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# Annual Development Review 2009-10



A CDRI Publication





CDRI—Cambodia's leading independent  
development policy research institute

# Annual Development Review 2009-10

## *Part 1*

- Chapter 1:* Cambodia in the Sweep of the Global Financial and Economic Crisis
- Chapter 2:* A Double Blow to the Poor: Cambodia's Food Security in the Face of the Food and Economic Shocks
- Chapter 3:* How did Cambodian Rural Households Cope with Shocks from Food and Oil Price Increases?
- Chapter 4:* Informal Risk Management and Safety Net Practices in Economic Crises in Cambodia: Experiences of Poor and Vulnerable Workers and Households

## *Part 2*

- Chapter 5:* How Managers Manage in the Cambodian Health Sector
- Chapter 6:* Searching for an Improved Path to Civil Society-Parliamentarian Interactions in Cambodia
- Chapter 7:* Chinese Investment in Cambodia
- Chapter 8:* Service Trade Liberalisation and Growth in Cambodia: Case of Finance and Telecom Sectors
- Chapter 9:* Towards a Better Understanding of the Political Economy of Regional Integration in the Greater Mekong Sub-region: Stakeholder Coordination and Consultation for Sub-regional Trade Facilitation in Cambodia
- Chapter 10:* Farmer Participation and the Success of Farmer-managed Irrigation Systems: A Case Study of the O-treng Farmer Water User Community, Kompong Speu

Phnom Penh, March 2010

**Edited by Hossein Jalilian**

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## List of Acronyms and Abbreviations

ARTNeT	Asia Pacific Research and Training Network on Trade
ASEAN	Association of South East Asian Nations
CAMFFA	Cambodia Freight Forwarders Association
CAMTA	Cambodia Trucking Association
CCC	Cambodia Chamber of Commerce
CDC	Council for the Development of Cambodia
CDRI	Cambodia Development Resource Institute
CPA	Complementary Package of Activities
CPP	Cambodian People's Party
CSEZB	Cambodia Special Economic Zone Board
DCSD	Discharges per Clinical Staff Day
DFID	Department for International Development
DPD	Discharges per Physician Day
FDI	Foreign Direct Investment
FGDs	Focus Group Discussions
FWUCs	Farmer Water User Communities
GMAC	Garment Manufacturers Association of Cambodia
GMS	Greater Mekong Sub-region
G-PSF	Government-Private Sector Forum
ISPs	Internet Service Providers
MEF	Ministry of Economy and Finance
MFA	Multi-Fibre Agreement
MFI	Micro-Finance Institutions
MIME	Ministry of Industry, Mines and Energy
MOC	Ministry of Commerce
MOPS	Moving Out of Poverty Study
MPTC	Ministry of Posts and Telecommunications
NBC	National Bank of Cambodia
NGOs	<b>Non-Government Organisations</b>
NPL	Non-Performing Loans
NSDP	National Strategic Development Plan
ODs	Operational Districts
PDS	Poverty Dynamics Study
PIM	Participatory Irrigation Management
SEDP	Socio-Economic Development Plan
SSIs	Semi-Structure Interviews
TRADE-SWAp	Trade Sector Wide Approach
TRI	Trade restrictiveness indexes
TTF	Trade and Transport Facilitation
WLL	Wireless Loop Line

## Foreword

This new edition of CDRI's Annual Development Review, for 2009-10, is to be launched at the fourth annual Cambodia Outlook Conference, a partnership between CDRI and ANZ Royal Bank, in Phnom Penh on 17 March 2010. The Outlook Conference, on the theme *Returning to a High Growth Economy: Policy Priorities and Action for Growth and Sustainable Development*, again brings together leaders from government, the private sector, research and civil society organisations, and the international development community to consider Cambodia's achievements and its future. The opening keynote address of the conference will again be delivered by Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Royal Government of Cambodia.

This year's Cambodia Outlook Conference provides a unique opportunity for leaders and policy makers from the government, private sector and development community, along with policy influencers from research institutes and civil society, to share their knowledge and experience, and to review the impacts of the global and regional economic downturn, responses to it, and priorities for future policy and action, both for macro-economic management, and for key sectors such as agriculture and rural development, emerging industries, infrastructure and energy, and tourism. This year's conference is of added significance for CDRI as it is the first in a series of events to celebrate CDRI's 20<sup>th</sup> anniversary, and the contribution of CDRI, as Cambodia's leading independent development policy research institute, to both Cambodian development policy research and to Cambodian human resource development.

The 2009-10 Annual Development Review is the fifth annual review of major development issues for Cambodia. This year's review provides detailed research-based analysis of the impact and aftermath of the global and regional financial and economic crisis and downturn on Cambodia, both at the macro-economic level and for key sectors, along with aspects of particular significance for the poor and vulnerable such as employment and livelihood security, food and energy security, and coping and risk management practices of poor and vulnerable workers, and the implications of these for social protection policy and strategies in Cambodia. It also includes chapters reflecting the outcomes of some of the broad range of recent CDRI research studies on health service delivery, parliamentary and civil society interaction, Chinese investment, services trade liberalisation, stakeholder consultation mechanism on sub-regional integration in the Greater Mekong Sub-region, and farmer participation in and management of irrigation systems.

The English language version of the review is accompanied by Khmer language summaries of each chapter, contained in a separate volume, to broaden the review's audience and accessibility. We hope that the annual Cambodia Outlook Conference, along with the Annual Development Review and its associated Khmer language summary materials, will contribute to the broader dissemination of quality development policy research on issues critical to Cambodia's future, and be useful resources for the development policies of the Royal Government of Cambodia and its international development partners and national stakeholders. These publications, along with the proceedings of the 2010 Cambodia Outlook Conference, are all available as free of charge downloads from the CDRI website at [www.cdri.org.kh](http://www.cdri.org.kh).

*Larry Strange*  
*Executive Director CDRI*  
*March 2010*

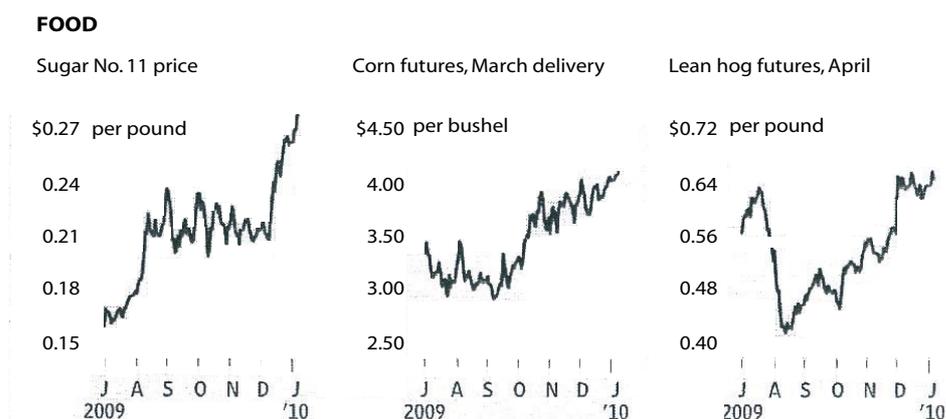
## Introduction

By Hossein Jalilian

CDRI is celebrating its 20<sup>th</sup> anniversary this year. Over the years, CDRI has produced a large number of important and timely research papers addressing key development issues. As part of the celebration, this issue of *ADR* contains a larger number of articles produced by CDRI researchers that address varied areas of applied development research.

The articles in this volume have been divided into two parts. Part One contains articles that deal with the impact of global financial and economic crisis: impacts, lessons and responses, while Part Two contains a selection of other output by CDRI researchers.

After high growth for over a decade, Cambodia, along with many other developing countries, in 2007 faced a serious food price crisis and shortly after an even more serious global financial and economic crisis. Both crises had external origins but affected Cambodia severely—the vulnerable and the poor in particular. The impacts of these crises, especially the latter, are continuing and expected to do so for a time, depending on the crisis management and policies in advanced economies.



Source: *Wall Street Journal*, 7 January 2010

At one level, the food price crisis and the consequent increases in some key commodity prices provided opportunities for Cambodia. The price of rice, a key agricultural product with annual export potential of more than 2 million tonnes, experienced the highest increase among the commodities affected. Although these increases have been moderated by the global economic downturn, the prices of some, including rice, are continuing to rise, though moderately, as shown in the graph.

At another level, given the high dependence of a large portion of the population on purchased rice and other staple commodities, the price increases, combined with the serious hardship that the financial crisis has imposed on the economy and households, has worsened food security, pushing more of the population below the poverty line. The first two articles in Part One deal with the impacts of the financial and economic crisis a year on and the combined effects of food and financial and economic crises on food security and agriculture.

The third article, titled “How Did Cambodian Rural Households Cope with Shocks from Food and Oil Price Increases?”, looks more closely at the impact on households, using the longitudinal data set generated at CDRI.

Both the food price and financial and economic crises exposed further the vulnerability to economic shocks of the poor and those at the margin. They have also shown the rather chaotic nature of social safety nets in Cambodia. The paper by So covers some aspects of this problem. The article is based on the findings of a CDRI-World Bank rapid assessment of impacts of the economic crisis on Cambodian households. The assessment was originally designed to observe quarterly changes of the impacts on vulnerable workers and rural households. It started in May 2009 and is expected to be completed in the first quarter of 2010. This article specifically reviews existing informal arrangements for risk management and assistance that are relevant to poor and vulnerable workers and households.

Part Two of this collection contains reports on a number of recent or ongoing researches at CDRI. Since the establishment of the Social Development research unit last year, the unit has attracted funding from DFID to conduct two major studies. The first of these, which is just completed, is “How Managers Manage in the Cambodian Health Sector”. It reports the results of a study of health sector managers and the performance of their organisations carried out in 2009, at a time when the government was introducing wide-ranging changes in health services organisation and management: better specified service delivery contracts between provincial authorities and hospital and district service managers, increased autonomy for hospitals and districts to manage their staff and budgets within the terms of those contracts and improved staff performance and accountability regimes.

The second paper considers issues relating to civil society-parliamentarian interactions. This study explores the degree and quality of the engagement between parliamentarians and civil society organisations. It argues that Cambodia’s democracy remains in its

infancy. It points out that a market economy and pluralism have paved the way for the tremendous growth of civil society (NGOs and trade unions in particular). It argues that there is wide recognition that, in transitional economies, parliament-civil society engagement is vital to bridge the executive-citizens dichotomy so as to encourage more accountable government.

China's investment in Cambodia has attracted considerable attention recently, and at CDRI we have conducted a number of studies looking into the issues it raises. The article by Tong and Hem looks into this investment and offers some policy recommendations to ensure that the Cambodian economy and people receive the maximum benefit from these investments.

The fourth article, by Saing and Phann, looks into a new area of research in Cambodia, service trade liberalisation in finance and telecommunications. The authors argue that Cambodia's economy has done well during the past decade. Growth has been backed by strong performance in garments, tourism and construction. These outcomes are likely the result of government commitments to opening the economy. To move forward, new areas of growth need to be identified and supported. The paper looks into the contribution that other sub-sectors of services could make to exports.

The article by Khieng, seeks to understand the driving forces behind regional integration of the Greater Mekong Sub-region countries and the characteristics and interactions influencing the integration process. The paper focuses particularly on trade and transport facilitation, including the design and implementation of the Cross-Border Transport Agreement. The paper makes recommendations for the improvement of consultation and engagement in Cambodia and other GMS countries.

The last paper in this collection considers farmer-managed irrigation systems through a case study of a farmer water user community in Kompong Speu. The paper examines the participatory irrigation management approach, which aims to improve the timely and equitable supply of water to farmers through the establishment of water users' associations that manage irrigation schemes. A fundamental assumption of this approach is that farmers are capable of managing small-scale irrigation because they have local knowledge. Therefore, it can be argued that changing irrigation from a government-managed to farmer-managed system should help improve performance while at the same time reducing the costs incurred by government.

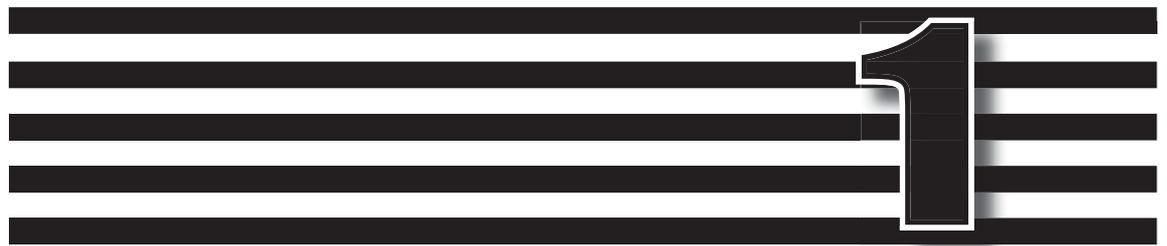


# Part One

The impact of Global Financial and Economic Crisis one year on







# **Cambodia in the Sweep of the Global Financial and Economic Crisis**

**By Hossein JALILIAN and Glenda REYES**

## Chapter 1

# Cambodia in the Sweep of the Global Financial and Economic Crisis

By Hossein Jalilian and Glenda Reyes<sup>1</sup>

### 1.1. Introduction

After reaching record highs for nearly two decades, Cambodia's economic growth hit a trough as a result of the global financial and economic crisis. Severe contractions were also seen elsewhere as the global meltdown permeated virtually all economies in the world. Cambodia did not witness its economy bottom because of the Asian financial crisis of 1997–98. The transmission of said regional crisis was more limited compared to that of the latest shock not only because of the wider reach of the latter but also because Cambodia's trade and financial openness had come a long way since the Asian financial crisis struck. The Cambodian economy still managed to expand by about 5.3 percent in 1997–98 on average, about the same as in the previous years, then went on to grow by an exceptional 12.6 percent in 1999. There was no severe slump in the real economy or struggle for recovery. By contrast, Cambodian output is estimated to have shrunk by about 2 percent in 2009 and expected to register a weak growth of 3–4 percent in 2010. Ergo, there was an obvious recession and clear struggle towards recovery owing largely to the global recession. From one of the fastest growing economies in the world, Cambodia became one of those with the steepest growth contractions. This inadvertently restrained poverty reduction efforts. After decreasing by an average of about 1 percent per year before the world crisis, the poverty headcount in Cambodia is estimated to have increased over the period of the crisis.

This article looks at the impact of the global downturn in Cambodia, with the aim of delineating challenges to recovery and some policy critiques. It contains excerpts from papers recently authored by CDRI staff (Jalilian & Reyes forthcoming; Jalilian *et al.* 2009; Jalilian *et al.* forthcoming), though with modest alterations to fit the purpose of this article. Section 1.2 briefly describes the crisis transmission in Cambodia, thus the conceptual framework of analysis, while Section 1.3 details the economic, financial and social impact of the shock. Section 1.4 looks at recovery prospects and policy initiatives and critiques, while Section 1.5 concludes.

---

1 Hossein Jalilian is research director and Glenda Reyes a researcher at CDRI.

## **1.2. Crisis Transmission**

Like other developing economies whose financial sectors may not be that globally integrated but whose real economies are, Cambodia was hit more by the second-round effects of the global shock. Given lack of exposure to the toxic subprime products that triggered the flare-up in the financial systems of industrialised economies as well as stronger defence to the contagion effects of externally driven crises, Cambodia along with other East Asian countries was initially considered capable of bypassing the storm. As the financial crisis spilled into the real economy however, it eventually succumbed to the brunt of the shock transmitted through its impact on trade, capital flows and ultimately, the country's growth drivers. As activities in the real sector skidded to a standstill, the strain on the financial sector mounted.

The severity of impact via the trade and capital channels was determined by the extent of trade and financial openness and dependence on external flows. The blow via trade was also a function of the position of the country in the export value chain. It merits stressing however, that the slump in three of the country's four growth sectors—garments, tourism and construction (agriculture being the exception)—and the strain felt by the banking system during the recession were also influenced by non-crisis-related factors. These factors are cited below where they are relevant. Ultimately, the crisis put the situation of the poor at even more risk. Government responses sought to prevent the worsening of poverty by tempering the distress in the growth and financial sectors and discharging automatic stabilisers.

## **1.3. Effects of the Crisis**

### **1.3.1. Brakes on Growth**

After a decade of exceptional growth averaging more than 9 percent per year, Cambodian output was estimated by the government to have grown by a mere 2 percent in 2009. Gloomier analyses suggested that the economy shrank by 2 percent (Figure 1.1). While other economies in developing East Asia also underperformed last year, Cambodia is estimated to have endured the steepest output contraction in the region between 2007 and 2009 (Figure 1.2). On the upside, indications of a rebound in the economy were detected by the second half of 2009, suggesting that it had already bottomed or was close to bottoming about that time.

### **1.3.2. Waning of Favourable Winds**

More robust trade and capital inflows were the two favourable winds that supported the rapid expansion of Cambodia's growth sectors and carried the country to its position as one of the fastest growing economies prior to the global recession. By the same token, it was the waning of these winds that largely caused growth to peter out over the period of the recession.

### *1.3.2.1. Trade—in Garments We Trust*

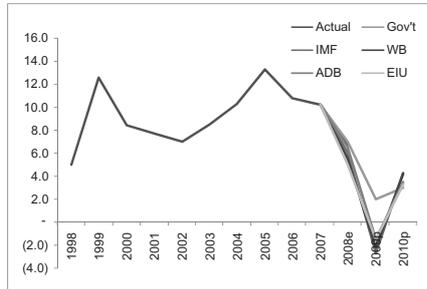
The strength of the crisis was demonstrated by how it caused a Keynesian demand shock that reverberated in all corners of the world, severely hitting the trade of countries that derived a major part of their growth from partial structural transformation into industrial export-driven economies (Rodrik 2009) such as Cambodia. As mentioned earlier, the force of the crisis transmitted through the trade channel was significantly a function of the country's trade openness and dependence as well as its position in global and regional value chains (Keane 2009).

Cambodia's export base is dominated by garments. Exports from agriculture, where another of the country's comparative advantages supposedly lies given vast natural resource endowment and substantial labour supply, account for an increasing but very modest share of total exports. Other manufactured goods account for even less. For the first three quarters of 2008, growth of exports and more so imports remained robust, resulting in a wider trade deficit. From the final quarter of 2008 to at least the first half of 2009, both export and import growth contracted, leading to a narrowing of the trade deficit. Year-on-year declines in export and import values averaged about 10 and 3 percent respectively for the first 10 months of 2009 (Figure 1.3).

The contraction in exports primarily stemmed from the thinning of Cambodia's garment trade with the US and EU, its leading export markets. Cambodia's agricultural export crops, rubber and cassava, also suffered a cutback in external demand and export prices following the plunge in industrial production and world commodity prices (FAO & WFP 2009). Rice exports, on the other hand, were by and large able to buck the impact of the price shocks as reflected in their continued rise. The decrease in rice prices (though they remain higher than average) and reserve build-ups have bolstered demand while competitive prices, bumper crops, favourable rainfall and government support have galvanised supply.

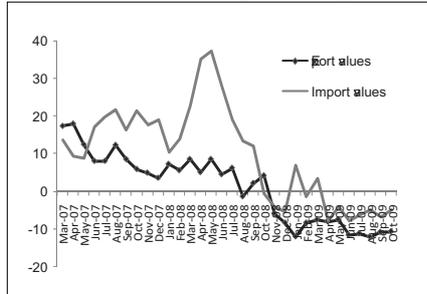
The decline in Cambodia's imports on the other hand was underpinned primarily by the decline in petroleum prices and respite in the previously strong domestic appetite for durable imports. Sharp declines in car and motorcycle imports began by about the third quarter of 2008 and continued well into 2009 (based on MoEF data). While inflationary pressures abated since the recession pulled down prices from their peaks during the food crisis, uncertain household incomes, higher-than-before petroleum prices, and overall lower economic activity together brought about lower import growth. Short periods of strengthening and weakening of the riel against the dollar also plausibly affected the costs of imports and the competitiveness of Cambodian exports. Any serious exchange rate fluctuations were, however, averted due to the interventions of the National Bank of Cambodia (NBC). These interventions were unfortunately costly in terms of reserves and deposits used. The exchange rate must be allowed to assume a greater role in facilitating adjustments in the current account position and interventions must be limited to preventing serious volatilities (IMF 2009h).

**Figure 1.1: Real GDP Growth**



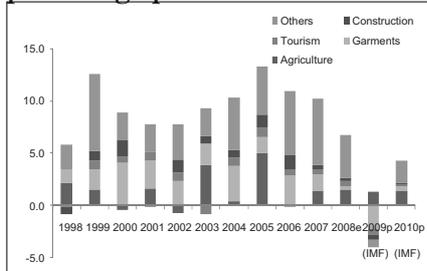
Source: NIS for 1998-2007; for 2008e, MoEF; for 2009 and 2010 projections, MoEF, IMF (2009g), WB (2009d), IMF (2009g), ADB (2009b), ADB (2009b), WB (2009e), Green & Ith (2009)

**Figure 1.3: Export and Import Values, 3mma, year-on-year percentage change**



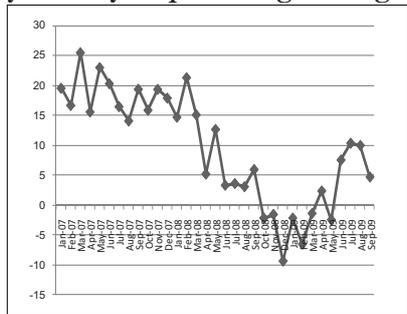
Source: Authors' calculations based on data from MoEF

**Figure 1.5: Sources of Growth, percentage points**



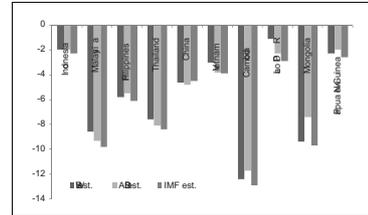
Source: Authors' calculations based on data from NIS, IMF (2009g)

**Figure 1.7: International Visitor Arrivals, year-on-year percentage change**

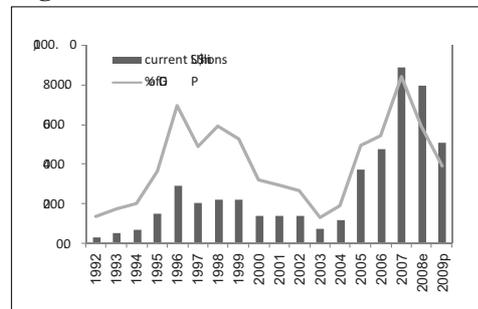


Source: Based on data from MoT, MoEF

**Figure 1.2: Real GDP Growths in Developing East Asia (difference between 2007 and 2009 growth rates, percentage points)**

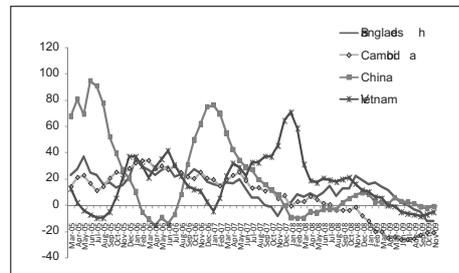


**Figure 1.4: Net FDI**



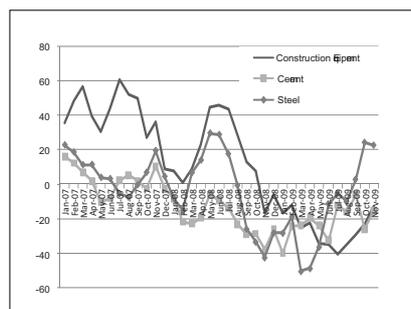
Source: WB (2008), WB (2009d)

**Figure 1.6: Comparative Values of Garment Exports to the US, 3mma, year-on-year percentage change**



Source: Authors' calculations based on data from US ITC

**Figure 1.8: Construction Import Volumes, 3mma year-on-year percentage change**



### **1.3.2.2. Capital Flows—Risks to Openness**

#### **1.3.2.2.1 Foreign Direct Investment**

Cambodia is among the developing Asian economies that have been most open to foreign capital (ADB 2009b). Locational determinants of foreign direct investment (FDI) include both host country and enterprise advantages that Cambodia and companies based therein have increasingly exhibited since reintegration into the international community in the 1990s. Government policy liberalisation, macroeconomic management and political stabilisation have been critical in providing assurances to the profitability of investing in the country. The garment and tourism industries also have competitive advantages that justify the bias demonstrated by FDI towards them. The garment sector's competitive advantage had rested on preferential access and cheap labour costs, while that of tourism has rested on Angkor Watt. Proximity to major input sources and regional production networks has also served as a significant pull factor. FDI's entry into Cambodia due to these attractions warrants its categorisation as export-oriented and efficiency seeking<sup>2</sup>.

A corollary of capital account openness, however, is vulnerability to deterioration in the competitiveness of pull factors and shocks in the external environment (push factors). Net FDI in Cambodia experienced a precipitous drop upon the deepening of the global crisis in the middle of 2008. It is estimated to have experienced a painful 36 percent reduction in 2009 (Figure 1.4). The credit crunch, gloomy market conditions and heightened risk perceptions affected both the capacity and propensity to invest (UNCTAD 2009). The garment industry's market concentration in the US, the epicentre of the crisis, and erosion of competitiveness in the post-quota environment also put off investments.

On the upside, Cambodia's lack of equity and bond markets meant that the distress on the economy transmitted through the investment channel was actually modest by comparison. FDI has been found to be more resilient in times of crisis than other private capital flows except remittances (ADB 2009b); other developing Asian economies suffered terrible blows from the plunge in stock market prices and steep increase in risk premiums on debt securities before the situation improved in the first or second quarter of 2009 (ADB 2009a, 2009b).

#### **1.3.2.2.2 International Remittances**

By and large, international remittances exhibited more resilience than other private capital flows (Ratha & Mohapatra 2009; Ratha *et al.* 2009a). This seemed true in the experience of Cambodia. International remittance transfers to the country were estimated to have declined by 8 and 4 percent in 2008 and 2009 respectively (Ratha *et al.* 2009a, 2009b). Overall volumes, however, have remained and are expected to

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2 Dunning and Lundan 2008 identified four types of multinational enterprises: natural resource seekers, market seekers, efficiency seekers and strategic asset or capability seekers.

remain higher than the levels prior to the global crisis, and any decline should be modest compared to that of FDI. Explanatory factors for the slowdown could have been: smaller new migration flows; increased return migration because of employment losses and fewer prospects in destination countries; greater desire of migrants to save in the host country because of the increased insecurity of their jobs; and smaller value of remittances in terms of the source country's currency. Thailand and Malaysia, the top two destination countries for Cambodian migrant workers, officially closed their doors to new inflows (Ros 2009). Although no data on the numbers of returnees are readily available, employment pressures and increased xenophobia in Thailand, for instance, likely induced the return of some migrants; this is supported by scattered accounts (Tong *et al.* 2009). However, consideration of migration investments and greater difficulty re-entering destination countries would have deterred any mass return migration.

#### ***1.3.2.2.3 Foreign Aid—China's Recent Prominence***

Historically, major crises were followed by a considerable decline in and slow recovery of aid from affected donors (UNCTAD 2009b; Roodman 2008). Donor responses to the recession's pressure on aid budgets have included cuts in development assistance, re-allocations of aid across countries, and greater support for multilateral initiatives (te Velde & Massa 2009). Thanks to Chinese aid, total aid flows to Cambodia, on which the government has depended for about three-fourths of its capital expenditure, have been on a surer footing. Pledged donor support for 2009 reached almost US\$1 billion, and while delays in disbursements and adjustment of funding targets for priority projects were reported (Yanara 2009), there was no announced retreat from aid commitments made at the end of 2008. Problems in implementation were attributed to typical administrative hurdles rather than the crisis. However, some changes in the aid plans of selected donors are reportedly imminent (Appendix B of Jalilian & Reyes forthcoming), with the impact of the crisis on aid budgets partly to blame. These changes may include abandonment of planned increases in future aid, re-allocation of aid, and re-prioritisation of project areas. However, more robust Chinese aid will offset any cutback in assistance from other donors. Topping its USD260 million pledged support for 2009, China reportedly approved an aid package worth more than USD1.2 billion at the end of 2009 (AFP 2009). Concerns exist however regarding the nature of Chinese aid and how it impinges on the goal of enhancing aid effectiveness<sup>3</sup>.

#### ***1.3.2.3. Balance of Payments***

Reversing a decade of significant surplus, Cambodia's overall balance of payments is estimated to have registered a deficit in 2009 of 1.1 percent of GDP (based on MoEF data), after posting a surplus of about 3 percent of GDP a year before. Countries with large current account deficits are said to be highly vulnerable to external shocks given

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3 Chinese aid lacks the conditionalities of traditional aid. Other types of strings are feared to be attached to it. For instance, the reported signing of about USD1 billion Chinese aid package followed the Cambodian government's deporting of a group of Uighurs seeking asylum in the country, leading to suspicions that the former was conditioned on the latter. See for instance AFP 2009).

the contraction of capital inflows (FAO & WFP 2009). Cambodia has historically run large current account deficits. The current account deficit may have narrowed in 2009 due, as cited earlier, to the shrinking of both export and import growths; however, the reductions in FDI and remittances as well as the slowdown in tourism receipts still caused the overall external position to turn negative in 2009. As mentioned above, the riel/USD exchange rate has not played a significant role in facilitating external adjustment because of aggressive interventions by the NBC. Another indicator of a country's vulnerability to crisis is said to be the level of international reserves (FAO & WFP 2009), and this emphasises the cost of exchange rate interventions. Supported by the strong capital inflows in the first half of 2008, Cambodia's gross official reserves increased from 3.1 to 3.4 months of imports between 2007 and 2008. These fell back to approximately 3.1 months of imports again by the end of 2009 given the NBC's market interventions (World Bank 2009c, 2009d).

### **1.3.3. Growth Sectors Have Lost Steam**

Supported by the expansion of trade and influx of FDI, garments, tourism, construction and agriculture served as Cambodia's key sources of growth in the decade prior to the crisis (Figure 1.5). With the exception of agriculture, these growth sectors experienced severe contraction during the crisis, dragging down the economy. Again, however, it needs emphasising that non-crisis-related factors also contributed to the souring of the growth sectors' performance.

#### ***1.3.3.1. Garments: Lagging Competitiveness***

After growing at a remarkable average of 28 percent per annum in the decade 1998–2007, Cambodia's garment sector endured a sudden sharp contraction during the crisis. Its contribution to output growth fizzled to an estimated 0.3 and -2.3 percentage points in 2008 and 2009 respectively, from an average of 2.4 percentage points in 1998–2007 (Figure 1.5).

The global crisis, combined with the ending of safeguards against Chinese garments, unsurprisingly triggered a contraction in the US market-concentrated, mostly cut-make-trim, about 90 percent foreign-owned, and governance-challenged garment industry of Cambodia. The growth of total clothing export values and volumes was still strong until about the third quarter of 2008, but went downhill from then on. Total clothing export values shrank year-on-year by about 19 percent and volumes by 15 percent in the first 10 months of 2009 relative to the same period in 2008 (based on MoEF data). Up to the beginning of 2010, no reliable recovery has been seen (*Phnom Penh Post*, 11 February 2010, p. 7).

The predicament of the domestic garment industry has definitely one of its roots in the sector's lack of market diversification. However, this does not fully account for the souring of its export performance. A consequence of the severe recession in the US was the slump in retail sales and shift of US consumers to cheaper goods. For a host of reasons briefly explored below, Cambodia suddenly found itself losing to competitors, particularly China and Bangladesh. The value of Cambodia's garment exports to the

US shrank year-on-year by about 22 percent in the first eleven months of 2009 relative to the same period in 2008, while the corresponding values for China and Bangladesh increased by about 1.5 percent and 2.3 percent respectively (Figure 1.6).

That competitors were able to retain or even increase their market shares during the crisis indicates that there is more to the story than lower demand reducing exports. The combination of preference erosion, exchange rate effects, and other structural constraints that have implications for the garment industry's cost competitiveness and therefore vulnerability to external shock (i.e. lack of vertical integration, low position in the value chain, considerable dependence on FDI, labour standard compliance, higher costs due to higher power rates and alleged corruption) – stands too as chief explanation to the current predicament of the sector. With the exception of the role of exchange rate, a more detailed explanation of all these factors is provided in Appendix A of Jalilian and Reyes (forthcoming). Some are briefly touched on below.

China has long been predicted to increase its share in the global clothing market in the post-quota environment (Martin 2009, Adhiraki & Yamamoto 2007), having in its arsenal economies of scale, a huge supply of labour with lower wages and higher productivity, and developed upstream textile and accessory industries. However, the appreciation of the yuan from the fourth quarter of 2008 to the first half of 2009, along with liquidity shortages, helped cause some diversion of imports from China to other competitors including Bangladesh (Alibaba.com 2008). On the other hand, the taka's significant depreciation against the dollar made garments from Bangladesh less expensive and helped it hold on to its market share in the US. By contrast, the Cambodian riel had episodes of strengthening against the dollar by the middle of 2008 that must have compounded the impact of the retail sales slump in the US. The Cambodian economy is also heavily dollarised; therefore, appreciation of the dollar against currencies such as those of Bangladesh and Vietnam would work against Cambodian producers.

The limited diversity and sophistication of Cambodian-made garments also deprived the sector of insurance against cutbacks in demand for its dominant garment products. The majority of garment factories in Cambodia have been engaged in cut-make-trim, the simplest activity in the value chain, with the lowest value addition. Non-knitted and -crocheted garment exports experienced steep declines in value, but so did knitted and crocheted garments, although at lower rates. Bangladesh by contrast was able to retain its market position longer, especially in knitwear and crocheted garments.

Preference erosion and, related to this, the deceleration in FDI constituted another serious blow to Cambodia's predominantly foreign-financed garment industry. The paramount attraction of the sector to investors was its preferential access to major markets. Working together with the credit crunch and heightened actual and prospective financial risks, the erosion of this key element of competitive advantage with the removal of safeguards against Chinese imports must have put off investments. Reportedly, 93 garment and shoe factories permanently closed their gates in the first 11 months of 2009. About 60 factories also temporarily suspended their operations over the same period (*Phnom Penh Post*, 15 December, p. 9).

Labour standards compliance has been a key source of the country's differentiation from competitors. However, with export licensing conditioned on factory participation in labour standards monitoring, this compliance comes at a cost. The financial rewards from this type of differentiation have also been made uncertain by the crisis and post-quota scenario. There have been indications that labour standards compliance is a significant but not a sufficient determinant of buyers' purchasing decisions against the backdrop of price war in the global market (see Jalilian & Reyes forthcoming). During the crisis, there have also been reports of deterioration in labour relations. Industry-wide strikes reportedly doubled in the first half of 2009 compared with the same period in 2008, the majority having occurred in the garment sector (*Phnom Penh Post*, 27 August 2009, p.1). Lawsuits received by the Arbitration Council, an independent body established in Cambodia to decide on collective disputes not resolved by conciliation, also reportedly significantly increased (*Phnom Penh Post*, 15 December 2009, p. 9). Stakeholders including the Garment Manufacturers Association of Cambodia (GMAC) are inclined to partially blame unions for the worsening of the garment industry's plight. They consider the presence of numerous unions as an obstacle to lifting the industry's cost competitiveness (*Phnom Penh Post*, 16 March 2009, p. 13). By contrast, unions do not figure significantly in the garment industry of Bangladesh (Fidh 2008; US Department of State 2009; ITUC 2009).

### ***1.3.3.2. Tourism: Inevitable Downturn?***

Likewise, tourism in Cambodia visibly decelerated, ending its double-digit average growth of the past decade and decreasing its contribution to growth from about 1.6 percent in 2007 to an estimated -2.3 percent in 2009 (Figure 1.5). Year-on-year growth of international visitor arrivals turned consistently negative by the final quarter of 2008, continuing well into 2009. By end of the first half of 2009, however, tentative signs of a comeback were seen, with year-on-year growth of international visits turning positive by June (Figure 1.7). Still, tourism's overall expansion in 2009 is gathered to have been conservative, with international arrivals expected to have grown at a slower rate of 3.5 percent from 5.5 percent in 2008. Given this plus the depressed spending by tourists who do come, tourism receipts are also estimated to have grown at a much smaller rate of 1.4 percent, from 13.7 percent in 2008 and an average 43 percent in 2004–07 (based on Ministry of Tourism data).

A number of factors, mostly but not all connected to the crisis, can be blamed for the tourism slump (see Jalilian *et al.* 2009). The blow of the crisis to the country's traditional key markets, South Korea and Japan, is foremost among them. The number of South Korean tourists dropped around 27 percent and of Japanese tourists by 12 percent in the first nine months of 2009 relative to the same period in 2008. Although isolating their effect from that of the crisis is tricky, developments such as the internal political crisis in Thailand (a major gateway for Cambodian tourism), the resulting closure of the Bangkok airport in November 2008, and the persisting Thai-Cambodian border standoff must have aggravated the downslide in tourism traffic. After the Thai-Cambodian military face-off in July 2008, the number of tourists from Thailand fell during the second half of the year by 26 percent compared with the same period

in 2007. This decline continued well into the first nine months of 2009 (based on Ministry of Tourism data). Additionally, concerns over the H1N1 virus must have compounded the effect on tourism of distressed consumer confidence, lower incomes, and exchange rate uncertainties consequent of the crisis.

What propped up the lower but still positive growth of tourism was the increase in numbers of sub-regional and domestic tourists. With the visa fee waiver as an incentive, the number of Vietnamese tourists shot up in the first nine months of 2009 by 43 percent and of Lao tourists by 92 percent relative to the same period the previous year. For the first five months of 2009, the number of Cambodian tourists was reportedly four to five times larger than that of foreign tourists and about 5 percent higher than for the same period in 2008 (*Phnom Penh Post*, 8 July 2009, p. 13). While such upsurges are welcome news, spending by sub-regional and domestic tourists can probably not offset the dip in receipts from travellers from more developed countries.

Crisis or no crisis, the tourism sector of Cambodia was arguably headed for an inevitable slowdown. Its rapid growth was unsustainable, banking mainly as it did on its natural comparative advantage, Angkor Wat, at the expense of other sites and on attracting mass tourism from traditional markets without increasing the value added of its tourist services and products and carving out new tourist markets at the same time (Gardère 2009; CDRI 2009a, 2009b, 2009d). The sector's competitiveness has also been lagging. Tourism has been a commanding propeller of the world's increasing service orientation. Cambodia is but a tiny part of the multitude who strives to mould itself into a significant visitor economy<sup>4</sup>. In the most recent travel and tourism competitiveness listing, it ranked 118<sup>th</sup> out of 133 countries while Thailand and Vietnam were 39<sup>th</sup> and 89<sup>th</sup> respectively. What particularly set Vietnam and Cambodia apart was not the quality of human resources or natural assets (in fact, Cambodia ranked higher than Vietnam in the index covering these criteria) but the better regulatory and business environment and infrastructure (WEF 2009).

### ***1.3.3.3. Construction: And Then the Bubble Burst***

The construction sector traversed the same rough patch as the other two growth engines. It succumbed hard to the impact of the crisis via the investment channel and the bursting of the domestic real estate bubble. Its growth contribution is estimated to have receded from 0.5 percent in 2007 to -0.5 percent in 2009 (Figure 1.5). An oft-cited symptom of this recession was the slowing or deferment of construction of mega-projects in Phnom Penh. Import volumes of construction equipment in particular but also steel and cement declined significantly from their peaks in the middle of 2008. An upturn has been seen in recent months, however, as demonstrated by the pick-up in import of construction materials (Figure 1.8).

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4 Per Deloitte (2008), the Visitor Economy has two components: tourism's direct contribution (coming from sectors directly providing tourism goods and services) and indirect impact (coming from supporting businesses in the supply chain).

What inflated—and ruptured—the domestic real estate bubble is no different from the developments that have underpinned asset bubbles throughout history in both developed and emerging economies (see for instance IMF 2003; Catte *et al.* 2004; Lai *et al.* 2009; Allen & Gale 1998). The bubble was pro-cyclical, inflated as financial liberalisation was fast taking place, credit boomed and growth sectors were expanding rapidly. It was fuelled by over-optimism about economic fundamentals, income and business prospects. Real estate prices could have risen in response to real demand for some time as growth increased household wealth and demographic changes made real estate more valuable in areas like the capital. Speculation eventually entered the scene, however. Property prices reportedly increased 50–100 percent in the 12 months to the middle of 2008 (Jalilian *et al.* 2009; IMF 2009a). The traditional moral hazard problem likely materialised due to asymmetric information, relaxation of loan underwriting standards and implicit safety nets.<sup>5</sup> The bank accelerator effect could have compounded the problem as well.<sup>6</sup>

Like any genuine bubble, the domestic real estate bubble would have burst sooner or later, with or without the global crisis. What the crisis did was really to hasten and deepen the crash. Real estate prices reportedly had slumped by up to 40 percent as late as August 2009 (An 2009a). Despite the scrapping of the cap on real estate lending, bank credit to the sector fell steadily from about 7.6 percent of total loans in August 2008 to around 6.4 percent a year later (Figure 1.10) although the real size may be larger than what is strictly reflected under this category. One way in which the crisis hastened and worsened the crash and hurt the construction sector in the process was by discouraging FDI. For the first half of 2009, the total value of approved construction projects reportedly increased by 33 percent over the same period of the previous year. However, against the background of lacklustre economic prospects, many investors are believed to be merely testing the waters (Xinhua 2009a). Some approved projects are not expected to materialise.

#### 1.3.4. Strained Monetary Conditions

The tightening of monetary conditions by the middle of 2008 continued well into 2009, although notable improvements occurred by the second half of 2009 with the resurgence in economic activity. Year-on-year broad money growth dropped from nearly 60 percent in February 2008 to -1 percent a year later. Thereafter, it made a notable rebound, reaching about 30 percent by October 2009 (Figure 1.9).

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5 There is no formal deposit insurance in Cambodia although laws, regulations and supervisory functions have been put in place for the protection of depositors as well as the banking sector overall (Pak *et al.* 2008). Also, there may be implicit safety nets for players with political clout.

6 Inflation of real estate bubbles is also known to be accelerated by banks because high real estate prices increase the value of their capital and collateral, and thus the attractiveness of holding real estate loans. This effect may be more muted in Cambodia because most real estate transactions are cash-based and, in aggregate at least, real estate loan holdings of the banking system are modest. For discussion of the bank accelerator effect, see for instance, Herring and Wachter (2002).

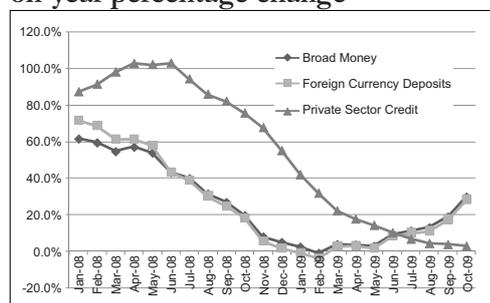
Earlier on, financial soundness indicators showed that the domestic banking system was able to maintain its robust position with adequate capital cushions and liquidity on top of few problematic loans (Jalilian *et al.* 2009; IMF 2009a). Eventually, however, signs of strain became more evident as banks confronted increased liquidity and credit risks. Year-on-year growth of foreign currency deposits, which make up about 97 percent of total bank deposits, dropped from about 70 percent in February 2008, to -4 percent a year later (Figure 1.9). Some major foreign currency withdrawals were reportedly made as well as infusions of emergency funds from overseas parent companies (see Jalilian *et al.* 2009), the banking system being significantly reliant on foreign capital. To prevent the drying up of liquidity, the NBC slashed the reserve requirement from 16 to 12 percent as soon as signs of easing in inflation became clear. Higher interest rates on dollar deposits were also offered to attract more of the cash “under the mattress”. At the start of the second half of 2009, a small but definite upturn in liquidity took place. The growth of foreign currency deposits year-on-year rose to 28 percent by October 2009 (Figure 1.9). Liquidity ratios were well up from 81 percent at the end of 2008 to 93 percent by August 2009 (based on NBC data). The IMF acceded that there was now ample liquidity in the system (IMF 2009f) and domestic banking sector representatives concur, although caution has been expressed regarding how liquidity is concentrated on big banks and how downside risks can easily overturn the situation (see Appendix B of Jalilian & Reyes forthcoming).

In contrast, concern over credit risks, as reflected in the continued guardedness about private lending, has not yet dissipated though sentiments vary as to the gravity of such risk. Year-on-year private sector credit growth was more than 100 percent during the second quarter of 2008 and remained strong at 50 percent by the end of the year. However, this arguably occurred on the back of some problems. From about 3.7 percent at the end of December 2008, the share of non-performing loans (NPL) in total loans rose to 5.9 percent by August 2009 (based on NBC data). Considering the past rapid expansion of credit, this is still a low level. The increase was also partly attributable to the loan reclassification implemented by the NBC (NBC 2009). The share of bank lending to real estate (Figure 1.10) also turned out to be modest. This may not be completely accurate, however, because part of personal lending, for instance, may have been funnelled into real estate. Given the close linkage between construction and real estate development, credit to construction also carries part of the risks associated with the latter. In addition, loan rescheduling may continue to mask NPL problems. Proving continued cautiousness in lending, year-on-year growth of private sector credit fizzled to 4 percent by August 2009. As already pointed out, bank lending to real estate also dropped continuously. Performance against other prudential indicators such as the liquidity and capital adequacy ratios (based on NBC data) suggests, however, that the banking system has adequate cushion to cover credit risks.

Not only commercial and specialised banks but also micro-finance institutions (MFIs) felt the knock-on effects of the crisis after appearing unperturbed earlier. While having minimal exposure to sectors rendered riskier by the crisis as real estate and construction, MFIs nonetheless experienced strain as the crisis deepened and restrained the flow of foreign capital, on which the sector is heavily reliant. Reportedly, foreign lenders to domestic MFIs tightened loans, causing cancellation of contracts in some cases, upping

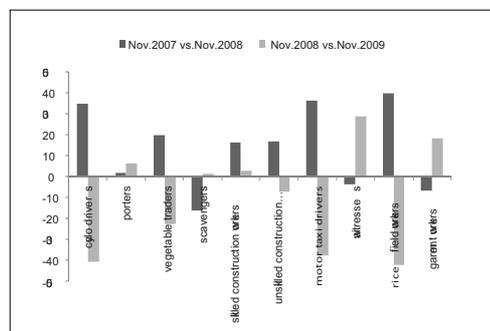
the cost of financing and augmenting the burden on clients as some or all of the interest rise was passed on (Chhun 2009). More so than for commercial banks, prudential indicators suggest that MFIs were able to escape most of the impact of the crisis. Their NPL ratio climbed to 2.7 percent in August 2009 from 0.4 percent at the end of 2008, but this is a low level, considering especially how rapidly micro-credit has expanded. Part of the increase was also attributable to the loan reclassification mandated by the NBC. Capital adequacy ratios climbed from 20.4 percent in 2008 to 23.5 percent in August 2009 (based on NBC data; see also Jalilian & Reyes forthcoming).

**Figure 1.9: Broad Money Growth, year-on-year percentage change**



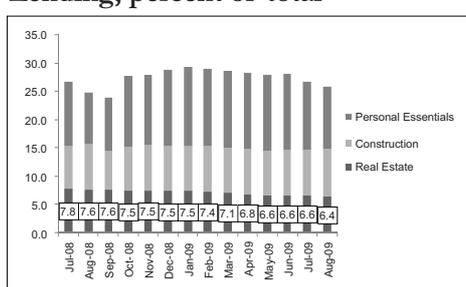
Source: Authors' calculations based on data from NBC

**Figure 1.11: Average Real Daily Earnings, percentage change**



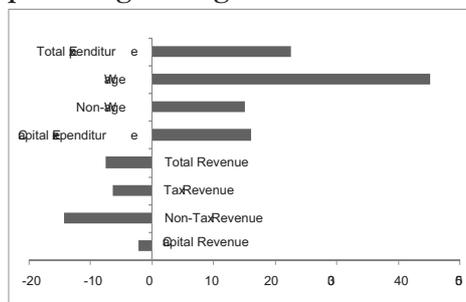
Source: Authors' calculations' based on data from Tong and Pon (2009)

**Figure 1.10: Commercial Bank Lending, percent of total**



Source: NBC

**Figure 1.12: Budget Implementation, Jan-Nov 2008 vs. Jan-Nov 2009, percentage change**



Source: Authors' calculations' based on data from MoEF

Even with the banking sector upturn in the second half of 2009 and the preventive actions of the NBC, concerns remain about the robustness of selected banks, the potential worsening of NPLs and downside risks in the external environment.

### 1.3.5. Poverty Effects

Cambodia's poverty rate declined from about 45 percent in 1994 to 30 percent in 2007 (Jalilian *et al.* 2009). The crisis halted this trend. Between 2007 and 2010, its poverty headcount can increase by an estimated 1 to 4 percentage points (World Bank 2009d). The attainment of its Millennium Development Goals by 2015 has clearly become more difficult (An 2009b).

Job losses and greater underemployment in the country's crisis-hit growth sectors certainly hurt the incomes of poor households. The permanent shutdown of 93 garment and shoe factories in the first 11 months of 2009 caused at least 38,190 job losses. The suspension of operations in 60 factories also affected 35,337 jobs (*Phnom Penh Post*, 15 December 2009, p. 9). Job losses and increased underemployment in construction and tourism were consequential as well. A news report placed the number of construction job losses at 100,000 (Pou 2009). The tourism workforce was estimated to contract by 2.3 percent in 2009 (Cambodia Economic Watch 2009b). A survey of 72 hotels indicated that 30 to 50 percent of jobs were shed at 12 hotels, while working hours decreased by 30 to 50 percent at the remaining surveyed hotels (*Phnom Penh Post*, 30 July 2009, p. 14). These employment effects must have had bearing on other industries with links to the growth sectors.

Earnings surveys conducted by CDRI substantiate claims about declines of income across sectors during the crisis. Eight out of the 10 surveyed worker categories experienced a significant fall in real daily earnings between November 2007 and November 2009, although the declines occurred at different times (Figure 1.11).

Focus group discussions (FGDs) and semi-structured interviews (SSIs) conducted by CDRI (Theng & Kem 2009a, 2009b; So 2009) not only supported the above findings on employment and income reduction but also revealed deterioration in other aspects of welfare and identified coping mechanisms (Jalilian & Reyes forthcoming). Their revelations regarding the implications of the crisis for children and women are particularly disconcerting and warrant special consideration in the design of social safety nets. Another finding of concern is the perceived lack of greater safety net provision and dwindling of informal safety nets. However, the discussion results cautioned against attributing the welfare deterioration exclusively to the global economic recession (Theng & Kem 2009a, 2009b; So 2009).

#### **1.4. Path to Recovery**

Rebound from the crisis took tremendous and synchronised curative efforts at the global level. The response was generally swift, with Keynesian remedies widely adopted in order to contain contagion effects. The nature and extent of response however varied among countries, with those with more means able to implement more costly and comprehensive recovery strategies than those with less capacity such as Cambodia. In 2010, a modest growth in Cambodian output of between 3 and 5 percent is expected (Figure 1.1). Recovery in the short term has largely rested on rebound in the external environment (push factors) and reactive responses. However, more sustainable recovery will have to be consciously driven by redressing weaknesses in pull factors and proactively mapping a growth trajectory on the basis of wider and country-relevant economic base and more inclusive participation.

##### **1.4.1. Pro-Recovery Policies and Strategies**

In all of developing East Asia, fiscal deficits rose between 2007 and 2009 as stimulus programmes were enacted to counter the shock. Unlike its neighbours, Cambodia

did not have the capacity to enact a stimulus scheme over and above an expansionary budget and a few other measures, or even to run a budget deficit equivalent to what was necessary due to limits on external financing. Concerns were also raised regarding the appropriateness and effectiveness of some strategies enacted within the government's capacity.

#### ***1.4.1.1. Expansionary Budget***

Originally targeted at 4.3 percent of GDP, the 2009 budget deficit is estimated to have reached 6.7 percent (IMF 2009f, World Bank 2009d). Revenues were down 7 percent as the recession directly affected tax collections. Meanwhile, expenditures were up 22 percent in the first 11 months of 2009 compared to the same period in 2008 (Figure 1.12).

That a large share of the additional spending went to military and civil service wages at the expense of priority sectors has been raised as a critical issue. The hike in the defence budget in 2010 has already been a focal point of policy critique. For 2010, the total military and defence budget amounts to USD276 million, while that of the Ministry of Agriculture amounts to only USD20 million (Chun 2009c). Analysed from the viewpoint of boosting aggregate output, cushioning the fall in household incomes and setting off and sustaining recovery, this spending may not be as effective as funnelling more funds to automatic stabilisers and the priority sectors, which are expected to prop up growth and where most of the poor and the vulnerable are based. It is worth pointing out however that government employees, including military personnel, also receive low salaries compared to workers in other sectors, and giving them their long-awaited wage increase can similarly give aggregate consumption a lift. Boosting public sector pay has in fact been a long-standing suggestion to addressing the country's governance problems, which affect its fiscal capacity. Analysed also from the perspective of national defence, augmenting the defence budget gains justification (*Phnom Penh Post*, 6 November 2009, p. 3). It warrants highlighting as well that the lack of alignment of the budget with national priorities is a problem that must be and has been raised before outside the discussion of the crisis. Analyses of previous budgets found a lack of translation of the government's policy commitment to agricultural and rural development in budget planning and execution (NGO Forum 2008a, 2008b).

While there has not been much of a crisis policy response to exit from, timing the country's exit strategy is nonetheless important. For 2010, running another expansionary budget, although with a lower deficit (5.5 percent of GDP per IMF recommendation [IMF 2009f]) is essential to moderate the impact of stimulus withdrawal and ease financing pressures.

#### ***1.4.1.2. Stimulating Private Capital Flows***

Revival of FDI and other investment flows must not be allowed to rest solely on recovery in the external environment. As mentioned earlier, FDI flows gravitate towards the competitive edge of a country as determined by both firm-level and host country advantages. Short-term government measures to sustain Cambodia's attractiveness to

FDI came in the form, for example, of tax breaks in the garment and agriculture sectors and easing tourist travel. Sustainable recovery from the FDI slump, which means not only increasing the share of regional FDI but also diversifying the receiving sectors, however requires the resolution of long-standing bottlenecks that increase the costs of doing business. Cambodia's competitiveness has lagged behind its GMS neighbours, Thailand and Vietnam (WEF 2008; World Bank-IFC 2009b). The latest investment climate survey identified the topmost business constraints in Cambodia to be corruption, macroeconomic and regulatory uncertainties, corruption-related anti-competitive policies and the high cost of electricity (World Bank- IFC 2009a). Aiming to loosen these constraints, the government has undertaken major efforts that range from building up the national grid system (World Bank 2009a), to implementing a public financial management reform, to drafting an anti-corruption law. The success rate varies among the initiatives and in certain areas progress has been noticeably slow, arguably due to lack of political will. Capturing the optimum gains and positive externalities from FDI while reducing their volatility also necessitates deepening financial markets (ADB 2009b) and investing more in human capital development.

Stimulating international remittance flows is likewise not straightforward. One proven way of increasing remittances is reducing transfer costs, which in turn can be achieved by introducing more competition in the money transfer industry. The ease of doing this varies, competition being greater in high-volume corridors such as Thailand-to-Cambodia. Other means of containing remittance costs, such as compelling transparency in pricing, can be enforced as a short-term strategy. Another clearly useful strategy is further public education about and provision of incentives for more productive use of remittances in order to maximise the macroeconomic benefit of this valuable foreign exchange.

#### *1.4.1.3. Monetary Easing and Financial Deepening*

The underdevelopment of Cambodia's financial sector can be credited for the country's immunity to the first round assault of the crisis; in this sense, the handicap worked as a blessing in disguise. However, this underdevelopment also acted as a constraint on the ability of the government and financial institutions to respond more effectively to the second-round effects of the crisis. Also, while the NBC's responses to the strain on the financial sector were timely and praiseworthy, its capacity to do more was restrained by the heavy unofficial dollarisation of the economy.

The origins of Cambodia's dollarisation differ somewhat from the experiences of other countries (see for instance, Antinolfi & Keister 2001; Alvarez-Plata & Garcia-Herrero; Meyer undated). The influx of aid and other external transfers following the country's emergence from isolation in the early 1990s began dollarisation. Not long after, the country experienced nearly complete de facto dollarisation, sustained by the same supply-side dynamics and a lack of confidence in the national currency (CDRI 2009; de Zamaróczy & Sopenha 2002). The rapid economic growth of the past decade has put Cambodia's bi-currency system into question. The global crisis also inevitably asks for the reassessment of the issue given that the costs of dollarisation would have been very pronounced if the crisis had impacted the financial system more than it

did. The full exploration of this topic is beyond the scope of this article, but three important points can be made. First, Cambodia's dollarisation is not straightforward. It is composed of both "good news" and "bad news"; that is, it reflects both the country's economic take-off in the past decade and the underdevelopment of the financial sector, institutions and legal framework as well as hysteresis (CDRI 2009d; Menon 2008). Second, the case for or against dollarisation is likewise not clear-cut. The claimed chief costs of dollarisation include loss of seignorage, loss of the central bank's ability to act as lender of last resort and loss of independent monetary policy, all of which restrain the ability to respond to external shocks. These losses must not be assessed by themselves—that is, without taking stock of other considerations, not least the factors that can and do moderate them. Third, there are sources of liquidity other than the central bank, and this cushions the feared greater liquidity and solvency risks associated with dollarisation in times of crisis (Chang & Velasco 2002; Schmitt-Grohé & Uribe 2000; Alvarez-Plata & Garcia-Herrero 2008; Antinolfi & Keister 2001; Edwards & Magendzo 2003; Baliño *et al.* 1999).

Considering the above and other constraints such as thin supervisory capacity, there was a limit to what the NBC could do in response to the crisis. However, what it was able to do proved timely, pre-emptive and worthy of recognition. Especially with the global crisis coming on the heels of exceptionally high prices, the central bank had to time monetary easing with inflation easing. Once prices had come down, the NBC slashed the reserve requirement from 16 to 12 percent to inject liquidity into the system. It removed the cap on real estate lending to counter the effects of the bubble burst. It created an overdraft facility (although backed by a limited amount) to help solvent banks struggling with temporary liquidity shortages. It issued a tougher regulation on asset classification and provisioning to diagnose more accurately the NPL situation and ensure that banks are in a better position to cover potential losses. It raised minimum capital requirements as part of the keener monitoring of the banking sector's expansion. It strengthened regular and targeted off-site and on-site surveillance. It started granting licences allowing MFIs to access public deposits directly (Keat 2009; Cambodia Economic Watch 2009b; Jalilian *et al.* 2009; Chhun 2009; *Phnom Penh Post*, 24 August 2009, p. 1); see also the NBC's website, [www.nbc.org.kh/index.asp](http://www.nbc.org.kh/index.asp)). Potential loopholes in NPL monitoring for instance must be sealed, however. Bigger steps to deepen the financial system are also necessary to fortify the capacity of the banking sector to withstand an external shock or avoid being the source of a crisis itself. The financial structure remains immature, with a limited number of financial instruments, an underdeveloped interbank market, absence of official deposit insurance and rating agencies and limited credit information sharing (Pak *et al.* 2008).

Cambodia also noticeably lacks a capital market. While this shielded the country from some major effects of the financial crisis, it also constrained the generation of additional stimulus for priming the stale economy. Stock exchange plans, circulated while crisis gripped the country, caused quite a stir. The exchange is reportedly set to open in the first quarter of 2010, although without company listings (*Phnom Penh Post*, 13 November 2009, p. 7). The issue on the timing of operating the exchange must go beyond the repercussions of the crisis. While the government took some preparatory steps, including enacting some necessary laws and regulations and establishing

a Securities and Exchange Commission, a lot of the prerequisites are still missing. Domestic savings remain low, partly due to the still low level of public financial literacy and confidence in the financial system. Other problems include a narrow investor base, problematic compliance with transparency and corporate governance standards and absence of security intermediaries. Operating the exchange without these prerequisites in place is arguably premature.

#### **1.4.1.4. Growth-Sector Specific Strategies**

##### **1.4.1.4.1 Garment Sector**

A rebound in exports and overall trade rests largely on the rebound in the garment sector. Supported by the findings of a diagnostic trade integration study in 2007 (Ministry of Commerce & UNDP 2007) and a revealed comparative advantage analysis by the World Bank (based on the model of Hausmann *et al.* 2005; however, these analyses were done prior to the realisation of the severe impact of the crisis and preference erosion) (World Bank 2009a), garments keep their high export potential and are necessary but not sufficient drivers of sustainable recovery. Because of fiscal constraints, government responses specifically catering to the short-term needs of the industry during the crisis were limited and included suspension of the advance profit tax and reduction of employer contributions to social security (Cham 2009b; *Phnom Penh Post*, 4 May 2009, p. 14). Despite the known revenue losses and distorting effects of tax incentives (see for instance, Klemm 2009), most Keynesian responses implemented across the globe in reaction to the meltdown involved such incentives (see Deloitte 2009 for a brief survey of the tax responses). The choice and design of tax incentives have a bearing on their effectiveness. Alternatives to the suspension of the advance profit tax would have arguably been more effective, such as tax credits for investment or training expenditure. A different issue touching on tax refers to accusations that garment factories have been using the economic downturn as a pretext to close, only to reopen under new names to renege on tax obligations, evade wage payments and hire cheaper labour (An 2009a). The legal and institutional grounds that make this opportunistic behaviour possible must be investigated.

Alongside quick fixes, the government in tandem with GMAC has been working on more sustainable solutions to revive garment exports. A key lesson from the differentiated impact of preference erosion is that the country must focus on improving factors underlying cost competitiveness other than preferential access. However, it appears that most efforts are still devoted to securing replacement preferential arrangements or improving conditions under existing schemes. The government and GMAC have been bent on lobbying for duty-free access to the US market and greater flexibility of the rules of origin requirement under the Everything but Arms initiative. It is not only that the relevant trade bill in the US Congress has a slim chance of passing or that, if it is passed, Cambodia will necessarily be among those favoured, given strong supporters of African garment producers. These requested concessions, if granted, will also extend to competing least developed countries (*Phnom Penh Post*, 11 September 2009, p. 7; *Phnom Penh Post*, 18 September 2009, p. 8; *Cambodia Daily*, 23 November 2009, p. 30). Thus, if the supply-side constraints facing Cambodia's garment sector are

not remedied, it will still lose out or fail to maximise the benefits under non-reciprocal arrangements. Bottlenecks both inside and outside the firm will have to be addressed. While wages in Cambodia's garment sector remain low, higher productivity of workers in some competitor countries more than compensates for the disparity in pay. To their credit, the government and private stakeholders have acknowledged the other vital steps to improving competitiveness, including scaling up garment outputs and building backward linkages including an upstream textile and accessories industry. Previous discussions, however, imply that the realisation of these plans may be impeded by the heavy foreign ownership of Cambodia's garment industry. It may not be part of the global strategy of the local firms' parent companies, which likely favour other countries that made significant headway in the relevant upstream industries or more value-added products and can therefore deliver these products at lower cost. The ultimate challenge facing the government seems to be how it can increase local investment in the industry. It is worth mentioning that the garment industry in Bangladesh was started by foreign investment but in time, was taken over by local capital.

The crisis has also emphasised the importance of market diversification as Japan, Russia, the Middle East and non-traditional European markets present opportunities. Regional agreements are expected to facilitate this. Addressing top business constraints, corruption and high power costs are the other key items in the agenda. Corruption obviously tilts the field in favour of those who tolerate it. Even when corporate responsibility seemed to have taken a backseat in the buyers' purchasing decisions during the crisis, this differentiation of the garment industry will remain a competitive edge and should not be abandoned.

#### ***1.4.1.4.2 Tourism***

The policy mix to rekindle tourism constituted a bigger, more diversified and more visible set of responses. The immediate strategy seemed to have been to focus on reviving the number of tourist arrivals through regionalisation of tourism and ramped up marketing, while the longer term strategy focuses on enhancing the quality of tourists (i.e. targeting bigger spenders) and tourism products and tapping other tourist sites and markets. Travel facilitation, intensified marketing and cost reductions were at the forefront of quick fixes. The government kept the visa exemptions extended to GMS countries Vietnam and Lao PDR and ASEAN countries Singapore, Malaysia and the Philippines. It opened or is set to open new border checkpoints and waterways. It relaunched a national carrier, Cambodian Angkor Air, and enabled direct flights between Cambodia and the Philippines. It aired international advertising campaigns and had plans to air them in targeted national markets. Meanwhile, a 10 to 20 percent reduction in the price of tourism services, including accommodation, food and transportation, was reportedly undertaken by the private sector (Ministry of Tourism 2009).

Longer term measures to improve the quality of tourism infrastructure and diversify markets were already set in motion. As earlier mentioned, Cambodia's tourism competitiveness lags behind due to infrastructure hurdles and weaknesses in the regulatory and business environment. The enforcement of quality-enhancing

regulations is therefore well on track, imposing quality standards on hotels, resorts and manufacturers and sellers of souvenirs. Simultaneously, the government initiated maintenance and repair work that has direct bearing on travel. Tapping other tourism sites and non-traditional tourist markets were also high on the agenda. However, diversification seemed the hardest to concretise. Angkor Wat specifically and the Siem Reap-Sihanoukville-Phnom Penh triangle generally remain the expected pillar of tourism. The underdevelopment of other areas and traditional fixation on Angkor Wat discourage investors from venturing into other sites, so it will take time and a great deal of persuasion to realise this objective.

#### ***1.4.1.4.3 Construction***

Given its links to residential and commercial real estate development, recovery in construction is connected to the pick-up in real estate activity. The NBC earlier approved scrapping the 15 percent cap on bank lending to real estate once inflationary pressures subsided. However, this appeared to have restrained influence on bank lending as real estate credit as a percent of total loans continued its earlier decline. What is hoped to be a more sustainable support is foreign ownership of real estate. In the middle of 2009, a sub-decree permitting co-ownership of individual apartments or condominiums was passed. This paves the way for the formulation of a law granting foreigners the right to own private units from the first floor up of co-owned buildings (CDRI 2009d, Xinhua 2009b, Trading Markets 2009). A central concern regarding this move is how foreign ownership may encourage speculation and further affect the affordability of housing and other property for less fortunate Cambodians. It is therefore important that appraisal of the proposed legislation incorporates assessment of the accompanying regulation. Investment withdrawal and deceleration in real estate activity also set the tone for the enforcement of new regulations ordering real estate developers to: a) deposit 2 percent of total project values at the NBC; b) open an account with a commercial bank in Cambodia where payments from buyers will be placed; and c) obtain government approval before accessing their funds in the bank. These new regulations met strong opposition. Activity in the real estate sector, already dented by the bubble burst and crisis, could have been further stymied. The government has been therefore asked to defer the policies, implement them gradually and qualify the provisions to reflect the distinction between developers who collect payments before construction and those who do not (Propertywire 2009; An 2009a; CDRI 2009d).

#### ***1.4.1.4.4 Agriculture***

The immediate outlook for agriculture is positive, extending its role from buffer to the crisis to a pillar, supporting stable short-term recovery. On average, agriculture grew by about 4.5 percent per year in 1998–2007, but this growth was unstable on a yearly basis. However, the sector grew at a stable rate of about 5 percent in the past four years and is anticipated to manage roughly the same rate of growth in the immediate term. Expansion of cultivation areas, higher yields due to factors as increased use of fertiliser and greater labour productivity have driven agricultural growth. Government measures implemented to harness the performance of the sector during the crisis

include the establishment of the Agriculture Support and Development Fund, a three-year tax holiday for agricultural investment projects and zero tariffs on imported agricultural materials (Jalilian *et al.* 2009).

Both traditional and newer risks challenge the reliability of agriculture's contribution to the economy. Significantly rain-fed, crop production in Cambodia has always been susceptible to adverse weather, but CDRI's FGDs and SSIs revealed how abnormal weather patterns were experienced by vulnerable farming households, disrupting the planting cycle, reducing demand for labour at a time when it should be sufficient, leading to crop failures and lower production, and ultimately diminishing household incomes (Theng & Kem 2009a, 2009b; So 2009). Volatility of agricultural prices will remain a major risk. The uncertainty of global recovery promises price fluctuations, especially of pro-cyclical exportable crops, although higher than average prices could benefit farmers. The translation of higher prices into greater production depends on removing the constraints on improving yields. Cambodian rice may not be able to reach its export potential in the coming years precisely because of such constraints as lack of capital investment. While Thai rice has slipped in price competitiveness, other rice exporters, particularly Vietnam, have proven to be fierce competitors, as evidenced by their penetration of the Philippine market, the world's biggest, which is something that Cambodia still has not been able to do (*Phnom Penh Post*, 21 October 2009, p. 9).

While agriculture will remain key to poverty reduction, whether the sector can be a driver of longer term growth has been a concern. The World Bank, based on the experience of other countries, estimates that agriculture in Cambodia is unlikely to grow more than 5 percent or so annually or contribute more than 2 percentage points to yearly output growth (World Bank 2009a). In any case, there is ample room for boosting agricultural growth in terms of yield, a higher volume of exportable products and more diversified crops.

#### **1.4.1.5. Social Safety Nets**

Less than 1 percent of Cambodia's GDP on average goes to social safety nets, a figure not at par with the average spending by developing nations of 1 to 2 percent (Broderick 2009). There is currently no comprehensive social safety net system in Cambodia even though social protection has been made a core part of the government's development plans. Social interventions have so far been fragmented, uncoordinated, limited, episode-driven, donor-specific and unsustainable (CARD, WFP & WB 2009). Joining the existing social safety nets (see Jalilian *et al.* 2009), the government created the Government Fund for Short-Term Vocational Training and the Fund for Self-Employment during the crisis with funding support from donors (*ibid.*). To ensure greater sustainability, these safety nets must be operated under the umbrella of a comprehensive and cohesive system. The government reportedly has been examining placing social protection programmes under the purview of the Inter-Ministerial Technical Working Group on Food Security and Nutrition.

The significance of dealing with the weaknesses of current social safety net provisions cannot be emphasised enough, because a sizeable number of Cambodians are exposed to poverty-related risks such as landlessness, food insecurity and illness. The global crisis has been an eye-opener to how imported shocks can bear heavily upon vulnerable people in open economies. CDRI's FGDs and SSIs lend evidence to this statement. The impact of the crisis on poorer women and children is particularly troubling and supports the demand for targeted social safety nets. The FGDs and SSIs also revealed a perceived lack of increased safety net provision. Apart from the obvious funding difficulties, this also possibly suggests gaps in the design of programmes. Lastly, while informal safety nets play a useful role in risk mitigation, they are not substitutes for official safety nets. As demonstrated by the finding that individualism has increased during the crisis (So 2009), thereby affecting the reliability of informal networks, informal social safety nets can easily become anti-cyclical.

### **1.5. Conclusion**

Recessions are painful eye-openers that pull people out of their reveries. While it does not necessarily mean that action will follow, crises always uncover a handful of lessons that the wise will mull over. At the top of the list in Cambodia's experience with the global recession appears to be the lesson that the crisis was only part of the problem. Perhaps in the haste to have a taste of development, the take-off of its economy has been initiated without setting the specific destination or undertaking most of the necessary preparations. Any take-off so fast and ill equipped is bound to end up in a hard fall.

This article relays Cambodia's seismic shift in growth during the crisis. The aftermath of the shock presents the opportunity to assess past mistakes, fill in the gaps and steer the country's growth in a more sustainable direction. Headwinds were largely responsible for the previous take-off. This time, letting the winds determine the country's destination will not do. Sustainable recovery depends on a rosier external environment but more so on improvements in pull factors. Longer term growth entails going beyond traditional dependencies and protections that have led to a false sense of security. The focus must be directed to vital but neglected aspects of competitiveness, and throughout the process, partnership between the government and the people is critical. Political will and public vigilance are both needed to set into motion long-awaited reforms. To avoid another hard fall, shortcuts must be avoided. Change is necessary but success is more within reach if it is pursued slowly but surely.

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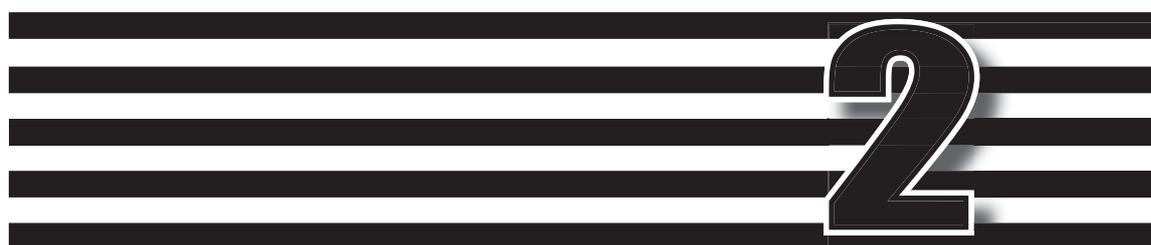
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**A Double Blow to the Poor:  
Cambodia's Food Security in the Face  
of the Food and Economic Shocks**

**By Hossein JALILIAN, Glenda REYES and LUN Pide**

## Chapter 2

### **A Double Blow to the Poor: Cambodia's Food Security in the Face of the Food and Economic Shocks**

*By Hossein Jalilian, Glenda Reyes and Lum Pide<sup>1</sup>*

#### **2.1. Introduction**

The food shock and the global financial and economic crisis were a double blow to the poor. Both shared the dire characteristic of having exacerbated their food insecurity. Two alarms were raised by these two crises. The first was a warning against the historical neglect of agricultural development. The second alarm constituted a revelation regarding the enhanced linkages between food and non-food commodity markets. This represents both risks and opportunities. Cambodia's high trade openness exposes it to the risks while its comparative advantage in agriculture puts it in a position to benefit from the opportunities.

This article briefly looks at the impact of the food shock and global crisis on food security and agriculture in Cambodia. This paper presents a brief summary of the country findings of a study conducted by the authors as part of an FAO funded multi-country regional study on the impact of the food and financial crisis on food security. Taking into account the determinants of a shock's impact on food security, Section 2.2 discusses the effects of the food crisis while Section 2.3 tackles those of the economic downturn. Section 2.4 concludes.

#### **2.2. Impact of the Food Shock**

##### **2.2.1. Price Trends**

Price surges are innate in food commodity markets but what was unique about the price escalation seen during the food crisis was the simultaneous steep rise in nearly all major food and non-food commodities. The international food price index registered a year-on-year increase of more than 50 percent on average, with its component rice climbing year-on-year by 118 percent, for each of the first six months of 2008. Also in the first half of 2008, the monthly energy price index rose year-on-year by an average of 73 percent. The dominant triggers of the exceptional price increases seemed to be

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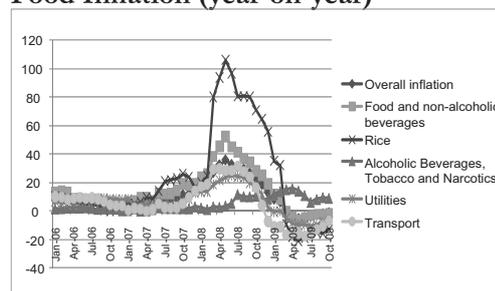
1 H. Jalilian is research director and G. Reyes and L. Pide are researchers at CDRI. The study was based on a methodological framework developed by FAO and benefited from the support provided by the FAO Regional Office for Asia and the Pacific as well as from two workshops that were organized by the FAO regional office that took place in Bangkok, Thailand over the period of 12-13 October 2009 and 23-24 February 2010; the full study will be published by FAO shortly.

bio-fuel production, higher input prices (particularly oil), depreciation of the dollar, and some commodity-specific influences such as export curbs in the case of rice. A longer-term cause was the underinvestment in agriculture.<sup>2</sup> Considering these causes, there have been concerns that above average food prices are here to stay.

In Cambodia, domestic food and non-food prices likewise surged. Overall inflation year-on-year peaked at 36 percent in May 2008, due mainly to the rise in food price index of more than 50 percent. Rice inflation rocketed to 106 percent. Non-food inflation, specifically transport and utility, also soared (Figure 2.1).

The extent by which global market developments drive domestic prices is an important determinant of a shock's impact on household food security since it is the latter that ultimately affects household income. Freely trading countries absorb all or most of the changes in international prices while highly interventionist states buck most of such changes (see Dawe 2008, Timmer 2008). Rice prices in Cambodia closely followed international prices until the food crisis struck and government interventions tempered the pass-through of international rice inflation into local prices, though not drastically. The Cambodian rice ban had limited effectiveness in stemming inflation because of its short period and exceptions as well as the heavy informal trade along the country's borders. Domestic prices of gasoline and fertiliser, inputs critical to realising agricultural supply responses to price signals, have been traditionally higher than world prices. The transmission of international price changes into local gasoline prices was moderated primarily by a government subsidy in the form of a fixed tax rate (World Bank Cambodia 2009). Fertiliser (urea) prices by contrast increased more than international prices due to the effect of domestic costs.<sup>3</sup> In sum, select domestic prices were shielded from the exceptional price surges in the international markets but only to some extent. Fortunately, the stability of the riel/USD exchange rate helped prevent larger domestic price increments.

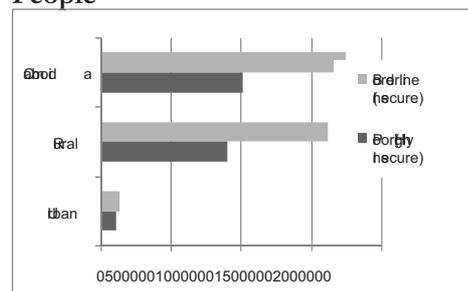
**Figure 2.1: Domestic Food and non-Food Inflation (year-on-year)**



Note: Price indices used have the reference base period, Oct-Dec 2006.

Source: Authors' calculations based on data from NIS

**Figure 2.2: Number of Food Insecure People**



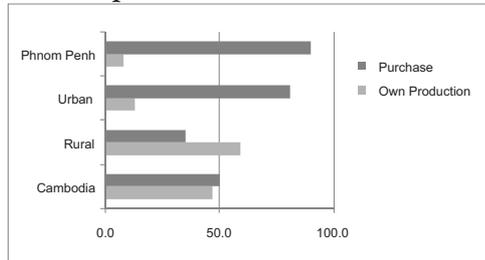
Note: Figures are the lean season.

Source: WFP calculations presented in CDRI (2008)

2 For related studies, see Abbot *et al.* 2008; Heady & Fan 2008; Timmer 2008; OECD-FAO 2008

3 See Jalilian *et al.* forthcoming for more details on the price transmission calculations.

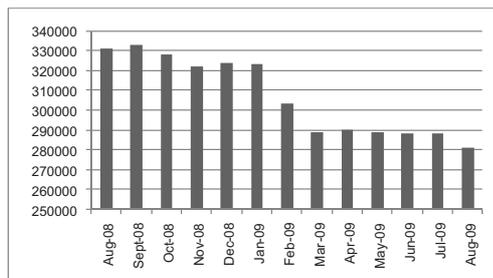
**Figure 2.3: Sources of Household Consumption**



Note: Figures may not total 100 percent due to minor sources of rice consumed.

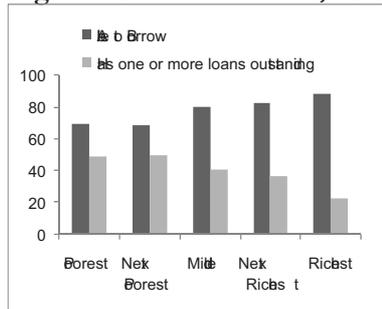
Source: Authors' calculations (except for Phnom Penh and rice own production) data based on the data from CDRI (2008)

**Figure 2.5: Total Monthly Garment Workforce**



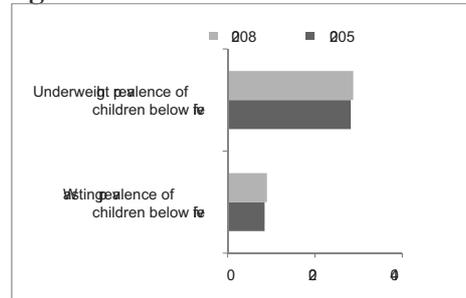
Source: Prasilb (2009)

**Figure 2.7: Credit Access, 2007**



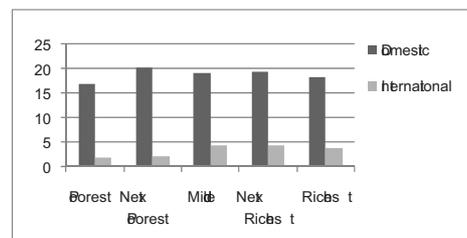
Source: WB (2009b)

**Figure 2.4: Child Nutrition Status**



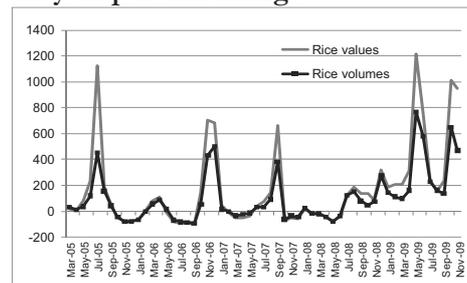
Source: UNICEF Cambodia (2009)

**Figure 2.6: Percent of Households Receiving Remittances, 2007**



Source: WB(2009b)

**Figure 2.8: Rice Exports, 3mma year-on-year percent change**



Source: Authors' calculations based on data from MoEF

### 2.2.2. Food, Income and Expenditure Profile

Shocks are likely to have differentiated impact on food security at the micro-level given varying household consumption, income and expenditure patterns. Following the trend in developing countries, food consumption shares in Cambodia are higher for poorer households – two-thirds for the poorest 20 percent and less than half for the richest 20 percent in 2007 (World Bank 2009b) –and, with more of the poor residing in them, the rural areas. Rice remains the key staple across all income groups and source of calorie intake; in fact, food security in the country has been viewed in terms of sufficiency of rice consumption (Sedara *et. al.* 2002). None among the other cereals serve as ready substitute for rice. Fish and vegetables are the next most important constituents of the Cambodian consumption bundle (meat only appears to figure prominently in urban diet). Setting this structure of household consumption against dietary diversity requirements, the food insecure were found to be concentrated in rural Cambodia (Figure 2.2).

A shock's impact on food security will differ for the net food buyers and net food sellers. Contrary to what is likely to be assumed, many even among the households in agriculture-based rural areas suffer from food deficit. About 40 percent of surveyed rural households in Cambodia were found to be net rice buyers; the figure was about 80 percent for urban households (Figure 2.3). Since many of the urban net food buyers are likely richer households that devote a smaller share of their income to food, the problem of urban food insecurity really falls heavily on the urban poor. Many of the net food sellers also only have small surplus to bring to market.

As Cambodia experienced remarkable output growth prior to the recession, incomes in the country also rose, enabling households to better cope with inflation. Even while food prices for instance went up between 2004 and 2007, per capita real daily consumption improved (13 percent in rural areas, 36 percent in Phnom Penh and 27 percent in other urban areas) and poverty headcount against the food poverty line decreased (1.3 percent, 2.4 percent and 2.0 percent respectively) over the same period (World Bank 2009b). Having felt the second-round effects of the global crisis only by the second half of 2008, Cambodia still managed to grow by about 6.7 percent in the said year (based on MoEF data), connoting a 5 percent increase in per capita income relative to 2007 (NIS, <http://www.nis.gov.kh/nis/NA/NA2008.pdf>).

### 2.2.3. Production Profile

The agricultural supply response to food price movements during a crisis also partly determines how food security is ultimately affected by the shock. Rice production in Cambodia significantly increased over the years, enlarging the surplus available for export. Paddy production in particular grew by 8 percent between 1998 and 2007 (FAOSTAT Production, <http://faostat.fao.org/site/339/default.aspx>). This was well below potential however. Agricultural yields in Cambodia have actually lagged behind those in its neighbours owing to such problems as lower mechanisation, poorer fertiliser use, and poorer infrastructure. Land insecurity is another long-standing issue, struggled with by both poor and rich households. Compounding the problem during the food crisis was the escalation in the prices of intermediate inputs.

In the short-run, the supply response to price signals is expected to be limited because agricultural inputs are considered mostly invariable in a short period of time. The response should become more noticeable in the longer-term as producers become more able to deal with the production constraints.

#### **2.2.4. Government responses**

The ultimate impact of a shock on food security is also partly determined by government interventions because such interventions can distort prices and enhance the ability of households to cope with the crisis, directly or indirectly. For aid-dependent countries as Cambodia, donor support is critical in meeting the budgetary needs of crisis responses.

The measures implemented by the government to boost domestic rice supply and stem inflation included rice export curbs and distribution of rice from government stockpiles at subsidised prices. The rice export ban was imposed in late March 2008 and lifted merely two months later. Three provinces along the Vietnamese border were also exempted from the ban. These together with the considerable informal trade along the borders limited the effectiveness of the export prohibition. Through its company, the Green Trade, the government also sold rice, reportedly about 300 tonnes of it, below market prices (Morning 2008, UN Cambodia 2008).

Other prominent government responses were the increase in civil service salaries and allowances and extension of soft loans by the state-owned Rural Development Bank to the Green Trade and private millers (UN Cambodia 2008, Naron 2008, Demeke *et al.* 2009). The former measure was clearly meant to enhance real incomes while the latter was intended to financially assist public and private players in augmenting their rice stockpiles.

With support from development partners, the government also discharged automatic stabilisers via existing and new safety net schemes. Prominent among them were the school feeding and food-for-work programmes and the Emergency Food Assistance Project funded by the ADB (ADB 2009).

#### **2.2.5. Impact**

The food crisis made it difficult for Cambodia's success in reducing hunger to continue. Rice being the key staple in the country, the hike in its price had the most important implication for food security in the country. The transmission of world price changes to local rice prices may have been incomplete but the pass-throughs were still significant.

CDRI research overall uncovered a deterioration in household consumption and use of several coping mechanisms during the food crisis. Tong (2009) found a reduction of about 8 percent in the food consumption of surveyed households between March 2008 and September 2008. CDRI (2008) on the other hand found that more than half of its surveyed households reported decreases in the quantity and quality of food

consumed as well as buying food on credit. The degree of deterioration likely differed for various household clusters however. The biggest impact was likely to have been on the urban poor, given that a huge share of urban households was found to suffer from food deficit though only marginally in the case of the richer families. With many of the rural households also being net food buyers, the concentration of food insecurity in rural Cambodia must have also increased. CDRI (2008) found that food insecure households made cutbacks in food consumption and credit purchases more often. Among its surveyed households, So (2008) also found that the poor suffered the most from the food crisis; it struck the poor hardest because most of them are net food buyers and possess only small plots of land.

The higher prices by contrast presented opportunities for net food sellers. CDRI (2008) found that at least three percentage points more of its surveyed households planned to cultivate more land. As mentioned earlier however, there are a number of constraints to agricultural intensification that are hard to address at least in the short run. CDRI (2008) reported the same challenge as having been faced by its surveyed households. Still, even without the production increase, income improvements resulted from the price hikes. CDRI (2008) revealed a 38 percent increase in the gross profit margins of rice sellers despite the significant rise in production costs. The spread of these benefits may have been limited however because, as mentioned earlier, many of the net food sellers are only marginal players.

The significant deterioration in food consumption suggests that the nutritional impact of the food crisis must have been serious for select groups in Cambodia. It is unfortunately not possible to provide a more quantified description of this impact due to data limitations. One finding at least is that the wasting prevalence among children below five years of age increased from 8.4 to 8.9 percent, while underweight prevalence among the same group climbed from 28.2 to 28.8 percent between 2005 and 2008 (Figure 2.4). The prevalence of diarrhoea among children below five also rose from 22 to 30 percent over the same period.

### **2.3. Impact of the Global Financial and Economic Crisis**

#### **2.3.1. Price Trends**

The global financial and economic crisis put a stop to the exceptional price surges of the food crisis. Price levels though remained above average over the period of the recession, reinforcing the concerns that higher food prices are here to stay. The world food price index kept falling from the second quarter of 2008 until March 2009 when it started rising again. Like in the case of other food commodities, international rice prices remained higher than their pre-food crisis levels.

As the Cambodian economy began feeling the effects of the global meltdown, inflation in the country also eased. Overall inflation year-on-year went as low as -5.7 percent in May 2009, with the food inflation in particular decreasing year-on-year to -6.7 percent. The rice price index declined year-on-year by about 21 percent also in May 2009. Non-food price inflation, particularly transport and utility, likewise eased. With the recent

rebound in the economy, food and non-food prices have however started rising again (Figure 2.1).

The decline in domestic rice prices seemed more and less volatile than that in world rice prices, suggesting the continued influence of government interventions. Gasoline prices registered increases but less than during the food crisis and those in global markets, similarly suggesting the impact of government interventions. Meanwhile, fertiliser prices seemed to have fully absorbed the change international prices.

### **2.3.2. Impact on Household Income**

Even as it temporarily relieved inflationary pressures, the economic downturn adversely affected food security. Deflationary trends have both winners and losers, the latter referring especially to those who increased production investments on the expectation that the price hikes seen during the food crisis would continue longer. The impact of the economic crisis on food security in Cambodia was also largely channeled via its effects on household income which in turn affected consumption. The four major causes of income deterioration during the recession were: higher unemployment and underemployment, wage declines, reduced remittances and greater difficulty in accessing credit.

#### ***2.3.2.1. Employment and Wage Effects in Growth Sectors***

Available information suggests that over the period of the recession, unemployment and underemployment in Cambodia increased. This was particularly true for three of the country's four growth sectors, garments, construction and tourism, being the hardest hit by the crisis. CDRI research found a general reduction in job availability of about 30 to 40 percent as well as cuts in working hours and overtime work, although non-crisis related factors were also held responsible for the observed deterioration in welfare (Theng & Kem 2009a, 2009b; So 2009). As an effect of the global downturn and intensified competition in the post-quota environment, about 52,000 garment sector jobs were shed from September 2008 to August 2009 (Figure 2.5). The total monthly payroll in the garment sector also reportedly went down by about USD3.4 million over the same period (Prasidh 2009). Meanwhile, the construction slump reportedly resulted in 100,000 job losses (Pou 2009). In the case of tourism, a survey of 72 hotels showed that 30 to 50 percent of workers were let go in 12 hotels while working hours decreased by 30 to 50 percent in the remaining hotels (*Phnom Penh Post*, 30 July 2009).

Jobs absorbed in agriculture, the fourth growth engine, must have mitigated however the worsening of the employment situation, although perhaps not that significantly given the already low absorptive capacity of the sector. The informal economy must have also helped in absorbing workers laid off from the formal sectors. Unfortunately, earnings from working in agriculture and many jobs in the informal economy are lower than the earnings from working in the other growth sectors.

CDRI research provides additional evidence of consequential reduction in earnings among the vulnerable. Eight of ten surveyed vulnerable worker groups were found to have experienced substantial reductions in average real daily earnings over the period of the economic crisis, although these declines took place at different times. Interestingly, the two groups dependent on agriculture, rice field workers and vegetable traders, saw their average real daily earnings increase between November 2007 and November 2008 when food prices rose, and then decline between November 2008 and November 2009 when food prices dropped (Tong and Pon 2009).

### **2.3.2.2. Slowdown in Remittances**

Domestic remittances form part of the income of many Cambodian households across all income groups –17 percent of the poorest and 18 percent of the richest in 2007. Smaller shares of households across all clusters also benefit from international remittances (Figure 2.6). As they comprise a larger share of their incomes however, remittance transfers have greater importance for poorer households.

CDRI research revealed that not only did sharp declines in urban-to-rural remittances occur during the downturn; reverse remittances, that is from rural to urban, were also seen (Theng & Kem 2009a, 2009b; So 2009). As for international remittances, there were indications of a drop in transfers to Cambodia. Thailand and Malaysia, the top two destination countries for Cambodian migrant workers, were also severely hit by the global crisis. Increased job insecurities in said countries along with the crackdowns and caps on new migration flows imposed by their governments must have restrained remittance flows bound for Cambodia.

### **2.3.2.3. More Limited Credit**

Debt dependence plagues the poorest the most –nearly half of the poorest group versus 20 percent of the richest group had outstanding credit in 2007 (Figure 2.7). Their need for it may be greater but credit access is more limited for the poor.

One major impact of the financial and economic crisis in Cambodia was the squeeze in private sector credit. Borrowing costs also increased. This admittedly hurt rich households but because of their higher debt dependence and fewer income alternatives, the poorer groups must have experienced greater deterioration in welfare as a result of such adverse developments. CDRI research found that indebtedness increased among interviewed households while credit became more difficult to obtain at the same time over the period of the recession. Income declines and savings depletion compelled people to borrow money from microfinance institutions, private lenders, and social networks. Debt proceeds were then used to repay debt, finance migration of household members, and even purchase food (Theng & Kem 2009a, 2009b; So 2009).

### **2.3.3. Impact on Agricultural Production**

As intimated earlier, not all emerge as winners from price de-escalation. The drop in prices during the recession may have benefited net food buyers but it resulted in

losses especially for those net food sellers who contracted loans in order to make additional production investments. Rice farmers may have been fortunate as rice demand continued to be strong but cassava and rubber growers suffered from the steep cutback in demand for and prices of their outputs owing to the slump in global industrial production. Still, that price levels remained above average and/or have rebounded must have served as incentive to revive agricultural production.

In Section 2.2, it was discussed how the immediate agricultural supply response to the price hikes during the food crisis appeared to be limited. Because most production constraints can only be overcome in the longer-run, significant supply response to price signals generally occur after some time lag. This appeared true in the Cambodian case. Between April and June 2008, the period when international rice prices peaked, rice export values and volumes actually plunged by more than 50 percent. Thereafter however, they experienced significant increases. The monthly year-on-year growth of rice export values and volumes climbed by 430 and 280 percent respectively on average from July 2008 to November 2009 (Figure 2.8). An FAO brief on Cambodia (FAO-GIEWS 2009) also indicated that rice surplus in 2010 is likely to reach a record-level given the bumper harvest in December 2009 to February 2010. The production increase was attributed to the expansion of cultivation areas encouraged by higher food prices.

#### **2.3.4. Government Responses**

Agriculture is a pillar of the government's poverty reduction strategy. This is at odds with the historically low public investment and aid in the sector. Only 1 percent of GDP on average was devoted to it between 1998 and 2006 (World Bank 2009a) while aid levelled at about 5.5 percent of the total in the past years (CDC-CRDB 2008). As discussed earlier, the flagging investment in agriculture was identified as the major longer-term cause of the food crisis.

A key response of the government to the economic shock was to run a bigger budget deficit in order to accommodate bigger spending. This intensified the pressure on financing and sectoral competition for funds. One resounding critique of the budgetary allocations made was the prioritisation of military and defence over priority sectors, leading which is agricultural and rural development. Despite the warnings about food insecurity that were raised by the food and economic shocks, the programmed budget for 2010 kept the priority given to military and defence, much at the expense of agriculture (see for instance *Phnom Penh Post*, 2 December 2009, p. 2). Limited available information precludes assessing exactly how much aid was funnelled to agriculture during the recession. No cutbacks in total aid commitments were announced in 2009 and reported delays in disbursements were attributed to the usual problems, not the crisis. Some changes in the aid plans of select donors were said to be in the pipeline however and this can intensify the sectoral competition for financial support (see Appendix A of Jalilian & Reyes forthcoming).

On top of the expansionary budget, a number of other remedial measures were implemented by the government to cushion the blow of the crisis on the economy and

the vulnerable. Growth-sector specific responses were already discussed in Jalilian *et al.* 2009 and the article by Jalilian and Reyes in this issue and thus will not be recounted here. One thing that merits explicit mention here however is while the government did not drastically increase the agricultural budget, it did enact the following measures to harness the potential of agriculture at a time when the other growth sectors were down: creation of the Agriculture Support and Development Fund, a three-year tax holiday for agricultural investment projects, and suspension of tariffs and value-added tax on agricultural inputs (Jalilian *et al.* 2009). Helping households to better cope with the higher-than-average food and non-food prices, the government also provided oil import and electricity subsidies. As during the food crisis, safety nets were other instruments utilised by the government. Food aid was dispensed through the food-for-work, school feeding and the Emergency Food Assistance programmes. New safety nets were also discharged, namely the Government Fund for Short-Term Vocational Training, Fund for Self-Employment (see Jalilian *et al.* 2009), and the EU-supported Food Security Programme and Food Facility (see Hem 2009; FAO-GIEWS 2009).

### **2.3.5. Impact on Food Security**

Food prices are a double-edged sword. Lower food prices are a boon for the food insecure but a bane for net food producers. The recession helped food security by yanking down prices from their peaks during the food crisis but it also put it at risk by likely having discouraged production and investments in some cases. As prices however really remained above average during the downturn, the recession aggravated food insecurity more by slashing incomes, thereby forcing sacrifices in consumption. Income deterioration, as discussed earlier, resulted from the higher unemployment and underemployment, wage declines, deceleration in remittance flows, and more limited access to credit consequent of the economic crisis.

Cambodia's growth sectors, garments, construction and tourism, were hit hard by the global meltdown. They also additionally suffered from non-crisis related misfortunes (see the article by Jalilian & Reyes in this issue). Growth sector activities have been concentrated in urban areas; hence, with most urban households being net food buyers but only marginally so in the case of the rich households, the impact of the economic crisis on food security must, again, have affected the poorer urban groups more. Many growth-sector workers however come from rural areas and send remittances to their families residing there. This implies that the slump in urban activity also had important implications for rural food security.

CDRI research uncovered strong evidence of worsening in food security particularly among the vulnerable. Significant declines in the quantity and quality of food intake of interviewed households were found, so were reductions in consumption specifically of luxury items (Theng & Kem 2009a, 2009b; So 2009). Another research puts the average declines in food and non-food consumption at a significant 32 and 10 percent respectively between September 2008 and September 2009. Rice consumption in particular fell by 36 percent on average over the same period (based on data from Poverty Dynamics Study).

Data limitations preclude providing a more quantified depiction of the nutritional impact of the economic crisis; still, reported setbacks in food consumption suggest that such impact must have been significant. Government interventions may have tempered the harsh impact though likely only modestly given funding limitations and problems with the administration of safety net programmes. Informal safety nets, which are just as important as formal ones in Cambodia, must have had limited reach as well. Assistance from contacts in social networks for instance apparently also dwindled because such contacts were similarly hurt by the economic downturn (see Jalilian *et al.* 2009; Theng & Kem 2009a, 2009b; So 2009).

Above average food prices must have translated to positive income changes but sizeable improvements must have been mainly received by the net food sellers who had huge surplus to bring to market. Smallholders struggling with production constraints must have reaped only marginal benefits. If profits get wisely translated to investments, more considerable income gains can result in the longer-run.

In sum, the global crisis reversed Cambodia's achievements in poverty reduction. It was estimated that it can increase the 2007 poverty headcount of about 30 percent by 1-4 percentage points by 2010 (World Bank 2009c). Based on the estimated economic contraction of 2.2 percent in 2009 relative to 2008 (IMF 2009), per capita income declined by 2 percent last year.

#### **2.4. Conclusions**

A sustainable recovery from the food and economic shocks requires a rethinking of the country's agricultural and rural development strategy. Doubts may be raised regarding agriculture's role in long-term growth but in any case, it cannot be denied that it still has a lot of untapped potential. An important problem to address is the lack of linkage between government priorities and actual budgetary allocations. Public investment must not be considered as a substitute for private investment and aid. The amount of public spending in agriculture must be increased while its efficiency is also improved. More investment must be geared towards smallholder development given the characteristics of Cambodia's agriculture. Export development must be the other goal so as not to miss the higher profits that come with higher value added products. With the future of the Doha negotiations uncertain, the country must move to exploit the benefits under regional initiatives instead; for this purpose, it has to improve its agricultural competitiveness. Stemming the impact of any future shock on the food security of the vulnerable also calls for the overhaul of the current social safety net system. The possibility of another crisis in the immediate future is not far-fetched. Thus, the time for decisive action is now.

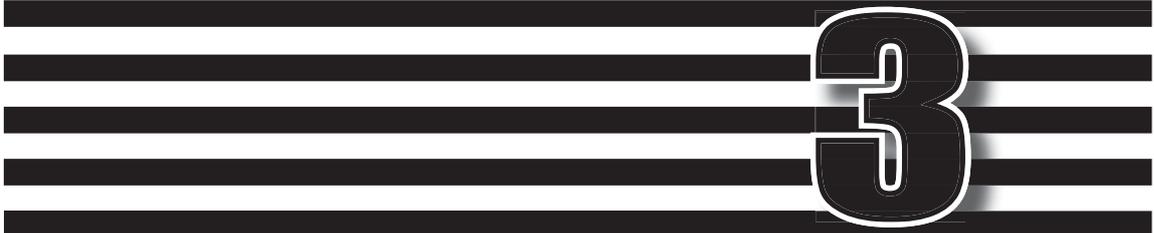
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# 3

## **How did Cambodian Rural Households Cope with Shocks from Food and Oil Price Increases?**

**By TONG Kimsun**

## Chapter 3

# How did Cambodian Rural Households Cope with Shocks from Food and Oil Price Increases?

By *Tong Kimsun*<sup>1</sup>

### 3.1. Introduction

Since late 2007, the Cambodian economy has experienced a sharp increase in food and oil prices. The inflation rate reached its highest level in the past three decades at 26 percent in May 2008. The consumer price index for food rose more rapidly, by 46 percent in the 12 months to May 2008. The price of rice, the most common staple for Cambodians, jumped by 100 percent. Due to this shock, the World Food Programme suddenly halted its rice distribution to schools. Many studies attempted to assess these shocks, while a few also examined household coping mechanisms—applying descriptive analysis utilising cross-sectional household surveys and focus group discussions. Rigorous analyses are rare because they require at least two comparable cross-sectional household surveys, which many research institutes do not conduct. Panel data, which provide more advantages, are almost non-existent. With limited data availability and methodology, many scholars report that the poor were particularly affected by this price rise (see CDRI 2009). Households may buy cheaper food, reduce the amount of food consumed, sell land or other assets, purchase food on credit, take loans in cash or kind, work longer, migrate, take children out of school or increase their exploitation of natural resources in order to cope with uncertainties, i.e. high food prices, sickness and high fuel prices (So 2009; Chan 2009).

CDRI has household panel data covering the recent macroeconomic shock—specifically the food and oil price increases. This paper uses a panel data set in rural Cambodia for March 2008 and September 2008 to examine how households coped with the shortfall in consumption. Despite the fact that the annual inflation rate for food registered 13 percent in September 2007, 35 percent in March 2008, before increasing to its highest on record, 46 percent, in May 2008<sup>2</sup>, our panel data indicate that average total consumption per capita in March and September 2008 was at least 20 percent higher than in September 2004 and March 2005. Therefore, we treat variables

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1 Tong Kimsun is programme coordinator at CDRI. The author would like to thank Dr Hossein Jalilian for comments on an earlier draft. The views expressed are those of the author and do not necessarily reflect the views of CDRI.

2 The inflation rate (all items) registered above 10 percent in December 2007, 20 percent in March 2008 and its highest, 26 percent, in May 2008 (National Institute of Statistics).

taken from March 2008 as pre-food price crisis period.

The paper is organised as follows: Section 3.2 presents a conceptual and empirical framework. Section 3.3 summarises the data and empirical findings. Section 3.4 provides a conclusion.

### 3.2. A Conceptual and Empirical Framework

Amidst uncertainties, households face the problem of how to reconcile income fluctuations with desired stable consumption. The literature not only addresses the effectiveness of formal and informal risk-mitigating mechanisms of households (Alderman and Paxson 1992; Besley 1995; Deaton 1997; Kang and Sawada 2003b; Kang *et al.* 2005; Morduch 1994; Paxson 1992; Ravallion and Chaudhury 1997; Rosenzweig 1988; Townsend 1994, 1995; Udry 1994), but also distinguishes two strategies for dealing with income fluctuations and smoothing consumption: risk managing and risk coping.

Managing strategies are defined as ex-ante action intended to smooth income in the face of risk and uncertainties (Alderman and Paxson 1992), for instance: income (crop) diversification, inter-cropping, flexible investment, use of low risk technologies, special contracts such as sharecropping (Goh *et al.* 2005), goods and services transactions based on ethnicity or kinship (Fafchamps 2000).

Coping strategies are ex-post action to reduce consumption fluctuations resulting from income fluctuations. A number of previous studies have identified various household coping strategies such as self-insurance and mutual insurance schemes (Alderman and Paxson 1992; Besley 1995; Coate and Ravallion 1993; Glewwe and Hall 1998; Kang and Sawada 2003a, 2005; Morduch 1995; Rosenzweig 1988; Ogaki and Zhang 2001; Townsend 1995; Udry 1994). Government could respond to macroeconomic shocks by expanding social safety nets (Cox and Jimenez 1990; Cox *et al.* 1998)

We utilise the empirical framework suggested by Glewwe and Hall (1998) and Goh *et al.* (2005). The consumption growth equation that we want to estimate in order to identify a household's risk management and coping mechanisms can be written as

$$\hat{C} = X_{it}\beta_1 + X_{it+1}\beta_2 + v_{it+1} \quad (1)$$

where  $\hat{C}$  is the per capita annual household consumption growth rate,  $X_{it}$  is a vector of explanatory variables at time  $t$ ,  $X_{it+1}$  is a vector of explanatory variables at time  $t + 1$ ,  $\beta_1, \beta_2$  is a vector of parameters to be estimated and  $v_{it+1}$  is an error term. The subscripts  $i$  and  $t$  index household and time.

The vector  $X_{it}$  is expected to capture the initial household characteristics and risk managing mechanisms such as support from government and non-government organisations, remittances or loans. The initial household characteristics include household size, number of children aged below 14 and of elderly aged above 60 and human capital, represented by educational level, age and occupation of household head. Dummies for household in the second, third, fourth and fifth quintile of consumption

distribution, household head marital status and male-headed households are also included. The vector  $X_{it+1}$  is intended to capture realised coping strategies such as additional loans. Remittances or loans received at the beginning of the period, before actual income is known, could serve as ex-ante risk managing devices, and additional loans when income fluctuates serve as ex-post coping devices.

Following Glewwe and Hall (1998) and Goh *et al.* (2005), we use OLS regressions with the Huber-White robust standard errors to correct for heteroskedasticity.

### 3.3. Data and Empirical Results

This study utilises Poverty Dynamics Study (PDS) data collected in March 2008 and September 2008. The surveys covered nine rural villages (see Chan and Acharya 2002; Fitzgerald and So 2007 for detailed village characteristics and sampling method) and were expected to identify the determinants of chronic and transient poverty<sup>3</sup>.

#### 3.3.1. Descriptive Statistics

**Table 3.1: Descriptive Statistics** (in riels per day at March 2008 prices)

Variables	March 2008		September 2008		% Change (Mean)
	N	Mean	N	Mean	
Household size	1003	5.76	1003	5.70	-1.04
Total income	999	4647.6	1001	4270.97	-8.10
Farm income	674	2944.22	679	2923.51	-0.70
Off farm income	640	1850.45	585	1249.93	-32.45
Common property resource income	924	1256.83	900	1263.66	0.54
Other income	328	954.11	804	524.47	-45.03
Debt (formal and informal loans)	499	198.16	372	152.01	-23.29
Total expenditure	1003	3989.11	1003	3533.58	-11.42
Non-food	1003	1312.7	1003	1081.96	-17.58
Food	1003	2676.41	1003	2451.62	-8.40
Number of households	1003		1003		

*Source: CDRI survey data 2008*

Table 3.1 presents the descriptive statistics of the panel households employed in this study. Income and expenditure variables were converted into real values by using the consumer price index in Phnom Penh. Between March and September 2008, total income dropped by 8 percent. The major income components, i.e. farm income and income from common property resources, remained stable while off-farm income and income from other sources declined by 32.5 percent and 45 percent, respectively.

<sup>3</sup> The study is under way at CDRI and should be ready for comment soon.

In the same period, debt, including both formal and informal loans, decreased by 23 percent; the number of indebted households declined by 25 percent from March to September.

Due to the fall in income, total expenditure shrank by 11 percent between March and September 2008. The largest drop, 18 percent, was in the consumption of non-food items, followed by 8 percent for food. Despite the fact that food consumption fell in absolute terms, it accounted for 69 percent of total household expenditure in September—2 percentage points more than in March. This suggests that households were restricting consumption of non-food items to protect food consumption.

**Table 3.2: Per Capita Total Real Consumption** (in riels per day at March 2008 prices)

	March 2008	September 2008	%Change
Household Head Gender			
Male	4136.80	3622.48	-12.43
Female	3466.54	3233.14	-6.73
Household Head Educational Levels			
No school	3651.50	3337.33	-8.60
Elementary	3839.89	3528.66	-8.11
Secondary	4818.62	3778.70	-21.58
Tertiary and higher	4579.35	3916.18	-14.48
Household head			
Inactive labor	3651.37	3316.55	-9.17
Active labor	4040.75	3577.25	-11.47
Household			
With loan(s)	3999.94	3561.32	-10.97
Without loan	3978.39	3517.23	-11.59

*Note: Inactive labor refers to household head whose are disable, too old to work and engage in housework.*

*Source: CDRI survey data 2008*

Table 3.2 indicates that male-headed households experienced a larger shortfall in total consumption than female-headed households. Households with fewer educated heads had a small decline in total consumption (female household heads tend to be less educated than male heads). A similar situation holds when household heads are classified as labour active or not labour active. However, both results contradict the hypothesis that households with well-educated heads and working household heads are less vulnerable. Households that have borrowed from a commercial bank (Acleda), micro-finance institutions or informal sources seemed to have no smaller a decrease in total consumption than those that did not borrow. Taking the amount of debt and the number of indebted households into account, it is likely that households with access to credit may not absorb shocks by obtaining loans for consumption.

Table 3.3 reports the growth of average consumption in various categories by quintiles.

It shows that households in the lowest quintile experienced a smaller shortfall in both food and non-food consumption than those in higher quintiles. All quintiles, excluding the middle one, reduced non-food consumption more than food consumption. Like Table 3.1, Table 3.3 reveals that average Cambodian households are more likely to restrict their consumption of non-food items during shocks.

**Table 3.3: Per Capita Real Consumption by Quintiles** (in riels per day at March 2008 prices)

Quintile of total consumption	Total Consumption		Food		Non-food		Total Consumption	Food	Non-food
	Mar 08	Sep 08	Mar 08	Sep 08	Mar 08	Sep 08	% change March-September 2008	% change March-September 2008	% change March-September 2008
	1 (lowest)	2100.2	1969.6	1674.8	1571.6	425.4	398.1	-6.22	-6.16
2	2836.9	2619.5	2190.5	2030.6	646.4	589.0	-7.66	-7.30	-8.89
3	3403.3	3143.8	2605.4	2394.0	797.9	749.8	-7.62	-8.11	-6.03
4	4266.0	3796.6	3039.1	2795.5	1226.8	1001.1	-11.00	-8.02	-18.40
5 (highest)	7426.4	6207.1	3906.8	3496.0	3519.6	2711.1	-16.42	-10.51	-22.97
All	3889.1	3553.6	2676.4	2451.6	1312.7	1082.0	-8.63	-8.40	-17.58

Source: CDRI Survey Data 2008

Mean household expenditure declined by 13 percent while mean per capita expenditure fell approximately by 11 percent (Table 3.4). That per capita consumption decreased less than household consumption indicates that ex-post coping strategies such as household members' mobilisation were not observed. Conversely, it is widely documented that family members move in together to exploit economies of scale of consumption during economic downturns; particularly individuals from the poorest urban households migrate to rural areas, where the cost of living is lower and there are more opportunities to earn.

**Table 3.4: Per Capita and Household Real Consumption** (in riels per day at March 2008 prices)

	March 2008	September 2008	% change March-September 2008
Per capita consumption	3989.11	3533.58	-11.42
Per household consumption	17721.78	15454.67	-12.79

Source: CDRI survey data 2008

Table 3.5 indicates household mobility to different quintiles during the food price increase. More than 42 percent of households in the lowest and highest quintiles remained in their original quintiles while only 19 percent in the middle quintiles did. About 57 percent of households belonging to the fourth and fifth quintiles in March

2008 moved into lower quintiles in September 2008. Approximately 41 percent of households in the third quintile in March 2008 moved into the second and first quintile in September 2008. It appears that there was great mobility in the third, fourth, and fifth quintile toward lower quintiles, and there is no evidence that the lowest and second quintiles were harder hit by the food price increase.

**Table 3.5: Transition Matrices of Households by Quintile of per Capita Expenditure, March–September 2008 (%)**

Quintile March 2008	Quintile September 2008					Total
	1	2	3	4	5	
1	42	22	16	11	8	100
2	26	22	24	16	10	100
3	15	26	19	23	17	100
4	11	19	27	22	20	100
5	6	11	13	27	43	100

*Source: CDRI survey data 2008*

Table 3.6 shows that transfers from family members, government and political parties changed significantly during 2008. Despite the real value of private transfers dropping by 29 percent between March and September 2008, the number of rural residents receiving transfers in September increased by 152 percent from March. During the same period, households receiving transfers from NGOs and government declined, and the value also dropped by 12 percent. There was a notable increase in number and value of transfers from political parties from March to September. This is mainly due to the general election held on 27 July 2008. In a month-long campaign, most political parties delivered T-shirts and hats as gifts to villagers.

**Table 3.6: Transfers, per Capita per Month (in riels at March 2008 prices)**

Source	March 2008		September 2008		% change March- September 2008  (Mean)
	N	Mean	N	Mean	
Remittance	42	50673.69	106	35731.48	-29.49
NGO and government	62	30292.95	56	26663.46	-11.98
Political parties	153	582.65	748	724.88	24.41

*Source: CDRI survey data 2008*

### 3.3.2. Regression Results

The discussion in the previous section provides an overview of the households' experiences in our sample during the food price increase, but it does not give us the quantitative sense of the shock. This section complements our descriptive analysis with the econometric assessment on one measure of welfare, log per capita consumption.

**Table 3.7: Determinants of Per Capita Consumption (Fixed Effects)**

Variables	Log total consumption March-September 2008	Log food consumption March-September 2008	Log non-food consumption March-September 2008
Dummy=1 if survey conducted in Sep.	-0.101***	-0.080***	-0.110***
Household size	-0.004	0.0174*	-0.064***
Education of household head	0.002	-0.001	-0.001
Dummy=1 if head is male	-0.013	0.014	0.007
Age of household head	0.001	0.00003	0.005*
Dummy=1 if head is married	0.042	-0.017	0.138
Number of children below 15 years	0.018	-0.032**	0.133***
Number of elderly above 60 years	-0.014	-0.004	-0.006
Dummy=1 if indebted	0.018	-0.0003	0.091**
Dummy=1 if head engaged in service	0.053**	-0.009	0.144**
Dummy=1 if head engaged in light industry	0.017	0.045	-0.018
Dummy=1 if head engaged in agriculture	-0.002	-0.02	0.052
Dummy=1 if received remittance	0.028	-0.014	0.144**
Dummy=1 if received public transfer	-0.02	0.0009	0.06
Quintile 2	0.285***	0.269***	0.325***
Quintile 3	0.438***	0.426***	0.466***
Quintile 4	0.650***	0.592***	0.773***
Quintile 5	1.059***	0.804***	1.397***
Constant	7.545***	7.378***	5.737***

Note: \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

Source: CDRI survey data 2008

The empirical estimations from fixed effect panel data regression technique are reported in Table 3.7. It shows that the educational level, sex, and marital status of the household head are not statistically significant. This suggests that more highly educated persons are not always able to find a better job, and there is no difference between having a male and female household head or married and single household head. The age of household head coefficient is positive but not statistically significant even at

the 10 percent level for both total and food consumption, indicating that the head's working experience is not a major determinant of consumption. It should be noted that household head's working experience has a positive effect on non-food consumption. Household heads engaged in services such as small trade or transportation tend to have higher total consumption, particularly non-food items, than those in agriculture and light industry. It is well known that larger families and those with many children are on average poorer than others (Ministry of Planning 2006). Despite that, we found that larger household size has a negative effect on non-food consumption but a positive impact on food consumption. Households with more children aged below 15 years spend less on food and more on non-food components. This may be due to many factors: for example, more family members may contribute to income earning activities during hardship, or households may continue spending on education to avoid withdrawing children from school.

Having more adults aged over 60 does not entail disadvantage. Indebted households were likely to use credit to expand consumption, especially on non-food items. Households receiving remittances were more likely to increase non-food than food consumption. The dummy variable reflecting before and after crisis has a significant negative coefficient for all items of consumption, suggesting that the decline in the non-food component is the largest and in the food component is the smallest, which is consistent with the finding in our earlier section. However, it is worth noting that the consumption pattern in rural Cambodia varies between dry (January–June) and wet (July–December) seasons. Fitzgerald and So (2007) have noted that households typically reduce food and non-food consumption when income or food security is low, i.e. in the wet season. This result does not take the seasonal variations into account.

The empirical estimation from equation (1) is presented in Table 3.8, which provides more precise evidence on the vulnerability of households and their coping strategies. The result suggests that the vulnerability of female-headed households is not greater than that of male-headed households. Household heads with high educational level are not less vulnerable than others, which is not as suggested by Schultz's (1975) hypothesis. Larger households do not seem to perform better than small households during a food crisis. No significant differences were found between households with more and fewer children younger than 15. This result contradicts the traditional literature, which found that larger households are to some extent protected from consumption shortfall and households with children younger than 15 tend to trade food consumption for educational spending (i.e. non-food) (see Goh *et al.* 2005). There is weak evidence that households with more elderly are more vulnerable to macroeconomic shocks. Credit does not appear to have served as either an ex-ante or ex-post coping strategy, nor do public transfers. To manage consumption over time, households tend to use remittances as ex-post coping strategy. Household heads engaged in agriculture seem to perform better than those in industry and services. Household heads engaged in services are likely to reduce non-food spending in order to maintain food consumption. Livestock played a critical role in preventing consumption shortfall during the food price increases. Evidence from other countries in Asia suggests that livestock are sometimes seen as important assets to help smooth consumption during the lean season or common shocks (Kurosaki 1995).

**Table 3.8: Determinants of Change in Per Capita Consumption (OLS)**

Variables	Change in Log total consumption March-September 2009	Change in Log food consumption March-September 2009	Change in Log non-food consumption March-September 2009
Household size	-0.010	-0.003	-0.036**
Education of household head	0.002	-0.0009	0.011
Dummy=1 if head is male	0.037	0.063	-0.095
Age of household head	0.001	0.001	0.001
Dummy=1 if head is married	0.038	0.024	0.046
Number of children below 15 years	-0.013	-0.002	-0.013
Number of elderly above 60 years	-0.027	-0.039*	-0.006
Dummy=1 if indebted in Sep.2007-Mar.2008	0.004	0.006	-0.059
Dummy=1 if indebted in Mar.2008-Sep.2008	0.042	-0.003	0.144**
Dummy=1 if owned agriculture land	-0.033	0.012	-0.065
Log non-land asset	0.005	0.006	-0.005
Log livestock	0.008***	0.011***	-0.001
Dummy=1 if head engaged in service	0.018	0.099***	-0.164**
Dummy=1 if head engaged in light industry	-0.005	-0.004	-0.088
Dummy=1 if head engaged in agriculture	0.066**	0.066**	0.016
Dummy=1 if received remittance in Sep.2007-Mar.2008	-0.021	0.067	-0.195
Dummy=1 if received remittance in Mar.2008-Sep.2008	0.092**	0.063	0.144
Dummy=1 if received public transfer in Sep.2007-Mar.2008	0.005	-0.012	0.001
Dummy=1 if received public transfer in Mar.2008-Sep.2008	-0.001	0.05	0.070
Quintile 2	-0.230***	0.216***	-0.311***
Quintile 3	-0.284***	-0.321***	-0.250***
Quintile 4	-0.482***	-0.443***	-0.607***
Quintile 5	-0.743***	-0.546***	-1.027***
Constant	0.017	-0.111	0.642***
R-squared	0.2673	0.1892	0.1837
Sample size	1003	1003	1003

Source: CDRI survey data 2008

### 3.4. Conclusion

Using two-period panel data collected in March and September 2008, this paper investigated how rural households cope with shocks to their income. We find that livestock plays a very important role in protecting consumption shortfall and households head engaged in agriculture sector appear to perform better than others. Rural households tend to use remittance as ex-post risk coping strategy during the food price crisis.

There was no evidence that credit and public transfers were utilised for ex-post or ex-ante coping. A possible explanation for this finding is the credit crunch as a result of tightened monetary policy, and the fact that social safety nets were not yet in place. We have noted that ex-post coping strategies such as household members' mobilisation were not observed. Larger households do not seem to perform better than small households. Female-headed households are neither more nor less vulnerable than male-headed households. This is contrary to the common acknowledgement that large households benefit from economies of scale during a crisis, and that female-headed households are more vulnerable than male-headed households. Households with more elderly are more vulnerable than others.

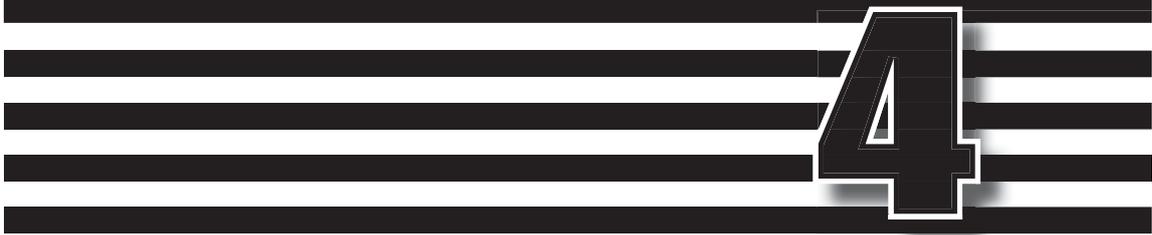
This empirical result also shed some light on who is vulnerable to macroeconomic shocks. This finding suggests that a short run social protection programmes such as cash transfer, food for work, food ration stamp, and school feeding should target for larger households and those with more elderly. For the long run, a major economic structural changes i.e. an increase of human and physical assets would be more appropriate for female-headed households. Importantly, insurance and price stabilization programme are seen to be the most important policy instruments. Nonetheless, a similar study needs to be done to see the detail characteristics of the vulnerable groups, to investigate why they are more vulnerable, and identify the best mechanism for protecting those groups.

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# 4

## **Informal Risk Management and Safety Net Practices in Economic Crises in Cambodia: Experiences of Poor and Vulnerable Workers and Households**

**By SO Sovannarith**

*with significant support from*

**Dr TONG Kimsun and PON Dorina**

## Chapter 4

# Informal Risk Management and Safety Net Practices in Economic Crises in Cambodia: Experiences of Poor and Vulnerable Workers and Households

*By So Sovannarith with significant support from Dr Tong Kimsun and Pon Dorina\**

### 4.1. Introduction and Methodology

Creating and strengthening social safety nets, along with policy responses to the negative effects of the global economic crisis, have become a main focus of governments and development partners for reducing poverty and boosting growth. Poverty reduction can occur both through preventing the non-poor from falling into poverty and through lifting those in poverty out of it. Growth is important for lifting people out of poverty, but it needs to be complemented by policies to ensure that the benefits of growth are broadly shared (and in particular that they reach the poor) and that the non-poor do not slip below the poverty line. Safety nets can help with both of these concerns. They also enable poor and near-poor households to participate in growth so that they can catch up with their better off neighbours. Society benefits too, because the poor with access to safety nets are better able to contribute to social and economic development through higher and more diversified productivity and by maintaining consumption demand.

Risks are a part of everyday life in Cambodia. In many cases, people dip in and out of poverty over the course of their lives as a result of shocks and lifecycle events (marriage and setting up home, arrival of children, old age and death in the family). Recent economic growth, development assistance and interventions have improved livelihoods, but the capacity of the poor to cope with unexpected crises or risks is still in need of improvement and protection.

A number of formal social protection programmes exist, such as health equity funds, school feeding programmes, child and mother vaccination and nutrition programmes, social pensions for retired government officers (Chan & Ear 2004) and self-help groups formed by non-government organisations (NGOs) (rice banks and saving schemes) to help the poor, women, the elderly and vulnerable people in rural areas (Fitzgerald & So 2007; Phlong 2009). These have not been strong enough to provide a safety net for the poor. Schemes are applied in a "patchwork" fashion: they cover certain risk groups or geographical areas, sometimes overlapping and sometimes missing vulnerable groups; some are more efficient than others; they involve multiple and often contradictory targeting systems.

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\* So Sovannarith is researcher, Dr Tong Kimsun is programme coordinator and Pon Dorina is field work coordinator at CDRI. It would not have been possible to produce this article without critical inputs from other CDRI research team members, including Dr Theng Vuthy, Kem Sothorn, Chhim Chhun, Phann Dalis and Khieng Sothy.

There is a growing debate in Cambodia on development outcomes for the poor and new thinking in policy circles on how to build a new safety net policy and programme. This assessment is timely, in that it can provide food for thought for policy makers and provide them and development practitioners with insights into how poverty reduction is affected by the economic downturn and how the poor currently deal with risks, largely in the absence of a formal government safety net. It is hoped that better understanding of existing informal safety nets will inform the design of more effective government nets, which complement rather than contradict informal practices while filling the gaps that informal arrangements cannot provide for.

This article derives from the findings of a CDRI-World Bank rapid assessment of impacts of the economic crisis on Cambodian households. The assessment was originally designed to observe quarterly and analyse the impacts on vulnerable workers and rural households. It started in May 2009 and will be completed in February 2010. Assessments so far were completed in May, August and November 2009. While the overall findings will be synthesised in a CDRI report in March 2010, this article specifically reviews existing informal arrangements for risk management and assistance that are relevant to poor and vulnerable workers and households. It explores a number of research questions:

- What are the current informal safety nets? Whom do people turn to when they suffer income or consumption shocks? Do different types of household draw on different sources of support?
- Have these practices changed in the past 18 months? If so, how?
- How strong is social solidarity now? What forms of support are people drawing on?
- How pervasive are private charitable efforts?
- Have donor-driven NGO charitable efforts undermined or strengthened traditional informal safety nets?
- What interactions exist between informal safety nets and village or commune/*sangkat* authorities?
- What methods are people using to cope with the economic crisis?

Qualitative research methods (semi-structured interviews and focus group discussions—FGDs) were originally designed to explore these questions. Table 4.1 indicates the respondents and sites selected for the interviews. Semi-structured interviews were held with 47 rural poor and vulnerable workers and with nine village chiefs to explore in depth their experiences in the 12 and six months prior to the first data collection in May 2009. Interviewees were purposively selected from households interviewed by CDRI as part of the 2008 Poverty Dynamics Study (a follow-up on household surveys conducted in nine villages in 2004–05) and from sites accessed in the vulnerable workers survey conducted early in 2009.

**Table 4.1: Samples and Sites of Interviews with Vulnerable Workers and Households**

<b>Vulnerable workers</b>	<b>No.</b>	<b>Location</b>
<b>Cyclo drivers</b>	2	Kandal Market, Phnom Penh
<i>Motodup</i> drivers	2	Kbal Thnal Market, Phnom Penh
Small vegetable traders	2	Daeum Kor Market, Phnom Penh
Porters	2	Neak Meas Market, Phnom Penh
Scavengers	2	Stung Meanchey dump, Phnom Penh
<b>Unskilled construction workers</b>	2	Tuol Kork Primary School, Phnom Penh
<b>Skilled construction workers</b>	2	Construction sites in Tuek L'ak 1 sangkat, Phnom Penh
Waiters/waitresses	2	A restaurant, Phnom Penh
<b>Garment workers</b>	5	Sakal Textiles (1 respondent),* June Textiles (2 respondents), Long Va Textiles (2 respondents) Phnom Penh
Restaurant and hotel employees	2	Siem Reap town
Tuk tuk drivers/small vendors	2	Siem Reap town
<b>Rice field workers</b>	2	Daun Vongs village, Kandal
Rice field workers	2	Pael Hael village, Kompong Speu
<b>9 Poverty Dynamics Study villages</b>	18	2 from each village: Andoung Trach and Krasang (Battambang), Khsach Chi Ros and Dang Kdar (Kompong Thom), Kanhchor (Kratie), Prek Kmeng (Kandal), Ba Baong (Prey Veng), Trapeang Prei (Kompong Speu) and Kompong Tnaot (Kampot).
Village chiefs	9	1 from each village
Total interviews	<b>56</b>	21 in PP, 4 in Siem Reap, 2 in Kandal, 2 in Kompong Speu and 27 in PDS villages.

*Note: Bold with indicated number means one or more FGD was conducted as part of quantitative survey or expanded sample of vulnerable worker survey reported in section 4.3.1 in addition to the interviews held for this FGD component of the study. The three FGDs held as part of the Poverty Dynamics Study were in Trapeang Prei, Ba Baong and Kompong Tnaot. Sakal Textiles is also known as Hny Cbean Textiles and 6 Floor Textiles (colloquially).*

For the second and third rounds in August and November 2009, only FGDs were conducted with the same group of workers and rural households. Additional findings reflect the experiences of these sample groups only: caution should be used when extrapolating that data to wider groups. The report is divided into four main sections. Section 4.2 reviews discussions about the impact of the economic crisis on employment and livelihoods, on the poor in particular. It also summarises what we know from other studies about informal safety nets in Cambodia, social and economic risks faced by rural households and the strength of existing informal safety nets. Section 4.3 begins with a review of empirical evidence of impacts of the economic downturn on the income and consumption of vulnerable workers from the CDRI quantitative

survey of vulnerable workers<sup>1</sup>. It then presents in-depth findings on risk management strategies that poor and vulnerable workers use. Section 4.4 concludes by discussing the implications of the findings for policy and further study.

## 4.2. Literature Review

### 4.2.1. Impact of Economic Crisis on Growth, Employment and Poverty

Before the global financial crisis, Cambodia had achieved fast growth from a low base (World Bank 2007) compared to other developing countries in the region, to become one of the 10 fastest growing economies in the world. The global crisis has hit hard trade, key sectors of economic growth and overseas remittances, and has potentially caused a decline in official development assistance (Jalilian *et al.* 2009). A fall in employment in modern sectors is seen as the result of a significant setback in key economic sectors, namely garments, tourism and construction, between mid-2008 and late 2009. Most garment factories are owned by foreign investors and target the US and EU markets. The volume and value of garment exports fell by 17 percent and 24 percent respectively in the first half of 2009. Between September 2008 and February 2009, 130 garment factories shut down, laying off 51,000 workers—15 percent of the employees in this leading sector.

Likewise, the double-digit growth of tourism dropped to around 9 percent in 2009. The slowing of tourist arrivals was more rapid between the fourth quarter of 2008 and the first quarter of 2009. The slowing of this sector was caused by complex factors, both crisis related (a decline in tourism from countries such as South Korea and Japan) and non-crisis related (e.g. the internal political conflict in Thailand, which is a major gateway for tourism to Cambodia). In recent months, the downturn has been reversed, but very slowly. The recovery is supported by an increase in tourism from Vietnam and seasonal domestic tourism. However, the spending of foreign tourists remains cautious, with limited impact on income and employment for tourism workers.

The construction sector contributed 6.7 percent of GDP in 2007 after-double digit growth in 2005 and 2006. It provided about 299,000 jobs (3.6 percent of the Cambodian

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1 CDRI has conducted a quarterly survey of four selected vulnerable worker groups—cyclo drivers, porters, small vegetable traders and scavengers—in Phnom Penh since 1998. The survey was enlarged in 2000 to cover six other groups: motor taxi drivers, unskilled construction workers, skilled construction workers, waiters/waitresses, garment workers and rice-field workers (Kandal and Kompong Speu provinces). The total sample is 480: 120 garment workers and 40 in each of the nine other groups. In the May 2009 survey, which was partially funded by the World Bank, CDRI included two additional groups: migrant workers (20 interviews in Battambang) and tourism workers (20 interviews in Siem Reap), increasing the total sample to 520. In August and November 2009, 20 interviews each of migrant workers and tourism workers were added; thus the total sample reached 560. The sample was purposively selected at the location, largely in urban areas, and consisted of currently employed or self-employed workers; hence, the results are not representative of each economic activity and cannot be used to determine which economic sector has absorbed laid-off workers.

labour force) in 2007. Construction projects have been financed predominantly by foreign investors and companies that are highly vulnerable to crisis in their own countries. Combined with the border conflict with Thailand, the global financial crisis decelerated construction growth along with the decline of foreign direct investment in real estate development in Cambodia since the second half of 2008. Many commercial and residential construction projects have been suspended. Consequently, about 30 percent of construction workers had lost their jobs as of late 2009. Many of these laid-off workers have no choice but to return home (Jalilian *et al.* 2009).

Overseas remittances fell from 4.2 percent to 3.4 percent of GDP in 2008 and were expected to decline further in 2009. Cambodian cross-border migrants were estimated at around 349,000 in 2005. Their main destinations are Thailand, South Korea, Malaysia and Indonesia. Many of them are employed in unskilled and informal illegal occupations (CDRI 2009b) and are likely to have been hard hit and may have returned home because of the crisis in recipient countries. The knock-on effects of these returned and laid-off workers on their households' welfare may be less severe since agriculture has not been affected by the recent crisis. Agriculture is believed to be a buffer helping to prevent many rural households and laid-off workers from slipping or falling deeper into poverty. Despite debate on the linkage between strong economic growth and poverty reduction in Cambodia (World Bank 2006, 2007), the crisis is likely to push many people deeper into poverty. Cambodia is ranked as high poverty-high vulnerability after Ghana, Zambia, Bangladesh and Benin (Overseas Development Institute 2009). Poverty remains high in the region, although it fell from 45 percent in 1994 to 30 percent in 2007 (World Bank 2007). Grebmer *et al.* (2009: 13) warn that Cambodia is one of the countries in south-east Asia that have severe hunger; its situation is worse than in neighbouring countries such as Thailand, Vietnam and Laos PRD according to the global hunger index (Grebmer *et al.* 2009).

#### **4.2.2. Risks and Livelihood Outcomes for the Poor**

Risks can be defined as economic and social shocks that often result in welfare losses or livelihood insecurity (Devereux 2001). Risk and income shocks or threats to livelihood are often used interchangeably (World Bank 2006). Risks/shocks are caused by internal and external changes to which people find it difficult to adapt. This often results in undesirable livelihood outcomes from which the poor may recover only in the long term, if at all (*ibid*).

Risks can be conceptualised on a continuum, from idiosyncratic—that is, affecting some individuals or households but not others—to covariant—affecting many people at the same time. Common examples of idiosyncratic risk are accidents or non-epidemic illnesses; income shocks in the form of unemployment or falling earnings; death of a household member, entailing reduced labour and funeral expenses; household breakdown through domestic violence, drinking, gambling or divorce; and household-level crop damage or business failure. Examples of covariant risk are community or regional natural disasters (e.g. flood or drought); war, civil conflict or gang violence; widespread (endemic or epidemic) disease; and regional or national economic crises.

Better off and fast-growing villages and better off households in poor villages tend to have greater capacity to cope with shocks (Fitzgerald & So 2007). The poor and other vulnerable groups, such as elderly and disabled people, are more susceptible to risks because they have lower total income, limited savings, fewer assets and less human capital (Devereux 2001). Impacts of risks on the poor and vulnerable are more immediate and serious, and far more damaging to their physical and mental well-being and long-term development. Women and children are more likely to suffer when the family faces difficulties. A loss in income for the poor may result in their being forced to sell land, livestock or other productive assets, to send their children to work rather than to school or to eat less (CDRI 2008). Such measures may help families survive from day to day but make it much harder for them to escape poverty in the future (Fitzgerald & So 2007). They may also contribute to poor labour relations and social instability (Ballard *et al.* 2007).

Poor and vulnerable people who have limited assets or savings often seek assistance (rice or cash) from relatives, friends or better off neighbours in times of need. Otherwise, they may collect edible or saleable products from forests, lakes and common lands and/or borrow from others. Such practices can be termed informal systems for risk sharing and management: they serve as informal safety nets for the poor and have prevailed in Cambodian society for generations<sup>2</sup>. They have changed over time but are still commonly practised among close relatives, extended families, friends and social networks. These informal safety nets are being damaged by the cash economy, by increasing inequality and by the failure of certain development interventions (Devereux 2001).

#### **4.2.3. Livelihood- and Income-Related Risks of Rural Cambodian Households**

Three recent CDRI poverty studies allow some initial analysis of risk sharing and management and informal safety nets in rural Cambodia. The CDRI Moving out of Poverty Study (MOPS) in 2004–05 (Fitzgerald & So 2007) reported that 699 (about 79 percent) of 890 panel households had experienced livelihood crises<sup>3</sup>. The result of these was a loss of 735,000 riels per household, equivalent to the loss of rice production from one hectare of land or a quarter of total income. Illness or death of a family member (49.2 percent) was a prominent livelihood shock, followed by crop

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2 Information about mutual assistance in Cambodia can be found in Murshid (1998) and McAndrew (1998).

3 With financial support from World Bank in Cambodia, CDRI conducted the MOPS in nine selected rural villages in seven provinces (Battambang, Kompong Thom, Kompong Speu, Kandal, Prey Veng, Kratie and Kampot). The study villages can be grouped into four main ecological zones (Mekong plain, Tonle Sap plain, plateau and coastal). The main objectives were to analyse factors influencing village growth and development, poverty and movement in and out of poverty of individual households from 2001 and 2004–05. The study used a mixed methods approach, including a quantitative survey of 1010 households, qualitative FGDs with seven to nine different groups in each village and interviews with four selected households in each village, in order to obtain in-depth community and individual life experiences in relation to movement in and out of poverty.

failure caused by natural disaster or pests (32.8 percent), animal death (10.2 percent), being cheated or theft (3.8 percent), business failure or unemployment (0.5 percent) and other risks (3.4 percent). Natural disasters resulted in income loss and livelihood hardships in all villages. Crises immediately deplete the assets of better off households, reduce consumption and lead to distress migration and child labour among poor households.

The Asian Development Bank Participatory Poverty Assessment of the Tonle Sap, carried out by CDRI with the National Institute of Statistics, covered 24 villages in six provinces around the Tonle Sap Lake in 2004 (Ballard *et al.* 2007). Using qualitative research methods, it provided in-depth information about livelihood risks experienced by the poor and very poor<sup>4</sup>. It suggested that food security was the major concern of people in the area, where the majority of the poor face food shortages for about six months a year. The very poor have enough food to eat for only about one or two months a year, since they have no land or only a very small plot. Health-related problems, frequent natural calamities such as floods and droughts, severe debt and serious conflicts over control and access to natural resources are the main catastrophic risks of the poor and very poor in the Tonle Sap area. Fish and forest resources, which traditionally served as a strong safety net, have declined catastrophically over past two decades, due to demographic pressure and recent mismanagement of the implementation of natural resource management policy.

Another relevant CDRI study is the baseline survey conducted in 11 inland and floating villages of the Tonle Sap Lake in December 2008 (Koy & Em 2009). This study covered 638 poor and very poor households among 1590 households in eight villages under two projects supported by the ADB. The study concluded that about 70 percent of the poor and very poor suffered from a number of risks between the end of 2007 and October 2008. Of these, health problems or death of a family member (57 percent), followed by high food prices (12 percent) and indebtedness (11 percent), were the main concerns. The study also suggested that theft of farm equipment was a rising concern for fishing and inland communities in the area. About 4 percent of the poor and very poor suffered a loss of agricultural equipment in the period.

Although the three studies were conducted at different times, in different locations and with different research objectives, information about livelihoods and income risks was captured in each. The three studies indicate that the three main risks and threats to livelihoods are: 1) health problems, 2) severe indebtedness and 3) shrinking employment opportunities. Major constraints on livelihood improvements kept the poor and very poor impoverished in all study villages, and seemed to have worsened as a result of the recent rising food prices and economic downturn (CDRI 2008).

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4 The study used a variety of participatory rural assessment tools, including FGDs, social mapping, wealth ranking and natural resources mapping in the 24 villages. Villages were purposively selected based on three criteria: 1) commune poverty levels; 2) household livelihood activities; and 3) geographical location relative to the Tonle Sap, main roads and markets. On average, 10 FGDs and 12 individual interviews were conducted in each village between February and September 2005.

#### 4.2.4. Informal Safety Nets for the Rural Poor and Vulnerable

In Cambodia, traditional forms of mutual help and support include offering food, exchanging labour or animals and providing temporary accommodation and loans at no interest to those in need. When people face livelihood risks such as illness, food shortage or lack of draught animals, labour or equipment for farming, in the absence of formal safety nets<sup>5</sup>, they often ask for help from relatives/friends, better off neighbours, monks or pagoda committees. Such informal safety nets are a part of community social capital, and contribute towards social, economic and community development and food security (Krishnamurthy 1999). Systems are made up of informal networks, working on the basis of trust, cooperation, solidarity and community spirit (AFSC 2000; Kim 2001). They can also be viewed as informal risk mitigation or resource sharing between the "haves" and "have nots" within and across communities.

Forms of mutual help are based on kinship, family obligation and informal networks (Kim 2001; McAndrew 1998; Phlong 2009). These might be: exchange of labour, exchange of animals, sharecropping, sharing of household equipment, renting, informal credit arrangements, information exchange, provision of food, lending of money at no interest and self-help initiatives (e.g. funeral associations). Such practices are infused by Buddhist beliefs in karma (doing good in order to achieve a better situation in the next life) and by generations of family and community ties.

These practices were particularly strong in the pre-war period (Kim 2001). People shared food, draught animals and farming equipment without charge, based on reciprocity, community norms and obligation. When people had no food they could go to better off neighbours or the pagoda for help. Exchange of labour for farming and exchange of animals were also common. Overall, community spirit, solidarity and cooperation served as a strong informal safety net for the poor and vulnerable for generations.

Such practices were revitalised after the collapse of the Khmer Rouge regime. However, since the mid-1990s they have been reshaped and eroded by the free market and the cash economy, for several reasons. Rapid population growth has increased livelihood competition and depleted natural assets such as fish and forests, as well as common lands that used to serve as the main sources of livelihoods and coping mechanisms for poor and vulnerable people in rural areas (Ballard *et al.* 2007; Fitzgerald & So 2007). Recent uncontrolled privatisation and mismanagement of natural resources have had direct and indirect adverse effects on coping mechanisms as well as on community

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5 Formal non-contributory transfer services targeting the poor and vulnerable, such as 1) cash transfers or food stamps including child allowance or social pensions; 2) in-kind transfers with food via school feeding programmes or mother/child supplement programmes or take-home food rations, school supplies and uniforms; 3) price subsidies benefiting households, often for food or energy; 4) jobs on labour-intensive public work schemes/workfare; 5) in-cash or in-kind transfers to poor households such as specific conditionalities on education or health; 6) fee waivers for essential services, health care, schooling, utilities or transport, all of which are not included in the scope of this assessment.

solidarity and collective actions to help the poor (Ballard *et al.* 2007; Fitzgerald & So 2007; World Bank 2006).

It is getting harder for the poor to find enough food to feed family members and children during the economic downturn. Traditional forms of safety net, such as access to common property resources, have become more restricted or are no longer available. Assistance, if any, comes from close relatives and friends, but this is often not enough for the poor to cope with crises.

**Table 4.2: Coping Strategies and Assistance Received by Households in Difficulty in Three CDRI Surveys**

	% of 699 MOPS households, 2004–05*	% of 450 poor and very poor households, 2007 to October 2008**	% of 481 households in difficulty receiving assistance in 6 months prior to survey in June 2008***
<b>Household coping strategies</b>			
Use savings	68	18.4	
Take loan	31	78.9	53
Members migrate to find work	15	1.8	
Sell animals	11	2.2	
Reduce consumption	14	3.3	
Child labour	8	1.6	
Sell agricultural outputs	3	1.1	
Sell agricultural land		0.9	
Work harder		1	
Sell physical assets		1	
Rent out land		1	
<b>Help and support received</b>			
Support from friends/relatives	15	12.2	36
Assistance from NGOs	1	2.4	36
Microcredit			14
Free food ration for household			12
Food for children			9
Food for work			6
Seeds, fertiliser			5
Veterinary services			5
Fodder and animal feed			4
Agricultural tools			3
Food for young/malnourished children or pregnant/lactating women			
Cash transfer from social assistance programme			23
Other	12	-	

Sources: \* Fitzgerald & So (2007); \*\* Koy & Em (2009); \*\*\* CDRI (2008)

A new informal safety net has also been observed in recent years. Given the dramatic depletion of natural resources and stagnant or decreased local earning opportunities, the poor are adopting emigration as an alternative coping strategy or source of income. Migration is full of risks, such as being cheated or robbed at destination. Some workers have adopted a strategy of joining together in a group to protect themselves against such threats, at least since the late 1990s (AFSC 2000).

The pattern of change is confirmed in Table 4.2, which shows the coping strategies used by people in the nine MOPS villages (Fitzgerald & So 2007), in the ADB baseline survey in December 2008 (Koy & Em 2009) and in the households interviewed in the survey on the impact of high food prices (CDRI 2008).

When food prices are high, help and support from relatives are considered as important as assistance from NGO development programmes. Formal assistance was still scarce or not available to the rural poor in MOPS villages in 2004–05. CDRI (2008) found that 53 percent of 716 households faced difficulties between January and June 2008 and had to take loans to buy food, pay for children’s education, expand business, buy clothes, cover health expenses, buy agricultural inputs, animals or animal feed, build a house or make social contributions.

In MOPS villages, only 15 percent of 699 affected households received support from close relatives or friends in 2004–05. A similar pattern was observed for the poor and very poor in Koy & Em (2009) between 2007 and October 2008: only about 12 percent of 450 risk-affected households received support from close relatives. No respondents reported receiving food or any kind of assistance from the pagoda.

The majority of households (68 percent) used their savings to cope with risks in 2004–05. The fact that everything involves cash now means that reserves run dry, especially during periods of high food prices (CDRI 2008). From the end of 2007 to October 2008, about 79 percent of the poor and very poor in Tonle Sap villages were taking loans, whereas only about 18 percent had their own savings to cope with livelihood and income risks. People are also now tending to be more individualistic.

Apart from credit institutions, alternative sources of support for the poor and vulnerable are still not available or are very rare. As a result, in MOPS villages, out of the 890 panel households<sup>6</sup>, about 15 percent had fallen into poverty, whereas about 21 percent felt that their poverty had deepened between 2001 and 2004–05 (Fitzgerald & So 2007). The majority of the poor and the very poor had become more vulnerable and exposed to high social and economic risks and changes in social structure, including through divided families, separation, labour migration and death of parents from HIV/AIDS.

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6 The same 890 individual households were interviewed in 2001 and again in the 2004–05 survey.

### 4.3. Empirical Evidence from the Rapid Assessment

#### 4.3.1. Impacts of Economic Downturn on Income and Consumption of Vulnerable Workers<sup>7</sup>

This empirical evidence is drawn from the CDRI quarterly vulnerable worker survey in 2009. The survey suggests that most vulnerable workers have been hard hit since late 2008 by lower income and consumption caused by the economic downturn. However, they had experienced mixed signs of recovery in November 2009. For example, waitresses/waiters and garment workers showed some signs of recovery (Annex 3); skilled and unskilled construction workers were less affected (Annex 1); motor taxi drivers, cyclo drivers and rice-field workers were likely to continue to deteriorate (Annex 2); while scavengers, porters, migrant workers and vegetable traders were inconclusive (Annex 4).

The average real daily earnings of all nine non-garment worker groups decreased by 3 percent, from 8099 riels (USD1.95) in November 2007 to 7862 riels (USD1.89) in November 2009. Compared to November 2008, the real daily earnings of the nine groups dropped by 18 percent. Cyclo drivers, vegetable traders, motor taxi drivers and rice-field workers experienced an earnings decline in a range of 8 percent to 20 percent<sup>8</sup>. Meanwhile, porters, skilled construction workers and waitresses/waiters increased their average real daily earnings by between 8 percent and 24 percent. A mixed picture was observed for scavengers and unskilled construction workers. Scavengers' real daily earnings in November 2009 fell by 16 percent from the same period in 2007, but their real daily earnings edged up by 1 percent compared to November 2008. Unskilled construction workers' real daily earnings in November 2009 went up by 8 percent over the same period in 2007, but down by 7 percent compared to November 2008.

Average real daily consumption of all nine non-garment worker groups in November 2009 amounted to 3456 riels (USD0.83)—an increase of 0.33 percent compared with November 2007. Taking sampling design and measurement error into account, their average real daily consumption was likely unchanged. Compared to November 2008, the average real daily consumption of all nine groups slipped by 12 percent<sup>9</sup>. Nevertheless, their real daily consumption in November 2009 fell only by 2 percent from August 2009—23 percentage points less than the drop between May and August 2009.

The survey asked all respondents to state whether they thought that their daily income in 2010 would change from 2008. As shown in Figure 4.1, the proportion of non-garment workers who felt uncertainty about their earnings in 2010 dropped from 43

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7 This section is heavily drawn from Tong & Pon (2009).

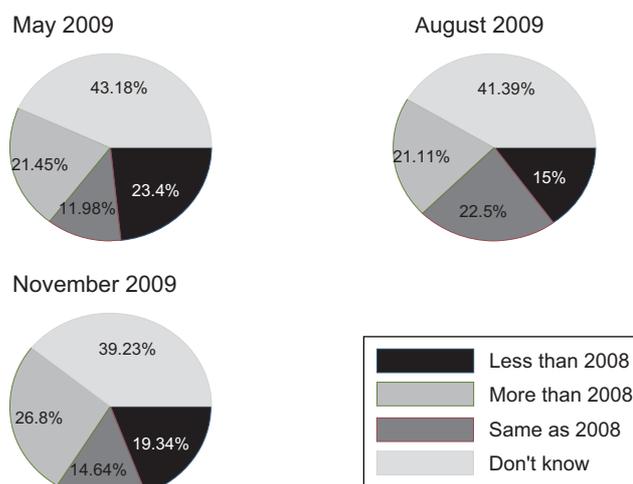
8 Compared to November 2008, the decline in their real daily earnings widened to 23–42 percent.

9 Porters and vegetable traders experienced an increase in their average real daily consumption regardless of comparison period (i.e. either November 2007 or 2008).

percent in May to 39 percent in November 2009. Similarly, the proportion considering that their income in 2010 would be less than in 2008 fell by 4 percentage points from May to November. In November, the proportion believing that their income would increase in 2010 jumped by 5 percentage points from May.

The real daily earnings of tourism workers increased in two consecutive surveys, to 26,370 riels (USD6.34) in November 2009. Their real daily consumption also doubled, to 10,991 riels (USD2.64) from August 2009. In contrast, the real daily income of migrant workers dropped by 16 percent, to 5983 riels (USD1.44) in November 2009 from 7104 riels (USD1.70) in August. During the same period, migrant workers' daily consumption grew by 16 percent. Sampling design and measurement error may bear some explanation for the increase.

**Figure 4.1: Nine Non-Garment Worker Groups' Views on Income in 2010**



Forty-four percent of tourism and migrant workers in November 2009 expected to have a higher income in 2010—5 percentage points fewer than in August but 6 percentage points higher than in May (Figure 4.2). These two groups were more optimistic about 2010 than both other non-garment workers and garment workers.

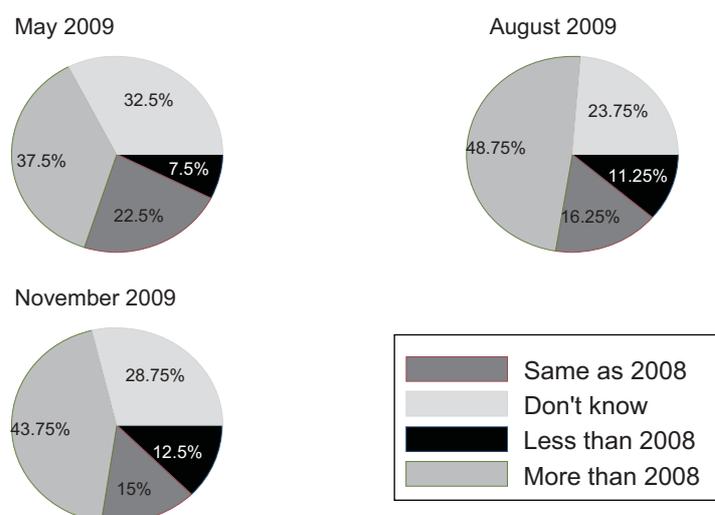
The average real daily earnings of garment workers continued upward in the November 2009 survey, indicating that the garment sector had started to rebound. In November 2009, garment workers' daily earnings went up by 10 percent, to 7745 riels (USD1.86) from 7029 riels (USD1.75) two years earlier. Compared with November 2008, the average real daily earnings of garment workers climbed by 18 percent. In November 2009, 36 percent of garment workers surveyed said that they had not worked overtime in the previous week—the same figure as in August 2009 and 10 percentage points lower than in May 2009. There was a gradual increase in the proportion of garment workers who said that they had worked overtime frequently, from 15 percent in

February, to 20 percent in May, 23 percent in August and 27 percent in November 2009.

The average real daily consumption of garment workers in November 2009 grew 8 percent over the same month in 2007, less than in February and May but more than in August. Compared with August 2009, garment workers' real daily consumption rose by 3.6 percent, and by 3.5 percentage points more than in November 2007. The real daily savings of garment workers amounted to 2362 riels (USD0.56) in November 2009—the highest recorded for garment workers in 2009.

In the November 2009 survey, 21 percent of garment workers expected that their income in 2010 would be more than in 2008—almost the same rate as in February 2009 and 3 percentage points lower than in May 2009 (Figure 4.3). Fifty-three percent of garment workers said that they did not know what their income would be in 2010—10 percentage points more than in August and 16 percent more than in May. This suggests that the outlook for earnings in garments is still uncertain.

**Figure 4.2: Tourism and Migrant Workers' Views on Income in 2010**

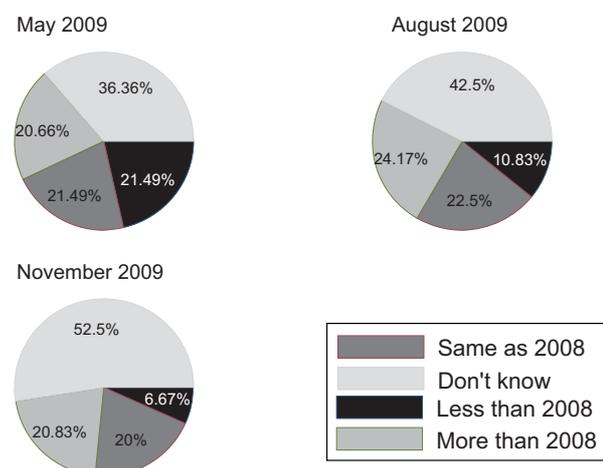


As shown in Annex 5, male workers' real daily earnings are higher than female workers'<sup>10</sup>. The real daily earnings of male workers amounted to 9706 riels (USD2.34) and of female workers to 7218 riels (USD1.74) in 2009. Compared with 2007, male workers' real daily earnings jumped by 18 percent while female workers' rose 19 percent. Male workers' real daily earnings fluctuated sharply during 2009, while female workers' real daily earnings increased gradually—suggesting that female workers are less vulnerable than male workers. To some extent this result is consistent with the study conducted

<sup>10</sup> Garment workers are excluded from this section analysis.

by Tong (forthcoming), which found that female-headed households do not appear to be more vulnerable than male-headed households.

**Figure 4.3: Garment Workers' Views on Income in 2010**



### 4.3.2. Risks and Livelihood Threats

The poor in rural areas and vulnerable workers faced a number of risks in the 12 months to May 2009. Some shocks occurred before the crisis and were still causing hardships in the period captured by this assessment. With limited savings and assets, the poor often spend longer recovering from shocks, and almost all household members have to work harder to do so. Impacts of risks have been intensified and the ability of poor and vulnerable workers to cope with them has further eroded as a result of decreased income and employment opportunities.

Cambodia is struggling to respond to three major events—the border conflict with Thailand, high prices and the global financial crisis—in order to sustain employment and growth for poverty reduction. However, some risks the poor face may not relate at all to these events, but rather to abnormal weather or depletion of natural resources. With limited assets and human capital, poor and vulnerable workers are susceptible to even greater risks when their income declines and their employment is uncertain.

Ill health or death of a family member remains a major cause of indebtedness, impoverishment and migration for the rural poor. Almost all interview respondents and FGD participants experienced family members falling seriously sick within the 12 months prior to May 2009. Diseases commonly reported by poor respondents were high blood pressure for the elderly, liver and lung problems for both the elderly and adults, fevers and colds for all age groups and a few cases in rural areas of malaria, kidney stones and abortion. Some were pre-existing conditions but difficulties and inability to cope were exacerbated by the decline in income from mid-2008. A few respondents, such as vendors, waiters/waitresses and *motodup/tuk tuk* drivers reported fewer severe health problems. Illness and/or death of family members were cited as

a main cause of impoverishment among scavengers, unskilled workers, cyclo drivers and urban garment workers.

Ill health or death of a household member results in an immediate loss of savings and pushes the poor into debt or into withdrawing earners from work to take care of the sick person. Consequently, the poor experience a decline in income and food access and quality. Only a few poor respondents reported selling land, animals or other durable assets to seek a cure for sick family members and/or to buy food. With limited savings and assets, all the poor people interviewed had to take loans from moneylenders or micro-finance institutions (MFIs) to cope with health shocks. Children in most poor respondent households had been taken out of school to help earn income or to care for sick family members. Fitzgerald & So (2007) indicate that drastic measures such as these may help a family survive from day to day.

However, such circumstances were confirmed as leading to long-term hardship and impoverishment by the poor participating in the assessment, because families then lacked the labour power to earn enough to buy food or cope with future household and individual risks. Some became poorer after the death of a family member, whether an elderly member or the main earner. Savings and/or loans are used up buying treatment and food and paying for funeral expenses. Other household members struggle to earn enough to repay the loan and to buy food for the children. Although some pro-poor health care services targeting the poor are now available, health care remains unaffordable for many. Declines in income over the previous six months had pushed many poor respondents further into debt, making them more vulnerable and susceptible to future risks.

All poor and vulnerable workers reported a decline in volume of work and income, starting mainly from late 2008. All respondents had the same amount of food as before, but it was of lower quality. They remarked on their sense of livelihood uncertainty. Respondents will become worse off and be more vulnerable to unexpected risks if this uncertainty of employment and income continue.

Between 2001 and 2005, according to the MOPS, employment opportunities had stagnated or even declined in most rural villages. However, the follow-up in 2008 showed that the situation had recovered during the boom: plenty of jobs were available, especially in villages where land was still available for conversion to subsistence or commercial production. By this stage, wages were two times higher than in 2005. The poor landless in these villages benefited from increased demand for their labour and from higher wages, and at least earned enough to buy food during the time of high prices between January and October 2008.

However, also during 2008, the poor in villages where livelihoods depended heavily on wet season rice production experienced stagnant or even declining earning opportunities. They adopted migration as a coping strategy.

The situation changed rapidly in late 2008. Wages remained high but opportunities began to fall, for all. The poor in Poverty Dynamics Study villages and vulnerable

workers in Phnom Penh and Siem Reap, who are mostly migrants from other areas, started to feel a reduction in demand for their labour and in the amount of work available. The decline in work then became more rapid, and demand reduced by half in May 2009 compared with in October–November 2008.

For example, the words of a rice-field worker in Pael Hael village, Kompong Speu, highlight the common experiences of vulnerable workers. Demand for hired farming labour in the village declined by 30–40 percent in the wet season. Laid-off garment and construction workers returned home to carry out cultivation.

*In the past six months, jobs have decreased in number dramatically. Many rice farmers, who used to hire me to work for them transplanting or harvesting, have no more money to hire labour as before. They have to work themselves ... Their children used to work as garment workers and construction workers in Phnom Penh and now have no work and have to return home to help their parents to cultivate rice ... If I find any work, I receive only 4000 riels now, down from 6000 riels for 40 bunches of seedlings, including pulling them up and transplanting them. It is hard for me now to earn enough income for the family because there are not many jobs available for me. My family has become worse off than two years ago ... I need to spend more time in search of work, going from one place to another, but receive lower pay. I don't know when this situation can become better.*

Garment workers who were still employed reported no more overtime work. Waiters/waitresses in Siem Reap experienced a 20–30 percent reduction in customer numbers; only very few costumers were giving tips. Like other vulnerable workers, waiters/waitresses can buy only low-quality food and have few or no savings to send their parents or family at home. Many households with migrant members reported that remittances had reduced by half and were not as regular as in the past.

The amount of work available for unskilled workers in Phnom Penh was reduced by half within the previous six months, although the wage rate remained the same than in 2005. The incidence of being cheated (or receiving no pay from a foreman or employer) was higher than in 2007. Cyclo drivers in Phnom Penh were struggling to compete with an increased number of *motodup* and *tuk tuk* drivers. The income of *tuk tuk* drivers in Siem Reap, meanwhile, declined substantially, due to a dramatic reduction in the number of foreign tourists. Small-scale vegetable sellers also reported a substantial income drop, with fewer customers than before, looking for cheaper items or bargaining harder. Porters in the market suffered a 20–40 percent income decline due to lower demand for their services.

Changes in spending behaviour of the urban population led to changes in scavengers' income at the Stung Meanchey dump and elsewhere.

*Working as a scavenger is not enough to help me survive anymore, because I earn less than 1000 riels per day ... People in the village have stopped drinking beer, and this has reduced the amount of waste [tin cans] that I can pick up. (FGD group in Daun Vongs village, Kandal)*

*Unlike before, we can collect only plastic and paper. Very few saleable materials can be collected this rainy season. Prices for materials have reduced dramatically over the past six months compared with May 2008. For example, 1 kg of plastic bags has gone from 200 riels to 100 riels and 1 kg of cardboard has gone from 1500 riels to 400 riels. (Scavenger at Stung Meanchey dump—a migrant from a rural village)*

Rural poor and vulnerable workers are experiencing more frequent hardships than two years ago. Children in some households have been forced to stop school so they can work to help their family cope with income shocks. Except for some waiters/waitresses who are fed by restaurant owners, almost all poor and vulnerable workers report reduced quality, but not quantity, of food: they still have enough to eat despite the income decline. However, all respondents claimed that their livelihoods would be worse off and they would suffer severe food shortages or starvation if employment and income continued to be uncertain. With the decline in income and savings, many poor reported not being able to buy chemical fertilisers for their rice farming. They expected a lower yield for the current year.

Indebtedness increased between January and August 2009. Inability to repay a loan is now a grave concern among all the other risks that the poor and vulnerable face. Many respondents reported large outstanding debts to various sources, including private moneylenders, relatives and MFIs. Loans were mostly taken more than six months earlier and had accumulated within the previous six months. Loans had been used for health care or funeral expenses, building or renovating houses, offsetting food shortages, farming, repaying old loans or financing migration. A few families had fallen into severe debt because they acted as guarantor for relatives or friends when the latter borrowed from moneylenders or MFIs and could not repay, later running away.

Given the decline in income, poor and vulnerable workers interviewed cannot repay their loans. This has become a grave concern, leading to distress sales of productive assets and houses. According to the chief of Trapeang Prei village, the number of borrowers from MFIs had increased by 50 percent over the previous six months. Only a few households had been able to repay their loans. Some people had disappeared from the village. Similar cases were reported by the village chief in Kompong Thnaot, where migration has now become an alternative source of employment and income to repay loans.

Crop failure and animal death remain a big problem for small-scale farmers, who are mostly cultivating one hectare or less of rice land. Some of the poor and vulnerable workers interviewed still hold small plots of agricultural land for cultivation and often struggle to improve their yields to subsistence level. Almost all interviewed households raise pigs or chickens. Returns from small-scale production are uncertain and low, determined by lack of know-how regarding prevention of pests and diseases in crops and livestock and efficient use of farm inputs, such as chemical fertilisers and pesticides. Given the lack of appropriate extension services, small farmers rarely make a good profit from their farming, and often face high risks of crop failure, animal death or loss of income and savings.

For example, poor smallholder farmers in Ba Baong reported a 30–50 percent drop in harvest in the previous crop season as a result of inability to control an outbreak of brown plant hoppers, which destroyed the dry season rice crop. Some suffered a loss of income or savings when their pigs or chickens died. Crop failure often results in immediate food shortages. Loss of income from livestock, on the other hand, means smaller short-term losses but substantial erosion of ability to repay debts and ability to cope with unexpected risks. This was the case for many of the survey respondents.

Another risk faced by smallholder farmers is fluctuation in the price of agricultural commodities. This is not new to the farming community, but the impact of the global crisis is obvious for cash crop and cassava growers in Kanhchor village. Smallholder farmers, who had just joined a producer group, were hit hard by sharp decreases in demand and prices of cassava in late 2008. Poor and vulnerable respondents and village leaders said that indigenous people, who often did not have enough savings, had to borrow money from either MFIs or private moneylenders to convert forest land to grow cassava when the price was high (around 1000 riels per kg of dried cassava in 2007). The soil in the area is good for growing cash crops and each cassava grower could obtain a net profit of around USD1000 per hectare at that time<sup>11</sup>. However, almost nobody came to buy cassava in October 2008; those who did paid only 250 riels per kg of dried cassava, according to village chief interviewed. One 45-year-old cassava grower described the problems that cash crop growers have suffered in the area:

*My family makes a living from fishing, selling labour, rice farming and other crops. For the past 12 months, we have had two main problems. The first is decreased income from fishing because no more fish can be caught, but this is not a big concern for my family. The drop in the price of cassava is a big loss of income and has made us poorer. Last year, I borrowed 2 million riels from AMK to hire other people to clear my farm land and buy fishing materials ... We got 1 tonne of dried cassava and sold it to middlemen, from whom I borrowed another 250,000 riels to grow cassava, with only 300 riels/kg to pay our loans. It is pity for us, because the price of cassava is now a bit higher, at 370 riels/kg, but we have nothing to be sold. Now we have to work harder to earn money from chopping and carrying wood for others to repay the loans and buy food.*

Natural disasters are becoming a grave concern for rural people. Some households had been affected by abnormal storms and lightning strikes in the previous six months. This is a new threat experienced by a few respondents in addition to the floods and droughts that are part of daily life in rural areas. Several houses were partly or completely destroyed in Trapeang Prei and Pael Hael villages, Kompong Speu province. Extreme weather phenomena have affected crops and animals, and seem to have been happening more frequently in the assessment villages since the mid-1990s. Although the weather has been good for cropping in the past few years, the new threats of big storms and lightning strikes have become part of livelihood risks. Village leaders in Trapeang Prei raised their concerns:

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11 See So (2009) in CDRI Annual Development Review (2009).

*Lightning strikes used to attack palms and big trees but now bit humans and animals ... Farmers now have to come home before the rain; otherwise they will be exposed to the high risk of lightning strikes. This is a big concern now. People do not dare to keep working or stay in the field during rain, as they did before.*

Fear of crime and concern for safety remain a worry, threatening the ability to make a living of rural people and migrant workers in urban areas. Crimes include theft, motorbike robbery and being cheated, meaning receiving no pay for several days' work, particularly for unskilled and construction workers. The degree of concern varies across villages, workplaces and workers, but such crimes were often alluded to by village leaders, FGDs and vulnerable workers. Theft and robbery experienced by garment workers became more frequent from late 2008. Unskilled workers, cyclo drivers and porters tend to stay together in large groups, and construction workers feel safer if they are allowed to stay on the construction sites. This assessment confirms an earlier study (AFSC 2000), which found that travelling in peer groups to and from the workplace was an effective way for garment workers and waiters/waitresses to protect themselves from violence. *Motodup* and *tuk tuk* drivers remain vulnerable to such threats. See Section 4.3.3 for more on this coping strategy.

Divorce and separation are causes of poverty. Of 11 single female household heads, all were experiencing difficulties. Among these, five said that divorce or death of a husband had caused them and their children particular hardships, and that the situation had worsened since the economic crisis. These five women all have either young children or no grown-up children to support them: the other six have grown-up children sending back remittances, which go some way towards mitigating their difficulties (although they still face debts and other hardships).

Women and children tend to experience the adverse effects of divorce: in many cases, the man leaves all the children for the woman to feed and bring up. Divorce and separation are often the final result of a prolonged household conflict that has eaten up savings and productive assets, leaving almost nothing to take care of the children and other dependants (Box 4.1). Children (mostly female in our cases) are forced to quit school at 12 or 13 in order to help their mother eke out a living.

Widows are also left in trouble by the death of the main breadwinner. Widows had found it difficult to earn enough to buy food in the previous six to 12 months. All their hope rested heavily on their children, and those widows who had no grown-up children were in an even more vulnerable position.

Although the risks brought to light here cannot be extrapolated to Cambodian society as a whole, divorce and separation remain a typical part of livelihood threats and a prominent cause of poverty, often mentioned by village chiefs. Well-being has been further eroded by declines in income and employment uncertainty. In the meantime, the effects of divorce and separation on children and society will need to be studied properly in any attempt to create an appropriate safety net.

**Box 4.1: Divorce and Separation as Major Causes of Poverty for Women and Children**

Ms Meas Sombou, a 43-year-old rice-field worker and head of a household with four children in Pael Hael village, has been divorced for almost six years. She used to be better off but became poor after her husband left her to marry a new wife in another village. Due to a lack of labour and draught animals and with four dependent children (three girls and one boy) to feed and bring up, she decided to sell her one hectare of rice land for about USD3000. She wanted to use this to repay her loans, which resulted from the long conflict with her husband before the divorce and from the limited income from farming, and to buy food for her children. She became landless then, and dependent on selling her labour to transplant and harvest rice, to earn around 8000–10,000 riels per day. Her income in the past six months has decreased by about half due to the decline in local demand for farm labour, which has happened because many farmers' sons and daughters have returned from Phnom Penh to help their parents farm after losing their jobs.

In the past seven months, she has received some assistance from neighbours and the Cambodian Red Cross (CRC). A rich neighbour is temporarily allowing her to use a small plot free of charge to cultivate vegetables for some extra income and for consumption. She also often receives food and money when she helps her neighbours organise weddings or religious ceremonies. When her house was destroyed by a big storm in January 2009, the village chief allowed her and her children to stay under his house for two months while her house was rebuilt. Several houses were destroyed at that time, and the village chief reported the cases to TV11 and the CRC. Two of her daughters (8 and 10 years old) and one son (7), were not able to go to school for a few weeks, but returned to school after they received a CRC assistance package (25 kg of milled rice, 50,000 riels, two cotton scarves, two sarongs, one plastic tent, one bottle of dishwashing soap and one packet of powdered soap) in February 2009. Before receiving CRC assistance, she also received 50 kg of milled rice through a village collection. This assistance helped her and her children to survive for a few months. However, her livelihood remains in a bad condition because there is no more work for her in Pael Hael and neighbouring villages. Her 13-year-old daughter, who quit school three years ago, joined a migrant construction worker group a month prior to data collection.

**4.3.3. Risk Sharing and Management**

Poor and vulnerable workers adopt various strategies to prepare for and respond to livelihood risks, with some risks shared within the extended family and community. The following discussion looks at what the poor do to cope with risks, including ex-ante and ex-post mitigation strategies.

***Ex-Ante Mitigation Strategies***

The rural poor adopt activities including livestock rearing and diversifying income generation if possible. Evidence from respondents and FGDs suggests that ex-ante

risk mitigation has been insufficient to allow the rural poor to cope with recent shocks, ill-health and other livelihood insecurities. Livestock are often raised in traditional ways and are highly susceptible to disease, often dying, which means loss of savings or economic inefficiency. Most of the poor in our sample had struggled to make enough money to diversify their income activities. They are often dependent on savings left after food consumption and on selling unskilled labour. None of the respondents had succeeded in creating a small business outside of farming.

The ability of the poor to recover from livelihood risk or insecurity often depends on grown-up children and siblings, who are often forced to quit school and join in unskilled and low-paid labour or migration from an early age. A few rural poor respondents had used their savings or remittances from migrant family members to prepare a small plot of land for cultivation or to increase farm inputs.

Risk-spreading strategies had often had limited effectiveness in building the capacity of the rural poor to deal with risks, and are even being eroded by the recent economic shocks.

Group working and travelling have been adopted as part of ex-ante risk mitigation and are effective ways for unskilled and construction workers, cyclo drivers and rice-field workers to protect themselves in the workplace. Workers are vulnerable to robbery, especially when they are alone on the way to and from work. They feel safer when they stay together or work in large groups, especially when travelling at night. Similar cases were highlighted by AFSC (2000): group working and travelling were seen as a useful informal social bond and association for female beer promoters and karaoke workers to protect them from attacks or rape when going home at night. In this assessment, unskilled workers in particular felt that staying in large groups not only was a way to prevent crime, rivalry and violence, but also helped promote a culture of mutual assistance, information sharing and increased job security and accessibility.

*Especially, the employers know where we are ... so that they can easily come to us when they need to hire labour. (FGD with unskilled worker group)*

Similar cases were reported by poor rice-field workers: getting together with other rice-field workers helps them get better pay.

*Six of us sell our labour together. Anyone who is in need of money does no longer needs to sell their labour in advance for half the market wage: we often lend money at no interest and then go to work in a group to obtain full pay, for example 70,000 riels for a phnom (50 bunches of rice seedlings) rather than only 35,000–40,000 riels as before. (Rice field worker in Pael Hael)*

Informal networks and relations exist and are being reshaped as a result of trust and cooperation within occupational groups, which not only help in preventing and responding to income and social shocks, but also improve employment security in times of economic crisis. Keeping good relationships with foremen and other co-

workers is important for speed and quality of work and helps workers find new jobs when old ones are finished.

*We would not have been able to move to this construction site if we had not known the foreman here. Before, when we worked for another foreman, we received no pay for a few weeks. (FGD with construction workers)*

This working arrangement is shaped by social networks and reinforces kinship and the patronage system in order to protect business profits from rivalry and violence (AFSC 2000; Fitzgerald & So 2007; Kim 2001; McAndrew 1998). The poor are otherwise often excluded from or find it difficult to join business networks or groups.

### ***Ex-Post Mitigation Strategies***

Common strategies adopted by the poor in this assessment included: 1) family members working harder; 2) use of savings or selling land to buy food or abandoning farming to become mobile labourers; 3) taking loans from relatives, friends, moneylenders and/or MFIs; and 4) asking for help from relatives or neighbours and from local authorities and NGOs. In most cases, the support received is only in the form of emergency assistance.

The poor often take their children out of school so that they can help earn an income. Recovery from shocks occurs only in the long term, and often only if grown-up children who migrate to work as garment or construction workers send remittances. The evidence is that those who face ill-health or death of a household member, and whose grown-up children cannot join rural-urban migration groups, remain worse off. They also struggle to compete with laid-off workers returning from Phnom Penh (rice-field workers in Trapeang Prei and Pael Hael and scavengers at Stung Meanchey dump).

#### **4.3.4. Mutual Help and Support of the Poor and Vulnerable**

##### ***Mutual Help***

Some individual risks are still shared within the community, with the result that villagers and extended community members contribute their resources to help affected households, including the poor. These risks include death of members, natural disasters, fire, theft and robbery. All interview and FGD respondents agreed that when people face such risks they need emergency assistance, and that there are cultural, traditional and religious obligations for people in the same community to provide assistance.

For example, when a community member falls seriously sick or dies, regardless of gender or age, other members contribute money, food and labour to organise a monk to pray for better health or safe passage from the world, and to arrange the funeral. When community members hold engagement or wedding ceremonies, the poor provide labour and receive food in return. When any household, poor or rich, is destroyed, such as by the big storms in Trapeang Prei, Pael Hael or Dang Kdar,

which killed an 18-year-old woman and ruined several houses, people provide cash or in-kind assistance. People still perceive such problems as community shocks and feel that affected households need help through collective action. After the theft of a cow in Trapeang Prei and buffalos in Khsach Chi Ros, neighbours, close relatives, friends and local authorities together helped pursue the thieves (the cow was recovered but the buffalos were not found). Some traditional forms of risk sharing and mitigation are still practised, even though they changing and being shaped by the cash economy over time (see below).

Mutual help and support prevail among the extended families of the better off but have been eroded among poor and vulnerable worker groups by recent economic shocks.

*I will not let my relatives die of hunger ... but I cannot afford to help other poor people who are not my relatives in this village. (Better off women in FGD group in Trapeang Prei)*

This was confirmed by the many poor interview respondents, who had received no assistance from their relatives because their relatives are also poor and struggling to earn enough to buy food.

*Besides my son and daughter, who are living with me, who else can help me? I have to work even though I feel sick ... Otherwise, we will have no food ... It is difficult for us now since there is not much work in this rainy season and, for the past few months, there is no remittance from my son who is working as a construction worker in Phnom Penh. He is still there. (58-year-old mobile labourer)*

*Before, people always had some money to donate to help people in the village during difficulties or events, but now things are different. We still want to help each other, but we do not have money like before ... and we need to save for our family also. How can we be kind if we are also poor? (FGD with the poor in Daun Vongs)*

Vulnerable workers often share food or lend small amounts of money at no interest for a short period. This is common among the same occupational group. These types of mutual help and support operate based on trust, relationships and being part of the same occupational group and/or from the same rural area.

*We like each other. We never have any violence in the group or towards other cyclo drivers, but instead we try to help each other during hardship like sickness or any other difficult circumstances ... We all come from rural areas ... Nobody can understand us and assist us besides ourselves and our friends. (FGD with cyclo drivers)*

However, people are more cautious now than before, for example in lending each other money, because of the uncertainty of employment. Changes in behaviour in this area were more obvious in the garment worker group. This is not surprising: garment factory workers are at more risk of being laid off since prospects of employment became more uncertain in mid-2008.

Vulnerable workers also confirmed that assistance to the poor and very poor from better off neighbours, except in cases of ill-health and funerals, has changed since the mid-1990s. More and more better off households prefer to hire labour to help them organise wedding ceremonies rather than relying on help from others, especially in villages close to urban centres. Nonetheless, as we saw above, mutual assistance is still occurring in most assessment villages.

### *Exchange of Labour*

Exchange of labour for farming between the "haves" and "have nots" is still occurring in farming communities, although the practice operates mainly among close relatives and is being encroached on by cash arrangements. Exchange of labour for farming occurs when farmers with no draught animals ask their neighbours with animals to plough their fields. In exchange, they transplant seedlings on their neighbours' land for an agreed amount of time. Alternatively, single female household heads who have animals but no male labourers in the family ask their neighbours to help prepare the land and in exchange allow them to use the animals. Evidence from the interviews was mixed with regard to whether exchange of labour still exists or whether it has disappeared since the mid-1990s. Apparently, the practice still occurs, but only among close relatives. Poor and vulnerable workers interviewed supported earlier studies that claimed that exchange of labour is no longer a preferred strategy.

Hiring farm labourers is a more cost-effective way for better off farmers to ensure that they complete their farming on time and minimise the risks of pest damage or lack of rain that often come with late cropping. There is increasing adoption of modern farming techniques, using high yield seeds, chemical fertilisers and pesticides and mechanisation. These techniques are not labour intensive and involve cash expenditure, so exchange of labour is not appropriate. This trend is observed alongside the depletion of natural resources and increased concentration of land, landlessness and reliance on a cash economy. The poor in particular are landless, or rely on selling their labour for survival; they have nothing left with which to participate in such traditional practices.

Exchange of animals for raising is still commonly practised among the rural poor. This operates based on trust, cooperation and mutual solicitude among extended families and patronage networks, and between the "haves" and "have nots", to ensure that animals are taken care of through traditional reciprocity and informal social networks. According to FGDs with vulnerable workers and interview respondents, some NGOs, such as World Vision, Heifer and HelpAge International, are reactivating or strengthening animal exchange in order to promote community cooperation and solidarity for the poor and vulnerable. Only a few households are able to participate in this, however.

Sharecropping was practised in the pre-war period but was not found in this assessment. Village chiefs in areas where land transactions were common before the national elections in July 2008, such as Trapeang Prei and Prek Kmeng, reported a few landless households being allowed by the new landowners to cultivate their lands free

of charge. For the landowners, this arrangement was viewed as useful: someone was looking after their land and keeping it safe from land grabbing.

### *Assistance from Pagodas and Churches*

The assumption that monks or pagoda committees play a critical role in helping the poor in times of need does not necessarily apply for the poor and vulnerable workers interviewed. Nine FGDs threw up a mixed picture of assistance from the pagoda. Such assistance is changing over time and is not available for the poor in poor villages, although pagoda committees tend to be more active in helping the elderly in better off villages.

*We do not receive food from the pagoda except during Pchum Ben when people bring food to the pagoda for the monks to pray for their ancestors and the poor can get some food from the pagoda. (FGD with village chief in Trapeang Prei village)*

*Pagodas are one form of informal social safety net available to old people in the village. They used to help old people during sickness, and provide food and clothes for them. But now ... help during sickness and food are given only to old people who live near the pagodas. (FGD with the poor in Daun Vongs village)*

None of the poor interview respondents affected by livelihood risks or insecurity reported receiving food or assistance from pagoda committees. However, older people in the assessment villages do go to the pagoda and share information and rid themselves of ill-feeling: it is still a place where elderly people receive support and help each other.

A few poor Christians received food, some cash and emotional support from the church.

*Christians offered us some rice and cash when we lacked food and made frequent visits to stop us from feeling hopeless and help us believe in ourselves and God, so that we can be rescued from evil or difficulty and return to our lives using their advice. (Interview respondents)*

In summary, support from religious groups still prevails for the poor, but this is changing and being reshaped by current social and economic changes.

#### **4.3.5. Other Support**

Some support is available for poor and vulnerable workers' households in the villages. This is not necessarily new or a part of traditional norms and obligations, but is offered by NGOs, the CRC, the government and political parties. Interventions include self-help groups, such as savings groups and cow banks, and emergency assistance.

Savings group are one self-help initiative available for the poor in times of difficulty. Some poor households had received loans at low interest (about 3 percent per month) from a savings group within the previous six months to buy food or finance migration of

household members. Savings groups in Trapeang Prei, Krasang, Kanhchor, Kompong Tnaot and Ba Baong have been initiated by NGOs to promote community solidarity and mutual support among members. The very poor are not able to participate because, in order to be members, each household must contribute 5000–10,000 riels.

The schemes had also faced high risk over the previous six months. According to one village chief, many people have not yet been able to repay their loans. In the 1990s, rice banks were established in almost all assessment villages, from which members could borrow paddy rice for consumption or cultivation. Now, most rice banks are not functioning because members have no ability to repay the loans. Cow banks are seen as taking a long time to provide benefits. One concern of village chiefs is that savings groups may fold if income and employment uncertainty continues.

Assistance from the CRC was offered to poor people whose houses were destroyed by fire or big storms or who were affected by lightning strikes within the previous six months. When people were affected, neighbours and the village chief reported to the commune council, which then reported up through the administrative line of authority to seek assistance. Each affected household received 50 kg of milled rice, a tent, some clothes and cotton scarves and 580,000 riels. It cannot be said that such assistance occurs in a predictable way, or in all geographical locations.

Affected households also reported receiving a similar assistance kit from political parties. Interview respondents and FGD participants felt that local politicians tend to be more active and responsive than NGOs in providing them with assistance. Poor and vulnerable workers in some villages received a gift kit (50 kg of milled rice, a sarong, MSG, a cotton scarf and/or 50,000–100,000 riels per family) before the national elections. However, such assistance is one-off, unpredictable and often related to elections.

### *NGO Development Programmes*

Rural people also reported receiving food for work through participation in government infrastructure development projects, or in-kind assistance from community sanitation projects (offered by NGOs such as World Vision in Daun Vongs village, Kandal). Free mother and children vaccinations are available from the commune health centre. Some rural poor have received free health care services through the government ID Poor programme.

## **4.4. Conclusion**

In summary, the low income earners who during the earlier period of the crisis had been more resilient and not much affected, have encountered significant hardship since early 2009. The August 2009 survey found some signs of stabilisation for nine non-garment worker groups, of recovery of tourism workers' daily incomes and of serious deterioration for garment workers. The November 2009 survey provides further insight into the effects of the crisis. We found that skilled and unskilled construction workers are the least affected groups; cyclo drivers, motor taxi drivers and rice-field workers

are the most seriously affected; garment workers, tourism workers and waitresses were the first to start recovering; and no concrete conclusion could be drawn for porters, scavengers, migrant workers and vegetable traders. The outlook for daily earnings in 2010 is still gloomy for all groups except tourism and possibly migrant workers.

It is clear that most risks among respondents are not new or caused by recent adverse economic trends. Risks are mainly idiosyncratic: ill health or death of a family member, crop failure or animal death or divorce or separation. However, shocks are being exacerbated by the economic crisis as earning opportunities decline and vulnerability increases.

In the absence of formal social safety nets, most poor people, especially single female-headed households, the elderly, disabled, women and children, have fallen deeper into poverty as a result of the recent impacts of covariant risks, such as the decline in employment opportunities and income produced by high food prices since January 2008, followed by the global economic crisis. Those with no close family are particularly at risk, because they have no way to access support in the community. When those with extra issues, such as female household heads, also have no grown-up children or close family members, they are put into even more risk of falling (deeper) into poverty.

The impact of shocks on children is immediate and serious. In order to have enough income for daily consumption and to repay debts, many poor households have taken their children out of school to join the labour market at an early age. Several poor children in our assessment (mostly girls) had been forced to stop school to help their parents earn money. This drastic measure may help the poor to survive but has adverse long-term consequences for a household's human capital and ability to participate in the economy at a better wage. The household also remains fragile with regard to its ability to cope with any future shock. This issue is not new but remains a serious concern that requires appropriate interventions.

The majority of the poor, affected by one social and economic shock or another, have been pushed further into debt. Signs of this include distress sales of productive assets and increased landlessness and homelessness for those who are not able to repay their loans. This trend is likely to continue if job prospects continue to be uncertain or the economy cannot reach the growth levels of 2007 in another six or 12 months.

This assessment supports the assumption that traditional mutual help and support in the form of food and interest-free loans in times of need still exist within kinship systems, extended families and informal networks of occupational groups. However, these practices are being reshaped by the cash economy into credit or contractual business arrangements. Where they still exist, they occur mainly between close family members and relatives only, because nobody has enough to share with other families in hard times. People have become more individualistic or cautious about offering assistance since late 2008, due to uncertainty of employment and income. Better off relatives may also not be able to save as they did before as a result of recent crises. At particular risk are the elderly and poor people with no relatives, who are not part

of existing social networks and relationships. They may be excluded from informal assistance and are left alone to become more vulnerable.

Some types of informal community risk sharing and management or mutual assistance are still strong, regardless of social grouping, such as helping with the organisation of funerals or weddings or providing assistance to people affected by fires, storms and lightning. These too are becoming less common, however.

Labour exchange and animal exchange are still practised among extended families and informal social networks, using trust and cooperation for mutual benefit. Labour exchange for farming, for example, is being replaced by hired labour. This creates jobs for the landless poor but also causes problems for single female household heads who lack draught animals and male labour, and who now can receive no help in preparing their land and often end up selling it.

Self-help groups, such as savings groups, rice banks and cow banks, do exist, promoted to build community cooperation and trust by NGO development programmes for the poor. However, members of these groups are not necessarily the poor or very poor, since the latter are not able to pay the membership fees. Single female household heads, the disabled and the elderly (except in Krasang village, where HelpAid International targets the latter two groups in particular) and very poor respondents have not yet benefited from these initiatives. Self-help activities are also currently at high risk of collapse because many members are unable to repay their loans. Cow banks are still operating but are slow to reach the poor.

The elderly or very poor are sometimes able to access services at the pagoda or in Christian churches, but the availability of such services is limited to a few (those who live close to a pagoda or Christians only, for example).

Forms of humanitarian support in recent times include emergency assistance from the CRC and political parties to households affected by disasters, and gifts in cash or kind from political parties. This assistance is needs-based, and poor and vulnerable workers captured by this assessment have experienced it. However, such assistance is available only as emergency support, is unreliable as a source of security, may come with political strings and/or is insufficient to ensure full recovery from crises. Moreover, such assistance had been much rarer in the previous six months (it was more common before the election of July 2008).

In summary, all poor groups are at increased risk of falling further into poverty as a result of the current economic crisis. Those without family or close relatives, single female household heads, the elderly, the disabled, those living far from a pagoda and children are particularly vulnerable. Without appropriate pro-poor interventions, the ability of poor people with limited assets or savings to cope with income shocks and move out of poverty remains seriously low.

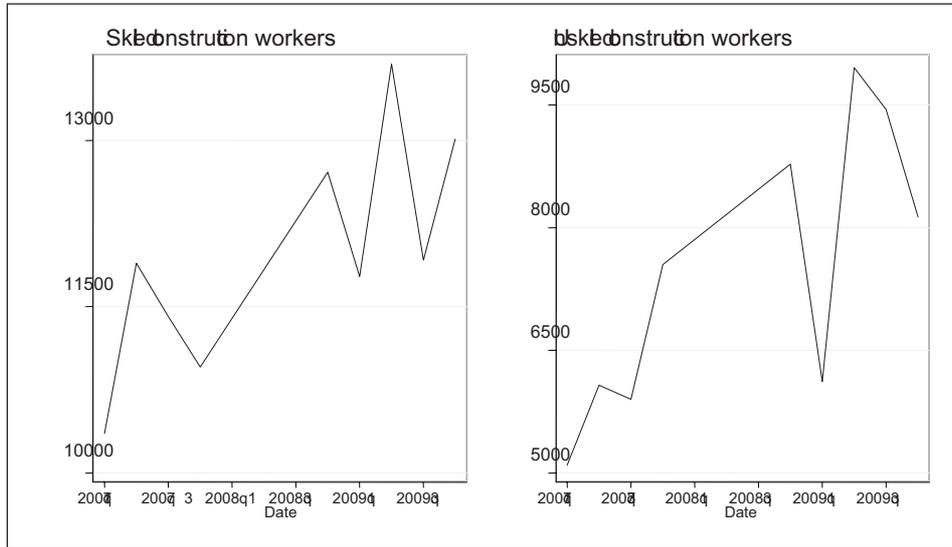
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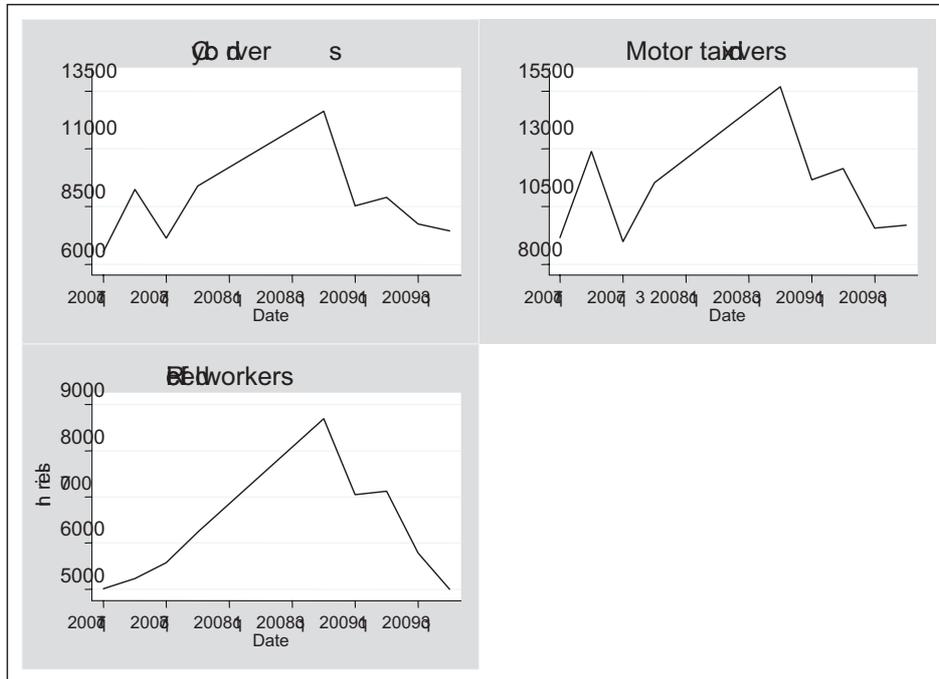
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**Annexes**

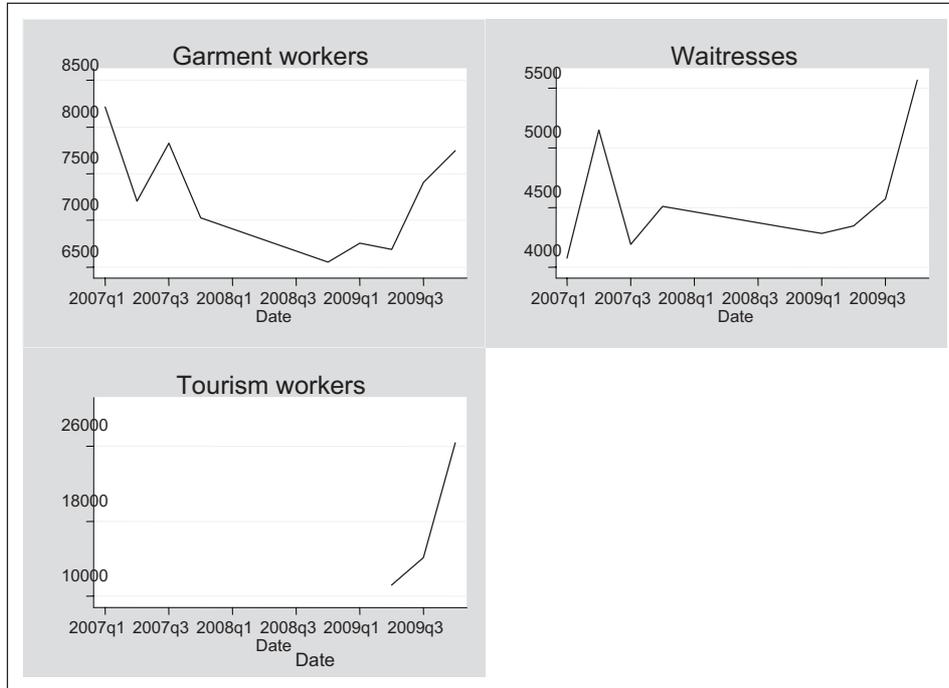
**Annex 1: Real Daily Income of Least Affected Groups (riels)**



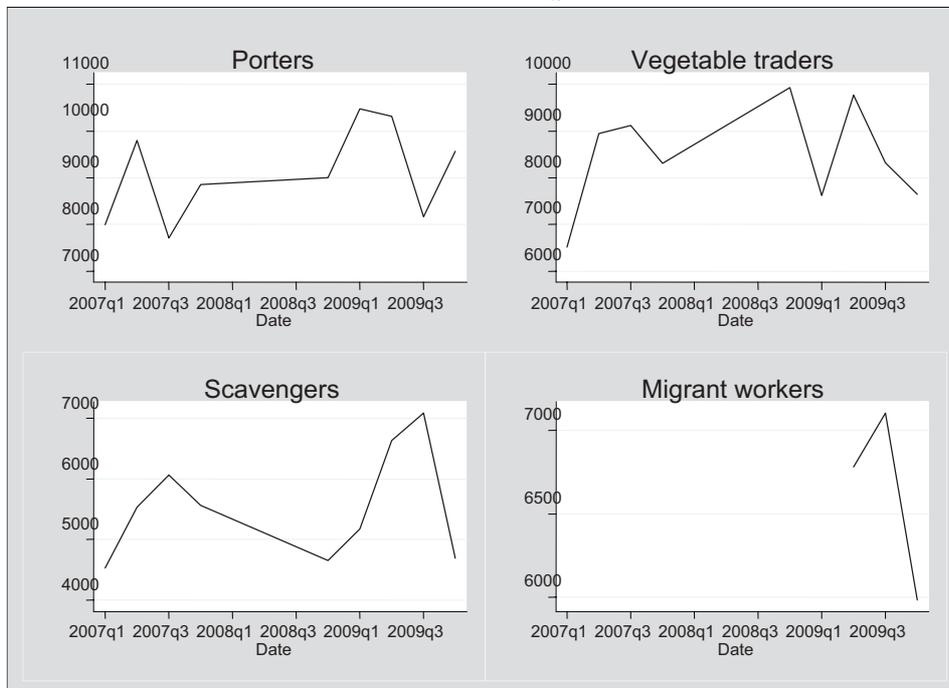
**Annex 2: Real Daily Income of Most Affected Groups (riels)**



### Annex 3: Real Daily Income of Recovering Groups (riels)



### Annex 4: Real Daily Income of Other Groups (riels)



**Annex 5: Real Daily Income of Female and Male Workers (riels)**

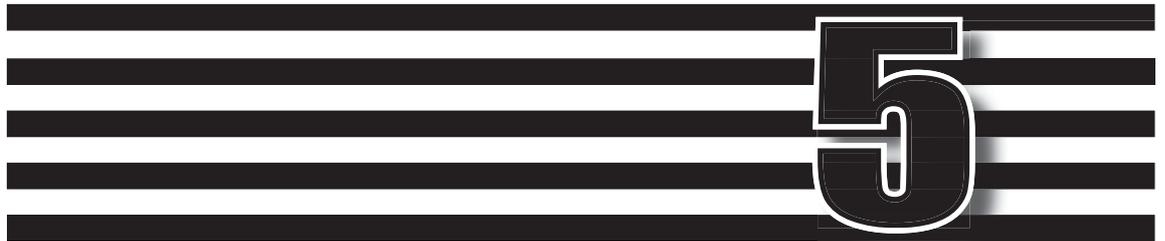


# Part Two

Other research within CDRI







# **How Managers Manage in the Cambodian Health Sector**

**By NET Neath, SENG Bundeth,  
Roger HAY and SOK Sethea**

## Chapter 5

### How Managers Manage in the Cambodian Health Sector

*By Net Neath, Seng Bundeth, Roger Hay and Sok Sethea<sup>1</sup>*

#### 5.1. Introduction

This paper reports the results of a study of Cambodian health sector managers and the performance of their organisations. It was carried out in 2009, at a time when the government was introducing wide-ranging changes in the way health services were organised and managed: better specified service delivery contracts between provincial authorities and hospital and district service managers (including targets), increased autonomy for hospital and district managers to manage their staff and budgets within the terms of those contracts and improved staff performance and accountability regimes.

Although there is a large theoretical literature postulating that managerial quality leads to improved organisational performance, it is rather incoherent and no dominant theory has emerged. Competing approaches include traits and skills theories; leadership behaviour approaches; research on power and influence; situational and contingency theories; dyadic theories; and research on charismatic and transformational leadership (Fernandez 2003). Although it is widely alleged in the management literature that managerial quality leads to improved organisational performance, there is surprisingly little empirical evidence to support the claim. Besley and Machin (2006) state that organisational performance in the private sector depends on how CEOs are rewarded, and this matter is equally important in the public sector, although one might assume that the issues of leadership in the public sector are not the same as in the private sector, because they believe that the public sector has fewer or weaker market pressures. They wrote, “In principle, motivated agents will behave quite differently. They are likely to respond less to monetary incentives and will be motivated more by exercising control over the organization’s ‘mission’.” O’Neil (2008) argued that because of the shortage of health care workers, solutions to the human resources crisis are difficult to achieve, particularly in the developing countries. Millions of dollars have been spent on drugs to fight AIDS and tuberculosis, but hardly anything has been allocated for ensuring the health workforce to administer these drugs. She found that factors contributing to the failure of human resources strategies are a fragmentation of efforts, unrealistic time frames, no grounding in management systems, the failure of ministries to be involved and especially the roles of others such as the private sector.

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<sup>1</sup> Net Neath, Seng Bundeth and Sok Sethea are researchers and Roger Hay is technical adviser at CDRI. This paper is based on a study on the same subject that was funded by DFID.

Two empirical studies are related to health sector management, Pillay (2008) and Hay *et al.* (2009). Pillay (2008) compares private and public sector hospital management in South Africa. All managers, regardless of where or what they manage, perform four generic tasks: planning, organising, leading and controlling. Planning involves defining goals and mapping out ways to reach them; organising entails arranging and coordinating human, material and information resources aimed at achieving goals; leading involves motivating others to achieve organisational goals; and controlling involves measuring performance and monitoring progress relative to objectives. Most public sector managers in South African hospitals (50.4 percent) have been in their current positions for less than five years, while private sector managers (68.6 percent) have been in their positions for more than five years. Most public sector managers (55.3 percent) had a medical or health background, while the majority of managers in the private sector (67 percent) had a commercial or management background. Private sector managers were also significantly less likely than their public sector colleagues to have had formal training in health care management. Private sector managers rated themselves strongest in planning, organising, leading, self-management and controlling. Pillay concludes that public sector hospitals are inefficient and ineffective while the privately owned and managed hospitals provide superior care and are more sustainable. Hay *et al.* (2009), in a study of the effects of the NHS reforms on a London teaching hospital, found a strong association, but not necessarily causality, between investments in management and increases in clinical activity and productivity.

Given the evidence available, the extent to which management affects organisational performance and by what means are open questions. However, if, as is widely asserted, management matters, then the effects on health service efficiency, quality and equity of the changes being introduced in Cambodia will depend to a large extent on the quality of hospital and district managers. As a result, the purpose of this study was two-fold: to explore the relationship, if any, between managers' characteristics and practices and organisational performance; and to provide a baseline against which future improvements in management quality in relation to organisational performance could be assessed.

The context for the changes mentioned above, and for this study, is the way health services have been organised and managed in Cambodia in recent years. The sector's organisational structure is hierarchical: the central Ministry of Health and its departments, seven public national hospitals (including the Centre for Tuberculosis and Leprosy Control and Maternal and Child Health) offering specialist services located in Phnom Penh (Ministry of Health 2008), 19 national centres supporting preventive and promotional services, 24 municipal and provincial health departments, 69 referral hospitals, 77 operational districts (ODs) comprising groups of smaller hospitals and 966 health centres and health posts. The study focused on the directors of the last two types of organisation: hospitals and operational districts, which deliver health services directly to patients. The first four organisations were omitted from the study, not because they are unimportant or do not influence health service volume and quality, but because data were not available or because their outputs are more diffuse and difficult to measure.

This paper is organised as follows. Section 5.2 summarises the methods employed and the types of data generated by the study. Section 5.3 presents the results. Section 5.4 discusses the results, and Section 5.5 offers some conclusions.

## **5.2. Methods and Data**

The methodology adopted here was based on that of Fernandez (2003). Fernandez identifies three traditions in management theory in relation to organisational performance: the nature of the hierarchical relationship between managers and workers; the role of symbols, emotions and charisma in mobilising worker effort; and a more recent approach based on integrated frameworks for examining the relationship between management qualities and organisational performance. Within this last tradition, Fernandez tests an integrative framework of public sector managerial leadership using different regression techniques and a large data set from public education. Given that Cambodia's public health sector will depend to a large extent on the quality of hospital and OD managers, three hypotheses were proposed to test whether organisational performance depended on: managerial vision (hypothesis 1— H1), time spent on the coordination of activities (hypothesis 2— H2) and the effectiveness of staff performance management (hypothesis 3— H3).

Data for this study came from two sources. The first was secondary data on the performance of referral hospitals and operational districts contained in the Ministry of Health's Health Information System (HIS). They were kindly extracted for the study by the University Research Company Health Systems Strengthening Project. Proxies for organisational performance were derived from these data, and they became the dependent variables in the analysis described below. The second source was primary data from a survey of referral hospital and operational district directors carried out as part of the study. The way the sample was selected is described briefly below. Some data were triangulated and compared between three sources: the field survey, national health statistics and the HIS.

The primary data were collected from two independent random samples of directors of hospitals and of ODs nationwide. For referral hospitals, the sample universe was hospitals with more than 60 beds. It includes national, provincial and district referral hospitals. Excluding specialised and NGO-run hospitals, there are 36 such referral hospitals in Cambodia (National Health Statistics 2008). Using simple random selection procedures, 30 hospitals were selected for data collection. There are 77 operational districts in Cambodia (National Health Statistics 2008) Thirty-two were selected at random. Of these, 21 also happened to have a hospital. Of the ODs selected, three had management contracts with NGOs.

The questionnaires for hospital and OD directors were structured similarly and organised into four main parts. The first part documented the managers' characteristics: gender, age, qualifications, clinical and management experience and perception of the managerial role. The second part recorded the characteristics of the organisation, such as catchment area population, number of beds (in the case of hospitals) staffing and

NGO cooperation. The third covered manager vision (H1), activity coordination and change management (H2) and staff management (H3). The last part sought information about how the managers managed their organisations and their incentives.

The questionnaires were semi-structured in the sense that open questions were asked about the managers' characteristics. Some questions simply asked for information, such as "How many people work in your OD's health centres?" But a number of questions asked how managers managed in practice. Here, we were not so interested in what they said, but in whether they knew what they were talking about. The main purpose of each question was to explore whether they could give examples and, if so, whether they were specific or general, in order to capture the quality of management practice rather than their theoretical understanding of their jobs. Their answers were rated on a 1–3 scale. A number of problems were encountered in designing the questionnaires: the possibility of conceptual differences in understanding between managers and enumerators, difficulties in translating the questionnaires into Khmer, which is a very different language than English, and scaling inconsistencies between different enumerators. The questionnaires were developed in English and then translated into Khmer. It was tested in two ODs (Tbong in Phnom Penh and Takhmao in Kandal province) and two hospitals (National Paediatrics Hospital and Chey Chumneah Hospital) before field data collection began. The questionnaires were revised and shortened as a result.

The primary data were collected by three teams between 8 August and 12 September 2009. Each team consisted of a CDRI researcher accompanied by an enumerator. The teams spent a week in training: familiarising themselves with the questionnaires, practising administering them and cross-checking scores for inter-enumerator consistency. Managers' characteristics and practices were obtained from confidential face-to-face semi-structured interviews with the directors. Each team was responsible for administering the questionnaires to 20 directors.

The organisational performance measurements are presented in Tables 5.1 and 5.2. Table 5.1 shows the measures of hospital performance available from the Ministry's HIS. Table 5.2 shows the measures of OD performance available from the Ministry's HIS.

Capital efficiency measures: The bed occupancy rate assesses the proportion of total beds that are occupied by patients on average over a specified period. Average lengths of stay assess how long, on average, a patient occupies a bed. The two are related but neither is a perfect measure of the intensity with which hospital facilities are used. A BOR of around 85 percent is generally judged to be an efficient level of hospital bed occupancy. Much less suggests that there is inefficient overcapacity. Much more suggests that there are no beds to admit unexpected emergencies and there is overcrowding. Internationally, ALS have been falling from around eight days to five, increasing the efficiency of hospital bed utilisation and, overall, the number of beds in use has fallen, reducing costs. However, many of these efficiency gains have come from new technologies that allow patients to be treated as day-care cases, technologies

which are not generally available in Cambodia. In addition, short hospital stays depend in part on patients being looked after adequately at home, which may not be possible in Cambodia's remote rural areas. On the other hand, low BORs suggest that there is little incentive to improve efficiencies by reducing the time patients are in hospital.

**Table 5.1: Hospital Performance Measurement**

Indicator	Performance Variable	Abbreviation	Measurement
Capital efficiency	Bed occupancy rate	BOR	Proportion of beds
	Average length of stay	ALS	Days/patient
Labour productivity	Consultations per clinical staff day	CCSD	Consultations/staff/day
	Deliveries per midwife day	DMD	Deliveries/midwife/day
	EHDs* per clinical staff day	EHDSCSD	Patient-days/staff
	Discharges per clinical staff day	DCSD	Discharges/staff/day
	EHDs per physician day	EHDPPD	Patient-days/doctor
	Discharges per physician day	DPD	Discharges/doctor
Quality of care	Hospital mortality rate	HMR	Percentage
	Proportion of cases from outside district	PCOD	Percentage

\* *Effective hospital days*

The ALS measure is particularly problematic when comparing one hospital's efficiency with another. Different treatments require different times in hospital. As a result, a hospital case-mix is an important determinant of "optimal" ALS. The assumption underlying the use of this measure in the study is that the sampled hospitals have much the same case mix. This might be a reasonable assumption, but there are no data available to confirm or refute it.

Labour productivity, roughly speaking but not exactly, is the efficiency with which resources are used. It is best measured on the basis of some production function, such as the costs of labour, capital technology and management, in comparison with the value of outputs produced. However, the data are not available to make such estimates. A more limited and imperfect assessment of labour productivity is possible from HIS data. It is reasonable to suppose that this might be important, being the most amenable to management interventions in the short run. A number of options are available, each depending on some measure of output, such as outpatients seen or inpatients treated per clinical staff day. They are listed in Table 5.1. Except for deliveries per midwife staff day, which refers to a specific activity, they are alternative measures, not complements. The most common measure used internationally is "finished treatments (consultant episodes)" per consultant. These data are not available from the HIS. In interpreting health productivity data, it is also important to note that workload is not entirely or directly in the hands of managers or clinical staff. Patients

can choose between government and private facilities. Women about to give birth can choose between health professionals and traditional birth attendants. However, provider reputation matters in those choices.

**Table 5.2: Operational District Performance Measurement**

Indicator	Performance Variable	Abbreviation	Measurement
Capital efficiency	Average Length of Stay	ALS	Days/patient
Labour productivity	Outpatient Department consultations per clinical staff day	OPDCSD	Consults/staff/day
	Deliveries per midwife-day	DMD	Deliveries/midwife/day
Health service coverage	Proportion of deliveries attended by trained health professional at health centres and homes	DHCH	Proportion
	Proportion of pregnant women attending two antenatal visits	2ANC	Proportion
	Proportion of children under one year who are fully immunised	IMM	Proportion
Demand for OD services	Total consultations per capita	TCC	Consults/person
	Proportion of zone C† consultations	PCZC	Proportion

† Areas that are outside of the operational district's coverage.

TB data such as TB average length of stay and TB bed occupancy rate were not included in the analysis due to data quality concerns and many missing observations.

Quality of care: There are no simple, robust and sensitive measures of health service quality. Mortality occurs relatively infrequently, so mortality rates are crude and depend on the severity of a condition as well as on the quality of care. Although patients are poor judges of care quality, there is a possible measure of provider reputation available from HIS data: the number of patients attending a hospital from outside its catchment area. However, this indicator may be flawed because it may be the result of proximity to the hospital rather than its reputation.

Health service coverage: Operational districts are responsible for public health interventions. Because of their importance and the availability of data from the HIS, immunisation rates and the proportion of pregnant women attending at least two antenatal visits have been chosen as proxies for ODs' performance in delivering public health services. For example, it would seem reasonable to suppose that well-managed ODs would achieve higher immunisation rates than less well-managed ODs.

Demand for OD services: Citizens have a choice of primary care providers. The total and new consultations per capita of the OD population may indicate whether citizens choose OD services over alternatives.

Quality of care: For hospitals, the proportion of people coming from outside the district may be a measure of the OD's reputation. But it may also indicate geographical proximity.

Labour productivity: As discussed above, there is no complete and perfect measure of productivity. However, data are available to construct a measure of the number of consultations per clinical staff and the number of deliveries per midwife day. However, the same caution mentioned regarding Table 5.1 should be observed in interpreting this indicator.

Capital efficiency: A number of ODs manage small inpatient units with tuberculosis beds. Data are available to estimate the bed occupancy rates and average lengths of stay for these units.

Measurements of managerial effectiveness are presented in Tables 5.3 and 5.4. Table 5.3 shows the baseline variables for the hospital data and Table 5.4 the baseline variables for OD.

**Table 5.3: Baseline Variables for Referral Hospital**

Hypothesis	Variable	Description
H1	MoH's mission achievement	How the director perceives his roles, identifies the three most important targets received from MoH and processes to ensure targets are known by staff, describes three main improvements made last year and sets up ways of communication in the organisation
H2	Services quality control	How patients are received, discharged and/or referred to hospitals; how closely the staff practice reflects patient reception, discharge and referral guidelines and the ways the directors and his colleagues deal with unexpected complications and unexpected death during or after a treatment
	Protocols delegation	The extent to which the director delegates patient flow management and clinical protocol management to his colleagues
	Drug management	The level of the director's knowledge about medicine supply and the ways the director deals with drug shortages
	Financial management	The ways the director manages budget lines and deals with budget shortfalls
	Time management	The time the director spends managing the hospital and time spent in coordinating with others
H3	Staff management and rewards	Performance targets defined for individual employees, frequency of individual employees' performance assessment and ways the director rewards high performers
	Staff improvement	The number of staff assigned to unfavourable assignments or subjected to disciplinary actions last year by the director

**Table 5.4: Baseline variables for OD**

Hypothesis	Variable	Description
H1	MoH's mission achievement	How the director perceives his roles, identifies three most important targets received from MoH and processes to ensure targets are known by staff, describes three main improvements made last year and sets up ways of communication in the organisation
H2	Services quality control	How patients are received, discharged and/or referred to hospitals; how closely the staff practice reflects patient reception, discharge and referral guidelines
	Protocols delegation	The extent to which director delegates patient flow management and clinical protocol management to his colleagues
	Drug management	The level of the director's knowledge of medicine supply and the ways the director deals with drug shortages
	Financial management	The ways the director manages budget lines and deals with funding delays
	Time management	The time the director spends in managing OD and time spent in coordinating with others
H3	Staff mgt and reward	Performance targets defined for individual employees; frequency of individual employees' performance assessment and the ways the director rewards high performers
	Staff improvement	The number of staff assigned to unfavourable assignments or subjected to disciplinary actions last year by the director

Clinical coordination in ODs is simpler than in hospitals. This is because ODs manage mostly health centres, health posts and referral hospitals that provide a minimum package of activities. OD directors completely delegate clinical discretion to their subordinates, while in hospitals the directors are often involved in clinical coordination although discretion is delegated to the technical committee. Financial management in ODs is judged mainly by the ways directors manage budget lines and deal with funding delays, while financial management in hospitals is judged mainly by the ways directors manage budget lines and deal with funding shortfalls.

Control variables are presented in Tables 5.5 and 5.6 for hospitals and ODs, respectively.

**Table 5.5: Control Variables for Referral Hospital**

Variable	Description
CPA	Complimentary package of activities
Beds per 1000 population	Number of beds per 1000 population in the area where the referral hospital is located
Distance from Phnom Penh	The distance from the referral hospital to Phnom Penh
Clinical staff	Total referral hospital clinical staff in 2009
Health service mgt training	Those who have attend health service management training compared with those who have not

**Table 5.6: Control Variables for OD**

Variable	Description
Clinical staff	Total OD clinical staff in 2009
Health centres per 1000 population	The number of health centres per 1000 population in area OD covers
Contracting OD	Health centres, health posts or hospitals under OD management NGO contracted by the government to improve the quality of services
Rural	Whether health centres, health posts or hospitals are utilised mainly by urban or rural residents
Management experience	Total years of the director's management experience
Qualifications	Comparison of number who have medical doctor degree and number who have medical assistant degree or none
Health service management training	Those who have attended health service management training compared with those who have not

The two tables have different control variables because of the different natures of the two systems. For instance, health posts, health centres and former district hospitals under ODs provide mainly a minimum package of activities that includes basic curative, preventive and promotional services both in the facility and through outreach, while referral hospitals provide a complementary package of activities (CPA). In addition, health equity funding is mainly implemented at referral hospitals, but not at health posts and health centres in ODs. Contracting services are implemented in some ODs, but not in hospitals. An OD is established to cover a certain geographical area and population, while a referral hospital is not. Management experience, qualifications (medical doctor vs. medical assistant) and health equity funds were not found to have any significant relationship with referral hospital performances.

Factor analysis was used to reduce a large set of variables from the questionnaires of hospitals and ODs into the baseline variables shown in Tables 5.3 and 5.4. Not all variables went straight into factor analysis because some had missing data due to unobtainable, unreliable or redundant information, or had high multi-collinearity. Those variables that were entered into factor analysis and could not be explained by any common factor were also dropped. And those that have high factor loading and were explained by common factors were indexed by a proxy through generating factor scores. For instance, MoH's mission achievement was represented by three sub-variables, namely 1- how the director perceives his roles, 2- how the director identifies the three most important targets received from MoH and processes to ensure targets are known by staff and 3- how the director describes three main improvements made last year and sets up ways of communication in the organisation (see Table 5.4). Ordinary least square regression was also used to reduce control variables that were statistically not significantly associated with dependent variables. Correlation analysis was used between all three baseline variables and control variables. The results showed strong correlations between some baseline variables (of hypothesis 1, hypothesis 2 and hypothesis 3), but not within the sub-baselines. No strong correlation was detected between the baseline variables and the control variables or among the control variables.

Fernandez (2003) used ordinary least square regression to test his integrative framework of public sector managerial leadership by combining all baseline variables and control variables into a model. Because of small sample size and in order to avoid severe multi-collinearity among baseline variables of this study, the analytical model is proposed as follows: The model consists of the control variables and one hypothetic baseline variable against performance variables. Following is a statistical model for both ODs and hospitals.  $Y_{ij} = \beta_0 + X^c \beta_c + X^b \beta_b + \epsilon_{ij}$ , where  $Y$  represents the performance measurements and  $i$  denotes indicators, while  $j$  denotes performance-dependent variables and  $k$  denotes the hypothesis number. Tables 5.1 and 5.2 show the indicators and the performance-dependent variables of hospital and OD, respectively.  $X^b$  and  $X^c$  are the vectors of baseline variables and of control variables, respectively. Tables 5.3 and 5.4 show the baseline variables of hospital and OD respectively, while Tables 5.5 and 5.6 show the control variables of hospital and OD.  $\beta_b$  and  $\beta_c$  are the coefficients of the baseline variables and the control variables respectively, while  $\epsilon_{ij}$  is the error terms and assumed to be normally distributed with  $E(\epsilon) = 0$  and variance  $\delta^2$ . The Breusch-Pagan test was used to test for heteroskedasticity, while variance of inflation factor was also used to detect multi-collinearity among variables.

### 5.3. Results

#### Descriptive Statistics

**Table 5.7: Measures of Hospital Performance**

Indicator	Performance Variable	Mean	Median	Min	Max
Capital efficiency	BOR	0.608	0.611	0.165	1.206
	ALS	5.787	5.412	3.556	10.015
Labour productivity	CCSD	0.581	0.377	0.000	2.004
	DMD	0.263	0.227	0.022	0.917
	EHDCSD	1.860	1.395	0.450	8.797
	DCSD	0.332	0.280	0.056	1.147
	EHDPD	7.884	5.903	1.385	35.187
	DPD	1.432	1.206	0.168	4.587
Quality of care	HMR (%)	2.015	2.105	0.100	3.840
	PCOD (%)	22.425	12.670	0.000	68.420

Table 5.7 shows means, medians and ranges of performance data for hospitals in the sample. Hospital utilisation (capital efficiency) is represented by the bed occupancy rate and average length of stay. The maximum value of BOR is 1.206, which means the rate of bed occupancy is 120.6 percent, an indication of overcrowding. Some patients must have slept on the floor. Although the mean of average length of stay, 5.787 days, falls within the standard range, 5–8 days, the minimum value (3.556 days) and maximum value (10.015 days) fall outside the range, suggesting that service delivery might not have been effective.

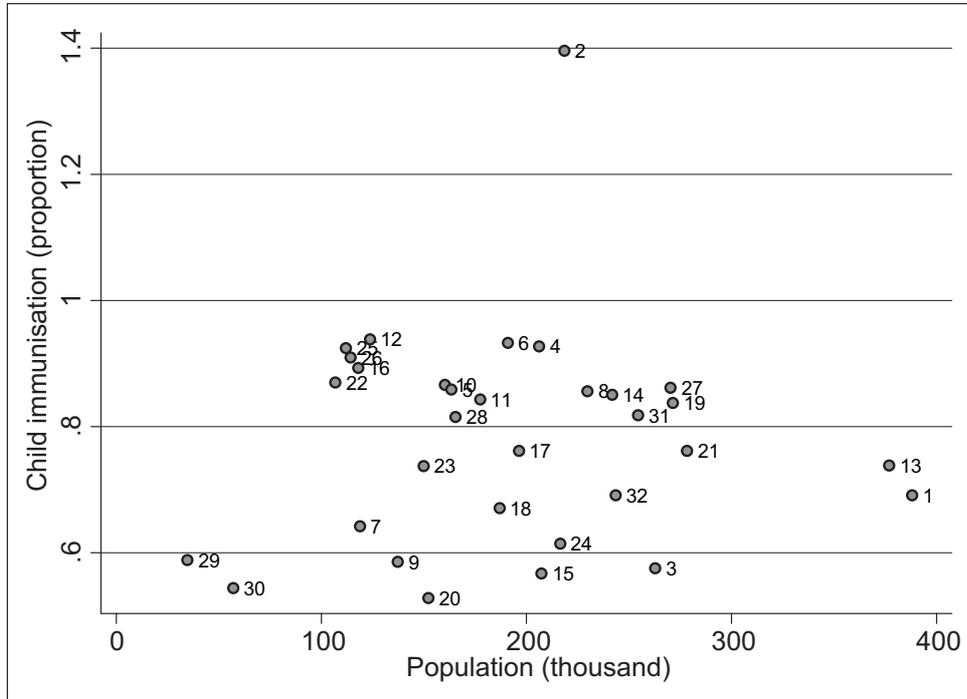
Labour productivity appears relatively low for most hospitals. The number of consultations per clinical staff day ranges as low as 0 to 2. The effective hospital day per clinical staff day is 35.187 days, an indication of low hospital performance because the longer the patients stay in hospital, the less service delivery reaches the quality standard. On average, the proportion of consultations with patients from outside the zone is 22.42 percent. The mean hospital mortality rate is 2.01 percent, which is higher than that in Vietnam (1.7 percent) and in Thailand (0.8 percent) (WHO 2008).

**Table 5.8: Measures of Operational District Performance**

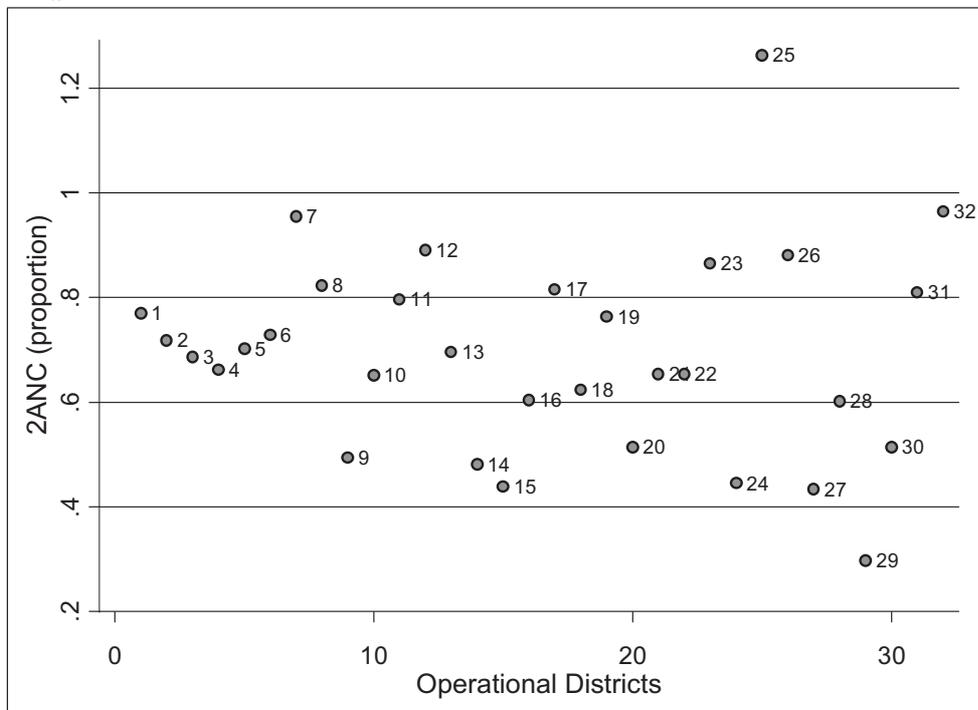
Indicator	Performance Variable	Mean	Median	Min	Max
Capital efficiency	ALS	5.393	5.254	2.310	8.621
Labour productivity	OPDCSD	4.301	3.619	0.795	11.369
	DMD	0.418	0.339	0.033	1.111
	DHCH	0.381	0.372	0.085	0.683
Health service coverage	2ANC	0.693	0.691	0.297	1.263
	IMM	0.784	0.816	0.528	1.396
Demand for OD services	TCC	0.454	0.412	0.148	0.953
	PCZC	0.186	0.165	0.045	0.552

Table 5.8 shows similar performance estimates for ODs in the sample. Labour productivity appears low, although deliveries per midwife day seem higher than in hospitals. The proportion of deliveries at health centre or at home by professional staff is seen as low as 0.085 to 0.683. On average, 0.381 (38.1 percent) of deliveries at health centre or home was attended by a professional staff. The mean value indicates that less than one delivery was attended by professional staff at either health centre or home. The mean value for two antenatal care visits of pregnant women is 0.693 (69.3 percent). The maximum value for two antenatal care visits is 1.263 (126.3 percent) and the maximum value of child immunisation coverage is 1.396 (139.6 percent), which show a measurement error since the proportion cannot be more than 100 percent. This might indicate that pregnant women outside the coverage area visited health centres, health posts or hospitals more than twice for antenatal care and were counted. Children older than one year were incidentally counted in the immunisation coverage. Graph 5.1 shows one observation of IMM, namely ID 2, having a value large than 1, and Graph 5.2 shows one observation of 2ANC, namely ID 25, having a value larger than 1. These observations were suspected as outliers and were excluded from the analysis in Tables, 5.9.1, 5.9.2 and 5.9.3. The demand for health services at ODs is low. The mean value and even the maximum value for total consultations per capita per year are less than one for the population in the geographic area that the OD is supposed to cover.

**Graph 5.1**



**Graph 5.2**



**Analysis**

**Table 5.9.1: OLS Regression Results for Hospital Performance: Hypothesis 1— Managerial Vision**

	BOR	ALS	CCSD	DMD	EHDCSD	DCSD	EHDPD	DPD	HMR	PCOD
Independent Variable	Coefficients									
CPA	-0.037	0.080	-0.483*	0.051	-0.281	-0.047	-1.331	-0.191	1.165*	7.864
Beds per 1000 population	-5.905	-25.086	-14.931	-3.722	-37.282	-5.194	-92.328	-9.745	-5.332	159.694
Distance from Phnom Penh (km)	0.000	0.000	-0.001	0.000	-0.002	0.000	-0.009	-0.001	0.003**	-0.052
Clinical staff per hospital	0.000	0.001	0.003	-0.001	-0.010	-0.002*	-0.050	-0.008*	0.000	-3.783
Health service mgt training	0.073	0.612	0.228	-0.044	1.064	0.132	3.387	0.379	0.521	1.255
MoH's mission achievement	0.132	0.048	0.124	0.054	0.586	0.091	2.010	0.326	0.230	-2.628
Constant	0.792*	5.420*	1.815**	0.224	3.701*	0.635*	16.071*	2.692*	-1.872	1.509
R-square	0.238	0.064	0.306	0.06	0.373	0.421	0.320	0.323	0.569	14.567
Observations	28	28	28	28	28	28.000	28.000	28.000	28.000	25.000

Note: \*  $P < 0.05$ ; \*\*  $P < 0.01$

It appears that MoH's mission achievement shows no relationship with hospital performance variables (Table 5.9.1). Clinical staff per hospital is seen to have significant relationship with patient discharges per clinical staff day (DCSD) and patient discharges per physician day (DPD), while the distance from hospital to Phnom Penh and CPA are observed to have links with hospital mortality rate. The relationship of clinical staff per hospital with DCSD and DPD suggest that an increase of one clinical staff per hospital would likely to reduce patient discharges per clinical staff day by 0.002 and patient discharges per physician day by 0.008. This might suggest further that the present clinical staff for these particular hospital performances might be too numerous. The correlation between distance and the hospital mortality rate might indicate that when hospitals are located 1 km more distant from remote areas, the mortality rate is likely to increase by 0.003 percent. The higher mortality rate was observed at hospitals of type CPA 3 than hospitals of type CPA 2. It could be that the most serious patients were referred by hospitals CPA1 and CPA2 to CPA 3 . Patients who died usually did so when arriving at these hospitals.

**Table 5.9.2: OLS Regression Results for Hospital Performance: Hypothesis 2–Manager’s Organisational Coordination**

	BOR	ALS	CCSD	DMD	EHDCSD	DCSD	EHDPPD	DPD	HMR	PCOD
Independent Variable	Coefficients									
CPA	0.003	0.238	-0.465	0.051	-0.038	-0.016	-0.213	-0.031	1.278*	-4.211
Beds per 1000 population	-7.965*	-5.404	-18.416**	-5.912	-37.793	-6.584**	-100.312	-17.766	-11.313	104.74
Distance from Phnom Penh (km)	-0.001	0.001	-0.001	0.000	-0.004	-0.001	-0.015	-0.002	0.002	-0.043*
Clinical staff per hospital	0.000	-0.002	0.002	0.000	-0.013	-0.002	-0.062	-0.010	-0.001	0.123
Health service mgt training	0.105	0.814	0.278	-0.027	1.238	0.152	3.994	0.451	0.570	1.401
Services quality control	0.090	0.253	-0.005	0.016	0.350	0.051	1.609	0.239	0.186	-8.396
Protocols delegation	-0.042	-0.417	-0.019	-0.038	0.021	0.015	0.283	0.100	-0.015	3.717
Financial management	0.110	-0.976	0.080	0.022	0.292	0.056	-0.221	-0.029	0.198	-5.072
Drug management	-0.120	1.309**	0.019	-0.106	0.125	-0.069	0.378	-0.293	-0.170	14.735
Time management	0.019	-0.331**	0.045	0.028	-0.027	0.019	0.164	0.152	0.089	2.703
Constant	0.65	7.276**	1.539	0.026	3.826	0.498	14.342	1.581	-2.488	12.691
R-square	0.265	0.601	0.307	0.135	0.364	0.437	0.330	0.409	0.602	0.566
Observations	28	28	28	28	28	28	28	28	28	25

Note: \*  $P < 0.05$ ; \*\*  $P < 0.01$

Table 5.9.2 shows that only two baseline variables, drug management and time management, appear to have significant relationships with average length of stay, while other baseline variables do not have any significant relationships with most hospital performance variables. The relationship between drug management and ALS suggests that if the directors were well aware of medicine supply and were able to deal with drug shortages in their hospitals, the average length of stay was likely to increase by 1.309 days. It is not clear why there was an adverse relationship between the two. The main reason is probably that drug management was generated from a factor score, a weak proxy. This was complicated by the small sample size of this study and multi-collinearity.<sup>2</sup> The significant relationship between time management and ALS shows that when directors were able to allocate time efficiently, managing the hospital and coordinating with the provincial Department of Health, Ministry of Health and external development partners, the average length of stay was likely to reduce by 0.331 days.

Beds per 1000 population seem to have associations with bed occupancy rate, consultations per clinical staff day and patient discharges per clinical staff day. Hospitals of type CPA 3 appear to have association with hospital mortality rate only.

2 The mean of VIF is 1.54.

The correlations of beds per 1000 population with BOR, CCSD and DCSD suggest that with an increase of one bed in hospitals, the bed occupancy rate is likely to reduce by 7.965 percent, patient consultations per clinical staff day are likely to reduce by 18.416 percent and patient discharges per clinical staff day reduce by 6.584 discharges. The association of hospitals of type CPA 3 with HMR may suggest that a higher mortality rate is likely to be found in hospitals of type CPA 3 than in hospitals of type CPA 2. Table 5.9.2.1 shows the significant differences between the two.

**Table 5.9.2.1: Hospital Mortality Rate**

	Mean (%)	SE	N
Hospital Type CPA 2	1.482	0.837	13
Hospital Type CPA 3	2.478	0.961	15

*SE = standard error; N = Number of observations*

It is commonly known that the most serious patients are often referred by the lower CPA hospitals to CPA 3 hospitals since these hospital have more services and wards.

**Table 5.9.3: OLS Regression Results for Hospital Performance: Hypothesis 3—Manager’s Staff Management Systems**

	BOR	ALS	CCSD	DMD	EHDCSD	DCSD	EHDPD	DPD	HMR	PCOD
<b>Independent Variable</b>	<b>Coefficients</b>									
CPA	-0.103	0.194	-0.496	0.033	-0.491	-0.085	-2.577	-0.428	0.856*	0.561
Beds per 1000 population	-3.422	-28.868	-14.307	-3.194	-30.322	-4.050	-49.930	-1.899	7.106	132.148
Distance from Phnom Penh (km)	0.000	0.000	-0.001	0.000	-0.003	0.000	-0.010	-0.001	0.003**	-0.056
Clinical staff per hospital	0.001	0.001	0.003	0.000	-0.009	-0.002	-0.046	-0.008	0.001	0.166
Health service mgt training	0.161	0.581	0.288	-0.013	1.411	0.188*	4.821	0.627	0.769**	-2.590
Staff management and rewards	0.051	0.072	0.058	-0.002	0.097	0.000	0.217	-0.008	0.212	0.704
Staff improvement	0.135*	-0.224	0.032	0.043	0.461*	0.083*	2.607**	0.498*	0.585**	-6.702
Constant	0.890*	5.219*	1.826**	0.258	4.044*	0.701*	18.125*	3.095*	-1.434	21.841
R-square	0.254	0.074	0.29	0.047	0.339	0.403	0.345	0.364	0.643	0.391
Observations	28	28	25	28	28	28.000	28.000	28.000	28.000	25.000

*Note: \* P<0.05; \*\*P<0.01*

It seems that staff management and rewards do not have any significant relationship with hospital performances, while staff improvement is observed to have associations with performances such as BOR, effective hospital days per clinical staff day, patient discharges per clinical staff day, effective hospital days per physician day, patient discharges per physician day and HMR (Table 5.9.3). The relationships between staff improvement and BOR, EHDCSD, DCSD, EHDPD, DPD and HMR suggest that if the directors dealt with low performance staff by re-assigning them to unfavourable tasks and taking disciplinary action, there would likely be an increase of 0.135 percent of BOR, 0.461 day of EHDCSD, 0.083 days of DCSD, 2.607 days of EHDPD, 0.498 days of DPD and 0.585 percent of HMR. It is not clear why staff improvement leads to an increase of the mortality rate. However, this might be the complication of the small sample size and possibly serious measurement error.

Hospitals of type CPA 3 and distance from Phnom Penh were also likely to have association with HMR. Health service management training was seen to have a linkage with DCSD and HMR (Table 5.9.3). A higher mortality rate was found in type CPA 3 hospitals than in type CPA 2 hospitals, and an increase of distance from hospital to Phnom Penh of 1 km is likely to increase the mortality rate by 0.003 percent. The relationships of health service management training with DCSD and HMR suggest that if directors have attended health service management training, the number of patient discharges per clinical staff day is likely to increase by 0.188 percent, but the hospital mortality rate appears to increase by 0.769 percent. The negative relationship of health management training with HMR might be linked to the type of hospital.

**Table 5.9.3.1: Health Service Management Training**

	Not attended	Attended	Total
Hospital Type CPA 2	7	6	13
Hospital Type CPA 3	8	7	15
National Hospital	1	2	3
Total	16	15	31

Table 5.9.3.1 shows six directors of 13 (46.15percent) from hospital type CPA 2 and seven directors of 15 (46.67percent) from hospital type CPA 3 have attended health service management training, an almost identical proportion.

**Table 5.10.1: OLS Regression Results for OD Performance: Hypothesis 1—Managerial Vision**

	ALS	OPDCSD	DMD	DHCH	IMM	2ANC	TCC	PCZC
<b>Independent Variable</b>	<b>Coefficients</b>						<b>Coefficients</b>	
Clinical staff per OD	-0.011	-0.021	-0.002*	0.000	0.000	0.000	0.001	0.000
Health centres/1000 population	0.003	-0.023	-0.003	0.000	0.001	-0.001	0.002	0.000
Contracting OD	-1.544	2.505	-0.105	-0.068	-0.074	0.001	0.309**	-0.086
Rural	1.200	1.408	-0.043	0.016	0.056	-0.046	0.010	0.035
Management experience	-0.050	0.061	0.023**	0.003	0.000	0.003	0.004	-0.004
Qualifications	0.614	1.617	0.174*	0.138	0.167**	0.143*	0.127	0.019
Health service mgt training	0.406	0.062	-0.067	-0.104	-0.042	-0.193**	-0.087	0.033
MoH's mission achievement	-0.775*	0.138	0.091	-0.012	0.017	-0.057	-0.027	-0.033
Constant	5.617**	4.962*	0.404	0.285*	0.593**	0.743**	0.124	0.201
R-square	0.493	0.428	0.612	0.313	0.555	0.517	0.480	0.193
Observations	23	32	32	32	31	31	32	32

Note: \*  $P < 0.05$ ; \*\*  $P < 0.01$

Table 5.10.1 shows that MoH's mission achievement seems to have a significant relationship with ALS. This suggests that when the directors perceived their roles, were well aware of the most important targets obtained from MoH, established processes to ensure the targets were known by all staff, made significant improvements last year and set up paths of communication in the organisation, the average length of stay of patients was likely to reduce by 0.775 days.

Table 5.10.1 also shows clinical staff per OD is likely to have an association with deliveries per midwife day. Contracting OD is also likely to have a relationship with total consultation per capita. Management experience and qualifications of directors are likely to have associations with DMD. In addition, qualifications of the directors appear to have correlations with child immunisation and two antenatal care visits of pregnant women. Health service management training is likely to have an association with 2ANC as well. The relationship of clinical staff per OD with DMD suggests that adding one more clinical staff person is likely to reduce deliveries per midwife day by 0.002. The relationship of management experience with DMD might indicate that one more year of experience of management by directors is likely to increase deliveries per midwife day by 0.023. Qualifications suggest that those directors who have a medical degree are likely to result in an increase of 0.174 deliveries per midwife day, 0.176 percent in child immunization coverage and 14.3 percent in two antenatal care visits coverage compared with those who have a medical assistant degree. A contracting OD is likely to have 0.09 consultations per capita more than a non-contracting OD.

**Table 5.10.2: OLS Regression Results for OD Performance: Hypothesis 2—Manager’s Organisational Coordination**

	ALS	OPDCSD	DMD	DHCH	IMM	2ANC	TCC	PCZC
<b>Independent Variable</b>	<b>Coefficients</b>							
Clinical staff per OD	-0.003	-0.025*	-0.003*	0.000	-0.001	0.000	0.000	0.000
Health centres/1000 population	-0.001	-0.014	-0.001	0.001	0.002	-0.001	0.002*	0.000
Contracting OD	-0.730	2.593	-0.147	-0.046	-0.069	0.011	0.324**	-0.081
Rural	1.115	2.751**	0.082	0.092	0.119*	-0.028	0.080	0.043
Management experience	-0.060	0.058	0.025**	0.004	0.000	0.009	0.006	-0.001
Qualifications	0.914	1.390	0.134	0.118	0.162**	0.144*	0.115	0.000
Health service mgt training	-0.098	0.017	-0.019	-0.104	-0.047	-0.189*	-0.085	0.034
Services quality control	-0.894	-0.299	0.065	-0.001	-0.014	0.020	-0.008	0.024
Protocols delegation	-0.179	-1.338*	-0.126*	-0.067	-0.063	-0.052	-0.080	-0.035
Financial management	0.653	0.860	-0.043	-0.006	0.030	-0.040	-0.002	-0.004
Drug management	-0.447	-0.258	0.087	0.050	0.025	0.063	0.051	0.044
Time management	0.016	-0.095	-0.003	-0.032	-0.012	-0.010	-0.017	-0.015
Constant	5.186	4.808	0.255	0.481	0.617**	0.709**	0.167	0.306
R-square	0.565	0.647	0.680	0.520	0.693	0.551	0.622	0.262
Observations	22	31	31	31	30	30	31	31

Note: \*  $P < 0.05$ ; \*\*  $P < 0.01$

Table 5.10.2 displays only protocols delegation, the baseline variable having a significant relationship with OD performances, namely OPD consultations per clinical staff day and DMD. This might suggest that if directors completely delegated patient flows and clinical protocol management to their colleagues, there would likely be a reduction of 1.338 OPD consultations per clinical staff day and 0.126 deliveries per midwife day.

The relationships of control variables with OD performances were mixed. Clinical staff per OD is likely to have associations with OPDCSD and DMD. Health centres per 1000 population and contracting OD appear to have correlations with TCC. Significant differences between rural and urban residents were also observed for OPDCSD and IMM. Management experience is likely to have a linkage with DMD. Qualifications are likely to have linkages with IMM and 2ANC. Lastly, health service management training is likely to have a correlation with 2ANC. The relationships of clinical staff per OD with OPDCSD and DMD suggest that adding one more clinical staff would likely reduce OPD consultations per clinical staff day by 0.025 and deliveries per midwife day by 0.003. An increase of an additional health centre per 1000 population is likely to increase total consultations per capita by 0.002. Contracting ODs appear to have 0.324

more total consultations per capita than non-contracting ODs. OPD consultations per clinical staff day are likely to be 2.751 more for rural residents than for urban residents. The proportion of child immunisation is 11.9 percent more likely to cover rural than urban children. An increase of one year of experience of management of directors is likely to increase deliveries per midwife day by 0.025. Directors who have medical degrees appear to link to the increase the proportion of child immunisation by 16.2 percent and the proportion of two antenatal care visits of pregnant women by 14.4 percent compared to those who have a medical assistant degree. Health service management training of directors is likely to reduce the proportion of two antenatal care visits of pregnant women by 18.9 percent.

Table 5.10.3 shows that the relationships of baseline variables (staff management and rewards and staff improvement) have mixed results with OD performances. Staff management and rewards are seen to have a relationship with 2ANC and the proportion of consultations of zone C, while staff improvement is seen to have a relationship with ALS. The relationship between staff management and reward and the two OD performances suggests that when directors had plans for individual employees such as performance targets with frequent assessment and rewards, the proportion of two antenatal care visits of pregnant women declined by 8.3 percent and the proportion of consultations of zone C declined by 12.5 percent. The significant associations of staff improvement with ALS indicates that if directors dealt with low performance staff by re-assigning them to unfavourable tasks or taking disciplinary action, there would likely be a reduction of 1.398 days in average length of stay.

**Table 5.10.3: OLS Regression Results for OD Performance: Hypothesis 3—Manager’s Staff Management System**

	ALS	OPDCSD	DMD	DHCH	IMM	2ANC	TCC	PCZC
<b>Independent Variable</b>	<b>Coefficients</b>							
Clinical staff per OD	-0.018	-0.019	-0.002*	0.000	0.000	0.000	0.001	-0.001
Health centres/1000 population	0.016	-0.004	-0.002	0.000	0.001	0.000	0.002	0.000
Contracting OD	1.441	3.003	-0.180	-0.076	-0.014	0.071	0.330	0.020
Rural	0.422	1.722	0.059	0.048	0.064	-0.039	0.020	0.077
Management experience	-0.043	0.107	0.018**	0.002	-0.001	0.007	0.003	-0.008
Qualifications	0.826	1.498	0.141	0.120	0.166**	0.145*	0.117	-0.004
Health service mgt training	1.238	-0.077	-0.067	-0.098	-0.033	-0.180**	-0.079	0.085
Staff mgt and reward	-0.560	0.595	-0.009	-0.041	-0.025	-0.083*	-0.041	-0.125**
Staff improvement	-1.398*	-0.591	0.044	0.018	-0.040	0.962	-0.003	-0.056
Constant	4.856*	2.240	0.470	0.332*	0.568**	0.716**	0.146	0.293*
R-square	0.559	0.469	0.550	0.355	0.589	1.577	0.488	0.603
Observations	23	32	32	32	31	31	32	32

Note: \*  $P < 0.05$ ; \*\*  $P < 0.01$

The correlations of control variables with OD performances were mixed. Clinical staff per OD and management experience is likely to have a correlation with DMD, while qualifications are likely to have correlations with IMM and 2ANC. Health service management training seems to have a negative relationship with 2ANC. The association of clinical staff per OD with deliveries per midwife day suggests that adding one more staff per OD would likely reduce deliveries per midwife day by 0.002, while one more year of management experience of directors would likely increase deliveries per midwife day by 0.018. Medical doctor degrees appeared linked to an increase of 16.6 percent in child immunisation coverage and of 14.5 percent in two antenatal care visits of pregnant women coverage. The relationship of health service management training for directors with 2ANC was likely to reduce coverage of two antenatal care visits of pregnant women by 18 percent compared to those directors who have not attended the training.

#### **5.4. Discussion**

It has been postulated that organisational performance depends largely on the effectiveness of managers' actions, including vision, managerial coordination and staff management. However, the results for managerial vision, represented by achievement of MoH's missions in the study, did not strongly support this hypothesis, since mission achievement did not have significant relationships with organisational performances, except the average length of stay. This could be due to small sample size, problems with the quality of the organisational performance data and perhaps model specifications such as insufficient control variables.

Managerial coordination, represented by a set of proxy variables, namely services quality control, protocols delegation, financial management, drug management, and time management, appears not to support the hypothesis robustly. As shown in Table 5.9.2, only drug management and time management have positive and negative relationships with the average length of stay, while in Table 5.10.2 only protocols delegation has negative relationships with OPD consultation per clinical staff and deliveries per midwife per day, while other variables appear not to have any significant relationships with most hospital or OD performances. There could be several reasons that most baseline variables do not have any significant relationships with most organisational performances. These are the little discretion allowed directors on many aspects of management, data quality problems, the small sample size of this study and weak proxies and model specifications. The most important factor in the non-significant relationships between these baseline variables and most performances appears to be the lack of substantial discretion of directors over these baseline variables. Management style in hospitals and ODs appears to be standardised. Second, the quality of the organisational performance data is cause for concern, as shown in the results section, where suspected outliers were presented. Third, the sample size was initially 30 observations. Three national hospitals do not have performance data recorded in the MoH's HIS, which reduced the sample size to 27 and even fewer if outliers were excluded. Fourth, drug management was generated from a weak proxy from a factor score that did not highly explain most of the variations. Fifth, model

specifications such as insufficient control variables that have not been identified might also be a cause of the problem. Sixth, mild multi-collinearity was detected for some variables.

Although the organisation's staff management systems, represented in this study by two proxy variables, namely staff management and rewards and staff improvement, were found to have many significant relationships with hospital performance data, they were not found to support the hypothesis robustly. Table 5.9.3 shows that staff improvement has significant relationships with many hospital performances, while staff management and rewards do not, but surprisingly it is negatively related with the two antenatal care visits and the consultations of patients from zone C (see Table 5.10.3). The absence of staff management and rewards relationships with most hospital or OD performances might have the same reasons as in the cases of hypothesis 1 and hypothesis 2, but the main reason is perhaps that most public hospitals and ODs do not have good staff management systems, such as individual targets and individual performance assessment.

**Table 5.11: Individual Performance Targets**

	Hospitals		ODs	
	Number	Percent	Number	Percent
No individual targets defined	22	70.97	18	56.25
Inexplicit individual targets defined	4	12.9	7	21.88
Individual targets defined	5	16.13	7	21.88
Total	31	100	32	100

**Table 5.12: Individual Performance Assessment**

	Hospital		OD	
	Number	Percent	Number	Percent
None	12	38.71	8	25
Ad hoc assessment	12	38.71	14	43.75
Regular assessment	7	22.58	10	31.25
Total	31	100	32	100

Table 5.11 shows that 83.87 percent and 78.13 percent of hospital and OD directors respectively reported that their organisations did not have individual targets defined or had only not clearly defined targets. Table 5.12 shows that 77.42 percent and 68.75 percent of hospital and OD directors respectively reported that their organisations did not have individual performance assessment or had ad hoc assessment. Even when directors reported that their organisations had individual targets or regular assessments, there was no clear indication of how the assessment was conducted, how individual targets were defined or what the outcomes of the assessment were.

## 5.5. Conclusions

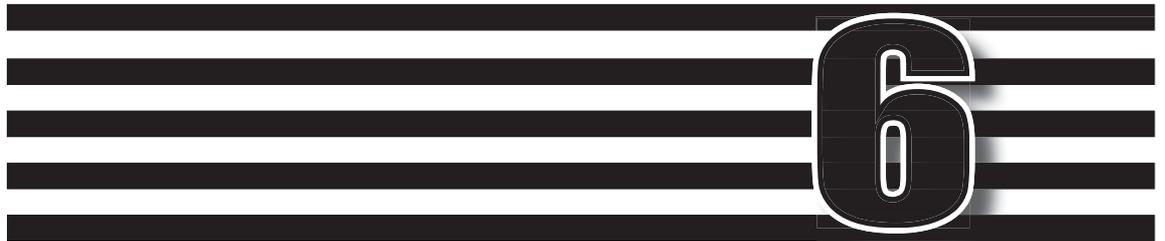
Managers' vision, managerial coordination and staff management style appear not to support the hypotheses strongly. This could be due to the fact that the management of hospitals and operational districts is standardised and the directors have little discretion, particularly over clinical coordination, financial management, drug management and staff management. Standard guidelines have been developed for all hospitals and ODs. In addition, the sample size was small, the organisational performance data quality was problematic, and the model specifications might be insufficient and ineffective due to lack of information and poor proxies in the study's design.

Health service management training appears negatively related to hospital and OD performance. Even though not all, the non-significant associations of health service management training with the hospital and OD performances show adverse relationships. The hospital mortality rate is strongly linked to the type of hospital; i.e. a higher mortality rate was observed in hospital type CPA 3 than in CPA 2. Distance was one of the factors attached to the mortality rate, meaning that more remote hospitals have higher mortality rates. Other control variables such as qualifications, management experience, clinical staff per organisation and the number of health centres per 1000 population do not show strong relations with organisation performances.

A similar study overcoming the issues mentioned above should be conducted again. The organisational performance data of the MoH's HIS are needed to check the study for accuracy and reliability before concluding whether the hypotheses are valid.

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**Searching for an Improved Path  
to Civil Society-Parliamentarian  
Interactions in Cambodia**

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## Chapter 6

### **Searching for an Improved Path to Civil Society-Parliamentarian Interactions in Cambodia<sup>1</sup>**

*By OU Sivhuoch, LUN Pide and KIM Sedara*

#### **Executive Summary**

After 15 years of Cambodia's adoption of democratic principles, democracy remains in its infancy—genuine acceptance of the imposed forces of external democratization (pluralism) remains in question and any clear separation of power continues to be disregarded. Market economy and pluralism have paved the way for the tremendous growth of CSOs (NGOs and trade unions in particular). There is a wide recognition that in transitional economies, MP-CSO engagement stands vital to better bridge the executive - citizens dichotomy so as to demand a more accountable government. This study explores the degree and the quality of the engagement between the MPs and CSOs.

Employing a stratified sampling survey, the study reveals that 21 percent of the sampled 116 CSOs registered with CCC have relationships with MPs. However, the qualitative in-depth interviews among 10 CSOs vividly illustrate that the real quality of the engagement remains limited. The finding shows that the majority of MPs (five of them were interviewed, representing four out of the nine commissions) slightly acknowledged/appreciated the contributions of CSOs; only a few MPs appear to have some demands for evidence and cooperation from CSOs. In contrast, CSOs (the political ones in particular) are in dire need of MPs' intervention but have received minimal cooperation from MPs. Currently, there is a general lack of trust

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1 OU Sivhuoch and LUN Pide are researchers and Kim Sedara is programme coordinator at CDRI. This article is a shorter version of the full work titled 'Understanding Civil Society-Parliamentarian Engagement in Contemporary Cambodia', which is funded by the Oversea Development Institute. The full version will be released by ODI in early 2010.

The authors would like to offer their deep gratitude and thanks to the MPs and CSO representatives who generously offered their time to our team for the interviews and surveys. We wish to express our appreciation to two external reviewers Dr. Kheang Un and Dr. Caroline Hughes who shared with us their thoughts and critical constructive comments on earlier drafts of the article. We would like to pass on our thanks to Dr. Hossein Jalilian, research director and Dr. Rebecca F. Catalla, research advisor at CDRI for their useful and practical comments on the work. Importantly, we gratefully acknowledge the financial support of ODI, without which this paper would not have been possible.

from both sides, which hinders genuine and fruitful relationships; it may take years, or even decades before a vibrant and meaningful civil society and active and engaged NA emerge. These days, MPs are politically constrained to act accountably to their respective parties and to defend the legitimacy of the executive, thus little room is left for their popular representation. Although MPs shoulder more responsibility for a better relationship, we have observed that civil society emerging from docility remains immature and is not well trained or equipped with appropriate skills to engage with MPs. At close observation, civil society is weak, the sphere is largely constituted by donor funded NGOs which are more accountable to donors and lack a strong civic engagement.

However, given the challenging environment CSOs and parliament have to face, the limited but productive engagement cannot go unnoticed. The study reveals that some CSOs have managed to achieve good quality outputs from such engagement – some comments on the draft laws were accepted by MPs and some visible effective intervention was taken by the Assembly. The initial genuine interactions should be carefully nurtured, especially by both CSOs. The study suggests that genuine relationships occur when the following factors are combined: MPs have trust in the CSOs, the CSOs are politically affiliated, reliable evidence is used, appropriate strategies are engaged, the nature of the CSOs is conducive to building rapport – development CSOs work better with MPs than political CSOs which are often viewed as threats by the MPs (of the ruling party). Nevertheless, it is important to note that the demand for evidence from the opposition MPs is rather high compared to that of the ruling party.

In terms of relationship style, the engaging CSOs have utilized the informal links they have developed mostly with individual MPs. Often they tend to work alone in the course of interaction. Since the engagement is rather new, CSOs have not established concrete networks with MPs; the engagement is based on an ad hoc basis.

## **6.1. Introduction**

### **6.1.1. Overview**

Cambodia's destructive history of civil wars had led to the deterioration of key social institutions while leaving the country struggling to reconstruct itself almost entirely from scratch. The signing of the Paris Peace Accord in 1991 put an end to two decades of internal conflict and brought about the remarkable transition to democracy which resulted in the 1993 elections as well as the shift from central-planning to free market economy. In the meantime, political freedom and pluralistic principles in which different actors in society are allowed to have their own space to function have been reinvented. The end goal of this move was to ensure stability, peace, and development within the country (Öjendal and Lilja 2009; Kim 2010).

Thus far, Cambodia's inception of liberal democracy has entered the fourth mandate. The last election in 2008 saw the landslide victory of the Cambodian People's Party (CPP) which has ruled the country since the end of the Khmer Rouge regime. Building

democracy in a formerly authoritarian country with society torn apart by political strife and brutality like Cambodia is not an easy task (Öjendal & Lilja 2009). Consequently, despite the effort by the international community, Cambodia is still categorized as a weak state with widespread corruption, weak rule of law, and poor service delivery (Un 2004, Kim 2010, Ottaway 2002, p. 29).

Also, civil society in Cambodia remains weak. The evidence from Thon et.al. (2009) suggests that nearly a decade after Cambodia implemented decentralization reform, the gap between state and society remains considerably wide. Hence, the presence of civil society is of importance in the sense that it helps bridge the connection between state and society (Hawthorn 2001). Scholars such as Krygier (1997) and White (1994) define civil society as a sphere that exists between state and citizens, emerges from the grassroots, and functions to scrutinize the power of the state while protecting people's interests and values. Chandhoke (2007) further propounds that civil society rises up to uphold the principles of democracy. From this perspective, civil society groups are those advocates of democracy who turn against the state of democratic backsliding.

Nonetheless, civil society in Cambodia is observed to be insubstantial. Historically, Cambodia does not have a strong history of vibrant civil society, rather only traditionally rooted indigenous organizations such as Buddhist temples have existed. During the wars, especially in Khmer Rouge's time, the menace of the bloody regime had impaired the whole of Cambodian society; civil society domain was totally closed. During the 1980s, only state supported mass based organizations were permitted (Gottesman 2004). The political and economic transition in the 1990s paved the way for rapid emergence of non-governmental organizations (NGOs) as well as voluntary associations. These organisations have declared themselves to be civil society organizations. However, given their reliance on donors' financial support, and the lack of "spontaneous grassroots energies" (Lester 1994, cf. Un 2006), NGOs have adhered their agenda to those of donors<sup>2</sup> — little room is left for them to operate on their own terms (using local knowledge, for instance) and at their own pace.

Weak state institutions and civil society place doubt on how democracy in Cambodia is to be strengthened. The role of the legislative body in helping to promote close relationships between the state and civil society is dubious. In fact, parliament and civil society, to a certain extent, share a common goal in that they voice and respond to the concerns of all groups of people and act as a watchdog to monitor the executive's actions. Hence, having an effective engagement between the two actors is deemed necessary. Good interaction enables information to flow smoothly between the grassroots and the state (O'Brien 2008). Furthermore, in a conflict-affected country like Cambodia, an endeavor to build positive engagement between legislative and civil society even serves as a vital contribution to sustainable peace. A parliament which is responsive to the needs of a marginal group represented by civil society helps temper

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2 However, it should be noted that the influence of donors on local NGOs varies as Ou (2006) finds that the more established and stronger NGOs have much more autonomy than the smaller and weaker ones. Ou also discovers that the latter groups sometimes greatly adjust, if not divert, their organization's mission to get funding support.

any discontent and thus prevents conflict which may arise within the group if their demand is not considered in the first place (Ibid).

In the Cambodian context, to grasp an understanding of civil society-parliamentary engagement is a crucial task that needs to be explored. Conspicuously, there exist contradicting views from each of civil society and parliament, which makes communication between the two domains appear gloomy. For instance, some Cambodian NGOs, especially those working to promote human rights and democracy, frequently turn out and speak on behalf of the people, are so critical of the state, criticizing the legislative body of being inactive, incapable, and more accountable to their political party than to the people they represent. From general observation, it is the norms introduced, if not imposed on local NGOs by their donors, to take a tough stance on these human rights and democracy matters. Yet, from the parliamentary side, those NGOs are blamed for being too pessimistic, donor-driven, and being biased towards the opposition.

### **6.1.2. Research Objectives and Questions**

This paper aims to examine civil society-parliamentary engagement in order to discover the nature of the relationship between the two domains - the degree and quality of engagement. Further, it aims to examine how parliamentarians view such engagement, the factors enabling and inhibiting engagement and how such relationships could be fostered.

### **6.1.3. Justification of the Research**

Some key features which are vital contributions of this paper are as follows.

First, the study enables us to cultivate much deeper understanding of the nature and functions of the two main spheres — civil society and parliament so that the implications of engagement between the two actors can be analyzed.

Second, while this paper uncovers different perspectives, which have never been thoroughly investigated, from both parliament and civil society vis-à-vis their engagement, those views will then serve as a basis for diagnosing drawbacks as well as misunderstandings which make the engagement weak or unsatisfactory. Possible solutions to improve the relationship can be explored by seeking common ground which is beneficial for both parties.

Thirdly, given the important role that parliament can play as a watchdog over the executive branch in terms of monitoring legislative outcomes, CSOs may seek to work together with MPs to strengthen this role; however, if civil society forces fail to achieve policy change objectives and others via parliamentarians, the research suggests civil society should not only stick to engaging with parliamentarians but at the same time should seek other channels to realize those goals.

Finally, the findings might also be useful for other conflict-affected countries.

#### 6.1.4. Research Methods

The research study was implemented using the following two methods. First, we conducted a survey of 116 Civil Society Organizations (about 30 percent of the population). This sample was randomly selected from the 383 registered CSOs in CCC's<sup>3</sup> Directory of Cambodian NGOs 2008. Second, we carried out our in-depth interviews with key informants who include 10 CSOs and five parliamentarians<sup>4</sup>.

The research is framed to understand the characteristics of both MPs and CSOs — the key factors that appear to shape their performance. We will reveal that parliament is passive for three important reasons: the long history of MPs (especially the opposition) being threatened and intimidated by the executive; the structural political constraints that hold them accountable to respective political parties and the executive, and their lack of expertise and resources. We also assume that civil society is weak in several aspects: the embedded societal structure and habits, the allegedly failed international interventions to bring about an expected vibrant civil society and the gradual process whereby the state strategically co-opts CSOs to reduce the danger of being delegitimized by them. However, we tend not to be constrained by this dilemma; the study will strive to explore the room left for some positive engagement, and elucidate what makes the interactions good.

The rest of this article is organized as follows. Section 6.2 provides the context Cambodia is situated in and the nature of parliament and its limitations, and then Section 6.3 discusses relevant literature on civil society which is crucially important to gauge Cambodian civil society. Section 6.4 provides the main research findings and analyses. It analytically reflects the views of both MPs and civil society against the literature discussed earlier in the article; via reflection, findings will come afterwards. Conclusions and recommendations are in Section 6.5.

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3 CCC stands for Cooperation Committee for Cambodia. CCC is a membership organization working to facilitate information sharing among the development community in Cambodia. The Directory of Cambodian NGOs is one of CCC's publication series (*Source: Agency Contact Listing June 2008, CCC's Publication Series*). According to Ou (2006), as of 2006, there are more than 1,500 Cambodian NGOs and associations registered with the Ministry of Interior. However, since we were not permitted to get the full list of those organizations, CCC's Directory is the only source of data we can resort to. Hence, as a limitation of this study, our findings and analyses only reflect those in the sample.

4 We exclude senators from the interviewed sample because they are not directly elected by the people, and their role, according to Article 112 in Cambodian Constitution, is to coordinate the work between the National Assembly and the government. Among the five interviewed MPs, one is from the opposition party, Sam Rainsy. The rest are from the ruling party, CPP and are the officials of four parliament commissions (three are the chairmen and one is secretary), of the house's nine commissions. The authors understand that views from the five MPs in the sample cannot represent those of all 123 MPs. This is another limitation of this study. However, interviews with four MPs who speak on behalf of four commissions seem to well represent the total of nine commissions.

## 6.2. Cambodian Parliament and Limitations

This section seeks to unpack the nature of Cambodian state and implications for MPs' performances. It also attempts to unveil other fundamental inherent factors contributing to MPs' limitations and how these complications constitute as drawbacks for MPs' endeavors in realizing their mandated objectives, which also include relationships with civil society.

### 6.2.1. Nature of Cambodian State

Emerging from decades of war and conflict, turning away from socialism and authoritarian regime, Cambodia has from 1991 onwards adopted a multi-party liberal democratic system under a constitutional monarchy with market economy. Having adhered to pluralist democratic polity for the last decade, the country still faces democratic stagnation (Kim 2010). Such a system is termed 'hybrid polities' marked by combination of the lack of authentic acceptance of externally forced democratization forces (pluralism) and serious rejection of other aspects. In many ways, the country is still a post conflict society (Kim 2010; WB 2005, cf. Tsekpo & Hudson 2009) for it faces a huge challenge in consolidating democracy. Some argue that Cambodia appears to be steadily returning to autocratic rule after a window of democracy (Ashley 1998, Chandler 1998, cf. Kim and Ojendal 2009) while others see that Cambodia's democratization is like a train that never left the platform (McCargo 2005, cf. Kim and Ojendal 2009).

Cambodia still depends on donors' aid (foreign aid accounts for roughly half of the national budget (Hughes 2009). According to Khilnani (2001) new states have enormous simultaneous demands posed on them: ensuring its security, legitimacy through the practices of democratic principles and upgrading the welfare of the people. Struggling to fulfill the three forms of demands, the resource poor state has in principle achieved only one: security. However, it continues to face challenges of strengthening the other two, internal and external legitimacy and the enhancement of the people's standards of living. Towards upgrading its legitimacy, given the current political economy and politics, the state does strive for external legitimacy and accepts the creation and arrival of thousands of CSOs to operate in the country. It has been viewed that those service providers (developmental) NGOs whose agenda and ideology run in parallel with the state's and thus serve to enhance state legitimacy (particularly internal legitimacy)- are well accommodated by the state. In contrast, political NGOs promoting human rights and democracy often face negative reaction from the state. However, given the fact that the country remains dependent on foreign assistance, the space is cautiously opened with pressure from donors for these groups' activities (Hughes and Conway 2004). Thus far, a number of NGO and trade union activists have been arrested, imprisoned, or intimidated (Hughes and Conway 2004, Un 2006, and interviews, CSO#8<sup>5</sup>, May 13, 2009; CSO#9, May 22, 2009; CSO#14, June 02, 2009, Phnom Penh). The fundamental underlying cause is that such activities run against the state's agenda and demote the

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5 At the informants' request for confidentiality, the authors refrain from revealing both their names and institutions they belong to and create the coding to identify them.

state's external legitimacy. This shows the limited political space reluctantly provided by the state.

Democratic polity is theoretically marked by power sharing among the three spheres; the elected legislature is established with power to oversee the executive, in line with an independent judiciary. However, weak democracy which remains unconsolidated does not allow for the functioning oversight institutions. Further recent political development has seen remarkable increasing dominance of the ruling party over the political landscape and the state at large, in particular when it won the landslide victory (over two thirds of the seats) during the 2008 elections, making its way to reach a hegemonic level — ensuring complete political domination<sup>6</sup>.

**Table 6.1: National Assembly Elections Results (Of the Three Major Political Parties)**

Mandate	Political Party	Votes	Seats
1993 — 1998*	CPP	1,533,471	51
	FUNCINPEC	1,824,188	58
1998 — 2003*	CPP	2,030,802	64
	FUNCINPEC	1,554,374	43
	Sam Rainsy	699,653	15
2003 — 2008	CPP	2,447,259	73
	FUNCINPEC	1,072,313	26
	Sam Rainsy	1,130,423	24
2008 — 2012	CPP	3,492,374	90
	FUNCINPEC	303,764	2
	Sam Rainsy	1,316,714	26

Source: Cambodia National Election Committee's Homepage: <http://www.ncelect.org.kh> (Date accessed: July 13, 2009). \* Data retrieved from Inter-Parliamentary Union's Homepage: <http://www.ipu.org> (Date accessed: July 13, 2009).

<sup>6</sup> Various arguments have shown that not until power is handed over to the opposition party through an election can a democracy be considered to be consolidated.

**Box 6.1: Cambodian Parliament in Brief**

Cambodian Parliament consists of two chambers: The National Assembly and the Senate.

**National Assembly**

The NA has 123 seats elected from 24 constituencies for a five-year term by proportional representation. The members of NA are supposed to perform three primary roles:

- **Legislation:** involving lawmaking; making the rules to govern society.
- **Representation:** representing and acting responsively to the concerns of all groups in society.
- **Oversight:** making the executive accountable to parliament through monitoring the government's actions and performance.

**Senate**

In 1999, Cambodian Senate was created by making amendment to the constitution. It has 61 members serving for a six-year term. The senators are elected by both members of National Assembly and the entire members of Commune/Sangkat councils.

The duty of the Senate is to coordinate the work between the National Assembly and the government and perform advisory role in terms of legislation.

*Source: Tsepko and Hudson (2009); The Cambodian Government's Homepage: <http://www.cambodia.gov.kb> & The Senate's Homepage: <http://senate.gov.kb> (Date accessed: July 10, 2009)*

**6.2.2. Limitations of Parliament**

While stalled democracy partially explains the weak legislative branch, other reasons elucidate other fundamental factors contributing to the limitation.

First, strong legislature was historically absent; from 1954 when Cambodia got independence from France, parliament served as domain for political legitimization rather than a functioning oversight institution or a sphere for democratic debate (Un 2008, Chandler 2000).

Second, the immediate post conflict solutions to prioritize peace over instability carved out the proportional representation electoral system (with a closed party list) for the country. As a result, MPs (of two dominant parties) have been under the tight control of FUNCINPEC and CPP leaders. Though strict discipline is common in parliamentary democracy, in Cambodia regulation is born out of patronage politics and networks that emerged out of political mistrust. This process has undercut democratic representation (Ibid).

Third, as briefly illustrated in Box 6.3 below, since 1993, in a snapshot, Cambodian MPs of both ruling and opposition parties have not been well enough protected to act independently and their realistic sphere of operation has been very narrowly constrained. Any MPs' activities considered damaging to the agenda of their respective parties or to the officials of the executive's branches are not tolerated. For these reasons, MPs are often fearful and submissive to both their parent party and the powerful executive.

**Box 6.2: Actions Taken by Political Parties and the Executive Against MPs**

Since 1993, Cambodian MPs have been subject to various political threats and intimidation. The following are some of the main facts:

In 1994, one MP from FUNCINPEC party who later formed his own political party (SRP) was expelled from his party and then from the National Assembly.

In 2001, three senators from the ruling party were expelled from parliament as well as from their party without any warning and without any Senate meeting after they criticized the Criminal Code Bill in Parliament. Although it was suggested they take their case to court, they did not to do so for fear of their own security.

In 2004, there were reports of a number of death threats to MPs. All of them were from FUNCINPEC and Sam Rainsy Party. Other political and human rights activists were also intimidated and at worse assassinated.

In 2005, three MPs from opposition party (SRP) were stripped of their parliamentary immunity for they defamed government leaders; one of them was accused of criminal offences of organized crime (forming an illegal secret army). Three of them were then convicted to imprisonment and fines.

In 2009, one MP from SRP was also charged with defamation of the Prime Minister, which resulted in lifting her parliamentary immunity in order for the court to proceed with the criminal defamation case against her.

*Source: COMFREL's Parliamentary Watch Report 2004, Sam Rainsy Party's Homepage: <http://www.samrainsyparty.org> (Date accessed: July 24, 2009); Inter-Parliamentary Union's Homepage: <http://www.ipu.org> (Date accessed: July 24, 2009).*

The fourth factor is the lack of capacity of MPs to draft and analyze laws; data shows that between 1993 and 2000, the legislative did not initiate any law. Therefore, members of parliament defer rights to draft laws to the executive who regularly manipulate the drafts.

Tsekpo & Hudson (2009) present, among many, a few other reasons for ineffective parliaments in developing countries including Cambodia. The National Assembly's dependence on the executive for resources constrains it from acting independently.

The two scholars maintain that in Cambodia, this appears to be worse in that the destruction of the country's institutions and assets pose enormous challenges to parliament.

All those weaknesses, and given the contemporary one party dominance, MPs are automatically influenced by the executive and the respective parties. An obvious statement is made by UNDP that "The National Assembly and Senate are strongly influenced by party lines. A strong sense of partisanship and loyalty to their respective political party is evident in the distribution and allocation of seats, allocation of chairmanships, argument in the floor debates and voting patterns" (UNDP, 2007, cf. Tsekpo & Hudson, 2009).

Another consequence is parliament's inability to perform its three roles independently and effectively. In terms of parliament's legislative roles, effectiveness remains low for it is heavily shaped by the executive's monopolization of the legislative initiative. For the representational role, once again, since MPs are structurally held accountable to political parties, there is little room left for them to act accountably and responsibly to their constituents. The weakest among the three parliamentary roles is that of oversight. Because parliament has been dominated by the executive and the ruling party for the last decade, the government and its ministers are often slow to report to parliament and answer parliamentary questions (Tsekpo & Hudson, 2009).

### **6.3. Nature of Cambodian Civil Society**

This section examines briefly the civil society concept, its functions and investigates the Southeast Asian understanding of the notion. Eventually it arrives at discussion of the concept and its evolution in Cambodia. It attempts to do so as the mixture of Western ideas and local values has led to the creation of a form of civil society with rather different characteristics from the West, and that have implications for its relationship with the Cambodian state and MPs in particular.

#### **6.3.1. The Origin and General Functions of Civil Society**

The study raises the significant and widely discussed concepts of civil society which are useful for reflecting on Cambodian civil society: civil society as the precondition for state creation; the distinction between state and civil society; and civil society as a space.

#### ***Civil Society and the State***

Civil society, in its original sense has no distinction between state and society or between political and civil society. It simply means "a collection of human beings united within a legitimate political order", and was variously rendered as "society" or "community" (Khilnani 2001). Similarly, Kaldor agrees that when it was originally used, civil society was not distinguished from the state but from non-civil society, i.e. the state of nature, absolutist empires and disorder and war (Kaldor 2003, cited in Orjuela 2004).

For Hobbes, state is created by civic achievement. In his theory of social contract, human beings exchange their insecure 'natural rights' for civil rights secured by the state. For him, state is indispensable to protect the people from uncertainty and vulnerability but is not created/assisted by nature but by civic achievement. Civil government is not derived from the pre-eminent virtues of individuals but from truly collective rational decisions (Khilnani 2001).

Referring to several arguments by prominent classical theorists, Chandhoke (2007) articulates that nowhere in history has civil society been conceptualized as independent or alternative to the state.

### *Civil Society in Distinction to the State*

While John Lockes agrees with Hobbes about the great civic achievement which forms the state and the necessity of having states, he foresees that the state can bring danger to popular liberty if the potential power of the modern sovereign state is not brought under reliable restriction. So the state needs to be limited. Locke stated that sovereign state or government is quite distinct from the body of people. There came the entire people constituting the society and the sovereign government composed of those who rule the people (Khilnani 2001). So the state needs to be restrained with constitutions and rules, and aside from them, civil society upholding the state's power has the tremendous role of keeping the state in check.

Chandhoke (2007) concurs with Locke and has observed that wherever and whenever the state pulverizes collective action, any efforts to influence the state prove politically explosive. In 1989, the public became political public and knocked down the Eastern European states. The idea also proved attractive in South America, Africa, and Asia in 1970s and 1980s when the struggles of urban professional groups, intellectuals, political activists, working class and rural populations against the military regimes and non-responsive political parties became visibly apparent. Another good example is the popular movement against Suharto's regime in Indonesia (Chandhoke 2001, 2007).

### *Civil Society as a Sphere*

The widely understood concept of civil society evolves around situating it as a sphere between the state and family<sup>7</sup>. Hegel<sup>8</sup> sees the notion of civil society as the sphere of the complex connection between state and families (Kaviraj 2001). According

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7 Various and endless controversial debates about civil society also evolve around leaving market as a separate entity, not as a part of civil society or between the state and family (for the over competition in the market can be detrimental to civil society); hence, civil society according to some scholars should stay between the three domains: market, family and state (See Cohen and Arato 1992); however, discussion on whether to include or exclude market is beyond the remit of this paper.

8 See Michael, O. Hardimon (1994) *Hegel's Social Philosophy*. Cambridge: Cambridge University Press.

to Hegel, the sphere of civil society allows for unrestricted differentiation, and so a field of innovation, energy and initiative; it is a space where the higher principle of modernity can grow and flourish. Similarly, Hawthorn (2001) sees civil society as a free, lively ‘associational realm’ between state and family that can improve the communication between citizens and their governments, raise public morality, create a more satisfactory balance of power, and in these ways shape an acceptable democracy. Another more contemporary definition by Diamond highlights “*the realm of organized social life that is open, voluntary, self-generating, at least partially self-supporting, autonomous from the state, and bound by a legal order or set of shared rules*” (Diamond, 1999, p. 221). In this respect, civil society, according to Diamond (Ibid), involves citizens’ collective actions to express their interests and ideas, to exchange information, to achieve collective goals, to pose demands on the state, to improve the structure and functioning of the state, and to hold state officials accountable.

### **6.3.2. Civil Society in Southeast Asia**

This section attempts to comprehend the notion of civil society in Southeast Asia which also embraces Cambodia; hence certain common regional cultural and societal values are shared by Cambodians as well. The major broad concepts outlined above will be the basis for the regional analysis; the intention is to look for common patterns and differences between the general and regional concepts.

#### ***Civil Society and the State***

Civil society in the Southeast Asian context tends not to replicate that of its Western liberal counterpart. While Hobbes tells about the importance of state and that a civic government is created by civic achievement, in non-western society, one can never witness the state that emerges from natural sociability or the collective rational achievement (Kaviraj 2001). In Southeast Asia, during the colonial time, struggles to challenge colonial rulers were the rudiments of civil society; however, after independence, they were easily absorbed by the state — thus they were not opponents to the state but part of the state. With regard to state-society distinction, Weller (2005) sees that in Asia, even in more democratic cases, the state-CSO dichotomy appears more symbolic rather than antagonistic. There are few political principles about social resistance to state tyranny in the region. So it is left to question the assumed opposition between state and society. Asian culture is imbued with preferences and warmth provided by kinsmen, relatives and community members rather than strangers — community rather individuals is emphasized and trust stays with the familiars. Similarly, for civility and trust in Southeast Asia, people largely pertain to relations with familiars. Those outside one’s networks are distrusted. In short, Asian cultures are resistant to a universalistic outlook; the sense of social integration remains limited (Pye 1999). The outstanding significant feature here is that civil society in the region is observed to be not only passive but lacks, if it is an absence, norms that regulate vertical connections between people and their societal groups and the state.

### *Key Elements of Southeast Asian Civil Society*

While in the liberal construct, groups tend to dominate civil society sphere in the region. It is misleading to count just formal organizations (NPOs and NGOs) and exclude informal ones because other elements of civil society are out of sight (Mutz & Benda 2004, Weller 2005). Even some formal groups organized along ‘modern lines’ contain internal tensions. Some survive with the charismatic personalities of a leader whose departure marks the demise of the organization. Some are nothing more than an individual strong leader and some staff. Some speak for people they do not represent (peasants, minorities, the unemployed, land mine victims). In fact, they are neither elected nor funded by the constituents, nor does the leader come from these groups (Weller 2005).

Mutz & Benda argue that it makes more sense to look at civil society from the action-oriented approach. They see that specific civic structures that advance reciprocal behavioral patterns, cooperative action and mutual trust — all indicate a vibrant civil society; these include Buddhist and Muslim communities which represent traditional, organic and civic practices and habits. Aside from civic structures, the civic actions in which civil society actors are involved constitute the reality of SEA civil society (Gerd & Nicola 2004).

From the explanations above, several conclusions can be made about the region’s civil society on reflection with the Western construct.

- Southeast Asian civilities and social capital hold back a liberal civil society growth. In a society whereby social norms discourage impersonal relationships and trust is placed among familiars, unsurprisingly, large-scale interactions among groups could not occur.
- Fundamental civil society elements are not institutional, autonomous and quite as formal as those in the West, rather they evolve around the civic structures and actions. In this regional context, it should be noted that the existence of a great number of NGOs does not guarantee an energetic civil society for they lack popular representation (grassroots base, popular ideas and participation) and accountability; Weller (2005) calls such a weak form of civil society as “representation without accountability”.

### 6.3.3. The Reality of Cambodian Civil Society

This section attempts to unravel the complexity of Cambodian civil society. Initially it delves into the preconditions of Cambodian societal factors such as civility<sup>9</sup> and social capital; it will examine whether these prerequisites exist for civil society to flourish. Subsequently, it explores how the turbulent past in combination with embedded Khmer values contribute to civil society docility and state society dichotomy. In the second section, it critically analyzes the donors' intervention in NGOs to equate with building civil society. Lastly, it will examine the recent phenomenon of the state's cooptation of civil society. We argue the three points constitute the weaknesses of Cambodian civil society and affects its relationships with MPs.

#### *Cambodian Social Structure: Propitious Conditions for Civil Society Growth?*

The key aspects of Cambodian communities are marked by the significant lack of communal structure and the interactions that only occur among familiars. The dichotomy between society and the (local) state authority is wide. In a country like Cambodia where 85 percent settle in rural surroundings, deep understanding of rural societal values are a prerequisite for the profound analysis of civil society in general.

However, the negative past alone does not explain the loose structure; if compared, the Khmer traditional society had less community sense than many other agriculture-based Asian societies (Bit 1991, Vickery 1984, Mabbett & Chandler 1995). The structure framing identity and shaping collective social action is relatively 'weak' in Cambodia (Ibid). Obviously, even before the wars, a number of accounts by various scholars share a common point about the "absence of rural community" (Delvert 1961, in Hughes and Conway 2004). Also Chandler (2000) said historically, the Cambodian village is a loose structure; even during the colonial time, the village is not portrayed by durable and functionally important groups or voluntary associations aside from family and kinship ties and Buddhist monastic structure (Ledgerwood 2002, Kim 2001). In the same vein, Ebihara, deriving from her lengthy anthropological work before the wars, makes it clear that "a striking feature of Khmer village life is the lack of indigenous, traditional, organized associations, clubs, factions, or other groups that are formed on non-kin principle" (Ebihara 1968:181). Khmer community households in the 1960s were bound together not organizationally but by socially embedded, reciprocity-supporting "institutions" of kinship, proximity, and familiarity (Ebihara 1968).

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9 Pye (1999) defines civility as the norms that regulate social relations at three levels. First is the horizontal level which involves norms to regulate personal, intimate relationships on the one hand, and interpersonal, public relationships on the other. The second concerns with the norms which prescribe superior — inferior interactions. The third involves the norms controlling human aggression and managing conflict resolutions. The rules of civility ensure social order, which form an integrated functioning society, prevent confusion, disorder, and anarchy. Social capital is the critical level of trust among societal members, which make collective action possible (Putnam *et. al.*1993). Pye (1999) states, that social capital determines the potential for reaching community and national goals collectively.

### *Wide State—Society Dichotomy*

Aside from societal and cultural factors which hinder collective actions, the sense of group mobilization which constrains people not to interact beyond kinsmen and familiars — all constitute drawbacks to civil society’s ability to flourish. Khmer social norms interlocking with a chaotic past keep the state and society distanced by mistrust. Cambodian society is embedded with hierarchical structures, state versus people disparity, and a general absence of trust and informal personal relations (Ebihara 1968; Chandler 2000; Ledgerwood 2002; Ovesen *et.al.* 1996; Un 2004; Collins 1998; Hughes 2003; Ojendal & Kim 2006; Kim 2001). These traditional norms have not changed much since ancient times (Kim 2010). Rusten and Ojendal (2003) make it clear that even the communes, the closest authority to the people are perceived as fairly distant whereas the culture of checking on authorities is absent in Cambodia’s political life especially for those in rural areas. This large state- society space will be discussed below, particularly its critical implications for the weakness of civil society and how it presents a dilemma to civil society- parliamentary relations. However, as mentioned in the introductory section, the important recent change is the narrow gap between political parties and the grassroots people; how this impedes true civil society growth will be discussed later on.

### *The Emergence of CSOs*

Khmer society has been weakened during the prolonged decline since the fall of the Angkor era (from the 15th century onwards) and non-state organizations were completely removed during the Khmer Rouge regimes. The following PRK continued to suppress freedom of association and only allowed state supported mass/people organizations such as the Cambodian Red Cross<sup>10</sup>, the Revolutionary Youth Organization, the Revolutionary Women’s Organizations and a few others to operate and these were considered civil society (Mysliwiec 1993).

The early 1990s marked two other significant historical dimensions for the civil society boom. One was the sudden mushrooming of Non-Governmental Organisations (NGOs) which was described by Burnip (1997: 24-25) as “a short burst followed by an explosion”. Three combining factors can well explain phenomenon: abundant support from the UN and international NGOs, institutional support (capacity,

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10 According to Gottesman (2004), the mass organizations were set up to bridge the party and the masses, to serve as training grounds for future party members and state cadres. However, in practice, they failed to report the abuses committed by the local authorities. In time, representatives of the mass organizations used by the administration were forced to implement some of the regime’s most unpopular policies such as conscripting soldiers, without adequate compensation or recognition. While there is no comprehensive study on how these mass organizations have transformed themselves from the communist regime- backed organizations into the contemporary semi democratic regime supported bodies, the general observations show that the Cambodian Red Cross has enormously expanded its scope of operation.

favourable legal environment — easy registration process), and the availability of human resources (returned refugees who were trained with English skills, possessed more general knowledge than the locals and got exposed to Western culture brought by the international organizations which had assisted those refugees, set up most of the local NGOs) (See Burnip 1997 & Yonekura 1999). Second was the relatively gradual growth of trade unions in response to the influx of garment factories, which now account for roughly 1,500 in number<sup>11</sup>. The initial rise of unions comes largely as the result of the current opposition party's efforts<sup>12</sup>.

The arrival of NGOs to Cambodia also is more about the result of world political development which has triggered development policy and aid transfers to be framed under what Robinson (1993) terms a 'New Policy Agenda'<sup>13</sup> - under which, NGOs and GROs were seen as efficient and effective agents promoting democracy and strengthening civil society. With these developments, the Northern governments have been increasing their official funds through NGOs, prompting their rapid growth (Edwards & Hulme, 1995, 1996). In short, NGOs have played two key roles: service delivery (the supply side) and policy advocacy (the demand side) (Swain 1997, cited in Un 2004, Rooy 2002), the latter is to do with promoting democracy, lobbying the government for more pro-poor development policies.

The impact of the internationally shaped civil society needs to be examined. Their influences have contributed to several weaknesses in current contemporary civil society: the upward accountability and submissiveness of NGOs - for they are financially dependent, the lack of grassroots energy to uphold those NGOs and representation.

Un maintains that Cambodian NGOs did not emerge out of society with densely formed social capital but from funding availability and appropriate institutional support; financial dependence<sup>14</sup> constrains NGOs to compromise their agendas;

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11 Based on the anecdotal evidence given by an informant (interview, CSO#14, May 28, 2009, Phnom Penh)

12 For instance, the Free Trade Union of Workers of the Kingdom of Cambodia was set up (in 1996) by the current opposition leader Sam Raingsy in response to the transformation of public companies (making mosquito nets, blankets, cotton and tyres) to private factories (most of which initially produced shoes and garments). The primary purposes were to fight for better wages and improved working conditions for workers.

13 This has pushed for two important changes: macro economic reform and good governance (Edwards & Hulme, 1995, 1996, and Hulme and Edwards 1997). Within the reform, private initiative has been seen as the important and efficient drive to economic growth and provision of most services to people (Colclough & Manor 1991, cited in Edwards and Hulme 1995: 4) while the states have been encouraged to play a minimal role. While the strategy was put in place, donors started to channel funds to NGOs to provide welfare services to those who could not be reached by markets; those agencies have also been considered the preferred channel to the state (Edwards & Hulme 1995: 4).

14 OU (2006) has found out that out of the 17 CNGOs he studied, only one working on health could generate some income making up roughly 40 percent of the overall expenses; the rest are almost completely dependent on donors in financial terms.

somehow pursue donors' agendas for financial survival or become submissive (UN 2006). Likewise, Melena and Chhim (2008) find that financial dependence creates challenges for local organizations to reconcile foreign concepts and agenda with local cultural, political and social realities. Similarly, Lester says CNGOs did not arise from "spontaneous grass-roots energies (Lester 1994, cf. Un 2006), lack the poor's civic engagement (there is deficient sense of voluntarism, participatory norms, mass-based membership) (Kim and Kong 2008) and the "voluntary aspect of traditional non-profit organizations is often absent and, at best, nascent" (Mansfield 2002). The fact that NGOs are funded, trained by donors and INGOs, equips them with tenuous claims to speak for the poor<sup>15</sup> (Hughes & Conway 2004). Another important point to note is over a decade of the NGO mushrooming age, Hughes and Conway (Ibid) contend that aside from the NGO types of organizations, the 'organic' types of organizations are still meagre and limited in the civil society sphere. Pye (1999) warned that for Cambodia, having a large number of NGOs does not guarantee a vibrant civil society. The aforesaid discussions succinctly explain the nature of civil society in Cambodia. First, the Khmer societal values of having loose structures, and lack of communal collective action, the insufficient sense of organizing indigenous groupings, and the fact that the Khmer interact among kinsmen, contribute to the absence of a vibrant civil society. The embedded civility and social capital permits Cambodian civil society to function at the grassroots levels, centering around pagodas. These show that large scale interactions, a prominent element of Western civil society, are uncommon in Khmer society. The sustainable Cambodian civil society concentrates around what Pye (1999) calls indigenous civic structure and actions. Also it is imperative to note the inherent societal values as such were pervasive even before the wars broke out.

Second, differing from the West, Khmers as illustrated earlier are not used to creating contact with authority. Power relations between civilians and the state are characterized by steep power differentials which inhibit common citizens from claiming rights and freedoms in the face of official highhandedness (Hughes and Conway 2004). These conditions resulted in disparity between state and society favouring the former.

Third, given the thin civil society, the intention of the international donor community has been, from early 1990s, to introduce NGOs into the local polity which are seen as the bastions of civil society here. However, given the weaknesses of NGOs, NGOs are just a sector largely disconnected from society. The space that NGOs operate is granted by the state but such space is maintained by the pressure of international agencies (journalists, human rights monitors, ambassadors, donors, which provide protection to human rights NGOs and social movements). Such space, according to Hughes and Conway (2004) is accessible and secured in the capital but not in rural areas. Mayhew (2005) reveals that there is no clear legislation to manage NGOs and associations in the country, the government often finds ways to coerce NGOs to have their agenda aligned with its own.

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15 It may be said that these NGOs may utilize their capacities and resources to act on behalf of the poor; however, the facts that they are disconnected from the poor (as discussed earlier) and are supposed to be more accountable to the money-givers present as their dilemma in effectively responding to the poor's needs.

Lastly, NGO-based civil society in Cambodia has reached a new crossroads whereby they have started to receive less political support from donors which have adopted a new more supportive position to the state. The above scholars contend that NGOs have enjoyed political space backed up by the international community which has perceived the state not to abide by democratic principles. However, recently reduced violence during election times, the last internationally acceptable election results have allowed the state to gain more substantial external legitimacy; hence the donor community which seems to have accepted the *good enough governance* model of (Grindle 2004), has continued to lessen their influence on the state<sup>16</sup>.

#### 6.4. Research Findings and Analyses

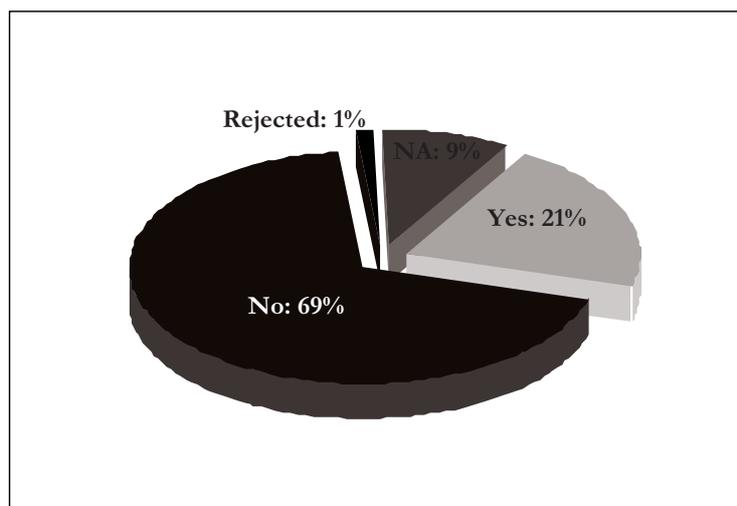
This empirical section blends in the theoretical framework supported by the key literature and the survey findings and qualitative results reflecting the views of both actors on each other.

##### 6.4.1. Survey and Qualitative Results

###### *Quantity and Sector of Engagement*

Figure 6.1 reports the answers from the sampled 116 CSOs. The responses are classified into four different types. “Yes” indicates the presence of engagement and “No” the absence due to the nature of a CSO’s work. “Rejected” means that either the parliament or a CSO refuses to engage or chooses to ignore the request for engagement. “NA” includes those CSOs that decline to respond or could not be contacted.

**Figure 6.1: CSOs-Parliament Engagement Results**



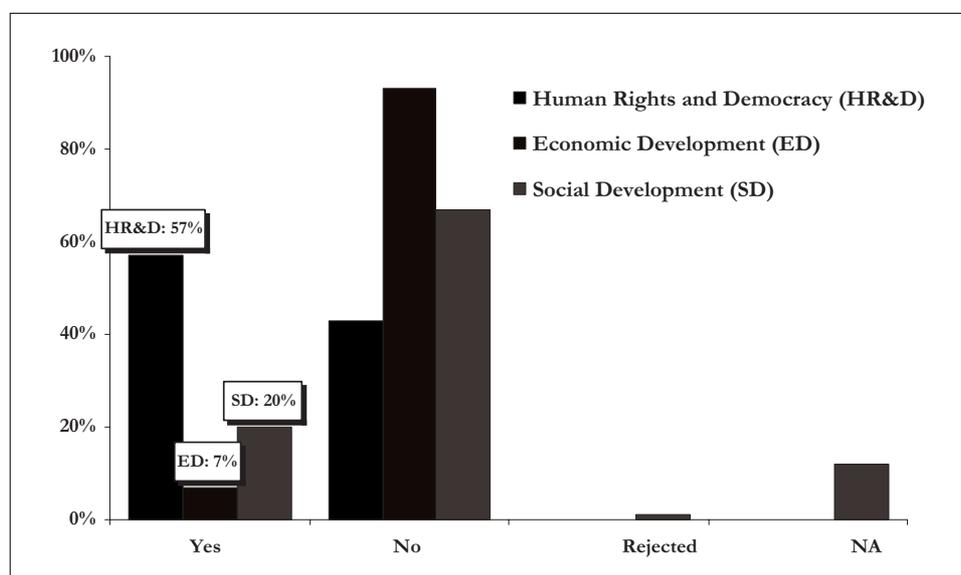
16 During the recent (within 2009) government donor meetings, the donors have been largely quiet in pressing the government to meet the different expectations they used to demand.

The results show that 21 percent of CSOs in the sample have at least one engagement with parliament, whereas, among almost 70 percent of CSOs, their scope of work does not require any engagement with parliament. Only one CSO reports that its request was disregarded by parliament. The rest of the CSOs could not be reached for answers.

Another interesting aspect from both the survey and the interviews shows that MPs have most relationships with NGOs, seconded by trade unions and associations<sup>17</sup>; however, there was no sign of inputs from the real grassroots organizations discussed. Two indicative outstanding CBOs interviewed show that they have hardly ever approached MPs; however, though one of them has been approached by an MP, the MP only sought the CBO to help strengthen the commune councils of his own party. He was not interested in seeking evidence from the CSO for policy process.

Most of the interacting CSOs have built relationships for about 10 years. The engagement is rather young given the fact that the engaged CSOs were instigated after early 1990s. However, though the relationship is still youthful and some CSOs, especially political groups, have not yet achieved quality relationships with MPs, a number of them still regard MPs as important and see them as a force for change. So, they need to inform them about the societal problems the people face; the basic argument is at least those MPs are aware of the issues.

**Figure 6.2: The Engagement by Sector**



<sup>17</sup> Teachers' and workers' associations.

Figure 6.2 illustrates the engagement results by sector. Among the sampled CSOs, over 50 percent of those working to promote human rights and democracy reveal their engagement with parliament, the highest compared to the other two sectors— 20 percent and 7 percent for social development and economic development respectively. The findings correspond to the earlier discussions in the section on the nature of Cambodian state which need contact with MPs in order to influence policy changes, to advocate for improved democracy, etc. Political groups are aware of the three roles of MPs: legislation, representation, and oversight. To them, good laws are a part of their agenda; also they work closely with the voters, hence can bring up popular concerns and issues to MPs. Importantly, the executive branches are often those involved with wrong doing, hence CSOs need MPs to exercise their oversight roles to intervene and seek solutions to problems. In short, it clearly shows that great demands are posed by political CSOs on MPs. However, CSOs focusing on development agenda often cooperate with government institutions and have less interaction with the legislative body. Obviously, their primary goals are to deliver their services and hence seek the appropriate channels of access to achieve them and those channels are the government institutions, not MPs.

### ***Enabling Factors***

It is discussed thoroughly above that political space is rather limited for MPs to build successful relationships with CSOs. However, with the limitations, genuine relationships do emerge. The underlying factors include the trust gained by MPs on the CSOs, the situation of win–win, the importance of evidence, neutrality and political party affiliation, and the real demand from MPs. Another related part centres around the styles of the engagement.

### ***Trust and Evidence***

Several studied cases illustrate the relationships have only gone smoothly when MPs have gained substantial trust of the CSOs. One of the key informant interviewees tells that, “Trust building is extremely important, usually it takes time and patience before our organization is trusted”. (*Interview, CPP MP#12, Jun 01, 2009, Phnom Penh*).

As regards evidence, one surveyed informant pointed out that figures are of paramount importance to convince MPs and those figures needed to be double checked to assure correctness before they were sent to MPs. Ranked below statistical data are testimonies which include mostly written complaints of the victims of land-grabbing or land eviction. Some surveyed organizations raised the point that non-statistical information carries a lot of weight to influence MPs, this includes photographs, video film, and finger prints of the concerned people.

The interviewed MPs also stress the value of evidence as all of them emphasize that as long as they respect professionalism, stand unbiased, and operate based on the truth, CSOs will credit and can cooperate with MPs. One interviewed member made it clear that,

“The power of parliament is partly supplied by civil society, but the CS itself must have full integrity towards parliament, not manipulating the truth in order to gain some advantage for itself” (Interview, CPP MP#2, April 28, 2009, Phnom Penh).

### *Political Party Affiliation Vs Neutrality*

The importance of party affiliation is relevant to one surveyed respondent who largely depends on it to have the collaboration of the ruling party MPs’ assistance. However, among other surveyed CSOs and the key informants interviewed express their neutral stance so as not to be seen politically biased. A few key interviewees, especially the trade unions, have also stuck to the policies of being neutral to avoid being accused by the ruling party of siding with the opposition. According to them, however, the nature of their work attracts the opposition MPs’ involvement a lot and thus puts them far from the ruling party’s MPs.

Before the events (Labour and Human Rights Days) of June 01 and December 10, our confederation sent out letters to invite every MP to attend the ceremony but it appears that only opposition MPs were there (Interview, CPP MP#14, Jun 02, 2009, Phnom Penh).

### *Real Demand from CSOs*

Good engagement partly arises from when MPs require information/data from the concerned CSOs. One interviewed MP highlights that he usually consults with NGOs to understand the situation before meeting the people during their field visits.

“We work on health and migration, so before we meet the people during our field trips or discussion forums, we talk to CSOs whose have the relevant expertise so that we understand the reality; that helps us a lot in responding to the concerns of the people,” (Interview, CPP MP#4, June 15, 2009, Phnom Penh).

Another case reveals that some opposition MPs who have good relationships with an economic research institute have requested research findings, data, and other research information from the institute on both a regular and ad hoc basis. Sometimes, the president is called up by the MPs for informal meetings in which the MPs request the information they need; at other times, MPs make phone calls to the organization for the data they want.

### *The Nature of the CSOs*

Although the surveyed findings show that political CSOs have more engagement with MPs, in terms of quality, developmental groups have more genuine interaction with MPs.

Among all the engaging CSOs studied, the three that have developed the smoothest relationships with MPs are all developmental groups. One of them witnessed success when the petitions sent to NA were responded to positively and the problem was solved.

“We had sent a petition about the case of land grabbing to the NA; within two weeks, the president of NA issued an authorized letter to the concerned sub national authorities who later resolved the land conflicts and conferred land titles to all the victims. That was helpful”, one the surveyed informants, October 2009, Phnom Penh.

One significant dilemma suggested by most of the ruling party’s MPs is that political CSOs side with the opposition and have manipulated the truth to gain advantages for themselves.

“Since civil society wants to have their role in society, it creates contention between politicians in power and civil society itself. CSOs are blamed by the politicians who are the representatives of the society for interfering in their roles. There are more such bad CSOs than good ones. Hence, CSOs should be well aware of their own functions and the language they speak must not be the same as the oppositions.” (Interview, CPP MP#3, Jun 03, 2009, Phnom Penh).

The CSOs act to grant two contributions. First, they give comments and advice on the existing drafted laws. Second, they help bridge the gap in relations between the people in the community and the MP. However, some negative points still exist. Some CSOs working to promote human rights are too pessimistic about the current human rights situation in Cambodia. They see only the dark side; obviously, they must not manipulate the truth in order to gain some advantage for themselves. (interview, CPP MP#2, Apr 28, 2009, Phnom Penh).

### ***Engagement Styles***

**Going informal:** The majority of respondents prefer to use informal methods when they need to engage with parliamentarians; they would need to comply with many requirements if they wanted to choose the formal channel. One surveyed organization suggested that ‘in Cambodia *nothing* is better than the informal channel; here understanding always comes first before the force of law.’ The same leader of the organization further pointed out that, ‘the relationship between the contacted MP and himself is like that of a relative, she can be called up any time’. Another respondent claimed that formal relationship only formed after the deal had already been reached informally.

**Approaching individual MPs:** Most respondents regard working with individual MPs as the most effective way of approaching them. The effectiveness behind the approach lies in the fact that the CSOs have already built trust between the organization and the MP. Furthermore, they often approach the reliable MPs who have a pleasant attitude

towards the CSO and have a certain degree of power to respond to the CSO's needs. Beyond individual basis, sometimes CSOs make use of the MPs they have relationships with to guide them about approaching the right committee as currently CSOs still lack a good understanding of who's who in the assembly. One respondent commented about facilitation from an opposition MP: a land grabbing case was forwarded to the relevant committee, and it was further sent to the president of the assembly and effective intervention was made. So far, few forums have been established at parliament and CSOs are not well informed about them.

**Going alone:** All informants prefer to work alone as they find this is more effective and efficient. Most of the surveyed CSOs have not yet singled out engagement with MPs as a common activity; therefore they have not yet created effective mechanisms which the groups can utilize in order to work with MPs. In general, the engagement is pursued based on demands and on a sporadic basis. The respondents approach MPs on an individual basis for their own organization has built good relationships with appropriate and reliable MPs; thus they manage to work together smoothly and effectively. A constraint to working together is the lack of resources among the CSOs that try to coordinate the activities. One respondent said that his organization tended to cover the expenses and spend more time than others, thus it is not fair on his organization.

**How CSOs arrange meetings with MPs:** Invitations to workshops and conferences rank as the most common strategies used by CSOs to engage with MPs. Responses from the key informants confirm the survey findings. A few respondents also invite MPs to discussion forums where the CSOs invite students/youths or citizens to meet MPs face to face. An important aspect to draw from this point is that CSOs mostly make use of workshops and conferences to meet with MPs which indicates that CSOs have not yet been able to diversify their engagement strategies with MPs.

**How MPs approach CSOs:** CSOs are also approached by MPs on various occasions: CSOs' engagement on the draft bills is the most common form. CSOs of both development and political spheres have been approached by MPs to assist them in this process. With regard to MPs' request for publications - this is generally rather sporadic. Among all the interviewees, only one research institute is regularly approached by MPs (mostly those of the opposition) for publications and other data they need.

### *Hindering factors*

The earlier discussion shows the importance of evidence in facilitating the engagement; however, although evidence is helpful for developmental CSOs, it is rather limited to the political groups who advocate for human rights, respect and democracy. The case below will confirm that evidence does not convince MPs to take the actions they should take.

**Box 6.3: Case Study: “Clean Hand” Campaign**

The “Clean Hand” campaign was initiated by Civil Society Organisations with the aim of raising awareness of the combat against the widespread corruption in Cambodia. Some of the campaign activities include the dissemination of materials (“Clean Hand” posters, T-shirts, etc), and other media coverage like radio and TV shows.

Recently, the Coalition of Civil Society Organisations Against Corruption, composed of 49 local, national, and international organisations, as part of the “Clean Hand” initiative, had launched a five-month campaign to collect one million signatures/-thumbprints of voting-age Cambodians to demand for the passing of anti-corruption law. Those one million copies would be presented to the government and the National Assembly as the evidence.

After the one million signatures were collected, some 12 Human Rights NGOs had proposed a meeting with one of the commissions in parliament. According to one MP from the commission approached by those NGOs, their proposed meeting agenda concerned making two requests to parliament. First, they asked parliament, particularly the said commission to keep the one million copies of “Clean Hand” treaties. Second, they requested the MP to join the tricycle rally, [which is part of the “Clean Hand” campaign activities.]

However, both requests were turned down. as explained by the MP,

“Well, I felt disappointed during the “Clean Hand” campaign organized by 12 prominent Human Rights NGOs. As far as the goal of the “Clean Hand” is concerned, I really appreciated their initiative to organize such an event. They asked for the meeting with us so that they could present their requests. We gladly welcomed them. They requested parliament to keep the copies of the signed Clean Hand treaties of 1 million people and also asked me to join the tricycle rally. I did not accept the requests since there is not enough space here in parliament to store those one million copies. As you can see, we only have this space for a meeting room - no other space for keeping so many documents. Moreover, it is not common for an MP, namely myself, to participate in such a rally. However, we did agree to keep one [big] signed treaty, which we think is good enough to represent the Clean Hand of all people. Since we rejected their demands, they attacked us fiercely through the media like RFA (Radio Free Asia), accusing us of colluding with the government in widespread corruption.”

One million signatures represent about 7 percent of the total Cambodian population, the evidence is extremely compelling; however, the concerns of MPs is primarily focused on process issues, rather than the substance of the campaign by CSOs. Hence, evidence is less relevant here. From the CSOs’ perspectives, this is because MPs are more accountable to political parties, are heavily influenced by the executive branch and thus fearful and powerless.

Half of the interviewed CSOs observe that MPs are more accountable to their political party than to the citizens they are supposed to represent. As one CSO observes,

“The positive engagement between NGOs and MPs is at low level. This is due to the reason that MPs tend to serve and are accountable more to their political party than to the people.” (Interview, CSO#2, Feb 13, 2009, Phnom Penh).

Nearly half of the engaging CSOs view that MPs are not independent; their actions and decisions are influenced or directed by government. This finding is consistent with the popular view that there is no clear separation of power among the three bodies, the executive, legislative, and judiciary and the executive dominates the other two branches. Hence, it is difficult for MPs who should be autonomous and independent to fulfill their constitutional roles, specifically the core function of monitoring the government’s performance. One of the CSOs puts forward,

“The three branches of power- legislative, executive, and judicial are not independent. The executive dominates the other two....To be right, MPs must monitor the functioning of the government. MPs have the power to question the government if no substantial progress in the country has been made.” (Interview, CSO#9, May 22, 2009, Phnom Penh).

Some CSOs consider parliament to be a fearful and powerless body. As some explain,

“It is naïve to say that MPs are not aware of significant problems occurring in their respective constituencies; obviously, when the cases involve powerful politicians or government officials, MPs just ignore matters, being fearful of losing their positions and benefits.” (Interview, CSO#12, Jun 01, 2009, Phnom Penh).

“The legislative is not equipped with the power to pressure or check on the executive; on the contrary, MPs are often intimidated by the threat of having their immunity withdrawn by the executive.” (Interview, CSO#8, May 18, 2009, Phnom Penh).

These views blame the executive who tend to take control of the legislative; hence the latter does not have power or freedom to exercise their functions for the benefits of the people. MPs are very meticulous about every move they make and choose to be passive rather than active in order to stay in a safe zone. However, some MPs from the opposition are seen to be more energetic in dealing with various issues raised by CSOs<sup>18</sup>. Yet, the constraint is that they have little voice and some of them try to use CSOs as a tool to gain political interests.

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18 In the last mandate, 92 percent of MPs from the opposition party, Sam Rainsy Party provided comments during the plenary meetings, compared to only 51 percent from the ruling party. Out of 566 cases, more than 70 percent were intervened by the opposition MPs, and about 20 percent by the ruling party MPs. (Source: COMFREL’s *Parliamentary Watch 2009*)

In short, one of the strongest hindering factors to engagement is MPs' perception of CSOs as threats.

Another constraining factor concerns the political environment CSOs are operating in. Having looked at the current mandate which thus far has just taken place in less than 12 months, some CSOs which work closely with parliament disclose that the situation is worse than that of the previous mandates. They blame parliament for imposing administrative constraints which make it difficult for CSOs to contact MPs. As one CSO puts it,

“At present, it is increasingly difficult for us to get in touch with parliament due to the reason that the administration unit in parliament has set a lot procedures, which we think are complicated and are intentionally put as barriers to reduce our contact with MPs. Moreover, since all parliament commissions are chaired by MPs from CPP, the information flow from them is restricted and closed.” (Interview, CSO#11, May 28, 2009, Phnom Penh).

From the MPs' side, however, there are some drawbacks regarding the roles of civil society which MPs are skeptical about. The following are those concerns:

**Donor-driven:** Some donors influence the agenda of their funded CSOs. So, the latter to some extent, have to follow the mission of their funders in order to survive. As one MP suspects,

“Cambodian NGOs are not ideologically based but are donor-driven.” (Interview, SRP MP#5, Mar 19, 2009, Phnom Penh).

By donor driven, the MP refers to the working style of the NGOs – as long as donors are tough with the government on their agenda in promoting good governance or democracy, NGOs follow suit and act as if they are donors. The attitude is not acceptable, according to MPs.

**Ineffective and Unprofessional:** Some MPs question the competence of CSOs in dealing with their work. They observe that CSO's working styles still remain unprofessional. Some MPs give a variety of views,

“Civil society does not constitute only NGOs but other bodies as well. Here even NGOs themselves do not understand the notion of civil society clearly. Some NGOs do not know how to work. Obviously, they are to improve society and help the poor but mostly they have worked to strengthen themselves. When they want to advocate changes, they produce statements and spread them out. It is not very effective. [Instead], they should produce draft laws by themselves and lobby MPs or the concerned ministries. NGOs should also reconsider their roles and negotiate with donors to reduce the overlapping work among them. [While] the problem of NGOs is that they are donor-driven, some others are also set up by the government to counter attack the real ones.” (Interview, SRP MP#5, Mar 19, 2009, Phnom Penh).

#### 6.4.2. Analysis and Findings

The study aims at understanding the degree and quality of the engagement between civil society and parliamentarians. To achieve the stated objectives, we have seriously examined the views of both actors of each other and also scrutinized the underlying dynamics underneath such perceptions which allow us to clearly capture the enabling factors and constraints for the engagement.

The deep qualitative findings reveal that the genuine relationship between engaging CSOs and parliament remains limited. As pointed out in an earlier section, the main impasse to an improved relationship is the lack of real demands and initiatives from MPs who have been under political pressure to be accountable to their respective political parties rather than their constituents; however, we also assert that weak civil society constituted mostly of NGOs does constitute some visible forms of discouraging signs for engagement. These are all confirmed by the perceptions of both sides.

Electoral democracy has bridged the space between political parties (especially the ruling party), not the formal state systems, and the citizens (Thon *et.al.* forthcoming). The newly emerging phenomenon indicates the direction the state is taking – prioritizing and strengthening the mass party patronage networks to achieve developmental goals and peace to the liberal democratic principle upheld by a functioning civil society. As a result it seeks to minimize the role of civil society; recently the state has strategized to co-opt civil society groups such as developmental NGOs, most trade unions and even pagodas for if these groups act outside its domain of dominance, their different agenda (such as empowering the people about their rights and roles, opening further political space) would pose constraints impeding their legitimacy. As a result, the state needs to put them in appropriate control. MPs who are agents of the executive have to follow suit. And there is no reason for them to work with political CSOs whose agendas are often seen in line with the opposition.

Obviously, from all the interviews, MPs show they are fully aware of their roles and responsibilities; however, the political structural constraints (the proportional electoral system and tight control of MPs by political parties) hold MPs severely accountable to their respective political parties and the executive. Hence MPs are marginalized by the executive, leaving them little independence to achieve their mandated tasks of representing the people, legislating and overseeing the activities of the executive branches. Rather it is the interests of MPs to represent and defend the legitimacy of the party and the executive—both work on the same agenda. To MPs, a smooth engagement would undercut the legitimacy of the executive, which would give them trouble as well as losing positions and benefits.

On the other end, civil society groups (especially the political ones) are in dire need of MPs' intervention; however, they end up receiving little support and cooperation from them.

Another relevant case is our research team found it difficult to meet up with MPs; we approached all the nine commissions but only four gave us opportunities. Significantly, one of them who declined to meet us said his commission never met with CSOs unless permitted by the parliament president or their party's masters. This case affirms the arguments above in that MPs are fearful, accountable to parties and lack independence.

Another crucial aspect is the lack of initiative from MPs to engage with CSOs whether the groups' representation is high or low. MPs often pinpoint the lack of representation and legitimacy of NGOs as their weaknesses and decline to engage with them; however, there are others with high level of representation such as the two interviewed prominent CSOs operating a province who are known to MPs but have not been approached meaningfully for societal benefits but for personal or party's interests. While one of them has not been reached by MPs, the other was requested by an MP to help strengthen commune councilors of his party and to seek her advice for his party's performance<sup>19</sup>. The President of a union confederation also told us that MPs of the ruling party have never gone down to meet trade unions or attend their forum<sup>20</sup>. Likewise, the leadership study by (Thon, et al 2009) reveals that in the three studied communes of three different provinces, MPs are not targeted by villagers who experience problems, rather they approach the local authorities (and other former legal rational leaders they are familiar with), elders, business leaders, and politicians for help. In short, to MPs, CSOs are not necessary; engaging with CSOs (especially the political groups), brings more harm than good.

On the part of civil society, it is realized that their limitations have reduced the quality of engagement in a number of ways. First of all, the engaging groups which are mostly NGOs, lack understanding about the nature of Cambodian state and the underpinning values upholding the system. To the Khmer, power is not shared (Kim 2010) and the authorities are not used to working with civil society groups, the culture of pluralism has been adopted for just over a decade, hence it is new. Further, lack of trust among different social groups, as a result of the past turmoil and embedded social capital and civility remains pervasive. For these reasons, CSOs' hasty and poorly planned and short-term engagement strategies would be less likely to succeed in gaining trust and cooperation from MPs. For instance, without taking into consideration the long term impact on the relationships, CSOs rush to publicize the lack of willingness of MPs to cooperate with them.

Second, it is observed that the attitude of some political groups does not show sufficient respect to MPs who at least are theoretically the most important branch among the three. MPs who say they usually follow their conventional style of working find it inappropriate to follow the working style strongly requested by CSOs.

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19 Interview, CSO#5, Mar 31, 2009, Phnom Penh

20 Interview, CSO#14, Jun 02, 2009, Phnom Penh

Third, some CSOs engage with MPs on certain issues for their political gains. Hence, MPs of the ruling party, unsurprisingly, find it inappropriate to cooperate.

However, while it is overwhelming that MPs are refrained from cooperating with CSOs, the few cases illustrated above which go against the tide need to be taken into consideration and nurtured. Those few surveyed and interviewed CSOs have produced productive outcomes from the relationships with MPs given. The significant factors that facilitate good engagement include, the trust built, being informal, and the CSOs should be developmental. Given the characteristics of these factors, it is rather hard to expand it much further.

### **6.5. Conclusion and Recommendations**

While the visible degree of relationship looks promising, genuine engagement is minimal. The study reveals that the two sides do not perceive each other as partners due to social norms, the lack of trust, and perceived negative political implications. The fundamental issue underpinning the poor relationship is the lack of independence of MPs; they are caught up serving the party rather than the constituents—limiting their ability to represent the people and CSOs.

Constraints also minimally stem from weak civil society groups which usually follow the agenda enforced by donors who take little consideration of the local context, rushing to achieve only results at the expense of damaging the initial bud of relationships. Civil society in Cambodia is rather distinct from the Western construct. Rather than being a sphere populated by voluntary organisations and movements, civil society in Cambodia is mostly occupied by NGOs supported by Western donors, and are mostly accountable to donors rather than the people. That fact is often raised by MPs when NGOs attempt to raise sensitive issues with them. w

The objectives of liberal civil society run in contrast with the state's; thus the state has attempted to co-opt CSOs; however, civil society struggles to resist the absorption. Civil society also blames MPs for allowing themselves to be co-opted by the executive—that is the main source of absence of an enabling environment.

### **Paths to Better Engagement**

In a transitional economy like Cambodia, where democracy remains unconsolidated and state institutions are weak, and it appears that executive domination continues, and even more so given the further domination of the ruling party in the executive arena, the legislative will continue to be marginalized and lack independence, rendering them weak. In this context, CSOs should be aware that it takes time and patience to improve relationships. The following are possible suggestions to maintain and enhance relationships.

Suggestions to MPs:

- The General Secretariat of the National Assembly should provide necessary information to CSOs about how they can approach MPs. Also MPs should seek ways to inform CSOs about what they can offer to CSOs and what they expect CSOs to do to have good cooperation.
- MPs should endeavor to create a forum where they can meet with CSOs on a regular basis so as to build more trust and boost cooperation.

Suggestions to CSOs:

- Some CSOs should reconsider their past engagement strategies and adopt better attitude towards MPs, acting more patiently and making an effort to gain more trust from MPs. CSOs should communicate with MPs with reliable and concrete evidence to hand. CSOs should take ‘the time factor’ into account; it takes years or even decades to develop good relationships.
- An MP’s suggestion should be well taken into account and received by CSOs, ‘CSOs should start to Khmerize their way of working with MPs<sup>21</sup>’. He emphasizes that ‘constructive engagement’ can occur as long as CSOs know their roles and learn to engage in pleasant ways that can be accepted by MPs; CSOs should avoid being viewed as threats by MPs. Forcing MPs to follow CSOs’ agendas is not a sustainable solution. CSOs should understand the difficulties of MPs. CSOs should also realize that now it is time to learn to work with the ruling party’s MPs.
- For a key policy research institute like CDRI, research materials should be sent to all MPs on a regular basis and on the specific issues MPs need, researchers should be made available to explain to the MPs. Further, some research findings (digested into policy briefs) should be simplified and translated into Khmer so that MPs can use them comfortably.
- Some positive signs of engagement have occurred, for instance, MPs’ acceptance to join CSOs’ forum, MPs’ incorporation of CSOs’ inputs to draft laws, their positive outcome should be promoted. CSOs should continue to keep on engaging but at the same time, they should not expect energetic engagement unless exceptional events occur.
- CSOs should find ways to work with major donors that suit MPs, consult with them and review their engagement methods, should they wish to get sound engagement.

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21 A ruling party MP’s remark made during a workshop on understanding the Roles of Cambodian Parliament and Civil Society Organizations to Strengthen Good Cooperation. November, 06, 2009.

- The fact that CSOs find it less effective to make use of donors' support and influence to achieve their objectives (especially when donors have started to have less influence on the government) signifies that CSOs should find other ways to realize their objectives. A possible approach is to strengthen and set up more CBOs so as to increase popular participation, which would draw MPs' attention.

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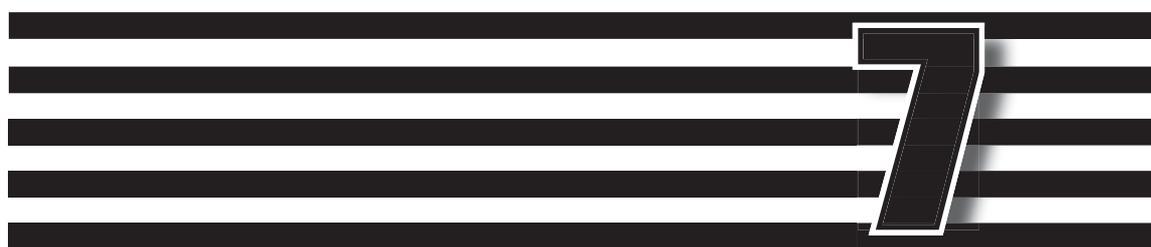
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# **Chinese Investment in Cambodia**

**By TONG Kimsun and HEM Sochet<sup>\*</sup>**  
*with the assistance of*  
**PON Dorina, PHANN Dalis and HEM Metta**

## Chapter 7

### Chinese Investment in Cambodia

*By Tong Kimsun and Hem Sochetb*

*with the assistance of Pon Dorina, Phann Dalis and Hem Metta*

#### 7.1. Introduction

Cambodia has gradually moved from a centrally planned to a market economy by liberalising trade and investment policies since 1989. After the first general election in 1993, the government, in collaboration with international institutions such as the World Bank, Asian Development Bank and International Monetary Fund, implemented a structural adjustment programme to stabilise the economy and attract foreign direct investment (FDI). A law on investment was approved by the National Assembly in 1994, and the Council for the Development of Cambodia (CDC) was created to monitor both foreign and domestic investors.

Cambodia has encouraged FDI inflows since 1994. Companies from China, South Korea, the United States, Malaysia and Thailand have gradually established production bases in this new location, where labour costs are cheaper and the investment climate is relatively favourable. From 1998 to 2003, Cambodia attracted FDI amounting to USD1260 million. Taiwan topped the investment list, followed by China, Malaysia, Hong Kong and South Korea; investments were mostly concentrated in labour intensive sectors, such as garments, tourism and textile industries.

Cambodia's investment policy has become more liberalised, the 1994 Law on Investment being amended in 2003 to ease investment applications. As a result, the value of total approved fixed asset investment rose nearly tenfold, to USD12,136 million, during 2004–08; China alone accounts for USD5807 million, equivalent to 48 percent of total investment approvals by the CDC. China is followed by South Korea with USD2458 million, the United States USD1410 million, Malaysia USD331 million and Thailand USD316 million. Not all approved investments have been implemented; according to one CDC official, only about 30 percent of approved investment projects have been realised.

In 1998–2003, FDI in Cambodia was unevenly distributed, the garment sector attracting the most. This was largely attributed to most favoured nation status, Generalised System of Preferences and other preferential market access granted to Cambodia by the United States, the European Union and other countries, promoting Cambodia's garment exports. At the same time, more capital intensive sectors such as

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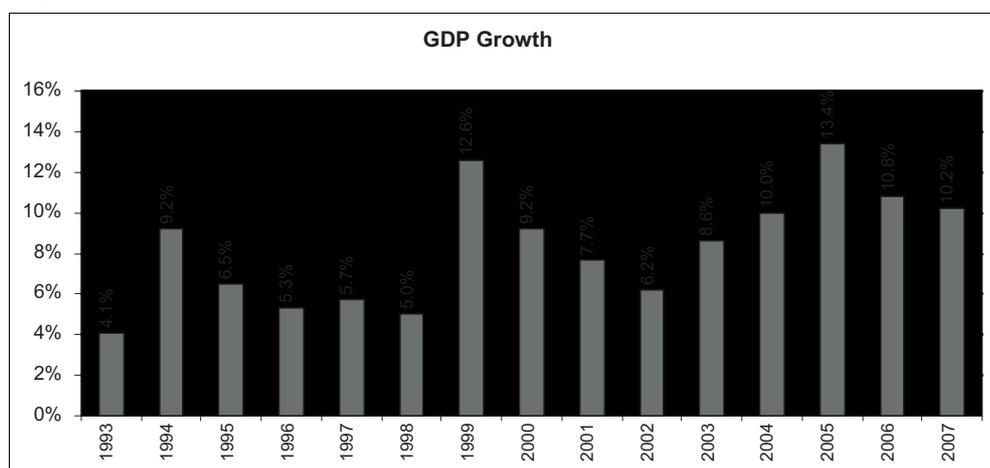
infrastructure and transportation registered a very small amount of FDI. Agriculture also has attracted few projects.

The remainder of this paper is organised as follows. Section 7.2 and 7.3 reviews Cambodian economy and economic development strategies. Methodology and data are discussed in Section 7.4, while Section 7.5 describes the pattern of FDI. Section 7.6 and 7.7 presents the official development assistant and trade. Section 7.8 analyzes the Chinese FDI and its socio-economic impacts. Section 7.9 concludes and provides some policy implications.

## 7.2. Overview of Cambodian Economy: Sectoral Shares, Growth and Trade

Cambodia's economy is in transition, having moved from planned to market economy in the early 1990s. The economic performance of the country is closely related to political stability. Even after the 1993 general election supervised by the United Nations Transitional Authority in Cambodia, complete political stability was not achieved. Pockets of Khmer Rouge guerrillas continued fighting the newly elected government. This increased the mistrust between two ruling parties in the uneasy coalition government. Nevertheless, real political stability returned in 1999 when the last Khmer Rouge soldiers surrendered and reintegrated into society. Since then the country has experienced an economic mini-boom.

**Figure 7.1: Economic Growth, 1993–2007**

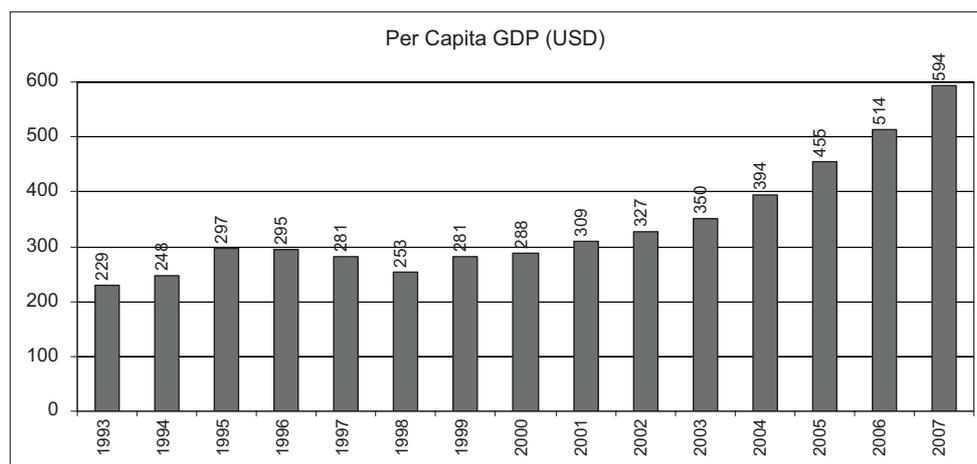


Source: National Institute of Statistics

As shown in Figure 7.1, the economy has grown at an extraordinary rate, with average growth for the last decade of more than 9 percent. In 2005 the economy grew at an astonishing rate of 13.4 percent due to strong growth in garments, tourism and construction coupled with favourable weather for farmers' crops. The economy continued to grow at 10.2 percent in 2007 even in the face of difficulties of the world economy. However, at the time of writing, it was forecast that economic growth would be about 7 percent in 2008 due to inflationary pressure from high oil and commodity

prices (IMF, 2009). GDP per capita, Figure 7.2, was only USD229 in 1993 but 12 years later had doubled to USD455 and stood at USD594 in 2007. It is forecast that Cambodia will top USD1075 by 2017 if it can maintain the growth experienced in the last decade.

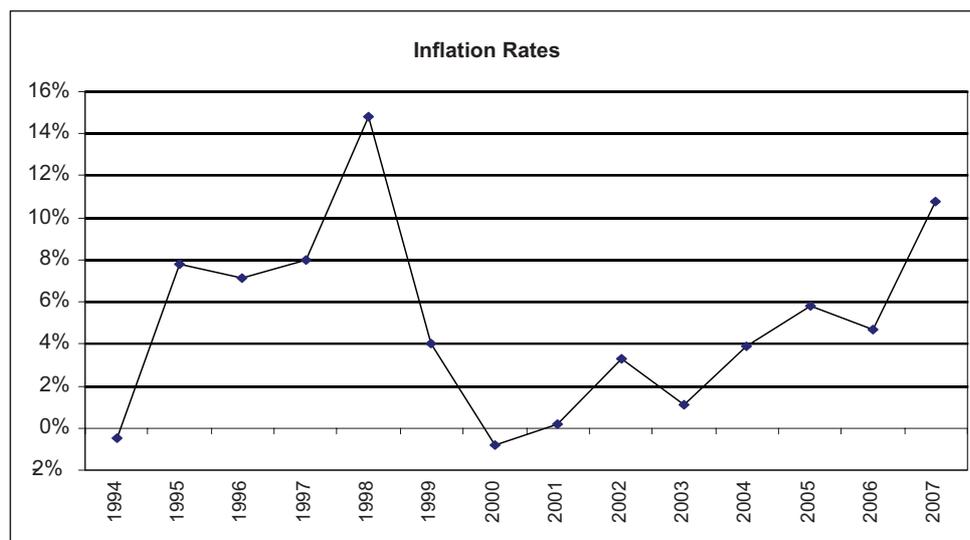
**Figure 7.2: GDP per Capita 1993–2007 (US dollars, current)**



Source: National Institute of Statistics

In addition to enjoying strong economic growth for the last decade, the country also kept inflation generally in check after 2000, as shown in Figure 7.3. In 2007, the inflation rate reached double digits for the first time in a decade and, as in other parts of the world, a high inflation rate in 2008 as a consequence of high oil prices.

**Figure 7.3: Inflation Rates 1994–2007**



Source: National Institute of Statistics

## Composition of GDP

Cambodia is still predominantly agrarian. Table 7.1 shows that in 1995, up to 81 percent of the labour force was engaged in agriculture. However, the percentage shrank year-on-year, and by 2006 only 57 percent was involved in agriculture. Since the early 1990s, garment and footwear factories have sprung up one after another in and around Phnom Penh.

**Table 7.1: Cambodian Employment, by Sector, 1995–2006 (%)**

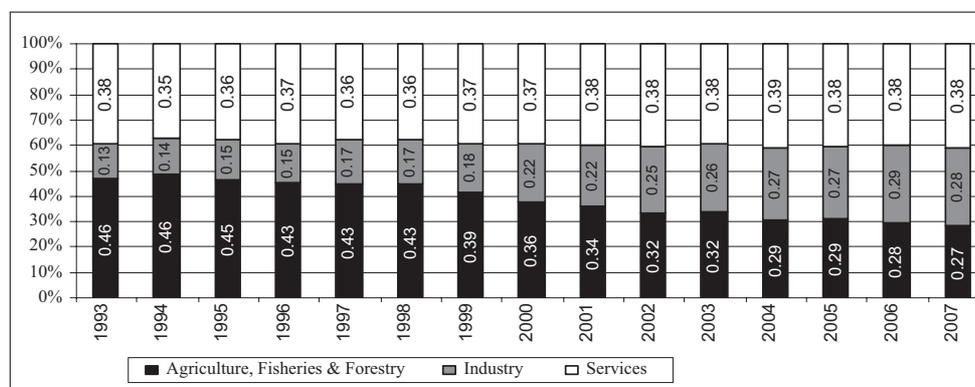
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture	81	78	79	77	76	74	70	67	64	60	59	57
Industry	3	5	5	4	6	8	10	11	12	13	13	14
Services	16	17	16	19	17	18	20	21	24	27	27	28

*Source: IMF*

Manufacturing and construction combined absorbed only 3 percent of the labour force in 1995, but this grew to 14 percent in 2006. During the same period, the country experienced a dramatic surge of foreign tourists, whose numbers increased an impressive 20 percent per year, culminating in more than 2 million tourists visiting the famous Angkor Wat temple complex, Phnom Penh, coastal cities of Sihanoukville and Kampot province and ecotourism areas in Ratanakkiri and Mondolkiri. The services sector has since picked up steam, mainly in tourism-related areas such as hotels, restaurants and travel companies. This has driven more labour into the sector, rising from only 16 percent in 1995 to 28 percent in 2006.

However, as shown in Figure 7.4, even though agriculture still employed 57 percent of the labour force in 2006, it contributed only 28.2 percent of GDP, compared to 45.8 percent in 1993, due to the rapid expansion of industry (mainly garments) and services (mainly tourism). Also, Cambodian agriculture is still dependent on the weather, and obsolescent farming methods are still being used across the country, restricting productivity in this sector. Soaring food prices on the world market are seen as creating good prospects for Cambodian produce, given its large uncultivated land area and other untapped natural resources, together with its potential to court FDI in the sector.

**Figure 7.4: GDP Share by Sector, 1993–2007**



Source: National Institute of Statistics

### 7.3. Economic Development Strategies of the Government

#### 7.3.1. Development Planning

Cambodia held its first national election in 1993 after three decades of civil war. Four parties had representatives elected to the National Assembly. A government was then formed and Cambodia became a constitutional monarchy again with the re-investiture of King Norodom Sihanouk.

Along with restoring peace and security, the government instigated national development planning, which in 1994 culminated in the National Programme to Rehabilitate and Develop Cambodia. The first Socio-Economic Development Plan (SEDP I 1996–2000) was then formulated to focus on macroeconomic growth, social development and poverty eradication. The government launched the Triangle Strategy for sustainable development after the 1998 national election with the aims of 1) building peace, stability and security; 2) integrating Cambodia into regional and international arenas; and 3) promoting economic and social development.

Parallel with that, a three-year rolling Public Investment Programme was established to mobilise domestic and external resources to priority areas. SEDP II 2001–05 was carried out with similar objectives to SEDP I. Cambodia adopted the United Nations Millennium Development Goals, including de-mining, at the beginning of SEDP II in 2001. The National Poverty Reduction Strategy was adopted in late 2002 and made public in 2003, with participation from government, parliament, donors, local and international organisations, academia, researchers, the private sector, trade unions and media.

After the third national election, in 2003, and a year-long political deadlock, the new government approved the Rectangular Strategy in 2004, aiming to boost growth, employment, equity and efficiency for socio-economic development. In line with that, the government set out a National Strategic Development Plan (NSDP) 2006–10 to accelerate the achievement of Cambodia’s Millennium Development Goals by 2015.

Rectangular Strategy II was implemented when the National Assembly entered its fourth term after national elections held in 2008. Like Rectangular Strategy I, Rectangular Strategy II includes reform of the law, judiciary and public administration, fighting corruption and demobilisation and reform of the armed forces as the backbone for improving other dimensions of governance. With these strategic development policies, Cambodia has so far maintained economic growth and contained inflation for the past five years. The double digit growth in many recent years is striking and sends a positive message to potential domestic and international investors.

The government monitors the NSDP 2006–10 through the production of an annual progress report. The main objectives of the report are to:

- assess, review and articulate the progress or shortfalls in implementing the NSDP;
- inform policy makers, economic development programmes and the public about such progress or failure; and
- provide a snapshot of Cambodia as a reference and resource, especially for interested investors.

In addition, the National Poverty Reduction Strategy 2003–05 was formulated with the following goals:

- maintaining macroeconomic stability;
- improving rural livelihoods;
- expanding job opportunities;
- strengthening institutions and improving governance;
- reducing vulnerability and strengthening social inclusion;
- promoting gender equity

### **7.3.2. Attempts at Regulating Agro-Industrial Plantations**

Since 2002, when all forest management concessions were suspended, the government has granted economic land concessions to private companies, primarily for the agro-industrial cultivation of crops such as rice, cassava, rubber, acacia and bio-fuels. These plantations are intended not only to generate state revenue and develop intensive agriculture but also to reduce poverty by promoting local employment.

The legal framework governing economic land concessions is based on the 2001 Land Law and a 2005 sub-decree, which include requirements for the contracting and monitoring of operations, provide for protection of the rights of communities living around these plantations and reduce environmental impacts. They also include penalties for companies not complying with these requirements.

In June 2007 the government agreed to establish and regularly update a public log-book of these concessions. This log-book is intended to make public the ownership, location, status and operations of each concessionaire and is hosted on the web site

of the Ministry of Agriculture, Forestry and Fisheries. In addition, the government pledged to review a small number of concessions that were granted above the 10,000 ha limit and place greater priority on ensuring that companies operate in compliance with Cambodian law.

The government promulgated the Law on Management and Exploitation of Mineral Resources on 13 July 2001, which aimed to attract investment in mining and minerals. The law covers categories of mineral licences, procedures for issuing mineral licences, terms of agreement for concessionaires and landowners and penalties for non-compliance. Alongside the law, government regulations such as sub-decrees and prakas are issued by the Ministry of Industry, Mines and Energy (MIME). These regulations clearly state the steps that a concessionaire is required to follow, especially providing all capital, technology and labour necessary to extract minerals, protect the environment and ensure the occupational health and safety of workers and the public.

With regard to international investment and trade, after achieving full membership of the World Trade Organisation in 2004, Cambodia signed a bilateral textiles agreement with the US. In 2005, China provided Cambodia with duty-free access to its market for 83 additional products; in total Cambodia can sell 380 products with zero tariffs to the Chinese market. In order to improve further the investment and business climate, the Ministry of Commerce has set up a group to work on reducing red tape and bureaucracy and draft a Law on Marks, Trade Names and Acts of Unfair Competition. Commercial registration fees and procedures were considerably reduced. In 2005, the prime minister signed a sub-decree on the establishment and management of special economic zones, and 14 zones were developed or improved in 10 provinces.

#### **7.4. Methodology and Data**

The study is based on both primary and secondary data. Primary data were collected from Chinese factory owners, executive managers or other senior managerial staff using a structured questionnaire. The fieldwork started in late March 2009, covering 130 Chinese firms operating in garments, mining, hydropower and agro-industry. However, the survey lacked a total sampling frame due to the limitation of firms' data; the most active firms' data, updated by the Garment Manufacturers Association in Cambodia, the Ministry of Agriculture, Forestry and Fisheries and MIME, were used for the study. The questionnaire was designed to capture information on firms' characteristics, motivation for investment, local selection, challenges and future plans; unfortunately, only 10 firms responded. Rigorous analysis is clearly impossible with this small sample, so we decided to use the collected information for the case study. In addition, we also conducted in-depth interviews with provincial government officials and focus group discussions in the villages where the Chinese agriculture, agro-industry, and hydropower project are being implemented. No official figures about realised FDI have been made available yet. Therefore, fixed asset approvals data, mainly compiled by the CDC, were used.

## 7.5. Foreign Direct Investment

The value of fixed asset approvals by the CDC has grown very significantly over the last three years, topping USD2334 million in 2006—a significant increase from USD682 million in 2005—sliding to USD1345 million in 2007, but in 2008 reaching USD7621 million, the highest amount since the country opened to foreign investment in 1994. According to the CDC, fixed asset approvals in 1998–2008 went to tourism (USD6161 million), services (USD1150 million), construction (USD1038 million), garments (USD801 million) and other (USD4247 million). China was the top investor (USD6048 million), followed by South Korea (USD2565 million), United States (USD1451 million), Malaysia (USD527 million) and Russia (USD434 million).

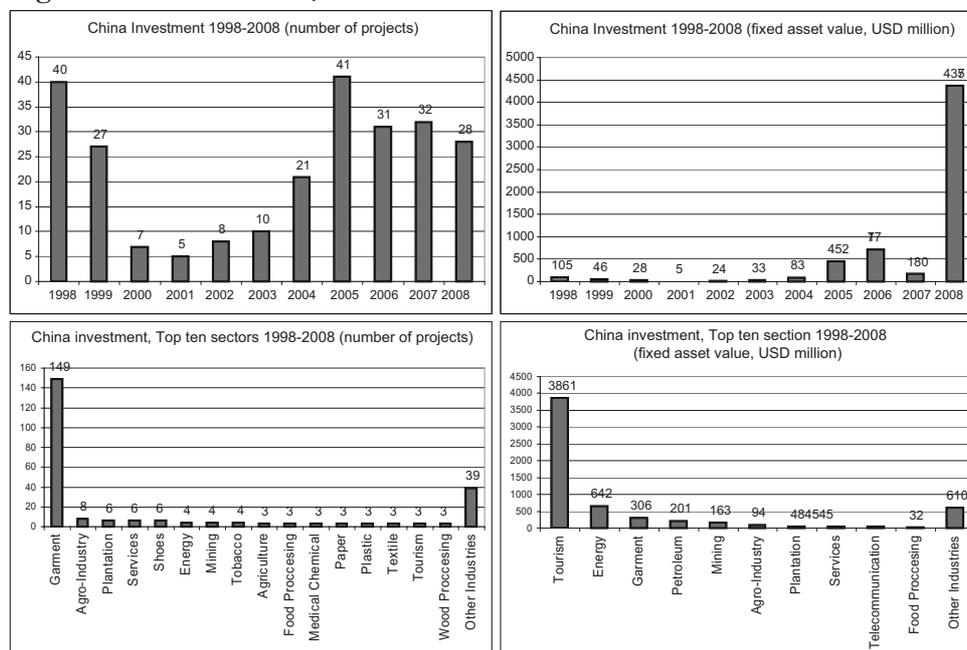
**Table 7.2: Total Fixed Asset Approvals**

	Total projects	Total fixed assets (USD million)	% Chinese projects	% Chinese fixed assets
1998	154	555	26	19
1999	87	196	31	23
2000	58	160	12	18
2001	27	140	19	4
2002	26	144	31	17
2003	30	65	33	51
2004	54	155	39	54
2005	85	682	48	66
2006	82	2334	38	31
2007	103	1345	31	13
2008	77	7621	36	57
1998-2008	783	13,397	32	45

*Source: CDC*

Many scholars have noted that FDI has been important in promoting trade and economic growth in Cambodia since 1994. However, FDI has been concentrated in only a few sectors, mainly garments, dominated by Chinese firms. Chinese FDI, registered in 40 projects in 1998, declined for three consecutive years to five projects in 2001 before attaining a peak in 2005 and then decreasing for three consecutive years (Table 7.2). Of these, 149 project approvals were in the garment sector, eight in agro-industries and six in plantations, services and shoes. Chinese FDI fixed asset approvals amounted to USD105 million in 1998 and were in the range USD5–83 million during 1999–2004, reaching USD452 million and USD717 million in 2005 and 2006, declining in 2007 and then hitting a record USD4375 million in 2008. Although tourism had only three project approvals, they totalled USD3861 million—the largest amount of approvals for any sector. The Koh Kong seacoast development project of a Chinese firm was approved in 2008 at USD3805 million—the country’s largest foreign investment project. During the same period, fixed asset approvals in energy amounted to USD642 million and in garments to USD302 million.

**Figure 7.5: Chinese FDI, 1998–2008**



Source: CDC

## 7.6. Official Development Assistance

Cambodia has received a considerable amount of financial and technical assistance from both bilateral and multilateral partners. Table 7.3 shows the ODA Cambodia received during 2000-2008. The assistance includes grants and loans on which the rate of interest is usually very low. Japan tops the list of donors, with China not far behind. According to the Royal Government of Cambodia (2008), projects donated by development partners cover all areas. Some are directly involved with the government while others are subcontracted to NGOs.

Cambodia is still in need of ODA. Salaries for some civil servants are partially sponsored by international organisations such as the World Bank and Asian Development Bank. The amount of assistance reflects the state of diplomatic relations between the donor country and Cambodia, the objectives of the donors and the demands of Cambodia.

China's diplomatic role in Cambodia has been rising significantly. 2008 marked 50 years of Sino-Cambodian relations. China is one of the important sources of ODA to Cambodia. Most Chinese-assisted projects are directed to transportation infrastructure and government administration including buildings, vehicles and other equipment for the civil service and armed forces. According to the CDC, 31 projects had either been completed or were under way during 2002-07.

**Table 7.3: Disbursements and Projections by Development Partners, 2000–08  
(USD million)**

	2000	2001	2002	2003	2004	2005	2006	2007 (prov)	2008 est
UN Programmes delivered	86,548	90,785	81,808	88,307	73,794	91,785	96,341	96,437	
UN own funds	49,433	44,918	42,222	44,208	36,294	41,111	53,959	52,444	94,065
World Bank	32,697	43,078	47,245	63,663	49,456	37,832	24,454	47,649	57,112
IMF	11,478	22,957	23,504	12,268	2,359	310	83,500	919	
ADB	51,133	48,685	78,470	73,282	76,662	89,399	67,474	69,363	113,980
Global Fund						18,846	21,854	21,067	32,290
<b>Sub-Total: UN &amp; multilaterals</b>	<b>231289</b>	<b>250423</b>	<b>273249</b>	<b>281728</b>	<b>238565</b>	<b>279283</b>	<b>347582</b>	<b>287879</b>	<b>297447</b>
European Commission	27,945	22,679	25,833	32,717	15,020	23,651	46,485	44,898	52,095
Belgium	2,641	1,274	2,245	3,694	5,200	11,701	7,327	7,988	3,302
Denmark	3,529	2,847	4,762	4,258	5,793	4,838	4,058	9,809	10,079
Finland	3,269	1,199	868		3,298	3,342	4,468	5,205	6,821
France	27,800	36,047	28,348	25,922	23,039	24,441	21,785	21,781	33,291
Germany	12,225	10,020	17,226	17,597	14,096	27,293	32,442	36,467	33,003
Netherlands	4,912	3,606	3,732	2,753	1,613	1,144	70	100	18
Spain							2,842	4,110	7,363
Sweden	14,122	13,112	13,570	12,387	22,024	13,600	16,001	17,343	17,911
United Kingdom	13,000	8,711	11,644	1,536	17,015	20,555	20,671	23,657	37,798
<b>Sub-Total: EU</b>	<b>109,443</b>	<b>99,495</b>	<b>108,228</b>	<b>100,864</b>	<b>107,098</b>	<b>130,565</b>	<b>156,149</b>	<b>171,358</b>	<b>201,681</b>
Australia	29,417	19,873	17,795	22,689	24,279	16,788	22,459	29,618	23,004
Canada	818	5,243	3,392	2,624	1,472	9,103	7,928	8,693	19,243
China	2,610	16,325	5,723	5,573	32,470	46,638	53,237	92,446	127,912
Japan	106,021	100,023	105,604	101,159	101,761	111,669	103,659	122,099	144,616
New Zealand	1,002	718	1,280	1,912	2,445	2,075	1,698	3,826	3,338
Norway	1,310	1,151	3,387	2,735	3,367				
Republic of Korea	706	1,199	22,498	10,322	24,138	14,857	13,259	31,423	12,057
Russian Federation	851	334	331	409	350				
Switzerland			2,930	2,466	3,185	2,787	2,444	3,642	3,761
United States of America	17,608	23,848	22,092	34,266	40,607	43,254	51,004	58,096	54,879
Other bilateral partners	435	435	642						
<b>Sub-Total: other bilaterals</b>	<b>160,778</b>	<b>169,149</b>	<b>185,674</b>	<b>184,155</b>	<b>234,074</b>	<b>247,171</b>	<b>255,688</b>	<b>349,843</b>	<b>388,810</b>
<b>NGOs (core funds)</b>	<b>51,851</b>	<b>43,560</b>	<b>45,568</b>	<b>47,238</b>	<b>49,449</b>	<b>44,719</b>	<b>50,162</b>	<b>77,736</b>	
<b>Total</b>	<b>466,813</b>	<b>471,842</b>	<b>530,923</b>	<b>539,507</b>	<b>555,392</b>	<b>609,953</b>	<b>713,241</b>	<b>790,377</b>	<b>887,941</b>

Source: Cambodia Aid Effectiveness 2008, CDC

## 7.7. Trade

### 7.7.1. Commodities

Since the opening of its economy, Cambodia has traded worldwide, particularly with some of the larger countries. Exports from China to Cambodia steadily increased from 2001 to 2007, as shown in Table 7.4. At the same time, China's imports from Cambodia increased only marginally. Cambodia's total exports shows a clear upward trend from year to year.

**Table 7.4: Cambodia-China trade**

Year	China export to Cambodia in 000 USD	China import from Cambodia in 000 USD	Cambodia export to world in 000 USD	% of Cambodian exports going to China	Cambodia import from world in 000 USD	% of Cambodian imports coming from China
2001	205,654	34,804	1,499,567	2.32	1,507,196	13.64
2002	251,556	24,550	1,922,991	1.28	1,667,232	15.09
2003	294,647	26,001	2,118,224	1.23	1,774,692	16.60
2004	451,774	29,932	2,797,507	1.07	2,062,693	21.90
2005	536,031	27,305	3,257,927	0.84	3,895,111	13.76
2006	697,765	35,091	4,016,085	0.87	5,096,912	13.69
2007	882,928	51,066	4,374,745	1.17	4,867,102	18.14
% change (2001–07)	329	47	192	1.25 (average)	223	16.12 (average)

Source: International Trade Centre <http://www.trademap.org>

The main products China has exported to Cambodia are knitted or crocheted fabrics, cotton, electrical and electronic equipment, boilers, machinery, artificial staple fibres, ceramic products, ships, boats and other floating structures (only in 2007), artificial filaments, vehicles (not railway), tramways, iron and steel. Some of these products are consumed in the garment industry and others in construction. Cambodia's garment sector has boomed since 1995, but this industry has a very modest part in the value chain. Cambodia has to import all the materials to produce clothing due to a lack of local supply in primary industry. The growth of the real estate and construction sectors has given rise to a huge amount of imported steel and electrical equipment. However, garments, real estate and construction are slowing due to the global financial crisis.

The main products Cambodia exports to China are wood, charcoal, rubber, fish, crustaceans, live animals and apparel other than knitted or crocheted garments. In this case Chinese data are used because Cambodian data on exports to China are not available. China's imports from Cambodia fluctuate. They jumped from USD35 million in 2006 to USD51 million in 2007. From 2001 to 2007, Cambodia's exports to China increased only 47 percent, far less than Chinese exports to Cambodia.

Cambodia's exports to the world increased from nearly USD1.6 billion in 2001 to more than USD4.3 billion in 2007 due to domestic political stability and improved diplomatic and economic relations with both bilateral and multilateral partners. Cambodia's entry into the Association of South East Asian Nations (ASEAN) in 1999 and World Trade Organisation in 2004 has increasingly boosted its trade through lower tariff rates and preferential market access. The main products that Cambodia has exported are garments, wood, rubber, footwear, pearls and precious stones. In addition, Cambodia has good potential in food processing, which should enable it to export processed foods in the near future. According to the Customs and Excise Department, Cambodia's garment exports were 93 percent of total exports in 2007. Between 2001 and 2007, Cambodia sent on average around 1.25 percent of its total exports to China, while goods from China were 16.12 percent of Cambodia's total imports.

### 7.7.2. Services

Cambodia's trade in services includes hotels and restaurants, transportation and communications, finance, public administration, real estate, business and other services. According to data collected by the National Bank of Cambodia, the country's trade in services rose to more than USD2450 million in 2007, USD1547.5 million of which were exports, as shown in Table 7.5.

**Table 7.5: Cambodian Service Exports and Imports, 2003–07**

	2003	2004	2005	2006	2007
	USD million				
Services Exports	526.1	804.9	1118.1	1296.3	1547.5
Services Imports	394	514.4	647.1	792.1	903.1
Total Services Trade	920.1	1319.3	1765.2	2088.4	2450.6
Services Trade Balance	132.1	290.5	471	504.2	644.4
	Annual Change (%)				
Services Exports	-	53.0	38.9	15.9	19.4
Services Imports	-	30.6	25.8	22.4	14.0
Total Services Trade	-	43.4	33.8	18.3	17.3

*Source: Balance of Payment Statistics Bulletin from National Bank of Cambodia*

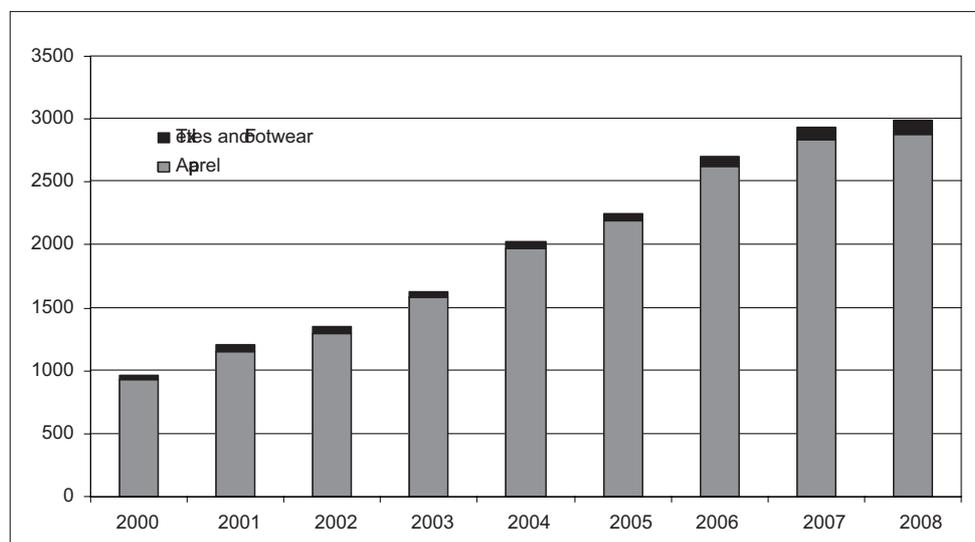
The annual percentage change from 2003 to 2007 was constantly in two digits, due to services liberalisation by the government, which has attracted investment in the sector. Services provided nearly 40 percent of GDP from 2003 to 2007, with a remarkable average growth rate of 10.5 percent during the period. Among services, trade had the highest share in all years, followed by real estate and business. From 2003 to 2007, other services steadily increased although their numbers are not yet very significant. China has been a major services export market for Cambodia.

## 7.8. The Rationale of Chinese FDI and its Impact

### 7.8.1. Garments

Although fixed asset approvals for garments are not large compared to other sectors, garment sector represent approximately 90 percent of Cambodia's commodity exports (for the period of 2000-2008) and employ more than 355,000 people, mostly poorer rural women. In total, an estimated 1.7 million people depend directly or indirectly on the garment industry. The study of Yamagata (2006), using data from 164 samples in 2003, found that the garment industry has had a substantial impact on poverty reduction because: (1) entry-level workers are in receipt of wages equivalent to or more than USD45 per month, far above the poverty line; (2) females make up the predominant share of the jobs in the industry; (3) barriers to employment and promotion to certain job categories are not high. The main motivations for investing in Cambodia are attributed to the country being granted most favoured nation status and being a beneficiary of the Generalised System of Preferences from the United States, European Union and other developed countries (Yamagata, 2006; Cuyver et al. 2006, 2008). In other words, the majority of Cambodia's inward FDI in the garment industry is using Cambodia as an export platform to bypass quotas and tariffs imposed by the USA and the EU (Cuyver *et al.* 2006).

**Figure 7.6: Textiles, Apparel and Footwear Exports (USD million)**



Source: Customs and Excise Department, Ministry of Economy and Finance

Despite expiry of the preferential quota under the Multi-Fibre Agreement (MFA) on 1 January 2005, Cambodia's garment industry experienced robust growth for four years, reaching USD2.8 billion in 2008—almost 31 percent growth compared to 2005 (Figure 7.6). This implies that Cambodia has a strong competitive advantage in the garment industry (Cuyver *et al.* 2006). The high average profitability—profits-to-sales ratio—might be the key factor for the industry's ability to cope with intensified competition after the MFA expired (Yamagata 2006).

### 7.8.2. Agriculture and Agro-Industry

Chinese companies have been increasingly involved in agro-industry since the government provided incentives by granting long-term land concessions to domestic and foreign companies<sup>1</sup>. In addition, Cambodia has benefited from preferential access to the Chinese market for certain agricultural products under the ASEAN-China FTA, particularly the Early Harvest Programme and special concessions for ASEAN's least developed countries. Cuyver *et al.* (2008) confirmed that the FDI home country's GDP growth rate, its bilateral trade with the host country, international trade and the exchange rate had an impact on FDI flows to Cambodia over 1995–2005. Geographic distance, the Asian crisis in 1997 and 1998 and China's WTO membership were found to have a significant negative impact on Cambodia's ability to attract FDI.

Chinese investments in agriculture and agro-industry have been largely geared towards securing natural resources to sustain China's economic growth. For example, after announcing a logging ban in 1998 by the Chinese government, China's imports of timber, pulp and paper increased significantly (Middleton 2008b). "Partnering with Cambodian companies, Chinese companies have been granted land concessions for pulp and paper plantation in Cambodia. In 2004, Cambodia's Pheapimex partnered with China's Wuzhishan to establish a 199,999 ha pine concession—almost 20 times the legal limit in Monduliri province—with 10,000 ha approved immediately for trial and commercial planting. In 2000, Pheapimex was awarded a 300,000 ha concession for eucalyptus plantations in Pursat and Kompong Chhnang provinces. The contract for the concession was signed following an agreement with the China Farm Cooperation Group to invest in the project, although local protests halted the project. Since 2004, Pheapimex has partnered with Wuzhishan in an attempt to push forward the project" Middleton (2008b).

As of December 2006, at least 57 economic concessions, covering more than 1000 hectares for each plot and totalling 943,069 hectares or 15 percent of arable land in Cambodia, were allocated to domestic and foreign firms for agriculture or agro-industry projects (MAFF, various years). Thirteen of the 26 foreign-owned economic land concessions—about 188,000 hectares—were granted to Chinese companies. At the time of writing, we had identified only 11 Chinese companies. However, a number of concessions awarded in recent years are unknown (Rutherford *et al.* 2008).

### 7.8.3. Mining, Oil and Gas

Cambodia's mineral resources remain largely unexplored. To attract domestic and foreign investment in mineral exploration and development, the Law on Management and Exploitation of Mineral Resources was promulgated by the government on 13 July

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1 Incentives are granted to the following: 1. agriculture and agro-processing industries, 2. environmental protection, 3. exported-oriented industry, 4. industries that create substantial employment, 5. investments in special promotion zones, 6. physical infrastructure and energy, 7. pioneer and/or high-technology industries, 8. provincial and rural development, 9. tourism and related industries (UN and ICC 2003).

2001 (UN & ICC 2003) Interested investors are granted an exploration licence by the CDC for a period of two to six years to explore and then prepare a feasibility study in a designated area, and MIME provides assistance with technical recommendations. Following a successful exploration, investors are required to submit a project master plan for mine development before being granted a mining licence. Royalties and surface rentals are levied on mined minerals.

Over the past few years, companies from Australia, China, South Korea, Thailand and the US have participated in Cambodian mineral exploration: land-based mineral development as well as offshore oil and gas. More recently, the government has promoted and facilitated investment in mining, due to the discovery of several important minerals including bauxite, copper, gold, iron ore, nickel, gemstones, limestone and oil and gas. Mining contributed just 0.41 percent of the country's GDP in 2006 (the latest year for which data are available), 0.02 percentage points more than in 2005. The sector employed an estimated 20,000 workers in 2006 and 22,000 in 2007, accounting for only 0.2 percent and 0.3 percent of total employment respectively (IMF, 2009).

According to the Global Witness (2009), the government has awarded mining exploration licences for more than 100 different sites across the country. Most were awarded to Chinese, South Korean and local firms. Rutherford *et al.* (2008) identified six mineral operations by Chinese companies. However, at the time of writing, we are unable to confirm the number of active projects.

#### **7.8.4. Hydropower**

China also plays an important role in hydropower investment. A National Sector Review of Hydropower prepared by MIME in 2003 has identified 14 priority projects and four other potential major projects. Of these, eight projects—Kirirom III, Kamchay, Stung Atay, Lower Stung Russey, Stung Cheay Areng, Stung Tatay, Lower Srepok 3 and Sambour—financed by Chinese companies have been approved by the government for construction or pre-feasibility and feasibility study. In addition, a number of other hydropower development projects have been awarded to Chinese companies for pre-feasibility and feasibility study, including Lower Sesan 2 and Lower Srepok 2 and 4. Of these, the building of four major projects has been finalised: Kamchay, Stung Atay project, Stung Tatay and Stung Russey Chrum.

These companies have received high-level political support from both Chinese and Cambodian political leaders. For example, in November 2006, Prime Minister Hun Sen asked the Chinese ambassador to attract Chinese companies to invest in hydroelectric power generation (Phnom Penh Post, 27<sup>th</sup> November 2006). Qin Guangrong, the governor of Yunnan province, told the 400 senior Cambodian and Chinese government officials and private sector representatives at the China (Yunnan)-Cambodia Investment and Trade Fair during his visit to Cambodia in April 2007 that Yunnan plans to intensify its cooperation with Cambodia in agriculture, transport, hydropower, investment, trade, forestry, tourism and mining. The Cambodian Council of Ministers selected the China Yunnan Corporation for International Techno-Economic Cooperation to develop the Stung Atay project in February 2007 (Middleton 2008a).

The two governments' support comes in various forms. In the case of the Kamchay dam, the Chinese government subsidises low interest rates to finance the project while the Cambodian government guarantees financial compensation if the project faces difficulties or underperforms (Middleton 2008a). Both pros and cons of the project have been raised in the previous studies (e.g. Middleton 2008a; Rutherford *et al.* 2008; Malmquist and Sigfridsson 2002). The government, led by MIME, explained that the Kamchay dam could provide relatively cheap electricity and accelerate further investment and job creation. Local benefits include flood prevention and reduced pressure on firewood sources, which will protect forest and attract more tourists. The project's environmental impact would be minimal, because the total area of Bokor National Park lost to the reservoir would be 2000 ha, less than 2 percent of the park's total area, which is acceptable when the benefits of the project are taken into account<sup>2</sup>. The environmental impact assessment revealed that the price of electricity (about 700 riels/kWh) would be higher than imports from Vietnam (600-650 riels/kWh), due to the high cost of building. However, it is much lower than the present price of electricity from diesel generators, about 1200 riels/kWh. More importantly, Cambodia would be operating its own electricity plants rather than depending on neighbouring countries. In contrast, civil society groups claimed that the 2 percent loss of the national park would be significant due to a loss of forest biodiversity, wildlife habitat and protected area<sup>3</sup>. A study conducted by Middleton (2008a) revealed that present in the Kamchay reservoir area are 31 mammals and 10 endangered species listed in the 2000 International Union for Conservation of Nature Red List of Threatened Species, including the Asian elephant, bear, leopard and tiger. This area is also an important source of non-timber forest products for local residents, many of whom depend on income from selling them. Furthermore, the dam will be owned and operated by the Chinese state-owned enterprise Sinohydro Corporation for 44 years before it is transferred to the Cambodian government, not the typical 25–30 years.

Rutherford *et al.* (2008) also warned that hydropower developments could displace thousands of Cambodians and seriously damage the environment unless efforts are stepped up to assess and address the dam's social and environmental impacts in consultation with the public.

A study led by McDonald *et al.* (2008) emphasises that the expansion of China's dam industry was largely due to (1) China's growing need for resources, (2) reform and expansion of China's domestic hydropower industry and (3) the "going out" strategy launched in 2001. To respond to new demand, China has adopted a strategy of accessing resource deposits that have not been exploited so far because other countries may consider them as insignificant in size, geographically remote or politically risky. From other points of view, the Chinese government has supported African countries both politically and economically with no strings attached since the 1960s, and in

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2 The Canadian companies Hydro-Quebec, Pomerleau International and Experco International, with the support of the Canadian International Development Agency, estimated that the dam could earn USD55 million a year from electricity sales.

3 Bokor National Park was registered as a protected area by Royal Decree 126 on "The Creation and Designation of Protected Area", 1 November 1993.

return has gained support from many African governments for its position in UN bodies. McDonald *et al.* (2008) also highlight a number of concerns regarding potential negative impacts of the expansion of Chinese companies into the overseas dam market: (1) the Chinese dam industry has yet to demonstrate that it can be socially and environmentally responsible within China, so its capacity to be so overseas may be questioned; (2) the key strategy of Chinese investors is to make previously inaccessible resources accessible; and (3) major Chinese investors, financiers and equipment suppliers developing dams overseas have not adopted environmental or human rights policies, nor have they developed policies in line with international standards.

**Table 7.6: Priority Hydropower Projects in Cambodia**

No	Project	Installed Capacity (MW)	Annual Energy Production (GWh/yr.)	Expected year of commission	Status
1	Battambang I	24	120	2010	Unknown
2	Battambang II	36	187	2010	Unknown
3	Battambang III	13	76	2008	Unknown
4	Kamchay	180 or 193	558	2010	Construct
5	Kirirom III	13	70	2006	FS
6	Sambour	467 or 3,300	2800 or 14,870	2016	FS
7	Stung Cheay Areng	260	1,358	2015	FS
8	(Lower) Stung Russey Chrum	125 or 235	656	2015	FS
9	(Middle) Stung Russey Chrum	120	668	2015	Unknown
10	(Upper) Stung Russey Chrum	32	211	2015	Unknown
11	Stung Atay	110	426	2010	FS
12	Stung Tatay	80	588	2012	Construct
13	Lower Sre Pok II	222	1,174	2018	PrS
14	Lower Sesan II	207	1,065	2018	PrS

*PrS=Prefeasibility study; FS=Feasibility study; Construct=Under construction*

*Source: Middleton 2008a*

## 7.9. Conclusion

This paper has examined the factors that might affect the inflows of Chinese FDI into Cambodia. The findings were developed through information gathering, such as desk research of relevant documents; semi-structured interviews with informants including provincial government officials, local and international NGOs; a structured questionnaire with owners and general managers of Chinese companies.

Our main finding is that the increase of Chinese FDI varies across the sectors selected for this study. Most favoured nation status and the Generalised System of Preferences from the USA, EU and other developed countries and high average profitability have had a positive impact on Chinese investment in the garment industry in Cambodia. China's high domestic demand for natural resources such as paper and rubber, the

Cambodia-China bilateral trade agreement and the Cambodian government's agro-industry development strategy have positively affected the level of Chinese investment in Cambodian agriculture and agro-industry.

The situation in hydropower differs somewhat from that in garments, the high level of political support from both Chinese and Cambodian leaders having probably contributed to the increase of Chinese companies. In return, it is believed that Chinese companies will gain access to other natural resources such as minerals, oil, gas and agricultural land and agro-industry to sustain China's economic growth. In addition, China has full support from the Cambodian government's "one China policy" and for upstream dam construction on the Mekong.

Chinese FDI in the garment industry is likely to have significant impact on economic and social development through international trade and poverty reduction. While its impact in agriculture, agro-industry, mining, oil and gas is hard to generalise, Chinese FDI in hydropower will be detrimental to local environmental systems that supply a range of natural resources to local communities, providing goods for sale and a safety net against both common and idiosyncratic shocks. The criteria by which companies are selected for investing in Cambodia's agriculture, agro-industry, mining, oil, gas and hydropower remain unclear. Moreover, detailed information regarding project status and contractual agreements between the government and project developers is not available in the public domain. This lack of transparency could potentially lead to poor development practices and corruption.

Policy implications for Cambodia are that the government should:

- put more effort into improving its institutions, infrastructure and legal system by removal of administrative barriers that could negatively affect inward FDI and poverty reduction;
- commit to fully transparent criteria for company eligibility and bidding in project approvals;
- publicly disclose the non-commercial section of concession agreements and power purchase agreements; and
- ensure that dam construction provides for significant human development by being economically viable, socially equitable and environmentally sustainable.

The Chinese government should require Chinese companies to act responsibly overseas and within the guidelines for incorporation of social and environmental considerations in project financing set by international organisations such International Finance Corporation, Global Environmental Institute and World Commission on Dams.

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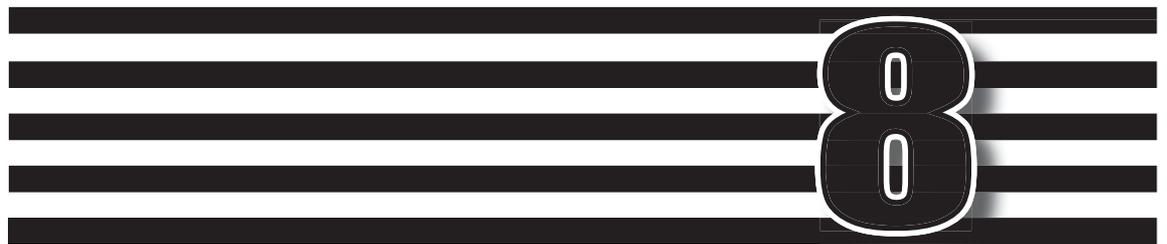
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# **Service Trade Liberalisation and Growth in Cambodia: Case of Finance and Telecom Sectors**

**By SAING Chan Hang and PHANN Dalis**

## Chapter 8

### **Service Trade Liberalisation and Growth in Cambodia: Case of Finance and Telecom Sectors**

*By Saing Chan Hang and Phann Dalis\**

#### **8.1. Introduction**

During the 1980s Cambodia, an agrarian country, adopted a centrally planned economic system in which there was limited international trade despite surpluses of agricultural products, particularly rice. Liberalisation toward a market-oriented economy began in the late 1980s. The state monopoly of trade was removed in 1987, followed by the promulgation of the first ever Investment Law in 1989, allowing private ownership. During the 1990s, the state opened markets more widely by privatising many of its business enterprises and by permitting foreign and private investors to engage in international trade.

As the government realised the critical role of trade in goods and services as an engine of growth and tools for development and poverty reduction, during the mid-1990s it further deepened its comprehensive trade and economic reforms, endeavouring to integrate into the region and the globe. Several laws and regulations were passed by the National Assembly in order to fast-track the process. As a result, with strong commitments to reform and opening its market, Cambodia was admitted into the Association of South-East Asian Nations (ASEAN) in 1999 and the World Trade Organisation (WTO) in 2004. Cambodia is also one of the Greater Mekong Sub-region countries aiming at strengthening regional trade and investment cooperation, being a signatory of the Cross-Border Transport Agreement.

As a member of regional and global trade associations, Cambodia has gained substantial benefits from international preferential market access for local products, namely low-tariff commodity exports to ASEAN and most favoured nation from WTO members. However, multilateral trade agreements are applied reciprocally; it is compulsory for Cambodia to offer treatment identical to that it acquires to other members of ASEAN and the WTO. Under ASEAN agreements, Cambodia is automatically a signatory of the ASEAN Free Trade Agreement and must comply with CEPT (common effective preferential tariff) tariff reduction and elimination schemes on all manufactured products, including capital and agricultural goods. The CEPT requires Cambodia to reduce its tariff rates on imported products to 0–5 percent by 2010. Likewise, under the WTO framework agreement, Cambodia is obliged to abide by General Agreement on Tariffs and Trade rules for bound and most favoured nation tariff rates on both agricultural and manufactured products. The overall bound rate that Cambodia has agreed is 19.9 percent, the simple-average bound rate on agricultural products is 30

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percent, and peak bound rates for the most sensitive products are 50–60 percent. For manufactured products, the average bound rate is 18.4 percent (Sok 2005: 44).

Since its adoption of an outward oriented economic policy, Cambodia's trade has expanded substantially. The degree of openness—share of trade to GDP—has been strikingly high at more than 100 percent during the last decade. In order better to capture potential preferential market access, the government, under both framework agreements, has also committed to liberalising its market for services because most services are embedded in commodity trade. International trade requires such services as transportation, financial intermediation, information and communication and distribution. Therefore, commodity trade expansion could be enhanced by low-cost and high-quality service producers. Markusen et al. (2005) confirm in their study that foreign direct investment in services can help host countries to begin to produce and export more high quality products. In the same vein, Fink et al. (2005) show that international communication costs are determinants of export performance, and Beck (2002) finds positive association between economies with better developed financial systems and export-oriented manufacturing industries. Francois and Wooton (2006) reveal that absence of competition in domestic services can serve as a barrier against imports, which implies that service trade liberalisation could boost trade in goods.

Besides intending to boost trade in goods through service openness, the government wants to improve business services in order to enhance the investment environment and help Cambodians develop the skills needed for development of the national economy and that will contribute to upgrading health care services and sanitary, refuse and sewerage services (Sok 2005: 51). Under WTO membership, Cambodia is bound to fulfil its service commitments, particularly on market access and national treatment as set forth in GATS (General Agreement on Trade in Services) rules. There are 19 categories of service commitments, from which Cambodia included 74 sub-categories in its schedule. Government commitments to remove service trade restrictions differ across sub-categories: some are full or partial, while others are transitional. Cambodia is also bound to adhere to the ASEAN Framework Agreement on Services,<sup>1</sup> which requires members to ensure non-discrimination among ASEAN service suppliers and to liberalise their service markets. There are six packages of commitments, which are parallel to WTO-GATS rules.

Cambodia's economy has been performing quite impressively during the last decade, with high growth rates averaging around 9 percent. Growth has been backed by strong performance in garments, tourism and construction. The share of garments in total goods exports has averaged approximately 90 percent during the last decade. And services export through tourism—a critical sector for GDP growth—has also been considerable. These development outcomes are likely the result of government commitments to opening the economy. Commodity and service trade liberalisations

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1 The agreement was initiated in 1995 and amended in 2003 to expedite liberalisation by enabling the application of the “ASEAN minus X” formula whereby countries that are ready to liberalise a certain service may proceed without having to extend the concessions to non-participating countries.

are key to bolstering economic development, as several studies claim. Francois (1990) contended that the growth of intermediation services, such as transportation, telecoms and financial services, is an important determinant of overall economic growth and development. Mattoo et al. (2006) in their cross-section cross-country regression analysis also find that countries with open financial and telecommunications sector grew, on average, about 1 percentage point faster than other countries.

This article, rather than examining quantitatively the possible effects of liberalisation of telecommunications and financial services—limited to banking and insurance—on overall economic growth, aims to investigate the extent to which those sectors have been liberalised and the implications for economic growth. Section 8.2 discusses industry structures while Section 8.3 reviews the institutional development of telecommunications and finances, the regulatory regime and sectoral performance. Section 8.4 provides an overall evaluation of the degree of openness in the sectors employing service trade liberalisation indexes constructed. Section 8.5 presents opportunities and needs of liberalisation based on a business executive survey. The final section is devoted to concluding remarks and policy recommendations.

## **8.2. Development of Telecommunications and Finances**

The transformation of Cambodia's centrally planned economy into a market-oriented one, coupled with the government's strong commitment to private ownership and competition during the early 1990s, brought about significant changes across industries, particularly garments, banking, insurance and telecommunications. The rapid growth of those industries has contributed significantly to the socioeconomic development of the country through job creation, income generation, provision of lower cost quality services and skills development.

### **8.2.1. Telecommunications**

The sector consists of three main pools of operators: fixed phone, mobile phone and internet. There has been a noticeable development of the sector during the last five years despite slow progress in fixed line services. As of early 2008, there were three fixed line operators, five mobile phone operators and nine internet service providers (ISPs).

Cambodia's fixed line service depends partly on infrastructure left over from the United Nations Transitional Authority in Cambodia, which helped maintain peace and security in Cambodia during the national election in 1993. In 1996, the fixed line network in Phnom Penh was expanded under a development fund from the Japanese government, providing 6800 lines in March 1997. By the early 2000s, the number of fixed telephone lines in Phnom Penh was 16,800 (ITU 2002: 6). The Ministry of Posts and Telecommunications (MPTC) is the main operator of fixed phone services, which started in 1993. In 2006, an independent public enterprise known as Telecom Cambodia was formed and separated from MPTC so as to restrain policy makers and regulators from engaging directly in the business. The other two operators—

Camintel and Camshin<sup>2</sup>—provide wireless loop line (WLL) services. Camintel was a lead provider to most provinces, followed by Camshin. The two providers have extended their service coverage to most provinces. Countrywide there were 32,104 fixed telephone lines and 5421 WLLs in 2007; as of early 2008, the of total fixed line and WLL subscribers remained low at 40,576 most of whom were concentrated in the capital and provincial towns (MPTC 2008).

**Table 8.1: Cambodian Telecom Service Operators as of May 2008**

Category	Operators	Name of operators	Year started	Ownership
Fixed lines	3	Telecom Cambodia	2006*	100% state-owned
		Camintel	1993	MPTC (51%) & 49% A-Z company (Cambodia)
		Camshin	1993	100% Shin Corporation (Thailand)
Mobile service	6	CamGSM**	April 1996	38.5% Cambodia & 61.5% Sweden
		Casacom	1992	100% Telekom Malaysia
		Camshin	1998	100% Shin Corporation (Thailand)
		Applifone	October 2007	
		CADCOMMS	2007	
		Viettel	2008	
Internet	12	Camnet (TC)	May 1997	100% state-owned
		Camintel	1999	MPTC (51%) & 49% A-Z company (Cambodia)
		Cambodia Broadband Technology		
		Camshin	2002	100% Shin Corporation (Thailand)
		City link		
		Angkor Net	2005	MediaRing (Singapore) & Anana Computer (Cambodia)
		Online (Cogetel)	June 1997	
		Telesurf (CamGSM)	2001	38.5% Cambodia & 61.5% Sweden
		Wicam	2005	
		Wireless IP	2006	
		Genusys Cambodia		
		PPCTV	2005	

\* Under MPTC supervision during 1993–2005, became a public enterprise as Telecom Cambodia in 2006. Source: MPTC 2008 and Phnom Penh Post, 2–16 May 2008, p.5

\*\* CamGSM was licensed in April 1996 as a joint venture between MPTC (25 percent) and Royal Milicom (75 percent). In July 1999, MPTC shares were transferred to Royal Milicom. The current owners are Royal Group of Cambodia (38.5 percent) and Milicom Group (61.5 percent).

2 Camintel was formerly a joint venture between MPTC and PT Indosat of Indonesia (49 percent); the share of PT Indosat was later sold to the A-Z company in October 2005 (Cambodia).

Mobile phone services were born in 1992 following the opening of industry to private investment. By the early 2000s, there were three mobile operators, CamGSM, Telekom Malaysia<sup>3</sup> and Camshin, covering 84 percent of the total of 161,427 fixed, wireless and mobile phone subscribers. Fixed phone subscribers were only 14 percent of the total during the same period. The development of the sector has been rapid during the past few years. A wide range of new content and products has been introduced. In 2007 alone, two new operators entered the market, and another provider is expected in 2008. This may cause competition to heat up, resulting in price reductions and quality improvement of mobile services. However, service quality remains unsatisfactory. For instance, during peak hours cross-network calls are problematic. This might be due to the fact that the dominant incumbent is reluctant to interconnect with other networks. By early 2008, the total number of mobile subscribers had reached 2,885,669, of which 69 percent were CamGSM clients (MPTC 2008). Thus, to reduce interconnection problems, new entrants have to negotiate with the dominant operator.

Internet service was commercialised in 1997, and at the outset there were three internet pioneers: Bigpond (Online), Camnet and Telesurf. Internet charges were prohibitively high at around USD8.50 per hour in 1997, which might have been the result of insufficient and poor network infrastructure. In 1998, with grant aid from the German government, an optical fibre network was installed connecting Poipet (Thai border) in the north-west and Bavet (Vietnamese border) in the south-east, passing through Phnom Penh and six provinces. In addition, MPTC funded another network connecting Siem Reap and Banteay Meanchey. Presently, there are other projects under way: one supported by the Japan Bank for International Cooperation for the planning and installing of an “information superhighway” in the Greater Mekong Sub-region; an optical fibre installation connecting Siem Reap to the south by Viettel and another optical fibre installation in Phnom Penh by the Chinese company CFOC (Phnom Penh Post, 2–16 May 2008, p. 5). Despite the current improvement of network infrastructure and substantial increase, to 12, in the number of ISPs, internet service charges, although declining gradually during the last decade, remain high.<sup>4</sup> Only the slowest internet connections are affordable to most Cambodians. At present, the total number of internet subscribers is 15,950, of which 7500 are dial-up service subscribers and 8450 are broadband subscribers. Due to high installation costs, many Cambodians use services at internet cafes, where charges are lower. Currently, there are approximately 266 internet cafes (MPTC 2008).

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3 Telekom Malaysia started in 1992 as joint venture provider of Casacom with Smart of Thailand and MPTC (30 percent), and gained full control in 2005. Casacom was then re-branded Hello GSM.

4 Currently, AT&T, a giant US telecom, offers unlimited downloads at a speed of 3 MBPS for USD30 per month, yet Wicam’s plan for providing 2 MBPS in Cambodia costs USD7000 per month. However, since 2005, 1 MBPS from Camnet has declined from USD6000 per month to USD2000 (Cambodia Daily, 21 February 2008, p. 21).

### 8.2.2. Banking

The industry was opened during the early 1990s in a switch from a single to a two-tier banking system, which is currently in place. Cambodia's financial sector has thus far been dominated by banks, and the National Bank of Cambodia (NBC) acts as industry regulator. Private investment was allowed in the form of state joint venture banks. In 1993, three joint venture banks were established and entirely privatised in 1997. The Foreign Trade Bank was fully privatised in 2005. By 2000, there were 31 licensed banking institutions, most of which were founded for the purpose of funding a single company (IFC 2007: 3). In the same year, in order to enhance public confidence and raise banking standards, the government with assistance from the International Monetary Fund embarked on a comprehensive bank restructuring programme that required all commercial banks to increase their minimum paid-up capital from USD5 million to USD13 million by December 31, 2001. As a result, a dozen commercial banks were liquidated. The outcome of the restructuring appears good as the banking system has gained more trust and confidence from the public and business.

Presently, there are 17 commercial banks, seven specialised banks and 17 micro-finance institutions in operation. ATM machines and new services such as credit cards, debit cards and electronic banking have been introduced across the capital and in provincial towns. Despite a remarkable expansion, the financial depth of the sector has been shallow, the ratio of loans and deposits to GDP remaining low at 18.3 percent and 26.8 percent respectively in 2007. The absence of a wholesale electronic payment system undermines the efficiency of inter-bank operations. The industry, though underdeveloped in many aspects, is growing gradually, and there are challenges to be addressed by the NBC in collaboration with all banks, namely a lack of human resources and well-developed IT infrastructure for the supervisory body, poor corporate governance in many banks, an underdeveloped credit information system and a high and rapid increase in credit to the real estate sector.

### 8.2.3. Insurance

Cambodia's insurance industry started in 1992 after the adoption of the Law on the Establishment of Insurance Business. A state-owned insurance company, Caminco, was established as regulator, operator and reinsurer, followed by three private insurers as its agents: Indochine Insurance<sup>5</sup> (1994), Asia Insurance (1995) and Forte Insurance (1999). At its embryonic stage, the sector products and services were limited to property, health, marine cargo and motor vehicle insurance, offered to a narrow range of clients, such as foreign investors and international organisations. In 2000, the Law on Insurance was passed, and the government transferred the regulatory role of Caminco to the Financial Industry Department of the Ministry of Economy and Finance (MEF). Caminco's reinsurance business was divested to a newly established public reinsurer—Cambodia Re—in January 2002, which later became a joint venture company with Asia Insurance Group holding 20 percent shares. It is statutory that

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5 It was closed in 2004 due to financial difficulties during the transformation to being licensed.

all licensed companies must cede 20 percent of their premium writings to Cambodia. At the present time, Caminco is a public insurance enterprise taking no regulatory or reinsurance role.

Despite poor public awareness of the significant role of non-life insurance in mitigating risks, industry growth has been steady and noticeable. In 2007 alone there were two new entrants—Infinity General Insurance and CampuBank Lonpac Insurance—which increased the total number of insurers to six. Thus far, there is no life insurance product or regulations, but there are plans for its development in the form of public-private partnership. As the sector is still in its initial stage of development, there are challenges ahead. A weak supervisory framework, substandard prudential regulations and low capacity of supervisory staff are primary constraints to building an environment conducive to insurance business. Therefore, it is imperative that insurance training institutes be developed aimed at building the capacity of both supervisory and first-line staff in the industry, and supervisory frameworks and prudential regulations be reviewed and redesigned as recommended in Financial Sector Development Strategy 2006–15. The launch of insurance public awareness programmes and the introduction of sector competition and consumer protection policies and tariff requirements on most insurance products could build trust and confidence among operators and consumers, thereby bolstering industry development.

### **8.3. Institutional Development of Telecommunications and Finances**

#### **8.3.1. Regulatory Regime**

##### **Telecommunications**

The telecommunications industry was opened to private investment in 1992, no clear guidance for liberalisation being formulated prior to the opening. Before 2006, MPTC was responsible for policy making, regulation and dispute settlement and governed government participation in joint ventures and business contracts with private and foreign investors in the industry. MPTC was a dominant operator in fixed line service, owning the optical fibre transiting Cambodia from Thailand to Vietnam. Realising the need to separate the roles of policy maker and operator and remove MPTC from business operation, the government formed a public enterprise, Telecom Cambodia, in January 2006 to take charge of MPTC's commercial operations. This is considered to be one of the government milestones of the last decade. However, to date, an independent telecoms authority has not been formed, and a draft telecommunications law completed in 2005 still awaits approval from the National Assembly. Moreover, MPTC still plays a vital role in formulating policy and regulating the industry. Therefore, it is unlikely that the regulator can be functionally free from the executive branch.

The absence of a new telecoms law, as well as other regulations—such as sub-decrees on standard network licences and telecommunication service licences, interconnection and tariff regulation, universal service obligation and universal service fund—and a sector competition policy creates an unpredictable business environment since MPTC's actions are not bound by any rule. Even when all the rules and regulations are in place,

efficient enforcement and implementation will remain a challenge for the MPTC given its limited capacity and capability. The regulatory regime is considered to be light. Since a Telecommunications Authority has not been formed, MPTC is responsible for granting licences, setting interconnection tariffs, resolving disputes and regulating cable television. MPTC revenue sources are licence fees, interconnection charges and revenue shares from operators and some others. It transfers those revenues to the national account and exists on government allocations. This limits its use of funds for the development of network infrastructure, which could particularly help MPTC to achieve its universal service objectives. Sector transparency and rule-based and fair competition have been weak and require immediate improvement. For instance, there are no specific licensing criteria and requirements available to the public, and the dominant operator has no incentive or strong will to negotiate interconnection with less dominant operators.

The critical challenge for MPTC at present is the lack of human policy-making resources. MPTC cannot compete against the private sector for highly educated and experienced staffs because it cannot provide higher pay and offers them only limited opportunity to contribute to policy development. MPTC decision making is highly centralised, and the institution offers limited scope for consultation with the private sector.

## **Banking**

The opening of banking to private investment in the early 1990s brought significant changes, particularly the shift to a two-tier banking system, removing the role of commercial bank from the National Bank of Cambodia. The NBC acts as regulator of the industry, strictly adhering to the Law on the Organisation and Conduct of the NBC passed by the National Assembly in 1996. The NBC claims to be an autonomous supervisory body depending on two main sources of income, licence fees and interest from abroad, for its staff salaries and other overheads. At the end of each fiscal year, the NBC allocates remaining income to the Ministry of Economy and Finance.

IFC (2007) evaluates the supervisory capacities of the NBC as limited and enforcement of prudential regulation as yet to meet the desired level. However, there has been improvement. All banks are required to disclose financial statements on their web sites, and only some do not comply or do not release the reports on time. The NBC regularly posts its latest annual report and annual bank supervision report, along with newly passed laws and regulations. More importantly, private consultation, especially with banks, prior to issuing rules and regulations has also been taken into serious account. This marks significant progress in enhancing the transparency and predictability of the industry. The NBC has been responding to new challenges faced by the industry. For instance, battling erratic inflation between the last quarter of 2007 and the second quarter of 2008 and providing banks a greater hedge against risk, in July 2008 the central bank tightened credit and the money supply by doubling the reserve requirement from 8 to 16 percent. In addition, amid rising fear of a real estate bubble because 98 percent of domestic credit is collateralised by land and houses, the bank also tightened control over credit to the real estate sector.

## **Insurance**

During the 1990s, the industry was regulated by a public insurance company, Caminco, which also acted as operator and reinsurer. In 2000 its regulatory roles were transferred to the Financial Industry Department of the MEF. The industry is still in its initial development stage, and it will require tremendous efforts and resources to ensure the sustainable development of the sector. The insurance division of the MEF relies on government allocations because revenues from licence fees and other sources are transferred to general revenue. It appears unlikely that the insurance division can be independent from the executive. The supervisory framework and prudential regulations appear weak and require review and improvement. At present, the insurance division consists of 10 staff in charge of overall monitoring and evaluation of the current five insurance companies. The number of staff and their expertise cannot meet the current needs of the regulatory division. There is a need for the immediate building of the policy-making and supervisory capacity of the insurance division staff.

Sector transparency has been weak. Although all insurance companies are required to disclose critical information related to their performance and changes in ownership shares, they do not reveal this information on their web sites. By contrast, the insurance division of MEF posts newly passed laws pertinent to insurance and its annual reports on its web site. There has been private consultation between service providers and the regulator on certain rules and regulations. This opens the door for the regulator to understand better the challenges and problems within the sector, so that MEF can address the challenges.

### **8.3.2. Performance of Telecommunications and Finance**

#### **Telecommunications**

During the last five years, the industry has experienced marked development backed by rapid growth in mobile phone services, averaging around 33 percent per year, while expansion was slow in fixed phone and internet services at an average of 2 percent and 8 percent respectively over the last five years. Sluggish demand in fixed line services can be attributed to a lack of investment in network infrastructure, which is costly, and the increasing demand for mobile phone services. Growth in number of ISPs has been significant, promoting more competition. However, demand for internet services remains stagnant because the cost of installation and monthly service charges are still high for both commercial and household subscribers. Internet users tend to visit internet cafes, where the charge per hour can be as low as USD0.36 (KHR1500), but the speed is slow.

As of March 2008, Telecom Cambodia was the dominant provider of fixed phone services with 54 percent market share, and CamGSM of mobile phone services with 69 percent. Only partial competition exists in fixed line services because there are only three operators. Furthermore, Telecom Cambodia has its own network infrastructure and tends to be a quasi-monopoly. At present, fierce competition is evident in mobile services, where there are five operators within a tiny market. This could bring down

mobile tariffs. Improvement of service quality remains a challenge for the regulator. With the current light regulation, service quality is undermined by interconnection problems between the dominant and other operators. The dominant operator tends to block connections from other operators, whether fixed or mobile, on the grounds that its capacity is insufficient.

**Table 8.2: Performance Indicators of Telecoms Industry during Last Decade**

Service	1999	2001	2003	2004	2005	2006	2007
Wireline connections	19,918	25,784	28,310	33,095	34,754	29,146	32,104
WLL connections	7786	7710	8884	6344	6350	5618	5421
<b>Total fixed line</b>	<b>27,704</b>	<b>33,494</b>	<b>37,194</b>	<b>39,439</b>	<b>41,104</b>	<b>34,764</b>	<b>37,525</b>
Population* (million)	12.40	12.80	13.03	13.05	13.08	14.10	14.40
Fixed line penetration per 100	0.22	0.26	0.29	0.30	0.31	0.25	0.26
Public payphones	308	312	463	443	439	445	456
Cellular mobile subscribers	89,117	223,458	489,504	659,084	840,916	1,151,617	1,400,314
<b>Total telephones</b>	<b>116,821</b>	<b>256,952</b>	<b>526,698</b>	<b>698,523</b>	<b>882,020</b>	<b>1,186,381</b>	<b>1,437,839</b>
<b>Total teledensity per 100</b>	<b>0.94</b>	<b>2.01</b>	<b>4.04</b>	<b>5.35</b>	<b>6.74</b>	<b>8.41</b>	<b>9.98</b>
Internet subscribers	2258	5096	7152	7671	8632	9089	11,779
Internet penetration per 100	0.018	0.040	0.055	0.059	0.066	0.064	0.082
Investment approvals (USD million)	19.3	0	9.9	0	0	0	471.2
Total employment	731	662	593	553	541	-	-
Telephone lines per employee	27	39	48	60	64	-	-

\* NIS projection

Source: MPTC 2008, NIS 2006 and CDC 2008

## Banking

The expansion of banking has been remarkable during the last four years, a result of growing business confidence and public trust built by the entrance of a foreign international standard bank, ANZ Royal, in 2005, the improvement of quality and diversified products and services introduced by ANZ Royal, Acleda, Canadia and Cambodia Public banks and the introduction of necessary legal mechanisms and an improved supervisory role, albeit at an unsatisfactory level, of the National Bank

of Cambodia. The overall health of the sector has been good, with average rates of return on assets of 2 percent and on equity of 11 percent during the last four years. In 2007, the sector stock of investment reached USD519.5 million, up from USD224.4 million in 2004, a rise evident in the increasing number of new commercial banks. New products and services such as ATM cards, internet banking, credit cards, debit cards, wire transfers and others have become available.

**Table 8.3: Banking Performance Indicators**

Category	2004	2005	2006	2007
Bank depositors	144,422	206,357	285,639	456,026
Deposits (KHR billion)	3,327.79	3,927.22	5,687.04	9,922.47
Bank borrowers	123,937	145,161	164,931	197,337
Loans (KHR billion)	1813.69	2347.34	3579.44	6335.88
Employment	-	3866.00	4624.00	6869.00
Total assets (KHR billion)	4706	5570	7716	13,445
Growth of total assets	24%	18%	39%	74%
Total assets to GDP	22%	22%	26%	41%
FDI stock (USD million)	224.4	278.8	352.2	519.5
FDI flow (USD million)	13.4	54.4	73.4	167.4
Credit to GDP	8.5%	9.3%	12.2%	18.3%
Deposits to GDP	15.1%	14.6%	17.9%	26.8%
Non-performing loans (KHR billion)	187.36	186.21	339.84	218.01
Return on assets	1.2%	1.8%	2.8%	2.8%
Return on equity	5.7%	7.9%	14.2%	16.3%
Solvency ratios	34%	32%	26%	24%

*Source: NBC 2007*

The entrance of ANZ Royal, a joint venture of Australia-New Zealand Bank and the Cambodia Royal Group, pressured existing banks to enhance the quality of and differentiate their services. In the last four years, the number of depositors grew by 215 percent and borrowers by 60 percent, while deposits surged threefold and loans 3.5 times. A large proportion of the loans and deposits were concentrated in four leading banks, which made the sector dependent on their performance. As of December 2008, among the four leading banks for deposits and loans, ANZ exhibited the lowest return on equity at 4.89 percent, while the other three banks experienced much higher returns.

**Table 8.4: Deposits and Loans as of 31 December 2008 (%)**

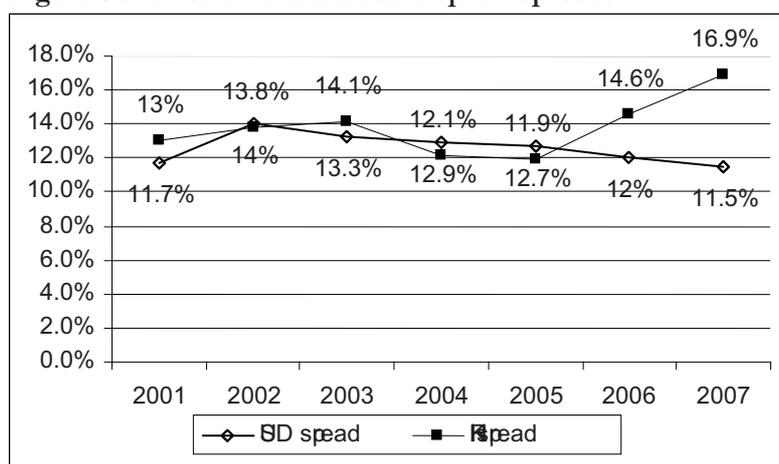
Bank deposits*	Share	Bank loans*	Share	Bank returns	RoE
1. Aceda	18.66	1. Cambodia Public	26.80	1. Canadia	30.54
2. Canadia	17.54	2. Aceda	19.50	2. Vattanac	20.54
3. Cambodia Public	14.52	3. Canadia	17.20	3. Foreign Trade	20.48
4. ANZ Royal	13.36	4. ANZ Royal	10.41	4. Cambodia Public	18.57
5. Foreign Trade	8.53	5. Vattanac	4.33	5. Aceda	16.19
6. Vattanac	5.90	6. Foreign Trade	3.62	6. ANZ Royal	4.89

Note: RoE: Return on equity (ratio of net profit to shareholders' equity); \* Gross

Source: NBC 2008

The cost of borrowing from banks in Cambodia remained unchanged during the last decade. The 12-month cost of borrowing showed no change at approximately 16.5 percent for US dollar loans and 20 percent for riel loans between 2001 and 2007, while interest rates on 12-month deposits of riel were around 4 percent and of dollars 7 percent. The 12-month loan-deposit spread for US dollars declined steadily at about 0.5 percent a year during the last five years. Surprisingly, the riel spread increased from 11.9 percent in 2005 to 16.9 percent in 2007, which stemmed from a big rise in the interest rate on riel loans. High demand for US dollars and the perception of local currency as high risk could be the reasons why riel borrowing is more costly. The long-term cost of borrowing remains high, reflecting commercial banks' dependence on costly funds from abroad.

**Figure 8.1: Twelve-Month Loan-Deposit Spreads**



Source: NBC 2007

## Insurance

The industry has expanded rapidly during the last few years. Two insurance companies—Infinity and CampuBank Lonpac—entered the market of non-life insurance in 2007. By the end of 2007, paid-up capital had reached USD33.21 million, while total net

premium income was at USD6.25 million, higher than the USD 4.19 million in 2006. The number of policy holders had also increased significantly, from 18,407 in 2005 to 29,124 in 2007. However, the market is still small and mainly offers a limited number of non-life insurance products, namely vehicle, fire, marine, engineering and several others. The market was mainly dominated by auto, fire and marine insurance with respective market shares of 52 percent, 13 percent and 5.5 percent in 2007. The opportunity for further growth appears promising because the sector is in its infant stage, Cambodia's per capita income keeps increasing and there is an expansion of other service sectors, such as banking, distribution and trade.

**Table 8.5: Insurance Net Premium Income (in USD)**

Year	Categories	Asia	Caminco	Forte	Campu	Infinity
2007	Auto	180,603.32	901,150.29	775,370.53	89,693.90	55,334.34
	Fire	71,630.49	24,144.30	1,138,920.00	54,698.52	11,989.33
	Marine	15,053.37	5695.52	149,444.23	2784.03	635.51
	Engineering	71,226.45	4289.69	143,251.49	5841.53	1,125.20
	Others	144,851.01	100,650.04	2,138,873.78	85,294.13	80,792.63
	<b>Total</b>	<b>483,364.64</b>	<b>1,035,929.84</b>	<b>4,345,860.03</b>	<b>238,312.11</b>	<b>149,877.01</b>
	<b>Market share</b>	<b>7.73%</b>	<b>16.57%</b>	<b>69.50%</b>	<b>3.81%</b>	<b>2.40%</b>
2006	Auto	137,469.66	721,853.80	637,413.52	-	-
	Fire	56,935.00	20,203.53	734,932.00	-	-
	Marine	21,463.90	7772.88	122,999.81	-	-
	Engineering	57,486.53	-6368.48	-2276.67	-	-
	Others	-273,355.00	-743,461.54	-1,493,067.95	-	-
	<b>Total</b>	<b>394,647.72</b>	<b>803,906.47</b>	<b>2,989,967.43</b>		
	<b>Market share</b>	<b>9.42%</b>	<b>19.19%</b>	<b>71.38%</b>	-	-

*Note: Income is shown net of expenses of collection and claims paid during the same year.*

*Source: MEF 2007*

In terms of overall net premium earnings, Forte performed best during the last three years. Caminco sold the most auto insurance policies between 2005 and 2007, while Forte earned the most in fire, marine and engineering insurance. Forte's shares of net premium income in fire insurance were 90 percent in 2006 and 87.5 percent in 2007, while Caminco's shares of net premium in auto insurance were 48 percent in 2006 and 45 percent in 2007. Prospects for growth in such products are high due to the current boom in transportation, construction, finance and tourism. There is also high hope for new products such as life insurance and micro insurance. The General Association of Insurance in Cambodia is now reviewing the current premium level, aiming to propose standard premiums in consultation with insurers and regulators that it says will protect consumer and enhance competition

## **8.4. Telecommunication and Finance Liberalisation Indexes**

### **8.4.1. Current Practices and Performance**

#### **8.4.1.1. Telecommunications**

##### ***Market Structure and Competition***

The market was opened in the early 1990s, when investments were allowed in the forms of public-private joint ventures and revenue-sharing business contracts between MPTC and private investors. To date, fixed-line service is provided by three operators, one of which is a state-owned enterprise holding about 54 percent market share, while the other two are a public-private joint venture holding 32 percent and a foreign-owned operator with 14 percent. MPTC also owns an optical fibre network transiting Cambodia from the Thai border to the Vietnamese border. Thus it is obvious that the market is a quasi-monopoly dominated by the state company. However, there has been a separation of MPTC, a regulator, from its business operation in fixed line services through the formation of Telecom Cambodia as a public enterprise in January 2006.

As of March 2008, mobile service was composed of five operators, one of which was the dominant operator holding 69 percent of the market, followed by Camshin (16 percent), Telekom Malaysia (13 percent), Cadcomms (1 percent) and Applifone (1 percent). Strong competition stems from the increasing number of operators; however, the absence of interconnection rules and blockage of connections by the dominant provider have unfairly disadvantaged the less dominant suppliers. Competition in the internet sector is even fiercer because there were 12 service suppliers and 266 internet cafes as of March 2008. The current leading providers are Online, Telesurf, Camnet and Camintel. Camnet owns an optical fibre line, which gives it an advantage over the others. However, when service and network licence regulations are approved, Camnet will be obliged to choose either a service or a network licence. This would create a level playing field for all suppliers.

##### ***Openness to Foreign Participation***

At present, there is no policy restriction on foreign entrance into the market, except for a maximum ownership of 49 percent as stated in the Investment Law 1994. However, in practice foreign participation can reach 100 percent, such as Camshin in fixed line service and in mobile and internet services. There is no restriction on the entry of foreign executives, engineers or specialists.

##### ***Multilateral Trade Agreements***

Under GATS-WTO, Cambodia is committed to permitting 49 percent foreign holdings in joint ventures with local investors in the telecoms sector. Telecom Cambodia was obligated to provide a fixed line service no later than 1 January 2009, which was completed at the time Telecom Cambodia was formed in January 2006. Nevertheless,

MPTC still has a 51 percent share in Camintel. In mobile and internet services, there is no limitation on market access and national treatment. Under the ASEAN Framework Agreement on Services, it is required that there be joint ventures with MPTC in fixed line services and with local companies in internet services. Licences granted to ISPs are to be based upon economic need. There is no limitation on national treatment.

#### ***8.4.1.2. Banking and Insurance***

##### ***Market Structure and Competition***

Cambodia's finance industry was opened to private investment in the early 1990s. It is currently dominated by banking services and its embryonic insurance sector. There is stiff competition in the banking sector, which consists of 23 commercial and specialised banks. Four commercial banks—Canadia, Cambodia Public, Aceda and ANZ—have been leading in both deposits and loans for the last three years. Canadia, which is wholly owned by a Cambodian private investor, ranks first in both markets. The insurance sector is still in its initial stage of development and provides limited non-life products, but growth has been significant during the last few years. Five insurers and one reinsurer were in operation by the end of 2007. Sector competition appears mediocre because the market is still small and awareness of the necessity for insurance remains limited. Nonetheless, the recent rapid expansion of other services and an increase in consumer income will augment the demand for insurance as business operators and households become conscious about mitigating commercial risk.

##### ***Openness to Foreign Participation***

Currently, there are no restrictions on foreign investment in banking or on cross-border capital flows. Foreign banks are allowed to open subsidiaries, branches and representative offices. Moreover, a range of services, except for insurance, are allowed by foreign banks. Even though the maximum legal foreign ownership is 49 percent, in practice a number of commercial banks, i.e. Cambodian Public, Camko and Shinhan, are wholly foreign-owned. More importantly, there is no restriction of foreign executives on a board of directors or on work permits and movements of executives, senior managers or specialists. The practice in insurance is similar to that in banking, particularly regarding ownership. Most insurers were set up in the form of joint ventures with foreign investors, while a newly established company, known as CampuBank Lonpac, was formed solely by Malaysians. There is no restriction on foreign executives on a board of directors. A short stay is allowed to foreign executives or senior managers of up to 30 days, while a long stay is up to one year. The length of work permits is based upon pre-employment criteria.

##### ***Multilateral Trade Agreements***

Under GATS-WTO, Cambodia is committed to imposing no limits on market access and national treatment on most banking services except for financial leasing

and guarantees and commitments<sup>6</sup>. The latter two are unbound in terms of market access until relevant laws and regulations are established, but entitled to national treatment. Non-life insurance is subject to no limitations in market access or national treatment commercially and is unbound in terms of natural persons. For reinsurance and retrocession, there is no limitation on national treatment, but insurers had to cede 20 percent of their premiums to Cambodia Re, a practice that formally ended on 1 January 2008, but which still exists in reality.

#### 8.4.2. Service Trade Restrictiveness of Telecommunications and Finances

This section assesses the liberalisation of telecoms and finance in Cambodia. Trade restrictiveness indexes (TRI), also known as foreign restriction indexes (FRI), of the sectors are constructed following the works of Kimura *et al.* (2003), Findlay and Warren (2000) and Deardorff and Stern (2004). TRI estimates the openness or restriction of an economy's trading regime based on the trade framework developed for the GATS. Table 8.6 provides key components of the TRI of the sectors.

**Table 8.6: TRI Components for Telecoms, Banking and Insurance**

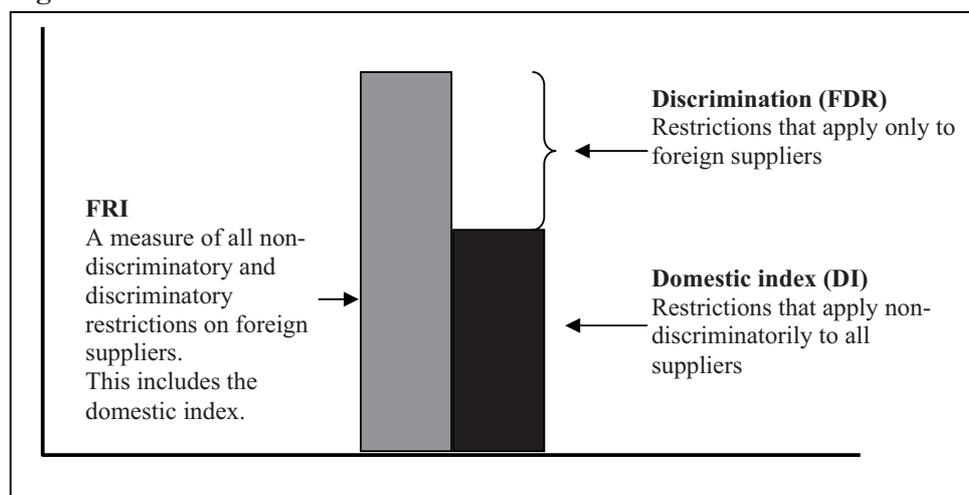
Telecommunications	Finance
1. Fixed line services	1. Banking services
2. Mobile operation services	a. licensing of banks
3. Internet services	b. form of commercial presence
a. licensing of fixed, mobile and internet services	c. foreign equity participation permission
b. form of commercial presence	d. restriction on certain types of services by foreigners
c. foreign equity participation permission	e. joint venture arrangements
d. joint venture arrangements	f. permanent movement of foreign executives
e. third party resale of leased line	g. raising and lending funds by foreign banks
f. end user tariff	h. other restrictions
g. regulation of network interconnection	2. Insurance services
h. market structure	a. licensing of insurance companies
i. temporary movement of people	b, c, d, e as above
	f. cross-border supply by insurance companies
	g. limitation on foreign suppliers
	h. scope of domestic and foreign fund raising
	i. expansion of insurance outlets

Source: Kimura *et al.* (2003), Findlay and Warren (2002) and Deardorff and Stern (2004)

6 - Financial leasing: a transaction which includes the following characteristics: i) the lessee specifies the equipment and selects the supplier without relying primarily on the skill and judgment of the lessor, i.e. bank/financial institutions; ii) the equipment is acquired by the lessor in connection with a leasing agreement which, to the knowledge of the supplier, either has been made or is to be made between the lessor and the lessee; and iii) the rentals payable under the leasing agreement are calculated so as to take into account in particular the amortisation of the whole or a substantial part of the cost of the equipment.  
- Guarantee and commitment: a legally binding agreement by a party (guarantor) to guarantee some or all of the responsibilities of a lessee, should the lessee fail to meet them.

The FRI is a measure of all non-discriminatory and discriminatory restrictions on foreign suppliers. It also includes the domestic index (DI), which is the difference between the FRI and foreign discriminatory index (FDR) (McGuire *et al.* 2000) A methodology of scores and weights is used to calculate the indexes. This approach contains pitfalls; for one thing, weight determination to a certain extent depends upon the author’s judgment based on previous research and understanding of the sector. Most importantly, the index should be considered indicative rather than conclusive.

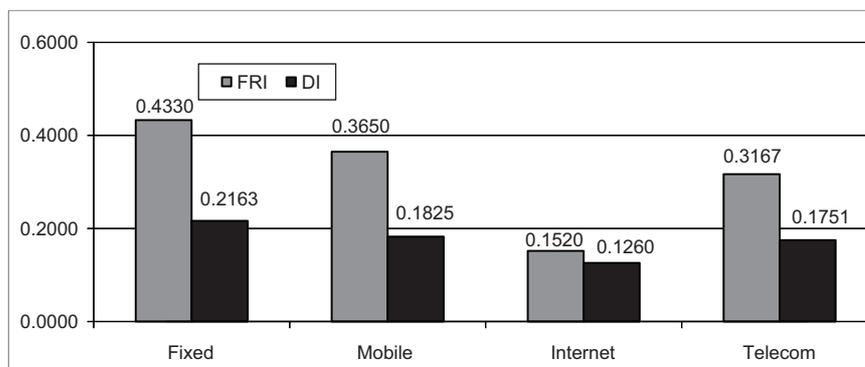
**Figure 8.2: Illustration of TRI Index**



#### 8.4.2.1. Restrictiveness Index in Telecommunications

Even though telecoms have been liberalised for almost a decade, restrictions on foreign participation remain tight, while restrictions on domestic suppliers are about half as strict, as illustrated in Figure 8.3. On breaking the industry into sub-sectors, we find that the internet is the most liberal market, followed by mobile and fixed line services. Considerable discrimination against foreign investors is evident in fixed line and mobile services, while discrimination against those in internet services tends to be negligible. Restriction and discrimination in the former two sectors can be attributed to the monopolistic nature of fixed line services and the ability of the dominant mobile incumbent to exercise discriminatory power over less dominant ones. The absence of licensing regulations, and centralised decision making by policy makers and regulators, create an uncertain business environment, making world class telecom operators reluctant to enter the tiny market of Cambodia.

**Figure 8.3: Trade Restrictiveness Indexes of Telecom Industry in 2008**

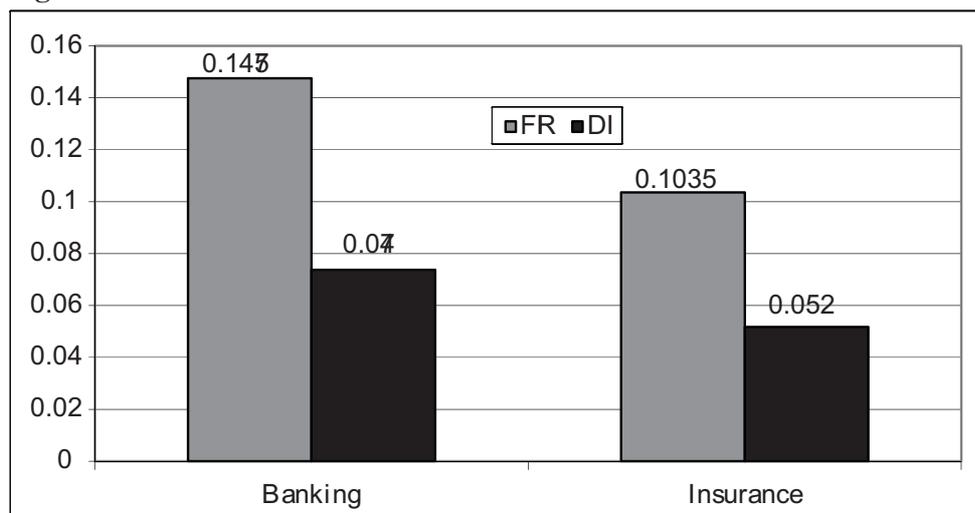


Source: Author's calculation based interview with regulator

#### 8.4.2.2. Restrictiveness Index in Finances

Figure 8.4 clearly shows the significant outcome of liberalising finances since the mid-1990s. Restriction of foreign participation in both banking and insurance is extremely low, especially compared with the situation in telecoms. Discrimination in insurance is slightly higher than in banking. The significant improvement in openness reflects changes of existing rules, the introduction of outward-oriented regulations and the practices of a free-market economy. For instance, up to 100 percent foreign ownership is permitted, and bank restructuring, in which all banks were required to add to their reserves during the early 2000s, was applied non-discriminatorily. Moreover, there has been a significant rise in the number of operators in the two sectors since 2000, and prices of their services are allowed to be determined by market forces.

**Figure 8.4: Trade Restrictiveness Indexes of Finances in 2008**



Source: Author's calculation based on interview with regulators and their annual reports

### 8.4.3. Implications of Openness of Telecommunications and Finances

Several studies (Markusen et al. 2005; Fink et al. 2005; Beck 2002; Francois and Wooton 2006; Francois 1990 and Mattoo 2006) confirm the positive effects of services liberalisation, particularly telecoms, banking, transportation and distribution, on a country's commodity trade, because most commodity trade activities involve these services. Generally, the quality of services appears to be better, and charges less costly, as a result of strong competition among increasing numbers of suppliers within those industries. Better quality and cheaper services encourage producers to export more. Most importantly, an export-dependent country will benefit substantially from the improved quality of services. Cambodia, which depends largely on garment exports as a source of earnings, would benefit considerably if the quality of support services were enhanced and costs cut.

As indicated in the section on TRI, banking and insurance are the most liberal markets, followed by internet and mobile services. Liberalisation has attracted a significant amount of foreign and domestic investment into the sectors (see Tables 8.2 and 8.3). Drastic expansion of the sectors, particularly in the number of suppliers, has brought about noticeable improvement in the quality and cost of services. The cost of international calls dropped from USD3.80 per minute in 1997 to approximately USD0.30 per minute in 2008.<sup>7</sup> Fixed phone installation charges, despite slow liberalisation in the sector, fell by 14 percent for Telecom and 50 percent for Camintel between September 2001 and October 2008. Significant improvement is also evident in mobile phones, prices of domestic cross-network calls falling by 53 percent for Camshin and 63 percent for Mobitel between July 2001 and October 2008 (see appendix for details of telephone tariffs). Likewise, the dial-up internet access cost tumbled from USD8.50 per hour in 1997 to approximately USD0.95 in 2008 (NiDA 2003: 27 and Online tariffs October 2008). The 12-month interest rate on US dollar loans also fell, albeit slowly, from 18.2 percent in 2002 to 16.4 percent in 2007 (NBC 2008), and a range of banking services, such as wire money transfer and debit and credit cards, have been introduced in the last few years. Development of the insurance sector has also been noticeable. A significant reduction in cost and increasing availability of these services provide a broader chance for growth in other sectors.

Although statistics on garment industry expenditure on such services as fixed phones, mobile phones, internet, banking and insurance are not available, it could be concluded that improved quality and reduced cost of those services help push up the sector's profitability and competitiveness. These also benefit other sectors, e.g. agriculture, construction and tourism.

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7 The 1997 figure is extracted from "Indicator of Telecom 1997-2007 (MPTC: 2008)", a spreadsheet obtained from MPTC in August 2008, while the 2008 figure is from CamGSM tariffs in September 2008. International calls using fixed line cost between USD0.80 and 1.14 in October 2008 (Telecom Cambodia and Camintel).

## 8.5. Opportunities and Needs for Liberalisation in Telecommunications and Finances

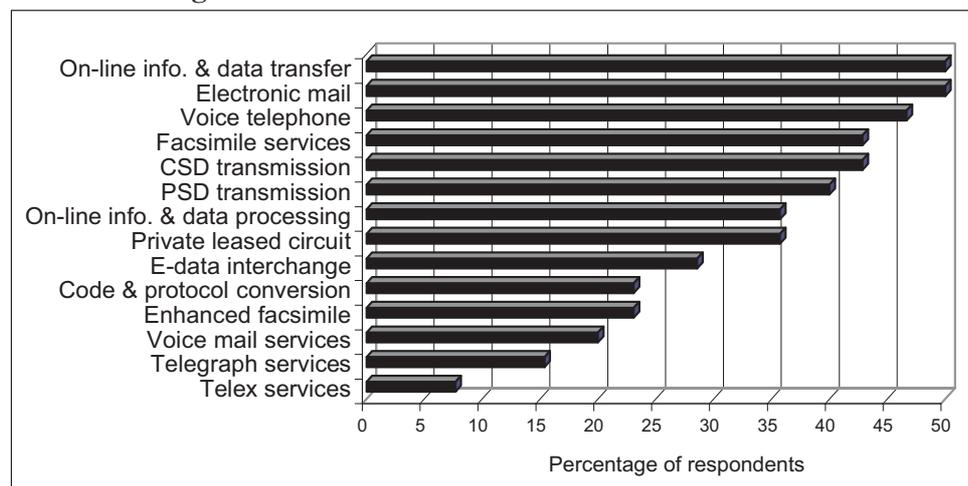
This section presents the result of the executive opinion survey on the opportunities and needs for liberalisation. More than 60 services firms were randomly selected for the survey, and dual approaches—door-to-door visits and mail-outs—were employed; however, the response rate was unexpectedly low at 28 percent, which could be due to the complexity of the questions and the combination of five sub-sectors in one questionnaire. Therefore, one should be cautious about representation of the results for the overall thoughts of each sector.

### 8.5.1. Liberalisation Sequence

#### 8.5.1.1. Telecommunications and Communications

Almost half of the respondents ranked online information and data transfer and electronic mail services as top priority for negotiation of telecom services under GATS, followed by voice telephone, facsimile, packet-switched data transmission and circuit-switched data transmission. Only a third of the respondents gave first priority to online information and data processing and e-data interchange, while around 20 percent called for bringing code and protocol conversion, enhanced facsimile and voice mail services to the GATS-led negotiation.

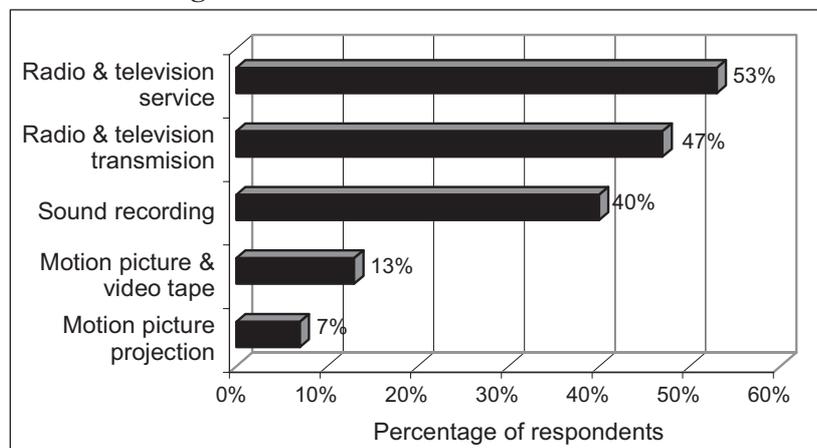
**Figure 8.5: First Priority Telecom Services for Liberalisation under GATS-Led Negotiation**



*Source: CDRI survey of 17 firms, August 2008*

Among communication services, radio and television and sound recording were considered the most important priorities for the next negotiation round, while radio and television transmission and motion picture projection were second, followed by motion picture and video tape.

**Figure 8.6: First Priority for Communication Services Liberalisation under GATS-Led Negotiation**

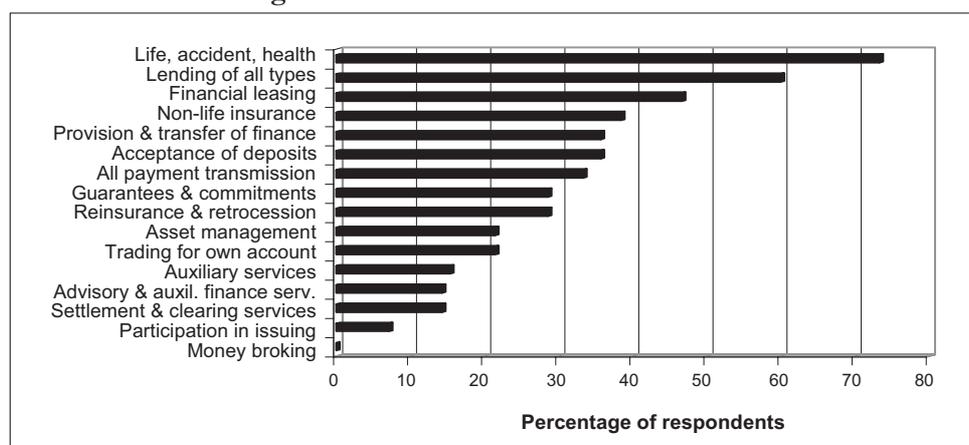


Source: CDRI survey of 17 firms, August 2008

#### 8.5.1.2. Finances

Top priority was placed on life, accident and health insurance, followed by such services as lending of all types and financial leasing. Around a third of respondents were in favour of non-life insurance, provision and transfer of finance information, acceptance of deposits and all payment transmission and considered those services as a third candidate after the above two top priorities for the next negotiation round. The priority given to life insurance is in line with the government plan to commercialise the service in 2009. It is quite logical to place financial leasing and non-life insurance as the second and third steps so that the local incumbent could have more time to prepare for competition from foreign services suppliers.

**Figure 8.7: First Priority Banking and Insurance Services for Liberalisation under GATS-Led Negotiation**



Source: CDRI survey of 17 firms, August 2008

### 8.5.2. Transparency in Governance and Regulation

Around 50 percent of respondents said that fixed line and mobile phone procedures and regulations are publicly available and easily accessible, but only about 35 percent said the same for internet and insurance services. Around 40 percent of respondents agreed that changes in procedures and regulations for internet and banking services are publicly available and easily accessible, while only one-fourth agreed in regard to fixed line and mobile services. Close to half of respondents had no opinion regarding regulatory changes in insurance. More importantly, a majority had the same opinion on the existence of formal and effective private sector consultation in all areas except the internet.

**Table 8.7: Opinion Regarding Transparency in Telecommunications and Finances (%)**

Sectors	Availability & accessibility of regulations					Information about changes in regulations					Effective private sector consultation				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Telecom: Fixed line	11.8	23.5	5.9	47.1	11.8	18.8	25.0	18.8	25.0	12.5	11.8	17.6	0.0	64.7	5.9
Telecom: Mobile	12.5	18.8	6.3	43.8	18.8	12.5	25.0	18.8	25.0	18.8	5.9	11.8	0.0	70.6	11.8
Telecom: Internet	5.9	29.4	11.8	35.3	17.6	5.9	23.5	23.5	41.2	5.9	11.8	76.5	0.0	0.0	11.8
Banking services	6.3	12.5	12.5	56.3	12.5	0.0	20.0	33.3	40.0	6.7	6.3	6.3	0.0	87.5	0.0
Insurance services	18.8	12.5	31.3	37.5	0.0	6.7	20.0	46.7	26.7	0.0	6.3	6.3	0.0	87.5	0.0

Note: 1: strongly disagree; 2: slightly disagree; 3: no opinion; 4: slightly agree; 5: strongly agree

Source: CDRI survey of 17 firms, August 2008

### 8.5.3. Fees and formality: Article VIII under GATS

Fifty to 60 percent of respondents slightly agreed that fees and charges of fixed line, mobile phone, banking and insurance were reasonable, but only a third slightly agreed on internet charges. Around a third provided no opinion on whether access to all the services requires irregular and arbitrary payments.

**Table 8.8: Executive Opinion on Fees, Charges and Irregular Payments (%)**

Sectors	Fees & charges reasonable					Irregular payments required				
	1	2	3	4	5	1	2	3	4	5
Telecom: Fixed line	6.3	12.5	18.8	62.5	0.0	18.8	6.3	37.5	25	12.5
Telecom: Mobile	18.8	18.8	6.3	50.0	6.3	18.8	18.8	25	18.8	18.8
Telecom: Internet	25	25	6.3	37.5	6.3	18.8	6.3	31.3	37.5	6.3
Banking services	6.7	13.3	6.7	66.7	6.7	20	26.7	26.7	26.7	0.0
Insurance services	6.7	20	20	53.3	0.0	13.3	33.3	33.3	20	0.0

Note: 1: strongly disagree; 2: slightly disagree; 3: no opinion; 4: slightly agree; 5: strongly agree

Source: CDRI survey of 17 firms, August 2008

Around half of the executives in the survey ranked the capacity of professionals in telecoms and banking sectors as average, while that of professionals in insurance was considered low by around 40 percent of the total respondents.

**Table 8.9: Executive Opinion of Competence of Professionals (%)**

	Very low	Low	Average	High	Very high
Fixed line engineers & technicians	14.3	28.6	42.9	14.3	0.0
Mobile service technicians	0.0	38.5	38.5	7.7	15.4
Internet service technicians	0.0	14.3	64.3	14.3	7.1
Banking professionals	0.0	20.0	46.7	33.3	0.0
Insurance professionals	14.3	42.9	28.6	7.1	7.1
Trade-related professionals	8.3	33.3	41.7	16.7	0.0
Government agency: Telecom	15.4	23.1	53.8	7.7	0.0
Government agency: Banking	7.1	28.6	42.9	14.3	7.1
Government agency: Insurance	23.1	38.5	23.1	7.7	7.7

*Source: CDRI survey of 17 firms, August 2008*

The majority of executives considered that the quality of services infrastructure had improved during the previous three years. The majority of the respondents agreed that the regulatory regime in telecoms and banking had been slightly or much better, while the overall business environment was considered by most executives to be better.

**Table 8.10: Executive Opinion on Services Infrastructure Change in Previous 3 Years**

	Much worse	Worse	About the same	Better	Much better
Quality of infrastructure: fixed line	6.3	6.3	18.8	68.8	0.0
Quality of infrastructure: mobile	0.0	0.0	20.0	60.0	20.0
Quality of infrastructure: internet	0.0	6.7	13.3	60.0	20.0
Banking facility	0.0	5.9	11.8	52.9	29.4
Insurance services	6.3	6.3	25.0	50.0	12.5
Regulatory regime: Telecoms	0.0	0.0	46.7	53.3	0.0
Regulatory regime: Banking	0.0	0.0	33.3	46.7	20.0
Regulatory regime: Insurance	0.0	14.3	42.9	42.9	0.0
Good governance & corruption	13.3	6.7	46.7	33.3	0.0
Overall business environment	6.7	13.3	13.3	66.7	0.0

*Source: CDRI survey of 17 firms, August 2008*

#### **8.5.4. Problematic Service Areas and Capacity Building**

Based on the survey, mobile phone service appears most problematic, while banking and insurance services are less problematic, followed by internet and fixed line. Interconnection blockage is a key problem in mobile services.

**Table 8.11: Problematic Service Areas under Study (% response)**

	Most problematic	Second most problematic	Third most problematic	Fourth most problematic	Fifth problematic
Fixed line telephone	20.0	20.0	33.3	20.0	6.7
Mobile phone	40.0	20.0	6.7	26.7	6.7
Internet	6.7	26.7	46.7	20.0	0.0
Banking	15.4	30.8	23.1	23.1	7.7
Insurance	15.4	30.8	15.4	7.7	30.8

Source: CDRI survey of 17 firms, August 2008

### 8.5.5. Benefits and Costs of Liberalisation

A majority of respondents claimed that there could be significant effects from liberalisation of service quality, efficiency in production or distribution, input prices, employment, competition and decrease in effectiveness of NBC policy. Further, the degree of impact of liberalisation was seen as greater than medium on the increase in entrepreneurship, transfer of technology, foreign direct investment, government revenue, improvement of social welfare and imposed social costs. The impact from liberalisation was seen as medium regarding the decline of domestic firms' market share and the reduction in input costs.

**Table 8.12: Importance of Liberalisation for Costs and Benefits**

	Least	Less	Medium	More	Most
Improve quality of services	0.0	0.0	6.7	26.7	66.7
Reduction in prices	0.0	0.0	20.0	40.0	40.0
Efficiency in production/distribution	0.0	6.7	13.3	13.3	66.7
Reduction in input cost	6.7	0.0	40.0	20.0	33.3
Enhanced competition	0.0	0.0	6.7	53.3	40.0
Increase entrepreneurship	6.7	0.0	13.3	60.0	20.0
Increase in employment	7.1	0.0	14.3	35.7	42.9
Transfer of technology	0.0	0.0	13.3	60.0	26.7
Increase government revenue	0.0	0.0	20.0	46.7	33.3
Decrease effectiveness of NBC policy	0.0	7.1	35.7	21.4	35.7
Decline of domestic firms' market share	13.3	20.0	46.7	13.3	6.7
Attract foreign direct investment	0.0	0.0	13.3	53.3	33.3
Improve social welfare	6.7	13.3	6.7	40.0	33.3
Impose social costs	6.7	13.3	20.0	40.0	20.0

Source: CDRI survey of 17 firms, August 2008

## 8.6. Concluding Remarks

The development outcome of services liberalisation has been quite significant during the last decade. There has been a great expansion of banking, insurance, mobile phones and internet services. Rapid growth has brought about increasing competition in those markets, which to some extent drove down charges and was likely to improve quality.

Benefits to the economy could be more substantial once there exist independent and capable regulators that protect consumers and ensure a level playing field for all service providers, regardless of nationality. At present, formation of an independent regulator in the telecoms industry awaits the adoption of a telecommunications law. Insurance also lacks a regulator, while banking is under the supervision of the central bank. Improved regulatory performance, albeit still unsatisfactory, is evident in banking and insurance, while supervision in telecoms has improved slightly although there are not clear laws and regulations in the sector, particularly criteria for granting licences to operators.

Restriction on foreign participation and discrimination against foreign suppliers are extremely low in banking and insurance, while remaining high in telecoms despite progress in mobile phone and internet services. There is no policy restricting new foreign entrants into banking and insurance, and foreign ownership can even reach 100 percent in certain cases. The mobile and internet markets have become more liberal during the past few years in terms of competition and increasing foreign ownership, but progress has been slow in fixed line services due to quasi-monopolistic nature of the sector and the absence of new entrants in the last decade.

The results of the executive opinion survey appear inconclusive because the response rate was low at 28 percent. Around half of the respondents gave GATS-WTO negotiating priority to online information and data transfer, electronic mail, voice telephone and facsimile services in telecoms, while over half of the respondents gave negotiation priority to life, accident and health insurance, lending of all types, financial leasing in finance. In most sub-sectors, slightly over half of the respondents confirmed the availability and accessibility of regulations to the public and the existence of private consultation. Most agreed that there has been improvement in the quality of infrastructures of those industries. Finally, the survey indicates that most of the respondents believe that quality of those services has improved, and costs have declined.

Overall, there has been significant progress during the last decade. However, there are monumental challenges ahead to create equal opportunities for suppliers, to protect consumers and to ensure equal treatment of domestic and foreign investors. Below are sector-specific recommendations in line with the above findings:

### **Telecommunications**

- There should not be further delay in adoption of a telecommunications law, or of sub-decrees on standard service and network licences that make clear licensing criteria available to the public. A sector competition policy should also be put in place.
- There should be a system of one company one licence in order to license network and service operations separately. During the transition period to the new service and network licence regime, the regulator should ensure that neither existing operators nor new market players are at a competitive disadvantage.

- Procedures for interconnection negotiations and arrangements among operators should be publicly available.
- Retail tariffs should be determined by competition among operators.
- Regulators and policy makers should hold frequent consultations with operators and consumer groups before setting rules, standards and regulations that might affect operators or consumers.
- Formation of an independent and capable regulator should rank high among national priorities. This should be implemented taking into account the human resources required for the regulatory body.

### **Finances**

- There is urgent need to build the capacity of supervisory staff in banking and insurance to keep pace with the current expansion of these sectors.
- Due to high risk of poor corporate governance in banking, the central bank should introduce regulations covering internal control systems and external auditors in line with international standards.
- The central bank may consider introducing new international standard requirements for new entrants because there has been a dramatic rise in the number of banks during the past few years, which may exacerbate the problem of poor corporate governance.
- There should be strict enforcement of compulsory disclosure of critical information of banks and insurance companies.
- The central bank and financial industry department of the MEF should introduce standard financial reporting for all operators.
- Regulators and policy makers should hold frequent consultations with operators and consumer groups before setting rules, standards and regulations that might affect operators or consumers.

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## Appendix

### Fixed Line Telephone Tariffs between 2001 and 2008

Items	MPTC/TC (USD per minute)				Camintel (USD per minute)			
	Phnom Penh		Provinces		Phnom Penh		Provinces	
	Sep 01	Oct 08	Sep 01	Oct 08	Sep 01	Oct 08	Sep 01	Oct 08
Installation	70	60	40	30	100	50	100	50
Monthly subscription	8	6.5	6	3	10	7	10	7
Local call	0.01	0.01	0.01	0.01	0.02	0.01	0.02	0.01
Fixed to mobile	0.15	0.10	0.15	0.10	0.15	0.10	0.15	0.12
Long distance call	0.15	0.45-0.10	0.15	0.45-0.10	0.15	0.06	0.15	0.1

Source: ITU 2002 and companies' tariff lists 2008

### Mobile Service Pricing between 2001 and 2008

Pre-paid (US cents)	Camshin		Mobitel	
	Jul 01	Oct 08	Jul 01	Oct 08
Connection (USD)	30	-	22	-
To same network peak	25.2	8.4	31	9
To same network off-peak	15.2	7.2	20	7.8
To fixed peak	25.2	12	33	13
To fixed off-peak	15.2	11	20	11
To another network peak	28	12	33	12
To another network off-peak	16	11	20	11

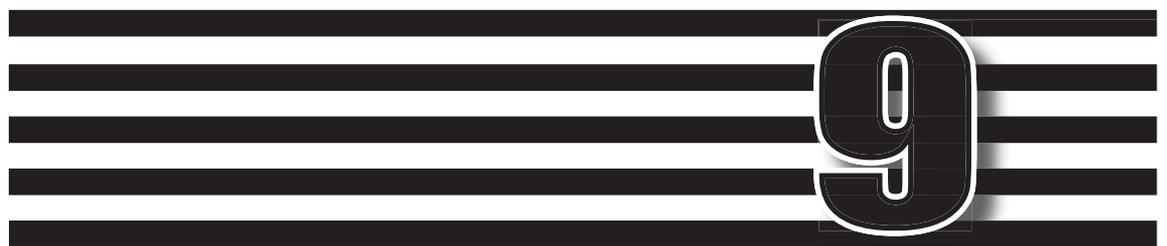
Source: ITU 2002 and companies' tariff lists 2008

### Responding Firms of 66 Randomly Selected from Yellow Pages

No.	Company Name	Category
1	Campu Bank	Commercial Bank
2	ANZ Royal Bank	Commercial Bank
3	Krung Thai Bank Public	Commercial Bank
4	Canadia Bank	Commercial Bank
5	First Investment Specialized Bank	Commercial Bank
6	First Commercial Bank CAM	Commercial Bank
7	Camintel	Fixed Phone Operator
8	Telecom Cambodia	Fixed Phone Operator
9	Huy Ngourn Company	Import-Export Firm
10	Green trade company	Import-Export Firm
11	I'm Telco	Import-Export Firm
12	Infinity Insurance	Insurance Company
13	Wicam	Internet Service Provider
14	Telekom Malaysia	Mobile Phone Company
15	Ken Technology	Software Development
16	Rural Development Bank	Specialized Bank
17	Peng Heng SME Bank	Specialized Bank

Note: Ken Technology was selected after the random selection from Yellow Pages.





**Towards a Better Understanding of  
the Political Economy of Regional  
Integration in the Greater Mekong  
Sub-region: Stakeholder Coordination  
and Consultation for Sub-regional  
Trade Facilitation in Cambodia**

**By KHIENG Sothy**

## Chapter 9

# **Towards a Better Understanding of the Political Economy of Regional Integration in the Greater Mekong Sub-region: Stakeholder Coordination and Consultation for Sub-regional Trade Facilitation in Cambodia**

*By Khieng Sothy<sup>1</sup>*

### **9.1. Introduction**

The government of Cambodia, its development partners, the Cambodian private sector and Cambodian research and policy institutes all acknowledge the benefits of regional and sub-regional integration for economic and social development and regional peace and stability. Experiences from the current and past financial crises, and other regional priorities like counter-terrorism, reduction of drug trafficking, disease control and environmental protection support the value of regional cooperation and integration, both in the Greater Mekong Sub-region and in ASEAN and the broader ASEAN +3 or east Asian region. This is particularly true for less developed countries like Cambodia, Laos and Myanmar, which are more vulnerable due to their poor infrastructure, still developing political systems, weak governance, poverty and uneven coping strategies for external crises and shocks. Particular value is attached to the benefits that increased regional trade, trade and transport facilitation (TTF) and both “hard” and “soft” infrastructure can bring to economic and social development and to bridging the development gap in ASEAN and East Asia. As a consequence, there have been various efforts in which trade and trade facilitation are used to bring countries of the region closer together to cooperate more effectively in addressing such issues.

The Cambodia case study presented here<sup>2</sup> aims to understand the driving force behind regional integration in the Greater Mekong Sub-region (GMS) countries and

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1 Khieng Sothy is researcher at CDRI. This study was written under the guidance and supervision of Mr Larry Strange, CDRI’s executive director. The author thanks two anonymous research colleagues at CDRI and participants in the ARTNeT Consultative Meeting on Bridging the Development Gaps in the GMS in June 2009 in Hanoi, Viet Nam for their comments.

2 The Political Economy of Regional Integration in the Greater Mekong Sub-region is a project initiative under the UNESCAP-ARTNeT’s GMS programme, which involves key stakeholder analysis in five countries (Cambodia, Laos, Thailand, Vietnam and Yunnan province of China). We gratefully acknowledge the financial support from the Swiss Agency for Development and Cooperation and the technical support of the United Nations Economic and Social Commission for Asia and the Pacific.

the characteristics and interactions of the various stakeholders influencing on the integration process. The analysis focuses particularly on trade and transport facilitation, including stakeholders' involvement in the design and implementation of the Cross-Border Transport Agreement, CBTA<sup>3</sup>. Through this research we hope to be able to make constructive recommendations for the improvement of stakeholder consultation and engagement in Cambodia and other GMS countries.

The research methodology is presented in the next section, followed by an overview of Cambodia's involvement in various regional integration initiatives and the key players in regional integration in Sections 9.3 and 9.4 respectively. Section 9.5 introduces more specifically the actors in trade and trade facilitation and presents the result of the analysis. Section 9.6 summarises findings from the study and provides corresponding recommendations on measures to promote involvement and consultation in regional integration and in the implementation of the CBTA.

## **9.2. Methodology**

### **9.2.1. Analysis and Interviews**

The stakeholder analysis proposed explores the interests and interactions among GMS member states and their various agencies and institutions, the private sector (local, GMS and external), civil society (local, GMS, external), the ADB, its members and financial partners and other multilateral and bilateral donors. A brief literature review identified stakeholder interests; this included a textual review of the three GMS summit statements and associated political leaders' statements, proceedings and reports from regional summits along with multilateral agreements on initiatives for sub-regional and regional integration and cooperation involving Cambodia and the degree of ownership and participation by stakeholders in GMS processes.

We then conducted key informant interviews using semi-structured questionnaires with 16 people from the Ministry of Commerce and Ministry of Economy and Finance and the private sector, including passenger and goods transport operators, insurance and banking and their associations such as the Cambodia Chamber of Commerce. "Snowball" sampling was used to select informants. The questions included: participants in regional integration and consultation, stakeholder in trade and trade support facilitation, influences on the genesis and implementation of the CBTA and recommendations to promote constructive involvement of stakeholders in regional integration.

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3 Parties to CBTA, which came into force in December 2003, are Cambodia, China, Laos, Myanmar, Thailand and Vietnam

### **9.2.2. Limitations of the Study**

Time and budget constraints were two main limitations. Additionally, during the data collection, we faced instances of limited cooperation, especially from officials in government agencies that we were recommended to consult with. Lastly, there is possible bias from the methodology of “snowball” sampling, in which the selection of interviewees was based on prior referrals.

## **9.3. Cambodia and Regional Integration**

### **9.3.1. ASEAN and East Asia**

Since it became a member of ASEAN in 1999, Cambodia has made remarkable but uneven progress in socio-economic development, and in both regional integration and participation in the international community. From 1998 to 2007, Cambodia had one of the fastest growing economies in Asia, with strong and effective macroeconomic management and average annual growth of about 8 percent, with a peak of 13.4 percent in 2005. The strong performance was mainly fuelled by strong exports, which grew at an average of 9.6 percent annually and which were dominated by garments and textiles (Ministry of Commerce 2007). Trade between Cambodia and ASEAN accelerated by 23 percent in 2008 to a total value of about USD2.2 billion, from about USD1.8 billion in 2007. However, most of this trade is one way; Cambodia’s imports totalled USD2.1 billion while exports were only USD121 million—a trade deficit of more than USD1.9 billion with the nine other ASEAN members (Ministry of Commerce 2009). Although increasing, Cambodia’s intra-regional trade for 1998–2007 accounted for only about 1 percent of GDP, a much lower share than the country’s exports to the United States and the European Union. In fact, Cambodia is one of the most imbalanced regional traders; its exports remain undiversified in both products exported (most of which are garments, shoes and textiles) and countries of destination.

In recent times Cambodia has been active in various ASEAN trade and trade facilitation initiatives, with the confidence that these efforts help Cambodia to be better integrated into the region, with associated benefits from diversification of trading partners and markets. These initiatives are summarised in Table 9.1. Several different government agencies are responsible for the coordination and implementation of ASEAN economic and trade programmes, including the Council for the Development of Cambodia and the Department of Economic Integration and ASEAN of the Ministry of Economy and Finance. However, the main government agency that coordinates the initiatives is the Ministry of Commerce (Department of Multilateral Trade and Department of International Trade), whose minister is Cambodia’s minister for ASEAN.

**Table 9.1: Selected ASEAN Integration Initiatives in Which Cambodia Participates**

<b>Initiative</b>	<b>Members</b>	<b>Purpose</b>	<b>National Coordinator</b>
ASEAN 10: Initiative for Asean Integration, Asean Free Trade Area, Asean Economic Community	Ten members of ASEAN	To enhance ASEAN's competitive edge as a production base aimed for global market through regional trade liberalisation	Department of Multilateral Trade, Ministry of Commerce
Framework Agreement on Comprehensive Economic Cooperation between the ASEAN and China (ASEAN-China FTA)	Ten members of ASEAN plus China	To advance ASEAN-China economic, trade and investment cooperation	Department of Multilateral Trade, Ministry of Commerce
ASEAN Economic Ministers-Ministry for International Trade and Industry (AEM-METI) Economic and Industrial Cooperation Committee (AMEICC)	Ten members of ASEAN plus Japan	To create a body for policy consultation on enhanced economic cooperation, improvement of ASEAN's competitiveness, enhancement of cooperation and development cooperation assistance to the new members of ASEAN	Department of Multilateral Trade, Ministry of Commerce and Council for the Development of Cambodia

### 9.3.2. Cambodia and the Greater Mekong Sub-region

Cambodia lies at the heart of the Greater Mekong Sub-region, comprising Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan province and Guangxi autonomous region of China. While the GMS is a geographic and demographic sub-region with a long and rich history, the term is now more commonly associated with the regional integration programme of the Asian Development Bank—the GMS Economic Cooperation Programme. Cambodia has joined other initiatives in this sub-region including the GMS Business Forum, the Mekong River Commission, the Triangle Development Region and Emerald Triangle Development Cooperation. The GMS National Secretariat is the main national coordinator for the overall GMS programme, while other government bodies such as the Ministry of Commerce, the National Mekong Committee and the Ministry of Tourism manage other initiatives.

**Table 9.2: Integration Initiatives in the Greater Mekong Sub-region**

<b>Regional Cooperation Initiative</b>	<b>Members</b>	<b>Purpose</b>	<b>National Coordinator</b>
GMS Economic Cooperation Programme	Cambodia, China, Laos, Myanmar, Thailand, Vietnam	To promote development through closer economic linkages	GMS National Secretariat
GMS Business Forum	Cambodia, China, Laos, Myanmar, Thailand, Vietnam and representatives of individual companies from the region	To foster cooperation and growth of the private sector through information sharing, networking, and public-private sector dialogue	Cambodian Chamber of Commerce
Mekong River Commission	Cambodia, Laos, Thailand, Vietnam. China and Myanmar are dialogue partners	To promote and coordinate sustainable management and development of water and related resources for the countries' mutual benefit and the people's well-being	Cambodia National Mekong Committee
Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy	Cambodia, Laos, Myanmar, Thailand, Vietnam	To bridge the economic gap among the five member countries, and to promote sustainable prosperity in the sub-region	Department of International Trade, Ministry of Commerce
Triangle Development Region	Cambodia, Laos, Vietnam	To enhance economic cooperation and development, both individually and collectively	Multilateral Trade Department, Ministry of Commerce
Emerald Triangle Development Cooperation	Cambodia, Laos, Thailand	To promote cooperation in these regions and complement the GMS and overall economic cooperation in ASEAN	Ministry of Tourism

*Source: GMS National Secretariat and the Ministry of Commerce*

#### **9.4. Stakeholders in Regional Integration**

For the purposes of analysis, the case study identified five major categories in regional and sub-regional integration, and in trade, trade facilitation and transport in particular: regional organisations, national governments, the private sector, international development partners and local communities and civil society organisations. In Cambodia these are:

- ASEAN and GMS member countries: the nine other ASEAN members and China (Yunnan province and Guangxi Zhuang autonomous region), which is also a member of the GMS Economic Cooperation Programme.
- The government, whose key involved ministries and agencies include the Ministry of Public Works and Transport, Ministry of Commerce (MOC) and its Department of International Trade, Ministry of Economy and Finance and its Department of Economic Integration and ASEAN, Ministry of Foreign Affairs and International Cooperation and its General Department of ASEAN, Ministry of Tourism, Ministry of the Interior, Ministry of Health and provincial and local authorities (particularly those near borders).
- The private sector: passenger and goods transport operators, insurance and banking service providers and logistics providers, along with peak bodies including the Cambodia Chamber of Commerce and Provincial Chambers of Commerce, Cambodia Freight Forwarders Association (CAMFFA), Cambodia Trucking Association (CAMTA), General Insurance Association of Cambodia, Association of Banks in Cambodia (ABC), the Garment Manufacturers Association in Cambodia (GMAC) and other related associations.
- International development partners: Along with the ADB and its GMS programme, other international development partners include the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and its Asia Pacific Research and Training Network on Trade (ARTNeT), United Nations Conference on Trade and Development, the World Customs Organisation, the World Trade Organisation, the International Organisation for Migration, the Organisation for Economic Cooperation and Development, the Asia Pacific Economic Cooperation, the ASEAN Secretariat, the World Bank, AusAID and the Japanese International Cooperation Agency.
- Border communities: Border communities and traders who live at or near the main border checkpoints between Cambodia and its immediate neighbours, like those in Bavet, Svay Rieng province and Poipet, are affected by the benefits and other economic, social and environmental impacts of cross-border transport and associated movement of goods and people.

Many of the above categories also play roles in the CBTA and will be discussed and analysed in more detail in a later section.

#### **9.4.1. Stakeholders Consultation in Cambodia's Regional Integration**

Various sections of the national government, private sector, development partners and civil society organisations are involved in regional and sub-regional integration initiatives. In the national government, those involved include: the GMS National Secretariat, Ministry of Commerce (General Department of International Trade), Ministry of Foreign Affairs and International Cooperation, Ministry of Public Works and Transport and Ministry of Economy and Finance, with their subordinate departments, the Department for International Cooperation often playing a significant role. The main consultative arrangements among them remain unclear, but the GMS National Secretariat and the General Department of ASEAN of the Ministry of Foreign Affairs coordinate the initiatives among GMS and ASEAN member states,

development partners and ministries and other government agencies. More specific coordination arrangements among different players in trade and transport initiatives are discussed in Section 9.5.

## **9.5. Stakeholders in Trade and Transport Facilitation**

### **9.5.1. Key Stakeholders in TTF**

A preliminary interview with the Ministry of Commerce and a desk review of CBTA policy established that there are three major Cambodian national interests and groups in trade and transport facilitation (TTF):

- government institutions from provincial and local authorities to the line ministries and related agencies, which work with international development partners, particularly the ADB and its GMS-CBTA programme;
- trade and transport service providers and related logistics companies, banking and insurance providers;
- users of trade and transport services such as traders and investors and, to a lesser extent, tourists and others crossing at border checkpoints, including border traders and communities.

### **9.5.2. Consultation Mechanisms**

Considering the variety of groups involved and their different interests, backgrounds, ways of operating and scales of involvement, effective mechanisms for stakeholder consultation and participation are critical. Several specific mechanisms have been identified for consultation about overall trade and transport facilitation initiatives. These are the Government-Private Sector Forum (G-PSF), the Steering Committee on Private Sector Development (SCPSD) and Trade Sector Wide Approach (TRADE-SWAp). Next, each of the institutional arrangements for stakeholder consultation is discussed in detail.

#### ***9.5.2.1. Government-Private Sector Forum***

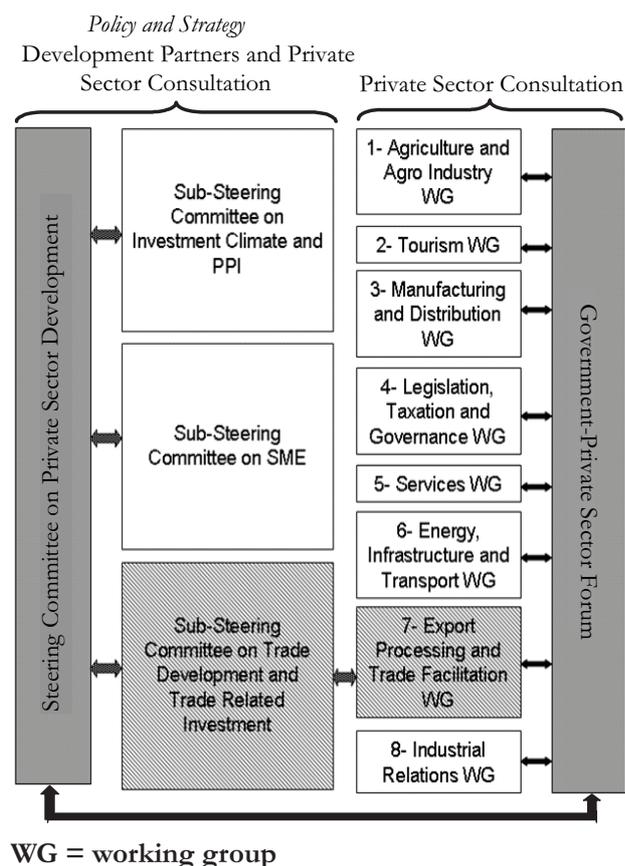
The G-PSF is a structured consultation forum between the government and private sector, in which both can address issues faced by the business community. Since its establishment, the G-SPF has played a very important role as a mechanism for dialogue on various subjects, supported by private sector working groups on different sectors (Figure 9.1). Of the eight working groups, 6 and 7 are closely related to TTF and CBTA specifically. The representatives in the G-PSF include officials from the government, private sector (co-chairs, national associations, provincial association and community groups) and institutions such as IFC-MPDF<sup>4</sup>, the Asia Foundation, GTZ and the Cambodia Chamber of Commerce.

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4 IFC-MPDF is the Mekong Private Sector Development Facility of the International Finance Corporation

Figure 9.1 outlines how G-PSF and SCPSD work together as venues for government-private sector-development partner consultation in TTF.

**Figure 9.1: Mechanisms for Private Sector, Government and Development Partner Consultation on TTF<sup>5</sup>**



### 9.5.2.2. Steering Committee for Private Sector Development

The SCPSD, composed of seven ministers and chaired by the minister of economy and finance, was established in 2004 with three sub-steering committees: Investment Climate and Private Participation in Infrastructure; Trade Development and Trade-Related Investment; and SMEs. The sub-steering committee on Trade Development and Trade-Related Investment has clear objectives of improving complex and lengthy procedures related to import and export, e.g. elimination of duplication by conducting joint inspection and reinforcement of the single window mechanism at borders. The sub-steering committee has also created a working group on trade facilitation and processing for exports and a reform team for trade facilitation and investment climate (Chea 2008). While the G-PSF reports to the prime minister, the SCPSD reports to the minister of commerce.

5 Adapted from Cham 2008.

### ***9.5.2.3. Intra-Ministry Coordination: TRADE-SWAp***

TRADE-SWAp is a broad but sophisticated mechanism for consultation and coordination for a wide variety of participants but more importantly for intra-ministry coordination in trade policy and trade-related assistance. It is involved and coordinates with the G-PSF, SCPSD and Government Donor Coordination Committee<sup>6</sup>.

### **9.5.3. Stakeholder Analysis in CBTA**

Despite the original plan to have two TTF initiatives covered in this case study, only the CBTA is discussed here. The reason is that there has been too little progress on the other initiative identified for comparative purposes, the Strategic Framework Action on Trade Facilitation Initiative, and very limited, if any, awareness of this initiative among those interviewed. In this section we will first discuss the genesis of the CBTA, its implementation, those involved and their interests and experiences of the CBTA and consultation, following that with an influence and importance matrix.

#### ***9.5.3.1. Genesis***

The CBTA is one of the first and foremost multilateral trade facilitation instruments. It has the objectives: to facilitate cross-border transport of goods and people among the signatories; to simplify and harmonise legislation, regulations, procedures and requirements relating to the cross-border transport of goods and people; and to promote multi-modal transport.

With 20 annexes and protocols, the CBTA comprehensively covers all aspects of cross-border transport facilitation, including: single-window customs inspections; cross-border movement of persons; transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort and agriculture and veterinary inspection; requirements for road vehicles eligible for cross-border traffic; exchange of commercial traffic rights; and road infrastructure.

Coming into force in December 2003, the Initial Implementation of the CBTA (IICBTA) was designed to allow early identification of the main issues and the early realisation of benefits from improved transport facilitation. It has been in progress since 2004 with pilot projects at border crossings.

#### ***9.5.3.2. Implementation***

The implementation of the CBTA in Cambodia has made progress despite being very slow and facing many challenges. This section provides details of CBTA progress and outlines the challenges.

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6 GDCC is a high-level government-development partner forum for dialogue and information sharing on policies, reform and issues related to the socio-economic development of Cambodia.

#### *9.5.3.2.1 Progress<sup>7</sup>*

Important achievements have been made in different sectors and aspects of the agreement:

- Cambodia has ratified all 17 annexes and the 3 protocols.
- The Single Administration Document, which is in compliance with the UN Layout Key for external trade documents, has been implemented since January 2008.
- A Risk Management and Audit Office has been set up in accordance with Sub-decree 21 on Trade Facilitation through Risk Management.
- Since the establishment of the audit office in March 2006, progress includes the installation of new risk management software, Transport Chain Management System and Supply Chain Management System.
- The government has recently nominated the Cambodian Freight Forwarders Association as a security guarantor to the Customs.

#### *9.5.3.2.2 IICBTA and Related Bilateral Agreements and Protocols*

Early detection of issues and demonstration of the agreement's effectiveness have been seen as vital to its success. As a consequence, the six GMS ministers agreed during their summit in 2003 to pilot test the implementation of the CBTA at seven border crossings (out of 17 agreed) along three routes (of 11 agreed) (ADB 2009a). Bavet-Moc Bai and Poipet-Aranyaprathet crossing points, along the Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau route in the GMS southern economic corridor, are the two pilot sites for Cambodia. This study observed the following progress in Cambodia in the IICBTA and related bilateral agreements:

- The Bilateral Agreement on Road Transport (Cambodia-Vietnam) was signed in 1999 and began implementation three months after signing.
  - A protocol to that agreement was signed in October 2005.
  - A memorandum of understanding on quantity and type of commercial vehicles was signed by the two countries in March 2009, allowing up to 150 trucks per month to cross the border, an increase from the 40 vehicles (20 buses and 20 trucks) that was originally agreed.
- The Bilateral Agreement on Cross-Border Transport (Cambodia-Laos) was signed in September 1999; its protocol was signed in February 2007. The implementation of the agreement started in July 2007.
- A Waterway Transportation Agreement (Cambodia-Vietnam) was signed in 1998 but a later version of the agreement combined with its protocol was ready for signing in early 2009.

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7 Based on interview with the Customs and Excise Department, as of March 2009.

### *9.5.3.2.3 Main Bottlenecks*

However, during the third GMS summit of Leaders in Vientiane, in March 2008, leaders of the six countries appealed to expedite the implementation of the CBTA, which has faced various obstacles and delays. Key informants interviewed, from both government and the private sector, expressed common opinions on obstacles to CBTA progress:

- Affordable land for the construction of the common control area at border checkpoints is lacking, particularly at the Bavet-Moc Bai crossing, and there is frustration with a lack of government coordination and political will to remedy this fundamental practical issue.
- A service level agreement needs to be signed by all relevant government agencies before the single-stop inspection can be functional.
- There seems to be too much authority concentrated in a few government agencies that are resistant to change.
- The private sector's input and influence on CBTA arrangements, representation in key national and sub-regional consultative mechanisms and associated commercial benefits in Cambodia are overly influenced or dominated by a few large companies.
- Current insurance policies cover only Cambodia and not cross-border transport. This causes potential costly delays for trucks and passenger buses when entering another country.
- There are different policies and regulations (such as on insurance, transport and traffic laws) in different countries.
- Technical and resource capacity for carrying out the programmes is lacking.
- There is protectionism in some partner countries.

At the 13th G-PSF, in April 2008, the private sector raised issues regarding CBTA implementation. Those specifically related to the bilateral agreement on the IICBTA between Vietnam and Cambodia included problems of truck number plates, truck weighing and complicated procedures; and issues of business operation in Vietnam such as buying insurance and establishing a bus ticket sales booth (International Finance Corporation 2008a).

Besides the constraints revealed during our interviews, according to the proceedings from the senior official meeting on GMS transport and trade initiatives in November 2008, some other major obstacles to the CBTA are:

- GMS member states are not proactive in CBTA implementation. Specifically, customs and excise departments need to be proactive, especially in implementing the Customs Transit System.
- Bottlenecks: the CBTA cannot provide region-wide benefits if Thailand (legislation) and Laos (capacity) cannot participate fully.
- CBTA provisions need to be integrated into national laws.
- Higher level coordination is needed among transport, customs, immigration and quarantine authorities.

- Countries' National Transport Facilitation Committee or National Transit Transport Coordinating Committee needs support to monitor CBTA implementation.

These obstacles, if not resolved properly and in a timely manner, will worsen existing problems of cross-border trade, such as the time needed to clear goods for export and import, unnecessary documentation and the more pressing issue of informal fees at border checkpoints. Table 9.3 presents results of a 2009 World Bank study on main indicators affecting cross-border trade in the region, with Cambodia either top or close to the top of the list of barriers to trade. However, the number of days for export has been reduced from 37 in 2008 to 22 in 2009, while the time for import has decreased from 46 to 30 days.

**Table 9.3: Main Indicators for Trading Across Borders in the Region**

Selected Economies in the Region	Documents for export (number)	Time for exports (days)	Cost to export (USD per container)	Documents for import (number)	Time for imports (days)	Cost to import (USD per container)
<b>Cambodia</b>	<b>11</b>	<b>22</b>	<b>732</b>	<b>11</b>	<b>30</b>	<b>872</b>
Indonesia	5	21	704	6	27	660
Laos	9	50	1860	10	50	2040
Malaysia	7	18	450	7	14	450
Philippines	8	16	816	8	16	819
Thailand	4	14	625	3	13	795
Timor-Leste	6	25	1010	7	26	1015

*Source: World Bank 2009a*

#### 9.5.3.2.4 Next Steps

Priority tasks proposed during the senior official meeting in Bangkok in November 2008 for the implementation of CBTA in Cambodia were (ADB 2008b):

- prepare border arrangements for the CBTA at Bavet;
- establish a cable link between Bavet and Moc Bai;
- decide on only one border control agency for the CBTA;
- sign and implement the MOU on the Customs Transit System;
- provide capacity building for the guaranteeing organisation (CAMFFA).

Moreover, according to an official document from ADB mission to Cambodia, the government has the following specific plans (ADB 2009a: 3):

- to implement single-window inspection at Bavet checkpoint in accordance with Sub-decree 21 on the Facilitation of Trade through Risk Management;

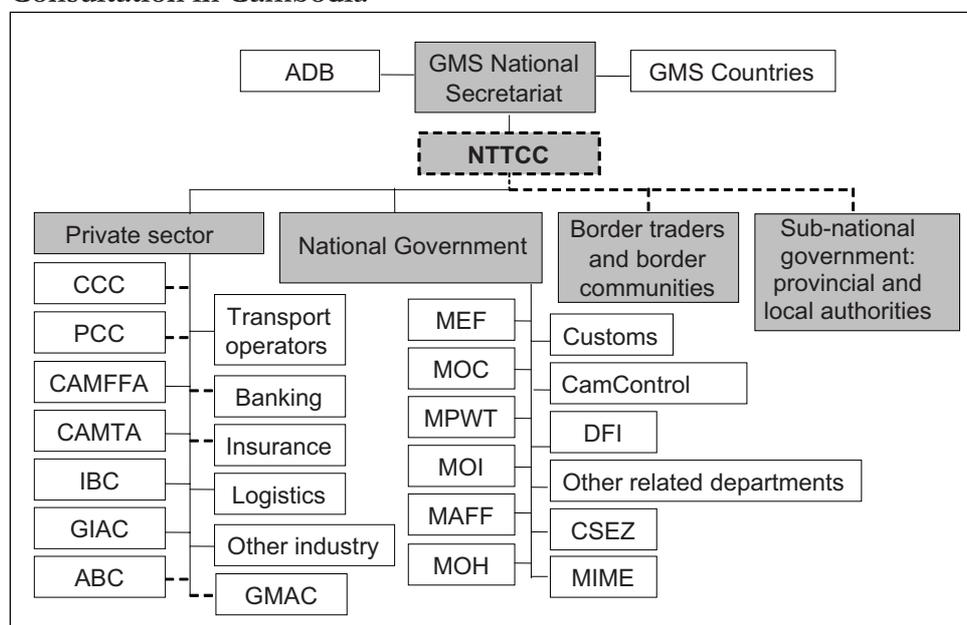
- to establish the ASYCUDA<sup>8</sup> system at important land border checkpoints in Cambodia, including Bavet and Poipet;
- to implement the national single-window system in accordance with relevant ASEAN agreements by 2012 with the ASYCUDA system as data platform.

#### 9.5.4. Cambodian Stakeholders in CBTA

The CBTA has involved various institutions and players since the beginning. For each group of stakeholders, we consider their roles, influence and contribution to CBTA implementation in Cambodia. We then consider how they work together through different mechanisms and institutional arrangements. At the end of the section, there is a discussion of vested interests, which are one of many obstacles to the implementation of CBTA.

The key stakeholders involved in the CBTA, and the levels of their authority and participation, how their collective representation and institutional support for it are illustrated in Figure 9.2. Connected lines or boxes show smooth coordination and communication, while broken lines and box indicate a malfunction (i.e. the National Transport Transit Coordinating Committee) and uneven communication channels and consultation (e.g. border traders and communities and local and provincial authorities are not included in NTTCC consultation).

**Figure 9.2: Structure of GMS CBTA Stakeholders Consultation in Cambodia**



Source: Key informant interviews and key documents

8 Automated System for Customs Data, a computerised system designed by the UNCTAD to administer customs in a country.

#### **9.5.4.1. National Government**

Three ministries are actively engaged in CBTA processes and implementation: the Ministry of Commerce, Ministry of Economy and Finance and Ministry of Public Works and Transport. Other ministries and institutions involved to some extent include the Ministry of Agriculture, Forestry and Fisheries, the Ministry of the Interior, the Ministry of Health, the GMS National Secretariat and representatives from the special economic zones committee.

##### *9.5.4.1.1 Ministry of Commerce*

This is one of the principal government ministries carrying out and coordinating the CBTA. Its agencies such as the Department of Multilateral Trade and CamControl have specific roles.

CamControl: The Cambodia Import Export Inspection and Fraud Repression Department is the second leading agency (after Customs) at border checkpoints. Its main role is to ensure the quality and safety of products and compliance with legal requirements, which complements the clearance works of Customs. There is some overlap in the roles and responsibilities of Customs and CamControl at borders. However, Sub-decree 21 and the related service level agreement have contributed to improved efficiency and time saving. Implementation of the agreement has progressed with consultation among government agencies.

The Ministry of Commerce has critical roles in coordinating and implementing trade-related programmes and consultation arrangements such as being the secretariat for the Trade Sector Wide Approach and the programme manager for the Trade Development Support Programme.

##### *9.5.4.1.2 Ministry of Economy and Finance*

The ministry has two departments closely involved with trade facilitation and CBTA specifically.

- The Customs and Excise Department, according to a department official interviewed, has been closely involved in various meetings in the GMS programme but mainly on the CBTA. Specifically, the department has been working on four annexes of the CBTA: Annex 4 on Facilitation of Frontier Crossing Formalities; Annex 6 on Transit and Inland Customs Clearance Regime; Annex 8 on Temporary Importation of Motor Vehicles; and Annex 14 on Containers Customs Regime.
- The Department of Financial Industry is in charge of the insurance industry, and since insurance companies are important in the CBTA, this department coordinates and works with insurance companies on, among other things, compulsory third party insurance for trucks and passenger vehicles crossing international borders.

#### *9.5.4.1.3 Ministry of Public Works and Transport*

The Ministry of Public Works and Transport has a major role in the CBTA. It is a member of the Government-Private Sector Forum and, more importantly, its minister is the co-chair of the working group on Energy, Infrastructure and Transport, which has a direct involvement in CBTA and its implementation. We were able to interview a representative of the government co-chair and the co-chair from the private sector of the working group, getting information and recommendations that will be discussed in a later section. Moreover, the minister is the chair of the NTTCC, the coordinating agency for the CBTA in Cambodia.

#### *9.5.4.1.4 Ministry of Agriculture, Forestry and Fisheries*

The Plant Quarantine sub-decree of 2001 gives a mandate to the Plant Protection and Phyto-Sanitary Office of the Department of Agronomy of the Ministry of Agriculture, Forestry and Fisheries. The Department of Animal Health and Production, through a sub-decree on Sanitary Inspection of Animals and Animal Products in 2002, is mandated to implement sanitary control of animals and animal products. In this role, the ministry has its agents at border checkpoints alongside the Customs and Excise Department and CamControl.

#### *9.5.4.1.5 Ministry of Interior*

The Department of Immigration of the Ministry of Interior is one of the border checkpoint agencies. Its core function is contributing to Cambodia's economic and social well-being by facilitating residence and temporary entry (including seven types of visa), while ensuring that those who enter respect immigration policies and regulations. At the checkpoint, this agency is usually known as the Immigration Police. Regarding bilateral agreements between Cambodia and Vietnam, some transport operators have strongly requested improved cooperation and efficient processing of visas for truck and bus drivers at crossing points.

#### *9.5.4.1.6 Ministry of Health*

The scope of the CBTA includes health and agriculture (quarantine and Sanitary and Phytosanitary). On health issues such as control of communicable diseases, the Ministry of Health has a related role. Representatives from the ministry have been invited to attend many CBTA and bilateral agreement meetings, including GMS senior official meetings and GMS-CBTA meetings of the subcommittee on transport, customs, immigration and health inspection.

#### *9.5.4.1.7 Sub-national Government:*

Provinces and districts located near border checkpoints are strategic for cross-border trade and people. Authorities at these levels of government, despite not being the most important players in the CBTA, are definitely affected by trade and transport facilitation and related issues. For the initiatives and projects related to CBTA, including bilateral agreements, to be implemented successfully, there is a need for provincial and

local authorities to be aware of these so that they can provide necessary support and facilitate implementation. Provincial and local authorities' inputs and cooperation in all stages of the CBTA are necessary, but have usually been treated as unnecessary or of low priority (key informant interviews).

#### *9.5.4.1.8 GMS National Secretariat*

Under the Council for the Development of Cambodia<sup>9</sup>, Cambodia has maintained the GMS National Secretariat as the coordinator of GMS programmes in the country. The secretariat coordinates consultations and meetings between donors, international development partners and implementers in government ministries and the private sector. It has been involved in various meetings of the CBTA since its start-up.

Other related but less involved government bodies are the Ministry of Foreign Affairs and International Cooperation, the Ministry of Industry, Mines and Energy, the Ministry of Tourism, the Department of Economic Integration and ASEAN and the Ministry of Commerce's General Department of International Trade, including the Department of Bilateral Trade, the Department of Multilateral Trade, the Department of Trade Promotion and the Department of International Cooperation and the Cambodia Special Economic Zone Board (CSEZB).

#### **9.5.4.2. Private Sector and National Associations**

The wide coverage of CBTA brings more involvement from the private sector. This includes both providers and users of trade and transport services as well as brokers and agents: transport operators, banks, insurance companies, logistic companies, freight forwarders, carriers and shippers. Some of these industries form associations to gain better representation and to facilitate involvement and consultation with the government and donors.

Major private sector associations, most of which are national, involved in the CBTA are: CAMTA, CAMFFA, the Cambodia Chamber of Commerce (CCC), the International Business Club (IBC), ABC and the General Insurance Association of Cambodia. CAMTA, CAMFFA and CCC have been more involved than the rest. Specifically, they have been invited to participate, provide inputs and be consulted in GMS-CBTA meetings, including those of the ADB, the NTTCC and the Government-Private Sector Forum.

#### *9.5.4.2.1 Cambodia Trucking Association*

CAMTA represents 13 trucking companies operating in Cambodia and the region. Interviews with a representative from the association revealed that CAMTA has been invited to various GMS and ASEAN regional integration and trade facilitation meetings, both in the country and in other countries. The national meetings that CAMTA

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9 This is a one-stop service agency responsible for facilitating foreign investment. It comprises two operational boards, the Cambodia Rehabilitation and Development Board and the Cambodia Investment Board.

participates in include the main consultative meetings— the NTTCC and the G-PSF. Before each meeting that CAMTA attends, the association holds internal meetings to gain members' inputs and consensus. Issues and recommendations that CAMTA has raised with the government have had a 60 percent positive response, which CAMTA considers a compromise between the private sector and the government.

#### *9.5.4.2.2 Cambodia Freight Forwarders Association*

Established in March 2004, CAMFFA is a professional institution formed by 17 public and private companies (some members are DHL Express, Kampuchea Shipping Agency, KAMSAP and SDV Logistics Cambodia) involved in international and domestic freight forwarding. Its main objectives are to promote engagement in institutions related to the industry, including customs clearance and warehousing; to support and assist members in solving problems; and to maintain dialogue and cooperate with government departments in matters of local and international freight forwarding. CAMFFA has recently been appointed as the issuing/guaranteeing organization for the CBTA in Cambodia<sup>10</sup>.

#### *9.5.4.2.3 Cambodia Chamber of Commerce*

Since its establishment in 1995, the CCC has provided a reliable venue for consultation between its members and the government. The rapid growth of business, trade and investment in the last decade has brought a gradual improvement in the services the CCC delivers to its members and the expansion of its constituency to the provinces.

Regionally, the CCC has assisted in the preparation of events and meetings of the ASEAN+1, ASEAN+3, ASEAN-Business Advisory Council, ASEAN-Chambers of Commerce and Industry, ASEAN Free Trade Area and GMS countries. The CCC has designated one of its vice-presidents to be responsible for GMS affairs (particularly working on the southern economic corridor) and related matters in the region (CCC 2009). It has also been invited to attend the GMS Business Forum and has found the forum to be beneficial. Still, according to our interview with the CCC representative, they feel that their involvement with the GMS programme is limited and would like to be more involved provided there is financial support. Furthermore, the CCC would like greater representation of the private sector in GMS initiatives and meetings.

#### *9.5.4.2.4 International Business Club*

With nearly 60 members from a diverse range of local and international companies, the IBC is a collectively strong representation of many major private industries and is also a forum for dialogue among members and between members and the government. Despite not having direct involvement in the CBTA, with membership in the G-PSF, the club carries a very strong message from private companies to the government.

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10 Article 12 of Annex 14 of CBTA requires cash deposits or bond guarantees provided to the host country customs authority.

#### *9.5.4.2.5 Association of Banks in Cambodia*

With members from both local and foreign-owned banks and branches, the ABC has 26 commercial banks, six specialized banks and the Cambodia Microfinance Association as its members. The association, currently chaired by the Canadia Bank representative, holds meetings at least once a month and more frequently when needed, supported by working committees that focus on particular issues. The ABC has participated in all of the meetings and functions of the ASEAN Bankers Association since 1998. The banking industry is relevant to CBTA because Article 12 (on security guarantor to the customs authority) of Annex 14 has a provision on cash deposits or bond guarantees (a bank guarantee issued by a bank or financial institution in the host country).

#### *9.5.4.2.6 General Insurance Association of Cambodia*

The association consists of six insurance companies, a 100 percent representation of insurance companies currently operating in the country. Despite the industry's important role in the CBTA (for example in third party motor vehicle liability insurance for vehicle admittance into another country), our interview found that the industry has not been adequately involved in GMS programmes, regional integration initiatives and the CBTA.

#### *9.5.4.2.7 The Garment Manufacturers Association in Cambodia*

GMAC was established in 1999 and has more than 260 active members. Its roles include being a pressure group, making representations to the Ministry of Commerce on issues that affect the general interests of its members, lobbying the government to improve trade facilitation and improving the industry's competitiveness in the international market. When the garment industry grew and became the country's biggest exporter, GMAC became a partner of the government with both influence and responsibilities. GMAC was asked to lead the Export Processing and Trade Facilitation working group of the G-PSF in 2000 and was later included as a representative in the Law, Tax and Good Governance working group.

### ***9.5.4.3. Local Communities and Civil Society Organisations***

While considered to have little or nothing at stake (and therefore not involved in consultation), communities living along the border and especially near checkpoints are indeed affected by the CBTA. These people's livelihoods are usually dependent on cross-border economies and trade. Economic, trade, transport and infrastructure initiatives in these areas will impact either directly or indirectly on the people and their livelihoods. Positive impacts like increased trade and traffic and increased numbers of tourists are mostly welcomed, but negative impacts like displacement and resettlement of villagers due to road construction or other infrastructure development must be taken into serious consideration and well planned to minimise or mitigate impacts. In our interviews, there was a strong recommendation for donors and the implementers of the CBTA to disseminate the initiatives and programmes to all concerned, but especially to local and provincial authorities, local communities and civil society organisations.

#### ***9.5.4.4. International Development Partners***

Various development partners and communities have financially and technically supported the CBTA's preparation and related bilateral agreements and projects. The biggest donor agency to CBTA programmes is the ADB, whose roles are also coordinator and secretariat. Other development partners include UNESCAP (e.g. supporting the GMS Business Forum), AusAID, the Japanese International Cooperation Agency and the World Bank, all of which provide specific support on bilateral projects, infrastructure development and research studies. Despite the ADB and World Bank having some common ground of programme support for the government of Cambodia, there is no clear mechanism for coordination between the two development partners to ensure more effective support and implementation.

#### **9.5.5. Institutional Arrangements for Consultation on CBTA**

Cambodian mechanisms and governmental institutional framework for government-private sector consultation for CBTA preparation and implementation (including bilateral agreements and the IICBTA) include the National Transport Facilitation Committee, in Cambodia officially known as the National Transit Transport Coordinating Committee. The NTTCC serves as a vital mechanism for consultations on transport-related agreements and issues for both the GMS and ASEAN. The NTTCC has increasingly important responsibilities as a coordinator and negotiator in the GMS programme, while it has a slightly more passive role as an implementer of ASEAN-related projects.

The NTTCC is supported by four subcommittees on transport, customs, health inspection and immigration. It is chaired by the minister of public works and transport and is supposed to have representatives from all concerned with the implementation of the CBTA. However, our research found a lack of representation in NTTCC meetings and consultations. For instance, the Cambodia Chamber of Commerce, the insurance industry and banks and other private companies claim that they have not been invited to meetings. Other interviewees expressed similar concerns over the lack of progress (e.g. Ministry of Commerce: "NTTCC has not held regular meetings and has not functioned well"), partly because of the lack of adequate private sector representation but mainly because there have not been regular meetings of this committee or its subcommittees.

The G-PSF also plays an indirect role in providing consultation in general but also to some extent in the CBTA. Major private sector representative groups such as the ABC, CCC, CAMFFA, CAMTA and IBC, who are key to the CBTA, are all active members of the forum and collectively have some significant achievements in addressing concerns and creating or amending laws and regulations to improve the business climate and investment opportunities. Given the diversity of private industries represented, the G-PSF, especially the Energy, Infrastructure and Transport working group, has proved to be a very useful and dynamic mechanism not only for improving the business climate but also for addressing issues and challenges of the IICBTA and related bilateral agreements with neighbouring countries.

Still, there were suggestions from our informants that the forum could be improved with better working groups. Specific concerns were raised regarding the working group on Energy, Infrastructure and Transport. The private stakeholders who are members of the group felt that there was not enough openness to receiving issues from the group's members and a lack of transparency in decision making. A second suggested improvement to working groups was to have a better representation from private industry. Furthermore, there are still some ambiguities between the roles of the NTTCC and G-PSF as a consultation venue for the CBTA. Due to the inactivity of the NTTCC, the G-PSF seems to play a more dynamic role in this regard.

### 9.5.6. Matrix of Stakeholder Analysis

In this analysis, it is vital to distinguish the different levels of involvement, including influence, importance, interests and impacts of those involved in CBTA. We hope this will contribute to improving consultation and involvement.

**Table 9.4: Degree of Influence, Importance, Interests and Impacts on the Genesis and Implementation of CBTA**

Category	Stages of CBTA	INFLUENCE <sup>1</sup> Power to facilitate or impede	IMPORTANCE <sup>2</sup> Actual priority given to stakeholder needs	INTEREST <sup>3</sup> Actual commitment to change	IMPACTS <sup>4</sup> Actual effect of initiatives
National government and its agencies	Genesis	High	High	High	High
	Implementation	High	High	High	High
Sub-national Government	Genesis	Low	Low	Medium	Medium
	Implementation	Low	Low	Medium	Medium
GMS National Secretariat	Genesis	Medium	Medium	High	High
	Implementation	Medium	Medium	High	High
Private sector and related associations border traders	Genesis	Low	Low	Medium	High
	Implementation	Medium	Low	Medium	Highest
Border communities	Genesis	Lowest	Lowest	Low	Medium
	Implementation	Lowest	Lowest	Low	Medium
Civil society organisations	Genesis	Low	Low	Medium	Medium
	Implementation	Lowest	Lowest	Medium	Medium
ADB international development partners	Genesis	Highest	Highest	High	High
	Implementation	Highest	Highest	High	Medium

1. Influence: the power a stakeholder has to facilitate or impede policy reform design and implementation.

2. Importance: the priority given to satisfying the needs and interests of each stakeholder.

3. Interest: the perceived level of interest/ eagerness (ranging from a commitment to the status quo to an openness to change).

4. Impact: the degree to which projects/ initiatives will have an effect on each stakeholder.

The findings from the interviews were the basis for evaluating each stakeholder's power to facilitate or impede a particular initiative (influence), the actual priority given to stakeholder its needs by those implementing the initiative (importance), the

actual commitment to change of the stakeholder (interest) and the actual effect of the initiative on the stakeholder (impacts), resulting in an analysis matrix (Table 9.4). A rating of 9-10 is classified as highest, 7-8 as high, 6-7 as medium, 4-5 as low and 1-3 as lowest.

Overall, the national government, its agencies and the ADB have a very high influence, importance and interest in both the genesis and the implementation of the CBTA. The impacts on these groups are also high. Border traders, border communities, civil society organisations and provincial and local authorities generally have a low or the lowest influence on the initiative's genesis and implementation. The ratings range from medium to high in regard to the actual commitment to change and the actual effects of the CBTA on provincial and local authorities, the private sector and local communities and border traders. In spite of this, the actual priority given to and the influence these groups have are disappointingly low (except for a few key private sector corporations and associations). This highlights the fact that these groups (with the same exception) have not been involved in existing consultative mechanisms.

**Table 9.5: Optimal Degree of Influence and Importance on the Genesis and Implementation of CBTA**

Category	Stages of CBTA	ACTUAL DEGREE		OPTIMAL DEGREE	
		INFLUENCE Power to facilitate or impede	IMPORTANCE Actual priority given to stakeholder needs	INFLUENCE Power to facilitate or impede	IMPORTANCE Actual priority given to stakeholder needs
National Government and its agencies	Genesis	High	High	Highest	Highest
	Implementation	High	High	Highest	Highest
Sub-national government	Genesis	Low	Low	Medium	Medium
	Implementation	Low	Low	Medium	Medium
GMS National Secretariat	Genesis	Medium	Medium	High	High
	Implementation	Medium	Medium	High	High
Private sector and related associations Border traders	Genesis	Low	Low	High	High
	Implementation	Medium	Low	High	High
Border communities	Genesis	Lowest	Lowest	Medium	Medium
	Implementation	Lowest	Lowest	Low-Medium	Low-Medium
Civil society organisations	Genesis	Low	Low	Medium	Medium
	Implementation	Lowest	Lowest	Medium	Medium
ADB International development partners	Genesis	Highest	Highest	High	High
	Implementation	Highest	Highest	Medium	Medium

Since the power to facilitate or impede and the actual priority given to stakeholder needs remain by and large low for a few key groups—namely the sub-national government, private sector, border traders and communities—it is vital that changes be made to improve consultation so that they can participate regularly and effectively in project formulation and implementation. Table 9.5 provides the optimal degree of influence and importance for each key stakeholder in terms of their involvement and participation.

### **9.5.7. Main Obstacles to Effective Stakeholder Consultation**

The key informant interviews identified many challenges to and constraints on effective consultation and therefore the smooth implementation of CBTA. Lack of information and public awareness, vested interests and low capacity among actors, lack of representation and the roles of the ADB and related donors were main concerns that interviewees expressed.

There was a lack of awareness and uneven information distribution of the CBTA and related initiatives and programmes, especially sub-national government, law enforcement officers (and implementers of CBTA) and the private sector. It is particularly important for domestic businesses and industries to understand the benefits of such programmes and regional integration. Furthermore, vested interests occur, first among private companies (some specific transport operators were among those raised in interviews) and then among some government entities (Customs and CamControl).

There is a lack of effective representation from key private industries, namely insurance, banking, passenger buses (whose association is yet to be formed) and the Chamber of Commerce in various consultations. This is especially the case for the GMS Business Forum. The lack of capacity and resources in the private sector, its associations and peak bodies, but more importantly in government institutions, creates difficulties, delays and uneven implementation of the CBTA.

The ADB's role as donor and driver in CBTA and broader GMS trade facilitation initiatives could be improved, with better planning and better coordination and involvement of interested groups. It was suggested that "ADB's approach for project implementation seems to be too centralised; it depends mainly on its own consultants while involving fewer than necessary others". Regional and local resources should be explored and exhausted before bringing in expensive consultants from outside the region.

Additionally, there is a syndrome of "sign first, discuss later" in the making of the CBTA, which is common in many ASEAN initiatives. There is a lack of clear and realistic timeframes and mechanisms for enforcement of the implementation of the CBTA and associated TTF initiatives, and a lack of integration of donor support for trade-related initiatives. Political will and commitment to fair and effective implementation of the CBTA are uneven among some GMS states.

## 9.6. Conclusion and Recommendations

Given Cambodia's fast growing export sector and the increasing competitiveness from globalisation and the free market economy, trade and transport facilitation, including investment in essential infrastructure, is imperative if Cambodia's emerging economy is to be sustained. When widely implemented, the CBTA will be a vital tool for GMS states to realise more efficient regional and international trade and transport.

However, before that can happen, obstacles to the implementation of the IICBTA, CBTA and related TTF initiatives need to be resolved. This can be achieved through better coordination, consultation and involvement, increased mobilisation of resources and investment in local capacity building programmes, promotion of public awareness, enhanced representation of industry by the private sector and improved roles of the ADB and donor agencies in the management of the CBTA. The detailed analytical findings and corresponding recommendations are summarised below.

### On National Coordination between Sub-regional and Regional Activities

- **Overall:**

**Finding 1:** In general, there is still low and uneven awareness of the value for Cambodia of regional and sub-regional integration in ASEAN and GMS, and knowledge of the mechanisms available to achieve this, even among some key actors in the government and private sector.

**Recommendation 1:** The government in partnership with the local private sector, research institutions and the media, should seek support from development partners for a multi-layered long-term programme of education, awareness raising and capacity building to raise awareness of the value of regional and sub-regional integration in ASEAN and the GMS, and knowledge of the mechanisms. This is particularly relevant in the light of the global and regional economic crisis and its impacts on Cambodia. This should be designed, implemented and resourced in close consultation with local actors, particularly the private sector, to ensure it is locally owned and driven.

**Finding 2:** As suggested by both government and the private sector, there is a need for more effective national intra-government coordination regarding sub-regional and regional integration programmes in the GMS and ASEAN.

**Recommendation 2:** The government should use the ASEAN and GMS summits and senior official meetings, over time, to achieve the integration of ASEAN's newer members (Cambodia, Laos, Myanmar and Vietnam) focused initiatives and GMS-related programmes.

The government should also consider establishing an agency or office solely responsible for sub-regional and regional cooperation. One model to consider could be Thailand's Neighbouring Countries Economic Development Cooperation Agency, which aims to foster economic-development partnerships with neighbouring countries.

- **For Trade and Transport Facilitation in Particular**

**Finding 3:** Financial and technical development assistance for trade and transport facilitation currently comes from a range of partners such as the World Bank, ADB and ASEAN, with weak coordination and integration, and poor donor harmonisation and coordination, with negative impacts on effective stakeholder consultation and participation.

**Recommendation 3:** Development partners providing assistance for sub-regional and regional integration programmes, including TTF, should work closely with government agencies to improve harmonisation and coordination to facilitate consultation and participation, linked clearly to the government's National Strategic Development Plan and the Trade Integrated Strategy.

#### **On National Inter-Agency Coordination of GMS Activities**

- **Overall:**

**Finding 4:** While the existing GMS National Secretariat, within the CDC, is an effective coordination mechanism, its role would be even more effective with additional human, financial and technical resources, and closer linkages to ASEAN and other regional integration mechanisms.

**Recommendation 4:** The national coordination mechanism for ASEAN and GMS integration proposed in recommendation 2 would assume a continuing role for a better resourced GMS National Secretariat.

- **For Trade and Transport Facilitation (CBTA) in Particular:**

**Finding 5:** As suggested by interviewees in both the government and the private sector, in relation to TTF in particular, too much authority is concentrated in a few "overstretched" ministries and agencies with too limited capacity; some of the agencies responsible for implementation have strong vested interests (e.g. access to informal fees) and are resistant to change; and sub-national government does not have adequate information to participate effectively in consultation.

**Recommendation 5:** The further implementation of CBTA and related future TTF initiatives should have the following features:

- more assertive ownership and control by the government and its agencies, in consultation with key stakeholders such as the private sector, of the consultation processes, utilisation of appropriate technical assistance, programme design, local capacity development and the planning, sequencing and timetable for implementation;
- more effective, genuine and systematic consultation with national stakeholders interests by the ADB and other development partners in planning, design and implementation;

- sequencing and timing of consultation and capacity development, to be consistent in support for the different stages of each programme, and to take into account the varied institutional strengths and weaknesses of agencies.
- government dissemination of information on regional trade and transport projects to local and provincial officials along the borders of neighbouring countries and consultative meetings with officials in border provinces.

**On the national-level consultation, mechanisms and coordination between government and other stakeholder groups for GMS Activities/ On whether particular stakeholder groups are adequately represented and/or consulted at national-subregional-regional levels.**

- **Overall:**

**Finding 6:** There is very uneven and often weak engagement in national consultation mechanisms and broader GMS activities by peak bodies and by particular sectors such as insurance and banking, even though the G-PSF is acknowledged as an effective national consultative mechanism on private sector issues. Interviewees felt that this was due to poor resources, poor information on the value and opportunities for participation, and domination of such opportunities by a few large corporations and business leaders.

**Recommendation 6:** The government and ADB should involve and resource the involvement of a broader range of participants, including border traders, border communities, local authorities and insurance and banking bodies, in its GMS private sector activities and in particular in consultation on TTF and private sector development.

- **For trade and transport facilitation (CBTA) in particular:**

**Finding 7:** The National Transit Transport Coordinating Committee lacks effective representation, particularly from the private sector, and meets too infrequently to resolve issues related to CBTA implementation in a timely and genuinely consultative way.

**Recommendation 7:** The NTTCC should be restructured to improve its functioning, and meetings should be held on a more regular basis involving a more representative range of the private sector and senior representatives of government agencies with decision making authority.

**Finding 8:** The “sign first and discuss later syndrome” was identified as a fundamental and very problematic factor in the design and implementation of integration initiatives, particularly in relation to the ADB. This seriously underestimates the often serious practical challenges to implementation and the fundamental local institutional and professional capacity building and strengthening needed in advance for effective implementation on an agreed timeframe.

**Recommendation 8:** The government and its key agencies involved in sub-regional initiatives, in close partnership with the private sector, need to work assertively with other GMS countries, the ADB and other development partners to address this challenge, which has significant implications for future GMS and ASEAN integration initiatives.

**Finding 9:** Strong private sector interests, particularly commercial advantage for competing businesses, were highlighted as a major constraint on consultation and cooperation in implementing the CBTA and other cross-border agreements. Private sector involvement was seen as often dominated or influenced by over-representation of a few large companies that stood to gain commercially from CBTA and other cross-border TTF arrangements.

**Recommendation 9:** TTF-CBTA initiatives and mechanisms must be designed both sub-regionally and nationally to ensure more equitable access to information on the benefits of these initiatives and to opportunities to participate in consultative mechanisms, including the NTTCC and G-PSF. Representatives from the private sector should genuinely represent the broad common interests of affected sectors and industries rather than a few influential individuals and large corporations.

**Finding 10:** There are many unresolved issues in the different policies and regulations (such as insurance, transport and traffic laws) across the GMS countries, which remain highly problematic and cause costly delays for trucks and passenger vehicles when crossing borders.

**Recommendation 10:** In consultation with the private sector, governments of the GMS countries and the ADB should work together on a more realistic and carefully sequenced timeframe to ease differences in terms and measures of standardisation, policies, rules and regulations. Enforcement of those laws and regulations should also be promoted.

**Finding 11:** In the view of many interviewees, there is uneven political will and a lack of commitment to fair and effective implementation of the CBTA among GMS members, and continuing protectionist tendencies by some. This is likely to be exacerbated by the global and regional economic crisis.

**Recommendation 11:** GMS members should utilise the GMS, ASEAN and ASEAN+3 summits and their responses to the crisis to reaffirm their commitment to regional and sub-regional integration based on free and fair trade and rejection of protectionism. The LDCs in the GMS in particular should make a strong case for ASEAN and ASEAN+3 collaboration and support in arguing for more generous and targeted international development assistance to support this, and to contribute to bridging the development gap in ASEAN and ASEAN+3.

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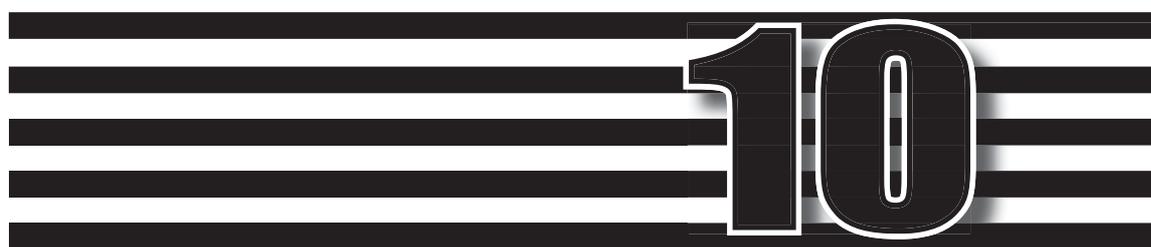
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**Farmer Participation and the Success  
of Farmer-managed Irrigation  
Systems: A Case Study of the O-treng  
Farmer Water User Community,  
Kompong Speu**

**By ROS Bandeth**

## Chapter 10

### **Farmer Participation and the Success of Farmer-managed Irrigation Systems: A Case Study of the O-treng Farmer Water User Community, Kompong Speu Province**

*By Ros Bandeth<sup>1</sup>*

#### **10.1. Introduction**

The contemporary literature on common pool resources has identified local solutions derived from community initiatives as critical in promoting sustainable and equitable natural resource management in developing countries (Agrawal & Gibson 1999). Initiated in the 1980s, the participatory irrigation management (PIM) approach is an example of these initiatives that aims to improve irrigation management to ensure the timely and equitable supply of water to farmers (Marothia 2001, 2002). This is achieved through the establishment of water users' associations (WUAs) that manage the irrigation schemes. A fundamental assumption of this approach is that farmers are capable of managing small-scale irrigation because they have local knowledge (though not necessarily an understanding of the technical aspects) of irrigation (Brown & Nooter 1992; Lam 1996). Therefore, changing irrigation from a government-managed to farmer-managed system should help improve performance while at the same time reducing the costs incurred by governments (Meinzen-Dick et al. 1997).

The PIM approach was introduced into Cambodia in 2000, called “participatory irrigation management and development”, in recognition of the need for community participation in improving irrigation systems (MoWRAM 2008). It was also a response to the limited government and donor resources available for the development of irrigation management. The goal is to let farmers take over the management of irrigation schemes in their areas in order to improve their livelihoods through increasing both crop production and income. Under this approach, farmers have been organised into farmer water user communities (FWUCs). The FWUCs set their own rules, membership characteristics and resource boundaries. The committees have full responsibility and authority to manage, repair and improve irrigation schemes. They are also responsible for the delivery of water and the collection of irrigation service fees from members to cover the costs of routine operations, maintenance and emergency repairs. The

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government was expected to rehabilitate damaged schemes before handing them over to the FWUCs and to provide technical and financial support for the first five years of the programme (*ibid.*).

Central to the establishment of FWUCs under the PIM approach is that, as farmers are organised in their districts, they participate in managing irrigation schemes. This contributes to better irrigation and then the success of the FWUCs in management. Little research has focused on what mechanisms through which local participation influences success and the reasons farmers participate in irrigation management. Such a focus could offer assistance to the government, donors and non-government organisations in improving local participation in other schemes.

This research seeks to address three questions:

1. What are the various modes of farmer participation in irrigation management?
2. How does each mode contribute to the success of the FWUC?
3. Why does the FWUC achieve each mode of farmer participation?

This paper is organised into eight sections. Section 7.2 reviews the literature on participation to identify mechanisms through which participation influences success and factors that influence participation in irrigation management. Section 7.3 briefly describes the methods of case selection, data collection and data analysis used in this study. Section 7.4 contains the case description, and Section 7.5 reports the results. Section 7.6 discusses the findings relative to the literature. Conclusions drawn from the study and their implications are presented respectively in Sections 7.7 and 7.8.

## **10.2. Literature on Participation**

Olson (1965) highlighted the importance of member participation as a driver of group success, and such participation has been defined by several authors. The best known and earliest normative typology of participation was developed by Arnstein (1969), called the “ladder of citizen participation”. This typology specified three levels of participation: non-participation, “tokenism” and “citizen power”. Another normative typology of participation is based on the work of Adnan *et al.* (1992), Hart (1992), Pretty (1994) and Satterthwaite *et al.* (1995). This typology sets out seven types of local participation in development programmes: 1) manipulative, 2) passive, 3) consultative, 4) for material incentives, 5) functional, 6) interactive and 7) self-mobilisation (Pretty 1995).

The typologies of Arnstein (1969) and Pretty (1995), in particular, described participation relative to decision making. The greater the decision making power of local people, the higher the participation they could achieve. However, these two typologies provided little information about who was participating, in what ways they participated and for whose benefit (Cornwall 2008). In the rural development literature, Cohen and Uphoff (1980) developed a framework for describing and analysing rural development participation. They suggested analysing participation relative to three dimensions:

what, who and how. The what and who dimensions were used to assess the amount, distribution and trends of participation, while the how dimension analysed the basis, form, extent and effect.

In irrigation management, participation has been defined relative to the involvement of local farmers (both leaders and members) in a variety of management activities: planning, design, operations, maintenance, rehabilitation, resource mobilisation and conflict resolution (Svendsen *et al.* 1997). Meinzen-Dick (1997) highlighted three modes of participation: through financial contributions, through direct involvement in operation and maintenance and through involvement in decision making regarding operation and maintenance of the schemes.

Local participation is considered as a primary basis for success in many rural development projects (Bowen 2007). In the rural development literature, participation is seen not only as a means to improve the efficiency of development but also as a fundamental right of collective action, empowerment, institution building and social change (Pretty 1995). In participatory irrigation management, participation is considered a key contributor to the long-term sustainability of WUAs. Meinzen-Dick and Reidinger (1995) believed that participation is important in improving water distribution between upstream and downstream users and reducing the operational and maintenance costs of irrigation to governments.

The prescriptive literature on public participation by Beierle (1999) and Creighton (2005) highlighted the importance of participation in community meetings in improving decision making, breaking down its contribution into five factors: 1) incorporating local knowledge, interests, values and assumptions into decision making; 2) building consensus and long-term agreements among resource users to provide legitimacy for the decisions and reduce controversy; 3) increasing the ease of implementation and a sense of ownership of the decision among local users; 4) improving local knowledge; and 5) developing trust with face-to-face deliberation and ensuring local understanding of the reasoning behind a decision.

A wide range of prescriptive and empirical PIM and common pool resource management studies have identified a multitude of reasons that local farmers have or have not participated in irrigation management. First of all, livelihood dependency has been highlighted as an important motivation for participation in both prescriptive and empirical studies of community-based natural resource management and PIM. Korten (1986) wrote that local people whose livelihoods depended upon resources would be motivated to manage and use them more sustainably than would distant actors. This view was supported by Pinkerton and Weistein (1995) in their study on the co-management of fisheries. Likewise, in the PIM literature, Kim and Khiev (2007) found that the lack of local participation in irrigation management in some Cambodian WUAs stemmed from the farmers' lower dependency upon irrigation during the dry season. Water supply for irrigation was often unreliable during the dry season, and because of this farmers had diversified into non-agricultural activities (*ibid.*). Since the benefits from irrigation were dependent upon a water supply that was often unreliable,

these farmers were also reluctant to participate in irrigation management (Chem & Craig 2008).

This brings into focus the second reason for farmer participation—an efficient and reliable water supply. Although not many studies have highlighted this, recent research by Maleza and Nishimura (2007) found that water inadequacy led farmers in Bohol, the Philippines, to refuse to pay irrigation fees. Several causes for the failure of local leaders to provide an efficient and reliable water supply have been specified in the literature. For example, McKay and Keremane (2006) reported that the leadership of the Mula irrigation scheme in India could not distribute sufficient water to farmers when there were droughts. Maleza and Nishimura (2007) discovered that the efficiency and reliability of the water supply they studied was influenced by the irrigation infrastructure and an imbalance between the users' demand for water and the capacity of the scheme.

A third factor shown to influence local participation was the benefits from irrigation (Maleza & Nishimura 2007). McKay and Keremane (2006) found that benefits could be in the form of enhanced food security and/or additional revenue through growing crops. Benefits need to be sufficient in order to ensure local participation. Meinzen-Dick *et al.* (1997) asserted that farmers would not participate in irrigation management when the cost of participation exceeded the benefits they derived from the scheme. Further, Maleza and Nishimura (2007) in their study in the Philippines discovered that farmers would not pay fees unless the net income from cropping was enough to cover family consumption.

Meinzen-Dick *et al.* (1997) identify market access as an important factor that helps increase benefits, especially the economic returns, from irrigation. Based on an empirical study of groundwater irrigation management, Jackson (1991) found that farmers in Western Madura, Indonesia, were more interested in irrigation management when they had markets for their dry season fruits and vegetables. Similarly, Tubpun (1986), who studied small tank irrigation in north-east Thailand, found that the successful WUAs were more likely to exist in areas where farmers could access markets for their produce.

A fourth factor that impacted farmer participation was the degree to which the rules of the scheme could be enforced. Ostrom (1990) argued that rule enforcement helped restrict illegal access to the resource and discouraged users from drawing on it in excess of their requirements. A study on WUAs in Cambodia by Thun (2008) found that where leaders had authority to enforce the rules, they were able to collect irrigation service fees. The same results for fee payment were also reported by Maleza and Nishimura (2007) in Bohol, the Philippines.

Peer pressure was the fifth factor associated with local participation, according to Levi (1988) and Ostrom (1990). Peer pressure occurred when local resource users (rather than outsiders or leaders) actively monitored and sanctioned members' use of the resource. Ostrom (1990) believed that when most members agreed to contribute to the

work, the rest would not be able to ride free because their inaction would be detected and they would typically suffer loss of favour and social disgrace. According to Ostrom (1990), individual members chose to monitor each other's contributions under three conditions: when the costs to individuals of such monitoring were low, which can occur partly as a result of having appropriate "rules in use" in the community; when individuals received personal rewards for monitoring; and when they were the ones who designed the rules. Allowing farmers to craft their own rules can lead to greater local participation in peer monitoring, rule enforcement and compliance.

A sixth factor was trust in the local leadership (Wade 1988; Lopez-Gunn 2003). Wade (1988) found that when local farmers trusted the irrigation leadership to distribute sufficient water, they would stop stealing it, making it easier to enforce the rules. Further, Maleza and Nishimura (2007) reported that farmers would not pay fees when they did not trust the leaders to collect and use the funds transparently. Pomeroy *et al.* (2001) and Pretty (2003) observed that trust takes time and effort to build and is easily broken. Meinzen-Dick *et al.* (1997) believed that as farmers gained in successful collaboration with leaders, their trust in them grew. Pomeroy *et al.* (2001) commented that trust requires good communication and open and ongoing dialogue between leaders and members in order to clarify the needs and expectations of the farmers. A study by Wade (1988) found that farmers' trust in their leaders depended upon the performance of those leaders. Trust occurred when farmers could get sufficient water or, if the water supply was inadequate, farmers received good reasons from their leaders as to why this was so. In addition, farmers trusted the leaders when they could see that their use of power was not for self-interest, but for the welfare of the community. Another empirical study by Tewari and Khanna (2005) demonstrated that trust was built when leaders shared decision making with the farmers, respected their concerns, needs and knowledge and were transparent in their management.

Local awareness of rules, rights and the importance of participation was also a major determinant of local participation. Tewari and Khanna (2005) observed that most farmer members in successful irrigation schemes were aware of their rights and of the importance of participation. As a consequence, they made an effort to maintain the irrigation scheme and engage in activities with the leaders. They also found that when farmers were well informed about the rules, they were less likely to break them because they were afraid of paying the penalties. Similarly, Maleza and Nishimura (2007) reported that farmers in Bohol did not pay fees because they did not understand the purpose of the fee or were unaware of the collection rules and changes in fees.

Farmers' awareness of rules, rights and the importance of participation is influenced by several factors. Ostrom (1999) believed that in areas where they had experience in organising themselves or being organised to perform community activities (e.g. self-help groups or women's groups), members might have learned at least the minimal skills of organisation, which would allow them to engage in mutual dependency. On the other hand, Meinzen-Dick *et al.* (1997) viewed farmers' awareness as determined by the capacity building provided by outsiders.

Besides farmers' awareness, Meinzen-Dick *et al.* (1997) believed that improvements to scheme infrastructure also led to greater farmer payment of irrigation fees. This view was supported by Perera (2006) and Thun (2008), who found that the improvement of scheme infrastructure had to be an ongoing focus for the leadership; otherwise farmers would withdraw their participation. Ostrom and Gardner (1993) also supported this finding. However, they claimed that lack of resources for regular maintenance was often a challenge for leaders of WUAs because maintaining schemes for the long term often required immediate and costly contributions from farmer members.

### 10.3. Research Methods

In this research, a single embedded case study was used to identify the mechanisms by which local participation has influenced the success of the FWUC and the reasons farmers participate in irrigation management. The approach was adopted from Merriam (1998) and Yin (2003) and comprises three phases: design, single-case data collection and within-case analysis and interpretation. As the first, an initial literature review was undertaken to develop a theoretical framework and identify criteria for the selection of the case study and the data collection protocol.

This research purposively selected the O-treng FWUC, located in Prey Nheat and Chongruk communes, Kong Pisei district, Kompong Speu province, as the subject for the case study. This FWUC was selected on three criteria: 1) the community was one of 12 pilot schemes selected by the government for participatory irrigation management in 2000 (Chandrapatya *et al.* 2007); 2) the community has a relatively high farmer participation; and 3) the community was classified as the most successful scheme in Cambodia by the Ministry of Water Resources and Meteorology in 2008. The ministry defined the community as successful because of its self-dependency in irrigation management and the degree of improvement in local livelihoods (personal communication, MoWRAM staff member, 3 October 2008).

For the second phase, data collection, multiple techniques were applied, including key informant interviews, household interviews, focus group discussions, participant observation, informal interviews and documentation and archival records. Within-case sampling obtained data from within the identified subject. Snowball and maximum variation sampling strategies were used to select samples from within the target population for key informant interviews, household interviews and group discussions.

Data analysis and interpretation involved the iterative process of summarising the audio-tape and field notes, classifying or coding the data, identifying connections and then describing any patterns in these connections (Dey 1993). Once the final model of the mechanisms was developed, it was compared to the existing literature (Eisenhardt 1989).

## 10.4. Case Description

The O-treng community is managed by a group of local leaders with farmer members from 13 villages in two communes—Chongruk and Prey Nheat. The FWUC has a history of self-organisation and has received considerable external support from the government and non-government organisations. The FWUC was formed by the government. The community is relatively homogenous in that the majority of local farmers share similar cultural and ethnic characteristics, cultivation practices, livelihood strategies, resource endowments, interests and experience in irrigation management and dependency upon farming. The majority grow rice as their main source of livelihood in the wet season and also grow crops (watermelons, wax gourds, pumpkins and rice) in the dry season.

The irrigation scheme is reservoir-based; water is sourced from flood water and catchment run-off. The scheme operates in both the wet and dry seasons and is classified as medium scale. However, it is at the lower end of this scale because it can irrigate only 300 hectares during the dry season.<sup>2</sup> Like many other schemes in Cambodia, the O-treng irrigation scheme was built during the Pol Pot regime. It is in a favourable location where flooding and storms are minimal. The O-treng FWUC is also a pilot scheme for participatory irrigation management and development, and because of this it obtained most of its authority and responsibility for irrigation management from the government. Similarly, because it is a pilot scheme, the FWUC obtains financial support as shared expenses from the government, which is unusual. More importantly, the FWUC is situated close to urban and local markets (40 km from Phnom Penh) and therefore has good access to markets for produce.

## 10.5. Case Study Results

The research found that in the O-treng FWUC, local participation by farmers in irrigation management was high because the proportion of the farmers who participated was large and their participation ranged from the provision of resources to engaging in decision making with local leaders. The farmers contributed resources in three different modes: 1) the payment of irrigation service fees, 2) the distribution of water and 3) scheme maintenance. Participation in decision making occurred through community meetings. The following sections describe the local participation in each of these areas, explain how the participation influenced the success of the FWUC and identify the factors that influenced participation.

### 10.5.1. Payment of Irrigation Service Fees

Local payment of irrigation service fees in the O-treng FWUC was high. In most years, almost all the farmers who used irrigation water were reported to have paid the fees. The exceptions were farmers who had suffered full or partial crop failure. They often

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2 Irrigation schemes in Cambodia are classified as: (1) small, covering less than 200 hectares, (2) medium, covering 200–5000 hectares and (3) large, covering more than 5000 hectares (MoWRAM 2000)

requested that payment be postponed until the next harvest. Because these farmers were in financial difficulty, the committee often agreed that they could pay a portion (one-third to one-half) of the full fee or delay payment until the following season.

The high compliance with fees payment contributed to the success of the FWUC by ensuring the availability of financial resources for the scheme. These resources helped ensure regular repair and maintenance, which impacted on the quality of the infrastructure and the timely and adequate supply of water. This increased the benefits to farmers through higher yields, which resulted in improved local livelihoods. The availability of financial resources also meant that the FWUC was less reliant on external support. In addition, a portion of the fees was used to pay the leaders for their input. This served as an incentive for them to remain involved in the governance and management of the scheme, which enhanced its self-dependency.

The study identified the high level of farmer payment of irrigation fees as attributable to six factors. First, farmers were aware of the importance of fee payment. Their awareness was determined by their experience in self-organisation and training and capacity building by local leaders and outsiders. Farmers had previously organised their own groups to manage the scheme, and fees had been collected from users to cover maintenance. From this experience, farmers had learned the importance of fees. Farmers also obtained training and capacity building from their leaders, local authorities and the Ministry of Water Resources and Meteorology about the importance of fee payment.

Second, the study found that payment of the irrigation service fees was influenced by the benefits farmers obtained from irrigation. Farmers often used the water to supplement rainwater for rice production during the wet season, which ensured optimal yields. Rice is their staple food, and the irrigation ensured food security throughout the year. In the dry season, the farmers used the water to generate revenue by growing crops such as dry season rice, watermelons, wax gourds and pumpkins. They could generate revenue because they could access markets for their produce. Although fertiliser and pesticide were expensive, farmers still made enough profit to be better off using irrigation water to grow dry season crops.

Third, the fee was low relative to the benefits. According to a group discussion in Angk Sangkream, farmers could earn up to 2 million riels per hectare from selling crops. In return, they needed to pay only 40,000 riels/ha for the irrigation fee, only 2 percent of the gross revenue generated. The farmers did not mind paying when the returns from the irrigated crops were so high.

In addition, the study revealed that the irrigation scheme provided water cheaply relative to alternative sources. Digging ponds to store flood water during the wet season for domestic use was popular. However, farmers preferred to access water from the scheme because it was less expensive. In a Chum Srok group discussion, it was commented:

*"I think that 40,000 riels per hectare is the cheapest price. Imagine if we did not take water from the community and made our own ponds; I would say we would spend more than this on petrol just to pump water from the pond to our farmland. As a matter of fact, we would not be needing to pump water only once or twice. So 40,000 riels per hectare to get water by gravity is a good deal."*

The quality of the irrigation infrastructure was the fourth reason for the high compliance with the irrigation service fee. Farmers believed that the quality of the infrastructure was critical in obtaining an adequate and timely water supply. Fees were used to ensure that the infrastructure was well maintained, and the farmers trusted the leaders to spend the fees on scheme maintenance.

*"Farmers paid fees ... because they wanted to get water for the long run and they believed that the committee would be able to maintain and repair the scheme by using the fees." (A local authority)*

*"We have to pay fees because ... the committee has gates and infrastructure to distribute water to us. The committee takes the money to maintain that infrastructure." (Group discussion in Kayiev)*

The fifth critical factor was leadership. The leaders managed the scheme in a fair and transparent manner and put the interests of the community first. The leaders also worked hard to distribute water, maintain the scheme and address farmers' problems. As a consequence, the farmer members trusted and respected their leaders.

*"They show transparency in spending money; for example, they have financial records for all the expenses, therefore making local farmers have trust in them." (An authority of Chongruk commune)*

*"Farmers participate in the community because they want leaders who help manage and distribute water to them. When it rains, farmers are not worried [about who will go to close gates at the reservoir] because they know that someone [from the committee] will take care of it." (A local leader)*

*"We do not mind paying the fees because ... the fees are used by the leaders to maintain the scheme ... we do not suspect the leaders of embezzling the money because we see the maintenance work they have done. The leaders also hired members like us to carry soil for dam repairs or to block running water." (Group discussion in Angk Sangkream)*

Finally, the sixth factor was peer pressure. Farmers did not want to be embarrassed in front of their friends or neighbours for not paying. According to one leader:

*"Farmers normally hesitate to spend money. But when they see ... other members pay the fees, farmers often agree to pay as well. Those farmers do not want to be embarrassed in front of other members or their neighbours for not paying."*

### 10.5.2. Participation in Water Distribution

Irrigation water was distributed to farmers in both the dry and wet seasons. The distribution began with the opening of the main gates and the control gates. Water was discharged into the main canals, secondary canals, tertiary canals and then onto farmland by gravity. There was a high level of farmer participation in the distribution. Most of the farmers were reported as filing requests to the committee in order to obtain water. Farmers also followed the water flow to their farmland. For farmers who were located far from the main canals, water was often released from their neighbours' property through ditches. They also monitored the distribution to avoid flooding or overflows that could destroy the crops of other farmers, damage the scheme or waste water. Some farmers, especially those located above the reservoir, were also responsible for pumping water either from canals or from the reservoir to farmland located above the water source.

Participation in water distribution contributed to the success of the FWUC through three mechanisms. First, it ensured a timely and adequate supply of water to farmers, leading to higher crop yields and thus improved local livelihoods. The local leaders could not effectively distribute water without the participation of the farmers. Water distribution not only involved following the water flow and ensuring it reached the fields but also required farmers to dig ditches, block waterways and adjust control gates. Such activities could not be done well by the leaders alone; they required a large number of farmers working together. Second, the farmers' participation ensured less flooding, overflows and wastage, and these conditions led to the efficient use of water and less damage to the scheme. The efficient use of water contributed to the adequate and timely supply, while the minimisation of damage contributed to the quality of the infrastructure, which again increased the supply of water. Third, the participation of farmers also helped reduce the input required from the leaders, allowing them to remain active in management of the scheme, which in turn enhanced the self-dependency of the FWUC.

The reasons for the high farmer participation in water distribution were three: 1) local awareness of the rules, 2) rule enforcement and 3) the value of the benefits from the scheme. Farmers participated in water distribution because they were aware of the rules. According to the rules, farmer members were required to file a request to obtain irrigation water. Once the water was released, farmers were expected to follow the water flow and ensure that water reached their land. The leaders played a supervisory role. The rules also stipulated that farmers had to ensure that water was not wasted due to flooding or overflow. If overflow or flooding led to crop failure, the farmers involved would be responsible for the costs.

Farmers were aware of the rules because they designed the rules with the help of local leaders and MoWRAM. Secondly, MoWRAM and local authorities (commune and village chiefs) provided training and capacity building to local farmers on the community rules. Finally, the leaders worked hard to raise local awareness of the rules through community meetings.

Rule enforcement impacted on participation because the committee would not distribute water unless more than three families filed a request and agreed to follow the water flows to their land. Farmers who asked for water without filing a request were often sent back to their sub-groups and told to file a request.

Finally, farmers wanted water to reach their land as soon as possible to ensure high crop yields and an early harvest. If they could harvest their crops earlier than other farmers in the commune, they could receive a higher price. It also meant that they could sow their next crops earlier than other farmers, providing further advantages.

### **10.5.3. Participation in Maintenance**

A third area of local participation in irrigation management identified was maintenance. Participation in maintenance required farmers to report damage and contribute labour and/or resources to maintain the infrastructure. Most farmers in the FWUC participated in reporting damage. They also contributed labour to maintain both the headwork (reservoir, dam and main gates) and the canals through which they sourced water. The leaders reported that participation of farmers in maintenance depended upon the extent of needed work. Farmers were required to participate fully in small-scale activities that required limited skills, such as sowing grass or planting trees, filling holes, digging small ditches, clearing sub-canals or installing small water pipes. Each family was asked to provide at least one member with tools such as hoes or spades. For more specialised work, the leaders paid farmers with specialist skills. Farmers were also paid to undertake maintenance when labour was in short supply, when farmers were busy planting or harvesting their crops. Apart from labour, the study found that farmers were also willing to contribute money on top of the irrigation fees to the maintenance of the canal or infrastructure in their area.

Local participation in maintenance contributed to the success of the FWUC through enhancing the management. It helped reduce the monitoring and patrolling required from leaders, allowing them to remain actively involved in management. Furthermore, farmers' reporting damage and contributing labour or cash led to effective maintenance, contributing to the quality of the infrastructure and a reduction in damage. The improved infrastructure then contributed to the payment of fees and the timely and adequate supply of water. This improved crop yields and local livelihoods. Minimising damage to the scheme reduced maintenance costs and the community's reliance on external support.

At first glance, it appeared that participation in maintenance was determined by the community rules, which required farmer members to help. If they failed to do this, they could lose their membership or be fined. However, in reality this punishment was not used. The primary reason farmers participated in maintenance was their awareness of its importance in ensuring water for their farming. Farmers knew that if they did not maintain their own sub-canals, they would not be able to irrigate their land. Moreover,

if they did not contribute to maintaining the dam, it was likely that the reservoir would not be able to store as much water, reducing the availability of water.

Participation in maintenance was also influenced by the leadership. Farmers were more likely to participate in activities when the leaders worked alongside them. The farmers respected leaders who “got their hands dirty” taking part in the work. For example, a village chief said, “Farmers need leaders to do work”. The high participation in maintenance was also related to the leaders being good at mobilising the farmers. To ensure a good turnout, the leaders organised the maintenance work such that the time required was relatively short and such activities were infrequent. The fact that the majority of leaders were village chiefs also helped the FWUC to gain high participation from members. Village chiefs and deputies have more authority to mobilise farmers.

#### **10.5.4. Participation in Community Meetings**

FWUC meetings were organised either separately in each village or for the entire FWUC. Four major meetings were organised each year. The first was held before farmers started growing crops, to discuss the areas to be irrigated. The second was before the crops were harvested, to assess the production of individual households. The third was scheduled after farmers sold their produce, to inform farmers of the days for fee collection in their villages. The fourth was organised after the fee collection was finished to announce the gross fees collected, related expenses and the net revenue deposited in the bank. Other meetings were organised by the leaders to inform farmers of incidents in the FWUC (e.g. damage), to share information about training or activities conducted by the leaders or to discuss issues related to maintenance or changes in community rules.

The study identified local participation in the FWUC meetings in two categories: attendance and participation in decision making. Local attendance was high. The majority of leaders said that 60–70 percent of farmers came to meetings. However, the researcher noticed that most of the participants were women who attended because their husbands were often busy working. This was not a problem because both men and women engaged in farming. Participation in decision making in meetings was also high.

Participation in meetings affected the FWUC’s success through several mechanisms. First, attendance ensured that leaders could inform, educate or share information with farmers, hence increasing local awareness of the rules and irrigation management and thus optimising participation in the payment of fees, water distribution and maintenance.

Second, participation in decision making allowed the leaders to incorporate local needs and preferences into their decisions. Because farmers were involved in the decision making, they took ownership of the decisions and were satisfied with the outcome and hence more likely to participate in the activities of the scheme.

Third, two-way information flows in which leaders reported on funds and expenses while farmers were able to ask questions helped foster transparency and then trust between leaders and farmers, supporting more fee payment.

Fourth, involving farmers in community meetings to discuss water allocation allowed farmers from upstream and downstream areas to meet face to face and negotiate with each other. This fostered a greater understanding of allocation issues at different locations within the scheme and led to fewer conflicts over water and higher local participation.

Participation in community meetings was determined by factors including workload, leadership capacity, authority and the perceived importance of the meetings. Farmers found it difficult to attend during the planting and harvesting periods. Some farmers had supplementary jobs, which made it difficult for them to attend. To overcome these problems, the leaders organised meetings during periods when the farm workload was low, and also allowed other family members, including wives or children above 18 years, to attend and voice their opinions.

Farmers attended meetings in part due to the mobilising skills of the leaders. The leaders normally informed the farmers a few days before the meetings, set the meetings at a convenient time (usually after lunch) and were patient with farmers who were late. Farmers also attended community meetings because of the authority of the local leaders. The leaders at the O-treng FWUC held authority firstly through the community constitution and secondly because of farmers' respect for their attitudes, knowledge and skills. More importantly, the authority to mobilise farmers also came from the leaders' positions as village chiefs. Field observations suggested that these leaders used their authority as chiefs, rather than as community leaders, to gather farmers to meetings.

The perceived importance of the meeting was a fourth reason for attendance. This related to potential benefits from the information provided or the decision made. For example, farmers from Chum Srok and Chhuk Sa villages said that they were often interested in meetings that would allow them to make a request or initiate discussions about cropping techniques, use of fertiliser or scheme maintenance. Such discussions were normally beneficial to the participants.

It was found that rule enforcement did not have any effect on the attendance at meetings. Community rules existed that farmers would be penalised if they failed to attend, but these rules were not enforced.

Attendance was of limited use unless farmers shared information or made decisions with the leadership during meetings. In the O-treng FWUC, farmers were observed to participate in decision making and provide feedback on a range of issues. This was influenced by three factors: awareness of rights, leadership and the importance of the issue. Farmers in the O-treng FWUC were aware of their rights because they had a history of self-organisation, and they had training and capacity building provided

by the ministry, local authorities and local leaders. Secondly, the leaders sought engagement and feedback from the farmers and believed that this was an important responsibility. Farmers were more likely to provide feedback when they realised that their ideas were being taken seriously. Finally, farmers were more likely to participate if they perceived the issues to be important. Important issues were those likely to impact on their livelihoods.

## **10.6. Discussion**

The research found that farmer participation could be usefully separated into four different modes: payment of irrigation service fees, participation in water distribution, maintenance and participation in community meetings. The research identified different mechanisms through which each mode of participation influenced the success of the FWUC. Payment of fees ensured financial resources for regular maintenance and repairs, which led to improved infrastructure. Financial resources also enabled the community to be less reliant on the government, so this reduced the costs to the government. Further, the financial resources were important for paying local leaders of the scheme. No other authors have identified this range of mechanisms. However, Meinzen-Dick and Reidinger (1995) highlighted the importance of local participation in reducing the operational and maintenance costs of irrigation to the government.

In water distribution, participation by farmers impacted on the success of the FWUC in three ways. First, it ensured the timely and adequate supply of water to farmers for growing crops, which led to improvement in local livelihoods. Second, it reduced the likelihood of flooding and overflows, hence ensuring the quality of the scheme infrastructure. Third, it reduced the labour input required from leaders, and this helped retain leadership capacity within the FWUC, ensuring the self-dependency of the scheme. No other scholars have highlighted this range of mechanisms in the literature.

Local participation in maintenance reduced the input required from leaders, allowing them to remain actively involved in the FWUC. It also ensured effective maintenance, which led to improved infrastructure for supply of water and improvement of livelihoods. This range of mechanisms is not previously described in the literature.

In the research, local participation in community meetings was usefully separated into attendance and participation in decision making. It was found that attendance was important to ensure that farmers were aware of the issues associated with irrigation management. However, it was the involvement of farmers in decision making that critically influenced the success of the FWUC. The results confirmed the prescriptive work of Beierle (1999) and Creighton (2005) that participation in decision making allowed leaders to incorporate local needs and preferences into their decisions, which then led to a sense of ownership and local satisfaction with the outcome. Participation in decision making also fostered transparency and then trust between the leaders and farmers, and improved their understanding of the water distribution issues faced by farmers from different locations.

The research found that different modes of participation were influenced by different factors. Payment of irrigation fees was mainly influenced by 1) the quality of irrigation infrastructure, 2) the benefits from the irrigation scheme, 3) the cost of fees relative to the benefits and the cost of alternative water sources, 4) farmers' trust in leadership, 5) farmers' awareness of the importance of fee payment and 6) peer pressure. In contrast to Maleza and Nishimura (2007) and Thun (2008), it was found that rule enforcement did not influence fee payment.

The quality of the infrastructure influenced fee payment because it ensured efficient and reliable water supply. Similar findings were also reported by Maleza and Nishimura (2007) in an irrigation scheme in the Philippines. The case study also found that because farmers obtained considerable benefits, they agreed to pay irrigation fees, as found by Maleza and Nishimura (2007). However, this was partly because local farmers also relied on those benefits for their livelihoods, as proposed by Korten (1986). Farmers also access markets for their crops, allowing them to generate revenue above food security. This finding supported the view of Meinzen-Dick *et al.* (1997), who believe that market access increases the economic returns from irrigation. Because farmers made enough profit from growing crops, they were motivated to pay irrigation fees. This was in line with the finding of Jackson (1991) that farmers in Western Madura were more interested in irrigation management when they had markets for their dry season crops.

The farmers also paid fees because the cost was low relative to the benefits they obtained and to alternative sources of water. According to Meinzen-Dick *et al.* (1997), farmers would not participate in irrigation management when the cost exceeded the benefits, while Maleza and Nishimura (2007) argued that farmers would not pay fees unless the net income was enough to cover family consumption.

Farmers also agreed to pay fees because they trusted the leadership to manage the scheme in a fair and transparent manner, which was in line with the finding of Maleza and Nishimura (2007). This research also found that farmers trusted leadership that worked hard to distribute water to farmers, as reported by Wade (1988). Farmers also trusted leaders when the leaders put the interests of the community first, maintained the scheme and addressed farmers' problems effectively.

Farmers also paid the fees because they were aware of their importance. This result was consistent with the work of Maleza and Nishimura (2007), who found that farmers in Bohol did not pay fees because they did not understand the purpose or were unaware of fee collection rules. This also supported the view of Tewari and Khanna (2005), who observed that most farmer members of successful irrigation schemes were aware of their rights and the importance of participation. Farmers' awareness was determined by their experience in self-organisation, as suggested by Ostrom (1999), and training and capacity building through external support, as mentioned by Meinzen-Dick *et al.* (1997).

The farmers also paid fees because of peer pressure, as reported by Levi (1988) and Ostrom (1990), who stated that peer pressure influenced local participation. Farmers did not want to be embarrassed in front of their neighbours. This supported the view of Ostrom (1990), who believed that when the majority of farmers decided to participate in the community, other farmers would not be able to free-ride because their performance would be detected and they would suffer social disgrace.

The study found that participation in water distribution was influenced by 1) the benefits, 2) rule enforcement and 3) awareness of the rules. Little has been written about the factors that influence participation in water distribution. It was found that farmers were willing to participate in water distribution when it ensured sufficient supply to their land for high crop yields and early harvest. Enforcement was also critical to avoid anarchy and prevent farmers from obtaining water in excess of their requirements. This work confirmed Ostrom's (1990) view that rule enforcement restricts illegal access to resources and discourages local users from exploiting resources. Similarly to fee payment, participation in water distribution was also influenced by farmers' awareness of the rules.

The study found that participation in maintenance was mainly determined by leadership capacity and awareness of the importance of maintenance. Farmers were more likely to participate if the leaders worked alongside them and had the skills and authority to mobilise them. Local awareness of the importance of maintenance was also important. However, the research found that this participation was not influenced by rule enforcement.

The study highlighted four factors that influenced attendance at community meetings. First was the leaders' authority and skills to mobilise farmers. Second was the workload of farmers. Third was holding meetings when the farmers' workload was low or allowing farmers' wives and older children to attend the meetings in their stead. Fourth was farmers' perceptions of the importance of the meetings. Rule enforcement did not influence attendance in this case study.

Participation in decision making was mainly determined by leadership capacity, farmers' awareness of their rights and the perceived importance of issues. Because leaders sought engagement and feedback, the farmers were interested in providing it. Farmers are also aware of their rights to participate in decision making because of the history of self-organisation, as suggested by Ostrom (1999), and training and capacity building, as highlighted by Meinzen-Dick *et al.* (1997).

## **10.7. Conclusions**

There have been efforts to implement farmer-managed irrigation systems through farmer water user communities. This research confirmed that the success of the FWUC required farmer participation, which was found in four different modes: payment of irrigation service fees, participation in water distribution, maintenance and participation in community meetings.

Farmer participation provided resources and information to support leaders to manage the scheme and improved the quality of infrastructure. Payment of irrigation fees ensured the availability of financial resources for regular maintenance and repairs. Participation in water distribution provided labour and information to ensure the timely and adequate supply of water and reduced the labour input required from leaders. Participation in maintenance contributed labour and information to reduce costs and preserve infrastructure. Farmer participation in FWUC meetings provided information to ensure effective decision making, a sense of ownership of the scheme, transparency, satisfaction and trust between the leaders and farmers.

Many factors influenced participation. Farmers' awareness of rights, rules and the importance of participation influenced every mode, while rule enforcement influenced participation in water distribution, but not in fee payment, maintenance or community meetings. Benefits from irrigation were important in ensuring fee payment and participation in water distribution, but not in maintenance and community meetings. Participation in maintenance and community meetings was very dependent upon leadership.

Benefits from irrigation should exceed the costs of participation in order to ensure farmer participation. This means that irrigation fees should be low relative to the benefits and to alternative sources of water. Further, farmers who suffer financial difficulty due to crop failure should be allowed to pay only a portion of the full fee.

Payment of fees also required trust between leaders and farmers. This is a result of the attitudes, knowledge and skills of the leaders, and the nature of decision making. When the leaders were able to manage the scheme in a fair and transparent manner, put the interests of the FWUC first, work hard, maintain the scheme and address farmers' problems effectively, farmers trusted the leaders. Trust was also built if the leaders were able to distribute water to farmers adequately and on time.

There is also a need for improved infrastructure to ensure farmer participation by ensuring adequate and timely water. This was achieved when the community obtained support from the government, NGOs and local authorities to rehabilitate and maintain the scheme. External support was also important in ensuring good leadership, enhancing local awareness of rules, rights and the importance of participation and strengthening rule enforcement. Farmer participation was enhanced when the FWUC obtained support from the government, NGOs and local authorities.

Furthermore, promoting participation requires a focus on farmer characteristics. In a community where farmers had experience in self-organisation to manage irrigation and relied on irrigation for livelihoods, promoting participation was less difficult because farmers tended to cooperate. Farmers were also interested in irrigation management when they had markets for their produce.

## 10.8. Implications

The findings of this research have implications for the government, local authorities, non-government organisations, donors and local leaders.

To ensure farmer participation, leaders should make sure that farmers obtain an adequate and timely supply of water. When farmers obtain this, it motivates them to pay fees and participate in water distribution.

The equitable and timely supply of water depends on the quality of the scheme. It is recommended that the government, NGOs, donors and local authorities provide extensive support for rehabilitation. The quality should be of a high standard to make sure that it lasts a long time and has low maintenance costs.

The government and local authorities should also help enforce community rules and enhance leadership of the communities. Good leadership can lead to trust between the leaders and farmers, which then leads to farmer participation. Leadership selection is critical. The ministry, NGOs and local authorities have to spend considerable time facilitating the selection and allow farmers to select their own leaders. Leadership selection should focus on the right attitudes, knowledge and skills. The focus should be on finding leaders who can manage the scheme in a fair and transparent manner, put the interests of the community first, work hard, maintain the scheme and address farmers' problems effectively. There should be continuous capacity building after the selection.

The government and local authorities should help raise local awareness of rights, rules and the importance of participation in irrigation management. This research found local awareness important in ensuring farmer participation in every mode of participation.

Maintaining a high value of benefits from irrigation is also important in ensuring farmer participation. It is recommended that irrigation fees be set in accordance with the benefits from irrigation and the costs of alternative sources of water. This also means that leaders should allow farmers to pay a portion of the full fees when farmers suffer crop failure. The government and NGOs should help farmers to get access to markets.

To ensure farmer participation in maintenance and community meetings, leaders should work alongside farmers and have the skills to mobilise them. Leaders should organise maintenance work or community meetings that require not much time from farmers and when the farm workload is low. Leaders should make maintenance work less frequent for individual farmers. Leaders should also inform farmers of meetings a few days in advance and organise them at a time convenient for the farmers. Labour hiring for maintenance should also be applied in case of emergency—for example, when labour is in short supply or there is a need for specialist skills.

Authority is also critical to farmer participation in community meetings, and this requires support from local authorities. Holding other positions, for example as village chiefs or deputies, also provides leaders with authority. Therefore, the selection of community leaders should focus in part on finding those who hold other positions in communities.

The research suggested that the government and NGOs should take into account the characteristics of farmers within irrigation schemes. Farmers are more likely to participate in irrigation management if they are dependent upon the scheme for their livelihoods, and if they have experience in self-organisation of irrigation management.

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