

## **Social and Solidarity Economy in Cambodia: Experience of The Artisans' Association of Cambodia (AAC)**

The Artisans Association of Cambodia (AAC) is a membership-based organization for crafts producers and sellers in Cambodia. It was established in 2001 under the coordinated effort of the World Rehabilitation Fund (WRF), the United Nations Development Programme (UNDP) and the International Labor Organization (ILO) to promote new approaches for the socio-economic integration of landmine survivors, people with disabilities, and other vulnerable groups.

AAC registered with the Ministry of Interior (MOI) in 2004 and became the first organization in Cambodia, became a member of the World Fair Trade Organization (WFTO) Global in 2005; a member of WFTO Asia in early 2006; and a member of HomeNet South East Asia (HNSEA) in June 2008. It registered the Artisans' Collection (AC) with the Ministry of Commerce as a company LTD in late 2008. Together with its member organizations, AAC aims at creating employment opportunities for landmine survivors, people with disabilities, and other vulnerable groups through small and medium craft production and sales.

Currently, AAC has over 40 member organizations consisting of 2,655 employees and producers, and another five organizations are applying for membership. Most of employees and producers working in member organizations, 73.22% are women; and 12.76% are people with disabilities. Of the member organizations, 67.5% are managed and directed by women.

HomeNet Cambodia, which is one of AAC's projects supported by HomeNet South Asia, and implemented by AAC, was established in 2009 and worked closely with home-based workers. Presently, almost 600 home-based workers have been organized by HomeNet Cambodia as membership-based organization in four targeted areas: Phnom Penh city, Siem Reap city, Battambang city, and Poi Pet city. Most the groups do not have their own workshops, so each producer needs to work at home, but group leaders assist to share information regarding markets and sometime collect their products to sell to buyers.

For many of these enterprises, breaking the cycle of dependence has been a continuing struggle. Often, for our provincially based members, due to low production capacity, limited product range, low quality as well as inadequate marketing strategy, increasing market access can be a major challenge. However the most major of these challenges is their limited exposure to the Western markets they are targeting. This same challenge of exposure is also highly detrimental to each group's ability to respond appropriately in the areas of design and product development.

Other challenges, these groups face include developing appropriate products and promoting their organizations to overseas clients because of a lack of experience in marketing activities, computer illiteracy, or language barriers. These problems lead to isolation and lack of growth for the producers and the organizations as a whole.

AAC has been providing technical assistance to vulnerable groups especially home-based women producers in both urban and rural villages, some of whom are people with disabilities, survivors of AIDS and human trafficking, toward economic empowerment by providing access to markets, developing social enterprise and at the same time promoting fair trade. AAC's emphasis on fair trade advocacy on matters like fair wages, gender equity, occupational safety and health and environmental protection fits the solidarity economy model for advocacy. This allows home-based worker artisans' products to reach high quality as well as ethical standards through social marketing and consequently command better prices from discerning buyers.

AAC has been working with its member organizations not only to provide employment opportunity but also assistance in transforming its members from NGOs/Association self-help groups, business corporation types to Social Enterprise through hands-on training and working closely with each respective member. AAC helps in organizing social enterprises through various means to develop their range of products ranging from handicrafts to fashion accessories and home ware items to ensure that buyers have the opportunity to purchase high quality and unique items. As of today, AAC members are now aware of their being social enterprises practicing the core values of SSEs.

### **Forms of AAC Services and Technical Assistance**

The Artisans' Association of Cambodia is a membership based organization or an umbrella organization. To be a member of AAC, each enterprise needs to fulfill the criteria and pay the annual membership fee. After its registration, the enterprise receives an official letter or certification of membership with AAC.

AAC does not have a production workshop producing products and sale, but it functions as a service provider and provides the following technical assistance to the social enterprises that are members of AAC as well as non-AAC members:

#### **Services:**

- Advocacy
- Promotion of fair trade principles
- Trade facilitation/export
- Establishment of association/enterprise
- Pre-trade fair preparation
- Project implementation consultancy

#### **Technical Assistance:**

- Design and product development
- Market development
- Increasing production capacity and quality
- Increasing market link and access
- Social enterprise development

The social enterprises of the AAC members are the producers and suppliers of both local and international buyers. These group enterprises make various products from cotton, silk, palm leaf, sedge/reed, wood, stone, lotus yarn, recycled plastic bags/papers, fibers, bamboo, cattle horn, water hyacinth etc. into the following: fashion handbags, gift items made of silk and plastic bags made from recycled rice bags; silk scarves and house ware products; and decorative items and wood/stone carving products.

Beyond these, some of enterprises provide services such as design/product development,

consultancy, cuisine, hotel, and vocational skills training to other NGOs/Institutions on a contractual basis.

As for HomeNet Cambodia (HNC), home-based producers make products from various raw materials, including the following: 1) silk and fabric -- bag, wallet, clothes, etc.; 2) recycled paper/plastic/rice sacks-- bag, wallet, souvenir, and key chain, etc.; and 3) rattan, palm leave, and bamboo -- basket, boxes, and other souvenirs.

### **Funding and Profit Distribution**

AAC is a non-profit association operating based on funding from international and local donors or funding agencies. With the revenue received from year to year, AAC develops a strategic operational plan and employs staff to implement strategies that are of benefit to social enterprises which are AAC members.

AAC created its trade arm, “The Artisans Collection LTD (AC),” so that AAC can be eligible to obtain a certificate of origin (CO) for exporting products on behalf of or for its members to international markets. Most members cannot afford to do these themselves, due to the process of registration, which is very complicated and costly. It requires a lot of resources and therefore is a heavy burden for AAC members to legally register with line ministries. The incomes generated from the Artisans’ Collection Ltd are used or reinvested in the business.

The enterprises among AAC’s members are not originally social enterprises, but AAC is facilitating their transformation into NGOs, Associations, and Self-Help Groups. This is the reason why there are several means for utilizing and distributing the profit.

In the social enterprise, staffs are paid a salary and producers are paid on a piece work basis. The rest of the profits are re-invested in the entire program in the form of enterprise expansion, human resource development, study tours, staff retreat, health support, and bonuses. Profits are plowed back to the organization to help the members.

For social enterprises (in the form of cooperatives) which have been transformed from NGOs, a portion of their profit is distributed among the shareholders as dividend. Staffs receive monthly salary and producers’ payment is based on piece work. Other profits are used in the renovation of the shop for marketing and production workshop. They are also used for improving market access.

For social enterprises, which have been transformed from private organizations, some parts of their profits are divided among the company owners. Staffs receive monthly salary and producers’ payment is based on piece work. Other profits are mainly used in social work, staff capacity building, production, and others, which are related to developing the enterprise.

### **Producers and Their Organizations**

AAC does not have producers directly, but does have a pool of producers who have been working for social enterprises as AAC members. They are landmine survivors, people with disabilities, survivors of human trafficking and HIV. They are the high- risk groups and the first groups easily affected by any economic downturn and exploited in society. Most of the time, they work in the production workshop of the social enterprises, which are the AAC members, even though some of them work individually and produce products for the social enterprises.

As for HomeNet Cambodia, the home-based producers are persons with disabilities and other vulnerable groups, mostly women (many of whom are widows, single parents, and heads of household), survivors of HIV-AIDS and human trafficking, and youth. They work in their individual houses and some work with a group in a common workplace or neighboring production workshop. They belong to socially disadvantaged groups.

Before AAC implemented the Inclusive Urban Planning (IUP Project), the individual home-based producers had been scattered, unorganized, worked on their own without network and market linkage. The IUP project got them together through program promotion and organized in a form of savings group, self-help groups, trading etc.

AAC met with individual home -based workers (hbws) to get them together and form a group, which will be managed by an elected leader who will then nominate a marketing person, and create a structure for the group with clear roles and responsibilities.

AAC further strengthens the implementation of the structure of group members, and reinforce their roles and responsibilities and also ensure the harmony and equity of profit sharing. To further develop the existing groups of HNC to be a social enterprise, AAC still needs to seriously look into the following components: managerial skills, entrepreneurship, capital mobilization, business visioning, strategic marketing, production/production capacity, product diversification, sales and communication skills; trouble shooting; accounting/financial projection skills.

At the moment we see the need to revisit and review our rules and regulations which need reinforcement. For instance, there have been some cases of duplicating the design and a few members do not completely follow their own rules as well as AAC rules.

When similar problems exist, AAC finds a solution by gathering all parties to sit together at one place and lay the issues on the table. They then discuss ways to address those issues in a manner which leads to a mutual agreement and solidarity. Another way is in the form of talking to one party separately from the other party in order to figure out what is the root cause of the problems and then meets together to seek for possible solutions. If parties do not agree amicably, then an arbitrator is needed. In case this is needed, a document is written and signed by all parties and recorded.

### **Advantages and Accomplishments of Social Enterprises**

The Artisans' Association of Cambodia introduced the concept of social enterprise and how the groups of home-based workers and their respective organizations can work towards being a social enterprise. Before these groups joined AAC, they had been in the form of small shops, companies, NGOs, associations, self-help groups, etc. Having realized the importance of being a social enterprise and practicing the values of mutual help and cooperation, they appreciate and become conscious that they are not only working for profit but they have a role and significant contribution to the society. This concept was introduced to the community by AAC in mid-2004 as well as HomeNet Cambodia in 2010.

Artisans' Association of Cambodia assists social and group enterprises of home-based workers through promotion of fair trade principles; Organization Development (OD); providing technical assistance and training on product design and product development; market Development and market linkages; trade facilitation/export; capacity enhancement through of product development and quality improvement; advocacy on occupational safety and health; disaster risk mitigation and others.

Government agencies such as the Ministries of Commerce, Industry, Culture, and Tourism etc. help AAC and its member affiliates by providing opportunities for them to attend local, regional and international trade fairs and exhibitions; seminars, workshops, and training activities local and international, on marketing, design, occupational safety and health, etc.; and facilitating export through the issuance of Certificate of Origin.

NGOs and donor agencies (local, regional, and international) assist through grants and donations. The private sector (hotels, companies etc.) serves as venues for showroom/display and selling products.

Social enterprises encounter a lot of problems. High Inflation rate drives up the cost of raw materials, prices of basic utilities such as energy (gas, petroleum, and electricity), labor cost, etc. Education, medical expenses, and sustainable livelihood of producers need to be addressed. Their sudden migration can also disrupt production.

Social enterprises try to address these problems by increasing more jobs through handicraft productions and sales; participation in AAC and HNC efforts in bringing daily issues encountered to local authorities; building networks, gathering relevant information from various sources, and increasing awareness through information dissemination to the community; and purchasing insurance (health and travel) for their staff.

One major accomplishment is the transformation of dependent NGOs into independent social enterprises. At first, some enterprises thought that it would not be possible, but AAC encouraged them by introducing an applicable and replicable methodology. AAC worked closely with them to move from NGO to social enterprise, which enabled them to earn more incomes and less dependent on outside support, thus gradually becoming self-reliant.

Other main accomplishments include providing job opportunities to vulnerable groups; keeping producers and staff in regular employment; more and more persons with disabilities no longer begging; workers receiving living wage through their production skills; and taking part in socio-economic development in partnership with the government of Cambodia.

Greater women's recognition and empowerment is also a major accomplishment. Social enterprises enable women to participate in decision making and democratic processes within the organization and in the community they live in. Women gain self-confidence and esteem and are now able to speak in public, participate in social activities as well as resume responsibility traditionally assumed by men. More importantly, women receive the same wage as their male counterparts. Gradually, women are winning the respect of their husbands and families.

Problems faced by the member groups of social enterprises still need attention. These include sustainable raw material supply; business plan development; lack of working capital for expansion; lack of exposure to western markets that enterprises targeted; language barrier; lack of access to information technology, design schools, and qualified human resources.

To address these problems, measures have been taken for getting bulk orders; providing short courses/training on business plan development; increasing production capacity and sales; learning languages/IT by themselves, and on the job training. In addition, these member groups are able to access market development and design/product development training by AAC. They also benefit from positive collaboration with AAC and the Ministry of Commerce, which provides opportunities for them to attend international and local trade fairs.

## The Supply Chain and Its Participants: Benefits, Problems, Solutions

The participants in the value chain include raw material suppliers, producers, middlemen, intermediaries, transportation providers, wholesalers, retailers, and consumers/end users. The most important factors considered by the enterprises in the selection of the participants in the value chain are reliability, price, and reputation. In the value chain, enterprises select suppliers, while most of buyers are facilitated by AAC and another by themselves. The most important factors are price offered by the buyers, and organizational values.

The social enterprises have their own regular suppliers for their raw materials. In the case of the HBWs, they find raw materials by themselves. Their regular suppliers are the community organizations and private individuals. Groups of HBW enterprises get their raw material from different suppliers and they have the flexibility to change their suppliers depending on their needs. There is no formal written agreement between social enterprises of HBWs and their suppliers and even with AAC.

Some of the raw materials and accessories are imported from neighboring countries and these are converted into products by Cambodia's abundant supply of skilled producers.

The main benefit, which the enterprise gets from its suppliers, is getting the supply on time. The enterprise can get a discount from its suppliers based on specification order, quality and quantity. On the other hand, there are some problems between the enterprises and suppliers, such as unstable price; uncertain quantity of raw material supply; requiring full payment instead of installment; and verbal negotiation of terms and conditions before placing orders.

The social enterprises usually have no regular buyers, but they have repeat buyers and new buyers. Seasonality of sales especially from overseas buyers poses a problem to the producers. Most of their products are sold to big wholesalers especially those for export while local shops also serve as showcases for local buyers too. The shops provide prototypes of their products that allow foreign buyers to determine the type, product and quality of items they want to order.

The enterprises rarely make complicated or written contracts with their buyers. Most of the time, they just communicate via email or appointment/calling for ordering and payment. However, for big volumes of orders, we usually require a written contract. The enterprise cannot switch to other buyers, as the buyer wants loyalty and exclusiveness of the design and we are members of World Fair Trade Organization (WFTO).

Benefits, which the enterprises get from their buyers, are as follows: repeat orders; payment of fair price; feedback for product and service improvement; gaining better understanding about market demand; regular jobs for producers, and charity for supporting poor producers. Of course, the enterprises can obtain higher prices from their buyers, if the buyers are fair trade principle compliance.

There can still be problems between buyers and enterprises. For example, supply is not delivered on time. Buyers can give late payment or lose interest. Color may not be consistent, specifications may not be followed, and quality may not be met.

Enterprises have taken some steps to solve these problems. Before they accept the orders from buyers, they make sure there are enough producers and raw materials and that there are clear terms and conditions regarding delivery time, etc. They also require the following

terms of payment: 50% up-front when orders are confirmed, before production, while another 50% will be made before shipping the products to buyers' port destination.

Confidence-building measures or activities have been undertaken by the participants of the value chain, particularly to build the people's trust and confidence in their suppliers and buyers. They clarify all terms and conditions before agreeing or confirming. They always ensure products are of good quality, safely packed, and matched with the number ordered. Selling price is always reasonable. Enterprises ensure supply on time, and if being late is unavoidable, they send a message to buyers. They keep buyers informed where the products are, send (shipping) tracking number to buyers, and choose a reliable and economic freight forwarder.

### **Services, Up scaling, and Ownership**

The services that the enterprises need are in the form of technical assistance (design/product development, business development, export facilitation, market access).

The Artisans' Association of Cambodia's main role is to provide core services to its members. AAC has facilitated all the processes of exportation with buyers and government agencies, Ministry of Commerce, and other stakeholders. Moreover, various training activities have been conducted focusing on technical skills development, enterprise management, designing and product development, occupational safety and health (OSH), and others related to the capacity building.

Besides working with AAC, the enterprises need other service providers to strengthen their organization. Other services that the social enterprises need is transportation (Trade Forwarders: DHL, Cambodia Express etc). They need to forge agreements between their enterprises and the trade forwarders. However, there is also flexibility in choosing their cargo forwarders.

Some enterprises have a plan to engage in processing and some others plan to expand more shops to sell to final customers. There are enterprises that have taken over various activities in the supply chain. In the experience of AAC, Craft Village and Ta Prohm are the examples regarding upward expansion in the value chain. Craft Village has been engaged in processing, while Ta Prohm has expanded its shops in the commercial area. Craft Village is no longer outsources the products from weavers from a far distance. Instead, Craft Village set up a weaving center for its own weavers. It no longer consigns its products to other shops as Craft Village put up its own shop to sell the products to importers and final customers.

Investment funds can be availed from other sources, but the enterprises cannot fulfill the complicated criteria (accounting system, sound business plan, share cost by borrower etc.) As for the investment funds from banks and micro-finance, business people need collateral, otherwise, they cannot borrow. Based on experience, social enterprises (AAC members) expand their shop and/or put up or expand their production using the profits generated from existing business.

### **Developing a Social Solidarity Economy**

There are many enterprises that buy products from social enterprises (AAC members). At the

same time, these enterprises also sell services to other social enterprises. For a real example: a hotel orders uniforms, silk curtains, cushion covers, bed covers, etc. from AAC's members, and the same hotel sells services to social enterprises like accommodation, room/hall for conference/training workshop, consignment, place/space for trade fair etc. These social enterprises are in the form of cooperative (e.g., Watthan-AAC member); self-help group (e.g., Taphrom- AAC member); sole proprietorship (e.g.: Sentosa- AAC member); and family-based enterprise (e.g.: Kravan House-non AAC member).

The types of business transaction and activities they engage in are: handicraft consignment; order and supply; and service/rental contract.

Most buyers are commercial buyers demanding large amounts, fast delivery, and quality production. They are strict with time of delivery. Communication with them needs to be sharp and straight to the point, since they have no interest in elaboration. They are profit-oriented, so product price is a bit higher than others (due to better quality, and respect for world fair trade principles).

There are social enterprises willing to merge with enterprises in the city and suburbs, but they lack confidence even if there is a legal license for merging stated in the investment law of Cambodia.

Social enterprises can gain the following benefits from consolidation: more markets for their products; increased awareness; increased investment funds; possibility of higher profit margin; expansion of the business and production capacity; exchange technology/skills; experience in managing larger enterprises and forging partnership with international partners

On the other hand, social enterprises have to be aware of the possible issues/problems that may occur and have to prepare strategies to address and resolve these. Such issues can include breach of contract/agreement; possible conflicts regarding ownership, profit sharing, and trusteeship; uneven levels of knowledge and experience; and loss of confidentiality in some operations. In order to solve these issues both parties should state in the agreement how and which legal institution needs to be involved in solving problems/issues; i.e., commercial courts.

## **Measuring SSE Performance**

Indicators currently being used by social enterprises to measure their performance include:

- Number of beneficiaries reached
- Monthly income of producer/staff (Livable wage)
- Annual turn-over
- Degree of independence (management and finance)
- Increase in self confidence
- Morality or adherence to ethical values of fair trade
- Wage increases
- Degree of public awareness of the project

Problems and issues met by social enterprises in measuring their operational performance include lack of awareness and management capability. Further study through surveys and other evaluation mechanisms can be pursued.

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