

iAP Insights

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“Smallholders as true shareholders” partnership model in Cambodia

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Empowering smallholders through innovative farming cooperative models in rural Cambodia

As part of the Innovation Against Poverty (IAP) challenge fund, a number of promising companies have received co-funding and support to introduce or scale up their innovative ideas that aims to address poverty in a market context. IAP will regularly zoom in on selected topics addressed by some of these companies. In this publication we explore the topic of “smallholders as true shareholders”, where farmers are empowered by innovative partnership models in Cambodia. This serves as the first part of a two-part series, where we will provide an introduction to the model, how it works and the expectations on it. The second part will explore the learnings gained during the implementation, including the results.

The business model and its benefits

Across emerging markets we can find a great number of business models engaging with smallholder farmers as co-owners and partners in the value chain¹, often referred to as “smallholders as shareholders”. These business models benefit smallholder farmers in a number of different ways, including improving access to markets, improving access to financing mechanisms, optimizing productivity, increasing produce affordability, improving distribution channel and access to inputs and technologies. Evidently, such models can take many different forms. A more innovative variation of this type of business model occurs when several agricultural cooperatives (ACs) group together with other actors within the value chain to create a new joint venture, where member cooperatives are “true” shareholders in terms of commercial share and legal status. By owning shares, the farmers can exercise influence through their cooperatives over the venture’s activities and directly benefit from the profits, as well as capture a higher share of the added value.

In Cambodia, IAP supports two business cases like this, where a number of cooperatives have joined together with other value

chain actors, including private sector companies, to form a joint venture. Although models similar to this exist in other countries, this is the first time it is introduced in the Cambodian context. Given the country’s dependency on the agricultural sector, ventures like these can have a broad and significant positive impact on both the people working in the sector and the market as a whole.

These are The Cambodian Agriculture Cooperative Cooperation (CACC) - a venture created by Amru Rice, and Heritage Palm Sugar Co. Ltd² (HPS) - a palm sugar venture hosted by Signatures of Asia. The Cambodian Agricultural Cooperative Cooperation, which consists of 25 cooperatives and the Preah Vihear Meanchey Union of Agricultural Cooperative (PMUAC), represents a total of 5,462 farmers, 81% of whom are

	CACC	HPS
Private company	Amru Rice	Signature of Asia
Type of produce	Rice	Palm sugar
#Cooperatives	25	1
#Farmers	5,462	198
Export market	Europe, United States and China	Europe

CACC and HPS in numbers: a quick overview of the two ventures

¹Some examples: *From smallholders to shareholders: A Guide to Optimizing Partnerships with the Private Sector for Smallholder Impact. Feed the Future Partnering for Innovation, USAID and Fintract, 2014.* https://www.agrilinks.org/sites/default/files/resources/fintrac_pimodels_toolkit_14oct14_fin_web.pdf

²The registration of the Heritage Palm Sugar Co. Ltd entity is still under discussion with an international buyer as of 2018-06-07 and is therefore subject to change

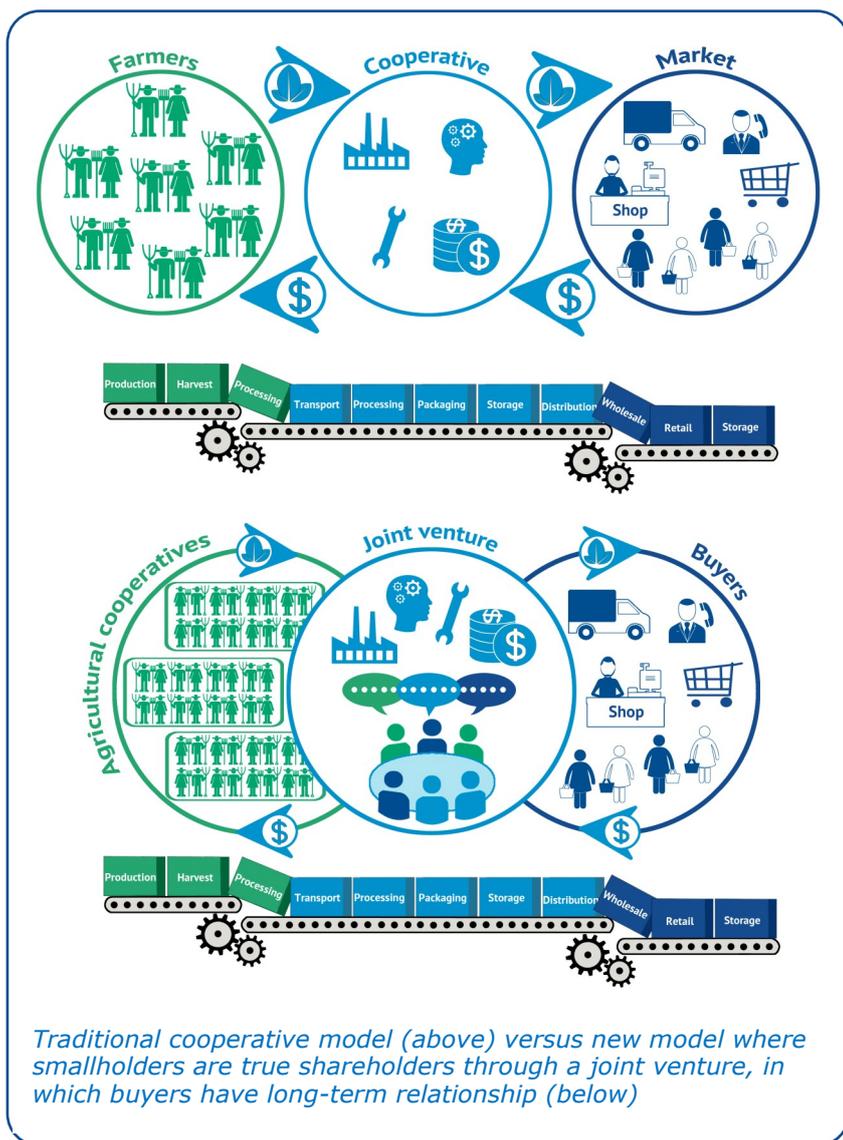
women. Meanwhile, Heritage Palm Sugar Co., Ltd currently consists of one cooperative which represents 198 farmers, with the potential to include more as operations scale up further.

In spite of the fact that the two ventures involve different produce – rice and palm sugar, their setup is similar. In both cases, the joint venture is responsible for collection, part of processing³, packaging, and marketing and distribution of the produce. By fulfilling these roles, the joint venture bridges the gap between the individual farmer and the buyers, where the private sector companies work to secure sales channels and buyers. Heritage Palm Sugar Co., Ltd wishes to include an external buyer within the joint venture that hopefully can increase trust among value chain actors and expand market share.

Another important benefit of this business model is the access to finance. Both joint ventures offer credit to its members through a “revolving fund”. In the case of CACC, the revolving fund enables farmers to buy agricultural input (seeds, fertilizers, pesticides), while HPS’s revolving fund enables their members to buy equipment, such as cooking stoves for palm sugar processing during the most optimal periods to benefit from higher yields and thus, increased income.

As another example, thanks to CACC’s warehouse receipts system that connects individual collection bags to cooperatives and farmers, smallholders can use their produce as collateral to get credit from Rural Development Bank (RDB) and Micro Finance Institutes (MFIs), who have already established partnership with CACC. As such, if it is not urgent to sell the produce, the smallholder has an option to receive credit up to 70% of the total costs of produce. In addition, the cooperatives offer services to its members such as training on how to increase agricultural yields, training and certification on organic practices, hygiene, quality assurance, provision of collection bags, etc. – all to ensure that produce meets market demands and is competitive.

Through improved access to finance, new skills, processing technologies and markets, farmers benefit from a greater value chain participation, where they are able to further process their produce. Without these opportunities, less secured sale or side-selling of the produce to buyers at a lower price will potentially happen. Moreover, the further processing of produce leads to higher profit margins that can be re-invested into the farm. By grouping a large number of farmers and standardizing the price, farmers are consequently empowered as suppliers to business owners and entrepreneurs. For CACC, if a farmer experiences a surplus of produce i.e. manages to harvest more than the required volume agreed in the contract with the venture, the farmer has an option to rent the venture’s processing facilities to further process the produce her/himself and sell separately. In that way, smallholders can benefit further from entering this type of venture.



To establish trust in the business model and create incentives for farmers to produce for the venture, the price of produce sold is annually predetermined at several percentage points higher than market price with adjustments based on the quality of the produce. For example, a farmer with first grade quality rice paddy, can enjoy a 30% additional benefit⁴ if compared to traditional market’s offer. Given the large number of farmers involved, to structure the sales process, harvested produce are sold to respective cooperatives that later are responsible for selling it through the mechanism of the new joint venture.

³For Heritage Palm Sugar Co. Ltd the farmers currently do part of the initial processing themselves

⁴The 30% additional benefit includes higher price from buyers, price premium for standard quality produce and in-kind value addition (collective purchase and saving on transportation cost)



Photo courtesy of Amru Rice (Cambodia) Co., Ltd

Female leaders of the ACs being voted into the board of directors of CACC to represent all 25 cooperatives

Stakeholders' expectations

Speaking with the venture participants, they have different expectations on the new business model and what it will bring.

The companies expect that this business model will further commercialize and sustain these sectors through their scale-up potential, improved quality standards and consistent supply. Upstream actors of the value chain benefit from the creation of jobs, increased income and access to finance and information. Downstream, value chain actors will gain more profits from export quality produce, ultimately contributing to current market opportunities being sustained as well as enabling further market expansions.

In addition, women empowerment in leadership roles is considered a key achievement in this model. To ensure that they actively participate in the venture's decision making, a total of three leaders of the cooperatives, two of whom are female have been elected as board members of CACC – a board that currently consists of seven representatives in total. For further female participation, the support of the revolving fund will be allocated accordingly. "Cooperatives with female leaders will be prioritized for the revolving fund", said Mr. Kann Kunthy, Amru Rice's Managing Director.

The CACC cooperatives' expectation on this venture is to learn from Amru Rice in overall business management, to increase revenue and gain access to warehouse and processing facilities. According to the expectation of Mr. Thoun San, president of PMUAC, this business practice will provide new valuable skills for PMUAC's team, increased profits for smallholders through improved quality of produce, provide solutions to cooperatives who do not own warehouses and dryers themselves. Additionally, it will also present diversified options to cooperatives to store or sell the produce during harvest time.

However, PMUAC also expressed some concerns about potentially conflicting role between CACC and PMUAC in representing the voice of the smallholders and the ability of cooperatives to understand the complexity of business practices. In general, trust has been the most important factor in motivating cooperatives to participate in the joint venture.

Mrs. In Sdeong who is the leader of KerLomor Chivapheap Kasikor Cooperative, said that "I trust Amru Rice. We have worked together for 5 years and I experienced that by being able to sell organic paddy to them, the cooperative's members generate better profits of around USD 250-500/season. That said, I am not sure about the future consequence of participating in this venture yet".

Setting up CACC, Amru Rice has given equal opportunity to all cooperatives. The company has communicated clearly about the vision and benefits of being part of a joint venture and the application of first comes, first served basis.



Photo courtesy of Amru Rice (Cambodia) Co., Ltd

"CACC is the first Public Private Producer Partnership (PPPP⁵) model in Cambodia. The main goal of this model is to change the behaviour of the cooperatives from simply being the supplier to becoming the entrepreneurs, where they are empowered to learn and lead the company".

- Mrs. Khy Muny, General Manager Amru Rice



Amru Rice's rice dryer and storage facility

In spite of these efforts, the cooperatives with more prior business experience have purchased more shares in the venture than those with less. As a result, this raises some additional concerns whether all smallholders will benefit and be well represented in the venture since more shares ultimately means more influence.

Having a recognized private sector company involved in the venture, smallholders also expect that the company can negotiate favourable loans to cooperatives' members with lower interest rates than MFIs. For example, Amru Rice coordinated with the Rural Development Bank to agree to provide loans to all cooperatives contracted by Amru Rice with 0.7% interest rate, on the condition that they have developed a business plan. This external access to funding has been proven crucial as financing has been a limiting factor for cooperatives to purchase produce from farmers.

Prior to having this solution, the funding shortage prevented the venture from successfully supplying the contracted amount of produce to buyers and at the same time has left farmers with a major surplus. Mrs. Veok Ya, a leader of Romtoun Samaki Meanchey Agricultural Cooperative said that "I signed a contract with the company to supply 600 - 1,500 tons of organic paddy in 2017. However, only 50% of the promised amount of produce was supplied due to lack of finance needed to pay the cooperatives' members in time". As a result, the cooperatives' members sold their produce to local buyers at a significantly lower price. This issue could be solved in the future with the possibility to access credit from Rural Development Bank and other CACC's cooperate partners MFIs at low interest rate.

In the case of palm sugar, Kompong Speu Palm Tree Agriculture Cooperative (KAMPATRACO) expects that the new joint venture with SoA will create more jobs in the community, increase market shares and improve quality standards of the products. Heritage Palm Sugar Co., Ltd works with Kompong Speu Palm Sugar Promotion Association to improve quality and ensure compliance with Geographical Indication (GI) standard and buyers coordination. President of the association, Mr. Sam Saroeun,

encourages cooperatives to join this venture and expects that it will strengthen the role of cooperatives in managing the palm sugar business to make it more profitable and secure supply power in a sustainable way.

Also, Mrs So Long, a member of KAMPATRACO said "I can get an advance from the company for buying improved cook stoves and cooking materials. In 2018, I earn around USD3,600/season, compared to USD2,000/season in 2017 from my 30 organic palm trees. This is thanks to 50% saving of production cost and fixed price that is offered by SoA for powder sugar. Based on my experience, I expect there will be more farmers participating and benefiting from this joint venture". However, the cooperatives also recognize potential challenges with the structure of the joint venture. "Decision making takes a long time if approvals are needed from Board." said Mr. Hong Heoun, KAMPATRACO leader.



Photo courtesy of Signatures of Asia Co., Ltd

Signature of Asia's warehouse for palm sugar packaging and storage

Ways forward

As Mrs. In Sdeong already stated, the future consequence of implementing this innovative business model is still uncertain. The success of these ventures depends on a number of factors, including the management of the company and the accountability, inclusion and transparency towards their shareholders.

"Involving a buyer as shareholder will not only contribute to increased trust among value chain actors, but also increase input and human capital for the new joint venture. Once the business ideas are achieved, social, environmental and economic impact for all will be realized".

- Mr. Chan Pich, General Manager Signatures of Asia



Photo courtesy of Signatures of Asia Co., Ltd

In addition, it is important to acknowledge the differences between the two ventures; while Cambodia has a long standing history in producing and selling rice, it has less so in palm sugar. As such, the underlying motivation for initiating the venture may impact its success. Whilst Amru is looking to secure a steady supply of produce as a competitive advantage, Signatures of Asia is hoping to develop and grow the market for palm sugar – indicating that the ventures will face different challenges.

The fact remains however, that joint ventures like these, where smallholders are true shareholders, hold a lot of potential for improving the lives of farmers, particularly women. By introducing this type of business models, it can contribute to development on multiple levels: at micro level, where the individual farmer benefits from increased income and investment potential; at meso level by strengthening the venture through pooling of resources, productivity gains and export possibilities; as well as on macro level, where this type of model may impact the sector and thus, change farmers' influence in the industry and economic standpoint in society.

In the second part of this series that will be published in mid 2019, we look forward to better understanding of the implications of this model. Indeed, we will deep-dive into the learnings gained when implementing this type of model in Cambodia, shedding light on the results and future applications!

We would love to hear from you! For any comments or feedback, please contact support@innovationsagainstopoverty.org.



One farmer in Kampong Speu province is boiling palm juice to produce palm sugar