

# iAID Insights

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## “Smallholders as true shareholders” partnership model in Cambodia part II

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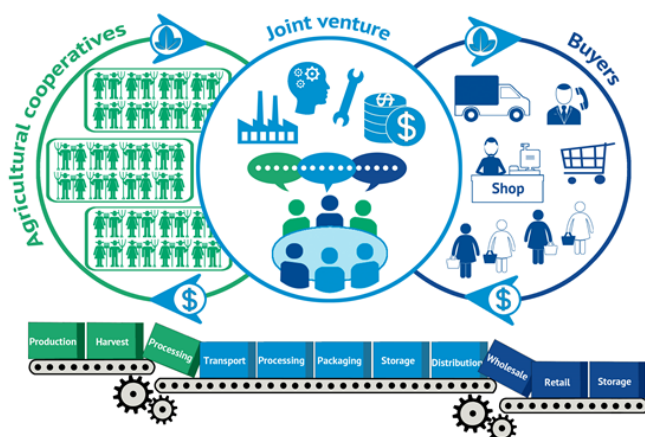
## “Smallholders as true shareholders” partnership model in Cambodia

### 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 aim 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 will follow up on the first piece on “[Smallholders as true shareholders](#)” where the business model, how it works and the expectations from the different stakeholders were described.

#### The business model and its benefits

As described in the first piece, there are a number of business models engaging with smallholder farmers as co-owners and partners in the value chain<sup>1</sup>, often referred to as “smallholders as shareholders”. Whilst many offer various benefits to farmers, few promote innovative ways of bringing stakeholders together to strengthen the value chain. In the case of Cambodian Agriculture Cooperative Cooperation (CACC) and Mekong Ingredients<sup>2</sup>, whom both are currently supported by IAP, they have applied an approach where they invite value chain actors to form a new joint venture, where venture members are true shareholders in terms of commercial share and legal status.



By owning shares, the farmers can exercise influence, through their agricultural cooperative (AC) representatives, over the venture’s activities and directly benefit from the profits in the form of dividends and thus capture a higher share of the added value.

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. Marked by decades of war, Cambodia’s population is female-dominated (51.2% female, 48.8% male<sup>3</sup>) and with increasing migration of males to urban areas, females are often left to tend to the farm. Indeed, it is estimated that roughly 53% of all employed females are in agriculture (in comparison to 49% amongst males<sup>4</sup>). As such, this type of venture can have significant impact on the empowerment of women and their livelihoods.

#### What happened next?

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 processing<sup>4</sup>, packaging, and marketing and distribution of the produce. By fulfilling these roles, the joint venture bridges the gap between

<sup>1</sup>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.

<sup>2</sup>The company name, Mekong Ingredients, is currently in the process of being officially registered.

<sup>3</sup>World Population Prospects (2019 Revision)”, United Nations 2019.

<sup>4</sup>“Promoting women’s economic empowerment in Cambodia”, Asian Development Bank 2012.

the individual farmer and the buyer. Mekong Ingredients took a step further in securing buyers by inviting one as a member of the new venture.

In terms of scaling and expanding the supply chain, both ventures have the intention to increase the number of ACs they work with over time. Following the first piece on “Smallholder as true shareholders”, both have managed to do so with on-going discussions with additional ACs to join. For CACC, they are currently preparing to release more shares in the venture to enable more ACs to join, including ACs in other provinces. To encourage more ACs with female leaders to join the venture, they offer a reduced price for buying shares. They have also ventured into sourcing different produce from the same group of farmers, expanding into cassava, pepper and cashew nuts. Mekong Ingredients have initiated partnership with two more ACs but they are yet to become shareholders of the venture as the venture focuses on strengthening internal operations and procedures before scaling with new ACs.



*Organic fertilizer provided by CACC that is made from by-product from rice processing*

### **Market opportunities and challenges**

The global market for organic food continues to be on the rise and reached a total of 92 billion USD in 2017<sup>5</sup>. To meet this demand, both ventures have offered 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. While important, it has not been without its challenges. For example, Mekong Ingredients initially faced challenges in securing a buyer in the venture due to their high quality requirements on smallholder farmers. As such, Mekong Ingredients had to invest more in building supply chain capacity in terms of quality control systems and in ensuring safety standards (GMP, HACCP and ISO). While this investment resulted in some implementation delays, it also provided additional benefits to farmers in helping them ensure high quality and meeting international standards.

Indeed, working with smallholder farmers have been an investment for both companies and they have expressed how building a supply chain takes time, resources and patience. In parallel to focusing on building and expanding their own supply chains, both companies have observed emerging threats from other actors, such as local

traders and other buyers. Mekong Ingredients have noticed the emerge of fake products, those created synthetically and sold as natural products, in the domestic market. With the availability of synthetically produced palm sugar, some traders have cut out the farmers from the value chain completely. Furthermore, with increasing property prices in the region where Mekong Ingredients operates, more farmers are forced to take jobs in the garment factories to secure a stable income and make ends meet. While devastating for the farmers, it also presents an opportunity for Mekong Ingredients to strengthen its role in linking the farmers to the market through the venture and create sustained value for their members.

On the other end of the spectrum, CACC have observed an increased activity from traders and buyers who attempt to source directly from their member ACs and farmers. CACC anticipated this to happen as part of the leadership cost incurred when introducing a new business model. As described in part one of “Smallholders as true shareholders”, as opposed to contract farming, member ACs and their farmers are free to sell to whomever they wish. If a better price is offered elsewhere, farmers are free to sell to them. This, in theory, should not be an issue for the ventures since the price offered by both are annually pre-determined at several percentage points higher than the market price, adjusted upwards depending on the quality of produce.

*“The company provides fixed price which is around 20% higher than local buyers; but they are very selective of the products regarding colour, packaging, sealing and transporting which requires time”.* Mr. Sok Chhouen, Chhouk Samaky Meanchey AC leader

For CACC, the pre-determined price is highly desirable but due to experienced droughts in 19 out of the 25 provinces of Cambodia in 2019, the price of rice was at record high, resulting in side-selling by farmers and cooperatives. This situation was reportedly worsened by on-going discussion between the Cambodian government and European Union (EU) regarding the potential withdrawal of the Everything But Arms (EBA) trade

<sup>5</sup>“Organic Agriculture Worldwide 2017: Current Statistics”, Research Institute of Organic Agriculture FiBL 2019.

*"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".*

- Chan Pich, General Manager Signatures of Asia



*"We have provided a training to the farmers in Kampong on fundamental skill on quality and hygiene on production and experts have shown them the technique of building efficient-cook stove which farmers can build by themselves for the next production season"*

Kosal Huy, Project Manager Signatures of Asia

In one of the provinces where CACC currently operates, Preah Vihear, smallholder farmers are yet unfamiliar with using organic fertilizers in their

agreement that currently applies to Cambodia's export industry, including the agricultural sector. Neither of the companies have been immune to the effects of these discussions and to make matters more complex, the trade disputes between the US and China have resulted in a changed trade landscape. While this presents long-term opportunities to expand to new geographical markets, short-term it has resulted in some slow payments from wary buyers. The slow payments have subsequently led to delayed payments to supplying farmers, which has become an area of conflict between CACC and their members. As a consequence, venture members have taken action in ways that undermines the structure of the supply chain and challenges the roles and responsibility of the venture's members. For example, AC leaders have approached MFIs to loan money to pay their farmers and PMUAC, the union, have attempted to engage alternative buyers directly. Again, ACs are free to sell to whomever they want but it adds a layer of complexity in aligning a multi-stakeholder partnerships and distorts expectations.

### **The importance of (quick) access to finance and training**

To mitigate this effect, CACC secured buyers from alternative markets such as China and Australia. Mekong Ingredients, have recently signed a memorandum of understanding (MoU) with a local microfinance institute (MFI) to cover the credit gap at favourable interests rates. Similarly, CACC has also negotiated with a MFI to act as a intermediary payment provider to speed up cash going to member farmers. In order to pay the farmers quickly post harvest, the AC would take a loan from the partner MFI— a loan that is then repaid by the venture, including the interest payment. CACC realizes that this comes with an increased risk but in order to sustain the supply chain i.e. the commitment from smallholder farmers, quick payments are essential.

As discussed in the first piece on ["Smallholders as true shareholders"](#), access to finance was described as one of the main benefits for smallholders farmers in the new venture. 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 Mekong Ingredients' revolving fund enables their members to buy equipment, such as more energy-efficient cookstoves for palm sugar processing. Based on interviews with farmers, its clear that input obtained through the revolving fund, should come with continuous training to secure adoption of these improved solutions.



*Input credit from Mekong Ingredients is partially used for improved cookstoves for palm sugar processing*

production, which has affected its uptake as input from CACC. Ms. Leng Hong, member of Chamksan Cheayden AC confirmed that *"the quality of the fertilizer is very good if farmers follow the technical recommendations"*. She

# Ventures overview



Venture characteristics	CACC		Mekong Ingredients	
	From start IAP project	Present (Aug. 2019)	From start IAP project	Present (Aug. 2019)
Parent company	Amru Rice		Signature of Asia	
Main product (s)	Rice (incl. organic wet and dry)	Rice (incl. organic wet and dry), organic cassava, organic cashew nut, organic pepper, GI palm sugar	—	Palm sugar paste and powder (incl. organic), soya, cashew nut, mung bean
Main market (s)	Local, Vietnam	Local, EU, USA, Canada, China, Australia	—	Local, Asia, EU
Added value for ACs and farmers	System in place for quality control, access to infrastructures (warehouse and drying facility), access to revolving fund and offer price above market for premium quality produce		Adherence to geographical identification (GI) standards, introduction of quality control system, access to revolving fund and offer price above market for premium quality produce	
<b>Level of engagement</b>				
Agricultural cooperatives as part of the venture	0	26	0	2
Farmers supplying to venture	0	8,205	244 (~51% f.)	1020 (~50% f.)
<b>Improved practices</b>				
Farmers received training (organic practice, hygiene, quality standards, business management)	0	5,693 (~70% f.)	0	724 (~50% f.)
Farmers practicing organic farming	1,500 (~73% f.)	5,111 (~50% f.)	244 (~51% f.)	1020 (~50% f.)
<b>Improved access to finance</b>				
Farmers that have benefitted from revolving fund	0	1,642 (~55% f.)	0	872 (~50% f.)
Total amount (€) provided to farmers as revolving funds	0	41,400	0	68,090
How is the revolving fund use for?	Access to organic fertilizer and quality cassava stems		Access to efficient cookstoves to process organic palm sugar and fertilizer input	
Value of one share (USD)	0.5	2		
AC with access to external finance (Micro Finance Institution/Rural Development Bank) through venture	0	4 through RDB and 22 through MFI		

suggests the company to provide ongoing training to farmers on how to use organic fertilizer. She also mentions that the price of the organic fertilizer is very reasonable in comparison to other fertilizers in the market.

The revolving fund financed by IAP helps farmers to get up to USD 350 per household compared to the USD 50 in the past. In addition to these financing opportunities, CACC also wanted to implement a warehouse ticket receipt system that would allow member farmers to use their produce or part of it as collateral for other loans that can benefit the families and their farms. Complying with collateral requirements is a major issue in Cambodia and by partnering with selected banks to accept the produce as collateral, CACC is hoping to negotiate lower interest rates and thus, enable further financing opportunities for its members. While some banks have accepted the warehouse ticket receipt system, including the Rural Development Bank (RDB) as a mean of complying with collateral requirements, interest rates are still a bit too high (more than 15%). The construction of the system was severely delayed due to construction difficulties so not many farmers have utilized it yet. CACC hopes that more members will use it going forward and that with time and more negotiations, interest rates are lowered.

### **From farmer to entrepreneur**

Through improved access to resources such as quality input, finance, new skills, processing technologies and markets, farmers benefit from a greater value chain participation, where they are able to further process their produce. The idea is that these new opportunities and choices will enable better and more secure sale of produce and thus, improve income for smallholder farmers. Moreover, as they are shareholders, farmers directly benefit from the profits generated in the form of dividend payments.

For CACC, if a farmer experiences a surplus of produce or is offered a better price from another buyer, the farmer still has the option to rent the venture's processing facilities to further process the produce her/himself and sell separately. In that way, smallholders are given the power and voice to influence the venture and can benefit further from entering this type of venture. However, in order to successfully make use of this business model as a member, smallholder farmers and ACs, a change in mind-set is required and farmers need to become more entrepreneurial.

In the first piece on ["Smallholders as true shareholders"](#), various stakeholders were interviewed and asked about what expectations they had on the new business model. Naturally, since it is a new

business model, all participants had both high hopes as well as concerns about it. On the note of entrepreneurship, ACs were hoping to learn about business management from the venture to professionalize their operations. To some extent, this involves a change in behaviours, something that takes time. Farmers and subsequently, ACs, are used to being paid as soon as the produce leaves their property and would strongly favour the tangible short-term gains ahead of impalpable long-term effects, which contradicts good business practices.

*"What I can learn from the company operation are 1) The company focuses on return of investment and long-term impact while on AC level, we just thinking about profit and loss from year to year. 2) Decision-making, carefully identifying risk is important and moving faster is important and 3) The importance of time management".*

In Sdoug, Leader of Kerlomor Chivapheap Kasikor AC

As part of the set-up of the venture, the board partially consists of elected AC leaders. In this capacity, the AC leaders have the power to represent the voice of the ACs and their farmers and facilitate the communication between the venture and the farmers. However, while the representatives are elected based on trust and competence by AC members, they themselves are subject to poor literacy skills and even less so in English. Although they are encouraged to participate and raising their opinions in meetings with the other venture members, it has been proven difficult for them. AC representatives that are part of CACC mentioned that meetings and material are all in English, which



*"The goal is for the farmers to become more like entrepreneurs themselves – not just as a farmer as a farmer or farmer as supplier. I think that it's more of a change in mentality and confidence. We see a change in behaviour amongst some of the ACs, particularly those that are better off and possess a higher level of education."*

- Kunthy Kann, Managing Director CACC

immediately limits their participation. They have raised the issue with the venture and as a response, the venture is making an effort in translating meeting documents to the local language, Khmer, prior to meetings. Similarly, while their shares have increased in the venture, they lack an understanding on how this is generated and would not feel confident in approaching the venture and request the financial report. However, AC leaders also mention that they trust the venture due to Amru Rice's extensive business experience and operations in the region. As such, the venture is exploring whether they can send AC leaders for training at a business centre to increase their business skills and confidence further.

For CACC, they put a lot of emphasis on the promotion of gender equality in the venture by including female AC leaders in the venture. Given the representation of female farmers in the venture, it is only right that this is reflected in the board accordingly. However, currently out of the seven AC representatives serving on the board, only three are females. CACC have tried to make them more engaged by increased participation but similarly with the other AC leaders, they are also hesitant to raise their voice during meetings and challenge suggestions. CACC recently appointed Dr Chanthol Oung as board member who has been a strong advocate and multi-award winner in promoting laws against domestic violence and the establishment of a female police force in Cambodia. It is CACC's hope that she can act as a mentor to the other female leaders by motivating them and giving them the courage to participate. It's important to note that change takes time and its only until recently that females would feel confident enough to put themselves forward as AC leaders as it would entail a lot of travel and being away from home.

### **Business model outlook**

It's evident that these type of business models can revolutionize the agricultural sector in Cambodia but in order to make it successful, a lot of investments, trust and patience is required. Working with smallholder farmers undoubtedly takes time and requires a level of commitment from both parties, where the private sector actor needs to create benefits and procedures that will engage farmers long-term. As discussed in part one of "Smallholders as shareholders", the two value chains have different pre-conditions for succeeding, where rice farming is a long-standing economic activity in Cambodia, whilst palm sugar processing is less so.

Smallholders as true shareholders is a business model concept for improving and coordinating value chain more effectively and efficiently and merging stakeholder's interests together in one format. As the aim is to make farmers more into entrepreneurs, both Mekong Ingredients and CACC recognize that it requires support from the public sector and development agencies. This in order to help strengthen the role of ACs in accessing finance, business skills, technical skills in supply chain management and introducing new technology. CACC have stretched the importance of good cooperation with the government in implementing their business model and being backed by a private sector company like Amru Rice to effectively leverage the different competencies within the venture. Both companies have also expressed that the



*Veuk Ya, Leader of Romdom Samhoy Meanchey AC, told that she previously would not have considered becoming an AC leader but now sees a change in attitudes in the community*

presence of their parent company has played a big role in establishing trust amongst the venture members. Amru Rice and Signatures of Asia are both well-regarded companies and their already established relationships amongst farmers and ACs have made it easier to establish a good foundation for cooperation. When asked what the success factors behind the business model are, both concurred that relationships and trust are essential.

Apart from good relationships throughout the value chain, its important to highlight the ever-enabling environment that the companies have benefited from. The government have made efforts in trying to diversify the country's economic activities, which entails becoming less reliant on the garment sector and more so on other sectors, including agriculture. Moreover, in terms of inclusive businesses, in August 2019, the Ministry of Industry and Handicraft launched the first ever Inclusive Business Forum in Cambodia, where both companies were included. This indicates that inclusive businesses like Mekong Ingredients and CACC have the potential to sustain in the market and help improve the livelihoods of farmers in Cambodia.

We would love to hear from you! For any comments or feedback, please contact [support@innovationsagainstpoverty.org](mailto:support@innovationsagainstpoverty.org).