

► Research Brief

November 2024

Cambodia: Addressing informality in the cashew nut industry¹

Key points

- ▶ Cashew production in Cambodia has expanded rapidly over the last decade, but it is also characterized by high levels of informality, leaving farmers, collectors/ traders and processing workers without access to social protection.
- ▶ Work in the cashew industry and the buying and selling of cashew nuts are both largely characterized by verbal agreements, which combined with the seasonal nature of the sector and a lack of recordkeeping, represents a serious challenge to expanding formalization and social security coverage.
- ▶ There are a few agricultural cooperatives that ostensibly represent the interests of cashew farmers and collectors, but they tend to suffer from a lack of financial and organizational resources. There are no organizations representing the interests of cashew processing workers.
- ▶ There is an urgent need to expand enterprise registration and NSSF coverage, which could be achieved through a combination of awareness-raising, streamlined registration, and incentives such as subsidies and improved access to technical support and low-cost capital.
- ▶ Formalization can also be enhanced by strengthening agricultural communities through improved access to agricultural extension services, resilient cashew varieties and fertilizer, the introduction of crop insurance and price stabilization schemes, and strengthening the capacity of agricultural cooperatives.
- ▶ Formalization can be promoted among cashew processing enterprises through the development of workers' organizations, implementation of labour inspection regimes, provision of skills development, and streamlining of compliance processes.

¹ This brief is based on the report *Diagnostic of Informality in the Cambodian Cashew Nut Industry*, prepared by Dr Thun Vathana, Rachel Brown, Dr Chhun Tory, Thun Vathany and Dr Kong Kyneth for the ILO.

► Introduction

As global demand for cashew nuts has expanded over the last decade, so has the growth of cashew nut cultivation in Cambodia. In the last decade the number of hectares under cultivation has more than doubled and production has soared. But while the industry has expanded and become increasingly professionalized, informality is the norm. Farmers, farm workers and cashew buyers all tend to operate on the basis of informal verbal agreements, and as is common in Cambodia's agricultural sector, coverage under the National Social Security Fund (NSSF) is rare. Smaller cashew nut processors tend to not be registered with the State, and their workers typically lack social security coverage.

Social protection is an integral element of the ILO's Decent Work Agenda. As noted in the ILO Social Protection Floors Recommendation, 2012 (No. 202), social protection represents an "important tool to prevent and reduce poverty, inequality, social exclusion and social insecurity, to promote equal opportunity and gender and racial equality, and to support the transition from informal to formal employment (Preamble)." Social protection offers a key means of mitigating risks faced throughout the life cycle – from birth to old age – and promotes both economic and social stability.

In the initial phase of developing social protection systems in Cambodia, policies were designed to extend social assistance to the poorest of the poor (as exemplified by the IDPoor scheme); while social insurance benefits were directed to formal workers, starting with the garment and footwear industries. The Government has subsequently been making attempts to widen the coverage of social protection through NSSF schemes designed to benefit the Cambodian workforce. The current social protection policy space includes the Employment Injury Insurance scheme, the Social Health Insurance scheme, the Pension Scheme, and a number of cash transfer programmes for poor and vulnerable Cambodians.

This brief presents a summation of a diagnostic study of the Cambodian cashew nut industry conducted with the aim of providing policy proposals aimed at promoting decent work through the formalization of labour and enterprises in the cashew industry and the expansion of NSSF coverage among the industry's workforce.

► Objective and approach

The diagnostic study aimed to derive the following outcomes:

1. Profiles of informal economy workers and other actors within the Cambodian cashew industry.
2. Identification of the main factors that constrain and support the informal economy in the cashew industry.
3. Understanding of the key drivers of labour informality in the industry.
4. Identification of organizations in the cashew industry that informal workers may or may not have access to.

The diagnostic – which covered six communes in six cashew-producing provinces – was carried out between December 2023 and July 2024, and involved the following:

- Desk research of laws, regulations, government strategies and previous research concerning the Cambodian cashew industry;
- Primary data collection through:
 - i. a survey of 120 cashew farmers (20 in each of the six study provinces);
 - ii. six focus group discussions (FGDs) with farmers (one in each province);
 - iii. interviews with 23 cashew nut collectors and 7 cashew processors;
 - iv. one FGD with cashew processing workers; and
 - v. key informant interviews with government officials, development partners and leaders of agricultural cooperatives/communities.

► Overview of the cashew nut sector

Size and growth

The most recent estimate from the Cashew Nut Association of Cambodia (CAC) reveals the harvested area of cashew nuts to be close to 500,000 hectares as of 2022 (CAC, n.d.). More importantly, the Government of Cambodia is committed to the expansion and growth of the cashew nut industry, with their support culminating in the aforementioned National Cashew Policy 2022–2027 (NCP), which seeks to increase cashew nut processing in Cambodia by 25 per cent by 2027 and by 50 per cent by 2032.

Cashew farms exhibit a great degree of physical and geographic diversity, but cashew nut cultivation ultimately shares similar traits across the country. While there are a handful of plantations with several hundred hectares of land, the average cashew nut farmer has approximately 2.7 hectares of cashews, and this is where the majority of production results from (Cambodia, Ministry of Planning, NIS 2021). The farm-gate price for raw cashew nuts (RCN) typically hovers around US\$1.25 per kilogram; while the international price per kilogram of processed cashew nuts is around US\$15, and domestically a kilogram of processed cashews is approximately US\$10 (Siv, Adamson and Griffith 2021). This per kilogram price of RCN is nearly quadruple that of rice, but cashew cultivation requires more specialized techniques and capital investment.

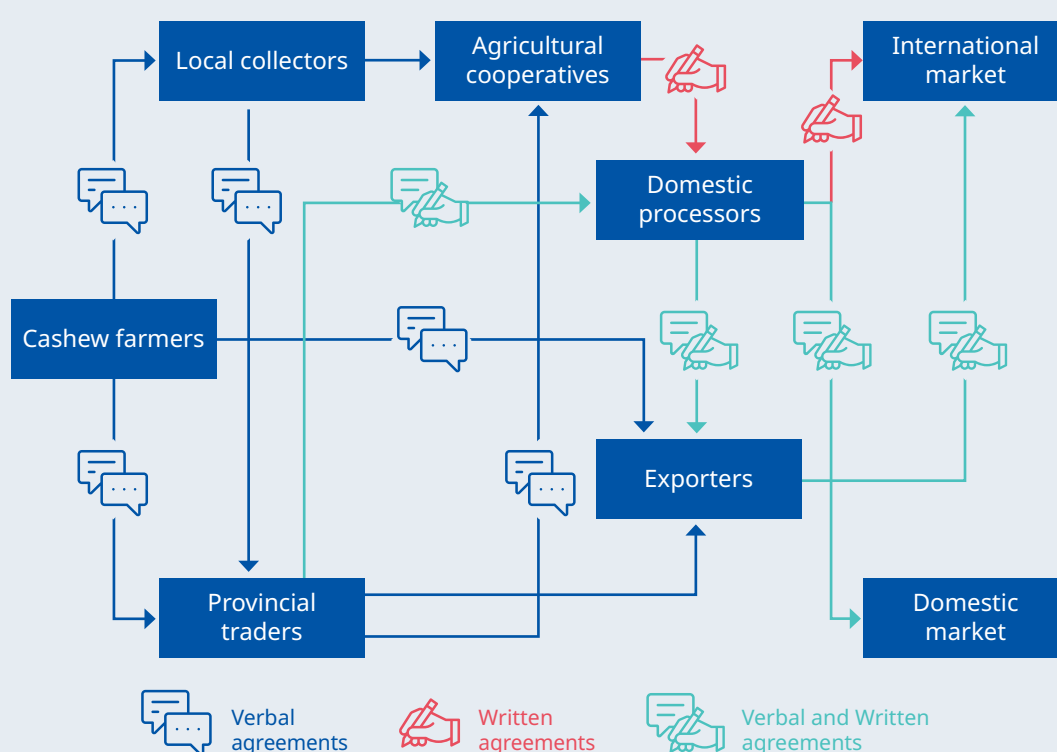
Cashew cultivation practices do not vary greatly depending on farm size, but the type of labour utilized tends to vary. Larger farms will rely more on hired labour, whereas smaller farms generally rely on household or extended family labour. Farmers face a range of challenges and constraints, including soil fertility depletion, high prices for fertilizer, limited bargaining power, volatile prices, limited market information and land scarcity.

Cashew nut processing begins by sorting dried RCN by size, and then steaming the nuts in order to soften their shells. At this stage, cashew nuts can be roasted, and depending

on the degree of roasting, this can be an important value-addition step. Next, the nuts are shelled – often by hand, but sometimes with a machine – and the kernels are dried and humidified. Finally, the kernels are peeled and then graded for market. During processing, cashews can be damaged if they are left on the floor and it rains or if they are jostled and bruised during transport. Factory workers of varying degrees of informality are critical to cashew processing, but they can face health issues related to excessive exposure to cashew nut shell liquid, which can happen as a result of hand processing (JICA 2022; Siv, Adamson and Griffith 2021).

In cashew growing villages, there are traders/collectors that buy the RCN, sometimes storing the product for a day or two beneath their house before selling to larger provincial traders or, depending on their proximity to the Vietnamese border, exporting it directly. Traders and collectors are often generalists, and usually trade multiple products in addition to cashews (Prak and Rat 2019). Provincial traders have limited options for domestic distribution, and thus have limited bargaining power with Vietnamese buyers. Over 90 per cent of the RCN produced in Cambodia is exported to Viet Nam, and the majority of the processed cashew nuts produced in Cambodia are exported to Asian countries such as Thailand, China and the Republic of Korea (JICA 2022).

► Diagram of the Cambodian cashew nut value chain



Seasonality

It is inherent within agricultural sectors that incomes and work tasks vary from season to season. Cashew seedlings are planted between April and June, and are harvested between February and May, which is when farmers earn their income from the crop.

Collectors buy cashews from January all the way through June, but others prefer to concentrate their efforts across two months, most commonly during March and April. Large cashew nut processing facilities are less affected by seasonality than other actors in the sector because they typically have better storage facilities for the RCN, allowing them to process cashews throughout the year.

Employment in the cashew industry

The vast majority of actors in the sector are farmers, and most of the labour is performed by informal labourers working for informal enterprises. As such, only a small minority of workers in the sector are registered with the NSSF.

Similarly, the majority of the hiring and buying agreements among cashew nut actors are informal. They are typically verbal arrangements and the price of cashews is determined at the time of sale.

Study participants reported that the hiring arrangements for farm labour were only verbal agreements, and these agreements were made day by day based on the needs for each given day. Labourers are hired from within the village based on social networks and word of mouth. Because the farmers and labourers reside within the same community, social peer pressure functions as a means to enforcing the terms of the verbal agreements. In this way, there is greater social accountability compared to other agri-food industries where hired labourers tend to be migrants from other provinces. In some provinces, the average wage rate for cashew farm labourers was 100–500 riel per kilogram of cashews harvested, with the rate going up as high as 1,000 riel per kilogram in other provinces. As such, the average worker can earn approximately US\$7 to US\$9 per day.

The hiring arrangements for cashew processing workers vary from facility to facility. Some processing facilities hire staff on a monthly basis through a written contract, and other processing facilities use daily verbal agreements. In one processing facility, workers are given a six-month training period where they are paid a day rate, and upon successful completion of the six-month period they are converted into

formal staff with monthly contracts. The workers that have monthly written contracts had NSSF contributions made on their behalf by the employer.

Buying and selling arrangements

Farmers commonly decide on whom they will sell their crops to by asking several collectors about their buying price to ascertain where they could earn the greatest profit. Many farmers also said that they are influenced by seeing who their neighbours are selling to.

Farm owners mostly forged verbal agreements with buyers. Only 5 of the 120 farmers in the study had a written contract with a collector. Farmers may negotiate the price over the phone several hours or a day in advance, but no formal contract is agreed upon.

A majority of surveyed farmers felt that they have no ability to negotiate with collectors for a higher RCN buying price, and that they had to accept the available price that the collector offered. Similarly, collectors also felt they had limited price setting power, as the price was ultimately determined for them by the larger trader, exporter or agricultural cooperative to which they sell. These larger buyers are themselves limited by international commodity market prices.

Collectors and traders that export RCN to Viet Nam typically have verbal contracts with Vietnamese buyers, and the arrangement is the same as domestic RCN exchanges. The Cambodian collector will pay for labelling the cashews and transporting them to the border, but a Vietnamese buyer will pay the customs fees needed to bring the RCN into Viet Nam.

Organizations in the cashew nut industry

The main organizations that both formal and informal workers in the cashew nut sector can be part of are agricultural cooperatives (ACs). AC members can include both cashew farmers and cashew collectors, and the cooperative itself can also be a supplier to processors and exporters.

ACs can provide training to farmers on agricultural techniques, provide small loans, help connect farmers with collectors or processors, supply inputs, and consolidate and sell the crops of member farmers. A single AC may serve farmers that grow multiple different types of products, and as such may buy and sell multiple products. Farmers may be

incentivized to sell to collectors that are AC members if they have increased trust that the collector will offer them a fair price. ACs will sometimes sign a contract to supply a specific volume of cashews to a local processing facility so they can guarantee an RCN buyer for their members. However, the price is not determined until the time of sale. ACs also provide a communication link between the Government and the farming community.

By consequence of the many services that they might provide and their number of possible linkages across the industry, ACs could potentially serve as a formalizing force in the cashew industry. However, they are hindered by a significant dearth of financial and organizational resources. One challenge ACs face is the lack of domestic cashew processors. Without the organizational capacity and buying power of processors, ACs dealing in cashews tend to be smaller and significantly less organized – if they exist at all. As such, many cashew-related ACs function primarily as a group of collectors that share information and do not offer other services. It is perhaps not surprising then that very few of the cashew farmers surveyed for this study reported belonging to an AC.

There are two national cashew organizations in Cambodia, the Cambodia Cashew Federation (CCF) and the Cashew Nut Association of Cambodia (CAC). The CCF works primarily to commercialize the cashew industry in Cambodia by improving and scaling up processing, increasing exports, and securing lower interest loans for industry actors. The CAC, based in Kampong Thom, also seeks to scale up processing facilities, but works with local ACs through technical training and increasing capital capacity. Several of the processing facility owners and managers were familiar with the CCF and CAC as resources for training and technological improvements, but the processing workers had no involvement with these organizations.

► Drivers of informality

Seasonality and income insecurity

For most of the farmers, labourers and traders in the cashew industry, their next month's income is uncertain, as it can disappear due to climate events, market price drops, pest infestations and other erratic events. Seasonal income flows are a major challenge for the transition to formality for two key reasons:

1. If farmers are uncertain about their income for the coming month, then they will be reluctant to devote any income to anything that they perceive as not being a strict necessity.
2. Processors are hesitant to hire staff on an extended contract basis (as opposed to a daily basis), making it difficult for farm workers to have the kind of stable employment associated with making NSSF contributions.

Lack of awareness

While many participants in the study were unclear about how government health insurance works, let alone for the NSSF system as a whole. Many farmers understood that a component of the NSSF programme was meant to provide for health insurance, but far fewer were aware of the other components such as pension benefits and disability insurance.

Negative perceptions of public healthcare

Individuals were more trusting of NGO- or private-run healthcare than the public healthcare system. There were concerns about the quality of public healthcare and whether or not they would receive adequate care. Additionally, remote farmers can live a several hours drive away from public health facilities, rendering them less effective.

Limited incentives for enterprise registration

Collectors and farmers have minimal incentives to register with the Government as a formal enterprise. These are essentially microenterprises run by a single individual or household who can register for NSSF benefits without needing to register their enterprise, leaving them little incentive to do so.

Limited capacity of agricultural cooperatives

Across most of the cashew sector, ACs are small and fractured. In many cases there is no notable difference between selling to an AC or selling to an independent trader. ACs have limited organizational capital and financial capacity, which constrains their ability to provide additional social benefits to farmers.

ACs also tend to keep no formal records beyond membership lists or lists of collectors that they buy cashews from.

Limited incentive for small processors to register their workers

While the processors interviewed for the study were all formally registered with the relevant government ministries, some of the workers employed by these processing enterprises were not registered with the NSSF.

► Recommendations

Expanding NSSF coverage

Recommendation 1. Develop awareness campaigns for NSSF services and registration processes

To increase NSSF registration among informal workers and self-employed individuals in the cashew nut industry, the first step is to increase awareness of NSSF benefits, eligibility and registration processes. An awareness campaign can be accomplished through three key avenues:

1. First, a top-down approach led by the Ministry of Labour and Vocational Training (MLVT) in which concise information about eligibility, benefits, contributions and registration is dispersed through training workshops held with successive levels of government, starting with the provincial-level labour offices and ultimately moving down to village offices. Village and commune offices will then host training sessions for their constituents.
2. Provide training sessions for AC leaders, provisioners of agricultural extension, and local NGOs so they serve as a resource for farmers to obtain information about social protection services.
3. Initiate social media campaigns, primarily using Telegram and Facebook.

Recommendation 2. Streamline registration with the NSSF at One Window Service Offices, online and at the commune level

An acute barrier when it comes to the self-employed registering with the NSSF is that registration must take place at a designated NSSF branch, which are located in provincial centres. Proof of self-employment and a national ID card are also needed, which may be challenging for some farmers to present. But there are policy options that can be utilized to ease the burden of registration. First, NSSF registration can be integrated into Cambodia's One Window Service Office (OWSO) initiative. OWSOs are conveniently located at commune offices and Cambodians are already familiar with the process of applying for documents at the local OWSO, so they are an ideal location for NSSF registration. NSSF registration could also be offered online with the support of third party agents, which would make the process more accessible for individuals who live far from commune offices. Digital registration would also consolidate data collection and sharing, and reduce administrative costs.

Recommendation 3. Subsidize payment plans for NSSF contributions

The cost of monthly contributions is a significant deterrent to NSSF registration for self-employed individuals such as farmers and cashew collectors. This challenge is compounded by the seasonality of incomes. This being the case, there are two principle options that can be explored to reduce the financial burden of NSSF registration. First, instead of monthly payments, cashew farmers and collectors could instead pay into the programme one or two times per year during cashew harvest season when they have increased liquidity. The second potential strategy would be to either partially or fully subsidize the NSSF contributions of self-employed cashew farmers. A combination of these two strategies could be pursued where farmers only pay the NSSF contribution rate during harvest season, and during the other months the contribution is fully subsidized.

Recommendation 4. Provide improved access to technical support, low-cost capital and market linkages

NSSF registration could be promoted through the provision of technical support. For example, processors that register their workers with the NSSF could be entitled to trainings on roasting, waste reduction and bookkeeping to secure

international certifications. The second incentive that could be offered to processors that register all employees with the NSSF is being able to access larger, more inexpensive sources of capital.

Farmers and traders/collectors can be incentivized to register as formal enterprises by providing registered enterprises with access to lower cost sources of capital. Cashew farmers and traders have limited access to low-cost sources of capital, which can lead to them taking high interest loans from private lenders or risky informal loans from their buyers. If registering as an enterprise was a pathway for farmers and traders to access capital on better terms, then registration rates could increase substantially, while also better allowing for farmers and traders to invest in improved equipment and storage.

Strengthen agricultural communities

Recommendation 5. Provide improved access to quality agricultural extension services

The first priority towards boosting cashew cultivation productivity is increasing the accessibility and quality of agricultural extension services. Extension services that train farmers on conservation agriculture, effective fertilizer and pesticide usage, and irrigation management can be considered the highest priorities, since these can most directly improve climate resiliency and reduce input costs. The MLVT's new programme on cashew cultivation can incorporate these elements into its current training. The programme can also be scaled up by offering part-time, weekend and night classes in order to increase equity and accessibility.

Recommendation 6. Provide improved access to resilient cashew varieties and more affordable fertilizer

Research and development into pest-, disease- and climate-resilient cashew varieties can encourage the sustainable formalization of Cambodia's cashew nut sector. If farmers grow cashew varieties that are more robust in the face of erratic climate patterns, then they will experience less income volatility and can improve their financial planning. Similarly, increased research and development towards high-efficiency, non-synthetic and domestically produced

fertilizer can also be considered as a long-term priority for both the cashew sector and the agriculture sector as a whole. Farmers currently struggle to afford the high cost of often low-quality inputs, but the development of domestically produced, high-quality fertilizer would reduce this burden. Farmers could boost their production while reducing their costs, thereby increasing disposable income, which could better enable them to become NSSF members.

Recommendation 7. Develop agricultural insurance as a safety net against crop loss

Agricultural insurance protects farmers against the risk of extreme crop loss and can be developed upon a weather index based on temperature or rainfall. Agricultural insurance is a long-term risk mitigation strategy that will require significant government financial and organizational support in order to scale up and maximize effectiveness. To encourage the scaling up of agricultural insurance to encompass cashew farming, MAFF can invest in weather data and remote sensing infrastructure that will enable cashew weather indices to be developed.

Recommendation 8. Introduce price-stabilization schemes

In addition to yield fluctuations, price fluctuations are a major challenge for actors in the cashew nut sector, particularly farmers. To curtail the risk of market volatility the Government might consider guaranteeing a buying price for cashews through ACs. Through this policy option, during the planting season, the Ministry of Agriculture, Forestry and Fisheries (MAFF) would announce a guaranteed buying price for RCN through which all AC members could sell to their AC, and MAFF would provide financial support for the difference between the guaranteed price and the market price. Another policy option to promote price stabilization would be to encourage contract farming in which farmers sign contracts with buyers (such as ACs) for a specific volume of cashews at the beginning of the season for a set price. It is acknowledged, however, that both of these potential options face numerous challenges that may limit their ability to be implemented.

Recommendation 9. Strengthen the capacity of agricultural cooperatives

ACs can serve as a formalizing force in the cashew nut sector by improving cultivation and processing efficiency. However, they are hampered by limited capital and management

capacities. However, there are four key ways in which ACs can better serve the cashew sector's transition to formalization, and enhance its productivity as a whole:

1. Firstly, ACs can partner with domestic processing facilities. ACs that are partnered with processors have more members, operate with greater organization, and achieve fast sales for their members. MAFF can help to partner ACs with processors.
2. ACs could provide a low-cost source of credit for both farmers and traders. If ACs can provide a source of low-cost credit with no collateral requirements for members, then farmers and traders would have a greater ability to invest in technology and other productive assets. Such loans could be sourced through and guaranteed by banks partnering with the MEF.
3. A digital information updating system between ACs and local government would allow for the Government to provide better support to ACs. It would allow for faster communication between government agriculture offices and local ACs, enabling MAFF to quickly be aware of the greatest challenges that ACs are facing and how they can provide appropriate support.
4. ACs can improve their effectiveness by actively coordinating and connecting farming members and cashew nut collectors.

Promote formalization and worker organization among cashew processors

Recommendation 10. Develop cashew processing worker organizations to protect processing workers' rights and promote their interests

The growth of production and processing is an integral goal of the NCP 2022–2027, and ensuring that processing worker rights are protected should be a priority. Providing a forum for processing workers to voice grievances and labour rights violations could secure their protection, but currently cashew processing workers have no collective representation in organizations specifically focused on agri-food and processing workers. Without being organized, workers are more vulnerable to workers' rights deficits, have less power in salary negotiations, and have to rely on less efficient and effective forms of communication with

processing facility management and local government. If a processing worker association is formed either in conjunction with local ACs or independently, it can act as a bridge between processing workers, local government and processing facility management. Consequently, bargaining power and preservation of rights can be enhanced.

Recommendation 11. Address labour law and OSH violations through regulation, inspection and awareness campaigns

Labour Law and occupational safety and health (OSH) violations appear to be common in the industry, especially in relation to processing facilities. Greater adherence to labour and OSH law could be spurred on by the formulation of ministerial guidelines agreed between the MAFF and MLVT that provide guidance on the application of these laws to the agri-food sector. Such guidance would need to be reinforced by promotional activities as well as labour and OSH inspections, suggesting the need for a strategic approach that combines awareness, inspection and enforcement to ensure compliance with the law and to promote the well-being of workers and the formalization of enterprises.

Recommendation 12. Reduce skills gaps in cashew nut processing to increase value addition

The first priority towards achieving value addition post-harvest is to improve the training of and technological resources available to processors. Processors could be supported to enrol in existing training programmes instituted by development partners. Trainings should be prioritized towards roasting and achieving standards required by high-value markets (with the latter done in conjunction with the MoC and development partners). Collectors should also be incorporated into training programmes with a focus on proper cashew nut inspection and storage.

The ability of Cambodian processors to compete with neighbouring countries could be improved through expanded processing of cashew by-products. Cashew by-product processing can reduce waste and add an extra source of revenue for processors. Increased investment in processing capital is needed to obtain the machinery used to process by-products, and the MoC can assist with securing market linkages towards selling by-products abroad. Training in how to process by-products such as cashew meal and cashew shell liquid can be incorporated into institutional worker training programmes.

Recommendation 13. Provide low-cost electricity and capital for processors to increase their competitiveness

Compared to their international competitors, Cambodian processors have higher input costs for elements such as capital, electricity, transport and labour. To reduce input costs and increase competitiveness, MAFF and the MEF can consider electricity subsidies and reduced rates of borrowing for processing facilities.

Recommendation 14. Make the compliance process for cashew processing facilities less time-consuming

Inefficiencies in the Government's regulations compliance process need to be reduced so that processors are not discouraged from seeking out and maintaining formal status. Processors described spending up to a month or more on activities related to compliance, typically regarding superfluous recordkeeping and compiling data about processing, hiring and tax records. While maintaining sufficient records is essential to develop a case for investment and to plan for future business decisions, the process has significant potential to be streamlined to save companies substantial time and resources. The MEF, MAFF, and MISTI should consider standardizing procedures and clearly establish when the processor must submit new documents, since many processors were uncertain about these requirements. These ministries could establish an

automatic system to contact processors directly when updated information is needed. Developing methods for better IT management and digital data keeping could also help companies reduce the time spent on data collection. Finally, rather than monthly or biannual compliance updates, ministries could consider only annual compliance updates from companies.

► References

CAC (Cashew Nut Association of Cambodia). n.d. "Background of CAC", available at: <https://en.cac-official.org/news/background-of-cac/>.

Cambodia, Ministry of Planning, NIS (National Institute of Statistics). 2021. *Report on the Cambodia Labour Force Survey 2019*.

JICA (Japan International Cooperation Agency). 2022. Data Collection Survey on Development of Agricultural Value Chain in Cambodia.

Prak Sereyvath and Rat Rotana. 2019. *Cashew Production, Processing and Commercialization in Kampong Thom and Preah Vihear Provinces: Field Assessment Report*. CIRD, CPSA, and GrowAsia.

Siv, Kong, David Adamson, and Garry Griffith. 2021. "Profitability of Cashew Nut Processing in Cambodia." *Australian Agribusiness Perspectives* 24: 282–310.

Contact details

International Labour Organization
Joint Programme Office of Cambodia
Phnom Penh Center, Building D, Corner
Street 274 and 3, Phnom Penh
Cambodia

T: +855 23 220 817
E: phnompenh@ilo.org

DOI: <https://doi.org/10.54394/FPTH2745>