



Energizing the Economy of Rural Cambodia by Supporting Off-farm Income Generation

The majority of poor and vulnerable populations in Cambodia lives in rural areas and relies on agriculture based employment as the primary source of income. The agricultural sector, which employs more than 60% of the labor force and accounts for 30% of GDP, faces many constraints: low productivity, limited services, poor market integration, weather dependency, climate change and increase of landless households. Job creation is poor, seasonal unemployment is a significant problem, and the labor force increases annually by 3.3% (about 300,000 people every year).

The unreliability and risk of depending on agriculture for their livelihood motivates rural farmers to find work outside their own farms during off seasons. Most poor households engage in off-farm income generation activities including working in farms which are neither owned nor managed by them. Poor smallholder and landless households account for about 16 per cent of rural households. Their household incomes are contained about 46.9 – 69.4 per cent from off-farm income.

The findings of a recent study revealed that the average monthly income of a rural Cambodian household was approximately 830,000 riels and

poor smallholder households generate lower monthly income (approximately 700,000 riels). However, the income of the landless households was found to be around 1,080,000 riels per month. This is due to the fact that landless poor households highly depend on off-farm income generated employment activities, which does not invest any input costs suggesting that these off farm activities play an important role.

Given the major role that off-farm income already plays in the economy of poor households, this brief recommends that **off-farm income generation activities should be promoted and supported to boost the rural economy.**

Background: The current context of off-farm income generation in Cambodia

Off-farm income generation in Cambodia can be divided into three subtypes: agricultural, non-agricultural and self-employment. A study report finds that agricultural off-farm employment accounts for about 25% of households, consisting mostly of activities that support agriculture and post-harvest crop activities, as well as fishing, logging, and growing rice and perennial crops.

Percentages of households involved in different types of off-farm activities

	Poor	Non-poor	Total
Zero off-farm activities	20.01	27.65	24.06
Off-farm employment	79.99	72.35	75.94
Agricultural employment only	25.33	10.59	17.50
Non-agricultural employment only	21.33	28.82	25.31
Both agricultural and non-agricultural employment	13.33	4.12	8.44
Self-employment	9.33	15.88	12.81
Both self-employment and wage employment	10.67	12.94	11.88

Source: Household survey, Study on Off-farm Income Generation Activities in Cambodia, CDRI Final report, 2015

The most prominent form of off-farm employment is non-agricultural including jobs in construction and manufacturing apparel or grain mill products. More than 34% of households participated in this type of activities according to the study. The wages in the industrial sector are relatively higher than those in the agriculture sector.

Sector-specific challenges to off-farm income generation

Agriculture

- High input prices of pesticides and fertilizer due to taxes, leading to increased cost of production in farm commodities.
- Low productivity and low selling prices of farm commodities leading to lower farm incomes. Price fluctuations leading to uncertain farm incomes.
- Inadequate irrigation facilities result in damages to farm production due to drought. Uncertain climate makes farmers to restrict expansion of cultivation and keep them away from commercial-level agriculture, in turn leading to unemployment.

Industry including agribusinesses

- Inadequate market information and poor market orientation lead to inefficiencies.

- Inadequate technology and poor competencies in product processing have created barriers for starting agribusinesses in rural areas.
- Inadequate credit facilities and high bank lending rates discourage people starting businesses.
- Unavailability of cheap electricity, access roads and irrigation places further stress on off-farm income activities through agriculture-related business activities as well from other non-agricultural industries.
- The unavailability of infrastructure facilities further incentivizes firms to move away from rural areas and limit their operations to urban areas. This may also result in the migration of farmers by adding further risks to their socioeconomic activities, such as health risks or the risk of being unpaid.
- Current taxation and business documentation methods also act against industrial growth, both agriculture-oriented and otherwise.

Self-employment

- People don't have easy access to investment capital thus they move in search of jobs or off-farm income from other sectors.
- Inadequate knowledge and managerial skills keep farmers away from starting on their own firms and self-employment activities. Further, vocational training and skills development are inadequate.





- Farmers' level of education is limited, restricting their options for self-employment.

Recommendations

Improve agricultural production:

- **Reduce taxes** on imported inputs to increase agricultural productivity through optimal input usage.
- **Provide incentives to expand domestic production of agricultural inputs** to increase availability of inputs.
- **Introduce standards** on insecticides, weedicides and fertilizer to further reduce input costs and increase profits by reducing existing inefficiencies in existing agricultural productions.
- **Link rural areas to markets.** Create environments for traders (buyers, brokers, intermediates) to compete freely, avoiding price monopolies in rural areas. This will stabilize prices.
- **Build irrigation facilities** to reduce production losses due to drought and climate in rural areas.
- **Promote fishing and aquaculture jobs**, because they are the best-paid jobs in the agriculture sector. Fishing is an agribusiness that involves many stakeholders in the production and

marketing process, while fishing tools, including boats and nets, are supplied by local producers. Thus policies should promote fishing, processing and export, while avoiding monopolies.

Promote agribusinesses:

- **Promote farmer organizations and contract farming.** This may be a good option for their low level of individual credit access to poor and landless people.
- **Improve rural infrastructure.** Provide lower-cost electricity and build access roads to rural areas to attract investors.
- **Establish institutions for quality control and product standardization.** This will help in expanding export markets, by making products more attractive to markets that require high quality and safety standards like the EU.
- **Provide storage and drying facilities**, which will help to improve quality and reduce post-harvest losses in export products.
- **Reduce export market barriers and establish bilateral trade agreements** with neighboring countries, which will provide tariff-free trade and better prices for the products. This will also reduce

the risk of difficulties currently experienced in trade, such as low prices and the rejection of exported agricultural commodities without valid reasons.

Improve industry-oriented off-farm income:

- **Promote existing industries** such as handicrafts and pottery, which can be further developed by providing more market opportunities like the “One Village One Product” concept.
- **Reduce barriers to entry in businesses**, such as complex documentation processes and heavy registration fees. The introduction of electronic documentation can help here. The one-stop window for SME registration is a good example.
- **Reduce high interest rates** to encourage more people to invest.
- **Improve taxation and tax collection** by introducing methods like profit tax exemption for a specific time frame, and reduce unofficial fees charged by local authorities.

Improve self-employment and resilience:

- **Provide vocational training** by establishing vocational training centers and organizing workshops for people who are already in the sector or willing to start their own business.

- **Promote IT-related self-employment** as a policy. It will open a path to self-employment in the IT sector as well as build IT skills in the rural community, making it easier for people to work in modern industry.
- **Provide easy credit access and capital access** to strengthen the self-employment sector. Banks are to reduce interest rates and provide concessionary loans.
- **Establish business information centers and advisory offices** in rural areas to improve entrepreneurship and managerial skills among farmers and encourage them to start their own businesses

Projected Impact

With the most critical barriers to off-farm income generation eliminated, rural income generation will be strengthened and economic resilience improved. Farmer migration and food insecurity will be greatly reduced, and income levels increased. Rural farmers will have more opportunities, have a more secure and resilient economy and enjoy the benefits of modern infrastructure.

