



# Cambodia Outlook Brief\*

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## Removing Constraints to Cambodia's Agricultural Development<sup>1</sup>

“Linking farmer organisations and contract farming schemes can increase bargaining power and benefits for poor smallholders, and secure stable volume and quality of export products.”

*Dr Theng Vuthy, Programme Coordinator,  
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### Agriculture for Inclusive and Sustainable Development

Cambodia's abundance of fertile agricultural land, forestry and fisheries represent potential comparative advantages that, if harnessed responsibly, could drive sustainable and inclusive development.

The core sub-sectors (rice, other crops, livestock, fisheries and forestry) play a crucial role in providing food and livelihood security for most of the country's population, employing around 72 percent of the labour force, including the majority of the poor. Agriculture – particularly rice cultivation – is the most significant sector for social development and poverty reduction.

The resilience of the agricultural sector, underpinned by long-term smallholder investment, is a crucial element of stable macroeconomic growth. This was clearly demonstrated during the Global Financial Crisis: garments, construction, and to a lesser extent, tourism, contracted as foreign capital took flight, while growth in the agricultural sector remained at a robust 4-5 percent. This buoyed up the economy during unprecedented

economic shocks, saving the country from sliding into negative growth and acting as a national social safety net for the majority of Cambodians, including the urban poor.

From a food security perspective, agricultural development must also be viewed in the global context of increasing demand for food and feed as populations increase, societies develop and consumption patterns change. In Cambodia, the agriculture sector feeds a population of nearly 15 million – a population that is both growing and consuming more per capita. Securing and maintaining a stable food supply is therefore vital to the country's future food security.

The importance of agriculture to Cambodia's inclusive and sustainable development is well recognised by policy makers. Over the last five years, various policies at national and sectoral levels have promoted improved efficiency in the sector. For example, the Rectangular Strategy II (2008) and the National Strategic Development Plan (2009-13) set out ambitious reform programmes designed to increase productivity and output, to diversify the sector and to achieve inclusive, sustainable growth.

Policy strategies have included deep reform of institutional frameworks for the governance of land, forest and fisheries. The policy paper on rice export aims to exploit the potential of Cambodia's "white gold", pushing quality to conform to international standards, encouraging improved rice milling for value-added, and promoting favourable terms of trade to attract private sector investment.

<sup>1</sup> This brief summarises the key points in session 3 of the 2013 Cambodia Outlook Conference. Presenters for this session were: Dr Mak Soeun, Director, Department of Agricultural Extension, MAFF; Dr Theng Vuthy, Programme Coordinator, Poverty, Agriculture and Rural Development, CDRI; and Mr Daniel Mitchell, CEO, SRP International Group Ltd.

There are policy frameworks that directly address the constraints on poor rural households. For example, the Strategy for Agriculture and Water 2010-13 seeks to increase food security and income, build resilience of rural households to economic shocks, and promote sustainable community-led land and water resource management.

Regional institutional mechanisms are in place to maintain food supply during crisis. For example, the ASEAN Integrated Food Security (AIFS) framework supports the long-term food security of member states. The AIFS has four main components: emergency/shortage relief, sustainable food trade development, integrated food security information system, and agricultural innovation.

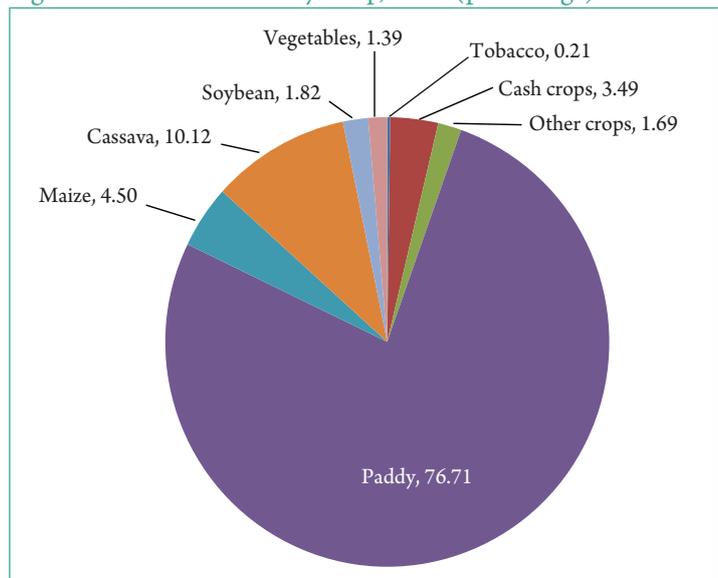
Changing regulatory structures have contributed to the transformation of Cambodia's agricultural profile over the last decade. Paddy production increased two fold during this period, with a surplus of about 4.3 million tonnes in 2011. Cassava, maize and soybean have grown rapidly as export products and now account for a significant proportion of agricultural activities (Figure 1). Livestock production has also increased – by 2012, the national poultry flock had increased to over 23 million heads from around 16 million in 2007.

Growth has translated into impressive poverty reduction figures: rural poverty headcount stood at 30.1 percent in 2007, down from 39 percent in 1994 – though there is no official data available for recent years.

Despite these successes, Cambodia's agricultural sector, particularly rice production, is failing to fulfil its potential in terms of yield, output and progress up the value-added chain. To achieve the national goal of being the world's third largest exporter of milled rice by 2015, advances are needed in many aspects of production.

From an equity perspective, there is also concern that growth has not benefitted the very poor. A recent study in the Tonle Sap Lake area found that wasting among children under the age of 5 years had increased from 10 percent in 2010 to 14.6 percent in 2012. The WHO classifies these children as seriously malnourished. As a result of undernutrition, 40 percent of children under 5 years old are stunted and 29 percent are underweight. Such figures are deeply troubling, and suggest that policy makers must do more to target the very poor, the landless and smallholders.

Figure 1: Cultivated Area by Crop, 2011 (percentage)



Source: Dr Theng Vuthy, Cambodia Outlook Conference

### Constraints to Increased Agricultural Production

Recent research suggests agricultural production is hindered by costly and poorly regulated farm inputs. A case study found that ineffective regulation has resulted in low entry barriers, which lead to the distribution of poor quality fertilisers: up to 10 percent of fertilisers in the study area were counterfeit. Application of fake or adulterated inputs can reduce crop yield equivalent to about USD285-350 per farm per year, hitting the poorest hardest.

MAFF has made concerted efforts to disseminate high-yield rice seeds across the country. However, persuading farmers to use these varieties has proved challenging as they prefer to use seeds with established markets, for example the IR 504 strain from Vietnam. In addition, farmers find it difficult to access seeds due to supply shortages and high prices. A recent study found that supply was equal to only 20 percent of demand. Future policy must focus on removing constraints to seed supply.

Credit is one of the most expensive farming inputs, especially for smallholders who rely on informal credit markets. The majority of farmers obtain high-interest (around 5 percent per month) moneylender loans because they can quickly access them in times of need. Although MFI activity is growing, interest rates remain high at about 2.5 percent per month – a major burden for smallholders.

Expensive credit, fertilisers, pesticides and fuel combine with a lack of extension services to render many farms inefficient. Innovative farming practices have been developed, but they have not been extended across the population. Better extension services are

crucial if Cambodia's agricultural sub-sectors are to be commercialised and the sector as a whole is to become more efficient and diversify. In rice production, for example, farmers must be trained in pest control, fertiliser use and other modern rice-farming techniques. In livestock farming programmes, policy should promote animal husbandry, breeding programmes and veterinary extension services.

Once produced, getting goods to market is expensive because of poor infrastructure, further eroding producers' profits and constraining agricultural investment. The Asian Development Bank's promotion of regional economic corridors has been successful in improving hard and soft infrastructure associated with exporting agricultural produce. However, though there have been many gains in improving intercity transport, an important cause of high transport costs is the poor quality rural feeder road network, which also effectively disconnects farmers from markets.

A key deficiency in agricultural product markets is uneven distribution of market information resulting from widespread informal trade. In the absence of any formal sources of market information and trade frameworks, prices and terms are determined informally by brokers, who are able to exploit information asymmetries to the detriment of producers. Moreover, this informal market structure is vulnerable to arbitrary price fluctuations and changes in demand, creating further instability for producers. Those who lose out most in these transactions are poor smallholder farmers that produce paddy rice.

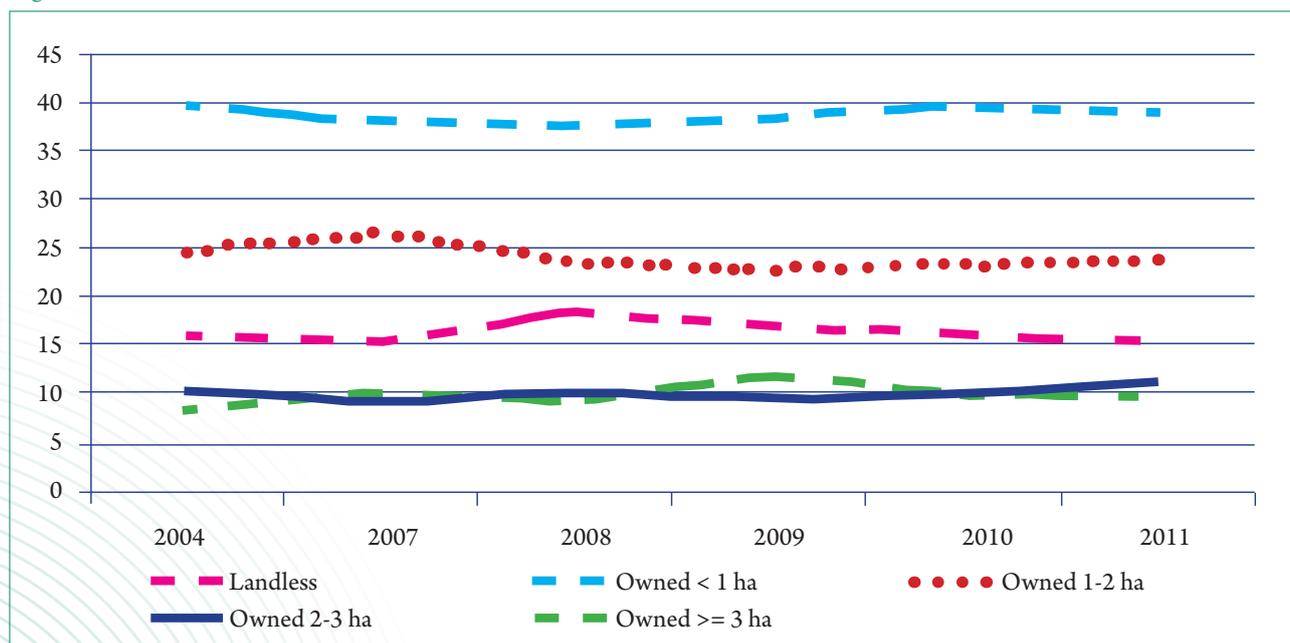
Lack of market information also increases transaction costs on the demand side. The informal structure of the value chain means stable paddy procurement for rice millers is difficult and quality variable. Lack of quality standards and the corresponding disconnect between quality and price creates uncertainty, provides opportunities for rent seeking and causes market inefficiency. Transparent, formalised mechanisms that link quality to price, such as quality control regulations, are essential if markets are to run efficiently.

Effective land administration frameworks are a crucial part of the agricultural economy. They promote investment by securing tenure, enable markets to efficiently allocate land, and allow government to strategically balance various facets of the agricultural economy. The policy priority is to balance the needs of smallholders and large-scale FDI in agro-industry: with sound policy, these frameworks can be complementary.

Cambodia's inequitable distribution of agricultural land is negative from both production-efficiency and poverty-equity points of view. As Figure 2 illustrates, landlessness over the past decade has hovered between 15 and 20 percent of rural households, and those owning less than 1 hectare has remained around 40 percent. This demographic in many cases is limited to subsistence farming, who because of the paucity of their asset base cannot create a surplus that contributes to growth.

Economic Land Concessions (ELCs), which often involve land grabbing from smallholders, are a factor

Figure 2: Land Distribution in Cambodia



Source: Dr Theng Vuthy, Cambodia Outlook Conference

that contributes to land inequality. In many instances, expropriated land is not productively used. This land must be reallocated to the landless and smallholders, who are able to better utilise it to generate capital.

There are also issues pertaining to the sustainable management of fisheries and forestry resources. Fisheries are an important growth sub-sector, but reforms are needed that allocate lots and controls for legal fishing so that stocks and biodiversity are maintained. More research should be done into the country's fisheries reserves so that lots can be allocated appropriately. Efforts must be stepped up in the classification and demarcation of forests, and the monitoring of their usage. Conservation of forest biodiversity is critical to both environmental sustainability and the sustainable use of forests as an economic resource.

### Building on Existing Policy

Cambodia's policy frameworks for improving efficiency in the agricultural sector are well developed. The focus should now be on assessing how these policies work, how they can be improved at the margins, and how to strengthen the institutions that implement them. At the core of this is conducting comprehensive policy-impact research, and linking it to policy making.

Research has shown that the promotion of contract farming in Cambodia has addressed many of the constraints outlined in this brief. Contract farmers receive better quality seeds and are able to learn modern production techniques, access low interest credit, and trade within institutional frameworks that offer fairer prices and more stable demand. However, there remain issues regarding rice contract farming. Contractors control the production process, while farmers are unable to influence terms, have little bargaining power and can generally only agree or disagree to the terms. In addition, some farmers find agreements too complex. Many have left contract schemes due to these factors. Future policy, therefore, should focus on streamlining contract agreements so that farmers have more say in their drafting.

Farmer organisations are another growing institutional mechanism to empower farmers. At present, there are 14,000 producer and resource-user groups nationwide, including 240 agricultural cooperatives. These organisations promote productivity by enabling

farmers to negotiate better prices for their products, and help disseminate information and technology. However, CDRI has also reported that smallholders often do not see benefits from participating in farmer organisations. With the focus on credit and production techniques, farmer organisations do not address the fundamental issue of smallholder access to input and output markets. A more holistic approach is needed in linking farmer organisations to contract farming, and tackling the multiple constraints to smallholder investment.

Economic Land Concessions (ELCs) and Social Land Concessions (SLCs) are strong tools with which the government can increase the efficiency and equity of agricultural land distribution.

Albeit ELCs are very important for the development of agro-industry, they are often associated with negative social and environmental outcomes. They need to be better regulated and geared towards attracting "responsible" capital, such as institutional FDI (from company pension schemes, investment funds, and university endowments), which often has social and environmental agendas. Responsible investors pay taxes, follow labour law, monitor working conditions irrespective of government criteria, use quality fertilisers in an environmentally friendly manner – they conform to global standards as a matter of corporate procedure.

ELCs that embody negative practices need to be identified and the land reallocated. Indeed, investors that are involved in environmental and social harm actually make Cambodia a harder place to invest for responsible investors. Land that is not used according to regulation needs to be redistributed to the landless. This will improve efficiency and reduce poverty. Redistribution is currently happening, but at a slow rate. For example, ELCs covering about 133,000 hectares of land have been cancelled since the prime minister's announcement of more rigorous review procedures, yet only about 40,000 to 50,000 hectares have been made available for redistribution as Social Land Concessions (SLCs).

The government's national land titling programme has also been stepped up in rural areas. Transparent, accountable and equitable dissemination of titles is crucial to secure tenure, particularly of smallholders vulnerable to land expropriation. This will provide a sound basis for increased smallholder investment and efficient land markets.

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