

# Cambodia Development Watch

Year 7 Issue 1 - January 2011

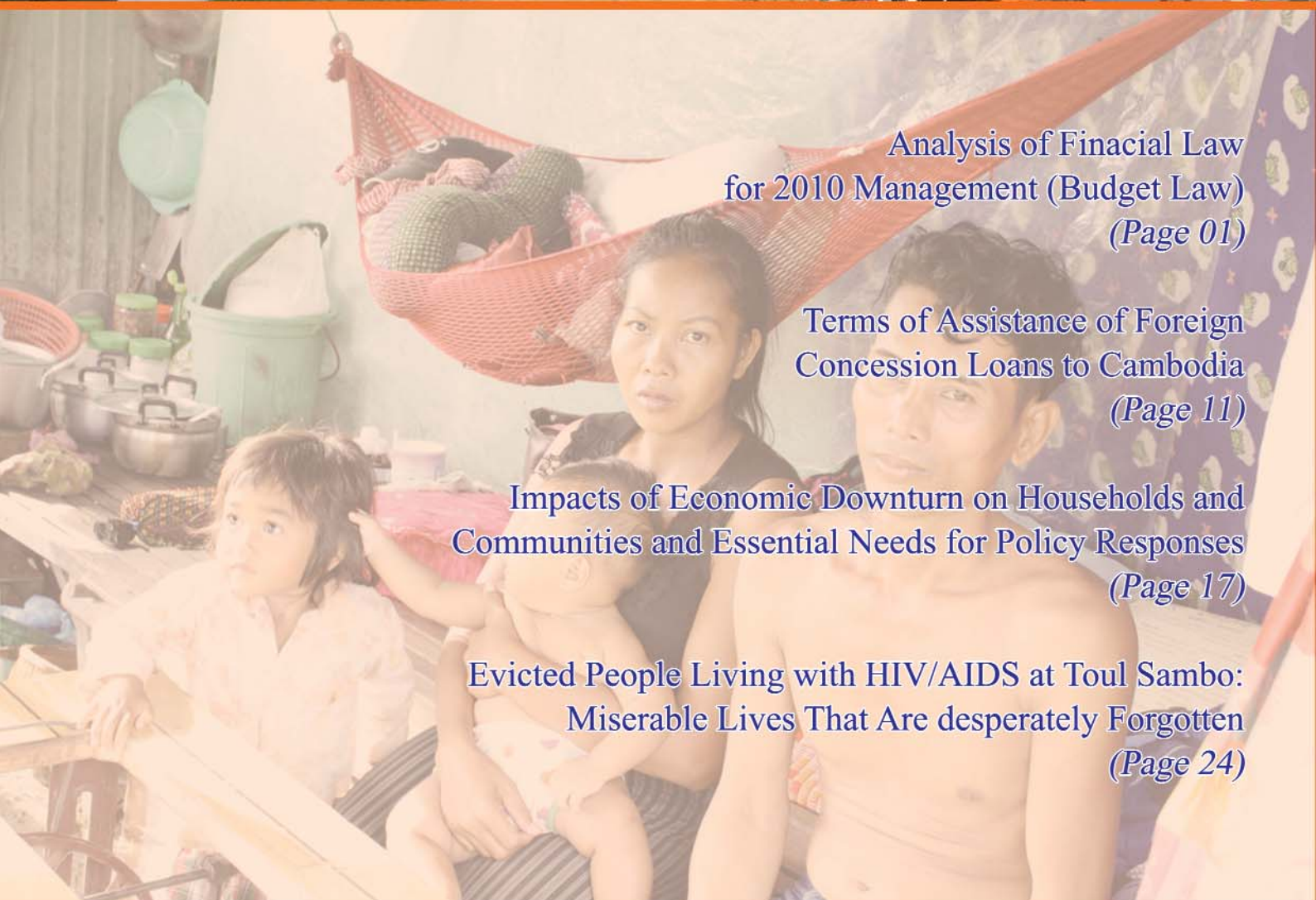


Analysis of Financial Law  
for 2010 Management (Budget Law)  
(Page 01)

Terms of Assistance of Foreign  
Concession Loans to Cambodia  
(Page 11)

Impacts of Economic Downturn on Households and  
Communities and Essential Needs for Policy Responses  
(Page 17)

Evicted People Living with HIV/AIDS at Toul Sambo:  
Miserable Lives That Are desperately Forgotten  
(Page 24)



វេទិកាសម្រាប់កម្មវិធីសង្គមស៊ីវិល  
*The NGO Forum on Cambodia*

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## **Cambodia Development Watch**

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## FOREWORD

The NGO Forum on Cambodia (NGO Forum) is made up of local and international non-governmental organizations grounded in their experience of humanitarian and development assistance to Cambodia. The NGO Forum exists for information sharing, debate and advocacy on priority issues affecting Cambodia's development. The NGO Forum has an important role to highlight the impact of development processes and economic, social and political changes on Cambodia.

Cambodia Development Watch (CDW) is produced by the Development Policy Project of The NGO Forum on Cambodia. It aims to highlight Civil Society Organizations (CSOs) perspectives on: i) Government development policies; ii) the implementation of those policies; iii) to share information and iv) stimulate debate among the public, students, civil society organizations, policy makers, and development partners on how the implementation of various development policies and programs contribute to poverty reduction and development in Cambodia.

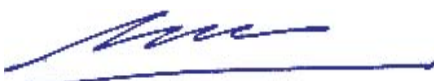
This issue of the Cambodia Development Watch was made possible with articles contributed by: Mr. Ham Hak, Publication and Communication Manager of MEDiCAM (Evicted People Living with HIV/AIDs at Toul Sambo: Miserable Lives That Are desperately Forgotten) and the staffs of the NGO Forum including Mr. Leang Rathmana (Terms of Assistance of Foreign Concession Loans to Cambodia); Ms. Chan Sokyeng (Impact of Economic Downturn on Households and Communities and Essential Needs for Policy Response), Mr. Va Sothy and Mr. Chea Kim Song (Analysis of Financial Law for 2010 Management "Budget Law").

Acknowledgements are also extended to other staffs of the NGO Forum including Mr. Kham Vanda, Development Policy Project Officer and Mr. Chea Kim Song, Manager of Development Issues Programme for their coordination and efforts to ensure this publication, Mr. Kham Syngoun, Deputy Executive Director for administering the overall content of articles provided and the printing process of this publication and Mr. Phourn Yu, Information and Publication Officer in charge of designing the layout of this publication.

Last but not least, this publication would not be made possible without support from the donors of the NGO Forum for their regular production of the CDW.

We welcome constructive comments to improve future editions of the CDW. We hope that the content and recommendations raised in each article will serve as significant inputs in constructive manner for policy consideration.

Mr. Chhith Sam Ath



Executive Director  
The NGO Forum on Cambodia

## Analysis of Financial Law for 2010 Management<sup>1</sup> (Budget Law)

The NGO Forum on Cambodia started its budget work in 2006 with the intention to stimulate debate among or indirectly involved in the National Budget, including government officials, members of parliament, media professionals, university lecturers and students, NGO staff, and the Cambodian public. This analysis was made and presented to members of parliament and senate at the workshop which was organized by the NGO Forum on Cambodia in November 2009, a few days before adoption of 2010 budget law by the National Assembly.

### Summary

The 2010 Budget Law shows that the Royal Government of Cambodia (RGC) expects to receive nearly two billion US dollars during the course of the year. Spending this revenue collected from taxes, fees and fines paid by citizens and companies, as well as the grants and loans from development partners, is the RGC most potent instrument to achieve the goals and objectives outlined in the Rectangular Strategy phase II and the National Strategic Development Plan (NSDP).

The 2010 Budget Law has to respond to many challenges. While the food prices that started to rise in 2008 continue to be high, many families saw their income reduced as a result of job-losses and under-employment in the construction, garment, and tourism sectors. Recent research by the Cambodian Economic Association shows that recent gains in poverty reduction are being reversed as many rural households are facing food insecurity, reducing health expenses and taking loans to cover their health expenses, daily consumption, and the repayment of old debts. In turn, the increased indebtedness makes these families vulnerable in the near future as they have little opportunity to pay off these debts.

### Positive developments in the 2010 Budget Law are:

- A significant increase in allocations to agriculture and rural development, which raises hopes for further improvements in maintenance and expansion of rural infrastructure, such as roads, water supply and irrigation needed for better access to markets and higher yields.
- An increase in the tax rate on luxury cars and the introduction of a 0.1 percent tax on properties will increase RGC revenues especially for the benefits of sub-national administration budget. The 0.1 property tax on land, houses, buildings and other construction projects is especially expected to promote productive investment by discouraging the holding of unused land for speculation.

### Issues for Consideration in 2010 Budget Implementation and 2011 Budget Allocation:

- The allocations for the recurrent budgets of the Ministries of Education, Youth & Sports, as well as Labor and Vocational Training, are below average and should be higher in the next year budget given the need to improve the quality of education,
- A similar concern is raised for the current allocation to the Ministry of Agriculture, Forestry and Fisheries as there is a real need to improve agriculture extension services and agricultural research & development.

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<sup>1</sup> Due to the delay in publishing the Cambodia Development Watch, some of the points raised in the analysis were updated to keep it valid for consideration by relevant stakeholders.

According to the Rectangular Strategy phase II, the Priority Mission Groups (PMGs) and Merit Based Pay Initiative (MBPI) incentive schemes are important to deepen nationwide reforms. The suspension of the PMGs and the MBPI, announced in the Explanatory Note to the Draft Budget Law, may have a negative impact on the progress of reform agenda of the RGC<sup>2</sup>.

The information and suggestions on sector budget allocation were also provided by key NGOs working in the sector of Health, Education and Decentralization & Deconcentration which include MEDiCAM, NEP and CCSP.

### Introduction: the 2010 Budget Law Needs to Respond to Many Challenges

The National Budget Law is government's most important instrument to achieve economic growth and poverty reduction. Both 2008 and 2009 have been especially difficult years for many people, in particular the poor and vulnerable communities.

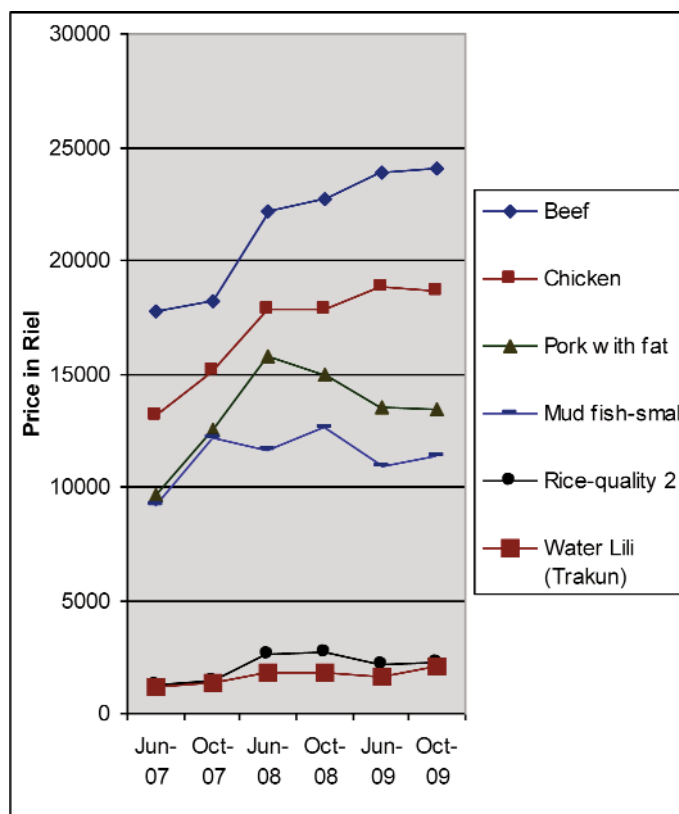
The food crisis that started in early 2008 had a negative effect on the gains made in poverty reduction and as can be seen in Figure 1, most prices continue to be high, making life especially difficult for the poor who spend 83 per cent of their income on food and beverages.

During a time when many of Cambodia's youth are entering the job-market, the financial crisis that followed in late 2008 caused many job losses, especially in construction and the garment industry<sup>3</sup>, and has led to a significant reduction in income for many families. In addition, farmers of rubber, cassava, soy bean, and maize were hard hit due to high input prices during the planting season and a drop in the international price at harvest time.

As traditional coping mechanisms (selling labor, migration) are not available due to the crisis, recent research by the Cambodian Economic Association shows that gains made in poverty reduction are being reversed as many rural households are becoming food-insecure, reducing health expenses and taking loans to cover health expenses, daily consumption, and the repayment of old debts. This increased indebtedness makes these families vulnerable in the near future as they have little opportunity to pay off these new debts.

Through the National Budget, including development aid, the Royal Government of Cambodia (RGC) has to prioritize the needs of the most vulnerable and support their efforts to recover from the crisis in 2010. Important elements for this recovery include the provision of social safety nets, affordable health

Figure 1: Selected Goods 2007-2009, Riel per Kg



Source: National Institute of Statistics (NIS), 2009

<sup>2</sup> As of October 2010, the RGC in coordination with the Development Partners introduced a new incentive scheme that would replace the two previous schemes, ensuring effective work performance of civil servants who had been working actively on implementation of the key reform programmes. The new incentive scheme was called 'Priority Operation Cost-POC' that defines clearly the salary scale for civil servants working under this scheme.

<sup>3</sup> According to UNCT, "The Global Economic Downturn: Opportunity or Crisis", (Nov. 2009), 63,000 jobs were lost in the garment industry.

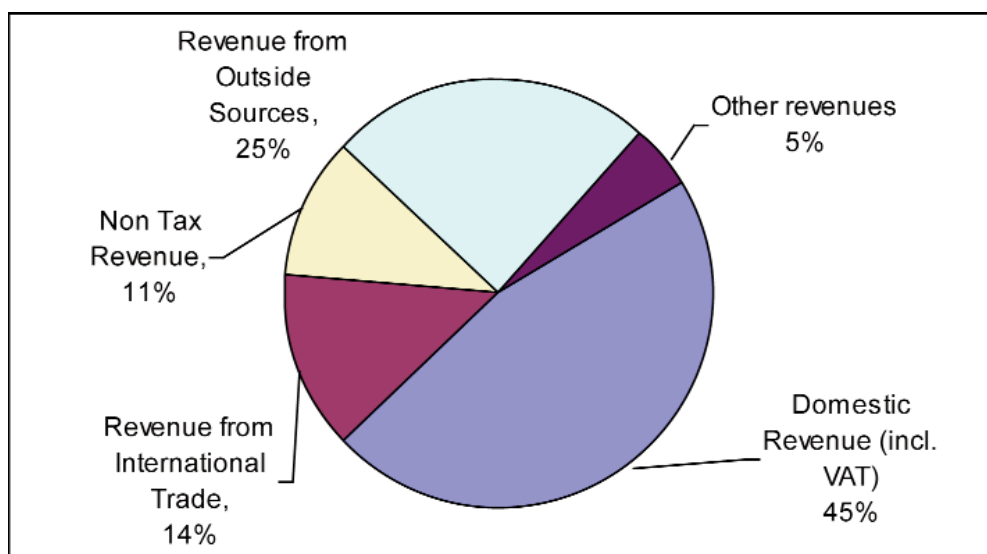
services, keeping children and youth in school, investment in agriculture and rural developments, and continued government reforms. The analyses of the 2010 Budget Law figures below, and the suggestions made for the plenary session of the National Assembly Debate on the draft budget law on Monday, November 30th, 2009 were made with the difficulties faced by the poor and vulnerable communities in mind.

## Revenues

The 2010 Budget Law is the Government's single most important tool to achieve its vision outlined in the Rectangular Strategy Phase II and the National Strategic Development Plan. For the 2010 fiscal year, the RGC expects to receive US\$ 1,976.8 Million during the course of the year which is a 12 percent increase compared to the expected revenues in the 2009 Budget Law.

The majority of the revenues of the 2010 National Budget will be raised domestically, coming from the Value Added Tax (US\$ 432 million) and other taxes, fees, and fines paid by consumers, and companies. Both domestic revenue and revenue from international trade are tax revenue under the current revenue category. Revenues from outside sources<sup>4</sup> that are included in the Budget Law accounted for 25 percent of the expected revenues and are mainly used to help finance the capital-side (planned public investment projects under each line ministries of the RGC) of the National Budget.

**Figure 1: Shares of National Budget Revenue by Major Sources in 2010 Budget Law**



Source: 2010 Budget Law

The RGC raises these revenues in order to provide public goods and services and to develop the country as laid out in the phase two of the Rectangular Strategy and the National Strategic Development Plan (NSDP).

### Positive developments on the revenue side that were announced in the 2010 Budget Law are:

1. an increase in the vehicle road tax rate especially with highest increase on luxury and high energy tourist cars; and
2. the introduction of a 0.1 percent tax on properties<sup>5</sup> which includes land, houses, buildings and other construction projects built on those taxable lands that cost more than 100 million riel (or equal to US\$ 24,000). The property price will be based on market price evaluated by the Committee for Property Evaluation established by Prakas issued by Minister of Economy and

<sup>4</sup> This revenue is from external financing of Development Partners.

<sup>5</sup> This tax will be charged on properties located in municipality and provincial geographic administration.

Finance. Basis for this tax calculation is market price of these properties after subtracting the 100 million riel cost. However, there are also some exceptions to this tax including agriculture lands, state properties, community properties for humanitarian, religious or non-profit purpose, diplomatic mission or consulate properties, international NGOs and other government technical cooperation agencies. The NGO Forum welcomes the introduction of this tax, which is expected to promote investment in productive land and discourage holding of unused land for speculation.

## Recurrent Expenditures by Priority Ministries

The Budget Law is split into two parts with a recurrent budget that is financed by domestic resources and a capital side of the budget financed that relies heavily on funds from development partners (the 25% percent of total revenue from outside sources). Allocations in the 2010 Budget Law for recurrent expenditure (such as wages, allowances, small maintenance and other operational costs) show a mixed picture for ministries' working areas that have been labeled priority in the past.

Table 1 below shows that allocations to the ministries of health, justice, and rural development are increasing above average (marked grey). This is commendable and in line with the recognized need to:

- (i) Improve delivery of health services, especially it is recommended by MEDiCAM that packages for maternal and newborn child services are provided for free, including emergency obstetric care services, facility deliveries by skilled birth attendants, neo-natal infection care, and nutrition for mother and child. Without these packages, Cambodia will not be able to achieve the Millennium Development Goals number four and five.
- (ii) Improve the functioning of the judiciary
- (iii) Maintain and expand rural infrastructure, including rural roads, rural water supply and irrigation needed for better access to markets and the production of higher yields. Both the MoRD and the MoWRM have an important mandate in this area and contribute to public investments in the rural areas with its expected positive impact for small scale farmers.

**Table 1: Recurrent Expenditure per Category and Selected Line Ministries, in US\$ million**

	2009 B.L	Impl.2009	2010 B.L	% Impl.2009	2010/2009
<b>TOTAL CURRENT EXPENDITURE</b>	<b>1064</b>	<b>1153</b>	<b>1227</b>	<b>108.4%</b>	<b>15%</b>
<b>A. General administration</b>	<b>149</b>	<b>200</b>	<b>169</b>	<b>134.5%</b>	<b>14%</b>
<i>o.w. National Assembly</i>	25	25	28	100.0%	12%
<i>o.w. Ministry of Justice</i>	7	7	9	100.1%	30%
<i>o.w. National Audit Authority</i>	2	2	2	98.1%	-1%
<b>B. Defense and Security</b>	<b>219</b>	<b>319</b>	<b>281</b>	<b>146.0%</b>	<b>28%</b>
<b>C. Social Sector</b>	<b>390</b>	<b>423</b>	<b>446</b>	<b>108.5%</b>	<b>14%</b>
<i>o.w. Ministry of Health</i>	123	131	146	106.3%	19%
<i>o.w. Ministry of Education, Youth &amp; Sports</i>	181	192	201	106.0%	11%
<i>o.w. Ministry of Women Affairs</i>	6	6	7	98.9%	9%
<i>o.w. Ministry of Labor and Vocational Training</i>	13	22	14	176.0%	13%
<b>D. Economic Sector</b>	<b>88</b>	<b>97</b>	<b>102</b>	<b>110.0%</b>	<b>16%</b>
<i>o.w. Ministry of Agriculture, Forestry and Fisheries</i>	19	20	21	106.0%	14%
<i>o.w. Ministry of Rural Development</i>	16	16	20	100.4%	30%
<i>o.w. Ministry of Land, Urbanization and Construction</i>	6	6	7	102.4%	12%
<i>o.w. Ministry of Water Resources and Meteorology</i>	8	8	9	99.5%	17%
<b>99. Unallocated (current) expenditures</b>	<b>218</b>	<b>114</b>	<b>228</b>	<b>52.4%</b>	<b>5%</b>
<b>Supplementation to cities-provinces/ communes-sangkat</b>	<b>42</b>	<b>42</b>	<b>62</b>	<b>100.0%</b>	<b>47%</b>
<b>Reserved Budgets/Unexpected Expenses</b>	<b>145</b>	<b>144</b>	<b>100</b>	<b>99.8%</b>	<b>-31%</b>

The unfavorable points in Table 1 shows that five out of eight ministries that have been labeled priority in the past are receiving a less-than-average increase for their recurrent budgets: Ministries of Education, Youth & Sports; Women Affairs; Labor and Vocational Training; Agriculture, Forestry and Fisheries budgets ; and Land Management, Urbanization and Construction have increased less than average. There is a concern that the relative low increase for education will affect the improvement of quality education. This is seen as the biggest challenge in the sector at the moment which requires qualified teachers and appropriate teaching materials, both financed from the recurrent budget. In addition, the increase for the Ministry of Agriculture, Forestry and Fisheries (MAFF) is lower than expected, given for instance the need for investment in agriculture extension services. The favorable points is that three priority ministries are included in the top ten increase above average including Ministries of Rural Development, Justice and Health.

In the same table, it also shows that the Defense and Security sector and General Administration sector overspent their allocated recurrent budget in the estimated 2009 budget implementation and the percentage are much higher than economic and social sectors. The overspending in the General Administration sector comes mainly from overspending in non-priority ministries including Office of Council of Ministers (206.4%), Ministry of Interior-General Administration (155%) and National Election Committee (172.3%). This overspending mostly comes from the Unexpected Expenditure/Reserved Expenditure (see section on Unexpected Expenditure below). This overspending is observed to repeat almost every year in the last four years or the start of Public Financial Reform Programme in 2005 (see table 2 below).

**Table 2: Actual Recurrent Expenditure in % of Allocated Budget in the Budget Laws 2006-2009**

<b>Recurrent Expenditure Line Ministries/Year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>
5.1 Office of CoM	173.4%	190.8%	191.0%	206.4%
07. Ministry of Interior - General administration	191.1%	160.2%	135.3%	155.0%
10. Ministry of Economy and Finance	185.2%	172.8%	130.5%	114.1%
30. National Election Committee	113.0%	1073.5%	677.9%	172.3%
06. Ministry of Defense	105.4%	116.3%	147.2%	151.2%
07.1. Ministry of Interior-Public Security	108.8%	130.2%	140.1%	137.0%
13. Ministry of Industry, Mines and Energy	339.3%	347.5%	809.7%	291.7%

*Source: 2010 Budget Management Document Volume 1*

### **Supplements to the Provinces, Defense & Security, Social Safety Nets, MBPI & PMGs**

In addition to the 0.1 percent property tax to benefit sub-national administration budget, the increasing **supplement to the cities-provinces/communes-Sangkat** shows progress in the decentralization process. Compared to the 2009 Budget Law, the supplementation to cities-provinces / communes-Sangkat will increase 47 percent to US\$ 62 million, which should contribute to fund projects at the commune/Sangkat level that respond to local needs. However, since 2009 both budget line items of City-provincial budget and Commune-Sangkat budget has been grouped together which does not allow a comparison of allocation for either city-provincial budget or Commune-sangkat budget over the year. According to a statement by H.E. Keat Chhon in the Phnom Penh Post issued on 7 October 2009, each commune will receive an average of US\$ 22,300 in 2010.

As already mentioned by the IMF<sup>6</sup>, increased recurrent spending on **defense & security** (from US\$ 219 million in 2009 to US\$ 281 million in 2010) will affect spending on priority areas. During the meeting of

<sup>6</sup> Press Release: Statement at the Conclusion of an IMF Staff Mission to Cambodia, September 24, 2009



the Technical Working Group on Public Financial Management (TWG-PFM) in September 2009, a senior representative from the MEF stressed that the increase in defense expenditure was due to a revision in the allowance system of the military which brings it in-line with the civil service. He added that this is justified in a time that the Kingdom needs to be protected. Although these funds have a positive stimulating effect on the economy, they are also recurrent in nature and are therefore not necessarily part of a temporary stimulus package. However, the announcement in the Explanatory Note to the National Budget that function allowances of the military personnel to be revised may change this.

The Explanatory Note to the 2010 Draft Budget Law also announced the suspension of the Priority Mission Groups (PMGs) and the Merit Based Pay Initiative (MBPI) for civil servants, which receives significant donor-support. This contradicts the Rectangular Strategy (para. 25) which states that *“In the fourth legislature, the Royal Government will continue to expand the coverage of the PMGs and MBPI to a number of priority ministries and agencies, in order to deepen nationwide sectoral reform programs.”* The need to balance the budget and review expenditures is necessary and needs to be carefully assessed against the risk of slowing down the urgently needed reforms, for which Cambodia *“has no other choice than continuing with firm and conscientious implementation of all needed reforms”*<sup>7</sup>. It is evident that the need to balance the budget needs to be met, while reforms need to be continued at the same time. This is a challenge that policy makers should solve in the interest of the millions of Cambodians benefiting from these reforms.

Many discussions have been held on expanding **social safety nets** in Cambodia with both Government and development partners making commitments to this. The 2010 Budget Law does show an increase for the Ministry of Social Work, Veteran Affairs and Youth Rehabilitation (MoSWVAR) from an allocation of US\$ 44.3 million in 2009 to US\$ 52.6 million in the 2010 Budget Law. In addition, donor-financed capital allocations to the MoSWVAR increase by US\$ 13.6 million to US\$ 18.4 million. The NGO Forum would like to clarify whether these funds are being allocated to social safety net expenditures and who the intended beneficiaries for this increased expenditure are.

### Unexpected/Reserved Expenditure

As per article 25 of the Law on Public Financial System, these funds are allocated to ministries, institutions and similar public entities by sub-decree pursuing to the request made by the Minister of Economy and Finance and beyond the oversight of the National Assembly.

In the 2010 Budget Law, the allocation for unexpected/reserved expenditure has been reduced by US\$ 44 million from US\$ 144.5 million in 2009 to US\$ 100 million. There are many good reasons for Cambodia to budget a significant amount for unforeseen expenditures, which may include: lower than expected donor funds; floods, droughts and other natural disasters; ensuring national security and protecting Cambodian boundaries. However as can be seen in the separate briefing on analysis of government use of unexpected/reserved expenditure from 2005 to 2009, the sub-decrees authorizing actual expenditure seem to provide some level of explanation on the use of these funds. The results of the analysis show that these funds have not only been used to pay for “unexpected events” such as floods, droughts, lower than expected donor funds, but also to finance additional needs from ministries that could have been foreseen, such as the payment of interest and principals, rice supply to private companies since 2003 and serving elections.

For this year’s unexpected/reserved expenses, which represents eight percent of total recurrent expenditure, NGOs request the National Assembly to monitor whether these funds can be reallocated to priority sectors mentioned earlier that will benefit more to the poor and vulnerable groups.

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<sup>7</sup> Rectangular Strategy Phase II (para. 4)

## Capital Expenditure

Table C on capital expenditure in the 2010 Budget Law shows that total capital expenditure in 2010 is expected to amount to US\$ 761.3 million, an increase of 13 percent compared to the 2009 Budget Law. Table 3 below provides an overview of the line ministries that together account for 94 percent of all capital expenditure in the 2010 Budget Law.

Table 3 shows significant increases in capital expenditure for the ministries involved in agriculture and rural development. The combined capital budgets for MoRD, MAFF, and MoWRM will increase by US\$ 38 million which should have a positive impact on the rural areas where 90 percent of the poor Cambodians<sup>8</sup> live.

As shown in previous analysis of the implementation of the budget law (see analysis of the 2008 and 2009 budget law), translating these allocated funds into actual expenditures has proven to be a challenge. This point is illustrated again by the fact that 52 projects from MAFF, 25 projects from MoWRM and 23 projects from MoRD that are featured in the 2009 Budget Law seem not to have been implemented and were moved to the 2010 Budget Law<sup>9</sup>. This suggests that these three ministries seems likely to be under-spending their budget again for 2009. The difficulties faced in the implementation of agricultural projects is also illustrated in Box 1 below which describes the challenges faced by MoWRM in its implementation of the North-West Irrigation project, financed with a US\$ 20 million concessional loan from the Asian Development Bank (ADB) and a US\$ 4 million grant from the French Development Agency (AFD).

Through this, the NGO Forum would like to call for bigger roles of the National Assembly on monitoring the quality of support provided by external development partners to the MoRD, MoWRM, and MAFF and what actions need to be taken by RGC with support from development partners in order to efficiently implement these development projects in a timely manner.

**Table 3: Capital Expenditure in the 2010 Budget Law, Selected Line Ministries (US\$ million)**

	2009	2010	Increase / Decrease 2010/2009
<b>Total capital expenditure</b>	<b>673.8</b>	<b>761.3</b>	<b>13%</b>
Ministry of Social Work, Veterans and Youth Rehabilitation	4.8	18.4	285%
Ministry of Interior	10.7	22.3	109%
Ministry of Post and Telecommunications	8.2	13.8	67%
Ministry of Water Resources and Meteorology	43.9	67.4	54%
Ministry of Rural Development	13.9	21.0	51%
Ministry of Public Work and Transport	195.5	254.1	30%
Ministry of Agriculture, Forestry and Fisheries	51.2	58.5	14%
Ministry of Industry, Mine, and Energy	42.6	43.9	3%
Ministry of Health	126.0	122.6	-3%
Ministry of Economy and Finance	38.7	33.0	-15%
Phnom Penh Municipality	13.0	10.5	-19%
Ministry of Education, Youth and Sports	63.1	49.2	-22%

Source: 2010 Budget Law

<sup>8</sup> Poverty headcount index for Cambodia stood at 30.1% in 2007 “Poverty profile and trend in Cambodia – findings from the 2007 Cambodia Socio-Economic Survey (CSES) 2007”, published by the World Bank in 2009.

<sup>9</sup> Ministry of Planning, Public Investment Programme (PIP) 2010-2012, May 2009.

**Table 4: Estimated Capital Expenditure as % of Allocated Budget 2006-2009**

Capital Expenditure of Priority Ministries/Year	2006	2007	2008e	2009e
Ministry of Health	60%	95%	111%	122%
Ministry of Education, Youth and Sports	143%	72%	85%	69%
Ministry of Agriculture, Forestry and Fisheries	30%	39%	25%	50%
Ministry of Water Resources and Meteorology	41%	53%	111%	112%
Ministry of Rural Development	101%	57%	32%	70%
Ministry of Land Management, Urbanization, and Construction	173%	12%	175%	124%
Ministry of Justice	297%	35%	0%	0%
Ministry of Labor and Vocational Training	2%	0%	0%	0%
Ministry of Women's Affairs	31%	24%	82%	9%

Source: Budget Settlement Laws 2006-2007, PIP 2009-2011 & 2010-2012

Table 4 shows that Ministries of Agriculture, and Rural Development have been under-financed in the last four years while Ministry of Water Resources were under financed in 2006 & 2007 and start regaining its priority in 2008 & 2009 (with financing from state budget). If only external financing from development partners are considered, the three ministries are under-spending their budgets in 2008 & 2009. However, it is worth to note that while state budget is available for Ministry of Water Resource why the other two ministries that are considered priority ministries and contribute directly to poverty reduction are not supported with the available resources from the national or state budget.

#### **Box 1: A Summary of the Case Study<sup>10</sup>: “Implementation of the Northwest Irrigation Project”**

A US\$ 20 million concessional loan from the ADB was approved for the “Northwest Irrigation Sector Project” in November 2003 which was supplemented by a US\$ 4 million grant from AFD. However, the project implementation did not commence until 2007 and to date the bulk of the fund is still unspent. It experienced a few years’ delay, raising curious interest in understanding the reasons why as Cambodia badly needs a large amount of investment in improving irrigation. Explanations provided by both the Government and ADB officials for the slow implementation included the: (i) the nature of the project, (ii) the project procurement process, and (iii) the human factors (reliance on external consultants and the change of responsible staff within the Ministry of Water Resources and Meteorology).

The delay in project implementation resulted in postponement of the anticipated benefits: higher yields, more income to thousands of farmers and poverty reduction. Interviews learned that, six years after the proposed starting date, there are now strong commitments by all the stakeholders to speed up the implementation of the remaining 10 irrigation projects. Having learned the lessons in the past few years, the Royal Government is committed and confident that the project will be completed by the end of 2010.

<sup>10</sup> The result of this study was the outcome of commissioned work from the NGO Forum to a consultant, Mr. Chan Sophal in early second half of 2009.

## The Budget Deficit and Fiscal Stimulus

Cambodia's budget deficit is increasing from US\$ 22 million in 2009 to US\$ 47.6 million in 2010. As indicated in the Budget Law, the increased deficit will be financed by Government reserves in the National Bank of Cambodia, which will lead to some inflationary pressure on the Riel in 2010.

The challenges Cambodia faced in 2008 and 2009, as described in the introduction, fully justify increased public expenditure that seeks to mitigate the impact of the crises on the poor, secures employment, provides training to recently unemployed, etc. However, the experience in 2008 showed the negative impact of inflation on the poor and therefore it is important that future budget laws are working towards a more balanced budget, while avoiding inflation (as highlighted in the Rectangular Strategy phase II), and continues to fight poverty as its main priority.

## Suggestions for Future Budget Laws

When analyzing the allocations in the 2010 Budget Law there is a concern on the degree of alignment between the Budget Law and the Rectangular Strategy as well as the National Strategic Development Plan, which was also highlighted in the analyses of the 2008 and 2009 budget laws. Key points that could be improved in future editions of the draft budget laws and budget laws to allow better oversight by the National Assembly and civil society organizations are:

- The National Assembly should question the RGC on the reasons behind the under-spending priority ministries and over-spending non-priority ministries and to hold the government accountable for managing these public funds given its oversight role over the budget.
- Both the Royal Government and Development Partners who supports the agriculture sector should work together to improve the budget implementation to avoid this under-spending as the poor and vulnerable groups are the real beneficiary of these projects. The Royal government should prioritize its available resources i.e. Unexpected/Reserved expenditure toward priority ministries.
- Include a clear narrative that explains the rationale behind the allocations presented in the draft budget law to Parliamentarians, which allows for analysts to understand the policy objectives behind the figures presented in the budget.
- Together with the narrative, the draft national budget law should explain the link between the allocations included in the NSDP. The NSDP Update (2009-2013) which was prepared under the leadership of the Ministry of Planning has the potential to bring together the National Budget and the Rectangular Strategy phase II. The costing of the NSDP Update with the sectoral allocations, as announced in the Circular on the Preparation of the NSDP Update (May 2009) should feature in future draft budget laws as it allows Parliamentarians to make a better assessment of the alignment between the budget law, the NSDP Update, and the Rectangular Strategy phase II.
- In addition, the Budget Law could be broken down in more detail, thereby allowing parliamentarians to have a more thorough debate that goes beyond the aggregate allocations for each line ministry. Moreover, the RGC should include column on estimated budget implementation for current fiscal year for capital budget and attached estimated recurrent budget figures and other figures as presented in budget summary in previous years (2007 & 2008) as both figures will inform the parliamentarians of status of budget implementation in current fiscal year.

- Finally, organizing separate consultative sessions or public hearings<sup>9</sup> between Parliamentarians, citizens, and civil society organizations could further improve the responsiveness of the National Budget to the needs of Cambodian citizens.

## Contact Information:

For more information on the issues raised in this paper, please contact:

**Mr. Va Sothy, National Budget Project Officer**

The NGO Forum on Cambodia

Address: #9-11, street. 476, Sangkat Toul Tompoung 1, Khan Chamkarmorn, Phnom Penh.

PO Box: 2295.

Tel: (855) 23 214 429

Fax: (855) 23 994 063

Email: [ngoforum@ngoforum.org.kh](mailto:ngoforum@ngoforum.org.kh)

Website: [www.ngoforum.org.kh](http://www.ngoforum.org.kh)

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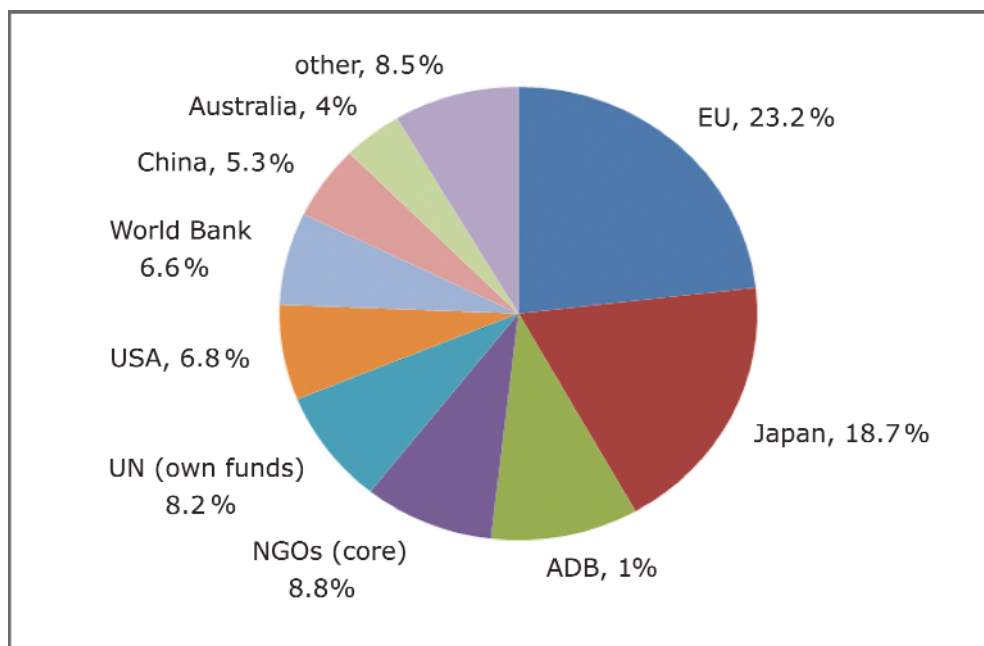
<sup>9</sup> Since 2007, second commission of the National Assembly collaborated with the NGO Forum for organizing 3 parliamentary workshops already which focused on analysis and discussion on budget allocations in the annual draft budget law; however, there is a need for expanding this discussion or consultation with parliamentarians to wider civil society organizations and the public.

## Terms of Assistance of Foreign Concession Loans to Cambodia

### Introduction

Cambodia continues to have a high dependence on donor aid with almost half of its total development assistance being sourced from donor (multilateral and bilateral), Which mainly support to capital expenditures (public investment). In the period 1992 to 2009, aid disbursements to Cambodia totaled 9.79 billion USD. Please note that all the following figures have been **denoted in United States Dollars (USD)**. The relative portion of development partners' total Official Development Assistance (ODA) received from 1992 to 2009 includes: 2.27 billion from European Union countries and the European Commission (23.2%), 1.83 billion from Japan (18.7%), 0.98 billion from ADB (10%), 0.86 billion (8.8%) provided by Non-Governmental Organizations (own resources), 0.80 billion from the United Nations (UN) (own fund) (8.2%), 0.66 billion from the USA (6.8%), 0.64 billion from the World Bank (6.6%), 0.51 billion from China (5.3%), 0.39 billion from Australia (4%), and 0.83 billion (8.5%) from Global Fund, IMF, other bilateral donors (i.e. South Korea), and others. When grouped by types of donors, bilateral donors have provided the biggest share at 39% followed by UN and Multilateral Institutions at 29%, EU at 23% and lastly NGOs (own fund) at 9%.

**Figure 1: Total ODA received 1992 to 2009 amounts to 9.79 billion**



*Source: The Cambodia Aid Effectiveness Report 2010, Page 9*

Recognizing the importance of aid to Cambodia, the NGO Forum on Cambodia has initiated an Aid Effectiveness Project with the intention to engage NGOs across sectors in order to enhance their cooperation on monitoring and advocating on foreign aid issues. The initiative commenced in 2008 and has been progressively implemented, focusing on a myriad of issues in advocating the Government and its donors to achieve commitment to the implementation of both the Paris Declaration and Accra Agenda for Action. The ultimate goal of this project is to support the Government and Development Partners' policies and practice in ensuring aid effectiveness and positive development results. The aim is to advocate for an alignment of benefits accruing from foreign aid to priority sectors that address needs of both

poor and vulnerable groups (including women and children).

This fact sheet<sup>1</sup> provides analysis on the terms of the assistance<sup>2</sup> and makes comparison between donors based on annual interest rates, grace periods, and amortization periods of all concessional loan projects. This has been done to inform the reader of the relative trends, and terms of assistance, by donors to Cambodia. It should be noted that the scope had been limited in its coverage as details on 104 concessional loan projects<sup>3</sup> from a total 1337 aid projects had been reviewed. These exclude 1230 grant projects and 3 non concessional loan projects (of which the three are pipeline projects totaled at 39 million USD) recorded in the ODA database of the Council for the Development of Cambodia (retrieved 3 June 2010) and verified again in July 2010. Obviously, the analysis faced a number of challenges such as small sample size (fewer projects by some donors) and incomplete information on some projects (i.e. interest rate, grace period, and amortization period). Also, there is the inherent difficulty in the conversion of different currencies based on historical periods (i.e. Yen, Yuan and Euro) into USD. These inconsistencies have skewed the findings and may present different results if compared with the Aid Effectiveness Report 2010.

These limitations are due to the difficulty in grouping the projects by sectors from some donors like the World Bank (WB), Asian Development Bank (ADB), and Japan. The interest rates are quite diverse for each of the projects within the sector except for China who has chosen to direct most of its funding support to infrastructure development.

## Background

Cambodia's Official Development Assistance (ODA) Database is a single public data entry point which provides a complete record of all development assistance to Cambodia. It's a practical tool to promote and monitor the alignment of ODA to those priorities identified in the National Strategic Development Plan (NSDP). This also includes the aid management principles included in the Royal Government of Cambodia (RGC) Action Plan on Harmonization, Alignment and Results (H-A-R Action Plan). The database provides access to information on aid project financing, and supports routine reporting information sharing and coordination functions, to enhance dialogue and the development of more effective aid management practices at both the sector and technical working group levels. It has become a fully integrated part of the national aid management architecture which ensures a more evidence-based approach to promoting aid effectiveness; and in monitoring the contribution of aid to achieving this development which links directly to results that envisaged in the NSDP<sup>4</sup>.

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<sup>1</sup> In addition to its primary objective, this factsheet also serves as an information sources for further analysis, research or tracking purpose toward further detailed terms of assistance between the Royal Government of Cambodia and donors.

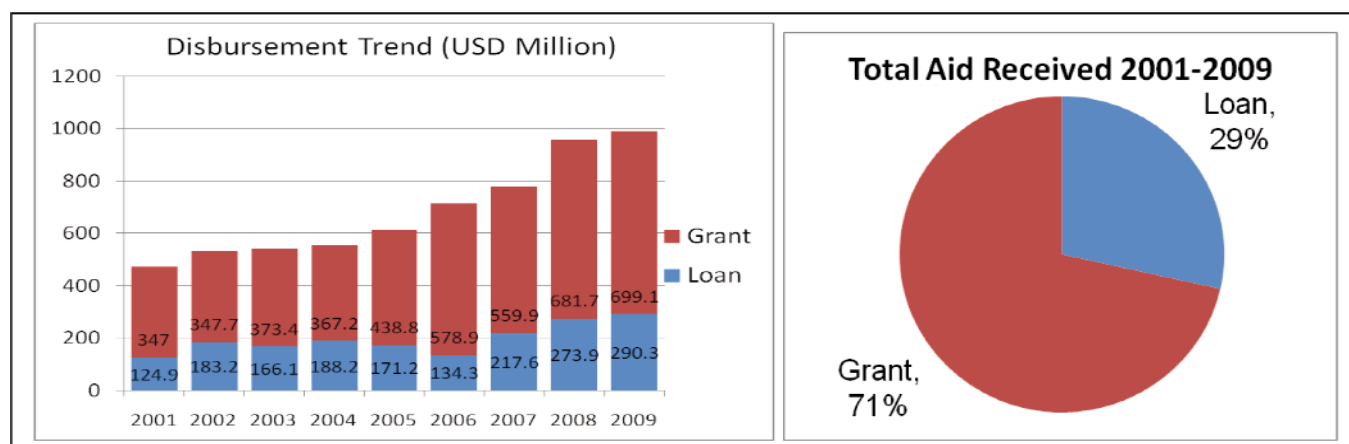
<sup>2</sup> The analysis is mainly based on the information collected from the ODA Database of CDC Website; however, information on other terms of agreements attached to these concession loan projects that may partly guide the RGC to make decision on which loans they should contract with are not available on the website.

<sup>3</sup> Information on each project was collected between January and 03 June 2010, and was verified once again in July to ensure reliability of the information.

<sup>4</sup> The Cambodia ODA Database User Manual 2007, Version 2.1, <http://cdc.khmer.biz>

## Overview of Total Aid Disbursements (Loan and Grant) in Cambodia

Figure 2: Disbursements of Aid 2001-2009



Source: the Cambodian Aid Effectiveness Report 2008 and 2010

Figure 2 indicates an upward trend in total aid disbursements for the past decade. The total aid increase is equivalent to 138 million in years 2001 to 2005. This doubled to 379 million in the years 2005 to 2009. The ratio of grant support in total development assistance remained stable from 2001 to 2004, averaging 359 million, before reaching almost 700 million in 2009. These figures also highlight a decrease in grant funding of 19 million in 2007. Loan disbursements increased by 58.3 million in 2002. There was a slight fluctuation in the following four years before declining 36.9 million in 2006, prior to returning to 290.3 million in 2009. Furthermore, smaller than anticipated increase in the levels of aid (either grant or loan) from 2008 to 2009 can be attributed to the impacts felt by donor agencies following the global economic crisis. Importantly, the total aid disbursed to Cambodia during the last decade was 6.14 billion of which 1.75 billion (29%) has been provided in loans while 4.39 billion (71%) had been provided through grant disbursements. During this period, the average annual percentage of grants of total aid received has decreased from 74% in 2001 to 71% in 2009 while loans slightly increased across the same period from 26% in 2001, to 29% in 2009.

### Analysis on the Terms of Concessional Loan Assistance by Donors to Cambodia

Please refer to the figures presented in the table 1 below entitled 'Analysis on the Terms of Concessional Loan Assistance by Donors to Cambodia.' The lowest annual interest rate terms of 0.01% have been offered by Japan while the highest annual rate of 2% being offered by China. Total concessional loan amounts<sup>5</sup> are approximately 2.5 billion with an average annual interest rate of 0.92% accruing to an average loan amount per project of 23.7 million. Again, from the information below the ADB is found to have a greater number of concessional loans and projects than other donors. It also accounts for almost half of the total number of all projects (50 projects) with more than one third of the total amount in concessional loans (nearly 1 billion). Most commonly donors applied a fixed rate of interest on loan projects funded through this mechanism.

Japan is a bilateral donor requiring only 0.03% for 3 projects totaling 67 million and 0.9% for another 2 projects valued at 70 million. This is significant as it demonstrates how Japan provides one of the low-

<sup>5</sup> As of 2009, total loan (both concession and non-concession) Cambodia owed to foreign donors was at 3 Billion USD (223 USD per person\*total population: 13,395,682) as announced by Deputy Prime Minister and Minister of Economy and Finance during National Assembly debate on 2011 Draft Budget Law in November 2010 and reported by Raksmeay Kampuchea Newspapers dated 03 December 2010. This means that 83% of loans are concessional while the Joint IMF/World Bank Debt Sustainability Analysis 2009 showed that Cambodia faces a moderate risk of debt distress.



est comparative interest rate of all projects funded in Cambodia. Japan also provides the most favorable terms at an average interest rate of 0.36% in addition to a 10 year grace and 30 year amortization period on all concessional loan projects.

South Korea's has typically been a nontraditional donor. They arrived in Cambodia in 2006 and have since then provided the lowest interest rate (0.01%) on projects totaling 60 million. While for other projects, it still offers a low rate of 0.5% on 27 million and 1.0% in interest payments on the amount of 17 million. Overall, they offer a low average interest rate (0.38%) at almost the same compared with Japan (0.36%). Indeed, South Korea also offers a 10 year grace period and a further 20 year amortization term in addition to the already low interest rates applied to projects (based on 2 projects) available for this analysis.

**Table 1: Analysis on the Terms of Concessional Loan Assistance by Donors to Cambodia**

Scope: only 104 concessional loan projects available on ODA Database

Status of ODA Data updated on 3 June 2010

DPs (%)	Concessional Loans (USD)	Interest Rate (%)	No. Proj	Grace Period		Amortization Period		Type of Rate (No. of Proj.)	
				Years	Proj.	Years	Proj.	Fixed	Varia.
Japan (10%)	67,371,758	0.01	3	10 yrs	5	30 yrs	5	7	
	69,924,908	0.9	2						
	111,831,017	N/A	2						
	<b>249,127,684</b>	<b>0.36**</b>	<b>7</b>	<b>N/A</b>	<b>2</b>	<b>N/A</b>	<b>2</b>		
South Korea (7%)	59,960,000	0.01	2	10 yrs	2	20 yrs	2	7	
	26,700,000	0.5	1	15 yrs	1	25 yrs	2		
	17,050,000	1.00	1						
	84,915,918	N/A	4	<b>N/A</b>	<b>5</b>	<b>N/A</b>	<b>4</b>	<b>N/A</b>	<b>1</b>
EU (3%)	14,718,318	<b>0.02</b>	1	1 yrs	1	9 yrs	1	7	3
	25,487,782	0.75	2	4 yrs	1	10 yrs	1		
	53,445,230	N/A	7	10 yrs	2	40 yrs	2		
	<b>93,651,330</b>	<b>0.5**</b>	<b>10</b>	<b>N/A</b>	<b>6</b>	<b>N/A</b>	<b>6</b>		
IBRD/ World Bank (12%)	5,000,000	0.75	1	10 yrs	15	40 yrs	15	14	
	193,000,000	1.25	9						
	88,610,000	N/A	5						
	<b>286,610,000</b>	<b>1.2**</b>	<b>15</b>			<b>N/A</b>	<b>1</b>		
ADB (38%)	447,170,100*	1	24	8 yrs	28	24 yrs	7	43	7
	419,760,000	1.5	21			32 yrs	20		
	83,300,000	N/A	5			10 yrs	1		
	<b>950,230,100</b>	<b>1.23**</b>	<b>50</b>	<b>N/A</b>	<b>21</b>	<b>N/A</b>	<b>21</b>		
China (30%)	137,525,000	1.25	2	7 yrs	11	13 yrs	11	13	
	60,398,356.01	1.75	1	10 yrs	1				
	502,275,250***	2	10	20 yrs	1				
	<b>700,198,605</b>	<b>1.86**</b>	<b>14</b>	<b>N/A</b>	<b>1</b>			<b>N/A</b>	<b>1</b>
<b>Total (100%)</b>	<b>2,468,443,637</b>	<b>0.92</b>	<b>104</b>	<b>N/A</b>	<b>35</b>	<b>N/A</b>	<b>33</b>	<b>N/A</b>	<b>3</b>

**Note:**

\* Total amount of loan for 23 projects except 24<sup>th</sup> project as its amount was unavailable

\*\* Average interest rate was calculated by dividing the number of projects by each donor

\*\*\* Total amount of China loan by only 9 projects as one project is unavailable

- China has 14 loan projects (an interest rate on one of these projects is not available)

- Loan recording beyond USD is converted upon the start year of project, except unknown project based on the exchange rate in 2010 as the most project is fixed term. It was done through this

<http://www.bankofcanada.ca/en/rates/exchform.html>

- N/A: Not available or data cannot be found in the ODA database

- Average interest rate 0.92 for the average amount of 23.7 million per project

EU has a low rate of interest (0.02%) on one project at a costing of almost 15 million and 0.75% on two projects totaling nearly 25 million. Unfortunately, the interest rate applied to 6 projects with a total value of 55 million was not recorded by the ODA database. EU's interest rate is slightly higher than Japan and South Korea at an average of 0.5%. Although EU has lower interest rate when compared to other donors, except Japan and South Korea, it has the shortest periods for both grace period (between 1 to 4 years) and amortization period (between 9 to 10 years). This has been based on only two projects. Similarly, the World Bank and EU offer a 10 year grace period and a 40 year term on amortization of the other 2 projects. As there are different bilateral donors within this union, it is not representative of the entire EU and EC grouping.

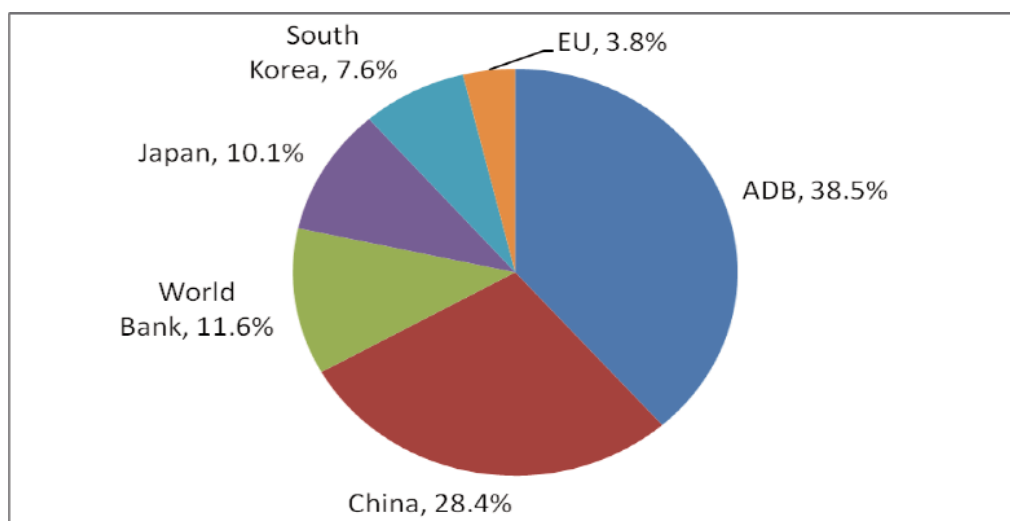
Among 15 World Bank projects, only 1 project of 5 million accrued interest at 0.75% while the other 9 projects valuing 193 million were charged out at 1.25%. The Bank's interest rate on another 5 projects amounting to 89 million has not been analyzed within this document as information on the interest rate was not available. However, through the available data, the World Bank's average interest rate is 1.2%. In addition, the World Bank and Japan tend to have their own standard grace period of 10 years while the amortization period is 40 and 30 years, respectively.

From a total of 49 projects, the ADB loaned Cambodia 447 million for 23 projects at an interest rate of 1.0% and an additional 420 million on 21 projects at a subsequent rate of 1.5%. Unfortunately, the interest rate on other 5 projects accounting for almost 84 million is not available in the database. On average, interest rates charged out by ADB is 1.23%. ADB typically offers 8 years for a grace period and 32 years as an amortization period.

The ODA database recorded 14 of the loans provided by China. These accounted for 502 million in projects which had a 2% interest rate applied. Two more projects totaling 138 million had a 1.25% interest rate with an additional project with an approximate value of 60 million receiving a further interest rate of 1.75%. On average, China has the highest interest rate in the context of this comparative analysis (averaged at 1.86%). Moreover, China's concessional loans with a majority of them in the infrastructure sector were provided at an average of 1.87% per annum, based on available project data. This is the highest when compared with other major donors who offer more favorable terms in the same sector, including: ADB (1.23%), World Bank (1.2%), Japan (0.37%), and People Republic of Korea (0.38%). Furthermore, it has the least favorable terms of loans for both grace period of 7 years and an amortization period of 13 years, excluding 2 projects at 2% interest rate with amortization period for 20 years. Overall, from the facts provided above and through a comparative analysis, it is concluded that China offers the least favorable terms of assistance based on concessional loans.

Beside the above discussion on terms of assistance, 33 of the 104 concessional loan projects in the above table do not have information on either grace or amortization periods while another two projects have only grace period information (which accounts for 35 projects or 34%). Of the preceding 33 projects, 23 also do not have interest rate information while only three projects do not have information on their type of interest rate. It should be noted that these 104 concessional loan projects amounted to 2.47 billion which is 0.72 billion more than the total loan amount received between 2001 and 2009 (1.75 billion), recorded in the aid effectiveness reports 2008 and 2010. It is not possible to provide a clear timeframe for when all of these concessional loans were provided to Cambodia because 22 out of 104 projects in the ODA database do not have information on their starting and completion dates.

Based on Figure 3, the ADB is the largest donor (38.5%) with China being a key donor (28.4%) in which both total almost 70% of all concessional loans to Cambodia. Meanwhile, the World Bank (11.6%) and Japan (10%) share almost equal proportions, with the exception that EU contributes the smallest relative proportion of such loans (only 3%).

**Figure 3: Percentage Share of Concessional Loans by Donors up to June 2010**

*Source: Analysis on 104 projects retrieved from ODA Database of the CRDB/CDC as of June 2010*

### Conclusion

This analysis has highlighted the importance of considering the terms of concessional loans being provided to Cambodia. Japan, South Korea and EU provided loans with an interest rate of less than 0.5%. This rate attributes one third of the World Bank's interest rate (1.2%) and ADB's (1.23%), while China contributing the highest rate of 1.86% which is almost five times higher than the rate of funding sourced from Japan and South Korea, and almost four times higher than the EU. Of all donors, China offers the least favorable terms at an interest rate of 2% on most of its loans.

China also provides the shortest grace and amortization periods despite the EU reflecting the same trend; their interest rates are still much lower than China. ADB, like Japan, offers a more favorable grace period than China and has the same amortization period of 30 years for a majority of its projects. Interestingly, the World Bank has a standard 10 year grace period and 40 year amortization period.

In summary, it can be observed that a good approach taken by the Royal Government of Cambodia involves diversifying the sources of concessional loans to consider the most appropriate mix of multiple donors with different interest rates depending on the length and nature of the project. This allows the RGC to make informed decisions and Cambodian citizens to have a level of discretion over which donors provide the most favorable terms of assistance to Cambodia. Looking forward, the significance of this is to help Cambodian citizens with their current assessment of how much these loans will cost the country as they will ultimately bear this taxpaying burden in the repayment of these loans, into the future. Therefore, recognizing the challenges and complexities in the management of ODA database, the NGO Forum on Cambodia would like to call on both the Royal Government of Cambodia and Development Partners (or donor community) to publish all information on the relative 'terms of assistance' of the concessional loans to Cambodia so that Cambodian citizens will be well informed about the real cost of these donor choices.

## Aid Glossary

**1. Official Development Assistance (ODA):** Grants or loans to countries and territories on part I of DAC list of Aid Recipients (Developing Countries) which are :

- (a) undertaken by the official sector;
- (b) with promotion of economic development and welfare as the main objective;
- (c) at concessional financial terms [if a loan, having a Grant Element of at least 25 percent].

In addition to financial flows, Technical Co-operation is included in aid. Grants, Loans and credits for military purposes are excluded.

**2. Grant:** Transfers made in cash, goods or services for which no repayment is required.

**3. Loan/ Credit:** The provision of resources, excluding food or other bulk commodities, for relief or development purposes, including import procurement programmes, which must repaid according to conditions established at the time of the loan agreement or as subsequently agreed.

**4. Concessional Loan:** The provision of fund by the donor as a loan which consists of the minimum 25 percent grant element, thus qualifying it as ODA transaction. It also commonly referred to as a “soft” loan.

**5. Grace Period:** is the period during which only interest payments, but no repayments are due.

**6. Repayment Period:** is the period during which loan is repaid.

**7. Maturity Period:** is the sum of grace and repayment period.

### Contact Information:

For more information on the issues raised in this paper, please contact:

**Mr. Chea Kim Song, Development Issues Programme Manager**

The NGO Forum on Cambodia

Address: #9-11, street. 476, Sangkat Toul Tompoung 1, Khan Chamkarmorn, Phnom Penh.

PO Box: 2295.

Tel: (855) 23 214 429

Fax: (855) 23 994 063

Email: [ngoforum@ngoforum.org.kh](mailto:ngoforum@ngoforum.org.kh)

Website: [www.ngoforum.org.kh](http://www.ngoforum.org.kh)

## Impacts of Economic Downturn on Households and Communities and Essential Needs for Policy Responses<sup>1</sup>

### Introduction

The economic downturn that originated in the USA in late 2008 impacted economies around the world as it unfolded. Cambodia, whose major economic bases were shaken due to their heavy reliance on external demand, markets and capital, was no exception. Major sectors affected by the economic downturn in Cambodia included the garment, construction and property markets, tourism, and agriculture for selected commodities such as rubber and cassava. Between September 2008 and May 2009, the decline of garment exports was witnessed by the laying-off of 63,000 workers while the impact on real estate and construction has resulted in the disappearance of about 100,000 jobs (or three out of ten jobs). The decline of tourist arrivals and their spending caused many to be underemployed and limited economic activities in tourism-related businesses such as restaurants, handicrafts and souvenirs.

In light of these adverse impacts on the macro-economic situation, and to add the most value, this study focuses on the impacts of the economic downturn on people and households at the community level. The study surveyed 1,070 households and conducted focus group interviews with women and key informants in 15 villages across Cambodia (14-31 July 2009), 14 of which were surveyed a year earlier to assess the impact of high food prices (June 2008). A new fifteenth village, in Siem Reap, was added to examine the impact on tourism dependent villages. Thus, the study primarily used the survey in 2008 as a baseline, in order to observe the changes made overtime. Changes were observed in household assets, incomes, income sources, the difficulties that households encountered and the responses or coping strategies that households undertook to maintain their livelihoods.

The evidence from the household survey in July 2009 reveals that the economic downturn has had a significant impact on households and people at the community level, especially in poor urban, tourism dependent and cash crop villages. The impacts were confirmed by job losses, reduced remittances, decreased income and the lower price of agricultural commodities such as wet season rice, maize and cassava.

### Difficulties faced by Community Households during the Downturn

Overall, 89% of the surveyed households faced difficulties in the previous six months, which remains high compared to 2008 when inflation was high. However, the type of difficulties that the households encountered changed and more households in poor urban and cash crop villages experienced hardship. In 2008, high food prices were the major difficulty for household; almost none of the surveyed households experienced the job loss or decreased income. When sickness/ health expenses had been the major difficulty facing by households in 2008, this issue continued to affect households in 2009, job loss/ decreased income and the inability to repay debts become the two foremost difficulties created by the economic downturn. The percentage of households with reduced income was highest in poor urban (61%) and tourism dependent (50%) villages, while the percentage of households reporting difficulties to repay debts was highest in cash crop villages (21%).

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<sup>1</sup> The article is extracted from the report on “The Impact of the Economic Downturn on Households and Communities in Cambodia” which was conducted by the Cambodia Economic Association (CEA) in July 2009 in partnership with Oxfam and the NGO Forum on Cambodia.

The survey found that households were affected through their members losing jobs or their jobs being affected as a result of the economic downturn. Of the surveyed households, 33% reported that household members' jobs had been affected and 3.7% found their members' jobs had been lost in the previous nine months. Jobs of households in poor urban (77%) and tourism dependent (69%) villages were affected the most, while 9% of households in the poorest rural and poor urban villages experienced the greatest job losses.

Farmers of maize and cassava production were hard hit because of falling profits. Although these farmers could still make profit from their crop production, the profits were relatively less compared to the year before. The profit in maize production per hectare in 2009 was \$344 (56%) less than it had been in 2008, while the profit of cassava production declined by \$106 (36%) per hectare. Profits for farmers of wet season rice also fell, by \$68 (32%) per hectare. Only farmers of dry season rice were able to increase their profits compared to 2008.

The majority of households reported that the income they received from various sources decreased compared to a year earlier, especially income from garment work, construction work, self-employed business and selling handicrafts/souvenirs, which was specific to the tourism dependent village. There were relatively fewer households receiving less income from selling paddy, vegetables and livestock, which implies that the impact on households earning income from these sources was less severe, for instance in wet season rice, dry season rice, and land abundant villages. For the fishing village, 74% of households reported their income from fishing had decreased compared to the previous year. However, the decreased income is mainly explained by the decline of fish catch per household.

The households were able to maintain their income from wages and foreign remittances. Income from labour work and foreign remittances remained unchanged, but households received less income from domestic remittances. When inflation was high (22.3%<sup>2</sup>) in July 2008, the poor earned more money from their labour work as the wage increased by about 50% compared to 2007. From 2008 to 2009, daily wages remained more or less unchanged. Daily workers continued to be paid similar wages to those they earned the previous year, except for agricultural jobs. The wage for weeding tended to be about 17% less compared to 2008.

## Coping Strategies by Households

The hard times caused by income loss undermined a household's ability to repay debts, forced households to limit spending on healthcare and other non-food items, and reduced food consumption (either by eating less food or buying less preferred/ less expensive food) which further threatened their already weak nutritional status which caused by high food prices during the past year. Women consumed disproportionately less food since they want to leave more food for their husbands and children. In addition to seeking additional/ alternative jobs and having increased numbers of household members to migrate for work the households coped with their difficult livelihood situation by selling off assets and taking out loans. Talking children out of school was not found to be significant, which suggests the impact on education has yet to come, although this could be explained by the fact that household costs for informal school fees are not common in surveyed villages, or that the finding is insignificant due to the limitation of the survey being conducted during the second half of July 2009, which was the end of the school year.

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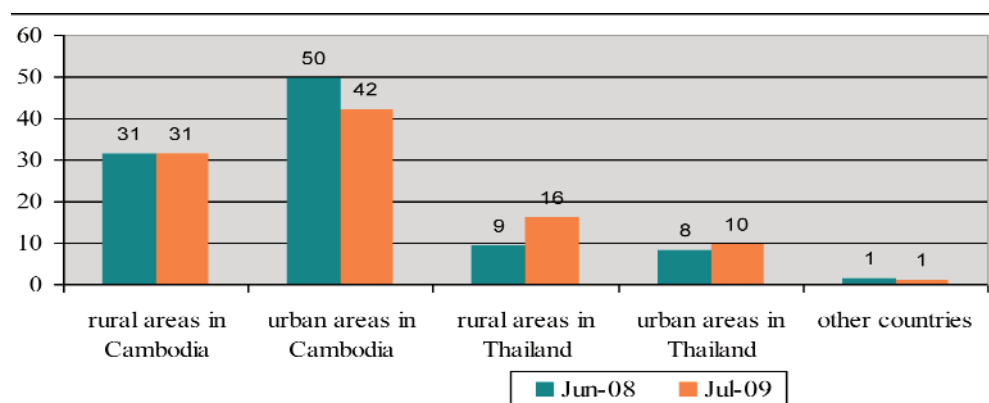
<sup>16</sup> National Institution of Statistics (NIS), Ministry of Planning

**Table 1: Percentage of households undertaking livelihood coping strategies in 2008 and 2009**

No	Livelihood coping strategies undertaken by households in the last three months	June 2008	July 2009	Change 2009/08
<b>Food Consumption related</b>				
1	Rely on less preferred / less expensive food	62.8	75.6	12.8
2	Reduce daily food consumption	44.1	51.8	7.7
3	Restrict food consumption for adults to leave more for young children	37.4	32.0	(5.5)
4	Mothers / older sisters eat less to leave food for other family members	32.1	38.6	6.5
<b>Debt-related</b>				
5	Borrow food, or rely on help from friends or relatives	39.7	42.7	3.1
6	Purchase food on credit	57.5	66.2	8.7
7	Take out loan	0	68.0	0
<b>Income-generating activities</b>				
8	Seek alternative or additional jobs	30.1	37.0	6.9
9	More family members migrate for work	7.1	14.2	7.1
10	Increase fishing activities	17.3	19.7	2.5
11	Increase forest clearing activities		6.2	6.2
<b>Household assets</b>				
12	Sell domestic assets (furniture...)	0.8	3.8	3.0
13	Sell productive assets (farm implements, sewing machines, motorbikes...)	0.6	3.2	2.6
14	Sell land	1.3	1.8	0.5
15	Sell jewellery	3.3	11.2	7.9
<b>Others</b>				
16	Consume seed stocks held for next season	4.1	9.1	4.9
17	Decrease expenditure on fertilizers, pesticides, animal feed, etc.	5.0	6.5	1.5
18	Reduce expenditure on healthcare	18.9	34.6	15.7

Source: Survey of 1070 households by CEA in 15 target villages (July, 2009) and Survey of 991 households by CDRI in 14 target villages (June, 2008)

A greater number of households had members participating in migration – 24% of the surveyed households engaged in migration, which was an increase from 15% in 2008. With the exception of dry season rice villages, migration increased in all other villages; however, increased migration in land abundant villages is on one hand due to prolonged drought and on the other hand explained by employment opportunities available from economic land concessions in nearby provinces. Nevertheless, 62% of migration was reported as a coping mechanism to deal with the household's decreased income, while in 2008 only 33% had reported using migration as a means to cope with livelihood difficulties. The major destination of migration workers was to urban and rural areas in Cambodia comparing to other locations, which remained unchanged from the 2008 survey. However, the proportion of migration to rural Cambodia remains unchanged and there is decline of migration to urban Cambodia, while migration to rural Thailand doubled. Notably, migration is most common among poor households.

**Figure 1: Migration destinations (as % of households whose members migrate)**

Source: Survey of 1070 households by CEA in 15 target villages (July, 2009) and Survey of 991 households by CDRI in 14 target villages (June, 2008)

The percentage of households taking out loans has increased and the inability of households to repay debts is deteriorating alarmingly. Households who borrow make up 71% of all surveyed households, an increase from 62% a year earlier. Of loans taken out, 70% were entered into between January and July 2009. The highest proportion was in the fishing village (91%), followed by land abundant villages (79%), and cash crop and poorest rural villages (72%). However, the increase was highest in cash crop villages (a 25% increase from 2008), followed by poor urban villages (15% higher than in 2008), and the highest percentage of households reported the alarming fact that the first challenge was to repay debts in cash crop villages (21%), followed by the fishing village (19%) and land abundant villages (15%).

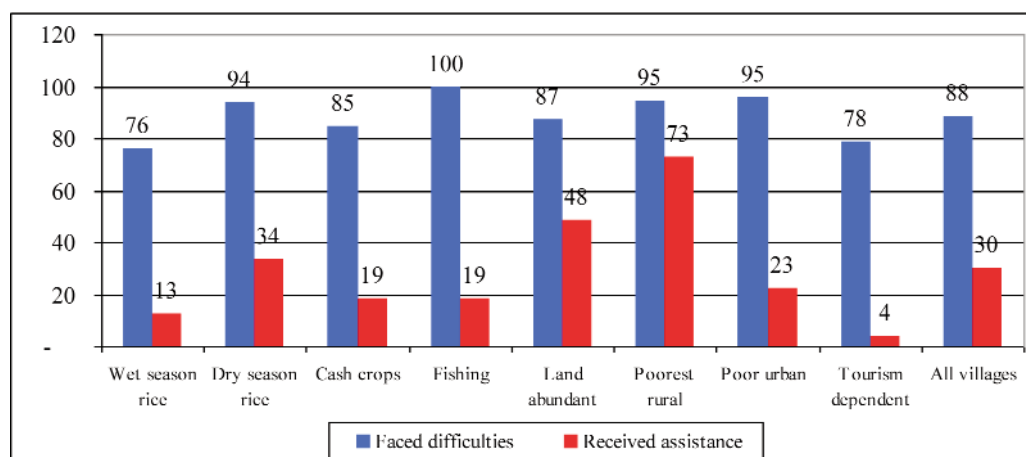
A high proportion of loans were incurred for non-productive purposes, while only 34% of loans were reported as helping households better-off. Out of all loans, 52% reported that the first reason was for business expansion and agriculture production, while their agriculture often is largely dependent on natural factors. The highest proportion of households borrowing for agriculture production was in cash crop villages (50%), and for business expansion in the fishing village (79%). The remaining 48% of the loans were largely for food consumption, health expenses, repaying debts and building houses. The borrowings for food and health expenses were highest in poorest rural, poor urban, and fishing villages.

### Coverage of External Assistance to Households and Communities

Despite facing challenges, fewer households reported having received aid from external sources such as the government and NGOs, but that the distribution of aid was better targeted according to the survey. Only 30% of the surveyed households received assistance in the past six months, down from 48% the previous year. The distribution of aid shifted. The decline of aid-recipient households in wet season rice and cash crop villages represents an increase of households receiving aid in land abundant villages. Notably, the percentage of aid-recipient households in poorest rural villages remains highest (73%) and is unchanged from the previous year. Also, the proportion of households in poor urban and fishing villages who received assistance in 2009 was similar to that in 2008, but more households in dry season rice villages received assistance, though these villages were least affected by the economic downturn.



**Figure 2: Percentage of households facing difficulties and receiving assistance in the past six months [February-July 2009]**



*Source: Survey of 1070 households by CEA in 15 target villages (July, 2009)*

Among aid-recipient households, the common forms of assistance that they received in the past six months were free healthcare service (36%), school meals (26%), micro-credit (14%), and food for work (10%). Aid from the government and NGOs often complement each other. For instance, when NGOs provide school meals and food for work to the poorest rural villages, government aid is provided through a free healthcare service, and when government aid is limited in poor urban villages, the NGOs provide free healthcare services in these communities. Furthermore, despite receiving that aid, the households still largely expressed their preference for assistance such as free healthcare services, micro-credit with low interest rates, free food distribution, and animal feed/raising. Other preferred forms of aid, for instance, are fertilizers (for wet-season rice villages), agricultural inputs and skills (both wet season rice and dry season rice villages), and fishing gear and land (for the fishing village).

The household survey of 15 villages (July 2009) reveals that the economic downturn has had significant impacts on the people and households at the community level. The communities that were hardest hit by the economic downturn include cash crop, poor urban and tourism dependent villages since the major income sources of households in these villages were exposed to external demand and markets. In these communities, the impacts were strongly confirmed by decreased income due to declining profits from crop production, characterized by a drop in prices, jobs in the garment sector, construction, handicrafts, and self-employed businesses, which were all affected and experienced job losses. In poor urban villages, 25% and 27% of the surveyed households respectively depend on work in the garment and construction sectors, while 68% earn their living from self-employed businesses such as motodup driving. In the tourism dependent village, 65% of the households depend on self-employed businesses, 38% make a living by selling handicraft/souvenirs; and another 20% earn income from working as labourers.

Other communities that were also hard hit by the economic downturn were the poorest rural and land abundant villages. Relatively more households in these communities were dependent on jobs in the garment sector, domestic remittances and forest products. Although the households in both dry season rice and wet season rice villagers were also affected as a result of their reliance on income sources such as from garment, construction, and self-employed businesses, they tended to be less impacted by the economic downturn as the price of rice remained fairly high. Dry season rice villages appear even better insulated from the economic downturn in relation to wet season rice villages because dry season rice farmers could earn even greater profit from their rice production than in 2008, while farmers of wet season rice earned less profit.

The livelihoods of the households in the fishing village deteriorated compared to 2008 since they lacked income from other sources. However, their hardship is worsened by the impact of the economic downturn. They are dependent largely on fishing while their fishing output per household continues to decline each year. Thus, the highest proportion of households in this village is in debt and while most borrowing (79%) was incurred for fishing businesses, the households reported theft of fishing gear as one of their primary concerns. Consequently, about 8% of loans in this village were incurred to repay debts and 19% of the households reported lack of money to repay debts as their first difficulties in the previous six months. Furthermore, the fact that the second main reason for borrowing was for food expenses for more than half of loans in this village were incurred for food expenses gives a clear indication of their suffering.

Following the impact by the economic downturn, households experienced decreased income through various routes. To cope with their difficulties, the households started to limit spending on healthcare and other non-food items, and reduced food consumption (either by eating less food or buying less preferred/ less expensive food) which further threatened their nutritional condition. Women consumed disproportionately less food since they wanted to leave more food for their husbands and children. Furthermore, in addition to seeking additional/ alternative jobs and having more household members migrate for work, the households cope with their difficult livelihoods by selling off their assets and taking out loans to repay debts and to buy food. These non-productive purposes for taking loans are likely to force borrowing households into greater debt.

## Recommendations

To mitigate the impact of the economic downturn on communities, broader and more effective policy responses are needed. Social safety net programs are seen as an effective immediate response to current impacts. Long-term policy measures will not only address impacts on poor and vulnerable groups but also boost economic growth and reduce the country's vulnerability to external shocks in the future.

The NGO Forum and EDN members in Cambodia would like to provide the following recommendations<sup>3</sup> to the RGC with support from its development partners.

### Short-term policy recommendations

- Look more seriously at immediate responses with regard to expanding existing social safety net initiatives, focusing on education, health and emergency food assistance, particularly for affected groups as shown in the survey.
- Increase public investment in physical infrastructure in rural areas so that it can help create jobs for households with job losses related to the crisis.
- Extend and expand skills training programs to garment and construction workers to stimulate alternative job opportunities, as well as to those who lost their jobs as a result of the downturn.
- Consider providing input support to smallholder farmers to ensure that food production is made possible, thus ensuring food security.

### Medium and long-term policy recommendations

- Link most-affected groups with sustainable agriculture through small-scale agricultural development, helping build their resilience to crises, promoting income generation and improving food security, in the long run leading to poverty reduction.

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<sup>3</sup> These recommendations are extracted from the NGO Position Papers on Cambodia's Development in 2009-2010 to the 3rd Cambodia Development Cooperation Forum (May 2010). By the time this article is printed, some of these recommendations have been addressed by the RGC in response to the impact of the economic downturn in Cambodia on the poor and vulnerable people.

- Recognize that investment in small-scale irrigation projects, extension services and the agriculture value chain is necessary to respond to the needs of farmers.
- Recognize also that there is a desperate need for additional low interest credit as well as increasing investment that benefits small-scale farmers.
- Work together to increase capacity in storage, processing and export by empowering and creating a favorable environment and support (i.e. loans with low interest rate) for the private sector for investment in agriculture.
- Understand that access to land and water is crucially important to ensure food production. As such, ensuring land ownership rights for farmers should be the center of attention for the RGC.

## Contact Information

For more information on the issues raised in this paper, please contact:

**Ms. Chan Sokyeng, Economic Development Policy Project**

The NGO Forum on Cambodia

Address: #9-11, street. 476, Sangkat Toul Tompoung 1, Khan Chamkarmorn, Phnom Penh.

PO Box: 2295.

Tel: (855) 23 214 429

Fax: (855) 23 994 063

Email: [ngoforum@ngoforum.org.kh](mailto:ngoforum@ngoforum.org.kh)

Website: [www.ngoforum.org.kh](http://www.ngoforum.org.kh)

## Evicted People Living with HIV/AIDS at Toul Sambo: Miserable Lives That Are desperately Forgotten

Forty-six families living with HIV/AIDS who faced imminently forced eviction from Borei Keila in central Phnom Penh on June 18, 2009 to a resettlement site in Toul Sambo live desperately without water, electricity and medical services. The families who were forcibly evicted from the city center and dumped into the village, some 25 kilometers from the city, have lost their means of income generating and faced difficulty in getting access to adequate health services.

Living conditions at Toul Sambo pose a great risk to the families; in addition, the distance of the village to the city prohibits them to continue their anti-retroviral treatment and access to medical services. Sadly, their living conditions are deteriorating rapidly every day.

Almost all people living with HIV/AIDS in that community have nothing to survive. Some families have no rice to cook at all. When they first arrived at the village, assistance was provided by various donors. However, the donations are not adequate for survival, while other sources of income have been dried up desperately.

### Leading their miserable lives

Previously, each family received 14 kilograms of rice every month. In addition to the donations, 10 kilograms of rice were also provided for children. However, the donation could not feed the whole family with 8 members in a month. Even more sadly, the contribution was sporadically provided to the people living with HIV/AIDS.

“We don’t have adequate food to eat every day”, said Chan Thida, 36, who has been HIV-positive since she was 28 years old. Her husband, who is also HIV-positive, is a construction worker and used to earn between 10,000 and 12,000 Riels when they live in Borei Keila compound. “With this daily wage, we hardly survived”, said Thida. “Now, my husband has nothing to do with his labor work since my family moved to Toul Sambo village”, she said hopelessly.



She said that her husband always stayed at home without income to support the family at all. The family of 8 members lives in a cramped, unstable house without basic income, but relies mainly on the external donation support from various philanthropic organizations.

More noticeably, some families do not have any proper shelters to live in. They get shade from the sun and rain under the canvas of other family’s shelter with only one bed. They barely have rice to eat, just a little bit of porridges.

“I wonder if they want us to live in isolation here so that we will die more quickly. If we get sick at night, there is no means of transportation”, said Chheang Toma, 40, another HIV-positive and formerly motor repairer. “If we get sick during the day, we may not be able to afford a motor taxi to travel to a clinic in

the city center”, he complained bitterly.

All 46 families have at least two members who require anti-retroviral treatment, a life-saving treatment provided through government and NGO-support programs. Moreover, many currently have opportunistic infections.

### **Philanthropic support**

The donations have not been regularly provided for those in need. Previously, Sihanouk Hospital Center of Hope (SHCH) provided home-based care services for those who live with HIV/AIDS. Now, the services have been handed over to Women Organization for Modern Economy and Nursing (WOMEN) to manage. Mr. Y Chhavelith, HIV Project Coordinator and Home Care Team Leader said that SHCH continued to provide home-based care support for them intermittently and still worked in partnership with WOMEN to provide clinical support for the HIV-positive. “WOMEN works on referral system”, he added.

It was noted that only the World Food Program (WFP) has currently contracted to provide food for three months for people living with HIV/AIDS and their families. However, the contract of food provision will end by December, 2009. Apart from HOPE, WOMEN and WFP, KHANA, LICADHO have intermittently provided food for the HIV-positive.

### **Relocation Site**

The housing at Toul Sambo village in Dangkor district is made of green metal sheets and looks distinct from the other homes in the semi-rural area. When MEDiNEWS team visited the site in October 2009, villagers in the vicinity already referred to it as “the AIDS-village”.

The resettlement housing does not meet minimum standards for emergency shelter with respect to size, fire safety and sanitation, according to Medecins Sans Frontiers survey in 2008 when the construction had just begun. The buildings are too close to each other, while the land and the buildings are unstable. The living space is not sufficient for an average family and there is no privacy as the walls separating the flats are only partial.

Toul Sambo relocation site has no clean water supply yet but only a rudimentary sanitation system. The housing is made of corrugated metal, which makes the inside space very hot, while the outside space between each house is almost not-existent.

Most of the 46 families with 230 members are living in severe poverty since they were forcibly evicted to Toul Sambo in June 18, 2009.

### **Government response**

H.E. Dr. Teng Kunthy, Secretary General, National AIDS Authority (NAA) said that the government has worked closely in partnership with the development partners, health partners and the local authorities to mobilize resources to renovate the housing for the people living with HIV/AIDS in Toul Sambo village. “Caritas organization will be contracted to renovate the building to meet the minimum standard of emergency shelter”, he added.

He said: “the national committee for resource mobilization was established for renovation of the housing”, adding however that the resources have not been mobilized yet at this point in time. In addition, NAA will work closely with the National Centers for HIV/AIDS, Dermatology and STDs (NCHADS) to set up the Voluntary Confidential Counseling and Testing centers (VCCT) within the three existing health centers for the people in the village and the people living with HIV/AIDS in Toul Sambo in particular. “However, this needs to be studied deeply”, he added.

More significantly, H.E. Teng Kunthy said: “the people living with HIV/AIDS in Toul Sambo are better off than other poor and vulnerable groups in the country because the local administration, development partners and nongovernmental organizations pay close attention to them. They are provided with proper shelters and their children can go to school in the village as others”.

He defended that the relocation of people living with HIV/AIDS in Toul Sambo does not mean that the authorities purposefully discriminate against them. “But, we have no choice. We [the authorities] cannot buy separate houses in the city for them, when the price is sky-rocking”, he added. “However, they [PLHAs] have their own houses”, he said proudly.

### **Lives before relocation**

Previously, they made a living as scavengers or porters in a market near Borei Keila or as laborers, earning daily wages of between 6,000 and 10,000 riels. A one-way trip from Toul Sambo to their current workplaces costs an estimated 15,000 riels, so the eviction seems to deprive them from their means to earn a living in the city center.

HIV prevalence is reported to be declining remarkably in Cambodia, down from 1.2 percent among the adult population between 15 and 49 years old in 2003 to 0.9 percent in June 2006, according to UNAIDS. The number of people living with HIV/AIDS is estimated to be 67,000.

Cambodian government has an obligation to ensure adequate provision of health care to all its citizens, including access to treatment for people living with HIV/AIDS. The International Guidelines on HIV/AIDS and human rights also urge that the states ensure universal access to HIV-related goods, services and information and that the service “not only be available, acceptable and of good quality, but within physical reach and affordable”.

Cambodian health authorities, which have won international acclaim for their achievements in addressing HIV/AIDS, espouse an approach of “continuum of care”, which seeks to address not only the medical issues, but also social, physiological, legal and economic consequences of people living with HIV.

The article 38 of the Cambodian 2002 Law on Prevention and Control of HIV/AIDS states that no one shall be quarantined, placed in isolation or refused abode or expelled due to the actual, perceived or suspected HIV/AIDS status of that person or his/her family members.

Now what can we do next will require high level commitment of the Royal Government of Cambodia to translate this power of words in the article into reality. MEDiNEWS has collected this voice of the evicted people living with HIV/AIDS to appeal for further assistance and support from both the government and development partners.

### **Contact Information:**

For more information on the issues raised in this paper, please contact:

**Mr. Ham Hak, Publication and Communication Manager**

MEDiCAM

Address: # 4, St. 522, Phnom Penh, Cambodia. P.O Box: 1164

Mobile: (855) 12 850 665

Phone: (855) 23 880 291, ext. 119

Fax: (855) 23 880 292

Email: [PCM@medicam-cambodia.org](mailto:PCM@medicam-cambodia.org)

Website: [www.medicam-cambodia.org](http://www.medicam-cambodia.org)