Foreign Investment in Agriculture in Cambodia

Expert Meeting on International Investment in the Agriculture Sector of Developing Countries, FAO (22-23 November 2011)

By Cambodia Team, CDRI

1

Contents

- Introduction
- Agriculture in the national economy
- Extent and nature of FDI in agriculture sector
- Policies and regulations
- Preliminary impact assessment of FDI in agriculture
- Conclusion & policy recommendation

2

INTRODUCTION

- Recent surge in FDI in land, agriculture in particular, in Africa, South and Central Asia, Latin America by food- and energy-importing countries after struck by food and energy crises in 2008
- This raises concerns among civil society groups and international organizations on potential impacts of such wave on local communities
- Cambodia, endowed with vast tract of arable land, is also a target of such countries as China, Kuwait, Malaysia, Qatar, Korea and Vietnam, investing in the form of ELCs

3

INTRODUCTION

- Study objectives
  - Examine extent and nature of FDI in agriculture, i.e. crops, livestock, forestry, fisheries, food processing, and policy and regulatory environment and institutions facilitating investment
  - Investigate potential impacts of FDI in agriculture on local communities and environment
- Research method
  - Qualitative analysis using desk review, FGDs, key informant interviews
- Scope & Limitation
  - Limited to a number of case studies, but not representing the sector to elaborate impacts of those investments

4

Agriculture in National Economy

- Agriculture contributes to a round a third of national output

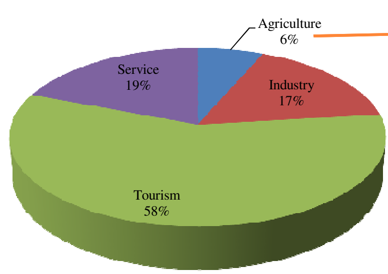
Category	2002	2003	2004	2005	2006	2007	2008	2009
Share of agriculture in GDP (%)	33.3	31.5	32.0	30.7	30.1	29.7	32.8	33.5
Share of employment in agriculture* (%)	67.4	64.2	60.3	59.1	57.4	55.9	-	-
Agriculture value added (KHR billions) (1USD=4100KHR)	5108	5645	5596	6476	6830	7174	7562	7994
Growth of value added (y-o-y) (%)	-2.5	10.5	-0.9	15.7	5.5	5.0	5.4	5.7
Sub-sector shares in agriculture								
Crops (%)	42.4	46.8	46.1	50.9	50.8	52.2	52.7	52.9
Fisheries (%)	31.6	29.1	28.8	26.3	25.9	24.8	25.0	25.2
Livestock and poultry (%)	16.8	16.1	16.9	15.4	15.8	15.6	15.5	15.3
Forestry and logging (%)	9.1	8.0	8.1	7.4	7.5	7.3	6.9	6.6

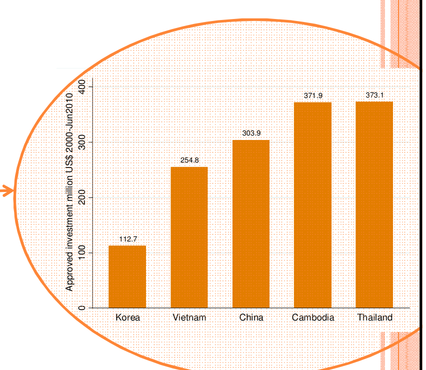
Note: *Data from International Monetary Fund (2007, 2009)
Source: Ministry of Agriculture, Forestry and Fisheries, MAFF (2008, 2009, 2010)

5

Extent of FDI in Agriculture Sector

Share of approved investment values
(accumulated 2000-Jun-2010)





Source: Council for Development of Cambodia, CDC (2010)

6

Extent of FDI in Agriculture Sector

- Investment in agriculture by country (CDC, 2010)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-–Jun 10	Share
Cambodia	3.6	0.4	0.6	0.0	4.1	10.4	141	96.0	38.3	41.9	35.5	371.9	21.6
Japan	-	-	-	-	-	-	-	31.2	-	-	-	31.2	1.8
Korea	-	-	11.4	-	-	-	-	59.4	5.8	3.4	32.7	112.7	6.5
Taiwan	-	-	-	-	-	-	-	-	-	-	3.0	3.0	0.2
India	-	-	-	-	-	-	-	-	-	75.0		75.0	4.4
China	-	-	-	-	-	3.7	72.8	33.2	18.6	134	41.9	303.9	17.6
Singapore	-	-	-	-	-	-	-	-	-	82.1	-	82.1	4.8
Malaysia	-	-	-	-	8.2	-	-	-	-	-	-	8.2	0.5
Thailand	-	-	-	-	-	-	73.1	104	22.8	173	-	373.1	21.7
Vietnam	-	-	-	-	-	-	27.4	43.1	20.9	104	59.8	254.8	14.8
USA	1.3	-	-	-	-	-	58.5	-	-	-	1.7	61.5	3.6
Israel	-	-	-	-	-	-	-	1.7	-	-	-	1.7	0.1
Canada	-	-	-	-	-	5.5	-	-	-	-	-	5.5	0.3
France	-	-	-	-	-	-	-	-	6.2	-	-	6.2	0.4
UK	-	-	-	-	-	-	-	-	-	2.1	-	2.1	0.1
Denmark	-	-	-	-	-	-	-	-	-	-	29.5	29.5	1.7
Total	**4.9**	**0.4**	**12.0**	**0.0**	**12.3**	**19.6**	**373**	**369**	**113**	**615**	**204**	**1722.4**	
FDI	**1.3**	**0.0**	**11.4**	**0.0**	**8.2**	**9.1**	**232**	**273**	**74**	**573**	**169**	**1350.5**	
Share of FDI (%)	**25.5**	**0.0**	**95.0**	**0.0**	**66.6**	**46.6**	**62.2**	**74.0**	**66.0**	**93.2**	**82.6**	**78.4**	

7

Extent of FDI in Agriculture Sector

- FDI in agriculture sub-sectors in mil. USD (CDC, 2010)

Country	Crops	Livestock	Fisheries	Forestry	Others	Total	Share
Cambodia	174.0	3.6	0.4	72.2	121.8	371.9	21.6
Canada	-	-	-	5.5	-	5.5	0.3
China	194.6	-	-	77.3	32.1	303.9	17.6
France	6.2	-	-	-	-	6.2	0.4
Israel	1.7	-	-	-	-	1.7	0.1
Japan	31.2	-	-	-	-	31.2	1.8
Korea	90.1	-	-	-	22.6	112.7	6.5
Malaysia	2.6	-	-	-	5.6	8.2	0.5
Singapore	82.1	-	-	-	-	82.1	4.8
Taiwan	-	-	-	-	3.0	3.0	0.2
Thailand	327.0	-	-	46.0	-	373.1	21.7
USA	1.3	-	-	18.3	41.9	61.5	3.6
Vietnam	236.6	-	-	18.2	-	254.8	14.8
India	-	-	-	-	75.0	75.0	4.4
England	-	-	-	-	2.1	2.1	0.1
Denmark	-	-	-	29.5	-	29.5	1.7
Total	**1147.4**	**3.6**	**0.4**	**266.9**	**304.1**	**1722.4**	100.0
FDI	**973.4**	**0.0**	**0.0**	**194.8**	**182.3**	**1350.5**	
Share of FDI (%)	**84.8**	**0.0**	**0.0**	**73.0**	**60.0**	**78.4**	

8

EXTENT OF FDI IN AGRICULTURE SECTOR

- FDI in food processing in mil. USD

Country	2000	2001	2003	2004	2007	2008	2009	2010	2000–Jun 10	Share
Australia	-		0.7		9.0				9.7	13.0
Cambodia	-	0.8			10.1	3.7	8.5	30.2	53.3	71.3
Canada	-							4.3	4.3	5.7
China	-			0.7					0.7	0.9
Singapore	-							3.8	3.8	5.1
Thailand	-	1.2							1.2	1.6
Vietnam	-				1.7				1.7	2.3
Total	-	**2.0**	**0.7**	**0.7**	**20.9**	**3.7**	**8.5**	**38.3**	**74.7**	
FDI	-	**1.2**	**0.7**	**0.7**	**10.8**	**0.0**	**0.0**	**8.1**	**21.5**	

- Foreign investors mainly engage in production of soya milk, pure drinking water, beer, instant noodle and seafood processing, which indicates no sign of harmful effect on national food security.

9

EXTENT OF FDI IN AGRICULTURE SECTOR

- Foreign investment in Economic Land Concession, ELCs (as of early 2010)

Year	Permitted and ongoing projects				Permitted but later cancelled projects			
	Size (ha)	Minimum size (ha)	Maximum size (ha)	No. of projects	Size (ha)	Minimum size (ha)	Maximum size (ha)	No. of projects
1995	11,000	-	-	1	-	-	-	-
1996	2400	-	-	1	-	-	-	-
1998	60,200	-	-	1	51,500	23,000	28,500	2
1999	33,400	3000	20,000	4	4100	-	-	1
2000	341,898	1070	315,028	5	11,200	3200	8000	2
2001	128,275	5000	100,852	4	-	-	-	-
2004	6100	1200	4900	2	-	-	-	-
2005	67,043	3000	10,000	8	10,000	-	-	1
2006	168,256	4400	10,000	20	40,393	7172	9214	5
2007	29,001	6436	8100	4	8692	-	-	1
2008	40,936	6523	7200	6	-	-	-	-
2009	136,130	807	9820	21	-	-	-	-
Total	**1,024,639**	**807**	**315,028**	**77**	**125,885**	**3200**	**28,500**	**12**
Projects with no reported date and land size				**9**				

Source: Authors' calculation based on data from MAFF website, www.elc.maff.gov.kh/profiles.html (retrieved in October 2010)

10

Extent of FDI in Agriculture Sector

- Economic Land Concession by nationality

Category	Size (ha)	% of total	Mean size (ha)	Minimum size (ha)	Maximum size (ha)	No. of projects	No. of projects >10,000 ha
Active projects							
Unreported	-	-	-	-	-	9	-
Cambodia	668,725	65	18,576	807	315,028	36	6
China	186,935	18	10,996	5000	60,200	17	1
India	7635	1	7635	7635	7635	1	0
Korea	27,622	3	5524	3000	7,500	5	0
Malaysia	7955	1	7955	7955	7955	1	0
Taiwan	4900	0	4900	4900	4900	1	0
Thailand	37,436	4	7487	6523	9700	5	0
USA	36,203	4	9051	7000	9820	4	0
Vietnam	47,228	5	6747	2361	9380	7	0
Total	1,024,639	100	13,307	807	315,028	86	7
FDI	355,914	35				41*	1
Cancelled projects							
Cambodia	34,711	28	8678	7172	10,000	4	0
Chinese	66,800	53	13,360	3200	28,500	5	2
USA	9214	7	9214	9214	9214	1	0
Vietnam	15,160	12	7580	7560	7600	2	0
Total	125,885	100	10,490	3200	28,500	12	2
FDI	91,174	72	-	-	-	8	2

Note: * excluding number of unreported projects

11

Extent of FDI in Agriculture Sector

- Summary of foreign investment activities & locations

Countries	Areas of focus	Locations/provinces
China	Rubber, acacia, cashew nut, less in palm oil, cassava, sugar cane	Kampong Thom, Koh Kong, Kratie, Mundulkiri, Stung Treng
India	Sugar cane	Kratie
Korea	Rubber, cassava & cashew nuts	Kompong Thom, Ratanakkiri, Kratie and Kompong Speu
Malaysia	Palm oil	Kampong Speu
USA	Teak trees, cashew, cassava	Kratie and Kompong Speu
Thailand	Sugar cane, less in rubber, palm oil & cassava	Oddar Meanchey and Koh Kong
Vietnam	Rubber, acacia, less in cashew, palm oil, sugar cane, cassava	Kratie, Ratanakkiri, Mondolkiri, Kompong Thom and Preah Vihear

12

Extent of FDI in Agriculture Sector

- Motivation and barriers to investment in Agriculture, a two-company case studies
- Motivation:
  - Rising demand for agriculture products (corn) at the international market
  - To tap Cambodia's agriculture potential and cheap labour force
- Barriers include:
  - Land tenure & securing lease arrangement: several transactions for lease arrangement, concern over broker
  - Unclear guide of to which government institutions a company should approach
  - Law enforcement remains weak
  - Long administrative procedures
  - Lack of dispute settlement & problem solving mechanisms
- Mitigation/recommendation:
  - Government should adopt computerized investment or business license application
  - Set up problem solving department/section to deal with problems arising during the application process

13

Investment Policies & Regulations

- Investment Law passed in 1994, amended in 2004
- Cambodian Investment Board (CIB) of the Council for Development of Cambodia (CDC) is responsible for overseeing investment (domestic & private) and granting project costing over 2 million USD, but need approval from Council of Ministers if cost is above 50 mil. USD
- Sub-committee on investment could approve investment project costing less than 2 million USD
- Sub-committee members include:
  - Provincial governor as chairperson
  - Representative from CIB as permanent vice-chair
  - First & second provincial vice governors as vice chairs
  - Chief of department of each relevant ministries, namely MEF, MOC, MIME, MPWT, MoE, MLMUPC, MAFF, MoP, MWRM, MoT, MPTC, the Chamber of Commerce

14

Investment Policies & Regulations

- No agriculture sub-sector investment promotion policy, but there are incentives highlighted in Investment Law
- Investment Law 1994, amended in 2004:
  - Zero tariff on import of agriculture materials
  - Qualified Investment Project (QIP) in agriculture subject to max 9 years profit tax exemption in the following sectors:
  - Fisheries: fish hatcheries > 2ha, shrimp farming & other aqua-culture production > 10 ha
  - Forestry: the forestry sectors include: Timber plantation > 1,000ha, tree plantation >200 ha
  - Livestock: cattle husbandry > 1,000 heads, dairy farm> 1,000 cows, poultry farm > 10,000 heads, wild mammal husbandry> 1,000 heads, wild bird husbandry>500 heads, wild reptile husbandry>1,000 heads
  - Crops: cash crop> 500 ha

15

Preliminary Impact Assessment

- Selected case studies

No.	Company	Size (ha)	Location	Sub-sector	Source
1	Koh Kong Plantation Ltd (Thailand, Japan, China, Cambodia)	9400	Botomsakor district, Koh Kong province	Sugarcane plantation	CEA June 2010
	Koh Kong Sugar Company Ltd (Thai)	9700	Chi-Khor Leu commune, Sre Ambel district, Koh Kong province	Sugarcane processing	CEA June 2010
2	Socfin KCD (Belgium-Cambodia)	10,000	Bousra commune, Mondolkiri province	Rubber plantation	CEA May 2010
	DAK LAK (Vietnam)	4000	Bousra commune, Mondolkiri province	Rubber plantation	
3	Tong Ming Group Engineering (China)	7465	Kbal Damrei commune, Kratie province	Forestry (acacia)	CDRI April 2010
4	Tan Bien-Kompong Thom Rubber Development (Vietnam)	8100	Kraya commune, Kompong Thom province	Rubber plantation	CDRI December 2010
5	HLH Agriculture (Singapore)	9800	Oral district and Amleang commune, Kampong Speu province	Corn plantation and drying	CDRI November 2010

16

PRELIMINARY IMPACT ASSESSMENT

- Koh Kong sugar cane plantation (CEA's survey 143hh May 2010)

Opportunities/advantages	Challenges
-Seasonal employment (1,300-3,400) on plantation with daily earning 2.5$ & 511 office staff with daily earning 6$ for the hosting province and neighboring ones -Products are exported to EU markets (foreign exchange earnings) -No evidence of infrastructure development, except for the development of roads to plantation sites	-Land disputes, making villagers lose their main source of income from wet season paddy rice, around 450hh affected -Having no land titles, villagers have to take undesirable compensation of 250-350US$ -Lack or limited help from local authorities -Company guard catch, detain or even shoot villagers' cattle trespassing company's plantation -Concern over polluted water upstream caused by company's disposal of chemical substances

17

PRELIMINARY IMPACT ASSESSMENT

- *Socfin KCD rubber plantation (Mondulkiri,* FGD May 2010)

Opportunities/advantages	Challenges
-8,000-10,000 jobs for the development of the project site, expected to employ at least 1,500 as permanent workers; -Unskilled workers with 5$/day skilled ones with 6.5-8$/day, majority of whom are migrants of neighboring provinces -	-Overlapping claims of land are prevalent in the community; -172-362 affected households; undesirable compensation of 200-250$/ha or exchange for new plots, which are far from village and not fertile enough to be cultivated -Conflicts resolved through Land Conflict Resolution Committee headed by deputy provincial governor & members of district and commune authorities -Loss of income sources from livestock rearing, highland rice & cash crop farming, collection of non-timber forest products (10-15$/week) forcing villagers to go into deeper forest

18

Preliminary Impact Assessment

- *DAK LAK rubber plantation (Mondulkiri,* FGD May 2010)
  - This project is considered a good model for various projects across the country as land disputes were peacefully resolved with high degree of satisfaction from the villagers.
  - Around 40-50% of the company concession land is claimed to belong to local community, where the company accepts the fact.
  - In return, community owning the land accepts company's request to grow rubber trees and sell it the company at 80% of the international market price.
  - The company also provides loan to the villagers with the repayment period of 10 years.
  - The company has donated a school building for the community.

19

Preliminary Impact Assessment

- Tan Bien rubber plantation (Kompong Thom, FGD Dec. 2010)

Opportunities/advantages	Challenges
-Employment opportunities for local community and neighboring provinces with daily earning 3-3.5$	-Loss of traditional source of income, i.e. collection of vine and resin, as company has bulldozed the commune's forest -Several households have lost their cassava plantations to the company investment project -Compensation of 200$/ha for cleared land with planted crop & 100$/ha for newly cleared land without crop -Company has buried streams providing sources for drinking and farming -Commune council has limited authority over the company and follows what is obliged by provincial-level authorities

20

Preliminary Impact Assessment

- HLH Agriculture – corn plantation (Kompong Speu, Nov 2010)

Opportunities/advantages	Challenges
-Employment of 450 workers with daily earning of 2.5-3$	-Rising role of machinery to replace currently created jobs -No business model applied as households cannot afford to buy seeds from the company and machinery -Several households have lost their paddy field and have no access to forest products given the presence of the company -Unfair compensation as some villagers are provided with paddy fields, far from the community, while others get nothing as they do not have land tenure

21

Preliminary Impact Assessment

- Tong Ming Group Engineering (Tree plantation Kratie April 2010)

Opportunities/advantages	Challenges
-Employment opportunities for both local community and workers from neighboring provinces -Evidence of road construction toward the company site, which community could use to some extent	-Land disputes between company and local community are quite common -Villagers no longer have access to forest to collect vines, wood resin, rattan and bamboo or hunt as large proportion of forest belongs to company -Lack of communication between local authorities, community and company -Environmental concern: firm is obliged to keep forest 100m on each side of the stream, but only 10m forest cover on each side of the stream is maintained by firm

22

Conclusion

- Share of agriculture investment to total investment remains low at 6%, with key foreign investors, such as Thailand, China, Vietnam, Korea, engaging in sectors, like crops (rubber, sugar cane, cassava, corn, & cashew nuts) & forestry (acacia, teak)
- Significant rise in foreign investment in agriculture during past years, particularly in the form of ELCs, marking a rising interest among foreign investors in taping Cambodia's agriculture potential
- No specific sub-sectors, i.e. crops, livestock, fisheries, forestry, investment policies, but policies promoting them are to some extent highlighted in Cambodia's Investment Law
- Regulations exist across sub-sectors, but implementation appears inadequate given the *ad hoc* nature of tackling the problems
- Positive sign of rising FDI in agriculture, generating large number jobs, but causing challenges, like land conflicts, loss of traditional sources of income such as non-timber forest products, livestock rearing, paddy rice farming, and concerns over environment resulting from company's cutting down of the trees

23

Policy Recommendation

- Central & local government
  - Apply more transparent, wider stakeholder participation, environmental impact assessment prior to granting ELC projects
  - Demarcate ELC border with close consultation with local community to avoid land conflicts between company and local community
  - More constant monitor of ELC project to prevent sub-standard forest clearance activities, such as filling upstream water sources and excessive logging activities
  - Food security should be taken into serious account in the provision of future ELCs in order to avoid problems of competing land use between industrial crop production for export and paddy rice production for domestic consumption.
  - Take swift step in providing local community with certificate of land ownership to avoid land disputes
  - Future rules and regulations should stress on the protection of rural communities through implementing social impact assessment prior to project approval
  - Local authorities should be more active in protecting affected community

24

POLICY RECOMMENDATION

- Private companies
  - Existing and future ELC holders should be more transparent and accountable for their operations to nearby communities and the public by contributing more to the development and maintenance of local infrastructure.
  - Resolution of conflicts, such as land disputes, should be based on a win-win approach, making sure that local communities do not lose their main source of income without any substitution
  - Companies, ELCs and processing plants in particular should be more responsible for the quality of the environment and the ecological system of the project area.
  - Chemical substances used in factories should comply with environmental regulations so as not to harm people and animals and contaminate water in the surrounding area.

25

POLICY RECOMMENDATION

- Affected communities
  - Communities should maintain good, frequent and direct communication with companies through various community social gatherings and the like.
  - Communities should be more involved with education programmes provided by the authorities and NGOs regarding their rights to property and how to resolve land conflicts.
  - Communities should report any irregular operations of the ELC companies to the commune or provincial authority immediately, for example the filling in of streams or excessive logging.
- NGOs/Civil society groups
  - Local NGOs should actively engage in raising community awareness regarding civil rights and how to exercise those rights.
  - Community NGOs should closely monitor potential conflicts between local communities and ELC companies and compile accounts to inform the public.
  - Civil society groups should advocate for better recognition of community rights by ELC companies and local authorities.

26

Thank you for your kind attention!
Q & A

Contact: hang@cdri.org.kh

27