

FOOD FOR THOUGHT

As analysts pore over data that will be used to redraw the nation's poverty line, economists recommend action to cushion the blow of high prices

Alanna Jorde
Economics Today

The online encyclopedia, Wikipedia, defines poverty as not only the deprivation of those things that determine quality of life—food, clothing, shelter and safe drinking water, but also “intangibles such as the opportunity to learn and to enjoy the respect of fellow citizens.”

While definitions abound, poverty is really about the stomach, insists respected economist Chan Sophal. In poor countries like Cambodia the poverty line is a measurement of “what goes in the stomach,” says the president of the Cambodian Economic Association and senior research manager for the Cambodian Development Research Institute (CDRI).

Contrary to popular belief, the national poverty line is based on consumption rather than income and it is determined by data from

household surveys. Food accounts for as much as 80 percent of total consumption among Cambodians.

Poverty line to be redrawn soon

Data from the most recent household consumption surveys, completed late in 2007, are currently being analyzed in anticipation of a revision of the national poverty line.

The surveys were completed before rapid acceleration in inflation, which has seen prices for rice jump 100 percent, pork close to 50 percent and fish 29 percent compared to a year ago, according to the Economic Institute of Cambodia.

Chan Sophal estimates that once analysts are done tabulating, the poverty threshold will jump at least 50 percent even before it is adjusted for recent inflation.

Still, comparing poverty rates over time in Cambodia is tricky.

“If you want to measure change, don't change the measure,” says Chan Sophal, adding that past national surveys in Cambodia each have been done differently, making it difficult to strictly measure changes or poverty trends.

Calculating poverty lines requires rigorous sampling, which is very costly and therefore is only completed every few years. But Sweden has agreed to provide funds to assist Cambodia in tabulating the poverty line on an annual basis, notes Chan Sophal.

Price indices play a critical role in updating poverty lines, but they are problematic as well, he adds.

Since so many Cambodian households teeter on or around the poverty line, even slight adjustments to it will push significant numbers of



Photos by Kong Socheat

people into poverty unless incomes keep pace with increases in prices for essential goods and services.

A 5 percent increase of only 500 riels in the poverty line would see the national poverty rate increase from 34.7 percent to 38.2 percent and a 10 percent increase of about 220 riels would result in a jump from 34.7 percent to 41.6 percent, Chan Sophal estimates.

“All other things being constant, inflation puts more people into poverty,” but it is impossible to quantify the precise number without surveys, says Chan Sophal.

The International Monetary Fund (IMF) predicts average inflation will remain “uncomfortably high at about 5.5 percent” in Cambodia in 2008 as a consequence of persistently high food prices and further increases in oil prices combined with buoyant domestic demand and a weakening US dollar.

The IMF's projection is based on data from the National Institute of Statistics (NIS)—the government agency that tracks inflation. The NIS has not released a consumer price index (CPI) since early in 2008, which showed a 1.8 percent increase in the CPI from December 2007 to January 2008 and an 18.7 percent jump in prices over



the previous 12-month period.

Adjustments to methodology were made prior to releasing the CPI, which resulted in data that deviated considerably from other departments and ministries, according to They Keam, director of the department of population census at NIS.

As a result, Prime Minister Hun Sen instructed the NIS to suspend publication of the monthly CPI to give it an opportunity to discuss its methodology with other ministries and departments so that their figures harmonized, They Keam told Economics Today.

It's mostly about food

The current poverty line is based on data from the 2004 Cambodia Socio-Economic Survey (CSES), which asked close to 15,000 households across the country "about consumption and other important aspects of living standards," World Bank poverty specialist Tim Conway wrote in the bank's December 2005 newsletter.

The household consumption survey was the most comprehensive to date, completed continuously for 15 months and funded by the Swedish International Development Agency (SIDA) and UNDP, says Chan Sophal.

The poverty line is actually the sum of the food poverty line and a non-food allowance.

The food poverty line refers to the amount of money needed to consume 2,100 calories per day, which is how much the World Health Organization recommends the average person eat to meet nutritional needs.

Analysts then calculate the amount of money that households on the food poverty line spend on other essential goods and services such as clothing, housing, education and health care to determine the non-food allowance.

Following the CSES in 2004, separate poverty lines were identified for people living in Phnom Penh and other cities, where it is more expensive to meet basic needs than rural areas.

"When these are averaged, the national poverty line for 2004 is approximately 1,826 riels per person

per day (or 9,130 riels per day for a family of five). At 2004 exchange rates, this is about US\$ 0.45 per person per day (or US\$ 2.25 per day for a family of five)," Tim Conway explained in the newsletter.

"About 80 percent of this is food; 20 percent is for non-food basic needs (clothes, housing, etc.). This reflects the reality of what households actually spend on food and non-food items as measured in the survey."

Some Cambodian families harvest much of the food they consume themselves through farming or fishing rather than paying for it, which also is reflected in the poverty line, says Chan Sophal.

Inflation jeopardizes poverty reduction

While soaring food prices affect everyone, they hit the poor the hardest and threaten to reverse gains in poverty reduction all over Asia, the Asian Development Bank (ADB) warns.

"Food price inflation is the most regressive tax imaginable, with poor and near-poor households the most vulnerable," the bank says.

Poor Cambodians and others who live in poverty around the world are facing difficult choices as they struggle to pay escalating food bills. Cutting back on meals, forgoing health care and/or pulling children out of school—all of which affect their health and their family's long-term development—are among the unenviable options they are being forced to consider. Desperate times warrant desperate measures as a recent

POLITY RESPONSES IN SOME DEVELOPPING ASIAN COUNTRIES

REGION/ DMC	REDUCE IMPORT DUTIES	INCREASE SUPPLY USING RESERVES	BUILD RESERVES/ STOCKPILES	INCREASE IMPORTS/ RELAX RESTRICTIONS	RAISE EXPORT DUTIES	EXPORT RESTRICTIONS	PRICE CONTROLS/ CONSUMER SUBSIDIES	MINI- MUM SUPPORT PRICES	MINI- MUM EXPORT PRICES	ASSIS- TANCE/ SUBSIDY TO FARMERS	PROMOTE SELF- SUFFICIENCY	ACTIONS AGAINST/ APPEALS TO PROFITEERS	CASH TRANSFER	FOOD RATION/ STAMP
East Asia														
Cambodia		√	√			√						√		
China	√	√			√	√	√	√		√	√	√		
Philippines			√	√			√	√		√	√	√		√
Thailand		√	√	√			√					√		
Vietnam			√	√		√			√					
Central Asia														
India	√		√	√	√	√	√		√			√		√

Source: Asia Development Bank's 2008 Special Report "Food Prices and Inflation in Developing Asia: Is Poverty Reduction Coming to an End?"



Photo by Socheat-Kanharith

The Food Basket:

These 11 groups are the most important ones and the full basket has 50 items

Description of food item	Percent of all food
Rice quality 2	29.87
Pork with fat	6.44
Rice quality 1	6.23
Mud fish (small)	3.19
Cat fish	2.00
Prok without fat	1.80
Monosodium glutamate	1.80
Dressed chicken	1.44
Duck eggs	1.33
Fermented fish (Prahok)	1.23
Beef no.1	0.74

spate of Cambodian dognappings underscores. After all, the dogs are being abducted because people are hungry, not because they have a sudden craving for family pets.

Rising food prices have already been blamed for regime change in one country and are threatening peace and security in many other nations around the world. The prime minister of Haiti resigned after riots over soaring food prices left at least seven people dead in the Caribbean country. High food and fuel costs have also sparked unrest in Indonesia, Cameroon and Mexico.

A dearth in data may preclude speculation about how many Cambodian families have been pushed below the poverty line due to spiraling inflation.

But the ADB says increases in food prices in the Philippines by 10 percent, 20 percent and 30 percent risks creating an additional 2.72 million, 5.65 million and 8.85 million poor people, respectively. The impact in Pakistan would be

even greater, according to a report released in April by the ADB. A 10 percent increase in food prices will result in an additional 7.05 million poor people, the number of poor would increase 14.67 million and 21.96 million respectively with a 20 percent to 30 percent increase, the ADB warns.

Although the ADB expects rice prices to moderate, somewhat, later in the year, the bank and other international analysts are convinced the era of cheap food prices is over. "The rise in prices to elevated levels not seen for more than 30 years is a result primarily of structural forces that are not going away in the future. World food prices are on an upward trajectory," the bank said in a special report released in April, "Food Prices and Inflation in Developing Asia: Is Poverty Reduction Coming to an End?"

Generally, economists oppose government interventions in markets to ease high food prices. "Domestic markets should ... be unre-

stricted and administrative controls over prices and resource allocation should be avoided so that markets can become more efficient," says the ADB. "Unless trade is kept open and relative prices are allowed to reflect market scarcity, severe consequences will emerge."

In the rush to "restrict exports, control domestic prices and attempt to rebuild stocks in the face of price increases," governments often tend to exacerbate rather than cushion the impact of higher food prices, the bank argues.

Export bans and price controls reduce supplies in the global rice market, increase uncertainty about future supplies and encourage hoarding, which contribute to surges in the price of rice, the bank points out. The Cambodian Government's decision last month to lift a two-month ban on rice exports had the reverse effect, resulting in an immediate slump in rice futures.

Cushioning the blow

Like the ADB, Chan Sophal opposes heavy-handed policy responses to the food price crisis. But targeted food aid to the country's poorest households is needed to help soften the blow of inflation, he says.

The ADB also favors such measures. "The extremely poor, including the new poor, must be provided well-targeted assistance over the next three to 12 months in the form of purchasing power—cash transfers,

Local Market News	09 Jun 2008	
	09 June	Year ago
Gasoline (Riel/Liter)	5,500	3,950
Rice (Riel/Kg)	3,350	1,700
Fish (Riel/Kg)	13,500	10,500
Beef (Riel/Kg)	25,000	17,800
Pork (Riel/Kg)	17,500	12,100
Chicken (Riel/Kg)	16,000	10,600

food-for-work, feeding programs and food stamps—to alleviate the pure price effect.”

The CDRI is currently conducting a survey to determine how many of the country’s neediest families are currently receiving food aid.

The participation of civil society will be essential both in identifying the households most in need and distributing food aid, says Chan Sophal. Government officials and NGOs have worked well together in the past to get food to those who needed it during drought and floods, he points out.

Government should also be prepared to release its stocks of rice during September or October prior to the rainy season rice harvest, when rice supplies are notoriously lean in Cambodia, says Chan Sophal.

In the medium term, efforts must be made to reduce the cost of production and increase the purchase of paddy rice after harvest by both government and the private sector, says Chan Sophal.

To boost productivity, credit to rice millers, wholesalers and farmers must be expanded and spending on agriculture by government, donors and nongovernmental organizations bumped up, he adds.

The ADB’s “road map for Asia’s continued progress in poverty reduction in the face of rising food prices” also calls for governments of developing countries “to work to ensure small and marginal farm-

ers have equal access to credit, fertilizer, improved seeds, pesticides, electricity and water.”

The Cambodian Government ought to rethink its Millennium Development Goal target of protecting 60 percent of the country’s forests, says Chan Sophal. “It’s problematic because much of the land has been degraded or already converted to agriculture,” he says.

Over the long haul, improvements in land and labor productivity require not only sustained long-term investments but also technological advancements that will not be possible without a robust commitment to education and research and development.

It’s not the first time such measures have been linked to rural development in emerging economies. But now it seems something less parochial and, arguably, more pressing is at stake—global food security. ■

—Additional reporting
by Chhun Kosal

A few lines about the lines

The World Bank defines extreme poverty as less than US\$ 1 per person per day and moderate poverty as less than US\$ 2 a day. This has led some to conclude the national poverty line of roughly US\$ 0.45 per person is unfair to Cambodians, which is “not correct,” according to World Bank poverty specialist Tim Conway.

“The full description of the international poverty line is US\$ 1 per capita per day, 1990 PPP. The PPP stands for purchasing power parity. That means the US\$ 1 in the poverty line is the purchasing power of US\$ 1 in the United States in 1990. When adjusted cost-of-living differences between countries, it comes out as 1,382 riels per person per day in Cambodia in 2004. To put it another way, what you could buy and just about survive on for US\$ 1 a day in the United States in 1990—defined as the poverty line—you could buy and just about survive on for 1,382 riels per day in Cambodia,” he said in the 2005 Cambodia World Bank newsletter.

That said, poverty lines set by individual governments are significantly higher in developed countries than in developing nations. In 2006, in the United States, for instance, the poverty threshold for a single person under 65 was US\$ 10,488 annually; the threshold for a family group of four, including two children, was US\$ 20,444 per year.

Stretching those riels

Cambodians weigh in on how they are making ends meet

By Chhun Kosal
Economics Today

Hull Boren used to spend 2,000 riels for a breakfast that now sets him back more than 5,000 riels. The nongovernmental organization worker says his salary used to be more than enough to meet his family’s expenses and he often had enough cash left over each month to save a few bucks. But to sustain the family’s standard of living in the wake of recent rapid inflation, his wife was forced to work outside the home.

Fourth-year Human Resource University student Sok Savy used to spend about US\$ 1 a day to study and eat, but today he needs 10,000 riels just to cover his breakfast and educational fees. “Today, everything is more expensive not only food but also oil and gas is soaring so sometimes I have to spend more than 10,000 riels on oil and gas,” says Sok Savy.

In 2004, US\$ 1 was enough to buy a liter of gasoline. Today, a liter costs 5,500 riels, says Tith Sarun, administrator of Dane World Beauty Salon. Not long ago, he could stretch US\$ 1 over two or three days for breakfast. He says his mother warns him “not to go for a walk a lot or I may not have



Photo by Touch Ratha

enough money to last the month.”

Gnek Chantha spends about 70 percent of her income on food. The Central Market rice seller is also struggling to pay for her children’s education. “For the last few years, I paid US\$ 5 for my four children to attend school. But now I have to pay more than US\$ 10 every day.” ■

DAMPENING FORTUNES

Realtor blames a slight dip in sales on the weather



Photos by Kong Svabear

By Alanna Jorde
Economics Today

Touch Khem spent US\$300 on a small plot of land in Chhouk district in Kampot province in 2005. As prices steadily increased, he saved up enough money to buy up larger pieces around it until his small chunk of land had grown to just under 8 hectares. All told, he estimates he spent US\$6,000.

The 37-year-old graphic designer figured he'd use the land to supplement his income by growing a cash crop such as cashew nuts, acacia trees or castor plants. Instead, much to his delight and astonishment, he managed to parlay his meager US\$ 300 investment into a tidy profit of about US\$110,000.

It's more money than Touch Khem ever could have dreamed of. After surviving the Khmer Rouge, Touch Khem and his grandmother struggled to remain together, but poverty split their tiny family apart. Touch Khem spent a couple of years living at a pagoda. The monks provided him with as much food as they could. But Touch Khem was careful to ration his meals so that his grandmother always received a share.

Hunger continued to stalk him and he remembers being envious every time he doled out slop for the pigs he cared for at the temple.

When he purchased his land in Kampot, Touch Khem heard rumors about a government plan to build a national road near his property that would link National Road 3 with National Road 4. But he was skeptical. Nothing had ever come of similar talk before and, he told himself, "I'll believe it when I see it."

He wasn't in a hurry to part with his property when the offers started rolling in. First, he was offered US\$4,500 a hectare, three months later US\$ 7,000 and a year later US\$9,000 a hectare.

But each time he flatly refused. "I wanted to keep the land because I thought the longer I kept it, the more it would be worth," said Khem Touch. Concerns about land grabbing eventually made him reconsider. As a resident of Phnom Penh, he worried that he was too far away to protect his land from unscrupulous thieves.

The last time his mobile rang with an offer of US\$ 10,000 per hectare he made a firm counteroffer. "I told them US\$ 15,000 per hectare

or no deal and they went for it," said Khem Touch.

He immediately set up a bank account with plans to deposit his windfall. But he was so discouraged by the bank's low interest rates, he decided to reinvest most of the money in land, which he is convinced offers "a better return on my investment."

He bought another large piece of land in Kampot and a smaller parcel in Kien Svay, near Phnom Penh, which he expects to rapidly increase in value as the amount of land available for development in the capital city shrinks.

"Assuming Cambodia remains peaceful, I think I could sell it in five years for much more than I paid," said Touch Khem.

Others clearly agree. A week after he sealed the deal on his Kean Svay land, a prospective buyer offered him US\$6,000 more than he'd paid for it.

Red hot market cools slightly

Stable economic growth, political stability, the country's maturing banking sector and investment from foreigners and overseas Cambodians are all contributing to the booming real estate market, according to Charles Vann, deputy general manager of Canadia Bank.

The real estate market in Phnom Penh and Siem Reap is especially hot, he said.

At a conference in February he said residential land in Phnom Penh was selling for about US\$1,600 per square meter and commercial land US\$2,500 per square meter.



Sung Bonna, president and CEO
of Bonna Realty Group



Prices for residential villas in Phnom Penh advertised in Cambodia Estate Agent's May-June 2008 brochure ranged from \$ 350,000 for a small five bedroom three bathroom villa to \$ 1.5 million for a Thai-style villa with eight bedrooms, nine bathrooms and parking space for six cars.

Prices of residential properties in the current issue of Bonna Realty Group's "Khmer Property News" range from US\$ 2.3 million for a 10-bedroom, eight bathroom, seven-car parking lot villa to US\$ 105,000 for a flat with two bedrooms, one bathroom and a two-car parking lot

Sung Bonna, president and CEO of Bonna Realty Group, said land prices jumped 50-80 percent in 2007. Average prices for commercial property ranged from US\$ 2,300-\$3,000 per square meter while residential properties averaged about US\$ 1,300 per square meter.

Sung Bonna predicted in December that land prices would increase 80-100 percent in 2008 compared to 2007. Buyers should expect to pay up to US\$ 3,500 per square meter for commercial properties and US\$ 2,200 per square meter for residences in Phnom Penh in 2008, he said.

After recent meteoric rises of as much as US\$ 10 every 15 minutes, prices have stabilized of late, said independent realtor Yun Nath. He said many prospective clients are waiting until after the election to sell their properties and he expects prices to spike after the vote.

While sales in Phnom Penh remain strong, overall activity dipped slightly at Bonna Realty Group in

May. But that trend is nothing out of the ordinary, Sung Bonna told Economics Today.

Real estate sales tend to drop 5-10 percent every year at the start of the rainy season, he said, because "people aren't interested in buying property when roads are muddy and rice fields are filled with water." Most years, the drop off in sales begins in June, but this year it began earlier because the annual deluge was a few weeks earlier than usual, said Sung Bonna.

Analysts have been predicting for some time that the real estate market would cool in the months leading up to the July 27 national election, but Sung Bonna insists the vote is just one of several factors contributing to the slight slowdown.

Investors "don't seem as worried about this election," he said, adding that the global economic downturn and natural disasters are also having an impact on Cambodia's real estate market.



Chan Sophal, president of the Cambodian Economic Association

Banks are cutting back on borrowing, which is affecting sales by reducing the supply of money circulating in the real estate market, said Chan Sophal, president of the Cambodian Economic Association. "A few banks have stopped lending on the real estate market," he pointed out. A recent Government directive requiring all commercial banks to double reserves from 8-16 percent has also reduced the amount of credit available to prospective real estate investors, he added.

The days of turning an investment of a few hundred bucks into hundreds of thousands of dollars may be over.

Chan Sophal is convinced real estate prices have reached a plateau in some parts of the country. Serious investment is needed to make meaningful progress on development plans that are in place before prices will go any higher, said the Cambodian economist. ■

—With additional reporting from Sok Sithika and An Sithav

As go real estate sales so go the banks

Realtors continue to be optimistic about Cambodia's real estate market outlook in both the near and long term. But the International Monetary Fund warned in a report last year that adverse developments in the real estate market could undermine the country's maturing banking sector. "There are indications that rapid increases in land prices, particularly in Phnom Penh where real estate prices have risen rapidly recently, are not sustainable," the July 2007 report said. "It appears likely that up to half of banks' lending portfolios depend on the continued profitability of the real estate and construction sectors. Should there be a bursting of the possible land price bubble there could be a rapid downturn in asset performance with consequent implications for profitability."

Leopard Cambodia to Pounce on Stock Exchange

Contrary to conventional wisdom, stock exchanges are proving profitable in frontier markets: private equity firm

By **Alanna Jorde**
Economics Today

A couple of dates have been banded about for the debut of Cambodia's Stock Exchange, both of which are regarded by Asians to be especially auspicious.

But irrespective of whether trading begins on 09/09/2009 or 10/10/2010, Leopard Cambodia is targeting a 25-30 percent compounded rate of return on investments in the bourse, said Ken Stevens, the private equity firm's managing partner and chief investment officer.

In fact, that might prove a conservative estimate. After all, investors in Thai and Vietnamese stock markets were reaping returns as high as 44 percent between 1985 and 1990—the “hey day” of those exchanges—even

though the bourses included “a few dogs,” he pointed out at an investment forum last month hosted by Leopard Cambodia.

Ken Stevens dismisses skeptics who say income levels are too low and Cambodia is too underdeveloped to launch an exchange.

Conventional wisdom used to be that per capita gross domestic product (GDP) must meet or exceed US\$1,000 for a stock market to pay off. But such thinking is no longer valid because development is accelerated in frontier markets like Cambodia, he said.

Better access to global liquidity, improved information and technology flows, increasingly savvy local investors and a growing lust among the investment community to find the “next best thing” have helped smooth the way for profitable bours-

es in countries as poor and obscure as Papua New Guinea and Mongolia.

Companies that swore they'd never list on a Cambodian stock exchange as recently as a year-and-a-half ago are now warming to the idea, said Ken Stevens, adding: “To hit 20 (listed companies) is going to be easy.”

Leopard Cambodia predicts Cambodia's “well-rounded” stock market will include a mix of banks, rice millers, power producers, agricultural plantations, mining ventures and real estate developers.

The private equity firm is also forecasting that by 2014, average daily trade in the market will range from US\$2-2.5 million with a market cap of US\$1.2-2.5 billion.

Several hurdles must be passed before the opening bell rings, according to Kao Thach, deputy director general of Cambodia's Securities and Exchange Commission. (See Cambodia's Stock Market: A Progress Report).

But Leopard Capital is resolute. “Our feeling on the ground is the stock market is coming ... and the right people are in place to make it happen,” said Ken Stevens. ■

Cambodia's Stock Market: A Progress Report

Tasks Completed and Structural Strengths	Needs Improvement
Existence of a securities regulator (SECC)	Payment system
Securities law and other supporting laws have been passed	Pyramid scheme
Healthy banking system and insurance sector	No share registry
High rate of dollarization	Data transfers
Strong GDP growth	No interbank markets
Assistance for Korea, a strong and experienced partner, to develop Cambodia's Securities Market	Limited human resources
Cambodia's business friendly climate	Disclosure and tax
	Liquidity

Source: Adapted from a Sept. 19 presentation from Kao Thach, deputy director general of Cambodia's Securities and Exchange Commission

Asian Frontier Markets – size, shares

	Mkt cap	GDP	As %	PE ratio	No of	Avg size
	US\$ m	US\$ m	GDP		Stocks	US\$ m
Mongolia	612	2,238	27%	na	na	na
Papua New Guinea	4,863	9,453	81%	na	9	540
Bangladesh	7,328	68,105	11%	29.9	269	27
Sri Lanka	7,769	25,501	26%	10.8	237	33
Vietnam	17,864	57,036	31%	65.4	300	60
Kazakstan	53,697	57,500	93%	13.1	83	647
Pakistan	73,744	119,723	62%	16.8	652	113

Source: Leopard Cambodia

Asian Frontier Markets - Liquidity

	GDP per cap	Mkt cap	Turnover	Per day	Turnover
	US\$	US\$m	12 mo	US\$m	to mkt cap
Bangladesh	480	7,328	2,182	8.4	30%
Vietnam	780	17,864	6,714	25.8	38%
Papua New Guinea	790	4,863	49	0.2	1%
Pakistan	820	73,744	97,004	372.1	132%
Mongolia	880	612	78	0.2	13%
Sri Lanka	1,300	7,769	1,165	4.5	15%
Kazakstan	3,790	53,697	299	1.1	1%

Source: Leopard Cambodia



The Time is Ripe to Invest in Cambodian Agriculture

Just don't expect instant gratification

By Alanna Jorde
Economics Today

Ten years of research, including a recent survey of 3,000 households, has economist Chan Sophal convinced that Cambodia's top five cash crops—rice, maize, soybean, cassava and rubber—will prove very profitable in the years ahead.

According to his projections, revenue generated from the crops should increase at least 50 percent, he told prospective investors at a Leopard Cambodia forum last month.

Prices for food have soared in the past year and most analysts believe that they will remain high due to a combination of factors; most notably, sustained steep fuel costs and rising world demand for crops that can be eaten or converted into biofuels.

What's more, tens of thousands of hectares of arable land that could be purchased on the cheap are sitting idle, the Cambodia Development Research Institute's senior researcher manager pointed out.

When Central Asia Development Group (CADG) was looking to expand its agricultural operations into Southeast Asia to cash in on Asia's surging food needs, it studied Vietnam, Laos and Indonesia before deciding to target Cambodia first, said business development manager Michael Lambert.

Qatar and Kuwait have recently visited Cambodia to explore opportunities for securing long-term food supplies for their countries. "The time is ideal for investment in Cambodia's agricultural space," he insisted.

Not only does Cambodia have adequate transport links to regional markets and is integrating quickly into the regional and global economy, it is one of the few places left on Earth where "people are willing to sell arable land," he said.

Prices for Cambodian farmland and labor costs may be among the lowest in the region, but making money from farming still requires significant investment.

Initially, CADG expects to invest about US\$12-15 million to acquire more than 6,000 hectares of land near Phnom Penh to grow cassava, rice and vegetables as part of a joint venture with Paragon Corp dubbed Paragon CADG Agro, said Michael Lambert. The first crop should be in the ground by the end of 2009.

By 2010, Paragon CADG Agro's goal is to own and operate 30,000-50,000 hectares of Cambodian farmland.

Besides state-of-the-art sustainable water management, funds will be used to "implement best practices in farming and management techniques, and transferring modern farming skills, he said. To that aim, CADG managed to capitalize on controversial farm seizures in Zimbabwe by "poaching 50 of the world's best farmers (from the African nation) until they work themselves out of a job."

But while Cambodia lacks senior managers, the country has a bounty of "young, hungry and highly trainable" people, added Michael Lambert.

In a nutshell, those investing in the agricultural sector must be prepared "to get your hands dirty and

change the way people farm," he said. Since "agriculture is a five- to 25-year investment," a little patience wouldn't hurt either.

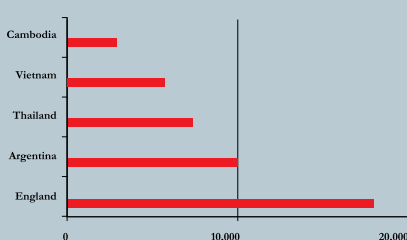
But the former hedge fund manager doesn't seem to be worried about delaying gratification. With stock markets around the globe in crisis, many of his former colleagues "are envious I'm a farmer now and not a hedge fund manager," he quipped at the forum, which was held around the time Lehman Brothers collapsed and the US government was hatching a US\$700 billion bailout of insurer American International Group. ■

Investing in Agriculture

- Plenty of opportunities exist at the low, medium and high end of capital funds.
- Industry Intelligence is essential
 - Good returns for US\$100,000 investment
 - Great returns for US\$500 million investment
 - Bad returns at all levels if poor decisions are made
- No single magic dollar amount will ensure a return on investment and all crops have their pros and cons.
 - Some industries such as rubber and cassava need minimum investment of US\$20 million, and this is closely tied up with land prices and processing equipment.
 - Working capital to acquire raw product and then process it for export requires the bulk of investment.

Source: Agricultural Development International

Farm Land Prices - A Comparison
Arable Land Prices US\$/ha



Note: Estimates based from numerous sources

Source: Paragon CADG Agro (Singapore)

Fashionista Launches Made-in-Cambodia Label



Photo courtesy of UNDP Cambodia

Bangladeshi fashion designer Bibi Russell, right, brainstorms designs with workers at Modern Dress Sewing Factory in Phnom Penh.

Alanna Jorde
Economics Today

Bibi Russell doesn't believe in charity, nor does she care to talk about the misery of poverty. Instead, it's better to "join hands with" women who are struggling to escape impoverishment, give them a hand up rather than a handout, so they can "create magic with their fingers," insists the internationally-renowned fashionista, wiggling her digits for emphasis.

A former model, Bibi Russell has graced the pages of *Vogue*, *Cosmopolitan* and *Harper's Bazaar* and strutted the catwalk for fashion icons such as Yves Saint Laurent, Karl Lagerfeld and Giorgio Armani.

But these days she is transforming the lives of poor women by turning fashion into sustainable development.

She has been promoting "fashion for development" since 1994 in

her homeland of Bangladesh, where she has put 35,000 rural women to work producing traditional weavings and garments for her very own Bibi Productions.

It wasn't long after establishing her fashion house that the London College of Fashion graduate began turning heads in the business community. The Foundation of Entrepreneur Women named her Entrepreneur Woman of the Year in 1999 and the now-defunct *Asia Week* magazine named her "one of the 20 people to watch in the millennium."

And now she's set to export her unique sustainable development approach to Cambodia.

At the conclusion of a recent nine-day visit to Cambodia, Bibi Russell announced she is teaming up with Modern Dress Sewing Factory (MDSF) and the United Nations Development Program (UNDP) to launch a new international de-

signer label, "Bibi for WE"—the WE an acronym for women's empowerment.

Bibi Russell got straight to work on her new label when she was in Cambodia. She met with silk producers in Takeo and Siem Reap and began training MDSF workers in the selection of materials, design, finishing, quality control and production of her new line, which initially will comprise of designer bags.

The products will be contemporary in style but infused with elements of the rich Khmer cultural heritage and made using local materials such as Cambodian silk, said Bibi Russell.

MDSF currently employs 17 HIV-positive women, who piece together simple garments, school uniforms and conference bags in a small Phnom Penh factory with support from the UNDP's Women and Wealth Project.

MDSF Business Manager Pham Srim is hopeful the factory's workforce will grow with the addition of the "Bibi for WE" label, particularly in Phnom Penh, where HIV-positive women have easier access to life-prolonging anti-retroviral drugs.

Echoing Bibi Russell, she said HIV-positive women don't want sympathy, "but support to live a life of respect and dignity ... This project helps us to stand on our feet, earn a living and stay unfazed by the stigma and discrimination staring us in the face." The message of WE, she added, "is one can lead a normal and productive life with HIV."

Retail outlets in Canada and Bangkok already have expressed an interest in selling the "Bibi for WE" line and other marketing channels are being explored, said Douglas Broderick, Cambodia's UNDP resident representative. He described the label as "a symbol of resilience and resolve by women in the face of ill health, poverty and discrimination."

Bibi Russell, a UNAIDS goodwill ambassador, doesn't expect it'll take long to diversify her label beyond bags. She's convinced the products will resonate with environmentally- and socially-conscious consumers, who are eager to feel like they are making a difference through the products they buy. ■

Credit Cools for MFIs

But a new rule allowing MFIs to accept deposits may help ease dependence on lenders

By Alanna Jorde
Economics Today

Cambodian microfinance institutions (MFIs) won't be able to dodge the credit "tsunami" that is sweeping across the globe, predicted Lars Thunell, head of the International Finance Corporation (IFC).

The IFC currently provides about US\$950 million annually to 100 MFIs in over 60 countries and plans on doubling its global microfinance lending within three years.

But Lars Thunell said Oct. 21 he expects the global financial crisis will force MFIs around the world to make do with less as credit cools from other sources.

The IFC's chief executive officer was in the country to pledge an undisclosed amount of financial support and advisory services to Angkor Microfinance Kampuchea (AMK)—one of Cambodia's leading MFIs.

He also met with representatives from several Cambodian MFIs who told him they would be scaling back expansion efforts—a move that he described as "prudent" in the wake of the credit crunch.

"We're directly feeling the impact, which is sad" given the recent, rapid gains MFIs have made in the country, said AMK Chief Executive Officer Paul Luchtenburg.

AMK's clientele has doubled every year for the past three years and now totals more than 180,000. Most of AMK's clients are subsistence farmers who are among the country's poorest people.

MFIs are heavily reliant on external lenders, making them especially vulnerable to the credit tsunami, Paul Luchtenburg pointed out, adding that he'd already had one lender slash a financing pledge from US\$4 million to US\$1 million.



*International Finance Corporation (IFC)
Chief Executive Officer Lars Thunell*

His best "rough guess" is the global credit freeze will cause Cambodian MFIs to downsize their expansion targets by as much as 40 percent.

However, recent changes in regulations, which allow MFIs to accept deposits, should help ease their dependence on external lenders over the long term.

The National Bank of Cambodia (NBC) began allowing MFIs with sufficient paid up capital to take savings from the public in June, said NBC Director-General Tal Nay Im. "This will give borrowers a safe place to save money and earn interest on their savings, but it also means that MFIs will have a cheaper source of funds for lending in addition to what they borrow now from international financial institutions," she added.

In the meantime, Lars Thunell said the IFC is prepared to help emerging markets cope with the financial crisis on four fronts—liquidity; capital; asset management; and, infrastructure and regulation.

The IFC could assist with the "recapitalization of banks" in countries that lack the resources to bail out financial institutions that are on the brink of collapse as the US and some European governments recently have done, he said. It also will assist in the management of troubled assets, when necessary.

Micro credit has been growing at a rate of about 30 percent per year in Cambodia, where 17 registered MFIs serve more than 767,000 borrowers with loans amounting to US\$257 million, said Tal Nay Im. Their success, she added, is "reflected in the fact that 99 percent of borrowers repay their loans and 70 percent borrow again."

Research around the world has shown that microfinance can improve the living standards of borrowers who would be unable to boost income from farms and micro businesses without access to credit. Borrowers typically use their increased earnings to upgrade housing and pay for health care and school fees for their children. ■

The Credit Bureau

The International Finance Corporation is collaborating with the National Bank of Cambodia (NBC) on regulations to establish a private credit bureau, which will help banks and microfinance institutions (MFIs) better assess risks in lending, NBC Director-General Tal Nay Im said Oct 21. The private credit bureau will provide banks and MFIs with comprehensive information about potential borrowers such as whether they've repaid or defaulted on previous loans, the size of their current debts and whether they've promptly paid utilities and other bills. The bureau should help reduce risks associated with lending, thereby reducing the cost of borrowing for people with good credit histories. Banks and MFIs will be able to access the information on the Web. The credit bureau should be operational by the time Cambodia launches its stock market late in 2009, said Tal Nay Im.



High Stakes

NagaCorp carves out a niche market in the region's booming gaming sector

By Alanna Jorde
Economics Today

Most gamblers at NagaWorld may not fit the industry's bill of a high roller, but the largest casino in Cambodia is making millions of dollars in profit treating them as if they are.

An arrangement with the Cambodian Government allows NagaCorp to whisk preferred patrons through immigration after their flights arrive at Phnom Penh International Airport. From there, the baccarat tables at the casino and its five-star amenities are a mere 30-minute Mercedes drive away, said Paul Simmons, the casino's senior vice president operations, at an investment forum last month hosted by private equity firm Leopard Cambodia.

NagaWorld isn't trying to compete with Macau, which surpassed Las Vegas in 2006 as the world's largest gaming hub and generates the lion's share of its revenue from

high end gamblers. Nor does the Cambodia casino consider itself to be in competition with the popular Genting Highlands resort in Malaysia, which has mass market appeal.

Instead, NagaWorld targets mid-range regional players who fancy being treated like VIPs. CitiGroup gaming analysts have characterized the Cambodia casino as the "poor man's VIP market," Paul Simmons pointed out, adding that gamblers drop an average of US\$33,000 per visit.

Thus far, the shrewdly crafted marketing strategy, which includes cultivating close partnerships with selective junkets and tour groups, has been wildly successful.

NagaCorp posted a 54 percent increase in net profits in 2007 to US\$50.2 million and a 68.5 percent leap in revenue growth for the first half of 2008 compared to the same period in 2007.

The casino began its operations

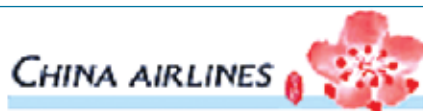
in 1995 on a barge on the Mekong River and later became an imposing icon of the capital's rapidly changing skyline on 2.7 hectares of land in the heart of Phnom Penh. Today, NagaCorp operates on the largest property in the city and is also its largest employer, boasting a staff of 2,700.

In 2006, NagaCorp became the first gaming-related counter on the Hong Kong stock exchange (HKEx). The bulk of the proceeds from the listing were used to expand the integrated hotel, casino and entertainment complex.

The listing was not without its complications. The Singapore Exchange and then the HKEx rejected NagaCorp's listing bid over concerns about the company's internal money-laundering regulations.

To allay concerns, NagaCorp volunteered to subject itself to six monthly audits per year, said Paul Simmons.

Unquestionably, the Cambodian



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Government has been more help than a hindrance in NagaCorp's success.

The Government awarded NagaCorp a 70-year casino license in 1995 as part of an international tourism infrastructure tender. The license, which Paul Simmons pointed out is the lengthiest in Asia, grants NagaCorp exclusive rights to operate within a 200-kilometer radius of Phnom Penh until 2035.

It does not restrict the size or location of the casino, the number of gaming tables and machines, types of games, hours of operation or sub-concessions, which would allow the

company to sell licenses to foreign companies to develop gaming properties in the city if it so chooses.

NagaCorp's founder and Chief Executive Officer Tan Sri Chen Lip Keong reportedly told the financial news service, Bloomberg, on June 27 that NagaCorp "may consider any subconcession proposal when the timing is right."

In the meantime, casino executive Paul Simmons reckons only market forces stand in the way of further expansion possibilities.

Asia-Pacific is the world's fastest-growing gambling region, which bodes

well for the company. But the regional gaming landscape is likely to get a lot more crowded in coming years.

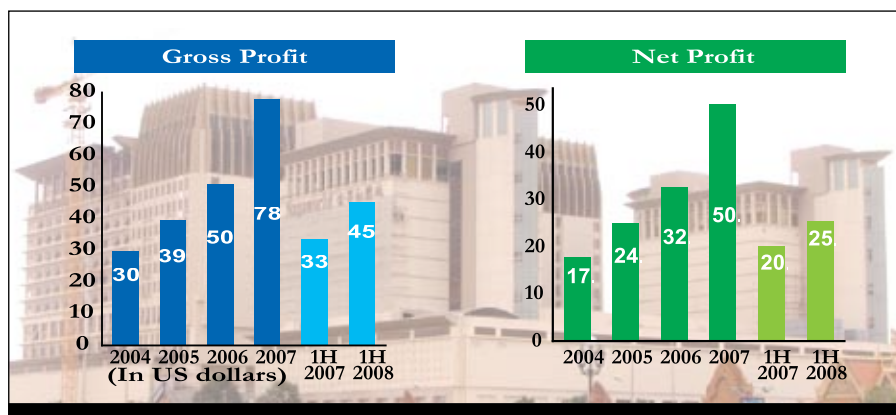
A Canadian casino company is attempting to raise funds to build a gambling resort on Vietnam's coast about 80 kilometers from Ho Chi Minh City. Industry insiders are optimistic two mega casino complexes will soon go ahead in Singapore and are speculating that Japan may have a legal casino within five years. ■

Fast Facts

NagaWorld's 16-storey hotel currently contains 508 rooms; its eight-storey casino wing has 176 gaming tables and 211 gaming machine stations.

It boasts a shopping center, spa, seven restaurants and the largest karaoke club in the region. Work is being completed on an elaborate series of water fountains that will grace the front of the complex.

It is open 24 hours per day, 365 days a year.



EXPERTS PRESCRIBE REMEDIES FOR THE AILING RURAL ECONOMY

BY ALANNA JORDE

PHNOM PENH—A team of Harvard University researchers urged the Cambodian government to create a comprehensive framework for invigorating the rural economy rather than becoming complacent in the wake of recent robust macroeconomic growth.

“Just waiting for continued growth to remove structural barriers (that impede economic growth) seems to us to be a bit of a pipe dream,” said Thomas Vallely, speaking at the Second Cambodia Economic Forum Wednesday in Phnom Penh.

If Cambodia’s high cost economy (see sidebar) continues to stifle growth while revenue from oil and natural gas keeps the real exchange rate high, the country’s manufacturing and agricultural sectors risk becoming increasingly uncompetitive and the consequences could prove dire, Vallely and his co-researchers David Dapice and Ben Wilkinson warned.

Once that happens rural farmers are likely to sell their land in increasing numbers and flock to urban centers in search of jobs that they will be hard-pressed to find.

“In these conditions urbanization is likely to be uncontrolled, with social services unable to keep pace with population expansion, producing a tinderbox of social and political discontent (similar to what has occurred in the Philippines and many Latin American countries),” the Harvard research team pointed out in a United Nations Development Program (UNDP) report that was drafted in cooperation with the Supreme National Economic Council (SNEC).

To avoid that scenario, the Harvard team advised the government to take measures to ensure that small and medium-sized farms become the engine of a dynamic rural economy.

“In nearly all of the most successful developing and transitional economies in the region, the family farm has remained the basic economic of production in the rural economy ... Thailand and Vietnam exemplify this pattern. Although industrialization and off-farm

employment are still essential, a vibrant rural economy based on small farms can provide other sectors with time to develop,” they noted in their report.

LAND CONCENTRATION A GROWING CONCERN

To raise rural incomes, Vallely, Dapice and Wilkinson recommended a land tax on holdings above 5 hectares to curb concentration and/or improve utilization; restructuring the relationship between the state and the private sector; and, swapping natural resource assets for human and physical assets.

A land tax, even one as low as 1 percent the value of the land, would deter speculation and land concentration, which is accelerating at an alarming rate, suggested Wilkinson.

Land concentration and the possibility it might adversely impact rural economy was a concern that was echoed by others at Wednesday’s economic forum.

“The land issue that has been so hotly debated is still in a critical and tense situation. Resolution of this through, among other things, fair implementation of the Land Law would have immeasurable benefits,” said United Nations Representative Coordinator Douglas Gardner.

Ari Kokko of the Stockholm School of Economics said a land tax “was not a good substitute for a good legal framework (which includes sound land titling procedures and land reform) ... What we’ve seen across the world is land reform in the long run is a necessity for stability.”

A 2006 UNDP-funded analysis of the Cambodian economy completed by the Harvard team with cooperation from SNEC also linked land concentration with stability. “If the reported trend in concentration in land holdings is indeed accurate, it would be a major shift towards inequality, and one very seldom observed in peace time anywhere in the world,” the report warned.

The Harvard team’s recommended “list of inputs” needed to invigorate the

rural economy—better infrastructure; more and cheaper electricity; and access to technical knowledge and education”—are key aspects of the Cambodian government’s agenda for poverty reduction.

Vallely said he had “no disagreement except in the margins with the government’s strategy.”

But he called on the government to modernize the state’s role in the econ-

omy, which he said is still “somewhat old-fashioned.”

Mechanisms are needed “to change what the state does in a globalized economy” and to dismantle the high cost economy, he added.

Successful reforms will require considerable “political will (and) speed because globalization waits for no one,” said Wilkinson.

THE HIGH COST ECONOMY

Unit = US\$

Input	Cambodia	Vietnam
Gasoline per liter	\$ 0.95	\$ 0.74
Diesel per liter	\$ 0.78	\$ 0.54
Electricity per kwh	\$.20 - .50	\$.60 - .14
Container to Singapore (from Phnom Penh)	\$ 475 (thru Sihanoukville)	\$ 280 (thru HCMC)
Internet charge	\$ 50.00	\$ 20.00

A COMPARATIVE PERSPECTIVE

Comparing Cambodia with other Countries

Low (Worldwide)	Poor (Asia)	Average (Asia)	High (Worldwide)
Electricity consumption	Irrigated land	Literacy	GDP Growth
Rice yields	Fertilizer Use	Low birth weight	Rice yield growth
Gov’t consumption/GDP	Life expectancy; increase in life expectancy	Savings/Gross Domestic Product (GDP)	Export growth
Expert diversification	Undernourished (% of population)	Investment/GDP	Tourism growth
Clean water (access)	Human Development Index (HDI)	Gain in HDI	Decline in HIV/AIDS infection rate
	Fall in infant mortality		
	Poverty (%)		

Cambodia has “a lot to pat itself on the back about,” said David Dapice, citing increases in Gross Domestic Product growth, which averaged 9.7 percent from 1999 to 2006, declining HIV infection rates, a burgeoning tourism sector and growth in rice yields and exports. But access to clean water and electrical power, export diversification and overall rice yields remain low compared to the rest of the world.

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