



CAMBODIA: Agricultural Cooperatives and their Contribution to Agricultural Finance

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Frank Bliss

Agricultural cooperatives in Cambodia and their contribution to agricultural finance

The cooperative sector in Cambodia today comprises over 1,200 individual cooperatives, which have had formal status since 2013 through the Law on Agricultural Cooperatives. Based on this, they can conduct commercial business, accept savings money in addition to their cooperative deposits, and grant loans to their members. Since 2003, the German Cooperative and Raiffeisen Confederation (Deutscher Genossenschafts- und Raiffeisen-Verband, DGRV) has been supporting hundreds of individual cooperatives through the two non-governmental organizations (NGOs) Buddhism for Development (BfD) and the Cooperative Association of Cambodia (CAC), as well as the national cooperative federation of Cambodia and the department of the Ministry of Agriculture, responsible for cooperatives. It does so by providing advice and a small loan fund.

As part of a study conducted by the Institute for Development and Peace (INEF) at the University of Duisburg-Essen in February and March 2022, 15 cooperatives in the Cambodian provinces of *Battambang*, *Siem Reap*, *Kampong Chhnag*, *Kampong Speu* and *Kampot* were visited and members, as well as representatives of the board of directors were interviewed in group discussions about the structure of the respective cooperative, its current services for members with a focus on “agricultural financing”, as well as the impacts achieved as a result. The findings of the study are intended to contribute to a better picture of the overall situation of agricultural financing in the context of development cooperation (DC).

Cambodia, agriculture, cooperatives, agricultural finance, poverty reduction

Project background

Cambodia’s agriculture is characterized on the one hand by small farms and microfarms, and on the other hand by “Economic Land Concessions”, some of which are rubber plantations covering an area of several thousand hectares. Against the backdrop of *Khmer Rouge* rule between 1975 and 1979, which imposed totalitarian collectivism on the country, the idea of cooperation in the agricultural sector found little support at first, even among the small farms / microfarms and their problems in accessing inputs (fertilizers and seeds), machinery and all the difficulties associated with marketing. It was only when a microfinance market developed in Cambodia around the year 2000 (cf. Bliss 2022) that stronger cooperation occurred in the villages. This is due to the fact that the microfinance market sometimes required a group application as a condition for borrowing in the farming sector (i.e. loans were not granted to individual families, but only to small groups of farmers).



The formation of (initially informal) cooperatives also offered poor households a way to access agricultural credit by having members provide guarantees for each other. Hence since the year 2000 cooperative initiatives have emerged throughout the country. However, they initially had little experience in working cooperatively beyond the provision of guarantees within the group, and their members also worked largely independently of each other. After the *Royal Decree* on the establishment and registration of agricultural cooperatives was passed in 2001, it took another two years before the first agricultural cooperative was officially established.

In this situation, the German Cooperative and Raiffeisen Confederation (DGRV) was able to submit an offer of comprehensive support for the Cambodian cooperative sector in 2003 with funds from the Federal Ministry for Economic Cooperation and Development (BMZ) within

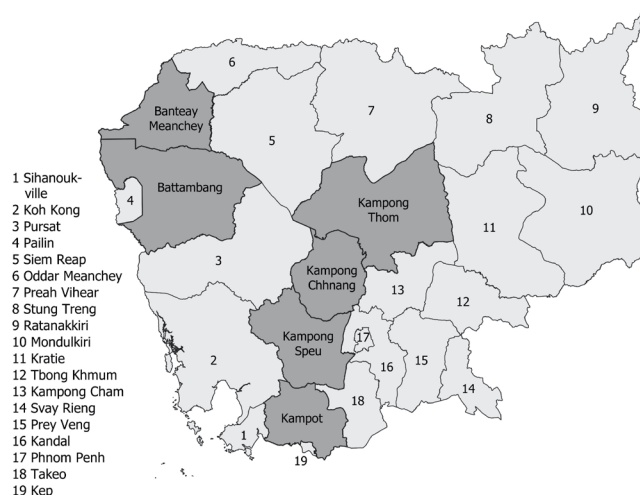
the framework of so-called social structure support. As part of a multi-level approach, the DGRV supported the Ministry of Agriculture in setting up a working unit responsible for cooperatives and in drafting the Cooperatives Act of 2013. To this day, the department's employees receive support, for example through seminars or the exchange of experiences with the DGRV.



At the meso level, the two Cambodian NGOs Buddhism for Development (BfD) and the Cooperative Association of Cambodia (CAC) were supported in building capacity for sustainable coordination of individual cooperatives as well as their education and training. To this end, specialist teachers have been trained in organizational development (e.g. “How does a board of directors work successfully?”) and especially in administrative work (e.g. good bookkeeping, purchasing and sales management, reporting), who pass on their knowledge to the individual cooperatives and provide them with targeted advice as needed.

The main target group of DGRV activities are the individual cooperatives themselves and their members at the micro level. Membership in cooperatives is currently particularly attractive because of their role in agricultural financing. Thus, savings deposits can be deposited daily and – within the limits of available funds – smaller loans, e.g. for the purchase of fertilizer and seeds, can be disbursed quickly in the village. The interest rates are lower than those of *private money lenders*, and the application procedures are much simpler than those of the numerous microfinance institutions (MFIs). Because the members of the village have known each other for a long time, the boards of the cooperatives do not have to carry out extensive credit checks. In addition, members receive interest on their savings deposits and a dividend on their share certificates. In addition, there are other

services that are currently only being developed slowly: joint purchase of seeds and fertilizers as well as pesticides, provision for the loan of small agricultural equipment such as motor pumps for irrigation, hand tractors or rice husking machines.



Country background and project integration

Cambodia currently has 17.3 million inhabitants with an annual population growth of about 1.5%. Although 32.1% of the total land area of 176,515 km² (plus 4,520 km² of water area) is considered theoretically usable for agriculture, only 22.7% of the area is actually cultivated, partly due to flooding during the rainy season. The agriculturally important lowland areas are already densely populated and there is a shortage of arable land, inter alia being the result of a government policy which granted numerous “Economic Land Concessions” to national and foreign companies in recent decades, ultimately taking them away from the farming population.



Due to the impact of the COVID-19 pandemic, the poverty rate has risen again to around 18%, having already fallen to around 13% in 2020 (from 35% in 2010). In the capital Phnom Penh, this figure is only 4.2%, while in other urban areas it averages 12.6% and in rural areas, where almost three-quarters of the people live, it is 22.8% (see ADB 2021, KoC.NIS 2020; World Bank 2022). A structural cause of poverty in rural Cambodia is the limited access or lack of access to arable land for many families. Around 30% of households here do not own land and the average amount of land owned by farms is between one and one and a half hectares, depending on the source.



Although gross national income (GNI) data has been steadily increasing over the last decade, in particular, with the industry showing strong annual growth (and the textile industry alone contributing 40% to GNI), almost one in two workers is still employed in agriculture. An INEF survey conducted in February 2022 found that out of 1,388 households surveyed, 62.6% reported that their main income came from agriculture. In second place is wage labour, which on the one hand is also based on agriculture, but especially for women on the textile industry (cf. Bliss 2022).



Given the continued importance of agriculture for income generation, but also in view of the problems of limited access to land and the correspondingly low production value for most households, contributions to increasing land productivity represent an important support to stabilizing incomes. The credit system is intended to make it possible to at least optimally utilize the available land by pre-financing cultivation. In addition, farmer cooperation is optimized. This can also be implemented, in particular, by promoting agricultural cooperatives, which is currently done mainly by the DGRV.



The day-to-day business of cooperatives

The cooperatives each have between under 50 and over 1,000 members. Almost all of them were founded between 2002 and 2005. They started “small” with share certificates of 1,000 to 5,000 riel (US\$0.25-1.25) and savings deposits of 1,000 to 12,000 riel per month (US\$0.25-3.0) per member. To date, women and men are present in roughly equal proportions overall, with the proportion of women in our small sample varying from three quarters to less than a quarter.

In almost all 15 cooperatives visited, the number of members and deposits (share certificates), savings deposits and loans disbursed increased slowly but steadily in recent years. Deposits in one cooperative, for example, reached 100,000 riel (US\$25) per share certificate today. Members may also purchase several share certificates. In the case of certain cooperatives, this has generated more than US\$25,000 in capital. Together with savings deposits, the available capital at one cooperative reaches over 972 million riel or US\$234,000.

Almost always, the savings deposits as well as a large part

of the share money are “in transition” in the form of loans to the members. As a rule, these are awarded to members of the cooperative starting at 500,000 riel (US\$125). The upper limit in our sample is 10 million riel (US\$2,500). The loans are primarily used to pre-finance agricultural production, but also to buy equipment (such as the widely used hand tractor (*kuyūn*)) or animals (especially cattle, pigs or larger quantities of chickens or ducks). If applicable, a loan may also be used for household goods, and members can always cover medical expenses with a loan.

As a rule, the interest rates taken by the cooperative are the usual MFI rates of 18-20% (incl. 1 - 2% “handling fees”). The loans can be obtained quickly and are much cheaper than those from *private money lenders*, who are happy to charge 10% per month or even more (!). The share certificates bear interest of 8-10%, plus a share in profits if applicable. This makes saving in the cooperative even somewhat more attractive than with MFIs or banks.

Other services provided by the cooperative include the provision of agricultural inputs such as seeds, fertilizers and plant protection products. Individual cooperatives also have farming equipment on loan, which was provided, for example, through an Asian Development Bank (ADB) project. One cooperative specializes in pepper and was able to conclude a long-term purchase agreement with a German spice company through the mediation of the DGRV.

All board work, including the credit business, has so far been carried out on a voluntary basis by the chairperson and several other board members in accordance with the Cooperative Societies Act. Only in the case of the provision of equipment is one employee paid in some cases.

Project impacts achieved so far

DGRV support achieved success in three areas: (i.) At the grassroots level, the structures of the cooperatives are strengthened, in particular the boards and the formal “framework”, i.e. the interaction between the responsible stakeholders like chairperson, treasurer, credit officer and, if applicable, warehouse manager and/or and machine supervisor. Courses in transparent and responsible financial management in general and accounting and membership management in particular are a focal point. (ii.) At the meso level, the support of the Cooperative Association of Cambodia is the second focus of the ad-

visory activities. (iii.) Finally, the Ministry of Agriculture was already supported in 2011-2013 in the drafting of the Cooperatives Act (cf. KoC 2013). Advice to the Ministry in the subsector is currently ongoing.



With resources from a revolving loan fund, partner organizations were able to pass on loans of funds to their member cooperatives at the meso level. Initially, the fund was US\$250,000; most recently, it grew to about US\$500,000 through redemption and interest. The fund now has to be restructured because, according to new legislation, only cooperatives are allowed to lend, but not to NGOs that do not have an MFI licence themselves.

Through the education and training contributions of the DGRV and its partner organizations, the two NGOs BFD and CAC, the cooperatives have so far been able to set up their formal structures in accordance with national requirements and thus meet the state requirements for their savings and credit operations. At the same time, the Ministry of Agriculture received the aforementioned support from DGRV experts in the drafting of the Cooperative Act of 2013 and, most recently, in the formulation of a decree for the implementation of the Agricultural Cooperative Development Fund (ACDF) stipulated in the Act. The main focus of the funding is currently the support for the development of a National Policy for the Promotion of Agricultural Cooperatives and the formulation of the Agricultural Cooperative Strategic Promotion Plan 2023-2033. The sub-decree establishing the ACDF (Art. 11, Law on Agricultural Cooperatives) has since been forwarded to the Ministry of Economy and Finance for revision, according to information provided by the Ministry of Agriculture in February 2023.

For many households, agriculture is only one (important) source of income. Members of many small and very small farming households in particular also work as wage labourers (cf. Güldemann et al. 2021). This makes it all the more important for them to get support for their agriculture. In the medium term, therefore, the cooperatives are in demand not only with regard to the provision of inputs and agricultural technical advice, but also with regard to marketing, which is particularly difficult for part-time farms that are not located close to cities with large and virtually “automatic” demand.



An analysis of the “performance” of the cooperatives supported from the beginning of 2021 shows the clear developments between 2014 and 2020. The areas of board work, organizational management, finance and administration, services and business development as well as external communication were included in the analysis. In the 53 cooperatives surveyed, the proportion of good overall marks almost doubled from 34% at the start of the training measures in 2014 to 67% in the two years up to 2016 (cf. DGRV 2021).

Conditions for success and challenges

Initially, the collectivization of agriculture under the *Khmer Rouge* between 1975 and 1979 had considerably brought the concept of cooperatives in Cambodia out of favour for a generation. Finally, the basic rejection of cooperation among village households turned into a remarkable willingness of many to participate. This occurred as a movement from below reacting to local problems such as the continuing difficulty of obtaining cheap loans in an uncomplicated way. It is now increasingly finding answers to the problem of providing inputs

for small farmers.

What is important here is the self-organization “among neighbours” without external interference, in which the cooperatives only have to observe the basic rules of the cooperative law, but are not exposed to any influences, for example with regard to production, outside of the formalities (above all accountability for cash management). The discussions with the members of the cooperatives revealed the primary reasons for their membership: the possibility of saving (which is quite well rewarded by interest), and quick and above all unbureaucratic granting of small loans. Other services are appreciated, but are still in second place so far. This is also due to the fact that not all board members of the cooperatives openly advertise services, because so far, they have done all the work on a voluntary basis.

However, a number of cooperatives already show that input supply can yield considerable surpluses, which in turn can be used at least for the payment of allowances. If, as well as the provision of loans, additional services were to be offered such as input supply, marketing support and, if necessary, machine hire (which is currently already present in certain places in the form of a contract ploughing or pumping service) then, if the number of members is not too small, permanent jobs could certainly be financed with the resulting income.

Individual case studies such as the aforementioned pepper cooperative also suggest that self-organization can bring about completely different supplier structures that can even successfully cooperate directly with the international market.

Nevertheless, in the years to come, the particularly attractive feature of the cooperatives will be the credit offers to the members, which are easy to apply for. This is especially the case since the cooperative fund now offers the opportunity for the first time to receive money at interest rates that were previously only available from the Agricultural and Rural Development Bank (ARDB) for the agro-industry, i.e. interest rates could be as low as 8-9% instead of between 18 and 20% per annum. According to the latest information, there are efforts to also make such ARDB loans available to agricultural cooperatives. Some MFIs such as PRASAC, Chamroeun, AMK and the ACLEDA Bank are also starting to provide loans to agricultural cooperatives without land titles as collaterals and for interest rates of less than 10% p.a..

Conclusions for development cooperation in general

- ▶ The promotion of cooperatives by DC offers a good approach to support poor population groups directly where most of them still live today, in rural areas living on agriculture. In the first step, support within the framework of Technical Cooperation is not very costly and time-consuming. It can be provided mainly by local partner structures.
- ▶ For the promotion of an internal credit system of the cooperatives, more extensive funds are needed, for example, from Financial Cooperation. In hardly any other funding area, however, can these be passed on to small enterprises and microenterprises in such a direct, targeted and cost-effective manner.
- ▶ The Membership in cooperatives offers many advantages particularly if it is possible to establish motivated volunteer leaders. In such cases, given minimal entry capital requirements, even very poor farms can become members. But even these cooperatives can quickly generate surpluses through their offers, due to cost savings in input supply and increased profits in marketing, which make it possible to pay compensation for expenses and, if necessary, to remunerate staff.
- ▶ Cooperatives can be particularly successful if the state stays out of the agricultural production of the cooperative altogether and only checks the financial accountability (although in Cambodia this is mainly done because the individual cooperative has the same right of small-scale lending as an official MFI controlled by the national bank).
- ▶ Organized advice on setting up cooperatives is necessary for them to function. However, a multi-level approach should also always be practised, which has the framework conditions as the object of consultation and aims to create simple guidelines that limit state intervention to the bare essentials but offer the sector optimal development opportunities.

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Images

1. Meeting with the board of a cooperative, 2. The Annual Financial Report, 3. Map of Cambodia with the provinces of this study, 4. Simple house in a village, 5. Cassava processing, 6. A pepper farm, 7. Removal of the rice harvest, 8. Machine hire for members, 9. Fertilizer for cooperative members.

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Fig. 3 (Map) Fabio Pruß.

Project characteristics*

- B4 – Intensity of processing by research team
- G1 – Gender identifier
- P4 – Participation
- A3 – Poverty identification

* For explanations, see the good practice handout, also at: https://www.uni-due.de/imperia/md/content/inef/handreichung_ave_goodpractice.pdf

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INEF – Research Project

The research project aims to develop recommendations for state development cooperation. The aim is to identify measures that can better reach poor, vulnerable and food insecure population groups and efficiently support them in improving their living situation in a sustainable way.

We examine the interdependencies of poverty, vulnerability and food insecurity in order to identify both blockages and success factors for development cooperation.

Based on literature analyses and surveys of professional organisations at home or abroad, successfully practised

approaches (“good practices”) are to be identified and intensively analysed within the framework of field research. In addition to a socio-cultural contextualisation, the gender dimension is taken into account throughout. The local investigations focus on the participation of the affected population in order to capture their perception of the problems and ideas for solution.

The project is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) under the special initiative “One World – No Hunger”.

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