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IMPACT OF HIKED PRICES OF FOOD AND BASIC COMMODITIES ON POVERTY IN CAMBODIA: EMPIRICAL EVIDENCES FROM FIVE CBMS VILLAGES

Consumer prices in Cambodia remained stable between 2000 and 2003. However, prices increased since mid 2004 and reached the highest period of May and October 2008. Although the price of consumer goods show reversed trends after October 2008, prices of many consumer and productive goods remained higher in December 2008 as compared to the previous year. Furthermore, although the price of food consumer items started to decline after reaching its highest record of annual inflation rate at 37 percent in August 2008, it still remains 32 percent higher in November 2008 than in the previous year. The official statistics show that the average price of rice in November 2008 is 2,780 Riels per kilogram which is 77 percent higher than in the previous year. Meanwhile, the prices of meats, such as pork, beef and chicken remain 17 percent more expensive. This phenomenon has provoked enormous policy debates and responses to retain food security and speed of poverty reduction in Cambodia.

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Figure 1 shows the changes in prices of selected agriculture commodities in Cambodia since the mid-2005 along with rising price of oil, and the increases in demand for cereal and oil crops at the international markets. High price events, like low price events, are not rare incidence in agricultural markets and farmers in Cambodia. High prices are often short lived compared with

low prices, which persist for longer periods. What distinguishes the current situation of agricultural markets is the concurrence of the hiked price for Cambodia farmers of not just a selected few, but nearly all major food and other necessary commodities and the possibility that the prices may continue to remain high after the effects of short-term shocks dissolve.

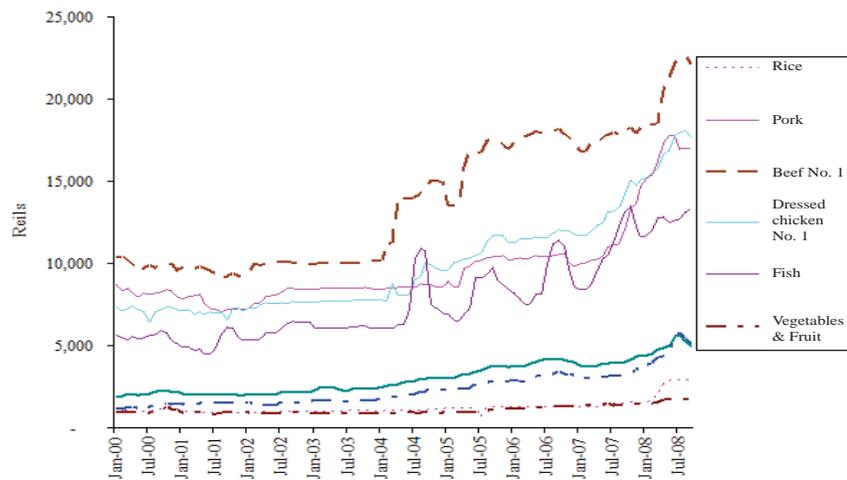


Figure 1. Price of Selected Agricultural Products, 2000-November 2008 (CPI, NIS, Ministry of Planning)

Source: Food and Agriculture Organization, June 2008

Cambodia is one of the net importing countries in terms of oil and many recorded consumer goods except rice. The integration of its economy to international market has enhanced economic performance and poverty reduction of the country in the last decade or so. Any change in demands of its produce and prices of important products will unduly affect the productivity and society as a whole. While the economic and administrative reforms and infrastructure development are on progress, Cambodia is still behind its neighbouring countries to curb with any shocks or seize economic opportunities generated by rising prices. The recent fluctuation in prices has somehow undermined the government efforts of poverty reduction is obvious through many dimensions.

About 20 percent of the rural population who are landless in Cambodia are characterized as net food buyers. Furthermore, about 45 percent of the Cambodians

in the rural areas are landpoor as they own one hectare or less to grow rice for own household consumption (Chan 2008). A majority of agricultural producers are rice growers. However, most of large farm rice producers did not make any profits from selling their rice since the rising price began after the harvests when they had already sold out their produce.

Household-Level Impacts

In order to determine the impact of hiked prices of food and basic commodities on poverty, a follow-up CBMS survey was conducted in September 2008 in five (5) villages of Battambang province of Cambodia covering 1,132 households. Although the selected CBMS villages are located in the rice producing surplus area, only about 23 percent of them are characterized as large rice farmers, petty traders and/or money lenders who can seize the opportunities generated by the rising prices to

produce surplus for sale or to increase their income. About 77 percent of households, including the landless and land poor who hold one hectare or less, are or become net buyers of food during the crisis. Most of them have limited ability to earn income which is enough to offset the increase in the prices of food. Hence, food security for many becomes worse.

Results also suggest that the impact of the crisis varies across CBMS sites. People living in the village closer to the market center tend to suffer the most from the rising prices as shown by the increase in number of poor households in Savy Chrum village. While agricultural dependent villages such as Sdei Leu and Bak Amraek tends to gain well-being improvement from rising food prices through the sale of their farm produce and in turn are able to improve household consumption; and therefore, have experienced higher rates of poverty reduction. In contrast, rising prices tend to slow down poverty reduction in the remote village of Reach Doumkeo.

Looking at the perceived poverty status of households, CBMS data show that 24 percent of the poor households and 21 percent of the nonpoor became worse off compared to 8 months ago while around 71 percent of the poor and non poor were able to sustain their livelihoods. Only 5 percent of the nonpoor and 2 percent of the poor households were able to improve living conditions while about 4 percent were uncertain whether they remained in status quo or not.

Table 2. Poverty headcount and village characteristics, 2006-2008

Village	No. of HHs	Poverty		Change	Village characteristics
		2006	2008	2006:2008	
Svay Chrum	216	28	44	16	Close to the market centre, rice farming and petty trade are main source of income
Reach Dounkeo	150	72	68	-4	Remote village, wet and dry season rice and fishing
Samraong Outrea	343	63	36	-27	Good road access and connection to market, rice farming, fruit trees and petty trade
Sdei Leu	234	61	38	-23	Cash crop and wet rice farming
Bak Amraek	189	66	40	-25	Wet and dry season rice farming and fishing
Total	1132	58	43	-15	

Source: 2006 and 2008 CBMS Surveys

Coping Mechanisms Adopted

Based on the CBMS survey, some of the affected households had to take their children out of school to help family cope with food short-shortage or to sustain a business. In the CBMS sites, there were 128 households (or 11%) which withdrew their children from schools to help earn income to cope with rising cost of living. Among the villages under study, increased incident of child labour is high in areas where there is fast growth and development. Village out-migration also adopted as a coping strategy for many. Some elderly also have to work harder to sustain household income for food and other basic household expenditure.

About half of CBMS households reported to take and used loan for food consumption rather than for productive purpose in the last

eight months prior to the survey period. Some have to sell out their productive assets or small plots of land in order to repay a loan, sustain food needs and relieved on income from selling labour when they become landless. The increase in prices has immediately resulted in food insecurity for many people

and push small landholders into indebtedness, as well as deteriorated the capacity of the poor to cope with any future shocks or crises.

Government and Donor Responses

The Government and donors in Cambodia had been working together to set up the immediate policy in response to food crises and sustainable growth for poverty reduction. The policy measures include (1) Government and ADB fund of 3.5 million USD for food security and (2) government temporary action to prohibit the export of paddy rice in order to increase internal stocks and sell paddy rice for cheap price to the poor before the national election in 2008. In order to secure employment and labour migration support, the government decided to issue passport to Cambodian cross-border migrants free of charge; and to encourage the Recruitment Company to pay the

Table 3. Changes in Household Status of Living of Poor and Nonpoor Household by the Time of the Survey Compared to 8 Months Ago

	Better off	Normal	Worse off	No idea	Total
Number of Households					
Non-poor	30	458	138	20	646
Poor	10	338	118	20	486
Total	40	796	256	40	1132
% with same group					
Non-poor	5	71	21	3	100
Poor	2	70	24	4	100
Total	4	70	23	4	100

Source: 2006 and 2008 CBMS Surveys

visa fee for the migrants in credit in the late 2008. In addition, the poor can also benefit from health equity fund to improve health access for the poor that came into effect in 2007. The agricultural producers can also take advantage of the government's subsidy on advanced farming practice and productivity. The government has also come up with its import policy of agricultural machinery and commitment to further boost agricultural growth through infrastructure development and development strategies.

Policy Implications

The more striking impact of rising prices on poverty are not just increasing food insecurity of many people but also make the poor become poorer; push many rural people into debts that is difficult to recover. Rising prices has further change human capital with regard

to education and poor health. It has also led to loss of productive assets as well as deterioration of the capability of the small landholders and the poor to cope with any future shocks or crises. Hence, a stronger social safety net programme is necessary to support the affected households and the smaller farmers to remain in the producer group and for the poor children to remain in school. A better targeting policy intervention to support the poor and vulnerable is very important. The social safety net programme can be implemented more effectively if the capacity of commune council can be further enhanced and strengthened for pro-poor and good governance.

The higher price is often viewed as constraints and opportunities to farmers to increase agricultural intensification and diversification. Lack of saving, ineffective extension services and imperfect markets

are still obstacles to agricultural development. The findings from the CBMS survey support stronger commitment and timely intervention to support small farmers and the poor. The policy action should accelerate efforts of rural infrastructure development: road and irrigation facilities, outreaching effective extension service to support both crops and livestock production. For landless poor, however, special social safety programme and vocational training should be reflected in the community development planning and funding.

This Policy Brief is based on the research paper of the same title which was presented during the 7th PEP Network General Meeting on 9-12 December 2008, Dusit Thani Hotel, Makati City, Metro Manila, Philippines. A full version of the paper may be downloaded from the Poverty and Economic Policy website: www.pep-net.org. A similar study was likewise conducted by the CBMS Teams in Ghana and the Philippines.

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