

Lesson Learned

Contract Farming Between Svay Chocheb Meanchey Cooperative and Amru Rice

Svay Chocheb Meanchey Agriculture Cooperative (AC) was established in 2011. Currently, the AC has 72 members of which 37 are women. There are 281 families who are the members of organic rice producer group (rice PG) and 431 families are the members of organic Sor-paddy rice. Not different from other farmers, before joining the contract farming, the rice PG members faced huge problem in selling their rice as the market price was cheap. The price which was offered by broker and retail buyers was fluctuated based on the buyers. This has made farmers loss profit during harvest time.

Mrs. Koun Sey, Chairperson of Board of Director (BOD) of the Farmer and Nature Net Association (FNN), proposed FNN, that play role as a representative of farmers, to find the ways to sell paddy rice of the rice PGs with the best price. In 2020, FNN conducted annual congress with 18 BOD members to discuss the problems faced by FNN member ACs including paddy rice markets.



In 2021, FNN, a member of Asian Farmer Association for Sustainable Rural Development (AFA), received the supports of Assuring Resiliency of Family Farmers Amidst COVID-19 (ARISE-Farmers) funds for improving AC business development. FNN facilitated the rice PGs to link their product to a company naming AMRU Rice Cambodia. Meanwhile, FNN received request for ARISE revolving funds of Svay Chocheb Meanchey AC to run paddy trading business. FNN assessed the request and facilitated the company sign contract farming agreement to supply 2,500 MT of rice to the AMRU Rice with agreed fixed average price of USD 350 per MT and total amount of USD 875,000, while the market price was USD300/MT. In addition, the AC committee also received coordination fee from the AMRU with amount between 10USD to 12.5 USD per MT.

To effectively implement the contract farming agreement, both parties have obligation to carry out as follows:

Svay Chocheb AC have to be responsible for all expenses related to cost of production of organic rice; have to supply rice according to the amount stated in the contract and must follow the agreed quality and standard; must set up internal control system and conduct proper internal control to be ready for external control from certification company; have to facilitate each farmer, who involve in the contract, to keep individual receipt as an evidence to show to the external committee of an international control system Company that will check in a year after; shall arrange transportation for external control committee; and must transport rice to agreed collection location in order to help buyer to collect and transport immediately, if the rice is wet after harvesting.

AMRU Rice Cambodia must buy organic and normal paddy rice (Rice-Sor) with the agreed amount based on the quality and price set in the agreement; provide direct technical supports and advices to producers starting from the planting to harvesting stages; shall provide rice sack to producers free of charge; must be responsible for all related cost to obtain international organic certificate; producer must inform the buyer at least 7 days before collection date of paddy that will be sold and received based on the quality and price agreed previously in the contract; must arrange a safe and easily accessible collection area for big truck to transport; shall be responsible for all expenses related to loading and transporting of rice from collection area to rice mill; must sign on two copies of letter certifying about the transportation when loading rice on a truck keep it individually; and must produce certification letter specified about the quantity of rice sold and received based on the quality and price agreed previously.

With following the contract farming agreement, Svay Chocheb Meanchey AC was loaned from ARISE with amount of USD 100,000 in April 2021 to purchase organic fragrant rice and organic Sor-paddy from their members. With this amount, the AC could afford buying 2,500 MT of organic rice along with the agreement. Members, who sold rice to the AC, were very appreciated and happy with the effort of AC committees since they received payment of rice immediately while in 2021.



This contract farming was significantly achieved due to a) private sector namely “AMRU Rice Company” is the key actor in collecting the products from AC regarding to the contract farming; b) the AC committee itself was either important player in mobilizing farmers to form as the producer group and communicating with private sector and public sector as well as with development agencies to support them in term of technical, knowledge, experience, business concept, perspective and so on; c) FNN as Development agency is the coordinator to drive the needs of private sector to meet the supply of ACs/FOs and play an important role in supporting ACs/FOs in term of logistic, technical and experiences; d) public sector, that mainly focus the Provincial Department of Agriculture, Fish and Forestry (PDAFF) as well as local authorities (Village Chief and Commune Council), is the power actor in supporting and promoting farmers in their target to work together for ACs/FOs in order to strengthen the collective of small households to negotiate with private sector; e) ARISE Fuds is a key factor to loan ACs so that they can afford purchasing of paddy from and pay the farmers in time. This encouraged the farmers to produce more paddy and actively involved in implementation of contract farming agreement; and f) the farmers were confident in and brutally honest with their AC and company.



Meanwhile, AC committee also met some difficulties that some of the farmers are illiterate in such a way that AC spent much time to explain and do something instead and not well prepare their document. We could not conduct meeting face to face because of COVID-19 pandemic. The road condition is not good enough for transportation and the rain also disturbed the collection of paddy rice.

However, we obtained experiences and lesson learned as follows: Transferring ARISE revolving funds from National Implementing Agency (NIA) to Farmer Organization (FO) was made in credit (USD Account to FO Account). Thus, in order to avoid losing profit (Exchange Rate and Service Fee) during the reimbursement, FOs must create a USD account (ACLEDA Bank Account) before request loan from NIA. All FO committees would be well understood the ARISE revolving fund perspectives, and qualified to access the loan before making decision to request the revolving funds. Being this understanding, they could be confident to manage the loan effectively and particularly able to reimburse on time. All required documents for revolving fund disbursement should be prepared as a rolled-model in advance and should be clearly explanation to FO committee to fill up before and after loan request. Supporting FO to develop their Business Plan assist NIA to seek about the ability of loan management of FO. It either helped NIA to catch well their business process and concept as well as fill up the weakness of FO and guide them the risk management to make sure the profitable business and loan returnable. For the ARISE to contract farming and guarantee by company, to make more easily for NIAs offer loan to FOs. FNN could assess AC's performance (including institution and capacity building) before revolving fund disbursement, and AC itself could reflect its situation and develop proper business plan for accessing revolving fund scheme. AC also knew how to run business under contract/agreement. This can lead AC to sign contract farming for other agriculture commodities. The contract farming provided us with good cooperation (including financial management, communication, business planning, administration) between CSO (FNN, AC), private sector (AMRU Rice), and government at sub-national level.

In order to improve the contract farming practice for other ACs, we would recommend that: 1) the AC hesitated to contract company because he/she is concerned about lack of experience, labor, especially resources. We would, therefore, provide refreshing training related to business planning, financial management, fundraising, contract farming procedure/law if any; 2) revolving funds with low administration fee charge and long lasted lending period (e.g. more than five months) should be promoted to increase numbers of ACs to contract companies to buy their products; 3) revolving funds or grant would be scaled up from 260,000 USD up to 1,000,000 USD and be provided for two or three sequent sessions for AC/FO to ensure effect on the big contract farming with companies; 4) to FNN should regularly follow up and support every two months to measure business progress such as number of FO member sold rice, amount of bought rice, amount of milled rice, number of clients, cash flow (in and out), payable and receivable accounts and profit and loss of the business. However, AC/FO's needs and concerns would be expressed in the record and responded; and 5) AC/FO should do the best to get local authorities involved in the process of contract farming implementation. Otherwise, the eventual conflicts will not be effectively addressed.

Mr Khive Naim, the head of AC committees and the responsible person for the contract coordination, said that his rice PG members are very happy as they got and offered higher price (0.05USD/Kg) than the market price for their organic rice. In addition, AC committee received incentive approximately USD 31250 in 2021.

