

Development of an economically viable organic rice supply chain via a Contract Farming scheme in Preah Vihear province, Cambodia

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Summary

Whereas organic value chains have not always succeeded to maintain their costs of management and certification, a partnership based on a contract farming model is showing encouraging results in Preah Vihear province. Economy of scale, achieved by a rapid growth of paddy volumes engaged and by the willingness of farmer leaders to pull resources for the creation of a Union of Agricultural Cooperatives, is the keystone of the viability of this organic paddy supply chain. Long term vision and the aspiration of a committed exporter to build a fair partnership with farmers are also essential pillars of this success.

The challenge of developing economically viable organic supply chains

Despite the potential and the numerous initiatives to promote organic agriculture in Cambodia in the past 15 years, success stories of economically viable organic value chains are scarce, notably in the rice sector. Whereas growing concerns of Cambodian urban middle-class regarding food safety opens a potential, the absence of public regulation or organic standards and the lack of a reliable and consumers-known private-owned organic label makes the potential of domestic market barely exploited. On the other hand, the lack of connection to international markets limits the scale of organic production initiatives. As a consequence, international certification costs per unit of product remains too high to be sustained, and the potential of international markets for organic products is left untapped.

Initial support to organic rice production in Preah Vihear province

The Support to the Commercialization of Cambodian Rice Project (SCCRP) is financed by the *Agence Française de Développement* (AFD). Among other objectives, it aims at developing the involvement of Farmer Organizations in the commercialization of paddy and at differentiating Cambodian Rice on international market by various quality labels and compliance with standards.

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In 2013, in partnership with the Cambodian Organic Agriculture Association (COrAA), a first support was provided to 5 cooperatives in Preah Vihear province (a remote province in the North of Cambodia) to produce organic rice. The objective for that first year was only the compliance with COrAA private organic standard, yet allowing the setting-up of an Internal Control System (ICS). COrAA organic logo could be used for domestic market, yet could also be considered within some regional market destinations which do not have a public regulation on organic agriculture and labelling (such as Singapore). It was expected that this would already generate a moderate premium to motivate producers, while this first season would be used as a springboard toward international certifications. This first year was successful from the point of view of building awareness of farmers on organic production and establishing internal control system: about 625 tons of paddy were declared compliant with COrAA standards. But it was a failure from the commercial point of view as only about 100 tons of paddy were sold as organic, to AMRU Rice (Cambodia) Co. Ltd., one of the lead Cambodian rice exporters.

Lessons learnt from 1st season and improvements in 2014

AMRU Rice Co. was actually willing to buy more organic paddy from 2013 harvest. But the paddy was bought fresh (before drying), whereas the logistic organization of the paddy collection was not efficient enough. To avoid depreciation of the quality, farmers had to sell the paddy within 48 hours after harvest, to local traders (as conventional paddy) if the company could not buy on time. For the Agricultural Cooperatives involved, this revealed the risk of investing further in the internal control system without reasonable guarantees that the paddy will be sold as organic, with the corresponding premium price. To secure deals with buyers from the beginning of the cropping cycle was thereof seen as a must.

In 2014, 8 cooperatives were involved and a meeting was organized with potential buyers of organic paddy in the very early stage of the season to select a partner. Cooperatives have met individually three or four potential buyers to compare the conditions they would possibly offer for organic paddy purchase, then decided to negotiate a Contract Farming agreement with AMRU Rice. Contracts were signed for the supply of a total of 1,800 tons of organic jasmine paddy for harvest 2014. The agreement defined different grade of quality with corresponding detailed specifications, and for each grade, the level of premium price to apply. Reference price was set based on prices offered by other rice mills in the neighboring province of Kampong Thom. The target in 2014 was to achieve organic certification against both EOS/EU and USA/NOP standards. Moreover the modalities of quality control and collection were clarified in order to address the difficulties faced in 2013. AMRU Rice Co. was in charge to hire an international certification body (Ecocert), while cooperatives had to maintain the internal control system. Additional training and supervision of cooperatives inspectors was provided by COrAA, mobilized by the SCCRP project.

At harvest time, even if the full target volume was not achieved, the results were very encouraging: all the 8 cooperatives were certified by Ecocert and 1,465 tons of organic paddy were delivered to AMRU. In average, the level of premium applied was +128 Riels/kg of paddy, additional to a reference price already significantly higher than prices offered by collector in the production area.

Building the economic viability

Results of 2014 harvest were very encouraging. However, it was acknowledged that the role undertaken by COrAA and financed by the project was still crucial to sustain the organic certification. The next challenge faced was thereof to ensure a complete weaning of the emerging organic paddy supply chain from project subsidies. To maintain a team able to supervise internal control inspectors, verify and consolidate the data of the Internal Control System, liaise with the certification body and provide managerial support to the cooperative was seen as a must. Different scenarios were developed, with a simulation of associated costs. Two options in particular were considered: 1. the externalization of this support service, possibly by the

mobilization of COrAA paid directly by the cooperatives, or 2. the mutualization of resources by the cooperatives in order to hire (and keep) a competent team. The second option was chosen: the eight cooperatives have decided to establish a Union of Agricultural Cooperatives (which is about to become the first – or one of the first – Union of Cooperatives registered in Cambodia) through which they will mobilize the adequate staff.

Before to engage further support, the partners were asked to formally confirm the following commitments, seen as the pillars of the economic viability of the model: AMRU Rice took commitments regarding the increase of premium prices and volumes to be purchased (not less than 3,500 tons of paddy by 2016). Cooperatives have accepted to channel 50 Riels/kg of paddy, withhold on the premium, to cover the cost of the Union. And on its side, the SCCRP project (reassured by the above commitments of its partners), has accepted to subsidize the costs of the Union from mid-2015 until the harvest. Based on a hypothesis of 2,500 tons of organic paddy sold to AMRU, it was foreseen that the Union would generate enough resources to cover 75% of its costs in 2016. Then additional growth up to 3,500 tons would be sufficient to balance the costs from 2017.

2015 harvest: on track with previsions

For the second year, contracts were signed between AMRU Rice and the 8 cooperatives, with agreed level of premiums and for over 3,300 tons of paddy. The Union (still informal) has recruited 4 staffs, temporarily paid with project's subsidy for the first 6 months. Organic certification was obtained, and Ecocert has even noted the improvement of the ICS allowed by the presence of the team of the Union, operational since mid-July 2015.

2,438 tons of organic paddy were delivered to AMRU: still less than the volumes expected as per contracts, but very much in line with the foreseen scenario toward economic sustainability of the model. Since the level of premium was significantly increased, incentives for farmers were still very satisfactory, while 50 Riels per kg were actually withhold and transferred to the Union of Cooperatives after the harvest, generating a budget of nearly 30,000 Dollars US for the Union (approximately 3/4 of its annual budget).

In average, the level of premium applied was +150 Riel/kg of paddy, additional to a reference price already significantly higher than prices offered by collector in the production area.

Scaling up: on track toward a viable organic paddy supply chain

Via its commercial efforts, AMRU Rice captures a growing demand for organic rice notably on the USA and European markets. Further scaling-up is expected in 2016, with considered aggregation of new cooperatives and inclusion of new farmers. AMRU could order approximately 5,000 tons of organic paddy this year: enough to ensure sufficient resources to cover the costs at cooperatives and Union level.

In this model, the involvement of a large scale exporter, committed to seek markets for organic rice, and the solid partnership built on a long term perspective between the exporter and cooperatives are keys of the success, while project investments are made with a well-defined phasing out plan, clearly understood by partners.