

FAEC & FCFD SERVICE PROVISION: THE CASE OF AGRICULTURE INPUT SUPPLY

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CONTENT

1. Overview of the service provision of FAEC and FCFD.....	2
2. The origin of the action and the stakeholders involved.....	3
3. History of the action.....	4
4. Economic analysis and scaling-up potential.....	5
5. Viability: foreseen future of the initiative.....	6
6. Replicability and conditions for replicability without SCCRCP project support.....	7

ACRONYMS

AC	Agricultural Cooperative	FCFD	Federation of Cambodian Farmer Organizations for Development
ADG	<i>Aide au Développement - Gembloux</i>	FO	Farmer Organization
AFD	<i>Agence Française de Développement</i>	IRAM	<i>Institut de Recherche et d'Application des Méthodes de Développement</i>
AFSA	<i>Agriculture Familiale et Souveraineté Alimentaire (ADG project)</i>	MAFF	Ministry of Agriculture, Forestry and Fisheries
AVSF	<i>Agronomes et Vétérinaires Sans Frontières</i>	NGO	Non-Governmental Organization
BHG	Bayon Heritage Holding Group	NF3	National Farmer Organizations Federations' Forum
CIRD	Cambodian Institute for Research and Rural Development	SNEC	Supreme National Economic Council
DACP	Department of Agriculture Cooperatives Promotion (GDA/MAFF)	SCCRP	Support to the Commercialization of Cambodian Rice Project
DGRV	German Cooperative and Raiffeisen Confederation	U-AC	Union of Agricultural Cooperatives
FAEC	Federation of farmer associations promoting family Agriculture Enterprises in Cambodia		

¹ 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 OF THE SERVICE PROVISION OF FAEC AND FCFD

The Federation of Farmer Associations Promoting Family Agriculture Enterprise in Cambodia (FAEC) is a Federation of Farmer Organisations (FO-Fed) that was initiated by a group of Cambodian small-scale farmers who are implementing joint saving and credit activities in the form of mutual self-help. Since 2010, some of these saving and credit groups have registered under MAFF status of Agricultural Cooperative (AC) in order to engage in formal collective business activities with an embedded credit service arrangement, to maximize economic return from applied credit interests. However, the FO-Fed and AC were recently established and their abilities to undertake these operational functions are low.

The Federation of Cambodian Farmers Organization for Development (FCFD) is also an FO-Fed. FCFD was initiated by AVSF to sustain the several farmer organisations that were built to achieve broad outreach of their development initiatives and sustain the services through greater economic gain.

In the recent past, the situation for small-scale farmers was exacerbated by severe market failures, restraining them in their access of agriculture inputs in adequate quality and price, and selling their farm products with proper remuneration. FAEC requested support from SCCR and AFSA projects on creating and organizing their own appropriate service arrangements, and building their capacities to deliver selected operational services for procurement of agricultural inputs and to access profitable markets. On the other hand, FCFD has been engaged from their creation in collective agriculture input procurement. With the support of an important revolving fund, FCFD was every year organizing the bulk purchase of fertilizer for their members. They gained managerial capacities under the AVSF technical assistance.

Problems faced by small-scale farmers in their environment were numerous, but the most important were faced on input procurement during the 2007-2008 fertilizer prices increase that coincided with an increase of fake fertilizers. The major practices of local input suppliers included adulteration and dilution, re-bagging less expensive fertilizer in bags that were labelled as higher analysis, short-weighting bags and disguising lower analysis NPK fertilizer as higher analysis diammonium phosphate (DAP) fertilizer by coating with oil to change the product appearance. Another issue related to rice marketing channels also carried out exclusively by local private sector intermediaries on which small-scale farmers were financially dependent. Prices of rice outputs at farm gates paid to Cambodian farmers are the lower of the region. Small-scale farmers are affected by collusion among rice-millers and collectors/traders to capture higher margins and pass-on their inability to retrieve processing gains. Also there is limited information on farm gate prices for paddy and milled rice, farmers reported that farm gate prices and retail prices vary considerably with the seasons and by location.

FAEC and FCFD developed the service arrangement for six operational services:

- 1/ Improving access to market: matchmaking with input suppliers; product buyers and forging business linkages
- 2/ Improving access to finance: matchmaking with micro-finance providers; support FO to develop business plan and procedures to get loan from credit institutions (such as the Rural Development Bank)².
- 3/ Strengthening managerial capacities of FO Representatives: professional trainings on accounting, financial management and internal control procedures; provision of advises and supports for institutional establishment of AC;
- 4/ Extension services for transition toward agro-ecological productions
- 5/ Development of family agriculture enterprise
- 6/ Facilitate market information and support to contract farming

² See SCCR Policy Note #3: "Access to finance for Farmer Organizations as economic and commercial actors in value-chains".

However, this case study note focuses specifically on the operational services developed by FAEC and FCFD to improve access to fertilizer and even more specifically on the contracted fertilizer supply from Bayon Heritage Group and FAEC/FCFD.

2. THE ORIGIN OF THE ACTION AND THE STAKEHOLDERS INVOLVED

2.1. ORIGIN OF THE ACTION

FAEC and FCFD were among FO-Feds supported by SCCR project in order to reinforce their capacities and contribute to the structuring of the Cambodian rice value chain for export. In 2017, FAEC was representing 36 Agricultural Cooperatives (AC) and 28 credit groups in 10 provinces of Cambodia; FCFD was representing 25 AC and 61 credit groups and rice-banks in 6 provinces. A typical Agricultural Cooperative (for most of the ACs in FAEC) is created by one or more saving and credit groups willing to valorise their credit activities through collective commercial activities; generally, the first business engagement is the procurement and sale of fertilizer. Typical AC are established by an average of 160 shareholders (composed from a variance of 24 to 780 small-scale farmers) and registered with the Ministry of Agriculture. FAEC was established in 2009, FCFD in 2010. The organisation of the service provision started in 2011. The strengthening of the service arrangements was undertaken since 2013 by SCCR project. It was during the SCCR intervention that FAEC and FCFD mutualised their own resources in order to raise efficiency and concentrate their support on more FOs. At a later stage, both FO-Feds collaborated with Farmer Water Net (FWN) to extend even further their networks and enlarge their size of service supply.

In FAEC and FCFD early days, the motivation behind the creation of the federation was originally to access supportive development opportunities for the AC members, to exchange information, and to defend interests of small-scale family farming. At that time, the FO-Fed structure was largely sponsored by external organisations focusing mainly on deliveries to AC. However, Board members were willing to internalized support and operational services to better serve their members. Behind this will, FAEC and FCFD development of collective services also had an objective of financial return under the form of fee paid by the private sector firms to benefit from FAEC/FCFD network (so the Federations can sustain their functions); the second objective of Board members was to enable an embedded credit system within the services that would provide economic return to AC' shareholders in the form of credit interest; and finally FAEC/FCFD Board members were seeking opportunities of fee wage for the farmer' Experts specifically trained to provide service. As developed in the chapter on sustainability, this fee wage was never succeeded to be covered, even partially, by AC or farmer who benefited from the service. Confronted with the difficulty to have farmers and AC directly paying for these services, the focus was on organizing embedded service arrangements linked to other commercial transactions, in particular pre-financing and credit.

2.2. MAIN STAKEHOLDERS INVOLVED

The development and strengthening of FAEC/FCFD services for the supply of fertilizer has engaged the following stakeholders:

BAYON HERITAGE HOLDING GROUP (CAMBODIA)

Bayon Heritage Holding Group (BHG) is a head company which has many sub-companies under its control such as: Signatures of Asia Co., Ltd; Liqui Moly (Germany Motor oil); Mekong Room (Booking hotel and air ticket service) and Japanese Organic Fertilizer etc. BHG fulfilled the following commitments:

- To provide technical support, facilitate extension meeting with FO Federations' members, to ensure the quantity and quality of the fertilizers, to provide clear technical information on their products and services to FO Fed members;
- To sign the contract with FO Fed/Networks members;
- To manage demonstration field, follow-up, provide technical advice;
- To coordinate with FO Fed/Network to solve the problems;
- To cover all expenditures for extension meeting with FO Fed/Networks members and demonstration fields;

- To pay a financial contribution to the operational cost of the FO Federations of 500.00 USD per month for 3 months from March to May 2016;
- To provide fertilizer credit to FO Fed members possibly for duration of 4 to 6 months based on the rice production cycle, with 1% of interest rate per month;
- To provide 2,000 riels per bag of 50 kg or 1,000 riels per bag of 25 kg and the same for FO Fed members;
- To take back of the remaining products with no conditions and interest rate;
- To inform to FO at least 6 months before fertilizer price change;
- To deliver within 7 days from the order.

FO-FEDS FAEC AND FCFD

FO Federations are responsible for:

- Providing members database to the company and identify members' needs;
- Organizing and coordinating the meetings;
- Identifying and following-up the implementation of demonstration fields;
- Coordinating the signing of contract between FO Federations and the company;
- Coordinating the payment/reimbursement of FO Federations' members.

AGRICULTURE COOPERATIVE

All the fifty agricultural cooperatives (AC) member of FAEC and FCFD were informed from the deal the FO-Fed had with BHG. The AC' board role was:

- Inventory and validation of individual farmer need in fertilizers
- Reception and distribution of the fertilizers
- Management of the embedded credit
- Financial management of the fertilizer trade and payment/ reimbursement
- Coordinate fertilizer trials and demonstrations
- Raise issues and interface between the buyer and BHG staffs

SCCRP PROJECT TEAM

The SCCR project team (notably through the consultants it engaged, in particular from AVSF, ADG, CIRD and IRAM) have provided support and facilitation, particularly in capacity building of FO-Fed and AC representatives, in developing adapted tools and mechanism for management of the AC businesses, monitoring and organization of negotiations between parties.

3. HISTORY OF THE ACTION

In 2014, FAEC and FCFD have negotiated the implementation of fertilizer demonstration plots (all in Takeo province) with three fertilizer supplier companies. The companies have generally undertaken this commitment, with a slightly lower number of demonstration plots than scheduled for BHG ("Pendey" Fertilizers) because some demonstrations have been cancelled due to drought.

In 2015, FO-Fed met with BHG in order to understand their new sale offer for FOs. The company discounts 2,000 riels/bag for FO who buys during January to April. The company also informed about the availability of new kind of chemical fertilizers. The information was shared to FOs members of the Federations with the list of fertilizers available. Payment of commission by BHG company agreed with FO-Fed was not done yet at that moment. The fertilizer supplier said that the payment will be done during the wet season.

On 28 March 2016, SCCR facilitated another meeting between BHG with FAEC and FCFD for the distribution of fertilizers through their FO network. Following that, several negotiations between FAEC, FCFD and BHG have been consolidated by the signature of a Memorandum of Understanding (MoU) between the FO-Feds and the fertilizer supplier. The meeting and signature of MoU took place on 4 April 2016.

FCFD and FAEC divided among them the coverage of the AC to engage disregard-less of their membership, FCFD covering 5 provinces, and FAEC covering other 5 provinces.

Following 2016 seasonal round, meeting was organized in March 2017 with BHG to make a final statement of the sales of fertilizers made as part of the partnership between the company and the Federations.

- FCFD members have bought 268,875 kg of fertilizers from BHG. Based on the terms of MoU and on the figures of sales, FCFD received an amount of 2,689 USD from BHG, contributing to progressively generate incomes to sustain Federation's activities.
- In 2016 FAEC's members have been bought 156,625 kg of fertilizer from BHG. According to the agreement made with the Company, FAEC received a commission of 1,500 USD from BHG.

On 10th of April 2017, Mr. Din Sakhorn, FCFD's representative, had a meeting with Bayon Heritage Co., Ltd, in Kampong Thom province, in order to clarify and up-date the terms of the agreement between FCFD and the company regarding: (i) The price of fertilizer for 2017; (ii) The number of demonstration plots to be implemented by farmers; (iii) The dissemination on fertilizer usage technique by company.

After discussions between both parties, the company's representatives agreed the following:

- The price of all types of fertilizer will be reduced by 4, 000 KHR/50 kg bag and this agreement will apply to all target provinces of FCFD and FAEC
- The company will provide the fertilizers for 50 Ares/AC for demonstration plots. One or two volunteer or motivated farmers will be selected by the company's specialist for applying trial techniques
- The company will conduct the dissemination, on how to use the fertilizers to all ACs.

Up to the end of the dry season 2017, 1,819 bags of fertilizer had been delivered to FOs in Kampong Thom and Siem Reap provinces for early season rice (Kampong Thom: 1,489 bags; Siem Reap: 330 bags). FAEC negotiated with BHG from July 2017. All together FAEC and FCFD sold 194.25 Tons of fertilizers in the rainy season 2017.

This agreement is valid until June 2018. Both parties will review and discuss a possible follow-up contract around April-May 2018.

4. ECONOMIC ANALYSIS AND SCALING-UP POTENTIAL

There are different levels of gain from the operations:

The farmer gain is full weight bag of fertilizer, and the ensured quality; In consequence, there is productivity gain from the use of quality fertilizer. Another benefit farmers can gain is the no interest rate provided by BHG on the fertilizer paid at the rice harvest.

AC are benefiting from 0.50 USD per 50 Kg bag fertilizer paid by BHG.

The FO-Fed are getting 0.50 USD per 50 Kg bag; this is provided when repayments of fertilizer is made to BHG. In 2016, FAEC received 1,570 USD and FCFD received 2,689 USD as commission paid by BHG.

In term of scaling-up potential, BHG sales to FO Federations' members increase 25% every year and it is expected that income for FO and FO-Feds will as well increase of 25%. However, BHG is delivering from district depot while FO-Fed has requested that AC be delivered directly from the company central warehouse. The FO-Fed realized that BHG is dealing directly with the AC bypassing the service of the FO-Feds and therefore not recording part of the sale made to AC members of FAEC and FCFD. This in the future will jeopardize the commission fee for the FO-Fed service.

However, the FO-Feds learned some important points from these experiences with BHG.

As the brand of fertilizer from BHG is not yet known by farmers, AC members still not fully trust on its quality. In consequence, the quantity supplied is still low compare to the needs.

The important benefit from this MoU is that members can purchase on credit as BHG agreed to provide the fertilizer by credit and to pay the commission to the FO-feds only when the borrowed amounts have been reimbursed. The company faced some issues of late reimbursement from few AC, whereas the intervention of FO-Feds to solve these issues is still limited³.

³ If FO Federations can improve their ability to efficiently undertake this role, this would consolidate the interest for the fertilizer supply company to continue the partnership with Federations and not to shortcut them.

The price of the fertilizer offered is not better than buying directly from dealers since the company work through local dealers. FAEC and FCFD are lobbying for BHG to deliver from the main company warehouse, but in vain. This makes FAEC and FCFD suspect that the company has the intention to create and sustain direct relationship between local dealers and individual ACs, by passing FO Federations. This situation creates mistrust leading to FO-Fed developing new strategies to get better deals with other companies or creating linkages directly with local dealers.

5. VIABILITY: FORESEEN FUTURE OF THE INITIATIVE

FAEC and FCFD service provision to their members is currently too weak. There are different possible scenarios to help the federations to sustainably engage in service provision.

The scenarios should be based on an analysis that focuses on the needs of individual member, ACs, private sector and on the gaps that are not yet fulfilled by FO-Feds. The arrangements FO-Feds could intervene for the benefit of their members and for retrieving service fee to sustain the development of services. Also required to be taken into account are the potential of target intervention, the capacity of the federation, attitude and behavior of different actors toward the service with some case example of past experience.

The needs identified are:

5.1. FARMERS

Some gaps exist between the expectation of farmers and what is offered by local retailers, gaps that could be filled by ACs.

- Reliability of the quality and quantity of fertilizers from retailer shops: Farmers have difficulties to distinguish real fertilizer from fake fertilizer because the packaging is similar on the retail shop. Some retailers are adding other substances having the same visual quality than the original fertilizer and repacking the bags. Also it is often that bags are underweighted, less than the usual 50 Kg.
- Purchase on credit: Farmers do not have sufficient financial resources to invest in their agriculture campaign and rely on local retailers conditions to purchase by credit. Most of the retailers are requiring cash at delivery or proposing very high interest rate, sometime 4% to 5%/month.
- Convenience and proximity: Retailers are often located at district towns, which are far from the villages.

5.2. AGRICULTURAL COOPERATIVES

For most ACs, selling agricultural inputs is the first commercial activity undertaken collectively. Currently, the most successful inputs supplied by AC are fertilizer. ACs offer affordable fertilizer with the ability of farmers to purchase on credit with better credit interest than the one offered by local money lenders and input suppliers/retailers. As ACs are in proximity of farmers' location and propose good distribution network in different villages, they are convenient for members to access agricultural inputs. However, quantities supplied by ACs are still low as most of them have limited financial capacities. Because of their limited negotiation skills and the low quantity purchased, one AC alone could not get better deal with fertilizer wholesalers/company, getting better price and purchase on credit.

5.3. FO-FEDERATION FAEC AND FCFD

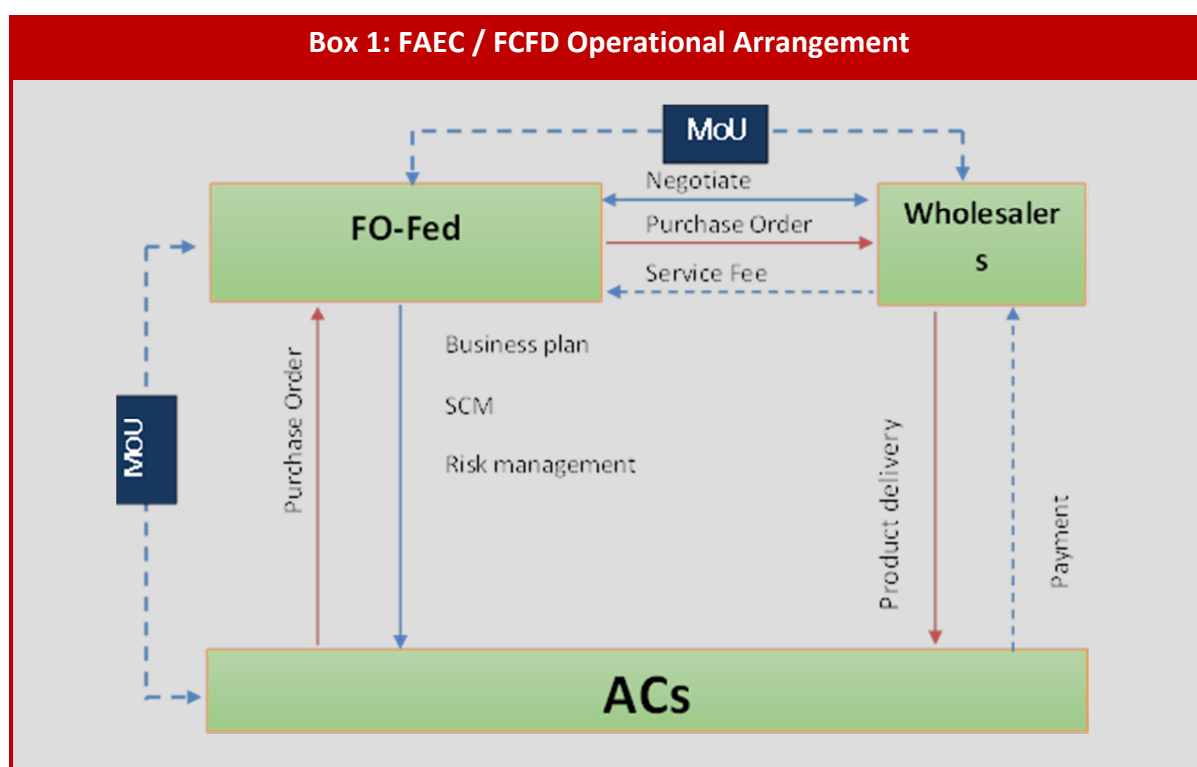
To empower AC Representatives to negotiate with dealers/companies, single AC has to cooperate with other ACs in order to purchase large quantities; it requires organizational arrangements to ensure that correct fertilizer types of quality and quantities are ordered and sold. It requires as well that farmer representatives have negotiation skills. These roles can be operated by the FO Federations.

FAEC and FCFD have among their strategic objectives the development of service provision to members and the improvement of access of agricultural input. Both FO-Feds are cooperating to enlarge the distribution network, gain negotiation power, and realize the necessary economy of scale.

However, the capacity of their Board of Directors and Management Committee are still limited in term of the negotiation skill and managerial capacities; it is important that skilled staff assist at improving their capacities.

The responsibility of FAEC is to select reliable agricultural cooperative⁴ AC having adequate business plan, the ability to reimburse credit, and a well know background. FAEC represents ACs in order to solve issues between the company and the ACs. FAEC is promoting products from the input company through their leaflet, network and social media. FAEC provincial representative is responsible to coordinate with members and prepare the purchase order to the company. FAEC receives incentive from the company based on the quantity of fertilizer purchased by their members.

The ACs find advantage in FAEC facilitating role, coordinating with other cooperatives to get greater volumes and better deal with private company in term of price and payback period. Private sector firms find advantage to work with FAEC in getting greater volumes countrywide and the use of FAEC to channel and promote their products.



6. REPLICABILITY AND CONDITIONS FOR REPLICABILITY WITHOUT SCCRП PROJECT SUPPORT

Two possible scenarios are possible to be implemented by FO Federations in the future

(1) CONTINUING CURRENT MOU MODEL WITH INPUT SUPPLY COMPANIES.

The partnership could be improved through better promotion of types of fertilizers and through technical assistance of AC Leaders to experiment and demonstrate what could be achieved when using the fertilizer. The main advantage of FAEC and FCFD collaborating with an input supply company is that the company shares the vision of the FO-Fed to improve farmer conditions and allows AC and farmers to purchase on credit. Furthermore, FAEC and FCFD should not only work with their own AC but coordinate with other farmer organizations in their locations (or enroll these FOs to become member of the Federations) in order to increase the quantity of fertilizer purchased and get better deal with the input supply company. FAEC and FCFD should start collaborating with other federations such as FWN, FNN and CFAP, possibly through the recently created “National Farmer Organization Federations’ Forum” (NF3).

⁴ They use for this the “Scoring Criteria Method”, a method initially developed by AVSF in its project to support FOs in Cambodia.

(2) DEALING WITH LOCAL DEALERS.

The concept is that FAEC and FCFD coordinate with local ACs, both members and non-members, estimate the demand of each brand of fertilizer and then negotiate with local dealers. The advantages are: (1) members with different needs of fertilizer brand and type could purchase and select the fertilizers that fit best to their members, enabling ACs to increase their volume of sale; (2) AC could get better prices when negotiating with local dealers for important quantities of purchase in their market shares.

However, the most likely disadvantages are 1) that local dealers will not provide purchase on credit; but this could be kept the main function of ACs, as most ACs are originated from local saving and credit groups and credit provision is their main business activity; and 2) that there would be less guarantees on quality that when dealing directly with the companies, given practices of some local dealers described above.

The proposed sequences for FAEC and FCFD to develop input supply are:

- Step 1: Prepare operational arrangement, work plan, roles and responsibilities of people in charge, concept of service charge and incentive for the person in charge;
- Step 2: FAEC coordinate with members and non-members, explain them about the objective and term condition;
- Step 3: FAEC specialist⁵ assist cooperatives to estimate their demand and business plan;
- Step 4: Once quantity of demand is estimated, FO-Fed negotiate with local dealer the price and conditions; The commission that the FO-Fed should get is between the price that the cooperative purchases and the price after FAEC facilitation; and
- Step 5: Via provincial representative, FAEC coordinates with members on delivery, payment and other problems occurred during transactions. FAEC facilitate the procurement contract between the dealers and cooperatives.

⁵ FAEC Specialists are trained farmers who become trainers/coaches for other FOs in a management topic, such as business planning, internal audit of AC, financial management of AC... FAEC Specialists have been reinforced in their specialized skills and equipped with training tools, material and handouts.

