

“...Increasing agricultural productivity perhaps remains the single most important determinant of economic growth and poverty reduction.”¹

POVERTY IN CAMBODIA

After decades of conflict and economic isolation Cambodia has transformed itself. Growth driven mainly by urban-based industries such as garment manufacturing, tourism and construction has improved the lives of many Cambodians.

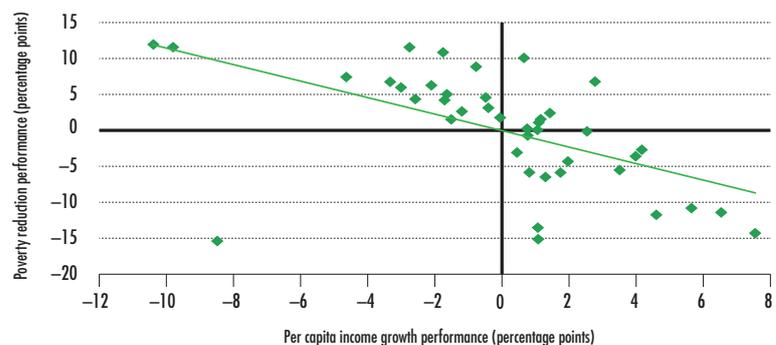
Along with fast-paced economic growth the poverty profile is changing rapidly. The percentage of Cambodians living in poverty has moved from among the highest in the region to single-digits in less than 20 years. Robust growth is expected to continue.

While many of the poorest Cambodians have seen their livelihoods improve, insufficient and ineffective linkages from the urban centres where growth is concentrated to poor communities mean millions of rural Cambodians remain poor.

For decades, many Asian countries suffered from chronic poverty. However, over the last several decades Asia has experienced tremendous growth that has pulled millions of people out of poverty. These changes have increased producers' incomes, raised labourers' wages and lowered the price of food. Recently Latin America and Africa are starting to follow a similar path to prosperity. These countries with such vastly diverse cultures, histories and political systems have one thing in common- private sector-led growth has driven poverty reduction.

Extensive evidence shows that economic growth is the main determinant of poverty reduction as seen in the following graph from the World Bank.

POVERTY REDUCTION AND PER CAPITA INCOME GROWTH PERFORMANCES ARE CORRELATED



Note: Based on 41 country observations. Performance is the difference between actual rate of change and average rate of change of countries starting from similar positions in poverty rates or per capita incomes.

Source: World Bank staff calculations.

CAVAC REDUCING POVERTY

All CAVAC's initiatives are driven by a single objective: improving the lives of poor, rural households in the three target provinces where the Program operates. Poverty reduction is the lens through which CAVAC assesses the value that each initiative generates.

CAVAC aims to generate lasting increases in income for poor households by stimulating sustainable changes in the markets that help smallholder farmers produce more rice and vegetables.

Perhaps CAVAC's most distinguishing feature is that it does not work with farmers directly, but instead works with businesses and public sector players who supply key products and services to farmers including irrigation, seeds, fertilizer, pesticides and information.

¹ "Agriculture, Growth, and Poverty Reduction," U.K. Department for International Development; 2004

Many people may find this counter-intuitive, however CAVAC has begun to demonstrate that, when businesses and other organisations have the right incentives to support farmers and when early adopters champion the change, more productive farming practices take root and lift more and more people out of poverty including the poorest of the poor.

Increased farm income not only directly benefits farming households. It also creates new income opportunities for the very poor and landless families within farming communities, as increased incomes are partially spent on local products and services provided by the ultra-poor.

LEVELS OF POVERTY AMONG CAMBODIAN FARMERS

Poverty among rural farming communities in Cambodia is dynamic both in its degree and its composition. The key to designing effective programs is first to understand the real, underlying constraints to farming, growth and innovation rather than merely the symptoms. From the outset, CAVAC has worked hard to understand why people in its three target provinces are poor, considering how they earn their incomes and build their livelihoods, what opportunities they lack and why they are lacking those opportunities.

Markets, particularly those on which poor people rely, change continually: prices for products and services fluctuate, weather patterns shift and various crises arise including serious illness, crop damage, floods or theft. These changes cause poor households to lose income, sell assets or borrow money, moreover it is very difficult for a poor household to predict or protect against such crises. All this (and an array of other factors) strain already precarious livelihoods and cause a large number of people to move in and out of poverty every year. As a result farmers' incomes, their access to key inputs and their families' food security are often uncertain. That uncertainty reduces the degree to which farmers are willing to innovate by adopting new methods of farming. Unfortunately it is these innovations that are the pathway out of poverty.

Poverty has many facets of which income, the one that CAVAC addresses, is only one. Poverty lines are an often used tool to characterise if people are poor or not. The lowest poverty line equals the value of income needed to buy just enough food to survive. The lower poverty line adds the most basic essentials. People with an income just above the lower poverty line are still very poor and therefore an upper poverty line is sometimes introduced as a better measurement of who is really poor and who is not. Poverty lines are country or even region specific and should change over time.

Based on a number of different poverty lines, CAVAC uses a classification of three general groups of rural poor in Cambodia:

LEVEL 3: Dynamic Poor

- Lack some basic needs, but have land and some money to invest in productive assets; less risk-averse (live between the lower and the upper poverty line).

LEVEL 2: Hustling Poor

- Some have a small plot of land, all have only limited room for non-food spending or investment in innovations; take very few calculated risks (this group lives between the food security and under the lower poverty line).

LEVEL 1: Extreme poor

- Normally not farmers and do not have enough to eat; almost all income spent on food take few voluntary risks (under the food security level). Depend on income from labour or from others.

CAVAC refers to farmers and other people who live just above the upper poverty line and remain vulnerable to falling back into poverty as Level 4 households. These are less risk-averse than level 2 and 3 households.



PATHWAYS OUT OF POVERTY

There are two principal pathways to help move poor farmers out of poverty:

1. SAVINGS TO INVEST IN PRODUCTIVE MEANS

Increased income allows farmers to save money to buy equipment and other capital goods, higher quality inputs and land needed to produce more rice and vegetables. The expanding cycle of more income, more savings and more investments can slowly lift households out of poverty. CAVAC's activities are all aimed at impacting these innovations and investments that keep the cycle expanding.

2. CHANGES IN HOUSEHOLD COMPOSITION AND DEPENDENCY RATIOS

Families with relatively few income earners find it harder to support the entire household. The majority of Level 1 poor are comparatively large households that depend on a single labourer. Because they are landless, farming is not an option for them. Fortunately, as children become adults the family will have more income earners and will move up the poverty ladder. Though dependency ratios are a key factor in changes in poverty, it is not influenced by agricultural growth and therefore not a pathway CAVAC can influence.

WHY CAVAC'S APPROACH IS EFFECTIVE

CAVAC's initiatives to help farmers grow more rice and vegetables benefit all four groups of rural poor. Some groups benefit more directly than others but this is done consciously as it is the most effective way to move all groups up the pathway out of poverty, particularly the poorest of the poor.

Most CAVAC initiatives directly benefit the Dynamic Poor (level 3) and those just above the poverty line (level 4). These groups are important because they remain vulnerable to falling back into poverty but are interested in innovating to increase their yields and incomes, for example: by using new farming techniques; and investing in higher quality inputs such as seeds, fertilisers, pesticides, testing new rice varieties and even rebuilding canals. The innovators who dare to take the risks required to improve yields and grow incomes play a vital role in spreading and speeding adoption of new and better practices that improve productivity and incomes for people stuck at the lower rungs of the poverty ladder.

Despite the potential to move up to level 3 and eventually out of poverty altogether, Hustling Farmers (level 2) are less willing to take risks that might mean they fall deeper into poverty. Such farmers benefit from the early adopters (level 3 and 4) who try things first and then allow the poorer farmers to follow when they are convinced of the benefits.

INFORMAL TRANSFERS

The level 1, poorest of the poor households, normally have very limited productive assets and there are normally too many mouths to feed by a single daily wage earner. Often age or physical handicaps can obstruct even that single wage. This makes this group dependant on informal transfers such as cash, food or in-kind contributions from better-off relatives in the community. Some of the extreme poor survive mainly because a fellow villager 'annexes' them or informally takes responsibility for their welfare via semi-formal arrangements.

THE EXTREME POOR BENEFIT INDIRECTLY BUT MEANINGFULLY THROUGH:

- greater opportunities for non-farm income
- direct assistance from neighbours, extended family whose incomes have risen

This means that income growth among the less poor who are providers of support to the extreme poor is a crucially important result of CAVAC's work. In fact this is one of the most effective ways of reaching the poorest of the poor in Cambodia by filling gaps and protecting them from serious food shortage, health issues or other negative impacts via culturally accepted practices. This was confirmed by a study by Michael Samson, *The Impact of Economic Growth on Poor Households*, 2012:

“...this study also finds evidence that spatially targeted interventions that support economic growth in the poorest communities may have significant impacts in terms of reducing poverty, even when the interventions are not targeted to the poorest. The qualitative research has identified the strong reliance of the poor on local transfers and remittances, rather than urban-to-rural or international remittances. In addition, unique household structures create

strong bonds that enable the fruits of economic growth harvested by non-poor households to be shared with some of Cambodia's poorest households.”

The study also states that: “Growth that improves the livelihood of the supporting household can be a deciding factor in its ability or willingness to support the annexed household, often headed by someone over 65 years old and thus even more vulnerable.” The faster rural communities grow the higher rate of monetary transmissions. Surprisingly Urban-to-rural transmissions only account for one-third of the monetary transmissions that take place within a developing country and therefore increasing development opportunities within rural communities themselves is very important to decreasing poverty. Residents of faster growing villages are also significantly less dependent on in-secure, seasonal day labour than those with less growth potential.

CONCLUSION

CAVAC believes that most farming households in Cambodia are able to lift themselves out of poverty if they have access to quality inputs, information and markets. By working with market players, both public and private, the Program improves farmers’ access to these goods and services now and into the future. For long term poverty reduction households need opportunities.

Whilst overall growth is a powerful determinant of poverty reduction localised growth where poverty is concentrated has a more immediate effect on improving the welfare of the poor. Targeted initiatives that trigger economic growth can raise farmers’ incomes and significantly affect poverty reduction- even if the initiatives do not target the poorest of the poor. The “annexing” phenomenon and other Cambodian social arrangements create strong bonds that enable the fruits of economic growth gained by less-poor households to be shared with the poorest ones.



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