

# THE IMPACT OF PROPOSED US FOREIGN ASSISTANCE CUTS:

CAMBODIA'S AGRICULTURAL SECTOR



## Summary findings

USAID's focus on direct grants to rural agricultural NGOs assists the most vulnerable, especially women and children, to catalyze the market opportunities for small farmers and ease poverty within rural areas. The US FY '19 budget proposes the elimination of funding for the agricultural sector. USAID allocated \$8.7 million for agriculture and \$1.5m for nutrition programs in FY '17. Such a sudden and complete withdrawal will likely have the following impacts:

- Poverty gains in rural areas will be adversely affected, especially among the rural poor and most vulnerable.
- China will likely fill some of the resource gap, increasing its influence and leadership in Cambodia.
- Other OECD donors will be unable to shift program focus to cover any US gap, and donor coordination will be disrupted.
- The space for Cambodia's civil society could shrink further and slow down governance reform efforts.

**PROJECT OBJECTIVE:** To assess, using existing aid information, research, and in-country interviews, the impact of the US foreign assistance cuts proposed in the FY '19 budget. We undertook case studies in four countries – Cambodia, Liberia, Nicaragua, and Senegal – focusing on an important sector in each country. For Cambodia, we looked at US investments in the agricultural sector.

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### ABOUT THESE CASE STUDIES:

These countries were selected according to criteria informed by desk research, expert interviews, and analysis. In each country we focused on one sector and visited each country, conducting a number of interviews with a range of stakeholders. We utilized a common methodology for each to ensure a consistent approach with each country. For more information on our methodology visit: [www.publishwhatyoufund.org/projects/us-foreign-assistance](http://www.publishwhatyoufund.org/projects/us-foreign-assistance).

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## Background

**Cambodia has made significant progress towards poverty reduction but the gains are fragile, with the most vulnerable people living in rural areas.**

- Continued strong economic growth has helped Cambodia become the 15th fastest growing economy in the world.<sup>1</sup> In 2016 it attained Lower Middle-Income (LMI) status and has reduced aid dependency from 16.3% of GNI in 1995 to 3.9% by 2016.<sup>2</sup>
- Although there has been a drop in the poverty rate – from 47.8% in 2007 to 13.5% in 2014 – a majority of Cambodians still fall into either the “poor” or “vulnerable” category. The sharpest reduction in poverty occurred between 2007 and 2009 and took place predominantly in rural areas. Despite this progress, there continues to be a rural-urban divide, with rural poverty rates remaining roughly seven times higher than urban rates.<sup>3</sup>

Interviews with Cambodian officials highlighted concerns that economic shocks, particularly to rural areas, could reverse the trend and put people back into poverty. As a government source said:

**“Any big changes to the agricultural sector will potentially set people back into poverty. This is particularly true for smallholder farmers who are out of poverty but not economically secure.”**

**Cambodia's strategy is to focus on increasing its agricultural exports. While this will tackle the broader economic development challenges, the parallel slow-down in the growth of agriculture has left the most vulnerable at risk.**

- Although the agricultural sector was growing at a fast rate between 2006 and 2012 (4.7%), its growth has substantially slowed.<sup>4</sup> With approximately 70% of the population engaged in agriculture,<sup>5</sup> stakeholders across the spectrum expressed concerns that continued slow-growth will negatively impact poverty reduction or reverse progress.
- Agricultural growth is currently inhibited by a poorly functioning market, a lack of infrastructure, and few domestic processing facilities. Due to a growing surplus in agricultural production, Cambodia's focus is to increase exports – particularly to China. This requires an improvement in the quality of produce, so that it meets export standards. Moreover, the government will also aim to facilitate the construction of core agricultural infrastructure, such as irrigation systems and road networks.
- Interviewees highlighted that the focus on larger-scale economic development does little to tackle the immediate challenges of the most vulnerable.

Foreign assistance is critical to revitalizing Cambodia's underperforming agricultural sector until private sector investments can be sustained. The US plays an important role by providing assistance directly to the private sector and non governmental organization (NGO) implementers, who target the most vulnerable populations.

Working directly with the private sector and NGOs has enabled the US to complement the Cambodian government's strategy and support people who may otherwise be left behind by the larger economic development projects. In alignment with the Cambodian government's priorities, USAID's strategy is to:

- strengthen the market by improving links between smallholder and medium-sized farmers with buyers.
- ease immediate poverty by increasing produce supply in rural areas.
- improve the nutritional status of the most vulnerable, resource-constrained women and children in rural areas.

Between 2017 and 2022 the expected results<sup>6</sup> of these USAID projects are to:

- reach 134 rural communities to improve fish productivity to feed at least 338,000 people.
- help at least 129,700 children escape malnutrition.
- improve access to clean water for roughly 100,000 people in rural communities and help build a sustainable agricultural market to assist at least 2,034 producers.
- generate sales of \$37m and attract at least \$12m of private sector investment directly into some of the poorest communities.<sup>7</sup>

## CURRENT MAJOR US PROGRAMS

### HARVEST II • 2017 - 2022

This \$17m program is focused on building better links between producers and buyers, which will ensure more value-added is retained within Cambodia and products make it to the market. Between 2017 and 2022, it hopes to increase horticultural sales by \$37m, create 18,000 jobs, and attract \$12m of private investment to the sector.

### NOURISH • 2014 - 2019

NOURISH, with a budget of \$16.3m, aims to reduce anemia in women and children and reduce the proportion of children who are stunted. Over the life of the project, NOURISH is expected to reach over 600,000 people in 565 underserved rural villages with innovative interventions working across rural development, health, nutrition, and agriculture addressing core factors contributing to malnutrition.

### RICE FIELD FISHERIES II • 2016 - 2021

Rice field fishing is done in and around rice fields, particularly during the flood season. This project aims to increase productivity of fisheries in the Tonle Sap floodplain. Scaling-up best practices will provide direct and immediate relief for some of Cambodia's poorest and most vulnerable communities. Over the program's lifetime, it aims to reach at least 134 communities and feed at least 338,000 people.

# The impact of a US withdrawal

China is the largest donor in Cambodia, providing almost all of its aid in concessional loans with few strings. The US is one of Cambodia's leading donors. The elimination of US agricultural support will affect poverty reduction and it is unlikely that either the Cambodian government or any other donor, except China, will fill the gap.

**US foreign assistance targets pockets of poverty and supports the most vulnerable.**

In FY '16, the US spent \$107.5m on aid to Cambodia.<sup>8</sup> Of that, \$5.9m was in agriculture. Although it is one of the largest donors in Cambodia, it represents just 0.2% of the overall US assistance spending, making Cambodia its 48th most funded country in 2016.<sup>9</sup>

The FY '19 budget request proposes cutting bilateral assistance to Cambodia by 75%.<sup>10</sup> This includes the near elimination of funds from the Economic Support Fund and the Development Assistance accounts, which includes a 100% cut for a variety of core sectors, including agriculture.

A severe reduction in US aid would most immediately affect some of Cambodia's most vulnerable people.

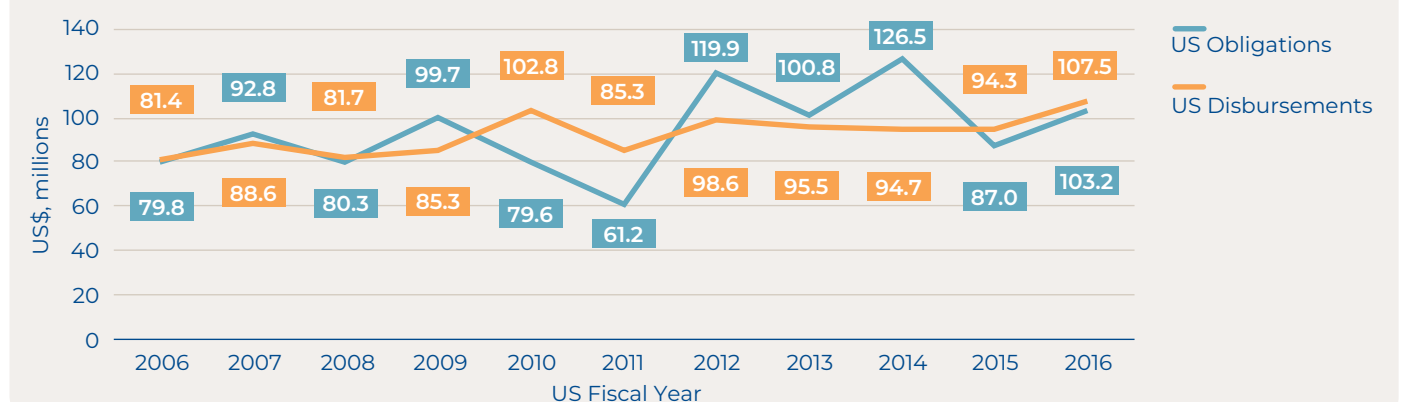
Cambodian officials maintain that, due to a lack of available funds, the government would be unlikely to fill a gap in poverty reduction work, at least in the short term. Among those affected include:

- subsistence farmers, who depend on their garden farms to source income and nutrition.
- women, who struggle to access micro-finance and live economically independent lives.
- children, where one in three under five-year-olds are chronically malnourished or stunted,<sup>11</sup> which causes the economy to lose \$120 million every year.<sup>12</sup>

Given the fragility of Cambodia's growth, there is a risk that the gains made against poverty will be reversed, impacting Cambodian women and children in particular. A US withdrawal could also have wider and unknown adverse effects to rural economies. A government source said:

**"It would be very hard to isolate the impact of a US withdrawal. It would not just center on smallholder farmers. There will be the knock-on effects for rural education, local investment, and overall local economic growth."**

## US OBLIGATIONS AND DISBURSEMENTS TO CAMBODIA (CONSTANT \$), 2006 - 2016



**China will likely fill the US gap, but not with the same type of projects.**

Interviewees across the spectrum were highly confident that China would eventually fill any financing gap that the US left behind.

China emerged as a significant donor in Cambodia between 2007 - 2009, enabling Cambodia to access loans more generously and with fewer apparent conditions, according to a government official:

**“Chinese loans come with less strings, the government can set the priorities, the interest rate is cheaper, terms are better, and we can procure it faster. From a competitive point of view, we will obviously take Chinese loans.”**

China is currently Cambodia’s largest donor, providing an estimated \$214m in concessional loans in 2017. In 2016, China accounted for 21.9% of all Cambodian aid.<sup>15</sup>

To date, China has almost exclusively focused on funding larger-scale infrastructural work and is generally considered a straight-forward financier of government plans through loans. It currently has 21 on-going programs in Cambodia: three are in agriculture, of which all are related to irrigation.<sup>14</sup> At present, Chinese assistance does not target small farmers or those in poverty.

Recently, China is venturing into smaller ‘soft-aid’ programs with grants. In 2014 it did not disburse any grants in Cambodia, but by 2017 this figure was \$9.2m.<sup>15</sup> One of these grants was a donation of 98 high-tech buses for use in Phnom Penh. To some interviewees, this signalled a shift in China’s intentions and, to one international NGO, made them a more attractive funder.

Finally, although details are hard to come by, it is said that China has provided some grants to civil society organizations. While this is new, and little is known about future plans, it is another indication of a potential shift, even if small, in the approach of the Chinese government.

**A US withdrawal will significantly impact the donor landscape.**

Concerns were expressed that a sudden reduction of US assistance would disrupt the donors’ coordinated agricultural strategy. The US deliberately shifted its focus away from agricultural practices and yield to market development and microfinance provision, to catalyze a market economy by creating better linkages between producers and buyers. Other donors – particularly the International Fund for Agricultural Development (IFAD) and the European Union – maintain a strong presence in agricultural production, ensuring sufficient production.

Other donors and NGO interviewees expressed concern that a sudden retraction of US assistance may disrupt this complementary landscape. Further, none of the five other major donors indicated that they would fill the gap left by a sudden US withdrawal. Not only are their own strategies established, making a pivot more difficult, but some highlighted their own budget constraints and inability to identify new resources within such a short timeframe.

Cambodian officials also confirmed that their own spending pressures and a lack of short-term capacity would make it unlikely that they could fill any gap left by a US withdrawal unless the government can source external funds or, as some government and donors speculated, if it became of personal interest to the Prime Minister.

**The US is viewed by many Cambodian stakeholders as a champion of vulnerable groups. A US withdrawal from the agricultural sector could cause independent civil society space to shrink further and endanger a fledgling reform effort.**

Interviewees repeatedly expressed concern that cuts to US agricultural work would have adverse effects for civil society. While the dominant view is that the Cambodian government would pay little attention to a US reduction, a minority thought the Prime Minister could see a US withdrawal as an opportunity to “step-in” with the support of Chinese funding for rural-based NGOs.

Historically, Cambodia’s ruling party, the Cambodian People’s Party (CPP), has monopolised rural support, but that started declining in 2013. Its competition – the Cambodian National Rescue Party (CNRP) – was dissolved after it won nearly 44% of the vote in the 2017 local election.<sup>16</sup>

Civil society interviewees alleged that support from the government would require recipients to politically align with the CPP or agree not to challenge the government.

This would enable the CPP to strengthen its rural powerbase at a time when its support is waning. Withdrawal by the US would give the ruling party the opportunity to fill the vacuum. One civil society representative told us:

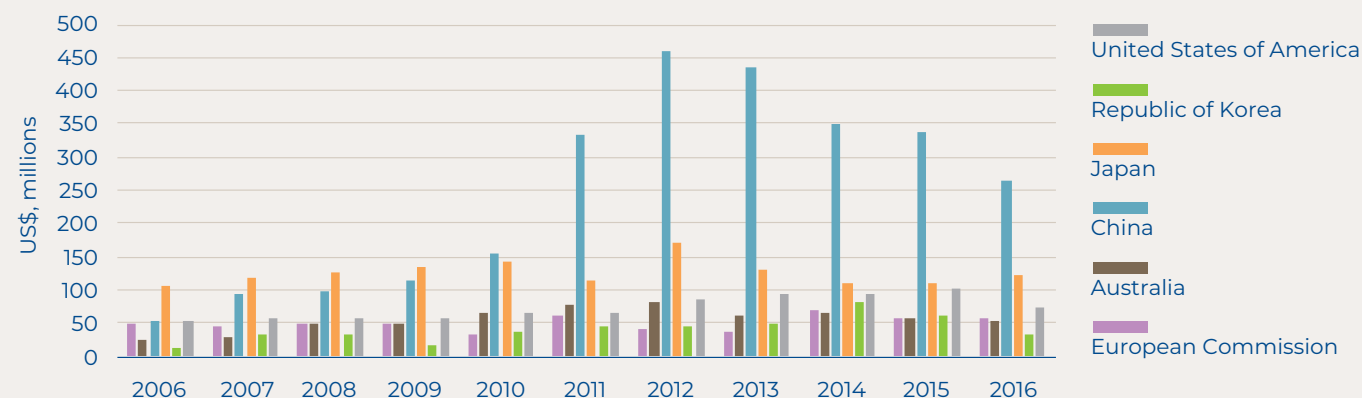
**“The Prime Minister would be quite gleeful – it would be an opportunity for the government to provide legitimacy in a time when they are looking to do just this.”**

Several interviewees across stakeholder groups highlighted that Chinese government funding is now flowing through the recently formed and government-backed Civil Society Alliance Forum (CSA Forum), which is providing small grants for rural development NGOs.

The US is currently the largest funder of grants to Cambodia,<sup>17</sup> in part because US strategy almost exclusively provides grants over loans,<sup>18</sup> and because other donors moved from grants to loan financing when Cambodia transitioned to Lower Middle-Income status. US grants are thus increasingly important for NGOs seeking funding. A loss of US grants to Cambodia and to NGOs would mean fewer alternative routes other than the CSA Forum.

Across the board, interviewees highlighted that USAID holds an important leadership position. USAID’s role extends beyond financial support, being identified as the most influential ‘values-based donor’ who ensures that the rights of smallholder farmers and other vulnerable groups are not side-lined in the face of the larger-scale economic projects. Stakeholders, including non-US Embassy officials, highlighted that the US would be stepping back at a time when the population is becoming progressively reform minded. A US presence is highlighted as a morale-boost and a safeguard.

**KEY DONOR FINANCING**



Source: USAID Foreign Aid Explorer

**“If the US was to withdraw, so might the hope for reform. A US withdrawal would be about walking away from the people, not the government.”**

## Notes

1. World Bank (2016), World Development Indicators.
2. Ibid.
3. OECD (2017), Social Protection System Review of Cambodia, OECD Development Pathways.
4. Following an average growth rate of 4.7% between 2006-2012, the sector grew at 0.8% from 2013-2015, and an estimated 1.4% in 2016.
5. World Bank (2017), Cambodia: Sustaining Strong Growth: Systematic Country Diagnostic.
6. The expected results assume continued funding of this sector.
7. USAID (2018), Agriculture & Food Security in Cambodia, see: [www.usaid.gov/cambodia/agriculture-and-food-security](http://www.usaid.gov/cambodia/agriculture-and-food-security)
8. USAID (2018), USAID Foreign Aid Explorer, see: <https://explorer.usaid.gov>
9. Ibid.
10. Department of State (2018), see: <https://foreignassistance.gov/>
11. National Institute for Statistics (2015), Cambodia Demographic and Health Survey.
12. UNICEF/IRD (2016), Secondary Analysis of Cambodia Demographic and Health Survey.
13. Cambodia Council of Development (2018), CDC Database.
14. Ibid.
15. Ibid.
16. The CNRP was dissolved by the Supreme Court in 2017, following allegations by the Ministry of Interior that the SNRP was attempting to topple the government.
17. OECD (2017), OECD-DAC Data.
18. Globally, 98.5% of US assistance are grants. OECD (2017), OECD-DAC Data.