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2009 NATIONAL BUDGET SHOULD FAVOUR FARMERS

Introduction

Linking our forthcoming National Budget to the policy framework outlined in the National Strategic Development Plan (NSDP) is probably the most challenging task that Government officials in the Ministry of Economy and Finance are facing at the moment. As representatives from line ministries and the Ministry of Economy and Finance are negotiating budget allocations for the draft 2009 Budget Law this budget brief reviews: i) the priority attached to agriculture and rural development in the NSDP; ii) budget allocations to these sectors in the past four years; and iii) actual expenditure in these sectors.

This brief ends with a call on the Royal Government, supported by its development partners, to significantly direct more public funds in the 2009 Budget to stimulate agriculture and rural development.

"Poverty incidence is high in rural areas especially those in remote regions"

"85% of the population lives in rural communities"

(NSDP 2006-2010)

NSDP policies and their increased relevance since 2007

Our NSDP (2006-2010) is very clear about the importance of agriculture for poverty reduction: *"Enhancement of the agricultural sector is the key to poverty reduction and would also contribute enormously to real GDP and macro-economic growth. Poverty incidence is high in rural areas especially those in remote regions. 85% of the population lives in rural communities and over 60% depend on Agriculture, Forestry and Fisheries for their livelihood. 75% of the poor households are farmer-headed households."*

From May 2007 to May 2008, the price of Pkar Knhei rice from Battambang increased by 105 percent from 1,491 Riel to 3,058 Riel per kilogram. As the prices of other rice types also doubled, returns to public investment in agriculture have increased significantly. Although prices for rice fell somewhat in August they are unlikely to return to the level of May 2007.

"As the prices of other rice types also doubled, returns to public investment in agriculture have increased significantly."

As a result, investment incentives have shifted permanently in favor of agriculture and increasing public investment in 2009, resulting in improved irrigation, access to quality agricultural inputs, storage facilities, and processing facilities. These investments are good for the economic development of Cambodia.

Financing public investment in agriculture and rural development

When addressing financing to implement policies, the NSDP follows the logic that with poverty reduction being the objective, 60 percent of the allocations will be used for the benefit of the rural areas. Table 5.2 in the NSDP which addresses sector allocations identifies rural development and agriculture as crucial for delivering on this commitment. The funding sources for this public expenditure are identified as Government revenues and development aid from external development partners.

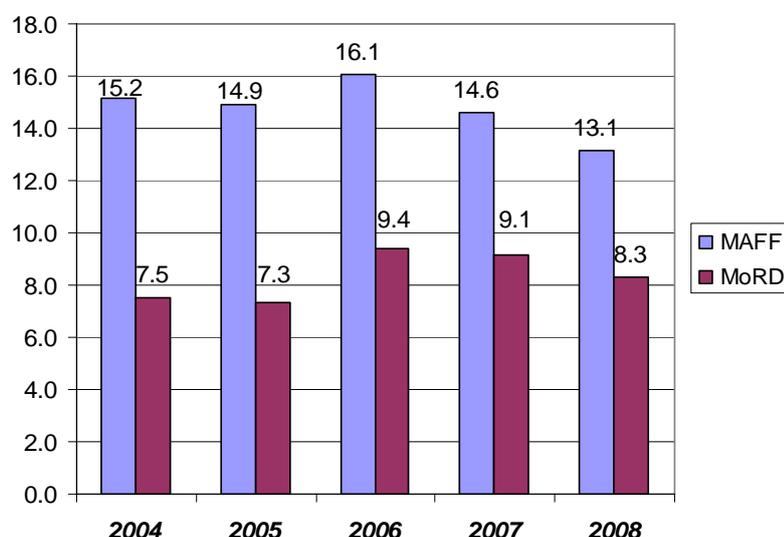
In the Cambodian context, where there is limited public information concerning the management of public resources, the main sources of information are: 1) the National Budget Law, 2) the Public Investment Program, 3) the Budget Settlement Law, 4) the Table of Financial Operations (TOFE), and 5) the aid database from CDC. The table in annex 2 briefly describes the content of these five sources and assesses their usefulness for monitoring public expenditures.

"... lack of linkage between the National Strategic Development Plan and the National Budget... remains Government's most important economic policy instrument"

The National Budget: recurrent expenditure

Figure 1 shows that, when budget allocations are corrected for inflation, there is no clear trend towards higher budget allocations for both of the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the Ministry of Rural Development (MoRD). It also shows that the recurrent budget for the MAFF has been reduced in the last two years. The main reason for this is the lack of linkage between the NSDP and the National Budget, which remains Government's most important economic policy instrument. Another reason is the unexpected high-level of inflation that picked up in the second half of 2007 and continued into 2008. Although prices of rice and petrol started to fall in August, it is most likely that they will remain high.

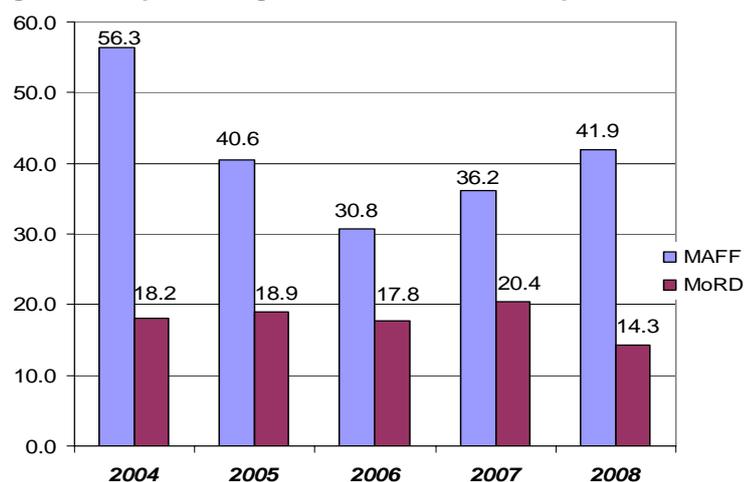
Figure 1: Recurrent budget in million US\$, 2007 prices



Implementation of the recurrent budget is generally good and has not been below ninety percent in 2005, 2006, and 2007. In 2007, the MAFF spent 97 percent of its recurrent budget while the MoRD spent 93 percent of its recurrent budget. One note that needs to be made is that other Government institutions overspent their recurrent budget each year during the last four years. The Council of Ministers spent 43 percent more than their allocated recurrent budget in 2004 and 91 percent more than budgeted in 2007.

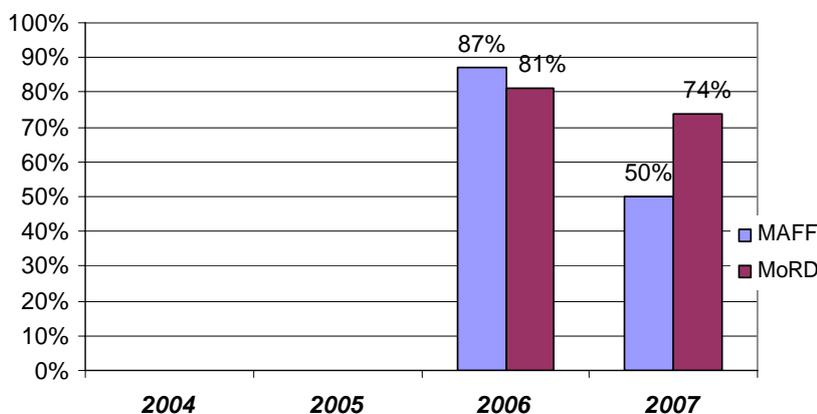
The National Budget: capital expenditure

Whereas the recurrent budget is mainly financed from domestic revenues, the capital budget is mainly financed with foreign aid. Figure 2 shows that there is no clear trend towards higher capital budget allocations for the MAFF and the MoRD. From this figure, it is clear that, when corrected for inflation, the 2008 capital budget for the MAFF has actually returned to its 2005 level. The allocated capital budget for the Ministry of Rural Development is quite stable for 2004-2007, with a significant drop in its 2008 budget.

Figure 2: Capital budget in million US\$, 2007 prices

Besides the lack of increases in their budgets, implementation of the capital projects by these ministries is problematic. As shown in figure 3, the MAFF and the MoRD were only able to spend respectively 50 percent and 74 percent of their capital budget in 2007. Because the needs for public investment in rural areas are high, the Royal Government and its development partners should urgently address the causes of the under-expenditure.

It needs to be noted that no data on capital expenditure by the MAFF and MoRD is available for 2004 and 2005. For 2006 and 2007, calculation of execution of the capital budget is based on implementation data published in the 2007 and the 2008 National Budget Law. Although these are preliminary data, the Royal Government has not released any data that shows a different performance than depicted in figure 3.

Figure 3: Execution capital budget

"...the 2008 capital budget for the MAFF has actually returned to its 2005 level."

"... the MAFF and the MoRD were only able to spend respectively 50 percent and 74 percent of their capital budget"

Conclusion and recommendation

In the last five years, the Royal Government has not been able to translate its strong policy commitments to rural development into development projects on the ground. Data on allocations in the National Budget law and the sparse data on budget execution indicate that public investments have not prioritized rural development which, at least partly, explains the moderate pace of poverty reduction in Cambodia.

It is time for the Royal Government, supported by its development partners, to break with this pattern and invest more public funds in developing the rural areas where it benefits the poor most. For policy and decision makers at the Ministry of Economy and Finance, the Council of Ministers, and Government's development partners it should be clear that

The 2009 Budget Law is an opportunity for the RGC to make a concrete start to change the pattern of under-investment in rural areas and work towards the objective declared by the Minister of Agri-culture, Forestry and Fisheries on April 24, 2008 that: "the country would be able to produce eight million tons of rice for export annually by 2015"

the high price of rice increases the economic returns on agricultural investments and has the potential to lift many of the rural poor out of poverty. The 2009 Budget Law is an opportunity for the RGC to make a concrete start to change the pattern of under-investment in rural areas and work towards the objective declared by the Minister of Agriculture, Forestry and Fisheries on April 24, 2008 that: "*the country would be able to produce eight million tons of rice for export annually by 2015*"¹. The recent submission of a proposal for a US\$ 38 million food assistance programme to the ADB² that includes a component to boost local food production is a promising start and more programs that improve small scale production need to be initiated.

The NGO Forum on Cambodia urges all policy and decision makers to change the pattern of the past and work hard to ensure that the 2009 Budget Law clearly favors small scale farmers.

Summary

- **Cambodia's rural areas are not poor, rural Cambodians are**
- **Public investment in rural development has been low in the past**
- **High rice price has increased returns to public investment in agriculture**

- **Time for change: 2009 National Budget should clearly favor farmers**

For more information:

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In the spirit of encouraging greater transparency, the NGO forum on Cambodia would like you to contact us if you have documents and/or information that should be brought to the attention of the Cambodian people.

¹ Xinhua news, May 02, 2008.

² Cambodia Daily, 4 September 2008.

Annex 1: Data used

	2003	2004	2005	2006	2007	2008
Consumer Price Index	100.0	105.4	110.6	115.8	134.7	165.7
Inflation by NIS		5.4%	5.0%	4.7%	16.3%	23.0*%
Exchange rate (Riel per US\$)**	3,979	4,019	4,097	4,107	4,073	4,100

*Forecasted by the Economist Intelligence Unit, Cambodia Country Report, August 08.

** NBC exchange rate (Riels/US\$). For 2008, exchange rate is based on rate used in Budget Law 2008.

Allocated recurrent budget (US\$ million)

	2004	2005	2006	2007	2008
MAFF	11.9	12.2	13.8	14.6	16.2
MoRD	5.9	6.0	8.1	9.1	11.7

Calculated from the National Budget Laws, Royal Government of Cambodia

Actual recurrent expenditure (US\$ million)

	2004	2005	2006	2007	2008
MAFF	9.6	11.5	13.6	14.2	-
MoRD	4.1	5.4	7.3	8.5	-

Calculated from TOFE reports, Ministry of Economy and Finance

Allocated capital budget, US\$ million

	2004	2005	2006	2007	2008
MAFF	44.1	33.3	26.5	36.2	51.5
MoRD	14.2	15.5	15.3	20.4	17.6

Calculated from the National Budget Laws, Royal Government of Cambodia

Actual capital expenditure (US\$ million)

	2004	2005	2006	2007	2008
MAFF			23.1	18.1	
MoRD			12.4	15.1	

Calculated from the National Budget Laws, Royal Government of Cambodia³

³ These figures are classified by the Ministry of Economy and Finance as preliminary, however final figures on actual capital expenditure are not available. For 2004 and 2005, there are no figures on capital expenditure in the Budget Law or Budget Settlement Law. For 2006 and 2007, budget settlement laws have not yet been produced.

Annex 2: Information sources on public expenditure

Source	Content / Comments
1) The National Budget Law	Allocation of recurrent and capital budgets by Ministry Estimates of recurrent and capital expenditure by Ministry of the previous year. - <u>Note 1</u> : The RGC does not release final figures on actual expenditures that are timely enough to inform the budget cycle.
2) The Public Investment Program (PIP)	Allocation of on-going projects (capital and technical assistance) by Ministry, linked to the National Budget since 2007 List of high priority pipe-line projects.
3) The Budget Settlement Law	Overview of actual recurrent expenditures vs. budgeted recurrent expenditures by line ministry Overview of actual capital expenditure vs. budgeted capital expenditure. - <u>Note 1</u> : Numbers of budgeted capital expenditure are not always the same as in the Budget Law. Occasionally information on expenditure is missing for certain ministries. - <u>Note 2</u> : Some years there is no breakdown of capital expenditure by line ministry - <u>Note 3</u> : Budget Settlement Laws for 2006 and 2007 are not yet available.
4) The Table of Financial Operations (TOFE)	Overview of actual recurrent expenditures vs. budgeted recurrent expenditures by line ministry Overview of actual capital expenditure vs. budgeted capital expenditure. - <u>Note 1</u> : Numbers of budgeted capital expenditure are not always the same as in the Budget Law; occasionally information on expenditure is missing for certain ministries.
5) The aid database from CDC	Overview of projects / programs from development partners - <u>Note 1</u> : The CDC database is not useful for monitoring purposes as it is not linked to the National Budget or the Public Investment Program. Although a number of projects included in the CDC database are similar to projects in the PIP, there is no system of linking and they seem to operate as parallel systems.

Other publications from NGO Forum's budget project:

- Analysis of the Implementation of the 2007 Budget and the 2008 Budget Law, January 2008.
- Guide to the National Budget, November 2007.
- The Cambodian National Budget and Development: Translating the Policies into Action, Prioritize the Priorities!!, Cambodia Development Watch, Year 3, Issue 1, July 2007.
- Costs, Resources and Programming, NGO Position Papers on Cambodia Development in 2006. June, 2007 (Monitoring of Joint Monitoring Indicators and Implementation of the National Strategic Development Plan 2006-2010)
- Challenges in National Budget Law for Poverty Reduction, Cambodia Development Watch, year 2, issue 2, July 2006.