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## Enhancing the Effectiveness of Rural Productive Service Delivery in Cambodia\*

### Introduction

Rural Productive Service Delivery Systems (RPSDS) are organised and arranged by providers to ensure that products or services are produced, processed and marketed so that they are finally delivered to consumers. These have been initiated or developed by service providers from the private and public sectors such as the government or civil society for years. Since Cambodia adopted a market economy in 1993, services have been delivered by various sectors. Little is so far known about the effectiveness of RPSDS in Cambodia. Thus it is essential to review these systems, particularly with regard to issues that hamper the effective delivery of services.

### Objectives

- To assess the impact and sustainability of selected RPSDS currently operating in Cambodia.
- To identify issues and challenges that obstruct effective delivery by RPSDS.
- To provide recommendations that could be used to improve RPSDS and possibly be incorporated into the national or sector policy, strategy, plan or programme.

### Research Framework and Methods

The study will assess the impacts, sustainability, issues, challenges, farmers' perceptions of the



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government policy and strategies applied in farming, farmers' behaviours and practices in business development, agricultural market functioning and market incentives in three provinces (Takeo, Kompong Speu and Siem Reap) where six service providers are operating, namely: integrated services, mainly seed supply and post-harvest loss management by AQIP; integrated agricultural extension, finance and market services by CEDAC; integrated agricultural production, market, finance, and physical infrastructure services by ECOSORN; integrated extension and marketing services by Srer Khmer; agricultural

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market information services by CAMIP; and financial services by ACLEDA.

Desk study and fieldwork are drawn upon in this study. The former involves reviewing existing information about the government's policy, strategy and programmes, while the latter employs three techniques to gather primary information: direct observation through site visits, in-depth interviews and focus group discussions (FGDs). Six interviews with 32 interviewees from six service providers and 11 FGDs in 10 villages were conducted. On average, there were 10 participants in each FGD. Technically, a value chains approach, supply chains approach and agrarian system approach were used to assess and analyse the issues. This paper is organised as follows: overview of the service providers; impact and sustainability; issues and challenges; farmers' perceptions; conclusion and recommendations.

**Limitations:** The service providers selected and the FGDs represent just a small sample in only three provinces, while the same services delivered by the same providers in other provinces could not be included due to time and resource constraints. Only 14 out of 45 days spread over January–March 2009 could be allocated for the field survey. Thus the findings, discussion and conclusion are based on these selected service providers and provinces and may not be generalised.

## Findings

### *Service Providers*

#### *Overview*

Although ECOSORN, CEDAC, Srer Khmer and AQIP have several integrated services, the degree of service integration and characteristics vary. ECOSORN has five integrated services, while Srer Khmer and CEDAC have only three and AQIP only two. The first three providers are non-profit entities while AQIP is a profit entity. Agricultural extensions including system of rice intensification (SRI), market information system, producer association formation and cash management training were provided to pilot farmers by ECOSORN, while CEDAC and Srer Khmer do not include market information or cash management training, but both assist farmers to form saving groups and provide training on basic concepts of value added such as the selection of high value crops in a particular season. Unlike Srer Khmer, CEDAC adds producer association formation to its

service delivery (training). AQIP forms a producer association to supply seeds to the company. Unlike CEDAC, Srer Khmer and AQIP, ECOSORN does not provide services directly to farmers, but subcontracts specialised service providers to deliver specific services to pilot farmers and project areas. This is because ECOSORN does not have enough staff and capacity to deliver directly. Similarly, due to lack of land and staff, AQIP coordinates with its producer association through contracting the association to supply seed at the agreed price. In return, the company agrees to subsidise the association with interest-free loans for fertiliser and seed. CEDAC and Srer Khmer deliver services in the form of training only and therefore do not have a specific coordinating system. ACLEDA is a commercial bank that provides financial services only, while CAMIP, a project funded by CIDA and the government of Cambodia, delivers only agricultural market information. ACLEDA establishes value added for its own entity and develops its own policies, regulations and management system to coordinate the services, while CAMIP is a public and non-profit project running over four years (2006–09). It does not get involved in nor establish any value chain. Its main task is to deliver agricultural market information to interested parties. The coordination between CAMIP and wholesalers for access to wholesale prices and mutual benefits is mainly on a voluntary basis.

#### *Impact and Sustainability*

Most farmers adopt improved seeds, while SRI adoption varies from place to place. All AQIP contract farmers adopt SRI, while only 25 percent of CEDAC's pilot farmers adopted SRI and a large proportion of pilot farmers of ECOSORN and Srer Khmer are unlikely to adopt it. Most farmers are not willing to adopt SRI because it is more labour intensive. The AQIP farmers adopt SRI because they must abide by the contract. Similarly, the adoption of integrated pest management by pilot farmers varies because some farmers view chemical pesticide as more effective than natural pesticide. Nevertheless, most farmers reported that high quality seed, SRI, integrated pest management and composting increase productivity and add value. The AQIP contract farmers have moved from subsistence paddy production to commercial

production. Farmers are becoming better acquainted with paddy seed business principles such as consumer demand for high quality seed. ACLEDA's financing increased from 11 percent of total loan value in 2007 to 14 percent in 2008 (54 percent of its total loan value in agriculture was directed to crop production); financing small and medium enterprises such as threshing machines, water pumps for vegetable gardening and rice mills brings adoption of new technology and innovation, although other factors may contribute to this. It is not clearly known whether the agricultural market information service of CAMIP contributed to promotion of agricultural enterprise over the past four years because most farmers and producers reported that the information provided by the service is often out of date and the training provided by the farmer marketing school was not very useful (FGDs, 2–4 February 2009).

The sustainability of the services depends on the nature, characteristics and approaches of the delivery. The AQIP integrated service is likely to continue since the project is financially viable and the contract farmers benefit in terms of knowledge and income improvement. However, the degree of farmers' adoption of the technology and services of Srer Khmer, ECOSORN and possibly CEDAC and CAMIP has not reached a level that would ensure that the pilot farmers will continue the technologies. Poor farmers, who live from hand to mouth, need longer term, substantial financial and technical support. Although ECOSORN and Srer Khmer have included agricultural extension workers from provincial Departments of Agriculture and have trained farmer trainers to continue to deliver the services when they are phased out within the next few years, these extension workers and farmer trainers are unlikely to continue to deliver the services since there is no clear incentive in place (Danish Agricultural Advisory Service 2008, and FGDs on 5 February 2009). ACLEDA is likely to continue to provide financial services in agriculture, but subject to financial sustainability. The bank has been financing this sector for almost two decades. The agricultural market information service is unlikely to continue to deliver the same quality of information when CAMIP is phased out in 2009. This is because the Agricultural Marketing Office (AMO) lacks resources to continue the service.

### *Issues and Challenges*

Lack of capital, limited qualified staff, high staff turnover, low levels of farmer education, poverty, lack of water in the dry season, inadequate and poor infrastructure (roads, irrigation and market facilities), insufficient agricultural extension and technology, inadequate agribusiness support and lack of land titling are the most common issues and constraints faced by service providers and are obstacles to the promotion of agricultural enterprise. In addition to these, difficulties in finding qualified contractors and managing and coordinating contractors have led ECOSORN to delay implementing activities in the villages for several months. Srer Khmer, CEDAC and CAMIP lack qualified staff specialised in business development and are unable to assist farmers and producer associations in business development. Given its limited staff and limited capacity in business development, the farmer marketing school run by CAMIP is not attractive to farmers and traders.

The unwillingness of farmers to adopt SRI and insufficient backstopping are the common challenges for all service providers. An inability to produce seed and to finance contract farmers is challenging AQIP's value chains. The lack of staff business skills to support community organic shops and producer associations, especially its inability to establish value chains for organic products, is creating additional challenges for CEDAC. Consumers are not yet willing to pay a premium for organic products (FGDs and interviews, 2–4 February, 10 February 2009). This challenges the promotion of organic products. Difficult access to financial services (high interest rates) and out-of-date market information remain the main challenges for ACLEDA and CAMIP, respectively. These challenges continue to threaten the promotion of agricultural enterprise. Moreover, since part of CAMIP's approach is to disseminate and develop the capacity of local traders and farmers, their low participation in the farmer marketing school challenge capacity building and the use of information.

### **Farmers' Perceptions**

#### ***The Government's Policy and Strategies Applied in Farming***

Most households have limited land and lack year-round water in most villages. They have high input costs (fertiliser, seed and gasoline), high mortality

and morbidity rates of livestock combined with a lack of breed selection. Most farmers view these as major issues that challenge the government's policy on diversification, food security and productivity. Most farmers perceive staff with limited capacity and low motivation as challenging the sectoral policy on strengthening and improving agricultural research and weakening the institutional and legislative development framework for rural productive service delivery systems. Asymmetric information among farmers and inefficient product distribution systems in most areas of the study make most farmers and local traders believe the policy on market access for agricultural products is unlikely to be successful. Slow land registration and the rise of land conflicts also challenge the policy on land tenure and land market development and pro-poor land access. As a consequence, most households still have no title for their land, making most poor households unable to access credit.

### ***Farmers' Behaviours and Practices in Business***

Most farmers viewed agricultural extension services, land and water as crucial to securing household food supplies, while public infrastructure, market information systems, agribusiness support services and access to credit and technology are essential to scale up production for sale.

### ***Market Incentives***

Lack of agricultural inputs support and business support, high oil prices, high fertiliser prices, the lack of consumer willingness to pay a premium for organic produce, low demand for domestic agricultural products and the relatively high interest rates charged by banks and MFIs are major constraints on farmers responding market demand. The chemical fertiliser price (160,000 riels/sack) in 2008 was more than double the price (60,000 riels/sack) in 2005 (AMO 2005; AMO 2008). A similar trend is observed in oil prices. No business support has been provided to farmers. Only recently has the concept of value chain and value added been introduced to farmers in the form of training in some selected villages, while the large majority have never been exposed to the concept or received such support. The finding of this study (FGD with the community, organic shops advised by CEDAC in Takeo and interview with consumers, 2–4 February 2009) and that of

AgriFood Consulting International and CamConsult (2006) is that consumers are not yet willing to pay a premium price for organic farm produce. High oil prices, high fertiliser prices and no agricultural inputs support make farmers not see the benefits of responding to market demand. Only a small proportion of farmers invited to participate in pilot projects have been provided input support, and for demonstration purposes only.

### ***Agricultural Market Functioning***

Few traders (one to three persons) in each village, lower prices offered by traders than the prices broadcast on local FM radio, asymmetric information on prices and markets, less competitive domestic products and big price fluctuations are the major complaints of many farmers about market functioning. Many farmers believed that the current agricultural market does not function well because there is asymmetric information. This is because access to information and transportation costs are expensive. Higgins (2009) reported that the transport cost in Cambodia was 3.75 times the cost in Thailand<sup>1</sup> and the proportion of paved road in Cambodia was 5 percent, compared to 98 percent in Thailand. Only traders and wholesalers who are better informed about markets benefit, and therefore they are not willing to offer a fair price. Although CAMIP disseminates market prices through local FM radio, cell phones, a web site and publications in 11 provinces and cities, including Siem Reap and Takeo, the information is still inaccessible to most farmers due to lack of awareness of the service, technical complications, out-of-date information and lack of equipment. Information is out of date because the prices are collected by CAMIP only every three days. Many farmers said that the market would function better if there were more traders and more wholesalers and cheaper access to information.

### ***Conclusion***

Two service modalities were identified in this study of the six providers. ACLEDA and CAMIP provide single services, while Srer Khmer, ECOSORN, CEDAC and AQIP provide integrated services. The impact and sustainability of the services depend on

<sup>1</sup> \$15 per ton per 100 km in Cambodia, \$7 and \$4 per ton per 100 km in Vietnam and Thailand, respectively (Higgins, 2009).

the nature and characteristics of the providers and their approach. Major constraints and challenges to the government's farming policy and strategies are the insufficiencies of public infrastructure, of agricultural extension and technology, of market information, of agribusiness service support, of productive land, of water (January between May), of financial services, of agricultural inputs support and of education, along with severe household poverty, high oil prices and high fertiliser prices. They are also challenges for agricultural enterprise, farmers' response to market incentives and farmers' perception of agricultural market functioning and impediments to effective rural productive service delivery.

### Recommendations

- Although infrastructure and cash flow management training are seen as critically important to improve farmers' access to financial services, high interest rates charged by banks impede the access of farmers. Thus it is essential that interest rates be lower than 3 percent per month and that business support be provided.
- Farmers are beginning to appreciate improved seeds but after weighing up the price, most continue using conventional seeds. It might be worth considering price subsidies for very poor farm households until they can afford to buy the improved seeds.
- It is important to establish a public radio that can broadcast prices to everyone in the village, and the farmer marketing school should be improved in order to increase attendance by farmers and local traders
- Participatory research has been introduced, but generally has not been widely conducted in most villages or lacks follow-up and continuous encouragement. In addition the capacity of extension workers is limited. Therefore, it is important that the capacity of extension workers be strengthened and participatory research should be promoted more widely in order to improve the rate of technology transfer and adoption.
- The ECOSORN integrated rural development service seems suitable for most rural areas in Cambodia, but it is very complex, difficult to manage and exposed to high risk such as long delays in implementation. Therefore, it might be

worthwhile integrating a few services initially and scaling them up at a later stage.

- The land tenure reform programme should develop a framework for implementing the land law as soon as possible so that the pro-poor land access programme, land registration and land titling can be accelerated.
- More public physical infrastructure should be constructed and repaired in order to facilitate production, increase trade between rural and urban areas and prepare for flood and drought disasters.
- Subsidies for necessary agricultural inputs should be considered, particularly during oil price and fertiliser price shocks.

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# Market Vendors in Kompong Cham Town Sell to Survive in the Informal Economy\*

## Introduction

As a result of the construction of the Kizuna Bridge across the Mekong River, the rehabilitation of roads to the north and north-east and increased market activity throughout Cambodia, Kompong Cham town has become a hub of transport and transit activity. This accelerated rise in market activity has provided opportunities, mainly for women, to earn from selling vegetables, fruit and fish in the informal economy. This article, based on recent research, inquires briefly into the general notion of the informal economy as a prelude to a discussion of research methods and major findings.<sup>1</sup>

## Understanding the Informal Economy

Broadly defined, the informal economy is the unregulated non-formal segment of the market economy that produces goods and services for sale or for other forms of payment. The term “informal economy” thus refers to all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements. By contrast, formal sector firms are distinguished by contractual employment with explicit rights and duties, lines of authority and conditions for hiring and firing. Workers are protected by the existing labour legislation, enforced and promoted by their own organisations. Under these conditions, individuals sell their labour to firms for a stipulated amount of time, receiving in return a regular monetary remuneration (Portes 1983). The Economic Institute of Cambodia (EIC) estimates that in 2003 informal sector workers were 85 percent of Cambodia’s total workforce and contributed 62 percent of total gross domestic product, making them significant contributors to the country’s economy (EIC 2006).

There are several schools of thought regarding the relationship between the informal and formal

economies. These may be characterised broadly as the dualists, the legalists and the structuralists. The dualists view the informal economy as a separate, marginal economy not directly linked to the formal economy, providing income or a safety net for the poor. The legalists argue that informal work arrangements are a rational response by small entrepreneurs to over-regulation by government bureaucracies. The structuralists maintain that the informal economy is subordinated to the formal economy by capitalists who seek to exploit small producers and traders to reduce costs (Chen *et al.* 2002).

For too long, governments have adopted a dualist approach and acted on the assumption that, with the growth of the formal economy, the informal economy would gradually diminish on its own. This has led to biases in policy that have favoured the formal economy to the detriment of the informal economy. Governments need to develop policies that acknowledge the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work within it (Becker 2004). As stated during the 89<sup>th</sup> session of the International Labour Conference in June 2001: “The fundamental challenge posed by the informal economy is how to integrate it into the formal economy. It is a matter of equity and social solidarity. Policies must encourage movement away from the informal economy. Support for exposed groups in the informal economy should be financed by society as a whole.”

The transition from an informal to a formal status is normally gradual, and the challenge posed is to initiate processes that can support enterprises to achieve a more formal state (Figure 1). Small entrepreneurs make economic calculations along the lines of cost-benefit analysis, determining a minimum threshold of participation in formal arrangements for which the costs remain lower than the benefits. Some enterprises will therefore choose to participate in only a subset of institutions at any point in time. In addition, benefits and costs

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of participating in formal agreements vary for enterprises of different size and expected lifetime (Becker 2004). Market vending activities are highly informal and therefore require concerted government and civil society attention to improve their productivity and their coverage under universal worker rights.

### Research Methods

The field research was conducted in September 2007 in Kompong Cham town with market vendors who sell their goods in open spaces at the Boeung Kok, Kro Moun and Sala Chen markets, the three main market sites in town. In all, 215 market vendors selling vegetables, fruit or fish were purposively interviewed. An attempt was made to interview comparable numbers of vendors selling the three different types of goods. Rough estimates suggest that

in the peak morning hours about 750 vendors were offering their products at the three main markets. The instrument was kept short since the interviews were conducted during trading times at the selling spaces of the vendors. Areas of inquiry focused on: 1) vendor profiles and roles as household earners; 2) business operations including initial capital investments, access to credit and supplies and daily earnings and profit; and 3) claims to urban space. In addition to the survey questionnaire, in-depth key informant interviews were taped with selected vendors, mostly at their homes after the peak periods of market activity. These in-depth interviews, some of which appear in the full report, provide a more nuanced understanding of the challenges that confront the vendors. Key informant interviews were likewise conducted with market committee officials to gain insight into the relationships of the

**Figure 1: Informal to Formal Sector Continuum**

	INFORMAL SECTOR		FORMAL
	Subsistence Enterprises	Unofficial Enterprises	Unofficial Enterprises
			Official Enterprises
<b>Degree of Informality</b>	100%	High proportion of sales undeclared and workers not registered	Some proportion of sales undeclared and workers not registered.
<b>Type of Activity</b>	Single street traders, cottage/micro enterprises, subsistence farmers	Small manufacturers, service providers, distributors, contractors	Small and medium manufacturers, service providers, software firms
<b>Technology</b>	Labour intensive	Mostly labour intensive	Knowledge and capital intensive
<b>Owner Profile</b>	Poor, low education, low level of skills	Poor and non-poor, well educated, high level of skills	Non-poor, highly educated, sophisticated level of skills
<b>Markets</b>	Low barriers to entry, highly competitive, high product homogeneity	Low barriers to entry, highly competitive, some product differentiation	Significant barriers to entry, established market/product niche
<b>Finance Needs</b>	Working capital	Working capital, some investment capital, supplier credit	Investment capital and working capital, letters of credit, supplier credit
<b>Other Needs</b>	Personal insurance, social protection	Personal and perhaps business insurance	Personal and business insurance, business development services
	<b>Least dynamic Completely informal</b>		<b>Highly dynamic Partially informal</b> →

Source: The Informal Round Table, Sofia, 18–20 April 2002, Simeon Djankov, Ira Lieberman, Joyita Mukherjee, Tatiana Nenova, “Going Informal: Benefits and Costs”, cited in Becker 2004

**Table 1. Market Vendor Positions as Household Earners, Kompong Cham Town, September 2007**

	Vegetable Vendors		Fruit Vendors		Fish Vendors		All Vendors	
	#	%	#	%	#	%	#	%
Sole household earner	28	36	25	36	25	37	78	36
Principal household earner (more than 50% of household income)	20	26	19	27	29	43	68	32
Sole or principal household earner	48	62	44	63	54	79	146	68
	N=77		N=70		N=68		N=215	

vendors with wholesalers, market stall retailers and market tax collectors.

### Profile of Market Vendors

Remarkably, 97 percent of the vendors surveyed were women. The mean age of the vendors interviewed was 40.6 years, with 57 percent being from 30 to 49 years. While 34 percent had completed primary education or higher, 18 percent had never attended school. The respondents' overall low educational levels and lack of formal skills and training explain in part why 80 percent of the vendors had never earned from any other type of job. Low educational and high age levels also prevented them from securing employment in the Phnom Penh garment factories. While 93 percent of the respondents surveyed had settled in Kompong Cham town prior to 2000, 52 percent had started to work as market vendors in the town only since 2000, taking advantage of the economic boom.<sup>2</sup>

While 87 percent of the market vendors had been married, 17 percent were now widows or widowers, and 4 percent were separated or divorced. The mean number of living children of market vendors currently or previously married was 3.3, the mean number of these children living at home was 2.4, and the mean number of children living at home 5 years old and below was 0.3. In large measure the vendors surveyed were responsible for children but not overly burdened with the care of preschoolers. The vibrant markets in Kompong Cham town provided the vendors with opportunities to earn money close to home, while allowing them to fulfil their traditional role of caring for their children.

### Contribution as Household Earners

In the market vendor households, the mean number of members living and eating together was 5.3. The mean number of members contributing to household livelihood was only 1.9. This in itself underscored the importance of the vendors as household earners since, by the very fact of their trading, they constituted one of the members contributing to household livelihood. Additional data revealed that 68 percent of the vendors sampled were either the sole or principal earners in their households (Table 1). Given the strength of their earning positions within the household and the traditional role of women in Cambodian society, the market vendors exercised considerable control over money and its use in their households. Overall, four-fifths of the vendors sampled held the money in their households.

These figures belie the Khmer proverb "Women cannot move around the stove", which implies that women cannot get out of the cooking area of their homes to earn income. On the contrary, the market vendors sampled in this study were in large measure the major contributors to their household's subsistence and not, as reflected in the above saying, homemakers fated to be dependent on the earnings of their spouses.

### Buying Goods for Trading

The average initial capital investment of the vendors surveyed was KHR154,182 (USD38.55). The relatively small investment needed for the vendors to start their activities enabled 50 percent of them to finance their micro-enterprises with money from their own savings. Another 20 percent

got most of their initial capital from wholesalers or traders. Two-thirds of the market vendors bought their goods from wholesalers or middlemen. Some vendors bought their goods entirely with cash, others partly with cash and partly with credit and still others entirely on credit. Of note, a majority of the vendors who bought partly or entirely on credit had to repay the credit at the end of the same day. Wholesalers transported goods from the place of purchase to the place of selling for one-fourth of all the vendors.

The link between the wholesalers and market vendors was as integral to the market chain as that between the wholesalers and market stall retailers. Wholesalers provided market vendors with investment capital, daily credit and transportation assistance. In return the vendors acted as middlemen, or more accurately middle women, who enabled the wholesalers to trade and distribute their goods to a widely dispersed population of customers beyond those who bought from the market stall retailers. Without the vendors, the wholesalers would not be able to conduct business with such a high volume of small buyers.

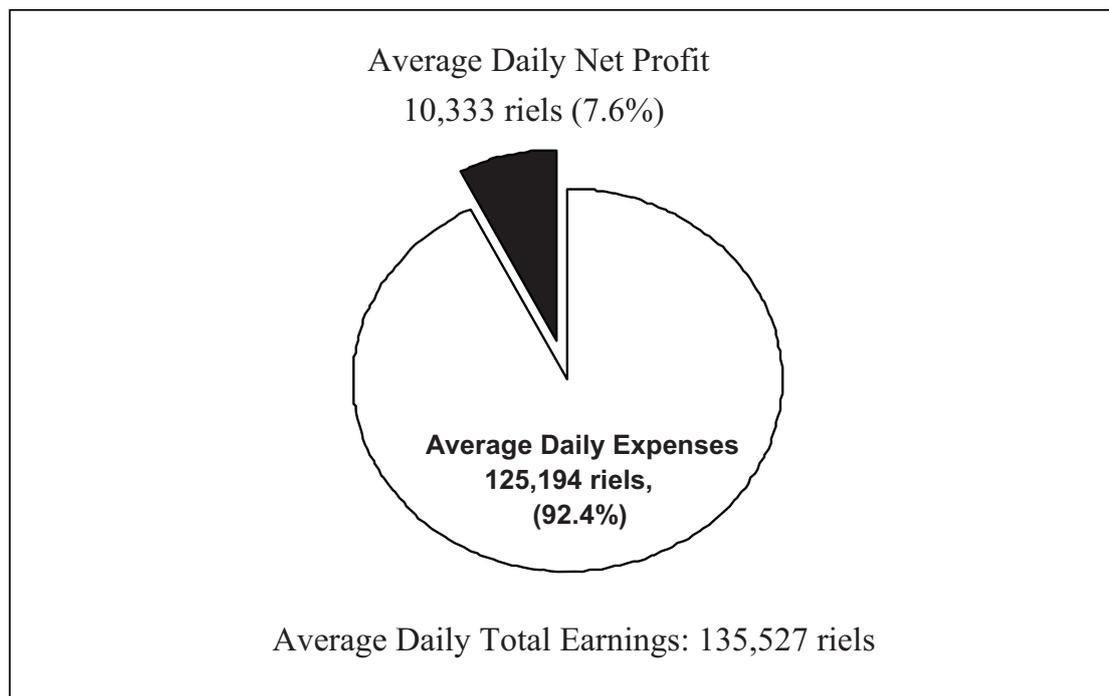
**Daily Earnings**

The mean average daily profit for all market vendors was KHR10,333 (USD 2.58). This amounted to only 7.6 percent of the average daily

total earnings of KHR135,527 (Figure 2). While the vendors were trading with rather large sums of cash and generating relatively high gross earnings, their average profit margin was comparatively low. Meanwhile sharp differences in profits were evident among vendors. While 31 percent of the vendors had average daily profits of 5000 riels or less, another 14 percent had average daily profits of more than 15,000 riels (Table 2). This revealed the disparity among vendors in access to credit, managerial ability, scale of business operations and capacity for growth.

Given the large percentage of vendors earning less than 5000 riels daily, the average household size of 5.3, and the status of vendors as major household earners, it would appear that a significant number of the vendors surveyed were indeed selling to survive.<sup>3</sup> By contrast, a smaller portion of the vendors were more financially secure and living beyond mere subsistence levels. But whether market vending contributed solely to daily subsistence or also to upward mobility, its value in individual women’s lives should not be underestimated. Three-fourths of the vendors said that they were satisfied with their work. More than two-thirds maintained that as vendors they were able to support their family and raise their children.

**Figure 2: Market Vendor Average Daily Profit as a Percentage of Average Daily Total Earnings, Kompong Cham Provincial Town, September 2007**



The average daily working hours of the vendors were 7.8, and more than three-fifths of them worked entirely on their own. Others had help mainly from relatives during peak seasons. Only a few had received advice or training on how to operate vending businesses and even fewer kept written records of their daily earnings and

**Table 2: Market Vendor Average Daily Profit (in riels), Kompong Cham Town, September 2007**

	Vegetable Vendors		Fruit Vendors		Fish Vendors		All Vendors	
	#	%	#	%	#	%	#	%
1000–5000 riels	31	42	21	30	14	21	66	31
5001–10,000 riels	28	37	26	38	36	53	90	42
10,001–15,000 riels	8	11	11	16	9	13	28	13
More than 15,000 riels	9	12	11	16	9	13	29	14
	N=76		N=69		N=68		N=213	

expenditures. At the same time, more than half of the vendors stated that they planned to expand or diversify their business. Lack of access to increased capital was seen by a majority as a major obstacle to business expansion and diversification.<sup>4</sup>

### Selling Spaces and Market Fees

While vendors exerted rights over their selling spaces, their rights were not inviolable. Notably, almost two-fifths of the vendors surveyed had been evicted from selling in a previous space. When asked whether they could be evicted from their current selling space, one-fifth replied affirmatively and another two-fifths were not sure. Indeed, 15 percent of the vendors interviewed had been chased by the authorities from their current selling space. Moreover, 15 percent had had goods confiscated by market security or police in their present selling space. The uncertain legal status of the vendors left them vulnerable to eviction and harassment by those in authority. Vendors must be given clear legal status to claim their entitlements to pursue their livelihoods and their right to space (see Kusakabe 2006b).<sup>5</sup>

Nearly all respondents paid daily business operation tax or *pheasi* on goods sold. Just under half paid for space. Most vendors also paid daily fees for renting umbrellas and for latrine and sanitation services. Still vendors experienced problems related to bad smells from uncollected garbage, muddy surroundings, rats and insects and lack of latrines and clean water. Market vendors paid on average KHR2135 (USD0.53) daily in total market fees. Those paying business operations tax paid on average KHR1021 (USD0.26) daily. Generally, the vendors complained not about paying the standard fees but about paying the excessive amounts sometimes charged by the

tax collectors. While none of the market vendors interviewed was a member of a vendor group or association, vendors from Boeung Kok market had taken successful action against excessive business operation taxes with the support of a human rights group.

### Conclusions

In large measure, the findings of the present study are consistent with the literature on market vendors in Phnom Penh. While market vendors work long hours and contribute significantly to household incomes, their lack of education and skills, their lack of access to capital and their lack of access to labour limit their productivity and profit margins and prevent most of them from moving beyond subsistence. Moreover, their uncertain legal status and exclusion from labour legislation leaves them vulnerable to abuse and unprotected against contingencies. Among market vendors, deficits in employment, rights, social protection and representation remain high and need to be urgently addressed.

By situating the study of Kompong Cham market vendors in the context of the informal economy, this research reveals the underlying biases of the Cambodian government toward the formal economy. Guided by a dualist approach, the government has acted on the assumption that the informal economy will gradually diminish on its own with the growth of the formal economy. This clearly has not happened. This study argues that the government must develop policies and initiate processes to enable informal enterprises to achieve a more formal state. Market vending activities in particular are highly informal and therefore require concerted government and civil society action to improve their productivity and their coverage under universal worker rights.

## Policy Recommendations

Following the conclusions of this research and in line with recent studies commissioned by the International Labour Organisation (Kusakabe 2006a, 2006b; EIC 2006) on market vendors and the informal economy in Cambodia, the study advances several policy recommendations to government and civil society: repeal all laws that make market vending illegal; extend Cambodia's labour and social security laws to include market vendors and other informal workers; include market vendors in urban development planning and market governance; enhance representation of market vendors and other informal workers in labour associations; augment skills and knowledge and access to capital of market vendors to increase productivity; and streamline government regulations and lower costs to establish and operate small businesses.

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## Endnotes

- 1 The research report, entitled "Selling to Survive: Market Vendors in Kompong Cham Town Making their Living in the Informal Economy", was completed in November 2008 by ADI trainees and team. The study may be accessed in English and Khmer on the CCC/ADI web site.
- 2 An ILO report on street vending in Thailand, Cambodia and Mongolia indicates that street vending increases under both economic growth and economic recession. During economic booms more people enter into this type of work. During recession, vending becomes a buffer for the unemployed (see Kusakabe 2006b).
- 3 In 2004 in other urban areas, the food poverty line and the poverty line for an average household size of 5.3 amounted to 8310 riels and 10,346 riels per day respectively. See A Poverty Profile of Cambodia 2004, Ministry of Planning, February 2006.
- 4 Kusakabe (2006b) argues that, unlike men, women have less control over the time and labour of other family members. She contends that it is this lack of access and control over free labour, and not lack of skills or capital, that makes the crucial difference in the growth of business between women and men.
- 5 According to the Sub-Decree on Public Order signed by the first and second prime ministers on 10 August 1994, street vending is essentially illegal. Article 12 states that selling goods and disturbing the public order are prohibited. In the case of violation, they will be fined 10,000 riels. Article 13 states that selling goods by cart along the road is prohibited. In case of violation, they will be fined 2000 riels. This law notwithstanding, the Business Operation Tax Book makes provision for the collection of taxes from those who rent big umbrellas, from those who sell from baskets and from those who sell from mobile carts—all characteristic of vending. This contradiction in law and regulation creates a space for ambiguous fee collections (see Kusakabe 2006a).

# The Local Governance of Common Pool Resources: The Case of Irrigation Water in Cambodia\*

## Introduction

Common pool resources are those resources such as forests, fish, water, and pasture land that do not have to be produced and are the main sources of daily food supplies and income for the rural poor. These resources are often seen as under the management of the unseen state, which, as identified in key international and national literature, has, throughout history, been an abstract body that has either not governed the resources well or not having governed them at all (Berkes 1989). Two common cases arise from this situation. First, everyone seems to be able to access and take benefits from these resources freely and without any regulations (Ostrom 1990, 1992, 1999). Second, the rich and powerful can capture these resources for their own benefit and not allow the poor to extract further benefits (Carlson 2003; Shaw-Lefevre 1894). Either case often leads to resource crunch or even resource extinction (Hardin 1968).

As a country with abundant natural resources trying to upgrade its economy and more specifically its people's livelihoods, Cambodia is badly in need of a good policy to govern this type of resources for sustainability and efficiency of use. Recognising this need, CDRI's governance unit decided to look at this aspect, seeking out the factors that enable or constrain good governance of common pool resources in Cambodia, choosing to look particularly at the case of irrigation water, which is a focal point of agricultural development at present.

The project explored particularly the dynamics of two approaches in the irrigation water governance. One is the community-based natural resources management (CBNRM), and the other is decentralisation in natural resource

management (DNRM). The two interact here with two Cambodian national policies, namely water policy and decentralization. Within the water policy, the community approach hands management responsibilities of a specific irrigation system to a farmer water user community (FWUC), represented by an elected association, while decentralization gives the newly-autonomous elected commune council the right to manage the natural resources, including water, within its territory. The study aimed to discover the situation in the local community where these two overlapping policies or transfers of function take place. The research questions are how each of the approaches independently affects local irrigation water governance and how their interaction, if any, contributes to the whole of this governance.

There are two main objectives: exploring the phenomenon so as to form policy implications and recommendations; and contributing to the literature on common pool resource governance.

## Methodology

With the study objectives in mind, the researchers investigated the international and national literature to select variables to examine in the field. After that, they compared the study framework attained from the literature and the empirical data from the field. One irrigation-dependent dry-season-rice-farming community in *Kampong Chhnang* province was selected as a case study of local irrigation water governance since the fall of the Khmer Rouge regime.

## Key Findings

The case study suggests that the DNRM approach was practiced in Cambodia from the late 1980s and early 1990s when Cambodia was still a centralized state. Whether by accident or by design, the management of irrigation was the responsibility of the commune chief, who, with technical support and occasional development resources from the province, was in charge of gathering

\* By Chea Chou, a research associate, CDRI. The article provides a summary of key findings from a research project in the Kechhnay Program of the CDRI Governance Unit on the Local Governance of the Common Pool Resources: The Case of Irrigation Water in Cambodia. A full working paper on the topic will be available on our website soon.

local people to build the water infrastructure and overseeing the construction and management. It was observed in the case study that some of the most important local state actors in irrigation governance during this period were the commune chief, village chiefs, and the law enforcement agencies. Although the management of this time showed the decentralised characteristics of the state, the commune failed to manage the resource effectively because it didn't possess its own resources and was busy with other more important political tasks such as collecting people to serve in the K5 programme.

The 1990s saw a shift from DNRM to CBNRM in the irrigation, with a formal FWUC defined and a representing local association set up by either the state or the non-governmental organizations in response to the influence of the donor community who has held the development cash. This top-down CBNRM approach has been introduced nationwide since the late 1990s, when the national Participatory Irrigation Management and Development policy was adopted.

Since early 2002, local governance of irrigation water has seen the coexistence of CBNRM and DNRM approaches, both of which have been formalised into the national policies of governance in the sector.

### **Contributions of the CBNRM**

Two characteristics of good governance within this approach were identified. First, the FWUC association is more responsive to the local community's development needs than the state, as evidenced by the FWUC expanding the scheme by building a bridge and road to the water gate to solve the decade-long rice transportation problem, something the local state had not done. Second, the FWUC can also detect problems quickly and come up with timely solutions, as observed in the way the local group dealt with the building of a road that ran through several plots of land belonging to local farmers. The community was quick to notice the problem of the farmers refusing to give up their land for free. The FWUC then proposed to the commune to exchange some commune land with the farmers to allow construction of the road, which would solve the rice transport problem for the whole community. Although the community's initiative did not produce a quick solution to the deadlock, it showed that the

FWUC had a large amount of understanding and knowledge of the local context.

### ***Contributions of the DNRM***

Since the introduction of CBNRM, the role of the local state has been reduced to interventions upon the requests of the FWUC (e.g., at time of crisis such as the water shortages of early 2006 and early 2007). This holds true even after decentralisation policy in 2002 gave the rights of an independent local state to the commune council. Although the commune is generally regarded as a fairly powerful local body that could command compliance from the local people, the governance of irrigation water is in the hands of the FWUC, with sporadic support in the form of interventions from the commune authority.

### **The Constraining and Enabling Factors of the Current Local Governance of the Commons**

Three key factors are found to affect the general local governance of irrigation water: community participation, community ownership, and community power or control.

Participation of the local people in the community work, one key mechanism in driving the success of the CBNRM process, is limited in the study area. This element, though occasionally functioning in the community, is still constrained by several factors. First, the top-down CBNRM process is incomplete in its community organization and empowerment tasks. This state-initiated approach in the beginning stressed the formation of the association through a one-time-solve-all election<sup>1</sup> to represent the community and the training of a few leaders in the association about the CBNRM approach and how to run the association. Such practices ignored the importance of empowering the community members who are the heart of the process to understand their rights and power to participate in rule-making, rule-implementing, and rule-enforcing within their defined community, making the process highly susceptible to the problems of downward accountability of the representing association. The traditional meaning of participation as understood by community farmers is still prevalent; that is, they only thought of participation as attending

<sup>1</sup> There observed to be only one election in the community in 2000 and the association has never renewed its legal three-year term since then.

the meetings and paying the irrigation service fee and not to voice their concerns and demand for solutions.

Second, lack of community empowerment resulted in the non-existence of formal mechanisms for complaints to be heard, increasing the misunderstandings between the farmers and the representing association. Farmers in the study oftentimes used rumours and indirect words to complain about the association leaders and their personality flaws, which were perceived to be irritating from the association point of view and further blurring the relationship between the two-supposed-to-be-close parties. Quite a high level of distrust and a low community spirit were observed in the community. The local people regarded the appointment of most of members of the water user groups as nepotism practiced by the association leaders to involve their relatives and close friends in the association circle so as to take benefit from it.

Finally, the success or failure of such a poor institutionalized community in the case study has become strongly dependent on the leadership style of the key association leader, especially when the local state and the line department alike are more detached from the work of the association to check its legitimacy and work efficiency. In the study, the patron-like leadership style of the association leader who was not willing to share the tasks; did not make decision based on consensus but more of implementing his own pre-defined plan, using the meetings with other serving members as a floor to have his ideas supported and carried out; and kept all the revenue and decided on all the expenditures he thought to be beneficial for the community, was a worrying trend, which posed questions of legitimacy and sustainability of the present CBNRM in the community.

Ownership, another crucial factor in driving CBNRM, is also not completely functioning. Two types of ownership were observed in the case study: the feeling of owning the resource and that of owning the FWUC association. That ownership of the resource is felt in the community was seen in the way that farmers would pay respects and gratitude to Sand Mount, a symbol of holiness of the reservoir, built near to the bridge using the community money. However, the people do not feel they own the FWUC association but see it as another layer of authority

and bad governance. The election in 2000 did not involve all the concerned farmers in the community, and many more farmers have entered into the community since then and have not had a chance to vote for its leaders. The problem of the working style of the association, or of the leader, who does not involve people in planning the association's work, reduces the feeling of ownership, which in turn threatens local participation. Without feeling ownership of the association, the farmers do not view it as a legitimate body to manage the irrigation system. From their point of view, irrigation water is public property and should not be under the management of any particular association; or to put it another way, no association can claim ownership of the irrigation system and decide the access and service fees for this resource. To them, management of resources is the responsibility of state agents, and enforcement is the duty of the state agencies such as the police and the military. Even the resource communities of two adjacent water scheme of a single catchment do not seem to recognise the existence, let alone the roles, of each other; even simple activities such as water negotiation between the two are expected to be done through the local governance structure (i.e., in this case, through the commune chiefs).

The last driving factor of community power or control is also challenged. In the case study, there seemed to be an orientation to allow the FWUC association [not the community] control the resource by itself with little or no support or follow-up by state institutions. The association has so far proved unable to control the resource (i.e., to control access). Even with its mandate to control access, the association's ability to do it is very weak. Ostrom (1999) suggests that effective management of the commons has to be able to control access because it is directly linked not only to its well-being and sustainability but also to the effectiveness of management. This was not a case in the study. The command area of the irrigation scheme expanded dramatically beyond its capacity as reported by the line department, but nothing was done to solve this problem. The association's mandates are not fully understood by the association members or the farmers. The problem is made worse by the fact that the present FWUC has extended beyond its legitimate term and the farmers keep questioning its legitimacy, although many are still paying the irrigation service fees. The inability to

control access has resulted in a mismatch between the resource and the appropriation level, and this has huge implications for the long-term livelihood development of the community and the resource's future availability. Water shortages in the middle or toward the end of the cultivation season have not been uncommon, and in times of scarcity the already weak community rules and regulations are simply ignored and verbal exchanges between farmers competing for water resources disturb community relationships. Also, there are upstream schemes whose activities can have distorting impacts on the CBNRM in the studied community. The solution might lie in the creation of a mechanism that allows all water communities sharing a catchment to share information so that they know each other's activities. But this possibility is far from reality due to a lack of awareness for the need for it, the lack of resources, and the lack of an institutional mandate, as suggested by Kim and Ojendal (2007).

### Conclusion

Current local irrigation water governance, as seen in the case study, is a CBNRM approach in the context of DNRM. Since the end of the Khmer Rouge period, the local state has often been able to appeal to a higher level for financial support to make a one-time investment in infrastructure, but after construction is completed, the state, both local and higher levels, tends to move out, leaving the structure with no possibility of sustainable operation. CBNRM as practised now can fill in these gaps because it is more responsive to local needs and quicker in tackling problems and providing cost-effective and context-dependent solutions. However, this is still very limited in scope because the three enabling mechanisms—participation, ownership, and control—have not been fully functioning. Carlson (2003) proposed that three things must be done to wield the power of the three mechanisms. First, legislation should empower the community by defining its rights over the community property. The second component is to ensure that there is some optimal external support (i.e., financial, capacity, and technical) to the association and the community. The third is to build trust in the community and between the community and the government. These three elements were lacking in the practice of the FWUC association and the community in the case study. These are a few

things that need to be addressed to improve local governance of irrigation water.

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## Economy Watch—External Environment

The section highlights economic progress of a number of developed economies and some East-Asian developing economies during the second quarter of 2009.

### World Economic Growth

In the second quarter of 2009, US year-on-year real GDP growth was -3.9 percent, lower than the 2.8 percent growth of the same quarter last year. The marked downturn was due primarily to negative contributions from private inventory investment, personal consumption expenditures, and exports that were partly offset by positive contributions from federal government spending and state and local government spending. During the same period, annual real output growth of the euro area was -4.8 percent. The significant slump was attributed to considerable decline in gross fixed capital formation (-11.4 percent) and exports (-17.7 percent) offset by 2.5 percent rise in government final consumption expenditures from the same quarter last year. Real GDP growth in Japan was 0.6 percent, which rebounded from 9.1 percent contraction of the previous quarter the same year. Evidence of the recovery of good exports, industrial output and machinery orders appeared to be the underlying factors of the rebound.

China's year-on-year real GDP growth was 7.9 percent, higher than the 6.1 percent growth in the first quarter 2009. Marked expansion in both manufacturing and services industries were key driven factors. Recovery was also evident in Hong Kong in the second quarter of 2009. Real output growth was -3.8 percent, surging from -7.8 percent in the previous quarter. The recovery resulted from improved consumption spending, the pace of which was slow due to weak investment spending with 14 percent year-on-year decline. Similar trend of real output growth was also observed in South Korea as capital spending turned positive, coupled with 14 percent quarter-on-quarter surge in good exports. Second quarter of 2009 marked a strong recovery of real output growth in Taiwan. The recovery was driven primarily by stronger domestic consumption and a surge in exports of goods and services.

Malaysia's GDP data for the second quarter of 2009 indicated a sign of economic stabilisation with lower contraction from the previous quarter of

the same year. This stemmed primarily from strong quarter-on-quarter growth of exports of goods and services (5.4 percent) and of growth fixed capital formation (9.7 percent). During the same period, sign of recovery was also seen in Singapore and Thailand. Year-on-year real GDP growth in Singapore was -3.5 percent which resulted from improvement in personal consumption expenditures, corporate investment spending and the net export of goods and services. Slower contraction in Thailand in the second quarter was due mainly to lower drop in household consumption expenditures and investment spending and a small positive contributions from government consumption expenditures.

### World Inflation and Exchange Rates

Second quarter of 2009 marked a rising fear of deflationary pressure in several advanced countries and developing countries in the region, particularly ASEAN. US year-on-year consumer prices continued to slide (-0.9 percent) in the second quarter. Therein, large domestic demand shortage resulting from the sharp downturn exerted strong downward pressure on the US overall prices. In the same quarter, overall consumer prices in euro area remained stable. The main reason behind the decline was the falling oil and other commodity prices. Consumer price inflation in Japan slid further to -1.0 percent as the economy rebounded. Such deflation could be attributed to severity of the downturn of the economy, as well as the widening gap of output.

During the second quarter of 2009 US dollar value appreciated against Japanese yen trading at 95.95 JPY/USD, but depreciated against South Korean won, Taiwanese dollar and euro exchanging at 1273.9 KRW/USD, 33.1 TW/USD and 0.71 EUR/USD, respectively. During the same quarter, US dollar value against Chinese yuan and Hong Kong dollar remained stable.

### Commodity Prices in World Markets

Second quarter of 2009 showed significant drop in prices of a number of agricultural products. Prices of maize (US No. 2), rice (Thai 100% B) and soybeans (US No. 1) were down by 6.5 percent, 4.3 percent and 3.3 percent, respectively, from the previous quarter. By contrast, price of palm oil surged by

13.0 percent from the preceding quarter. On the energy market, prices of crude oil, gasoline, and diesel were up by 35.7 percent, 34.8 percent and 18.5 percent, respectively, from the earlier quarter.

*Prepared by Saing Chan Hang*

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

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

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

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

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

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

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

	2004	2005	2006	2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2
Selected ASEAN countries										
Cambodia (riel)	4016.3	4092.5	4103.2	4062.7	4054.2	4030.3	4117.4	4089.8	4108.0	4128.55
Indonesia (rupiah)	8938	9705	9134	9419	9699.0	9,265.3	9,216.3	11,060	11,630.8	10,225.0
Malaysia (ringgit)	3.80	3.79	3.67	3.31	3.34	3.21	3.37	3.56	3.63	3.52
Singapore (S\$)	1.69	1.66	1.59	1.51	4.58	1.37	1.43	1.49	1.51	1.45
Thailand (baht)	40.2	40.2	37.9	32.22	33.36	32.25	34.0	34.83	35.29	33.98
Vietnam (dong)	15,777	15,859	15,994	16,030	16,382	16,881	16,517	16,537	16,954	-
Selected other Asian countries										
China (yuan)	8.28	8.19	7.97	8.03	6.94	6.96	6.82	6.83	6.84	6.83
Hong Kong (HK\$)	7.79	7.78	7.77	7.8	7.78	7.80	7.77	7.75	7.75	7.75
South Korea (won)	1145	1024	955	929.04	1137.23	1018.84	1207.0	1,367.2	1,412.5	1,273.9
Taiwan (NT\$)	33.6	32.1	32.5	32.85	31.54	30.45	31.20	33.0	34.0	33.1
Selected industrial countries										
Euro-12 (euro)	0.80	0.80	0.80	0.7	0.84	0.64	0.71	1.32	0.76	0.71
Japan (yen)	108.2	110.2	116.4	117.8	102.46	104.53	104.03	96.1	93.72	95.95

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

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

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

Sources: Food and Agriculture Organisation and US Energy Information Administration

## Economy Watch—Domestic Performance

### Main Economic Activities

Investment approvals have fallen for three consecutive quarters. In the second quarter, approvals decreased drastically, by 96 percent from the previous quarter, to USD39.4 m. This stemmed from a sharp drop in all three sectors. Agriculture plunged from USD175.3 m in the preceding quarter to nil, and the services sector dropped from USD495.6 m to nil. The value of industry approvals fell 84 percent. However, the garment sub-sector experienced a large increase, from USD16.4 m in the previous quarter to USD35.0 m. The rise probably resulted from a tax break given to the garment industry by the government. Also approved were a biomass power plant and research on ore mineral project; both projects made up 11 percent of total approvals for industry.

The value of construction in Phnom Penh has continued a sharp fall since the fourth quarter of last year. Total approvals tumbled by 66 percent from the previous quarter to USD62.3 m in the second quarter. Villa and house approvals declined 21 percent, falling to USD6.7 m; flats dropped by 80 percent to USD18.9 m. Compared with the same quarter in 2008, total construction approvals decreased 56 percent, villas and houses falling by 62 percent and flats by 66 percent.

The number of foreign arrivals to Cambodia declined in the second quarter. Compared to the preceding quarter, total arrivals dropped by 25 percent, sliding to 464,230. Arrivals by air slumped by 34 percent to 221,221; of those, Phnom Penh's airport took 51 percent and Siem Reap's 49 percent. Visitors by land decreased 8.5 percent to 232,166, and by water by 67 percent to 10,843. Holiday arrivals fell by 29 percent to 389,738, and business arrivals by 1.7 percent to 33,132. The decrease in arrivals was mainly due to the downturn in the global economy. As a result, the government is seeking to attract visitors from less affected countries, namely Vietnam, Thailand and Laos, by reforming the entry-exit procedures for them. The new procedure allows those tourists to enter Cambodia with laissez-passers and to stay for a week, rather than three days as previously. The result was an increase of 4.2 percent in the number of Vietnamese arrivals, which topped the list of foreign visitors at 75,397,

and from Laos of 13 percent to 27,907, while Thai visitors slid by 7.5 percent to 24,446.

The trade deficit worsened from USD157.6 m in the first quarter to USD627.3 m in the second. The exacerbation stemmed from a large fall of exports, while imports increased slightly. Total exports shrank 40 percent from the previous quarter to USD433.5 m. This was due to a fall of garment, fish and rubber exports. Garments fell by 38 percent to USD377.3 m, fish 15 percent to USD0.7 m and rubber 30 percent to USD8.2 m. However, exports of wood increased from USD0.05 m to USD0.1 m.

During the same time, import values rose 7.4 percent, reaching USD1060.8 m. Imports of petroleum products rose by 7.2 percent to USD72.2 m, while construction materials declined by 25 percent to USD30.9 m. Of construction materials, cement dropped by 15 percent to USD9.2 m and steel 43 percent to USD12.5 m. Textile imports fell sharply, by 67 percent to USD17.9 m.

### Public Finance

In the second quarter, the budget deficit improved by 6.5 percent to KHR513.4 bn. This resulted from a rise of both revenue and expenditure. Revenue collection climbed by 14 percent to KHR1252.7 bn, based on a 16 percent rise to KHR1096.5 bn in tax collection, offset by a 0.7 percent fall to KHR149.2 bn in non-tax revenue. Domestic tax was 76 percent of the total tax collection, an increase of 18 percent from the previous quarter. Taxes on international trade rose by 9.6 percent to KHR257.8 bn. Of non-tax revenue, property income fell by 26 percent to KHR9.7 bn, while sales of goods and services rose 7.9 percent to KHR100.9 bn. Capital revenue increased 74 percent to KHR7.0 bn.

Expenditure rose 7.0 percent from the preceding quarter, to KHR1766.1 bn in the second quarter. Current spending rose 42 percent to KHR1064.7 bn, offsetting a drop in capital expenditure of 13 percent to KHR607.1 bn. Expenditure on wages mounted by 58 percent, accounting for KHR515.5 bn, while subsidies and social assistance fell 15 percent to KHR185.9 bn.

### Inflation and Foreign Exchange Rates

The year-on-year overall consumer price index in

Phnom Penh declined 4.8 percent in the second quarter. The price of food and non-alcoholic beverages fell 5.2 percent. The cost of housing and utilities was down by 9.3 percent, transport by 16.5 percent and communications by 10.1 percent. Rises occurred in the prices of clothing and footwear (5.1 percent), household furnishings and operations (5.6 percent), health care (3.7 percent), recreation (0.9 percent) and education (26.1 percent).

Against the US dollar, the riel dropped 2.4 percent from the same quarter last year, trading at KHR4128.6/USD in the second quarter. The riel appreciated 4.9 percent against the Thai baht, to KHR119.2/baht and 6.3 percent against the Vietnamese dong, to KHR23.3 per 100 dong.

### Monetary Developments

In June 2009, broad money (M2) was up by 9.1 percent from the same month last year, to KHR13,859.6 bn. The rise consisted of an increase of 11 percent to KHR2603.6 bn of riels in circulation, of 25 percent to KHR334.4 bn of riel deposits and of 8.3 percent to KHR10,921.6 bn of foreign currency deposits.

During the same period, the offsetting between net credit to government and a credit to private sector made up domestic asset an 11 percent increase to KHR7240.6 bn. Net credit to government was a negative KHR2888.9 bn, which resulted from a rise of 7.1 percent to KHR3159.4 bn of government deposits and a constant KHR270.5 bn of credits. Meanwhile, credit to the private sector jumped by 6.7 percent to KHR10,129.6 bn. Other liabilities rose by 16 percent, reaching KHR5991.9 bn. This resulted in a decrease of 7.2 percent to KHR1248.7 bn of net domestic assets. However, net foreign assets rose 11 percent, mounting to KHR12,610.9 bn.

### Poverty Situation

In August 2009, the real daily earnings of vulnerable workers surveyed declined by 8.9 percent compared to May, but increased by 2.7 percent from February.

In August, the real earnings of cyclo drivers dropped by 11.3 percent from May, from 8896 to 7692 riels per day; 80.6 percent of cyclo drivers reported that they had had not much work in the previous few months, especially while the number motorcycle taxi drivers was increasing. Most cyclo

drivers migrated from the countryside, of whom 32.5 percent came because there was no job for them in the village, 25 percent came because their families were poor, 22.5 percent were seasonal migration, and another 20 percent reported more work available in Phnom Penh.

In August, the real daily earnings of motorcycle taxi drivers decreased by 19.7 percent, from 12,148 riels in May to 9759 riels. During the previous three months, there was not much opportunity for them to earn money; 77.5 percent could earn just enough for themselves. Some 52.5 percent of them reported going into debt to cope with an income shortfall.

In August, the real daily earnings of skilled construction workers declined 11.2 percent from May, to 12,155 riels. However, their earnings increased by 3.3 percent from February. The decline in August resulted from increased competition among workers. Most of the construction workers (65 percent) reported that they stayed on the construction site, while 17.5 percent rented a house, 10 percent had their own home and 7.5 percent stayed with relatives or in a pagoda. They spent around 3650 riels a day on food, 4.3 percent less than in May.

Small vegetable traders' earnings declined by 13.1 percent from May, to 8489 riels in August. Only 10 percent of interviewees reported an increase in earnings, while 90 percent reported the opposite. The fall stemmed from a rise in competition, according to most of the traders. The earnings fall caused 30 percent of traders to become indebted. Seventy percent said that a lack of investment capital was a factor in the fall of their income.

Earnings of scavengers rose 8.9 percent compared to May. The increase was due mainly to a rise in rubbish prices, according to 97.5 percent of interviewees. Most scavengers complained about the greater distance to the tip at Cheung Aek, which caused them to spend more time and money in order to collect rubbish. They had to pay 3000 riels per day for transportation, which took a large share of their daily earnings. Eighty-five percent of the scavengers also reported having to spend income to rent a house.

*Prepared by  
Phann Dalis and Pon Dorina*

# Economy Watch—Domestic Performance

**Table 1. Private Investment Projects Approved, 2003–09**

	2003	2004	2005	2006	2007	2008				2009			
						Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Fixed Assets (USD m)												
Agriculture	3.7	12.3	26.8	498.0	12.0	102.4	52.3	16.7	18.6	4.4	175.3	0.0	
Industry	137.2	187.9	914.6	365.3	187.2	328.0	52.9	95.0	91.6	485.4	257.7	39.4	
<i>. Garments</i>	68.1	132.6	174.4	89.4	40.7	69.1	42.3	47.8	31.3	21.4	16.4	35.0	
Services	168.4	91.8	155.5	2939.1	957.7	311.1	148.2	4064.9	4450.5	1339.6	495.6	0.0	
<i>. Hotels and tourism</i>	124.1	55.9	102.6	345.0	653.8	199.2	93.7	4015.0	3481.3	1168.1	254.1	0.0	
Total	309.3	292.0	1096.9	3802.4	1156.9	741.5	253.4	4176.5	4560.7	1580.3	928.6	39.4	
	Percentage change from previous quarter												
Total	-	-	-	-	504.7	-35.9	-78.1	1548.2	9.2	-65.3	-41.2	-95.7	
	Percentage change from previous year												
Total	22.1	-5.6	275.6	246.6	334.6	-23.7	-49.1	2083.2	294.2	113.1	266.5	-99.0	

Including expansion project approvals. Source: Cambodian Investment Board

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

	2003	2004	2005	2006	2007	2008				2009			
						Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	USD m												
Villas and houses	20.0	30.3	45.5	33.1	21.7	20.2	45.3	17.6	52.1	39.7	32.1	6.7	
Flats	91.6	167.6	204.2	213.3	117.5	57.6	40.9	55.1	65.6	60.0	95.2	18.9	
Other	87.3	65.6	109.1	76.8	40.6	94.3	51.2	68.2	369.3	252.2	53.7	36.7	
Total	198.9	263.5	358.8	323.3	179.7	172.2	137.3	140.9	486.9	351.9	181.1	62.3	
	Percentage change from previous quarter												
Total	-	-	-	-	24.2	-4.2	-1.4	2.6	245.6	-27.7	-48.5	-65.6	
	Percentage change from previous year												
Total	-9.5	32.5	36.2	-9.9	88.2	120.2	-1.4	-2.6	170.9	104.4	31.9	-55.8	

Source: Department of Cadastre and Geography of Phnom Penh municipality

**Table 3. Foreign Visitor Arrivals, 2003–09**

	2003	2004	2005	2006	2007	2008				2009			
						Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Thousands of passengers												
By air	456.0	626.1	856.5	1029.0	278.5	368.8	402.0	262.0	259.2	316.2	335.2	221.2	
By land and water	245.0	428.9	565.1	672.9	153.3	239.2	242.2	192.0	186.3	261.4	287.1	243.0	
Total	701.1	1055.0	1421.6	1701.9	431.8	608.0	644.2	454.0	445.5	577.6	622.3	464.2	
	Percentage change from previous quarter												
Total	-	-	-	-	1.7	40.8	6.0	-29.5	-1.9	29.6	7.7	-25.4	
	Percentage change from previous year												
Total	-10.9	50.5	34.7	19.7	16.5	17.8	17.0	6.9	3.2	-5.0	-3.4	2.2	

Source: Ministry of Tourism

**Table 4. Exports and Imports, 2003–09**

	2003	2004	2005	2006	2007	2008				2009			
						Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	USD m												
Total exports	1708.1	2108.1	2352.8	2799.9	890.8	793.4	803.1	539.6	928.7	728.6	721.4	433.5	
Of which: Garments	1628.4	2027	2253.3	2698.9	846.1	727.1	773.4	463.8	868.8	678.8	606.9	377.3	
Rubber	35.1	38.3	36.7	41.4	11.7	14.6	7.0	11.0	12.9	5.2	11.8	8.2	
Wood	10.2	11.1	10.3	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	
Fish	2.8	10.6	10.1	5.9	1.2	0.9	0.7	0.3	0.6	0.6	0.9	0.7	
Total imports	1824.9	2149.0	2513.0	3057.0	924.5	982.7	983.8	1178.5	1027.1	916.3	987.7	1060.8	
Of which: Petroleum products	191.6	187.0	184.8	238.5	71.0	58.9	60.0	64.6	68.3	62.9	67.3	72.2	
Construction materials	80.8	95.3	134.7	154.4	34.9	32.5	39.7	40.7	35.6	29.9	41.4	30.9	
Other	1601.3	1914.0	2245.0	2731.0	818.6	891.3	884.1	1073.2	923.2	823.5	879.0	957.7	
Trade balance	-116.8	-40.9	-160.1	-257.1	-30.7	-189.3	-180.7	-638.9	-98.4	-187.7	-157.6	-627.3	
	Percentage change from previous quarter												
Total garment exports	-	-	-	-	22.9	-14.1	6.4	-40.0	87.3	-21.9	-10.5	-37.8	
Total exports	-	-	-	-	26.4	-10.9	1.2	-32.8	72.1	-21.5	-0.9	-39.9	
Total imports	-	-	-	-	1.4	6.3	0.1	19.8	-12.8	-10.8	7.8	7.4	
	Percentage change from previous year												
Total garment exports	-54.1	-64.9	291.4	19.8	8.2	1.6	14.2	-32.6	2.7	-6.6	-21.5	-18.6	
Total exports	17.5	23.4	11.6	19.0	10.3	7.7	13.5	-23.5	4.3	-8.2	-10.2	-19.7	
Total imports	6.9	17.8	16.9	21.6	17.9	21.7	24.4	29.3	11.1	-6.8	0.4	-9.9	

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



*Continued from page 24 Update ...*

*State: Is It Developmental?*, we plan to go to the field in mid-October, carrying with us some ideas from the literature, to compare and contrast them with the reality. We are now at the stage of the critical literature review. The *One Window Service Project* from the World Bank was agreed and started in early September as a five-month project.

### **Natural Resources and the Environment**

*Water Resources Management Research Capacity Development Programme*: the data have been cleaned and analysed for the core economic component module. The team also conducted a training course entitled “Geographical Information Systems” and met with the Royal University of Phnom Penh team to discuss improvement and development of the water resources management curriculum. The programme prepared a work plan for 2009–11. The unit met with AusAID to follow up the third annual progress report, and revised the report. *Tropical Forests for Poverty Alleviation—from Household Data to Global Analysis*: The team is continuing to clean the data in collaboration with CIFOR’s data management person. *Building Community Capacity for Poverty Reduction Initiatives in the Tonle Sap Basin*: Mr Yem Dararath revised the work plan and budget and submitted it to the Asian Development Fund. The team also conducted a meeting with the Asian Development Bank and other partners to discuss the work plan and budget. *The Sustainable Pathways for Attaining the Millennium Development Goals Initiative* has cleaned and analysed the data and is finalising the report. The team met with Stockholm Environment Institute to discuss further coordination and collaboration on additional research activities.

### **Social Development**

The survey team in September concluded the field survey of the Key Manager Baseline Study for Health Sector Support Programme in 30 hospitals and 30 operational districts in 21 provinces and towns. CDRI and Oxford Policy Institute (OPI) under support from Department for International Development (UK-DFID) will host a conference on health: *Institutions, Motivation and Incentives*. The conference dates will be 26–28 April 2010 in Phnom Penh. It involves speakers from both Cambodia

and abroad. A call for papers was concluded and the selection committee of regional conference has finalised its decision on abstracts. From 14 abstracts submitted from different regions, five were selected as commissioned papers and four were selected as invited papers. Invitations for five session leaders have been sent out, and so far two have accepted. A draft programme was developed. *Safety of Phnom Penh Urban Poor: A Study on Crime and Violence in Five Urban Poor Communities* has started. A desk review was completed and sent to UN-Habitat for comment. Survey questionnaires were developed and tested on 1 October and adjusted accordingly. Now the enumerator team is in the field collecting data.

During this period, the training team completed four modules on “*Working for Peace*”, with one exposure visit to Kompong Speu. A graduation ceremony was organised on 11 September to present certificates to the working for peace graduates and training of trainers graduates. Ms Huy Romduol has returned from training in Malaysia on peace and conflict resolution sponsored by Church World Service.

### **Economy, Trade and Regional Cooperation**

The report *Maximising the Opportunities of Chinese Investment in Cambodia in Natural Resources* is awaiting comment from the donor. A separate study on Chinese investment is being revised to include six case studies, and the team sent the second draft to the donor (Chieng Mai University) at the end of September. The draft report on the second round of *A Rapid Assessment of the Impacts of The Economic Crisis on Cambodian Households*, a joint research project with the Poverty, Agriculture and Rural Development unit, has been submitted to the World Bank. “*Assessing the Socioeconomic Effects of the Greater Mekong Sub-region*”, a joint research project with the PARD and Social Development units, has submitted the inception report, and fieldwork will take place late this year. A policy brief, “*The Impact of the Global Economic Crisis on Garment Workers and Remittances: the Case of Cambodia*”, funded by UNESCAP, has been submitted. A policy brief on the social impact of the global recession on Cambodia and how the crisis impacts on poverty in the country is being revised to reflect comments received from participants

from around 200 countries at a conference in Hanoi. The second round of *“The Impact of the Global Financial Crisis”*, funded by the Overseas Development Institute, is making good progress.

The Development Analysis Network (DAN), coordinated by CDRI, conducted a regional dissemination conference of two DAN studies on “Economic Costs and Benefits of Cross-Border Labour Migration in the Greater Mekong Sub-region” and “Agricultural Trade in the Greater Mekong Sub-region” on 7–8 October 2009 at the Phnom Penh Hotel. These studies are collaborative work by leading research institutes in Cambodia, Laos, Thailand, Vietnam and Yunnan province of China, with support from the Rockefeller Foundation. The two-day conference attracted 235 participants, including policy makers, donors and civil society, and provided critical feedback and discussion.

The 2009 Cambodia Development Research Forum on “The Contribution of Research to National Development Strategies and Policies” was held on 9–10 September 2009 at the Hotel Cambodiana with financial support from IDRC. The symposium included high quality presentations on four themes: (1) Agriculture, Natural Resources and Rural Livelihood in Transition; (2) The Importance of Broad-Based Economic Development; (3) Promoting Equitable Social Development; and (4) Improving

Good Governance. The symposium was very successful, achieving a high level of participation and satisfaction from a wide range of participants including government, donors, research institutions, NGOs and academia. From the evaluation survey, a majority of participants were happy with the symposium and almost all of them want to attend it again next year because it is a useful platform for sharing information, generating new knowledge on development research and networking.

### ***Poverty, Agriculture and Rural Development***

**Building Resilience of Community Fisheries in the Tonle Sap Lake project:** A memorandum of agreement has been signed between CDRI and the WorldFish Center for a project to build the resilience of community fisheries in the Tonle Sap Lake. The first fieldwork occurred 5–15 October. “Assessing the Socioeconomic Effects of the Greater Mekong Sub-region” for the ADB is making progress; the draft inception report has been sent to the ADB for feedback.

Since 2007, CDRI has been holding bimonthly research workshops on development issues. The purpose is to share research findings and strengthen research quality by discussing findings, improving methodology and conceptualising and analysing research themes. The presenters are from CDRI as well as researchers and practitioners from different

institutions and NGOs in Phnom Penh. During this period the presenters from CDRI included Mr Hing Vutha and Mr Doung Viroth. Outside presenters included Professor Sorpong Peou of Sophia University, Japan, and Mr Mith Samonn, research analyst at the WorldFish Center. The topics included macro-economic development, poverty, governance, trade and natural resources and agriculture.

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## CDRI UPDATE

**Management**

CDRI continues to contribute to high level regional and international meetings and conferences on the impact of the global and regional economic downturn and the future of regional integration in east Asia. In October CDRI's executive director participated in the Korean Institute for International Economic Policy's annual East Asian Institutes Forum on the theme "Towards East Asia Free Trade Agreement: Options and Future Tasks" in Seoul.

The executive director also participated in the Institute of Economic Research of China's National Development and Reform Commission's international conference of ASEAN + 3 on "East Asian Economy: Crisis, Recovery and Policy Response" in Beijing. He presented a Cambodia country report that brought together recent CDRI and associated research and policy recommendations on the impact of the crisis and strategies for Cambodia's return to a growth economy and sustainable development. The Beijing conference also established an East Asia Official Forecaster and Policy Research Network, of which CDRI will be a member.

In November CDRI, in partnership with the Cambodia Economic Association, will co-host the 34<sup>th</sup> annual conference of the Federation of ASEAN Economic Associations on "The Impact of the Global Economic Downturn on ASEAN Countries and How to Mitigate the Impact on Poor People".

In early December CDRI will hold a two-day management-staff retreat in Koh Kong to reflect

on the lessons of 2009's achievements, priorities for 2010 and major research and policy issues that should be included in the CDRI Cambodia Country Research Strategy that will form the framework for CDRI's 2011–15 Strategic Plan.

**Research**

The following research and research-related activities took place at CDRI over the period October–December 2009.

***Democratic Governance and Public Sector Reform***

Ms Thon Vimealea is finalising the study on *Leadership in Local Politics* and has just prepared a policy brief based on the draft. *Research Capacity of Cambodia's Universities* has been completed as planned. The first draft of *Local Governance of Common Pool Resources: The Case of Irrigation Water in Cambodia* was completed in late July. Ms Chea Chou is now editing the draft—making changes, cutting and adding. For the consultancy project at the National Committee for Decentralisation and Deconcentration (Ministry of the Interior), supported by the Urban Institute, the fifth draft is largely completed, and another consultative workshop will be held in October. *Understanding Civil Society-Parliamentarian Engagement in Cambodia* was submitted on time to the British Overseas Development Institute and is awaiting comments. For *Analysing the Cambodian*

*Continued on page 22*



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