

Support to the Commercialization of Cambodian Rice Project

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Supreme National Economic Council (SNEC)

EXPERIENCES AND ACHIEVEMENTS OF THE « SUPPORT TO THE COMMERCIALIZATION OF CAMBODIAN RICE » PROJECT

(2013-2017)

PREPARED BY SCCRP PROJECT MANAGEMENT TEAM WITH THE TECHNICAL SUPPORT OF IRAM AND NIRAS

FEBRUARY 2018

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PREFACE

The Supreme National Economic Council (SNEC) has initiated the Policy on Promoting Paddy Rice Production and Milled Rice Export that was adopted by the Royal Government of Cambodia (RGC) in 2010. The policy aimed to produce a surplus of paddy rice of 4 million tons, to export a million ton of milled rice and to promote the branding of Cambodian rice in the international market. The Policy identified a number of issues within the rice value chains and prescribed targeted policy measures. Multi-stakeholder approach has been employed to ease coordination while policy measures were assigned to related ministries and government agencies to implement.

SNEC has been entrusted to coordinate the implementation of the “Support to the Commercialization of Cambodian Rice Project”, which started in January 2013. This was a new challenge for SNEC and a hand-on experiment of linking policy development to actual implementation. It was a first task for SNEC to involve in managing the project, without any prior experiences in this role, not to mention the exposure to such complexity of the project.

The project tried to address key challenges faced by the sector in different aspects, mainstreaming the creation of linkages from farmers to export markets. It was structured in four technical components: 1) the organization of the rice sector and building capacity of stakeholders; 2) the improvement, standardization and certification of the Cambodian rice quality; 3) the promotion of contract farming and the enhancement of the involvement of farmer organizations in paddy collection and trade; and 4) the up-grading of the Rural Development Bank and development of credit to farmer organizations.

After five years of implementation, the Project comes to its conclusion. It is more about experimentation and learning from the experience, rather than drawing the line between successes or failures.

In an attempt to organize the rice sector, the project has helped to setup Cambodia Rice Federation (CRF), envisioned as an inter-professional organization gathering farmers, millers, exporters, input suppliers and financiers, that shall be active, professional, financially sustainable and that shall uphold the interest of all actors in the value chain. It was also envisaged to establish an inclusive and competent partner that could work on par with the government. However, at the current stage of its development and from our point of view, CRF management remains far from fully meeting those expectations.

The project has also supported farmer organizations, but FOs remains fragmented. For the project duration, the organization of rice sector has been shaped and shaken up for better, without substantial changes. FOs remains a key challenge for rice sector that deserve more serious and comprehensive attentions.

In area of branding Cambodian rice, the project has worked in support to CRF and in coordination with the IFC toward the establishment of a common brand for export market (« Malys Angkor »), investing in particular in setting up the system of verification of compliance with this certification mark requirements. The project also worked with CRF to organize promotion events in both domestic and international markets, taking into account outcomes from international market studies. However, it has to be underlined that, without further investment, «Malys Angkor» brand will not take off and take its place on the market.

Experimentation and development of contract farming in the rice sector has been the main contribution of the project. We have been working well with Ministry of Agriculture, Forestry and Fishery as well as with rice millers, exporters and farmer organizations to implement this in a formal way. The project made sure that there are written contracts with reasonable clauses, which farmers, rice millers/exporters and MAFF officials share common understanding. Among the experiments of formal contract, organic rice production in Preah Vihear is considered as a successful case, in which SCCRP has played a broker role and capacity builder.

As part of the effort to encourage farmers engagement in rice market, the project has initiated Paddy Selling Group model, in which farmers collectively sell their paddy at a bargained market price. Results obtained were occasionally good, yet not consistently. However, the model is interesting to push further. In this direction, the project supported the development of an IT platform for Paddy Selling. It has been tested and has great potential for improvement and further engagement.

The fourth area of the project's priorities was to tackle financing issues in rice value chain. The project focused on the restructuring of the Rural Development Bank and strengthen its governance and management. This was seen as a prerequisite before additional injection of capital into RDB to finance agriculture sector, including rice. As a result, the project has been the instrument of a significant restructuring of RDB, with for instance clarified segregation of roles between RDB Board of Directors and CEO, as well as setting up of risks management framework and improved compliance. The project has supported the development of a credit offer dedicated to Farmer Organizations, which is now endorsed and in effect. Alongside of it, an experimental credit guarantee mechanism was set up and tested to improve the accessibility of this credit offer to FOs. But, institutionalization of this guarantee mechanism is still to be finalized.

Project management relied on a Management Advisor, Jean-Marie Brun, for keeping the project up for running well, and in particular ensuring compliance with rules and procedures of AFD. Because the project was implemented in a very dynamic period and moving environment, Project Management had to face many challenges and to show agility and reactivity. This has led to adjustments in objectives and to intensifying investments in some core activities, while lowering the ambition on some others when the context was not favorable.

Overall, we think that this project has yielded interesting achievements and experiences from which we can learn and that we can take into account in future policies and measures. The project has provided a concrete reference to develop an effective government intervention in responding to the rice sector challenges in 2017-2018.

Last but not the least, we would like to take this opportunity to express our gratitude to the Agence Française de Développement for its support, and to all the project implementing partners for their contribution.



ROS SEILAVA

SCCRP Project Director,

Supreme National Economic Council

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ACRONYMS

AC	Agricultural Cooperative
ACU	Agricultural Cooperative Union
ADB	Asian Development Bank
ADG	Aide au Développement - Gembloux
AFD	<i>Agence Française de Développement</i> / French Agency for Development
ARPEC	Alliance of Rice Producers & Exporters of Cambodia
AVSF	<i>Agronomes et Vétérinaires Sans Frontières</i>
BRICo	Battambang Rice Investment Company
BUAC	Battambang Union of Agricultural Cooperatives
CARDI	Cambodian Agriculture Research and Development Institute
CB	Certification Body
CBAPC	Contract Based Agriculture Promotion Committee
CF	Contract Farming
CFAP	Cambodian Farmers' Association Federation of Agricultural Producers
CIRAD	<i>Centre International de Recherche Agronomique pour le Développement</i>
CIRD	Cambodian Institute for Research and Rural Development
COrAA	Cambodian Organic Agriculture Association
CPS	Centre for Policy Studies
CREA	Cambodia Rice Exports Association
CRSEO	Cambodian Rice Sector Economic Observatory
DACP	Department of Agricultural Cooperatives Promotion
DAI	Department of Agro-Industry
EU	European Union
ExCo	Executive Committee
FAEC	Federation of farmer associations promoting family Agriculture Enterprises in Cambodia
FCFD	Federation of Cambodian Farmer Organizations for Development
FCRE	Federation of Cambodian Rice Exporters
FI	Financial Institution
FNN	Farmer and Nature Network
FMP ExCo	Farming and Milling Productivity Executive Committee (of CRF)
FO	Farmer Organisations
FWN	Farmer and Water Network
FWUC	Farmer Water User Community
GDA	General Directorate of Agriculture
GF	Guarantee Fund
GI	Geographical Indication
GMP ExCo	Global Market Promotion Executive Committee (of CRF)
GRET	Groupe de Recherche et d'Echanges Technologiques
HACCP	Hazard Analysis and Critical Control Points
HCA	Henri Capitant Association
ICS	Internal Control System
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IPD	Intellectual Property Department of the Ministry of Commerce
IRAM	<i>Institut de Recherche et d'Application des Méthodes de Développement</i>

ISC	Irrigation Service Center
IT	Information Technologies
LGWR	Long Grain White Rice
MAFF	Ministry of Agriculture, Forestry and Fisheries
MEF	Ministry of Economy and Finance
MFI	Micro-Finance Institution
MIH	Ministry of Industry and Handicraft
MoC	Ministry of Commerce
MoWRaM	Ministry of Water Resources and Meteorology
MSP	Mekong Strategic Partners
NF3	National Farmer Organization Federations' Forum
NGO	Non-Governmental Organization
NOP	National Organic Program (USA organic standards)
PDAFF	Provincial Department of Agriculture Forestry and Fisheries
PMUAC	Preah Vihear Meanchey Union of Agricultural Cooperatives
PSG	Paddy Selling Group
PTP	Paddy Trading Platform
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
SCCRP	Support to the Commercialization of Cambodian Rice Project
SIAL	<i>Salon International de l'Agroalimentaire</i> (Paris)
SME	Small and Medium Enterprise
SNEC	Supreme National Economic Council
SoA	Signatures of Asia
SOWS-REF	Secretariat of the One-Window Service for Rice Export Formality
SPP	<i>Symbole des Producteurs Paysans</i> (a fair trade standard)
SPS	Sanitary and Phyto-Sanitary
SRP	Sustainable Rice Platform
TA	Technical Assistance
USA	United States of America
WB	World Bank
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

INTRODUCTION

BACKGROUND ON THE SCCRП PROJECT

The « Support to the Commercialization of Cambodian Rice Project » (SCCRP) has been financed by the *Agence Française de Développement* (AFD – French Agency for Development) and was implemented under the coordination of the Supreme National Economic Council (SNEC) from January 2013 to December 2017. Its purpose was 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.

Line ministries such as the Ministry of Agriculture, Forestry and Fisheries (MAFF) or (to a smaller extent) the Ministry of Commerce have been associated to the implementation of relevant project activities, as well as other public institutions (such as the Rural Development Bank, RDB) or private organizations (Federations of Farmer Organizations, Federation of Cambodian Rice exporters, then Cambodian Rice Federation...).

The project was divided in four technical components, with respectively the following main objectives:

1. Contribute to the organization of the sector (inter-ministerial coordination, public/private partnership, professional and inter-professional organization);
2. Establish quality standards or labels to differentiate Cambodian rice add value, and contribute to its promotion;
3. Promote the involvement of Farmer Organizations as commercial stakeholders in the value chain, via Contract Farming and other business models, and support background policies and regulations to favor this involvement of FOs;
4. Upgrade the Rural Development Bank, contribute to its reform in order to develop its capacities to answer the financial requirements of millers and farmers.

PURPOSE AND STRUCTURE OF THE DOCUMENT

This document presents a synthesis of some of the main experiences and achievements of the project, after its five years of implementation. Some of the most prominent activities and outcomes are described in the following pages, with some success but also in some cases difficulties met that the project could not overcome.

The document is structured in four main chapters, corresponding to main areas of project activities:

- Chapter 1: Export markets promotion, quality labels and certification
- Chapter 2: Supporting the involvement of Farmer Organizations in paddy collection and sale
- Chapter 3: Rural Development Bank and financing FOs
- Chapter 4: Policy / Governance / Value chain institutions

Beyond the description of the main activities and results of the project, in each chapter we try to enhance the main outcomes and lessons learnt, so this can serve as a reference for other persons and institutions involved in the development of the Cambodian rice sector.



CHAPTER 1: EXPORT MARKETS PROMOTION, QUALITY LABELS AND CERTIFICATION

Cambodian rice has a high potential of quality, in particular for its Jasmine and fragrant varieties. Yet in the beginning of the decade, Cambodian exports of milled rice were just starting. Cambodian rice was not yet well identified on international markets, and Cambodian rice exporters were still facing a deficit of image of Cambodian rice, and low level of trust in Cambodian rice origin.

When the SCCRP project was designed, the lack of awareness of importers abroad and the lack of trust in Cambodian milling industry was frequently the cause for a lower price associated to Cambodian origin. Progressively from 2010, as investment in state-of-the-art milling facilities were made, and as Cambodia started to be identified as an emerging rice exporter, the trust in Cambodian origin started to be built. But efforts on both quality and communication/promotion had to be done to consolidate this trend, and progressively to start to work on branding and quality labels in order to increase the value of Cambodian rice.

*Hence, SCCRP project has contributed to these efforts, along with Cambodian producers and exporters and with other development partners and projects involved in this field (notably with the IFC and EU Cambodia Rice Sector Support Project). SCCRP has supported **international market study**, promotion events, development of CRF's « **Malys Angkor** » certification mark, and the development of certified **organic** (EU and USA standards) rice supply chain, as well as **SRP rice** production.*

1.1. MARKET STUDY



SNEC's SCCRP project has collaborated with the IFC's Cambodia Rice Sector Support project to finance an international market study for Cambodian Rice. The study was designed in consultation with exporters and was implemented in two phases: a first overview of information available over a large number of importing countries worldwide, then detailed studies in 6 targeted countries¹, for the potential they represent (for themselves or as a typical illustration of a broader number of neighboring countries) and the variety of situations they represent. Outcomes were presented and discussed in a workshop organized with the Cambodian Rice Federation in September 2014.

Findings were detailed in country reports, and summarized in a joint publication: « Cambodia Rice: Export Potential and Strategies », issued in January 2015.

Among key recommendations highlighted in the conclusions of this study for Cambodian rice export promotion, we can recall the following ones:

Findings, Lessons learnt and "Take-away" recommendations 1: Some of the main recommendations from the International Market Study

- ➔ Continue to focus on the highest value Cambodian Jasmine rice (as a lead champion carrier of the export portfolio).
- ➔ Brand this highest value Jasmine rice (create a brand identity, establish a mark of certification, etc.)
- ➔ Focus on repeat orders while/before looking for new customers.
- ➔ Focus on quality of service and personal integrity.
- ➔ Raise domestic awareness of premium Cambodian Jasmine rice and promote it within Cambodia.
- ➔ Reduce known impediment to price competitiveness.
- ➔ Ensure compliance with quality and food safety certifications and responsible sourcing requirements from corporate customers.
- ➔ Explore new product development options: organic, farmers' benefits, convenience food / packaging, parboiled, etc.

¹ USA, France, Germany, China (including Hong Kong and Macao), Singapore and Côte d'Ivoire. In-country missions were implemented by consulting firms in charge of the implementation of the market study.

1.2. CERTIFICATION AND QUALITY LABELS

In line with some of the key recommendations of the market study (and in some case even before these orientations were confirmed by this study), the SCCRP project has supported various initiatives of development of quality labels: either through the development of tailored standards and quality control systems (as for the development of CRF's « *Malys Angkor* » certification mark), or by supporting the development of production, control and certification processes required to obtain internationally recognized certification (in particular for organic rice and SRP rice).

1.2.1. CRF'S « *MALYS ANGKOR* » CERTIFICATION MARK

INFORMATIVE WORKSHOP TO STAKEHOLDERS AND CASE STUDY ON COLLECTIVE TRADEMARKS

To build on the success of Cambodian winning the World Best Rice Award², there was a well identified need (confirmed by the international market study) to establish a consistent brand for Cambodian premium photosensitive fragrant rice varieties (Jasmine type), build the identity and image of this brand and then develop consumers awareness. The first move of the SCCRP project on this matter was taken in October 2013 with the organization (jointly with FCRE) of a workshop to present and discuss the concept of a collective branding and its possible application for Cambodian Rice. A case study was presented on Nepal tea experience as an illustrative success story of collective branding. This case was chosen because of similarities with the situation of Cambodian rice: Nepal tea is a quality product, but before the stakeholders of tea sector in Nepal undertook this branding initiative, Nepal Tea notoriety was very low. It was suffering of a lack of consumer and market awareness and was overshadowed by its worldwide renowned neighbor: Darjeeling tea. Facing a context relatively similar to the situation of Cambodian fragrant rice vs. Thai Jasmine rice, the idea of a similar branding process for Cambodian premium fragrant rice varieties was well received by exporters who already confirmed their interest at that time.

SUPPORT THE DEVELOPMENT OF « *MALYS ANGKOR* » CERTIFICATION MARK

Later on (and after the results of the International market study were shared and discussed with exporters in September 2014) a working group for Cambodian rice branding was established under CRF and with the joint support of IFC project and SCCRP. This group was formally established and renamed in early 2015 as CRF's "Global Market Promotion Executive Committee" (GMP ExCo), with a scope of work encompassing the branding process together with other market promotion activities. A roadmap to work on the branding was prepared and endorsed, identifying CRF roles as well as IFC and SCCRP support, and formally indicating that the GMP ExCo would be the decision making body for CRF on the branding process. IFC has supported the design and communication part: building of brand identity, key attributes and image, development of name and logo (including some testing with consumer panels on different international markets), design of promotion material, brand book (guidelines for brand users for the use of the logo)... SCCRP project has supported the definition of quality requirements and other specifications for the branded rice, and the development of the control and certification system for verification of compliance with these requirements.

² Cambodia has won World Best Rice Award in 2012, 2013 and 2014.

Focus 1: Some of the main features of « Malys Angkor » certification mark**Product Specifications:**

→ Only photosensitive wet season fragrant rice varieties (Jasmine type) such as *Phka Rumduol*, *Phka Romeat*, *Phka Rumdeng*...

→ Rice kernels specifications, not fully developed here, but including for instance: whole kernel $\geq 70\%$, broken kernels $\leq 3\%$, paddy rice grain ≤ 1 grain/kg, varietal purity $\geq 92\%$.

→ Additional Requirements on packing and labelling...

Quality management system and other brand users requirements:

→ Basic regulatory requirements such as: registration with MoC and with Tax Department, registration with Ministry of Labor and payments of contributions to national security fund...

→ HACCP certification.

Compliance verification system:

→ CRF own the certification mark but delegate the certification to authorized certification bodies (to avoid conflict of interests).

→ Brand users are inspected to verify compliance with the brand user requirements.

→ Any batch of product bearing « *Malys Angkor* » mark shall be inspected to verify compliance with product specification at rice mill (pre-shipment inspection) and at harbor (shipment inspection).



The World Intellectual Property Organization (WIPO) has also helped in reviewing the ability to register the envisaged brand in some ASEAN countries and to reword the rules for the brand use with the right IP vocabulary.

Whereas consultants' inputs were finalized from the first half of 2016, it took about one year³ before CRF finally filed the application for registration of « *Malys Angkor* » (after few adjustments on the name and tagline) as a certification mark with the Department of Intellectual Property of the Ministry of Commerce. Unfortunately, these delays did not permit the foreseen follow-up support of the SCCRP project to take place, in particular regarding the registration of the Certification mark in third countries and the support to promotion activities. The process of registration and launching is not achieved yet and it is thereof far too early to evaluate the benefit of this branding process. A lot still remains to be done by CRF, in order to finalize the settings for the management of the certification mark and starts its promotion: notably to list the authorized certification bodies and make sure at least some exporters get ready to supply branded rice before CRF start extensive promotion.

Findings, Lessons learnt and "Take-away" recommendations 2: How the benefit from the certification mark « Malys Angkor » can spill over to farmers?

The specifications and requirements for the use of « *Malys Angkor* » certification mark does not include any precise requirement on the way paddy should be cropped (except the use of quality seeds from eligible varieties, for which the inspection of the output - the milled rice - can be an acceptable proxy for verification). This was decided on purpose, in order to avoid that the certification process would require an inspection of all producers' rice fields (as it is the case for organic standards, or for PGIs) and thereof would come at a heavy cost that the expected added value from the certification mark would not justify.

Yet the intention of SNEC's SCCRP (as a government owned project) in supporting the branding process was that part of the added value would benefit to farmers as well.

Different options were discussed with the GMP ExCo on this matter. The following proposal, made by one of the exporters in the ExCo, has been approved on the principal: a part (for instance 20%) of brand user fees (Exporters being charged by CRF in proportion of the expected added value from the certification mark would not justify.

Yet the intention of SNEC's SCCRP (as a government owned project) in supporting the branding

³ The full changes in the composition of the GMP ExCo partly explain these delays.

process was that part of the added value would benefit to farmers as well.

Different options were discussed with the GMP ExCo on this matter. The following proposal, made by one of the exporters in the ExCo, has been approved on the principal: a part (for instance 20%) of brand user fees (Exporters being charged by CRF in proportion of the volume of « Malys Angkor » rice they sell, in order to contribute to brand management and promotion) would constitute a fund used to support Farmer Organizations. This agreement on the principle has been made by the GMP ExCo before its composition was fully changed after CRF elections in 2016.

► It deserves to be noted here, so this principle is recalled and formalized, and is kept on the agenda of « Malys Angkor » brand management, and implemented.

► Moreover, it is essential that the funds generated through this system can be managed by FO representatives, mandated by FOs to do so. It is recommended that funds shall be transferred to FO Federations or to the apex body that FO Federations are currently creating (NF3 – See Chapter 4, § 4.2.4., page 42).

1.2.2. ORGANIC RICE

BRIEF HISTORY OF THE INITIATIVE

From the first year of the project implementation, SCCRP has started to support the production of organic paddy by an initial group of 5 Agricultural Cooperatives in Preah Vihear province, with the technical support from the Cambodian Organic Agriculture Association (COAA). In the first year, the ambition was just to reach the compliance with COAA own standards, and for the cooperatives to be able to sell this paddy at a bit higher price to a few rice millers. While the compliance with COAA standards was achieved in the first year, commercial results were not yet satisfactory as only about 100 tons were sold as “organic” with a premium.

Yet, the interest of some exporters was confirmed when in 2014, the objective was upgraded to reach international organic standards (EU and USA organic standards). In order to secure the investment of cooperatives (who have to set up and implement an internal control system) and thereof make sure that this effort will be rewarded by a premium price for their paddy, the approach was switched to a Contract Farming model⁴. Some exporters have confirmed their interest and discussed with the cooperatives the terms of a possible partnership. First Contract Farming agreement for organic paddy production were signed in 2014 between AMRU-Rice and 8 Agricultural Cooperatives which delivered 1,465 tons of organic paddy, certified by Ecocert as compliant with both EU and USA organic standards. The partnership was progressively scaled up and replicated (a second exporter engaging in similar contracts with other cooperatives in the same province). In 2016, 19 ACs were involved and have delivered 8,800 tons of organic paddy

(certified according to both EU and USA organic standards) to these two buyers. Organic paddy was sold by ACs in average 74 USD/t⁵ above the price of paid locally by middlemen for conventional paddy. In 2017, contracts were signed by 26 cooperatives for more than 21,600 tons of organic paddy. More than 4,200 smallholder farmers are engaged. If the added value per ton remain the same as in previous year, and even if farmers deliver only 90% of the committed volume⁶, this will represent an increase of farmers income of more than 1 million Dollar US (about +250 USD per farming household, in average).



⁴ See § 2.2.3. page 23, and notably Focus 7 page 22.

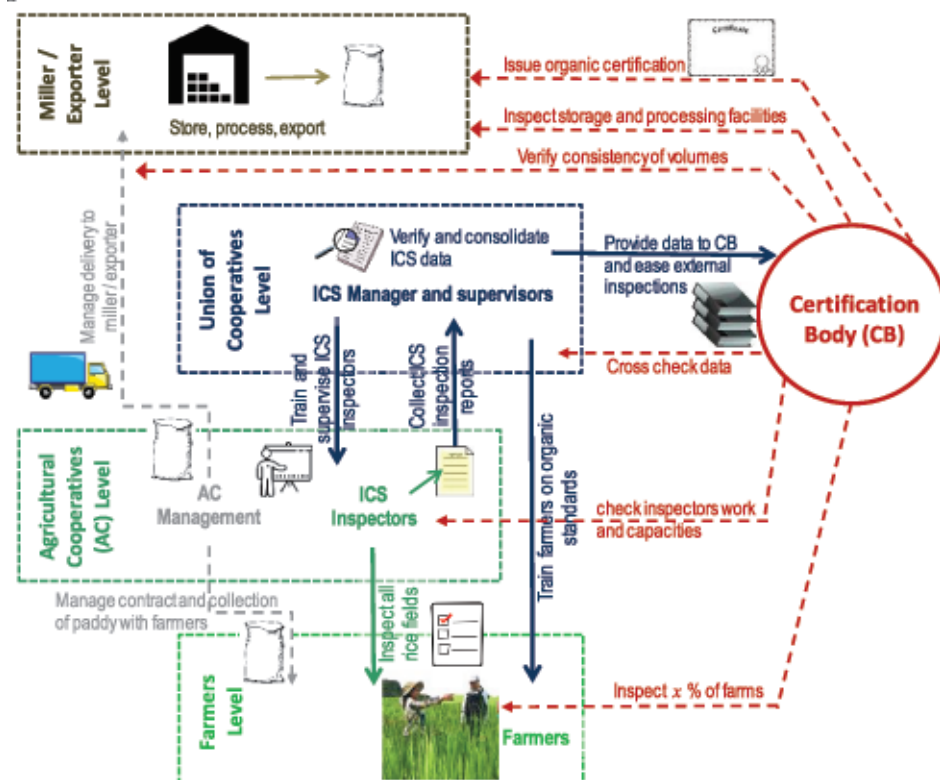
⁵ 53 USD/t reaching farmers, and 21 USD/t covering the cost of Internal Control System (Inspectors and supervisors / managers) at the levels of ACs and Union of Cooperatives, and management of contracts and paddy collection + transactions at Cooperatives level, based on figures for 2016 harvest.

⁶ In 2016, volumes delivered to AMRU-Rice were about 91% of the volumes committed in contracts.

INTERNAL CONTROL SYSTEM AND CERTIFICATION

A crucial and fundamental pillar for the development of an organic rice value chain with smallholder farmers is the establishment of a reliable Internal Control System (ICS) which can ensure proper inspection and compilation of inspection reports and data so the Certification Body can access information easily, audit the Internal Control System and issue the Organic certificate to the exporter.

Figure 1: Internal control and certification system for organic paddy production in Preah Vihear



The opposite figure summarizes the ICS developed in Preah Vihear. ICS Inspectors were trained in each of the ACs engaged in organic paddy production. In the first year, COrAA (contracted by the project) has provided support to ICS inspectors, compiled the ICS data, and facilitated the relation with the CB. In order to sustain these functions after the end of the project, the ACs have decided to mutualize resources and set a Union of ACs ("PMUAC"). This Union gained professional capacities to maintain a reliable ICS system, which costs are now covered by fees paid by its members.

Findings, Lessons learnt and "Take-away" recommendations 3: Which support to develop and sustain organic rice supply chain?

There is a real market potential for organic rice (and possibly processed products from organic rice), but to exploit this potential requires a strong commitment of economic stakeholders at all level, and government / projects support is highly desirable too.

The vision, commitment and investment (in particular for commercial prospection, at international level) of the exporters engaged in the development of organic rice supply chain in Preah Vihear are a key of the success of this case.

Equally important is the commitment of farmers and AC leaders, notably to establish a successful ICS system.

But there are essential roles to be played by the government (or support projects / development partners), notably:

- Provide technical support / capacity building to farmers / cooperatives (and to businesses) on the organic standards, the requirements and the inspection and control systems to put in place.
- Provide initial subsidies when needed, in order to help stakeholders to cover costs in the first years, before costs can be covered by premium prices obtained (but, from the beginning, subsidies shall be conditioned to a clear commitment of economic stakeholders to take over

those costs, based on a clearly defined and realistic scenario of scaling up.

► In a more structural way, there is a gap of trained and experienced human resources in Cambodia to develop and implement the required internal control systems and certifications. It shall be desirable to develop and propose a curriculum in inspection/certification (not only for organic, but also for numerous standards related to quality management, good agricultural practices, protected geographical indications, etc.) for students or young professionals, for instance as a post-graduate short specialization.

1.2.3. SRP RICE

FIRST TRAINING ON SRP RICE STANDARDS

Sustainable Rice Platform (SRP)'s standards start to be demanded by some major rice importers abroad as part of their CSR policies and image management. As some Cambodian exporters started to express interest, the SCCRP project has co-organized and co-financed (with the SRP secretariat) the first training session on SRP standards in Cambodia. The training took place in Siem Reap on 14th and 15th of July 2016 and was attended by a total of 36 participants (including MAFF services, millers and exporters, Farmer Organizations and Federations, CRF, certification bodies, NGOs, projects or support agencies).



The workshop was opened by H.E. Ty Sokhun, Secretary of State of MAFF, and was led by Dr Joel Janiya (IRRI) and Dr Wyn Ellis (SRP Secretariat) who have provided guidelines on the standards, their use and on the monitoring of SRP practices.

▲ Group photo of the Capacity Building Workshop on SRP rice standards in Cambodia, Siem Reap, 14th and 15th of July 2015.

Focus 2: "SRP" Rice, in short...⁷

The Sustainable Rice Platform (SRP) is a multi-stakeholder partnership to promote resource Efficiency and sustainability, both on-farm and throughout rice value chains. The alliance works with its over 80 institutional partners in the public and private sectors as well as international organizations, NGOs and the international research community to promote climate-smart best practice among rice smallholders in developing countries. In 2015, the world's first Standard for Sustainable Rice Cultivation was launched, together with a set of Performance Indicators to enable monitoring of progress and impact. The launch triggered commitments by a number of private sector actors to achieve 100% sustainable sourcing within their global corporate supply chains by 2020.



Web page: www.sustainablerice.org

Contact : Secretariat@sustainablerice.org

⁷ (Text provided by the Secretariat of the Sustainable Rice Platform).

SUPPORT TO CONTRACT FARMING FOR SRP RICE

Further to the capacity building workshop, in 2017, SCCRP project has supported the development of pilot commercial partnerships (Contract Farming) between 2 rice millers / exporters (AMRU Rice and BRICo) and 4 Agricultural Cooperatives, all located in Battambang. The exporters were themselves engaged with large international agro-industry firms to supply SRP rice.

The two contracts signed with AMRU-Rice for production of *Sen Kraob* paddy were implemented, but were only partly successful: about half of the expected volumes have been delivered (1,489 tons, against 3,000 tons in contracts). The main reason for this seems to be the insufficient level of premium price offered for the SRP rice, combined with the fact that some local traders were offering a price at least similar to farmers for conventional paddy. The ratio of volume delivered / engagement was even lower for the contract between BRICo and two Agricultural Cooperatives, with a total of 407.5 tons delivered against a target of 1,196 tons, or 34% of the target.

Findings, Lessons learnt and “Take-away” recommendations 4: Questions and concerns about economic sustainability of SRP rice supply...

For the first pilots of contracts with cooperatives, the level of premium millers/exporters have accepted to pay for SRP paddy was only about 10 USD/ton of paddy (which shall cover both the operational costs for the cooperatives – including the time they are required to spend regarding information of farmers and monitoring about the standards, even if they are not alone in charge of this – and the premium to the farmers. After the first pilot implementation in 2017, it seems that this level of premium might not be sufficient to engage farmers in the long run and in a sustainable way. Moreover (and as SRP standards, themselves, are still in a pilot stage), SRP platform does not allow yet final packagers / distributors to print the SRP logo on rice packages. At present, SRP standards are notably driven by major multinational companies of the food industry sector. Those companies generally sell their rice at relatively high prices, the value being in their own renowned brands. For them, the stake of SRP is to get some guarantee on good social and environmental practices, in order to prevent a possible risk of image for their companies and brands.

But if SRP logo cannot be displayed on the final products, the value remains only in the companies brand (their own intellectual property rights) and not in the collective SRP logo. To allow (or better, to impose) the printing of the logo on the final package (associated with a communication toward consumers) would transfer a part of the value to the SRP logo instead of the private brand. It would help smaller distributors to engage in SRP, and would put farmers in position to negotiate a better price for the commitment they take in following SRP standards.

⁸ (Text provided by Ethiquable).

1.2.4. FAIR TRADE

Building up on the organic paddy supply chain developed in Preah Vihear, a tri-partite agreement has been signed between AMRU-Rice, the Union of Cooperatives in Preah Vihear (PMUAC) and Ethiquable (a French company specialized in organic and fair trade product). In addition to the organic standards, Ethiquable ordered 80 tons of milled rice that will be certified as Fair Trade, using the “*Symbole des Producteurs Paysans*” label, one of the most demanding among fair trade standards. This opens another market opportunity for Preah Vihear organic rice, indeed limited in volumes, but extremely interesting for Farmer Organizations as it is anticipated that it will generate an additional net income of +36,000 USD for the Union of Cooperatives of Preah Vihear.

Focus 3: Main features of a fair trade label: the « *Symbole des Producteurs Paysans* »⁸

The SPP (« *Symbole des Producteurs Paysans* ») is a fair trade certification system created in 2006 by the CLAC (Latin American and Caribbean Network of Small fair trade Producers). It is owned and managed by organized small producers through the civil association SPP Global (former FUNDEPPO). It is intended to certify their products from family farming agriculture and to promote a specific path of fair trade in which small producers are actors of their development and inclusion in international markets. The SPP represents the identity of small producers and their values, focused on the development of rural areas, the defense of a diversified agricultural production, the respect of small producer families and the environment and a willingness to defend their interests against other actors. The specifications of the SPP are centered on the small producer, his community and family and Farmer organizations as levers of change. The SPP standards include requirements regarding the strengthening of the capacity and autonomy of Small Producers' Organizations (SPOs), and ask buyers to engage for a long term commitment in their business relationship with those organizations. The certification is available only for SPOs, defined by the size of the production unit which cannot exceed 15 hectares in production for at least 85% of producers, and 30 hectares for the 15% remaining. The means of production must be owned by producers, and the labor must be their own or family labor (with exceptions for products requiring an intensive labor force). To apply, a SPO must also meet organizational criteria (democratic governance structure), production criteria (transparency in the flow of products), management system criteria, commercial criteria (seeking internal and external transparency), criteria for strengthening the small producers' sector (promoting collaboration and horizontal integration of SPOs), environmental and human health criteria, dignified living and labor criteria (to improve living and working conditions and exclude formal child labor). Regarding companies, to apply to the SPP they must be legally registered, have the capacity to comply with contracts and have an adequate administration system. They cannot be large producers of the same product to be purchased from SPOs. They must have transparent registry of operations and guarantee the physical traceability of products to be sold under the SPP. They must purchase products from SPOs in the most advanced stage of processing possible. Finally, final buyers must commit to purchasing a certain volume under the SPP (5% of a product category the first year, increasing of 5% every year until reaching 25%).



1.2.5. FEW CONSIDERATIONS ON THE POTENTIAL AND LIMITS OF PROTECTED GEOGRAPHICAL INDICATIONS FOR CAMBODIAN RICE

The registration of a Protected Geographical Indication (PGI, or GI) to promote high quality Cambodian rice, enhance its specificities and differentiate a particular rice on for a high-end market was considered as a possible tool. Project team members familiar with the concept of PGI have occasionally provided informations to stakeholders (exporters mainly), most of the case in an informal way. But this did not lead (within this project and for the time being) to any clear demand addressed by those economic stakeholders to the project, for a possible support to develop a PGI for rice.

The international market study⁹ was asked to test the interest of importers abroad (in particular in the EU) for a possible GI on certain Cambodian rice. Importers did not express a strong interest to buy and market a specific GI rice. Following the market study, the priority in term of market promotion strategy and differentiation of high quality Cambodian rice was to build on the 3 times wins of World Best Rice award which were associated to a certain type of variety (notably *Pbka Rumduol* or other jasmine types of varieties), but not associated to a particular region of production. Also, in order to build the unity in the Cambodian Rice Federation, it was preferable for the Federation to work first on the certification mark « *Mahs Angkor* »¹⁰ which is potentially more inclusive, as not limited to a specific area.

From an economic point of view, a PGI would in principle require inspection and certification from the paddy production stage, so with relatively high costs for inspection and certification, whereas the value the GI label will create is difficult to predict. It can be significant for a very specific product, produced in limited volumes and thereof marketed as very exclusive. It can be a bit more speculative to bet on high level of premium paid for the GI product if the PGI is expected to cover large areas and huge volumes of production. Hence, it is difficult to give a general and definitive opinion on the development of a PGI for Cambodian rice, but it as to be assessed case by case. Which GI are we speaking about? To date, the most frequently evoked potential name for a GI on rice (in Cambodia) is either for “Battambang rice” or “Thmar Khaul” rice¹¹. The choic of these names raises another problem that would be difficult to address: the PGI has to correspond to a specific product, with a certain homogeneity of the labelled products. If any type of rice (white rice varieties, fragrant, jasmine...) is encompassed under the GI name, then the GI become meaningless because it is not associated with a particular product and a certain typicity, and it is not likely that it can generate a significant premium price. On the contrary, if “Battambang rice” (or “Thmak Khaul”) as a GI is defined in its book of specification as Jasmine varieties only (for instance), then in principle any other rice, not complying with the specification of the GI, would not be entitled to use “Battambang” name (or “Thmar Khaul”) on the rice bags. Thus, only a small portion of the rice produced in Battambang would be eligible (considering the diversity of varieties produced there), but millers would not be entitled anymore to write the word “Battambang” (or “Thmar Khaul”) on rice bags which content does not correpond to the GI standard. As these geographical names are widely used by all millers located in this province (/district), the protection of the geographical name and the restriction of its use for a relatively small portion of the volumes of rice produced in the area would probably generate a lot of opposition.

Some other stakeholders have mentionned a possible interest to develop a GI for rice on other locations, such as Preah Vihear, which culd be additional to the organic standard. The advantage being that the marginal cost to inspect and control the additional criteria of the GI would be limited, as a system of inspection and certification at farm level is already in place and could integrate these additional criteria. The type of rice covered by such a GI would have to be defined (only Jasmine varieties?) and probably not all the production would be eligible. But the geographical name

⁹ See § 1.1. page 4.

¹⁰ See § 1.2.1. page 5.

¹¹ This being for the name of the product, the delimitation of the GI area can of course be different from the administrative delimitation of the province/district.

“Preah Vihear” being less used by millers on rice bags than “Battambang” or “Thmar Khaul”, this would be easier to manage. Another possibility sometime evoked would be to select a geographical name that is not yet widely used by rice traders (for instance “Tonlé Sap” rice?) and use GI as a tool around Tonlé Sap area to integrated in the GI code of conduct good environmental practices (limited use of pesticides notably) to generate value for these good practices and simultaneously have a benefit on the protection of the lake and of the huge resources (fisheries) it represents.

Focus 4: Brief comparison between the different quality labels

As seen above, the SCCRP project has supported the differentiation of Cambodian rice through the use of different quality labels: Organic, SRP, « *Malys Angkor* » certification mark, SPP fair trade label.

Each of them has pro and cons. that we can try to briefly summarize in the Table below:

	« <i>Malys Angkor</i> »	Organic (EU/USA)	SRP	SPP (Fair Trade)
Market potential and overall added value	New brand, unknown from traders and consumers: the added value it can generate will depend on the promotion efforts (and the serious implementation of controls and certifications).	Well established market and growing demand for organic products, notably in the EU and USA. Very significant level of premium price.	Some major multinational buyers are setting a “sustainable sourcing” objective. Compliance with standards like SRP may become a must to access these clients. But those ones seem not willing to pay a (significantly) higher price.	Specifically for SPP label, the potential is very limited in term of volumes. For other Fair Trade standards, demand (and growth of the demand) could be more significant. But the price premium and guarantees on market price are very high.
Added value and other interest for farmers	Not implemented yet. Probably limited added value will spill over to farmers as there are no requirements to be controlled at farm level. But it can contribute to maintain / pull a market for Cambodian premium fragrant varieties.	A very significant premium can be paid to the farmer (at least 25 to 40%). But productivity might be lower than conventional paddy production.	At present level of premium is very limited (+10 USD/t at cooperatives level). Not sufficient, if cooperatives have to cover part of the control tasks. But to follow SRP principles is supposed to bring higher productivity and incomes (but this is not yet established).	Very high potential of increased incomes per ton for farmers / farmer organizations (in the case of Ethiqueable in Preah Vihear, the additional income at Farmer Organization level can reach approximately +100 USD/ton, in addition to the organic premium).
Conditions / Difficulties in implementation / costs	In principle, easy to implement and marginal costs of controls limited as millers/exporters shall be able to use the same inspection / certification companies they usually work with.	Requires heavy control system and certification (inspection of all farms, at least by the ICS). Costs to maintain the ICS and Certification are significant, but can be much lower than the premium with scale economy.	SRP rules are not yet stabilized and still evolve within SRP Platform. But in principle, SRP shall require on-farm control + certification. This comes at a cost which does not seem proportionate to the added value it generates.	Farmers have to be organized in cooperatives or producers organization. Traceability and a certain transparency is required to reach certification costs.

(It has to be noted that some of the labels above are well established (notably organic), but others are still very new (like SRP) or even not implemented yet (« *Malys Angkor* »). For those ones, the assessment above is still a preliminary assumption and not an empirical assessment).

1.3. PROMOTION EVENTS

The Support to the Commercialization of Cambodian Rice Project has contributed to the organization of promotion events, in most of the case in partnership with other projects providing assistance to Cambodian Rice exporters, in particular the IFC project (funded by EU).

CAMBODIAN RICE FESTIVAL(S)

SCCRP project has modestly contributed to the organization of the 1st Cambodian Rice Festival in Siem Reap (IFC was the main organizer in support to FCRE) and was a main sponsor of the 2nd Cambodian Rice Festival, which took place in Phnom Penh, one day before and in the same location as the TRT World Rice Conference, in November 2014. All the exhibition material remained in place during the World Rice Conference, providing an outstanding opportunity to showcase Cambodian rice to the major international buyers gathering in Phnom Penh on this occasion.



▲ Exhibition in the main hall for the 2nd Cambodian Rice Festival, in Sofitel Phnom Penh in November 2014.

SIAL AND CAMBODIAN RICE PROMOTION DINNER IN PARIS



SCCRP project has contributed (in addition to the main support from IFC project) to showcase Cambodian rice in SIAL exhibition in Paris in 2014, where a collective booth was shared by Cambodian rice exporters.

SIAL is among the larger international food and food-industry professional exhibition worldwide. The presence of Cambodian rice exporters there was an opportunity to get Cambodian rice better showcased and for these exporters to identify new market opportunities and get in touch with potential buyers from France, Europe and the World.

◀ Chief Lau Meng and Senior Minister, Minister of Commerce Sun Chantol are cooking Cambodian rice on the Cambodian Rice booth in SIAL, in 2014.

Taking opportunity of the presence of Cambodian exporters and CRF's leaders in Paris, a promotion dinner was organized by the French-Cambodian Chamber of Commerce (co-financed by SCCRP project) in the prestigious restaurant "Le Carré des Feuillants" in Paris. Major French traders and distributors of rice were invited, as well as journalists (with a focus on media specialized in fine food and gastronomy).

Findings, Lessons learnt and “Take-away” recommendations 5: Coherence and professionalism in promotion event organization

Professionalism and sense of details is essential in the organization of a promotion event, when it comes to promote a high end product. Several skills are required and have to be coordinated, to ensure the perfect organization of the event, and the adequate communication and public relation to make it a success. The 2nd Cambodian Rice Festival was very professionally organized both in terms of preparation and proceeding and in terms of public communication management. Its connection with the World Rice Conference was highly relevant to ensure a maximum impact. The promotion dinner in Paris was not effective to reach the objective due to insufficiency of the communication and professional mobilization of specialized media. Investing in professional public relation services is valuable and shall not be neglected.



CHAPTER 2: SUPPORTING THE INVOLVEMENT OF FARMER ORGANIZATIONS IN PADDY COLLECTION AND SALE

Whereas Cambodia is developing its exports of milled rice, with increasing quality requirements, there is a need to better incentivize farmers in order to reward efforts expected from them to improve quality of the paddy produced. While the traditional way millers source their paddy (through networks of collectors/middlemen, mainly) does not always provide enough guarantees on paddy quality, and does not always encourage farmers to improve it, there is an opportunity for Farmer Organizations (with a broad understanding of “FOs”: including ACs, FWUCs, etc.) to get involved in paddy trade and enhance the direct and close link they have with their members.

Different models of engagement of Farmer Organizations in the paddy commercialization have been promoted by the Support to the Commercialization of Cambodian Rice Project:

- ➔ *Direct implication of Farmer Organizations, acting as collectors between their members and large buyers (rice millers or paddy bigger traders).*
- ➔ *Contract Farming between millers/exporters and Farmer Organization, engaging both parties in a stronger commercial (and partnership) relation, which proves necessary when exporters are targeting certain standards...*

Beyond the support to pilot innovative actions engaging FOs in paddy commercialization, lessons have been drawn and guidelines developed, notably through the writing of a “Manual on Contract Farming in Cambodia”, in collaboration with MAFF’s Department of Agro-Industry.

2.1. DIRECT SELLING BY FOS

2.1.1. PADDY SELLING GROUPS

The “Paddy Selling Group” (PSG) model simply consists in supporting Farmer Organizations (or groups of farmers within such an organization) to gather and sell together batches of paddy of consistent quality and volumes large enough to interest rice millers or large traders. Farmers can collectively negotiate prices with rice millers (or exporters) and make sure the quality of the paddy they produced is valued at its right price. Objectives are to increase farmers’ incomes, but also to ensure a fair valuation of paddy, in order to reward and encourage further efforts of farmers on quality.

SCCRP project has supported Farmer Organizations to implement this model. It was notably promoted through some Farmer Water User Communities (FWUCs) building on the advantages of FWUC’s large scale (compared to many other types of Farmer Organizations), access to irrigation, and on the information FWUCs gather on cropping calendars inside the irrigation schemes they manage. Farmer Water Net (a national federation of FWUCs), the Irrigation Service Center (ISC) and GRET were mobilized to support these initiatives.

A dozen of FWUCs (in five provinces) have implemented collective paddy selling with some of their members, with quite variable results, successes and failures.

Focus 5: Successful Paddy Selling Group experience in Baray FWUC, Siem Reap, in 2016

In August and September 2016, a “Paddy Selling Group” was set with a small group of 17 farmers from Baray FWUC in Siem Reap. They have identified one rice miller in Kampong Thom ready to buy the paddy they could supply (in the limit of about 50 tons per day). In September 2016, for *Sen Kraob* variety harvest, this Paddy Selling Group has been able to gather and supply to this mill 53 tons of wet paddy, in two delivery operations.

The Paddy Selling Group had to organize the collection and transportation of the paddy to the rice mill. There, the paddy quality was properly checked, and the price obtained by the Paddy Selling Group was in average 190 KHR/kg above the price that farmers could get at farm gate from local middlemen. Enough to cover the operational costs (labor, transportation,...) and to pay the paddy to farmers at a price above local collectors price by +50 to +80 KHR/kg.

Some fees were also paid to Farmer Water Net, but not sufficient to actually cover the costs of FWN and ISC support and backstopping, at the small scale of implementation of this pilot. But in a longer term (with more volumes and less support required as the FWUC gain experience in commercialization), it could be expected to cover full costs. Yet, if the economic results were good for this operation in 2016, it has to be underlined that this model presents some risks for the farmers, as they have to transport the paddy to the mill, while the miller will confirm the price offer only once they get there. Also it requires a good level of trust in the group of farmers as farmers will not get payment immediately after delivering the paddy, but only after it has been delivered and paid by the miller.

[More details are provided in SCCR Case Study No 4 “Paddy Selling Group of Baray FWUC”]



The above text-box (Focus 5: Successful Paddy Selling Group experience in Baray FWUC, Siem Reap, in 2016) presents a quite successful case in Siem Reap. Even if it was at a pilot stage with relatively limited volumes sold, the additional price farmers could get compared to selling at farm gate was very substantial. But in other cases the difference of price has been very marginal, and then the operation less successful.

More surprisingly, some groups of farmers who succeeded to sell their paddy collectively at a better price when they first tested the system were less successful in the following year. It was noted that local collectors nearby were adjusting their prices to the price paid to members of the Paddy Selling Group. On one hand, this is a positive effect of the farmers’ initiative to sell collectively, and it demonstrates a strengthening of their bargaining power.

But on the other hand, if the group does not manage to actually sell paddy, it does not generate any income to sustain the activity and incentivize the work required from farmer leaders. And when the group fails to be sustained, the competition of the PSG is removed, and local collectors lower their prices back. After few years of experiences of Paddy Selling Groups (in FWUCs in particular) this appears as the main challenge to address to sustain the activity.

2.1.2. PADDY SUPPLY CONTRACT BETWEEN MILLERS AND COOPERATIVES

A slightly different model has been implemented by few Agricultural Cooperatives with the support of their Federations (FCFD or FAEC mainly)¹² and of the project team. It consisted, for FOs, in identifying an interested buyer and formalizing a paddy supply contract. This differs from the “contract farming” model because contracts are signed only few weeks before the beginning of the harvest, and they do 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. For instance, in the end of 2016, two contracts were signed by ACs from Battambang province with rice millers/exporters for the supply of conventional paddy:

- Nikom Preah Sihanouk AC has delivered 776.5 tons of paddy to Signatures of Asia [See SCCRP Case Study No 3: Contract for paddy supplying between Nikom Preah Sihanouk AC and Signatures of Asia, facilitated by FCFD].
- Chamroeun Phal Reang Kesey AC has delivered 690 tons of paddy to AMRU-Rice.

Focus 6: Possible margin of negotiation for higher farm-gate prices for paddy

The experiences of some of the Paddy Selling Group or FOs getting involved in paddy commercialization tend to demonstrate that there is potentially room for farmers to negotiate better prices for their paddy. The fact that, when farmers try to develop such collective paddy selling schemes, local middlemen are able to react by increasing their price offers also suggest that downstream stakeholders could afford a bit higher prices than what they do.

The Table below has been produced as part of the Cambodian Rice Sector Economic Observatory [See § 4.3. page 43]. It simulates the impact of a potential increase of paddy purchase prices on rice mills profitability (here for the case of wet season photosensitive fragrant varieties and large mills). For this category of mills and varieties, the model concludes that (with unchanged export prices), large millers could still make profit if buying the paddy at a price 100 KHR/kg above the price they currently pay. Of course, the model is not perfect and presents an approximate “average”. The exact figures, case by case, can be disputed. But even if the price increase millers could actually afford is only +30 or +50 KHR/kg, this would still be very significant for farmers.

Rice milling profitability sensitivity to paddy purchase and milled rice selling price: return to capital invested for System 08: Wet-season Photosensitive Fragrant Rent-machine 10T Export-market									
Paddy purchase price KHR/Kg	Price of milled rice exported USD and KHR/Ton								
	442	492	541	590	639	688	737	787	836
	1 800 000	2 000 000	2 200 000	2 400 000	2 600 000	2 800 000	3 000 000	3 200 000	3 400 000
400	75.4%	93.7%	111.9%	130.2%	148.4%	166.6%	184.8%	202.9%	221.0%
500	49.3%	64.9%	80.5%	96.0%	111.5%	127.1%	142.6%	158.0%	173.5%
600	30.0%	43.6%	57.1%	70.7%	84.2%	97.7%	111.3%	124.8%	138.3%
700	15.1%	27.1%	39.1%	51.2%	63.1%	75.1%	87.1%	99.1%	111.0%
800	3.3%	14.1%	24.9%	35.6%	46.4%	57.2%	67.9%	78.7%	89.4%
900	-6.4%	3.4%	13.2%	23.0%	32.8%	42.5%	52.3%	62.1%	71.8%
1 000	-14.3%	-5.4%	3.6%	12.5%	21.5%	30.4%	39.3%	48.3%	57.2%
1 100	-21.1%	-12.8%	-4.6%	3.7%	11.9%	20.2%	28.4%	36.6%	44.9%
1 200	-26.8%	-19.2%	-11.5%	-3.9%	3.8%	11.4%	19.1%	26.7%	34.3%
1 300	-31.8%	-24.6%	-17.5%	-10.4%	-3.3%	3.9%	11.0%	18.1%	25.2%
1 400	-36.1%	-29.4%	-22.8%	-16.1%	-9.4%	-2.7%	3.9%	10.6%	17.3%
1 500	-39.9%	-33.7%	-27.4%	-21.1%	-14.8%	-8.5%	-2.3%	4.0%	10.3%
1 600	-43.3%	-37.4%	-31.5%	-25.5%	-19.6%	-13.7%	-7.8%	-1.8%	4.1%
1 700	-46.4%	-40.7%	-35.1%	-29.5%	-23.9%	-18.3%	-12.7%	-7.1%	-1.5%
1 800	-49.1%	-43.7%	-38.4%	-33.1%	-27.8%	-22.4%	-17.1%	-11.8%	-6.5%
1 900	-51.5%	-46.5%	-41.4%	-36.3%	-31.2%	-26.2%	-21.1%	-16.0%	-11.0%
2 000	-53.8%	-48.9%	-44.1%	-39.2%	-34.4%	-29.6%	-24.7%	-19.9%	-15.1%

¹² See § 4.2.3. page 40.

2.1.3. THE PADDY TRADING PLATFORM

In 2014 and 2015, some FO Federations have tried to get themselves known by millers by producing a Directory of main FOs able to supply paddy (See § 4.2.3. page 40). But this was providing only information about FO profiles (number of producers, surface of paddy, rough estimate of potential harvest...), but not yet a more accurate estimation of up-coming harvest. In late 2015, some Paddy Selling Groups (notably the one from Stung Chinit FWUC) have produced a more accurate pre-harvest announcement that they have tried to disseminate to rice millers... quite successfully as they manage to make relatively good deals with rice miller at that time. But the communication of this announcement was not very easy and made on a “door-to-door” basis.

In order to scale this up (perspective to engage more FOs, getting in touch with more millers), the project has supported the development of the “Paddy Trading Platform”. The principle and main features were developed through workshop organized with FO Federations and CRF in 2016, and the platform started to be operational from end of October 2016. It consists in an on-line platform where FOs can post announcement about their up-coming harvest (type of varieties, estimated volumes, date of availability, etc.). Millers can consult announcements on-line, or if they have registered, they can also receive the announcements automatically on their e-mail or by SMS. They can also set filters for the announcements they will receive, if they wish for instance to get notified only for announcements in certain provinces, or for certain types of varieties, or for minimum volumes.



▲ Home screen of the Cambodian Paddy Trading Platform.

Technically, the platform has been working well. Close to 100 FOs (members of FAEC, FCFD or FWN which support them to use the tool) are registered in the system as potential users, and approximately 50 rice millers are registered. Yet up to now, it has to be admitted that most of the time, the FOs have not been contacted by any miller expressing interest, after they have posted their announcements.



White rice - 250 t
 3-Dec-2016 - 20-Dec-2016
 Purchased quality seeds
 Takeo, Angkor Borey, Pon Ley
 Sro Mok Sok Sen Chey Agricultural Cooperative
 092951035

[View deliveries](#)

◀ Example of an announcement as it appears on the Paddy Trading Platform website: the announcement indicate the type of variety (white rice varieties, or fragrant, or jasmine, etc...) if the paddy can be supplied wet or dry, the estimated volume available and period of availability, the type of seeds used (farmers own seeds, or purchased seeds...) the name, location and contact of the FO... More details can be added as an attached file, for instance a detailed planning of harvests.

[More details can be found in SCCRP Case Study No 5: The Paddy Trading Platform].

Visit the Paddy Trading Platform on: <http://www.paddycambodia.org/>

Findings, Lessons learnt and “Take-away” recommendations 6: FO direct engagement in paddy commercialization

The experience of FOs (able in some case to get significantly better prices than what they get from local collectors) as well as the economic analysis developed in the Rice Sector Economic Observatory tend to demonstrate that paddy buyers could often afford a bit higher prices than what farmers get. This is symptomatic of a still low bargaining power of farmers. Collective action by FOs has given results in some case. But it comes at a cost, and often with a bit heavier procedures for farmers than when they sell directly to local traders. In many cases, when farmer get organized and can negotiate better, local traders react by aligning their prices. Hence, as there is no more benefits to sell through the FO, farmers sell back to local traders. But then the FO has no more incomes (normally a margin or fee is taken by the FO to cover its costs) to remunerate responsible persons in charge of gathering paddy and linking with buyers, and once it stops its involvement in commercialization, traders can return back to lower price offers. It is quite difficult to address this vicious circle. It could plead for structural financial support to FOs (possibly via their Federations – See § 4.2., pages 39-42) to be in position to permanently support and reactivate collective selling groups in order to maintain a competition with local traders.

2.2. CONTRACT FARMING

2.2.1. APPROACH OF SCCRP PROJECT REGARDING PILOT CONTRACT FARMING ACTIVITIES

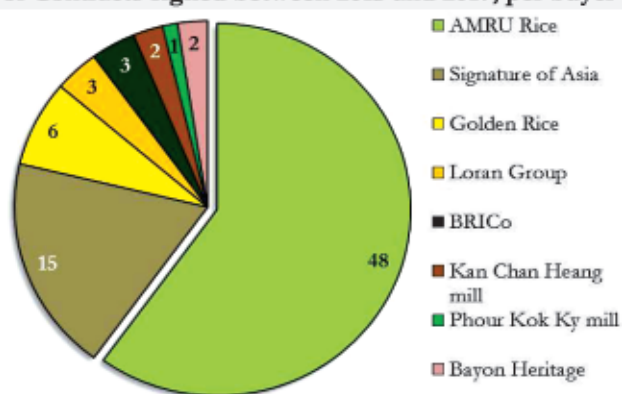
Beyond the model of “Paddy Selling Groups” in which Farmer Organization simply act as collectors of the paddy produced by their members, the SCCRP project has supported the development of Contract Farming agreements between Farmer Organizations and rice millers or exporters.

With progressively increasing quality traceability requirements for a growing export market, it was assumed that millers were facing some challenges to get suitable supplies in term of quality, and to get more predictable supplies.

The project has been quite open to support initiatives of economic stakeholders (from FOs or from millers) willing to develop contract farming. There were no geographical restriction (no limitation to target provinces). Some business matching events, gathering millers and FOs, have been organized to identify potential partners. In some cases, the project has received direct requests from millers or exporters to help to identify potential FOs and facilitate the negotiation of partnerships. In order to build capacities of local institutions to facilitate contract farming process, MAFF officers (in particular from Department of Agro-Industry – DAI – and Provincial Departments of Agriculture, Forestry and Fisheries – PDAFF –, and also officers from Department of Agriculture Cooperatives Promotion – DACP) were closely associated in the process, as well as, in some case, FO Federations willing to play such a facilitation role for their members (See § 4.2.3. page 40).

2.2.2. OVERVIEW OF ALL CONTRACT FARMING AGREEMENTS SIGNED WITH SCCRP SUPPORT

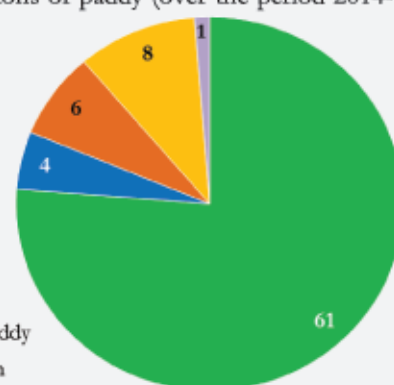
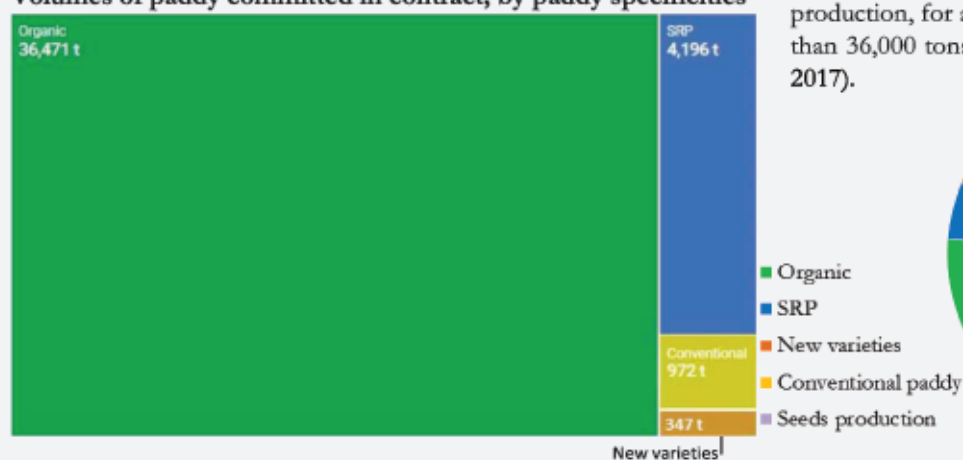
Over the five years of project implementation, a total of 80 contract farming agreements have been signed between Farmer Organizations (mainly Agricultural Cooperatives, and few FWUCs or farmer associations) and rice millers or exporters. 8 millers or exporters have been involved and 44 FOs (38 Agricultural Cooperatives, 5 FWUCs, and 1 Farmer Association) have been involved and have signed one or several contracts.

Focus 7: Some key figures on Contract Farming signed and implemented with SCCRP support**Number of Contracts signed between 2013 and 2017, per buyer**

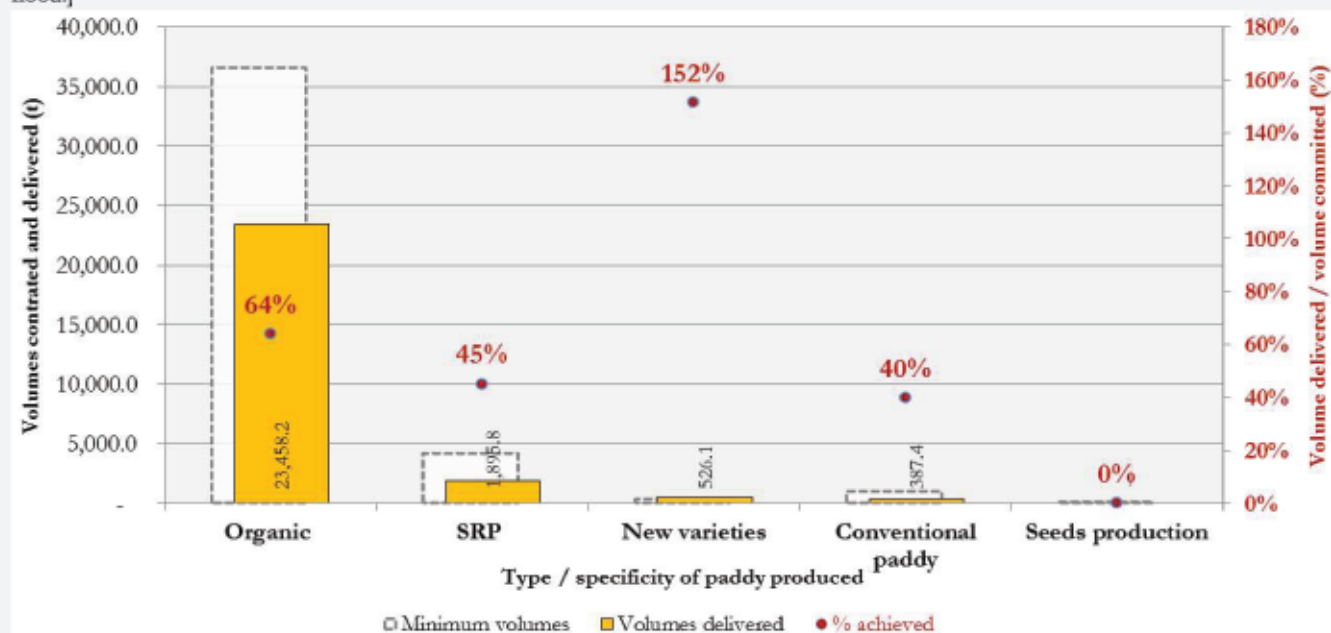
8 millers or exporters have been involved and 44 FOs (38 Agricultural Cooperatives, 5 FWUCs, and 1 Farmer Association) have been involved and have signed one or several contracts.

AMRU-Rice and Signatures of Asia are the two millers/exporters which have been the most engaged, with respectively 48 contract farming agreements signed by AMRU, and 15 by Signatures of Asia. For these two companies most of the contracts were focused on the production of organic rice. The first ones were signed in 2014 for AMRU and were then repeated (and scaled up) one year after the other.

61 out of the 80 contracts were for organic paddy production, for a total volume committed of more than 36,000 tons of paddy (over the period 2014-2017).

Volumes of paddy committed in contract, by paddy specificities**Volumes of paddy committed and actually delivered for 79 Contract Farming agreements, per type of paddy**

[Note: The contract for seed production (in 2013) is also not included because it was only for 2 ha of fields which were fully destroyed by flood.]



Contracts for the production of a new fragrant non-photoperiodic variety were successful, but volumes were limited as it was a first trial for farmers to use this variety. Contracts for the production of organic paddy are also generally quite successful (around 85% of volumes delivered) as a high level of premium price efficiently prevents side selling by farmers (but performances were lower in 2017, due to lower yields, more competition from new buyers, and high financial pressure on farmers to sell for immediate cash). For SRP rice the level of premium was still too low to ensure full implementation. Contract Farming is not efficient (or even not useful) to produce conventional paddy and sell it at market price.

2.2.3. MAIN OUTCOMES OF SCCRPI PILOT IMPLEMENTATION OF CONTRACT FARMING MODEL

From the significant amount of experiences accumulated over these five years, we can say that, in the context of Cambodian rice value chain (characterized by a very high number and density of paddy producers and buyers in a very competitive environment) contract farming appears to be relevant and beneficial for both parties in two kinds of situations:

SPECIFIC QUALITY ASSOCIATED WITH A CERTIFICATION ON PADDY PRODUCTION METHOD: TYPICALLY ORGANIC OR SRP STANDARDS

To secure a contractual relation between producers and buyer is a must when the buyer target specific product certification (including conformity with standards on production methods). This is typically the case of organic paddy (See 1.2.2. page 7) or SRP paddy (See 1.2.3 page 9). In the pilot actions implemented in Preah Vihear (See Focus 8 below), cooperatives involved can produce organic paddy that can be certified as such because they have the internal control system in place. The buyers (AMRU or Signatures of Asia) have a market for organic rice, but they cannot supply this market unless they source their paddy from these very few cooperatives which have this system in place. It is therefore essential for the exporters to secure their source of supply. On the other hand, local middlemen have no specific market for organic paddy and will not pay a premium for the organic paddy produced by cooperatives. Hence, it is also of paramount importance for the cooperatives as well (which are investing in the implementation of the Internal Control System, notably) to make sure that their paddy will be bought by a buyer offering a premium for organic. In such a case, the drivers to sign a contract between the miller/exporter and the cooperatives are very strong, for both sides.

If the level of premium is sufficient, the risk of side selling is very low, and the contracts are likely to be respected and to be successful. This has generally been the case for the production and supply of organic rice. Levels of premium offered for SRP rice in 2017 were much lower, and not always sufficient to secure the interest of farmers. Therefore the contracts for the production of SRP rice (first tested in 2017) have been less successful.

Focus 8: Contract farming for organic paddy in Preah Vihear province

Information has already been provided regarding the history of the initiative of organic paddy production in Preah Vihear in the previous Chapter of the present document (See §1.2.2. page 7). We will focus here more on the terms of the contracts between the two parties, for the case of contracts between AMRU-Rice and cooperatives in Preah Vihear.

With each of the 18 (as per 2017) cooperatives partner of AMRU, a contract is signed at the early stage of the season. Each contract defines the objectives (production and sale to AMRU of x tons of organic paddy, of fragrant or non-fragrant varieties depending on the cases). Organic standards to reach are the standards of EU and USA.

Contracts specifies different quality grade for paddy, and a premium price associated to each grade.

The premium price is added to a reference price, defined on the basis of reference mill-gate prices in the neighboring province of Kampong Thom, few days before harvest starts. Hence, the reference price alone is already significantly higher than farm-gate price offered by local collectors. Collection points are defined and agreed in the villages, and AMRU-Rice is responsible to collect the paddy from these agreed places. AMRU also provides sacks, and capacity building of AC leaders on paddy quality inspection, so cooperatives can undertake to quality checks. Payments are made to the cooperatives few days after each delivery.

Besides, the annual contracts with ACs, a pluri-annual Memorandum of Understanding is signed between AMRU, the cooperatives, but also the Union of Cooperatives which undertakes a major role to ensure a proper Internal Control System (See § “Internal Control System and Certification” Page 8), which is the corner stone to ensure the organic certification, and therefore the viability of the partnership.

Volumes of organic paddy delivered by cooperatives in Preah Vihear to AMRU-Rice have grown from 1,465 tons in 2014, to 2,439 tons in 2015 and 7,998 tons in 2016. And for 2017, AMRU has signed with 18 AC for a total volume of 16,662 tons.



[More details in SCCRPI Case Study No 2 “Contract Farming for organic paddy supply in Preah Vihear province”]

Another situation for which Contract Farming can be relevant is when it helps farmers to access an innovation (bringing an improvement of production, quality and/or price or a reduction of production costs) that could not be achieved by farmers without the Contract Farming scheme. Of course the partnership has to be beneficial for the buyer too. Good illustrations of such case are the six Contract Farming agreements signed between Golden Rice and Agricultural Cooperative for the production of new varieties of fragrant non-photosensitive rice (foreign variety that Golden Rice has introduced under the names “*Phka Champa*” – 3 contracts - and “*Phka Kravan*” – 3 contracts). These contracts (see “Focus 9” below) were very successful, even if limited in terms of volumes (as the variety was unknown by farmers, they wanted to test on limited surfaces first).

Focus 9: Contract farming for “*Phka Kravan*” variety

Three Contract Farming agreements have been signed in late 2014 between Golden Rice and 3 different Agricultural Cooperatives in Kampong Chhnang and Takeo provinces for the production of paddy of a new variety provided by Golden Rice under the name “*Phka Kravan*”.

In total, the three cooperatives (and 57 farmers of their members) engaged to grow “*Phka Kravan*” paddy on 107 ha and to deliver between 280 and 510 tons of paddy to Golden Rice. As the results, 444.3 tons of paddy have been delivered.

“*Phka Kravan*” is considered as a fragrant variety by Golden Rice. But it is non-photoperiodic and with a cycle duration of approximately 95 days, thereof shorter than other non-photoperiodic fragrant varieties widely used by farmers in Cambodia, such as “*Sen Kraob*”. “*Phka Kravan*” can therefore substitute non-fragrant short term varieties such as some IR varieties in farmers’ cropping calendar, and is expected to provide comparable yields.



FO representatives visit a field of “*Phka Kravan*” paddy variety grown under Contract Farming with Golden Rice ▲

These contracts were the only cases of fixed-price contracts that have been facilitated by SCCRP project. Price offered by Golden Rice was about 20% above the price that farmers would have got for the non-fragrant IR they would have grown without the contract. So for farmer, the terms were considered as interesting. Potentially, for the miller, this can allow a better planning of non-photosensitive fragrant paddy, at a reasonable price. For this reason, the contracts were successful and well respected. But this Contract Farming as a long term partnership is still very fragile because other buyers may also get to know the new variety and may also offer a good price: the risk of side selling remains. Moreover, the input initially provided by the company for farmers to achieve the “qualitative jump” might not be needed for ever. The contract may be needed for farmers to get the initial seeds, but Golden Rice said that “*Phka Kravan*” is an inbred variety, and thereof farmers may save seeds to repeat the cropping and might not need the contract with the buyer in the long term.

After the end of these contracts, SCCRP project did not continue to support the dissemination of the new variety via Contract Farming as the Ministry of Agriculture, Forestry and Fisheries has expressed reserved about the varieties and has recommended to proceed with further testing and homologation of the variety before to pursue scaling-up.

[More details are provided in SCCRP Case Study No 1 “Contract Farming between Golden Rice and FOs for *Phka Kravan* variety”]

In other cases, if the contract farming does not significantly contribute to improve the quality of paddy produced (i.e. the paddy produced by contracted farmers is similar to what the buyer could get from any other producer or middleman) and if the price is similar to market price¹³, then there’s no point in making contract. There are no significant advantages for contract farming if it is to produce the same “paddy as usual” and buy/sell it at local market price. Transaction costs in the case of contract farming are likely to be higher than just dealing with a middleman for a single on-the-spot transaction.

¹³ As it has been the case in the contract signed with Loran or BRICo in 2014, with other millers used as reference.

Findings, Lessons learnt and “Take-away” recommendations 7: Summary of key lessons on Contract Farming

- The development of Contract Farming is sometime presented as an objective by the Ministry of Agriculture or other public institution. This should not be the case. Contract Farming development is not an objective per se. Contract Farming is a tool, which is relevant in certain circumstance for economic stakeholders to achieve their objectives (hopefully contributing to broader development objectives), and which is not relevant in other circumstances.
- Parties negotiating a Contract Farming agreement shall be left free to negotiate and fully tailor the terms of their contract. Government institutions may produce guidelines to support such process, highlighting questions that parties shall be encouraged to discuss and to answer in their contract. But guidelines should not consist in standardized terms of contracts.
- MAFF (/DAI) can support contract development as a facilitator (when economic stakeholders desire it). But this support shall be simple and flexible. It should not bring heavy bureaucracy in the process (nor costs). More adequate human resources would be required for this in DAI, notably with a legal expertise, as Contract Farming is, before, all a matter of law.
- Facilitation of negotiation of Contract Farming (as well as possibly mediation in case of dispute) is not a monopoly of MAFF, and other organizations can also play this role, as long as they are accepted in these roles by the producers and companies involved.
- For the case of Cambodian rice, Contract Farming can be very relevant in particular when millers or exporters wish to source a particular quality of paddy, notably requiring a certification on the way the paddy is produced (typically for organic, or SRP standards for instance). But Contract Farming is useless and probably less efficient than traditional network of middlemen if the purpose is to source a generic paddy at the market price.

BUILDING ON EXPERIENCE AND SHARING KNOWLEDGE AND LESSONS LEARNT

Project activities on Contract Farming were implemented in partnership with the Department of Agro-Industry (DAI) of MAFF and were also aiming at developing capacities and guidelines to build on the Sub-Decree No 36 on Contract Farming that was issued in 2011. Together with the DAI, the project has looked beyond its own pilot experiences, but has studied other cases and has open spaces of exchange of experiences on Contract Farming, notably via a workshop on Contract Farming in July 2015, and a “Contract Farming Taskforce” in MAFF, which has mainly been used to discuss the project of a Manual on Contract Farming in Cambodia. The Manual has been finalized and endorsed by the Taskforce in October 2017 and is about to be printed after few final up-dates or improvements have been made. It has to be underlined that the Manual is not specifically dealing with Contract Farming for rice, but provide guidelines that are also applicable for Contract Farming for other crops or livestock production.



Last, inter-provincial training workshops on contract farming were implemented, based on the Manual content. They were addressed mainly to potential facilitators of contract farming initiatives, notably officers from Provincial Departments of Agriculture Forestry and Fisheries, but also some NGOs, FO Federations, etc.

◀ *Participants in training workshop on Contract Farming in Battambang, in November 2017.*

3. SCALING UP FOs: COOPERATIVE UNIONS

In Cambodia, Agricultural Cooperatives are in most of the cases at a very small scale (see background information on Farmer Organizations in the last section of the present document, page 50), often too small to gather significant volumes of products and to interest the agro-food industry as potential suppliers; and also too small to be able to afford the costs for permanent staff and to reach a certain level of professionalization.

The Law on Agricultural Cooperatives of 2013 has set a provision for the establishment of Agricultural Cooperative Unions¹⁴. A Prakas defining further format of statutes for ACUs and procedures for their registration was issued by MAFF in early 2016, paving the way for the creation of such Unions. This represents an interesting potential to develop larger and stronger Farmer Organization.

Preah Vihear Meanchey Agricultural Cooperative Union (PMUAC), gathering ACs engaged in contract farming for organic paddy production, was the first Union of Cooperatives established in Cambodia. It was formally registered by MAFF in July 2016, but actually informally started its activities one year before. The creation of this Union was accompanied by SCCRP project and was driven by the necessity to sustain the function of Internal Control required to maintain organic certification (See § 1.2.2. p. 7 and “Focus 8 in § 2.2.3. page 23). The economic model was well identified and foreseen as viable even before the decision of creation of this Union, which now seems to be quite solid and start to envisage a diversification of its activities.



▲ General Assembly of Preah Vihear Meanchey Union of Agricultural Cooperatives, in March 2017.

Another Union (Battambang Union of Agricultural Cooperatives, BUAC) was created in Battambang with some support of SCCRP project, gathering four ACs (notably involved in Contract Farming for SRP paddy production and supply). It was registered in September 2017. But for this case, the institution has been established first, before a clear plan was defined about its activities and economic model. BUAC has then developed its strategic plan in December 2017 and January 2018, which notably enhance a scaling up of the Union (from 4 ACs at its creation to 15 ACs (3,000 families) by 2022, and the objective to improve capacities of its members and develop the production of certified quality agricultural products for improved and sustainable market access and better prices. It also plans to develop services of input supply, agriculture machinery hiring and possibly small scale rice processing.

¹⁴ Chapter IV, articles 89 to 95 of the Law on Agricultural Cooperatives of 2013.



CHAPTER 3: RURAL DEVELOPMENT BANK AND FINANCING FOs AND RICE SECTOR

The Rural Development Bank is a public bank established in 1998, with the objective to take part in the financing of the agriculture sector and rural activities and doing so contribute to poverty reduction. In 2011, the « Agence Française de Développement » has financed a diagnostic of the Rural Development Bank in order to identify potential improvements regarding the bank management, procedures and tools, which served as a basis to mobilize the support of SCCRP project for further support to RDB reforms.

Meanwhile, the Ministry of Economy and Finances has expressed a strong will of up-grading the Rural Development Bank which materialized in significant changes in the Bank management and governance, and injection of additional capital. Additional Technical Assistance to RDB provided by the project has yield in numerous improvements in bank internal policies and procedures, tools, and alignment with common international standards for banking, which are expected to open the door to new refinancing opportunities for RDB, and thereof to an up-scaling of its credit activities for the agricultural sector. Hence, the involvement of the bank in the rice sector has been consolidated in the last two years.

In parallel, and in relation with other activities of the SCCRP project focusing on Farmer Organizations' commercial involvement in paddy trading, new financial products dedicated to finance Farmer Organizations commercial activities have been developed, validated, and started to be operational in 2016.

3.1. UP-GRADING THE RURAL DEVELOPMENT BANK

3.1.1. HISTORY AND ACHIEVEMENTS OF THE TECHNICAL ASSISTANCE TO RDB

The Ministry of Economy and Finances (MEF) has expressed a strong willingness to reform and up-grade the Rural Development Bank in order to increase its ability to address financing needs of the agricultural sector development in Cambodia, in line with policy orientations.

AFD has first financed a diagnostic of RDB situation and possible improvements in 2011 at the stage of the preparation of the project. Then more detailed assessment and recommendation have been provided by a team of consultant in the early stage of the project implementation, in 2013 and early 2014. Detailed recommendations and procedures or guidelines have been developed, covering notably the following topics:

- Risk Management Framework;
- Global Compliance Framework;
- Anti-Money Laundering and Counter Terrorism Financing;
- Monitor and Mitigate Banking Activities on the Environmental and Social Policy;
- Establish Ethics Committee and Develop Code of Conduct;
- Strengthening the IT Function;
- Review Credit Function;
- Review the Human Resources Policy;
- Recast the global organization;
- Assessment of Training Needs and Development of a Training Program.

As technical recommendations were developed, the process of RDB reforms has been given a strong political support and impulsion by MEF in March 2014, leading to actual implementation of concrete and very significant measures, notably:

- Revision of the Sub-Decree on the establishment of the Rural Development Bank, endorsed by the Royal Government of Cambodia in June 2014;
- Appointment of a new Board of Directors of RDB by Sub-Decree dated 7th of August 2014 (chaired by H.E. Ros Seilava);
- Appointment of a new Chief Executive Officer: H.E. Kao Thach;
- A new organization chart was approved in September;
- A number of new officers have been externally recruited by RDB;
- MEF has proceeded to an increase of RDB capital by approximately + \$26 million.

Further technical assistance has been provided by SCCRP project, with a resident international expert assigned to work on a full time basis for one year with RDB, allowing a closer work with the team and better appropriation and ownership of new policies, tools and procedures developed. Overall this process has considerably reshaped the Bank and its management and operation. Among the main outcomes, we can mention:

- Organizational restructuring has been adopted and implemented, with notably the following changes:
 - An independent Risk Department was created;
 - The Department of collections and monitoring has been created and separated from the Credit Risk Department;
 - The Credit Department structure was reformed;
 - Legal Affairs Department has been created.
- Human Resources management was significantly improved:
 - Detailed and accurate job descriptions and Key Performance Indicators have been developed and completed for each RDB department and for each individual staff in RDB.
 - A detailed organization overview chart has been created which maps out clearly each department and each staff member and their job description and functional role.

- Compensation and salary scales were reviewed to ensure RDB can compete with the MFI and Banking sector to attract and retain high caliber, well trained and competent staff.
- New human resources were recruited.
- The newly established Risk Department was supported to create an independent risk function, separated from the frontline business department. The department is responsible for risk monitoring and reporting for managing non-performing loans, as well as providing an independent appraisal and recommendation for lending decisions.
- Inputs were also provided for a more strategic reflection on RDB future development, including:
 - Assessment of needs for potential agricultural value chains.
 - Reflection about the appropriate blending of policy lending alongside commercially orientated lending.
 - RDB funding strategy.

Moreover, RDB compliance policy framework gaps have been addressed through the development of:

- Anti-Money Laundering / Combatting the Financing of Terrorism procedures in line with NBC requirements;
- Social and Environmental protection policies;
- Procurement and reporting policies.

Findings, Lessons learnt and “Take-away” recommendations 8: Keys of the success of RDB reforms, and remaining fragilities

Reforming the Rural Development Bank was seen as an ambitious and challenging objective at the early stage of SCCRP design and implementation. Even if everything is still far from being perfect, the Rural Development Bank has considerably changed over the past 5 years. The provision of highly qualified technical assistance has contributed to this, with an improved appropriation of the measures, procedures and tools when the TA became resident instead of sporadic short-term inputs. But most importantly, the very strong political will and push forward from the Ministry of Economy and Finances was a key to reach these achievements. A remaining fragility is related to the subtle balance that has to be maintained between the policy orientation of RDB (which has a mandate to finance economic stakeholders / private sector, for projects that contribute to achieve policy objectives and that commercial banks might be reluctant to engage in) and the need for a professional decision making process on individual loan attributions, remaining independent from political stakes.

3.1.2. NEW FINANCING SCHEMES DEPLOYED FOR THE RICE SECTOR

RDB has developed two new financing schemes for the rice sector since 2016. SCCRP project was not directly involved in the development of these schemes (and thereof we do not analyze in detail the mechanisms), but the RDB up-grading process described above has contributed to make it possible. These two schemes are:

- The “**emergency rice loan fund**”, established in 2016 as a response to the drop off of paddy prices. It consists in a credit offer for rice miller for working capital in order to be able to buy paddy. Access to these loans does not require traditional collateral (land titles) but to demonstrate the existence of large volumes of paddy already in stock that are considered as a guarantee. A fund of 50 million US Dollar was allocated by MEF for this facility. In 2016, only 3.5 million were lent, but it significantly increased in 2017, with 9 million US Dollar disbursed by the bank, as of end of October 2017. The scope of the fund has been extended to potentially cover other crops than rice.

- The **“Investment loans for Paddy drying and storage facilities”**. In this case, RDB has launched call for applications for entrepreneurs/millers willing to invest in paddy drying and storage facilities. In total, 30 million USD have been allocated for those projects. A first loan was provided to Thaneakea Srov (Kampuchea) Plc. in Battambang in April 2017, then new loans were approved for investments in Kampong Thom, Prey Veng and Takeo later in 2017.

3.2. DEVELOPMENT OF A CREDIT MECHANISM TO FARMER ORGANIZATIONS

3.2.1. RATIONALE: DEVELOPMENT OF PROFESSIONAL FARMER ORGANIZATION IS A POLICY OBJECTIVE... BUT FO ACCESS TO FINANCE A BOTTLENECK

The development of efficient and professional Farmer Organizations / Cooperatives is an important orientation of Cambodia development policies¹⁵. Indeed, Agricultural Cooperatives (and more largely Farmer Organizations) can play a significant role in the commercialization of agricultural products as well as in the supply of inputs, strengthening farmers access to information and bargaining power as they deal with bigger quantity of goods and can get in relation directly with wholesalers or large agro-industry, instead of dealing with local retailers or middlemen.

But this role of involvement of FOs as commercial actors in value chain, to be fully developed, may require certain financial capacities of FOs for investment or at least working capital. Hence, access to finance is a major bottleneck for the development of Agricultural Cooperatives' commercial activities . In the first years (2013/2014) of SCCRP project implementation, a quick assessment of Farmer Organizations access to finance has been made and confirmed that FOs/Agricultural Cooperatives had generally very limited capital, and have in most cases no (or very limited) access to loans from formal Banks or MFIs, which were not seeing them as bankable clients . Without an eased access to finance, Agricultural Cooperatives or more broadly Farmer Organizations cannot progress through the initial stage of their development, from the stage of micro-scaled cooperatives at village level to the stage of efficient small to medium scale cooperatives able to undertake activities at the scale of SMEs. And then the objective to see Cooperatives emerge as stronger commercial actors in value-chains remains a wishful thinking.

3.2.2. THE DEVELOPMENT OF A DEDICATED CREDIT OFFER TO FOS THROUGH THE RURAL DEVELOPMENT BANK

In order to address this issue of access to finance to Farmer Organizations and improve the coherence between the policy objectives and the instruments deployed through the State owned Rural Development Bank, the SCCRP project has supported the development of a new financial offer from RDB, dedicated to Farmer Organizations. Different scenarios for the development and distribution of credit to FOs were explored. A direct credit offer by the Rural Development Bank was chosen as the option allowing the lower interest rates. In June 2016, the RDB has adopted a new credit policy dedicated to Farmer Organizations. The main features of the proposed financial products are described in the “Focus 10” next page.

¹⁵ As an illustration: « *to encourage and support the participation of Farmer and Farmer Organizations (/ Cooperatives) to protect their interests by creating an enabling environment for increased production and supply of high quality rice, including raising farmers' bargaining power on price negotiation* » is one of the key principles enhanced in the Policy Paper on the Promotion of Paddy Production and Rice Export approved by the Council of Ministers on July 25, 2010.

¹⁶ MAFF's Action Plan for the implementation of the Policy Paper on the Promotion of Paddy Production and Rice Export includes as a policy measure to « *strengthen capacity of farmer and agricultural cooperatives to secure and utilize effectively loans from financial institutions* ».

¹⁷ At that time, only Vision Fund had a pilot operation of credit to a dozen of agricultural cooperatives, and yet with interest rates still relatively high (1.5 to 1.6 %/month – depending on type of collateral), according to discussions held with Vision Fund in May 2014. It is too early yet to say if the development of loans to FOs/ACs by RDB will change the perception of MFIs regarding the bankability of these potential clients.

This credit mechanism has been implemented at a pilot stage since then. Since RDB has no branch office in provinces, a challenge to address was the distribution of the credit. For this, an informal partnership has been established between RDB and two Federations of Farmer Organizations: FAEC and FCFD. The two federations are conveying information to their members in provinces and support interested FOs to develop business plans and file applications.

Focus 10: Main features of RDB's Credit offer to Farmer Organizations endorsed in June 2016

Objective: Credit to finance commercial activities of Agricultural Cooperatives or legally registered FOs.

Minimum criteria:

- properly registered as an Agricultural Cooperative with MAFF, or other FO with legal personality;
- has at least 1 year of experience in the intended commercial activity;
- can provide financial information, including assets, liabilities, capital, income and expenses;
- has collateral (real estate).

Short-term loan criteria:

- for working capital needs;
- minimum loan amount of US\$5,000 (per cooperative and no need to have multiple, group loan applications);
- maximum loan amount of US\$50,000;
- final loan amount shall depend on past and projected cashflows of the cooperative, shall not be more than 4 times the capital of the cooperative and shall not be greater than 80% of working capital needs;
- duration not exceeding 12 months;
- interest rate of 10.5% for USD loans and an additional 3% for KHR loans (service fee and guarantee fee are included);
- repayment of principal can be all at maturity or amortized depending on type of business and cash flows; interest is to be paid monthly;
- late repayments of over 15 days may attract double interest penalty.

Long-term/investment loan criteria:

- for investment in real estate, machines, equipment to be used for commercial activities;
- minimum loan amount of US\$10,000 (per cooperative and no need to have multiple, group loan applications);
- maximum loan amount of US\$100,000;
- final loan amount shall depend on past and projected cash flow of the cooperative, shall not be more than 4 times the capital of the cooperative and shall not be greater than 80% of planned investment;
- duration 1-5 years, including option of grace period up to a maximum of 1 year;
- interest rate of 10.0% for USD loans and an additional 3% for KHR loans (service fee and guarantee fee are included);
- repayment of principal shall be amortised quarterly or semi-annually depending on type of business and cash flows; interest is to be paid monthly;
- late repayments of over 15 days may attract double interest penalty.

Collateral (for both short- and long-term loans; for both new and old customers):

- collateral can be in the form of real estate, guarantee letter, fixed deposits, gold, equipment and inventory (the latter two are difficult to implement at the moment);
- non-real-estate collateral can be up to a maximum of 30% of required collateral coverage;
- for loans less than US\$10,000 soft title is sufficient;
- the loan-to-collateral-value ratio is 70% for real estate located in cities/provincial capitals that have shopfronts, factories, industrial buildings or residential buildings;
- the loan-to-collateral-value ratio is 60% for real estate located outside cities/provincial capitals but still have shopfronts, factories, industrial buildings or residential buildings;
- the loan-to-collateral-value ratio is 50% for real estate suitable for agricultural purposes;
- a guarantee fund can be used to increase the loan-to-collateral-value ratios above in proportion to the percentage amount of the loan guarantee, e.g. with a 50% guarantee fund coverage, a 50% requirement can be increased to 75%.

Within one year and half after approval of the credit policy to FOs, RDB had received 14 applications from Agricultural Cooperatives from 6 different provinces, and had approved 7 loans, for a total amount of 74,000 USD, mainly to finance activities of the cooperatives in fertilizer and/or paddy trading¹⁸. In the early stages of implementation, the process of assessment of loan application was quite time consuming. This partly explain the low rate of success for the applications received by RDB in 2016 (some loan applications were withdrawn because the decision was not made on time for the (seasonal) activity to implement. In 2017, the procedures in RDB have been improved and the delay for decision making was improved. Additional improvements of the process of loan application assessment are currently being considered. The partnership with FO Federations could be further consolidated and formalized. In addition, the Rural Development Bank is creating two “mobile units” (based in Tboung Khmum and Battambang) in order to provide a closer service to its potential client, to inform then, proceed with credit applications, and monitor loans.

Findings, Lessons learnt and “Take-away” recommendations 9: Advantages and limits to RDB’s lending activities to FOs

A positive achievement and milestone in the development of credit to FOs in the country

The development of a credit scheme dedicated to Farmer Organizations with the Rural Development Bank is a positive achievement of the project. Even if the number of loans and amounts engaged in the pilot stage, since the approval of this credit policy in June 2016, are still limited, the mechanism is in place, and it is the intention of RDB to scale it up.

Hosting this credit facility to FOs in Rural Development Bank is truly in the mandate of this public bank, as it contributes to achieve policy objectives (consolidation of FOs as economic stakeholders) by addressing financial needs that are currently not addressed by commercial banks or other private financial institutions. RDB is there in its “pioneer role”, aiming to demonstrate that Cooperatives / Farmer Organizations can be reliable clients for the financial sector, paving the way for other Financial Institutions to engage in serving those clients.

Even if the terms of the loans are not yet ideal for FOs, RDB credit offer is, at the moment, the best offer they can access from a Cambodian financial institution.

Yet, a number of limits are still to be addressed

➤ The process remains time consuming: Despite improvements in the procedures to assess loan application were made, assessing application for loans remains time consuming, and in particular the evaluation of collaterals takes time as they often consist in several plots of agricultural lands, often far from each other and that the credit agent has to inspect in order to estimate the value of those lands. RDB would be interested in simplifying the system based on the analysis of a limited number of risk factors.

➤ RDB faces limits in its capacity to dissemination information to FOs (potential client) and distribute the credit. Partnership with FO Federations is contributing to address this issue (FO Federations acting as a go-between between the Bank and FOs to provide information and help FOs to file applications with the bank... (but, on purpose, FO Federations are not acting as a distributor / retailer of RDB credit). This service of FO Federation is useful and shall be consolidated, but it is not sufficient to reach more FOs with a broader geographical coverage. Other mechanisms to distribute credit to FOs are to be developed. Creation of mobile units within RDB is part of them. RDB may consider other partnerships to distribute loans to FOs, for instance with MFIs or Banks with a larger rural network, either by refinancing a specific credit activity for FOs or by using them as agents producing a service for a fee. Yet the willingness of MFIs or commercial bank to start to serve FOs’ credit need is not yet demonstrated.

¹⁸ More information can be found in the SCCRP Policy Note #3 « Access to finance for Farmer Organizations as economic and commercial actors in value-chains ».

3.3. GUARANTEE MECHANISM

3.3.1. INITIAL OBJECTIVE OF THE GUARANTEE MECHANISM FOR CREDIT TO FOs AND PILOT PHASE

As part of the development of the credit mechanism for Farmer Organization, the SCCRP project has considered the creation of a credit guarantee mechanism, taking into account that the lack of collateral is a major bottleneck for the accessibility of the proposed credit mechanism.

The conditions of the loan guarantee have been defined at the same time with the credit offer to FOs (see § 3.2, pages 30). The main features of the guarantee mechanism foreseen are shown in “Focus 11” below and they have been tested only for the two first loans (with the guarantee directly provided by the project for these first two pilot cases, before the institutionalization of the guarantee mechanism was addressed).

Focus 11: Main features of the credit guarantee developed for credit to FOs and tested by SCCRP for credit to FOs by RDB

Main criteria of eligibility of loans:

- The loan shall be granted to a duly registered Farmers Organization (legal entity);
- The FO shall have at least one year experience carrying out group commercial activities;
- The purpose of the loan may be to finance working capital or equipment to carry out a commercial activity (i.e. not to retail cash credit to its members);

(In addition, at the stage of the testing of the guarantee – i.e. when the guarantee was directly provided by SCCRP project – additional criteria were applied due to the limitation of the project regarding the budget that could be engaged for these guarantees and the deadline for disbursements, aligned to project duration).

Terms and limits of the guarantee:

- The guarantee can cover up to:
 - ↳ 65% of the risk in the case of a new activity or in the case of an investment loan
 - ↳ 50% of the risk in the case of a working capital loan to finance an existing activity
- Further collateral, including tangible collateral, shall be required, as per the Financial Institution internal collateral policy.
- The guarantee fund will cover the contractual percentage of the remaining outstanding capital at the date of the claim. The loss is shared from the first KHR (or USD).
- Guarantee can be called after 90 days default or when the borrower is insolvent or insolvency proceedings have been started against it;
- All amounts recovered, before and after payment from the guarantee fund, will be shared between the guarantee fund and the financial institution, in proportion to the agreed coverage percentage

3.3.2. INSTITUTIONALIZATION OF A BROADER CREDIT GUARANTEE MECHANISMS

MOVE OF MEF FOR A BROADER SCOPE OF A CREDIT GUARANTEE FUND

While the credit guarantee system was tested on the first loans of RDB to FOs, SNEC had some discussions with MEF to reflect on the formalization of a sustainable guarantee system. In parallel, MEF had started a reflection on establishing a credit guarantee funds to contribute to address the bottleneck of access to additional working capital for the rice sector (and potentially more broadly for the agriculture and agro-food industry), with some inputs from consultants mobilized with the support of ADB.

MEF has decided to merge the two initiatives and set up a single Credit Guarantee Fund that can offer two different guarantee products, one dedicated to guarantee the credit to Farmer Organizations, the other to the agro-food industry (rice milling and other).

In order to move forward, SCCRP has commissioned additional expertise to work with the Ministry of Economy and Finances on the practical development of the Guarantee Fund and to address the technical details: guarantee rules, eligibility criteria, operational manual for parties involved, templates for operational documents, etc. and to train responsible officers in MEF. This process will be finalized in November 2017.



CHAPTER 4: POLICY / GOVERNANCE / VALUE CHAIN INSTITUTIONS

In 2010, the Royal Government of Cambodia has adopted an ambitious policy for the promotion of paddy production and rice export. This policy has contributed to arouse a strong dynamic of investments and up-grading of the Cambodian rice sector. Even if the iconic objective of exporting 1 million tons of milled rice was not yet achieved in 2015, the growth of milled rice exports has been spectacular: from about 12,000 tons in 2009 to more than 538,000 tons in 2015 (year for which the 1 million ton target was set).

The Support to the Commercialization of Cambodian Rice Project has contributed to assess the results of the rice policy (2010-2015), and to support the preparation of a second phase of RGC policy for the rice sector. It has also developed a tool for economic modeling and assessment of the economic situation of Cambodian Rice Sector, which is foreseen to be institutionalized as the “Cambodian Rice Sector Economic Observatory”, providing analytical economic data on the sector as a whole, that can be used as a dashboard to monitor rice sector situation and stimulate policy dialog.

Hence, increased dialog and coordination among stakeholders (public and private) is getting more necessary than ever as the new rice policy (under development) will continue to aim at ambitious (yet achievable) objectives.

Proper institutional arrangements are essential to ensure stakeholder representation and dialog. On these matters, SCCRP has notably accompanied the development of the representation of smallholder farmers at national level, through support to FO Federations, and tried to contribute to set up the basis of an inter-professional organization for Cambodian rice sector.

4.1. SETTING UP A SECTOR-WIDE ORGANIZATION FOR CAMBODIAN RICE

4.1.1. SUPPORT AND REFORMS ENGAGED WITH FCRE: A PROMISING BOTTOM-UP AND PRAGMATIC APPROACH

In April 2013, the SCCRP Steering Committee¹⁹ has validated the principle of a support to the Federation of Cambodian Rice Exporters. This Federation was established in 2012 with the support of MoC and was gathering, at that time more than one hundred members (not only exporters – as its name would suggest – but also rice millers and some suppliers of services or goods to the sector, such as seed producers or banks). One has to admit that in early 2013, the FCRE was not very active and, to some extent, was still quite an “empty shell”. But the leadership has shown willingness to develop activities and engage in a comprehensive and participatory process of reforms. The process engaged from that moment was based on three levels of supports implemented in parallel and inter-connected:

- An operational support for the development by FCRE of services to its members (identification and implementation of quick wins services by the Federation that will contribute to build competences, visibility and legitimacy of the Federation toward its members, including contribution to the recruitment of skilled staff and budgetary support to cover running costs as a “seed funding”).
- A support to the elaboration of a multiannual strategic plan and an annual action plan validated by all the members (General Assembly), including agreement on budgeting and financing plan, so as to strengthen ownership of members.
- A support to the revision of the federation structure and status, in order to clarify the membership (and thereof the nature – professional or inter-professional – of the Federation) and the governance of the FCRE.

The process was putting an emphasis of the dialog with stakeholders (FCRE members, but also non-members, to take into account the reasons why they did not join, and address their concerns) on individual and multilateral basis, in order to reshape the organization taking into account stakeholders’ expectations. The willingness of FCRE leaders to fairly accept the “rules of the game” proposed by SCCRP, and in particular the perspective of a comprehensive reform of the organization (which included the acceptance of the possibility of a change of leadership) was remarkable and deserves to be underlined and praised. A Memorandum of Understanding was signed between SCCRP and FCRE in August 2013, defining the content and modalities of the project technical and financial support, and attached with a clear roadmap detailing respective roles and commitments, as well as quarterly objectives and indicators (which achievement were conditions to trigger following phases).

General Assembly and consultation on institutional scenarios for FCRE reform, in January 2014 ►

The “Focus 12” box next page recall the approach and the outcomes of the institutional reform process engaged with FCRE from mid-2013 to early 2014, before it was stopped by the decision of merging of FCRE with two other organizations of the rice sector.



¹⁹ The Steering Committee of SCCRP project was chaired by SNEC and was gathering high level representatives of the different ministries concerned by the scope of the project, including notably Ministry of Agriculture Forestry and Fisheries and Ministry of Commerce...

Focus 12: The institutional reform process started with FCRE and where it stopped

By end of 2013 (only 5 months after the partnership agreement was signed between SCCRP and FCRE), FCRE started to show operational improvements with notably new staff recruited (Executive Director and Communication officer), improved communication tool (website, newsletter), better management and transparency (accounting system, human resources management...) and implementation of services and events (strong involvement in 1st Cambodian Rice Festival, organization of conference on collective branding experience,...).

A membership fee system was approved, based on a relatively affordable basic membership fee (to avoid a financial barrier and ensure a large inclusiveness) combined with premium options (silver, gold, platinum) to give the possibility to the Federation to generate more resources and run the organization. It is important to note that premium membership options were coming with additional benefits (discount on some services, showcasing of the company logo on the website, etc...), but without additional power or weight in the Federation governance or management (it would not be equitable, for instance, to reserve eligibility in governing bodies to premium members only).

From the institutional point of view, 3 scenarios for institutional reforms were prepared (taking into account inputs from members), and submitted to a vote during a General Assembly on 22nd of January 2014. Exceptionally, non-members were invited and allowed to take part on this vote on institutional scenarios. The purpose was to show the willingness to integrate non-members and to take into account their expectations (and address the reasons why they had not joined the Federation so by taking into account their points of view). Moreover, to address the asymmetry of representations of the different categories of stakeholders, the vote on these institutional scenarios was undertaken by "colleges": i.e. votes of producers, millers, exporters and service providers were counted separately, and to be adopted, a proposed option had to get a majority of votes in all of these four categories (majority vote inside a college, but unanimity of all colleges required, following a principle in use – by law – in inter-professional organizations in Europe). This proposed method has worked, and an institutional scenario for FCRE reform was approved, with a strong ownership and backstopping of value chain stakeholders. In addition, some key governance principles were also endorsed by vote, providing the guidelines for the rewriting of FCRE statutes, which was the next step foreseen after the General Assembly of January 2014.

This promising process came to an end, less than one month after that very successful General Assembly of FCRE, after the decision of the Ministry of Commerce urging FCRE, ARPEC and CREA (the three organizations in the rice sector) to merge in a single institution. This process has been managed in a much more top-down way than the method used to support FCRE reform.

Findings, Lessons learnt and "Take-away" recommendations 10: A bottom-up process and phased combination of advisory and financial support is a suitable approach for institutional development

A bottom-up, highly participative and progressive approach of institutional development is highly desired to craft an organization such as a business organization or inter-professional body. The purpose, expected objectives, and even the nature of the organization shall be preliminary discussed and agreed before to jump to statutes writing and further internal rules development. An extensive process of bilateral and multi-lateral consultations is essential to create trust and ownership of members, which is a key for the future success of the organization.

Trust will also be built on the quick development of activities and services of the organization to its members. A combination of operational and financial support to develop services (bringing quick results) and assistance on the on governance rules is highly recommended, and has to be formalized, for instance via a MoU. The support (notably financial) can be phased in several tranches which can be triggered (or held) depending on achievements, monitored through key indicators. The process can be stopped at any time, so there are continuous incentives to reach objectives and pursue the implementation of the institutional process... and a possibility for an exit door if the process is not implemented as expected.

[More recommendations are available in SCCRP policy note #4 "Methodologic recommendations to support Inter-Professional Organizations"]

4.1.2. CAMBODIAN RICE FEDERATION: INCLUSION OF FARMERS IN CRF AND CONSOLIDATION OF THEIR REPRESENTATION

After decision taken by the Ministry of Commerce to impose a merging of the three organizations in the rice sector, the Supreme National Economic Council, as coordinating entity of SCCRP project, has advocated for smallholder farmers to be allowed to be part of the newly established Cambodian Rice Federation. In the initial stage (i.e. for the first General Assembly and election of CRF Board, in May 2014), the Ministry of Commerce, which was leading the process of preparation of first General Assembly of CRF, has only “tolerated” a narrow smallholder farmers participation, limited by a (disputable) quota of “not more than one Agricultural Cooperative per province” to take part in the General Assembly and to vote. Nevertheless, farmers have managed to get one representative (out of 15 members) in the first elected Board of the Cambodian Rice Federation, which can be considered as an under-representation of the segment of the rice sector that gather, by far, the more stakeholders.

In October 2014, SCCRP project has organized a visit of some exporters and CRF leaders to *Intercéréales* (the French inter-professional organization for the sector of cereals), taking the opportunity of the presence of this delegation in Paris for SIAL (See page 14). *Intercéréales* director presented the system of governance of inter-professional bodies in use in France and in the European Union, based on electoral colleges representing the different segments of the value chain, which could be used as an inspiring reference for CRF.

In February 2015, CRF General Assembly has approved a modification of its statutes, with a provision made to reserve three seats in the Board for representative of Farmer Organizations, designated by their peer (via FO Federations). This was seen as a move in the good direction, even if it is not sufficient alone to ensure a balanced representation of the different categories of stakeholders in the rice sector. The change became effective from the election of the Board for the second mandate, in 2016. Six Federations (or Networks or Unions) of Farmer Organizations elaborated collectively the rules to designate their representatives, and implemented the agreed procedures to select three delegates to CRF Board.

Besides of the Board, CRF organization also includes various thematic « Executive Committees ». Since 2016, smallholder farmers are more represented in CRF’s « Seed and Production Executive Committee », with five FO Federations represented in this body which is co-chaired by a farmer representative. But modalities of composition and functioning of these Executive Committees are not well defined in CRF governance system and this particular Seed and Production Executive Committee has been inactive for months in 2016-2017 despite farmer leaders were requesting CRF to convene a meeting of this “ExCo”.

Findings, Lessons learnt and “Take-away” recommendations 11: Some limits about representativeness and governance of CRF

At present, and despite the Cambodian Rice Federations is officially recognized as the organization entitled to speak on behalf of all the economic stakeholders in Cambodian rice sector, its representativeness can be disputed in regard of the two following limits:

1. There is no mechanism (such as a system of electoral colleges for instance, one “college” corresponding to a category of stakeholders in the value chain) to balance the asymmetry of representation between the different categories of stakeholders.
2. There is no clear procedure for CRF to internally define and approve its “policy positions” before to communicate them outside.

Also, roles, prerogatives and modalities of the composition of the Executive Committees are not clearly formalized in CRF statutes, leaving a “grey zone” in CRF governance.

4.2. SUPPORT TO NATIONAL FEDERATIONS OF FARMER ORGANIZATIONS

4.2.1. A DOUBLE PURPOSE: SERVICES AND REPRESENTATION

Beyond the objectives of increase production of paddy and volumes of milled rice exported, RGC's 2010 policy for rice sector aims at the improvement of farmers revenues. This policy explicitly encourages the « participation of farmers and their organizations to protect their interest by creating an enabling environment for increased production and supply of high-quality rice, including raising farmers' bargaining power on price negotiation »²⁰. To achieve this main goal, supporting the involvement and the participation of farmer /Farmer Organization representatives within a rice sector wide consultation and policy dialog is essential. Hence, the SCCRP project has provided support to national Federations of Farmer Organizations, with a double purpose:

- Consolidate the capacities of these Federations to represent and defend smallholder farmers' interest within representative/business organization in the rice sector (notably within CRF) and with the government, as part of a constructive public-private dialog on relevant policies and regulations;
- Develop and implement services to support their members (FOs) in particular in their activities related to the rice sector.

Three national Federations or networks of FOs were directly supported by the project:

- The Federation of farmer associations promoting family Agriculture Enterprises in Cambodia (FAEC);
- The Federation of Cambodian Farmer Organizations for Development (FCFD);
- The Farmer and Water Net (FWN).

More sporadically, Farmer and Nature Network (FNN) and Cambodian Farmers' Association Federation of Agricultural Producers (CFAP) have been associated to some of the activities, notably regarding the representation of farmers in Cambodian Rice Federation.

4.2.2. STRENGTHENING FO FEDERATIONS ABILITY TO REPRESENT SMALLHOLDER FARMERS

FO Federations (such as FAEC, FCFD, FWN or FNN) include in the scope and purposes of their organizations an objective of representation of farmers/FOs and defense of their interest. They can play an important role in the policy dialog with government institutions in order to constructively contribute to the reflection on policy measures or regulations favorable to farmers as well as to achieve the national objectives. It is of primary importance that farmers can express by themselves their concerns, the constraint they face and present their point of view which could otherwise be overlooked by decision makers. Strengthening farmer leaders capacities to analyze stakes and situations and take part in policy dialog is seen as essential by the Supreme National Economic Council which took the opportunity of this project to encourage and support such development.

In practice, the support of SCCRP consisted in capacity building workshop on advocacy for FO leaders as well as support to implement consultation process with their members in preparation of participation in national consultation workshops. FO Federations mobilized their members to provide comments on regulation under preparation that directly concern them, as for instance the regulations on Unions of Cooperatives on which FAEC and FCFD have provided comments to MAFF in 2014.



▲ Mr Samarth Veasna (FCFD) speaks after his reelection as one of the FO representatives in CRF Board of Directors.

²⁰ Source: Policy paper on the promotion of Paddy Production and Rice Export, approved by the Council of Ministers, Phnom Penh, 25 July 2010.

Within the rice sector organization, as already extensively developed in § 4.1.2. page 38, the project managed to ensure a minimum representation of Farmer Organizations (notably via their Federations) in the Cambodian Rice Federation, and to progressively improve this representation even if it still remains insufficient in regard of the importance of producers in the sector.

Findings, Lessons learnt and “Take-away” recommendations 12: Limits and required measure for improved farmer representation in policy dialog

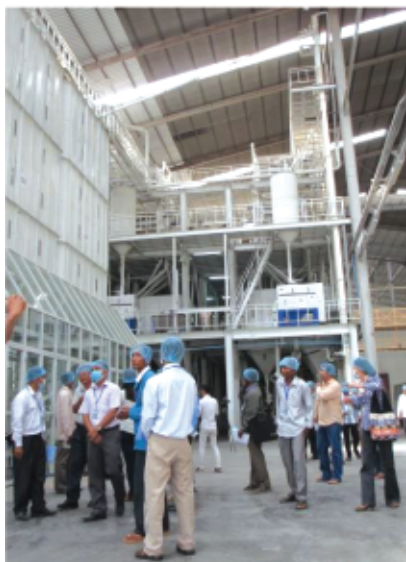
Relevance and appropriation of policy measures and regulations for the agricultural sector is likely to be improved if farmer representatives can be consulted in the process. But true and constructive consultation requires times, resources, analytical knowledge and know-how. In other words: it requires resources and come at a cost. Though representation and advocacy are not functions in which smallholder farmers see an immediate benefit, hence not the easiest functions for FO Federation to finance through service fees or membership fees. Participation of farmer / FO representative in policy dialog is valuable and deserves to be supported (including financially) by public institution, yet leaving a certain independence and neutrality in the implementation process.

To achieve this:

- Structural support to representative FO Federations shall be considered in a long term vision.
- Whenever a consultation (on policy measures or regulation for instance) is required, the conditions shall be set for a real consultation process to be engaged: in practice: draft documents shall be provided weeks in advance so FO Federations actually have the time to review and analyze stakes, and to organize consultation with their basis (at local/provincial level) and consolidate inputs gathered through such extensive consultation process.
- Support of a neutral analyst and facilitator can be helpful, but requires full independence of the facilitator, and acceptance by the FO Federation(s) engaged.
- FO Federations have also efforts to make on their side, notably in term of coordination and harmonization of the data and information.

[More recommendations are available in SCCRP policy note #1 “Support smallholder farmer representation in policy dialog”]

4.2.3. DEVELOPMENT OF FO FEDERATIONS SERVICES TO THEIR MEMBERS



Beyond their representation and advocacy role, FO Federations have been supported to develop and implement new services to their members, such as support to input supply and to the commercialization of agricultural products. This is indeed essential for the benefit that these services can bring to FOs. But it is also important institutionally as it consolidates the interest and trust of members in these Federations, and builds their technical legitimacy.

◀ *FO representatives from different Federations visit a Golden Rice factory in January 2015 as part of a meeting to discuss possible paddy supplying partnership with this miller and exporter.*

The three most significant new services developed by FAEC, FCFD and to some extent FWN with the project support are the following ones:

- **Input supply:** FAEC and FCFD collectively negotiated at national level with fertilizer supplying companies. This led to the signature of a Memorandum of Understanding with one of them allowing all their members (FOs) to benefit from discounts and better delivery conditions (and in some cases delay for payment, until harvest) plus advices on fertilizer use and implementation of demonstration plots [See Focus 13 next page].
- **Paddy commercialization:** FO Federations at national level are not necessarily the best level to get involved in actual commercialization of agricultural products (for logistic reasons). But they can support their members to engage in this, through capacity building as well as facilitation to link with potential buyers. Three FO Federations have engaged (often jointly) in such services to their members. This has notably included efforts to link FOs with rice millers, via different tools:
 - Directory of main FOs able to supply paddy, issued in 2015 jointly by FAEC, FCFD and CRF.
 - Business matching workshop: gathering FOs to meet potential buyers.
 - Support their members to use the Paddy Trading Platform²¹.
 - Take part in facilitation for Contract Farming development.
- **Linking with RDB to access credit:** as developed in the section 3.2. in the previous Chapter, FAEC and FCFD have also played an active role in linking their members (Agricultural Cooperatives only, so far) with the Rural Development Bank (after RDB has approved its new credit policy for Farmer Organizations) and in supporting the cooperatives to prepare credit applications.



Cover page of directory of FOs able to supply paddy ►

Focus 13: FAEC partnership with fertilizer supply company

With support from the SCCRP project, the Federation of farmer associations promoting family Agriculture Enterprises in Cambodia (FAEC) has developed a partnership with a fertilizer supply company to provide better conditions for its members to buy fertilizers.

As part of this deal, Agricultural Cooperatives can get supplied at a cheaper price and get the fertilizers delivered to their place. If they are judged reliable enough, they can also get delay for payment of the fertilizers.

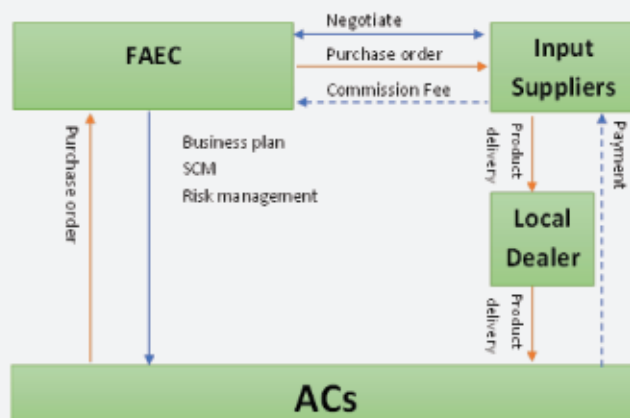
The role of the Federation is to select reliable members (if a delay for payment is included in the operation), help them to prepare their business plan and operational arrangement to implement the fertilizer supply activity, to negotiate the prices with the supplier and to pass purchase order, and if necessary, help to solve problems between the suppliers and the ACs.

Thanks to this partnership, the company can reach more clients and as a counterpart is paying a commission to both Federation and ACs. Farmers also have some benefits as they get fertilizer

at a lower price, get delivered and can pay fertilizer after harvest. In 2016, 156.6 tons of fertilizers were supplied to FAEC members through this partnership, which has benefited to Agricultural Cooperatives and their members, and allowed the Federation to generate an income of 1,571 USD, contributing to cover its operational and structural costs.

This was still a very modest “pilot” stage, but it paves the way for further scaling up.

[More details are provided in SCCRP Case Study No 8 “Service provision on input supply by FAEC to its members”]

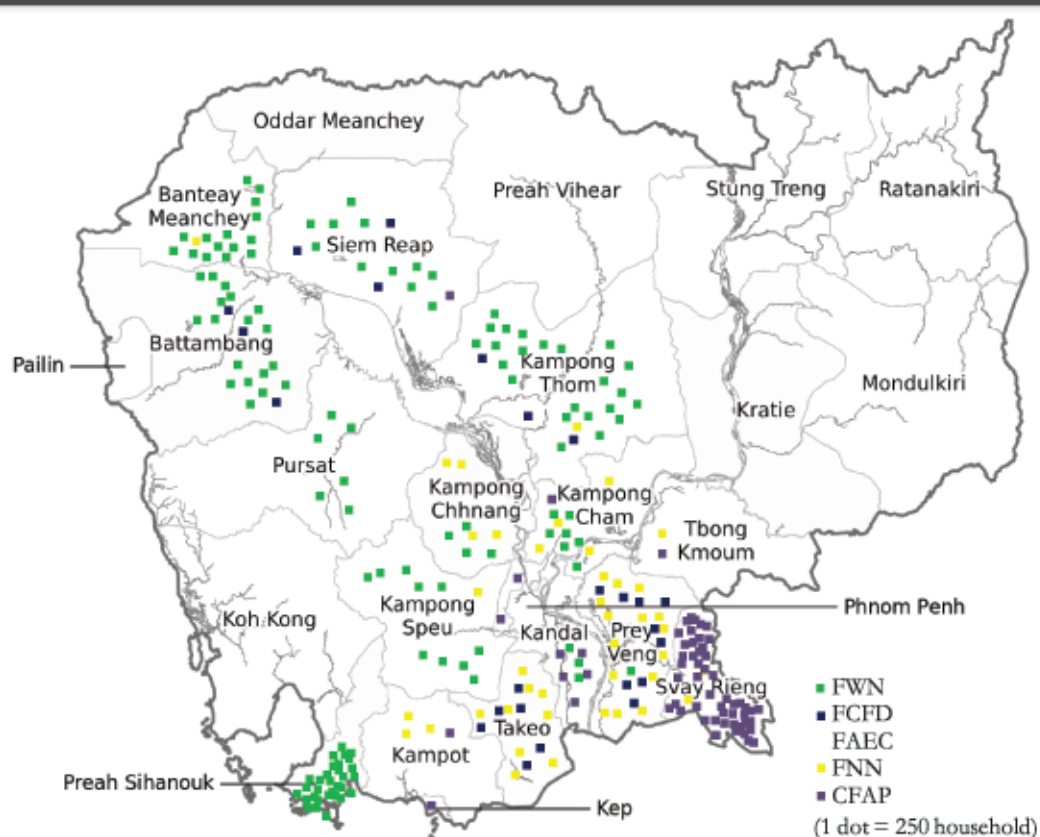


²¹ See § 2.1.3. page 20.

4.2.4. NEW OPPORTUNITIES FOR THE CONSOLIDATION OF FO FEDERATION SERVICES

FO Federations are still relatively small in term of number of FOs and farmers gathered, and also are constrained by the geographic dispersal of their members. It is thereof quite challenging to reach economy of scale and to balance their structural and operational costs. FAEC, FCFD and FWN have collaborated and have jointly implemented some activities, which has contributed to improve their cost-efficiency. But these partnerships have remained informal until mid-2017. In July 2017, FAEC, FCFD, FWN, FNN and CFAP have agreed to formalize an apex organization named « National Farmer Organization Federation Forum », or « NF3 ». The founding General Assembly of NF3 took place on 27 November 2017. NF3 will gather more than 200 FOs for a total of approximately 70,000 smallholder farmer households in 17 provinces²². A number of functions and services developed by the Federations could be mutualized and relocated at NF3 level, allowing economy of scale. For instance: collective management and support to FOs for the use of Paddy Trading Platform, support to FOs to liaise with RDB or other financial institutions, joint negotiation with input suppliers, etc. The five FO Federations have exchanged information on the work they undertook together in CRF and during events organized on the rice sector; they have agreed to develop further common work plans to improve supplies of agricultural inputs, access to better markets (including the management of the PTP), and to support AC to access credit. They are as well planning to further develop agricultural extension functions, as well as services of capacity building to strengthen FO management.

Focus 14: Potential coverage of « NF3 »



(Based on temporary data provided by the five FO Federations)

²² According to temporary data provided by the five Federations.

Findings, Lessons learnt and “Take-away” recommendations 13: Some challenges and still a long journey ahead toward strong National FO Federation(s)

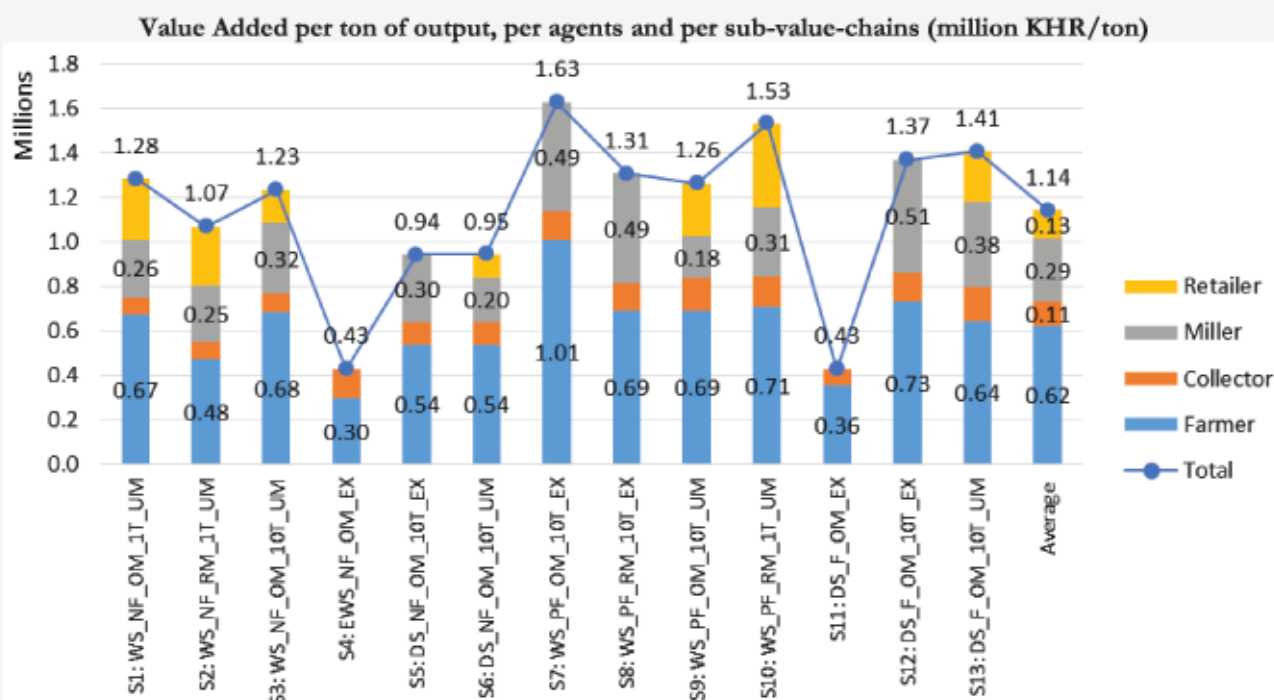
Building strong and economically viable Federations of Farmer Organizations at national level is extremely challenging. Because their scale remains relatively small (moreover with a dispersal of their members), the Federations which have received support from the project are still far from reaching a financial autonomy. Also, by nature, services such as advocacy are difficult to be financed as they are not seen as generating immediate benefits for members. Limited and discontinuous financial supports provided by projects are also a difficulty to build solid and sustainable organization. Now the creation of “NF3” could open new perspectives. But the government and development partners shall be more ambitious than SCCRP has been on this matter. An ambitious vision of a more professional FO Federation (at national level) shall be built with FO leaders, with a longer term (ten to fifteen years) commitment of government and development partners.

4.3. CAMBODIAN RICE SECTOR ECONOMIC OBSERVATORY

The rice policy defines a number of objectives and measures, which implementation can be monitored. But it was assessed that decision makers at policy level are lacking more analytical dashboard regarding the economic health of the sector, and predictive measures of the potential impact of government intervention or external shocks. In order to address this relative “blindness”, the SCCRP project has mobilized Mr Frédéric Lançon, a senior economist from CIRAD (France) to develop methodology and tools for the « Cambodian Rice Sector Economic Observatory » (CRSEO) and to build capacities of local economists and analysts to operate and maintain the Observatory. The purpose of the « Cambodian Rice Sector Economic Observatory » is to serve as a dashboard, providing an overall picture and economic analysis of the Cambodian rice sector. It is built as a modeling of the economy of the rice sector, based on typical budget of all operators of the value chain (from farmers to exporters – or retailers for domestic market), with a distinction for different sub-value chains based on the type of rice produced, the market destination, and on different profiles of operators.

Focus 15: An example of output produced by the Cambodian Rice Sector Economic Observatory

The figure below is an example of the analysis that can be produced by the modelling system of the Observatory. It represents the added value created per ton of milled rice for the different sub-value-chains and the distribution of this added value among the different operators (based on data for 2016).



(Note: 13 different systems are considered, corresponding to a combination of parameters regarding the type of rice produced, the season, if the farmers rent or own material – such as hand tractors – and the size of mills. The name of the 13 systems can be understood with the following keys: WS = wet season; DS = dry season; EWS = early wet season; F = fragrant; PF = Photosensitive Fragrant (“Jasmine” types, such as “*Pbka Rumduol*”); NF = non-fragrant; 1T = 1 ton/hour milling capacity; 10T = 10 ton/hour milling capacity; Um = urban market; Ex = export; OM = farmers own their material; RM = farmers rent their material).

(For more details, see CRSEO Bulletin No 1).

Two types of parameters are considered in the system:

- Structural parameters, which are used as the technical parameter to calibrate the models of each economic stakeholder budget (for instance the milling yields and mill energy consumption, the quantity of fertilizers used in average for the different type of cropping systems, etc.). These parameters are considered as relatively stable. They have been established based on stakeholder surveys and were validated through panel discussions with representatives of each group of actors. They have to be updated periodically, tentatively every 2-3 years to “re-calibrate” the models, based on new rounds of surveys.
- More volatile variables, which require more frequent updates, such as paddy / rice prices, unit costs for energy / fuel, etc. Various sources of information can be used and plugged-in in the CRSEO models, for instance from MAFF data on surfaces and yields, price monitoring data, etc.

The system outputs overall analysis of the sector economy and its performance, distribution of added value among the value-chain actors. More importantly, sensitivity analysis can be performed on selected variables in order to assess the impact of potential changes (for example changes on price of input, or energy or interests on credit...) on added value and profitability for the sector as a whole and for each group of stakeholders. This can thereof serve as a useful tool to feed policy dialog and notably help public decision makers / policy makers to elaborate scenarios and estimate potential impact of economic measures / interventions.

The « Cambodian Rice Sector Economic Observatory » is foreseen to issue a bi-annual Bulletin in which main outputs of the updated analysis (with up-dated parameters for the last season) can be presented. But besides this

static analysis of the situation, the CRSEO could be mobilized to produce simulation and analysis of scenarios in a more dynamic way as mentioned above.

In 2017, the Observatory has remained at a pilot stage and under SNEC (in consultation with the rice policy working group: SNEC, MAFF, MoC and CRF). It is foreseen to be further institutionalized and will be hosted under MAFF from 2018 or 2019.

4.4. REVIEW OF IMPLEMENTATION OF CAMBODIAN RICE POLICY AND SUPPORT TO A NEW PHASE OF RICE EXPORT POLICY

SNEC has been entitled by the Royal Government of Cambodia to take the lead in the review of the Policy for paddy production and rice export 2010-2015 and formulation of a new phase of national policy for Cambodian rice sector. SCCR project has been mobilized to contribute to this process.

4.4.1. REVIEW OF POLICY IMPLEMENTATION 2010-2015

As part of the SCCR project, SNEC has commissioned consultants to implement a comprehensive review of the implementation and achievements of the Policy for paddy production and rice export 2010-2015. Consultants went through a comprehensive process of desk review, bilateral and multilateral consultation with stakeholders to review the status of implementation of all the 73 policy measures that were planned in the rice policy 2010-2015. A first stakeholder workshop to discuss the outcomes took place in July 2016. [Cf. Review of the rice policy (2010-2015) final report – Sept. 2016]

4.4.2. SUPPORT FORMULATION OF NEW RICE EXPORT POLICY

Based on the results of the review and analysis preliminary orientations, consultants have also proposed orientations for the new phase of the rice policy[Cf. Elements for the formulation of the new rice policy – Oct. 2016], which were submitted to a second stakeholder workshop in February 2017. In the meantime, a small working group to coordinate new policy formulation was formally established, gathering SNEC (chair), MAFF, MoC and CRF. SNEC took the lead to restructure and reformulate the new policy orientation, and managed consultation work within the small policy working group. The process is still on-going and foreseen to be finalized in early 2018. In the current draft version, the vision for the Cambodian rice sector enhances an objective of resilience and profitability as well as quality-based competitiveness on international market, aiming at generating one billion USD for the Cambodian economy by 2030. The main objectives are to increase the share of high quality paddy in the total paddy surplus produced, to increase the competitiveness of the Cambodian rice and milling industry and to increase the exports of milled rice from 0.54 million tons in 2016 to 2.2 million tons in 2030.



REFERENCES AND KEY FEATURES REGARDING CAMBODIAN RICE SECTOR AND FARMER ORGANIZATIONS

KEY FEATURES ABOUT CAMBODIAN RICE SECTOR

PRODUCTION

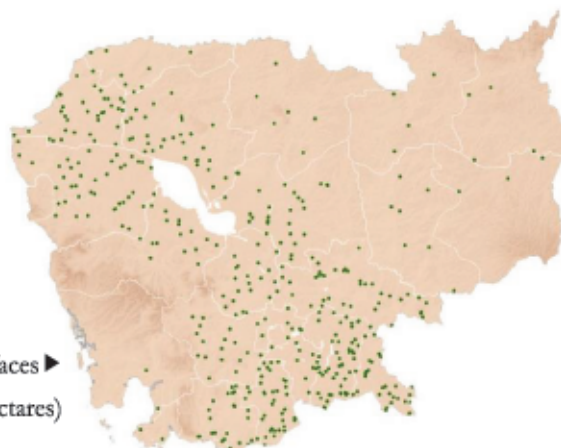
Rice is grown on more than three million hectares of land in Cambodia. The annual production is estimated by MAFF to reach 8 to 9 million tons of paddy.

Cambodia paddy production in 2016 and spatial distribution

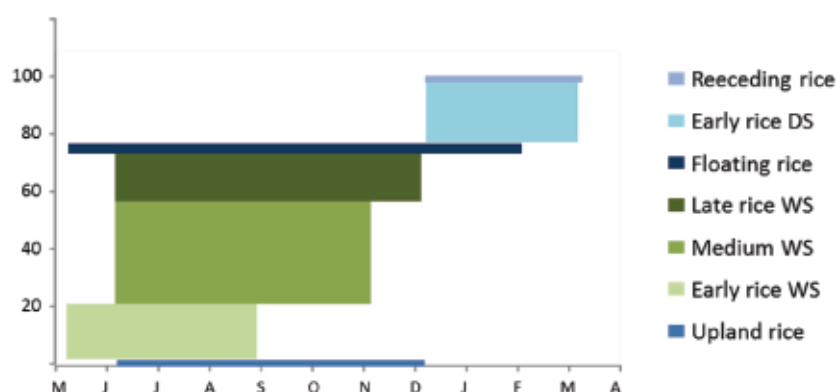
	Wet Season	Dry Season	Total
Planted Area (ha)	2,599,586 ha	489,455 ha	3,089,041 ha
Harvested Area (ha)	2,083,245 ha	489,455 ha	2,572,700 ha
Average Yield (tons/ha)	2.929 t/ha	4.422 t/ha	3.213 t/ha
Production (tons)	6,101,282 t	2,164,600 t	8,265,882 t

Source: MAFF²³

Spatial distribution of paddy field surfaces ►
(one dot = 6,000 hectares)



Different rice cropping systems and their estimated share in total paddy production



Different cropping system can be distinguished: up-land rice, Wet Season Rice (early, medium and late, depending on the duration of crop cycle), dry season rice, floating rice and receding rice.

In a study conducted in 2010, N. Gergely has proposed the opposite chart showing the period of cropping and an estimate of each system's production share.



▲ Whereas transplanting and manual harvesting used to be the norm in paddy cropping system, direct sowing and mechanization are now widespread as labour availability has been reduced in rural Cambodia over the past decade.

²³ <http://www.maff.gov.kh/reports/69-croppingstatus.html?start=20>

DOMESTIC AND EXPORTS MARKETS

In the “Economic analysis of Cambodian Rice Value Chains”, F. Lançon has proposed a graphic representation of the rice sector structure as shown below. The size of each squares is proportionate with the volume of each market outlet and categories of rice. It is worth noting that rural demand for photoperiodic white rice and early wet season rice are by far the two major outlets for the sector, representing almost two thirds of the total demand (respectively 42% and 22%). In terms of volume, dry season non-photoperiodic follows with 16% of the total supply. This category represents half of the volume exported. Fragrant varieties for both photoperiodic (Jasmin) and non-photoperiodic categories have only a marginal share of the total rice market (9% and 8% respectively). Fragrant varieties represent, however, half of the official exports justifying the attention received from rice exporters

of milled

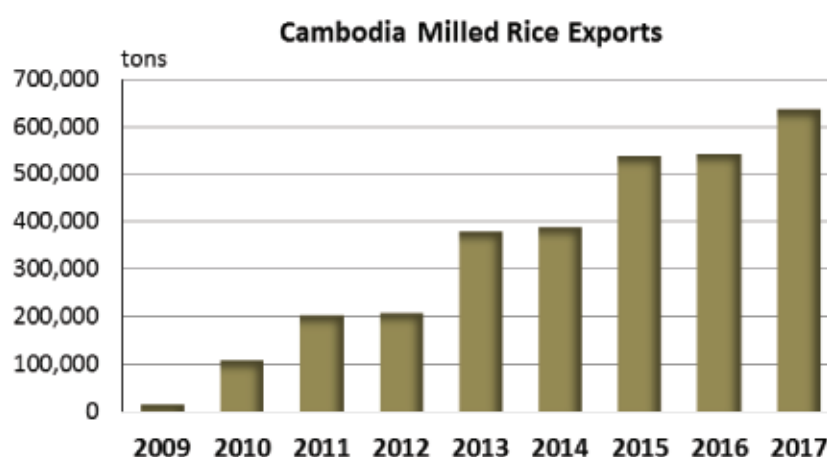
	Wet Sea Phot.	N.Frag NP	Jasmin	Frag NP	EWS
export paddy					948 000 (S4)
export milled					
urban	177 598 T (S3) 				
rural	1 833 192 T (S1 & S2) 				

(figures are in tons rice, or milled-rice equivalent).

EXPORTS

Cambodia's formal exports of milled rice have grown very significantly over the past decade, from approximately 10,000 tons in 2009 to more than 500,000 tons in 2016, and 635,000 tons in 2017.

The surplus of production is much higher, but a large part of it is exported as unprocessed paddy to the neighboring countries, mainly to Vietnam.



BACKGROUND ON FARMER ORGANIZATIONS IN CAMBODIA

In this document we refer to “Farmer Organizations” as a generic and broad term that encompasses a large variety of organizations gathering farmers, which include different types and legal status of organizations as follows:

Agricultural Cooperatives (AC): Agricultural Cooperatives are legal entities registered by the Ministry of Agriculture, Forestry and Fisheries, with the Department of Agricultural Cooperative Promotion (DACP) being the main body in charge within MAFF. Cooperatives are supposed to be business oriented organization and are established on the basis of share of capital brought by their farmer members. Agricultural Cooperatives started to be registered in Cambodia since 2001, based on the Royal Decree that has been issued at that time. The legal framework has then evolved, notably with the Promulgation of the Law on Agricultural Cooperatives, in 2013. As of May 2017, there were 880 Agricultural Cooperatives registered in Cambodia, gathering 89,474 farmers.

Agricultural Cooperative Unions (ACU): are legal entities that can be created by aggregation of two or more Agricultural Cooperatives. The principle of ACU has been established in the Law of Agricultural Cooperatives of 2013, then completed by additional legal text (Prakas) issued in February 2016. As ACs, ACUs are based on shared capital and are registered by MAFF. PMUAC (supported by SCCR project) was the first Union of Agricultural Cooperatives registered in Cambodia. As of January 2018, there are only 6 ACU registered in Cambodia.

Farmer Water User Communities (FWUC): FWUCs are legal entities which role is specifically focused on the Operation and Maintenance of irrigation schemes. FWUCs are registered at the Ministry of Water Resource and Meteorology (MOWRAM). There are currently around 450 Farmer Water User Communities registered in Cambodia.

Farmer Associations: As any type of other associations, farmer associations are registered with the Ministry of Interior.

Informal community-based organizations (CBOs), are informal organizations (not formally recognized as legal entities) which can gather farmers and implement activities related to production or saving and credit groups.

FO Federations are gathering farmer organization, often at a national level. They are legally considered as associations and are registered with the Ministry of Interior. Their role may mix a role of representation and advocacy and roles of services to their members (economic services, support and capacity building, etc.). SCCR project has mainly worked with five FO Federations at national level, as follows:

- **FAEC:** Federation of Farmer Associations Promoting Family Agriculture Enterprise in Cambodia: created in 2008, federates in 2017 a total of 55 FOs in nine provinces, representing about 3,900 farmers.
- **FCFD:** Federation of Cambodian Farmers Organization for Development: established on December 2010, affiliates in 2013 70 FO in five provinces, of which 24 agricultural cooperatives and 37 rice banks. It represents about 5,700 small-scale farmers.
- **FWN:** Farmers Water Net: This federation gathers 26 « Farmer Water User Communities », representing about 35,000 farmers distributed in 11 provinces.
- **CFAP:** Cambodian Farmer' Association Federation of Agricultural Producers: CFAP has been initiated with supports from IFAD. It gathers 21 FOs, for a total of more than 14,000 farmers a majority of which are located in Svay Rieng province.
- **FNN:** Farmer and Nature-Net: This network has been initiated by CEDAC, a Cambodian NGO, and regroups grass root level Farmer Groups, most of them being informal, but also a number of ACs.

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