

Cambodia Outlook Brief*

2010, N° 02

Strengthening Key Sectors for Cambodia's Return to Growth, Sustainable Development and Poverty Reduction: Agriculture and Rural Development¹

“Cambodia is an agricultural country with favourable climate and land for agricultural products... [However, it] is facing problems in terms of competitiveness and linkages to the international market.”

*Mr Okhna Phou Puy, President, Federation of
Cambodian Rice Millers Associations*

Agriculture: The Unstable Growth Sector

Cambodia is endowed with abundant fertile lands and favourable climate. This gives the country a comparative advantage in agricultural production. In time, agriculture has established itself as one of Cambodia's growth sectors. Between 1994 and 2008, its annual growth averaged about 5 percent (Figure 1). The sector has also traditionally accounted for the majority of the domestic workforce. This share, however, has decreased over time, standing at 56 percent in 2007 from 67 percent in 2002.

While agriculture's growth contribution has been significant, it is clear that its potential has not been utilised to the fullest. Between 1994 and 2008, the average yearly growth of the industrial and service sectors was at roughly 15 and 9 percent

respectively, way higher than agriculture's 5 percent growth as cited earlier (Figure 1). Over the same period, agriculture's share of total output dwindled from about half to a quarter while that of industry inched upwards to roughly 28 percent and that of services, to 39 percent. The importance of agriculture was best demonstrated in 2009 when it helped take up the slack in the economy. While industry and services contracted by about 2 and 9.5 percent respectively, agriculture was able to maintain its growth in the past three years of not less than 5 percent. Above average commodity prices worked as an incentive for farmers to grow more crops though not as much as expected. Exploiting the opportunity presented by higher prices was impeded by high input costs, limited connectivity to the market, and lack of access to affordable credit.

Paddy dominates crop production, having traditionally accounted for more than 50 percent of the total. Due largely to productivity improvements and increases in cultivated areas, paddy production has tripled in volume since 1994 and Cambodia became self-sufficient in rice by 1995, paving the way for the export of surplus paddy. Cultivated areas expanded by a third between 1994 and 2007

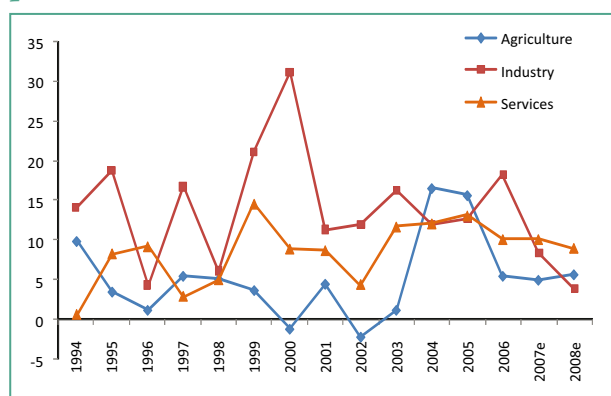
1 Outlook Brief 2 summarises the presentations and discussions in session 3A(i) of the 2010 Cambodia Outlook Conference. Presenters for this session were: Mr Okhna Phou Puy, President, Federation of Cambodian Rice Millers Associations and Dr Tong Kimsun, Programme Coordinator, Economy, Trade and Regional Cooperation, CDRI.

while average yield increases became one of the highest in the region. In 2008, paddy production stood at about 7 million tonnes.

The growth of paddy production had a record of instability, however. This volatility became particularly pronounced as the new millennium began (Figure 2). Also, paddy yield remains among the lowest in the region despite having increased rapidly over the years. Between 1994 and 2008, it reached 2.17 tonnes per hectare on average while paddy yield in Thailand averaged 4.37, Vietnam, 2.64 and Laos, 3.05 tonnes per hectare over the same period.

Limited milling capacity also curbs exports of milled rice from Cambodia. Higher export earnings are lost due to the export, official and unofficial, of most rice produced in paddy form to neighbouring countries where it is milled. From 2000 to 2008, official rice export volumes per year represented a tiny 1 percent of total surplus paddy on average. Additional official earnings of a huge USD1089 million would have been reaped in 2008 if the rest of the surplus paddy was exported via formal routes (Figure 3).² Another major problem is that Cambodian rice exports have been of inferior quality and therefore valued at lower prices.

Figure 1: Sectoral Annual Real Growth Rates, percent



Source: NIS Handbook of Statistics (2006, 2008)

² Given the large-scale informal trade of rice across borders, a significant portion of this amount could have been earned through informal trade.

Constraints to Agricultural Growth: The Case of Rice

Paddy productivity is determined by several factors. Key among them are: farm size, land security, input sufficiency and quality, infrastructure development, level of technology and climate conditions.

A large farm size is traditionally associated with greater production efficiency due to economies of scale. In the case of Cambodia, where the majority of the farmers are either landless or smallholders (i.e. farmers owning or at least growing crops on less than one hectare of land), survey results found that smaller plots are more efficient than larger plots. Unfortunately, most of the farmers in the country struggle with the problem of land insecurity, having no land titles in their possession. Economic land concessions can significantly boost agricultural production and exports but many of those already granted remain unutilised or underutilised.

Productivity is also curtailed by both the insufficiency and inefficiency of input use. The usage of fertiliser in Cambodia has been restrained by its high cost. Where fertiliser is used, irregular and incorrect application curtail potential gains. Irrigation facilities in the country are also inadequate and substandard. Power infrastructure remains underdeveloped, making electricity relatively very expensive and one of the top constraints to setting up business in the country. Road infrastructure has improved due to restoration and new construction but a lot remains to be done in order for Cambodia to catch up with its neighbours in terms of infrastructure quality. The same is true with regard to the level of technology. A limited number of Cambodian farmers can afford modern agricultural machinery such as tractor. Little technological progress has been achieved. Climate conditions in Cambodia have generally been favourable. Major climatic disasters have been rare. However, abnormal weather conditions –longer and untimely drought, excessive rainfall– have been recently experienced, affecting harvests.

Agricultural Policy: Present and Future

Enhancement of the agricultural sector is the first pillar of the government's rectangular strategy on which the National Strategic Development Plan

(NSDP) 2006-2010 is based. The NSDP 2009-2013 shall continue the prioritisation of increasing agricultural productivity, diversifying agriculture, and promoting agro-industries. It also pays more attention to the strategy of increasing output by intensifying production on existing land as opposed to expanding cultivation areas.

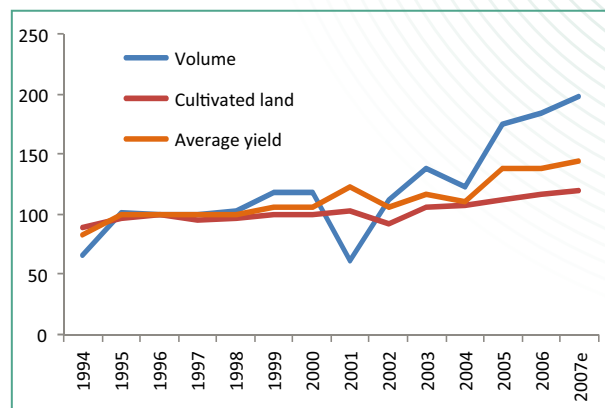
To be able to fully capitalise on the potential of agriculture, the major production constraints must be addressed. In this task, both government and non-government institutions will have to work together. It has been found that the government's agricultural development projects alone are unable to significantly improve productivity.

There is clear interest in the country's rice as long as its quality and supply can be guaranteed. Thus, focusing on removing the constraints to improving rice productivity promises the biggest immediate pay-offs. Eliminating these constraints could increase rice productivity to 3 tonnes per hectare by 2013 and double rice production.

One clear imperative is to resolve the long-standing issue of widespread land insecurity. Giving farmers security over their lands will serve as a motivation for further investment and increasing productivity. Both government and non-government efforts relating to land title distribution and dispute resolution must therefore not be derailed. Small-scale land concessions to landless people have to be increased as well.

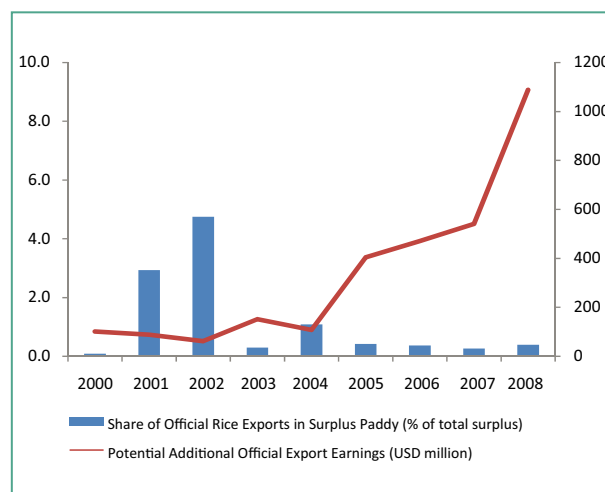
Further, enhancing not only the quantity but also the quality of rice output requires the upgrading of farming methods. Improved seed selection, cultivation, harvesting and storage techniques guarantee higher yields and rice of better quality. Farmers find it very hard to abandon traditional practices, emphasising the need for education, persuasion, demonstration of modern agricultural practices and training. Hence, extension services and capacity building initiatives have to be stepped up to widen awareness and adoption of modern agricultural practices. The government must also initiate the creation of farms or laboratories meant for seed purification, breeding and storage. Private farm support from both government and non-government institutions has to continue, so do efforts aimed at improving the direct access

Figure 2: Paddy Production Indices (1996=100)



Source: Calculations based on NIS Handbook of Statistics (2006, 2008)

Figure 3: Rice Export Potential



Source: MoEF; NIS Handbook of Statistics 2008

of smallholders to low-interest loans, thereby enabling them to make production investments on their own. Loans of varying maturities must be available given the different payment capacities of farmers.

In addition to rice, promotion of the fisheries sector and agri-business must also top the policy agenda. The fisheries sector is often overlooked at a huge expense. Given its export potential, it must be granted equal priority as crop production. Capturing a market niche for the country's fishing products is a huge challenge that necessitates active promotion of the fisheries sector. Moreover, the capacity of domestic food and packaging industries to meet international standards must be strengthened. To this end, more financial assistance and investments, both public and private, are needed in agro-industry.

High energy costs and, most notably, electricity prices in Cambodia are a barrier to their effective use in the agricultural sector. Making electricity cheaper ultimately requires power infrastructure development. Private companies with high investment capacity could be allowed to generate their own electricity and sell any surplus to surrounding areas. Temporary electricity price support also appears necessary in building up the rice processing industry. Special electricity tariffs could be offered during holidays and weekends. Irrigation infrastructure likewise needs speedy development. Overall, infrastructure building would enable farmers to respond to market demands in a timelier manner. Sustainable agriculture also calls for preservation of soil and water quality through improved soil and water management. This strategy would enable farmers to better cope with drought and save on input costs.

The government has to assist the private sector in searching for new export destinations. Gaining

access to the rice markets in the Philippines, Indonesia, and the European Union would give the Cambodian rice industry a huge boost.

Improvements in trade facilitation could further ease and deepen rice trade. Securing new export markets requires further simplification of procedures and minimisation of formal and informal transaction costs. Port and shipping charges in Cambodia are also relatively very high and would have to be brought down to stimulate export of its rice.

One good thing that came out of the crisis is that it strengthened the political will to work on agricultural and rural development. With the majority of Cambodia's poor residing in largely agriculture-based rural areas, it is only by determinedly pursuing this component of the national development strategy that equitable growth could become a reality.

Working Paper Series No. 42

Leadership in Local Politics of Cambodia: A Study of Leaders in Three Communes of Three Provinces

Thon Vimealea, Ou Sivhuoch, Eng Netra and Ly Tem

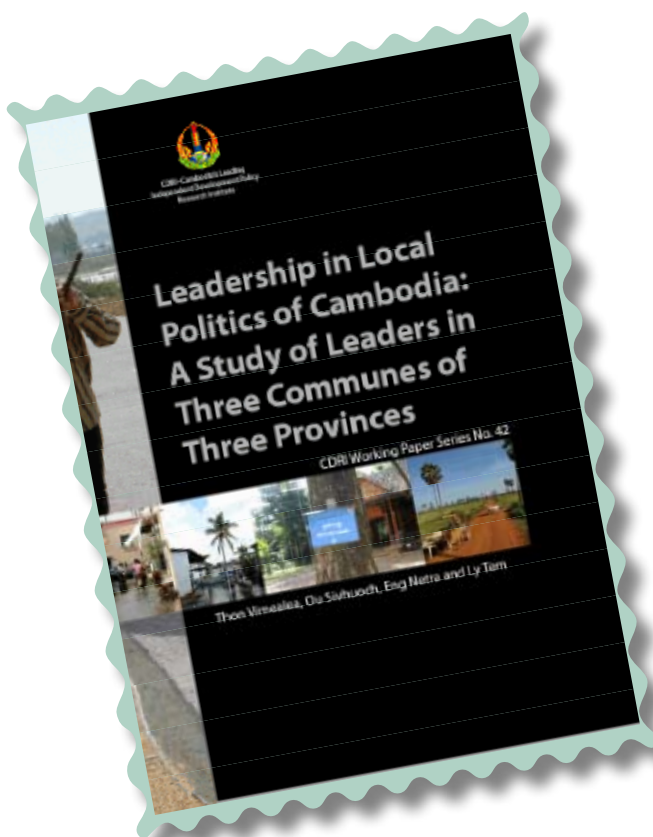
Using the state-society gap as its assumption and point of departure, this study seeks to identify different kinds of local leaders (including women leaders) and their associated characteristics and elements of legitimacy in order to see whether and how they can help bridge this gap.

It was found that, as a result of decentralisation and deconcentration reform, the gap between state and society has been bridged, albeit very slowly, unevenly and narrowly. To assist the reform and promote democracy, the study suggests several policy implications.

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