



# CONTRACT FOR PADDY SUPPLYING BETWEEN NIKOM PREAH SIHANOUK AC AND SIGNATURES OF ASIA, FACILITATED BY FCFD

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AUTHOR: PHAT SOPHANY (AVSF), AVSF-CIRD-ADG CONSORTIUM<sup>1</sup>



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## ACRONYMS

AC	Agricultural Cooperative	MAFF	Ministry of Agriculture, Forestry and Fisheries
AFD	<i>Agence Française de Développement</i>	NGO	Non-Governmental Organization
AVSF	<i>Agronomes et Vétérinaires Sans Frontières</i>	PDAFF	Provincial Department of Agriculture, Forestry and Fisheries
DACP	Department of Agriculture Cooperatives Promotion (/MAFF)	PSG	Paddy Selling Group
FAEC	Federation of farmer associations promoting family Agriculture Enterprises in Cambodia	PTP	Paddy Trading Platform
FCFD	Federation of Cambodian Farmer Organizations for Development	SCCRP	Support to the Commercialization of Cambodian Rice Project
FO	Farmer Organization	SNEC	Supreme National Economic Council
		SoA	Signatures of Asia

<sup>1</sup> www.avsf.org ; www.cird.org.kh ; www.ong-adg.be

## UNITS AND MEASURES

ha	Hectare
kg	Kilogram
KHR	Cambodian Riel (Approximately 4,000 KHR for 1 USD).
t	Ton (metric ton)
THB	Thai Baht
USD	United States Dollars

### 1. OVERVIEW / SHORT DESCRIPTION OF THE CASE

As part of FCFD support to its members for the development of paddy commercialization, Nikom Preah Sihanouk Agricultural Cooperative (established in Thma Koul district, Battambang) has signed a paddy selling contract with the rice exporter “Signatures of Asia”, targeting the supplying of 500 tons of conventional paddy (white rice variety).

During two months (December 2016 and January 2017) this AC has supplied 776.5 Metric tons of paddy to Signatures of Asia rice mill, located in Banteay Meanchey province. The AC could make a gross profit close to 4 million Riels from this operation, but which has mainly been consumed for the remuneration of persons in charge of the coordination of the operation within the AC. Nevertheless it is estimated that farmers have received a better price by selling through the cooperative than what they would have got by selling directly to local collectors. Farmers have expressed their satisfaction and a many producers have expressed their willingness to join the paddy selling operation for the next season.

### 2. THE ORIGIN OF THE ACTION

SCCRP project has encouraged the development of commercial relation between Farmer Organizations and rice millers, and tried as well to develop the capacities of FO Federations at national level, such as the Federation of Cambodian Farmer Organizations for Development (FCFD), to support and accompany their members in such businesses. With financial and technical support from the project, FCFD has worked with some of its members to develop collective paddy selling activities (or “Paddy Selling Groups” – PSG). The Federation (with support from SCCRП team) has also started to establish contacts and develop relations with several rice millers, notably in the provinces of Takeo, Battambang and Banteay Meanchey.

Among the results of these networking efforts, a contract for the supply of at least 500 t of IR 504 paddy has been signed on the 8<sup>th</sup> of November 2016 between Signatures of Asia (a rice miller and exporter) and Nikom Preah Sihanouk Agricultural Cooperative. Paddy delivery had to start from the following month, in December 2016.

This contract is considered as a paddy supply contract and not as a contract farming agreement because it is signed only few weeks before the beginning of the harvest, and it does not include any specification on the mode of production of the paddy, neither any commitment of the buyer side regarding support to production or other role besides the purchase of the paddy.

### 3. THE STAKEHOLDERS INVOLVED

There are 4 main stakeholders involved in the process of the business contract negotiation, implementation and monitoring such as Signatures of Asia (the Buyer), the Agricultural Cooperatives (the Producer), the Federation of Cambodian Farmer Organizations for Development (FCFD) and SCCRП as an external supporter.

### 3.1. SIGNATURES OF ASIA

Signatures of Asia is rice milling and rice export Company is a member of Bayon Heritage Holding Group, established since 2013. It is exporting rice to international market, notably to the European Union, Hong Kong and Russia. Signatures of Asia has a rice mill established in Banteay Meanchey province.

### 3.2. NIKOM PREAH SIHANOUK AGRICULTURAL COOPERATIVES:

Nikom Preah Sihanouk Agricultural Cooperative is located in Nikom Krau village, Chrouy Sdau commune, Thma Koul district, Battambang province. This AC has been established and legally registered by PDAFF of Battambang province since 2010. The cooperative counts 36 members and a total capital of 11,967,600 KHR (100,000 KHR/share). The activity of purchasing and selling paddy is one of the objectives of the cooperative.

### 3.3. FEDERATION OF CAMBODIAN FARMER ORGANIZATIONS FOR DEVELOPMENT (FCFD)

The Federation of Cambodian Farmer Organizations for Development (FCFD) was founded in December 2010 with the support of the French NGO “*Agronomes et Vétérinaires Sans Frontières*” (AVSF). The Federation is recognized by the Ministry of Interior (MoI) in its latter number 088 ៧៣៣៧ dated 19<sup>th</sup> of January 2011. FCFD’s office is located at ROUNG DAMREI village, Cheung Phnum commune, Ba Phnum district, Prey Veng province. In 2017, FCFD has 62 members in the provinces of Takeo, Prey Veng, Kampong Thom, Siem Reap and Battambang.

### 3.4. SUPPORT TO THE COMMERCIALIZATION OF CAMBODIAN RICE PROJECT (SCCRP)

The Support to the Commercialization of Cambodian Rice Project (SCCRP) is funded by the French Agency for Development (AFD) for a period of 5 years (January 2013 to December 2017). Its purpose is to contribute to support the implementation of the National Strategy of Promotion of Paddy Production and Rice Exports approved by the Council of Ministers in July 2010, with an objective of maximization of the added value and of the share of this added value reaching producers as a part of the overall goal of rural poverty alleviation. The Supreme National Economic Council (SNEC) has been designated as the coordination agency for the implementation of this project, which involves various public and private stakeholders.

Both FCFD and SCCR project played roles as external supporters under the business contract between Signatures of Asia with Nikom Preah Sihanouk Agricultural Cooperatives.

## 4. IMPLEMENTATION PROCESS

The process of facilitation and implementation of paddy supply contract has followed the following steps:

### 4.1. BUSINESS MATCHING MEETING

Before the preparation of this operation for paddy commercialization, FCFD had already developed a good collaboration with Bayon Heritage Holding Group since April 2016, focused on the distribution of Fertilizers supplied by Bayon Heritage to FCFD members. A MoU was signed between the Federation and Bayon Heritage group for this activity for a duration of two years (2016-2018). This has provided the opportunity for FCFD leaders to meet with Signatures of Asia<sup>2</sup> director on the 31<sup>st</sup> of October 2016. The meeting was focused on two subjects: the on-going partnership on fertilizer supply, and the possible opportunities of partnership for paddy supply. The interest of a partnership between Signatures of Asia and FO Federations (FCFD, but also FAEC) was confirmed, and then further detailed and formalized in a second meeting on the 8<sup>th</sup> of November 2016.

### 4.2. IDENTIFICATION OF POTENTIAL AC

After the terms and conditions of the facilitation of business linkage were clarified with Signatures of Asia, FCFD has proposed Nikom Preah Sihanouk Agricultural Cooperative to be a paddy supplier to SoA because of its

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<sup>2</sup> A member of Bayon Heritage Holding Group.

location, close to the company rice mill located in the neighboring province of Banteay Meanchey. A meeting was organized with the board of directors of the cooperative in mid-November in order to explain the requirements and expectations of the buyer.

### 4.3. CONTRACT DEVELOPMENT AND SIGNING

As the AC Board of Director has confirmed its interest, FCFD's Field Coordinator, supported by SCCRPs Institutional Capacity Building Consultant, has developed a first draft of contract for the supply of paddy, taking into account the results of previous meetings regarding the buyer's expectations and the AC estimated supplying capacities.

The paddy supply contract was then signed in early December 2016 by the two parties: Nikom Preah Sihanouk AC and Signatures of Asia.

#### Box 1: Terms of the contract signed

The business contract agreement between Signatures of Asia and Nikom Preah Sihanouk AC on supplying white paddy was signed on the 8<sup>th</sup> of November 2016. Its period of validity was 7 months from its signature. The main terms and conditions defined in the contract are:

The Producer (Nikom Preah Sihanouk AC) shall supply to the Buyer (Signatures of Asia) a total volume of 500 metric tons of paddy of white rice (non-fragrant) varieties, compliant with quality specifications defined in the contract. There are only minimum quality specifications that are defined in this contract, and not different grade of quality.

The Buyer shall pay the paddy at a price set based on the highest price offered by three selected rice mills for the same type of paddy within the seven previous days, and with an additional premium of + 10 KHR/kg.

All expenses for paddy collection, loading and transport are under the responsibility of the Producer (the AC)

The obligations of the Buyer (Signatures of Asia) shall be to buy the white paddy (as described above) from the Producer and to provide technical training to AC Board members on paddy quality check. However, the AC board members couldn't get enough skills on paddy quality control from the training provided by the rice miller.

The supplier must inform to buyer at least 5 days before collecting the paddy from their members. No later than 3 days after receiving this information from the AC, the Buyer must provide a clear schedule for paddy buying from the AC.

The buyer has to pay the Producer not later than 3 days after each delivery, through AC's bank account in Cambodian Riel currency. Banks's transfer service fees are to be covered by the Buyer.

### 4.4. IMPLEMENTATION OF BUSINESS CONTRACT

After signing contract Nikom Preah Sihanouk AC organized a meeting with its members in order to enroll members willing to sell their paddy through the "Paddy Selling Group" of the cooperative. Only 29 members expressed interested and agreed to join. The rule, responsibility and benefit sharing of this business activity were prepared and discussed within the cooperative, with the support from FCFD and SCCRPs. Three persons were designated to be in charge of the coordination of all collection and delivery activities: in particular communication and coordination with their members, with the rice miller, procurement of transportation (truck rental) and labor for loading, and liaison with external supporter institutions.



*Loading paddy from producers in Nikom Preah Sihanouk AC* ▷

Despite the contracts mention that mill-gates price from selected rice mills would be used as the reference price, in practice, Signatures of Asia has accepted to consider prices offer by local traders in the village as reference price, as these collectors were often offering a higher price than rice mills (5,700 THB/t. while miller prices were only 5,500 THB/t).

### **Box 2: Practical details on the organization of paddy collection, delivery to the mill and management of payments**

A preliminary schedule of harvest is prepared by AC with SoA, mainly based on the buyers need – taking into account the limitation of its drying capacities. Then the AC disseminates this schedule (with dates and defined collection points) to its members. A first quality check is done by the AC on the field before the harvest. Then a second quality check is done at the delivery of the paddy by members on the collection point. All volumes delivered by each farmer are properly recorded.

One of the persons in charge will then accompany the truck to the mill for the delivery. Paddy quality will be checked again at the mill.

After deliveries, every three days, the Buyer has transfer the payment to the AC through money transfer services (Wing). Members of the ACs receive the payment for the paddy they have delivered only after the AC has actually been paid for it.

The AC also keeps records of all the expenditures it has to make to manage the process, including notably the costs for transport, truck loading, etc. An incomes and expenses statement is presented to member after the harvest season has been completed.

The AC has accepted all the paddy delivered by its members, even if the quality was sometime a bit below the requirements of the buyer. This has led to some difficulty with the buyer and AC had to negotiate for SoA to accept the batch of paddy with a lower quality. But on the other hand, it has to be admitted that the planning of harvest was defined by the buyer, taking into consideration the planning of use of its drying facilities. This planning was not necessarily based on the optimum stage of paddy ripening, which is a key factor to control the quality. This is something that shall be better taken into account, as it is difficult to combine high quality requirement with a planning elaborated based on the optimization of millers drying capacities, and not on the optimization of paddy ripening.

#### **4.5. MONITORING AND EVALUATION**

Volumes of paddy collected and delivered were recorded daily. In addition, formats were also developed for daily record of all expenditures and incomes generated by the paddy selling activity, and one of the coordinator was assigned as the cashier for all the monetary transactions. FCFD officer has provided backstopping support and coaching to the cooperative team in charge. At the end of the process, a final assessment and evaluation was supported by FCFD and SCCRП team.

#### **5. OPERATIONAL RESULTS AND SITUATION**

The *ex-post* assessment of the implementation of the contract between Signatures of Asia and Nikom Preah Sihanouk AC has underlined the successful implementation of the contract. Terms of the agreement were applied and respected. In total, 776.5 tons of paddy were delivered by the cooperative and bought by SoA, i.e. a volume above the minimum volume set in the contract by + 55%, which is a positive sign of the interest of selling through the cooperative for the farmers, as otherwise they would not have exceeded the volume contracted. Moreover, the quality requirements set in the contract could be reached.

It was assessed that the price offered by the AC to its members engaged in the collective paddy selling operation was quite competitive compared to farm-gate price offered by local paddy collectors, and the paddy prices have continued to increase one day after the other during the paddy collection period. At the beginning of the operation,

the price offered by the miller was only of 5,900 Thai Baht per ton, but then increased to 6,250 Thai Baht per ton within two weeks.

## 6. ECONOMIC ANALYSIS

### 6.1. INCOME, EXPENDITURES AND GROSS PROFIT AT AC LEVEL

Within two months the operation of collective paddy selling within the AC has generated a gross profit of 3,957,200 KHR, before remuneration of the coordination team in charge (see Box 3 below).

#### Box 3: Incomes and expenditure of Nikom PreahSihanouk AC for collective paddy selling operation, and gross profit generated

Description	In		Total in (Khmer Riels)
	Thai Bath	Khmer Riels	
<b>EXPENSE</b>			
Payment on paddy cost to members	5,079,957	20,000	568,975,184
Admin cost		170,500	170,500
Labor force cost		8,461,000	8,461,000
Truck rental fee	75,050	7,080,700	15,486,300
Gasoline ( motorbike to withdraw money)		218,200	218,200
Food and guest house for PSG coodinator		79,000	79,000
Snack and drinks for workers		399,000	399,000
<b>TOTAL EXPENSE</b>	<b>5,155,007</b>	<b>16,428,400</b>	<b>593,789,184</b>
<b>INCOME</b>			
Cash received from paddy sold	5,337,021		597,746,352
<b>TOTAL INCOME</b>	<b>5,337,021</b>	<b>-</b>	<b>597,746,352</b>
<b>NET PROFIT</b>			<b>3,957,168</b>

### 6.2. DISTRIBUTION OF GROSS PROFITS AND BENEFITS FOR STAKEHOLDERS INVOLVED.

The gross profits generated from the sale of paddy were shared into 4 parts, as follows:

- Based on the rule established by AC board with supported by SCCRП team and FCFD Field Coordinator since beginning of the business started, 80% of the gross profits generated (equivalent to 3,165,700 KHR) were paid to the three persons in charge of the coordination of the paddy selling activities, as their remuneration for this work.
- 15% of the gross profits were given to the AC Board and AC Supervision committee for their work, equivalent to 593,500 KHR.
- 4% (158,200 KHR) remained in the AC as an increase of its capital.
- 1% of the gross profit (equivalent to 39,500 KHR) was paid to FCFD as a service fee for its facilitation role. It has to be noted that this contribution is far from covering the costs engaged by the Federation to support this activity, at all the different stages as developed in section 4 above). It is estimated that the Federation has spent not less than 269 USD for this support. This could be possible because the SCCRП project was providing some subsidies to the Federation to implement these activities at a pilot stage, but for further implementation, tariff for support services shall be renegotiated between FCFD and its members.

Farmers involved in the collective paddy selling activity have expressed their satisfaction, and the fact that volumes delivered have been above the minimum commitment made in the contract tend to prove that there was an interest for farmers to sell through the cooperative rather than directly to local collectors, as otherwise the AC would not have been able to collect more than 750 tons of paddy. Yet there was no precise monitoring of farm-gate prices

offered by local collectors at the same time, so the additional income generated for farmers who took part in the operation has not been precisely measured.

For the miller, the contract with the cooperative has ensured a regular source of paddy supply (among other sources) for the few weeks duration of the operation, with paddy delivered at mill-gate. But we have no element of comparison to actually know if this mode of sourcing was more profitable for the company (either in term of costs or of consistency of the quality with the mill requirements).

## 7. REPLICABILITY AND CONDITIONS FOR REPLICABILITY WITHOUT SCCRП PROJECT SUPPORT

Potentially, this model of paddy supplying contract between FOs and rice millers could be replicated by other ACs (or FOs) and other rice millers.

Yet at the moment, it seems that there is a need for facilitation as ACs and millers rarely get spontaneously engaged with each other. Based on the experience described in this note, a very minimum time input of 6 days of a facilitator could be required, at the following steps:

**Table 1: Minimum time inputs for facilitation**

Steps / activities	Time input required
Learn from experienced PSG (organized exchange visit with experienced PSG)	½ day
Create PSG (organize meeting with potential paddy producers/members to explain on objective and benefits)	½ day
Meeting with PSG (create internal rule, identify role and task and benefits sharing)	½ day
Prepare paddy production plan (list of members, total paddy production surface, paddy variety and quantity expectation)	½ day
Business matching (contact or building relationship with potential rice miller and microfinance or bank)	½ day
Contract signing (meeting/negotiate/signing)	½ day
Provide technical support on business launching	2 days
Monitoring and evaluation	1 day
<b>Total</b>	<b>6 days</b>

Different institutions can undertake such facilitation role, such as PDAFF services, FO Federations, or projects or NGOs.

FO Federations could request payment of fees from their members in order to finance their support. But as shown in this note, it is difficult to fully recover costs, in particular in the very first years as the volumes engaged may remain limited, and the AC will be reluctant to commit to payment of fees to Federation while the activity has not yet proven its capacities to generate profits. Yet, it can be a good investment for projects / development partners to contribute to cover such costs for FO Federations, as they can progressively scale up and take over the costs to sustain the facilitation services.

