

NGO Statement on Inflation and Poverty in Cambodia:

Concerns and Suggestions for Action by Practitioners and Policy Makers



INTRODUCTION

Rising commodity prices across the world, especially fuel and food, has recently been a major concern for many countries as rising food prices is likely to drive millions of people into poverty. In some countries, the tension and desperation of the poor lead to protests such as in Haiti, Egypt, the Philippines, Thailand, Indonesia and Italyⁱ. Like other countries in the world, Cambodia also suffers from high inflation as food prices increased by 24.2 percentⁱⁱ between January 2007 and January 2008. Dealing with this price increase is especially difficult for the poorest 20 percent of Cambodians who spend on average 83 percentⁱⁱⁱ of their total expenditure on food and beverages.

CONCERNS

Increasing food prices worsen poverty in Cambodia

Inflation affects everybody; but it hits the poor harder than others. The poorest of the poor spend almost their entire income on food and because of the high food prices, these people start to eat less, or less nutritious food, leaving them hungrier, less likely to be productive and earn a living; and become more vulnerable to illnesses. This situation is an absolute fact and cannot be denied by anybody.

Because wages of poor and vulnerable groups do not increase as much as the inflation rate, these groups generally fall further into poverty. In some cases, it was confirmed that while some families pull their children out of school to help earn additional income, others stop sending their children to school because they have to pay higher school fees to the teacher^{iv}. In short, inflation has a negative impact on people's wealth, health, education, and the opportunity to lead a productive life.

Inflation undermines poverty reduction effort in Cambodia

Besides directly affecting the poor, the overall price increase on the market devalues the development effort as a whole. Particularly, in 2007 Caritas Cambodia signed the contract with a construction company for building a new Eye Hospital in Takeo province at the cost of US\$ 1 million. However, due to high inflation, the actual construction expenditure of the same hospital during early 2008 cost Caritas up to US\$1.6 million, which is a 60 percent increase.

This is also likely to happen with the development budget from the Royal Government's and its development partners. Although Government's budget as presented in the 2008 Budget Law was 16 percent higher than the 2007 Budget Law, the result of the 18.7 percent inflation, is that actual government spending is less than last year. This reduction in real budgets, together with the effect of price increase on individual households in terms of nutrition and education, leaves the Royal Government in a situation where it is more difficult to achieve the Cambodia Millennium Development Goals and its Education for All goals.

Rising food prices: an opportunity or a challenge for Cambodia

High food prices provide an opportunity for Cambodia's agriculture sector through increasing production. Although Cambodia harvests rice mainly once a year, it exports about 2 million tons of rice per year^v, and it is definitely able to produce a rice surplus. More production can be boosted by increasing production frequencies; investing more in water management; improving production and storage capacities.

The opportunity that the higher food prices offers, does however not automatically translate to more income for the 91 percent of the Cambodian poor that are living in the countryside. The World Bank's Sharing Growth Report (2007) estimated that 46% of the

rural households are landless or own less than half a hectare land per household. This shows that the poor are unlikely to gain advantages from rising food prices due to the limited land size they have. Instead, these rural landless or land-poor households need to buy rice for their consumption. Another challenge for the 60 percent of Cambodians that are employed in agriculture to take advantage of this opportunity is the increasing prices of gasoline and agricultural inputs.

These factors may limit the agricultural productivity and make the production cost higher and finally make the products uncompetitive against imported ones from neighboring countries. Furthermore most Cambodian farmers have limited capacity and capital to boost their productivity.

SUGGESTIONS

In response to high inflation, the Royal Government has taken a number of measures that address the situation. NGOs congratulate the Government for taking these measures to reduce the impact of inflation on the poor. Furthermore the Non-Governmental Organisations involved in the preparations for today's Forum would like to share their suggestions to the communities, non-governmental organisations, private sector, donors, and the Royal Government that aim to help to address the issues in a holistic manner. A full list of suggestions can be found in the text box below, the main suggestions are:

- Immediately increase food aid, scale-up social protection programs, and targeted micro-credits;
- Immediately review all public and private rice stocks and take appropriate actions to ensure that these stocks can meet the demand for the remaining months in 2008, to ensure availability of rice for local consumption before the next harvest;
- Increase production of rice, vegetables, meat, and fish by small scale producers facilitated by more public and private investment in the agricultural sector, water management and rural development.

SUGGESTIONS FROM NON-GOVERNMENTAL ORGANISATIONS TO ADDRESS THE IMPACT OF INFLATION

Community

- Should do more to increase their home-grown food production including vegetation, poultry raising, and aquaculture in order to keep themselves self-sufficient, independent, and even make surplus.
- Restore and manage the water sources and irrigation for the sake of the household and community access.
- Each household should manage to ensure their own rice and other food stocks sufficient.
- Enhance seed selection, farming techniques, and storage capacity.

Non-Governmental Organizations

- Raise awareness to help community understand the causes and effect of food price increase so that they can prepare themselves to take advantages from emerging opportunities and overcome foreseen challenges.
- Support and expand projects that help ensure food security at the community level, for example set up community rice banks, rice marketing cooperatives, ...
- Set up projects to help the community to produce more food for their own consumption and make surplus for commercialization.
- Increase technical support in rice intensification by using SRI methods and crop diversification, animal raising, and aquaculture.
- Target micro credits to the poor such as from the World Vision's Vision Fund; CEDAC's saving led microfinance scheme; and Caritas's community saving fund and micro enterprise development.
- Act as agent to provide accurate and timely market information to the community.
- Act as agent of channeling food aid from government, donors, and private sector to the most affected groups.

Private Sector

- At such time in need, private sector should also contribute their charity to the most affected people through either the government, NGOs, or other charity organizations.
- Direct more investment to agriculture sector to create employment, promote local production, increase

production and market chains, and strengthen export final products.

- Increase salaries so that employees/workers can cope with rising costs of living.

Donor community

- Increase food aid and scale up social protection programs including: emergency relief; school feeding programs; food for expected mothers; food for TB and HIV victims; health insurance schemes and health equity funds; etc. A recent report by the Asian Development Bank showed that the coverage of Cambodia social protection programs ranks low compared to other countries at a similar level of development.
- Increase the amount of aid in form of untied grants to meet the Monterrey Obligation.
- Direct their support to increase the local small-scale food production to help boost the livelihood of poor and bring them out of poverty.

Royal Government of Cambodia

Short-term strategies

- Work with development partners to increase food aid and scale up social protection programs described above, as well as increasing state pensions to disabled military and disabled civil servants.
- Ensure food security and make sure that rice stocks are sufficient to deal with sudden shortages or price increases.
- Review stock and take appropriate actions to ensure that the national stock meet the demand for the remaining months in 2008, to ensure availability of rice for local consumption.
- Encouragement and Support to early wet season rice between May and August.
- Make more capital available for purchase of paddy during the next harvest in August

Long-term strategies

- Make more soft-loans available for the purchase of stock of paddy.
- Support and promote direct export of milled rice.
- Promote agricultural extension with focus on low-external input rice intensification such as system of rice intensification (SRI) and promote family-scale production of poultry and animal raising, food cultivation, and aquaculture.
- Implement tax policy on unused land which will help encourage those idle lands to be productive.
- Enforce the legislation of the economic land concessions and cancel any economic land concessions that have not been used for any production.
- Provide social land concession to community who are landless so that they are able to contribute making their own living like growing rice, raising animals, etc.
- We would like to call on the Royal Government and its development partners to seriously invest in the agronomy diversification and intensification, water management and rural development. These sectors have been somewhat underinvested and deserve to be prioritized for the obvious reasons that 91 percent of the poor live in the rural areas and that public investment in these sectors can help small farmers to increase their production and make a better living now that prices are high.
- Review all measures employed so far in order to lean whether they are effective for the sake of economic growth and poverty reduction.

ⁱ International Herald Tribune April 16, 2008. UN addresses food production, poverty and rising prices.

ⁱⁱ National Institute of Statistics (Jan, 2008). Consumer Price Index bulletin

ⁱⁱⁱ NGO Forum on Cambodia (Dec 2007). *Cambodia Development Watch, Poor suffer most from inflation.*

^{iv} Forum with Farmers and Garment Workers organized by Caritas Cambodia in Kandal Province, 28 April 2008

^v Cambodia Daily, 1 May 2008. Cambodia not fulfilling its agricultural potential, experts say, p23.