



# POVERTY & ECONOMIC POLICY RESEARCH NETWORK

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### Impact of Hiked Prices of Food and Basic Commodities on Poverty in Cambodia: Empirical Evidences from Five CBMS Villages

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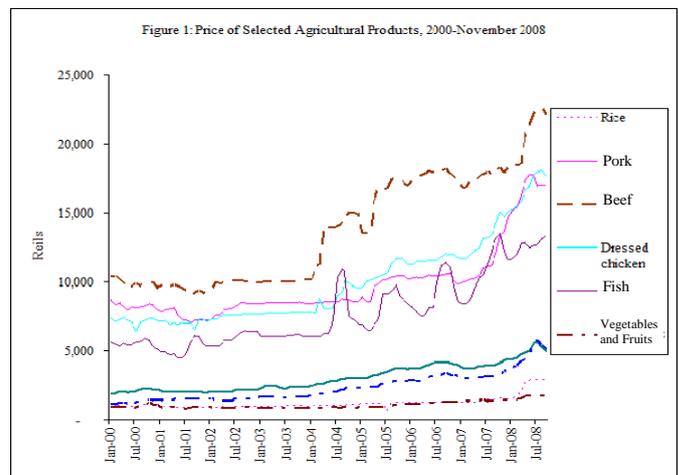
Consumer prices in Cambodia remained stable between 2000 and 2003. However, prices increased since mid-2004 and reached the highest record for the period of May and October 2008. Although the price of consumer goods show reversed trends after October 2008, prices of many consumer and productive goods remained higher in December 2008 as compared to the previous year. 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 remained 32 percent higher in November 2008 than in the previous year. Official statistics show that the average price of rice in November 2008 was KR2,780 per kilogram, which was 77 percent higher than in the previous year. Prices of meats, such as pork, beef and chicken remained 17 percent more expensive. This phenomenon has provoked enormous policy debates and responses to retain food security and speed of poverty reduction in Cambodia.

Figure 1 shows the changes in prices of selected agriculture commodities in Cambodia since mid-2005, along with the 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 concurrent hiked price for Cambodia farmers of not just a selected few, but nearly all the major food and other necessary commodities, and the possibility that the prices may continue to remain high after the effects of short-term shocks have dissolved.

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 the international market has enhanced economic performance and poverty reduction of the country in the last decade or so. Any change in the demands of its produce and in prices of important products will unduly affect the productivity and society as a whole. While economic and administrative reforms and infrastructure development are in progress, Cambodia is still behind its neighboring countries in curbing any shocks or in seizing economic opportunities generated by rising prices. The recent fluctuation in prices has undermined the government's efforts in poverty reduction.

About 20 percent of the landless rural population in Cambodia is characterized as net food buyers. Of the Cambodians in the rural areas, 45 percent are land poor as they own only one hectare or less

Figure 1. Price of Selected Agricultural Products, 2000- November 2008



Source: Food and Agriculture Organization, June 2008

to grow rice for their own household consumption (Chan 2008). The majority of agricultural producers are rice growers. However, most large-farm rice producers did not make any profits from selling rice since the price increases began after the harvests when they had already sold out their produce.

**Household- Level Impacts.** To determine the impact of hiked prices of food and basic commodities on poverty, a follow-up community-based monitoring system (CBMS) survey was conducted in September 2008 in five 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 is 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 that is enough to offset the increase in food prices. Hence, food security for many becomes worse.

Results also suggested that the impact of the crisis varies across CBMS sites. People living in the village closer to the market center tended to suffer the most from the rising prices as shown by the increase in number of poor households in Savy Chrum village. Some agriculture-dependent villages, such as Sdei Leu and Bak Amraek, tended to improve their well-being from rising food prices through

the sale of their farm produce and in turn were able to improve their household consumption; therefore, they experienced higher rates of

**Table 2: Poverty headcount and village characteristics, 2006 – 2008**

Village	Poverty Headcount			Change 2006:2008	Village characteristics
	NHH	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 Good road access and connection to market, rice farming, fruit trees and petty trade
Samraong Outrea	343	63	36	-27	Cash crop and wet rice farming
Sdei Leu	234	61	38	-23	Wet and dry season rice farming and fishing
Bak Amraek	189	66	40	-25	
<b>Total</b>	<b>1132</b>	<b>58</b>	<b>43</b>	<b>-15</b>	

poverty reduction. In contrast, rising prices tended 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 eight months ago while around 71 percent of the poor and nonpoor were able to sustain their livelihoods. Only 5 percent of the nonpoor and 2 percent of the poor households were able to improve their living conditions while about 4 percent were uncertain whether they remained in status quo or not.

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

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

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 the family cope with food short-shortage or to sustain a business. In the CBMS sites, 128 households (or 11%) withdrew their children from schools to help earn income to cope with rising cost of living. Among the villages studied, increased incident of child labor was high in areas where there is fast growth and development. Village out-migration was 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 expenditures.

About half of the CBMS households reported to had taken and used loan for food consumption rather than for productive purpose in the last eight months prior to the survey period. Some had 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 labor when they became landless. The increase in prices immediately resulted in food insecurity for many people and pushed 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 an immediate policy in response to food crises and sustainable growth for poverty reduction. The policy measures included (1) Government and ADB fund of US\$3.5 million for food security, and (2) government temporary action to prohibit the export of paddy rice to increase internal stocks and sell paddy rice for cheap price to the poor before the national election in 2008. To secure employment and labor migration support, the government decided to issue passports to Cambodian cross-border migrants free of charge; and encouraged the recruitment company to pay visa fee for the migrants in credit in the late 2008. In addition, the poor also benefited from health equity fund to improve health access for the poor; this came into effect in 2007. The agricultural producers also took advantage of the government's subsidy on advanced farming practice and productivity. The government also came up with its import policy of agricultural machinery and a 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 making the poor become poorer, pushing many rural people into debts that is difficult to recover. Rising prices have further changed human capital with regard to education and poor health. It has also led to the loss of productive assets as well as the 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 program 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 program can be implemented more effectively if the capacity of commune council can be further enhanced and strengthened for pro-poor and good governance.

Higher prices are often viewed as constraints and opportunities to farmers in increasing agricultural intensification and diversification. Lack of savings, 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—such as road and irrigation facilities, and outreach for effective extension service to support both crops and livestock production. For the landless poor, however, a special social safety program 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 7<sup>th</sup> 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](http://www.pep-net.org). A similar study was likewise conducted by the CBMS Teams in Ghana and the Philippines. For further details, please contact the PEP-CBMS Network Coordinating Team at (632) 5262067 or at [reyesc@dlis-csb.edu.ph](mailto:reyesc@dlis-csb.edu.ph) or [cbms.network@gmail.com](mailto:cbms.network@gmail.com).*