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The Priority Action Programme in Primary Education in Cambodia

PAK Kimchoeun, CDRI research associate, discusses the public expenditure management (PEM) system in Cambodia, based on the findings of the Public Expenditure Tracking Survey (PETS) in primary education, a joint study between CDRI, the World Bank and the ADB.

For the most part, Cambodia's budget system uses a traditional centralised approach derived largely from the French system. Cambodia initiated financial reforms in early 1993 with the promulgation of the Financial System (Budgetary) Law. Every year, an aggregate national revenue projection is made in May/June based on GDP growth projections to forecast available resources for the coming year. Next, by late July, budget allocation ceilings are established by the Ministry of Economy and Finance (MEF) for different sectors and investment activities and are approved by the Council of Ministers (CoM).

The budget is prepared using line and sub-line item format.¹ Recurrent and capital budgets are prepared separately. Recurrent budget lines commonly include Chapter 10 (salaries), Chapter 11 (operations and maintenance) and Chapter 31 (social and economic intervention). In September/October, each line ministry and department negotiates its budget with the Department of Budget and Financial Affairs (DBFA). A final draft budget, with both aggregates and detailed break-downs, is agreed upon and approved by the CoM and finally by the National Assembly by the last week of December.

Once the budget is approved, it is rigidly implemented with a high degree of centralised authority. Approval from the MEF is required for fund transfers within budget lines (e.g. Chapter 11) and the CoM for transfers across budget lines. The approval process is generally thick with bureaucracy and time-consuming, with some procedures taking at least two months. The MEF and its provincial departments, as well as the national Treasury and provincial Treasuries (PT), oversee and approve spending, procurement and payments in the execution of line ministries' and departments' budgets.



Pupils attending their class in a Cambodian rural school.

Reform Initiatives

The current system is generally acknowledged to be ineffective, as it creates financial leakages and causes various difficulties, such as delays, gate-keeping and lack of transparency, in budget execution. Even by developing-country standards, the system is weak across the three dimensions of budget formulation, execution and reporting, raising concerns about the capacity of the

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system to perform even the most basic tasks (WB & ADB, 2003). In response to these inefficiencies, the MEF, the Ministry of Education, Youth and Sport (MEYS) and the Ministry of Health have agreed to a number of initiatives, including the Priority Action Programme (PAP), in order to channel funds directly into the two priority sectors, thus bypassing the rigidities, delays and uncertainties created by the traditional centralised budget execution process.

Another cornerstone in reforming public financial management in Cambodia is the introduction of the Public Finance Management (PFM) reform programme in late 2004 with the long-term objective of introducing generally accepted best international standards. The reforms are built on four sequenced and prioritised platforms: (1) a more credible budget, (2) effective financial accountability, (3) a fully affordable and prioritised government policy agenda and (4) government managers becoming fully accountable for programme performance.²

PETS in Cambodian Primary Education

The PAP was mentioned particularly in the PFM reform programme as the cornerstone of medium-term financial deconcentration. This reform initiative needs to be evaluated before it can be mainstreamed. It was agreed between major donors, including the World Bank, and the government to use the Public Expenditure Tracking Survey (PETS) as a tool to conduct a detailed assessment of the PAP, starting with education after four years of PAP implementation.

PETS is a survey technique used to track public funds through various government strata (e.g. province, district, commune) to determine how much of the originally allocated funds reach facility level and whether the funds arrive on time. The survey is useful for locating and quantifying political and bureaucratic capture of public funds, leakage of funds and problems in the deployment of human and in-kind resources. It was first piloted by the World Bank (WB) in 1996 in Uganda, followed by 12 other countries: Albania, Cambodia, Chad, Ghana, Honduras, Macedonia, Papua New Guinea, Peru, Rwanda, Senegal, Sierra Leone and Tanzania. There is not yet a comprehensive assessment of the impacts of PETS because some of the surveys are too recent to be evaluated.³

In mid-2004, CDRI conducted the first PETS on primary education PAP and Chapter 11 funds in Cambodia. The study covered 21 districts and 200 primary schools in seven provinces (Banteay Meanchey, Kompong Cham, Kompong Chhnang, Kampot, Kratie, Prey Veng and Sihanoukville). In each school, a school director, six teachers, three members of the school support committee (SSC) and six parents were interviewed, and school records were checked, including those on PAP receipts. About 40 students were selected for numeracy and literacy tests and were also asked to fill in a questionnaire about their family wealth status and other aspects of their education. PAP and Chapter 11 records were reviewed and qualitative interviews were conducted at provincial education offices (PEO) and district education offices (DEO).

The following section will discuss the findings from the PETS regarding the performance of PAP in

primary education. Out of the 12 PAP activities⁴ being implemented, the PETS examined only PAP 2.1 (primary school operations budget), which represents over a quarter of the entire PAP. Research questions addressed in this section included: Does PAP 2.1 reach schools? If so, does it do so in a timely and predictable manner, and with how much leakage? What are its monitoring system and community involvement in the process? Is PAP pro-poor and effective in promoting primary education? Finally, a number of key policy recommendations derived from the PETS findings are presented.

PAP in Education

Since its pilot in 2000 in 10 provinces, PAP has expanded rapidly. In 2001, the programme expanded to cover all 24 provinces and municipalities.⁵ In 2002, it further expanded to include the 12 PAP activities mentioned above. As of June 2004 for the 12 PAP activities, 77 billion riels (about \$19.25 million) had been allocated nationally to cover expenditures for the year 2003. Of this, 34 percent was allocated to PAP 2 for promoting primary education quality and efficiency.

The scope of the PETS is not the entire PAP, but rather PAP 2.1, which is a portion of PAP 2 provided to support primary schools all over the country. PAP 2.1 is the largest PAP funding a primary school receives. In the sample provinces, PAP 2.1 represents, on average, almost 50 percent of the entire PAP funds for education. PAP 2.1 is a formula-based grant. The entitlement for each primary school is equal to a fixed sum (500,000 riels) plus the total number of students multiplied by per student allowances (6,000 riels).

PAP 2.1 Budget Execution and Management

Usually in July each year, schools, districts and provinces compile their proposed budget for PAP and submit it to the MEYS. Different specialised departments at the ministry agree among themselves on a draft PAP budget for each of 12 PAP activities and submit it to the MEF. The MEF uses audits to approve the budget and spending; i.e. there are no pre-audits or approvals of spending requests, as applied in traditional approaches. The PAP 2.1 fund is transferred to schools in many disbursements (six disbursements on average for the 2002 budget year) through the existing Treasury system to PEO. Without using the banking system, PEO pick up cash from the PT and pass it on to DEO and finally to schools. For management purposes, budget management centres were created. In 2003, there were 25 of these centres at the MEYS to work in each specialised department, one in each province and 144 in the 185 DEO.

PEO are given the authority to divide disbursements to different PAP depending on their actual needs at certain points, as long as ultimately the funds are allocated in accordance with the originally approved budget. For PAP 2.1, based on the allocation formula, PEO also decide on what schools should receive from a certain cash disbursement and instruct the DEO to disburse the money accordingly. With fairly flexible spending guidance, primary schools manage the PAP 2.1 funds

received. All the PEO, DEO and schools are required to keep records of inflows and outflows of cash. At schools, endorsement by the school support committee is required for PAP spending reports. The SSC is usually the same as the Parental Association.

Does PAP 2.1 Reach Schools?

The study indicates that PAP 2.1 funding gaps were 2.6 percent, 25.1 percent and 4.2 percent for fiscal years 2000, 2001 and 2002 respectively. The gap variation is small across provinces and even smaller for schools located in the same province. Two factors contribute to the gap: a budget execution gap and fund leakage. At the provincial level and lower, the budget execution gap refers to the difference between the PAP 2.1 entitlement allocated to a PEO and what it actually receives. Leakage refers to any loss of funds during transfer from the provincial Treasury to schools. In the study, two different types of leakage were identified: that based on formal receipts and the so-called facilitation fee (or informal fee) paid upon each fund disbursement from PT, PEO and DEO, which is not reflected in the receipt. The facilitation fees paid to get the funds from the PT to schools, the study indicates, amounts to as much as 2.0 percent of the total disbursement.

Why Such Low Leakage?

First of all, the PAP is a reform initiative, and, as a result, is less centralised and audit-based. These important features make it different from traditional approaches. The fact that PAP 2.1 is formula-based and that virtually all school directors know the formula also helps reduce capture. This finding is also well supported by experiences in other countries. Also, when PAP 2.1 is transferred through the strata, the PT, PEO and DEO are not given much power to capture these funds, as they only transfer the money. The chance for leakage is further minimised because there are no complicated procedures or documentation requirements to follow disbursements from one level to another, thus, creating little room for gate-keeping.

The possibility of capture is further reduced by the fact that each level has an incentive not to keep a lot of cash in order to reduce security risks. In addition, there is a perception among officials implementing PAP that inspections and audits of the fund are heavy. The perception is true: a large amount of PAP funds (PAP 11 for instance), is dedicated to inspections. All these together make PAP high risk areas for capture attempts, compared to other budget lines, such as Chapter 11.

Table 1. Average Reported PAP 2.1 Funding Gap, by Province (%)

Province	2000	2001	2002
Banteay Meanchey	n/a	-24.4	-2.6
Kompong Cham	n/a	-23.0	-16.3
Kompong Chhnang	-2.6	-21.9	0.5
Kampot	-3.1	-20.6	-2.9
Kratie	2.4	-19.7	-2.0
Prey Veng	-6.1	-22.8	-4.7
Sihanoukville	n/a	-42.9	1.8
Total	-3.1	-23.5	-6.3

Does PAP Reach Schools in a Timely and Predictable Manner?

The timing, predictability and size of disbursements relative to the needs of schools during the year are also important for school operations. The PETS study suggests that since PAP's introduction in 2000, its funds, including PAP 2.1 funds, have been subject to significant disbursement delays, although there are recent signs of improvement (Table 2). The delays negatively affect project implementation at schools, especially at the start of a new school year. Periodic shortages of funds require schools to make credit purchases at a higher price—some school directors suggest about 5 percent higher—compared to cash purchases.

Too many small disbursements also increase transaction costs. Every transfer involves transportation costs, allowances for people going to pick up the money and facilitation fees.

Is the Monitoring of PAP 2.1 Spending in Schools Effective?

Control mechanisms for PAP 2.1 spending in schools are still underdeveloped. First, financial inspection conducted in schools is not frequent (from none to two times annually). The quality of inspection is also very questionable. Most inspections in schools last a half-day, and no report is produced on the results of inspections. Second, schools and district people acknowledge that sometimes schools need to spend PAP on activities that are not allowed by the spending guidelines, so they report inaccurately in order to get the spending reports accepted. This indicates there is rigidity in PAP spending and that reports fail to provide accurate information and, even worse, can be used to cover up misuse of funds if there is intention to do so.

Is the Community Actively Participating in PAP Monitoring and School Affairs?

Civic engagement enforces the accountability of school management to the community. The study indicates that such engagement and participation are still low, as indicated in Table 3. After school directors, teachers know best about PAP, and they are often the ones who raise any issues about PAP spending. However, teachers do not have enough time (70 percent of them have another job besides teaching) and incentives to really get involved. The members of SSC are less involved in PAP spending issues, and not many of them know about the fund entitlement and how it should be spent. In addition, the data indicates that SSC members do not generally consider assisting in PAP monitoring as their main priority task; they tend to focus more on school construction and improvement.

Table 2. Timing and Distribution of PAP 2.1 Disbursements to Schools (cumulative % received, by quarter)

Year	1	2	3	4	1	2	3	4
2000	-	-	-	24.9	38.8	99.5	100	
2001	-	-	43.6	49.2	63.0	100		
2002	-	-	0.1	47.6	53.2	73.8	98.7	100
2003	-	-	-	21.4	89.4	100		

Finally, parents are the least aware of PAP. Only nine percent of parents reported ever hearing about PAP, and none knew any details about the funds. Parents are also less involved in school affairs in general. Only 30 percent ever attended a school opening ceremony, and 12 percent do not even know if there is one. However, 97 percent of parents reported no longer having to pay school starting fees for their children since the introduction of PAP. Second, unlike the urban areas, where there is anecdotal evidence of teachers wrongfully soliciting money from students, fewer than 5 percent of the parents interviewed reported such acts.

Is PAP 2.1 Equitable and Does it Affect School Enrolment?

Analysing school wealth measured from the demand side and comparing it to the amount and timing of PAP 2.1 received, the study concluded that the allocation of PAP 2.1 funds to schools is pro-poor, and its timing is wealth neutral. This is mainly because the PAP 2.1 formula favours small schools, and small schools tend to be poorer.

The survey also indicates that there has been significant improvement in basic education enrolment over the past five years, especially in primary net enrolment rates, and it appears that PAP 2.1 contributes significantly to this. Preliminary results show that from 2000/01 to 2001/02, PAP 2 increased grade 1 enrolment by an average 25 students per school. This represents a 15 percent increase in enrolment from the pre-reform outcome. This effect was stronger in rural schools, which tend to be poorer, suggesting that PAP 2.1 has important distributional effects. The reports also strongly suggest, however, that the issue of education quality needs to be addressed, taking us back to the issues of teacher numbers, quality and incentives.

Key Recommendations

There are a number of recommendations based on the findings from PETS in relation to PAP, the key points of which are:

- The programme budget model needs to be further developed, especially with regard to the deconcentration of authority to line ministries, by piloting the new arrangements in selected ministries in 2006.
- Improvement needs to be made in the control and monitoring mechanisms for PAP 2.1 in order to prevent leakage, by improving budget reporting and strengthening financial reporting requirements and incentives for compliance, improving internal audits and making more use of information technology.
- A “power of information” strategy for engaging parents, through the SSC and other bodies, should be piloted in selected schools.
- Formalise the arrangements to disburse PAP resources from PEO on a priority basis to programmes where timing of purchases is critical, and allow schools more discretion in how to spend PAP 2.1 funds once control mechanisms are improved.

Table 3. Awareness of Teachers, SSC Members and Parents about PAP (%)

Respondents	Know what PAP is	Know about the 6,000 riels per student component (out of those who know PAP)	Know about the 500,000 riels per school component (out of those who know PAP)	Know that there are spending guidelines (out of those who know PAP)	Know the details of the guidelines (out of those who know about the guidelines)
Teachers	97	56	25	90	21
SSC members	83	27	14	72	7
Parents	9	0	0	n/a	n/a

- Having proved to be useful tools for education, certain aspects of PETS should be incorporated as an ongoing tool for management.

Endnotes:

1. This format indicates the allocation of aggregate funds to different types of spending and also breaks down the allocation in those line items. For instance, it tells not only how much is budgeted for operations and maintenance, but also how much of that is for, say, gasoline and electricity.
2. See MEF (2004) for detailed information on PFM reform programmes.
3. See Reinikka (2003) for more information on PETS and its methodology.
4. These are: (i) education teaching services efficiency, (ii) primary education quality and efficiency, (iii) secondary education quality and efficiency, (iv) technical and vocational education and training quality and efficiency, (v) higher education quality and efficiency, (vi) continuous teacher development, (vii) instructional materials and textbook development, (viii) expansion of non-formal education, (ix) AIDS awareness in schools, (x) AIDS awareness out of schools, (xi) supplies, capacity strengthening and provincial monitoring and (xii) equitable enrolment and scholarship reception.
5. In health, however, PAP is used only in seven pilot provinces. From our recent interviews, it is recommended that PAP be adopted more extensively in agriculture and rural development.

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ASEAN-China Free Trade Area: Features and Implications for Cambodia

*Hing Vutha, research associate at CDRI, reviews salient features of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China with particular emphasis on the Early Harvest Programme (EHP), and explores opportunities, challenges and poverty implications of this agreement from the perspective of Cambodia.**

The Free Trade Area (FTA) between the Association of South-East Asian Nations (ASEAN) and China was proposed in the ASEAN Plus Three summit in November 2000. The ASEAN-China Expert Group on Economic Cooperation was then established to study the implications of China's accession to the WTO and the possibility of establishing a free trade area between the two regions. In the eighth ASEAN summit in November 2002 in Phnom Penh, the ASEAN countries and China signed the Framework Agreement on Comprehensive Economic Cooperation, aiming to strengthen and enhance economic trade and investment cooperation and to form a free trade area within 10 years. The framework covers cooperation in goods, services and investment and provides for the removal of trade barriers between ASEAN and China. These liberalisation measures are expected to lower costs, increase intra-regional trade, promote greater specialisation, increase economic efficiency and attract more investment to an integrated regional market. Cambodia, which joined ASEAN in April 1999, is automatically bound by this agreement, which is expected to provide Cambodia economic benefits and opportunities as well as challenges. Whether the net benefits of this FTA will be positive or negative remains uncertain. Little information and research are available about the implications of this ASEAN-China FTA for Cambodia.

This article is designed to fill this information gap by (1) examining the most salient features of the framework agreement between ASEAN and China and (2) exploring some of the economic opportunities, challenges and poverty implications for Cambodia. It is primarily based on CDRI's current research on "The Early Harvest Programme: Implications for Cambodian Agriculture", which is funded by Oxfam America's, East Asia Regional Office.

* This article is based on a report produced by the ASEAN-China Expert Group on Economic Cooperation in October 2001 entitled "Forging Closer ASEAN-China Economic Relations in the Twenty-First Century".

Features of Framework Agreement

The Framework Agreement on Comprehensive Economic Cooperation covers trade in goods, services and investment with four specific objectives: (1) strengthening and enhancing economic, trade and investment cooperation, (2) progressively liberalising and promoting trade in goods and services, as well as creating a transparent and facilitative investment regime, (3) exploring new areas and developing appropriate measures for closer economic cooperation and (4) facilitating a more effective economic integration of the newer ASEAN members and bridging the development gap among the member countries. The agreement on trade in goods, which was concluded in November 2004, allows for tariff reduction and elimination of two categories of products, referred to as normal and sensitive tracks. Normal track products should have mutually agreed upon reduced or eliminated tariffs over a period from 1 January 2005 to 2010 for the ASEAN Six¹ and China, and until 2015² for CLMV³ countries. Sensitive track⁴ products are those submitted by any party with final tariff ceilings and end dates different from the normal schedule, but must also be mutually agreed upon by individual ASEAN country and China. ASEAN and China have also agreed to negotiate to liberalise progressively trade in services with wider and substantial coverage in the service sector. The negotiations began in 2003 and aim to be concluded as expeditiously as possible. The agreement will aim at progressively eliminating all discrimination of trade in services between or among ASEAN and China, are expanding the depth and scope of liberalisation of trade in services. It also enhances further cooperation in services to improve efficiency and competitiveness and to diversify the supply and distribution of services.

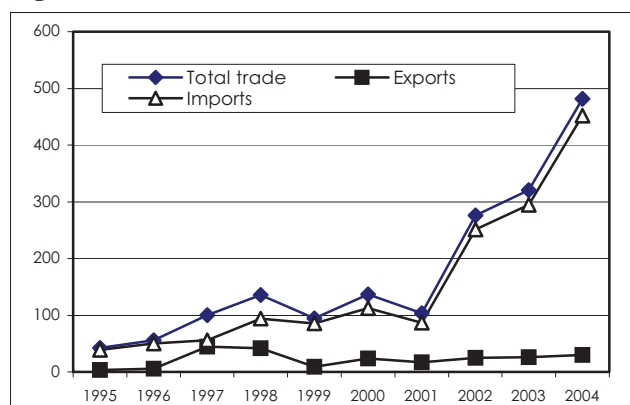
As for investment, both parties have agreed to: (1) negotiate to liberalise progressively the investment regime, (2) strengthen cooperation in investment, facilitate investment and improve transparency of investment rules and regulations and (3) provide for the protection of investments.

The Early Harvest Programme

To accelerate the reduction and elimination of tariffs on goods, the framework agreement provides for the Early Harvest Programme (EHP), which covers eight chapters of products in the Harmonized System: (1) live animals, (2) meat and edible meat offal, (3) fish, (4) dairy produce, (5) other animal products, (6) live trees, (7) edible vegetables and (8) edible fruits and nuts. In terms of tariff reduction and elimination, all products covered under the EHP are to be divided into three categories according to the Most Favoured Nation (MFN) tariff rate set by each country.

- Category 1: For the ASEAN Six and China, this refers to all products with applied MFN tariff rates higher than 15 percent. For the newer ASEAN countries, it

Figure 1: Cambodia's Trade with China



Source: Customs and Excise Department, TradeMap (ITC)

refers to all products with applied MFN tariff rates of 30 percent or higher.

- Category 2: For the ASEAN Six and China, this refers to all products with applied MFN tariff rates between 5 percent (inclusive) and 15 percent (inclusive). For the newer ASEAN countries, it refers to all products with applied MFN tariff rates between 15 percent (inclusive) and 30 percent (inclusive).
- Category 3: For the ASEAN Six and China, this refers to all products with applied MFN tariff rates lower than 5 percent. For the newer ASEAN countries, it refers to all products with applied MFN tariff rates lower than 15 percent.

The implementation of the EHP started in January 2004 with an ongoing schedule to reduce tariffs to levels as follows:

(1) For China and the ASEAN Six

Product Category	Not later than 1 Jan. 2004	Not later than 1 Jan. 2005	Not later than 1 Jan. 2006
Category 1	10%	5%	0%
Category 2	5%	0%	0%
Category 3	0	0	0

(2) For the newer ASEAN Countries

Country	No later than 1 Jan. 2004	No later than 1 Jan. 2005	No later than 1 Jan. 2006	No later than 1 Jan. 2007	No later than 1 Jan. 2008	No later than 1 Jan. 2009	No later than 1 Jan. 2010
<i>Product Category 1</i>							
Cambodia			20%	15%	10%	5%	0%
Lao PDR			20%	14%	8%	0%	0%
Myanmar			20%	14%	8%	0%	0%
Vietnam	20%	15%	10%	5%	0%	0%	0%
<i>Product Category 2</i>							
Cambodia			10%	10%	5%	5%	0%
Lao PDR			10%	10%	5%	0%	0%
Myanmar			10%	10%	5%	0%	0%
Vietnam	10%	10%	5%	5%	0%	0%	0%
<i>Product Category 3</i>							
Cambodia			5%	5%	0-5%	0-5%	0%
Lao PDR			5%	5%	0-5%	0%	0%
Myanmar			5%	5%	0-5%	0%	0%
Vietnam	5%	5%	0-5%	0-5%	0%	0%	0%

Economic Relationship between Cambodia and China

Economic relations between Cambodia and China have developed notably since the 1990s. Prior to the framework agreement between ASEAN and China signed in November 2002, Cambodia concluded an investment promotion and protection agreement with China in July 1996 and a bilateral trade agreement in July 1997. These agreements have stimulated an expansion in trade and investment between the two nations.

Cambodia-China Trade

Cambodia's total trade with China has been increasing gradually with an annual average growth rate of 50 percent during 1995–2004. China was Cambodia's seventh largest trade partner in 1995 and fourth largest in 2003. Cambodia's external trade with China grew at an annual rate of 23 percent during 1995–2001 and at 77 percent during 2001–04. Cambodia's exports to China increased from \$3.8 million in 1995 to \$30 million in 2004, and its imports from China increased from \$39 million in 1995 to \$452 million in 2004. During 1995–2004, Cambodia's exports to China increased by 41 percent, more slowly than its imports from China, which rose by 97 percent.

Cambodia exports natural-resource-based and agricultural products, and imports a wide range of manufactured products from China, such as textiles and apparel, iron and steel, ceramics, electrical and electronic equipment, foodstuffs and vehicles. The largest of Cambodia's exports to China are wood and wood articles, making up half of the total, and valued at \$15 million in 2004. Other major exports to China include cotton, rubber and fish. Textiles and apparel amount to around 63 percent of total imports from China, reaching \$286 million in 2004. The second largest import from China is machinery and electrical appliances, valued at \$37.59 million, or 8 percent of the total. Other major imports include meat, fish and seafood, iron and steel, iron and steel articles, ceramic products and vehicles.

Under the EHP, Cambodia exports to China live animals, live fish, shrimps and prawns and crustaceans. These exports amount to \$1.32 million, about 4 percent of Cambodia's total exports to China. Shrimps and prawns were the largest item in this category, valued at \$725,000 in 2004, followed by live fish, live animals and crustaceans. Cambodia imports from China products categorised in chapter 7 (edible vegetables) and chapter 8 (edible fruits and nut) amounting to \$1.48 million, or 0.3 percent of Cambodia's total imports from China. Garlic was the largest commodity in these categories, valued at \$720,000 in 2004. Other products include apples, dried mushrooms and truffles, pears and quinces, red beans and vegetables.

Investment

During 1995-2004, China was the fourth largest source of Cambodia's foreign direct investment (FDI), investing in more than 150 projects with a contractual sum worth \$395 million, or 9 percent of total FDI. The major investment areas are infrastructure construction, garments, textiles and agricultural development. Garments are the only sector that has absorbed a constant inflow of investment from China since 1995, totalling \$100 million during 1995-2004, or about 25 percent of total investment from China.

Implications for Cambodia

According to economic theory, an FTA offers advantages to all member countries, ranging from greater economic

efficiency to closer cooperation and partnership in non-economic areas, such as promoting peace and stability. The ASEAN-China FTA, which requires progressive reduction of tariffs and elimination of non-tariff barriers, is expected to lower costs, increase intra-regional trade and enhance competitiveness, productivity and efficiency. At the same time, there is no trade liberalisation scheme that provides economic benefits without costs and challenges.

Opportunities

For Cambodia, the most important opportunity associated with the free trade area will be easier and wider access to a huge and growing Chinese market. As noted earlier, Cambodia currently exports rubber, fish, livestock and shrimps to China. With the implementation of the EHP, most agricultural products have wide access to the Chinese market, and thus the sector has high potential for expansion and growth.

Second, the FTA may attract more FDI to Cambodia from both member countries and the rest of the world. The ASEAN Six and China are developing and upgrading their economies by switching from basic, labour-intensive manufacturing to more technological and knowledge-intensive industries. Basic and labour-intensive manufacturing sectors are expected to move to less developed countries like Cambodia. Given its resource endowment and level of development, Cambodia would be an appropriate destination for investment in low-tech and labour-intensive manufacturing. Garment manufacturing

Table 1: Cambodian Trade with China in Products Covered by EHP, 2002-04 (in US\$)

Product Code		2002	2003	2004
Exports				
030623	Shrimps & prawns, not frozen, in shell or not, including boiled in shell	176,000	373,000	725,000
030199	Live fish	1,063,000	683,000	520,000
010600	Live animal	317,000	64,000	40,000
030629	Crustaceans, not frozen, in shell or not, including boiled in shell	1,000	18,000	37,000
Imports				
070320	Garlic, fresh or chilled	79,000	526,000	720,000
080810	Apples, fresh	32,000	48,000	287,000
071230	Mushrooms and truffles dried but not further prepared	0	42,000	279,000
080820	Pears and quinces, fresh	29,000	5,000	130,000
071332	Beans, small red (Adzuki) dried, shelled, whether or not skinned or split	0	16,000	33,000
071290	Vegetables and mixtures dried, but not further prepared	222,000	81,000	3,000

Source: TradeMap (ITC)

Table 2: Cambodia Foreign Investment, 1995–2004 (US\$ million)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Investment	2,243	767	744	854	448	218	205	238	250	210
FDI	1,910	619	578	556	196	160	140	145	65	134
Investment from China	3	38	36	105	46	28	5	24	33	77
of which: Garment sector	0.13	5	16	23	12	0.7	1.7	3	7	32

Source: Cambodia Investment Board, CDC

and agro-industry have high potential to attract FDI from China and ASEAN countries.

Third, the elimination of tariffs and non-tariff barriers is expected to facilitate trade flows and promote specialisation. In terms of trade structures and patterns of EHP products between Cambodia and China, there is a high potential for Cambodia to export to China many more goods that it can produce more efficiently (e.g. fish, shrimps and live animals). Cambodia could probably also diversify into agricultural exports such as soybeans, mung beans and cassava.

Fourth, the FTA will provide Cambodian consumers a wider range of product choices at competitive prices, thus increasing consumer welfare. Apart from economic opportunities, an ASEAN-China FTA may also create a number of non-economic opportunities. These could include a strengthening of relations and cooperation in other areas, deepening cooperation with China in the Greater Mekong Sub-region and receiving more special treatment and technical assistance from China.

Challenges

The framework agreement also creates some significant challenges for Cambodia in terms of how best to utilise this package and to mitigate possible negative impacts. One significant challenge for Cambodia is to build supply-side capacity to better compete in the regional market. This involves creating a domestic policy framework that supports the private sector, especially small and medium enterprises, by reducing the costs of conducting trade. It also relates to the quality and capacity of public institutions to coordinate and implement policies that promote the productive capacity of private enterprises.

Another concern for Cambodia is the potential negative impacts of trade liberalisation on domestic producers and the labour market. When barriers to trade are dismantled, some industries will expand and others will contract as a result of competition. This may cause uneven distribution of costs and benefits among different sectors and industries. In addition, when tariffs on traded goods are reduced or eliminated, there is likely to be intensified competition with goods imported from China. Domestic producers who are not sufficiently competitive, especially in terms of production costs and product quality, could be crowded out by such imports. The closure of ineffective domestic producers may trigger short-term

costs in terms of lost jobs, lost income and movement into poverty.

Other challenges associated with the framework agreement include concerns over the loss of government revenues and greater trade deficits with China as a result of tariff reduction. This might make government fiscal policy more volatile and less secure.

Some Poverty Implications

As one of the poorest ASEAN countries, Cambodia perceives the agreement as an opportunity to promote economic growth and poverty reduction. As already mentioned, trade liberalisation schemes under this agreement will create both economic opportunities and challenges and are expected to have both positive and negative impacts on the poor. The net benefits for the poor remain uncertain and depend on whether regional and domestic policy frameworks favour the poor. Trade liberalisation will benefit the poor if policy is structured to develop local markets that will eventually have the capacity to compete regionally and internationally. The extent of benefits for the poor also depends on the degree to which the poor, especially in the rural sector, participate in trade-oriented activities, such as supplying export goods or labouring in competitive sectors and associated jobs.

The Early Harvest Programme is certainly important to the Cambodian agricultural sector in general, and farmers in particular. Most Cambodian farmers are poor, produce on a small scale with relatively low productivity and earn their living by supplying products to the domestic market. Based on these characteristics, Cambodian negotiators have included 250 tariff lines for liberalisation, while excluding 30 sensitive agricultural products, such as tomatoes, onions, garlic, cauliflower, cabbages, lettuce, carrots, turnips, beans, coconuts, pineapples, guavas, mangoes, mangosteens, oranges, melons, watermelons and longans. With the above exclusions, it is likely that Cambodian farmers would avoid losses caused by imported goods. In addition to such a minimal threat to farmers, the EHP seems favourable to farmers in terms of opportunities for exports. Cambodia would gain from greater exports of such products as live fish, live animals, shrimps and prawns, soybeans and maize. Any government policy and intervention measures that aim to promote production of these products for export would significantly help the poor to improve their incomes.

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Emerging Structures of Agricultural Cooperatives in Cambodia

*Nou Keosothea, CDRI research associate, identifies some of the main issues facing farmer organisations in Cambodia, reviews the inventory of farmer organisations and presents empirical experiences of specific strategies to create low-interest credit and the incentives provided by government policy for farmer organisations in Cambodia.**

The concept and practice of agricultural cooperatives as a tool for agricultural development and poverty reduction have a long, varied and unhappy history in Cambodia. People now avoid the term *sahakor*, since it was used during the Pol Pot regime to imply forced collective labour. In fact, the principles of cooperatives include voluntary membership and democracy. The formation of farmer cooperatives as a means of increasing the bargaining power of small landholders and creating the social capital necessary for rural development has been supported by many international development organisations (Marlo & Iean, 2004). The government now uses the word *samakum*, instead of *sahakor*, to refer to cooperatives.

The government through its Rectangular Strategy recognises agriculture as a leading contributor to economic growth and poverty reduction in rural areas. The four main principles of the strategy are: (1) producing in accordance with the environment and to meet the demands of the market; (2) facilitating and providing assistance to producers such as marketing, credit, technology and seeds; (3) helping to build management and human capacities; and (4) facilitating the establishment of agricultural cooperatives to ensure better prices of products.¹

The development of agricultural cooperatives in Cambodia is still at an early stage. By the end of 2005, there were only 54 agricultural cooperatives registered with the Ministry of Agriculture, Forestry and Fisheries (MAFF). Farmers' working collectively, however, is not new in Cambodia. Such collectives are called farmer organisations (FOs).

Significant challenges to Cambodian agricultural development remain. These include poor infrastructure, the absence of an efficient marketing system, the absence of adaptable technologies, inadequate extension services, a lack of agro-processing facilities and inadequate rural financial structures. Individual farmers cannot overcome these challenges on their own. There are, however, a few case studies which show that farmers collectively

can ameliorate some of these challenges. This paper will identify some of the main issues facing existing FOs, review the inventory of FOs and present empirical experiences of specific strategies for low-interest credit and the incentives provided by government to FOs.

Why Are Agricultural Cooperatives Created?

The core values of agriculture cooperatives are self-help, responsibility, democracy, equality, equity and solidarity—rural people coming together to solve their problems through collective action. It is generally agreed that in order to be sustainable, associations or cooperatives must be economically successful and hence able to compete with other cooperatives and the private sector. They must offer both their customers and their members competitively priced goods and services. The relationship between members and the cooperative is also unique because members are shareholders or co-owners of the cooperative, yet act as the primary clients for the services provided. For this reason, member participation is essential at all levels of the cooperative—entrepreneurial, financial, managerial and social (Couture et al., 2002).

Cambodia, currently a member of the WTO, has a free market economy. The country is located between two large agricultural countries, Thailand and Vietnam, which provide market competition at all levels. Cambodian farmers face many production and marketing constraints. Agricultural cooperatives are very important in assisting with managing changes in the environment and addressing farmers' needs when individual farmers cannot compete. Cooperatives also provide a means by which development agencies can reach and work with farmers. Collective action through FOs helps to reduce transaction costs and regulate markets. In addition, farmers are interested in agricultural cooperatives to provide security for selling products, to obtain better prices for inputs and products, to get technical support and to reduce costs by sharing machinery, processing and storage facilities.

The main functions of FOs are providing technical and financial services to their members, representing members' interests and making social investments. Technical and financial services are popular, especially among poor farmers.

Present Situation of FOs

Cambodian FOs are at an early stage of development and are currently supported by government and NGOs. FOs are diverse in origin, membership, function, size and relationships with supporting agencies. Most FOs are very small, mono-functional, diverse in form and locally established. Most are not legally registered, have untrained managers and leaders and have problems accessing services of government or micro-finance institutions. Although almost all FOs are supported by NGOs or government, there are a number of farmer groups formed by private companies such as British America Tobacco (3,000 contract farmers² in Kompong Cham) and the CP Group.

The history and objectives of FOs vary according to their location and the interests of farmers they represent. According to Julie et al. (2005), there were 1,065 FOs in

* This article is based on an action research project entitled "Improving the Marketing System for Maize and Soybean in Cambodia" funded by ACIAR.

1999, increasing to 13,017 in 2005. The provinces with the largest number of FOs are Kompong Cham, Kompong Thom, Banteay Meanchey, Svay Rieng and Kompong Speu. Sixty-nine percent of FOs have fewer than 30 members, 19 percent have between 30 and 100 members, and only 12 percent have a membership larger than 100 (Figure 1). The study also found that 63 percent of FOs were formed after 2000.

Julie et al. categorised FOs into five types: farmer groups, associations, communities, cooperatives and federations. Table 1 shows that a large majority of FOs are farmer groups.

Regulatory Framework for Supporting FOs

The Cambodian government already has several legal frameworks to help promote agricultural cooperatives. At present there is a sufficient legal framework to support FOs, but for fishery communities and associations of village animal health workers, some very important legal texts have not yet been adopted. However, most FOs and supporting agencies still know very little about the legal framework covering their activities.

The legal frameworks developed by the government to support FOs are as follows:

Agricultural Cooperatives

The legal framework is administered by Department of Agricultural Extension, MAFF, in the Royal Decree NS/RKT/0701/234 on the Establishment and Functioning of Agricultural Cooperatives, Unions of Agricultural Cooperatives and Agricultural Pre-Cooperatives; Prakas Promulgating Model Statutes and By-Laws of Agricultural Cooperatives, 2003; Model Statutes of Agricultural Cooperatives, 2003; and Model By-Laws of Agricultural Cooperatives, 2003. Provincial departments of Agriculture can officially register cooperatives. As described in these texts, a cooperative is “a commercial enterprise that is democratically managed by its members, who contribute their capital and hope for dividends, and are also willing to incur losses according to the proportion of their shares contributed”.

Farmer Associations

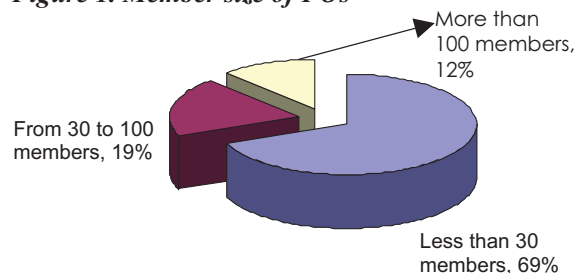
Farmer associations are registered under the General Department of Administration, Ministry of the Interior. The relevant documents include: Registration Form for Associations and Local NGOs under the Ministry of the Interior and the Draft Law on Local Associations and

Table 1. Number of FOs by Types

FOs	Number	%
Farmer groups	10,487	80.5
Farmer communities	1,769	13.6
Farmer associations	662	5.0
Agricultural cooperatives	93	0.7
Farmer federations	6	0.05
Total	13,017	

Source: Julie et al., (2005)

Figure 1. Member size of FOs



Source: Adapted from Julie et al., 2005 (2005)

Non-Government Organisations, 1996. These provide a general framework for all sector organisations, not only farmer organisations. As described in these documents, an association is “a group of natural persons organised by Khmer citizens for the purpose of seeking a common objective serving the moral or material interests of its members, without seeking private profits”.

Village Animal Health Workers Associations

The legal framework is administered by the Department of Animal Health and Production, MAFF. In the draft text on Associations of Village Animal Health Workers, the Cambodian Veterinary and Animal Health Workers Association Ltd is a company under the Private Companies Act in which “every member of the association must be a person registered under the Prakas on Establishment of Village Animal Health Workers (2003)”. This text is based on the Sub-Decree on the Establishment of Village Animal Health Workers (2000).

Fishery Communities

The legal framework is administered by the Department of Fisheries, MAFF, in the 2005 draft Sub-Decree on Community Fisheries Management. In this text, a fishery community is defined as “a voluntarily established group of natural persons holding Khmer citizenship who live in or near the fishing area, taking the initiative to improve their own standard of living by the sustainable use and processing of fish resources to contribute to economic and social improvement and poverty alleviation”.

Forestry Communities

The legal framework is administered by the Forestry Administration, MAFF in the Sub-Decree on Community Forestry Management, September 2003. In this document, a forestry community is one “that voluntarily initiates the formation of a group under a community forest agreement in order to conduct development activities”.

Farmer Water User Communities

The legal framework and recognition of Farmer Water User Communities are administered by the Department of Irrigated Agriculture, Ministry of Water Resources and Meteorology according to Circular No. 1 of the Prime Minister on Sustainable Irrigation, 1999, Prakas 306, annex 2, and the Draft Sub-Decree on Farmer Water

User. In these texts, a farmer water user community is “a formal, legal association of people who both use water from and manage an irrigation system”.

Case Study of the Ta Ong Soybean Association³

In Cambodia, Kompong Cham province is the main region for growing soybeans. In 2005, it accounted for approximately 48 percent of all soybean production in the country. About 90 percent of national production is exported, mostly to southern Vietnam. Within Kompong Cham, the most productive district is Chamkar Leu, which in 2005 produced 23,000 tonnes out of 57,600 tonnes in the entire province.

The Ta Ong Soybean Association (TSA) was formed in 2001 as a result of a government policy of encouraging cooperatives or associations of farmers. The main incentive for farmers to join the TSA was the prospect of gaining access to cheap credit. The high cost of credit was perhaps the biggest constraint for farmers wishing to develop their soybean production. Very few farmers had the capacity to purchase seeds, fertiliser and other inputs without credit. More than 80 percent of farmers would obtain such credit from village soybean buyers at interest rates of 3-5 percent a month, and the farmers were required to sell their produce to the lender at harvest time when prices are generally at their lowest level.

There was strong initial enthusiasm among farmers about the TSA, and the initial membership was around 50. The statutes of the TSA, however, were not well drafted, and its support functions were not clearly defined. Membership began to dwindle when the TSA was unable to obtain cheap credit, and eventually fell to just 20 in early 2005. At that time, the purpose of the association was unclear to the remaining members.

The main constraints on the TSA, which are similar for other FOs, include lack of access to low-interest credit, low productivity, lack of appropriate technologies, poor quality of products, lack of access to good markets, lack of horizontal and vertical integration, low levels of education, lack of motivation in collective work and limited understanding of the legal framework. Among these, lack of access to cheap credit seemed to be the most important.

There is no specialised bank for agriculture in Cambodia. The interest rate from micro-finance institutions or commercial banks is still very high (at least 2 percent per month), and collateral is required. The Rural Development Bank (RDB), which serves as a wholesale bank, charges an interest rate of 10 percent per year. Access to credit from the RDB is a challenging two-step process. The first step is registering with the National Bank of Cambodia (NBC), and the second is being included on a list of potential operators.⁴

In order to register with the NBC, micro-finance organisations must meet the following conditions: 1) having an outstanding loan portfolio of 1,000 million riels or more, or having 1,000 or more borrowers; 2) for an organisation engaged in savings mobilisation, deposits must be 100 million riels or more, or its membership

must be 1,000 or more. In 2005, the TSA mobilised 167 million riels in savings from its members, and the NBC registered it on the list of potential operators in July of the same year.

After receiving approval from the NBC, the TSA submitted a request for a soft loan to the RDB. Finally, the RDB provided a start-up loan of 120 million riel (\$30,000) at an interest rate of 10 percent per annum for one year. Following this, the TSA membership increased to 200 in less than six months and the TSA decided to close membership to ensure effective management.

Some Lessons on Agricultural Cooperatives

There are many lessons to be learned in terms of the experiments with cooperatives under way in Cambodia. In the case of the TSA, there was strong technical support from agencies to help gain access to credit from the RDB. This included several meetings with key members of the TSA; assistance in preparing statutes for the association; providing capacity-building for the accountant and key leaders; providing information and assisting the TSA to prepare forms for the NBC and RDB. There was, however, no promise or guarantee of success by the supporting agencies to TSA. All managerial and operational decisions had to be taken by the TSA itself.

The key constraints on strengthening the capacities of agricultural cooperatives were common to those identified in other developing countries (FAO, 1996):

- the paternalistic role of the state in the management of agricultural cooperatives;
- top-down attitudes of many cooperative managers and government officials;
- members' lack of capital and a limited sense of member ownership.

Factors affecting cooperative development have been identified as both social and individual: financial and economic aspects, cooperative principles and governance, and the legal, policy and institutional environment (Couture et al., 2002 and Csaki & Kisev, 1993). Synergy between all factors is required in order to create a favourable environment.

As farmers are being strongly encouraged by national and local government to form groups and register as cooperatives, the regulations for obtaining incentives are likely to put pressure on the development and competitiveness of small, newly formed cooperatives. Those unable to meet the requirements will miss out on access to important government services and programmes, such as credit from the RDB. However, Otto (1988) found that the weakest characteristics of formal financial institutions, from the viewpoint of the rural poor, were inaccessibility, rigidity, inflexibility and complex procedures.

In the case of the TSA, it was evident that a top-down approach to establishing an association, without technical support, capacity building or meeting the needs of farmers, was not going to work.

Conclusion

In Cambodia, agricultural cooperatives are still young and lack financing and trained managers and leaders. The current regulations regarding incentives to form cooperatives are being pushed in different directions by the interests of various stakeholders, including farmers, local level government officials, business interests and other agencies. Factors driving the successful development cooperatives have been identified as an interrelated system of capacity development, financial and economic aspects, cooperative principles and governance, the institutional environment and meeting the needs of members. Government should carefully monitor the impact of legislation and the ways in which various stakeholders react to policy and to market signals, and monitor the effects of its policy.

Endnotes:

1. Speech of Chan Sarun delivered at national workshop on strengthening agricultural cooperatives, 16 September 2004.
2. Farmers work on an individual basis with the company.
3. The case study was documented by Mr. Un Buntha, acting director of the Department of Domestic Trade, Ministry of Commerce, as a part of an ACIAR (Australian Centre for International Agricultural Research)-funded project entitled "Improving the Marketing System for

Maize and Soybeans in Cambodia" led by Professor John Spriggs, University of Canberra, Australia.

4. This list is maintained by the NBC and the RDB, which, with their limited credit, give priority to institutions on the list.

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Concluding Remarks

Although the ASEAN-China FTA provides promising prospects for economic growth and development for Cambodia, the benefits will not be fully realised without sound domestic policy frameworks, a conducive business environment and effective government institutions.⁵ In other words, it is virtually impossible for entrepreneurs to take advantage of new opportunities associated with the FTA in the absence of macroeconomic stability, sound business climate, adequate legal frameworks, sufficient infrastructure and effective government institutions. Cambodia has been able to maintain macroeconomic stability, but it still lacks some major regulatory and enforcement mechanisms, lacks sufficient economic and social infrastructure and has relatively low efficiency and effectiveness of government services and institutions. As a result, the business and investment climate as perceived by many investors is not conducive to increasing enterprise competitiveness.

Given the prospects and opportunities associated with the ASEAN-China FTA, Cambodia should, however, regard it as a potential vehicle contributing to economic growth, development and poverty reduction. Building supply-side capacity and improving enterprise competitiveness should be addressed so that Cambodia better utilises liberalisation schemes available in the ASEAN-Chi-

na FTA. For poverty reduction, there should be policies that support the involvement of the poor in the process of trade liberalisation and growth. There should also be proper adjustment measures in place to mitigate potential negative impacts on the poor. The success of the FTA greatly depends on the commitment and ability of the government to meet these prerequisites.

Endnotes

1. ASEAN Six are Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.
2. The newer ASEAN countries are given more time for liberalisation due to their lower level of economic development. This special and preferential treatment is designed to give newer ASEAN countries more flexibility and enough time for domestic reforms.
3. Cambodia, Lao PDR, Myanmar and Vietnam.
4. The sensitive track is designed to provide countries more time to make sensitive products or sectors competitive enough for liberalisation and to develop adjustment measures to mitigate negative impacts.
5. World Bank, 2005, Trade Note: Regional Trade Agreements and Development: Upside Potential and Downside Risks, October 2005.

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in eight villages in Svay Rieng and Banteay Meanchey. Both the PPA and RETA studies are undertaken in collaboration with the Asia Development Bank (ADB) and the National Institute of Statistics.

CDRI researchers, in collaboration with the Ministry of Land Management, Urban Planning and Management, have recently completed field work for the urban phase of the Land Titling Baseline Survey Project (BSP). A total of 2,712 surveys covering both residential and small business properties have been completed in Phnom Penh (861), Siem Reap (538) and Svay Sisophon (507). The aim of the BSP is to generate baseline data that can be used to assess the economic impact of land titles on both rural and urban households and small businesses after three years. CDRI is now finalising a proposal for AusAID concerning a five-year programme in water resource management research capacity building. The project will be undertaken in collaboration with the Royal University of Phnom Penh and the University of Sydney, and will focus on strengthening both national and local policy research and management capacity in the irrigation sector. The Ministry of Water Resources and Meteorology and the Ministry of Agriculture, Forestry and Fisheries are key stakeholders in this project. CDRI's governance and decentralisation team continues with two studies looking at provincial public sector accountability and local government responsiveness. The team is presenting its findings from the public service delivery study at a national forum in early February, in collaboration with the Ministry of Economy and Finance and the United Nations Capital Development Fund.

Centre for Peace and Development

Major activities in 2005 have been building a culture of peace and conflict management in both urban areas and areas surrounding reconciliation zones, capacity-building networking and strengthening institutional capacity, renewal of Conflict Prevention in Cambodian Elections (COPCEL), and CPD programme development. CPD/CDRI also has collaborated with local and interna-

tional NGOs, including German Technical Cooperation (GTZ), Terre Des Hommes of the Netherlands, Mlup Baitong and CIDSE Cambodia to deliver training in conflict resolution and facilitation skills to their staff and partners.

COPCEL Phase II was launched with strong support from UNDP with the main objectives of preventing conflict, violence and misunderstanding in elections by building trust and encouraging a culture of dialogue. COPCEL II has been restructured into broader dimensions, including COPCELCOM, COPCELEM, COPCELPROM and COPCELMED, with a prospect to reach out more to the public and ensure high participation in elections.

During 2005, CPD has built its own strength and resources by adding new staff and building individual capacity through graduate study and exposure to international visits in Myanmar in February 2005 and Nepal in June 2005 to share experiences and network among peace activists.

The Tonle Sap Initiative: A Learning Resource Centre at CDRI

The Tonle Sap Initiative (TSI) was launched by the ADB in 2002 as a partnership of organisations and people working to meet the poverty and environmental challenges of the Tonle Sap basin and surrounding areas. CDRI has become one of ADB's partners in the TSI. In order to strengthen the capacity-building component of the TSI, CDRI was requested to establish an integrated Tonle Sap Learning Resource Centre, based at the CDRI campus. The centre will complement existing facilities and networks that are already housed at CDRI or that are part of its ongoing activities. The centre will provide access to all stakeholders, such as policy makers, students, NGOs, other research and learning institutions, visiting scholars and government officials, to a wealth of information on the Tonle Sap Initiative and related issues. To this end, the centre will contain written, audiovisual and web-based information as well as extensive databases.

Economy Watch—External Performance

World Economic Growth

During the third quarter of 2005, large economies including the US, EU and Japan, as well as other East Asian economies, registered faster growth than in the previous quarter.

US real GDP grew 4.1 percent in the year to the third quarter. The major contributors to the increase in real GDP in the second quarter were personal consumption expenditure (PCE), equipment and software, federal government spending and residential fixed investment. The growth in the third quarter primarily reflected acceleration in PCE and federal government spending, which were partly offset by a deceleration in exports, an upturn in imports and decreases in state and local government spending and in residential fixed investment.

Real GDP of the euro zone grew by 1.5 percent in the year to third quarter and by 0.6 percent compared to the previous quarter. During the third quarter, household final consumption expenditure increased by 0.3 percent, investment grew by 1.6 percent, exports rose by 3.4 percent and imports increased by 2.8 percent.

Japanese real GDP grew by 2.9 percent in the previous 12 months—a record rate for the past five years—and by 0.8 percent compared to the previous quarter. The real GDP of South Korea in the year to the third quarter grew 4.4 percent compared with 3.3 percent to the second quarter. Manufacturing grew by 7 percent, led by electrical and electronic products including semi-conductors, while the service industry rose by 3.3 percent.

China maintained its momentum of high growth, achieving 9.4 percent real GDP growth in the year to the third quarter, a 0.1 percent decline from the previous quarter. Secondary industries registered the highest growth at 11 percent, while primary and tertiary industries registered 5 and 8 percent growth, respectively. The real GDP of Hong Kong grew 8.2 percent in the year to the third quarter, an increase from 7.3 percent in the second quarter.

The real GDP of Malaysia in the year to third quarter grew 5.3 percent, compared to 4.4 percent in the second quarter. Manufacturing and services registered growth of 3.4 and 7.3 percent respectively; while agriculture recorded a marginal growth of 0.9 percent. Real GDP of Singapore and Thailand in the year to third quarter 2005 increased 7 percent and 5.3 percent respectively, accelerating from 5.4 and 4.6 percent in

the year to the second quarter. Higher growth in Thailand was mainly caused by a surge in exports and expansion of tourism. Agriculture grew by 4.4 percent after six consecutive quarters of contraction, largely due to increased production of rice, maize, soybeans, fruits and vegetables and palm oil.

World Inflation and Exchange Rates in International Markets

In the third quarter, consumer prices rose faster than in the previous quarter in most high-income economies, reflecting a surge in oil prices, which in turn put strong upward pressure on energy costs. Consumer prices rose 3.8 percent in the US in the previous 12 months and 2.3 percent in the EU. During the same period, in Singapore, Malaysia and Thailand, inflation ran at 0.5 percent, 3.4 percent and 5.6 percent respectively, accelerating from 0.1 percent, 3.0 percent and 5.3 percent a quarter earlier.

The US dollar appreciated against most major currencies in the third quarter. Against the euro, it traded at 0.81, up from 0.79 in the second quarter. The dollar bought 111.2 yen, compared to 107.4 yen a quarter earlier. Some other Asian currencies also experienced depreciation against the US dollar. The dollar was underpinned by a lower-than-expected US trade deficit, higher US interest rates and slower growth in non-US economies.

Commodity Prices in World Markets

Price movements of selected major commodities in international markets in the third quarter were mixed. Rice, soybeans and palm oil fell, while the prices of maize, crude oil and gasoline rose. White rice, Thai 100% B second grade, in the Bangkok market in the third quarter was \$282/ton, down from \$295.70/ton in the second quarter. Soybeans sold at \$236.35/ton, a 19 percent decrease from the previous quarter. The price of palm oil also declined in the third quarter to \$415/ton, down from \$421.70/ton in the second quarter. Maize rose slightly to \$99.90/ton, from \$96.50/ton in the second quarter. The prices of crude oil and gasoline also increased significantly, 20 percent and 32 percent respectively, from the second quarter. In the third quarter, crude oil sold at \$57.27/barrel and gasoline at 52.37 cents/litre.

Prepared by Hing Vutha and Phim Runsinarith

Table 1. Real GDP Growth of Selected Trading Partners, 2000–2005 (percentage increase over previous year)

	2000	2001	2002	2003	2004	2005				2004
					Q3	Q4	Q1	Q2	Q3	
Selected ASEAN countries										
Cambodia	7.3	6.7	4.8	7	-	-	-	-	-	7.7
Indonesia	4.4	3.8	3.8	4.9	5.0	6.6	6.4	5.5	5.3	5.1
Malaysia	8.7	0.5	5.6	5.4	6.8	5.6	5.7	4.4	5.3	7
Singapore	9.5	-2.3	2.6	1.4	7.5	6.5	2.5	5.4	7	8.5
Thailand	4.4	1.9	6.1	6.9	6.0	5.0	3.3	4.6	5.3	6
Vietnam		6.0	6.7	7	-	-	-	-	-	7.5
Selected other Asian countries										
China	8.0	7.5	8.1	9.9	9.1	9.5	9.5	9.5	9.4	9.5
Hong Kong	10.2	0.5	5.0	3.2	7.2	7.1	2.7	7.3	8.2	8.3
South Korea	9.1	3.0	6.1	3	4.6	3.3	6	3.3	4.4	4.7
Taiwan	5.8	-2.2	4.2	3.1	5.3	3.3	2.7	-	-	5.7
Selected industrial countries										
Euro-12	3.5	1.4	0.7	0.5	1.9	1.6	1.3	1.2	1.5	1.8
Japan	2.8	0.4	0.4	2.6	2.6	0.8	1.3	1.4	2.9	3.4
United States	5.0	1.2	2.4	3.1	3.9	3.8	3.5	3.3	4.1	4.4

Sources: Economist, countries' national statistics offices and central banks and ADB's Asia Regional Information Centre

Table 2. Inflation Rate of Selected Trading Partners, 2000–2005 (percentage increase over previous year—period average)

	2000	2001	2002	2003	2004	2005				2004
					Q3	Q4	Q1	Q2	Q3	
Selected ASEAN countries										
Cambodia	-0.8	-0.6	3.2	1.2	6.5	6.1	5.9	6.9	6.0	4.0
Indonesia	3.6	11.5	13.2	8.3	9.2	8.6	10.7	-	-	8.3
Malaysia	1.5	1.4	1.8	1.1	1.5	2.4	2.5	3.0	3.4	1.6
Singapore	1.4	1.0	-0.4	0.5	1.7	1.7	0.4	0.1	0.5	1.7
Thailand	1.5	1.7	0.6	1.8	3.3	3.1	2.8	5.3	5.6	2.7
Vietnam	-1.7	-0.4	3.8	3.2	10.3	10.7	-	-	-	8.3
Selected other Asian countries										
China	0.3	0.9	-0.7	1.2	5.2	3.2	2.8	1.7	1.3	3.9
Hong Kong	-3.6	-1.3	-3.0	-2.6	0.8	0.2	0.4	0.8	1.4	-0.4
South Korea	2.3	4.4	2.7	3.5	4.4	3.4	3.2	3.2	2.4	3.5
Taiwan	1.3	-0.01	-0.2	-0.3	2.9	1.9	1.6	2.1	-	1.6
Selected industrial countries										
Euro-12	2.3	2.6	2.2	2.1	2.3	2.3	2.1	2.1	2.3	2.2
Japan	-0.7	-0.6	-0.9	-0.3	-0.1	0.5	-0.2	-0.1	-0.3	Nil
United States	3.3	2.8	1.6	2.3	2.9	2.7	3.3	3.0	2.9	2.7

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

Table 3. Exchange Rates of Selected Trading Partners against US Dollar, 2000–2005 (period averages)

	2000	2001	2002	2003	2004	2005				2004
					Q3	Q4	Q1	Q2	Q3	
Selected ASEAN countries										
Cambodia (riel)	3,840.8	3,916.3	3,912.1	3,973	4,034.7	4,034.7	4,027.0	4,054.3	-	4,016.3
Indonesia (rupiah)	8,421	10,261	9,311	8,577	9,156	9,128	9,274	-	-	8,938
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.77	3.80
Singapore (S\$)	1.72	1.79	1.79	1.74	1.70	1.65	1.63	1.66	1.67	1.69
Thailand (baht)	40.1	44.4	42.9	41.5	41.3	40.3	38.6	40.1	41.3	40.2
Vietnam (dong)	14,168	14,725	15,280	15,510	16,262	-	-	-	-	-
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.14	8.28
Hong Kong (HK\$)	7.80	7.80	7.80	7.78	7.80	7.78	7.80	7.79	7.75	7.79
South Korea (won)	1,131	1,291	1,251	1,192	1,155	1,093	1,022	1008	1037	1,145
Taiwan (NT\$)	31.2	33.8	34.5	34.4	33.9	32.9	31.5	31.4	32.3	33.6
Selected industrial countries										
Euro-12 (euro)	1.09	1.12	1.06	0.89	0.82	0.77	0.76	0.79	0.81	0.80
Japan (yen)	107.8	121.5	125.4	115.9	109.9	105.9	104.7	107.4	111.2	108.2

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

Table 4. Selected Commodity Prices on World Market, 2000–2005 (period averages)

	2000	2001	2002	2003	2004	2005				2004
					Q3	Q4	Q1	Q2	Q3	
Maize (IUSNo.2)—USA (\$/ton)	88.4	89.5	99.21	105.2	102.3	94.4	97	96.5	99.9	122
Palm oil—north-west Europe (\$/ton)	310.2	285.7	390.2	443.25	432.3	429	413.3	421.7	415	471.3
Rubber—Malaysia (\$/ton)	720.8	602.0	768.3	1050	1,190.6	1238.2	-	-	-	1252.2
Rice (Thai 100% B)—Bangkok (\$/ton)	206.7	177.3	196.9	200.9	240.5	264.9	295.6	295.7	282	244.4
Soybeans (US No.1)—USA (\$/ton)	193	180.7	201.3	241.3	251.1	216.5	229.9	290.7	236.35	288.9
Crude oil—Dubai (\$/barrel)	26.1	22.8	23.9	26.8	36.09	35.5	42.6	47.7	57.27	33.5
Gasoline—US Gulf Coast (cents/litre)	21.1	19.5	19.1	23	32.1	31.8	34.4	39.7	52.37	30.9

Sources: Food and Agriculture Organisation and US Energy Information Administration

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Main Economic Activities

Improvements in the recorded figures for external trade, private investment and tourism in the third quarter of 2005, compared to the preceding quarter, showed the strength of overall performance of Cambodia's economy during this period.

Cambodia's external trade registered a surplus, largely because of a seasonal rise in the volume of exports. In the third quarter, the trade balance showed a surplus of \$97.7 million, compared to a deficit of \$151.4 million in the preceding quarter. This surplus, however, was smaller than the \$144.1 million surplus recorded in the same quarter of 2004. The value of total exports reported by the Customs and Excise Department increased by 41.7 percent to \$730 million in the third quarter, up from \$515 million in the previous quarter. This mainly reflected increases in garment products, cigarettes and rubber, while exports of other major agricultural products, such as rice, fish and wood, declined. Garment exports, which still dominate total exports, rose sharply by 42.6 percent to \$709.8 million. The value of garment exports in the third quarter was up by 10.3 percent from the same quarter last year. During this period, the value of total exports rose 9.2 percent.

Cambodia's total imports, the sum of private sector and public sector (government) imports, for the third quarter were valued at \$632.3 million, a decrease of 5.1 percent from the \$666.4 million recorded in the preceding quarter. There was a drop of 9.5 percent in private sector imports (from \$261.3 million to \$236.3 million), and a decline of about 2.2 percent in government imports (from \$405.1 million to \$396 million). The decline in both private and public imports was mainly due to a decrease in the value of imports of vehicles and vehicle spare parts, followed by food, beverages and tobacco products. Compared to the third quarter of 2004, the value of total imports rose by 20.5 percent, mainly because of the increase in prices of most imported goods and in the volume of imports of some goods, especially construction materials and gasoline.

During the third quarter, 33 private investment projects were approved by the CDC, up from 25 during the second quarter. Private investments amounted to \$404.2 million in value of registered fixed assets, up from \$96.1 million. This robust rise reflected growth in each of the three main sectors of industry, agriculture and services. Most project approvals were still in the industrial sector—86.5 percent of total value approvals, \$349.7 million, compared to \$62.1 million in the second quarter. Of this, a cement factory in Kampot province accounted for \$180.8 million. Investments in agriculture, which have showed an upward trend since the first quarter, reached \$10.4 million in the third quarter, up from \$4 million in the second quarter. The value of investments in services rose by 47 percent to \$44.1 million in the third quarter,

up from \$30 million in the previous quarter. The total value of private investments for the third quarter 2005 was nearly five times that for the same period of the previous year, which was only \$82 million for 20 projects.

After a seasonal downward trend in the second quarter, the number of total foreign visitor arrivals increased by 10 percent to 323,217 persons in the third quarter. Of this total, foreign tourist arrivals amounted to 288,878 persons, an increase of about 10 percent from the previous quarter, while arrivals for business purposes and arrivals holding official visas both rose around 9.6 percent, to 22,192 and 12,147 respectively. The total number of foreign visitors in the third quarter increased sharply by 41.8 percent compared to the same quarter a year earlier. An increase of 59.6 percent in the number of visitors with official visas led this rise, followed by tourism (42.2 percent) and business arrivals (29.3 percent).

Although external trade, investment and tourism improved in the third quarter, the value of construction project approvals in Phnom Penh continued to fall. The value of construction project approvals declined by 26.7 percent, from \$104.4 million in the second quarter to \$76.5 million in the third quarter. This reflected a decrease in the value of flat and other construction project approvals, from \$69.1 million to \$41.3 million and from \$28.6 million to \$16.0 million, respectively, even though the value of villa and house construction approvals increased nearly three times, from \$6.6 million to \$19.2 million. Compared to the third quarter of 2004, the total value of construction project approvals in Phnom Penh was down by 1.8 percent.

Public Finance

According to revised data from the Ministry of Economy and Finance, the government's budget performance worsened during the third quarter. The overall budget deficit in the third quarter widened to 213.1 billion riels, compared to 42.3 billion riels in the second quarter.

During the third quarter, government budget revenues amounted to 624.3 billion riels, an increase of about 0.4 percent from the preceding quarter. Capital revenue was up by 40.4 percent to 14.6 billion riels, while current revenue fell by 0.3 percent to 609.8 billion riels. Tax revenue, which is the main source of current revenue, declined by 6.4 percent to 436.2 billion riels in the third quarter, while non-tax revenue continued to rise, by 19.2 percent to 173.5 billion riels. Total budget revenues collected in the third quarter of 2005 were about 38 percent higher than in the same quarter last year. Both capital and current revenues rose sharply during this period.

Total government budget expenditure, including expenditure adjustment, continued to expand. It reached 837.5 billion riels in the third quarter, 26 percent higher than in the preceding quarter. A sharp increase of 45 per-

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cent to 577.3 billion riels in current budget expenditure on a cash basis mainly led the increase in total expenditure, while there was a decline of 2.3 percent to 260.2 billion riels in capital expenditure. There was a sharp rise in expenditure on social administration and defence and security relative to expenditures on general, economic and other administration. Compared to the third quarter 2004, total budget spending was up by 19 percent, led by current spending.

Inflation and Foreign Exchange Rates

Following high inflation for several quarters, the rate of inflation decreased in the third quarter. The overall consumer price index in Phnom Penh in the third quarter 2005 increased 4.6 percent over the same period one year earlier, well below the 6.4 percent rise in the second quarter. Food prices, which covered about 80 percent of total surveyed items, were up by about 6 percent in the third quarter, less than the 9.8 percent increase observed in the second quarter. Prices of other core consumer items, including clothing and footwear, materials for household operation, medical care, transportation and communication, education and entertainment and personal care products, rose only slightly in the third quarter.

The riel continued to depreciate against the US dollar and the Vietnamese dong in the third quarter, but appreciated against the Thai baht. One dollar averaged 4,134.3 riels, a depreciation of about 2 percent from 4,054.3 riels in the preceding quarter. It took 25.9 riels to buy 100 dong in the third quarter, 2.4 percent more than in the second quarter. The riel continued to gain value against the Thai baht, appreciating by nearly 1.1 percent from 101.3 riels per baht in the second quarter to 100.2 riels in the third quarter.

Monetary Developments

During the third quarter, the money supply (M3), which is the sum of local currency in circulation and in bank deposits plus foreign currency deposits, expanded by 7.9 percent to 4,993.8 billion riels. This compared to growth of about 3.0 percent recorded during the second quarter. The rapid increase was mainly due to faster growth in foreign currency deposits, followed by local currency circulating outside banks. Foreign currency deposits rose by 7.3 percent (from 3,294.9 billion riels, or \$802.5 million, to 3,596.3 billion riels, or \$861.4 million), compared with only a 1.4 percent rise in the second quarter. Riels outside banks grew by 5.8 percent from 1,167.3 billion riels to 1,235.1 billion riels, in comparison to 0.3 percent growth in the second quarter. Faster growth in new currency issued led the expansion.

Riels in bank deposits, which include demand deposits and time and saving deposits, decreased 2.3 percent from 166.3 billion riels to 162.5 billion riels, in contrast to an

increase of 15.7 percent in the second quarter. Demand deposits fell by 7.0 percent to 44.2 billion riels and time and saving deposits fell 0.4 percent to 118.3 billion riels.

Poverty Situation—Real Daily Earnings of Vulnerable Workers

The most recent CDRI survey of vulnerable workers showed that the daily per capita earnings of 10 vulnerable groups dropped for the second consecutive year. Their earnings averaged 7,489 riels in 2005, down by approximately 1 percent, after a decline of 3 percent in 2004. The survey also revealed that moto-taxi drivers increased their earnings more than any other group, while garment workers suffered the largest decline in earnings.

Average real earnings for garment workers fell by 8.7 percent to 8,466 riels in 2005, down from 9,277 riels in 2004, the largest shrinkage since the survey was first conducted in 2000. This largely reflected the increasing number of people seeking employment in this sector, enabling factory owners to hire new workers at lower wages. The phasing out of the Multi-Fibre Agreement has forced some investors to close garment factories, while at the same time providing an opportunity for others to hire additional temporary workers at lower pay. The number of temporary workers was higher compared to last year, and the majority of the interviewed temporary workers are paid less than permanent workers. Garment workers are now concerned about job stability due to the declining trend of their earnings and the closure of some factories. Both temporary and permanent workers are mainly migrants from rural areas who remit most of their income back home to support their families.

The average earnings of porters in 2005 were 6,600 riels per day, a decrease of 4 percent from 6,900 riels in 2004. This decline can be traced to a rise in the number of porters over the previous year. Newcomers are usually new school dropouts who cannot afford to stay in school and have little education. The survey found that 57.5 percent of porters quit study during primary school. This figure suggests that the number of school dropouts may still be relatively large and should not be neglected when it comes to poverty eradication.

The average daily earnings of skilled construction workers dropped by 5 percent to 12,050 riels in 2005, down from 12,700 riels in 2004. This decline occurred despite the high number of construction projects during this period reported by the Department of Cadastre and Geography of Phnom Penh municipality. The reason for the decline is most likely a jump in the number of construction workers looking for work. Construction workers observed that the number of both highly skilled and low skilled construction workers increased sharply over the previous year. Nearly all of them are migrants from rural areas who spend as little as 3,500 riels daily

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for food. This suggests that there are few jobs outside agriculture in their native provinces.

Small vegetable traders' daily earnings rose by 5.4 percent in 2005. On average, small traders were able to earn 6,950 riels per day, up from 6,600 riels the previous year. During the survey, however, only 30 percent of the traders agreed that their earnings rose, while 30 percent reported that they remained the same and the remaining 40 percent said their income declined. The survey also found that those who claimed higher daily earnings reside permanently in Phnom Penh, while the others are from the provinces.

Average daily earnings of scavengers improved for the fourth consecutive year, reaching 4,950 riels, approximately 11 percent higher than a year earlier. This was most likely due to the increase in prices of rubbish during

2005. About a third of scavengers relied solely on rubbish collection for their income even though the money they earned was said to be insufficient to purchase basic food for their families. The survey found that the majority of this vulnerable group are from the rural areas and that they live where they scavenge rubbish.

The daily earnings of motorcycle taxi drivers increased significantly by 15 percent to 10,600 riels, up from 9,200 riels in 2004. They claimed, however, that this increase was not enough to offset the rise in gasoline prices. This group has probably benefited from the good performance of tourism. Data from the Ministry of Tourism indicate that the number of tourists visiting Cambodia in 2005 rose by 36 percent.

Prepared by: Ouch Chandarany and Pon Dorina

Table 1: Private Investment Projects Approved, 1997–2005

	1997*	1998	1999	2000	2001	2002	2003	2004	2005				
									Q3	Q4	Q1	Q2	Q3
Agriculture	65.6	51.6	63.9	9.8	5.6	38.9	3.7	2.9	0.0	3.2	4.0	10.4	
Industry	512.4	650.5	162.6	109.4	99.8	57.4	142.6	72.7	16.4	418.8	62.1	349.7	
. Garments	97.0	126.5	67.7	35.2	23.0	18.0	74.8	44.0	12.7	44.9	23.2	56.5	
Services	166.5	154.7	222.6	150.0	111.4	143.3	167.7	6.4	0.0	53.3	30.0	44.1	
. Hotels and tourism	41.5	112.0	171.8	79.8	71.9	45.1	118.6	6.4	0.0	46.4	0.0	33.6	
Total	744.5	856.8	449.1	269.2	216.8	239.6	314.1	82.0	16.4	475.3	96.1	404.2	
Total	-	-	-	-	-	-	-	-27.6	-80.0	2,798.2	-79.8	320.6	
Total	-	15.0	-47.6	-40.0	-19.5	10.5	31.1	-13.8	-73.6	650.8	-15.2	392.9	

Source: Department of Investment and Economic Cooperation, Phnom Penh Municipality.

Table 2: Value of Construction Project Approvals in Phnom Penh, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005				
									Q3	Q4	Q1	Q2	Q3
Villas and houses	17.2	21.2	20.0	16.4	15.9	23.4	20.0	7.5	5.5	14.3	6.6	19.2	
Flats	19.3	227.3	290.5	174.8	167.8	179.9	91.6	44.3	46.3	48.6	69.1	41.3	
Other	221.2	27.0	16.4	14.2	12.6	16.6	87.3	26.1	12.4	43.1	28.6	16.0	
Total	257.7	275.4	326.8	205.4	196.2	219.8	198.9	77.9	64.1	106.1	104.4	76.5	
Total	-	-	-	-	-	-	-	60.3	-17.7	65.5	-1.6	-26.7	
Total	-	6.9	18.7	-37.2	-4.5	12.0	-9.5	56.4	28.6	45.5	114.8	-1.8	

Source: Department of Cadastral and Geographical Information, Phnom Penh Municipality.

Table 3: Exports and Imports, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005				
									Q3*	Q4*	Q1*	Q2*	Q3
Total exports	493.4	784.4	941.1	1,056.2	1,268.2	1,453.2	1,708.1	668.8	545.1	463.0	515.0	730.0	
Of which:													
Garments	227.2	378.0	554.0	962.1	1,202.2	1,355.8	1,628.4	643.7	520.3	444.9	497.6	709.8	
. To US	107.2	74.1	486.0	714.1	840.9	943.4	1,099.8	387.6	321.2	312.5	335.9	489.5	
. To EU	-	-	-	228.1	323.3	356.3	414.7	200.9	159.1	89.2	106.0	162.5	
. To rest of the world	120.0	82.0	68.0	19.9	38.0	56.1	113.8	55.2	40.0	43.1	55.7	57.8	
Agriculture	-	-	-	94.2	66.0	97.3	79.7	25.1	24.8	18.1	17.3	20.2	
. Rubber	-	-	-	29.6	25.9	29.7	35.1	11.6	12.0	7.3	6.2	9.8	
. Wood	-	-	-	32.9	22.3	16.0	10.2	4.2	2.4	3.3	2.9	2.1	
. Fish	-	-	-	5.4	6.0	4.3	2.8	4.3	4.4	1.5	1.1	0.8	
. Other	-	-	-	26.2	11.8	47.4	31.6	5.0	6.0	6.0	7.1	7.5	
Total imports	1,094.5	1,112.2	1,237.4	1,417.7	1,501.4	1,674.1	1,824.9	524.7	548.1	520.7	666.4	632.3	
Of which:													
Gasoline	-	-	-	-	-	26.0	33.2	6.6	7.8	10.3	9.3	9.9	
Diesel	-	-	-	-	-	102.0	109.6	27.4	23.5	21.6	25.8	24.6	
Construction materials	-	-	-	-	-	97.4	80.8	21.3	26.5	32.3	37.1	38.7	
Other	-	-	-	-	-	1,448.7	1,601.3	469.4	490.3	456.5	594.2	559.1	
Trade balance	-601.2	-327.8	-296.3	-361.5	-233.2	-220.9	-116.8	144.1	-3.0	-57.7	-151.4	97.7	
Total garment exports	-	-	-	-	-	-	-	34.3	-19.2	-14.5	11.8	42.6	
Total exports	-	-	-	-	-	-	-	35.2	-18.5	-15.1	11.2	41.7	
Total imports	-	-	-	-	-	-	-	-13.5	4.5	-5.0	28.0	-5.1	
Total garment exports	188.0	66.4	47.0	74.0	24.9	12.8	20.1	35.4	16.0	16.0	3.8	10.3	
Total exports	27.5	59.0	20.0	12.2	20.1	14.6	17.5	35.9	14.6	15.9	4.1	9.2	
Total imports	-1.8	1.6	11.3	14.6	5.9	11.5	9.0	20.3	12.5	13.7	9.9	20.5	

Sources: Department of Trade Preferences Systems, Ministry of Commerce, and Customs and Excise Department, Ministry of Economy and Finance. Import data include tax-exempt imports. *Revised

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Table 4: Foreign Air Arrivals in Cambodia, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005			
								Q3	Q4	Q1	Q2	Q3
	Thousands of passengers											
By air	-	186.3	262.9	351.7	408.4	523.0	456.0	143.9	201.5	231.7	169.8	202.8
By land and boat	-	100.2	104.8	114.7	196.5	263.5	245.0	84.2	177.3	148.9	124.0	120.4
Total	218.8	286.5	367.7	466.4	604.9	786.5	701.0	228.1	378.8	380.6	293.8	323.2
	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	17.7	66.1	0.5	-22.8	10.0
	Percentage change over previous year											
Total	-16.0	30.9	28.3	26.8	29.7	30.0	-10.9	44.0	70.1	49.6	51.6	41.8

Source: Ministry of Tourism

Table 5: National Budget Operations on Cash Basis, 1997–2005 (billion riels)

	1997	1998	1999	2000	2001	2002	2003	2004	2005			
								Q3	Q4	Q1	Q2	Q3
Total revenue	880	920	1326	1,528	1,529	1,744	1,765	452.1	22	551.6	219	243
Current revenue	-	-	-	-	1,521	1,728	1,733	450.8	677	551.3	215	209
Tax revenue	596	676	956	1,096	1,096	1,227	1,220	334.1	485.7	455.1	466.0	436.2
Customs duties	348	376	432	376	376	424	395	99.9	168.0	129.4	129.7	123.7
Non-tax revenue	272	204	348	424	424	501	513	116.7	172.1	96.2	145.5	173.5
Forest exploitation	36	20	36	28	29	15	7.0	0.2	0.5	1.3	1.5	0.3
Posts & telecommunications	84	88	108	124	122	123	120	28.8	26.3	21.9	32.0	30.9
Capital revenue	12	36	12	8	9	16	31	1.3	4.5	0.3	10.4	14.6
Total expenditure (on cash basis)	1,260	1,296	1,792	2,332	2,332	2,948	2,757	703.4	909.3	630.7	664.2	837.5
Capital expenditure	452	368	624	976	977	1,388	1,171	277.3	293.5	250.7	266.4	260.2
Current expenditure (on cash basis)	808	980	1,164	1,356	1,355	1,560	1,586	426.0	615.8	380.0	397.8	577.3
Education and health	128	132	280	344	343	454	473	116.0	290.0	52.5	92.3	202.1
Defence and security	420	448	464	404	405	438	411	91.5	197.8	74.9	73.9	116.7
Other ministries	260	332	412	636	637	668	702	218.6	130.6	252.6	231.7	258.5
Overall deficit	-380	-380	-476	-804	-803	-1,204	-992	-251.2	-247.1	-79.1	-42.3	-213.1
Foreign financing	444	268	416	768	766	1,249	886	216.6	238.7	190.68	203.8	255.8
Deficit financing	-64	112	60	36	37	-45	106	34.6	8.4	-111.5	-161.5	-42.7

Source: Ministry of Planning, 2004 revised data; Ministry of Economy and Finance, 2005.

Table 6: Consumer Price Index, Exchange Rates and Gold Prices, 1997–2005 (period averages)

	1997	1998	1999	2000	2001*	2002	2003	2004	2005			
								Q3	Q4	Q1	Q2	Q3
	Consumer price index (percentage change over previous year)											
Provinces	-	-	5.8	5.4	-0.1	0.9	4.4	22.1	23.0	14.3*	7.9*	3.6
Phnom Penh - All items	8.0	14.8	4.0	-0.8	0.2	3.3	1.1	6.7	5.8	5.6	6.4	4.6
- Food	6.7	14.1	7.6	-3.4	-2.5	1.8	1.5	12.2	9.1	7.9	9.8	6.0
- Transportation	19.5	15.1	3.5	6.6	-4.2	0.3	4.9	11.5	14.5	12.3	11.1	11.9
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riels per US dollar	-	-	-	3,840.8	3,916.3	3,912.1	3,973.3	4,034.7	4,034.7	4,027.0	4,054.3	4,134.3
Riels per Thai baht	-	-	-	95.8	88.2	91.1	95.8	97.7	100.1	104.4	101.3	100.2
Riels per 100 Vietnamese dong	-	-	-	27.1	26.6	25.6	25.6	24.8	25.3	25.1	25.3	25.9
Gold prices (\$ per chi)	46.3	40.4	36.0	33.3	32.8	36.8	41.4	46.3	47.0	52.6	52.5	55.4
Price of diesel (riels/litre)	779	883	1,065	1,105	1,329	1,521	1,508	1,983	2,150	2,350	2,500	2,767
Price of gasoline (riels/litre)	1,118	1,378	1,613	1,760	2,113	2,084	2,150	2,767	2,950	3,050	3,300	3,633

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

Table 7: Monetary Survey, 1997–2005 (end of period)

	1997	1998	1999	2000	2001	2002	2003	2004	2005			
								Q3	Q4	Q1	Q2	Q3
	Billions of riels											
Net foreign assets	1,177	1,726	2,019	2,589	3,080	3,737	4,027	4,524	4,797	4,883	5,084	5,391
Net domestic assets	-114	-496	-576	-759	-876	-849	-698	-354	-467	-385	-455	-397
Net claims on government	54	178	103	3	-75	-119	-128	-96	-209	-252	-343	-404
Credit to private sector	637	655	763	898	936	1,059	1,337	1,673	1,817	1,983	2,166	2,386
Total liquidity	1,063	1,230	1,443	1,831	2,204	2,888	3,328	4,169	4,329	4,498	4,629	4,994
Money	385	543	531	540	609	813	937	1,078	1,153	1,198	1,215	1,279
Quasi-money	678	687	911	1,291	1,594	2,075	2,391	3,091	3,176	3,300	3,414	3,715
	Percentage change over previous year											
Total liquidity	16.6	15.7	17.3	26.9	20.4	31.0	15.2	38.7	30.0	22.9	20.4	19.8
Money	17	41	-2.2	1.7	12.8	33.5	15.3	21.7	23.0	19.0	16.8	18.6
Quasi-money	16.3	1.3	32.6	41.7	23.5	30.2	15.2	45.8	32.8	20.3	21.7	20.2

Source: National Bank of Cambodia

Table 8: Real Average Daily Earnings of Vulnerable Workers

	Daily earnings (riels)							Percentage change over previous year				
	2000	2001	2002	2003	2004	2005	2005	2005	2005			
							May	Aug	Nov	2003	2004	2005
Cyclo drivers	9,489	8,408	8,975	8,572	7,614	7,970	7,726	7,857	7,768	-4.5	-11.2	4.7
Porters	7,951	6,746	7,044	6,676	6,895	6,616	7,056	6,000	6,473	-5.2	3.3	-4.0
Small vegetable sellers	7,016	6,493	6,566	6,532	6,947	7,321	8,574	5,938	8,385	-0.5	6.4	5.4
Scavengers	4,310	3,211	3,685	3,944	4,446	4,947	5,270	4,335	4,801	7.0	12.7	11.3
Waitresses*	2,306	2,800	4,365	4,932	4,448	4,324	4,287	4,648	3,893	13.0	-9.8	-2.8
Rice-field workers	4,175	4,064	4,304	4,177	4,139	4,013	3,822	4,009	4,224	-2.9	-0.9	-3.0
Garment workers	8,006	8,608	8,904	9,577	9,277	8,466	7,235	8,756	8,659	7.6	-3.1	-8.7
Motorcycle-taxi drivers	8,597	10,768	12,184	10,092	9,204	10,563	11,130	9,406	9,645	-17.2	-8.8	14.8
Unskilled construction workers	9,769	6,672	6,453	6,558	6,382	6,659	8,130	6,069	6,691	1.6	-2.7	4.3
Skilled construction workers	15,491	11,105	12,605	13,111	12,679	12,055	12,320	10,273	11,253	4.0	-3.3	-4.9

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

CDRI UPDATE

Management

In the first quarter of 2006, CDRI moves to implement its new 2006–10 strategic plan, endorsed by the December 2005 meeting of the Board of Directors. Building on its current strengths and capacity, CDRI's strategic priorities over the next five years will reflect, support and complement those of the government and its development partners and stakeholders, as well as the objectives of the government's new National Strategic Development Plan. CDRI's plan includes the following updated mission statement:

As an independent Cambodian development policy research institute, CDRI's mission is to contribute to Cambodia's sustainable development, and the well being of its people, through the generation of high quality policy-relevant development research, knowledge dissemination and capacity building.

CDRI works to achieve this mission in partnership with Cambodian public institutions and civil society, and their regional and international development partners, with respect for the capacity of the Cambodian people and their institutions, for the value of local knowledge and experience and for Cambodia's history and culture.

In 2006–10 CDRI will work to achieve three broad strategic goals:

- (i) To produce independent, objective, high quality policy-relevant development research, and to maximise the accessibility of this development knowledge to policy makers, influencers and stakeholders, and its policy impact, in five key interrelated areas for Cambodia's sustainable development:

- economy, trade and regional cooperation;
- poverty reduction, agricultural development and rural livelihoods;
- democratic governance and public sector reform;
- natural resources and the environment;
- human security, peace building and conflict transformation.

- (ii) To build a sustainable future for CDRI as Cambodia's leading development policy research institution, through the strengthening of its institutional development model, the "Cambodianisation" and capacity development of its management and staff and effective resource mobilisation.

- (iii) To achieve the highest standards of institutional good governance, quality management and service delivery systems.

Research

CDRI is currently undertaking three poverty-related research projects. Two members of the Moving Out of Poverty Study (MOPS) team attended the Global Synthesis Workshop in St. Petersburg in January, where they presented the Cambodia MOPS case study. This study has involved close collaboration with the World Bank in which CDRI's goals of producing high quality policy research and strengthening of staff capacity are being achieved. The MOPS study, along with the Tonle Sap Participatory Poverty Assessment (PPA), has also informed the World Bank's Cambodia Poverty Assessment. CDRI is also participating in a regional study, Reviewing the Poverty Impact of Regional Economic Integration in the Greater Mekong Sub-region (RETA). The RETA research teams have now completed field work

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