

## NURTURING AGRICULTURAL COOPERATIVES FOR INCLUSIVE AND EFFECTIVE AGRO- INVESTMENT PARTNERSHIPS IN CAMBODIA



A farmer transporting produce in Phnom Penh (Photo: Vitalo Karick/Dreamstime)

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SEPTEMBER 2023

### KEY MESSAGES

A 4Ps approach – or Public-Private-Producer Partnerships – can help to improve the performance of Agricultural Cooperatives (ACs) in Cambodia by promoting more inclusive and effective agro-investments. Further enabling policy conditions for 4Ps could include:

1. **Clear legislation to formalise contract farming so that contracts are binding and enforceable**
2. **Diversifying AC businesses into more profitable sectors such as trade and processing**
3. **Increasing access to cheap, State-backed credit for well-performing ACs**
4. **Promoting competent leadership and professional management of ACs by training executive directors, supporting the greater participation of women and ensuring financial accountability**

### INTRODUCTION

Agricultural investment plays a central role in the rural economy of Cambodia, and has potential to offer many opportunities for smallholder farmers. In the context of ongoing economic challenges, making markets work for farmers has taken on a new importance, particularly in light of calls by the government for the creation of rural jobs to absorb unemployed urban and migrant labour back into farming. To benefit more effectively from opportunities to engage smallholders in agricultural value chains, there is a need to overcome some of the persistent challenges in Cambodia in achieving stable and efficient production arrangements between investors and producers.

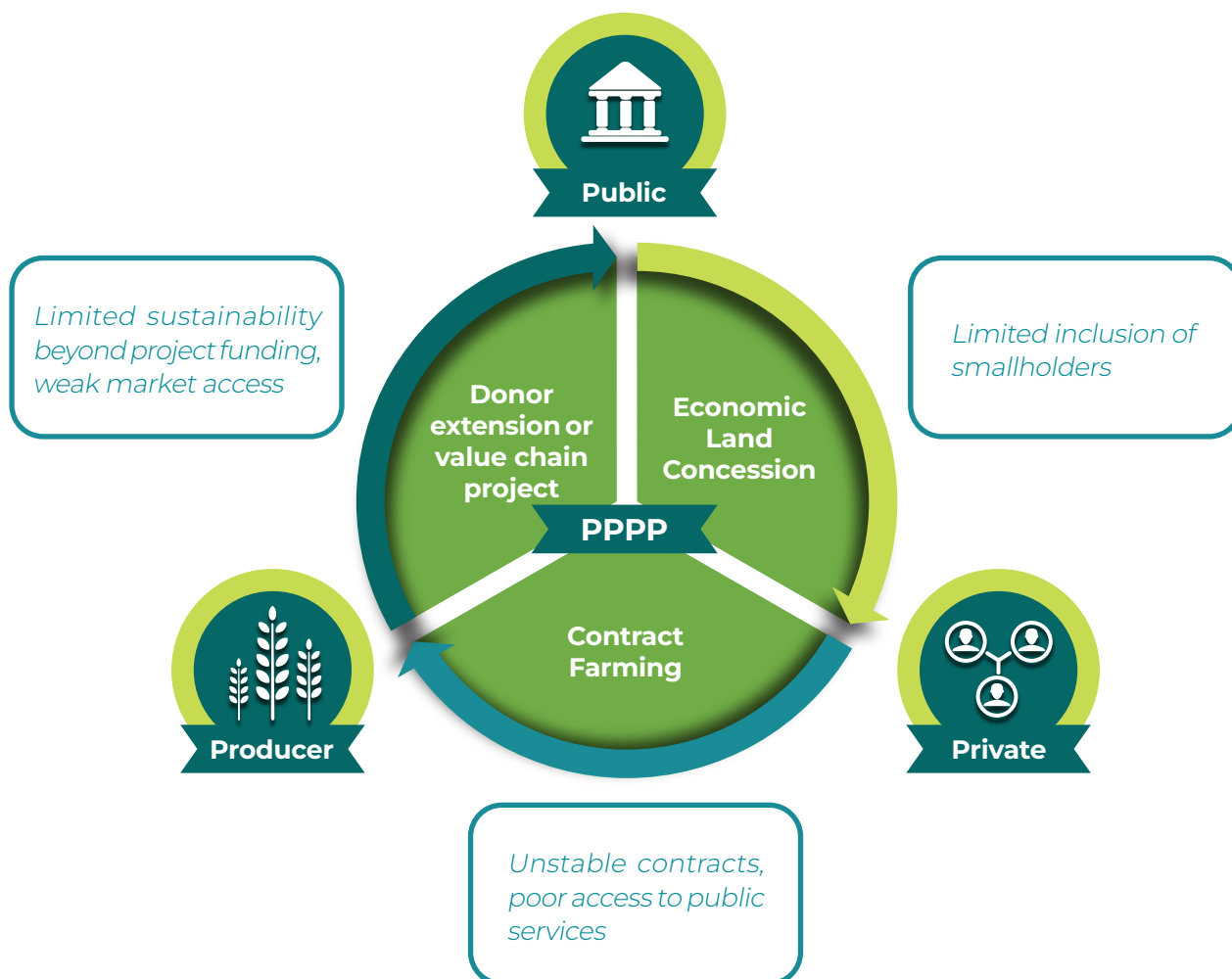
One promising approach entails strengthening partnerships between government agencies, companies and smallholder farmers – these are termed 'Public-Private-Producer Partnerships' (4Ps). The 4Ps approach is seen increasingly by the government and development partners as a potential solution to persistent challenges holding back economic growth and job creation in the rural sector. Agricultural Cooperatives (ACs) are integral to 4Ps in that they provide a platform for collective representation and coordinated production for smallholder communities. By extension, contract farming (CF) has the potential to be one of the most effective options for farmers and investors.

This briefing note sets out the case for policy development in support of 4Ps agreements, with stronger and better managed ACs as an essential component. In building the case for 4Ps, this note provides a snapshot of a nationwide analysis on the current status of ACs in Cambodia and identifies key areas in which they can be strengthened to function more effectively in 4Ps and CF investments.

### WHAT ARE 4Ps, AND HOW CAN THEY BENEFIT SMALLHOLDER-INCLUSIVE AGRIBUSINESS IN CAMBODIA?

Agribusiness partnerships in Cambodia commonly take the form of: (i) Economic Land Concessions (ELCs) granted by the State to private investors; (ii) CF between investors and producers or ACs; and (iii) donor-funded and/or government agro-extension projects to support smallholder livelihood improvements and value chain development. These arrangements work well on their own in some instances, and do not require further involvement by government or other actors. However, in many cases the same issues are repeatedly seen: ELCs primarily benefit investors and are rarely inclusive of smallholder producers, while often risking smallholder tenure rights and driving localised land disputes. CF schemes are frequently less stable than they could be, with contractual and quality/quantity issues that could be improved with better regulation and support. Agro-extension projects tend to benefit smallholders only for the life of the project, as they are dependent on short-term funding cycles instead of market-based arrangements.

The purpose of 4Ps agreements is to ‘complete the circle’ of agribusiness investments in instances where the lack of resources, services, policy support or market access prevents what could otherwise be a stable and mutually beneficial investment model. For example, a CF scheme between a company and producers may struggle to maintain consistent supply quality and quantity due to poor inputs or unreliable irrigation. Here, the public sector could inject support through R&D or improved management of the needed infrastructure. Other key government provisions under 4Ps arrangements could include regulation and guarantees for contracts, conditional incentives that promote smallholder-inclusive investments, and other support such as grievance mechanisms in the event of failed contracts. The following figure sets out the three main forms of agribusiness partnership and their key challenges, for which a 4Ps approach could help ensure more stable contractual and supply arrangements, and better benefits for producers and firms.



## EXISTING FRAMEWORKS FOR AGRIBUSINESS PARTNERSHIPS

The Cambodian government encourages agribusiness partnerships in which investors engage smallholder farmers in agricultural value chains, particularly for export. For this purpose, a sub-decree on contract farming was enacted in 2011, to improve and promote contractual arrangements between private companies and producers. Since the enactment of the sub-decree, CF has continued to gain popularity while also facing critical challenges around contract breaches and supply instability. This has prompted calls for improved regulations that foster more effective and trustworthy contracts. In response, the Ministry of Agriculture, Forestry, and Fisheries (MAFF) began drafting a CF law to strengthen the legal basis for all parties. In the meantime, CF models that engage ACs may present the strongest opportunity for more effective and stable contractual relations, where ACs collectively represent farmers while enabling investors to access larger and potentially more consistent product supplies.

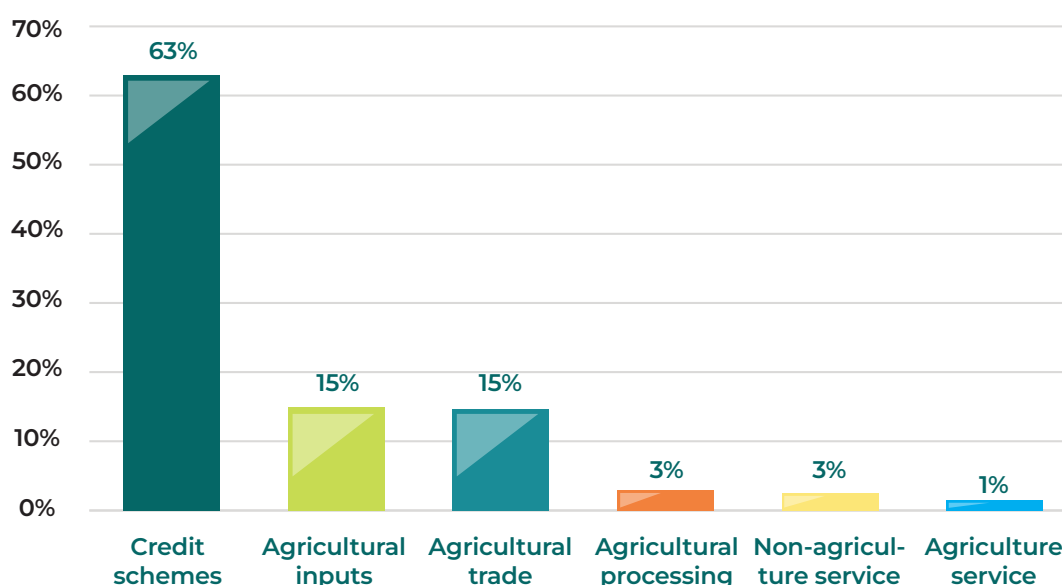
The Law on Agricultural Cooperatives (2013) defines an agricultural cooperative as a privately established and farmer-owned agriculture enterprise. ACs are viewed as a mechanism to facilitate partnerships between companies and smallholders, including through CF. As the following analysis demonstrates, however, in many instances, ACs are highly challenged to reach their full potential without public sector support. There are currently more than 1,200 ACs across Cambodia, but their performance varies dramatically. A new approach is needed. The creation of a 4Ps policy framework could harness ongoing interests in more effective agribusiness partnerships to help to strengthen ACs, providing the foundation for more effective and inclusive agricultural investment partnerships in practice.

The following analysis is based on a nationwide survey of 677 ACs, conducted by the Centre for Policy Studies (CPS) in May 2022, complemented by focus group discussions, ground verifications and consultations. This analysis aims to identify enabling conditions for better performing ACs,<sup>1</sup> key issues and proposed solutions, with the intention to inform the development of a future 4Ps policy framework that works towards more effective, inclusive and profitable agribusiness partnerships.

## ANALYSING THE PERFORMANCE OF AGRICULTURAL COOPERATIVES IN CAMBODIA: KEY ISSUES AND PROPOSED SOLUTIONS

Over the past decade, the number of ACs across Cambodia has substantially increased. However, their development and performance have been very uneven. The types of business engaged in by ACs have also had a significant influence on their performance. ACs engaged in agricultural trade and processing are particularly successful, but these account for only a small proportion of the total. This may relate to the upfront investment needed for such enterprises, coupled with the potential to access higher-value markets for processed goods. However, the majority of ACs lag behind in different ways, requiring different support packages to suit their specific needs. Very few provide agricultural services such as ploughing and harvesting (as is more common in Vietnam, field observations 2022), while a large majority are involved in moneylending to farmers, and are among the lowest-performing ACs overall.

Figure 1. Proportion of ACs by main business activity



Source: Survey of Agricultural Cooperatives in Cambodia (CPS, 2022)

<sup>1</sup> The performance gap is measured by a composite indicator derived from survey data, comprising: 1) profit; 2) sales revenue; 3) working capital; 4) asset value; and 5) increase in share numbers.

The evidence produced by this research clearly shows that more successful ACs are closely associated with the following enabling conditions:

- 1) Participation in contract farming schemes
- 2) Engagement in agricultural trade and processing
- 3) Access to credit
- 4) Competent leadership and financial management

The remainder of this brief focuses on how to further enhance the enabling conditions for improved AC performance to contribute to robust development in Cambodia's agricultural sector.

## 1) Contract farming schemes boost the performance of ACs

Contract farming has been instrumental in helping ACs to become more successful. The survey findings show that the majority of ACs participating in CF far outperform other ACs, particularly when they are under contract arrangements with a formal company (rather than informal traders, for example). However, only about 16 percent of ACs currently participate in CF. There is a lot more that can be done to promote CF partnerships between ACs and companies with the right support from the public sector. This is among the strongest areas of potential for promoting a 4Ps approach.

A key area for strengthening public sector support is in providing better regulation and enforcement of CF, as contract breaches remain common when informal arrangements are in place. ACs acknowledge that they are unable to meet the quantity and quality requirements of the investor, and there are widespread reports of late or non-purchase by companies as well as late payments. CF is often viewed as a loose or even non-binding arrangement, with neither party typically seeking compensation for incurred losses. The tendency to ignore contractual breaches highlights the lack of reliance on, or trust in, contracts. This also reflects the current underdeveloped arrangements for CF and a lack of regulation or clear mechanisms to pursue compensation claims. Many of the weaker ACs lack experience or the capacity to fully understand contract terms themselves. This adds a further layer of challenge, indicating the need to communicate the contract content clearly to all AC members.

### Proposed solutions:

There is a range of options for public support to strengthen business partnerships between the private sector and ACs for more effective contract arrangements. First and foremost, clear legislation is needed to formalise CF so that contracts are binding and enforceable.

- A CF law will help to clarify the rights and obligations of contract parties, as well as assigning roles and responsibilities for the public sector to regulate CF partnerships.

- The law should stipulate straightforward contractual terms for effective communication among farmers and AC members who participate in CF schemes. A simple document is more important than a comprehensive one that farmers do not clearly understand.
- Contracts could include penalties for both parties if commitments are unfulfilled; for example, the company pays ACs interest for late payments, while farmers or ACs are fined for side-selling to traders.
- Encourage a down-payment system for advance purchase contracts. This can make the contract fairer for farmers, who otherwise bear all investment costs and related risks. It is also more binding as both parties have something to lose if they breach the agreement.
- Competent authorities could facilitate dialogue between contract parties to strengthen business partnerships. Additionally, these partnerships can be more effectively promoted through means such as trade fairs or business matching events.

## 2) The most successful ACs are engaged in agricultural trade and processing

Despite being among the most successful ACs in Cambodia, those engaged in agricultural trade and processing still constitute a minority. This is a missed opportunity, given the much greater growth potential of successful AC engagement in processing and trade in higher value-added products for export-oriented value chains. These are the strategic priorities of the government in terms of agricultural development. Instead, 63% of ACs reported credit schemes as their main business<sup>2</sup>, mobilising AC funds to provide a lending service to their members. Roughly half of these face difficulties in recouping loan repayments from borrowers. A further significant proportion of ACs are engaged in supplying agricultural inputs, but they also have limited success. In contrast, 15 percent of ACs undertake agricultural trade as their main business, while only 3 percent report agricultural processing as their main business. However, ACs engaging in these two business activities stand a much higher chance of success.

### Proposed solutions:

- The public sector has a strong role to play in promoting engagement by ACs in trade and processing businesses, including through targeted funds/credit (e.g., through the Agriculture and Rural Development Bank, ARDB). This can help to incentivise innovation and provide funds for the diversification of AC business into more productive and profitable sectors that support wider rural development and growth.
- The relevant agencies should consider imposing a cap on ACs operating credit schemes. Financial services are important for AC members and should not be prohibited, but ACs should not be solely dependent on moneylending for their business operations. Offering loans should be secondary to other activities which are agriculture-related, serving as a core business and thus providing the majority of the ACs' income, otherwise they should not qualify as ACs.

<sup>2</sup>90 percent of ACs operate a credit scheme business overall.



Agricultural landscape in Kampong Chhnang (Photo: Tithsamnang Khorn/ Unsplash.com)

### 3) Access to credit is integral to better AC performance

Access to external financing plays a crucial role in AC performance across all business activities. The businesses of ACs with access to loans perform much better than those of their counterparts. However, only 12 percent of the ACs reported having active loans during the study, while up to 32 percent expressed a desire to take out loans, but were unable to do so. As such, the extension of public financing may be a key area of productive support for ACs under a 4Ps arrangement, alongside shoring up the financial management capacity of AC management and members (see below).

For ACs to access credit from the full range of public and commercial lenders, in addition to proven business performance, collateral is a key factor. This is required before financial institutions will approve loans. This poses complications for ACs that are not yet formalised as legal entities with registered assets. The common solution is to register those assets (e.g., land and warehousing) as individual property, for example, of the Chair of the AC's Board of Directors. The assets can then be used as collateral to apply for loans under the named person, rather than the AC itself. Here, public agencies could provide additional solutions through cooperation between MAFF and the Ministry of Land Management, Urban Planning and Construction (MLMUPC), to ensure the recognition of AC assets within the cadastral system.

Without access to loans, ACs are mostly limited to equity financing, which is very limiting if they have few members. Weaker ACs generally have a smaller membership, typically around 50-80 members with a small number of shares. These conditions cause a shortage of capital for many ACs who need it to run their businesses. Over 40 percent of ACs identified low working capital as the priority constraint hindering their business growth. This was especially problematic among ACs who supply agricultural inputs – a type of AC that also often lacks access to credit.

A good example of public sector support for ACs to access vital credit is the micro-lending function of the ARDB. This has more straightforward procedures for accessing loans compared with microfinance institutions and commercial banks. The ARDB also charges lower interest rates, averaging around 7.2 percent per annum. Nonetheless, ARDB loans are for smaller amounts compared with microfinance institutions and commercial banks. Public financing has a clear role to play in promoting effective partnerships between ACs and companies.

#### Proposed solutions:

- The ARDB's low-interest credit scheme could be expanded and tailored to support different AC types to enhance their productive capabilities and to partner with private companies.
- ACs engaged in trade and processing businesses should be prioritised for larger capital investment and infrastructure support.
- Smaller loans could be provided to nurture lower functioning ACs which are in need of start-up capital to activate the growth of their businesses.
- Partial government guarantees could also support certified, well-functioning ACs with less proven track record in terms of business performance to access loans.
- MAFF could work with the MLMUPC to ensure that when the ACs are legally registered with MAFF, their legality will then be recognised in the cadastral system of the MLMUPC. This will enable the ACs to register their fixed assets under a legal entity, both strengthening tenure security and facilitating access to loans.
- External finance can also be a tool for promoting CF partnerships via conditional loans for agro-investors. Farmers/ACs engaged in CF could also receive preferential credit based on their contracts (as seen in [Thailand](#)) – however this should be treated with caution and include financial management support to avoid debt traps.

#### 4) Competent leadership and financial management are key to nurturing AC development

Almost all (95 percent) of the ACs are run by a voluntary Board of Directors. By law, they cannot receive a fixed salary, but some incentive payments are provided by the AC. In practice, some typical forms of incentives include those that are based on performance<sup>3</sup> or mission<sup>4</sup>, and some Directors receive a regular amount acknowledging their general responsibilities<sup>5</sup>. Many ACs adopt performance-based incentives, followed by mission-based payments. However, these two methods are not as effective as a regular incentive payment. Among AC leaders, 72 percent find the compensation amount to be unreasonable for the work they do. ACs tend to be more successful when they adopt a regular incentive payment for the Board of Directors. From the survey, weak management/leadership was rated as a key constraint for business performance, and about 25 percent of the ACs believed that a capable manager/leader would substantially improve their business performance. Among Vietnamese cooperatives, the management team is a professional unit, and better performing cooperatives invest in leadership training and scholarship programmes (field observations in Vietnam, 2022).

Although it was encouraged by the Law on ACs, very few ACs (5 percent) employ an Executive Director to run their AC business. However, these ACs are notably more successful. Interestingly, Executive Directors are generally much younger than the Chair of the ACs. On average, the Executive Director is about 35 years old while the Chair of the ACs is 53. Women's participation in AC leadership is low (19 percent), but has an important impact on the quality of leadership, and significantly contributes to the functioning of ACs. When women take the lead role, AC business operations and performance are observed to be more successful. Among the strong-performing ACs, 26 percent were chaired by women, double the proportion of female chairpersons among the weak-performing ACs. This suggests a clear need for policy support towards increasing the participation of women in AC leadership.

A significant mechanism for enhancing transparency and internal accountability of an AC involves separating the roles of accountants and treasurers. The survey shows that ACs were less successful when these two positions were performed by the same person. Moreover, many ACs do not produce regular (e.g., monthly) financial reports, or fail to keep records of financial transactions entirely. Such poor accounting discipline undermines the transparency of financial management and leaves ACs vulnerable to fraud or mismanagement. External support from NGOs or projects to specifically strengthen AC accounting systems is quite limited, as most capacity development for ACs is in the form of farming techniques. AC members represent a further layer of need for improved financial management, particularly in terms of managing loan repayments to reduce indebtedness. Policy support under a 4Ps framework could, therefore, make a significant contribution to reinforcing AC leadership, accounting and financial management, improving the performance of ACs and thereby making them more attractive and effective partners for agribusiness investments.

#### Proposed solutions:

- ACs meeting a minimum threshold of membership or turnover should ideally have a hired Executive Director and staff to run the business. The Board of Directors should hold a governance role, setting rules and policies, and overseeing the performance of the Executive Director. More ACs could be supported to establish this structure, which could include standard terms of reference for Executive Directors as a requirement for 4Ps arrangements.
- For less successful or well-established ACs, options to support more professional management may include piloting sponsorship for the Executive Director or staff, mentoring services, capacity development, and exposure visits to learn from more successful ACs.
- Priority should be given to supporting greater participation of women in all of these options.
- Strengthening the auditing of financial transactions and management is imperative to achieve better performing ACs and thereby to ensure accountability and sustainability while improving access to credit.
- Independent financial management services could also prove beneficial, particularly in preventing the mismanagement of AC finances. These services could potentially be guaranteed by the Cambodia Agricultural Cooperative Alliance (CACA).
- For weaker functioning ACs, public agencies could deliver capacity support for developing a proper accounting system, separating the roles of accountant and treasurer, preparing monthly financial reports, and initiating regular meetings to discuss the financial status of the AC.



Cambodian villagers harvesting rice with a threshing machine  
(Photo: Tottoto/Dreamstime.com)

<sup>3</sup> A compensation amount that is paid as a percentage of sales revenue or profit.

<sup>4</sup> Compensation provided when certain activities are conducted, for example, attending a conference or collecting repayments from the AC members.

<sup>5</sup> A monthly fixed amount for a general responsibilities, not connected to a specific result.



Rural valley landscape with organic pepper farm in Kampot province, Cambodia. (Photo: Jackmalipan/ Dreamstime.com)

## 5) An underlying challenge for effective CF and AC partnerships with agribusiness: input costs

Members of ACs and other contract farmers are currently facing severe difficulties in accessing affordable agricultural inputs. This is due to shifting supply dynamics in the changing international context, particularly with regard to COVID-19 and the war in Ukraine. Survey results show that farmers have been hard hit by the rising costs of fertilisers (nitrogen, phosphorus and potassium (NPK) and urea doubled in price from 2021-2022) pesticides and hormones (increasing by 40-50 percent in the same period). These rising costs are not reflected in any gains in market prices. In fact, prices have fallen in some cases (e.g., black pepper, an important agricultural export for the country, has faced declining prices). Farmers are therefore increasingly squeezed by simultaneous rising costs and falling prices.

### Proposed solutions:

- Consider fiscal measures for managing agricultural input prices, such as reducing or exempting import taxes, to mitigate the impacts on domestic producers.
- Promote local production of manure or organic fertilisers that support circular production and reduce dependence on imports.
- Promote agro-ecological practices to reduce farmers' dependence on high-cost inputs. These practices could be supported through public extension services within a 4Ps agreement.

## CONCLUSION

With the right enabling conditions, there is strong potential to improve the performance of ACs in Cambodia as a building block for partnerships between private investors and producers. These partnerships can engage farmers in fairer and more inclusive value chain arrangements, and enable companies to access more reliable and stable product supplies. Completing the circle of agro-investments through Public-Private-Producer Partnerships can significantly contribute to creating the needed enabling conditions. With strong interest in developing a 4Ps policy framework to support the robust development of the agricultural sector in Cambodia, this study offers the following key recommendations for policy consideration:

1. The public sector has a strong role to play in boosting the productive capabilities of ACs and attracting private investors to work with them. This includes enhancing the enabling conditions for better performing ACs, which should be integral to the content of 4Ps agreements.
2. A key function of 4Ps agreements that involve ACs could be in supporting conditional access to cheap, State-backed credit. This could, in turn, be targeted to incentivise (i) ACs and investors collaborating through formal CF, and (ii) promoting ACs operating agricultural trade and processing businesses. These have the strongest potential to enhance productivity and contribute to rural economic growth.
3. Management capacity could also be a key component of support from public agencies within a 4Ps arrangement. Specific terms of reference for professional management units and transparent accounting and financial management should be preconditions for such agreements. Support for developing AC capacity should prioritise women as leaders.

This policy brief has been written by Sothath Ngo and Robert Cole based on research conducted by the Centre for Policy Studies (CPS) in cooperation with the Ministry of Agriculture, Forestry, and Fisheries (MAFF).

Full Citation: Ngo, S. and Cole, R. (2022). *Nurturing agricultural cooperatives for inclusive and effective agro-investment partnerships in Cambodia*. Policy Brief. Phnom Penh: CPS, MRLG.

**Editorial committee:** Antoine Deligne (MRLG) and Chan Sophal (CPS)

**Layout and Design:** Watcharapol Isarangkul Na Ayuthaya



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