

Accelerating Poverty Reduction and Development

Chan Sophal, Senior Research Manager, CDRI

1. CDRI in the past few years has undertaken a number of major studies placing poverty at the centre of concern. These studies together point to a clear picture of how Cambodia has been, where it is heading, and how poverty reduction and development can be accelerated. Our research has found that there was overall steady progress in Cambodia, confirming the favourable macroeconomic indicators. However, we are bothered by the distribution of growth has been skewed to the richest 20% (top quintile) as illustrated in the World Bank Poverty Assessment 2006. This has widened the gap between the rich and poor, and between rural and urban areas, a major concern shared by many stakeholders at present. The poverty headcount index at 35% remained the highest in the region.
2. Of interest to note, a large number of households live marginally above the poverty line and are therefore at the brink of falling into poverty if they are hit by shocks including health problems, which have been quite common in the past decade. We were particularly struck by the findings in the Tonle Sap Participatory Poverty Assessment that the very poor and destitute are generally beyond the reach of policies, making it extremely challenging to improve their livelihood.
3. While we are pleased with the overall progress in development so far, we are deeply concerned by the fact that a new set of problems has emerged and is likely to be more severe if faster development in certain rural areas does not happen in time. These new problems include increasing conflicts over water use between farmers and fishing lot owners, massive encroachment and conversion of forests and inundated forests, increased vulnerability for poor especially women in the poorest households, and high risks of thefts and robbery, and drug use among youth.
4. Our longitudinal study in nine villages spread across the country revealed that progress in poverty reduction was not uniform. While some **communities** improved substantially within 3-4 years, some remained stagnant, and some even became poorer. Likewise, there were **households** who moved up or out of poverty, and those who moved down or into poverty. The factors causing such mobility are quite imperative in policy discussion.
5. The reasons for communities to move up are primarily (i) increase in agricultural income resulting from improvement in farming techniques, irrigation and markets, (ii) increased accessibility to outside opportunities enabled by road development, and (iii) expansion in small businesses partly supported by expansion of micro-credit.
6. There is one important reason for some communities and households to move down or remain very poor. The past decade has seen rapid degradation of forests partly due to failure in law enforcements. Although national statistics on fish catch have shown no sign of decline, fishery resources have been increasingly captured by the rich, mostly from outside the fishing communities. The poor have been facing decreasing fish stock as a result. Communities adjacent to the forests and the Tonle Sap tend to be poorer. As existing degraded common property resources are unlikely to sustain livelihood of many poor households, what are the alternatives for them?
7. It appears that the two leading sectors, namely garment and tourism, have so far not resulted in substantial poverty reduction due to their very limited backward linkages. While further growth in these two sectors are desirable, there is a broad consensus that agricultural development as a third engine of growth will be the most effective way to reduce poverty. **It is now time for action.**
8. Agricultural development requires a greater allocation of resources primarily to irrigation, and

agricultural research and extension. Also of vital importance is improvement in land management and tenure, agro-processing and marketing, and affordable credit. Spending in agriculture and irrigation has been too low so far. For instance, government expenditure on agriculture in 2005 was only \$13 million out of some \$800 million. Donors' spending was \$35 million out of some \$500 million. Expenditure by both government and donors in irrigation was about \$13 million in 2005, typical of the past few years.

9. There is a huge potential to develop the agro-industry in Cambodia. So far, this sector has been negligible. Currently, most of the raw produce is exported to neighbouring countries for processing and re-export. Cambodia does not only lose the potential to add value to the products but such exports are carried out informally and are therefore subject to many constraints. With increasing demand from China for agricultural products, the opportunity in making gains from investment in agro-processing is ample. However, to realise this potential, there is an urgent need to further reduce the costs to operate business and trade in Cambodia. More that can be done by government is to reduce transportation costs and border fees.
10. Cambodia remains a high-cost country in transportation and energy. According to our comparative study in 2004 undertaken by research institutes in the Development Analysis Network managed by CDRI, the cost of transporting of 1 ton of crop (maize, soybean or cassava) per 100 km is \$10-12 in Cambodia, while it is only \$4-5 in Vietnam, and \$2.5 in Thailand. It is still expensive and cumbersome for agricultural exports to go through the border. For instance, for 10 tons of maize, the fees in total were from \$50 to \$80 at certain border checkpoints bordering Thailand. Traders have to go through a large number of authorities: *the International Police, Customs, CAMCONTROL, Economic Police, Soldiers, Military Police, Border Authorities, and Facilitation of Bilateral Border*. Some of these authorities can have different offices for the national, provincial and district levels.
11. As a way forward, Cambodia can do more to reap the benefits of **increased access to regional and global markets**. This can be done by increasing production and investment in agro-processing, and by reducing marketing costs. Cambodia can make better use of land both in old areas and new deforested areas in favour of the poor by improving irrigation, equitable distribution of land and market access. In this vein, non-performing economic land concessions should be seriously reconsidered. Land speculation and grabbing, which has been rising fast, should be controlled by imposition of taxes on big sizes of land. This will help realise the potential to increase production of crops to meet the rising demand in this fast moving region. For instance, Thailand and Vietnam respectively exported \$500 million and \$50 million worth of cassava to China in 2005. Cambodia estimatedly exported only about \$5 million of cassava. Our study indicates that Cambodia can increase crop production by many folds if land is used more productively.
12. For production, processing and marketing of crops to be profitable, there is a call for actions in the following, among other things:
 - Incentivise private sector to increase investment in agro-processing industry.
 - Make efficient use of land and reduce business operations costs (including transportation and order fees) in order to make the investment profitable.
 - Provide systems that incentivise public servants to effectively facilitate private efforts rather than obstructing them.
13. Excellencies, ladies and gentlemen. The future is in our hands. Our CDRI vision in poverty reduction is that Cambodia has faster poverty reduction and development through realization of her potentials and regional opportunities. How can we, as government, private sector, donors, and civil society, work together to achieve a common goal in accelerating poverty reduction and development?