



Contract Farming in Cambodia: Good Practices and Lessons Learned

Key policy messages (policy recommendations)

- The most common contract farming (CF) modality is represented by companies working with and contracting agricultural cooperatives or farmer organisations to produce agricultural products for supply to the local market or for export. Agricultural cooperatives (ACs) help to select and contract farmers. Contracting companies provide some training input and other support for ACs, and ACs further disseminate the knowledge to farmers. Most of the training is related to production requirements.
- The study found that contract farming provided benefits for farmers as producers and companies as buyers.
- The greatest challenge to companies is the lack of capital to buy all products from farmers during the harvest season.
- The problems for farmers include delays in payment from companies, and a lack of systematic training in producing good quality, safe products, and in grading produce.
- Contracting companies would like to see a law on contract farming because this could protect them from brokers. However, farmers and AC do not want such legislation because they lack information/are not familiar with the benefits of the draft law. They fear that they would not be able to meet the quantity and standard requirements set in the contract
- To achieve long-term and sustainable CF, the government and private sector should play an active role and should be less reliant on support from NGOs because this inclusive form of business will increase rapidly in Cambodia.
- There is a need for incentive mechanisms/contract farming policy that encourage companies to support the cooperatives and for

farmers to join contract farming. The government should promote more public-private partnerships (PPPs) that help to foster contract farming and to expand its reach.

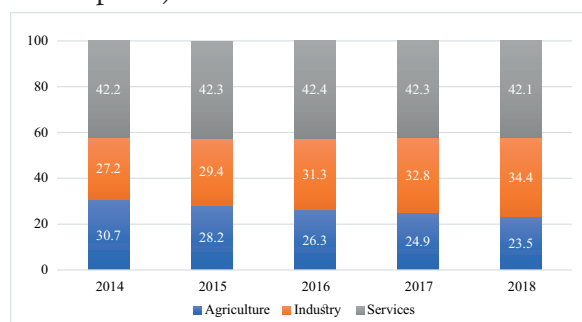
- Agriculture cooperative members play crucial roles in the formation of contract farming, but their capacities are weak. Both government and companies should provide more training to address this, so that they can help farmers to participate in contract farming more effectively.
- According to the International Development Program (IDP), the Agro-Industry Department will need to stage mass media/exhibitions to attract local and international investors to invest in the agriculture section through CF, and to provide quality and safety systems for service providers to improve the standard of agriculture products. This, in turn, will increase value-added.
- There is a need for more human and financial resources for the Agro-Industry Department as the secretariat of the contract farming committee, especially at the provincial level.
- Infrastructure to support and enhance the agricultural value chain should be provided, including roads, electricity and irrigation systems.

Introduction

Agriculture is an essential sector that increases the comparative advantage of developing and low-income countries (World Bank 2008). Cambodia has experienced a significant transformation in its economic structure during the last three decades, moving from an agrarian economy in the early 1990s to one that is currently more labour-intensive, manufacturing- and service-based.

The share of employment attributable to agriculture decreased from 74.8 percent in 1998 to around

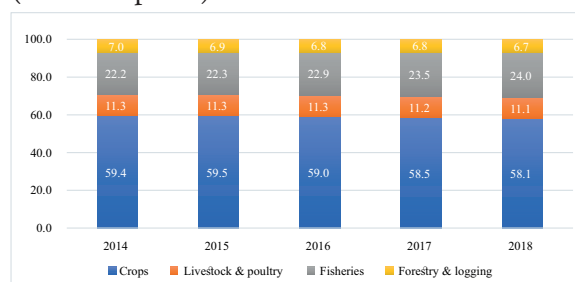
Share (%) of agriculture in GDP, 2014-2018 (at current prices)



30.4 percent in 2018, according to the World Development Indicator 2019. About 75 percent of Cambodians live in rural areas (RGC 2019), and most of them rely on agriculture for their livelihood. The sector constitutes around a quarter of the economy even though it decreased a little during the five year period, from 30.7 percent in 2014 to 23.5 percent in 2018 (MAFF 2019). Relative to the whole agricultural sector, the crop subsector accounts for the highest share. The figure was 59.4 percent in 2014 and 58.1 percent in 2018. Rice farming occupied 75 percent of total cultivated agricultural land, with other crops and vegetables accounting for only 25 percent (ibid.). For the last ten years, the country produced a surplus of paddy; on average, 4.72 million tonnes which was equal to 3.02 tonnes of milled rice per year. The exportation of milled rice increased from 387,061 tonnes in 2014 to 626,225 tonnes in 2018 (MAFF 2019). However, a considerable amount of remaining paddy has been traded informally to neighbouring countries, especially to Vietnam (Chhim, Theng and Nou 2020). Cambodia's agricultural value chain is fragmented, and the markets for agricultural produce are still unreliable – in terms of both price and demand.

Despite its positive effects relating to on-farm productivity and income, CF in Cambodia has yet to be widespread and inclusive, and this requires more effort from the government and the stakeholders (Cai et al. 2008). The government of Cambodia considers CF to be essential for rural livelihood improvements through agricultural development (e.g., see the sub-decree on CF in 2011). This research analyses contract farming policies and generates knowledge about practice to share with different collaborative research partners and stakeholders in Cambodia and in the region

Share (%) of subsectors in agriculture, 2014-2018 (at current prices)



through policy dialogues. Thus, in an attempt to contribute to agricultural development policies for rural livelihood improvement through contract farming, this study addresses essential questions:

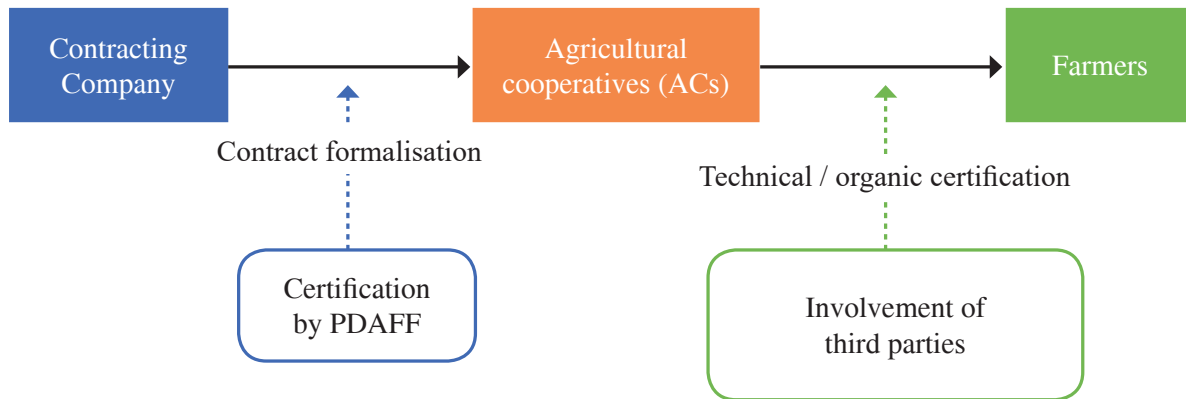
- What are the typology and characteristics (arrangements) of contract farming in Cambodia?
- Why are some specific contract arrangements more beneficial to farmers than others?
- What are the factors determining the successes and challenges of contract farming in Cambodia?
- What are the lessons learned from contract farming in Cambodia?

The research team employed a case study approach with qualitative methods, including desk review and expert consultations, covering three crops: rice, pepper and cashew nut. The analysis focuses on contract farming arrangements, lessons learned about the benefit to farmers/ enterprises and the factors behind success/challenges.

The Key Findings

The following are the results of the contract farming case studies on rice, pepper and cashew nut. The most common CF modality is where contracting companies work with, and contract, agricultural cooperatives (ACs). ACs then select and contract farmers. Contracting companies provide some training and other support for ACs, and ACs further disseminate the knowledge to farmers. Most of the training is related to production requirements. No fixed price is stated in advance in the contract: that is based on a daily average price of the market + premium. A formal contract needs certification from the Provincial Department of Agriculture, Forestry and Fisheries (PDAFF)/ Agro-Industry Department. However, most deals have no certification from PDAFF, rendering them informal. The lack of formality might be attributable

The existing contract farming modality (formal):



to: (1) a lack of awareness among ACs and farmers as to what constitutes a formal contract; and (2) a lack of outreach awareness-raising activities from DAI-PDAFF. NGOs and other international organisations play essential roles in promoting contract farming through technical and, to a lesser extent, financial support. As third parties, NGOs help to promote and link ACs to companies. NGOs also help to strengthen farmers' capacity at the production level. Officials at the DAI-PDAFF stated that they do not have enough staff members and lack financial incentives as well as the means of transportation for sufficient action on their part.

The study confirms that the implementation of contract farming in Cambodia has directly benefited farmers as producers and companies as buyers. CF farmers can access a new premium market, which offers a higher price for their production. The income of CF households has increased annually, and their standard of living is better than it was before they joined. Their children can go to school, and their families can buy agricultural and non-agricultural materials. CF farmers enjoy easier access to MFIs or banks than before. The capital reserves of ACs have increased, so members can easily access and borrow without any collateral. Because of these enhancements, farmers are motivated to produce more. Companies that work on CF can increase their exportation volume, expand facilities, access the international market, and build company brands within the international market.

Various factors contribute to the success of CF. First, both parties must follow the agreement as stated in the contract, and they have to respect each other. Second, farmers must trust the leadership of AC committee members. Under those conditions, the number of CF members

has already increased. Third, the involvement and commitment from a third party has played a significant role in supporting CF, and these include NGOs and state authorities, e.g., in Preah Vihear province CF has received help from the Support for the Commercialisation of Cambodian Rice Project, the Preah Vihear Meanchey Union of Agricultural Cooperatives, as well as the Ministry of Agriculture, Forestry and Fisheries (MAFF/PDAFF) at national and local level.

Factors that lead to challenges for CF implementation include the failure of all parties to obey the contract, and a lack of trust between buyers and sellers. Producers (farmers) cannot produce at the required level or standard. Delayed payment from the company can also reduce the confidence farmers have in CF. In addition, limited capacity of AC committee members in management and marketing can diminish the trust and confidence farmers have. Farmers also lack technical knowledge about required standards, and some Ministry staff in the provinces have limitations in strengthening the capacity of their staff to solve this problem.

The study found some lessons that could be learned from previous experience. The most common CF modality is an arrangement in which contracting companies work with the agricultural cooperatives that deal directly with farmers. The contracting companies provide support such as technical training related to production requirements to ACs. NGOs and other international organisations play an essential role in promoting contract farming mainly through strengthening the capacity of farmers at the farm level and by providing some financial support. Conflict resolution mechanisms have become vital in contract farming. However, in many cases, the contract has made no mention of this, and

conflict resolution relies mainly on negotiation and consultation.

The study identified some challenges:

- For companies: a lack of capital to buy all products from farmers because, with no support from NGOs, the quality of the product is still not good enough.
- For farmers: a delay in payment from the company, and no systematic training to support the production of good quality produce, can be problematic. Companies simply buy the product without providing concrete training in how to deliver the quality they need.
- Farmers need MAFF to provide training in how to produce the good quality required by companies as well as the countries they export to. They do not know how to use the best or most appropriate fertilisers or pesticides in their production. They tend to apply the brands used by their farming neighbours, or that have been promoted by sales people.
- Contracting companies would like to see a law on contract farming, but farmers and ACs seem to be reluctant about this for the time being because they are afraid that they would not be able to reach the quantity and standard requirements set out in the contract.

Policy Implications

The following are the recommendations drawn from the study:

In the immediate/short-term (1-5 years) future:

- The government should allocate more resources (including human and financial resources, and means of transportation) to the DAI, especially the office of agro-industry at PDAFFs.
- MAFF/PDAFF should conduct training to raise awareness about CF policies for farmers and companies.
- MAFF/PDAFF should play an active role in CF arrangements and implementation.

- Companies should play an active role and cooperate with state actors. They should continue to build trust with farmers, and fully implement the CF framework (including providing inputs and monitoring).

In the medium-term (5-10 years):

- The government should set up incentive mechanisms to encourage companies to support farmers in contract farming arrangements.
- The capacity of ACs is limited, thus, more should be done in the areas of leadership, management, marketing, communication, accounting, and the use of databases.
- Farmers need standard technical guidelines on the use of fertilisers and pesticides.

In the long-term (more than 10 years):

- Strengthen the capacity of ACs
- Less reliance on supporting agencies
- A laboratory should be set up, at least at the provincial level, to test the quality of fertilisers and pesticides.

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