total imports surged by 14 percent to US\$ 497 million in the fourth quarter 2003, from US\$ 436.2 million in the third quarter. Cigarette imports played an important role in the increase, rising by 44.4 percent to US\$ 21.2 million. In addition, the value of motorcycle imports doubled to US\$ 8 million, kerosene imports likewise doubled to US\$ 8 million, and gasoline imports climbed by 60.7 percent to US\$ 9 million. According to the Ministry of Commerce, Cambodia's total imports rose by 13.3 percent in the fourth quarter 2003 compared to the same quarter 2002.

Public Finance

Fiscal discipline in Cambodia appeared to improve in the fourth quarter 2003. Compared to the third quarter, budget expenditures dropped by 12 percent to 582 billion riels in the fourth quarter 2003, while budget revenue surged by 26.3 percent to 506 billion riels. Consequently, the overall deficit narrowed to 76.5 billion riels in the fourth quarter, from 261 billion riels in the preceding quarter.

The decline of public expenditures in the fourth quarter was closely linked to a sharp fall in capital expenditures (by 27 percent) to 205 billion riels, from 279.6 billion riels in the third quarter. Compared to the same quarter one year earlier, public investments shrank considerably by 40 percent. For 2003 as whole, the implementation of capital expenditure reached 96.5 percent of the target set by the budget law. This was achieved despite a shortage of domestic financing (just 87 percent of commitment) because external assistance exceeded the targeted amount (104 percent).

ECONOMY WATCH—DOMESTIC PERFORMANCE

Improvement in budget revenue collection reflects a significant increase in current revenues (by 26 percent) to 506 billion riels in the fourth quarter, from 399 billion riels in the third quarter. Tax revenue, which accounts for the largest share (70 percent) of current revenue, rose by 29 percent to 349 billion riels, of which customs duties contributed 117 billion riels. Also, non-tax revenue increased between the third and fourth quarter by 24.6 percent to 157 billion riels.

Inflation and Foreign Exchange Rates

Consumer prices in Phnom Penh were little changed in the fourth quarter 2003, just a slight increase of 0.05 percent over the third quarter. This reflects counterbalancing trends in the prices of different consumption goods and services. Between the third and fourth quarter 2003, the cost of transportation and communication rose by 1.2 percent, mainly due to a 1.4 percent rise in the gasoline price to 2,400 riels/litre and 1 percent rise in the diesel price to 1,700 riels/litre. This price increase, however, was partly offset by falling prices of other goods. The price of clothing and footwear declined by 0.5 percent between the third and fourth quarter 2003. Also, prices decreased slightly for categories including food and beverages, "housing and utilities", "house furniture and household operation" as well as "medical care". Based on a 12-month period comparison, the inflation rate continued to decline for the fifth consecutive quarter, to 0.5 percent in the fourth quarter 2003, down from 0.8 percent in the third quarter. The slower increase in prices resulted from falling medical care prices (by 2.5 percent), which decelerated the rising cost of transportation and communication (by 5.1 percent).

In the fourth quarter 2003, the Cambodian riel gained some value against the US dollar, trading at 3,999 riels/dollar, compared with 4,015 riels/dollar in the preceding quarter. This can mainly be attributed to the general weakness of the US dollar in the world market and significant improvement in Cambodia's fiscal discipline in the fourth quarter.

Against the Thai baht, however, the Cambodian riel fell by 3.7 percent to 100.5 riels/baht in the fourth quarter, from 96.9 riels/baht in the preceding quarter. This is mainly due to the remarkable appreciation of the baht against the US dollar (by 4.9 percent). Against the Vietnamese dong, the riel remained little changed at 24.8 riels/100 dongs in the fourth quarter 2003, compared with 24.9 riels/100 dongs in the third quarter.

Monetary Development

By the end of last quarter 2003, money supply for the Cambodian economy reached 3,319 billion riels, 10.4 percent more than at the end of the third quarter. The riel and US dollar accounted for 28 percent and 72 percent of money supply, respectively. Compared to the end of 2002, total liquidity grew markedly by 14.9 percent by the end of 2003. This was mainly driven by a tremendous expansion of domestic credit (by 29.4 percent). By the end of 2003, outstanding credit to the pri-

vate sector reached 1,347 billion riels (or US\$ 338.4 million), 27.2 percent more than one year earlier. At the same time, banks provided loans to government worth 91 billion riels (or US\$ 23 million), 122 percent more than one year earlier. However, government deposits with the monetary authorities rose significantly, by 7.4 percent to 128 billion riels (or US\$ 32 million) by the end of 2003, up from 119 billion riels (or US\$ 30 million) in 2002. This helped curb monetary expansion and served to offset the price pressure generated by increased lending by private banks.

Poverty Situation - Earnings of Vulnerable Workers

CDRI survey of vulnerable workers in February 2004 found that eight out of ten worker groups experienced an increase in their *nominal income* compared to the same month last year. Only two groups (garment workers and motorcycle-taxi drivers) experienced a decline in nominal income.

Due in some measure to increased activity during the Chinese New Year, *cyclo drivers'* income increased by 3.3 percent to 9,500 Riels/day in February 2004 compared to one year ago, and *porters* saw their income increase by 14 percent. Meanwhile, income of *scavengers* rose by 24 percent, reaching its highest level in the last two years, and income of *unskilled workers* increased by 17 percent. The daily income of *waitresses* increased by an average of 6.5 percent in the 12-month period ending in February 2004, but only 45 percent of waitresses reported an increase, while the others indicated that their income had remained the same or declined.

Skilled construction workers in Phnom Penh, the group with the highest income in comparison with other groups, earned 10 percent more than one year ago, though 18 percent less than in November 2003. Moreover, they earned 48 percent more than skilled construction workers in Kompong Cham province. On average, construction workers in Kompong Cham were paid 8,000 Riels per day, whereas construction workers in Phnom Penh earn an average of 13,800 Riels per day. In addition to information on income, it is noteworthy that 80 percent of construction workers in Phnom Penh migrated from provinces, with 42 percent of them having agricultural land of less than 1 ha, and 13 percent having no agricultural land. Most (70 percent) of construction workers in Phnom Penh indicate that they have witnessed more construction activities in Phnom Penh over the past year.

The income of *rice-field workers* rose by 7 percent in the 12-month period ending in February 2004. Although their income level is relatively low, it represents the major source of income for most (92 percent) of this group, according to interviews. However, most young rice-field workers would like to find work in the garment sector.

In contrast to the groups above, motorcycle-taxi drivers saw their income decline (by 2 percent) in February 2004, compared to the same period last year. Most motor taxi drivers (77 percent) attribute this decline to in-

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ECONOMY WATCH—INDICATORS

Table 1. Private Investment Projects Approved, 1996–2003

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
	Number of investment projects											
Total	300	136	140	96	96	188	11	8	20	14	17	15
Garment	144	48	84	44	52	76	5	2	6	7	12	6
	Registered capital (millions of dollars)											
Total	391.2	278	416.4	246.8	102.4	129.2	12.1	20.3	41.6	10.4	4.0	15.4
Garment	156.8	34.4	91.6	55.6	25.6	60	5	1	5	4.1	1.0	5.8
	Fixed assets (millions of dollars)											
Total	746.8	761.6	849.2	474	266.4	217.2	127.6	60.9	108.5	48.3	95.1	62.1
Garment	158.4	38.8	120.8	79.6	76.8	100	5.5	1.7	6.5	10.5	43.3	14.5

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

Table 2. Construction Projects Approved in Phnom Penh (1996-2003)

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
Mansion	205	179	143	136	111	108	36	40	29	39	25	48
Apartment	537	528	678	864	520	499	154	123	125	104	148	116
Other	116	117	132	74	64	57	22	14	21	23	17	22
Total	858	824	953	1074	695	664	212	177	175	166	190	186

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

Table 3. Exports and Imports, 1996-2003

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
	Millions of dollars											
Total exports	387.1	493.4	784.4	941.1	1055.5	1267.0	451.7	412.9	331.5	408.5	492.3	475.7
Of which: - Garment	78.8	227.2	378	554	962.1	1201.0	431.7	385.4	314.7	389.9	475.2	448.5
. To U S	0.4	107.2	74.1	486	714.1	840.9	295.2	269.2	230.6	267.8	303.2	298.2
. To Rest of the world	78.4	120	82	68	248.0	360.1	136.5	116.2	84.1	122.1	172.0	150.3
- Agriculture	-	-	-	-	90.5	66.0	20.1	27.4	16.8	18.7	17.0	27.2
. Rubber	-	-	-	-	29.6	25.9	9.2	9.1	6.3	6.7	10.0	12.1
. Wood	-	-	-	-	32.5	22.3	4.1	3.3	2.8	2.8	2.1	2.4
. Fisheries	-	-	-	-	5.4	6.0	1.0	0.5	0.8	0.7	0.6	0.7
. Other	-	-	-	-	26.0	11.8	5.8	14.5	6.9	8.5	4.3	12.0
Total Imports	1114.4	1094.5	1112.2	1237.4	1417.7	1501.4	484.4	438.7	393.8	507.3	436.2	497
Of which: - Gasoline	-	-	-	-	-	-	5.9	7.6	10.4	8.0	5.6	9.0
- Diesel	-	-	-	-	-	-	31.3	23.3	25.0	33.4	25.1	24.4
- Construction material	-	-	-	-	-	-	3.7	2.9	2.8	3.4	2.4	3.5
- Others	-	-	-	-	-	-	443.5	404.9	355.6	462.5	403.1	460
Trade Balance	-727.3	-601.2	-327.8	-296.3	-362.2	-234.0	-32.7	-25.8	-62.3	-98.8	56.1	-21.3
	Percentage change over previous year											
Total Exports Garment	198	188	66	47	74	24.8	27.5	33.2	26.3	34.7	10.1	16.4
Total Exports	2.1	27.5	58.9	12.4	19.7	20	28.0	35.3	20.7	30.0	9.0	15.2
Total Imports	1.2	-1.8	1.6	11.3	14.5	5.9	59	27	22	7.8	-10.0	19.6

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

Table 4. Visitor Arrivals in Cambodia, 1996-2003

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
	Thousands of passengers											
Tourist visas	194.4	163.0	141.9	199.6	209.6	335.4	46.9	58.7	183.7	83.8	132.0	209.1
by Air	194.4	163.0	141.9	199.6	209.6	335.4	46.9	58.7	124.6	44.4	76.2	131.3
land and boat	-	-	-	-	-	-	-	-	59.1	39.4	55.8	77.7
Business visas	58.4	48.6	37.6	55.4	46.9	62.4	15.6	16.1	20.4	14.7	20.3	15.5
by Air	58.4	48.6	37.6	55.4	46.9	62.4	15.6	16.1	17.2	11.2	16.3	15.5
land and boat	-	-	-	-	-	-	-	-	3.2	3.5	4.0	-
Official visas	7.6	7.2	6.8	7.9	95.2	10.6	52.0	92.9	4.7	4.6	5.9	6.1
by Air	7.6	7.2	6.8	7.9	95.2	10.6	52.0	92.9	4.0	4.0	5.1	6.1
land and boat	-	-	-	-	-	-	-	-	0.7	0.6	0.8	-
Total by Air	-	-	186.3	262.9	351.7	408.4	114.5	167.7	145.8	59.6	97.6	152.9
Total Land and boat	-	-	100.2	104.8	114.7	196.5	59.3	69.6	63	43.5	60.6	77.7
Grand total	260.4	218.8	286.5	367.7	466.4	604.9	173.8	237.3	208.8	103.1	158.2	230.6
	Percentage change over previous year											
Grand total	18.5	-15.9	30.9	28.3	26.8	29.7	24.7	41.3	-0.9	-37.4	-8.9	-14.2

Sources: Ministry of Tourism

ECONOMY WATCH—INDICATORS

Table 5. Consumer Price Index (CPI), Exchange Rates and Gold Prices, 1996-2003 (period averages)

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
	Consumer price index (percentage change over previous year)											
Provinces	-	6.1	16.3	6.2	5.4	0.9	2.0	-0.3	7.4	5.9	-1.9	1.8
Phnom Penh - All Items	7.1	8.0	14.8	4.0	-0.8	-0.6	3.5	3.04	1.8	1.6	0.8	0.5
- Foods	7.6	6.7	14.1	7.6	-3.3	-2.8	2.0	2.00	3.20	2.3	1.5	-0.04
- Energy	20.7	20.0	15.1	3.5	6.6	-1.1	0.9	2.25	4.75	5.2	5.1	5.1
	Exchange rates, Gold and Oil prices (Phnom Penh market rates)											
Riel per US dollar	2,666	3,029	3824	3832	3,879	3,935	3,935	3,948	3948	4008	4015	3999
Riel per Thai baht	105	98	88	101	96.3	88	93.5	90.9	92.4	94.9	96.9	100.5
Riel per 100 Vietnamese dong	24.0	25.6	28.6	27.8	27.4	26.6	25.7	25.8	25.6	25.9	24.9	24.8
Gold prices (US dollar per chi)	46.3	40.4	36.0	34.0	33.3	32.7	38.0	38.5	39.8	40.0	41.5	44.4
Price of Diesel (Riels/litre)	779	883	1,065	1,105	1,329	1,521	1,550	1550	1697	1683	1683	1700
Price of Gasoline (Riels/litre)	1,118	1,378	1,613	1,760	2,113	2,084	2,200	2200	2433	2383	2367	2400

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

Table 6. Monetary Survey, 1996-2003 (end of period)

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
	Billions of riels											
Net foreign assets	881	1,177	1,726	2,019	2,589	3,080	3,693	3,737	3,741	3,594	3627	4010
Net domestic assets	31	-114	-496	-576	-759	-876	-943	-849	-737	-641	-621	-691
Net claims on government	128	54	178	103	3	-75	-106	-119	-72	-19	18	-128
Credit to private sector	435	637	655	763	898	936	971	1,059	1,125	1,224	1287	1347
Total liquidity	912	1,063	1,230	1,443	1,831	2,204	2,751	2,888	3,004	2,953	3007	3319
Money	329	385	543	531	540	609	771	813	829	871	886	936
Quasi-money	583	678	687	911	1,291	1,594	1,979	2,075	2,175	2,082	2120	2383
	Percentage change from previous year											
Total liquidity	40.3	16.6	15.7	17.3	26.9	20.4	29.5	24.1	24.6	11.5	9.3	14.9
Money	18.3	17	41	-2.2	1.7	12.8	35.5	33.4	22.6	16.4	14.9	15.1
Quasi-money	57.1	16.3	1.3	32.6	41.7	23.5	27.3	30.2	25.7	9.5	7.1	14.8

Source: National Bank of Cambodia.

Table 7. National Budget Operations on Cash Basis, 1996-2003 (billion riels)

	1996	1997	1998	1999	2000	2001	2002		2003			
							Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	748	880	920	1326	1528	1529	457	481	400	379	400.5	506
Current revenue	-	-	-	-	-	1521	456	481	400	377	399.2	506
Tax revenue	536	596	676	956	1096	1096	323	339	273	287	273.1	349.1
Customs duties	344	348	376	432	376	376	116	122	92	94	91.6	117.4
Non-tax revenue	176	272	204	348	424	424	133	142	127	90	126.2	156.8
Forest exploitation	28	36	20	36	28	29	9	5	1	1	4.5	0.5
Post & Telecommunications	64	84	88	108	124	122	30.7	44	19	18	33.5	44.3
Capital revenue	40	12	36	12	8	9	1	0	0	2	1.3	0.0
Total expenditure	1440	1260	1296	1792	2332	2332	704	668	660	660	661.6	582.4
Capital expenditure	628	452	368	624	976	977	303	343	276	271	279.6	205.1
Current expenditure	812	808	980	1164	1356	1355	401	325	384	388	381.9	377.3
Education and Health	124	128	132	280	344	343	85	96	36	88	122.4	128.4
Defense and Security	408	420	448	464	404	405	105	110	70	119	75.4	110.1
Other Ministries	284	260	332	412	636	637	212	120	279	182	214	138.8
Overall deficit	-692	-380	-380	-476	-804	-803	-248	-187	-260	-281	-261	-76.5
Foreign financing	680	444	268	416	768	766	273	287	176	201	230	244.8
Domestic financing	12	-64	112	60	36	37	-25	-100	84	80	31	-168.3

Source: Ministry of Economy and Finance. Q4 2003 provisional

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

	Daily earnings (riels)									Change from last year (%)		
	1997		2001		2002		2003			2003		2004
	Pre-Jul	Nov	Nov	Aug	Nov	Feb	May	Aug	Nov	Feb-04	Aug	Nov
Cyclo drivers	12,250	6,262	8,900	8,878	9,200	9,572	9,380	9,817	9,500	5.4	10.58	3.26
Porters	9,675	5,000	7,600	6,312	7,600	7,955	7,240	6,500	8,700	-4.7	2.98	14.47
Small vegetable sellers	7,050	5,096	6,862	7,158	7,250	6,674	6,860	6,700	7,400	-0.3	-6.40	2.07
Scavengers	4,155	3,393	3,440	4,012	3,875	3,605	4,900	3,900	4,800	42.7	-2.79	23.87
Waitresses*	-	2,358	4,225	4,000	4,600	4,341	4,520	4,435	4,900	7.0	10.88	6.52
Rice-field workers	-	3,618	3,833	4,219	4,180	3,712	4,600	4,450	4,700	20.0	5.48	12.44
Garment workers	-	8,968	9,800	10,000	10,127	9,123	10,300	10,000	9,675	5.1	0.0	-4.46
Motorcycle-taxi drivers	-	9,791	11,300	12,075	11,400	9372	10,900	10,000	11,200	16.7	-17.18	-1.75
Unskilled construction workers	-	4,841	6,525	5,850	6,162	7,100	7,600	6,200	7,200	-3.5	5.98	16.85
Skilled construction workers	-	9,866	12,695	13,350	12,500	12,050	12,700	16,900	13,800	0.0	26.59	10.40

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

GLOSSARY – TERMS USED IN THIS ISSUE

Elite grabbing

The term 'elite grabbing' means that development benefits meant for all are being 'grabbed' by the social, economic or political elite (powerful people).

Amalgamation

In the context of the communes, the word amalgamation is used to signify that a number of communes are being joined into bigger units. This is often done to reduce the number of communes and enhance capacity development.

Horizontal peer learning

This means that learning takes place amongst peers at the horizontal level. For example, peer learning takes

place if commune clerks assist and learn from one another. It is *horizontal* peer learning because the learning is shared between people at the same level of government.

Social capital

Social networks, trust and cooperation between people are often termed social capital. Social capital is increasingly seen as important for development. We talk about *bonding social capital* (within a small group in a community), *bridging social capital* (extra community networks and trust between different groups and actors within the larger community) and *linking social capital* (the aspect of social capital that enables communities to get access to resources outside the community itself).

(Continued from page 16)

Domestic Performance

creasing gasoline prices and to the rising number of motor taxi drivers. Income of garment workers also dropped slightly to 9,700 Riels/day in February 2004, compared with 10,127 riels/day reported in the preceding survey. On average, garment workers earned US\$ 63 per month, which includes overtime wage and bonus. Of this, workers spend an average of \$27 to meet living

expenses, and send part of the remainder to support their families at home.

46 percent of the workers signaled that they would prefer to change jobs, especially because of the need to work over-time at short notice. Around half of the respondents reported a desire to set up an independent small/micro business but felt that it would not be possible to save enough money for the purpose.

By Dr. Kang Chandararot, Ms. Pon Dorina, and Ms. Ouch Chandarany

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CDRI UPDATE

Management

CDRI has concluded successful discussions with the Swedish International Development Agency (SIDA) on the extension of SIDA's significant contribution to CDRI's operating costs from 2004-2006, and with NOVIB (Oxfam Netherlands) for its support for the work of CDRI's Centre for Peace and Development, also from 2004 to 2006. SIDA also remains, along with the British Government's DFID, a donor partner in CDRI's Policy Oriented Research Programme on Decentralisation. CDRI gratefully acknowledges the support and partnership of these agencies.

In January CDRI's Executive Director contributed to the Asian Development Bank (ADB)'s Tripartite Workshop on Promoting Support for Poverty Reduction in the Greater Mekong Subregion held in Bangkok, and, in February, to the ADB's National Cambodian Workshop on Asian Development Fund Replenishment held in Phnom Penh.

Research

The economics programme of CDRI is currently engaged in four studies, related to poverty, small and medium enterprises, competitiveness of agricultural cash crops and the cross border economy. The last two studies are regional studies in which partner institutes from Laos, Vietnam and Thailand are also involved. Field work for SME and the Cross Border Economy have been completed and data analysis is currently underway. For the cash crop study, field work for two (out of four) crops have been completed. The NRE programme completed field research in Preah Vihear and Kompong Thom provinces on livelihood and management issues for high value forests. NRE programme Researcher Mr. Yim Chea will travel to Chiang Mai in April for a one month course in environmental Economics sponsored by the Economy and Environment Program for Southeast Asia. The Policy Oriented Research Programme on Decentralisation (PORDEC) has finalised the Decentralisation Design study,

which will be published in April. The report findings were disseminated at a seminar in Phnom Penh on January 29. Also, dissemination seminars took place in four provinces. PORDEC is currently engaged with a local government own source revenue study as a collaborative effort between Ministry of Economy and Finance, UNCDF and CDRI. Also, the team has started piloting a study on local government accountability and responsiveness.

Centre for Peace and Development

CPD team continues to conduct training which is the priorities for social capital development. Module one of *the Training for Peace* was completed. The trainees are facilitators from Phnom Penh Municipality and other NGOs. The team has also conducted two training need assessments in the reconciliation zone of Veal Veng district, Pursat province. A specific training on *Working Together for Peace and Development* in Veal Veng was completed. Most of the trainees were district officers, commune councils, monks, military officers and police whose work is related to conflict resolution in the area. Members of CPD team also participated in a two-day workshop on *Conflict Resolution* and a two day workshop on *Nationalism and Identity* at Sunway hotel, organised by the Alliance for Conflict Transformation.

Library

CDRI Library holds 8055 titles on economic and social development. 416 users have registered as a member of CDRI Library. The Library continues to provide training on WINISIS for other librarians. Library orientation to students was conducted for students from National Institute of Management, Royal University of Laws and Economics Sciences, Norton University and the School of Statistics and Planning. The Cambodiana Catalogue, which contains titles of publications about Cambodia has been printed and distributed to most libraries in Phnom Penh.

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

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