



Contract-Based Agriculture Production

A Case Study of Organic Rice Production in Cambodia

A SERIES OF ACTIVITIES IN THE FRAMEWORK OF THE UN DECADE OF FAMILY FARMING

Activity 2. Documentation and systematic analysis of case studies about policies, strategies, initiatives, and programs successfully supporting family farming



Contract-Based Agriculture Production: A Case Study of Organic Rice Production in Cambodia

**Case Writer:
*By Molyvann***

March 2023

This document has been produced under the framework of the Letter of Agreement on “A series of activities in the framework of the UN Decade of Family Farming” between the Food and Agriculture Organization of the United Nations (FAO) and the Southeast Asian Regional Center for Graduate Study and Research in Agriculture (SEARCA). The views expressed in this product are those of the author(s) and SEARCA and do not necessarily reflect the views or policies of FAO.

Table of Contents

INTRODUCTION	1
POLICY DESCRIPTION AND ANALYSIS	4
Agenda Setting.....	4
Formulation	5
Adoption	5
Implementation	7
Monitoring and Evaluation	12
CONCLUSION AND RECOMMENDATIONS	13
REFERENCES	16
ANNEXES	17

Acronyms and Abbreviations

AC	Agricultural cooperatives
ADB	Asian Development Bank
AKR	Ankor Kasekam Roongroeung Co., Ltd.
AO	Agricultural organizations
ASDP	Agricultural Strategic Development Plan
CACC	Cambodian Agriculture Cooperation Corporation
CamboDHRRA	Cambodian Partnership for the Development of Human Resources in Rural Areas
CCAPC	Coordination Committee for Agricultural Production Contract
CF	Contract farming
CIRD	Cambodian Institute for Research and Development
CO _r AA	Cambodian Organic Agriculture Association
CSO	Civil society organizations
DAI	Department of Agro-Industry
DPA	Development and Partnership in Action
FGD	Focus group discussions
FNN	Farmer and Nature Net
FO	Farmers organizations
FSC	Forest Stewardship Council
FWUC	Farmer water user communities
GDP	Gross domestic product
HI	Heifer International
IFAT	International Federation for Alternative Trade
KII	Key informant interviews
KLAC	Kraing Leav Agricultural Cooperative
KOC	Khmer Organic Cooperative
M&E	Monitoring and evaluation
MACC	Manufacturer des Cigarettes du Cambodge
MAFF	Ministry of Agriculture, Forestry, and Fisheries
MEF	Ministry of Economy and Finance
MOC	Ministry of Commerce
MOI	Ministry of Interior
NGO	Non-government organizations
NSDP	National Strategic Development Plan
OACD	Office of Agricultural Cooperative Development
OAE	Office of Agricultural Extension
OAI	Office of Agro-Industry
PDAFF	Department of Agriculture, Forestry and Fisheries
PPP	Public-Private Partnership
R&D	Research and development
RGC	Royal Government of Cambodia
SCCCAP	Secretariat of Committee for Coordinating the Contract on Agricultural Production
SOA	Signature of Asia
SRP	Sustainable Rice Production
UNDF	United Nations Decade of Family Farming
WB	World Bank
WVC	World Vision Cambodia

List of Figures

Figure	Title	Page
1	Map of Kampong Chhnang province	3
2	Formal Contract Farming	5
3	Contract farming model of KLAC	9
4	Members of KLAC calculating the premium price received from Amru Rice Company	10

List of Annexes

Annex	Title
1	Law on Contract and Other Liabilities
2	Sub-decree on Contract Farming

Contract-Based Agriculture Production: A Case of Organic Rice Production in Cambodia

By Molyvann

I. INTRODUCTION

Background

Cambodia is an agricultural country in Southeast Asia, with one-third of the total land area allocated to agricultural production. The agricultural sector is vital to Cambodia's economy, contributing to approximately 22% of the Gross Domestic Product (GDP) and employing about 40% of the Cambodian workforce (Eliste & Zorya, 2022). The primary agricultural commodity is rice, which accounts for around half of Cambodia's agricultural GDP and utilizes around 3.3 million hectares of land. The sector is characterized by small-scale or family farming, where 40% of farmers, mostly rice farmers, own less than one hectare of agricultural land (NIS, 2011). These family farmers face many challenges, including expensive and inaccessible agricultural inputs such as fertilizer and insecticides, weak market access, high-interest rates, and lack of financial assistance and technical support. As a result, family farmers hardly escape from the poverty trap. To improve this situation and to develop market access for rice and other agricultural products, the government of Cambodia, mainly the Ministry of Agriculture, Forestry and Fisheries (MAFF), has been promoting contract farming at the community level as a means of removing some constraints and ensuring effective linkage among actors, especially input and output markets.

Contract Farming (CF) refers to a system for producing and supplying specific agricultural products with quality standards determined by producers and contractors through formal written agreement or verbal understanding (Eaton & Shepherd, 2001; Bijman, 2008). This mechanism also helps small-scale farmers, as well as family farmers, engage in an established trading platform rooted in sound institutional frameworks offering fairer prices and more stable demand (Eaton & Shepherd, 2001; Bijman, 2008; Cai et al., 2008; CDRI, 2013; RGC, 2011).

The CF model was first practiced in Cambodia in the 1950s, mainly through informal arrangements, which were later disrupted during the genocide period in the country from 1975 to 1979 (Sum & Khiev, 2015). One company named "Manufacturer des Cigarettes du Cambodge" (MACC) established contracts with farmers in the 1960s, and more companies adopted CF since then (ABiC, 2004). To effectively implement the CF mechanism, all contracting parties must manage and obey the contract arrangements to ensure that all will benefit. However, without proper enforcement of contractual obligations, there is a risk of abuse, leading to parties "slipping out" of a contract or giving one party an unfair advantage over the other (ibid). If properly executed, CF can significantly improve farmers' access to extension, financial services, and farm inputs, enabling farmers to increase productivity and improve product quality. Given these, the Sub-decree on Contract Farming was introduced to farmers and all relevant stakeholders, including private companies, on 24 February 2011.

There are two types of CF models, informal and formal, practiced at the community level (Sum & Khiev, 2015). Informal CF refers to the verbal agreement between individual farmers and contractors. Formal CF, on the other hand, is an agreement that involves three parties: 1.) the farmers, 2.) the government, and 3.) the private sector. Between 2013 and 2018, there were about 90 formal CF agreements (mostly on rice) between farmer organizations, mainly agricultural cooperatives (AC) and farmer water user communities (FWUC), and rice millers or exporters (SNEC, 2018).

Justification of the Study

Several studies on the benefits of CF to family farmers were analyzed. Most studies focused on profits and household income, while some looked at the implications for other dimensions of household welfare (Khan

et al., 2019). CFs that specify the price or quantity of products to be delivered can reduce transaction costs and uncertainty around prices and marketing options, thus facilitating planning and investments (Maertens & Velde, 2017). Other studies discussed CF in Cambodia, which presented varying impacts on Cambodian farmers. For instance, Kongchheng (2010) concludes that most farmers do not want to implement CF but are forced to because they need credit to finance their production. According to Cai et al. (2008), CF under Ankor Kasekam Roongroeung Co., LDT (AKR) is not inclusive of the poorest farmers, who typically have less than one hectare of land and low levels of education. On the contrary, Nou and Heng's (2013) study claims that the CF model of AKR is highly inclusive of poor farmers who own one hectare of land or smaller.

Different producers and contractors apply Various CF operations at the community level, and the advantages, opportunities, challenges, and constraints vary accordingly. Thus, special attention is required from the public sector and relevant stakeholders to support CF implementors, especially family farmers.

Objectives of the Study

General Objective. The case study aims to contribute to the enhancement of the exchange of knowledge and best practices on family farming and agroecology relevant initiatives and institutional context and contribute to the implementation of the Programme Priority Areas (PPA) BP1: Innovation for sustainable agriculture production and BP4: Small-scale producers' equitable access to resources, and of the United Nations Decade of Family Farming (UNDF) and the Scaling Up Agroecology Initiative.

Specific Objectives. This study aims to document and systematically analyze policies, strategies, initiatives, and programs on Contract Farming and how they successfully supported family farming, as well as identify policy intervention issues that need to be addressed to improve future actions by presenting the case of the Kraing Leav Agricultural Cooperative (KLAC).

This study contributes to the implementation of the UNDF Global Action Plan (2019-2028) as it links to three of its pillars, including Pillar 1: Develop an enabling policy environment to strengthen family farming; Pillar 4: Strengthen family farmers' organizations and capacities to generate knowledge, represent farmers and provide inclusive services in the urban-rural continuum; and Pillar 6: Promote sustainability of family farming for climate-resilient food systems.

Indicative Research Questions

This study focused on two main questions:

1. What are the issues encountered in implementing CF in Cambodia?
2. What policy intervention issues must be addressed to improve future actions?

Scope of the Study

The study focuses on contract-based agricultural production showcasing the experience of KLAC, located in Kraing Leav commune, Rolear Baeur district, Kampong Chhnang province, Cambodia. The members of this AC produce organic rice for companies (mainly exporters) through the CF scheme. The KLAC was selected by the Cambodian Partnership for the Development of Human Resources in Rural Areas (CamboDHRRA) and Farmer and Nature Net (FNN) teams for the case study based on the following reasons: 1) KLAC is facing almost the same challenges as most ACs; 2) it is engaged in similar activities with the majority of ACs in Cambodia such as rice and vegetable cultivation, and animal raising, among others; 3) it has a long experience working with contractors and buyers; 4) it is a member of both FNN and CamboDHRRA and has worked with various local non-government organizations (NGO) and development agencies in the country.

KLAC was established through the first General Assembly of the Agricultural Cooperative by the Royal Government of Cambodia (RGC), the Department of Agriculture, Forestry and Fisheries of Kampong Chhnang province, local authorities, civil society organizations (CSOs), and the private sector, and was registered with the Ministry of Interior on 15 August 2012. It is in Kraing Leav village, Kraing Leav

commune, Rolea Pha Ea district, Kampong Chhnang province. There are 244 members, 135 women and 45 youth, interested and involved in AC agriculture activities. Currently, the FNN provides technical support, offers materials, and facilitates market linkages. This AC works on four main types of business: agricultural credit, organic vegetable production, organic chicken production, organic rice mill for members and non-members, palm sugar production, and, very recently, pig production.



Figure 1. Map of Kampong Chhnang province.

This AC cultivates around 200 hectares of land, where 80 hectares are used for organic rice production. Organic milled rice is exported to other countries, mainly in Europe, through the Cambodian Agriculture Cooperation Corporation (CACC) under the Amru Rice Company. At the same time, the rest are sold to supermarkets in Phnom Penh and other provinces through Udom Rice Company, FNN, Khmer Organic Cooperative (KOC), and other buyers.

This study analyzes Cambodia's organic rice CF implementation and other supporting legal frameworks. Moreover, a comparison of and discussion of other research results on organic rice CF in Preash Vihear province was also explored.

Research Methodology

The study employs a qualitative approach to gather in-depth information on the benefits and challenges of rice CF implementation in the target area. It also determined the factors that contributed to the success and the issues encountered by contract farmers, focusing on challenges, opportunities, and policy interventions.

The data for this study were collected from relevant stakeholders involved in CF, including (1) family farmers and the committee board of KLAC; (2) Oudom Rice and Amru Rice companies, which are both potential buyers/contractors and organic rice exporters; (3) representatives from the Department of Agro-Industry (DAI), MAFF and the Department of Agriculture, Forestry and Fisheries (PD AFF) in Kampong Chhnang province; and (4) representatives from NGOs, including CamboDHRA and FNN.

Preliminary fieldwork was conducted in KLAC. The primary purpose was to gather information on the status of CF implementation at the community level. This study also explored the benefits and challenges experienced by the AC, its members, and companies implementing organic rice CF. Moreover, interviews

with DAI and PDAFF staff were also conducted to seek information on policy implementation, gaps, strengths, and areas for improvement, both at the local and national levels. Secondary data were collected from various sources, including government publications and other research studies published by some institutions related to CF in Cambodia and other developing countries. These secondary data provided knowledge and understanding of CF implementation and were used to validate the case of organic rice CF under study. The results of the fieldwork and secondary data about the development of the Sub-decree on Contract Farming were discussed mainly in Parts 2 and 3.

Limitations of the Study

The study systematically analyzes policies, strategies, programs, and mechanisms on Contract Farming and how these initiatives support family farming and smallholder farmers in Cambodia by choosing Kraing Leav Agricultural Cooperative (KLAC) as a case study. Even though KLAC is a good AC representation in Cambodia, there is still a significant gap. Moreover, regarding the analysis of policies on CF, available sources of relevant information are limited, especially in the Agenda Setting, Policy Formulation, and Policy Adoption stages. This is mainly due to the lack of documentation concerning the progress in implementing the Sub-decree on CF since its introduction in 2011. Additionally, since the Sub-decree on CF was developed using a top-down approach, information available on the initial stages of the policy development process is quite limited.

II. POLICY DESCRIPTION AND ANALYSIS

Agenda Setting

Like in other developing countries, small-scale farmers in Cambodia face numerous challenges in agricultural production. They need to cope with the impacts of climate change, such as flooding, droughts, and wildfires, as well as the chronic problems of high prices of agricultural inputs, poor market information and market access, inaccessible technical support and financial assistance, unstable prices of the products, limited domestic demand, and lack of quality incentives and product standards. Apart from these, the market is unstable with fluctuating prices, and market regulation is absent. Most of the time, prices depend on or are dictated by the intermediaries, forcing farmers to sell their products at lower prices. Consequently, farmers remain trapped in the poverty cycle. The government and other development partners have been trying to improve this situation and contribute to reducing poverty in the country.

Agriculture is considered a priority sector for Cambodia, a primary livelihood source for those in the rural areas. Given family farmers' current challenges, the government developed the Agricultural Strategic Development Plan (ASDP) and National Strategic Development Plan (NSDP) to develop the national economy and reduce poverty in rural areas. Moreover, to achieve sustainability and inclusive growth, there is a need to provide more support to the agriculture sector in improving production efficiency and commercialization toward agricultural transformation (Timmer, 1988). The government likewise encouraged employment generation and access to the market by the rural smallholder farmers.

Seen as a potential solution to market-related problems faced by small-scale farmers, CF was introduced to resolve and overcome bottlenecks in the agricultural value chains, especially in the production, collection, and processing stages. As early as the 1950s, CF was already practiced in Cambodia but mainly through informal arrangements, with some being successful while others failed. Given the failed cases of CF, it was realized that the CF mechanism can be effectively implemented if the contract arrangements are well-managed and obeyed by all contracting parties. This is to ensure that all parties will benefit from its implementation. The government has also started to recognize the importance of CF in developing the agriculture sector and supporting smallholder producers.

In November 2008, a contract farming mechanism was set up through Public-Private Partnership (PPP) under the leadership of the Prime Minister of Cambodia and with participation from various members of government, municipal and provincial governors, embassy representatives, international and local NGOs, and private investors. However, due to the complex legal steps and procedures of engaging in CF, there

were not many formal practices seen, especially when the country was still recovering from the collapse of the regime between 1979-1989 (RGC 2011; Cheng, 2016). In 2010, Cambodian Prime Minister Hun Sen set a target of one million tons of milled rice exports by 2015 (Theara, 2012; Global Times, 2015), which eventually helped pave the way for increased CF implementation in the country. On 24 February 2011, the government started implementing the Sub-decree on CF and introduced this to farmers, companies, and stakeholders. This mechanism has become a valuable tool in guaranteeing the market and price for small and medium farmers, ultimately helping to provide them with higher income and reducing poverty (Sum & Khiev, 2015).

Formulation

Cambodia also has the “Law on Contract and Other Liabilities” (See Translate Version in Annex 1), concentrating on general contracts and other liabilities. The Sub-decree on CF was initiated to support this law with a specific scope on CF in the agriculture sector to narrow its scope. According to this law, there are many ways for traders, agents, and private companies to make agricultural business deals with producers and farmers by implementing the Sub-decree on Contract Farming.

As there is no entire decree on CF, the Sub-decree on CF served as a mother decree for stakeholders to implement. This Sub-decree has been facing some issues when implemented by farmers and companies as the role of the government is not clear, primarily the responsibility of the ministries, including MAFF, to protect farmers and enable them to understand the CF mechanism fully. Relevant stakeholders, especially farmers, do not understand the concept of CF. The mechanism is unclear, as indicated by the growing number of unresolved conflicts. Recognizing these problems, the government drafted the Law on CF, aiming to fill in the gaps of the Sub-decree on CF.

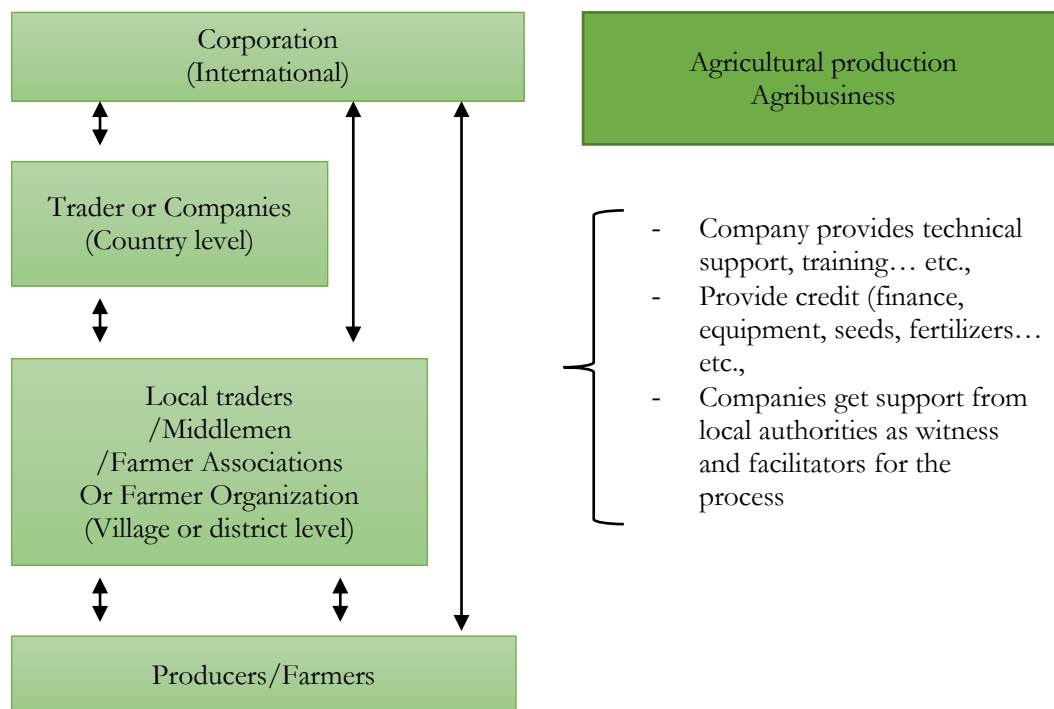


Figure 2. Formal Contract Farming.

Adoption

The Sub-decree on Contract Farming declared in February 2011, comprises five Chapters and 13 Articles (See the Translate Version in Annex 2). It was formulated through a top-down approach after the government acknowledged the problem of the farmers and tried to find a solution that farmers and the private sector could implement. This Sub-decree defines the implementation framework for contract-based agricultural production in Cambodia with four main objectives:

1. Strengthening the responsibility and trust between producing and purchasing parties based upon the principles of equality and justice;
2. Ensuring the accuracy of the prices, purchases, and supply of crops, both in quality and quantity;
3. Increase purchasing, processing, and exporting of crops; and
4. Contribute to national economic development and people's poverty reduction pursuant to the policies of the Royal Government.

The objectives of the Sub-decree aim to improve and strengthen family farming and smallholder producers in Cambodia. Objective 1 aims to clarify the roles and responsibilities of each party and facilitate trust-building among producers, buying companies, and relevant stakeholders. Lack of trust is a significant issue in promoting trade in the rural areas where most family farmers are. This Sub-decree contributes to solving this problem. Objective 2 will help ensure the rice price accuracy for all parties. Typically, rice producers want to sell their rice for a higher price and seek other buyers who can offer such. On the other hand, the companies always want to buy at a lower price, so they look for other producers/suppliers. This Sub-decree helps producers and buyers receive a suitable and stable agreed price—objectives 3 and 4 aim to increase productivity and purchasing and reduce poverty in rural areas. The objectives mentioned above also align with Pillars 1, 4, and 6 of the UNDFP.

The Sub-decree also specifies the institutions and coordination mechanisms led by MAFF, which include communication, coordination, and provision of technical guidance and services. It also stipulates that MAFF should monitor and evaluate all activities, report them to the government, and collaborate with relevant ministries and institutions. It stipulates further the establishment of the Coordination Committee for Agricultural Production Contract (CCAPC), which is made up of 18 members, including MAFF, Ministry of Interior (MOI), Ministry of Commerce (MoC), and Ministry of Economy and Finance (MEF) with the following defined duties:

- Develop policy and strategic plans that support and promote contract farming;
- Facilitate and strengthen harmonization between contracting parties; and
- Intervene in or reconcile arguments or conflicts relating to agricultural production contracts that expert institutions cannot resolve or help settle.

The obligations of relevant stakeholders are also defined in the Sub-decree as follows:

Obligations of farmers:

- Comply with the terms and conditions set out in the agreement;
- Produce required commodities based on seasonal conditions and within the required time frame;
- Supply on time a minimum quantity of products with specified grade/quality; and
- Accept payment in line with the product value set out in the agreement.

Obligations of contractors:

- Comply with the terms and conditions set out in the agreement;
- Specify quantity and quality of products, date and place of delivery, and acceptance procedures;
- Provide producers with agricultural inputs, such as propagation materials, seeds, aquatic species and animal breeds, credit advantages, technical services, and other support as agreed upon by parties to achieve desired results;
- Buy agricultural products in specified quantities and quality at agreed prices and
- Pay producers for commodities within the time frame and following the terms and conditions specified in the contract.

Formalities and implementation of the agricultural production contract:

- Contracts shall be put in writing and facilitated by the coordinating committee – the CCAPC;
- Contracts shall follow the provisions of the Civil Code, laws, and existing regulations;
- Conflict between producers and contractors relating to contract implementation shall be settled in compliance with the terms and conditions as set out in the agreement and

- Where conflict cannot be resolved, the disputing parties shall comply with the ruling of the CCAPC.

Since Cambodia does not have many development policies and action plans, the Sub-decree on CF acts as essential legislation supporting some policies under the Promotion of Agricultural Sector, including the NSDP 2014 – 2018, Policy Document on the Promotion of Paddy Production and Export of Milled Rice, and the ASDP 2009 – 2013. The policies involve improving the CF framework, improving market access for agricultural products, especially rice, and linking small-scale farmers directly to the markets (RGC, 2014).

Implementation

The Sub-decree on CF was initially implemented in 2011 and involves relevant stakeholders, especially farmers, producers, processors, and agribusiness companies. Implementing this sub-decree requires strong commitment and coordination among relevant stakeholders, with the government playing a vital role in bridging investors and farmers, producers, and processors in the framework of contract-based agricultural production. This is being done through (1) Promoting and encouraging the formation of associations, Agricultural Cooperatives (ACs), Agricultural Organizations (AOs), and Farmers Organizations (FOs) as the bases to develop contract-based agriculture; (2) Being involved in addressing conflicts and problems about the implementation of contract-based agricultural production based on existing laws and interests of parties of the contract; (3) Facilitating access to legal land rights for producing and farming parties, as well as adequate financing to conduct agri-business and agro-industry; (4) Enhancing intensive production and agricultural diversification and competitiveness of products as well as transforming low to high-priced products to serve domestic and export markets; and (5) Facilitating agri-business, agro-industry, and exportation, as well as strengthening the capacity and facilitation of sanitary and phytosanitary inspection.

To implement the Sub-decree on CF, the government issued another Sub-decree (No.78) in 2017, called "Coordination Committee for Contract Farming". The inter-ministry collaboration mechanism consists of 19 members from different ministries and institutions of the government. In 2017, MAFF established a new Secretariat for CF within the Department of Agro-Industry (under decision No. 560) and issued a Circulation (No.196) as a guide to implementing the CF activities. It has assigned the Department of Agro-Industry to coordinate, facilitate, and record all contract farming implementation in Cambodia. For the sub-national level, all 25 provinces have created a contract farming sub-committee, in which the provincial government is the head, and all the leaders of departments are the members.

Roles and coordination support of government and stakeholders in CF implementation. The supporting agencies include public institutions (MAFF, DAI, PDAFF, and provincial government) and NGOs working in this sector, such as the FNN, which works to improve the agriculture sector in Cambodia. Aside from the Sub-decree on Contract Farming No. 36 of the government, MAFF has also created a task force to facilitate the CF-related work to promote the implementation of the CF. Currently, CF agreements are made in writing and filed at MAFF, the Department of Agro-Industry (DAI), and the Provincial Department of Agriculture, Forestry, and Fisheries (PDAFF). Currently, CF agreements with less than 200 million Riels (about USD 50,000) shall be filed to PDAFF, while contract farming agreements with 200 million Riels or more are filed to DAI. CF implementation in Kampong Chhnang province with a total of 26 contracts (DAI, 2021) is supported by the Office of Agro-Industry (OAI) and Office of Agricultural Extension (OAE) of the Provincial Department of Agriculture under MAFF.

In the case of KLAC, with a CF agreement amounting to 70 million Riels (about USD 17,500), the OAI and OAE are actively supporting as they are mandated to implement CF and promote ACs in the community. Because CF was considered the significant strategy to maintain KLAC's business, the two offices have been working hard to assist KLAC in gaining market access and introducing agribusiness companies, such as Amru Rice. These government officers also facilitate KLAC to meet with clients and join exhibitions to showcase their products. These activities help build clients' trust and confidence, leading them to purchase KLAC's products, especially organic rice. Due to the business matching mechanism facilitated by PDAFF, KLAC secured the best possible price from buyers through their bargaining power, eliminating price exploitation by intermediaries.

Meanwhile, at the national level, DAI and MAFF have been working on policy strengthening, which led to adopting the “Law on Establishment of Agricultural Cooperative” in May 2013, two years after the Sub-decree on CF was launched. This law has impacted and supported CF implementation. Then, in 2019, the commission for studying and developing the CF law was established. The drafted CF law is currently undergoing review by the Ministry of Justice. After the review, it will be forwarded to the Senate for approval. The primary purpose of the law is to protect the rights and interests of the contracted parties and establish a precise mechanism for resolving disputes.

Apart from the government, FNN has also been working to improve the production and market access of organic rice and other KLAC products. FNN provides technical support, production inputs, capacity building, and market access, including networking, facilitation, and technical follow-up. Support agencies like FNN serve as witnesses in the formal legal CF agreement.

Policy interventions. According to Mr. Mao Vannak, Chief of the Agro-Industry Development Office, to improve CF implementation in Cambodia, the government, through the Prime Minister, approved No. 78D on “The Organization and Functioning of the Committee for Coordination of Agricultural Production Contract” in September 2017. The CCAPC shall implement the duties specified in Article 7 of Sub-decree No. 36 on Contract Farming. This decision appointed 19 people from different ministries and the private sector and will be under the leadership of H.E. VENG Sakhon of MAFF. The CCAPC shall arrange a meeting at the end of every semester, and, if necessary, the chairperson may convene a special meeting. To contribute to the well-functioning and sustainability of the CCAPC, MAFF approved Decision No. 560D on the “Establishment of Secretariat of Committee for Coordinating the Contract on Agricultural Production (SCCCAP)” where the Department of Agro-Industry (DAI) is mandated to act as an auxiliary to the committee for coordinating agricultural production; and to prepare policy, strategic plan, plan of action, standard paper, necessary principle, and other projects about the development of agricultural production as per the contract and dispute resolution. Up until the meeting results on 10 January 2019 of CCAPC, all sub-national levels need to create the sub-committee for CCAPC with participation from various offices at the provincial level. The Sub-committee for Coordination of Agriculture Contract has significant roles and duties, which include (1) Coordinate and strengthen harmonization between contracting parties; (2) Intervene and facilitate differences in ideas and conflicts concerning the implementation of contract farming; and (3) Update progress and identify challenges to contract to farm every quarter. This Sub-committee has assigned the Provincial Agro-Industry Office as the Secretariat.

Benefits of Sub-decree on CF. Firstly, the Sub-decree legitimizes the processes, allowing different actors to practice it anywhere and anytime they wish. The ACs, companies, and farmers benefit from the Sub-decree because it now acknowledges the role of government. Although the Sub-decree is not yet a law, it is still a legal instrument outlining the roles and responsibilities of various institutions and the mechanisms and procedures, which give the ACs, companies, and farmers a better way of handling potential legal issues. In addition, the Sub-decree puts pressure on relevant government officers to be more responsible for promoting and properly implementing CF. It provides a clear guideline to PDAFF, especially those in the Agro-industry department and the Office of Agricultural Cooperative Development (OACD), on the overall management and implementation of CF. All these encourage the officers of OACD and PDAFF to take contract farming-related work more seriously. The CF Sub-decree also pushes companies to create a stable market for farmers and to abide by the written contract. As a result, farmers gain extensive benefits and develop trust through engaging in CF with the new and improved provisions such as roles and responsibilities, functions, etc. The Sub-decree also encourages NGOs/CSOs to get involved and proactively pursue CF for the advantage of the farmers as they see it as a lawful policy supported by the government. In summary, the Sub-decree on CF legitimizes the contract farming processes and its environment, making government officers more responsible and accountable, ensuring that companies create a more stable market for farmers, and encouraging NGOs/CSOs/ACs to engage in contract farming actively.

CF model of KLAC. As summarized in Figure 3 below, there is a formal written agreement for the CF between KLAC and Amru Rice Company. The CF is written and witnessed by a third party, a PDAFF, a local authority, or an NGO. The contract goes through the legal process of getting recognition from PDAFF. After the contract signing, KLAC communicates it to its members, especially the critical

conditions, such as the type of rice to produce and the volume that KLAC must produce based on the contract. There are no written contracts between KLAC and its members for the CF implementation. However, with the Organic Standard requirements, farmer-members producing organic rice enter into an agreement with KLAC. This agreement concerns the rules of organic rice production that farmers must comply with. To be an organic rice producer, farmers must sign this agreement, maintain a book of specifications, allow internal and external audits, submit their organic rice and soil for testing when needed, and follow other strict rules of organic farming. Due to the strict rules of organic farming, some farmers think that this is too difficult for them to follow, and a few farmers were found committing fraud – using chemical substances (chemical fertilizer and pesticide) during an audit.

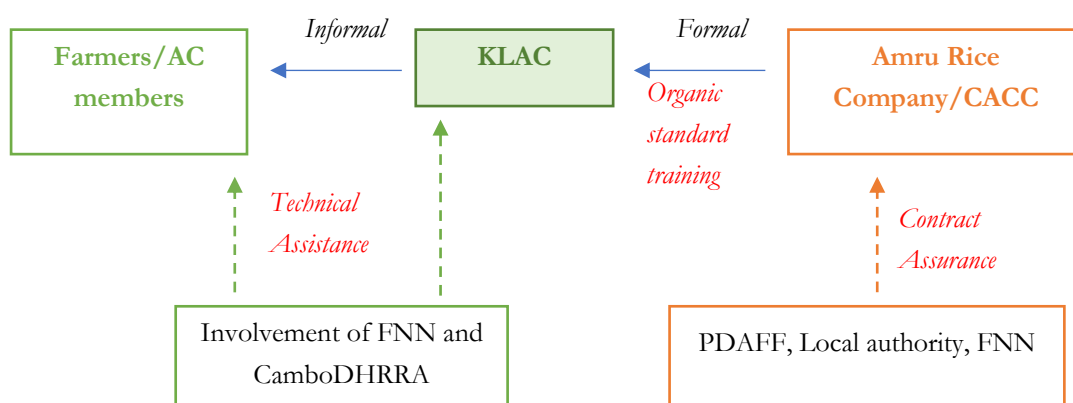


Figure 3. Contract farming model of KLAC.

The KLAC knew about CF through PDAFF’s staff in Kampong Chhnang province. They disseminated this information and provided a copy of the CF book, highlighting the benefits, responsible actors, best practices, and benefits for ACs, companies, and farmers dealing with the legal processes. Then, AC committees internally assessed the CF and met with the prospective company. The AC realized that the CF does not differ much from their existing or regular contract with the companies, except that the government bodies are part of the contract. Therefore, KLAC and its members decided to implement CF in 2018 because they thought that CF was more advantageous for them than the standard contract. Formal written CF includes PDAFF and local government as the witnesses, which makes the contract more formal in obligating both parties.

Benefits of implementing CF. KLAC has been implementing CF for about four years since it first worked with Amru Rice Company and Udom Rice Company. Through an interview with the AC members and the board of committee, they identified the following benefits of CF:

1. By implementing CF, the AC and its members do not need to care much about the market. They feel confident and secure because at least they have ready buyers for their organic milled rice after harvesting with a stable agreed price.
2. Farmers receive a higher premium price than other types of rice in the region since it is organic. Ms. Phuong Sophal, a producer group member, shared that they are happy because the price is higher (3,000 to 3,400 Khmer Riels = USD 0.75 – USD 0.85) than the prevailing market price. This enabled farmers to earn more income from organic rice production while improving their livelihood through CF.
3. Farmers are happy because they can save milled rice for their consumption, which is safe and healthy food for their children. They are no longer exposed to chemical fertilizers and other chemical inputs, and their soil is in good condition and free from chemical contamination.
4. There are more opportunities for AC and its members to grow, knowing that the government, NGOs, and other partners are supporting the CF implementation. AC and its members also have the opportunity to receive training and learn new knowledge and technical skills related to organic farming, capacity building, postharvest management practice, business planning, and so on.



Figure 4. Members of KLAC calculating the premium price received from Amru Rice Company.

According to Dr. Lonn Pichdara, a Research Fellow of the Cambodia Development Resource Institute (CDRI), their study finds that CF practices provide tremendous benefits to local communities and agricultural cooperatives (ACs). Two benefits cited include definite market and prices and access to low-interest financial loans for further investment.

Constraints faced by KLAC. During the discussions with producers and exchanges with key FNN staff from the focus group discussions (FGD) and Key Informant Interviews (KII), respectively, the most common problems faced include under/oversupply of organic rice, an insufficient supply of inputs such as seeds and fertilizer, lack of water caused by a poor irrigation system, late payments from the company, lack of technology to overcome pests and insects, post-harvest management, as well as climate change problems such as floods and droughts. Even though farmers receive support from FNN, organic rice production still heavily depends on water supplied by the irrigation system, allowing farmers to produce rice for only one production cycle per year. Farmers could have a good yield when there is enough rain, sometimes leading to an oversupply of rice for the company. In contrast, when there is a shortage of rainfall, rice yield decreases sharply, affecting the production volume initially committed in the contract. In 2021, KLAC suffered from drought, which heavily affected their production level, with only 70% of the targeted volume met. Furthermore, farmers also do not have sufficient organic fertilizers, herbicides, pesticides, seeds, and other inputs. The company's transparency concerning price, payment methods, and payment timeframe are sensitive issues in the company-farmer relationship, which may be critical in building trust between AC members and the company. However, based on the interview with the company and FNN staff, the price negotiation and setting seemed transparent and fair initially.

Meanwhile, KLAC has to borrow from microfinance to buy materials and organic rice from members during harvesting season as they do not have enough resources. During the interview with the KLAC committee, AC needs to pay their members once they deliver their produce to the coop to enable the farmers to pay their loans. The inability to pay their members would discourage their members, who may bring their rice to intermediaries who can immediately offer them cash payments. NGOs such as FNN and the PDAFF are working hard to address these problems.

Policy issues and gaps. Sub-decree on CF has been implemented for a decade since 2011. The Sub-decree does not clearly state the government's role, especially the ministries' responsibilities, including MAFF, to protect farmers and enable them to understand CF fully. Further, when the Sub-decree was first introduced, the government established no protection mechanism for small-scale farmers. Introducing CF to farmers and contractors is insufficient to solve farmers' market access problems. Many stakeholders, especially farmers, except DAI and a few NGO staff, do not know enough about the Sub-decree. They have heard of it but have not read the full content of the Sub-decree. The research respondents did not know much

about the gaps in the practical implementation of the Sub-decree. According to Mr. Sok Khim, Natural Resource Governance Program Manager of Oxfam Cambodia, they have worked to support CF implementation in Cambodia so far. It facilitates Amru Rice's CF with its suppliers (ACs/farmers) and international buyers in Europe and Holland. Therefore, this CF implementation has created a line contract (contract between ACs/farmers and Amru Rice Company and the contract between Amru Rice Company and international buyers). According to him, the implementation of CF proved to have many successes, but still, some challenges and risks remain, such as climate factors, including flood and drought. In addition to these issues, there are still conflicts in CF practice.

Failures, challenges, and solutions of CF. Although there were reported failures in some cases of informal contract implementation, there was no data on these failed CF cases because they were not implemented with the government's intervention. The implementation of CF between the two parties encountered challenges such as limited capacity to satisfy the production requirements (quantity and quality), late payment, capital investment, logistics, and transportation. The common issues encountered at the production stage are lack of financial support to access agricultural inputs such as seeds, fertilizer, insecticides, agricultural machinery, and equipment. Producers find it challenging to satisfy the company's requirements at this stage since they apply traditional organic farming practices. The most common challenge for contracting companies is capital investment, resulting in late payments to the rice producers.

For KLAC, there is a need for more farmers to join CF and produce more organic rice. AC members occasionally cannot produce enough for the contracted companies due to some constraints related to climate change and other natural disasters such as floods and drought, irregular rainfall patterns, diseases, and herbs that cause a decrease in the yield of organic rice. Thus, AC must communicate with the contracted company (mainly Amru Rice Company) about the issue. The AC also sometimes receives late payment from the company, even though the time of payment was specified in the contract (typically, the company needs to pay back AC one month after receiving organic milled rice). When it goes down to the farmer level, as they receive late payments from AC, this issue becomes bigger because they think the company is breaking the CF agreement. According to the AC committee board, this case happened once but was solved shortly after the company paid back the AC.

Issues encountered in the implementation of CF. At the onset of the CF implementation, it was noted that the provisions in the contract were stringent, and some AC members found it challenging. Moreover, there are other associated contracts and standards that the implementors, mostly farmers/producers, must follow in addition to CF. An example is if ACs/producers have a CF with a company, and the producers have another agreement to follow the organic standards, it is hard for them to follow or achieve organic farming. Apart from this, despite implementing the Sub-decree on CF for over a decade, not many farmers and ACs in Cambodia understand and accept it. Since this is considered new, some farmers find it hard to implement. CF implementers also seem to not fully understand CF, especially those on the producers' side. They do not have sufficient knowledge of CF implementation and are unwilling to respect the contract. For example, the producers would sell their organic rice to intermediaries if they offered a higher price than the company. However, with the formal contract farming implementation, the problems have been solved through coordination from the government.

KLAC and its members need support. KLAC receives immense support from FNN on technical, materials, equipment, production inputs, and soft skills development (such as training on AC management, capacity building, leadership, financial management, and marketing). FNN also facilitates market access for KLAC (including routes to markets, networking events, exhibitions, and business matching events). Moreover, FNN also assists KLAC in technical follow-up through an internal organic audit for members to ensure all KLAC's members comply with organic rules and receive an organic certificate. Aside from the direct support from FNN, Amru also supports KLAC and its members in improving their organic farming practices. To export organic rice to Europe and other countries, organic rice must comply with the standards and receive a certification from an international certification body (in the case of KLAC, the certification body is the Control Union – a well-known company in the Netherlands). The Amru Rice Company pays for the organic certification and other associated costs, including the international auditor expense and certification fee. Therefore, direct support from FNN and the buying company for KLAC is critical to implementing CF and organic farming.

Almost all ACs involved in CF implementation receive support from stakeholders, especially NGOs. For instance, ACs in Preah Vihear province undertakes CF with three major rice companies: Amru Rice, Golden Rice, and Signature of Asia (SoA). CamboDHERRA, Cambodian Organic Agriculture Association (COAA), World Vision Cambodia (WVC), and the Development and Partnership in Action (DPA) are known to have supported the ACs as well as farmers in various ways, including providing training, inputs such as seeds and technical support. Another example related to rice CFs is ACs with three companies in Kampong Thom through the Sustainable Rice Production (SRP). The Asian Development Bank (ADB), World Bank (WB), International Federation for Alternative Trade (IFAT), Cambodian Institute for Research and Development (CIRD), WVC, and Heifer International (HI) (CDRI, 2021) are supporting the ACs in Kampong Thom. At this stage, the ACs need support from relevant stakeholders, especially NGOs, to implement CF in Cambodia.

Apart from the support received from NGOs and the buying company, the government also plays a vital role in (1) Providing training on awareness of CF to local farmers, such as rice producers, so they have a better understanding of the CF; (2) Allocating more funding and training activities to OAI and OAE, so that they can be more efficient and effectively support CF implementation, monitoring and evaluation; (3) Hastening the process of drafting the Law on CF mainly by DAI and MAFF; and (4) Providing incentives to encourage companies to support farmers and ACs in CF arrangements and as well as incentives to farmers and ACs to be active players in CF. As soon as the law is approved, the conflict cases related to CF are expected to decrease when there is a law to strengthen its implementation. However, even if the number of conflicts decreases, there should be a precise conflict resolution mechanism such as those arising from the contract implementation.

Monitoring and Evaluation

There is an office under DAI, the Office of Agro-Industry Development, which manages CF-related works, including CF's monitoring and evaluation (M&E). So far, the government does not have the budget to design an M&E System or any concrete tool to monitor the implementation of this Sub-decree. There is little budget for some projects allocated for CF monitoring, which is conducted randomly. For example, when there is a conflict between parties (average small-scale farmers in the form of AC and companies), there will be coordination from the government side.

Generally, all the conflict cases were solved at the provincial level or below, with no failed cases. To solve these issues effectively and enforce each party's obligations, the government has drafted a law on "Contract Farming," which is hoped to be legitimized soon. Up to now, the mechanism to monitor and evaluate the implementation of CF has been through reporting. PDAFF staff at each province must collect data and update information on the number of CF implementations, challenges encountered by the implementers and contractors, and progress to DAI (national level) monthly.

According to the report conducted on "Government Intervention on Contract Farming to Enhance the Confidence of Agricultural Investments in Cambodia," the agricultural production contracts have increased significantly: 60 contracts from 2013 to 2017, 90 contracts in 2018, 498 contracts in 2019, 516 contracts in 2020, and 928 contracts in 2021. These CF schemes are formal contracts known as agreements of buyers and producers involving the government as the coordinator and witness in signing the contracts and under the coordination of contract farming committees, where the Department of Agro-Industry plays the role of the Secretariat and the Agro-Industry Offices under 25 Capitals and Provincial Department of Agriculture, Forestry and Fisheries. Even though there are no concrete tools and M&E systems to monitor CF, according to this study, the number of CF implementations increased significantly from 2019. This shows good progress in CF implementation in Cambodia.

III. CONCLUSION AND RECOMMENDATIONS

Conclusion

The Sub-decree on Contract Farming is a mechanism that can connect smallholder farmers through ACs to buyers, allow farmers to know in advance about the price of their products and to whom to sell, reduce the unpredictability of agriculture and risks associated with fluctuating prices, protect farmers against losses associated with natural disasters and climate change, and increase farmers' income.

Contract farming had been practiced informally by farmers/producers and buying companies. Having identified the problems encountered by those small-scale producers, the government, with support from development partners, developed the Sub-decree on Contract Farming for producers and companies to implement to improve and strengthen smallholder producers in Cambodia. It legitimizes the contract farming implementation by making government offices more responsible and accountable, ensuring that companies create a more stable market for farmers, and encouraging NGOs/CSOs/ACs to engage in CF implementation actively.

The implementers, especially farmers/producers, think that CF is too strict to comply with, as they confuse CF with another contract/standard that comes together when they apply CF—for example, organic rules. To have CF with Amru Rice Company, farmers have to sign another agreement, which is the organic farming practice that farmers find hard to comply with; but to command better prices (through CF) for their rice production, they need to observe the rules of organic production. Also, not many farmers and ACs in Cambodia understand the Sub-decree on CF well, which results in a low level of acceptability by the farmers and affects the implementation of the CF or the inability to respect the contract. For example, the producers would sell their organic rice to intermediaries if the price offered is higher than the contracting company.

To address these issues and to ensure the success of CF implementation, the government and relevant stakeholders, especially NGOs, have been trying hard to support ACs and farmers. The coordination support services from the government, mainly at the provincial level, and PDAFF (OAC and OAI) have been in the areas of 1) Access to markets, 2) Introduction to agribusiness companies, and 3) Building trust among clients and ACs/farmers, the government at the national level, particularly DAI and MAFF, focused on the policy development and strengthening of CF. Recently, the Law on CF has been sent to the Ministry of Justice for review.

To further support the government, development partners and NGOs played vital roles in ensuring effective CF implementation. In the KLAC case, FNN provided immense support to AC and its members to achieve organic rice production so they could supply organic rice to Amru Rice Company through the mechanism of CF implementation. The support from CamboDHRRA, FNN, DPA, WVC, ADB, and other NGOs placed ACs such as KLAC and its members at an advantage, contributing to CF implementation's success. This is given that many farmers in Cambodia are smallholder producers, illiterate, isolated in the rural areas, and lacking resources and knowledge about CF at this stage. It would be hard for ACs and farmers to be able to stand on their own, given the enormous challenges they are facing. They must engage in collective organizations like ACs, FOs, or AOs to help them develop bargaining power, a bigger capacity to supply products, better market access and other training opportunities, and more prominent voices.

Recommendations

The CF value chain is interconnected from production to packaging, storage to delivery of export goods. To ensure more effective implementation of CF, stakeholders play critical and strategic roles that will complement each other for overall impact on the implementation and management of CF. The presence of third parties like the government, NGOs, and development partners is vitally important to support and address issues involving CF implementation. To implement and coordinate these works successfully, stakeholders, farmers, and buyers should:

The Government:

- Create market opportunities and facilitate market access for ACs/farmers through various promotion programs, including mobile apps; create a rice promotion scheme at the international market and rice data hub storing data of Cambodia rice exporters, facilitating and building export capacity; lowering and providing tax incentives for local rice enterprises, processors, and millers; looking for niche market opportunities locally and internationally through product certifications such as Organic, Fair Trade, Forest Stewardship Council (FSC), ibis rice, Geographical Indication (GI), and so on to add value to rice products.
- Facilitate the increase in rice production through improving irrigation systems, including building more canals and ponds, expanding the accessibility of electricity, building and repairing infrastructure such as roads and bridges, and providing more training related to technical farming, i.e., know-how and post-harvest management to improve rice yield and collaborate with NGOs and development partners; subsidize the costs of farming equipment and machinery.
- Collaborate with the private sector, especially microfinance institutions and banks, in easing financial solutions for agribusiness companies, ACs, and farmers through lower interest rates and relaxed collateral policy, offering subsidies to farmers to get more affordable farming inputs, establishing and initiating crop insurance mechanism for the small-scale farmers.
- Promote and enhance CF implementation, allocate more budget for PDAFF to improve staff capacity for supporting ACs and farmers more actively, and encourage R&D in organic farming (innovation of new organic fertilizers, pesticides, insecticides, herbicides, and seeds) and climate resilient farming; ensure effective CF mechanisms with active participation from stakeholders such as AC, private sector, CSOs.
- As there is no system to monitor and evaluate the Sub-decree on CF, the government should allocate a budget to move this work forward to improve CF implementation, especially on the ground, and to inform decision-makers at the national level.
- Another critical thing is managing conflicts between parties. Parties “slip out” of a contract or give one party an unfair advantage over the other party. While a national committee and provincial sub-committees support the implementation of CF, the mechanism to solve conflict is unclear. Therefore, the new Law on Contract Farming should state clearly the mechanism to solve the conflict.

Private Sector/Buying Companies:

- Assist small-scale farmers with lower prices, including technical support and organic inputs such as fertilizers, pesticides, herbicides, insecticides, seeds, agricultural equipment, and machinery.
- Strict compliance with the contract, such as paying farmers on time and other relevant conditions.

Agricultural Cooperatives:

- Improve organic rice production by encouraging more farmers to join, solve problems, find solutions with the farmer-members related to farming and production, and provide technical skills development for farmers.
- Comply with the provisions in the contract, build trust between the buying company and relevant stakeholders, and solve members' problems related to farming and production.
- Collaborate closely with PDAFF, NGOs, microfinance institutions, and development partners to look for opportunities such as training, market access, loans with low-interest rates, product promotion, and other chances to develop and improve.

Farmers:

- Observe organic standards; keep records on farming plans and expense reports; practice transparency and accountability as building blocks for trust between the buying company and stakeholders.
- Understand CF and its relevant conditions and benefits; own and take responsibility for the obligations in the CF implementation.
- Participate with ACs, NGOs, government, and relevant stakeholders to seek new markets and other training opportunities.
- Contribute to sharing information about CF with members and non-members.

NGOs and Development Partners:

- Continue providing technical support, farming equipment, and financial support (if possible) to farmers and ACs until they are strong enough to stand alone without support from other stakeholders.
- Develop the capacity of ACs and farmers through training, raising awareness, and strengthening organizational development, including leadership and governance.
- Work with government and development partners to address market issues and diversification, improve market access and linkage for ACs and farmers, facilitate organic rice marketing – and support ACs to participate in exhibitions, business matching events, and product development for ACs.
- Support ACs in policy work to increase the effectiveness of laws such as CF that affect small-scale farmers.

Through the lessons learned from the Sub-decree on CF, without further advancement of strategies and mechanisms supported by relevant stakeholders, especially NGOs, to enforce the CF implementation, the Sub-decree would not impact CF practices in Cambodia. To promote and build the trust of contractors and stakeholders, there should be: (1) An institutional and legal framework for local and sub-national governments enforcing the contracts and contract dispute settlements and strengthen M&E among others; (2) Policy coordination and technical support to have oversight for contract forging and contract implementation; and (3) Knowledge improvement and capacity building for local farmers in drafting, encoding, and implementing the contracts. To end, the approval of the Law on CF should be able to address the three essential items above.

References

- Agribusiness Institute Cambodia (ABIC). 2004. Case Study: Sample contract farming in Cambodia.
- Bijman, J. (2008). *Contract Farming in Developing Countries*. Wageningen, Netherlands: Wageningen University and Research Centre.
- Cai, J., U. Luyna, S. Setboonsarng, and P. Leung. 2008. *Rice Contract Farming in Cambodia: Empowering Farmers to Move Beyond the Contract Toward Independence*. ADBI Discussion Paper 109. Tokyo: ADBI.
- Cambodia Development Resource Institute (CDRI). (2013). *Removing Constraints to Cambodia's Agricultural Development*. Cambodia Outlook Brief No. 2. Phnom Penh: CDRI and ANZ Royal.
- _____. 2021. *Assessment on Benefits of Rice Contract Farming Report*.
- Cheng, S. (2016). *The Ministry Reinforces the Practice of Contract Farming in Cambodia*.
- Eaton, C. & A. W. Shepherd. (2001). *Contract Farming: Partnerships for Growth*. Rome: Food and Agriculture Organization.
- Eliste, P. and S. Zorya. 2015. *Cambodian agriculture in transition: opportunities and risks* (English). Washington, D.C: World Bank Group.
- Global Times. (2015). *Cambodia fails to achieve 1-million-ton rice export by 2015*: PM. Accessed from: <https://www.globaltimes.cn/content/957643.shtml>
- Khan, M.F, Y. Nakano, and T. Kurosaki. 2019. *Impact of contract farming on land productivity and income of maize and potato growers in Pakistan*. *Food Policy* 85, 28–39.
- Kongchheng, P. (2010). *Transboundary Production in Agriculture: A Case Study of Maize Contract Farming in Cambodia*. Mekong Institute Research Working Paper Series. Khon Kaen, Thailand: Mekong Institute.
- Maertens, M., K. Vande Velde. 2017. *Contract-farming in staple food chains: The case of rice in Benin*. *World Dev.* 95, 73–87.
- National Institute of Statistics (NIS). 2011. *Cambodia Socio-Economic Survey*. Phnom Penh: NIS
- Nou, K. & M. Heng. (2013). *Emerging Contract Farming: A Case of High-Quality Rice in Cambodia*. Unpublished report. Phnom Penh: CDRI.
- Royal Government of Cambodia (RGC). 2011. *Sub Decree on Contract Farming*.
- Supreme National Economic Council (SNEC). (2018). *Case Study #1 Contract Farming Between Golden Rice and Fos for Production of Phka Kravan Paddy*.
- Sum, S. & K. Pirom. (2015). *Contract Farming in Cambodia: Different Models, Policy and Practice*.
- Theara, K. (2012). *Rice Production Increases as Country Moves Toward 2015 Export Goal*. VOA Khmer. Accessed from: <https://www.voacambodia.com/a/rice-production-increases-as-country-moves-toward-2015-export-goal/1502343.html>.
- Timmer, P. (1988). *The Agricultural Transformation*. In *Handbook of Development Economics*, I:275–331. Amsterdam: North-Holland.

The Khmer version is the official version of this document.

Document prepared by the MLMUPC Cambodia,
Supported by ADB TA 3577 and LMAP TA GTZ.

Council of State
DECREE No. 38 D /October 28, 1988

LAW
REFERRING TO CONTRACT AND
OTHER LIABILITIES

- Seen the Constitution of the People's Republic of Kampuchea (PRK);
- Seen the Law on the Organization of the National Assembly and the Council of State of the PRK and its promulgation by Decree No. 04D, dated February 10, 1982;
- Seen the Law on the Organization of the Council of Ministers of the PRK and its promulgation by Decree 03D, dated February 10, 1982;
- Seen the Law on the Formation of the Judiciary and Prosecutor's Office and its promulgation by Decree 02D, dated February 10, 1982;
- Seen the Law on the Establishment of the People's Supreme Court and the Prosecutor General's office attached to the People's Supreme Court, and its promulgation by Decree 28D, dated July 31, 1985;
- Seen the Decree 34D, dated August 26, 1987, on the Organization of the People's Supreme Court and the Prosecutor General's Office attached to the people's supreme court;
- Seen the Decree 07D, dated July 13 1982, regarding the competency and procedure for adoption of laws and regulations, and
- pursuant to a request by the Council of Ministers, it is hereby decided:

CHAPTER I: CONTRACTS

section i: general provisions

Article 1:

A contract is an agreement between two or more persons to create, change or terminate one or more obligations which bind them.

In the above definition, a person may be a natural person or a legal entity. A legal entity can enter into a contract through his/her own representative.

The Khmer version is the official version of this document.

Article 2:

A contract shall bring to the contracting parties both bring personal and social benefits. the contracting parties shall deal in an atmosphere of trust and honesty, respecting the social ethics particularly the elimination of the " exploitation of one party by the other" concept.

section ii: validity and form of the contract

Article 3:

A contract is valid provided that it:

- arises out of a real and free agreement.
- is made by parties who have capacity to enter into a contract.
- has a subject matter that is certain, possible to perform, lawful, and consistent with public order and good customs.

Article 4:

Contracts can be made orally or in writing . The law shall set up precise formalities in making a contract. Every contract not consistent with the formalities fixed by law shall be deemed void. Except where there is any provision to the contrary, contracts involving money, or item(s) worth more than five thousand Riels must be in writing.

section iii: voidness of contracts.

Article 5:

The following contracts shall be deemed void when

- it is illegal, and not consistent with public order or good customs.
- it is contrary to social interests or violating social ethics.
- a contract whose subject matter is impossible to perform.

Article 6:

The following contracts shall be deemed voidable when

- it is not resulting from a real or free agreement
- a contract made by a party lacking capacity to contract.

Article 7:

An agreement that is the result of mistake, duress, or fraud is not a valid agreement.

The Khmer version is the official version of this document.

Article 8:

Mistake shall be a ground for avoiding a contract if there is mistake as to substance of the object which is the subject matter of the contract. Mistake as to person can not be a ground for avoiding a contract except where the identity of the person is the basis of the contract.

Article 9:

Violence is a ground for avoiding a contract if such violence is in the form of mental or physical duress against a party to the contract, his/ her husband or wife, any ascendants, or any descendants of the party.

Article 10:

Fraud is a ground for avoiding the contract when there are acts of deception, dishonesty, or misrepresentation committed by one party to the contract without which the other party would not have entered into the contract.

Article 11:

When entering into a contract, should any party take advantage of the situation of another party with undue profit, then the aggrieved party can always sue to rescind the contract.

Article 12:

When making a contract, if there is a difference between the value of the subject matter offered by one party and the value of the consideration in return, then the aggrieved party can sue to rescind the contract on the ground that he/she never intended the difference to be a gift.

Article 13:

A party who asserts that he/she entered into a contract because of mistake, duress or fraud, in order to avoid the execution of his/her obligations in the contract, shall have to prove this matter.

Article 14:

People who have fully reached 18 years of age can enter into a contract at any time, except detainees as provided in the law.

Article 15:

Minor under 18 years of age can not create rights or duties and especially can not enter into a contract without consent from his/her legal guardian.

A contract by a minor without prior consent from his/her legal guardian can be executed on condition that his/her guardian has agreed on such a contract after it has been entered into by the minor, but all contracts made by a minor to meet every day life needs shall not require the consent of his/her legal guardian.

The Khmer version is the official version of this document.

Article 16:

A party who enters into a contract with someone who lacks capacity cannot attempt to get out of his/her contract obligations on the ground of incapacity of the other party.

Article 17:

The subject matter of a contract must have a commercial value. Their kind, quality and quantity shall be clearly described.

Future happening can also be the subject matter of a contract. However, one cannot contract to sell an inheritance of a person who is still alive even with his consent.

Article 18:

Any person can sue to absolutely rescind a contract defined in article 5, at any time .

Article 19:

Where a contract is voidable because of incapacity, mistake, duress, or fraud, a claim to avoid the contract can be made by the aggrieved party or by any person who has lawful interest in the claim. The aggrieved party or any person who has a lawful interest in the claim shall notify the other party. The party receiving the notification shall reply without delay.

After the notification the aggrieved party or any person having a lawful interest in the claim can sue to rescind the contract within a maximum period of 12 months.

Article 20:

The right to sue to rescind a contract as provided for in Article 19 shall cease to exist if, after suing, the party who has such a right agrees to carry out his/her obligations or agrees, in writing, to withdraw the action.

Article 21:

In the case where there is nullity of a contract, the situation prior to entering into contract shall be restored.

section iv: effects and interpretation of the contract

Article 22:

A contract is a legally binding agreement between the parties. Amendments to the contract can only be made with the consent of both contracting party.

A contract shall be executed with honesty and according to the will of the parties.

A contract binds only the parties to the contract.

The Khmer version is the official version of this document.

Article 23:

If the contract is not clear in meaning, that contract shall be interpreted according to common practices or customs of the place where the contract has been made, but the interpretation shall not conflict with the provisions of this law. If there is any ambiguity, the contract shall be interpreted in favor of the obligor party.

Article 24:

The obligor party shall fulfill his obligations under the contract by payment from his personal and real properties available now and in the future.

section v: statute of limitations for contracts

Article 25:

Except where the law prescribes differently, obligations resulting from a contract shall be deemed to have expired if the obligee party has not sued for performance within 5 years of the date defined in the contract, or where the date is not defined in the contract, the date of entering into the contract shall be the date.

Article 26:

The limitation period shall be postponed if the obligor party is absent from his/her residence and this absence has been certified by the local authorities according to the law.

Article 27:

A obligor or guarantor can assert the statute of limitations. If the obligor or the guarantor fails to assert the statute of limitations, then the People's Court can do so on their behalf.

Article 28:

A debtor or the guarantor who executes his/her obligations under the contract after the limitation period has expired can not then make a claim for the amount of money or value given on the grounds that the limitation period has expired.

section vi: the execution of the contract

Article 29:

Obligations in the contract shall be carried out in a timely and proper manner particularly with regard to quality, quantity, place, and duration prescribed.

Article 30:

A party to the contract is

- an obligor when he has obligations to be fulfill.
- an obligee when he has rights on the obligations the obligor is supposed to fulfill.

The Khmer version is the official version of this document.

Article 31:

An obligee shall not be compelled:

- to accept an object other than that which he/she is entitled to receive even though its value is equal or higher.
- to accept the execution of part of the contract. But depending on the goodwill and the difficulty of the obligor, the People's Court can extend or delay the time for execution of the contract and make an order to suspend the obligee's action. In such a case, the reasons for the decision shall be clearly stated, and the People's Court shall exercise this power with great care.

Article 32:

The execution of the contract shall take place at the location of the obligor if the contract has not specified a place.

Article 33:

If there is no specific duration of time within which to execute the contract, then the obligor can pay or provide at any time, and the obligee can request payment at any time.

CHAPTER II: SOME FREQUENTLY USED CONTRACTS

section i: sale

Article 34:

A sale is a contract in which one person has the obligation to transfer ownership of a subject matter or right to another person who has the obligation to compensate for the value of that subject matter or right.

Article 35:

It shall be deemed void:

- the sale of another's property.
- the sale by a husband of his spouse's belonging and vice-versa.
- the sale of joint-tenancy property "that can not be divided " by one co-owner without the consent of the other co-owner.

1. obligation of the vendor

Article 36:

The vendor shall maintain the subject matter to be sold in good condition until the due date for delivery so that he is able to execute his obligations under the contract, namely the delivery of the subject matter.

The Khmer version is the official version of this document.

Article 37:

The vendor shall not change or modify the subject matter to be sold by any means from the date of the sale until its delivery.

Article 38:

The vendor shall be liable for damage occurring to the subject matter to be sold up until the time of delivery. The sale can be canceled if the item has been lost or substantially damaged prior to delivery or when the vendor can not find a substitute. If the sale has been canceled, the vendor shall pay damages to the purchaser relating to the loss of the subject matter to be sold or any damages resulting from the vendor's fault.

Article 39:

The vendor shall inform the purchaser of all essential attributes and other substantial conditions relating to the subject matter to be sold, particularly information concerning rights that others have in the subject matter, if any. The vendor shall hand deliver to the purchaser all documents relevant to the sale.

Article 40:

The vendor shall hand over not only the main subject matter but also any derivatives and accessories.

In the case of real property sale, the delivery of the property deed is deemed to be delivery of that real property. Expenses incurred in the delivery shall be the vendor's responsibility unless otherwise stated in the sale contract.

Article 41:

Regarding real property, the conveying of the vendor's rights to the purchaser is deemed valid providing that the sale deed has been certified and registered. From the certification and registration date, a third party has no rights to the property. Regarding personal property, the conveying of the vendor's right is deemed valid and a third party has not right to object from the time the personal property is delivered into the hands of the purchaser except where the sale is done through certified deed. In the latter case, the third party can not object from the day the deed has been certified.

Article 42:

The vendor is not responsible for any external defects but shall be liable for latent defects in existence prior to the sale. If the purchaser can prove that such defect existed prior to the sale, then the purchaser can ask to rescind the contract or to reduce the price.

The Khmer version is the official version of this document.

Where the purchaser refrains from buying or asks to reduce the price, the purchaser shall bring his claim within 1 year of the date of delivery. If no claim is brought within 1 year, the purchaser's silence shall constitute agreement.

Article 43:

The vendor shall guarantee the purchaser protection from any action by a third party to deprive the purchaser of the subject matter, such action being a third party claiming a right to the subject matter.

Article 44:

In the event of a third party threatening to sue to deprive the purchaser of the subject matter, the purchaser can refer the third party to the vendor immediately. The vendor, by any means, shall prevent the third party from bringing a claim against the purchaser otherwise he shall assure that the purchaser defeat the third party's claim through a court decision.

Article 45:

If the vendor, so called upon by the purchaser to act on his behalf, succeeds in resolving the problem with the third party, the purchaser is not entitled to damages. If the vendor is unable to resolve the situation, then the purchaser shall proceed to legal action.

Article 46:

If the court decides to deprive the purchaser of the subject matter, the vendor shall return the amount received to the purchaser. In addition, the vendor shall be liable for damages. The amount of damages shall include the loss from the contract and order relevant expenses incurred since the date of the sale.

Article 47:

In the event of vendor's death, his obligations shall fall to his heirs.

Article 48:

If the vendor obtained the subject matter by way of a felony or misdemeanor, then the purchaser, when he is so aware, can ask to rescind the contract even though there is no threat from a third party to deprive the purchaser of the property.

All contracts contrary to this Article shall be deemed void.

Article 49:

If the same subject matter has been sold successively to many persons the last purchaser shall be revert back to the immediate vendor to guarantee his rights.

This vendor, if need be, shall revert back to his immediate vendor in the chain of title.

The Khmer version is the official version of this document.

2. obligations of the purchaser.

Article 50:

The purchaser shall pay the contract price on the day and at the place already determined .If the date and the place are not stipulated in the contract, payment shall take place at the place of delivery.

Article 51:

The contract can impose on the purchaser an obligation to pay interest on the contract price if payment is late. The interest rate shall not exceed 5% per annum. Should the interest rate not stipulated in the contract, the purchaser is liable to pay only the price mentioned in the contract, but where the subject matter yields income or profit, the interest shall be calculated according to the rate set by law.

Article 52:

If the purchaser has received the subject matter, and if a third party brings a claim to deprive the purchaser of the subject matter, then the purchaser can postpone payment. The purchaser shall pay the vendor only if and after the problem with the third party is resolved.

Article 53:

The vendor is entitled to retain possession of the subject matter until the purchaser delivers payment.

Article 54:

On the due date if no payment is made by the purchaser, the vendor can rescind the contract if he does not wish to bring an action for payment. As long as full payment is not made, the vendor can always rescind the contract.

Article 55:

The rescission of the contract requires both contracting parties to return to each other what they have received. The purchaser shall return the subject matter with any interest and income gained. The vendor shall pay back the amount paid by the purchaser and shall pay interest according to the rate provided by law.

section ii: interest bearing loan

Article 56:

An interest bearing loan is a contract whereby one person delivers money to another person and the latter is obligated to repay that amount together with an additional amount according to the duration of the contract.

The Khmer version is the official version of this document.

Article 57:

The contract shall be in writing. The contract shall clearly state the names of the parties, residence of the parties, loan amount, amount of interest, loan duration and maturity date. The borrower shall sign his name to the contract.

Article 58:

If the maturity date and the interest rate have not been provided for in the contract, it is presumed that the parties agree to contract for 1 year period without interest.

Article 59:

A lender shall be allowed to charge interest on a loan provided that there is an agreement to this between the contracting parties. The interest rate shall not exceed 5% per annum unless otherwise provided by law.

Article 60:

Any interest overcharged by the lender during the debt period shall be deducted from the principal amount. If the repayment is in excess of the principal amount and the interest allowed by law, the creditor shall be compelled to refund such excess to the borrower together with interest calculated from the date of repayment by the borrower.

In this case the lender will be criminally liable according to the provisions of the criminal law in effect.

Article 61:

A lender cannot demand repayment prior to the due date. In the event of a borrower's death, repayment of the entire debt can be demanded immediately by the lender and the obligation for repayment shall pass to the heirs of the deceased who shall be bound to pay the outstanding debt out of the deceased's estate and before the estate is distributed.

Article 62:

The lender shall deliver the loan deed or document certifying payment to the borrower when he repays the loan fully.

Article 63:

A interest bearing loan relating to personal property must comply with the provisions regarding the loan.

section iii: secured personal property

Article 64:

A secured personal property contract is a contract whereby a debtor delivers his personal property to a creditor to be held as security for a debt.

The Khmer version is the official version of this document.

A creditor in possession of such secured property is entitled to be paid out of the proceeds of the sale of such property in priority to all other creditors.

Article 65:

A secured personal property contract must be in writing. The contract shall only be considered valid when the creditor is in possession of the secured property.

The amount of the debt and the secured property must be specified and described clearly in the contract. If the contract fails to specify the amount of interest and the date of payment, the debt shall be considered to have no interest for one year from the date the contract is signed.

Article 66:

A creditor is not entitled to dispose the secured personal property as he pleases. The creditor is obligated to take reasonable care of and preserve the secured property. In the event that the secured property is damaged or lost through the creditor's fault, he must repair the damage or compensate the debtor for the loss of, or damage to, the secured property.

Article 67:

Unless otherwise stipulated in the written contract, a creditor may not use or take profit from the secured personal property. The creditor is allowed to receive only the profit from the secured loan. Such profit shall be used for necessary expenses.

If a creditor uses the secured property in breach of the terms of the contract, the debtor may file a complain to withdraw the secured property.

Article 68:

If the creditor disposes of the secured property without the prior consent of the debtor, the creditor shall be criminally liable under the provisions of the criminal law in effect.

Article 69

When payment is due and the debt is fully paid, the creditor must restore possession of the secured property to the debtor. If a portion of the debt is still outstanding on the due date, the creditor may still maintain possession of the secured property until the outstanding balance is paid.

Article 70:

When payment is due and the debtor does not fulfill his obligations, the creditor may submit a request to the People's Court to have the secured property liquidated.

The proceeds acquired from the sale the secured property shall be paid first to the creditor who is in possession of the secured property. The balance of the sale proceeds shall be paid to the debtor, or paid to any creditors to whom payment is due.

The Khmer version is the official version of this document.

If the proceeds from the sale of the secured property are not sufficient to satisfy the debt, then the debtor still remains liable to the creditor for the outstanding balance.

Article 71:

A personal property secured contract shall be considered void if the contract stipulates that the creditor shall become the actual owner of the secured personal property in the event that the debtor fails his obligations under the contract .

section iv: contractor contract

Article 72:

An Contractor contract is a contract whereby one party undertakes to perform the work for another party for a fee proportionate to the work.

Article 73:

If the fee is not specified in the contract, the court shall determine the fee according to customary practices at the place where the work was performed.

Article 74:

The work must be clearly described in the contract. If the work to be performed is not performed in compliance with the terms of contract, the hiring party may:

- a) either not accept the results of the work in which case the contract may be determined, or ask the contractor to pay for damages and other compensation for any loss, if any;
- b) require the contractor, at his own expenses, to make the necessary adjustments within a specific time frame agreeable to both parties; or
- c) accept the works by reducing the fee.

Article 75:

If the time for completion of the work is specified in the contract and if the work is not completed within that period of time, the contract may be terminated notwithstanding the possible damages which the hiring party may claim for.

However, if delay in the work results from a force majeure, the hiring party may not claim for damages.

Article 76:

If the hiring party fails to advance money or supply raw materials within a certain time frame as stipulated in the contract, he may not terminate the contract on the basis of the work delay. The

The Khmer version is the official version of this document.

contractor can cancel the contract on the ground of such delays. In such a case, the contractor is entitled to receive a reasonable fee for the work that he has already completed.

Article 77:

The hiring party may terminate the contract at any time before performance has been completed, provided he pays to the contractor the fees and other expenses related to the work already performed.

Article 78:

If the work is destroyed before it is completed through the contractor's fault and if the hiring party has paid the contractor in advance and/or supplied materials, the hiring party is entitled to receive compensation equal to the value of the loss and other expenses which he has paid toward the works. However, if the damages is caused by a force majeure, both contracting parties have no legal recourse against each other .

Article 79:

The contractor shall be liable for the performance of the works by his employees.

Article 80:

If the work is completed, the contractor may collect his fees upon delivery of the contracted work. Payment of the fee shall be deemed to be an implied acceptance of the work done.

Article 81:

If, after delivery of the work to the employer, any defects in the work becomes apparent as the result of the contractor's fault, the contract can

- either be rescinded;or
- part of the fee shall be refunded to the hiring party; or
- the repairs shall be done at the contractor's expenses.

The hiring party may only claim where the defects becomes apparent during the period under warranty. If the period of warranty is not stipulated in the contract, the hiring party may claim any time within three years from the date of acceptance of the work.

Article 82:

Where the contractor is a natural person and where the contractor dies, the contract shall be void.

section v: carrier contract

Article 83:

A contract for carriage is a contract whereby a person who is a carrier undertakes to transport passengers, luggages or goods from one place to another for a fee determined by an agreement of the parties or a fee determined by the state .

The Khmer version is the official version of this document.

Article 84:

Where the carrier incurr delays in starting his mode of transports, a consignor is entitled to terminate the contract and require the carrier to pay

- the transportation fees and other advances to other substitute carriers,
- compensation for any damages caused by delay in delivery, loss or destruction of the transported luggages or goods, or decrease in price caused by such delivery delay.

Article 85:

Where the carrier incurr delays in the delivery, a consignor is entitled to terminate the contract and require the carrier to pay

- the transportation fees and other advances to other substitute carriers,
- compensation for any damages caused by delay in delivery, loss or destruction of the transported luggages or goods, or decrease in price caused by such delivery delay.

Article 86:

A carrier is liable for the loss of ,or damage to, the transported luggages or goods. A carrier is also liable for any accidents to the passengers during his transport.

A carrier is not liable if the injury is caused by a force majeure or by the negligence of the passengers themselves.

If the luggages or goods being transported are stolen, the carrier shall be liable to pay for the stolen luggages or goods.

Article 87:

A carrier is liable, with respect of the luggages or goods, for any loss or damage that is not caused by a force majeure or by the natural destruction of the luggages or goods themselves.

The carrier is particularly liable for any loss or damage resulting from unreasonable delays in the transport.

Article 88:

Any action for compensation for loss or damage shall be commenced within one year from the date an owner becomes aware that the luggage or goods have been lost or damaged or from the date passengers become victims.

Section VI: Bailment Contract

Article 89:

A bailment contract is a contract whereby a person (the "bailee") keeps in custody the personal property of another person ("the bailor") gratuitously or for a fee, and returns that property to the bailor or to a person clearly designated by the bailor at a specified time or at the time when the property is demanded back.

The Khmer version is the official version of this document.

Article 90:

As a fundamental rule, if no fee is specified in the contract, a bailee shall receive no fee.

Article 91:

A bailee must preserve and return the bailed property at a specified time or at the time when the bailor demands it back.

The bailee is not entitled to use the bailed property without the authorization of the bailor.

Article 92:

A bailee is liable for any damage or loss to bailed property resulting from fault on the part of bailee.

If the bailed property is damaged or lost by reason of a force majeure, no compensation shall be awarded.

Article 93:

If the bailment is for a fee and the bailed property is lost by reason of theft, a bailee is bound to pay compensation.

If the bailment is gratuitous and the bailed property is lost by reason of a theft, the bailee is not bound to pay compensation if the bailee has sufficient evidence proving that he carefully safeguarded the bailed property.

However, a hotel owner, store owner or restaurant owner is liable for the loss through theft of the property of its guests or customers where such property is kept in the custody of the hotel owner or restaurant owner.

section vii: loan for use

Article 94:

A loan for use is a loan without any interest or fee. A person who lends property to someone else for use retains ownership in the property.

Article 95:

A borrower may not sell, exchange or lend the loan property without the consent of a lender.

Article 96:

A borrower must use the loaned property in a good and proper manner, safeguard it as if he is the owner and use it in manner consistent with its purpose.

The borrower is liable for the expenses of safeguarding and maintaining the loaned property.

The Khmer version is the official version of this document.

Article 97:

If the loan property is damaged or lost by reason of a force majeure, the borrower is not liable for any compensation. However, where the damage or loss is the result of the borrower's fault, the borrower shall be liable for compensation to the lender.

Article 98:

A borrower must return the loaned property to the lender at the time specified in the contract. If no time is specified in the contract, the lender may demand the return of the loaned property at any time.

Article 99:

If a borrower improperly uses the loaned property in a manner not consistent with its normal function, the lender may immediately demand back his property even prior to the time for return as specified in the contract.

section viii: lease

Article 100:

A lease is a contract wherein a lessor promise to lease his property for a fee to a lessee to use temporarily.

The property to be leased may be either real property or personal property.

Article 101:

The duration of a lease may or may not be limited, where the duration of the lease is not limited, the duration of lease may not exceed 12 years.

A lease contract which has as its duration a period of more than one year must be in writing.

Article 102:

Where a lease contract is not in writing and one party denies the existence of the lease, the evidence to prove the lease shall be based on the testimony of witnesses so long as the duration of such lease contract does not exceed one year.

Article 103:

A lessor shall lease to a lessee only property which is in good condition so as to prevent any incidents that may cause the lessee undue problems, and shall guarantee the lessee protection from claims of any third person who asserts any right to the leased property such as a right of mortgage.

The Khmer version is the official version of this document.

Article 104:

A lessor is liable for major repairs to the leased property except where otherwise provided by law or in the contract.

Article 105:

A lessee shall pay rent according to the price fixed in the terms of the contract, shall use the property in accordance with its normal function and for the term specified in the contract, shall maintain the leased property in good condition and shall be liable for any minor or simple repairs except where otherwise provided for in the law or the contract.

Article 106:

When discharging the contract, the lessee shall return the leased property to the lessor in the same state or condition as when he took the property.

Article 107:

A lessor may terminate the contract if a lessee does not perform his obligations or if the lessee improperly uses the leased property in a manner inconsistent with its normal function or uses it in a manner which causes damage to the leased property

Article 108:

A lessee may not sublet the leased property to any other persons without the consent of the lessor except where otherwise provided for in the contract.

Article 109:

A lessee who sublets the property shall still be bound by the same obligations under the contract with the lessor, and in particular shall be liable for the sub-lessee regarding unpaid rent, and any destruction or damage to the leased property resulting from the sublease.

Article 110:

Where a lease contract has no limited duration period, a party may not terminate that contract unless there is notification in advance of at least one month or at most two months.

Article 111:

Where a lessor dies, the contract remains in effect. If a lessee dies, the contract shall not remain in effect. However, the contract shall remain in effect if the lessee's heirs want to continue with the lease contract.

The Khmer version is the official version of this document.

section ix: contract of suretyship

Article 112:

A contract of suretyship is a contract whereby a third party called a "surety" agrees with the creditor by contract to undertake or to perform the obligations of the debtor in the event that the debtor fails to perform his obligations to the creditor. This contract shall be in writing.

Article 113:

One debt may have any number of sureties.

Article : 114:

Any contract of suretyship relating to obligations which are void by law shall be of no effect. But if such voidness results from the debtor being a minor, then the contract shall be deemed valid.

Article 115:

Legal action against the surety can be taken either concurrently with an action against the debtor, or later.

Article 116:

After the decision of the People's Court, the surety can request that the properties of the debtor be seized prior to the surety's property.

Article 117:

After the sale of the debtor's properties, if the amount obtained is not sufficient to satisfy the debt, then the surety shall be liable for the balance.

Article I 118:

In a case where there are many sureties, each surety shall be liable for the entire debt as though there were only one surety. All sureties shall be jointly liable for the payment of debt.

Article 119:

Where the surety has paid the debt of the debtor, all rights vested in the creditor shall pass to the surety. The surety is entitled to demand from the debtor repayment of the amount he has paid, as well as any interest and other expenses incurred from the date the debt was paid.

Article 120:

Where one surety pays the debt of the debtor, and the debtor is in a state of insolvency, this surety can take legal action to recover such payment from any other sureties who shall in turn pay their share individually.

The Khmer version is the official version of this document.

CHAPTER III: OTHER LIABILITIES

Article 121:

Any person who causes damages to others by reason of his own fault, shall be liable in compensation for such damage. Even where the damage is caused by involuntary acts such as carelessness or negligence, the offender shall be liable.

Article 122:

The insane and minors under 14 years old are deemed incompetent. These persons shall not be liable for damage they have caused to others.

Article 123:

Parents, guardians, and other persons who are in charge of or take care of incompetent persons, shall be personally liable for damage caused by those incompetent persons.

Article 124:

Minors aged over 14 years but less than 18 years shall be liable for damage they have caused to others. To compensate for the damage such minors and their parents or guardians shall be jointly liable. In a case where the minors have no funds or no property out of which to compensate for the damage, then their parents or guardians shall pay instead.

Article 125:

State, social, and collective organizations or enterprises shall be liable for damage resulting from the actions of their officials, staff, workers, at the time of, or while performing work for their employer.

Article 126:

Employers shall be liable for damage caused to others, due to acts committed by their employees during, or at the time of, performing work for the employer.

Article 127:

Owners of animals, or person who use animals, shall be liable for damage caused to others by such animals while under their control or where such damage occurred during any time that the animals had escaped or were lost.

Article 128:

Property owners shall be liable for damage caused to others if such damage is due to the owner negligently failing to properly maintain, control or repair the property.

Article 129:

Where damage is caused by a group of offenders, that group shall be jointly liable to the victim. In some cases, the People's Court can decide that each offender shall compensate the victim in proportion to his level of participation in the commission the offense.

The Khmer version is the official version of this document.

Article 130:

Where an offender who is jointly liable with others has paid by himself the whole compensation, he can request a proportionate contribution from the others according to their level of their involvement in the commission of the offence.

Article 131:

Where an organization or a person is responsible for damage caused by another person, that organization or person is entitled to take legal action against that other person to recover the damages.

Article 132:

In a case where the damage is caused partly by the victim, he shall be liable for his part of that damage.

Article 133:

Any person who has caused damage to others is not liable to bear the responsibility resulting from such damages if:

1. The damage was caused by *a force majeure*,
2. The damage was caused entirely by the fault of the victim.

Article 134:

If the damage occurs in a situation where the victim voluntarily agreed to assume the risk of such damage, and if it does not affect or threaten the social interests, no compensation for such damage will be awarded.

Article 135:

The limitation period for claiming compensation for damages will be limited to three years.

CHAPTER IV: FINAL PROVISIONS

Article 136:

All contracts which have been signed before the promulgation of this Decree shall be solved through the policies of the Party and the State, or through customs and traditions.

The settlement of the above said contracts is available only for five years from the date this Decree become effective.

The Khmer version is the official version of this document.

Article 137:

The Council of Ministers, the People's Supreme Court, the Prosecutor General attached to the People's Supreme Court shall be responsible for the implementation of this Decree within their respective capacities .

Article 138:

This Law shall become effective upon its promulgation.

Phnom Penh, 28 October 1988

For the Council of State
President

Signature and Seal
HENG SAMRIN

Kingdom of Cambodia
Nation Religion King

Royal Government of Cambodia
No. 36 ANKrBK

Sub-Decree
on
Contract Farming

The Royal Government

- Having seen the Constitution of the Kingdom of Cambodia
- Having seen the Royal Decree No. NS/RKT/0908/1055 dated 25 September, 2008 on the Appointment of the Royal Government of Cambodia
- Having seen the Royal Kram No. 02/NS/94 dated 20 July, 1994 promulgated the Law on the Organization and Functioning of the Council of Ministers
- Having seen the Royal Kram No. NS/RKM/0196/13 dated 24 January, 1996 promulgated the Law on the Establishment of the Ministry of Agriculture, Forestry and Fisheries
- Having seen the Royal Kram No. NS.RKM.0802/006 dated 15 February, 2008 promulgated the Law on Eco-Safety
- Having seen the Royal Kram No. NS/RKM/0508/015 dated 13 June, 2008 promulgated the Law on the Management of Crop Species and the Rights of Crop Breeders
- Having seen the Sub-decree No. 17 ANKr.BK. dated 07 April, 2000 on the Organization and Functioning of the Ministry of Agriculture, Forestry and Fisheries
- Having seen the Sub-decree No. 105 ANKr.BK. dated 22 August, 2005 on Adding the Roles and Responsibilities to the Ministry of Agriculture, Forestry and Fisheries and the Establishment of the Department of Internal Audit, the Department of Planning and Statistics, the Department of Internal Cooperation, and Information and Documentation Centre subordinated to the Ministry of Agriculture, Forestry and Fisheries
- Having seen the Sub-decree No. 188 ANKr.BK. dated 14 November, 2008 on the Restructuring of General Departments of the Ministry to become General Secretariat, promoting Forest Administration and Fisheries Administration to the level of General Department, promoting the Department of Agronomy and Agricultural Land Improvement to become the General Department of Agronomy and Agricultural Land Improvement, and the Restructuring of the General Department of Rubber Plantation to become General Department of Rubber Plantation under the supervision of the Ministry of Agriculture, Forestry and Fisheries
- Pursuing to the Approval of the Council of Ministers' meeting on the day of...month of....., 20...

DECIDES

Chapter I General Provisions

Article 1

This Sub-decree defines the implementation framework of Contract-based Agricultural Production in the Kingdom of Cambodia

Article 2

This Sub-decree has the following objectives:

- Strengthen the responsibilities and trust between Producing and Purchasing parties on the basis of balance and justice
- Guarantee specific price and the supply of the production quantity and quality
- Improve buying, processing and the exporting of agricultural product
- Involve in national economic development and poverty reduction which is followed the policy of the Royal Government of Cambodia.

Article 3

This Sub-decree has its scope that applies on all types of Agricultural Production Business and Contract-based Agricultural Production in the Kingdom of Cambodia.

Article 4

The key terms used in this Sub-decree are defined as follows:

“Contract-based Agricultural Production” refers to a Production that would ensure the price, quantity, quality and other condition of the product with agreement made prior to the production.

“Agricultural Production Contract” refers to an Agreement of Agricultural Production Business made by two parties or more which is legal binding and shall specify in advance any requirements demanded .

“Agricultural Production Business” refers to any occupations relevant to producing, selling and purchasing agricultural products such as:

- Cultivation of all kinds of crops
- Sericulture, arboriculture, aquaculture, animal husbandry, etc.
- Production of crop seeds, livestock breeds, aquatic animal species, and vegetation species
- Agricultural produce processing
- Contract-based Agricultural Production purchase to supply the markets, for processing factories, or for export
-

“Producing Party” refers to physical or legal person who has specific occupation in agricultural production.

“Purchasing Party” refers to physical or legal person who legally conducts agricultural business and conformed to required procedures.

“Agriculture Communities” refers to Agricultural Development Communities, Union of Agricultural Development Communities, and Pre-Agricultural Development Communities.

Chapter 2 Institution and Coordinating Mechanism

Article 5

The Ministry of Agriculture, Forestry and Fisheries shall be the Lead Body in communicating, coordinating, providing services under its competency, involving in all activities, providing enabling environment to the development of Contract-based Agricultural Production, monitoring and evaluating and making reports to the Royal Government.

Article 6

The Ministry of Agriculture, Forestry and Fisheries shall cooperate with the concerned Ministries and Institutions to do the following roles:

- Bridge investors and farmers, producers, processors in the framework of Contract-based Agricultural Production
- Promote and encourage the formation of associations, agricultural communities, or agricultural organizations as the bases to develop contact-based agriculture
- Improve standard, classification and quality of agricultural products to meet with market demand and international standard.
- Involve in addressing conflicts and problems pertaining to the implementation of Contract-based Agricultural Production on the basis of existing laws
- Facilitate access to on land legal right on the basis of existing law to producing and farming parties to conduct agri-business and agro-industry
- Provide enabling environment to access technical support services, good quality crop seeds, aquatic animal species, vegetation species, animal breeds, means of production, high quality of fertilizers, pesticides.
- Enhance intensive production and agricultural diversification and competitiveness of produce in order to meet with the demand of domestic market and exportation.
- Facilitate agri-business, agro-industry, and exportation
- Strengthen and expand the capacity of checking sanitary and phytosanitary inspection

Article 7

Contract-based Agricultural Production Committee has been established as a mechanism.

The arrangement of this committee shall be defined by the decision of Royal Government.

Members of the committee are as below:

- | | |
|---|-------------------------|
| 1. Minister of Agriculture, Forestry and Fisheries | Director |
| 2. Secretary of State, Ministry of Interior | 1person Deputy Director |
| 3. Secretary of State, Council Ministers | 1person Member |
| 4. Secretary of State, Ministry of Economy and Finance | 1person Member |
| 5. Secretary of State, Ministry of Commerce | 1person Member |
| 6. Secretary of State, Ministry of Environment | 1person Member |
| 7. Secretary of State, Ministry of Land Management, Urban Planning and Construction | 1person Member |
| 8. Secretary of State, Ministry of Water Resource and Metrology | 1person Member |
| 9. Secretary of State, Rural Development | 1person Member |
| 10. Secretary of State, Ministry of Justice | 1person Member |
| 11. Secretary of State, Ministry of Public Work & Transport | 1person Member |
| 12. Secretary of State, Ministry of Industry, Mines & Energy | 1person Member |
| 13. Secretary General, Council for Cambodia Development | 1person Member |
| 14. Secretary General, Council for Agricultural and Rural Development | 1person Member |

15. Chairman of Cities and Provincial Municipals	1 person Member
16. General Director, Rural Development Bank	1 person Member
17. President of Cambodia Chamber of Commerce	1 person Member

The Responsibilities of this committee are:

- Prepare strategic plan policy to promote Contract-based Agricultural Production
- Coordinate and strengthen happiness among Contract-based Agricultural Production parties
- Intervene and solve conflicts and problems arise from Contract-based Agricultural Production which unable to solve by the expertise institutions or need to solve by inter-institution

This committee is assisted by Department of Agri-Industry of Ministry of Agriculture, Forestry and Fisheries.

Chapter 3

The Rights and Obligations of Producers and Purchasers

Article 8

- The producing party has the rights and is obligated to: To comply with the conditions of production on the basis of the agreement
 - To proceed production activities based on seasonal and required timeframe
 - To apply technologies and producing methods as demanded by purchasing party
 - To supply on time appropriate products in terms of grade, quality, and quantity
 - To accept the payments of product value as agreed upon

Article 9

- The purchasing party has the rights and is obligated to: To comply with the conditions of production on the basis of the agreement
 - Determine the commodity items such as their quantities, qualities, place and the date of delivery and acceptance of the commodities
 - Provide agricultural supplies such as vegetation species, crop seeds, aquatic animal species, animal breeds, and provide in advance credit support, technical services, and other supports to producing party to ensure the process and receive good results
 - Pay the agricultural products with specific quantity and quality as agreed upon
 - Pay the commodities to producing party as specified under the conditions and at specific timeframe on the basis of the agreement

Chapter 4

The Format and Implementation of Contract-based Agricultural Production

Article 10

The Contract of Contract-based Agricultural Production shall be in written format and be authentic letter and to conform to the coordinating mechanism cited in Article 7 of this Sub-decree.

The Contract of Contract-based Agricultural Production shall fall under the provision of the Civil Code and the existing law.

Article 11

If there are any conflict or problem regarding the implementation of the Contract-based Agricultural Production occurred, Producing and Purchasing parties shall negotiate with each other in advance based on the condition stated in the contract.

If the problem cannot be solved, both parties shall implement the mechanism cited in Article 7 of this Sub-decree.

Chapter 5 Final Provisions

Article 12

Any provisions contradicting to this Sub-decree shall be abrogated.

Article 13

The Minister in charge of the Office of the Council of Ministers, Minister of Economy and Finance, Minister of Agriculture, Forestry and Fisheries, , Minister of Commerce, Minister of Interior; Ministers, State Secretaries of all line Ministries and Institutions shall be responsible to effectively implement this Sub-decree from the date of signature.

Phnom Penh, Day of Month of , 20...

Prime Minister

Samdech Akka Sena Padei Techo Hun Sen

Receiving Places:

- Ministry of the Royal Palace
- General Secretariat of the Constitutional Council
- General Secretariat of the Senate
- General Secretariat of the National Assembly
- General Secretariat of the Royal Government
- Cabinet of Samdech Prime Minister
- Similar to Article 13
- Royal Compendium
- Archives