Rising Food Prices Discussion paper

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Introduction
The UN Country Team in Cambodia supports a cohesive national response to the challenge of rising food prices in collaboration with development partners, and aligned to priorities of government. In line with global efforts the UN is taking action to respond to the immediate, medium and longer term challenges of the crisis.

This discussion paper provides a snapshot of the present situation in Cambodia and outlines a framework for action linked to national priorities with consideration for the sustainability and potential consequences of any interventions made in the short term. The paper aims to generate further discussion at the technical and policy level, with input from all partners.

1. Overview
The rising price of food and its economic and social impact is a serious and complex issue for Cambodia. The impact on vulnerable communities and all sectors is increasingly clear. UN agencies and their partners are concerned that high food price increase will obstruct the attainment of the Millennium Development Goals and significantly threaten the food security and socio-economic well-being of Cambodia’s poorest.

With current trends predicted to continue, a coordinated response that allows for immediate action, is necessary in order to meet critical needs such as food aid and acute malnutrition (in the < 5 age category). Detailed and consistent data management and analysis, ongoing policy dialogue with government, the development of macroeconomic instruments and evidence based agricultural strategies will help Cambodia to respond to the current situation and build resilience. With appropriate support measures, higher prices may benefit Cambodia’s farmers and strengthen the agricultural sector and may create opportunities midway through the NSDP 2006-2010 term. The UN Country Team thus proposes a response which prioritizes: robust data management and analysis; reduced vulnerability including food security and social safety nets; development of macroeconomic instruments; and advances in agricultural productivity.

2. Food price increase in Cambodia
The surge in global food prices has been driven by various factors including rapid increases in demand, low global stocks and high oil prices. Cambodia is a net importing country and record food and oil prices together with a depreciated US dollar have driven inflation to a 9 year high of 10.8%, at a time when the domestic economy is already showing some signs of slow down.

GDP grew by 9.6% in 2007 led by garment exports, tourism and construction. FDI reached $600 million which was slightly more than Cambodia received in official development assistance (ODA). Internally, the banking sector has expanded rapidly leading to the sudden proliferation of credit, and increased cost of construction materials and some wages. The higher oil and commodity prices have driven inflation and the depreciated dollar may hurt sectors that are vulnerable to price competition. Economic risks have increased including the slowing down of garment exports (impact of US sub-prime mortgage crisis and increased competition from...
Vietnam), but the mix of growth in services (tourism and housing construction) means that the economic outlook for 2008/2008 is generally considered good.

**Price of oil**
Since 2003, the price of crude oil has risen from $22 to $126 per barrel in May 2008 and is forecast to rise to $200 by 2010. Cambodia imports 100% of its oil and only 25% of the total population is connected to the electrical grid. Cambodian farmers are largely dependent on diesel generators for household operated water pumps and/or irrigation. The current price of oil in Phnom Penh is around 5,450 riel/$1.36 per litre. Domestically, the rising cost of fuel has pushed up the cost of local and industrial transport and agricultural inputs such as fertilizer, which has increased in cost by 2-3 times in the past year.

**Weakened US dollar**
The Cambodian riel (KHR) is artificially pegged to the $US at (4,000 riels). As well as dealing with eroded purchasing power, Cambodia is importing inflation on imports from neighbouring countries whose currencies have appreciated against the dollar. Dollarization presents a further challenge for policy makers devising sustainable policies to address the current food crisis.

**Price of rice**
Rice is the staple food item in Cambodia and constitutes 50% of the total food consumption of poor families. From March 2007 to March 2008 rice prices in Cambodia have doubled. Such fluctuations in the price of rice will impact poverty reduction efforts and the World Bank predicts that a 10% increase of the rice price would increase the national poverty rate by 0.5% (in both rural and urban areas). In addition to critically low levels of global food stocks and higher production and transport costs, the global rice price has been compounded by export restrictions from large exporting countries and significant rice purchases from importing countries at higher prices.

To stabilize the rice price, the Royal Government of Cambodia’s short-term interventions in March 2008 included a 2-month ban on rice exports (excluding three provinces) and the release of subsidized rice to selected Phnom Penh markets.

According to the Royal Government of Cambodia, Cambodia was a net exporter of rice in 2007. The rice surplus is calculated from an estimate of the total rice production minus total food requirement. For 2007 the estimated rice surplus was 1,640,000 metric MT. Although these figures suggest that Cambodia is a rice exporting country, undeveloped domestic processing means that farmers often sell their paddy to neighboring countries immediately after the harvest. Paddy is sold at low price (often to repay debts) and milled rice is bought back at greater cost. Some pockets of the country remain rice deficient due to distribution and infrastructure constraints.

Whilst future trends are difficult to forecast in the short-term because of the direct link between world food markets and energy markets, FAO/OECD predicts that higher cereal prices will continue for the medium term 2007-2016. The Royal Government of Cambodia does not anticipate a rice shortage in 2008/09. As in the past, however, availability alone does not ensure equal access for the poor to purchase/consume rice.

**Most vulnerable**
In 2004, the total food poverty line was US$0.42 per day (the poverty line in rural areas was $0.34 per day) and 2.6 million Cambodians were food poor. Poorer households spend a larger percentage of their household consumption on food and have few assets or savings. The poorest of the poor spend 83% of their total consumption on food. Consumption inequality among rich and poor, urban and rural has grown considerably.
In the absence of formal social safety nets, Cambodian households face a variety of risks. Illness or death of a family member can push even relatively wealthy households into poverty and poor households into destitution. As high food prices continue, vulnerable groups are being forced to reduce their food intake or to consume cheaper and less nutritious food products, which reduces general health and well-being, exposing families to illness and rendering them less productive and more economically vulnerable. The present food crisis threatens to drive a greater number of families below the food poverty line. Those most at risk are the net food consumers namely; the urban poor, economic migrants and their families, fixed salary workers, the landless or land poor, poor rural families and families affected by HIV/AIDS.

With the strain of rising consumption costs, it is likely that existing coping mechanisms will be burdened further. This may trigger sales of household or farming assets, taking out high interest loans (exacerbating the debt trap), a spike in orphanage admissions (as one of the only available safety net for families), decreased school attendance, a rise in child labour, internal migration pressures, and severe stress to people affected by HIV/AIDS, TB and other chronic illnesses.

3. Agricultural Sector

If Cambodia continues to produce a rice surplus, higher prices could benefit farmers, encourage increased production and create an opportunity to promote agricultural development. However, the increased cost of inputs, most notably fertilizer and energy/transport costs, are limiting factors to agricultural growth. In April 2008 the fertilizer price peaked at three times higher than 2007 and according to the Cambodian Center for Study and Development in Agriculture approximately 50% of Cambodia’s estimated 2 million farmers have been adversely affected by the price rise. Farm (own) produced food accounts for only 25% of consumption in rural areas, so like the rest of Cambodia, most farmers are also paying higher food prices for the majority of their consumption.

Agricultural growth is currently constrained by lack of irrigation, post harvest management constraints, roads, markets, access to loans, lack of diversification and capacity of farmers. The Government has invested in agricultural particularly in infrastructure, however it is not clear whether the 2006/2007 rice surplus is the result of more stable production or good rainfall. There was also significant demand from Viet Nam in 2007/2008 due to lower domestic yields and natural disasters. For the time being, rising food prices are not benefitting a significant number of farmers.

4. Government response

Actioned May 2008

Immediate short-term intervention measures:

- Inter-ministerial discussions held
- WFP provided with 3,000 MT of rice to support take home ration/food scholarship, HIV/AIDS and TB beneficiaries
- Ban on pork imports removed
- Salary increase for civil servants- $40 billion Riel
- Soft loans from Rural Development Bank ($US 10 million) to the state-owned Green Trade Company and private sector rice millers, state-owned enterprise for increasing paddy rice stock
- Green Trade Company released approximately 300 MT of rice to the market at lower than market price (1,800 Riel per kilo rather than the market price 2,500 riel
- Temporary ban placed on paddy export March-May 2008 but trade permitted in three provinces along Vietnamese border.
Proposed

Medium term measures

- Macroeconomic instruments such as fiscal policy, monetary policy and exchange rate policy with the aim to control medium term inflation, increase national reserve, control credit of the private sector, and strengthen the national banking system. (working closely with IMF)
- Public Finance Policy - continue to implement Public Financial Management Reform Programme
- No tax on agricultural inputs (under consideration) reduction of import taxes on food linked to increased taxes on luxury items (cars, alcohol, cosmetics)
- Increase agricultural productivity and augment yield
- Increase irrigated land and land available for cultivation
- Price Monitoring Working Group (Ministry of Economy and Finance as Chair with members from the National Bank of Cambodia, Ministry of Planning, Ministry of Commerce, Ministry of Agriculture, Forestry and Fisheries and the Supreme National Economic Council) to monitor inflation and provide technical recommendations to the Government through the Committee on Economic and Finance.
- The RGC has agreed to export 6,000 MT of broken rice to Senegal in the near future.

Long-term response - priority areas

- Grain storage in rural areas and at farm level
- Medium and long term strategy for grain storage at provincial and national level
- Feasibility of enhancing production through increased irrigation of the second rice crop
- Assessing short term and medium term requirements for inputs including fertilizers and high yielding seed varieties
- Strategies for reducing post harvest losses
- Potential for aquaculture development
- Improving information databases to complement policy interventions
- Policy options (tariffs, taxes and minimum support prices)

Government focal point


To ensure alignment with national priorities and to establish dialogue on priority need confirmation of the government focal point is needed. In the absence of this focal point, the UN Country Team will consult with the newly created Price Monitoring Working Group and the Supreme National Economic Council as first points of contact. Government has so far not released inflation data and may be prohibited from formulating an action plan in the short-term due to current election priorities. The post-election period, may provide the opportunity for discussion regarding social safety nets and the development of a comprehensive national response plan.

5. Civil Society priorities

The NGO Forum on inflation and poverty that was held on 6 May 2008 included presentations and discussion by Government, development partners and civil society and established the following recommendations:
Immediately increase food aid, scale up protection programs and targeted micro credits
Immediately review all public and private sector food stocks, and take appropriate action to ensure that these stocks can meet the demand for 2008 to ensure availability 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

6. UN Response
The UN Country Team will align with national priorities and immediately respond to priority need in collaboration with development partners. The short-term focus will address the immediate social protection needs of vulnerable communities by ensuring food security, analysing and responding to issues of economic vulnerability and establishing social safety nets. In the medium to long term, focusing on macroeconomic policy and technical assistance to advance agricultural productivity and invigorate private sector investment in rural development. Overall the UN sees a priority for robust surveillance and access to data analysis; a focus on vulnerability to economic shocks including issues of social safety nets, nutrition and illness, school attendance and child labour; Agriculture with a focus on immediate agricultural inputs to the poorest farmers, productivity and post harvest potential. The UN’s response views high food prices as a motivator for sustainable social investments to mitigate future risks and a potential catalyst for economic growth and poverty reduction.

To establish this plan the UN and development partners will support the Royal Government of Cambodia with action on an immediate, short, medium and long term basis.

7. List of Resources
Headquarters:
1. UN Secretary-General’s High Level Task Force on the Global Food Security Crisis (established 28 April 2008) available at http://www.un.org/issues/food/taskforce/
4. G8 Summit Japan 7-9 July 2008 available at http://www.g8summit.go.jp/eng/
Government Resources:
7. Global Information and Early Warning Service Commodities and Trade Division, FAO HQ from Ministry of Agriculture, Forestry, and Fisheries Kingdom of Cambodia, 7 May 2008
8. Questionnaire Ministry of Agriculture, Forestry and Fisheries Regional Meeting Responding to Rising Food Prices in Asia, April 25 2008
9. Council for Agriculture and Rural Development (CARD) & TWG- FSN Report on Food Security and Nutrition as an input for Mid-Term Review (MTR) on the implementation of NSDP 2006-2010 Reports:
12. UNDP Regional Report, Overcoming Vulnerability to Rising Oil Prices Options for Asia and the Pacific,
13. World Bank Cambodia, FAQ Food Prices (April 2008)
15. World Bank, Implications of High Global Food Prices for Poverty in Low Income Countries, Development Research 2008
17. World Bank, Impact of Prolonged High Oil and Food Prices in Cambodia
19. ESCAP Economic and Social Survey of Asia and the Pacific 2008 Sustaining Growth and Sharing Prosperity, Cambodia Briefing Notes, March 2008
Presentations:
22. ILO Presentation Impact of Rising Food Prices on Child Labour in Cambodia, UNCT Meeting UNESCO 7 May 2008
23. ISFP Mission UNCT Presentation, UNDP Cambodia April 30 2008
25. NGO Forum Presentation Rising Food Inflation in Cambodia Possible Causes, Discussion on Inflation and Poverty May 6 2008
26. CDRI Presentation, Consequences of High Inflation on the poor and how to mitigate them, Discussion on Inflation and Poverty, May 6 2008
27. NGO Forum December, Cambodia Development Watch, Poor suffer most from inflation, 2007
28. WFP, Presentation Impact on Food Security and Nutrition of increasing costs of food in Cambodia, Donor lunch 4 April 2008
29. World Bank Distributional impact of price developments, Discussion on Rising oil and food prices in Cambodia April 30 2008
UN Response Plans:
32. Cambodia Initiative on Soaring Food Prices (ISFP) Recommended plan of action: Phase 1 May 2008
33. Cambodia Initiative on Soaring Food Prices (ISFP) Draft TOR ISFP Mission 2008
34. World Bank Cambodia Developing a Response to Food Price Increase Brainstorming Session, April 20 3008
35. World Bank, Prolonged High Oil and Food Prices in Cambodia: Possible Policy Responses April 2008
36. ILO, UNICEF, UNESCO, WFP, UNRC ToR Interagency Study on Impact of Food Prices on Child Labour and Education in Cambodia
37. High-Level Task Force on the Global Food Crisis Media Advisory 2 June 2008
38. UNICEF, MoH, HKI, WFO, WHO, A2Z Concept Note Nutrition Sentinel Surveillance System
39. UNDP Lao PDR Tor Analytical Study on the Social Impact in Lao PDR of Global Food Price, sApril 2008
Online Resources:
40. FAO FAQs on Food Situation, January 2008 available at www.fao.org/worldfoodsituati

Study:
43. CDRI Study, Trends in Community Well-Being and Household Mobility in Nine Cambodian Villages, 2007
44. Proposal, Study to Assess the Effects of High Food Prices, CDRI in cooperation with WFP, WB, UNDP, FAO, NGO Forum, Oxfam America,

Meetings:
45. UNCT Meeting Record 7 May 2008
46. Adhoc UNCT Meeting Record Rising Food Prices 19 May 2008
47. UNCT Meeting Record 21 May 2008
48. Ministry of Planning & WFP ECHUI/REACH Meeting Record, 19 March 2008

Briefing Papers:
49. ADB, Soaring Food Prices: Response to the Crisis, April 2008 available at www.adb.org
50. ADB Cambodia, Asian Development Outlook 2008, Cambodia
51. Overseas Development Institute, Briefing Paper, Rising Food Prices: A global crisis, Action needed now to avert poverty and hunger, April 2008 available at www.odi.org.uk
52. Economic Institute of Cambodia, The Impact of International Crude Oil Prices on Cambodia, July-September 2004