



Experiences of Cambodia's Rural Development Bank Program
on Agricultural Value Chain Finance

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Rural Development Bank of Cambodia

Country paper

1-Background

The Rural Development Bank of Cambodia (RDB) was created by the Royal Government of Cambodia in 1998. The RDB is a public and autonomous enterprise, authorized to operate as a specialized bank .The RDB is a key mechanism to support and strengthen micro finance and rural credit services, promote small and medium enterprises. RDB is a state-own bank.

2-Vision:

Promote rural agricultural development and general economic activities in order to take part in poverty alleviation and raise the living standard of the people.

3-Mission:

- Finance credit funds to licensed financial institutions, commercial banks, specialized banks, Micro Finance Institutions, Associations, Development Communities, Small and Medium Enterprises (SME), Micro Enterprises which have the activities in supporting rural economy.
- Negotiate with development partners in order to attract grants and concessional loan funds for expanding the bank's operation.
- Cooperate with financial institutions in extending credit for implementing the project in agriculture, rural development and rural economy.
- To provide technical training to the Credit Operators.
- To implement the loan project according to the request of development partners while the Micro Finance Institutions do not implement.
- To provide loan for implementation the special project of the Government or others with an agreement from the Ministry of Economic and Finance.

4-Source of Fund and Projects

- National budget support rural micro finance, Associations, development communities, One Village One Product Movement and SMEs.
- Special Funds of the Royal Government of Cambodia (Agricultural Supporting Development Fund) supporting and developing agricultural and Agro-industrial sectors (Paddy, Rice, Rubber, Cassava, ...)
- Grant from the Agence Française de Développement (AFD), supporting Family Rubber Plantation Project.
- The Asian Development Bank (ADB) for Rural Credit and Saving Project.
- The International Fund for Agricultural Development (IFAD).
- Syndicated loans from local commercial banks.
- Commercial loan from China Development Bank (CDB).

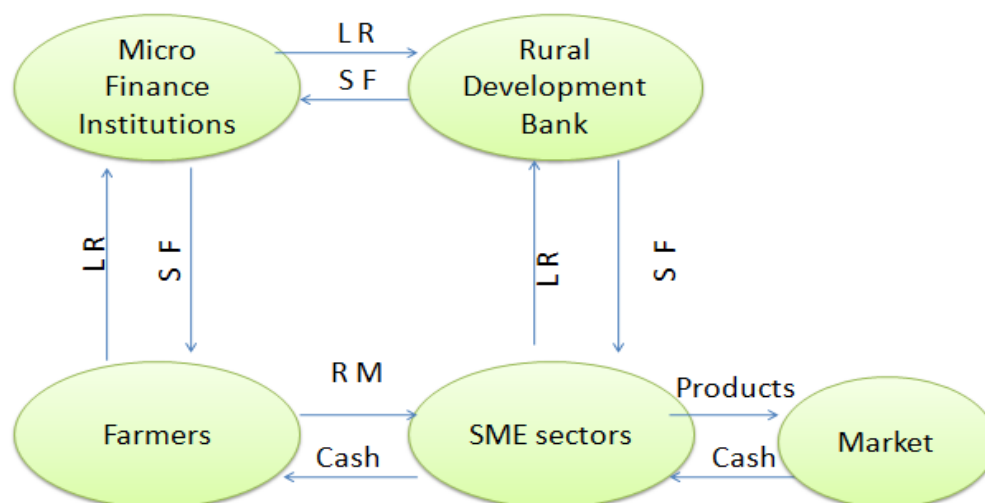
5-RDB's Partners

RDB works in cooperation with national and international financial institutions in Cambodia and overseas such as Commercial banks, Micro-finance institutions, Bank for Investment and Development of Cambodia (BIDC) the Agence Française de développement (AFD), the Asian Development Bank (ADB), the China Development Bank (CDB), and the International Fund for Agricultural Development (IFAD). RDB is a member of the Association of Banks in Cambodia (ABC), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the Asia-Pacific Rural and Agricultural Credit Association (APRACA). RDB also has the cooperation with the Chamber of Professional and Micro Enterprises of Cambodia (CPMEC) and the Cambodian One Village One Product National Committee (OVOP).

6- Credit Services:

- 1- Loan support MFIs: Whole-sale loan to MFIs for on-lend to famers.
- 2- Loan support to SME/SME Association, especially support agriculture processing and agro-industry:
 - Short term loan for working capital
 - Medium and long term loan for investment capital
- 3- Syndicated loan: a share of loan with commercial bank for support Association, farmer Communities .
- 4- Overdraft: Short term loan provided in case of urgent need : material, expenses..

7-RDB's Operations



RDB is playing its vital role to provide financial support to multiple projects such as the rural microfinance through Micro Finance Institutions (MFI) and Credit Operators, family rubber plantation, farmer communities, agriculture development associations, and SME with the main purpose to strengthening Cambodian households' economy particularly in the rural areas.

From 2005, RDB expanded its activities in accordance with government policy to support agricultural sector, in particular stocking and improving agricultural products, such as paddy and rice, etc.

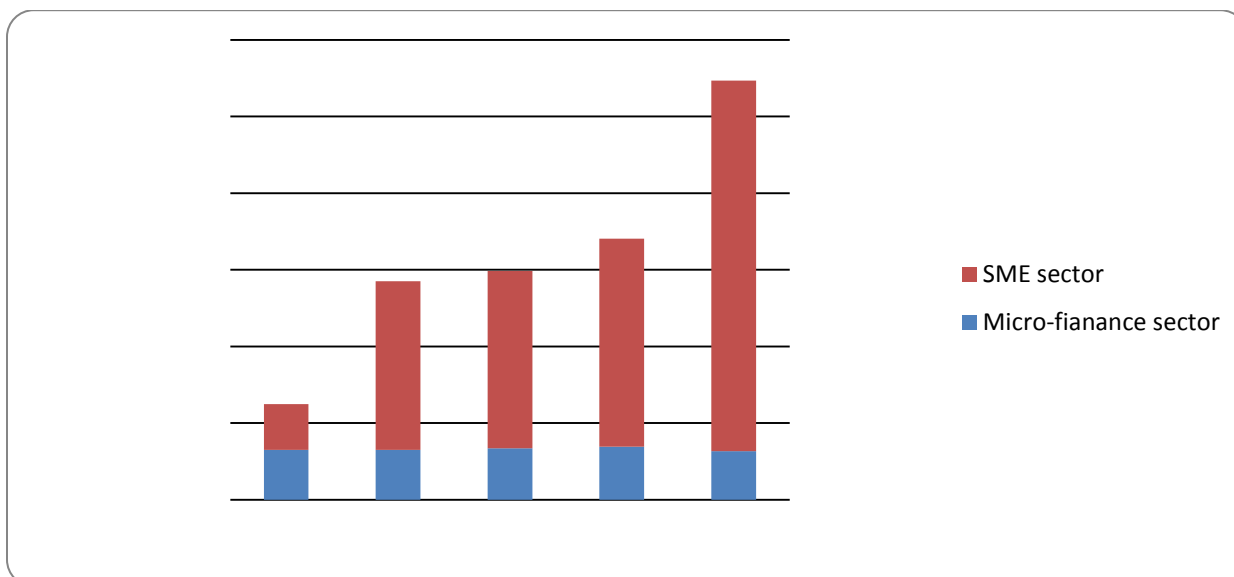
RDB is providing loan under the Agriculture Development and Support Fund (ASDF) to rice mill associations, paddy-rice processing companies, with working capital to purchase paddy from farmers, storage and processing for local consumption and export and, (b) investment capital to expand, and modernize equipment such as dryers and processing machines.

Microfinance credit is a key mechanism for develop the poor country. In the past Microfinance sector in Cambodia have had a little so RDB have pushed Microfinance sector by support fund to refinance to the farmer for growth their plant . From 2008 to 2012 Microfinance sector growth very fast .As of 31 December 2011 , There are 32 Licensed Microfinance institutions ,of which 7 are microfinance¹ . So RDB didn't approve much loan to Microfinance and try to push the SME sector instead. As at 2012, RDB has provided loan amounts up to USD 54 million increasing 61% comparing to 2011 in which SME sector 77% and Micro-finance is down 8% .

Loan outstanding of RDB 2008-2012

Year	2008	2009	2010	2011	2012
Microfinance sector	\$6,496,565	\$6,482,458	\$6,728,009	\$6,907,005	\$6,335,047
SME sector	\$5,959,875	\$22,030,928	\$23,117,552	\$27,131,433	\$48,329,264
Total	\$12,456,440	\$28,513,386	\$29,845,561	\$34,038,438	\$54,664,311

¹ NBC, Cambodia Microfinance Development and challenges



(Source : Financial report RDB 2008-2012)

8-Best practices of RDB :

A/-Support to a farmer association in Malai Commue , Bontey Menchey province : Project: Microfinance & SME Integration.

The target area is a former battle field and a strong hold of the Khmer Rouge force, and located near the border with Thailand. As such, the area was very poor, and there were no much economic activities. A farmer association has been formed to growth the basic staple food such as rice, maize and cassava. However, the prices of those agricultural products are so volatile. Due to the lack of processing facility, farmers were obliged to sell the produces to markets in Thailand, often even when the prices are low. The agricultural credit is not available in the area.

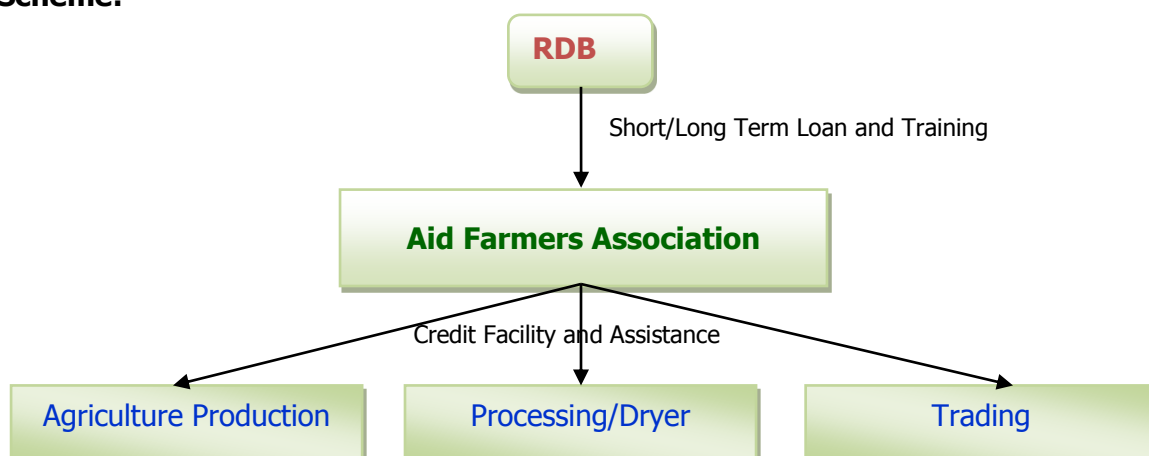
Started in 2002, the RDB has provided both short term loan to farmers (2,300 families) for production, as well as medium term loan for establishing a dryer facility. The loan amount has increased since from US\$ 20,000 to US\$ 1.5 million.

These loans have been provided based on promissory note as collateral; while commercial banks , MFIs normally request real estate as collateral.

Linkage for being more successful: (1)- Poor families have accessed to micro-finance services, (2)- Create jobs opportunity, (3)- Processing agricultural product and (4)-Maintains price stability, ensure food security.

As the result, the GDP in the area has been assessed a number of years ago to be around US \$ 1,200 as compared with about US \$400, the national average. Due to the newly established dryer, agricultural products can be kept longer until the time when the prices are reasonable for sale, thus smooth out the fluctuation of prices. This model is being replicated in other areas.

Malai Scheme:



This project, RDB received an award from Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) In 2006.

B/- Support to Green Community (Baitang Rice Mill).

Over the past few years, Cambodia has increasingly produced surplus of paddy which are being shipped out of the country due to lack of good rice processing facility in the country. There are many rice mills, but generally they are small and outdated, thus producing un-exportable and low standard rice.

Started in 2005, the RDB has provided short term loan as working capital to buy paddy from farmers, and long term loan to modernize the equipment such as mill, dryer, sorter, and polisher. Under the framework of the public-private partnership, the RDB has worked closely with the mill in order to achieve the national objective of increasing rice export (not paddy) from Cambodia.

It is still early to assess the whole impact of the operation. However, it is safe to note the following positive impacts: (1) Equipment has been modernized; (2) Good quality/standard rice for export has been produced; (3) The mill is in negotiation with many potential buyers; (4) Good linkage with farmers to produce rice that has good market, and (5) Start to export.

The Government believes it is necessary to reverse the trend in order to increase valued added, and create jobs and prevent the outflow of raw agriculture products to neighboring countries RDB is lending to Baitang Company. This project is called Green Community Project that consist the linkage for being more successful such as:

- Establish Farmer Communities with high quality and quantity in rice production for exportation.
- The farmers in the Green Community will be supplied with seeds, fertilizer, agricultural equipment as a loan, and loan for rice producing.
- Establish paddy market to ensure the price for the farmer's product
- Ensure rice quantity for local consumption and export.
- 54,600 farmers obtain the benefit through the Green Community.

The following factors are believed to be behind this success: (1) integrated approach, from production to export market; (2) flexible financial term; (3) close collaboration between Government-private sector; (4) good leadership of the mill; and (5) good economic opportunity and economy of scale.

These loans beside accept real estate as collateral, paddy and rice stock also can be used as collateral.

Green Project:





9- Lessons Learn:

- Micro-Finance and SME Integration Operation:
Production ➡ Processing ➡ Market
- For poor communities: nurturing process, strong monitoring and evaluation.
- Flexible terms of credit, and
- Good community leadership

10- Conclusion:

In conclusion, The integration of micro-finance and SME sector is a mechanism for the participation in the community and rural development. The implementation of this sector would be successful depending on good governance with transparency, efficiency and integrity of the MFIs, the borrowers, and the use of the loan fund to the right target.

Beyond the financial aspects, a wide range of services/products would be developed to meet the client needs and preferences, enabled them to move out poverty.

