
CONTRACT FARMING STUDY

Understanding contract farming
operations in Cambodia

SOCIAL ACTION FOR
CHANGE

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I. Introduction

Cambodia has existed in extreme political and economic deadlock for several decades. During the internal conflict, known as the Khmer Rouge (Pol Pot) regime, in the middle 1970s, the infrastructure was almost totally destroyed, and its population decimated. The damage left the whole country in extreme poverty and hunger. After the fall of that regime, during the Vietnamese occupation of 1979-1989, Cambodia's situation still had not improved. Many people died of hunger or from the ongoing armed conflict, especially those living in the border areas. United Nations (UN) agencies claimed that they could not provide direct assistance to Cambodia since the country was governed by the Vietnamese government. Most donor assistance, particularly humanitarian aid, was aimed at Cambodian citizens who were living at the Cambodia-Thailand border. At that time, the Cambodian government did not have a seat or a voice at the UN.

Facing political and economic deadlock, the Cambodian government called for peace negotiations which were facilitated by the UN and several international/local Non-Governmental Organisations (NGOs). As a result, first elections were held in 1993. The United Nations Transitional Authority in Cambodia (UNTAC) was called in to facilitate the election process. Cambodia and the newly formed Royal Government of Cambodia (RGC) by then had been recognized internationally. However, given that Cambodia needed strong financial support to rebuild its economy and infrastructure, the flow of external loans (and aid, which have included technical support) began, especially from multilateral agencies, namely International Financial Institutions (IFIs) such as the World Bank (WB), Asian Development Bank (ADB), and International Monetary Fund (IMF). Bilateral financial supports were also in place from countries such as the United States, China, Japan, France and others. Notably, Cambodia became subject to economic policy reforms imposed by foreign institutions, including Structural Adjustment Programs (SAPs), which were later transformed to Poverty Reduction Strategy Programs (PRSPs). PRSPs cover major policy and legislation reform, including economics, trade and social services.

Approximately 85 percent of Cambodia's population live in the rural areas and 71 percent depend primarily on agriculture (largely rice) and livestock for their livelihoods. Agricultural growth has been highly variable. Poverty in Cambodia is overwhelmingly rural; there are still many rural households with insufficient land for crop production. Most farmers are also dependent on casual low-wage labour or informal-sector enterprises to make an income with which to buy at least part of their food needs. The food security of poor rural people can often depend mainly on income from such activities. Farmers seeking to sell their crops face a poorly developed road and market infrastructure, limited storage capacity, and high transaction costs. Net returns from rice production are very low, and the marketing strategies of households earn little profit. The cost of food keeps increasing every year, and there is a high incidence of poverty. Rice shortages (rice gaps for two months or more, while waiting to harvest) at the household level are frequent and contribute to the indebtedness of rural households, which in turn leads to chronic food insecurity. High health expenditures erode the asset base, and reduce the purchasing capacity of food-insecure and vulnerable households. Income and food from common-property resources (forests and fisheries) are particularly important for the poor, but land concessions and environmental degradation have restricted their access to these resources.

Background to this paper

Social Action for Change (SAC), in partnership with Focus on the Global South focused on contract farming to understand current agribusiness operations in Cambodia that reflect the relationship between companies and farmers. Contract farming is of particular importance because it is one of the attractive tools for investment being promoted by the Royal Government of Cambodia. More specifically, we wanted to learn how contract farming operates/functions in Cambodia, how it differs from elsewhere. To find out more, we sought to find out in which sectors, crops such as vegetables or fruits, or livestock, contract farming prevails, which companies are entering into contract farming arrangements. Finally, we tried to examine the impacts of contract farming on farming families. The scoping study methodology was to interview agronomists, researchers, non-governmental organisations (NGOs) working directly with farmers in the agriculture sector, companies, producers and farmers. Secondary data was also obtained from a review of documents and articles.

II-Overview on Contract Farming

In the RGC's Agriculture Sector Strategy Development Plan 2006-2010¹, agriculture is described as one of the priority sectors for Cambodia in terms of poverty reduction and economic growth. Around eighty five percent of Cambodian people in rural areas are engaged in agriculture, especially in paddy rice production. The Council of Ministers developed a policy paper on the promotion and export of paddy rice products which stated that contract farming is one of the key mechanisms for expanding production².

In February 2011, the Council of Ministers announced and approved a special piece of legislation called the Sub Decree on Contract Farming. The ministers said: "contract farming will help farmers find the markets for their products and create a major role for the Ministry of Agriculture in contract farming"³.

There are many documents which define the term contract farming:

According to the Food and Agriculture Organisation (FAO)⁴, contract farming is defined as "an agreement between farmers and processing and/or marketing firms for the production and supply of agriculture products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice".

¹ This policy is one of the four sectors within the RGC's General "Rectangular" Strategy to address the enhancement of the agriculture sector. The following areas are addressed (1) to improve productivity and diversification of agriculture, (2) land reform and clearing of mines, (3) fisheries reform and (4) forestry reform.

² *Policy Paper on The Promotion of Paddy Production and Rice Export*, (2010), RGC – Council of Ministers

³ www.voanews.com, article "ministers approve regulation for contract farming"

⁴ *Contract farming Partnership for growth*, (2001) Eaton, C. and Shepherd, A.W., FAO reports, p2

In another report⁵ issued by FAO, contract farming refers to “a particular form of supply chain governance adopted by firms to secure access to agricultural products, raw materials and supplies meeting desired quality, quantity, location and timing specifications”.

The RGC uses the following definitions stated in the Draft Sub-Decree on Contract-based Agricultural Production:

“Contract-based Agricultural Production” refers to production that would ensure the quantity and quality of the produce in accordance with an agreement made prior to the production.

“Agricultural Production Contract” refers to an Agreement of Agricultural Production Business made by two parties or more, which is legally binding and shall specify in advance any requirements demanded and accepted by contracting parties.

“Agricultural Production Business” refers to:

- Cultivation of all kinds of crops
- Sericulture, arboriculture, aquaculture, animal husbandry, etc.
- Production of crop seeds, livestock breeds, aquatic animal species, and vegetation species
- Contract-based agricultural production purchase to supply the markets for processing factories or for export
- Agricultural produce processing

From all of these definitions found in the literature⁶, the authors have simplified these for the Cambodian context as follows: Contract farming is the commitment of two parties (trader and producer) on purchasing and producing the commodity such as fruit, vegetable, crops and livestock to meet with quality, quantity, price, mandate and other conditions that are acceptable to both parties.

Types of Contract

According to the FAO report mentioned above⁶, there are three main contract farming schemes in Asia, including Cambodia, which identify the obligations and transactions between traders and companies, and producers and farmers:

- The “market specification” scheme - agreement on what is to be produced (product and quality attributes) and on commitments for future sale (timing, location and price)
- The “resource providing” scheme - in addition to specifying what to produce and what the conditions for marketing are, key farming inputs are provided as in-kind credit, often with cost recovery upon farm product delivery.
- The “product management” scheme - growers agree to follow precise technological guidance on how to produce.

⁵ *The growing role of contract farming in agri-food systems development*, (2005), da Silva, C., FAO report, p11

⁶ *ibid*

Types of Contract Farming Management Models

Eaton and Shepherd (2001) described 5 models of contract farming as below:

The “centralized model” is a vertically coordinated model where the sponsor purchases the crop from farmers and processes or packages and markets the product. Except in a limited number of cases, farmer quotas are normally distributed at the beginning of each growing season and quality is tightly controlled. For example, this model is generally associated with tobacco, cotton, sugar cane as well as livestock.

The “nucleus estate model” is a variation of the centralized model. In this case the sponsor of the project also owns and manages an estate plantation, which is usually close to the processing plant but on some occasions it can be relatively small, primarily serving as a trial and demonstration farm. These schemes have often been used in connection with resettlement or transmigration.

The “multipartite model” usually involves statutory bodies and private companies jointly participating with farmers. Multipartite contract farming may have separate organizations responsible for credit provision, production, management, processing and marketing.

The “informal model” applies to individual entrepreneurs or small companies who normally make simple, informal production contracts with farmer on a seasonal basis, particularly for crops such as fresh vegetable. This form often requires government support services such as research and extension.

The “intermediary model” involves a sponsor in subcontracting linkages with farmers to intermediaries. There is a danger that the sponsor loses control of production and quality as well as prices received by farmers.

Contract farming in Cambodia

Contract farming is not a new thing for Cambodia, it has existed in Cambodia for a long time. One company named “Manufacturer des Cigarettes du Cambodge (MACC)” established contracts with farmers in the 1960s⁷. Several companies have adopted contract farming with farmers in Cambodia (see table below for some examples).

Table 1 List of Companies engaged in Contract Farming

| No | Name of Company | Type of contract arrangement | Location of producers (province) | Products |
|----|-----------------------------------|-------------------------------|----------------------------------|-------------|
| 1 | AAfC & AAFJ, | Formal CF – Centralized model | Kompot | Pepper |
| 2 | Angkor Kasekam Rong Rieng Co.,Ltd | Formal CF – Centralized model | | Rice, Paddy |
| 3 | Apiwat Bandanh Kasekar (ABK) | Formal CF – | | Rice, Paddy |

⁷ Land allocation for social and economic development: possible regional priorities, (2004), ABIC

| | | Centralized model | | |
|----|---|-------------------------------------|---|--|
| 4 | British American Tobacco (BAT) Cambodia | Formal CF – Multipartite model | Kampong Cham, Kratic | Tobacco |
| 5 | CEDAC enterprise | Formal CF – Centralized model | | Fruit, Vegetable, Rice and Livestock |
| 6 | CESDE | | | Pepper |
| 7 | Confirel Co.,Ltd | | Kompot | Pepper |
| 8 | CP group – Cambodia | Formal CF - nucleus estate model | | Crops- Cassava, corn, rice and livestock |
| 9 | E Chei Ngov Heng Food Production | | Kompot | Pepper |
| 10 | Farmlink Co.,Ltd | | Kompot | Pepper |
| 11 | Green feed | | | Crops and livestock |
| 12 | Heng Kheang | | | Pepper |
| 13 | KAMPACO | | Kompot | Pepper |
| 14 | Maxx feed Company | | | Crops and livestock |
| 15 | Modivet Company, | | Phnom Penh, Kondal | Crops and livestock |
| 16 | Mong Reththy Group Co.,Ltd | | Kampong Sorm | Palm oil, Cassava and livestock |
| 17 | Rajana Association | | Kompot | Pepper |
| 18 | GEO link Group | | Kompot | Pepper |
| 19 | SCF- Korean Company | | | |
| 20 | Senteurs d Angkor Workshop | | Kompot | Pepper |
| 21 | Tea Heng Company | | | Rubber |
| 22 | TTY Company | | | |
| 23 | Chup Rubber Plantation Company | Informal CF - under land concession | Kampong Cham | Rubber |
| 24 | Golden rice millers | | | Organic rice |
| 25 | Srer Khmer Organisation | | Kandal; Kampong Cham; Kampong Thom Prey Veng, Svay Rieng, Takeo; Kampong Speu; Pursat, Battambang; Siem Reap and Banteay Meanchey | Rice, livestock, vegetable and fruit |

Sources: from interviewees and internet

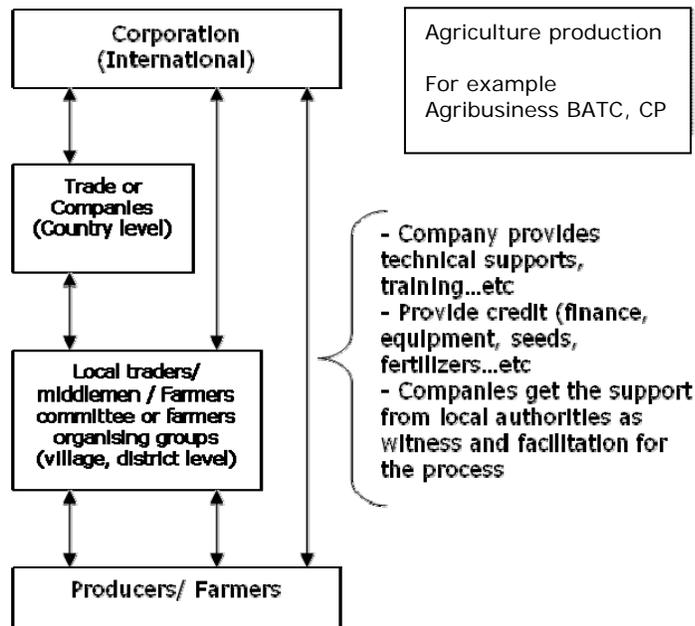
Based on interviews with economists, agronomists, researchers, farmers, traders, and companies, the study found that most people distinguish only between formal and informal types of contract. Formal agreement refers to a written agreement between parties and sometimes it also involves the local authority. Informal agreements or verbal contracts involve trust between the two parties, and commitments are made which cannot be enforced in law.

1. Formal contract farming

According to Cambodian contract law⁸, any buying or selling above 5,000 Riel (US\$1.25) needs to be put into a written agreement which states clearly the responsibilities of both parties and the agreement by them. The authors found that there are many ways for traders, agents, private companies to make agricultural business deals amongst with producers and farmers. A typical example can be illustrated as below (Figure 1).

Figure 1 - Formal contract farming type

⁸ Law on contract and other liabilities, Article 4, decree38, October 1988



Throughout Cambodia, several companies are playing a very important role in the supply food chain to the Cambodia market. Some have directly engaged with producers through contract farming systems, such as Charoen Pokphand (CP) an agribusiness company in the market for livestock (poultry, pigs and fish) and crops (corn, cassava); British American Tobacco Cambodia (BATC) trading tobacco and Apiwat Bandanh Kasekar (ABK)⁹ trading rice (see below). Producers received support from those companies including new technology, new skills, extension services from those companies as well as credit. Each company is identified with specific products, and they always come with products to sell to contract farmers such as seeds, fertilizers and other related material, and for livestock, animal feed product, chicks, piglets, and medicines (vaccines) from those companies. This model may be similar to that referred to in the FAO report cited above as a “centralized model”¹⁰.

Charoen Pokphand (CP) Group Cambodia

CP Group Cambodia is one of the biggest regional agri-business companies, based in Thailand. CP began to invest in Cambodia since early 1995 setting up contract farming with farmers growing corns and cassava located in three provinces Battambang, Kampong Cham and Pursat. They expanded to Ratanakiri, Kandal, Mondulkiri and Pailin in order to produce animal feed. CP set up a feed mill factory in 2005 as a part of this expansion. CP is the one of biggest livestock production companies and controls about 70 percent of the market share in livestock in Cambodia. This company makes contracts with producers on rearing pigs, poultry (broilers and layers) and fish in Kampong Speu, Svay Rieng, Kampong Cham, and Battambang provinces. CP has been making two kinds of contractual arrangements with farmers outlined below:

⁹ www.abk.org

¹⁰ *The growing role of contract farming in agri-food systems development*, (2005), da Silva, C., FAO report, p#

- Crops
 - 1) CP works directly with producers/growers to grow the products it wants and makes written contracts with farmers about price and quality. CP also sells seed on credit. If farmers pay cash when buying the seed, they will get a discount of six to seven percent of the total cost. When the collecting season comes, local CP staff representatives will come to collect the harvests and make sure that the produce meets the criteria agreed in the contract.
 - 2) CP makes written agreements with an agent who collects the products from the producers. These agents make informal (verbal) agreements with producers and also check the quality of the produce.
- Livestock
 - 1) Farmers only buy piglets, chicks, and fish for raising as well as material, tools or equipment, vaccines and animal feed products from CP company. As above, farmers may buy on credit but they obtain a six to seven percent discount when they pay cash. CP staff provide free extension services to farmers who buy products from the company. Farmers are free to sell their commodities to anyone. However, if farmers want to sell the commodity to CP they must make a written contract early in the season, and agree to criteria and conditions about quality (CP standards), quantities and fixed prices. CP refers to this this kind of livestock raising as “free” as the farmer does not have a formal relationship with the company.

The collaboration between CP and livestock producers states that producers should have at least one to five hectares of land available to build the warehouses (sties, coops) for rearing a minimum of 200 pigs or 2,500 chicken, and must have sufficient labour. Normally, this kind of collaboration is formed only with medium-scale business farmers who have capital to build warehouses. CP staff claimed that some farmers could earn around 4 million Riel (1,000\$) from this business within only 2 months.

British American Tobacco Cambodia Co., Ltd (BATC)

According to a 2004 report on land allocation¹¹, BATC first began its agribusiness operation in Cambodia in the 1960s when it was operating under the name 'Manufacturer des Cigarettes du Cambodge' (MACC). This company began operating again in 1996 (now under the name of BATC) with local investors. Now, BATC has reached the highest market share compared to other similar companies.

BATC has a contract farming scheme with farmers to plant tobacco. Around 90 percent of its tobacco is sourced directly from contracted farmers in two provinces, Kampong Cham and Kratie. The company selects farmers within certain locations based on soil and climate conditions.

¹¹ *Land allocation for social and economic development: possible regional priorities*, (2004), Agribusiness Institute Cambodia (AbIC)

Agreements stipulating the responsibility of the company and the farmers are signed or thumb-printed prior to the planting season or after harvest. The witness is the local village chief. The agreement does not specify the price, but the quantity that the company would buy from a particular contracted farmer. Most farmers do well and meet the contracted quantity. In order to ensure quality production of tobacco leaves, the company provides substantial technical and material support to the contracted farmers. It provides farmers with technical and management training, and extensive field agronomic assistance. The technical training covers not only planting care and harvesting, but also leaf drying and curing. Compliance with recommended technologies is closely monitored at the field level by the company's employees.

"Contract farming of British American Tobacco (BATC) in Kampong Cham province, the price of tobacco changes according to the scale of company demand. In practice villagers/producers grew tobacco based on the previous year's experience of market demand but this year there were no buyers... then their tobacco flooded the market and the price went down. The villagers lost out. In reality, producers borrowed money from micro-finance institutions or private money lenders to get capital for growing, some producers lost a lot of property this season"

Mr. Meas Promol
Agronomist

Apiwat Bandanh Kasekar (ABK)¹²

ABK is a nonprofit organisation working to create networks of farmers located in Kandal, Prey Veng, Svay Rieng and Takeo. These farmer groups and small to medium scale enterprises are in value chains to produce agriculture products for national and international markets and to create and deliver a quality product to meet the demands of end customers.

ABK is registered at Ministry of Commerce under the name of HCLP Company to trade in rice. ABK processed the hybrid rice "Romdual¹³" and packaged it for the local and international market. This organisation made contracts with small farmers and provided training to contract farmers to help them grow the seed to reach company's standard, also provide free technical support from their field staff. The company offers equipment for farming and gives loans to farmers for hiring workers to do ploughing, harvesting, for irrigation, buying seeds, fertilizers, pesticide or other equipment.

ABK made contracts with small-scale farmers based on the agreement of the role of both parties witnessed by local village chiefs. Those contracts outline the quality of product (standard) and price (which is market price during the harvest season as they buy the paddy from the farmers for processing and package).

"Last year we made contracts with ABK to sow 15kg of seeds on half a hectare of farming land. We spent 410,000 Riel on buying chemical fertilizer from the company. We harvested about 1,100Kg. We sold all the paddy we harvested to ABK and received 1,350,000 Riel from which we pay back our debt. And with the remaining profit we paid for our land, we bought materials and built our house. "

¹² www.abk.org

¹³ Romdual is the name of one kind of hybrid rice registered by the ABK organization.

Foreign investors (like TNCs) and wealthy Cambodian business people have been investing in agro-industries in Cambodia, and have set up local branches to produce and supply local markets and export to international markets. The main cash crops are grown on large plantations, formed under economic land concessions (ELCs). In some cases, agribusinesses operate both their own plantation and buy in additional produce from communities elsewhere on a contract farming basis. This is referred to in the FAO study as “nucleus estate model” of contract farming. For example CP is not only making contract farming arrangements with producers and local traders but is also requesting for ELC for growing crop by themselves.

The “Multipartite model” is also commonly practiced in Cambodia, which involves many channels of production between traders, agents, individual entrepreneurs, and small retail companies.

Kompot Pepper Farmers’ Association (KPPA)

The Cambodia Institute and Rural Development (CIRD)¹⁴ organized a group of farmers who grow pepper in Kompot province forming Kompot Pepper Farmers’ Association (KPPA). It has 129 members. CIRD links producers or farmers to traders, retailer and trade partners, in order to get their product commercialized. KPPA’s role is to protect the brand of Kompot pepper and promote this product for export. The association gets support from the Ministry of Commerce under a project called Geographically Identified Products (GIP). The GIP program has been promoted by Ministry of Commerce (MOC) with the support from the French Agency for Development (AFD)¹⁵ through GRET¹⁶.

Kompot Pepper Agriculture Cooperative (KAMPACO) is a cooperative of producers that was created to facilitate co-operation between producers and consumers. KAMPACO acts as the middle person who signs contracts with the farmers in buying the pepper and sells to the companies. KAMPACO is an initiative of the KPPA and was created to manage this business. KAMPACO gets approx 300 USD per year in financial support from the provincial agriculture department. At the same time this association gets technical support from the CIRD. The Cooperative has a machine to dry the pepper as well as to check the quality of the product and to ensure that it is meeting the required standard. KAMPACO is comprised by its members and facilitated by its secretariat which is elected by the members. However, members have to pay these two groups (the KPPA and KAMPACO) the service fees of 1,500

¹⁴ Cambodia Institution and Rural Development (CIRD) is a non profit organisation working to promote the Geographically Indicated Products (GIP) and to find the market for farmers or producers as their target groups for some geographic products.

¹⁵ donor agency.

¹⁶ GRET is an organisation, started the project in Cambodia since 1988 and willing to take part in processes underway, economical, social and technical with a priority in rural development. It means being concretely and institutionally implicated in action, in partnership with private organisations, civil society, the government and its technical departments. GRET works with CIRD to promote Geographical Indications for Cambodia products. resource from www.gret.org

Riel per kilogram of pepper sold. Both the association and cooperative said that the amounts of money from the members are used to cover administrative and office costs.

Currently, there are 10 traders demanding Kampot pepper from KAMPACO such as Farmlink Co,Ltd, Senteurs d'Angkor Workshop, CESDE, KAMPACO, E Chei Ngov Heng Food Production, AAFc & AAFJ, Rajana Association, GEO link Group, Confirel Co, Ltd, Heng Kheang.

Besides the above models, we also found reference to a different model of so-called "contract farming" that is not discussed in the FAO study. In Cambodia, companies can apply for an economic land concession over a very large area of land. To exploit this area the company requires a large amount of labour, and some companies operate their own version of contract farming - they formally or informally allocate pieces of their concession land to selected households to grow specific produce that would be sold to the company. In these cases, the farmer / household contributes only labour to the contractual relationship. This may be referred to as a "contract farming" arrangement by the company, but it can be likened to a model of sourcing labour for a company-managed plantation. In some of these cases, rather than paying regular wages, the company keeps labour by making promises to buy the harvests, which, in the case of tree crops, could be several years in the future¹⁷. An example, Mong Reth Thy Group Co, Ltd as detail below.

Mong Reththy Group Co, Ltd.

Mong Reththy Company has been operating since 1991¹⁸, investing on palm oil plantations. In 1994, this company initiated a palm oil project with Malaysian business associates on a proposed 11,000 hectares of economic land concession (ELC) in Prey Nup district, Kampong Cham province. They got the approval from MAFF on ELC in 1996.

In 1998, this Company has been assisting Phnom Penh Municipality Authority to relocate 99 families moving from slum areas in the city to allocate land to them on the company's ELC in Prey Nup. Each household got 750-1,250 sq m, as well as 2 hectares of palm oil without land title. This company also facilitated 99 households in securing of food facilities as well as job.

The company made verbal contracts with farmers to plant the palm oil trees and promised to buy when trees were ready to produce fruit. But the company did not give an exact price. However, farmers needed to wait many years to get the yield. They sold labour cheaply to company in the intervening years.

2- Informal Contract farming type

The informal model is a common practice between producers and traders, individual entrepreneurs or small companies. They normally make simple verbal agreements to secure production and supply. They are agreed each season or for short periods of time. In many

¹⁷ *This model appears to have emerged in other countries in the Mekong region also, it has been referred elsewhere to a "neo-feudal" contract farming system.*

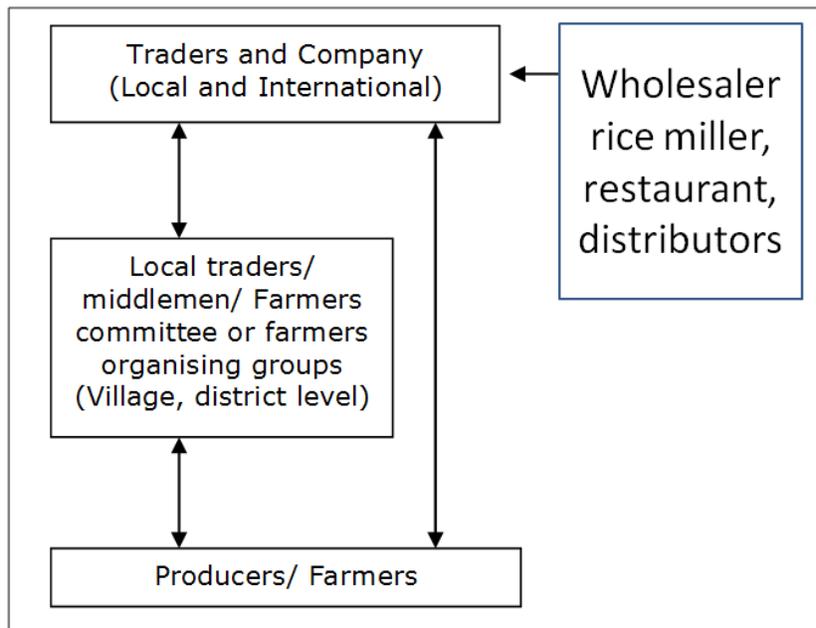
¹⁸ *Land allocation for social and economic development: possible regional priorities, (2004), Agribusiness Institute Cambodia (AbiC)*

communities in rural areas of Cambodia, verbal agreements are used to secure harvests. In this model, the trader plays a very important role.

“In practice, only verbal agreements are used by brokers who collect products from producers/farmers and supply to wholesales or traders (local or foreign owned—Vietnam and Thailand) to export those products to other countries.”

Mr. Chhim Van Deth
Director of Sor Sor Troung Organisation

Figure 2 Informal contract farming type



Several examples of common informal contract farming for vegetable productions are described below:

Producers in Kandal Province

Douern is 30 years old. He has a daughter and a son, and lives in Svay Broteal village, Traouy Sla commune, Saarnng district¹⁹, Kandal Province. He started working as a farmer just a few years after returning from work as garment factory worker in Choum Chao Svayrolum. He stopped working in the factory because he got low wages and no time to relax. He grew vegetables such as green cabbage, Chinese cabbages and lettuces. He taught himself and learned together with experience from other villagers, finally gaining enough experience to grow and get better yields. He has 0.23 hectare of land.

¹⁹ Saarnng district is one areas that 90 percent of people growing agriculture products mostly vegetable

Mostly he grows green cabbages (Spey changkas), lettuce (salat) and Chinese cabbages. The price of produce changes according to market demand and this year he got 1,000 Riel/kg (0.25 USD/kg). Sometimes it is hard for growers like him to cope with the situation of depressed prices as a result of the very same products being imported from Vietnam or Thailand and sold cheaper.

He sells his products to local traders. This is more risky for producers than selling directly to the market, but without a connection to market, he must accept lower than the market price. For example if the cabbage price is 1,500 Riel/kg (0.33 USD/kg) in Phnom Penh market then he will get only 1,000 – 1,200 Riel/kg (0.25-0.30 USD/kg). Practically, if he decides to make a contract with local traders to sell his vegetables then he will get 50% of the total cost as an advance payment or deposit. The rest he will get after the trader comes to collect the produce. There are about 200 small scale traders coming to buy vegetables in his village.

In fact, profit or loss depends on market prices and whether the product is flooding into the market. Wholesalers control the price. He used to make a loss as he spent a lot of money on start up, such as investments in a plough, seeds 200,000 Riel (50 USD), 50kg of fertilizer 100,000 Riel (25 USD), and pesticide 300,000 Riel (75USD). He receives an income from selling vegetables of around 200,000 – 300,000 Riel (50-75 US dollars) each time, and he can grow three to four times per year. But it takes time for his harvest to be ready and for him to get his money back with some small profit, and sometimes he makes a loss.

Trader in Kandal province

Mrs. Leang Meang is living in Svey Proteal village, Krom Sla, Saarnng district²⁰, Kandal province. She has one daughter and three sons. She has been working as local trader since 1995, when her mother retired. She collects vegetables such as lettuce, cabbages according to the season from local producers/villagers and sells to distributors or wholesalers at Dermkor market²¹, Phnom Penh. In the evening time she and her husband pack vegetables into buckets which contain about 250 to 300kg that they have collected from villagers and transported to Phnom Penh.

Besides collecting the ready-cut vegetables, she also makes a contract with farmers at the starting up process. She aims to prevent shortages in the dry season. She makes a verbal agreement with producers to take all the produce they have, with an agreed amount from each party (the calculation is how many kilograms of vegetable and the current market price per kilo). This amount also does not include the expenditure of hiring a person to collect the produce. Some producers request her to deposit some money in advance, about 200,000 – 300,000 Riel (50 – 75USD). Producers commit to use fertilizers and pesticide, and to water the vegetables as they are ready to cut. However, her husband goes and checks the growing process to make sure the crops are growing well.

She is concerned about her business and the increasing costs of hiring labour, transportation, the cost of rent at the Dermkor market, security and the variable price of produce (market fluctuation). She has had bad experiences with price

²⁰ Saarnng district is one area that 90percent of people growing agriculture products mostly vegetable

²¹ Dermkor market is wholesale market, sells everything and especially food production from inside and outside country.

slumps (much lower price) and lost a lot of money in her business, for example, she has bought vegetables at 800 Riel/kg (0.20USD/kg) from the producers but sold at only 500 Riel/kg (0.15 USD/Kg).

Sometimes she feels discouraged and also wants to stop, but it is the only business she has. Traders and producers are happy when they get a good price, but the price normally goes down in the rainy season. And, it is lower still in dry season because products need to compete with imported products from Vietnam and Thailand. Local growers/villagers find it hard to compete because they spend a lot of money on their inputs. Some villagers or growers borrow money from private money-lenders or micro-finance institutions with high interest rates for growing and buying inputs such as fertilizers, pesticides and labour etc. About two or three families could not pay their debts, and decided to run away.

Looking at the trends of local production in Cambodia, she feels that villagers have limited capacity and techniques on how to grow rhizome products such as carrot, potatoes, etc. These are the only products that should be imported. Her suggestion to government is that:

- Agriculture staff in the Ministry of Agriculture, Forestry and Fisheries should come to teach growers how to improve their growing techniques as there are few guidelines and people can learn only from their neighbours.
- The government should manage or reduce the import of vegetables from Vietnam or Thailand if it is really wants to help the farmers in Cambodia.

III. BENEFITS AND CHALLENGES OF CONTRACT FARMING

This study has identified some of the benefits and challenges for traders and producers in the context of crops and livestock under the contract farming system. In the FAO report, which outlines the contract farming system, it states that the CF system contributes to increasing income and reducing the risk for both parties as compared to buying and selling crops or livestock in the open market (a summary of advantages and problems is presented in Table 2). However given the inequality of the relationship and the stronger position of sponsors compared to the grower, these contracts can be seen to benefit sponsors by enabling them to obtain cheap labour and transferring risk to the producers.

Table 2 Advantage and difficulties of contract farming for traders and producers

| | Farmers | Traders |
|------------|---|---|
| Advantages | <ul style="list-style-type: none"> - Inputs and production services are often supplied by the sponsor - This is usually done on credit through advances from the sponsor - Contract farming often introduces new technology and also enables farmers to learn new skills - Farmers' price risk is often reduced as many contracts specify prices in advance - Contract farming can open up new markets which would otherwise be unavailable to small farmers | <ul style="list-style-type: none"> - Contract farming with small farmers is more politically acceptable than, for example, production on estates - Working with small farmers overcomes land constraints - Production is more reliable than open-market purchases and the sponsoring company faces less risk by not being responsible for production - More consistent quality can be obtained than if purchases were made on the open market |
| Problems | <ul style="list-style-type: none"> - Particularly when growing new crops, farmers face the risks of both market failure and production problems | <ul style="list-style-type: none"> - Contracted farmers may face land constraints due to a lack of security of tenure, thus jeopardizing sustainable long-term operations |

| | | |
|--|--|--|
| | <ul style="list-style-type: none"> - Inefficient management or marketing problems can mean that quotas are manipulated so that not all contracted production is purchased - Sponsoring companies may be unreliable or exploit a monopoly position - The staff of sponsoring organizations may be corrupt, particularly in the allocation of quotas - Farmers may become indebted because of production problems and excessive advances | <ul style="list-style-type: none"> - Social and cultural constraints may affect farmers' ability to produce to managers' specifications - Poor management and lack of consultation with farmers may lead to farmer discontent - Farmers may sell outside the contract (extra-contractual marketing) thereby reducing processing factory throughput Ū Farmers may divert inputs supplied on credit to other purposes, thereby reducing yields |
|--|--|--|

Source: Contract farming Partnership for growth, (2001) Eaton, C. and Shepherd, A.W., FAO reports

This section presents a picture of existing contract farming experience in Cambodia, beginning with a discussion of how farmers have been encouraged to make innovations in agricultural technology to increase productivity such as inputs (seeds, pesticides, fertilizers, animal feed and vaccines). We will then discuss the increasing costs and debt that are also a concern of farmers, as they need a lot of financial resources to support their productivity. This leads to the related issue of negotiation power, as in practice, the level of control by contracting companies over the producers (in terms of market access and setting prices) is very high, as they have all the market information in hand and the capacity. When farmers are no longer producing food for their own consumption, cash management and food insecurity bring further problems.

In Cambodia, the rule of law is very weak which affects rural areas in various ways. For example, the government says that it wants to support local producers but at the same time it promotes export orientation and opportunities for investors and many economic land concessions have directly affected farmers livelihoods. According to Sub Decree on Contract Farming, the role of government is to provide clear information in local 'commune level' to understand about contract farming, how to prevent risks from tricky contract terms and how to request support when problems arise.

1. Agricultural Technology

Most Cambodian farmers have access to some forms of new technology for producing crops and raising livestock that enables their production to meet with the market demands, including the quantity and quality. Crops grown traditional agricultural production practices take a longer time to mature and some of the products do not fit the demands of traders. Some traditional methods include using saved seeds (rather than purchasing new ones), natural fertilizers (like cow dung), and depending mostly on rainfall, especially if they do not have adequate irrigation system. The majority of such production is for family/household consumption, with little surplus for sale.

Through contract farming, farmers have been trained or introduced to the monopoly control of the company. For example, farmers have to use certain types of seeds or breeds, which require the use of specified animal feed products and fertilizer for a certain period. Producers work carefully to ensure their products are delivered based on the agreement or contract between farmers and middleman or company. This model encourages farmers to feel sure that they could get access to greater market opportunities.

The company introduces and provides modern or non-traditional (or "improved") seeds and breeds for rice, maize, pigs, and chickens with technical support on how to apply new techniques. This new system is aimed at the export market. Taking the example of a Thai owned company — CP provides farmers with piglets, feeding meal, and vaccine when contracting. These supported sources and inputs could help farmers to start their business

with low costs. The farmers must build the warehouses on their own land. Traders or companies also benefit from this transaction as it reduces their need for land rental and pursuing an economic land concession (ELC) from the government, which is a long and complicated process.

Through such production methods, farmers increase their productivity in a short period of time. According to the Cambodian Center for Study and Development in Agriculture (CCSDA)²² besides the local livestock breeds, several imported, improved breeds have been identified. The improved breeds identified so far are: cross-breed. From 2004 to 2007, local breed adoption amongst pig producers seems to have decreased, while the adoption of imported breeds seems to have increased.

For Cambodian farmers, non-traditional livestock production requires new technical knowledge. A representative of the CP Company mentioned during interviews with the study team that there has been some limitation of human resources from the company side in providing technical advice to contracted farmers. Farmers live in different areas and provinces which requires company staff, who have adequate knowledge on how to vaccinate pigs or chickens and the precise use of specific animal feeds, to be available in those places.

The current application of contract farming demands greater quantities, this is one reason why farmers in Kampot have started to work together as a group (in the KPPA example above). This increases their negotiating power, and makes it easier to access the market and keep the price more secure.

The study team analysed some of the main challenges of the transformation of agricultural technology system as follows.

High dependency on company

This focus on agricultural technology could create a lot of dependency for farmers on the company. Equally, the company could easily monopolise the business with the new breeds and applying new technologies. Farmers depend a lot on company staff who claim to provide technical support to increase the productivity of new seeds. The company, middleperson, and farmers are the main actors in contract farming in Cambodia. There is no specific regulation for local authority to play a role in monitoring or intervening in any difficulty.

The quality and standard of the product are also concerns for the farmers. They have little knowledge and equipment to make sure their product is dry enough. The companies also benefit, as they can take advantage to lower the price on grounds of low quality or not fit to standard.

Loss of traditional seeds and production

The modern focus on productivity is contributing to the loss of native and locally developed breeds, as well as production methods that Cambodian farmers have been using for decades.

In order to control the supply chain, the company demand farmers or producers to grow or to raise produce, which requires the use of specific inputs of the companies. Originally, rice farmers kept the seeds for farming in the next phase and they know well how to grow their

²² Report on Opportunities and Constraints in Establishment of Community Pig Marketing Group, April 2008, p20

own crops. But after they start working to contract, they start a very different process than they used to do. They farm in a different way, as they cannot keep the seed, and they need new techniques on how to use pesticides and fertilizers. These methods brings the farmers better yields than the normal practice but they require the use of a lot of fertiliser, water, pesticides. They provide better yields but only for current season and crops based on increasing chemical usage destroy soil fertility bit by bit.

2. Costs and Debt

Some of the local traders and producers take loans from micro-finance institutions and banks in order to have the capital to invest in their businesses. They do not have control over the market or pricing, often borrowers are forced into debt, losing cattle, land or their homes. Some have run away from their village, as they are unable to afford repayment of their loans. Small farmers need several supports - production inputs and capital - to invest into their farming and livestock activities. Therefore, they look for the possibilities and offers of assistance from traders and companies to provide crops or seeds, livestock breeds, and loans with technical knowledge, particularly on new methods and productivity enhancing technologies. They want to produce the quality that will sell in the markets, and so they abandon the traditional breeds and way of production.

The company mostly provides farmers with technical support, rather than credit for the investment. Companies and traders claim that they create jobs and markets for local farmers by expanding their purchases. The company has raised their concerns that farmers may sell their products outside the contract or farmers may divert inputs supplied on credit towards other purposes, thereby reducing yields contrary to the company's demands. For example, farmers might have received credits from the company to invest in livestock activities, but at the same time, the farmer may need to allocate their capital into crop productivity.

Most of the middle people and traders, who often buy the primary produce at unfair prices, also take the opportunity to make another business deal with farmers by selling input on credit and provide the loan with interest. Having been encouraged by the potential of pig raising, some farmers took out loans from a company to build pigsties on available land. Unfair contracts between traders, middlepersons and farmers occur very often. Cambodian small farmers are in need of resources to invest in crop productivity, livestock and especially finding markets.

Farmer and Nature Network (FNN)²³ state that many of their members took loans from micro-credit programmes as well as local private money-lenders in order to invest into productivity.

Based on various interviews in Kampong Cham, farmers are never confident of their results, as they do not have proper water irrigation and do not receive subsidies from the government. Most of them rely on natural water supply, especially rain. Other farmers enter into contracts with companies. Farmers, as the Khmer proverb says—are caught between the tiger and the crocodile, or face difficulties in each situation, just in different forms. Where small farmers rely on the rain, they are not able to get enough yield to sell or even to survive. They end up borrowing money from different sources and accept all conditions. Then they have to pay back the costs of inputs that were owed to the

²³ FNN is a community based organisation, founded by CEDAC organisation. This organisation has 4292 members of 1170 villages in 11 provinces.

companies, even though their inputs were not effective so the harvest did not achieve high yields.

Some of the fertilizer wholesalers play the role of sub-contractor or middlepersons. According to the report Debt Bondage²⁴, some wholesalers sell their agricultural input on credit at double the normal price, which the rural farmer could pay back after collection of the yield. For example, one sack of fertilizer which contains 50kg costs around 70,000 Riel (or 17.50 USD) but it will cost double 140,000 Riel (35 USD) if it is taken on credit. As for the produce, as in the case of the contract farming with companies, farmers agree to sell their products to the buyers (in this case, traders) who have given them inputs previously, and the condition is to sell those products to the traders at a certain price set by traders themselves.

Farmers do need the market, as well as the resources. Therefore, even if the contract terms are very strict and impose a heavy cost, they still accept them. There has never been a case in which farmers sue the companies or wholesalers for failure to adhere to the agreement. There are few mechanisms and institutions, let alone laws, to be used to uphold their complaints.

3. Negotiating power at the market and pricing

In practice, the majority of farmers have no direct connection to companies who market their produce, but they always deal with the local traders and distributors. As a result, the prices are fixed by local traders and the distributor - they are the ones who can negotiate. As local traders play the role of providing credit for both cash and input, the farmers need to sell those produces to them at a price lower than the market. The farmers don't see it as unfair pay, they see it as interest rate the trade charges.

Many companies do not work with farmers directly as there are many administration processes, such as many deals with many farmers, local authorities; companies want to escape from taking responsibility. Local traders and distributors play very important role as mentioned above to control the market.

Another possible way that farmers could make a direct deal with the market dealer is to organize as a farmers' group to supply goods together and take shared responsibility. For example a non-governmental organization (NGO) – CIRD²⁵ has played a role to find the market for farmers or producers as their target groups for some geographic products. CIRD links producers or farmers to traders or trade partners, in order to get their products commercialized.

CIRD also works with the Ministry of Commerce to specify geographic products as legally recognized by the Ministerial Guidance (Prakas), in which the products are labelled with a brand, a code number, and the area in which it has been produced. Labeling something as a Geographically Indicated Product (GIP) will make it well-known and attract a higher price. Farmers who produce GIP are encouraged to form an association with assistance from CIRD, this NGO also plays a role in providing technical support identifying the specific product of that geographical area and investigation in the case of fraud. The organisation

²⁴ Debt bondage, Womyns' Agenda for Change, www.womynsagenda.org

²⁵ Cambodia Institution and Rural Development (CIRD) is a nonprofit organisation working to promote the Geography Identification Products (GIP) and to find the market for farmers or producers as their target groups for some geographic products.

recognises the importance of having a middleman to help link producers or farmers with traders for marketing and order.

Usually, small-scale producers do not have power to control the market and the price. They are unable to access market information. The company could always lower their price for different reasons, such as lack of hygiene or not being of sufficient quality or meeting the pre-specified standard. Therefore, farmers commonly could not make profit above the cost of what they have spent on inputs.

“I am a local trader. Farmers gain profit once the market price is rising. However, I found it harder to compete with imported vegetables from Vietnam and Thailand because they sell them at a lower price, in huge amounts, and with good appearance. The government seems open to imported products and has no mechanism to protect local farmers”.

Mrs. Leang Meang, a vegetable collector (local trader)
Kandal Province

Currently, Cambodia still lacks a supply chain in certain foods, such as vegetables and meat. Thus, traders and local distributors buy those products (different kinds of vegetables, pigs, and chickens) from Thailand in order to supply the local market. Most producers want to get direct contract with company in order to get resources for production in advance such as seeds, fertilize even it is only credit.

Some villagers have played some tricks on the company by reporting that the quota expectation will not be reached due to disease and death of their animals. They hoped that this could make the company increase their prices as well, but this rarely happens.

In another challenge, Cambodia has a strong patron-client system, which sometimes leads to a few people controlling the market, reducing the farmers' choice for making contracts. Even if they have product, they may only have one market for selling. The slaughter of pigs can provide a clear example of how market is controlled. In order to supply pigs and pork in the local market and for export, it requires a license. Therefore, only those who have power and a major position in this business could succeed, as they can be sure of smoother facilitation and process.

In 2004, swine flu has reduced the number of pigs raised, which caused less pork supply into the market. At that time, the government of Cambodia announced to increase the quota of pigs imported from neighbouring countries such as Thailand and Cambodia. In fact, this caused traders to take the opportunity to reduce the pig price in the market, and the producers suffered as usual.

ABK and farmers entered into written contract. The farmers give full authority to the company on selecting the quality and standard of products to produce “ABK hybrid rice - Romdual”. The agreement is witnessed by the local authority (village chef). ABK did not specify the price, this will depend on the market price during the harvest season. However, October is the period when there is much rice dumping and price is reduced.

The company requires that households who want to become a member must have at least half a hectare of land. In 2009, some farmers breached their contract. During the harvest, farmers mixed the Romdual Crops with other kinds of rice. As a punishment, the company specifies the condition that farmers will be no longer become members of ABK, nor receive credit from the company due to the breach of contract. Farmers see that ABK helps them a

lot, including providing seeds on credit. They do not wish to give up membership and they follow each other growing the same thing.

Farmers don't think further about problems when entering contract. They expect that they will make a profit from their products as they will sell automatically to ABK (under a fixed regular contract). Therefore, many started to borrow from ACLEDA²⁶ to build new houses. Their profits from ABK will be paid to ACLEDA, placing farmers in a cycle of debt.

Farmers say they need to spare a little piece of farmland to grow their local seeds to feed their families, while the rest will be sold according to the contract to ABK. The fertility of the soil has reduced due to the use of new hybrid seeds, which requires specific chemical fertilizers and pesticides from the company.

4. Cash management and food insecurity

When farmers focus on growing to fulfill market demands, they often face food shortages. The Asian Development Bank (ADB) stated in its objective of the Regional Research Workshop on Contract Farming in Bangkok²⁷ that more on going in-depth research on contract farming is needed to build capacity to support pro-poor market development due to growing concerns for food safety, rapidly growing export markets for organic produce. This study has tried to cite experiences of traders and producers based on their experiences in this context.

When traditional agricultural inputs, seeds and breeds are abandoned, Cambodian farmers will continue to buy the non-traditional ones which are mostly dependent on the use of associated technology and are available from a single company and costly. Also, as products are produced for exportation, farmers will face increased food prices or sometimes they have to buy imported goods and below quality product, including rice.

5. Weakness of the rule of law

For reaching global market demand and encouraging investment, the RGC is developing a policy paper²⁸ and legislation which support and benefit companies but provide less protection to farmers or producers in order to promote the agriculture product for export. Furthermore, the RGC signed bilateral and private investment agreements in agriculture, fisheries, and livestock with neighbouring countries such as Vietnam, Thailand, and China.

The Sub-Decree on Contract Farming is part of an attempt to strengthen exports but it is not a way to make agriculture sustainable. For sustainability, agriculture must be ecologically friendly such that it does not destroy the land. Sustainable agriculture values the natural and traditional methods of farming, which does not use chemicals that affect the environment. The modernization of farming will see the replacement of local indigenous seeds, which will create a problem of food insecurity. It is very difficult to make agriculture sustainable when export trading is being promoting.

The complexity of the law makes it difficult for farmers to understand. It is really hard for farmers to file complaints as farmers have very little knowledge about the law.

²⁶ ACLEDA is a commercial bank, providing a micro credit program and working with rural households in Cambodia. www.acledabank.com.kh

²⁷ www.adbi.org/event/413.contract.farming.poverty.reduction, 2004, Bangkok, Thailand

²⁸ *Policy Paper on The Promotion of Paddy Production and Rice Export*, (2010), RGC – Council of Ministers

Significantly, the courts are not really independent. However even if the legal system functioned as it is supposed to, there are few trade regulations or rules to protect local farmers.

Some organisations work on community development to organize a group of farmers and to grow organic products with the aim of establishing sustainable livelihoods. These organisations have set up an enterprise to get products from farmers and sell to markets. The enterprises make a formal contract with the farmers supplying inputs to them. For example the CEDAC organisation and CEDAC enterprise work with the farmers on growing organic paddy rice, livestock and other organic vegetables like green cabbage. However, NGOs do not have a lot of money to buy those products. The condition of CEDAC enterprise are not as strict as companies because the contracted farmers can negotiate and there are no 'fines' enforced or complaints filed. This could let the traders off the hook when they fail to buy farmer's products as promised.

Verbal contract and risk

In practice, however, agreements between the company, traders and producers are made very simply and are often verbal. Farmers sell their products to the companies or traders with a specified quantity, quality, and price as defined by the companies or traders. This case is applicable when companies need certain products, especially non-traditional pigs, chickens, and rice.

Local vegetable traders and producers said the reason they do not make a written contract is because the producers and traders live in the same village. They trust each other and have a long history of engagement in this business. If it happens that the traders did not pay for what they agreed, the producers would stop selling their products to the traders who have breached a contract. Traders would not be able to continue trading with the farmers if they do not respect or follow the contract.

"British American Tobacco Cambodia (BATC) based in Kampong Cham Province is the biggest tobacco company making contract with small scale farmers based on yearly market demand. The farmers sell directly to the company or middleperson without any guarantees or written contract".

Mr. Meas Promol
Agronomist

In this context, farmers normally increase the amount of production according to the market demands of the previous year, as well as unreliable information from villagers who are local traders about market demands. Traders make the verbal promises to buy them. It is a serious risk for farmers without access to appropriate information.

Due to unclear agreement about how the market will be guaranteed, usually problems occur relating to market demand when traders provide and manipulate fake information. In the end, not all contracted production is purchased. Sometimes traders and companies may be unreliable or exploit a monopoly position.

While verbal agreements are in common usage in Cambodia, there are no mechanisms or tools to protect the producer parties. Written contracts may be a better way for both parties to have clear identity and understanding of their responsibilities. In case any party violates the contract then they could file complain to local authority or court.

6. Role of the Government in contract farming

The RGC policy²⁹ on agriculture promotes productivity for ensuring food security as well as promoting exports. Contract farming is one mechanism for achieving this but in reality it is only commercial enterprises and private investors that are interested in doing this. Cambodia has a high potential for rice production compared with other Asia- Pacific countries. Many countries want to secure rice from Cambodia, for example just recently the government signed an agreement to export rice to India³⁰.

There are many problems with the economic land concessions, as the government seems to serve the interest of the investors and companies alone. Villagers are mostly less protected and rarely receive support, including sufficient land and subsidy from its government.

The Sub-Decree on Contract Farming should be clarified and should stress what is the role of government, especially the responsibility of ministries such as MAFF to protect farmers, and enable them to fully understand contract farming and business transactions. When the sub-decree was first introduced, no protection mechanisms were included from the government for the small farmers. Small farmers are affected by unfair trade regimes.

The government doesn't have any protection mechanism and subsidy to local farmers especially to provide market linkages, technical support, and information about the extension services at the low cost. Furthermore, there are many groups or companies who could take the advantage by making "black deals" with the farmers, for example spreading the information about market demand and making the promises to buy those products when the harvest comes but no company or person comes to collect those harvests. From the interviews, many villagers have experienced this, but none have taken any action, nor has the local authority. There are only a few livestock suppliers in Cambodia and it is based on a patronage system. The pig raisers do not have a lot of space to sell their product and they have no power over the price. For example, it is estimated that the CP company has 70% of the market share of livestock in Cambodia, especially pig raising, where CP controls the supply chain. Moreover, it is challenging for pigs producers who are starting a small enterprise because it is really hard to get more than 200 piglets, unless they make a contract with CP to buy piglets.

IV Conclusion and Recommendations

Contract farming is an attractive business model that is providing opportunities for small and medium farmers to generate income through their agricultural activities. The government in this context also gains benefit from larger companies both foreign and locally owned that create rural employment, market for local products, particularly economic growth through exports. Farmers use their own resources, including land and labour, as the main investment in agriculture when entering into a contract with companies and middleperson.

Along with the positive impacts, there are significant challenges with negative impacts on small and medium scale farmers as well. Cambodia has experienced a fundamental transformation of agriculture, new forms of formal contract farming are just one part of this. Rural farmers have suffered increasing poverty, and their forms of agriculture are less

²⁹ The "Policy paper on The promotion of paddy production and rice export", Council of Ministers, 2010

³⁰ www.moc.org.kh

sustainable. Contracted farmers do not have bargaining power and their market linkages are increasingly controlled by agribusinesses or companies. Companies dominate the supply chain as well as the price of inputs such as seed and fertiliser all of which have increased. Companies also specify the methods of working and insist that the farmers follow their formulas. In this way, farmers can be likened to waged labourers, whose ways of working and income is almost entirely controlled by the companies. Furthermore, the intervention of companies has created an environment of competition between farmers within each village who are now encouraged to grow the same produce, and the price of produce is forced down. As a result, the cost of production is very close to the selling price. This illustrates that not only are farmers similar to labourers but they also receive very low or no wages at the end of the season.

Normally, farmers lack rice to feed the family for 3-6 months in the year, although the shortage of food is rising. Many NGOs as well as MAFF have encouraged villagers to increase their productivity and grow new seeds which grow to maturity in a short time, stating that this helps the community to solve the food insecurity. This leads farmers to rely mostly on this model and give up traditional methods of agriculture that costs less. This model will not be sustainable for local farmers and Cambodia's economy, as producers run at a loss, and companies control almost everything. Information on contract farming is still limited amongst producers, NGO staff, agronomists, researchers, and the government officers.

Looking at the regulations and policies, they appear to have been developed to serve the interest of companies instead of producers. Once a contract is violated, it is not clear which regulations or laws will be enforced nor how. Several legal rules could apply from Contract Law, Civil Code, Sub-Decree on Contract Farming, and Decree 38 on Liabilities and Banking. There is no ministry assigned to responsible for contract farming. In cases where farmer's products were not bought as agreed, there has not been any judicial process to address this breach of contract. Producers lack resources to cover legal costs, including hiring lawyers to file complaints, and so on.

Recommendations

This section raises some of policy recommendations from both authors and interviewees as below details:

- 1- The RGC should strengthen regulations or policies to control the companies investing in Cambodia to ensure that they carry out their operations responsibly. Companies should register at Ministry of Commerce to ensure their identity is clear and that it has a sufficient reserve in the bank to cover liabilities. If farmers knew the name of that company, they could report the company to the local authority to facilitate a case against them.
- 2- The National Strategy Development Plan 2006-2010 in the agriculture sector promotes local products and productivity. The RGC should expand the extension services at commune level providing technical support for farming and growing agricultural products.
- 3- The RGC should create the facilities to train farmers about contract farming and other related issues at the local level. Furthermore, this will help increase the farmers' understanding about contract farming, to help them avoid taking on risks that are too high.

- 4- From the information we obtained, the main challenge for farmers is obtaining the capital to invest in the business. The government should provide subsidies to small farmers and the Rural Development Bank should be more functional and work for small-scale farmers. In addition, the RGC should make an effort to improve its support by adjusting the current interest rate of microfinance institutions down to the level stated in law³¹ (interest rate 5% per year), so that farmers could access to affordable loans.

³¹ Law on contracts and other liabilities, Article 59, October 1988, Prakas (regulation) NO. B 595-47, March 1995

List of Acronyms and Abbreviation

| | |
|---------|--|
| ABK | Apiwat Bandanh Kasekar |
| ADB | Asian Development Bank |
| AFD | French Agency for Development |
| BATC | British American Tobacco Cambodia |
| CF | Contract Farming |
| CIRD | Cambodia Institute and Rural Development |
| COFAP | Cooperation Organisation For Alleviate the Poverty |
| CP | Chamroen Pokphand |
| ELC | Economic Land Concession |
| FAO | Food and Agriculture Organisation |
| GIP | Geographically Indicated Product |
| IFIs | International Financial Institutes |
| IMF | International Monetary Fund |
| KAMPACO | Kampot Pepper Agriculture Cooperative |
| KPPA | Kampot Pepper Farmers' Association |
| MAFF | Ministry of Agriculture Forestry and Fishery |
| MOC | Ministry of Commerce |
| NGOs | Non Government Organisations |
| NSDP | National Strategy Development Plan |
| PRSPs | Poverty Reduction Strategy Programs |
| RGC | Royal Government of Cambodia |
| SAC | Social Action for Change |
| SAPs | Structural Adjustment Programs |
| UNTAC | United Nations Transitional Authority in Cambodia |
| WAC | Womyn's Agenda for Change |
| WB | World Bank |

Glossary

Agribusiness: is a generic term for the various businesses involved in food production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing and retail sales.

Animal husbandry: the branch of agriculture concerned with the care and breeding of farm animals such as cattle, pigs, sheep and horses.

Aquaculture: also known as aqua-farming, is the farming of aquatic organisms such as fish, shellfish, shells and aquatic plants. Aquaculture involves cultivating freshwater and saltwater populations under controlled conditions, and can be contrasted with commercial fishing, which is the harvesting of wild fish.

Arboriculture: is the cultivation, management, and study of individual trees, shrubs, vines, and other perennial woody plants.

Bargaining power: is a concept related to the relative abilities of parties in a situation to exert influence over each other. If both parties are on an equal footing in a debate, then they will have equal bargaining power, such as in a perfectly competitive market.

Commercialization: is the process or cycle of introducing a new product or production method into the market.

Dominate: to have control over a place or a person

Dynamic: having a lot of ideas and enthusiasm; energetic and forceful

Monopoly: (an organization or group which has) complete control of something, especially an area of business, or a market, so that others have no share

Patron-client system: A "patron" can be defined here as a person who has acquired, adopted or inherited power over "clients". For example, clients can be people who work for, or depend on the patron politically, socially or financially. A patron-client system, usually refers to a system where the relationship between "patron" and "client" is strong. This strong relationship could mean, for example, that the client may concede to the interests of the patron, even on terms that appear financially disadvantageous. Or, it may lead the client to choose to do business with the patron, even if there are other competitors or markets available.

Regulation: is administrative legislation that constitutes or constrains rights and allocates responsibilities. It can be distinguished from primary legislation (by Parliament or elected legislative body) on the one hand and judicial decisions on the other hand.

Sericulture: or **silk farming**, is the rearing of silkworms for the production of raw silk.

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|----|--------------------|---|--|--------------------------------------|
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| 11 | Mr. Meak Pramol | Biomin Cambodia Co., Ltd | Cambodia representative #35, St410 012-325-710 pramol.meak@biomin.net mpramol@yahoo.com www.biomin.net | Previous CEDAC staff |
| 12 | Mr. Mao Vannak | CIRD | CIRD-#35, ST410 017-268-613 | |
| 13 | FNN representative | Producer – supplier of CEDAC enterprise | | |
| 14 | Ms. Chhoug Yeurn | Producer – raising ducks | | 2,000ducks 100chicken 200fishs |
| 15 | Ms. Ngorn | Experience of raising pigs | | |
| 16 | Mr. Lee | pig farm | | 4,000pigs |

Outline

Contract Farming Observation In Cambodia

Aim

Understand the nature of contract farming in Cambodia and what happens to the people

Objectives

To learn:

1. How contract farming operates/functions in Cambodia; what are its different forms?
2. In which crops, vegetable, fruits, livestock is contract farming prevalent? Which/who are the big companies (Cambodia and non Cambodia) that are entering into contract arrangements?
3. What are the impacts of contract farming (based on existing studies/reports, interviews,...etc)?
4. What areas would be good for doing in depth case studies to understand contract farming better?

Part 1: Question for NGO working on contract farming

1. What is the mission of the organisation and Objectives (programme components)? Who are your target groups?
2. What is your understanding of Contract farming (operate/function) in Cambodia?
 - In which production areas (for example crops, vegetable, fruits, and livestock) are CF prevalent?
 - Who are the contractors (companies and individuals; Cambodian and non-Cambodian)?
 - Where is CF happening (provinces, districts, etc.)? And for what products?
3. What percentage (approximately) of farmers are engaged in CF at present?
 - Where (which provinces-districts) is CF most widespread?
 - For What products and companies?
4. Which are the largest CF companies in Cambodia? Where do they operate? what products?
5. What the usual contract conditions of CF (there may be many types of contracts; get information on the most common ones in Cambodia)?
 - What are the contributions and responsibilities of the company?
 - What are the contributions and responsibilities of farmers?
 - Who sets the price for the products?
6. Is CF beneficial to farmers? Harmful? Why and how?
 - How much do farmers earn from CF?
 - How much do they spend?

- Do farmers go into debt for CF? To whom? Are they usually able to repay loans?
 - What happens to farmers if they are not able to repay loans?
 - 7. What are the environmental impacts of CF?
 - 8. What information, advice and supports are available to farmers on contract farming? Who provides these?
 - 9. Overall, what are the impacts (positive and negative) of contract farming in Cambodia?
 - Are people better off as a result of joining contract farming? Pls illustrate (what the indicators?)
 - 10.-- Are people worse off? Please illustrate (what are the indicators?)Please recommend to us some farmers groups engaged in CF who we can visit.
- Who else should we talk about CF?

