

# Emerging Structures of Agricultural Cooperatives in Cambodia

*Nou Keosothea, CDRI research associate, identifies some of the main issues facing farmer organisations in Cambodia, reviews the inventory of farmer organisations and presents empirical experiences of specific strategies to create low-interest credit and the incentives provided by government policy for farmer organisations in Cambodia.\**

The concept and practice of agricultural cooperatives as a tool for agricultural development and poverty reduction have a long, varied and unhappy history in Cambodia. People now avoid the term *sahakor*, since it was used during the Pol Pot regime to imply forced collective labour. In fact, the principles of cooperatives include voluntary membership and democracy. The formation of farmer cooperatives as a means of increasing the bargaining power of small landholders and creating the social capital necessary for rural development has been supported by many international development organisations (Marlo & Ilean, 2004). The government now uses the word *samakum*, instead of *sahakor*, to refer to cooperatives.

The government through its Rectangular Strategy recognises agriculture as a leading contributor to economic growth and poverty reduction in rural areas. The four main principles of the strategy are: (1) producing in accordance with the environment and to meet the demands of the market; (2) facilitating and providing assistance to producers such as marketing, credit, technology and seeds; (3) helping to build management and human capacities; and (4) facilitating the establishment of agricultural cooperatives to ensure better prices of products.<sup>1</sup>

The development of agricultural cooperatives in Cambodia is still at an early stage. By the end of 2005, there were only 54 agricultural cooperatives registered with the Ministry of Agriculture, Forestry and Fisheries (MAFF). Farmers' working collectively, however, is not new in Cambodia. Such collectives are called farmer organisations (FOs).

Significant challenges to Cambodian agricultural development remain. These include poor infrastructure, the absence of an efficient marketing system, the absence of adaptable technologies, inadequate extension services, a lack of agro-processing facilities and inadequate rural financial structures. Individual farmers cannot overcome these challenges on their own. There are, however, a few case studies which show that farmers collectively

can ameliorate some of these challenges. This paper will identify some of the main issues facing existing FOs, review the inventory of FOs and present empirical experiences of specific strategies for low-interest credit and the incentives provided by government to FOs.

## Why Are Agricultural Cooperatives Created?

The core values of agriculture cooperatives are self-help, responsibility, democracy, equality, equity and solidarity—rural people coming together to solve their problems through collective action. It is generally agreed that in order to be sustainable, associations or cooperatives must be economically successful and hence able to compete with other cooperatives and the private sector. They must offer both their customers and their members competitively priced goods and services. The relationship between members and the cooperative is also unique because members are shareholders or co-owners of the cooperative, yet act as the primary clients for the services provided. For this reason, member participation is essential at all levels of the cooperative—entrepreneurial, financial, managerial and social (Couture et al., 2002).

Cambodia, currently a member of the WTO, has a free market economy. The country is located between two large agricultural countries, Thailand and Vietnam, which provide market competition at all levels. Cambodian farmers face many production and marketing constraints. Agricultural cooperatives are very important in assisting with managing changes in the environment and addressing farmers' needs when individual farmers cannot compete. Cooperatives also provide a means by which development agencies can reach and work with farmers. Collective action through FOs helps to reduce transaction costs and regulate markets. In addition, farmers are interested in agricultural cooperatives to provide security for selling products, to obtain better prices for inputs and products, to get technical support and to reduce costs by sharing machinery, processing and storage facilities.

The main functions of FOs are providing technical and financial services to their members, representing members' interests and making social investments. Technical and financial services are popular, especially among poor farmers.

## Present Situation of FOs

Cambodian FOs are at an early stage of development and are currently supported by government and NGOs. FOs are diverse in origin, membership, function, size and relationships with supporting agencies. Most FOs are very small, mono-functional, diverse in form and locally established. Most are not legally registered, have untrained managers and leaders and have problems accessing services of government or micro-finance institutions. Although almost all FOs are supported by NGOs or government, there are a number of farmer groups formed by private companies such as British America Tobacco (3,000 contract farmers<sup>2</sup> in Kompong Cham) and the CP Group.

The history and objectives of FOs vary according to their location and the interests of farmers they represent. According to Julie et al. (2005), there were 1,065 FOs in

\* This article is based on an action research project entitled "Improving the Marketing System for Maize and Soybean in Cambodia" funded by ACIAR.

1999, increasing to 13,017 in 2005. The provinces with the largest number of FOs are Kompong Cham, Kompong Thom, Banteay Meanchey, Svay Rieng and Kompong Speu. Sixty-nine percent of FOs have fewer than 30 members, 19 percent have between 30 and 100 members, and only 12 percent have a membership larger than 100 (Figure 1). The study also found that 63 percent of FOs were formed after 2000.

Julie et al. categorised FOs into five types: farmer groups, associations, communities, cooperatives and federations. Table 1 shows that a large majority of FOs are farmer groups.

### Regulatory Framework for Supporting FOs

The Cambodian government already has several legal frameworks to help promote agricultural cooperatives. At present there is a sufficient legal framework to support FOs, but for fishery communities and associations of village animal health workers, some very important legal texts have not yet been adopted. However, most FOs and supporting agencies still know very little about the legal framework covering their activities.

The legal frameworks developed by the government to support FOs are as follows:

#### Agricultural Cooperatives

The legal framework is administered by Department of Agricultural Extension, MAFF, in the Royal Decree NS/RKT/0701/234 on the Establishment and Functioning of Agricultural Cooperatives, Unions of Agricultural Cooperatives and Agricultural Pre-Cooperatives; Prakas Promulgating Model Statutes and By-Laws of Agricultural Cooperatives, 2003; Model Statutes of Agricultural Cooperatives, 2003; and Model By-Laws of Agricultural Cooperatives, 2003. Provincial departments of Agriculture can officially register cooperatives. As described in these texts, a cooperative is “a commercial enterprise that is democratically managed by its members, who contribute their capital and hope for dividends, and are also willing to incur losses according to the proportion of their shares contributed”.

#### Farmer Associations

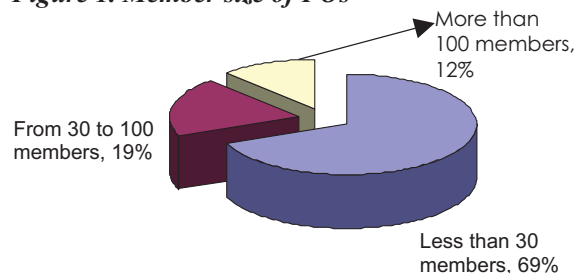
Farmer associations are registered under the General Department of Administration, Ministry of the Interior. The relevant documents include: Registration Form for Associations and Local NGOs under the Ministry of the Interior and the Draft Law on Local Associations and

**Table 1. Number of FOs by Types**

FOs	Number	%
Farmer groups	10,487	80.5
Farmer communities	1,769	13.6
Farmer associations	662	5.0
Agricultural cooperatives	93	0.7
Farmer federations	6	0.05
Total	13,017	

Source: Julie et al., (2005)

**Figure 1. Member size of FOs**



Source: Adapted from Julie et al., 2005 (2005)

Non-Government Organisations, 1996. These provide a general framework for all sector organisations, not only farmer organisations. As described in these documents, an association is “a group of natural persons organised by Khmer citizens for the purpose of seeking a common objective serving the moral or material interests of its members, without seeking private profits”.

#### Village Animal Health Workers Associations

The legal framework is administered by the Department of Animal Health and Production, MAFF. In the draft text on Associations of Village Animal Health Workers, the Cambodian Veterinary and Animal Health Workers Association Ltd is a company under the Private Companies Act in which “every member of the association must be a person registered under the Prakas on Establishment of Village Animal Health Workers (2003)”. This text is based on the Sub-Decree on the Establishment of Village Animal Health Workers (2000).

#### Fishery Communities

The legal framework is administered by the Department of Fisheries, MAFF, in the 2005 draft Sub-Decree on Community Fisheries Management. In this text, a fishery community is defined as “a voluntarily established group of natural persons holding Khmer citizenship who live in or near the fishing area, taking the initiative to improve their own standard of living by the sustainable use and processing of fish resources to contribute to economic and social improvement and poverty alleviation”.

#### Forestry Communities

The legal framework is administered by the Forestry Administration, MAFF in the Sub-Decree on Community Forestry Management, September 2003. In this document, a forestry community is one “that voluntarily initiates the formation of a group under a community forest agreement in order to conduct development activities”.

#### Farmer Water User Communities

The legal framework and recognition of Farmer Water User Communities are administered by the Department of Irrigated Agriculture, Ministry of Water Resources and Meteorology according to Circular No. 1 of the Prime Minister on Sustainable Irrigation, 1999, Prakas 306, annex 2, and the Draft Sub-Decree on Farmer Water

User. In these texts, a farmer water user community is “a formal, legal association of people who both use water from and manage an irrigation system”.

### *Case Study of the Ta Ong Soybean Association<sup>3</sup>*

In Cambodia, Kompong Cham province is the main region for growing soybeans. In 2005, it accounted for approximately 48 percent of all soybean production in the country. About 90 percent of national production is exported, mostly to southern Vietnam. Within Kompong Cham, the most productive district is Chamkar Leu, which in 2005 produced 23,000 tonnes out of 57,600 tonnes in the entire province.

The Ta Ong Soybean Association (TSA) was formed in 2001 as a result of a government policy of encouraging cooperatives or associations of farmers. The main incentive for farmers to join the TSA was the prospect of gaining access to cheap credit. The high cost of credit was perhaps the biggest constraint for farmers wishing to develop their soybean production. Very few farmers had the capacity to purchase seeds, fertiliser and other inputs without credit. More than 80 percent of farmers would obtain such credit from village soybean buyers at interest rates of 3-5 percent a month, and the farmers were required to sell their produce to the lender at harvest time when prices are generally at their lowest level.

There was strong initial enthusiasm among farmers about the TSA, and the initial membership was around 50. The statutes of the TSA, however, were not well drafted, and its support functions were not clearly defined. Membership began to dwindle when the TSA was unable to obtain cheap credit, and eventually fell to just 20 in early 2005. At that time, the purpose of the association was unclear to the remaining members.

The main constraints on the TSA, which are similar for other FOs, include lack of access to low-interest credit, low productivity, lack of appropriate technologies, poor quality of products, lack of access to good markets, lack of horizontal and vertical integration, low levels of education, lack of motivation in collective work and limited understanding of the legal framework. Among these, lack of access to cheap credit seemed to be the most important.

There is no specialised bank for agriculture in Cambodia. The interest rate from micro-finance institutions or commercial banks is still very high (at least 2 percent per month), and collateral is required. The Rural Development Bank (RDB), which serves as a wholesale bank, charges an interest rate of 10 percent per year. Access to credit from the RDB is a challenging two-step process. The first step is registering with the National Bank of Cambodia (NBC), and the second is being included on a list of potential operators.<sup>4</sup>

In order to register with the NBC, micro-finance organisations must meet the following conditions: 1) having an outstanding loan portfolio of 1,000 million riels or more, or having 1,000 or more borrowers; 2) for an organisation engaged in savings mobilisation, deposits must be 100 million riels or more, or its membership

must be 1,000 or more. In 2005, the TSA mobilised 167 million riels in savings from its members, and the NBC registered it on the list of potential operators in July of the same year.

After receiving approval from the NBC, the TSA submitted a request for a soft loan to the RDB. Finally, the RDB provided a start-up loan of 120 million riel (\$30,000) at an interest rate of 10 percent per annum for one year. Following this, the TSA membership increased to 200 in less than six months and the TSA decided to close membership to ensure effective management.

### *Some Lessons on Agricultural Cooperatives*

There are many lessons to be learned in terms of the experiments with cooperatives under way in Cambodia. In the case of the TSA, there was strong technical support from agencies to help gain access to credit from the RDB. This included several meetings with key members of the TSA; assistance in preparing statutes for the association; providing capacity-building for the accountant and key leaders; providing information and assisting the TSA to prepare forms for the NBC and RDB. There was, however, no promise or guarantee of success by the supporting agencies to TSA. All managerial and operational decisions had to be taken by the TSA itself.

The key constraints on strengthening the capacities of agricultural cooperatives were common to those identified in other developing countries (FAO, 1996):

- the paternalistic role of the state in the management of agricultural cooperatives;
- top-down attitudes of many cooperative managers and government officials;
- members' lack of capital and a limited sense of member ownership.

Factors affecting cooperative development have been identified as both social and individual: financial and economic aspects, cooperative principles and governance, and the legal, policy and institutional environment (Couture et al., 2002 and Csaki & Kisev, 1993). Synergy between all factors is required in order to create a favourable environment.

As farmers are being strongly encouraged by national and local government to form groups and register as cooperatives, the regulations for obtaining incentives are likely to put pressure on the development and competitiveness of small, newly formed cooperatives. Those unable to meet the requirements will miss out on access to important government services and programmes, such as credit from the RDB. However, Otto (1988) found that the weakest characteristics of formal financial institutions, from the viewpoint of the rural poor, were inaccessibility, rigidity, inflexibility and complex procedures.

In the case of the TSA, it was evident that a top-down approach to establishing an association, without technical support, capacity building or meeting the needs of farmers, was not going to work.



**Conclusion**

In Cambodia, agricultural cooperatives are still young and lack financing and trained managers and leaders. The current regulations regarding incentives to form cooperatives are being pushed in different directions by the interests of various stakeholders, including farmers, local level government officials, business interests and other agencies. Factors driving the successful development cooperatives have been identified as an interrelated system of capacity development, financial and economic aspects, cooperative principles and governance, the institutional environment and meeting the needs of members. Government should carefully monitor the impact of legislation and the ways in which various stakeholders react to policy and to market signals, and monitor the effects of its policy.

**Endnotes:**

1. Speech of Chan Sarun delivered at national workshop on strengthening agricultural cooperatives, 16 September 2004.
2. Farmers work on an individual basis with the company.
3. The case study was documented by Mr. Un Buntha, acting director of the Department of Domestic Trade, Ministry of Commerce, as a part of an ACIAR (Australian Centre for International Agricultural Research)-funded project entitled "Improving the Marketing System for

Maize and Soybeans in Cambodia" led by Professor John Spriggs, University of Canberra, Australia.

4. This list is maintained by the NBC and the RDB, which, with their limited credit, give priority to institutions on the list.

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**Concluding Remarks**

Although the ASEAN-China FTA provides promising prospects for economic growth and development for Cambodia, the benefits will not be fully realised without sound domestic policy frameworks, a conducive business environment and effective government institutions.<sup>5</sup> In other words, it is virtually impossible for entrepreneurs to take advantage of new opportunities associated with the FTA in the absence of macroeconomic stability, sound business climate, adequate legal frameworks, sufficient infrastructure and effective government institutions. Cambodia has been able to maintain macroeconomic stability, but it still lacks some major regulatory and enforcement mechanisms, lacks sufficient economic and social infrastructure and has relatively low efficiency and effectiveness of government services and institutions. As a result, the business and investment climate as perceived by many investors is not conducive to increasing enterprise competitiveness.

Given the prospects and opportunities associated with the ASEAN-China FTA, Cambodia should, however, regard it as a potential vehicle contributing to economic growth, development and poverty reduction. Building supply-side capacity and improving enterprise competitiveness should be addressed so that Cambodia better utilises liberalisation schemes available in the ASEAN-Chi-

na FTA. For poverty reduction, there should be policies that support the involvement of the poor in the process of trade liberalisation and growth. There should also be proper adjustment measures in place to mitigate potential negative impacts on the poor. The success of the FTA greatly depends on the commitment and ability of the government to meet these prerequisites.

**Endnotes**

1. ASEAN Six are Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.
2. The newer ASEAN countries are given more time for liberalisation due to their lower level of economic development. This special and preferential treatment is designed to give newer ASEAN countries more flexibility and enough time for domestic reforms.
3. Cambodia, Lao PDR, Myanmar and Vietnam.
4. The sensitive track is designed to provide countries more time to make sensitive products or sectors competitive enough for liberalisation and to develop adjustment measures to mitigate negative impacts.
5. World Bank, 2005, Trade Note: Regional Trade Agreements and Development: Upside Potential and Downside Risks, October 2005.

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in eight villages in Svay Rieng and Banteay Meanchey. Both the PPA and RETA studies are undertaken in collaboration with the Asia Development Bank (ADB) and the National Institute of Statistics.

CDRI researchers, in collaboration with the Ministry of Land Management, Urban Planning and Management, have recently completed field work for the urban phase of the Land Titling Baseline Survey Project (BSP). A total of 2,712 surveys covering both residential and small business properties have been completed in Phnom Penh (861), Siem Reap (538) and Svay Sisophon (507). The aim of the BSP is to generate baseline data that can be used to assess the economic impact of land titles on both rural and urban households and small businesses after three years. CDRI is now finalising a proposal for AusAID concerning a five-year programme in water resource management research capacity building. The project will be undertaken in collaboration with the Royal University of Phnom Penh and the University of Sydney, and will focus on strengthening both national and local policy research and management capacity in the irrigation sector. The Ministry of Water Resources and Meteorology and the Ministry of Agriculture, Forestry and Fisheries are key stakeholders in this project. CDRI's governance and decentralisation team continues with two studies looking at provincial public sector accountability and local government responsiveness. The team is presenting its findings from the public service delivery study at a national forum in early February, in collaboration with the Ministry of Economy and Finance and the United Nations Capital Development Fund.

### **Centre for Peace and Development**

Major activities in 2005 have been building a culture of peace and conflict management in both urban areas and areas surrounding reconciliation zones, capacity-building networking and strengthening institutional capacity, renewal of Conflict Prevention in Cambodian Elections (COPCEL), and CPD programme development. CPD/CDRI also has collaborated with local and interna-

tional NGOs, including German Technical Cooperation (GTZ), Terre Des Hommes of the Netherlands, Mlup Baitong and CIDSE Cambodia to deliver training in conflict resolution and facilitation skills to their staff and partners.

COPCEL Phase II was launched with strong support from UNDP with the main objectives of preventing conflict, violence and misunderstanding in elections by building trust and encouraging a culture of dialogue. COPCEL II has been restructured into broader dimensions, including COPCELCOM, COPCELEM, COPCELPROM and COPCELMED, with a prospect to reach out more to the public and ensure high participation in elections.

During 2005, CPD has built its own strength and resources by adding new staff and building individual capacity through graduate study and exposure to international visits in Myanmar in February 2005 and Nepal in June 2005 to share experiences and network among peace activists.

### **The Tonle Sap Initiative: A Learning Resource Centre at CDRI**

The Tonle Sap Initiative (TSI) was launched by the ADB in 2002 as a partnership of organisations and people working to meet the poverty and environmental challenges of the Tonle Sap basin and surrounding areas. CDRI has become one of ADB's partners in the TSI. In order to strengthen the capacity-building component of the TSI, CDRI was requested to establish an integrated Tonle Sap Learning Resource Centre, based at the CDRI campus. The centre will complement existing facilities and networks that are already housed at CDRI or that are part of its ongoing activities. The centre will provide access to all stakeholders, such as policy makers, students, NGOs, other research and learning institutions, visiting scholars and government officials, to a wealth of information on the Tonle Sap Initiative and related issues. To this end, the centre will contain written, audiovisual and web-based information as well as extensive databases.