

## CHAPTER V

### UNDERSTANDING THE TERMS AND CONDITIONS AND FARMERS' PARTICIPATION IN CONTRACT FARMING

This chapter examines the terms and conditions of *Angkor Kasekam Roungreung* Company's contract farming. It is important to understand how the contract schemes work to understand the role this plays in whether contract farmers are better off or worst off under AKR contract farming. This chapter also analyzes how the farmers' participate in contract farming, including why they participate or not, and what are the social implications for non-contract farmers.

#### 5.1. Analysis of AKR Terms and Conditions in Contract Farming

##### 5.1.1 Economic Aspect

Based on the interview with 16 contract farmer, table 5.1 below the economic aspects of the AKR contract scheme.

**Table 5.1. Economic Aspect**

Question	Yes		No	
	n	(%)	n	(%)
Do you get good price from the company?	16	100	0	0
Do you have good bargaining power in price setting with company?	0	0	16	100
Does the company set the price?	16	100	0	0
Do you receive a credit from company?	5	31.3	11	68.8
Do you receive a credit from MFIs or money lenders?	6	37.5	10	62.5
Do you have a secure market through the company?	16	100	0	0
Do you ever sell your crops to middlemen or the market	15	93.8	1	6.3
Do you gain access to inputs (rice seed) from the company?	16	100	0	0

- ***Price Mechanism and arrangement***

In 2010 AKR contract schemes, all 16 AKR contract farmer respondents have experienced receiving a good price for their rice, as the company promises a price of 30 Riel/ kg higher than the price in the market<sup>30</sup> (table 5.1). At the time of the fieldwork, the market price for organic rice was around 1,250 Riel/ kg, therefore the company offers a price of between 1,260 and 1,280 Riel/ kg. Besides the better price, the company also guarantees price stability for the contract farmers; even if the price in the market goes down, the company's price remains stable. During that time, contract farmers can keep their excess contracted rice in the company's warehouse in order to wait the price increases or stable.

Usually, the price is agreed between the AKR company and the farmer in January during the harvest season. The company and contract farmers do discuss the price, but in actual fact the company itself sets the price. All respondents said that they do not have the power to bargain with the company. Based on Focus Group Discussion (FGD, July 16, 2010) in Thum Phiem village, the contract farmers said that they had discussed with each other about their expected price and then tried to bargain with company to increase the premium to 100 Riel/ kg because the rice was very good quality and they had invested extra labor in production, but the company would not agree.

Regarding the price-setting system, the contract farmers do not have much information about how the company sets the final price and in the end have to accept the price stated by the company. Farmers have little influence over the price setting since they transport the rice to the company's mill before agreeing the price, and it is impractical to take the paddy back to the village.

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<sup>30</sup> Rice price in the market in Cambodia is free market mechanism, depend on supply and demand.

- *Access to input and credit*

All respondents agreed that contract farming increase their access to inputs through the company, in particular rice seed; they can take either 30 kg, 60 kg, or 90 kg depending on their farm size. Fertilizer and pesticide inputs are not provided by the company because the farmers are required to grow organic rice. Most of the villagers are interest to contract with the company because they want to receive the good rice seed so that they get a better rice yield and a higher price.

Beside rice seed, AKR also provides the contract farmers with credit up to a maximum of US\$125 without interest rate. The credits are given on the security of the land or the anticipated value of the crop. The AKR credit scheme uses rice saved in the company's warehouse as a collateral. One villager said that if they store their rice in the company's warehouse, the company will provide credit without an interest rate.<sup>31</sup> Despite this, most contract farmers do not take a credit from the company; only 5 respondents reported that they take credit from company and another 6 respondents stated they take credit from MFIs instead.

Usually, the villagers keep their rice at home for daily consumption and future investment. If they need emergency money, they can then sell it at anytime to middlemen or in the market. The villagers' main sources of credit are from Micro Finance Institution (MFIs) that offer an interest rate of 30% per month. The farmers rely less on informal sources of credit, such as from friends, family, relatives, or moneylenders.<sup>32</sup> The farmers take loans to expand their business, to buy more land or a tractor or ploughing machine, or for emergency situations, such as health care.

According to others research, small farmers have found access to credit from contracting company to be very helpful, since they are often credit constrained and unqualified to receive loans from formal institution because they do not have

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<sup>31</sup> Interview with contract farmer 5, Kres Thom village, July 12, 2010

collateral (Glover and Kusterer, 1990). Moreover, if they borrow from banks or other credit institution, they will face higher interest rate. Therefore, it is surprising to find in this study that farmers do not access AKRs credit and loans regularly. The contract farmers are less likely to borrow money from the company because their farming depends on rain fed, so they afraid if they could not repay the credit and being indebted with company.

- *Access to market*

All respondents stated that contract farming provided secure market access for their crops. Under the AKR contract scheme, farmers must sell their contracted rice to company. Farmers must not sell their production to other traders except as may be authorized by the commune association. If there is evidence that the farmers have broken the contract and sold their rice to other traders the company will exclude them from membership to the commune association and bars their membership in the future.

However, farmers believe that as long as the contracted volume is delivered to the company, it will not penalize them for selling excess paddy to traders. Therefore, the contract farmers only sell the contracted amount of rice to the company, but then may sell the surplus rice either to the company or to middlemen. In addition, the farmers also grow their own rice using other seeds, which they consume themselves, or sell to middlemen or in the market.

15 respondents confirmed that they sold their contracted rice surplus not only to AKR but also to the middlemen or traders, and a small number also sell directly to the market. Although the price from the middlemen is lower than the price from the company, some farmers prefer to sell rice to middlemen because:

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<sup>32</sup> Interview with contract farmer 11, Kres Thom village, July 15, 2010

- a) They do not need to spend costs on transportation to the company's rice mill because middlemen come directly to the village.
- b) They never get a penalty on the rice quality because middlemen accept all rice without concern for quality standards.
- c) They can sell their rice to middlemen anytime that they need money, rather than at specified times as required by the company
- d) They can receive payment immediately rather than wait for payment from the company.<sup>33</sup>
- e) They can sell any amount of rice, rather than a specified minimum amount as required by the company.
- f) They can be surer of fair weighing of the crop

Sales to middlemen represent a challenge to the company because they also offer a high price for farmers who grow a good quality of rice. As a result, the middlemen often compete on price with the company; the villagers said that when the company offers a high price to the farmers, the middlemen also increase their price, although it is still below the company's price.<sup>34</sup>

### **5.1.2. Agricultural production and management aspect**

Contract farming may introduce new agricultural patterns that sometimes do not prove to be beneficial for the farmers; for example the company require farmers to plant crops as stipulated in their contract, which are selected by the company rather than the farmers (Oxfam, 2008). The experience of contract farmers regarding agricultural and management aspects of contract farming are summarized in table 5.2 below.

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<sup>33</sup> Farmers had experience delay in payment from the company in 2006 because the company lacked money to buy farmers' rice.

<sup>34</sup> Interview with contract farmer 6, Kres Thom village, July 12, 2010

**Table 5.2. Agricultural production and Management Aspect**

Question	Yes		No	
	n	(%)	n	(%)
Do you receive extension services from the company?	7	43.8	9	56.3
Is knowledge and technical expertise transferred from company?	8	50.0	8	50.0
Are your farming skills improving?	7	43.8	9	56.3
Did you have to change your crop pattern?	10	62.5	6	43.8
Are you satisfied with the new crop pattern?	12	75.0	4	25.0
Is the new crop pattern increasing your income?	7	43.8	9	56.3
Is new crop pattern increasing the quality and productivity of you output	11	68.8	5	31.3
Do you have to deliver high quality output to the company?	16	100	0	0

- *Extension Services*

From the table 5.2, 44 percent of the respondents report that they receive extension service from company and reveal that their farming skills have improved (50 percent). In general, training for contract farmers should cover farming techniques, such as selecting good seeds, how to control water, efficient use of farm resources, improved methods for applying agrochemicals, and knowledge of the importance of quality and the characteristics and demands of export markets. According to interviews with the AKR contract farmers, the training from the company focuses on farming techniques, especially rice seed selection, and it lacks training on managerial skills to increase human resources. Contract farmers also stated that the company's staffs never visit the villages directly to give training, but if the farmers need advice they can go to the company's office.

The training service for farmers in these villages is not only from the company, but also from the Center for Education and Development of Agriculture in Cambodia (CEDAC). 56 percent of interviewed farmers receive new knowledge on farming techniques and change their crop pattern from CEDAC; the staffs come directly to the village and the farmers say that they learn a lot about how to grow organic rice from them.

- *Changes in Crop Pattern*

Contract farmers have to adapt to the company's required farming techniques and follow the instruction written in the contract agreement. 62 percent of the respondents said that as a result they had to change their crop patterns. This year, for example, the farmers are required to follow the SRI (System of Rice Intensification) methodology and are prohibited from using any form of chemical input, such as fertilizers and pesticides. Under the contract scheme, farmers have to apply techniques introduced by the company (ridging, fertilizing, transplanting, pest control, etc.) to produce a high quality of rice. Moreover, the contracted rice must meet the quality standard requirement of the company.

Regarding changing in crop pattern, 75 percent of contract farmers are satisfied with new crop pattern because it may lead to increasing income (44 percent) and increased output quality and productivity (69 percent). The remaining farmers (25 percent) state that there has been no income improvement after changing their cropping pattern.

Even though the company forbids the farmers to use fertilizer and pesticides for company rice, some contract farmers still use these chemical inputs a little, especially when the soil quality is poorer. They argued that they have to use it because they are afraid of not meeting the high production requirements of the company (to sell 1.5 ton/ ha). More than 50 percent of the interviewees use fertilizer for company rice and pesticides to kill insect, snails, and crabs, but the amount is not much due to the high price that is relatively unaffordable to the farmers.<sup>35</sup>

Other non-contract farmers use pesticides and fertilizers for their own rice production to increase their profits. Farmers who have access to the local market or middlemen who will buy rice grown with agrochemicals have moved on to intensify

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<sup>35</sup> Interview with contract farmer 7, Kres Thom village, July 12, 2010

their farming practices to increase profit. Generally, farmers in the village buy their fertilizer from market or buy it from the company fertilizer on credit.<sup>36</sup>

- *Outputs Quality and Productivity*

All interviewed contract farmers agreed that they were required to provide quality output under the contract scheme. The quality of the output is determined by the moisture content (contain less than 5 percent of moisture), clean grain (*sa'at*), and the homogeneity of the produce. According to CEDAC's staff, these requirements are quite difficult for farmers because in Cambodia only 15 percent of farmers can dry their rice sufficiently in the direct sunlight. In addition, these requirements require the farmers to use more labor to clean and dry the paddy. Most of the farmers are unhappy with being made to attain this quality, but they are unable to negotiate with the company these quality standards and therefore have to accept the company's decision.

From the interviews it is clear that the farmers do not receive much information about the quality standards from the company and they feel cheated when the company deducts the rice weight as a penalty for not attaining the standards. The farmers' said that if the grain of the contracted rice is not dry enough or fulfill the quality standard then the company will deduct 10 percent of the total weight of the rice;<sup>37</sup> for example, if a farmer sells 100 kg of rice to the company, the company will only count 90 kg. To some farmers, it seems that the company uses the standard quality to make price lower to reduce the farmers' benefit from contract farming.

Hightower (1975, in Glover 1984) suggests that companies may raise quality standards not only to control production volumes, but also to get a portion of the crop at a very low price.

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<sup>36</sup> In the beginning of planting season, the farmers buy fertilizer from company fertilizer in the head and pay it later

<sup>37</sup> Interview with contract farmer 13, Thum Phiem village, July 14, 2010

### 5.1.3. Governance aspect

Table 5.3 illustrates the attitudes of contract farmers towards the governance aspects. 50 percent of the interviewed contract farmers felt that the company provides enough information about the contract farming scheme, including information on contract requirements and punishments. 50 percent, however, disagreed because the company does not provide clear information about profit-sharing, the quality standard requirements, and about fair scaling methods. They also note that the contracts do not clearly state AKR's liabilities if it does not buy the contracted rice at the predetermined prices; the contract states that AKR is obliged to buy rice from the farmers at a minimum price without specifying the purchase in detail.

**Table 5.3. Governance Aspect**

Question	Yes		No	
	n	(%)	n	(%)
Does the company provide you with enough information?	8	50.0	8	50.0
Have you lost your decision ability and freedom?	14	87.5	2	12.5
Does the company allow you to create a farmer organization?	1	6.3	15	93.8
Do you think the company consent (honest/ committed) with agreement	2	12.5	14	87.5

Beside from the company staff, farmers get information about contract farming from the village head, previous contract farmers, and other contract farmers. The company itself distributes leaflet and brochures to inform farmers about the terms and conditions of the contract scheme. The farmers choose to participate in the contract farming voluntarily. They keep one copy of the contract, whilst other copies are with the head of the commune association and the company.

In general for contract farming, contract farmers are effectively workers for the company since they depend entirely on the company for their inputs, credit, extension services, and market for their crops (Oxfam, 2008). From the interviews, 87

percent of respondents felt like they had lost their decision-making ability and flexibility because they have to follow the strict regulations of the company. Moreover, 87 percent of respondents state that the company does not consent with agreement. The AKR contract farmers see that the company does not committed with the contract scheme. For instance, the company deducts the rice weight and does not provide information about standard quality. Some contract farmers showed that company's scaling is not fair.

In addition, 94 percent of the interviewees said that the company does not allow them to create a farmers' organization. The contract farmers want to have a farmers' organization to facilitate coordination amongst them so that they can help each other, share information and increase their power to bargain with the company.

For fair contract farming to occur, researchers have previously concluded that farmer organizations are important to negotiate with the company because they provides a forum where farmers can express their dissatisfaction over prices, timing, standard requirements, and increase the likelihood that a firm will recognize its social and environmental responsibilities (Delfroge, 2007). Similarly, Prowse (2007) argues that farmer associations can help balance the power between firms and farmers, in terms of collective bargaining and negotiation process.

#### **5.1.4. Social Aspect**

It is important to assess the impact of contract farming from social aspect to understand the changing social conditions, culture, and land ownership in the community (table 5.4).

**Table 5.4. Social Aspect**

Question	Yes		No	
	n	(%)	n	(%)
Do you have good working condition under contract farming?	10	62.5	6	37.5
Do you get a better standard of living under contract farming?	13	81.3	3	18.8
Does the company differentiate between male and female households?	0	0	16	100
Do you think contract farming will secure land tenure?	0	0	16	100
Is there any increase in landlessness due to contract farming?	0	0	16	100
Do you think contract farming excludes small farmers?	2	12.5	14	87.5
Do you think that contract farming changes culture and tradition in the community?	2	12.5	14	87.5

- ***Working conditions***

62 percent of the respondents said that they have good working condition under contract farming (table 5.4). This is despite the fact that under organic rice contract farming farmers uses more labor since they implement the System of Rice Intensification (SRI) method of rice cultivation.<sup>38</sup> Contract farmers with larger families can manage their production better and allocate more family labor to work on the farm. Moreover, ones with larger families also have cows as animal labor which helps them to plough the soil, transport fertilizer, etc. Some farmers also buy hand tractors to improve their productivity.

- ***Living Standard and Well Being***

81 percent of the contract farmers interviewed experienced a better livelihood since participating in the contract farming due to an increasing income; the remaining 19 percent felt no change in their livelihood. According to the contract farmers interviewed, their livelihood changed a little bit because they received a higher price from the company for their rice, although they also benefited from other sources of

income such as selling charcoal, selling livestock, and selling daily consumption goods.

However, one contract farmer said that the farmers don't gain a better livelihood because although they get a high price from company, the company also inflicts weight deductions at the same time:<sup>39</sup>

*“The price difference between the company and the middlemen or market price is only 5 percent, but the deduction of the company is more than 10 percent”*

In addition, the farmers need to transport their paddy from their village to the company rice mills, which is quite far from the village and rice is bulky and heavy (and the farmers are required to transport 1.5 ton or more). Even though the company says it repays the cost of transportation, in fact the amount provided is not enough to cover the transportation cost.

- ***Farmer Selection Bias toward Head Household***

Almost all interviewees said that AKR contract farming does not differentiate between male- and female-headed household, although it does require that farmers provide at least 1 ha of land if they want to take company rice seed. The consequence of this regulation is that it precludes landless people and excludes small farmers who have land less than 1 ha. Despite this clause, 14 percent of the contract farmers interviewed said that AKR contract farming does not excludes small farmers.

- ***Land Tenure Security***

From the interviews with contract farmer, all respondent said that AKR contract farming does not ask about or require land certificate to enter contract

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<sup>38</sup> The SRI is a method to increase rice yields which requires less water and less expenditure on fertilizer, but is more labor intensive

<sup>39</sup> Interview with contract farmer 16, Chong Tnol village, July 15, 2010

farming. At the same time, the company does not help farmers to get land certificates, and therefore is not an active agent to strengthen land security. On the other hand, whilst Oxfam (2008) suggest that land conflicts can be generated by contract farming when it involves large scale of farming this was not reported in the villages studied.

The interviewees said that AKR contract farming also does not increase land transfer from small to large-scale farmers in these villages, because contract farmers prefer cutting down trees in the forest, which is common land, to expand their paddy field rather than buying existing agricultural land from small farmers. However, this deforestation has potential to increase land conflicts in the future due to an unclear demarcation of the land boundaries and therefore possible overlapping claims.

#### 5.1.5. Environment aspect

There should be no agro-chemicals in AKR's contract farming, as the rice grown is organic. From table 5.5 below, 69 percent of the respondents said that contract farming will not be dangerous for the environment because they use fertilizer and pesticides only a little. As noted in section (5.1.2), the AKR contract expects the contract farmer not to use chemicals, but some farmers still use it a little for poor quality soil to increase rice yields. The contract farmers also believe that fertilizer usage will not increase soil erosion (81 percent) and does not threaten the fresh water quality (69 percent). Table 5.5 summarizes the elements of the environment aspect under contract farming.

**Table 5.5. Environment Aspect**

Question	Yes		No	
	n	(%)	n	(%)
Do you think that contract farming will be dangerous for the environment since it increases the use of chemical inputs (fertilizer and pesticides)	5	31.3	11	68.8
Do you think that contract farming will lead to land conversion, change biodiversity and habitat	10	62.5	6	37.5
Do you think that contract farming will increase soil	3	18.8	13	81.3

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erosion and pollution				
Do you think that contract farming will threaten the quantity and quality of water	5	31.3	11	68.8
Do you think that contract farming will increase deforestation	11	68.8	5	31.3

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62 percent of the interviewees said that contract farming may lead to land conversion<sup>40</sup> and 69 percent said that AKR contract farming increases deforestation. This is occurring because of the high requirements of the company that drives villagers to clear forest land in order to expand their agricultural land. As the farmers are afraid of company's penalty if they don't grow sufficient rice, the farmers plant company rice seed on the freshly cleared forest land, which is very fertile, to get high yields.

Deforestation due to AKR contract farming will continue unless the company or the authorities act to address the issue. If deforestation does not stop, however, this will affect farmers' livelihood in the long-term, in particular poorer families who especially depend on the forest's resources for their livelihood. Traditional households (both rich and poor) in these villages depend on *prei* (forests/wild land) for basic household goods and foodstuff (protein and vegetables). Forest is also important for hunting and gathering activities, mainly conducted by poorer families.

From the interviews, overall contract farmers in Thum Phiem and Chong Tnol village said the contract farming does not lead to deforestation, while the contract farmers in Kres Thom village confessed that contract farming does increase deforestation. This difference can be explained by forest land ownership among the villagers; In Thum Phiem and Chong Tnol village, large numbers of farmers do not have forest land and only plant company rice on their paddy fields, whereas in Kres Thom village on average the farmers have 1.5-2 ha of forest land per household and the contract farmers plant AKR's rice on both paddy field and forest land.

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<sup>40</sup> Land conversion in here means the changing of land using or function, for instance from forest land to agricultural land.



### 5.1.6. Development aspect

Development aspects synthesize all issues of contract farming and seeks to evaluate whether contract farming is beneficial or not for the company and participating farmers. This aspect includes small-farmer exclusion, fairness of the financial agreement, and equity and distribution of contract farming impact (table 5.6).

**Table 5.6. Development Aspect**

Question	Yes		No	
	n	(%)	n	(%)
Do you think that contract farming is an available option for small-scale farmers?	9	56.3	7	43.8
Do you think that the company offers a fair financial agreement?	5	31.3	11	68.8
Do you lose flexibility and autonomy under contract farming	16	100	0	0

- ***Exclusion of small farmers***

From the interviews, 56 percent of the contract farmers said that AKR contracts were available to small farmers as long as they had a sufficient area of rice field, although it did also depend on their ability.

Oxfam (2008) suggest that in general contract farming may lead to the marginalization of poor farmers who can not demonstrate the capacity and ability required by the contract scheme (Oxfam, 2008). Contract farming has also been reported to exclude poorest farmers when agribusiness firms seek contracts with large-scale farmers to reduce transaction cost. According to Setboonsarng (2008), although contract farming appears to involve small farms, such arrangements may exclude the poorest of the poor. Landless peasants and households possessing only limited marginal lands tend to be overlooked by contract farming companies.

- *Fairness of financial agreement*

69 percent of the contract farmers interviewed said that the AKR company is not fair in financial agreement, especially regarding the pricing mechanism and profit sharing. They said that by engaging in contract farming it does increase their income, but they have to work hard to get the higher yields and good quality of rice expected. All interviewed contract farmers said that they lost their flexibility and autonomy under contract farming because they have to follow all of the company's instructions, such as its farming techniques and how to select good rice seeds. They also do not get profit sharing from the company.

## 5.2. Participating and not-participating in contract farming

### 5.2.1. Participating in Contract Farming

In general, the main factor drawing smallholders to join contract farming projects is the price that company will pay for the product and a guaranteed market (Baumann, 2000). Contract farming proves attractive to many local farmers due to the higher and more stable incomes, and due to the training opportunities (Vermeulen and Lorenzo Cotula, 2010). From the interviews with 16 AKR contract farmers, several reasons were identified as to why they participate in contract farming (table 5.7).

**Table 5.7. Reasons for Participating in Contract Farming**

Variables	Yes		No	
	n	(%)	N	(%)
Good rice seed	14	87.5	2	12.5
High price	12	75.0	4	25.0
Secure income	13	81.3	3	18.8
Secure market access	8	50.0	6	43.8
Access to credit	5	31.3	11	68.8
Extension service	7	43.8	9	56.3
Fair scaling	4	25.0	12	75.0

From the table above, 75 percent of the respondents said that they participate in contract farming as the company offers a higher price, 87 percent due to the good rice seeds provided by the company, and 81 percent because of the secure income.

Based on their research on contract farming scheme in Africa, Porter and Phillips-Howards (1997) found that what small farmer want from contract schemes is essentially a satisfactory regular cash income and, in some cases, the availability of inputs normally unavailable or more expensively obtained through other sources (notably credit facilities and fertilizer). This is similar to the AKR contract farmers, who join the contract farming due to the high price offered by the company that increases their income, and to receive the company's rice seed, which is better than the farmer's rice seed.<sup>41</sup>

Research findings from Norsida and Nolila (2010) on contract farming among vegetables and fruits in Malaysia found that by engaging in contract farming the smallholders believed it increased their competitive edge, guaranteed their income, and enabled them to produce high quality vegetables and fruits. In addition, Sriboonchitta, *et al* (2008) found that the landless farmer in Thailand felt that working on contract farms provided them with good opportunities to make an income when labor was the only resource that they had (Sriboonchitta, *et al.* 2008).

Access to credit is also an incentive for smallholders joining contract farming schemes. From the interview, 31 percent respondents state that access to credit is one of reasons to participate in AKR contract farming. The credit can be given in cash, in kind, or in the advance of service or capital inputs to invest in farming. 75 percent of respondents said that the company does not provide fair scaling when weighing their rice. 44 percent of the interviewees also said that they are provided with extension services by the company, although they are not satisfied with this service yet because

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<sup>41</sup> Interview with contract farmer 8, Kres Thom village, July 12, 2010

the company only provides advice from its main office, which is quite far from the village.

### 5.2.2. Reasons Not for Participating in Contract Farming

The distinction between selection by the company and self-selection by the farmer is important. Farmers who have the capacity to work with the company, if there is no discrimination by the company, would be expected to be the ones most likely to enter into contracts, whereas small-holder farmers who lack the ability to fulfill the company requirements will be less likely to participate in contract farming. In considering the company's requirement, farmers must take account of their farm size, the fertility of the soil, previous farming experience, and family labor.

Most contract farming schemes identify criteria for all their farmers. According to Baumann (2000), apart from a secure title to land, these can include a minimum land size, good health, a proven ability to hire labor or enough family labor. Sometimes companies may even prefer a married status, a certain education level, or prior experience with the crop.

The reasons why the farmers decide not to participate in AKR's contract farming are summarized in table 5.8.

**Table 5.8. Reasons for Not Participating in AKR Contract Farming**

Variables	Yes		No	
	n	(%)	n	(%)
High requirements by the company	15	75	5	25
Heavy penalties by the company	7	35	13	65
Too little land	12	60	8	40
Poor soil quality	6	30	14	70
Lack of information	7	35	13	65

Overall, the non-contract farmers knew about contract farming, believed it would improve their living standard, but said they faced difficulties to participate. They were interested in contract farming due to high price offered by the company, the good rice seeds, and the perceived ease to sell rice.

From the interviews with 20 non-contract farmers, it was found that about 75 percent of the respondents said that they did not participate in the AKR contract farming because of the high requirements of the company. They noted that the contract farmers are required to repay the same amount of rice seed as the company gave them, and in addition sell 1.5 tons of contracted rice to the company.

For small scale farmers, who own less than 1 hectare of land or whose soil quality is not good resulting in low rice yields, this specification is impossible. One villager said that:<sup>42</sup>

*“I want to join with the company because it is easy to get good rice seeds, easy to sell rice and I will get a good price, but the requirements are very difficult. I worry about my rice field, because it does not produce a lot of rice this year due to less rain.”*

Generally, contract farming companies prefer to work with larger growers. Key and Runsten (1999), and Little and Watts (1994) argue that larger growers can undertake more production and therefore their overheads associated with the contract are a smaller proportion of the total cost. Moreover, larger growers are better able to bear crop risks, may already possess expertise in crop husbandry and labor management, and often have storage and transport facility (Wilson, 1990). Whilst not at this scale, AKR does exclude some small farmers indirectly who cannot produce at least 1.5 tons of rice. One villager said:<sup>43</sup>

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<sup>42</sup> Interview with non-contract farmers 2, Kres Thom village, July 13, 2010

<sup>43</sup> Interview with non-contract farmers 1, Kres Thom, July 12, 2010

*“I went to the company to get rice seed, but the company did not allow me to take their rice seed because I do not have the qualifications to produce at least 1.5 tons of rice”*

35 percent of the interviewees stated that they do not participate in contract farming because of the heavy penalty of the company. However, 45 percent of the respondents also said that they did not receive much information about the company’s penalties; they only heard that the company provides good rice seeds and offers a higher price. When they heard about the penalties, many did not want to join the company. One villager said:<sup>44</sup>

*“I like the company because the rice seeds from company give a good yield and company price is higher than market. But I cannot participate in contract farming because I only have a small rice field and I worry that I would be unable to sell the rice to company. I don’t know about the penalty too.”*

Some non-contract farmers cannot join with the company because they have only a few family members, even though they have more than 2 hectares of land, and they do not have enough money to hire labor.<sup>45</sup> On average, non-contract farmers have small families (5 persons) and less family labor (3 person) per household that contract farmers (see section 4.1.2). As larger areas of land - as required by the company to produce a minimum amount of rice to sell - require more labor, a larger family size tends to be an advantage for contract farming.

Some non-contract farmers previously did contract farming with AKR. They quit from the contracts because the requirements were too high or the penalty of contract scheme this year is too tough. One villager said:

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<sup>44</sup> Interview with non-contract farmers 3, Kres Thom, July 13, 2010

<sup>45</sup> Interview with non-contract farmers 4, Thum Phiem, July 14, 2010

*“Last year I took rice from company and I could sell it to company, but this year the company set a high requirement so I stopped contract farming and now sell my rice to middlemen”.*

About 60 percent of the respondents reported that they do not participate in contract farming due to shortage of land. On average, non-contract farmers have 1.5 hectare of paddy land and 0.875 hectare of forest land, which is less than contract farmers (see section 4.1.3). According to studies by AKR themselves, farmers should own at least one hectare of land so as to be able to meet the contract requirements (Cai, *et al.*, 2008). It is a common for Cambodian farmers to split their land between commercial operation and crops for self-consumption. Farmers who have a small plot of land tend to have insufficient land remaining to meet AKR’s minimum requirements.

30 percent of the interviewees also said that they do not have good soil and so worry that because of this they will not be able to meet the company’s requirements since their soil is not good, they need to use fertilizer to increase the rice yield, but they said that they do not have enough money to buy fertilizer. Furthermore, as AKR’s rice is supposed to be organic, in principle they would not be permitted to use fertilizer.

In general, contract farming companies will choose to operate in areas that have good soil fertility and possibly irrigation too. The AKR website explains that AKR operates only in provinces that are suitable to grow *Neang Malis* rice. It is well found that farmers with more fertile farms gain higher margins from contract farming because they do not need to use fertilizer and can achieve lower unit costs (Simmons, 2000).

### 5.3. Summary

The AKR contract farming scheme in 2010 seems strict to contract farmers with its high requirements and penalties. The contract farmers do not have the ability to negotiate with the company because they cannot organize themselves in to a farmer association. The contract schemes are a highly centralized where the company is the center of decision-making. Moreover, not all the villagers can enter into contract farming, as it depends on their ability to meet the contract requirements, such as owning a minimum area of and less family labor. As the contract farming has become heavier and more difficult, fewer farmers are participating.