



Government Intervention on Contract Farming to Enhance the Confidence of Agricultural Investments in Cambodia

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ABSTRACT

Contract Farming (CF) in reference to the sub-decree 36 was officially endorsed by the Royal Government of Cambodia in 2011, and consequently implemented. In the current framework, the Ministry of Agriculture, Forestry and Fisheries (MAFF) leads the supervision and operation mechanism in the coordination with 18 ministries who jointly play the roles as committees and handle the issues if there are any. This paper introduces the framework and implementing mechanism(s) of contract farming to improve the confidence of agricultural investment in the Kingdom of Cambodia, and identifies key successes, challenges, and possible solutions of CF implementation. The data of CF implemented from the year of 2013 to 2020 were collected from 25 Capital-Provincial Department of Agriculture, Forestry and Fisheries (PDAFFs). Key informants with a total of 14 selected cases consisting of 10 agricultural cooperatives (ACs) and four agricultural companies in the provinces of Kampong Thom and Preah Vihear were interviewed using the structured questionnaires. The results of research study showed that the agricultural production contracts have increased significantly, 60 contracts from 2013 to 2017; 90 contracts in 2018; 498 contracts in 2019, and 516 contracts in 2020 of agricultural commodities such as rice, cassava, cashew, vegetables, and pepper, etc. These CF schemes are formal contracts known as agreements of buyers and producers by involving government as the coordinator and witness in signing the contracts. Although, there were failure in some cases that happened with some informal contract implementation; there were no data of these failed informal CF because they were not implemented with the government's intervention. The implementation of CF was faced with some challenges by the two parties due to limited capacity to satisfy the production requirements (quantity and quality), late payment, capital investment, logistics and transportation. With the formal CF implementation, the challenges have been solved by the coordination with the government scheme. To build up the confidence in CF implementation, four solutions have been proposed: (1) pre-payment mechanism and warehouse receipt; (2) certification-based; (3) financial and technical support, and (4) policy support by the government. The introduction of a framework and implementation mechanism of CF in this study will provide a reference for potential investments in agriculture and related sectors, and encourage farmers/producers, investors and relevant stakeholders to engage in CF.

Key words: Contract Farming, Government Intervention, Agricultural Investment, Cambodia

INTRODUCTION

Contract Farming (CF) in reference to the sub-decree 36 was officially endorsed by the Royal Government of Cambodia in 2011, and consequently implemented. In the current framework, the Ministry of Agriculture, Forestry and Fisheries (MAFF) leads the supervision and operation mechanism in the coordination with 18 ministries who jointly play the roles as committees and handle the issues if there are any.

Contract farming has been defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined price (Eaton and Shepherd, 2001). In the sub-decree 36, contract-based agricultural production refers to a production that would ensure the price, quantity, quality and other condition of the product with agreement made prior to the production. The implementation of CF is known as an agreement between buyer and producer, where producer agreed to produce and supply agricultural products in according to their negotiation including quantity, quality, price, delivery schedules, etc. There are two aspects of the implementation of contract farming, namely formal and informal contract. Formal contract is known as an agreement buyer and producer by involving of government as coordinator as well as witness in signing the contract. Informal contract is known as the agreement without involving from government. Although, the formal contract was introduced since that time but there are still informal contracts being implemented by two parties.

OBJECTIVE

This paper introduces the framework and implementing mechanism(s) of contract farming to improve the confidence of agricultural investment in the Kingdom of Cambodia, and identifies key successes, challenges, and possible solutions of CF implementation.

METHODOLOGY

The data of CF implemented from the year of 2013 to 2020 were collected from 25 Capital-Provincial Department of Agriculture, Forestry and Fisheries (PDAFFs). Key informants with a total of 14 selected cases consisting of 10 agricultural cooperatives (ACs) and four agricultural companies in the provinces of Kampong Thom and Preah Vihear were interviewed using the structured questionnaires.

RESULTS AND DISCUSSION

1. Government intervention on contract farming

In order to promote the implementation of the contract farming, beside sub-decree 36 the government, particularly the Ministry of Agriculture, Forestry and Fisheries (MAFF) have done conducted main tasks on legal documents and on-site demonstrations. Currently, contract farming agreement must be made in writing and be filed to MAFF (Department of Agro-Industry, DAI / Provincial Department of Agriculture, Forestry and Fisheries, PDAFF). Currently, contract farming agreement with amount of less than 200 million Riels shall be filed to PDAFF, and contract farming agreement with amount of 200 million Riels or more shall be filed to DAI.

2. Implementation and success of contract farming in 2013-2020

The results of research study showed that the agricultural production contracts have increased significantly, 60 contracts from 2013 to 2017; 90 contracts in 2018; 498 contracts in 2019, and 516 contracts in 2020 (Table 1). These CF schemes are formal contracts known as agreements of buyers and producers by involving government as the coordinator and witness in signing the contracts, and under the coordination of contract farming coordinating committees, where the Department of Agro-Industry playing the roles as the secretariat and agro-industry offices under 25 Capital and Provincial Department of Agriculture, Forestry and Fisheries.

Table 1. Number of contract farming implementation from 2013-2020

Contracted year	Number of contracts	Agricultural commodities
2013-2017	60	Rice, cassava, corn, bean, mung bean, cashew, vegetables,
2018	90	sugarcane, palm sugar, pepper,
2019	498	pig, chicken
2020	516	

Among these contracts, rice is one of agricultural commodity that is broadly contracted between producers, agricultural cooperatives, association totally 88 with milling companies/development partners accounted 15 with total of 218631.55 tons equals to 49217.37 hectares. In 2018, this was figured out that the four companies in the study namely Signature of Asia, one of biggest company that made the most of contract farming in Cambodia (71.76%) followed by Amru Rice company, local milling machine, Agro Angkor company and Cambodian Agriculture Cooperative Corporation-CACC (20.13%, 3.98%, 3.62% and 0.52% respectively) as shown in Figure 1 (a), and other agricultural production contracts in 2019 as shown in Figure 1 (b).

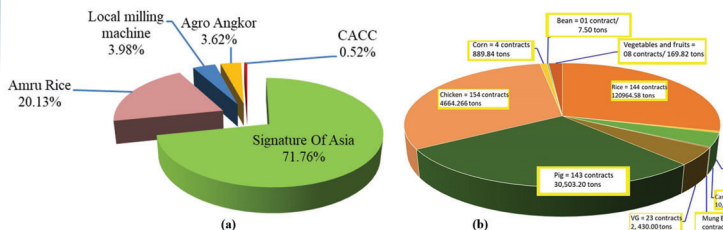


Fig 1. (a) Percentage of rice production contracted between the companies with local rice producers in 2018 and **(b)** Agricultural production contracts in 2019

3. Failure, challenges and solution of CF

Although, there were failure in some cases that happened with some informal contract implementation; there were no data of these failed informal CF because they were not implemented with the government's intervention. The implementation of CF was faced with some challenges by the two parties due to limited capacity to satisfy the production requirements (quantity and quality), late payment, capital investment, logistics and transportation. The commonly issues happened at production stage are known as lacking financial support to access agricultural input including seed, fertilizer, insecticides, agricultural machineries and equipment. Within this stage, producers are also difficult to satisfy the requirement of buying company since they lack knowledge and traditionally practices in farming. For buying company, the most challenges are capital investment which is sometime company late to pay to producer as well as late to transport the contracted goods. On another hand, certification of the requirement to producer is also a barrier in competition with broker/middlemen. Since end consumer are potentially considered on their healthy, therefore some requirements are needed likely, product competition and specification. Within the formal contract farming implementation, the problems have been solved out by coordinating from the government scheme (Figure 2).

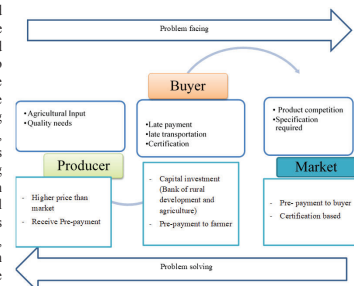


Fig 2. Challenges and possible solving mechanism

CONCLUSION

With the formal CF implementation, the challenges have been solved by the coordination with the government scheme. To build up the confidence in CF implementation, four solutions have been proposed: (1) pre-payment mechanism and warehouse receipt; (2) certification-based; (3) financial and technical support, and (4) policy support by the government. The introduction of a framework and implementation mechanism of CF in this study will provide a reference for potential investments in agriculture and related sectors, and encourage farmers/producers, investors and relevant stakeholders to engage in CF.

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