

## CHAPTER VII

### CONCLUSION AND RECOMMENDATIONS

This chapter summarizes the research finding from the field work in Kampong Speu province by assessing the hypothesis and asking whether contract farming has improved farmers' livelihood, increased land tenure security, and what are the terms and condition and farmer's participation in contract farming. This study has interviewed contract farmers from *Angkor Kasekam Roungreung* Company (AKR) to understand how the rice contract farming works in Cambodia, and non-contract farmers from the same villages. The first part summarizes the key findings of the field work. I then answer the main research question, asking how can rice contract farming be beneficial for farmers' livelihoods in Cambodia? Finally, I offer some conclusions and recommendations.

#### 7.1. Summary Findings

Based on the field work in Kres Thom, Thum Phiem, and Chong Tnol village, Tang Krouch commune, Samrong Thong district, Kampong Speu province, and interviews with 16 AKR contract farmers and 20 non-contract farmers, there were several important findings:

##### 7.1.1. The Impact of AKR Contract Farming on Farmers' Livelihood

Most of the AKR contract farmers have experienced increasing income since participating in contract farming because they get a higher price and good rice yield. However, this income was not enough to live on alone and farmers had to rely on other farm and non-farm activities. Furthermore, whilst contract farmers did see increasing income, they were not satisfied with the contract arrangement, particularly the requirements and penalties of the company.

Besides increasing income, contract farmers also get good rice seed and extension services from company, such as training, access to credit, and warehouse facilities for farmers who want to keep their surplus rice with the company. Under contract farming arrangements in general, extension services from the company is important to farmers, especially when extension service from the government are inadequate to support farmers in rural areas.

### **7.1.2. AKR's Terms and Conditions**

The AKR contract agreement details the farmers' and the company's rights and obligations, including the amount of seed that the farmers must return to the company on harvest, as well as the minimum guaranteed price to the farmer and possible penalties to the farmers if they do not meet the contract requirements or default on the contract. From the interviews with contract farmers, it was found that the company has set a high requirement and heavy penalties for the contract scheme this year. As a result, the number of contract farmers with AKR has dropped significantly, for example from 32 farmers to 7 farmers in Thum Phiem village and similarly in Kres Thom and Chong Tnol village. Most of the farmers are afraid that they cannot accomplish these new requirements and will be penalized by the company. The farmers are worried about drought this year, as there had been little rain.

The farmers felt that the company does not provide enough information to them about the pricing mechanism and profit sharing in the contract scheme. The contract farmers also have little bargain power to negotiate in price setting and have to accept the sale price agreed from the company. They often experience weight deduction that the company justifies due to their quality standard requirements, making many of the farmers dissatisfied as the company does not provide enough

explanation about these quality standards tests. Moreover, a lot of risk is carried by the farmers as the company does not provide compensation if there is a crop failure.

At present, the farmers do not have a farmer organization, and AKR will not allow the farmers to form a farmer organization. Instead, the company has established a Commune Association under their management. Although this has farmers representatives included, the farmers' voices are not heard. Instead, the company tends to use the Commune Association to enforce their contract scheme and to monitor the contract farmers' operation to make sure that they will not default on the contract. Since farmers do not have farmers association, they are left with no choice but to work individually, making it difficult to negotiate with the company. Were a farmers' cooperative to be established, it would serve as a valuable intermediary for the farmers to negotiate and bargain with the company as a collective force.

### **7.1.3. Participation and Non-participation in Contract Farming**

Higher prices, good rice seeds, and access to market are the main reasons for farmers to participate in AKR contract farming. They want to join the company when they see other farmers' successes in planting the company's rice and earning a higher income. Access to credit and extension services are not as important reason for farmers to participate in contract farming, since they rely on credit from Micro Finance Institutions (MFIs) and extension services from the Center for Education and Development for Agriculture in Cambodia (CEDAC).

From the interviews with non-contract farmers, their reasons not to participate in contract farming are the high requirements of the company and the limited amount of land that they own; The majority of non-contract farmers have less than 1 hectare of land and do not have the capability to meet the company's high requirements as farmers who have a small plots of land tend to have insufficient land for planting AKR's rice varieties. For non-contract farmers, often their land is only enough to

produce rice for their own consumption. Yet, even though they are excluded from contract farming, they feel that nothing has changed in terms of their relationships with the contract farmers, and the marginalization of non-contract farmers does not appear to be happening in these villages. Moreover, it is found that contract farming has not promoted land transfer from small farmers to larger farmers and land conflict is rare in these villages because farmers that need more land are in general encroaching into the forests (although there is conflict over forest land).

#### **7.1.4. The Impact on Land Tenure Security**

Contract farming does not increase land tenure security for farmers because the company does not require farmers to provide land certificate. From the interviews, almost 80 percent of contract farmer do not have land certificate and they feel insecure with their land. On the other hand, non-contract farmers who do not have land certificates think that it was not necessary to have land certificate; they feel secure with their land tenure because they think all of the villagers do not have land certificates and as they were born and live in the same village for a long time, they know and trust each other.

Land titling or land registration is important for farmers to prove that they are the owner of the land. Under contract farming arrangements, the government should promote land titles for farmers in order to strengthen their confidence to invest in the agricultural sector and increase their access to the formal financial institution. If farmers have land titles, they can use it as collateral to get loans from the banks or MFIs. As a result, it will reduce farmer's dependency on the company to borrow credit, and therefore potentially strengthen their bargaining position.

### **7.1.5. Deforestation**

Deforestation has been widespread in this commune due to the expansion of land under contracted cultivation. The majority of contract farmers clear forest land to plant company rice. Most farmers do not have land certificate for their cleared forest land and land conflict is reported to be high because of overlapping and unclear demarcations. Forest Law does not recognize private ownership on forest land because all forest in Cambodia is belongs to the State. But the contract farmers in this village occupied cleared land as their forest land without formal land certificate. The informal forest land private ownership by contract farmer is forcing other villagers who do not have forest land to meet needs from forest resources farther away.

### **7.1.6. The Impact of Contract Farming on Community**

The AKR contract farming is not only increasing the gap of social economy between contract farmer and non contract farmer, but also increasing the inequality opportunity to access forest land. Under contract farming scheme, contract farmers gain more advantage and get better livelihood than non contract farmer. The difference of social economy status also hindered non contract farmer to participate in contract farming because they do not have enough agricultural land and productive assets to accomplish AKR requirements.

Land tenure security as a result of contract farming is not improving, but deforestation and land use transfer from state land to informal private forest land ownership increase significantly. This is happen because contract farmer encroach forest land to plant company rice seed due to high requirement. Forest land should be a common property resource which is all villagers has the same opportunity to access forest land. However, since contract farmer claimed that cleared forest land belongs to them, other villagers and non-contract farmer have difficulty to access forest

resources and they should go farther away to meet their necessities from forest. As a result, it will impact on their livelihood.

Although they can still collect forest products, but they should bear more costs, in terms of time, labor, money and risk. If they get forest land, sometime the forest soil is not good and fertile enough to plant rice seed. The study was conducted in Kampong Speu which has forest and contract farmer can clear forest land to expand their agricultural land. How about other provinces under AKR operation which do not have forest land? How the contract farmers accomplish the company's requirement and how is their livelihood situation? Additional research should be done to understand the AKR contract farming works and its impact on contract farmers' livelihood.

From this study, we learn that directly or indirectly if the AKR contract farming were taken widespread; it will increase disparities among the villagers in the community. The gap between contract farmer and non-contract farmer on economic and productive asset ownership is wider and unequal access to agricultural land and forest land increase sharply. The local government should take actions to improve productivity of farmers in rural areas.

Government can play an important role to increase farmers' livelihood by improving rural areas infrastructure, such as roads to increase good market access for inputs and output for farmers, electricity and irrigation facility to increase farmers agricultural productivity. The government should expand the extension services for farmers to provide good knowledge of farming techniques and improve technical skills, in particular cattle rising, growing vegetables and cash crops, etc to diversify farmer's source of income. For land tenure issues, the local government should control the environment impact due to contract farming expansion, such as deforestation and strengthen law enforcement for farmers who clear the forest.

## 7.2. Context in which Rice Contract Farming be Beneficial for Farmers' Livelihood in Cambodia

The criteria for success of contract farming in increasing farmers' welfare can be derived from giving consideration to how the contracts themselves work. Some conditions that can measure the success of contract farming are that both parties believe that they are better off through contract farming and that they are satisfied with the contract arrangement. Key factors for successful contract farming to increase farmers' livelihood and bring benefits to the companies and farmers, include:

### 7.2.1. The contract

**The terms and conditions** of the contract should specify in detail the rights and obligations between companies and farmers, including the penalties for breach of contract by both parties. The contract arrangement should provide enough information about the pricing mechanism, profit sharing, and quality standards requirements. Moreover, the contract should be written transparently and simply to avoid misunderstandings of rights and obligations among contract farmers and companies.

**The requirements** of the contract should balance risk sharing and minimize uncertainty. When there are requirements from company that are difficult for the farmer, it is understood by the farmer that the company does not want to bear a fair share of the contract risk. However, high requirements will reduce the interest of contract farmers to join the company, affecting the company in the long run. In addition, new contract farmers will not join the company if the company sets difficult requirements.

**The penalty** should be appropriate to the contract farmers' economic and social conditions. Too heavy penalties will encourage the farmer to take risks or violate the contract in order to accomplish the requirements and avoid the penalties,

such as using chemical inputs or cutting down forests to expand rice field. Moreover, heavy penalties reduce the farmers' motivation to enter into long-term relationships with the company or to participate in contract farming.

**Enforcement of the contract**, by monitoring the compliance or breach of the contracts should involve both the company and the farmers together, for example through farmer organizations or commune councils that have contract farmer representatives. According to Eaton (2001), farming contracts, whether written or oral, should comply with the minimal legal requirements that apply in a particular country. It is important to take into account prevailing practices and societal attitudes towards contract obligations, because in almost all societies these factors can produce an outcome that differs from the formal letter of law. Moral hazard costs could be reduced through social pressures, incentive structures, or group contracts/ incentives. For instance, encouraging group or co-operative action among farmers can lower enforcement costs and ensure better compliance for the company. Punishing the village head for contract default, as happens at present, is not fair because the villagers feel bad when their village head is punished, despite the fact that they have tried their best to meet the contracts requirements.

**Monitoring** should be done by the company's staff in the field regularly in order to gather information directly from the contract farmers, including the problems that they face, to then inform whether the penalties are fair given the circumstances that year. Monitoring and evaluation from company is important to increase farmers' trust and feel that the company cares for them. As a result, the relationship between the farmer and the company becomes not only a relationship between growers and buyers under the contract scheme, but also a relationship that ensures the shared success of the contract farming for mutual benefit.



### **7.2.2. Role of the government**

The role of the government is to provide an “enabling environment” by creating a legal system and legislation in support of farmers and companies to engage in contract farming. The government can provide credit support, tax benefits and other policy incentives. Moreover, the government can play a central role in determining the distribution of cost and benefits between farmer and company and ensuring that the rights of both parties are protected.

### **7.2.3. Land Tenure Security/ Land Ownership**

Land titles can increase access to credit, since land can then be used as collateral. If land tenure is uncertain, smallholders tend to be more risk averse and are unlikely to avoid significant sunk investments in either new enterprises or land improvement. In order to ensure land security and protect local farmers and agribusinesses from potential conflict over land ownership, land titling processes should occur alongside the spread of contract farming. Farmers who own land certificates will have a better bargain position than farmers who do not possess land title because their access to credit is not only from the company, but also other formal money lending sources.

### **7.2.4. Empowerment**

Small-scale farmers need to develop their negotiating skills to gain higher prices for their commodities. These skills could be improved through trainings from Non Government Organizations (NGOs) or the formation of farmers’ associations. There is need to improve the flow of market information and market trends. Farmer association will ensure that the members are not exploited, are informed about market trends, and have a stronger bargaining position.

### 7.3. Conclusion

The farmers contracted to *Angkor Kasekam Roungreung* (AKR) have experienced an increasing income through their participation in contract farming, and have a better livelihood than non-contract farmer. However, burdensome requirements, heavy penalties, poor extension services, and a lack of information on the contract's terms and conditions reduce the incentive for farmers to commit to long-term participation in contract farming and undermine mutual trust between the company and the farmer.

AKR contract farming does not officially involve government institutions. Instead the contract scheme is based on an agreement between the farmers and the company directly. Most of the details in the contract, however, are set by the company, such as the quality requirements, pricing mechanism, and penalties, and are to the company's advantage. In addition, the absence of farmer organizations means that the farmer has little bargaining power to negotiate with company. As a result, the contract farmers cannot maximize their benefit through contract farming to improve their livelihood.

Overall, the status of contract farming in Cambodia clearly points to the great potential for its expansion in the future. However, for this to be realized and for the benefits to be shared fairly between companies and the farmers themselves, issues about the role of the government, the regulatory framework, contract enforcement, the land tenure system and the formation of small-scale farmer organizations must all be addressed.