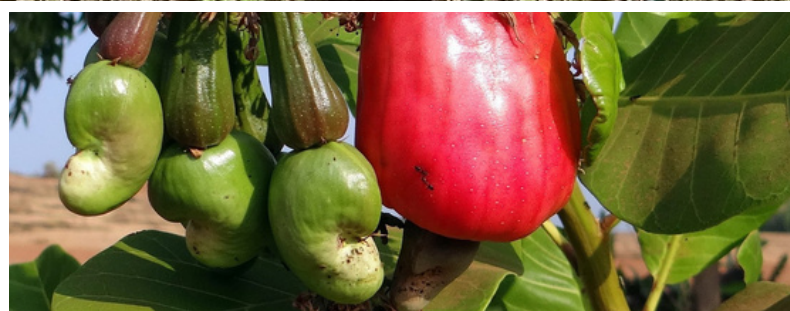


Strengthening the Ecosystem Conducive to the Effective Implementation of Contract Farming



BACKGROUND

In developing countries, the transition from subsistence farming to productive and commercialized systems is crucial for ensuring economic sustainability in the agricultural sector. Contract farming (CF) is viewed as an institutional mechanism to tackle technical requirements, compliance costs, and the lack of market access faced by smallholder and resource-poor farmers.

Cambodia's Agricultural Development Policy (2022-2030) aims to foster a shift towards modern and commercial farming practices. Contract farming is recognized as an intervention in this policy, with the expectation that it will address challenges related to agricultural inputs and price fluctuations. However, previous research conducted in Cambodia suggests that contract farming has not been fully adopted, resulting in informal sale contracts prevailing over formal agreements in contract farming.

Although contract farming plays an important role in Cambodia's agricultural development, empirical studies investigating the CF ecosystem and its implementation remain limited. Hence, this study provides a comprehensive overview of the CF ecosystem and challenges in its implementation and offers practical recommendations to address bottlenecks to strengthen the system and improve the confidence of involved stakeholders. The study also examines the extent to which women participate in the CF ecosystem and how they are empowered in the process. The study focuses on three agro-industrial crops: rice, cashew, and rubber.

Key Messages

- Contract farming in Cambodia remains at an early stage, with informal contracts being the predominant arrangement rather than formal agreements.
- Multi-actor approaches or pluralism for CFs which could involve relevant stakeholders viz. public and private sectors, research institutes, development partners, NGOs, farmer associations and federations, financial services and so forth, should be promoted to vigorously initiate and support CFs for strategic crops or products.
- More extension services and support on production and production techniques should be provided to farmers to help them meet the quantity and quality requirements of buyers. Support is also necessary to strengthen the management and financial capacity of the agricultural cooperatives.
- State-owned banks (e.g., Agriculture and Rural Development Bank) should consider lending mechanisms that do not require collateral or explore alternative forms of tangible assets. A contracted quantity certified by the Provincial Department of Agriculture, Forestry and Fisheries can be used as collateral.
- Developing and restoring irrigation systems and water bodies is a crucial long-term strategy to mitigate the impacts of climate change, especially for rice and cashew production.
- Although women are encouraged and provided with equal opportunities to hold leadership and senior positions, particularly in agricultural cooperatives and AC unions, they often shy away from the roles. Women often spend more time on unpaid care and domestic work than men, reflecting their cultural and social norms and constraining their participation.

Main Findings

The results indicate that:

The implementation of contract farming involves multiple actors, with farmers at the center of the ecosystem (Figure 1).

Farmers and buyers engage in formal and informal contracts. In formal arrangements, buyers collaborate with agricultural cooperatives to establish contract terms and conditions, requiring certification from PDAFF. Conversely, informal contracts do not involve PDAFF and remain prevalent.

The implementation of contract farming faces challenges across the three crops. They include an inadequate legal and regulatory framework, unclear dispute resolution procedures, predominantly informal contract arrangements without involvement from relevant authorities, limited access to capital with favorable terms, limited technical expertise among farmers to address production losses, and inadequate knowledge on fertilizer and pesticide usage, often relying on peer practices.

Women's participation in CF implementation has increased. Nonetheless, they remain underrepresented in leadership and management roles, attributable to unpaid care and domestic work burden, low levels of education, lack of confidence, safety concerns, cultural and social norms favoring men as breadwinners and more suitable for such positions, migration, and a lack of financial incentives.

Research Methodology

Based on a multi-stakeholder framework, this study combines desk reviews and qualitative analysis to examine the current ecosystem of contract farming and the level of women's participation in its implementation. The qualitative analysis utilized key informant interviews and focus group discussions with 23 representatives group discussions with 23 representatives from government ministries and agencies, agricultural cooperatives, development partners, non-governmental organizations, and financial institutions, as well as six focus groups with farmers and members of agricultural cooperatives. The study focuses on three agro-industrial crops: rice (Battambang), cashew (Kompong Thom), and rubber (Mundul Kiri). Rice, cashew and rubber are prioritized crops for exports.

Policy Implications

To strengthen the implementation of contract farming, a multi-faceted intervention involving relevant stakeholders is needed. Below, we list recommendations;



Component 1: Legal and Regulatory Framework

- The Ministry of Agriculture, Forestry and Fisheries (MAFF), along with other line ministries and agencies, should speed up the draft law on contract farming.
- MAFF should consider issuing directives and decisions on processes and procedures of how disputes arising from the CF implementation are dealt with.
- MAFF might consider amending Sub-Decree 36 on Contract Farming to include a representative from the Cambodia Competition Commission (CCC) in the Coordination Committee for Agricultural Production Contracts.



Component 2: Awareness Raising on CF and Extension Services

- The Office of Agro-Industry, PDAFF should arrange regular sessions with farmers, agricultural cooperatives (AC), and other relevant actors to raise awareness of contract farming.
- MAFF and PDAFF should continue extension services to farmers and communities on production techniques, the use of fertilizer and pesticides, mitigation and adaptation strategies for climate risks, and climate-resilient production systems.
- MAFF and development partners should increase support to help build AC's capacity in leadership, human resources, and financial literacy and management.
- Empower private sectors such as input supplying companies, financial institutions and exporters to take a more leading roles in agricultural extension programs and other services, through grants or co-funding activities.



Component 3: Access to Capital

- The Agricultural and Rural Development Bank (ARDB) and other state-owned banks may consider offering low interest rate loans and implementing lending mechanisms that do not require collateral or explore alternative forms of tangible assets.
- Provide financial supports through business acceleration programs to SMEs, especially agricultural processors and export actors to stimulate and ensure markets for CF programs.



Component 4: R&D and infrastructure

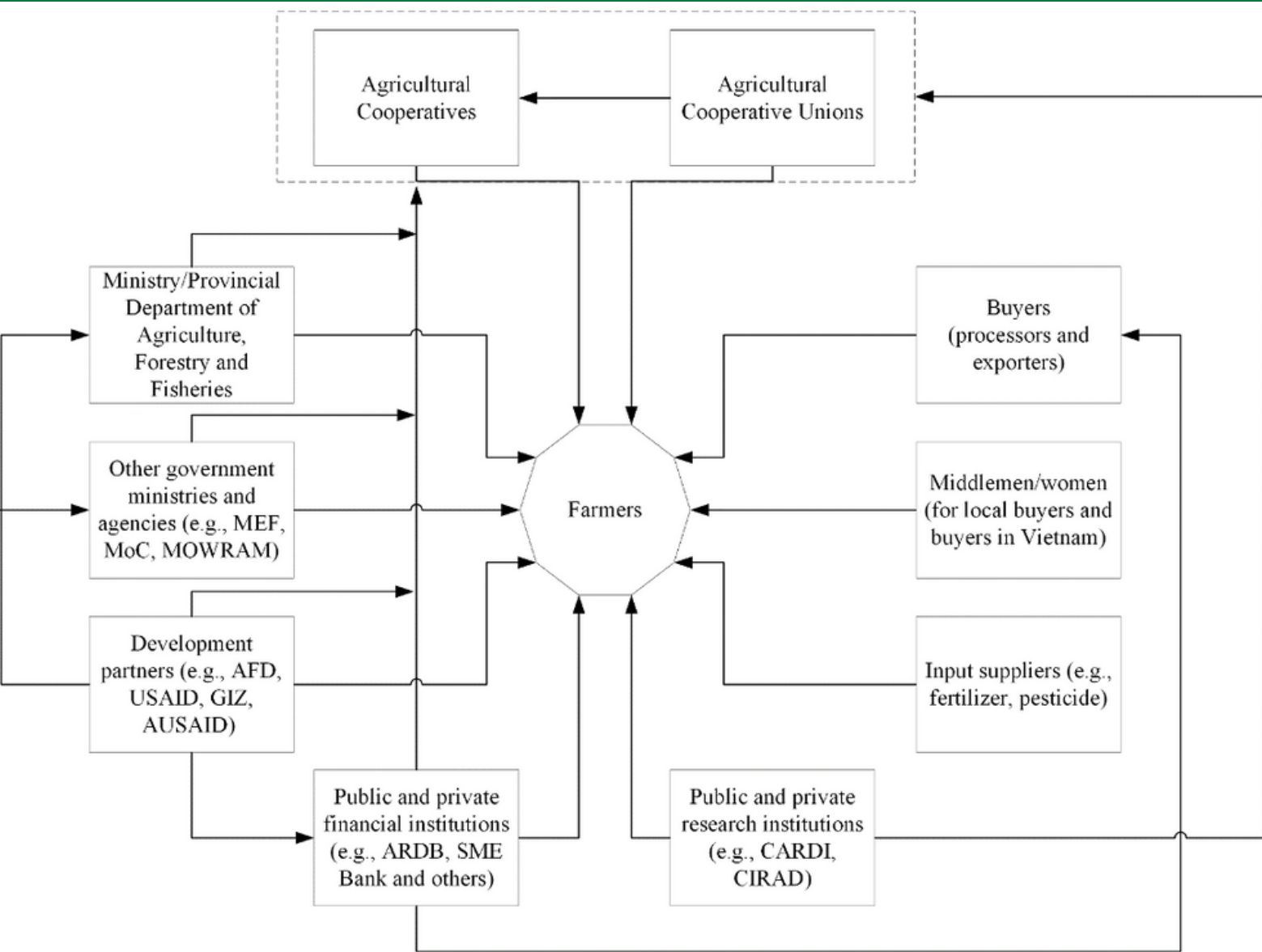
- MAFF and development partners should increase funding for collaborative research and development on climate-resilient seeds and production practices, sustainable pest and disease management, high-value products, and market diversification.
- The government and development partners should expand projects to build and restore irrigation systems and water bodies (large-scale and community-based irrigation) to support crop production and mitigate climate risks.



Component 5: Women's participation and empowerment

- All actors in the CF ecosystem should contribute to gender mainstreaming activities, emphasizing equal rights and opportunities for women to participate in leadership and management roles.
- Research institutes and research programs should incorporate a gender lens into their research agenda.

Figure 1: The Decagon Ecosystem of Contract Farming in Cambodia



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