

Policy Brief

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Title of research:	Strengthening the capacity of producer groups to participate in agri-food chains in Myiek and Palaw districts of Myanmar through action research
Location of research:	Myeik and Palaw Districts, Tanintharyi region, Myanmar

Research context and background

Agriculture is the backbone of Myanmar's economy, accounting for approximately 30% of GDP and employing 56% of its workforce. Despite the country's economic progress in recent years and the significance of its agricultural sector, small-scale farmers find it difficult to capitalise on opportunities to improve their incomes and livelihoods. Consequently, increasing agricultural productivity, promotion of smallholder agriculture, agribusiness and value chain development have been at the forefront of Myanmar's efforts to improve rural livelihoods and increase economic growth. International donors have been lending support to these initiatives. In 2017, the MFAT launched a five-year project aimed at alleviating rural poverty in Myanmar's remote Tanintharyi Region. The Tanintharyi Region Rural Income and Livelihoods Development (TRRILD) project was designed to establish sustainable agri-food chains that would benefit over 6,000 households by:

1. Establishing producer groups (PGs) and organisations equipped to engage in markets;
2. Linking producers to market engagement opportunities in high impact value chains; and
3. Introducing pro-poor financial services to households and producer organisations.

The Project is implemented through a collaborative effort between World Vision Myanmar (WVM), Vision Fund Myanmar (VFM), Lincoln University, and the International Livestock and Research

¹. Two of these candidate POs pursued capital-intensive business strategies to deliver value-

Institute (ILRI). It was designed to be both research-informed and research-led. Initial value chain research identified the paddy and pig value chains as having the greatest potential to benefit the rural poor, and used system dynamics models to prioritise chain interventions that would best improve their incomes and livelihoods. The results highlighted a need for PGs capable of sustaining transactional and value-adding interventions.

The research that followed was 'action-based' with the goal of creating functional PGs to initiate and manage these interventions. Lincoln University developed a theory-informed constitution that allowed PGs to introduce investor-friendly institutional, governance and contractual arrangements. Thirty PGs adopted this innovative but manageable constitution in 2019. Within months, more than half of the PGs were operating at a transactional level, purchasing quality inputs in bulk for their members, operating bank accounts, and recording transactions and decisions taken by the board of directors. Some of the more progressive groups contracted members to produce high-quality paddy seed and hybrid pigs to meet the quality and quantity requirements of premium buyers. In addition, many of the PGs offered non-farm services such as social and emergency support. One managed a domestic water reticulation system for its village. Another succeeded in lobbying local government for improved road access.

Three PGs were selected on merit as candidates for upgrading to producer organisation (PO) status

adding services to their patrons, while the third negotiated a contract to supply a premium miller

¹ A PG that extends its transactional service offerings to include value-adding strategies that are capital intensive such as investments in fixed improvements and movable assets.

with high-quality paddy rice. Ongoing action research with the stakeholders highlighted a need for additional technical support to train WVM's in-field facilitators and to help PG directors take full advantage of their innovative constitutions by issuing different classes of tradeable shares.

Findings and outcomes

- PGs that purchased inputs in bulk did not need to exploit all of the institutional arrangements that their constitutions provided for because their business strategies did not require substantial investments in durable assets or compliance with supply contracts. However, PGs that were actively pursuing supply contracts with premium buyers, and those attempting to improve product quality by offering patrons machinery, feed mixing and retailing services, needed to issue equity shares that aligned member benefits with both their investment and their patronage in order to raise capital and to encourage patronage.
- Lincoln University recommended tradable equity shares as an entry and exit mechanism that would allow members to realise capital gains when they downscaled or left the PO. A unique share certificate was designed to simplify share trading, and shareholding was linked to prices charged by the PO for its value-adding services. Members who invest more qualify for larger price discounts. Proportionality between investment, patronage and financial benefit reduces conflict between investors and patrons, and encourages members to invest in, and patronise, their PO.
- Directors of one of the three groups selected for upgrading were quick to grasp the advantages of the proposed shareholding arrangement and adopted it to finance a tractor and equipment (Appendix A) - despite WVM's concerns that these arrangements were elitist. The assets were financed with equity capital contributed by members and external investors, and credit provided by the machinery supplier. This PO now operates a lucrative enterprise providing land preparation, transport and paddy harvesting services to members and non-members in nearby villages.
- To address concerns of elitism, WVM agreed to introduce a cash grant that would give every member an equal initial shareholding in their PO. The grant leverages additional equity contributions from larger patrons and strategic

partners, and debt capital from formal lenders. Grants were approved for both of the PO's that pursued capital-intensive business strategies.

- The third PO saw value in a long-term paddy supply relationship with a miller who purchased high quality paddy. Lincoln and WVM worked with the miller and the PO's directors to develop an innovative supply contract that protected paddy farmers from downside price risk while allowing them to benefit from price increases post-planting. Tradeable delivery rights were issued to the PO's members to facilitate and incentivise compliance with its paddy supply contract. Owners of delivery rights received a quality premium for their paddy, and options to purchase quality inputs and machinery services from the miller. Members traded delivery rights to meet their delivery obligations and had a strong incentive to do so in order to protect the market value of their delivery rights.
- The paddy supply contract was concluded successfully in December 2020 with the PO delivering over 67 tonnes of high-quality grain to the miller valued at MK25.7 million (NZD 25,700). An additional MK323,550 was paid to the PO as a premium to be shared by delivery right holders in proportion to their deliveries. Payments were made directly into the PO's bank account on the day of delivery, and the PO settled with each farmer on a weekly basis (Appendix B).
- The PO was able to meet its supply contract with the miller despite the fact that some of its patrons experienced low yields due to excessive flooding of their paddy fields. These farmers were able to lease their delivery rights to other members who met the quality requirements stipulated in the paddy supply contract. At the end of the season, each delivery right was valued at approximately MK4,000. This value can be realised by the holders of the rights if they sell or lease their rights to other members of the PO. The PO intends to negotiate a second contract with the miller for the 2021/22 paddy season.
- Lastly, the three candidate POs hosted their inaugural annual general meetings in January 2021. Good governance practices specified in their constitutions allowed the members to nominate and elect eligible directors to lead their organisation, putting the POs one step closer to formal registration should the need arise. This exercise also provided the in-field

team with the experience and confidence it needs to embed best practice in the Project's other PGs.

Implications

- These emerging outcomes highlight the importance of partnerships in delivering development aid that directly benefit the rural poor. The involvement of research institutions (Lincoln University and ILRI) not only complemented WVM and VFM's work with the beneficiaries but also enhanced the capacity of their field staff to establish, structure, and support functional PGs and POs. NGOs can draw on the outputs and outcomes from this action research and apply it to other initiatives with similar context.
- Newly established POs need to adopt institutional arrangements capable of sustaining capital-intensive strategies and compliance with supply contracts. Such investor-friendly arrangements have the potential to create enduring partnerships between POs and strategic business partners. Donors need to recognise that an overly egalitarian approach towards collective action is unlikely to secure investment that benefits all participants, including poorer households.
- Myanmar's cooperative society law accommodates investor-friendly institutional arrangements. However, this is not widely appreciated by those who establish producer groups or by those who administer cooperatives. As a result, producer groups tend to operate informally, and this constrains their

ability to attract capital from reputable strategic partners and formal lenders.

- Very poor farmers may be excluded from successful POs because investor-friendly institutional arrangements typically align a member's investment with their patronage. Grant funding could promote inclusivity by giving all farmers an equal initial shareholding in the PO, and this would help the PO to leverage additional equity and debt capital from larger patrons, strategic partners and formal lenders.

Limitations and further research

- The Researcher could not conduct the field work personally owing to COVID-19 restrictions on international travel. Field work was undertaken remotely with the help of an in-country research assistant.
- Key research outcomes have yet to be reported as field work was suspended on 1 February following Myanmar's recent military coup.
- Further action research is required to extend the outputs and lessons learnt to the Project's other PGs.
- The impact of the actions and outputs on the income and livelihood of the participants could not be evaluated within the timeframe of this research. Project impact assessment is planned for 2022, circumstances permitting.

Appendices

Appendix A: Farm Machinery and equipment owned by Arr Man Thit PO



Figure 1 Farm machinery and equipment financed by Arr Man Thit PO members and external investors

Appendix B: Ngwe Phyo Aung PO's paddy contract transactions

Date	Ref:	Deposit	Withdrawal	Balance	Teller No.
	BF			0.00	
01.12.19	CD	15,000.00		15,000.00	1357
23.12.19	CD	96,000.00		111,000.00	1357
01.01.20	Cr	103.13		111,103.13	1357
16.01.20	CD	5,000,000.00		5,111,103.13	1357
03.03.20	Db		1,000,000.00	4,111,103.13	1357
11.03.20	Db		2,000,000.00	2,111,103.13	1357
16.03.20	Db		2,000,000.00	111,103.13	1357
16.03.20	CD	417,000.00		528,103.13	1357
01.04.20	Cr	36,666.49		564,769.62	1357
01.07.20	Cr	9,177.51		573,947.13	1357
01.10.20	Cr	8,609.22		582,556.35	1357
03.11.20	CD	2,284,350.00		2,866,906.35	1357
04.11.20	Db		1,580,850.00	1,286,056.35	1357
06.11.20	CD	3,510,550.00		4,796,606.35	1357
09.11.20	Db		2,821,150.00	1,975,456.35	1357
12.11.20	CD	3,341,400.00		5,316,856.35	1357
17.11.20	Db		2,436,900.00	2,879,956.35	1357
01.12.20	CD	3,726,000.00		6,605,956.35	1357
02.12.20	Db		6,000,000.00	605,956.35	1357

Figure 2 Ngwe Phyo Aung Bank account transactions from paddy contract



Figure 3 Ngwe Phyo Aung directors making weekly cash payments to members