

PRO-POOR POLICY OPTIONS: FARMER ORGANIZATIONS IN CAMBODIA

INTRODUCTION

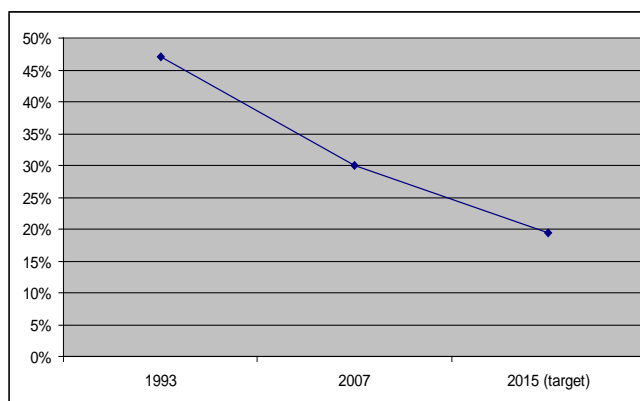
This policy brief suggests that creating an enabling policy and regulatory environment, bolstering investment, and strengthening farmer organization capacities can maximize the role and effectiveness of farmer organizations in Cambodian agriculture and poverty reduction.

Policy analysis findings and recommendations from a study conducted under the auspices of a “Pro-poor Policy Formulation, Dialogue and Implementation at the Country Level” project inform this brief¹. Between 2007 and 2010, the Food and Agriculture Organization–Regional Office for Asia and the Pacific (FAO-RAP), with support from the International Fund for Agricultural Development (IFAD), implemented this project in partnership with governmental and non-governmental organizations in eight Asian countries. The project goal was to enhance institutional capacity to conduct policy analysis, formulate and implement pro-poor agricultural and rural development policies. In total, twenty-three policy studies examined issues identified at national level dialogues in all project countries².

CONTEXT

Between 1993 and 2007, poverty rates in Cambodia declined from 47 percent to 30 percent (World Bank, 2009). Cambodia’s recent economic growth, however, has not been accompanied by dramatic decreases in poverty. Considering that more than 90% of the poor live in rural areas and depend on agriculture for their livelihoods, increasing sector productivity and sustainable growth is essential for improving the livelihoods of rural poor people and the broader national economy (Ministry of Planning, 2007 & RCG, 2005).

Figure 1. Poverty incidence in Cambodia



Source: World Bank, 2009

PROBLEM STATEMENT

Farmers’ organizations in Cambodia face a number of internal and external constraints to effectively supporting their farmer members³: The primary **external constraints** involve **legal and policy framework gaps** which create obstacles to the promotion of farmer

¹ Chea Saintdona authored the study on which this brief was based. Study methods included both desk and literature review of national and other countries’ experience with cooperatives, as well as qualitative field study using focus group discussions and interview with eight farmers’ organizations in four different provinces. The original study can be accessed by contacting: INFORMATION.

² The other selected policy issues for Cambodia include Agricultural Land Use and Strengthening Agricultural Service Delivery at the District Level.

³ A detailed list of strengths and weakness of farmer groups & agricultural cooperatives in particular can be found in the original study.

organizations. In addition, farmer organizations receive **limited technical and financial assistance from the central government**.

Key **internal constraints** concern **weak institutional capacity**- especially for financial management, business know-how, and leadership skills necessary to effectively implement all intended activities (including service provision to member farmers). **Lack of technical capacities** on crop cultivation and livestock raising techniques is also an issue. In addition, farmer organizations **lack a network** of broader provincial or national unions that would provide venues for knowledge and experience sharing, as well as lend them bargaining power.

FARMER ORGANIZATIONS IN CAMBODIA

Still in the early stages of development in Cambodia, farmer organizations have been formed as a means to lower producer transaction costs, increase market bargaining power and also access to agricultural support services. Farmer organizations receive support from over 200 government agencies and non-governmental actors (Julie et al, 2006). At the national level, the Office of Farmer Organizations under the Department of Agricultural Extension is responsible for farmer organizations, while agricultural extension offices are in charge at the provincial level.

This brief focuses on farmer groups, which represent the largest portion of farmer organizations (Figure 2), and agricultural cooperatives since the Ministry of Agriculture is keen to promote their expansion as a method of farmer organization⁴.

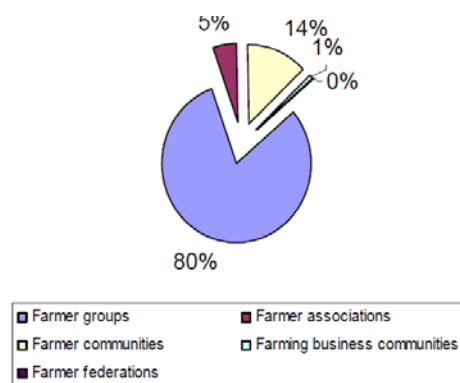
Farmer groups are small - generally 5 to 30 members-entities which are unofficially recognized by local authorities. Agricultural cooperatives on the other hand are legally recognized, self-financing, and self-governing entities.

Both farmer groups and agricultural cooperatives play very important roles in supporting rural farmers to improve agricultural productivity and income generation-through provision of a variety of services including credit, saving, agricultural inputs, processing, marketing, agricultural techniques, business capacity building and social activities. Perhaps the most important assistance that members receive from farmers' groups & cooperatives is access to low interest rate loans without collateral requirements. Such loans enable poor farmers to purchase agricultural inputs and capital, as well as deal with emergencies.

Nonetheless, legal and policy framework gaps, limited technical assistance, and weak institutional capacity handicap farmer organization effectiveness as a poverty reduction vehicle. As a result, farmer organizations provide limited services to member farmers. Therefore, in order for farmer organizations to derive their full benefit and to be an attractive prospect for farmers, a number of changes must occur.

POLICY OPTIONS

Figure 2. Farmer Organization Types in Cambodia



Source: Inventory Report of Cambodian Farmer Organizations, 2006

⁴ The cooperative movement was officially promoted beginning in 1956, and has enjoyed renewed and current interest since the development of the Royal Decree in 2001. Between 2003 and 2009, 147 agricultural cooperatives have been officially registered by 21 provincial departments of agriculture.

In order to assist farmer organizations in Cambodia to improve their farming and economic activities and serve as an optimal tool in the fight against poverty, the government should adopt more effective support policies and legal frameworks, increase direct investment in farmers organizations, and strengthen the capacities of these organizations.

1. Create enabling policy & regulatory environment

- **Revise existing policies:** Formulated in 2001, the Royal Decree on Establishment and Functioning of Agricultural Cooperatives is an important legal framework promoting cooperative establishment and registration. Nonetheless, there are weaknesses in several of its 53 articles. Articles 1, 2, 7, 14, 17, 18, 23 and 24 should be revised to clarify the sphere of cooperative activities, enhance audit functions, adapt governance modalities and structures, and to allow cooperatives to amass necessary funds and merge together to create larger cooperatives. In addition, Article 19 of MAFF's Proclamation on the Model Statute of Agricultural Cooperatives must be revised to establish an upper limit on farmers' individual liability for cooperative financial results.
- **Adopt new policies:** New articles should be added to the 2001 Royal Decree regarding member roles and responsibilities, credit business management procedures, and the establishment of provincial and national cooperative unions, among others. In addition, two sub-decrees on auditing and dissolution/merging cooperatives are recommended to ensure frameworks which encourage these practices. Although taxes are not currently levied on cooperative business income, tax exemption policy could help to institutionalize this incentive. Price stabilization policies would also encourage farmers to improve their farming, although no such policies currently exist.
- **Establish formal procedures and guidelines:** The existence of procedures for establishment and registration of farmers groups, for auditing, etc. would create greater cohesion and structure to these processes. In addition, it is recommended to formulate a legal framework for contract farming to allow farmer organizations to create effective business partnership linkages.

2. Bolster investment in farmer organizations

- **Ensure a firm government commitment to allocate necessary resources:** Human, technical and financial resources for farmer organization promotion must be prioritized and provided. MAFF should create a Farmers Organization Development Fund (FODF) providing farmer organizations medium and long-term low interest loans to allow them to expand services to members.
- **Upgrade existing government cooperative support mechanisms:** To create and Agricultural Cooperative Promotion Department (ACPD) at the central level, Provincial Agricultural Cooperative (APCPO) at the provincial level, and District Agricultural Cooperative Facilitation Unit (DCFU) to provide more effective technical supports and coordination. In addition, an increase of funds would ensure that farmer organizations receive the necessary injections. Farmers groups remain heavily dependent on their supporting agencies to provide start-up funds, although cooperatives mobilize their capital through membership fees, shares, business profits and interest income.

3. Strengthen farmer organizations' capacities

- **Improve organizational & technical capacity:** By strengthening farmer organization capacity in leadership, management, finance, marketing and business plan development, the Cambodian government will encourage farmers' organizations to

stand on their feet. In addition, close interaction with extension services can lead to improvements in technical skills as well. That said, capacity strengthening must be crucially accompanied by financial investments; currently 99% of cooperatives do not have managing directors to manage daily cooperative operations, due to the shortage of capital to pay staff.

- **Encourage adoption of Thai cooperative models for improved knowledge sharing and bargaining power:** Cambodia currently has only primary cooperatives, at the local level. Lacking broader provincial or national federations, primary cooperatives cannot amass bargaining power to negotiate with input suppliers and with the government. To this end, the 3-tier Thai cooperative model is recommended since it has had significant success in business and member education. Provincial and national cooperative unions could represent primary agricultural cooperatives and advocate on their behalf.

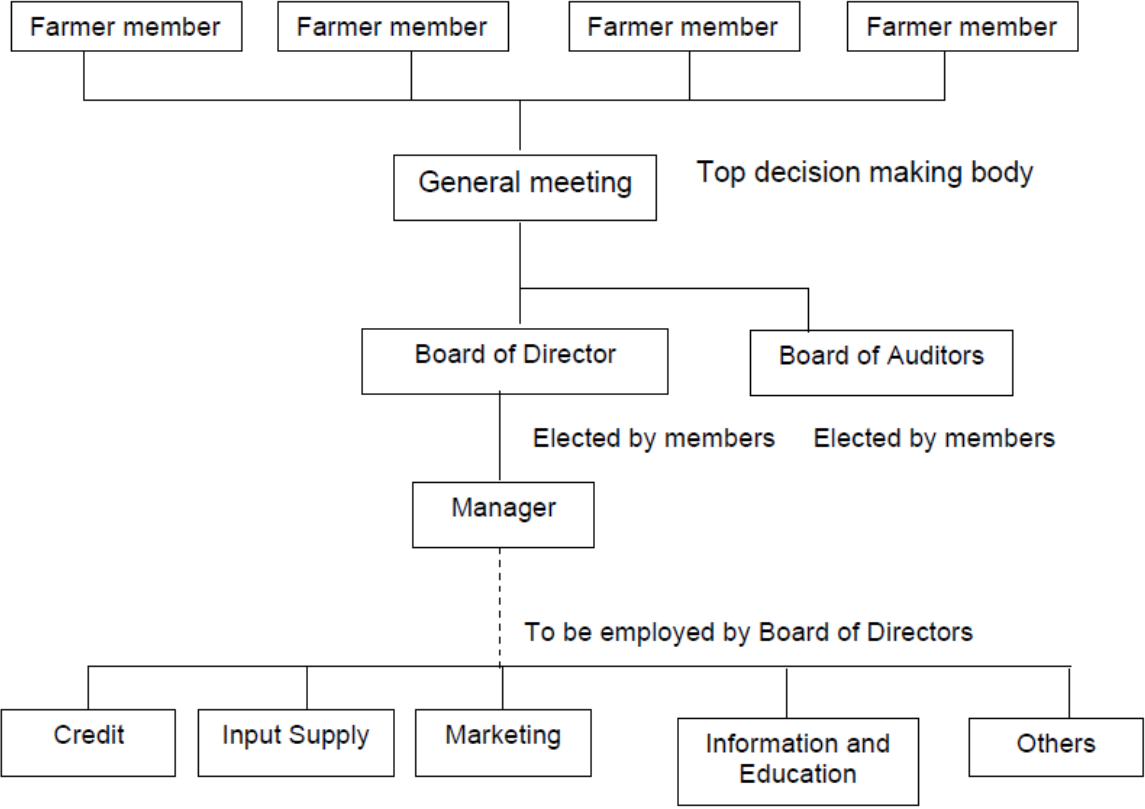
CONCLUSION

Cambodia has made significant strides on poverty reduction but rural farmers remain disproportionately poor compared to the general population. Farmer organizations constitute an important strategy for supporting farmers to improve agricultural productivity and income generation in Cambodia. Nonetheless, legal and policy framework gaps, limited technical assistance, and weak institutional capacity handicap farmer organization effectiveness as a poverty reduction vehicle.

As such, creating an enabling policy and regulatory environment, bolstering investment in farmer organizations, and strengthening their capacities are crucial steps to improving their effectiveness and role in poverty reduction. In particular, it is recommended to:

- Revise existing policies (namely the Royal Decree on Agricultural Cooperatives and MAFF's proclamation on the Model Statute of Agricultural Cooperatives), adopt new policies, and establish formal procedures and guidelines in order to clarify cooperatives activities and make operations more effective
- Ensure government commitment by way of sufficient resource allocation
- Upgrade existing government support mechanisms to cooperatives
- Improve farmer organizations' organizational and technical capacity
- Encourage the adoption of Thai cooperative models.

ANNEX 1: Organizational Structure of Primary Agricultural Cooperatives in Cambodia



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