

## AGRICULTURAL INVESTMENT AT THE CROSSROADS IN CAMBODIA: TOWARDS INCLUSION OF SMALL-HOLDER FARMERS?



*A Cambodian farmer harvests sugarcane. (Photo: Chhor Sokunthea/World Bank)*

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**AUGUST 2022**

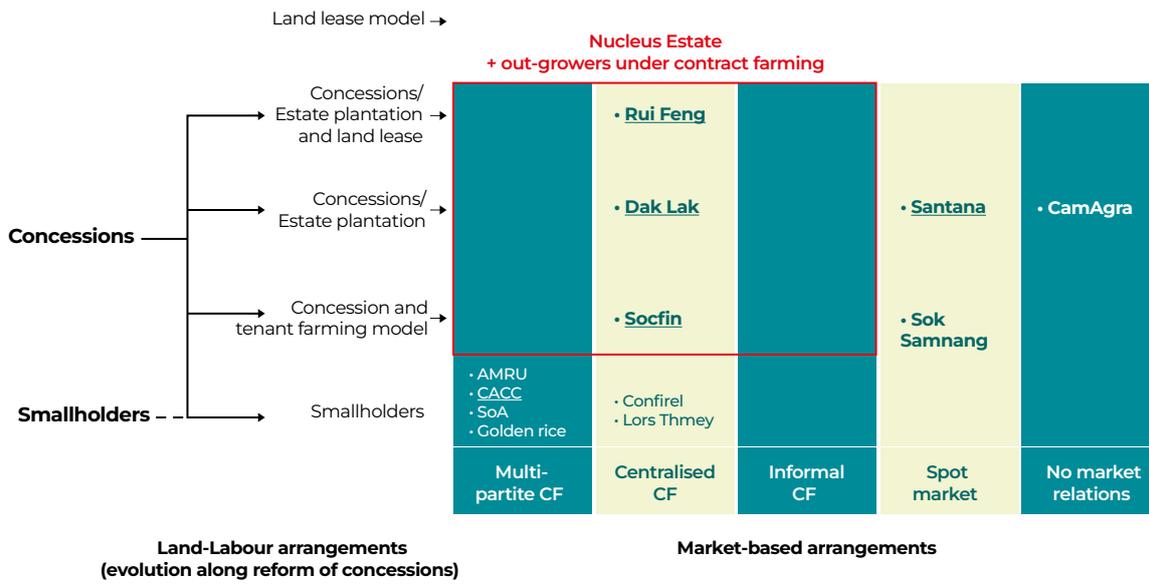
The agricultural investment landscape of Cambodia is changing rapidly. The large-scale development model driven by agro-industrial concessions is out of steam and other forms of investment linking farmers with companies and markets are emerging. In order to examine the implications of these transformations for smallholder farmers, this case study reviews the experiences of four types of agricultural investments linking with smallholder

farmers. This brief provides a synthesis of the research findings, focusing on the reasons for the farmers to engage in contract farming, contractual arrangements, technical support services, and the perceived outcomes of contract farming. It highlights the key policy and institutional implications and offers recommendations to enhance the benefits to smallholder farmers.

# 1. TRAJECTORIES OF AGRICULTURAL INVESTMENT MODELS

Two ongoing reforms are significant in reshaping agricultural investments in Cambodia that influence the relationship between agribusiness companies and smallholder farmers. The first concerns the evaluation of concessions and deals with access to agricultural land. The second is about access to markets and focuses on contract farming. Land-based arrangements are different ways in which land is owned and cultivated by the farmers and the

investors. Concessions and smallholders remain two important models of production, but land tenancy and land lease arrangements have become more common. Market-based arrangements tell how the farmers are linked to the investors to sell their harvests. They include different forms of contract farming or simple spot markets. Land-based and market-based arrangements are often combined in various hybrid models that illustrate the diversity of agricultural investment models in Cambodia (see Figure below).



**Figure 1. Different hybrid investment models and their evolution between land- and market-based arrangements between farmers and various agribusiness companies reviewed in the study**

# 2. METHODOLOGY

The empirical material of the study is based on four cases in the provinces of Preah Vihear and Monduliri selected to represent the diversity of real-life hybrid models. They also indicate key agricultural commodity markets in Cambodia (rubber and sugar cane) as well as organic niche markets (cassava and cashew). A quantitative survey was conducted with 270 households in 24 villages, which were

selected through purposive sampling methods. The survey was conducted by the Centre for Policy Studies (CPS) in January 2021. A qualitative survey, comprising 33 individual interviews and 18 focus group discussions, was carried out by the Analyzing Development Issues Centre (ADIC) in February 2021 to substantiate the quantitative survey.

**Table 1: Main characteristics of the agricultural investments studied**

Name of company		Dak Lak	Socfin-KCD	CACC	Rui Feng	Santana
<b>Crop</b>		Rubber	Rubber	Organic Cassava	Sugar Cane	Organic cashew
<b>Nationality of investor</b>		Vietnamese	European - Cambodian	Cambodian	Chinese	Cambodian
<b>Agricultural investment model</b>	<b>Land-based arrangement</b>	Concession	Concession and tenant farming	Smallholder	Concessions and land lease	Smallholder
	<b>Market-based arrangement</b>	Centralised CF	Centralised CF	Multi-partite CF: ACs	Centralised CF	Spot market

### 3. KEY FINDINGS

#### 3.1 Reasons to engage in contract farming

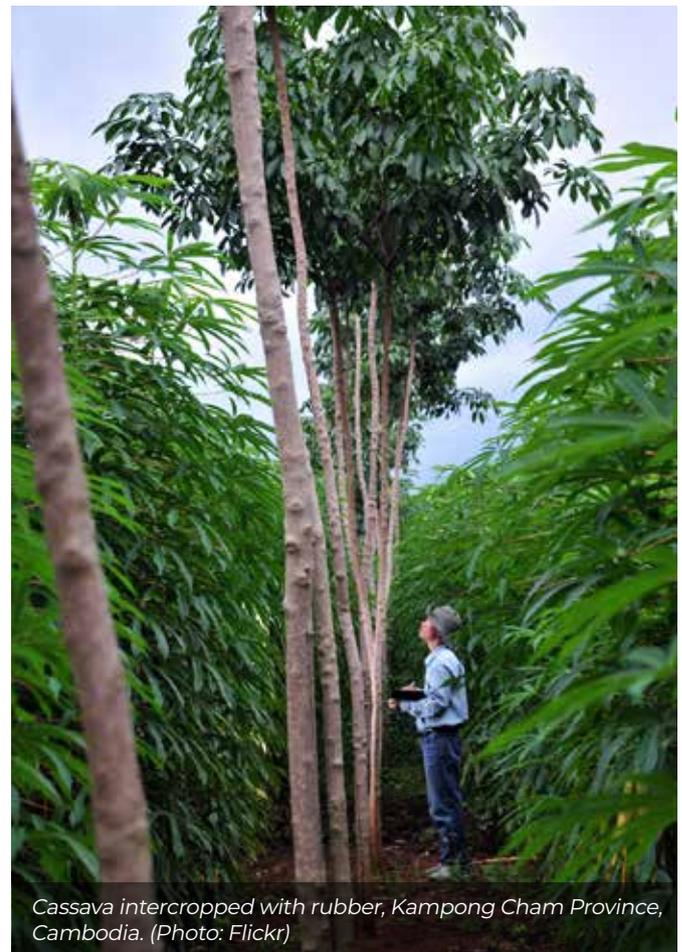
The main incentives for smallholders and agribusiness to engage in contract farming revolve around better access to stable markets and higher prices. More surprising are contracts between agricultural companies managing a concession and the farmers they had previously been in conflict with. This approach may offer opportunities for smallholders to benefit from agricultural concessions.

#### 3.2 Contractual arrangements

Some companies had prepared the contract template without paying attention to ensuring that the text and content were easy to understand for farmers who had never, or rarely, been exposed to such terminology and jargon. Farmers lacked legal understanding about the contract terms and conditions as a result. There are also some flaws in the terms and legal provisions in the contracts, which sometimes put farmers at a disadvantage. Enforcement mechanisms are frequently lacking, typically when the investors are unable to fulfil their contractual obligations towards the farmers, for example when they lose access to export markets.

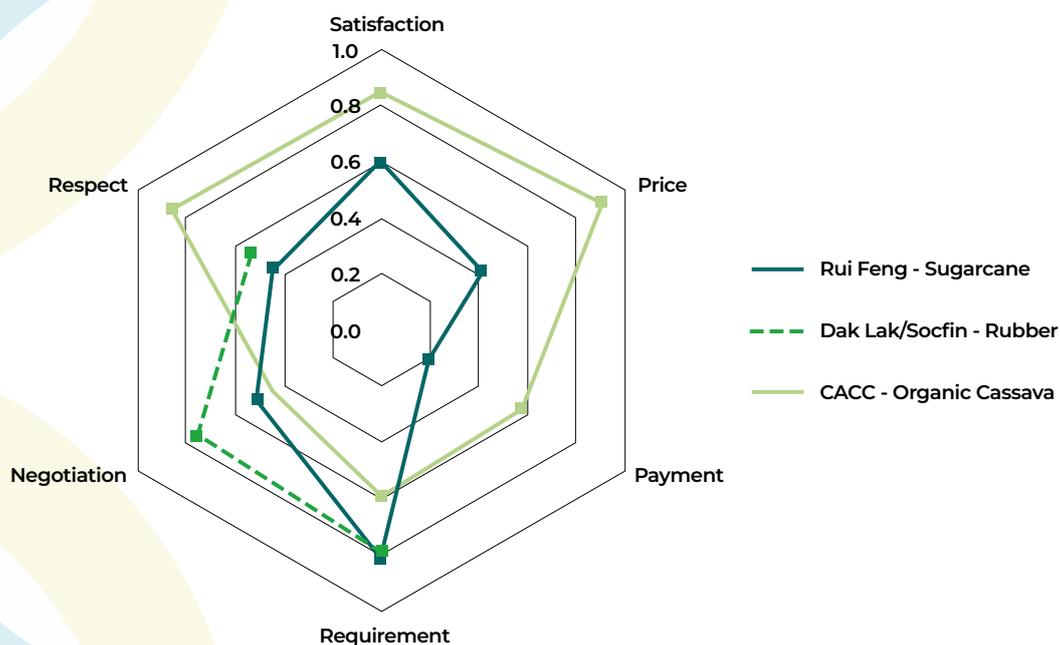
Six qualitative indicators have been defined to measure farmers' satisfaction relating to the key dimensions of the contract: pricing, payment modalities, technical requirements, contract negotiation, the level of trust and respect between parties, and overall satisfaction. The key elements that shape farmers' satisfaction with contractual arrangements revolve around:

- price (contract farming price is reasonable compared with the price they would have received in spot markets)
- the mutual respect (trust is nurtured between farmers and the investing company to honour the contract), and
- the payment schedule (purchase of CF produce and payment is made on time).



*Cassava intercropped with rubber, Kampong Cham Province, Cambodia. (Photo: Flickr)*

There are important variations between study sites. Contract farming emerging from a failing concession (Rui Feng) or as an approach to address a land conflict (Dak Lak – Socfin) is tainted with mistrust and an overall lesser degree of satisfaction.



**Figure 2. Satisfaction with the contractual arrangements of contract farming**

### 3.3 Technical support services

To meet the contract requirements, farmers require various kinds of technical support and services, such as advice on fertiliser and pesticide use, other extension services and access to credit. The provision of services varied between cases. Contract farmers engaged in niche markets (organic cassava) benefit from better and more targeted services (quality seed supply, training in organic agriculture methods, and guidance on the use of chemicals) than those involved in sale agreements for more basic commodities.

Services related to water management and soft skills (accounting, administration, meeting facilitation, etc.) are neglected across the cases, whereas they figure among the most important problems faced by contract farmers. The lack of these services can limit the benefits from contract farming.

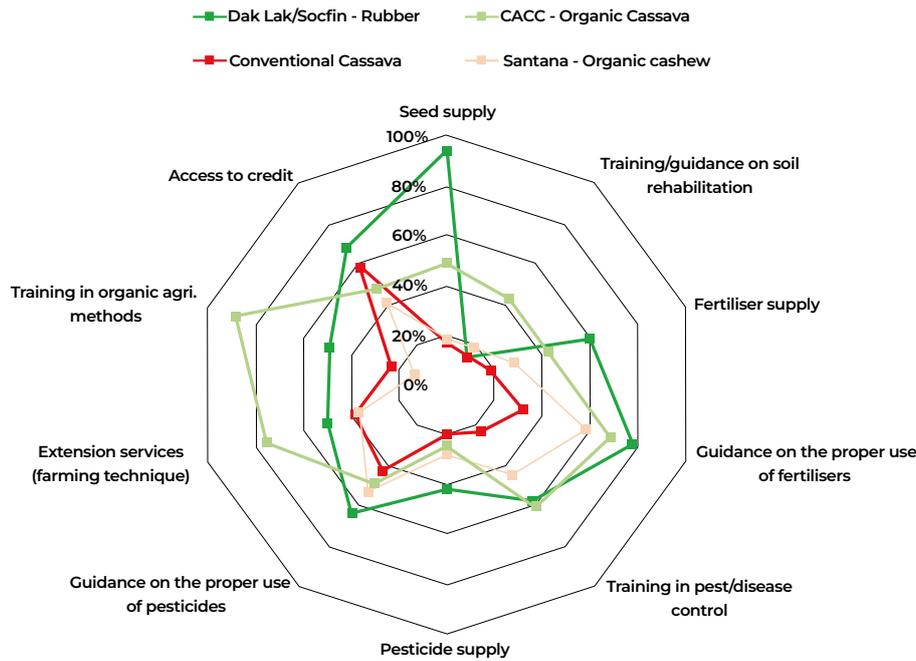


Figure 3. Provision of support services for farmers

### 3.4 Service providers

Agricultural cooperatives (ACs) and companies are, by far, the predominant service providers, except in the rubber group where there is no cooperative. Agricultural cooperatives play a central role in the development of contract farming activities (coordination of contractual arrangements and technical support services). Other service providers, such as NGOs and the PDAFFs, have a less prominent role in contract farming. In the case of Rui Feng, the PDAFF was involved at the initial stage but their involvement was later discontinued which was an issue when conflicts erupted between the company and the farmers. The facilitating role of the AC in the communication with the investor was generally appreciated, although several respondents felt that they were insufficiently consulted by the AC and wanted more direct contact with the company.

Channelling support through agricultural cooperatives seems appropriate. However, the management (professionalism) and representation (inclusiveness, equity) within cooperatives are important issues that hinder their capacity to deliver reliable services.

### 3.5 Contract farming contribution to smallholders' livelihoods

Many farmers reported a positive contribution of contract farming to their livelihoods such as increased household consumption, a better social life in the village and higher school enrolment. On the contrary, where CF had a negative impact, over-indebtedness was the key issue. In the Rui Feng case, farmers were even denied access to their own land on the grounds that they were in breach of their contract with the company.

The statistical tests did not identify any significant relationship between the contribution of contract farming to the livelihoods and the characteristics of the farming system in terms of land area, education, poverty, and cropping and activity systems. The outcomes of contract farming are highly contingent on how local actors shape their collaboration and partnerships. Contract farming goes well beyond fixing a price for a particular agricultural product. It requires an enabling environment that also includes contractual arrangements, technical support services, and trust between all parties involved (farmers, investors and all intermediaries).

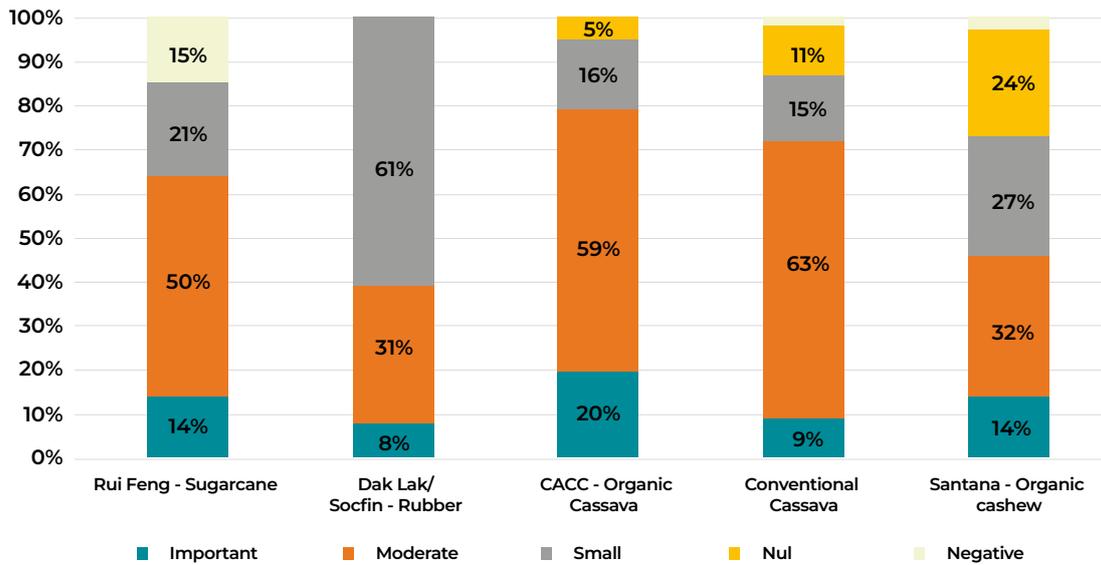


Figure 4. Farmers' perceived contribution of contract farming to their livelihoods

### 3.6 Farmers' expectations

Due to the difficulties they have experienced, 59 percent of the farmers contracted with Rui Feng (sugar) and 62 percent of those involved with Dak Lak/Socfin (rubber) prefer to pursue their production outside of contract farming. In contrast, 95 percent of the farmers in a contract with CACC (organic cassava) wished to continue.

Respondents consistently identified three aspects of contract farming that require improvement: i) a better price, ii) better communication with companies, and iii) more technical support. In the sugarcane and rubber

groups, the lack of an AC playing an intermediary role between the companies and the farmers is felt more strongly. The farmers in the organic cassava group are demanding more technical support to deal with the standards required by the organic certification process. In the sugarcane group, nearly half of the respondents wanted a proper grievance mechanism to address the conflicts with the company. There are consistent demands across groups for four main support services: the provision of quality seed, more regular and better extension services, credit at lower interest rates, and irrigation systems.

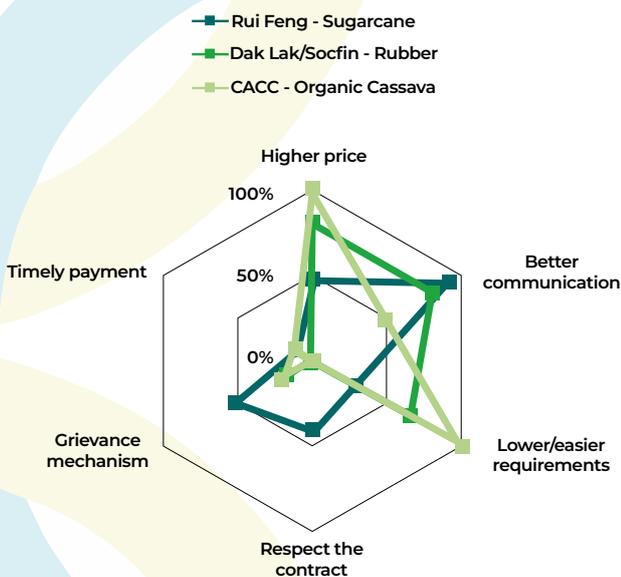


Figure 5. Improvements needed for future contract farming (contractual arrangements)

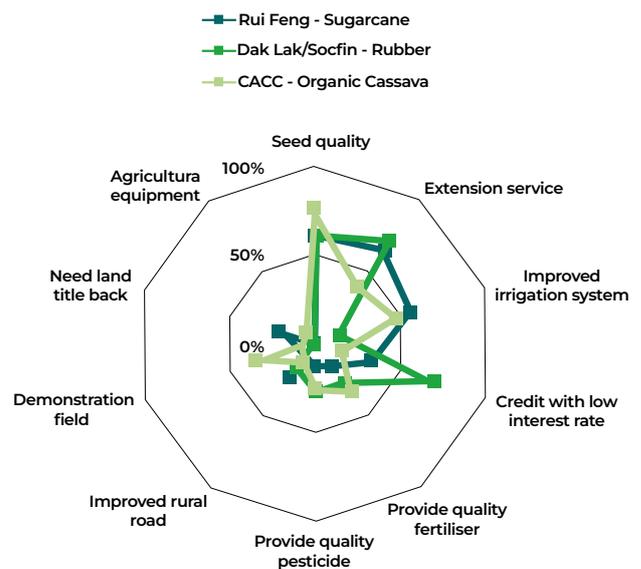


Figure 6. Improvements needed for future contract farming (technical support services)

## 4. OPTIONS FOR LEGAL AND POLICY SUPPORT

Some of the issues and lessons identified in the case studies deserve a policy response and improvements to the institutional framework related to responsible agricultural investments. These policy changes can be initiated through the development of a future **Contract Farming Law**, through other **policy instruments** and incentives to promote and manage contract farming in practice as well as other measures to create an **enabling environment** supportive of contract farming.

### 4.1 Contract farming law

The development of a law would aim at clarifying and strengthening the key obligations of the parties towards each other and facilitate contract enforcement. It should be carried out with an eye to increasing mutual understanding, trust and compliance, and reducing risks in the management of contracts.

#### Minimum requirement of contracts

To be legally valid, contracts should be in written form, in local languages, shared with the farmers (prior to signing and after signing). While contracts should remain adaptable to specific commodities, markets and production systems, a law can list the most important elements required in a contract, such as:

the rights and obligations of all parties concerning

- i) all aspects of the contract
- ii) the contract duration, quantity and quality specifications of the production required, the delivery and payment schedules and price calculation
- iii) the procedures to renew or terminate the contract
- iv) the measures to be taken in the case of non-compliance with the terms above and breach of contract (penalties, compensation and so on)
- v) the compensation measures for farmers in case of business failure - such as if the agribusiness goes into bankruptcy or if the business is sold to another company
- vi) any land-specific regulations if the contract implies a particular arrangement to access land.

These elements could be organised in a contract template annexed to the law.

#### Grievance mechanisms and dispute resolution

An out-of-court grievance and dispute resolution mechanism that is effective, low cost and easily accessible for all parties, is a fundamental tool to ensure contract enforcement and the accountability of all parties. The knowledge that such an enforcement mechanism exists can increase the compliance of all parties and avoid disputes. The CF law should stipulate that a legitimate independent grievance body should be mandated to receive complaints from the wronged party and to support the resolution of such disputes. A district or provincial-level body established under the Coordination Committee for Agricultural Production Contract (CCAPC) could endorse this function.

#### Registration of companies - review and registration of contracts

The law should stipulate that a company willing to engage in CF must submit a company profile to the CCAPC including a financial report and shareholding structure, a record of past agricultural investments, a commitment to responsible agricultural investment, and a clear management plan for the agricultural investment proposed. The CCAPC should be mandated with i) checking the company profile, ii) registering the company before starting CF, and iii) maintaining a public online database of companies engaged in CF. After validating the company profile, the CCAPC should review contracts to identify gaps or flaws that might turn problematic during implementation. On that basis, CCAPC can register the contract. The company profile and registration should also be shared with the contract farmers.

#### Contract signatories

When farmers are represented by a farmer organisation, the CF law should differentiate between the contract signed between the individual farmer and his/her farmer organisation and the contract between the farmer organisation and the company. When the contract is established with a household, both spouses should sign it to allow for gender-equal management, access to grievance mechanisms, legal representation, support services, and so on.



Cashew nut plantation in Ratanak Kiri Province, Cambodia.  
(Photo: Ethan Crowley\_Flickr)

## 4.2 Policy incentives and initiatives

Beyond the obligations set in a law, other regulatory instruments and incentives can be proposed by the government to both promote and manage CF in practice.

### Promote the role of farmers' organisations and cooperatives

This study's findings demonstrate the value of farmers' organisations, producer groups, and cooperatives as representative platforms for farmers in dealing with agribusiness firms and buyers in CF schemes. Promoting farmers' organisations could be done through:

- i) increasing tax incentives for farmers engaged in cooperatives
- ii) simplifying cooperative registration procedures and other administrative requirements
- iii) capacity building to enhance leadership, organisational, financial and management skills
- iv) tax and other incentives for companies implementing CF through cooperatives
- v) ensuring that contracts include the administrative and service costs of the farmers' organisation
- vi) building trust between farmers and their representatives.

### Increase access to affordable financing mechanisms

A consistent problem in contract farming is late purchases and payments that increase costs and cause frustration to farmers. This affects farmers' livelihoods by delaying debt repayments and slowing down cash flow. It is also an incentive for farmers to sell their products to non-contract traders who can pay cash down. To mitigate this problem, some farmer organisations advance part of the payment to farmers upon delivery and are reimbursed later by the company. However, many farmer organisations lack sufficient funds or access to low interest loans to be able to implement this scheme at scale. More public funding should be geared towards individual farmers, farmers' organisations and companies involved in CF through public and private financial institutions or through a guarantee fund such as the one developed for small and medium enterprises.

### Monitoring and evaluation

The contract negotiation and signing are just the initial steps to build the relationship between the contract parties. Successful CF schemes are evolving as the parties are learning from their collaboration. Contracts should be allowed to change and adapt. Therefore, the regular monitoring and evaluation of CF schemes can help the adaptation of the contracts and the support services. Monitoring can be conducted jointly by all stakeholders (farmers, farmers' organisations, companies, the CCAPC at the provincial level, micro-finance institutions, supporting NGOs, etc.). It would be an opportunity for the parties to alert the CCAPC if an issue is arising before it becomes a dispute.

### Ensure tenure security

In upland regions, land-use change is rapid and competing land claims are frequent. Smallholder farmers may often

be engaged in contract farming without proper recognition or formalisation of their land tenure rights (for example on recently deforested land). Companies engaging in contract farming should consider land tenure security seriously. They may facilitate or promote the formalisation of the existing land rights of the contract farmers or at least ensure that these rights are not threatened by the CF scheme. They should do so in connection with existing institutions and policies promoting security of tenure (titling, land use planning, evaluation of economic land concessions, and so on).

## 4.3 Enabling environment

Beyond the legal and policy frameworks, other actions could be considered to promote mutually beneficial agricultural investments for companies and farmers.

### Understand the context and the feasibility of the project

As a prerequisite to contracting, the company and/or the authorities facilitating the investment should examine the context in which the project will operate and assess its economic, social, and environmental feasibility. Identifying the agrarian dynamics to which the project may contribute through broad consultations and direct engagements with various stakeholders is the first step towards building a joint understanding between the parties involved. The time invested in such an initial engagement process will benefit the company in the long term by avoiding disputes and related costs.

### Enhance communication between all stakeholders

All relevant stakeholders should be able to contribute meaningfully to the contract negotiation process. To enable an inclusive and level playing field, the relevant government agency (for example the CCPAC) or an NGO should help organising farmers and identifying trusted representatives through a process of consultation. This includes establishing a positive communication environment between all stakeholders to support information sharing, and discuss expectations and objectives.

### Provide technical support services

A successful outcome for CF does not just depend on the triad of 'quantity-quality-price' and related regulations. It requires a diversity of technical support services oriented towards solving practical problems that are shared by the parties. These services not only enable farmers to meet the requirements of the company but also help to nurture trust between them and their new commercial partners.



*A research staff is interviewing a cassava farmer.  
(Photo: Sothath Ngo)*

This brief is a summary of the original case study: Diepart, J.-C., Ngo, S., Ngin, C. and Oeur, I. (2022). *Agricultural investment at the crossroads in Cambodia: Towards inclusion of smallholder farmers?* Case Study No.6. Phnom Penh/Vientiane: CPS, ADIC, MRLG.

Available online at: <https://www.mrlg.org/publications/agricultural-investment-at-the-crossroads-in-cambodia/>

**Editor:** Antoine Deligne

**Proofreading:** Janet Taylor

**Layout and Design:** Watcharapol Isarangkul Na Ayuthaya

**Photo credits:** World Bank, Shutterstock and CPS

**Full Citation:** Diepart, J.-C., Ngo, S., Ngin, C. and Oeur, I. (2022). *Agricultural investment at the crossroads in Cambodia: Towards inclusion of smallholder farmers?* Brief No.10. Phnom Penh/Vientiane: CPS, ADIC, MRLG.



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