SUMMARY OF AFD ROUNDTABLE DISCUSSIONS ON
‘WHAT FUTURE FOR FAMILY FARMING IN CAMBODIA?’

Introduction

On 24th October 2014, AFD organized a round table discussion as part of its global support for family farming, linked to the proclamation by the United Nations of the 2014 International Year of Family Farming. A series of activities were undertaken in Phnom Penh to celebrate the Cambodian chapter of this international event. One of the local initiatives was a round table discussion on selected key topics of interest and concern that confront family farming households in Cambodia. With approximately 70% of the total population dependent on agriculture for their livelihoods - all characterized by relatively small holdings and having varying degrees of land security, it is a segment of the population where poverty is highest in the country. The discussions were opened by Ms Cecile Peyronnet from IFC (Institut français du Cambodge) with opening remarks provided by Mr. Andre Pouilles-Duplaix, AFD Country Director for Cambodia and Lao PDR. The following summarizes the questions posed and the answers provided by the panel of experts together with comments from participants on the day.

A. Access to Credit

1. What are the financial needs of the Cambodian farmers?

Credit needs of family farmers are primarily for production credit (inputs such as fertilizers or pesticides and services such as contract land preparation), for the purchase of machinery (including irrigation equipment) and in some cases land, for trading purposes (such as fattening livestock), for special social occasions and obligations, and for education and family health.

2. How do family farmers finance their agricultural activities?

Family farmers obtain their credit requirements from a wide range of sources including (i) personal savings, (ii) surplus generated from production activities, (iii) off-farm income generated by other family members, (iv) casual laboring off farm in neighboring countries or other provinces of Cambodia, most of which can generate only small amounts of funds. The main source of finance is obtained by borrowings from (i) local money lenders, (ii) pawn shops, (iii) self-help groups, (iv) input suppliers (v) micro-finance institutions (MFIs), and (vi) banks although borrowing from family members is also quite common where rates and conditions are less demanding.

3. What are the available loan products and their terms from banks, MFIs and other sources?

The most common form of credit through all financial institutions is annual production credit that must be repaid within the 12 month (often less) period. Term credit products are being trialed by some of the larger banks and MFIs where loans can be repaid over a number of years but these are more tailored to non-agricultural borrowers. Most of the production credit lenders require interest to be repaid during the course of the loan (on a monthly basis) rather than having interest capitalized during the loan term. Interest rates are
invariably high from all sources that reflects the risk associated with agricultural lending. These risks are due in part to vagaries of the climate particularly with the nature of agricultural production activities (largely rice cropping) and the geographic locations where these are undertaken (around the Tonle Sap and Mekong River flood plains both of which are subject to extreme flooding and drought), but also to the lack of familiarity by household farmers regarding their obligations in terms of repayment and the likelihood of default. There appears to be a high level of liquidity amongst financial institutions at present but the cost of administration of a large number of smaller loans adds significantly to the cost of farming household credit. Interest rates are very high - often over 12% per annum while those from the informal financial sector (money lenders) has been recorded as high as 5% per month.

Security arrangements for agricultural credit by the formal institutions is usually land (hard titles where available). In the situation where hard title has not been issued, the banks/MFIs are ready to accept informal or soft titles as security against smaller loans of up to the equivalent of $5,000 per individual. Security is usually not taken over credit provided through the informal sources. Lending against collateral is being considered by some of the banks.

The role of Cambodia’s Rural Development Bank (RDB) in family household lending was discussed by the panel where it was reported that the sector accounts for only 10% of the country’s total credit in 2013, and that 70% of RDB’s loan portfolio was directed at Small to Medium Enterprises (largely rice millers) and a further 9% to rice millers associations and their members. Without a network of branches in rural areas, it is difficult to see how RDB could become an influential player in family household rural credit unless it resourced other institutions with established networks. Nevertheless, RDB’s vision is “To finance and provide banking services with effectiveness and sustainability in order to take part in Agriculture Sector Development and Rural Economic under National Economic Development Policy Implementation Framework of Royal Government of Cambodia.”

One observation of note during this session was that household farmers are risk averse and have demonstrated some reluctance to take loans as this often exposes them to the loss of their land if repayment cannot be achieved. They are adept at adopting risk minimization strategies and there is evidence of a changing planting patterns (using shorter maturation varieties) to produce an early wet season crop rather than coincide with the more risky and traditional wet season crop for rice). However, extreme climate events are common and farmers prefer to maintain minimal inputs in their production systems (to the extent of using retained seed from earlier crops) and using minimal fertilizer applications in order to avoid taking production credit. Under such arrangements, the productivity of their crops are limited as is their income generating potential - even though at lower risk.

**Expert Panelists: Jean-Marie Brun / PREAP Piseth**
B. Access to Land

1. What difficulties do Cambodian farmers face in terms of accessing land?

Security given by ‘local recognition of land based on uncontested use’ has been a consistent-permanent feature of land security in Cambodia throughout its history and is still very much perceived today by most farmers as the most secure way to access and control land. There have been several attempts to reform land tenure to replace it with a system based on actual ownership including:- (i) ownership is based on uncontested possession, (ii) ownership rights provide farmers with the same right that possession and ‘alienation’ so that even unused land remains the property of the owner, and (iii) ownership is established by a cadastral administration (more distant) which measure the land and issue a land title. The rationale for formal titling was that titles would increase the value of the land, could serve as collateral to obtain credit and promote investment to increase land productivity. Then a voluntary land market would permit the voluntary transfer of land between farmers would allow for a more equitable land distribution. Attempts to formalize the issuance of titles has been disrupted by civil strife and political turmoil.

2. What are the different forms of land tenure currently in force in Cambodia for family farming?

Land titling under ‘Cambodia Land Management and Administration Project’ and ‘Land Administration Sub-Sector Program’ (LMAP-LASSP) followed the Land Law 2001 that (i) recognized possession rights for ownership, (ii) issued private title on land having legal possession prior to August 2001, (iii) incorporated land titling using two procedures (a) systematic titling whereby teams surveyed the land, collected possession certificate in cooperation with local authorities, measured, addressed any boundary conflicts and issued title. Whilst intended as a free service, there were ‘transaction costs’ for this compulsory procedure; and (b) sporadic titling using the same procedures but on request. It was more expensive because the costs of the operations are borne by the person making the request; (iv) LMAP-LASSP endorsed this titling. As of 2013, 2.1 million titles had been issued to 625,000 families (at this rate it would take 15-20 years to finish the process). Most of the systemic land titling took place in the flood plains around Tonle Sap and the Mekong River where land security (over important land) was already ensured through land distribution to households after the 1980s.

Migration and Prime Minister’s Order 01 - In these central areas, demand for land continued to grow because of the high demographic pressure, the high incidence of poverty (and their need to survive), the market driven land concentration into the hands of the wealthy and influential and the limited transfer of labor out of agriculture into other sectors and urban areas. Since the late 1990s, hundreds of thousands of families have left the central plain and migrated to the upland areas where they acquired land (rural-rural migration is two times more important than rural-urban migration). Those migrating to the uplands did not have legal possession because they appropriated mostly forest land with no security. Simultaneously, the government introduced economic land concessions (ELC) on over 2.5 million ha that created significant tension and resulted in many conflicts.
In May 2012, the Prime Minister sought to address these conflicts declaring a moratorium on new ELCs, reviewing non performing ELCs and undertaking an extensive titling program to secure land rights of people living on land classified as State land in the uplands and amongst ELC concessions. From July 2012 to June 2013 (1 year), much of the State land (formerly forest areas) was given to private operators covering 1 million ha with titles being provided to 320,000 families. Done in a hasty manner, it created many problems as the delineation process was often incomplete and this in turn delayed issuance of title exposing the land in question to other land grabbing opportunities. It has also legitimized the illegal occupation of forest areas that has contributed to the widespread degradation of the country’s forests.

**Social Land Concessions** - Aims to address the problem of landlessness and quasi landlessness targeted the poor and landless by converting state land into private land subject to the completion of criteria. The program identified available State land, identified the candidate recipient and distributed land with possession rights for 5 years which could then be converted into ownership rights. The area achieved by this program was only 113,167 ha for 12,374 poor households.

**Communal Land Titling** - Provided land security to ethnic minority groups for their traditional land areas once used for shifting cultivation purposes. To date, only 10 such titles have been issued in Ratanakiri and Mondulkiri. The process for obtaining such titles is complicated and extended allowing opportunities for further alienation and occupation by external private and wealthy individuals.

We can therefore conclude that still a great deal has to be done to secure land holdings of family household farmers.

3. **What are the other consequences of 'tenure insecurity' on family farming other than difficulties in accessing credit?**

With the lack of full information on the issuance and boundaries of ELCs, there remains an uncertainty over ownership between resident farmers and concessionaires that has not been adequately resolved by Order 01. People are living in fear of eviction by the concessionaires although the Order promoted living in harmony between the two land users.

Without title, there is less incentive to undertake development on land (such as long term tree crops) because of the uncertainty of ownership. Farmers cannot afford to adopt a longer term planning strategy to secure their livelihoods and cash cropping is often the resort for household food production, denying longer term economic activity.

With the relative insecurity of tenure, there is a tendency to seek the higher wage opportunities that exist in other locations of Cambodia and across the border in Thailand where wage rates are significantly higher. The long term impact from the exodus of labor means that the sector will remain under resourced in terms of labor and there will be greater pressure for mechanization that is already apparent on the north-western parts of the country where average holding size permits mechanization.

**Expert Panelists: Jean-Christophe Diepart / Jean-Marie Brun**
4. What are the strategies of the State in resolving the land issue that constrains investment in family farming?

The Government introduced Prime Ministerial Order 01 that was implemented in two phases adopting the ‘leopard skin’ strategy to promote peaceful coexistence between concessionaire and farmers. Much of the land over which titles were issued was previous forest land and the issuance of title has legitimised an illegal activity. The concern is that the same relocation may still be entertained by family farmers as they capitalize on their legitimised land and relocate to forested areas in the hope they can benefit again from the significant capital gain at some stage in the future.

The Government still entertains the idea that concessionaires bring considerable benefit though injections of development capital and new technologies but has undertaken little analysis that confirms these points. In fact many of the concessionaires are in default in accordance with their contracts and the Government has initiated action to reclaim concessions in default - a challenging process that can easily be suspended.

The Government is also looking to provide employment opportunities for peripheral family farming members on concessionaires’ holdings as a means of providing off farm income sources. This also offers the possibility to transfer technologies through contract farming as is being entertained by CamAgra with its acacia out-grower scheme that engages peripheral smallholders as part of its plantation workforce. The Government has increased its monitoring of ELCs and has rescinded concessions in at least one case.

But possibly the single largest initiative is the commitment to accelerate titling in all agricultural areas that is backed by incremental resources to the provinces to carry out boundary identification. This needs to be supported by a parallel development of capacities within the Ministry of Land Management, Urban Planning and Construction to be able to administer the cadastral information being registered in the provinces. For example, in Ratanakiri, only 10% of agricultural holdings have received hard title yet the provincial office claims that within two years, the whole province will have received hard title over their land. There appears to be widespread recognition within Government of the importance of land security followed by the allocation of resources to accelerate the issue of title.

Expert Panelists: PAT Sok / Jean-Christophe Diepart

C. How to Empower Farmers - Farmer Associations

There are a numerous active farmer associations currently operating in rural Cambodia. These have developed for different purposes with different objectives and are established under a range of articles of association. The longest surviving association of farmers can be seen amongst farmer water user communities that have played a pivotal role in the operations and maintenance irrigation systems – both large and medium scaled developments. These associations perform the task of managing water delivered throughout the command area of irrigation schemes as well as collecting fees for their maintenance of lower level delivery and drainage canals. These come under the coordination of the Ministry of Water Resources and Meteorology – Community Water User Development Department. Another type of farmer association that has been attempted in Cambodia are those dealing with marketing of agricultural produce and even the localized processing of produce from its
members. These associations are considered to come under the coordination of the Ministry of Commerce. Wherever commercial dealings and value added processing is involved, the Ministry of Commerce takes an interest in the association. The third group are the associations that come together for agricultural production purposes that involve on-farm activities – contract rice production for delivery to others for processing. In this case the Ministry of Agriculture, Forestry and Fisheries is the lead institution and specifically the Department of Agro-industry under the General Directorate of Agriculture.

The changing characteristics of rural Cambodia was summarized as a basis for consideration of the subsequent topics. Recent and significant changes include (i) a significant move towards increased mechanization in response to rising labor rates, limited availability of rural labor and land amalgamation that facilitates mechanized operations, (ii) increasing use of production inputs and improved varieties are raising levels of productivity, together with increased mechanization results in greater quantities being delivered onto the markets within shorter periods of time that stretches capacities of merchants, warehouses and processors to handle the volume, (iii) on farm drying is becoming of less interest to farmers as they seek to sell their product immediately after harvest to repay production loans in a timely manner, and (iv) there remains a significant number of small holdings that are managed separately - primarily for subsistence purposes but increasingly producing marketable surpluses.

1. **What are the existing resources to empower farmers?**

The rationale for association was discussed under the consideration of ‘what farmers can do individually, what they can do better together, and what they can only do together.’ For the first, farmers can operate their land independently determining what to produce, when to grow and how to grow to provide the best possible financial outcome. At the other extreme, farmers can only manage certain tasks through association. These include (i) irrigation system operation and maintenance, (ii) managing input supplies - often related to credit, and (iii) advocacy for improved industry outcomes. Evidence from Prey Nup suggested that irrigation service fees paid by farmers to the farmer water user community ($100,000 per annum) doubled production from 12,000 tons to 25-30,000 tons equivalent to $1.5 million. There are fewer examples of input supply coordination successes although the smallholder rubber project facilitated input supplies linked to a term credit package (financed by AFD). This would not have been possible without the farmer associations being established as the efficiency is greatly improved with larger numbers of producers. There are several examples where associations have received the attention of policy makers in determining policy to benefit industry where individual representation would have remained ineffective.

Farmers can do better together in cases of (i) commercial functions in value chains such as group drying, processing and even storage, (ii) accessing technical extension services as groups significantly reduce the cost of service provision (and peer group communications improve the effectiveness in adopting new technologies), and (iii) access to credit in order to reduce the administration costs of lenders in dealing with a large number of individually small borrowers. Also given the nature of agricultural production in Cambodia, amalgamation of product will allow more efficient transport modalities in view of the bulk rates that will apply.
2. **What are the benefits of structuring into professional organization for the farmers?**

The benefits from association were discussed based on the opportunities mentioned above. These were summarized as:-

i. Facilitated a Code of Practice that was shared by associating farmers
ii. Management of a common resource (water) required in the production process
iii. Input supplies - efficiencies in transport and procurement
iv. Advocacy to gain the attention of decision makers in an industry
v. Provision of credit by reducing administration and monitoring costs
vi. Group marketing to gain efficiencies in post-harvest handling, transport, processing and storage
vii. Provision of technical support services.

3. **What are the difficulties encountered when structuring into farmer’s associations?**

The panel and contributors from the audience expressed a number of difficulties anticipated through farmer associations although most supported the concept in terms of its overall objectives for establishment. The difficulties anticipated in forming associations included:

i. The low level of education and the weakness of human resources amongst the farming communities.
ii. Without any asset backing, associations could not secure credit in their own right from formal financial institutions.
iii. As farmers were not familiar with the management of such associations, there was a need to engage professional management of the association that had associated costs.
iv. The formation of an association was very time consuming as all members had to be convinced of the benefits from association.
v. It required an extended period of support until the benefits from association were appreciated by members - this required external financing as was provided in the rubber project but without such support, was unlikely to succeed.
vi. There was considered to be some reluctance amongst farmers to associate as the benefits were not immediately obvious.

vii. With a common commodity association (e.g. rice), there remains an issue with quality and price differentials for quality as some members produce higher quality produce that wanted to be recognized for same.

viii. There was some concern expressed as to the trustworthiness of management of such associations as many farmers remain suspicious in financial areas based on past experience.

ix. There was no institution responsible for the training of association management positions in Cambodia that was needed to provide a resource for staffing future associations.

x. Some requested the Government to provide financial support for the establishment of associations as they considered there were those with expertise to provide such support (NGOs such as CEDAC).

**Expert Panelists: MIN Sophoan / Jean-Marie Brun**
D. How to Empower Farmers - Contract Farming

Contract farming offers potential benefits to farmers in a number of ways. The greatest hope (by farmers) is usually related to markets and being guaranteed of a market at the end of the growing period. Whilst prices are rarely set under contract farming arrangements, the intention of household farmers is to at least guarantee a buyer of the goods. Usually contract farming arrangements provide other benefits such as technical support or credit administration. For the other party, contract farming is meant to provide certainty of supply and at the desired quality at a time convenient to the buyer-contractor. It provides certain efficiencies possible through aggregation of produce and bulk handling that reduces delivered costs to processing outlets and it also allows the processor to better coordinate supplies of goods for processing. Contract farming is becoming increasingly popular for rice where processors have some influence over planting dates, varieties and production inputs to assure a higher quality of paddy being delivered. It is also soon to be tested in acacia with out-growers planting acacia under the technical guidance of CamAgra with mechanized operations being provided by the processor. After a period of between 5-7 years, contracted farmers will allow CamAgra to harvest, peel and transport the trunks for processing. The intent of contract farming is to assure delivery of quality of a specified quality to support their production from their own plantations. This potentially win-win situation requires an advanced level of management and coordination to achieve the desired outcome as well as a certain level of commitment to honor the arrangements under the contract.

1. How does contract farming respond to the challenges mentioned before (land, credit)?

Concerns raised during discussions on this matter expressed concerns regarding the agency responsible for coordination of contract farming and their limited resources. It was suggested they assume a facilitating role and lay down policies for contract farming whilst leaving the detailed negotiations between the two contracting parties. The Government suggested it would attempt to protect the interests of the smallholder as they were at a severe disadvantage in dealing with larger commercial entities.

Most confirmed that contract farming was potentially an excellent means for strengthening both farmer returns and also for guaranteeing processor requirements but expressed some distrust of commercial entities based on bitter experiences in the past where contracts were not honored. Some suggested the benefits were less clear from contract farming that was responsible in part for the limited uptake to date. The concern for quality was raised again and it was clear that participants wanted to be able to receive incentives for quality that might be hard to achieve in such a varied commodity as rice. The situation with organic rice offered better opportunities for contract farming as the procedures could determine participation or rejection. Others saw great opportunity for contract farming through quality specifications that could achieve changes throughout the industry as farmers were contracted to produce a specified quality of rice. Without these, there was little incentive to change production techniques and as such contract farming was seen as a driver of change.
2. **Is the formation of a farmer association necessary to participate in contract farming?**

Farmer associations provided a number of advantages to organize production, provide quality inputs and extend technical advice together with credit. Based on the experience in other contract farming arrangements trialed and proposed in Cambodia, associations can play an important and even a critical role in supporting contract farming.

3. **What is the social impact of contract farming on agricultural households?**

Apart from the direct impact from increased returns from farming activities, contract farming offers a number of other advantages to family household farmers. The social impact achieved through cooperation (and indirectly contract farming) includes improved capacity of the community, employment opportunities for local inhabitants, a feeling of self-determination that is empowering amongst local communities and a unity that is not well established throughout rural Cambodia where families recall the difficulties of rural life in the recent past.

4. **How does your project fit into the strategy of the State?**

The example discussed by the Panelists related to CamAgra’s expected outcomes from their out-grower scheme. For the Company, the advantage was that the processing facility could be extended to accommodate increased international demand for chips and veneer as they were no longer able to increase the size of their own plantation area on the concession. The advantages for out-growers was that they would learn a new industry and diversify their income generating options as well as being assured of a market outlet and hopefully more stable prices. This would be achieved at relatively low labor input with technical support and mechanized operations being provided by the processor. Incremental income would be derived from the acacia whilst other benefits from understanding credit to cooperative action through farmer associations would enhance their ability to operate independently in the future. This is clearly consistent with the Government’s objectives to promote contract farming and farmer associations as outlined in the Ministry of Agriculture, Forestry and Fisheries development statements.

**Expert Panelists: Nir Atzmon and Panel**

**Summary:** The Moderator provided a summary of the topics discussed.

**Conclusion** The AFD Director made concluding comments and thanked attendees for their participation and closed the session by inviting those present to view the documentary “Family Farming - Key Players’ Views in Cambodia.”