

Managing Through the Crisis— Strengthening Key Sectors for Cambodia’s Future Growth, Development and Poverty Reduction: Agriculture and Rural Development

This article summarises the presentations by H.E. Nam Tum and Dr Theng Vuthy¹ during session 3A(i) of the 2009 Cambodia Outlook Conference.

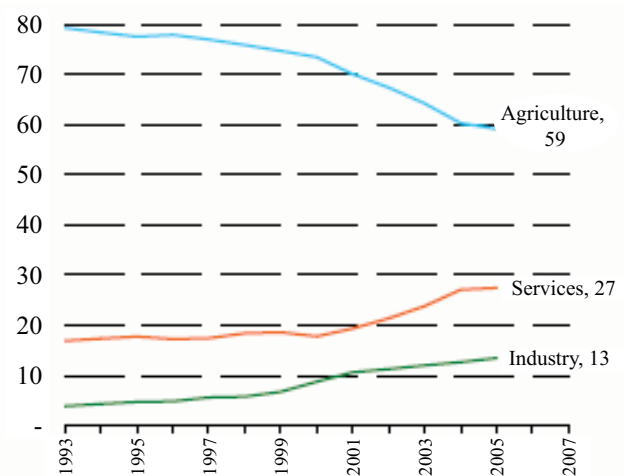
As in many other less developed countries, poverty in Cambodia is largely a rural phenomenon. The poverty incidence is much higher in rural areas, where agriculture is the key to subsistence and the primary source of livelihood and employment. With this in mind, it is imperative to reassert the centrality of the agricultural sector and save it from the rather cursory attention it tends to receive.

Agriculture’s Contributions to Growth and Employment

The sector’s contribution to growth has been historically unstable and occasionally even negative. The World Bank calculated its contribution to Cambodia’s annual growth over the period 1998–2007 to be 2 percentage points, which is much lower than the 4.5 and 4.8 point contributions of the industrial and services sectors respectively. Of the country’s 2007 GDP, agriculture accounted for 29 percent while industry and services accounted for 30 percent and 41 percent respectively. The growth of agriculture has been outstripped by industry and services. Nevertheless, agriculture has traditionally accounted for the majority of Cambodia’s workforce. A huge 59 percent of the workforce was engaged in agriculture in 2007 (Figure 1). Cambodia’s natural endowment and huge stock of cheap agricultural workers also give the country a competitive edge in this area. For all

these reasons, agricultural development is just as significant as industrialisation. The sector has a lot of potential that remains untapped.

Figure 1: Share of Employment (%)



Source: World Bank, Jan. 2009

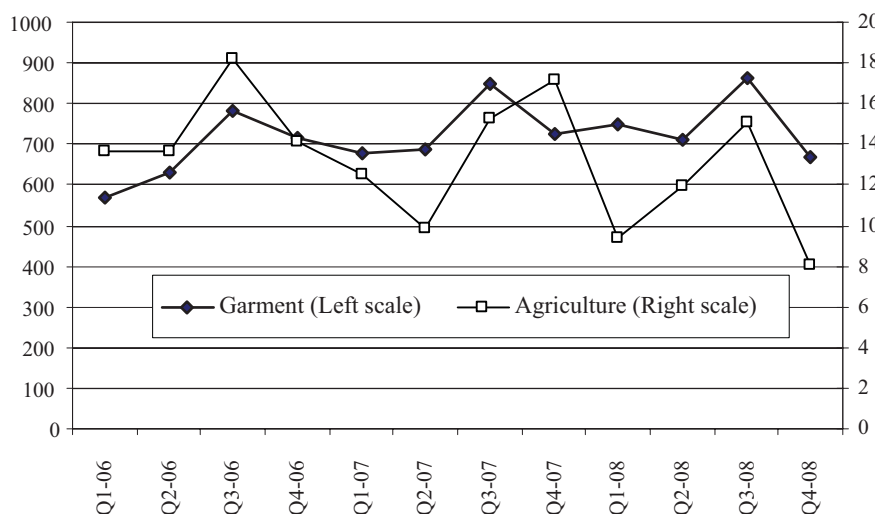
Although in disparate ways, the recent food crisis and the present economic crisis made the importance and potential of Cambodia’s agricultural sector all the more clear. The former demonstrated how agriculture can be a helm of the economic ship while the latter showed how it can be the lifeboat that becomes vital when the ship sinks. The two crises of course have had conflicting impacts on agricultural production and trade. While it menaced the food security of the world’s poorest, on the flipside the food crisis provided a long-awaited stimulant for depressed agricultural prices, favouring commodity producers and exporters and reviving the agricultural sector. Unfortunately for them, but to the benefit of consumers, the advent of the current crisis overturned this revival, although

“Plummeting agricultural prices forced farmers and investor into debt.”

—Dr Theng Vuthy

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Figure 2: Sector Export (USD Million)



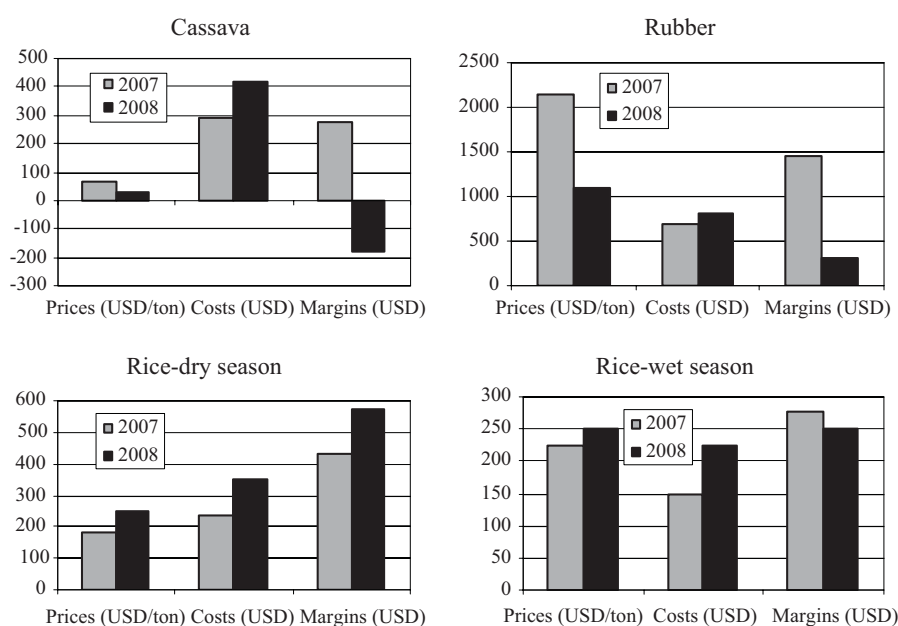
Source: General Department of customs and exercise, adapted by NBC

not fully, as prices remain higher than their average in the previous years.

Impact of the Food Crisis on Agriculture

From 2006 to about the middle of 2008, an escalation in food prices sent alarms ringing all over the world because of the dire implications for the global hunger situation. The skyrocketing of commodity prices was caused by push factors including the energy crisis, poor harvests, bad weather conditions and increasing competition between biofuel and

Figure 3: Revenue Impact on Selected Agricultural Products



Source: Impact of High Food Price in Cambodia, CDRI, 2008; AMO Price Bulletin, 2007-Jan, 2009

food production. The prices of Cambodia’s key agricultural export earners—paddy rice, cassava and rubber—increased to USD225, USD70 and USD2016 per ton respectively in 2007. Further price increases were recorded in 2008, even until the third quarter of the year for rubber and paddy rice. This boost in prices predictably encouraged production. Between 2007 and 2008, cassava production increased by approximately 1.2 million tons, while that of rubber increased from 32,000 tons to 37,000 tons. Over the same period, the total cultivated area devoted to

cassava went up by about 88 percent and to rubber by 32 percent. Paddy rice and soybean production similarly rose along with the areas allocated to them. Overall, agricultural exports soared by the middle of 2007.

Impact of the Global Financial and Economic Crisis on Agriculture

The global downturn eventually nipped the trend of high inflation as it dampened world demand and pushed energy costs down. The prices per ton of cassava and rubber produced in Cambodia retreated sharply to USD30 and USD1020 respectively in 2008, a remarkable 50 percent slash in their prices a year earlier. While cassava and rubber production increased overall in 2008, during the last three months of 2008 the year-on-year growth of production contracted sharply. The export values of cassava and rubber fell. Estimates are that cassava lost about USD95 million in export value, while rubber lost approximately USD37 million. Soybean and maize exports likewise suffered. Notably, however, Cambodia’s paddy rice exports proved to be resilient in the face of the crisis, their price and export value even increasing between 2007 and 2008.

It is clear that the crisis fell most heavily on the country's ordinary cassava and rubber farmers. Compounded by the problem of higher input costs, lower prices and demand diminished their profits. Gross profit margins of cassava farmers are estimated to have turned negative in 2008, while those of rubber farmers significantly shrank. Dry-season rice, wet-season rice, maize and soybeans continued to be profitable at the end of the year, although profits from the last three narrowed. With reduced incomes, affected farmers have had more difficulty recovering their investments or repaying their debts.

Notwithstanding the setbacks affecting exportable crops, the country's agricultural sector as a whole posted an estimated 4.5 percent growth in 2008.

Opportunities and Potential Policies

The resilience of the agriculture sector shows that its importance should not be underrated, supporting the sliding economy as it did. A bright spot amidst numerous dire predictions is that the sector's positive performance is likely to continue this year, although deflating prices will remain a challenge. A survey of existing and expected opportunities unveils the massive potential lurking in agriculture and partially exposed during the food and economic crises. First, the deflationary pressure on agricultural prices is not expected to last because demand from China, India and Middle Eastern states is likely to pick up. Second, there is significant room to expand cultivated areas. Third, bilateral agreements with countries from the Middle East, Africa and east Asia (China in particular) will pry open more markets for Cambodia's agricultural products.

A prerequisite to capturing such opportunities is the implementation of several priority policies. An often cited recommendation is to increase investment in agriculture. To boost production and productivity, land reform, infrastructure, finance and technology must also be dealt with. On land reform, the processing of land titles and securing of property rights must be hastened, along with improving land management and distribution. Irrigation systems and rural roads must be improved. It is estimated that the returns from irrigation investments can be as much as twice the amount of investment. Enhanced road networks will reduce production costs and boost

farm gate prices. More loans with lower rates and longer maturities must be offered to pave the way for greater agricultural investment. The use of high-yielding seeds and better application of fertiliser must be further promoted. It has been found that a 1 percent increase in correct use of fertiliser leads to increases in yields of 0.22 percent for dry-season rice and 0.27 percent for wet-season rice. To boost agricultural trade, it is necessary that transaction costs be further reduced, post-harvest technology be upgraded and schemes such as contract farming be further explored. Improving market information is also imperative. Current market information is limited, to the detriment of the country's ordinary farmers, who, without knowledge of prevailing prices, are likely to be cheated. A pro-poor agricultural development necessitates the priority resolution of this problem.

Did you know that

... biofuel production has been competing with food production and influencing some global commodity prices? While the share of biofuels in global energy supply and consumption is and will remain small (from 0.9 percent of total transport energy consumption in 2008 to an estimated 2.3 percent in 2015), the rise in demand for them, particularly ethanol, has a significant impact on the production and prices of crops such as cassava. The price of cassava is expected to increase by 11 percent on average as a result of biofuel expansion.

Source: FAO (2008)

... millions of Cambodians may have legal possession of but not legal titles to their land? Under the 2001 Land Law, legal possessors have the right to request a land title and live on their lands until title is secured. Unfortunately, even with the multi-donor-supported Land Management and Administration Programme, land titling has been criticised as slow and discriminatory.

Source: Land and Housing Working Group Cambodia (2009)