

IMPACTING JOBS THROUGH INCREASING EXPORTS: EVIDENCE FROM CAMBODIA'S RICE SECTOR

EVALUATION SUMMARY: ASSESSING THE EMPLOYMENT IMPACT OF THE IFC RICE SECTOR SUPPORT PROJECT

The evaluation was jointly commissioned by the International Finance Corporation (IFC) and the International Labour Organization (ILO) Lab¹.

Quick facts	
Country	Cambodia
Project	Rice Sector Support Project (RSSP) ²
Implementation period	2012-2016
Implementing Agency	IFC Advisory Services
Donor	European Union and the Enhanced Integrated Framework
Evaluation type	Final independent
Evaluation timeframe	November 2016 - March 2017
Evaluators	Mr Andrew Young and Dr Ty Makararavy
Keywords	Employment creation, working conditions, agricultural value chains



Top-line takeaways

The RSSP has contributed to a transformational impact on the rice sector. This has taken place at the individual firm level, as well as the sector level - translating into improved production and significantly enhanced exports.

- Rice millers supported by the project reported a 30 per cent increase in permanent staff attributed to export expansion.
- Company growth caused a rise in professional middle management positions – which were often filled by women.
- As mills obtained a range of food safety certifications, there were associated improvements in the terms and conditions of employment and better labour-management relations
- While the programme was successful in driving economic growth and increased export competitiveness, for supplier farmers benefits can be enhanced when coordinated and integrated upstream support is added to complement the lead firm approach.

1 www.ilo.org/thelab. The Lab is an ILO global initiative focused on increasing the knowledge-base about a market systems approach to Decent Work.

2 The project is a sub-set of the IFC Agro-SME Programme, which ran from 2008-2014.



BACKGROUND AND CONTEXT



SECTOR SUMMARY

Rice is the staple food of Cambodians and central to rural livelihoods. The production, processing and marketing of rice is estimated to employ at least 3 million people.

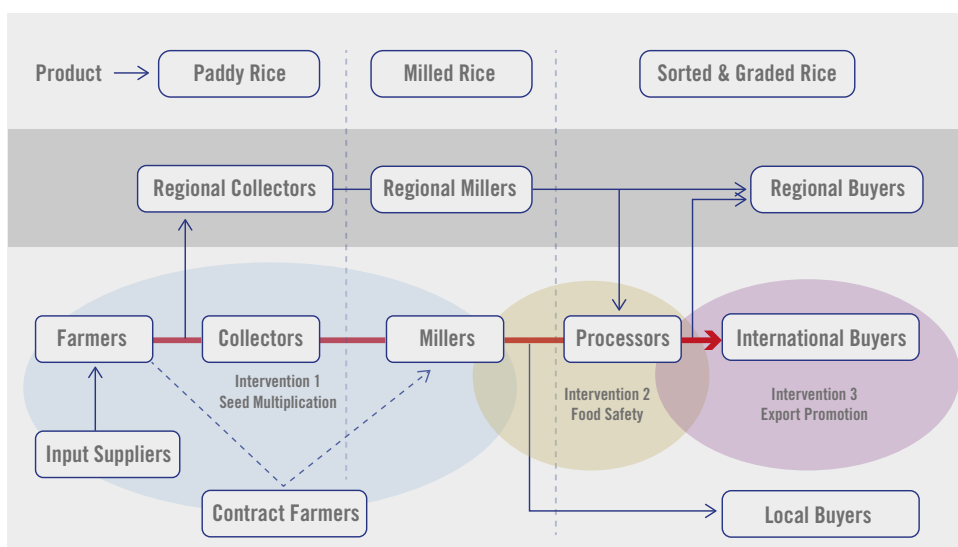
Following the government's 2010 rice export policy, Cambodia has increasingly focused on fragrant and niche markets like organic rice. As Cambodia can sell duty-free rice exports to the European Union under the Everything But Arms (EBA) arrangements, major export markets remain largely European, though Chinese and other Asian markets are growing.

PROJECT PURPOSE

The overall objective of the RSSP was to improve the competitiveness of the Cambodia rice export sector. The RSSP was implemented through a holistic approach, targeting interventions at key points along the value chain covering farming, milling and exporting practices. This included:

- **Intervention 1 'seed multiplication':** Improving paddy quality to increase farmers' access to improved inbred planting seed for high value rice varieties.
- **Intervention 2 'food safety':** Enhancing milling efficiency to increase the efficiency and output quality of rice mills/re-processors.
- **Intervention 3 'export promotion':** Develop and implement a marketing strategy to increase Cambodian rice exports.

Figure 1: The rice export supply chain and RSSP intervention areas





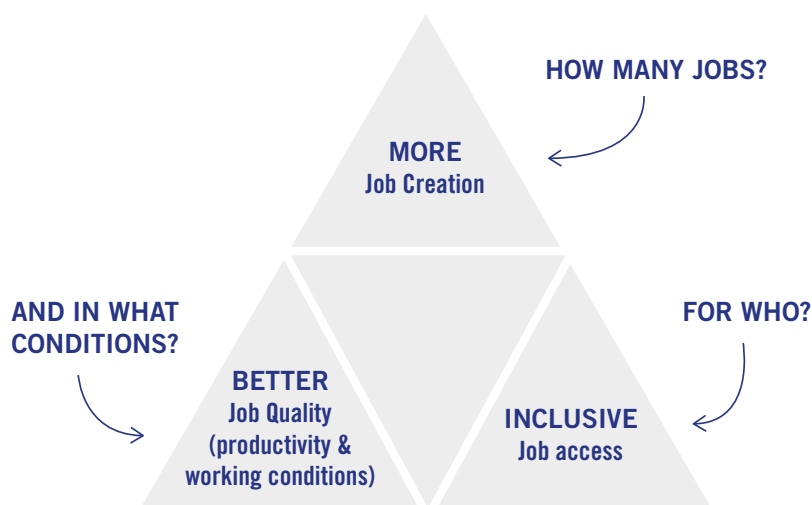
EVALUATION SCOPE

An evaluation was commissioned to investigate the employment impact of the RSSP on two segments of the value chain:

- **Suppliers:** Farmers that supply fragrant and white rice via the chain of collectors, millers and processors to export markets.
- **Employees:** waged workers in IFC miller and processor clients.

As per figure 2, below, the evaluation considered the number of jobs created, changes in the quality of employment³, as well inclusiveness and gender dimensions.

Figure 2: The job effects triangle⁴



METHODOLOGY

The evaluation was carried out at two levels. *Research Stream 1* took the unit of analysis at the farmer level, collecting data directly from the supplier segment of the value chain. *Research Stream 2* focused on the firm-level (millers/re-processors).

Primary data was collected from millers, processors employees and farmers, together with implementing organizations, relevant stakeholders and sector experts. Data collection started in late 2016, and culminated in a stakeholder validation workshop in February 2017.

Owners/Managers of fourteen mills in Kampong Cham, Kampong Thom, Phnom Penh, Pursat and Battambang province were involved in detailed discussions with the evaluators. The majority (10) of the mills assessed were small SMEs with less than one hundred employees.

³ The quality of jobs covers farm productivity (returns to labour/land that permit a worker and their dependents a level of income above the poverty line) and working conditions. At the farm-level, the working conditions focus was on income and benefits from self-employment as a smallholder producer (price premiums, sales revenues and profits, particularly from fragrant rice). At the firm-level, the focus was on the effect of technology upgrades and food safety certification/standards on safety, skills and security of employment for waged workers.

⁴ Adapted from World Bank/Thomas Farole.

Supplier data was collected from 360 supplier farmers (209 females) in Kampong Cham, Tboung Khmum, Siem Reap and Battambang province. Villages were randomly selected from a list provided by the Cambodian Institute for Research and Rural Development (CIRD) under the rice seed purification intervention of the IFC-RSSP. Respondents ranged in age between 17 and 80 years old with the average being 45 years old.

Contribution analysis was used to draw conclusions about the impact of the RSSP on employment—for both employees and farmers. The primary data was complemented by a range of secondary sources such as evaluations and reports.



MAIN FINDINGS AND CONCLUSIONS

At the highest level, the RSSP has contributed to a transformational impact in the rice sector supply chain. This transformation has been at the individual firm level as well as the sector level, translating into improved production and significantly enhanced export. The sector is modernizing and gradually meeting the requirements of global export. This is having a measurable effect on firm employees, and to some extent farmers. The shift from export of low value paddy rice to high value milled rice is turning into a success story of expansion and diversification of Cambodia's export basket.

There was a significant growth in rice export over the project period. In total Cambodia exported 538,396 metric tonnes of rice in 2015, exceeding the target increase of 100 per cent over the 2011 baseline of approximately 140,000 metric tonnes. The IFC estimated it had therefore facilitated a total rice export worth USD 146,618,197 by the end of 2015.

FIRM-LEVEL (MILLERS/RE-PROCESSORS)

Overall, the RSSP has provided the technical knowledge and market opportunities to help move millers away from family owned and managed businesses using traditional practices, to operations with professional management, using more modern equipment and implementing (in some cases) good practice employment conditions. On average, IFC-supported companies reported there was around a 30 per cent increase in their permanent staff due to export expansion.

Growth in export has had a positive impact on employees, especially those operating in the lead firms supported by the IFC. Hazard Analysis Critical Control Point (HACCP), Good Manufacturing Practice (GMP) and Good Hygiene Practices (GHP) have had a significant impact on the modernization of companies and there

was modest associated net growth in the number of employees and middle management in mills and processors necessary for new export opportunities. The growth in professional middle management is particularly noted as these positions were often filled by women. Casual workers were increasing in numbers due to increased export volumes and, though their conditions of service were not the same as permanent staff, they were benefitting from a cleaner working environment.

A benefit of certification was the associated improvement in terms and conditions of service and labour management relations and it is suggested this will likely accelerate as firms move towards more modern management systems such as Total Quality Management (TQM). With the increased export sales of certified lead firms, employees needed to be better motivated and trained to operate within new processes for HACCP requirements and this was contributing to better employment conditions. Better working conditions were also a retention strategy with employers having sometimes faced high staff turnover.

Benefits to employees included good terms and conditions of service and salaries which exceeded the minimum set by Cambodian Labour law. There were also some positive early developments in workplace occupational health and safety (OSH). It was reported that companies are introducing enhanced management and production processes in anticipation of an increasingly competitive marketplace.

Findings suggest there is also a strong positive correlation between the introduction of improved processes and the development of more professional management. Even the smaller SMEs were moving towards a TQM approach.

Women predominately undertake office work which is becoming an increasingly important service as mills modernize, especially for export. All mills interviewed had female employees and as well as cleaners and cooks, and more professional opportunities were becoming available.

Although outside the scope of the RSSP, it could be concluded the project indirectly (and for relatively small total numbers) contributed to women's empowerment with an increased employment of mainly young women in professional technical and administrative positions. It was reported, however, that some of the lowest paid employees were also women involved in activities such as cleaning.

For those mills not supported by the IFC it was found that employment relationships between management and employees were more informal with less written policies and procedures.

It can be concluded that the RSSP has had a positive impact on the number of jobs in the sector, especially for those lead firms that were modernizing and expanding their export reach with IFC assistance. While not





possible to determine a full-time equivalent (FTE) figure — due the relatively small number of millers seen, lack of current and baseline data and in some cases the lack of access provided to employees — some broad patterns were evident.

Employee headcount was increasing in almost all firms in the sample. Permanent staff increased from about 660 in 2013 to 896 in 2016. Importantly, many of these positions were in areas of quality control and human resources and many of these jobs were held by women. Two companies attributed the rise in staff solely to the RSSP. It is assessed overall that the smaller and more traditional (i.e. family based) the lead company, the larger the impact that RSSP was reported to have had.

The development of comprehensive occupational safety and health (OSH) is in its very early stages in the rice sector in Cambodia and most employers still see OSH as related to food safety and export process requirements rather than a potential staff-retention mechanism. The one employer who had become fully OSH certified indicated how although this was not required by buyers it would help them become “more competitive as they reached international standards.”

FARM-LEVEL (SUPPLIERS)

The RSSP sought to add value to every step of the supply chain, “from farm to fork”. By improving paddy quality through working with local millers to help farmers’ access higher-value seed varieties, farmers reported higher yields and higher profits from the sale of fragrant rice. Farmers expressed an almost unanimous desire to continue to grow fragrant rice for export and about half said they would continue to buy fragrant rice seed as the paddy was better.

While the impact on employees is relatively straightforward to determine, the impact on farmers has been complicated by poor weather conditions and generally lower prices of fragrant rice since 2014.

It was a clear opinion of the majority of respondents that while some farmers were benefiting from increased export it was the export companies and farm input suppliers that were benefiting most. It was widely reported that most farmers did not have significantly improved net income when there was an increase in rice prices, because the cost of inputs such as fertilizer, pesticide and seed had a corresponding increase in price when demand was high.

Out of the 360 respondents in Kampong Cham, Tboung Khmum, Siem Reap and Battambang, 336 (93 per cent) reported they made a profit from fragrant rice, though margins were small. On average, farmers made between USD 250—800 per crop per year. Profits were also highest for dry season fragrant rice.

Farmers were therefore gaining only marginal profits from rice production and evidence suggested small-holder farmers are likely to shift from rice production to other higher value-added farming activities and off farm labour. Primary data also found changing cultivation practices to deal with labour migration and a shift from rice transplanting to broadcasting techniques.

Contract farming is hardly developed in Cambodia and the processing, sourcing and production of paddy appears to remain largely informal and this can have a detrimental impact on farm gate prices as collectors dictate prices. With a shortage of labour and high migration to the urban areas it appears likely the majority of casual farm labour will be replaced by machinery and service providers.

An important additional indirect impact of the RSSP was the development of a provincial agricultural union that was directly attributed to the rise in export levels. Income benefits for some farmers were reported as generally more consistent when millers entered into firm and clear contract farming arrangements and the growth in agricultural unions who collectively negotiate best prices for agricultural cooperatives with millers could well be starting.

The rice export sector continues to consolidate and strong competition both domestically and internationally means that less efficient mills are closing which could ultimately result in a net reduction in jobs especially among unskilled workers and casual laborers. Ultimately the sustainability of benefits derived from the RSSP for employees and fragrant rice suppliers will remain dependent on continued and expanding levels of export.

Independent findings of this assessment would therefore suggest the RSPP has contributed to poverty reduction through more productive farming returns, though the long term repercussions of reduced rice prices remain uncertain — especially when associated with climate risks and the marginal profits of rice production.



RECOMMENDATIONS AND LESSONS LEARNED

RECOMMENDATIONS FOR FUTURE ACTION

- Further input into the National Employment Policy (NEP) using the rice sector as an entry point into the agro-sector. The NEP was launched by the Government in October 2015 with the support of the ILO. Among its measures to improve conditions of work and protection of employees is to strengthen the labour inspection mechanism, to develop a database of enterprises for monitoring conditions of work (and employees), improve OSH and to expand coverage of social protection.
- Companies are modernizing in order to compete domestically, regionally and internationally and are employing more professional staff as a result of export requirements. However, not all have human resource staff, policies or capacities in place. Labour turnover was an issue and there is a need to further focus on employee benefits as well as the IFC support to improved production and export efficiency.
- Well-organized agricultural cooperatives and unions should be in place if the government wants to develop contract farming. There is a growing focus on the development of agricultural unions and the ILO and IFC could consider whether there is the potential to support these. This could help overcome supply side inequalities that may remain.
- Where possible, replicate the lead firm approach of the IFC when sectors have clearly organized companies with strong export potential. The lead firm approach of the IFC has resulted in solid and positive changes to organizational effectiveness as well as export volumes. Lead firms are those that have the clear will and capacity to adopt best practice and this would appear to be relevant to employee service conditions as well as production capacities.
- While promoting export diversification, it is recommended to continue partnering closely with Ministries, organizations and other development partners supporting supply-side capacities. Significant project value is added when export promotion projects like the RSSP operate an integrated supply-and-demand programmatic approach.
- It is recommended to continue support to both product and market diversification to increase competitiveness in world markets. There is a concurrent need for further technical support for trade promotion, marketing and branding. This recommendation also aligns closely to the European Union program evaluation recommendation for the development of SMEs in the Agro Industry Sector.

LESSONS LEARNED

- Despite positive measurable impacts on rice export volumes and the enhanced efficiency of millers with associated benefits to formal employees, the rice value chain remains weak upstream and requires long term assistance to ensure gains in the sector are passed on to farmers.
- Using lead firms is more likely to result in impact and sustainability and provide additional employment benefits to employees of well-organized and socially responsible organizations as they move towards Total Quality Management (TQM).
- Development of value chains to include export can be a significant driver to enhancing supply through increased demand. However, to enhance impact, budgets should be adequate for upstream interventions to help overcome supply side constraints.
- Alternatively, potential impact and likelihood of sustainability are enhanced when export promotion projects, like the RSSP, operate a complementary approach and support the development of supply side capacities with other organizations and donors.



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The full evaluation report is available on request. Please contact thelab@ilo.org