



Making Economic Integration Work for the Rural Poor through Contract Farming Practices in the Mekong Region

Key Findings:

- **The governments of the Mekong Region are promoting “contract farming” as one of the approaches to develop commercially oriented smallholder rice production.**
- **Regional policy on contract farming and practices must be shaped to respond to the specific needs identified by farmers**

Introduction

The governments of the Mekong Region are promoting “contract farming” as one of the approaches to develop commercially oriented smallholder rice production. In Cambodia, for instance, in early 2011, the government approved a sub-decree to formally encourage and support contract farmers.

Although a number of rice companies are now involved in the contract farming system, rice farming under contract to the commercial sector is still a new phenomenon among many smallholder farmers in the region. Particularly in countries like Cambodia, small-scale farmers who have traditionally grown rice mainly for subsistence are still trying to understand the complexities and challenges inherent in contract farming.

Therefore, regional policy changes to promote contract farming and the implementation of contract practices should respond to the specific needs identified by farmers.

The SUMERNET study on contract farming in Cambodia, Lao PDR, Myanmar and Thailand has attempted to model the policy recommendations in response to information provided by farmers, contracting representatives, government representatives and other experts, while comparing the hopes for the future with the status of contract farming on the ground. Each recommendation is designed to respond to the way impacts are felt by contract farmers and to engage the stakeholders, both the farmers and contractors on a level that takes into account the strategies they currently employ in contract farming.

Policy recommendations for regional government action

1. Contract farming needs to be promoted as one of the mechanisms for more farmers to gain a foothold in sustainable commercial farming practices, with an aim to increasing their profits, knowledge and management skills.
2. Policies should enable small farmers to enter contracts effectively; governments should provide a legislative framework to encourage contracting companies to broaden their farmer base.
3. There must be a balance between the negotiating power of the contractor and the farmer; encouraging farmer associations and creating fair and equitable markets can achieve this.
4. Governments have a responsibility for capacity building in farming communities and should be more proactive in: providing broad extension services, especially in safe chemical application, sustainable land use, and minimizing environmental impacts; introducing farm monitoring guidelines; and strengthening and enforcing compliance.
5. Public agricultural research should partner with growers and contractors for practical improvements in crop yield and environmental sustainability. The countries of the Mekong Region need to look more closely at combining their research efforts and the possibility of funding industry-specific research through commodity-based levies, contributed to by farmers and companies alike.

Policy recommendations for regional governments that directly involve farmers

1. Small-scale farmers should be encouraged to form their own networks within communities, assisting smallholders to share labor, agricultural machinery, and transportation, to acquire inputs with economies of scale and to help in negotiations with buyers.
2. Farmer associations/cooperatives, independent of government but legally enfranchised by government, should be parties to the development of contract farming policy, and enabled to lobby for farmer benefits in contracts and on behalf of farmers in resolving disputes over contracts. Access to membership should be equitable and small farmers should be enabled to join.

Recommendations for contractors

1. Farmers should always be given a copy of any written signed agreement, and if there is a third party, e.g. witness/guarantor, they should also receive a copy.

2. Contracts often provide farmers with credit, access to which should be monitored carefully, with attention to equity. We support the expansion of contract farming, but the objective of including poorer farmers must be viable in economic terms; and all lenders, both private and government, should be responsible in choosing creditors who are able to repay their loans. Contractors providing farm management should improve the repayment capacity of contracted farmers.
3. Forums involving farmers, contractors, government and NGOs should be organized (at least annually) to develop the common interests of contracting parties within specific agribusiness industry and to resolve any problems encountered.
4. For contract farming to work effectively, all players must have a clear understanding of the supply chain in their industry and of their own part in sustaining its integrity. Policies that can contribute to this awareness are: voluntary codes of practice; effective training; and incentives such as contractors awarding farmers' company share offerings.

Notes

- Prachvuthy M., Htut Aung W., Inmuong Y., Voladet S., Lebel L., Eagleton G., Bush A.L. & Featherston P.J., in preparation. The impacts of engaging in contract farming on rural households: A comparative study of sugar and rice in Cambodia, Lao PDR, Thailand, and Vietnam. *Development and Change* (in prep.)
- Voladet S., Inmuong Y., Htut Aung W., Set Aung W., Prachvuthy M., Lebel L., Eagleton G., Featherston P.J. & Bush A.L., in press. Chapter 7: Increasing the benefits to rural households in the Mekong Region from contract farming: insights from studies of rice and sugar. In: Lebel L., Hoanh C. T., Krittasudthacheewa C., Daniel, R. (eds). 2014. "Climate risks, regional integration and sustainability in the Mekong region." SIRD/Gerabudyaka, Malaysia. Forthcoming 2014.

Contact for more information:

Yanyong Inmuong
Senior Lecturer, Faculty of Public Health
Khon Kaen University, Thailand
Email: yanyong@kku.ac.th
website: www.kku.ac.th

Supported by:

