



GLOBAL LEADERS PROGRAMME

BUILDING A FARMER-CENTRIC
COCONUT INDUSTRY IN CAMBODIA

NOVEMBER 2017

EXECUTIVE SUMMARY



FOREWORD

Cambodia has the perfect climate for coconuts. Today, the majority are grown informally by smallholder farmers, fishermen, and rural families who have peripheral land that they wish to take advantage of for that extra bit of income. However, the country's coconut industry remains sorely underdeveloped. Of particular concern is the lack of cultivation of higher value, mature coconuts that can be processed easily into virgin coconut oil, coconut flour, activated charcoal, coco coir and peat. The global demand, and prices, for these products is increasing significantly.

How Cambodia can capitalise on this whilst ensuring smallholder farmers capture a fair share of the value-added through processing creates a welcome challenge and an exciting opportunity.

In November 2017, an international cohort of high-potential managers representing a dozen companies and countries participated in the Global Institute for Tomorrow's flagship Global Leaders Programme (GLP) in Hong Kong and Cambodia. Internationally recognised for its intellectual rigour, experiential methodology and its output driven approach, the GLP puts participants' leadership and problem-solving abilities to the test through real-world business projects in emerging markets.

On this programme participants worked on a field project in Phnom Penh and Kampot with the agribusiness division of leading Cambodian conglomerate SOMA Group. Tasked with creating a new and inclusive business model to grow the country's nascent coconut industry, the cohort engaged in site visits, information gathering and interviews with smallholder farmers, local processors, government officials, business representatives and commercial farm managers.

The team then developed a business plan for SOMA that not only puts smallholder farmers and rural entrepreneurs at the forefront, but which also presents an attractive investment opportunity for SOMA and other forward-thinking business partners. I am delighted to share this executive summary of the business plan with our partners at SOMA as well as readers around the world with an interest in financially viable, socially inclusive business models for the 21st century.

For the full report, please download a copy at:

<http://www.global-inst.com/pastprogrammes/2017/cambodia>

Chandran Nair
CEO, Global Institute for Tomorrow



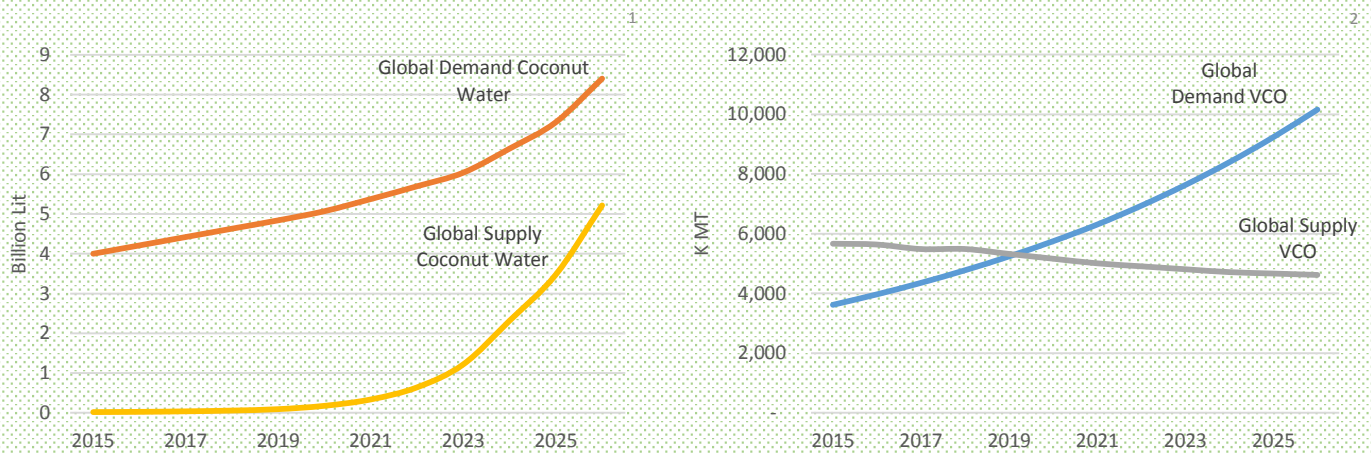


AN UNDERDEVELOPED INDUSTRY

The global market for coconut water stands at US\$2.2 billion and is growing rapidly. In 2016 the Virgin Coconut Oil (VCO) market size was US\$2.1 billion, and is anticipated to reach US\$4.2 billion by 2024. This trend has been driven mainly by rising consumer interest towards natural food and beauty products. This demand growth for coconut products is currently occurring in the context of stagnant or declining production across the main producing countries of Indonesia, Philippines and India.

The coconut industry in Cambodia is largely undeveloped. The majority of coconuts are rain-fed and planted irregularly by smallholder farmers for whom coconuts are not their main crop. Most coconuts are sold while they are young for coconut water to traders who are prone to fixing prices. Smallholder farmers also know little about the high value-added products that can be derived from mature nut processing, and thus they sell their young coconuts off for quick cash. This creates an environment of constrained supply for mature nuts, and processors in Cambodia have to resort to importing coconuts from Vietnam, and be subject to highly volatile prices.

Currently only 10% of Cambodia's agricultural goods are processed. Expanding value-added agricultural processing has been identified by the Industrial Development Policy as an important export to diversify the Cambodian economy beyond the garment and footwear sector.



Coconuts: a versatile crop



Mature coconuts are a zero-waste crop. All of its components can be made into products such as VCO and desiccated coconut from the meat, vinegar from the water, coir and coco peat from the husk, and charcoal and activated carbon from the shell.



¹ <https://www.foodbev.com/news/global-coconut-water-market-forecast-for-growth-of-over-25/>

² <http://www.centrafoods.com/blog/supply-and-demand-in-the-coconut-oil-market-market-update>

³ Development Finance International, 2017, *Coconuts in Cambodia: A State of Play*

BUSINESS MODEL

The proposed Business Model recommends that SOMA establish the **Cambodia Coconut Company (CCC)**, an entity that will offer smallholder farmers a coconut planting incentive scheme, start virgin coconut oil (VCO) processing at Village Hubs, offer agronomy training, demonstration and R&D for coconut development at its Technology Centre and affiliated Centre of Excellence for Coconut R&D, and at the same time create its own plantations of non-fragrant coconut varieties, and process and package VCO and coconut water at a centralised facility. The Business Model diagram below shows the key components of CCC.

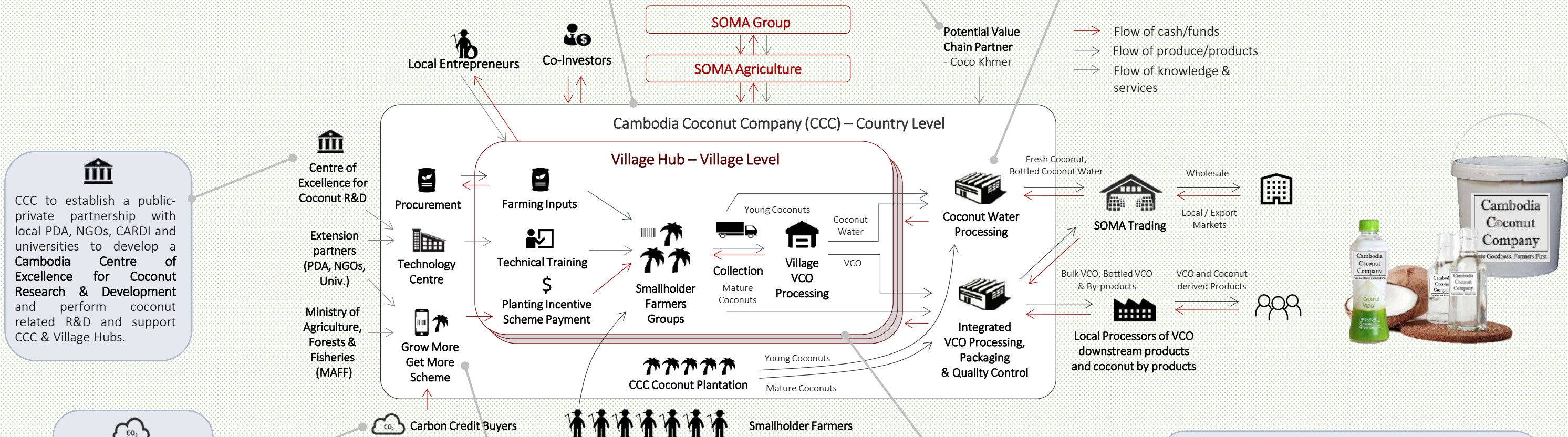


SOMA Agriculture, a subsidiary of SOMA Group, to invest in the **Cambodia Coconut Company (CCC)** and build a coconut value chain incorporating Village Hubs that will be run by local entrepreneurs and the community. Proposed co-investors include private equity funds, companies in the coconut value chain, social investment funds and other investors. The co-investors will invest in CCC and/or its associated processing facilities, including village facilities and central facilities.

COCO KHMER SOMA can invest in Coco Khmer (see next page) to scale up its operations and absorb the increased supply in return for a share of its profits, while Coco Khmer can be offered a small stake in CCC in return for opening up markets for CCC in the artisan VCO products segment.

CCC to establish a central coconut water processing facility to produce fresh coconuts and bottled coconut water for local and export market. Young coconuts will come from both Village Hubs and plantations.

CCC to also establish a 1000ha plantation of non-fragrant coconuts. An integrated VCO processing and packaging facility will also be established. It will package VCO sourced from Village Hubs and perform QC check. Starting from Year 5, it will also produce VCO from mature nuts collected from Village Hubs and plantations. Village Hubs and central facilities are intended to complement each other.



CCC to establish a public-private partnership with local PDA, NGOs, CARDI and universities to develop a **Cambodia Centre of Excellence for Coconut Research & Development** and perform coconut related R&D and support CCC & Village Hubs.

Working with NGO partners, carbon credit from newly planted coconut trees can be sold and redistributed back to the farmers, or in the case of CCC plantations, used to fund the GMGM scheme, or reinvested into the business.

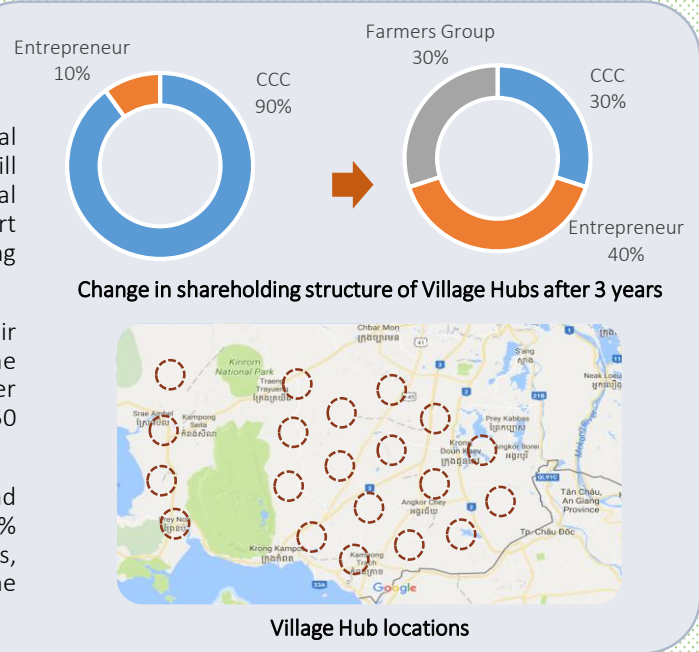
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A **"Grow More Get More"** (GMGM) coconut planting incentive scheme to be initiated to promote non-fragrant coconut tree planting to smallholder farmers on underutilised land and increase local coconut supply. It aims to add 700,000 coconut trees to the current estimated 3 million over 10 years. Existing trees owned by each farmer as well as new trees in the GMGM scheme will be tagged and tracked with a barcode. Smallholder farmers are paid \$2 for each tree planted after a group target of 1500 trees per 50 households has been achieved. Farmers will receive first payment of \$1 after 6 months, and second payment after 18 months if 80% of the seedlings survive. Farmers are encouraged to save their own seedlings from existing trees or exchange better seedlings with farmers nearby.

CCC to establish **Village Hubs** and incubate local entrepreneurs who will gain sweat equity in the hubs. CCC will provide supporting services to the hubs and establish local VCO processing facilities. The Village Hubs will support farmers by offering agronomy training, group learning sessions, and nut collection services.

Each hub will be drawing from 400 households for their 100,000 existing trees, and 100,000 new trees from the GMGM scheme. It will produce up to 3300L of VCO per month, using low-tech systems. The goal is to establish 50 such hubs by the 6th year.

The entrepreneurs will start with 10% equity in the hubs, and after a three year incubation period will acquire up to 40% ownership, while 30% will be reserved for Farmers Groups, and the remaining 30% by CCC. Kampot Province will be the pilot area for this.



PRODUCTS

CCC will initially produce branded bottled coconut water for domestic consumption and export through SOMA's Trading Division.

VCO produced at the Village Hubs will be packaged at a centralised facility and sold in bulk, mainly for export markets. VCO can also be sold to Coco Khmer who has existing expertise and a reliable brand to make downstream products such as balms and bottled VCO.

By Year 5, when there is a stable supply of mature nuts from its own plantations, CCC will begin bottling and branding VCO as well. Even when CCC's centralised VCO plant comes into operation, Village Hubs will still retain an important role in the sourcing of local nuts and primary processing for the expected increase in the supply of and demand for Cambodian coconut products. It is expected that once the industry is primed, byproduct processing will become another opportunity for Village Hub entrepreneurs and other local processors.



Bottled coconut water & VCO

CAMBODIA COCONUT COMPANY

ក្រុមហ៊ុនដូនកម្ពុជា

PURE GOODNESS FARMERS FIRST

ពិដូនមិត្តភក្តិ គិតដល់កសិកម្មរក

Suggested logos for CCC



Bulk VCO

Coco Khmer & Vuthy

Coco Khmer is currently one of the few local downstream VCO processors in Cambodia. It was founded by Robert Esposito in 2013 in Phnom Penh and now employs 12 workers, mostly women, from the local neighbourhood.

Coco Khmer has developed 23 products with nine distinct product categories. These include bottled virgin coconut oil, lip balm, aftershave balm, baby balm, massage balm, naga balm, and body scrub. 11 Coco Khmer products are sold in over 10 boutique stores in Phnom Penh, Siem Reap, and Kampot. All products are handmade using artisan methods.

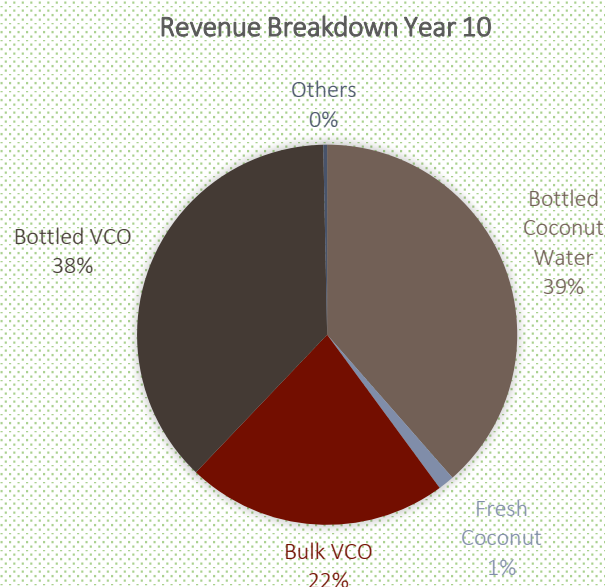
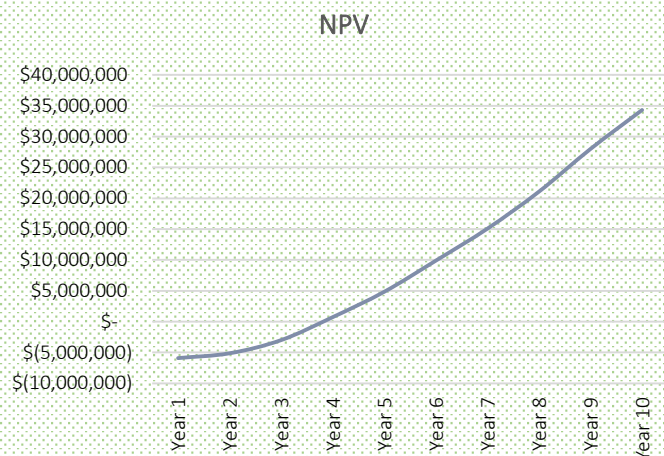
Since 2017, Coco Khmer has outsourced its VCO production to a local entrepreneur Chhay Vuthy in Kampot. Vuthy employs 15 workers, mostly women, from neighbouring villages. The VCO produced is handmade using the traditional "fresh-wet" method originated in the Philippines. Oil is separated naturally through fermenting cold-pressed coconut milk. By keeping his facility low-tech Vuthy creates more employment opportunities for the community.



FINANCIAL PROJECTIONS

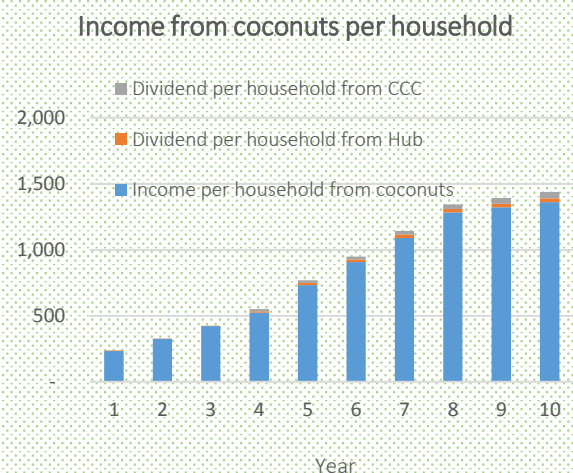
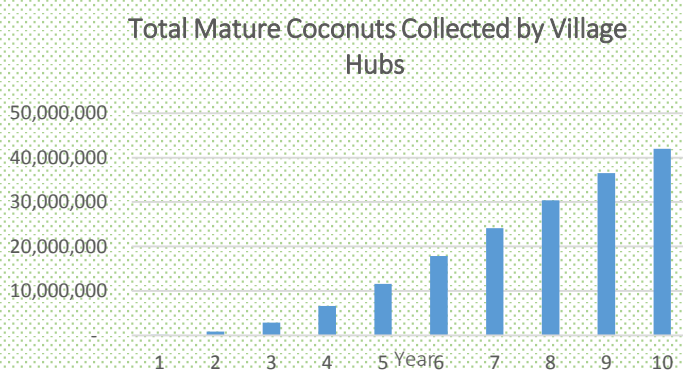
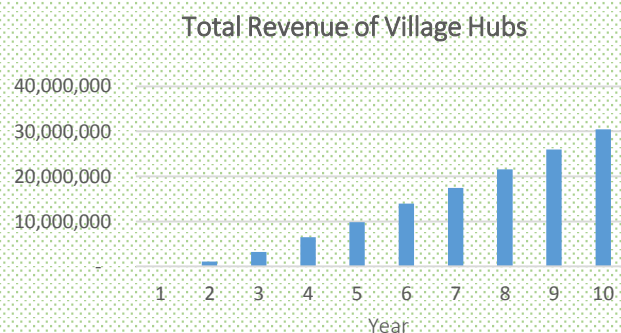
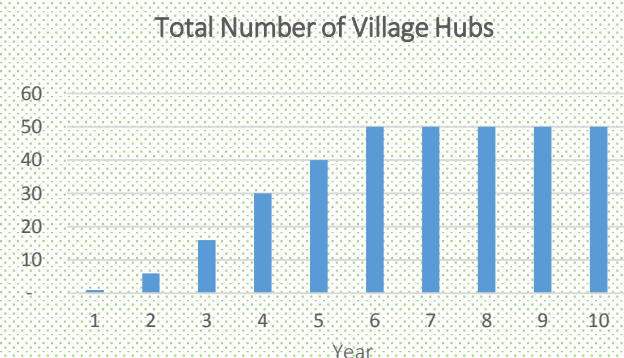
The establishment of CCC presents an attractive opportunity for SOMA and potential investors. From an initial investment of USD 6 million, CCC is expected to achieve an IRR of 38% and generate a net income of over USD 9 million by Year 10. The business will have a Net Present Value of 34 million over 10 years, with an initial payback period of 3.7 years.

The initial investment covers the Grow More Get More scheme, coconut water processing plant, and a Demonstration Hub for processing VCO. From Year 5 onwards, centralised processing of VCO will take place in conjunction with the existing Hubs, and 50 Hubs are expected to be in place by Year 6. By Year 10, 38% of revenue will be generated from bottled VCO production, while bulk VCO will account for 22%, coconut water 39%, and fresh coconuts 1%.



Each Village Hub also presents a great opportunity for local entrepreneurs, farmers groups and CCC. With an initial investment of USD35,000, each hub will generate revenues of USD400,000 by Year 5, for an IRR of 21.8%, and a payback period of 2.7 years.

Farmers' income will grow too. It is expected that the centre of activity around coconuts from the Village Hubs will boost household incomes from coconuts by 6-fold, mainly generated by mature nut selling, and dividends from the hubs for Farmers Groups.





CONCLUSION

Growth in global demand for coconut products is currently occurring in the midst of stagnant or declining production. This looming deficit creates an opportunity for Cambodia to develop its coconut industry, capitalising on both its suitable climate and substantial agricultural land availability. In order to realise this potential, a multi-faceted ecosystem must be developed. SOMA should form the core of this ecosystem through the new Cambodia Coconut Company, and aspire to be the leading coconut company in Cambodia.

A key success factor for the transformation of Cambodia's coconut industry is the number of mature coconuts that can be grown. For this reason, it is critical that Cambodia's smallholder farmers are also encouraged to actively participate in the ecosystem. Increasing the production of mature coconuts should deliver a substantial improvement in the incomes of smallholder farmers. At the same time, the existence of a strong local processing industry should reduce the vulnerability of these farmers to the price volatility that they currently suffer.

The formation of village-based collection and processing hubs will further create opportunities for smallholder farmers and local entrepreneurs to participate in the transformation of the coconut industry in Cambodia. The training programs offered by these hubs will also lift farmers' outputs and spread knowledge about the value of mature coconuts.

With the potential assistance of the Cambodian government in offering coconut-focused extension services, and foresight in setting up a Cambodia Coconut Development Board and the Centre of Excellence for Coconut Research and Development, the industry can grow to become a significant contributor to the Cambodian economy. In doing so, a Cambodian brand can be promoted to the world for producing socially responsible, sustainable and high quality coconut products.



Tomorrow Matters.

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