WORKING WITH THE PRIVATE SECTOR

As a program which focuses on increasing income and opportunities for the poor, CAVAC is often asked: "Why does CAVAC support companies? They are not poor."

ECONOMIC GROWTH IS THE MOST EFFECTIVE WAY TO REDUCE POVERTY

Countries across Asia have made impressive progress lifting millions of people out of poverty. Whilst Governments have facilitated this reduction in poverty by creating a suitable business environment, but it is unquestionably growth, driven by the private sector, that has made the greatest difference.

A supportive business environment encourages companies to innovate, invest and take the risks needed to grow. Cambodia is not yet able to offer this environment for either the small or large businesses that farmers rely on. The uncertainty that is created by the current business environment means that companies have little appetite for innovating or taking risks.

It is for this reason that CAVAC helps companies in Cambodia. In countries with a robust business environment, companies would not need the support provided by CAVAC. However, when the business environment is harsh and unpredictable, some tailored support and risk-sharing can stimulate companies to innovate, invest and create the growth needed to reduce poverty.

AND THE POOR FARMERS, WHAT DO THEY GET?

Ask Cambodian farmers what they need to prosper and they will tell you it is: access to good seeds, fertilisers, irrigation and other inputs; advice on how to farm better; and the ability to sell their products in well-functioning markets. They will also tell you that their prosperity (and that of their landless, poor neighbours) also depends on jobs and on local purchasing power to start their own income generating activities. Unfortunately in too many countries the middle class may benefit from growth while the poor rural population is left behind. Markets need to work for the poor too and it is companies, small and large, that are the 'market makers'. CAVAC works with companies that supply smallholder farmers with what they need to grow out of poverty.

WORKING WITH COMPANIES HAS THREE MAJOR ADVANTAGES OVER HELPING FARMERS DIRECTLY:

1. SUSTAINABILITY

If businesses make money due to better, more effective interaction with poor farmers, they are likely to continue their activities. The development impact can be greater if effective interaction with farmers is profitable because other companies have an incentive to follow. Some call this 'crowding in'.

2. REACH MORE POOR FARMERS

Working with companies and their existing networks makes it possible to achieve impressive outreach for limited cost. For example, by working with one fertiliser company that has a network of 500 retailers across the country, serving on average 200 farmers, CAVAC can reach 100,000 farmers with a single initiative.

3. BUSINESSES OFTEN KNOW MUCH BETTER THE LOCAL REALITIES AND HOW TO OPERATE IN DIFFICULT BUSINESS ENVIRONMENTS

Companies also know the unwritten rules and customs within their working environment. Working with companies helps save program time and resources by designing initiatives that take into account market realities upfront and thus avoiding potential pitfalls, delays and mistakes.

SUPPORT TO COMPANIES, MARKETS OR REGULATIONS

Farmers need long-term access to quality goods, services and advice. These come from well-functioning markets or better said, from well-functioning public and private systems. To make the markets or systems that serve poor farmers work better it is sometimes necessary to address regulatory issues and issues of collaboration and trust between the players. Normally opportunities emerge for assisting companies to change their way of doing business. In other cases one needs to stimulate the demand side via awareness campaigns. In all cases it is about developing well-functioning systems. Enterprise development, business enabling environment reforms, demand creation or linking and supporting associations are only means for getting systems to function better.

When rules and regulations are good and support systems like financial markets function well there is generally little need for direct market development interventions with companies. CAVAC therefore first assessed the opportunities for improving the business enabling environment and it found that the likelihood for programs like CAVAC to achieve significant reforms to the business enabling environment was very limited. It was concluded that in Cambodia opportunities for success was much more likely when focussing mainly on working with companies directly.

BEFORE ENGAGING WITH COMPANIES

The starting point for all CAVAC activities is understanding the markets and their shortcomings. Some shortcomings can be addressed by programs like CAVAC while others can be difficult, for example availability of electricity or corruption.

Some of the shortcomings that CAVAC can plausibly address have a large potential impact on poor farmers and others less so. Recognising this, CAVAC chooses which market gaps it can influence and which will have high potential impact on poor farmers. These choices are captured in CAVAC's strategies for each market.

By mapping the markets CAVAC identifies the kinds of companies that are the most promising partners to address the selected constraints.

EXAMPLE OF A MARKET STRATEGY

In the fertiliser market, for example, CAVAC focusses on improving farmers' knowledge in applying fertiliser effectively. CAVAC concluded that availability of fertiliser and addressing regulatory issues around fertiliser have less potential impact. Therefore CAVAC is not supporting initiatives that might address these issues. At the time of writing, CAVAC is still debating if it should address fertilizer quality.

ENGAGING WITH COMPANIES

CAVAC engages companies in several ways: sometimes it solicits expressions of interest through the media; and other times CAVAC approaches promising companies directly. In many cases companies approach CAVAC for support of their own initiative.

When working with companies, the first step for CAVAC staff is to gauge companies' real interest. Though all talks with companies go differently they typically start with establishing an objective, for example: envisioning a future situation where companies will have innovated or changed their business model in a way that benefits them as well as serving poor farmers better. Once this common vision is agreed the process normally has a few steps:

1. CAVAC and the company agree on their common interests and where their interests diverge. Companies' normally seek increased sales, enhanced reputation or greater market share. CAVAC's interest is how farmers benefit. It is essential to find the common ground while being transparent about the different interests.

2. Both CAVAC and the company need to see the viability of the innovation. The viability or business case for the initiative must be compelling. This business case answers questions such as:

    - How do the incentives around the innovation work?
    - Who pays?
    - Who implements what and why?
    - Who benefits and how?

It is possible that companies are interested to invest but CAVAC is not convinced that the business case is strong enough to justify the support.

3. When the business case is strong a key question is then: Why does the company not simply do it on its own or why does it need CAVAC support? Companies normally give a multitude of explanations but most come down to financial risk. Some companies also say they simply do not know where to start. Sometimes they have concerns that coordination with other market players is required but unlikely to happen.

It makes sense for companies to be risk averse in Cambodia. Contracts are hard to enforce, intellectual property rights are not actively protected and in general complying with laws and regulations can be cumbersome, unpredictable and costly. These and other elements of the business enabling environment make companies much more risk averse than in more developed countries.

Companies' risk aversion may be logical from a 'bottom-line' business perspective, but it has devastating consequences for the farmers who need the markets to work. An economist would say that the positive externalities for the whole society caused by companies' innovations are so large that they justify public funds to offset some of the initial costs of innovation.

COMMITMENT

After reaching consensus on the end goal, and the things that need to happen to reach it, CAVAC and the company need to agree on a cost-sharing plan and payment schedule. CAVAC always requires that the company assumes a significant share of the cost to assure its commitment at the outset. This financial commitment also strengthens a companies' perseverance when things become more difficult than initially expected, as they inevitably do. The relationship is a business deal founded on the rule: no delivery, no payment. The percentage of cost-sharing negotiates is influenced by issues like the level of risk, the level of benefit for other companies (in the absence of intellectual property rights), the potential benefit for farmers, and the ability to pay. CAVAC normally prefers to pay for support such as a consultant or a market survey and not for sellable items like equipment.

CAVAC is also reluctant to contribute funding to the actual transaction between a company and farmers. For example, when working with seed companies, CAVAC may co-invest in knowledge about how to produce better quality seeds or for advertising. However, CAVAC is unlikely to pay for equipment like dryers or to subsidise selling seeds at a lower price to generate demand.

Before CAVAC makes a final decision on whether to prepare a contract, companies must draw up an activity and cost-sharing proposal. That proposal is then evaluated by a panel that includes an independent expert.

Support provided to companies needs to have some level of flexibility. Each intervention is a learning process for both the company and CAVAC. As such , the activity may need to be adjusted along the way as more knowledge and experience is gathered. In this process CAVAC is very careful not to take over decisions from the company. "Ownership" of the innovation has to remain with the company.

NEUTRALITY AND FAIRNESS

Using public funds to directly intervene in the private sector may have great impact on farmers, but it also requires some restraint to avoid causing unfair competition. This requires finding a clear but delicate balance between fairness and simple business logic. Companies innovate to get a competitive edge. Their investments need to be offset with higher sales and profits to justify their investments. Most companies would prefer, and some even demand, that CAVAC not works at the same time with the company's competitors.

To manage this CAVAC uses several checks and balances. Initially, if more than one company could be a suitable partner CAVAC offers its support to all potential partners. If only one or two companies are interested and CAVAC decides to support them, CAVAC will nevertheless keep the door open to supporting other companies if they express interest later, though CAVAC prefers to let this "crowding in" happen naturally. In rare cases it is necessary to grant a company exclusivity. CAVAC does this only in exceptional cases and always insists on a time limit to the agreement.

SUMMARY

Global experience shows that private-sector led growth is the best way to reduce poverty sustainably. Companies that supply farmers with the inputs, services and advice that they need to produce more rice and vegetables are the market makers that farmers rely on to grow out of poverty. For the companies to grow they must invest and innovate.

CAVAC works to leverage the business interests of seed suppliers, fertiliser retailers, rice millers, exporters, traders, equipment sellers and others to adopt new ways of working that improve poor, smallholder farmers' productivity and in doing so increase their incomes. CAVAC initiatives do not take over the role of companies but instead help companies to identify market opportunities and then share the risk in bringing the innovations to market.

Cardno
Shaping the Future

The Cambodia Agricultural Value Chain Program (CAVAC) is an initiative funded by AusAID and jointly implemented by the Royal Government of Cambodia and Cardno Emerging Markets. For more information about CAVAC please visit our webpage www.cavac.kh.org

TABLE ONE: THE COMPANIES CAVAC HAS BEEN PARTNERING WITH AS PER JANUARY 2013.

Types of Companies	Names of Companies
Fertilizer company	Ye Tak Group Co., Ltd
	Heng Pichhay Co., Ltd
	My Agro-Business (Cambodia) Ltd.
	Chheang Long Co., Ltd
	Papaya Co., Ltd
	Hoang Long
	Bayon Heritage Holding Group Co., Ltd.
	Phkay Pram (5 Star)
	Doung Chhive Agriculture Development
	Ung Suy Kimly
	Malysan Group
	Anachak Fertilizer Co., Ltd.
	Caris Co., Ltd
Seed company	Srov Pouch Meas Co., Ltd. (SPM)
	Mr. Sokunthea (Rice seed entrepreneur)
Research company	Indochina Research Ltd.
Rice Miller	Baitang Kampuchea Plc.
	Federation of Cambodian Rice Miller Association (FCRMA)
Media company	Delight Cambodia
	Asia Master
Vegetable seed company	East West Seed
	Pacific Seed
Pesticide company	Nokorthom Agriculture Development Co., Ltd.
	SPK Company
	An Giang (Cambodia) Plant Protection Co., Ltd.
Seed associations	Champei Agriculture Development Cooperative
	Kompot Seed Production Association
	Posamrong Agricultural Cooperative
	Kvek Mean Rith Cooperative