

Rural Development Project Dak Lak (RDDL) Vietnam

Linking Ethnic Minority Groups to Value Chains, Lessons learnt from RDDL pilot projects



**Short-term Consultancy Report
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STE-Report

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Annex 1: Terms of Reference

LIST OF ABBREVIATIONS

AEC	Agricultural Extension Centre at provincial level
AES	Agricultural Extension Stations at district level
4C Coffee	Common Code for the Coffee Community
S&C	Saving & Credit
EM	Ethnic Minorities
GAP	Good Agricultural Practice
GTZ	Deutsche Gesellschaft fuer technische Zusammenarbeit (German Agency for Technical Cooperation)
OD	Organisational Development
RDDL	Rural Development Dak Lak
VCD	Value Chain Development

1 INTRODUCTION

The project on Rural Development Dak Lak (RDDL) implemented by the Department of Planning and Investment with assistance of the German Agency for Technical Cooperation (GTZ), envisaged alleviation of poverty and improved livelihood of the rural population through an increased participation of ethnic minorities in the economic development of Dak Lak Province.

In summer 2007 RDDL in cooperation with the Agricultural Extension Centre started small pilot projects supporting EM farmers to strengthen their position of export value chains. For this purpose RDDL engaged an international expert in marketing and promotion of value chains to help identifying respective possibilities particularly for ethnic minority farmers in the project areas and to formulate an action plan for concrete pilot activities to be implemented in the framework of the project. The international consultant visited the project three times assessing the progress made within the pilot projects.

After the last mission of the international expert, RDDL and GFA started a discussion on lessons learnt of the pilot projects. It was decided to ask the consultant to summarize the findings of the last 2 years taking into consideration also experiences from other VC projects inside and outside Vietnam as well as other best practices and approaches, e.g. Sustainable Livelihood Framework, a tool developed by the Department for International Development (DFID).

Therefore, the objective of this report is an analysis of the framework conditions influencing the sustainability of the RDDL pilot projects. These lessons learnt are understood as a contribution to the discussion of linking EM/vulnerable groups to (international) value chains.

Detailed “lessons learnt” related to performance of the pilot projects, the target groups and the involved team have been presented already in the last mission report.



2 LESSONS LEARNT

2.1 The initial Concept of the Pilot Projects

2.1.1 Starting Point

The project on Rural Development Dak Lak (RDDL) implemented by the Department of Planning and Investment with assistance of the German Agency for Technical Cooperation (GTZ), envisaged alleviation of poverty and improved livelihood of the rural population through an increased participation of ethnic minorities in the economic development of Dak Lak Province.

Component 3 of the Project aimed to develop and improve upland farming systems in the project areas. RDDL cooperated with the Agriculture Extension Stations (AES) of Lak and Ea H'Leo Districts to test and select a number of upland farming options, which are suitable for ethnic minority farmers with regard to improving their staple food supply and generating additional income through production of marketable food and cash crops. In addition, improved production practices for pepper and Robusta coffee, the main sources of income in the province, were developed in cooperation with the Department of Agriculture and Rural Development and the private sector.

Although there was substantial demand on local, regional and international markets for these products, most smallholders and particularly those from the ethnic minority communities found it difficult to either access these markets at all or realise better prices through improved product quality or feasible on-farm processing. The capacity of many smallholders and in particular most ethnic minority farmers in the project areas was rather limited with regard to production technology and to financial investment possibilities. This also limited their possibilities to access more lucrative markets and to participate more actively in most value chains.

In summer 2007 RDDL in cooperation with the Agricultural Extension Centre (AEC) at provincial level engaged an international expert in marketing and promotion of value chains to help identifying respective possibilities particularly for ethnic minority farmers in the project areas and to formulate an action plan for concrete pilot activities to be implemented in the framework of the project.

The challenge was to identify the realistic potential where and how these farmers do fit into existing (industrial) value chains and how they can effectively increase their benefit. This in turn required a clear understanding of the concept of value chains and its specific application for the situation of poor smallholders and ethnic minority farmers in Dak Lak Province and in the project areas in particular. Assessing the potential and limits of the value chain promotion was of utmost importance: participation in product markets requires a careful selection of suitable measures.

2.1.2 Ethnic Minorities (EM)

In close cooperation with AES, RDDL had selected a number of farmers in the two districts Lak and Ea H'Leo to take part in the planned pilot projects.

The two selected districts accommodate different ethnic minorities. In Lak the main ethnic group are Mnong people, in Ea H'Leo mainly Ede and J'Rai. The M'Nong belong to an Austroasiatic group and speak Mon-Khmer languages. The J'Rai belong to an Austronesian group and speak Malayo-Polynesian dialect. The Mnong and Ede are matriarchal societies. Each household is actually controlled by an elder woman who is responsible for community affairs. Husbands are purchased by mothers for their daughters.

The differences of the living conditions and the development of the farming systems were obvious in the two districts. In Ea H'Leo district the ethnic minorities were better off than in Lak district, but still produced smaller quantities than Kinh farmer because of limited land available. The potential to grow was higher in Ea H'Leo than in Lak because most of the farmers showed interest in improvements and were already market oriented. They were less indebted and had access to banks.

The situation of the ethnic minorities in Lak in 2007 can be summarized as follows:

- more poor households in Lak than in Ea H'Leo
- less market oriented farming
- highly indebted
- less motivation to change
- lower mobility
- less profitable crops
- limited production programme.

However, also in Lak some more advanced farmers showed good potentials: especially younger farmers tried to adapt to modern approaches of Kinh farmer. These EM farmers were less indebted, had access to banks and were better in production planning and quality production.

In addition to farmers, EM women's saving and credit groups representing more the smaller households were contacted to participate in the pilot projects. Also here, the groups in Ea H'Leo showed more potential to improve their living conditions and were better off than in Lak. The groups in Lak were more disadvantaged due to language problems, illiteracy, subsistence farming, (high) debts, less motivation to change, lower mobility, less profitable crops, limited production programmes.

The main restriction particularly for the poor EM farmers to access the otherwise well functioning value chains was identified to be their high dependency on middlemen and traders for loans for productive inputs but also for daily household expenditures and the limited quality of their produce. In some cases, farmers had to spend up to 80% of their harvest to pay back these loans (often in kind) while not being able to take advantage of price incentives for quality products. Achieved prices are mainly depending on the market position, bargaining power and independency of the farmers.

2.1.3 Objectives of the proposed Pilot Projects

In summer 2007 three different pilot projects were identified to support the EM.

1. Improvement of Household and Farm Economy, focussing on credit & saving-group/women (implemented in Lak as well as Ea H'Leo district)
 - a. to achieve more working capital
 - b. to reduce the dependency on collectors and traders
 - c. to allow investments in inputs for better productivity and quality
2. Introduction of Good Agricultural practice (GAP) in Coffee production (implemented in Lak as well as Ea H'Leo district)
 - a. improvement of production, quality incl. cost reduction
 - b. to ensure the supply of larger standardized quantities
 - c. spill over of GAP to other crops
3. Introduction of GAP in the pepper production (implemented in Ea H'Leo district).

Objectives of the production oriented pilot projects were

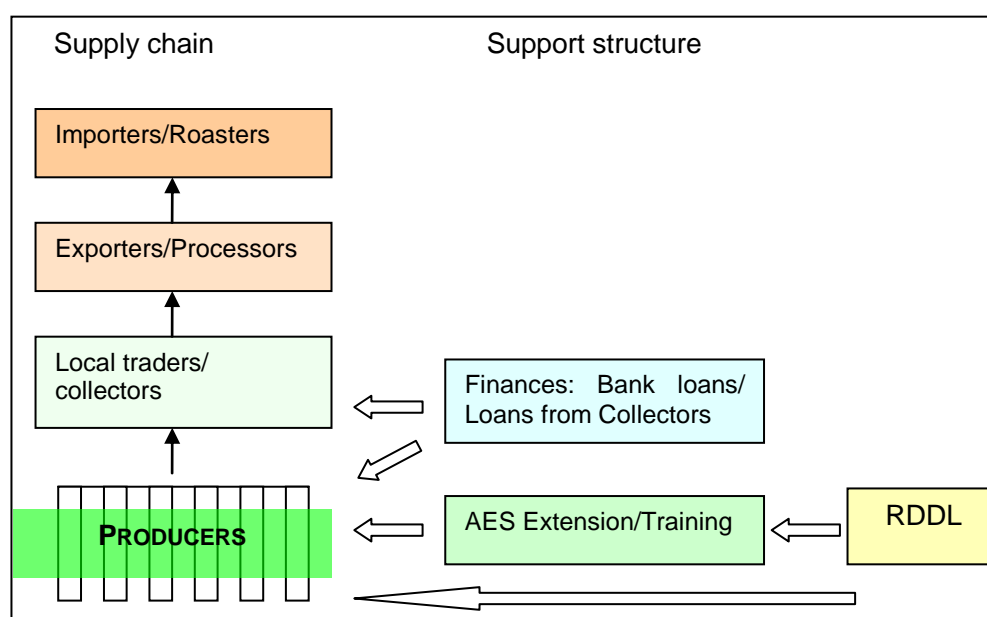
- to keep EM farmers in the value chain and to raise their income,
- to support the one with potential in adapting to international standards allowing better quality and cost reduction.

All together, it was envisaged to achieve measurable results on pilot base and to improve significantly the livelihood of the farmers/households involved.

Discussing potential way forward, the need for support during the entire support process became apparent. Thus, the pilot projects were designed to follow a more comprehensive approach including training, continuous advice in the field, model gardens, investments, study tours and exchange.

The pilot projects fit technically to the existing and ongoing activities of RDDDL (training, study tours, grants etc.) in cooperation with the AES and others. While training was provided by AES staff, external expertise was still necessary in particular fields, i.e. training follow up, house hold and farm economy etc. RDDDL decided to engage so-called local facilitators in the districts to ensure continuous support of the selected groups.

In close cooperation with the Agricultural Extension Stations in both project target districts concrete concepts and activities for the pilots on coffee and pepper were implemented. The focus was on improvement of product quality by introducing the groups to GAP and support in farm management, especially documentation of inputs and expenditures in the selected crops. In addition, for the more advanced farmers in Ea H'Leo linkages were established with important coffee and pepper exporters in the province.



The Vietnamese Women Union supported two women S&C groups as pilot groups in household economic management aiming to improve income and efficiency expenditure of their own family. The support provided by the women's union was focussed on training in record keeping. In addition, AES provided training in staple crop production to improve the productivity and reducing some expenditure.

2.1.4 Achievements

The farmers group in **Dak Nue** could notably increase the productivity of the coffee production resulting in a significant increase of their income as shown below:

Coffee production and average incomes of the coffee farmer group Dak Nue		
Year	Production (kg/ha)	Net income (VND)
2006	900	2,000,000
2007	1,200	3,000,000
2008 (estimated)	1,800	18,000,000

The farmers from **Ea Sol** reported similar improvements in coffee production, cost reduction and increase of the productivity. In addition, these farmers were linked up with the coffee company Dak Man in BMT and were trained in 4C Coffee Standard¹. The entire group of 42 farmers applied for membership in 4C, filled out questionnaires describing their farm situation and finally signed up with Dak Man to produce 4C coffee according to the standard of 4C. More than 100 tons of coffee were supplied to Dak Man's buying station in the district capital Ea Drang. The farmer fulfilled the agreed amount of coffee, even exceeded the agreed amount slightly.

The pepper producers were trained in GAP and linked with the larger exporting company OLAM.

¹ The coffee group in Dak Nue did not feel prepared for a co-operation with a large exporter like DAK MAN. The reasons are mainly related to the quantities available and the dependency on other traders and collectors.

The designed pilot projects allowed farmers to feed in their (smaller) quantities into larger value chains reaching not only the local but also export markets. RDDL was strong in establishing, maintaining and extending the contacts with the large buyers Dak Man and OLAM. The step RDDL had chosen to link up the coffee and pepper group in Ea H'Leo with these large exporters and to innovative approaches was challenging but the right way forward. Dak Man seemed to be satisfied with the result being supplied with 100 tons of 4C coffee by the EM farmer group (value around 3.5 billion VND or 170,000 €).

To summarize the **achievements of the pilot projects**:

- The support has gained initial results in value addition for the members in the pilot coffee groups.
- Group members are successfully linked to coffee value chains.
- The field trials and trainings were organized in a simple manner suitable for EM farmers.

2.2 Challenges/Crucial Factors

AEC prepared an assessment of the first 2 years of the pilot projects and summarized the above shown achievements as well as identified some challenges as follows:

- Most of the group members are EM with low education and awareness.
- Group members still do not have enough knowledge and understanding in group operation and group management.
- The leaders of the groups are inexperienced and lack of knowledge on group management.
- The members do not closely unite to facilitate all the activities jointly.
- Group cohesion is limited: Coffee selling farmers in the group have not provided information on coffee prices and quality to other members in the group.
- The vertical and horizontal linkages with the chain are not strong enough for sustainable operations.
- Activities of the groups depend on external technical and financial support. The groups themselves are not very active. Sustainability will be a challenge.
- With regard to the supported S&C women groups, the contribution to the livelihood of the households is limited.

The AEC assessment highlights important crucial factors influencing especially the sustainability of the pilots, such as the group performance, the ownership and the chosen approaches. In the following the named challenges and crucial factors will be discussed with regard to the specific situation of ethnic minorities. As mentioned earlier, detailed “lessons learnt” related to performance of pilot projects have been presented already in the last mission report.

2.2.1 The Approach Chosen

The idea of supporting EM on pilot base in accessing export oriented value chains followed the approach of **value chain development**; VCD and the access of EM to export chains were the starting points of all considerations. The support provided to the farmers concentrated on product improvement and market linkages regarding the specific products coffee and pepper.

Value chain promotion represents a proactive and product related but systemic approach to economic growth and development. A value chain is composed of chain operators such as input suppliers, farmers, traders, processors, exporters and their business linkages at the micro level, and support service providers at the meso level. All operators are adding value to a particular marketable product on its way from raw material to the final consumer. Value chain actors share an interest in the end product because changes in the market affect them all.

VCD in the understanding of ValueLinks² has its fundamental goal in contributing to “pro-poor growth”. As outlined in the ValueLinks Manual, “the PPG concept builds on the understanding that only economic growth and the market success of poor people are capable of providing a sustainable solution to the problem of poverty. Wherever poor people are able to participate in product markets, promoting the respective value chains can help lift people out of poverty.” Therefore, value chain promotion is essentially a development approach.

Still, VCD is a product related approach targeting at improving product markets, not in firsthand the individual actors along the value chain respectively the small farmers. The value chain approach recognizes households and enterprises as part of a market system or “value chain”. It is, first and foremost, the performance of this entire system that determines whether individuals within it can benefit and grow from their business activities.

Recently, there has been growing concern that value chain development may not reach the poorest of the poor, or not fully deliver the expected results in those cases where vulnerable households have been directly involved in value chains.

VCD is not a standalone approach; it can be combined with other development approaches. In this context the Sustainable Livelihood Approach becomes more and more an issue, when it comes to vulnerable groups such as EM in accessing value chains. The Sustainable Livelihood Approach helps to get a clearer picture of the complex situation EM farmers are working and living in.

The **Sustainable Livelihood Approach** is centred on the individual household and seeks to understand the various capabilities available to the household (human, social, financial, natural and physical capital) to form a means of living (livelihood strategy). The livelihoods framework (see graph below) is helpful for painting a fuller and more accurate picture of vulnerable households. The framework seems extremely useful in understanding the complex situation, risks, and resources at a household level. Social relationships, obligations, and taboos can powerfully influence a household’s behaviour, perception of risk, expectations of benefits, and

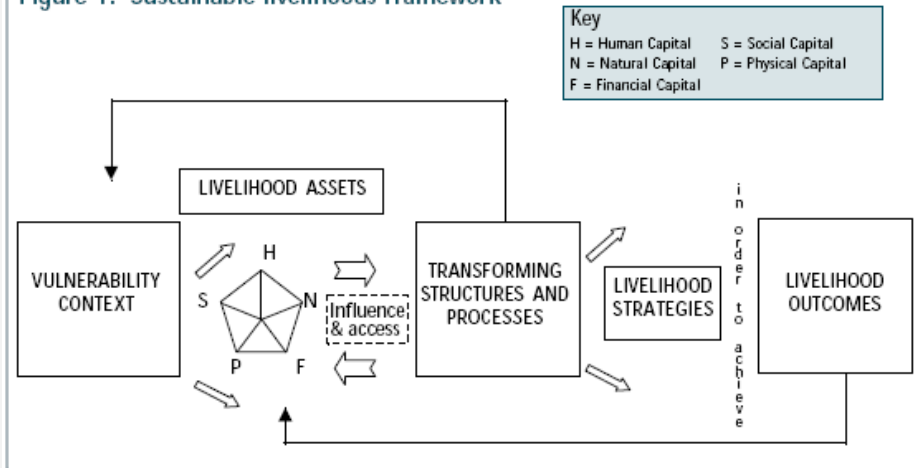
² Approach developed for GTZ by Dr. Andreas Springer-Heinze et al.

consumption patterns – especially among the most vulnerable whose social capital may be the most important and tangible assets they possess.

Sustainable Livelihood Approach³

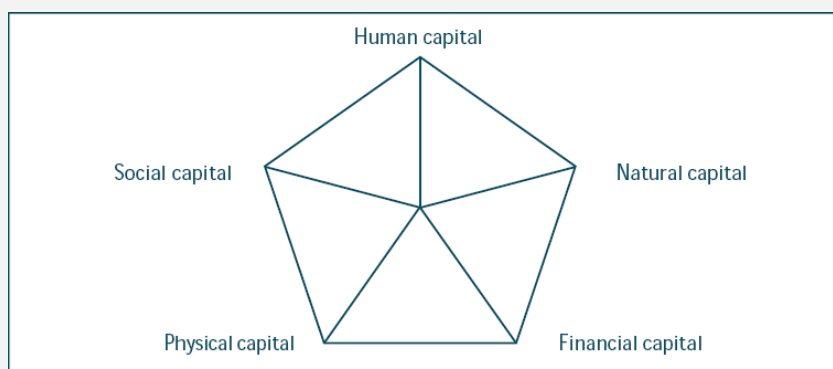
An interesting approach is for example the Sustainable Livelihood Approach developed by DFID late 1990s and one of DFID's cornerstone approaches.

Figure 1. Sustainable livelihoods framework



Source: DfID, 2001

The livelihoods framework is a tool to improve the understanding of livelihoods, particularly the livelihoods of the poor. The sustainable *livelihoods framework* presents the main factors that affect people's livelihoods, and typical relationships between these. It seeks to gain an understanding of people's strengths and how they convert these into positive livelihood outcomes. The approach is founded on a belief that people require a range of assets to achieve positive livelihood outcome. The livelihood framework identifies five core asset categories or types of capital upon which livelihoods are built.



The *Vulnerability Context* frames the external environment in which people exist. People's livelihoods and the wider availability of assets are fundamentally affected by critical trends over which they have limited or no control.

Livelihoods analysis concentrates on understanding the impact of these factors and how negative aspects can be minimised. This requires understanding of the nature of local livelihoods – what types of livelihood strategies are employed by local people and what factors constrain them from achieving their objectives. Such understanding cannot be gained without social analysis so that particular social groups and their relationship with factors within the *Vulnerability Context* can be identified.

³ The following text is taken from DFID's Sustainable Livelihood Guidance Sheet 2001.

According to Andrew Dorward⁴ et al. livelihood should be analysed from the perspective of how the poor integrate their assets and services into various economic activities to make and market products. The livelihood of the poor directly depends on their capability to participate in different markets, notably labour, commodities, financial services, and land. Markets are critical to livelihood development because when they are successful, they link livelihoods to different markets and to other players in the local economy and beyond.

This perspective directly relates to the "upgrading" factors (improvements) in the VCD to achieve more benefits for vulnerable groups and contribute to improved value chain performance. The livelihoods perspective can help to understand the incentives and conditions under which target households will actually adopt necessary upgrading.

An analysis prepared on VCD in Central America⁵ also emphasises that effective pro-poor value chain development requires the adoption of a livelihoods perspective. Projects with coffee and cacao producing households in Central America show that small households pursue diversified livelihood strategies by combining subsistence with market-oriented agriculture; and in addition carefully balance on-farm with off-farm income sources. Value chain development approaches focusing exclusively on coffee or cacao usually fail to account for diverse livelihood activities and may require disproportional high investments of family labour and financial resources in the related production systems.

A **multi-chain approach** to value chain development helps illustrating the involvement of the rural poor in multiple livelihood activities and identifying opportunities in related value chains. The analysis of the Central American projects reveals that though there are opportunities for developing coffee and cacao value chains, there are also a number of "secondary" chains (e.g., beans, maize, fruits and horticultural products) that deserve investment. Careful analysis of the diverse options and the respective trade-offs at household and community levels help tailoring the design of interventions that lead to more inclusive development. The authors propose moderate interventions in "secondary" supply chains, in addition to major interventions in the coffee and cacao chains, with the aim of increasing livelihood security and reducing poverty among rural smallholders.

Similar to the multi chain approach is the **cluster-based pocket package approach**, e.g. implemented in Nepal within the Agriculture Perspective Plan. The pocket package approach develops pockets of commercially feasible commodities in two directions: food security and commercialization. The pocket package strategy considers the stages of development of the pocket areas/clusters: basic, commercial-oriented, and commercial. The objective of supporting the basic package type is strengthening food security situation in production pockets. Taking into account the problems arising from increasing food prices and food deficits, it is recommended to follow such twofold approach: promotion of market

⁴ ADB. "Making Markets Work Better for the Poor". Proceedings of the Inception Workshop. November 2003: Andrew Dorward and Nigel Poole: "Markets, Risks, Assets and Opportunities: Summarizing the Links Between Markets and the Livelihoods of the Poor"; Edwin Shanks. "Viet Nam: Participatory Livelihood and Market Assessment".

⁵ Value Chain Development from a Livelihoods Perspective: A Multi-Chain Approach for Coffee and Cacao Producing Households in Central America, Dietmar Stoian, Jason Donovan, 2007.

oriented production plus addressing food security issues especially for poor and excluded farmers by including staple food crops such as rice, maize and wheat in the project activities.

The issue of **food security** requires considerations. Encouragement of coffee or pepper plantations and cash crops can seriously conflict with food security. Perennial crops such as coffee and pepper, from seedling to harvest, require attentive care and input for a period of seven years. During this period, poor EMs are in danger with regard to their food security. If all the effort and money, and maybe all fertile land are used for the plantations, other aspects of agricultural production will be neglected. The stage where farmers decide on the re-allocation of land which is traditionally used for staple food crops such as rice or maize for new market oriented production is critical.

However, access to food and finance is crucial to improve the livelihoods. Introduction/improvement of marketable products to create additional income has already proven successful in various projects. This will allow rural households to create savings and provide more purchasing power. Therefore, the development of value chains including introduction of new products and increase of production quantities to serve the market has to be balanced and not contradict efforts to ensure food security. To this end, the combination of approaches (VCD and Sustainable Livelihood) respectively to follow a multi chain approach including growing also staple food crops with project support are interesting alternatives.

An interesting discussion came up about the general readiness of EM farmers for market oriented production and participation in value chains. The initial design of a new programme in Northern Vietnam supporting EM was based on the fact that the level of economic development in the selected province was too low for a value chain approach to be successful. Instead, the focus was on first creating an enabling business environment where farmers are encouraged to operate in a more business-like and commercial way and an emerging private enterprise sector encouraged engaging with them. Nevertheless, as the majority of EM farmers in Vietnam produce already for the market; thus, it would be impossible to follow a stepwise approach first creating an enabling environment before assisting farmers to establish market linkages. Instead, it would be better, to combine two approaches as shown above to ensure a successful market participation.

Lesson learnt:

Combination of VCD and Livelihood Approaches is essential

2.2.2 Ethnic Minorities as Target Groups

Several groups of EM farmers in the project areas showed interest in participating in the pilots. These groups, so-called “agricultural extension clubs”, are organised by AES and based on the interest of farmers in certain crops such as coffee and pepper. These clubs normally do not intend to increase their cooperation towards producer groups/associations.

As said earlier, the selected farmers were belonging to different ethnic minorities. Only in one group 1-2 Kinh farmers were members of the group. Again, their performance in the group was noticeable more active.

In discussions with the target groups, AEC and the RDDDL team, the **ranking of the ethnic groups**⁶ in the project area was obvious: first, the Kinh, followed by EM like Ede and J'Rai in Ea H'Leo and at last the less developed groups of Mnong in Lak district.

In general, the expected improvements of the pilots followed "the model of the most developed ethnic group", the Kinh. The standard set was related to the capability of Kinh farmers.

As outlined in an ADB study⁷, the implementation of development activities often takes the majority culture and thinking model as the centre. In turn, EMs tend to accept "development from the outside". Field studies of ADB showed that an inferiority complex is found especially among ethnic groups, where one group is dominant (e.g. Kinh) resulting in expressions like "Kinh farmers are more capable" or "we do not know how to organize our households and our farming".

The EM farmers in the pilot projects were quite open in naming their shortcomings such as debts, illiteracy etc. Kinh farmers reported more about their strengths and denied for example the dependence on traders. Loans were mainly taken from the banks according to their statements.

As a case study reported in 2006 from a cashew nut value chain project in Dak Nong⁸, the possibility of getting higher selling price belongs to farmers with higher education level. Thus educational level is expected to have a positive relationship with the bargaining power and also the selling prices that farmers obtain. More educated Kinh farmers receive higher price for their more market-oriented production. EM Farmers in indebtedness circumstance and under a few choices of buyers receive lower farm gate price than those without any obligation.

With regard to VCD, the position of the EM farmers towards trade and relationship with traders differs significantly from Kinh farmers: the EM farmers clearly stated that they would not like to see a trader within their ethnic group. They prefer to cooperate with Kinh traders with whom they often keep long-term and trustful relationships. A trader within the EM group could cause trouble, misunderstanding and would disturb the group cohesion, the group would like to avoid. With regard to forming a market oriented producer group, this mindset/attitude could contradict the idea of joining forces also commercially.

A CERDA⁹ project, focussing on EM and their integration into value chain promoted the set up of farmer groups and offered intensive capacity building for key persons to lead the groups. CERDA reported of the problems in finding people willing to lead the groups. Furthermore, customs of the involved EM attending various ceremonial events (long funeral, birthday, new house, one month baby, wedding, ceremonial offerings) were

⁶ If ethnic groups in Vietnam are be classified according to the extent to which their school enrolment rates are similar to the Kinh, EM such as Hoa, Tay, Muong, Nung and perhaps Thai are assimilating relatively fast, while other minorities, e.g. the Central Highland Minorities, are known for assimilating less rapidly.

⁷ ADB: Indigenous People/Ethnic Minorities and Poverty Reduction in Vietnam, 2002.

⁸ Cashew nuts supply chains in Vietnam: A case study in Dak Nong and Binh Phuoc provinces, Vietnam, presented at SEANAFE, August 2006 in Chiang Mai, Thailand, by Le Thanh Loan, Dang Hai Phuong, Vo Hung.

⁹ Ethnic minorities links to market through sales contract and organic oriented production, Vu Thi Hien, Centre of Research and Development in Upland Area (CERDA).

consuming time and financial resources to the disadvantage of the VCD activities.

Lesson learnt:

Considering the groups's innate strengths and long term vision

Citing the ADB study⁷, support to a group should not be conducted by imposing an external model that does not consider the community's innate strengths and resources. A detailed analysis at the very beginning of such projects can help to get a better understanding of the community's innate strengths and resources to be considered in the project approach and implementation.

However, as outlined in another ADB discussion paper¹⁰, the poor need be aware that they should be more motivated in mobilizing measures to overcome their poverty. They cannot rely on direct assistance from government and projects. They should have a long-term vision about their livelihood, enabling them to develop their own strategic planning for their future activities.

2.2.3 Capability/Readiness for the Market

With the introduction of the value chain approach RDDDL and the AEC raised the following expectations in connection with the approach:

- Access of poor small holders to the chain
- Introduction of new products and value adding
- Improved product quality
- Additional income and working capital
- More competitiveness
- Adaptation of international standards
- Reduction of (transaction) costs
- More investments
- Less dependency of farmers on traders
- Better relationship/linkages between the actors in the chain
- Information symmetry, not asymmetry
- Provision of business development services.

Lesson learnt:

Readiness for VCD is essential

Nearly all involved EM farmers were already producing for the market, especially industrial export crops such as cassava, cashew, coffee, pepper. Only rice production was mainly for home consumption. Therefore, farmers from ethnic minorities were already directly or indirectly integrated in existing value chains.

Still, volatility and decline of commodity prices cause insecurity of livelihoods of farmers depending on exports of primary goods. This is the case for coffee and pepper, the worldwide most valuable commodities, heavily affected by repeated price slumps. Indigenous people suffer more severe impact than Kinh from fluctuation of prices. As a consequence, in times of low prices EMs often cannot keep up with the investment any longer and decide to cut down the coffee trees in order to grow short-term food crops for food security, as reported by the involved groups.

10 ADB: Making Markets Work Better for the Poor. Discussion paper 08, February 2005

Coffee and Pepper Price Development

Coffee prices reached a peak in February 2008, but now with the financial crisis the coffee price is again down. Prices per kg coffee achieved in Dak Lak varied over the period of 2007/2008¹¹:

- Beginning of October 2007: 26,100 VDN
- Beginning of November 2007: 27,100 VDN
- Beginning of January 2008: 30,000 VDN
- **End of February 2008: 40,000 VDN**
- Beginning of November 2008: 23,500 VDN
- End of November 2008: 25,400 VDN.

The same with pepper prices: prices per kg pepper in Dak Lak also varied over the period of 2007/2008:

- Mid of November 2007: 47,100 VDN
- **End of February 2008: 62,000 VDN**
- Mid of November 2008: 33,000 VDN
- End of November 2008: 25,400 VDN.

Lesson learnt:

Organizational innovations & entrepreneurial capacities required

A way out of the commodity treadmill is seen e.g. in the production of specialised coffee such as 4C coffee, complying with environmental and social standards, or gourmet coffees, distinguished by good taste and a unique origin¹². Signing up with such labels includes a certain privilege for farmers (better market access and prices): e.g. EM farmers of the pilots were able to meet the requirements of 4C coffee, supplied the requested quantities and qualities and received slightly better prices and secured sales by contract.

But, linking farmers to such initiatives is not only about new production technologies (e.g. GAP, standards etc). Specialty coffee production and commercialization requires organisational innovations: new organisations (farmers groups) and business oriented skills are needed especially by farmers groups and their leaders, as direct trade relations emerge and negotiation takes place. Market orientation as well as entrepreneurial capacities is essential in order to maintain the farmers' position. With 4C, EM farmers could still sign up individually; in contrast trademarks like Fairtrade demand official farmer groups as partners.

2.2.4 The Project Implementation

The implementation of the pilots was hampered by the difficult political situation in the Central Highlands: access to EM is restricted; the government is forcing to channel the support through public institutions as AES and WU. International consultants face difficulties in approaching EM villages; even local consultants do not have free access to the villages.

In general, project implementation was hampered by an insufficient participatory approach to ensure the ownership of the project. As the RDDI pilots were designed and implemented closely with the Agricultural

¹¹ Source: Website of Dak Lak Trade and Investment and Tourism Promotion Center (www.daktra.com.vn).

¹² Innovations towards product differentiation – farmers associations' strategies to integrate into specialty coffee value chains, 2007, Bode, Reinhold, Jürgen Piechaczek.

Extension Service and the Women Union (also Farmers Union was involved in the preparation), the implementation was steered by governmental led mass organisations and therefore followed more a top-down approach. The selection of participants, the trainings conducted by AES and WU were not sufficiently developed and implemented in a participatory manner. Such top-down approach does not give EMs a sense of ownership of the activities and at the same time creates dependency on the pilot projects, as assessed by AEC.



Lesson learnt:

Be aware of EM ownership from the very beginning

After long discussions with the public authorities RDDDL got permission to contract so-called facilitators in the districts to assist the pilot groups in the field; one of the two facilitators even belonged to an EM. Still, most of the relevant persons supporting the pilots were from the dominating ethnic group of the Kinh. The contact with the pilot groups mainly focussed on the group leaders, because not all group members were fluent in Vietnamese.

Herein, a crucial factor is the language used. The use of Vietnamese can create obstacles in communication and understanding because many EMs, especially women, do not speak Vietnamese well. Absence of a common language prevents support staff from gaining a thorough understanding of the situation and prevents EMs themselves from expressing clearly their concerns and wishes.

Lesson learnt:

Value Chain Workshops with all stakeholders ensure ownership

Despite the above described political framework and limitations, initiating a value chain workshop at the very beginning of the process could help to ensure a greater ownership and a broader support structure beside the project and governmental organisations. Value chain stakeholder workshops inviting all stakeholders relevant for the development of the chain are common tools to initiate the process to improve business cooperation along entire value chains. Objective is to discuss the challenges and opportunities in the value chain, facilitate the definition of a joint vision, agree on a strategy, define the main areas for interventions and develop an action plan (interventions) for implementation.

Value Chain workshops use participatory approaches:

- Including the participation of local leaders, small and larger enterprises/farms, supporting actors plus officials
- Keeping the process short, simple and private sector-led
- Ensuring that viable market actors are present
- Focus on activities with short-term results
- Plan for sustainability to ensure that long-term goals can be met.

Aiming at promoting stakeholders' responsibility for steering the process of value chain development, VC Committees can be constituted at stakeholder workshops to follow up the process and progress made. With regard to Vietnam and EM, such workshops and committees, in first hand aiming at improving the product marketing, would still require a strong involvement of Kinh farmers, traders, exporters, and most probably resulting again in their dominance of the process.

A further crucial factor for the sustainability of such processes is the duration of the supportive interventions. The pilots were designed in the second phase of the project with a temporal horizon of 2-3 years. The limited time available for the pilots influenced also the setup of the pilots. The activities were very much focussed on product development and linkages to main exporters. Due to limited time and resources, RDDDL was not in the position to develop a comprehensive value chain project but decided to concentrate on pilot activities. However, due to the special situation EMs are living in support is required over a number of years.

Lesson learnt:

Allocate enough time for project implementation

SNV reports¹³ from a programme developing a dried longan value chain in Vietnam Son La province that there has been a growing acknowledgement that focusing only on production-oriented aspects of VCD is not enough to support farmers to develop their livelihoods and that other aspects such as broader marketing opportunities should also be considered. SNV highlights in the lessons learnt of the VCD project in Son La province that support to farmers needs to be continued for a number of production seasons to build enough confidence with them to continue on their own and become more proactive and risk taking.

Lesson learnt:

Define the role of the Project in cooperation with all VC Actors

With regard to the external support, the role of a VCD project (in this case RDDDL) is facilitation, supporting the empowerment of the chain actors and contributing to an enabling environment. Already from the very beginning the partners along the chain should define their contribution. All market/trade-related activities should be implemented by the private sector (farmers, traders) with support of the project, if needed. The project should not get into the position of a business partner managing activities along the chain or physically taking products from the field to the market.

2.2.4.1 Tools used for the Implementation

Value chain development is first and foremost a product related approach. Therefore, the design of the pilots focussed on product improvements and linkages along the chain.

Tools used for the implementation of the RDDDL pilots were mainly trainings, study tours and the set up of farm based model gardens. The design of the training activities with the farm groups was based on improved production standards (GAP) and related farm record keeping, only focussed on the selected product, not the entire farm system.

But, reducing poverty by providing market access and linkages need to be connected with capacity building and empowerment. The idea of supporting market oriented production requires the empowerment of the target groups to make their own decisions with regard to products, markets and partners. Access to markets and creating linkages in line with improved production

¹³ Source: SNV Hanoi 2007: Supporting development of the dried longan value chain in Son La province .

will only be sustainable if the farmers understand farming as a business and become recognized business partners. In discussions with women's S&C groups as well as farmer groups, the issue of illiteracy, access to information, development of skills as well as capacity building and post training support were raised. Farmers are aware of their weak position in the market, not only due to smaller quantities or poorer quality.

Lesson learnt:

Capacity Building and Empowerment is the key to entrepreneurship of EM groups

Capacity building is the key element in the support of EM and it should also focus on market orientation and entrepreneurship/farming-as-a-business including: business skills development, business planning, accounting, marketing, as well as organisational development. Tools for capacity building could be participatory learning and action, exchange with other groups and initiatives, training, TOT, post-training support etc. Interesting approaches are for example FAO's farmer schools concepts (field, business, live schools) in capacity building of poor and illiterate target groups ensuring strengthening the entrepreneurial skills.

The **household record keeping training** supported the understanding of farm and household management, although these trainings could not develop a perspective of improving the livelihood of the women groups. The training followed the usual approach of the WU; despite the fact that the initial analysis of the situation of the women groups in the region, done by WU, showed periods of food insecurity and hunger.



The women groups clearly stated that their expenditures always exceed their income; only documenting the deficits will not help them out of the trap. With regard to food security, this low income group is particularly vulnerable to grave food insecurity since the women lack adequate resources to produce enough food themselves or to buy expensive food from the market. Therefore, it will be important to generate supplementing income for the groups. E.g. an analysis following the sustainable livelihood approach would help to get a clearer picture of the situation of the families and to identify the potentials of the groups.

Lesson learnt:

Including the entire farm household is essential for improving livelihood

With regard to the livelihood perspective, it would have been an advantage to link the women groups with the farmers groups to get a joint impact in the farming and household systems. To get to a holistic picture, it may be necessary to find answers to questions related to both sides of the coin, the farm and the household¹⁴:

- Which crops are produced within the groups/villages? How important is each crop to the livelihoods of the groups?
- What proportion of output is marketed? How is it marketed, how much loans are taken per crop?
- How do prices for different crops vary through the year? How predictable is seasonal price fluctuation? Are the price cycles of all crops correlated?
- What proportion of household food consumption/needs is met by own production and what portion is purchased?
- At what time of year is cash income most important (e.g. for school, traditional events etc)? Does this coincide with the time at which cash is most available?
- Do people have access to appropriate financial services (e.g. S&C, banks) to enable them to save for the future? Does access to these vary by EM group?
- How long and intense is the 'hungry period'?
- How do income-earning opportunities vary throughout the year? Are they agricultural or non-farm?

2.2.4.2 The Group Performance

The issue of forming groups and to join forces in production and marketing was raised and discussed from the very beginning of the pilots. AEC strongly criticised the low group cohesion and performance of the selected EM groups with regard to development and sustainability. The groups formed so far could be described as common interest groups, attending jointly production oriented training courses and sharing information and experiences.

Lesson learnt:

Group cohesion and performance determine economic sustainability of VC intervention

The pilot groups explained their satisfaction with the support and reported about the improvements in their production and household management. Still, it was obvious that an economic need for forming groups was not understood and accepted. Especially EM farmers still think to have different options in selecting their partners and the way of selling.

As reported below from a coffee project in Ethiopia the prime factor in achieving success in the coffee sector is institutional/organisational development and capacity building for producer groups. Therefore, strong producers' organizations are essential to deal with market intermediaries and other private sector stakeholders.

¹⁴ According to the DFID Sustainable Livelihood document.

INSTITUTION BUILDING AND VALUE CHAIN STRENGTHENING TO LINK ETHIOPIAN COOPERATIVE COFFEE PRODUCERS TO INTERNATIONAL MARKETS, Jim Dempsey ACIDI/VOCA – Ethiopia 2006

The interventions in the Ethiopian cooperative coffee sector have had a significant positive impact on small-scale coffee producers. They have improved the quality of farmer coffee, gained access to higher value coffee markets, and earned substantially more income from their coffee production. A new coffee export value chain channel has open for smallholder cooperative producers.

A Combined Value Chain and Institution Building Approach

The success rests on a combined value chain and institution building program that includes

- a comprehensive market development assistance program in line with a value chain approach,
- broad based institutional and capacity building assistance for the cooperatives and unions.

The broad based institutional and capacity building assistance for the cooperatives and unions provided significantly more input, mostly direct training and technical assistance to coops and unions than a value chain approach where facilitation of market forces to strengthen firms is considered more appropriate than direct assistance.

Value Chain Approach in Ethiopia

There is no doubt that the starting and leveraging points for Ethiopian coffee sector development is the market. A comprehensive value chain approach to global marketing is an excellent framework to direct business development and market linkages. Equally important in understanding the potential growth of the coffee sector is that Ethiopia is one of the poorest countries in the world with literacy rates, roads per capita, manufacturing level, and overall competitive measures rated in all cases in the bottom 10 countries of the world.

Additionally, both business knowledge and experience are extremely low as a result of years of economically disruptive civil war and Marxist rule preceded by essentially a feudal system. Ethiopia's ability to enter and be competitive in international markets is limited because of these factors. Linking coffee producers to international markets in an economy such as Ethiopia's where many of the requisites to successful participation in global markets are so weak requires institutional and capacity building carefully provided to support value chain expansion. Building the institutions and capacity of the cooperative sector in the case of smallholder exports of specialty coffee was essential to opening a new coffee export channel. In Ethiopia for cooperative coffee, the combination of value chain approach and strong institutional development interventions provided the basis for a success in cooperative coffee.

Forming functioning producer groups among EM farmers is still a challenge. A value chain project in the Vietnamese tea sector¹⁵ recommends that poor farmers could be served by actively encouraging the establishment of poor tea farmer groups. Such associations are seen as a good basis for access to finance, better inputs, and for technical training. Increased collective action could also improve the ability of producers to upgrade into other activities, such as processing. However, also in this project, forming groups remains a challenge. Promising examples of EM farmers groups are reported from Thailand.

¹⁵ The participation of the poor in the value chain for tea, summary report, September 2004.

Marketing of fresh litchi with ethnic minority farmers in Thai Highlands

Through their participation in developing a plan to market fresh litchi with a large supermarket chain, Hmong marginalized farmers have realized the market value of high quality fruits that comply with food safety standards and sustainable environmental practices. The EM learned that high quality products do not alone guarantee market opportunities. Effective linkages and interactions amongst value chain actors exhibiting strong leaderships and influence are needed to encourage the adoption of key innovations and the elaboration of marketing plans which are in accordance with partners' level of commitment and attitude towards risks.

This joint marketing venture shows that participatory market development is a suitable option to empower marginalized farmers with desirable innovative practices. Establishing a long-term and trusting marketing partnership with a large supermarket that offers both stability and higher financial benefits has convinced Hmong ethnic minority farmers to maintain and properly manage their litchi orchards thus limiting land degradation in fragile mountain agro-ecosystems in northern Thailand. This suggests, that for marginalized Hmong farmers, adopting GAP guidelines, complying with a supermarket's demands, and building a long-term relationship with the supermarket means not only annual financial gains but a more secured livelihood.

Participatory Action Research on marketing fresh litchi with ethnic minority farmers in Thai Highlands, Anne-Marie Tremblay and Andreas Neef, presented at the Conference on International Research on Food Security, Natural Resource Management and Rural Development, October 2008

Forming groups outside cooperatives is still new in Vietnam. Group formation therefore will become an important issue of the future. Experiences show that Kinh farmers with more initiatives and skills easier join in groups, while poor and more disadvantaged groups such as EM are facing problems in joining forces. They even prefer to cooperate with a Kinh trader to keep financial transactions/problems outside the EM group.

Therefore, especially EM farmers have to be informed about the advantages and possibilities of group formation. With regard to the pilot projects the access to value chains in particular entails to join forces, especially with regard to pooling produce, joint marketing and sales. This requires a common understanding of the needs and the advantages as well as the market context. As shown above, an important aspect in achieving a successful cooperation with larger traders and to join initiatives such as 4C Coffee or for high quality pepper is forming a marketing group of producers. The larger exporters explained their interest not only in 4C Coffee but also in trademarks as Fairtrade, where producer groups are a pre-requisite. Furthermore, dealing with a number of individual small farmers is not very economic for exporters, who already demand larger quantities in constant qualities. The question will be if EMs really would accept to form commercial oriented producer groups. With regard to the statement of EM farmers concerning the acceptance of EM traders, it is expected that it could be a better approach to integrate EM farmers into Kinh dominated producer groups.

The pilot groups supported by RDDDL were exclusively groups of EM farmers. It was discussed whether a professional farmers group or cooperative should include only EM farmers or better be a mixed group allowing the EM to benefit from the knowledge and initiative of the Kinh farmer. The more advanced EM farmers of the coffee and the pepper group in Ea H'Leo district would join forces with Kinh farmers. In contrast, the coffee group in Dak Nue expressed their doubts of forming a professional group with Kinh farmer.

3 CONCLUSION

The main challenges RDDDL faced with the pilot projects was the general project orientation. RDDDL was not designed as a genuine value chain development project, but focussed with its various activities on specific regions and on specific target groups. Therefore RDDDL was not able to work all along the value chain but had to concentrate on the set region and target groups. Furthermore the other project activities were not commercially oriented; the pilot projects required a totally different approach.

To implement the comprehensive support measures for such pilot projects require the allocation of sufficient resources. The RDDDL team responsible for the pilots was also engaged in other project components and had only limited time resources available. Marketing expertise and experiences were available within the team, but not yet experiences with VCD.

The difficult political framework hampered the implementation significantly, because access to the regions was limited, external support difficult to get permitted and all activities required close cooperation with the public institutions.

To conclude in general on the results of the pilot projects:

The positive output of the pilots is the achievement of successful participation of EM farmers in product development, the adaptation to international standards and the cooperation with exporters.

The challenges remaining are related to the sustainability of the pilots: ownership, group formation, financial means for investments and sustainable improvement of the livelihood.

The following lessons learnt can be summarized from the pilots in RDDDL:

- Combination of the value chain and sustainable livelihood approaches is essential for vulnerable groups such as EM
- With regard to EM and their specific culture it is important considering the groups' innate strengths and long term vision
- Organizational innovations & entrepreneurial capacities are required for accessing new or niche markets
- Ownership of the process is an important issue from the very beginning. Value Chain Workshops with all stakeholders could support to ensure the ownership
- Project implementation requires sufficient time
- Define the role of the Project in the cooperation with all Value Chain Actors
- Capacity Building and Empowerment is the key to entrepreneurship of EM groups
- Including the entire farm household in the project activities to improve livelihood is essential
- Group cohesion and performance determine economic sustainability of VC intervention.

For future projects it is recommended to

- Ensure sufficient resources and know-how for additional activities/internal projects,
- Seek cooperation with other VCD projects especially to benefit from their value chain development and capacity building activities,
- Take a broader perspective and include the entire livelihood of the target groups into considerations,
- Analyse carefully the situation of the target groups including information collection as baseline study,
- Allow the stand point of the target groups and adapt the activities closely to their needs,
- Put a strong emphasis on capacity building and organisational development,
- Allocate sufficient time for the development of such (pilot) projects, minimum 4-5 years.

Annex 1: Terms of Reference

TERMS OF REFERENCE

Short-term Assignment: Evaluation of lessons learnt of the participation of ethnic minority small holders in value chains and marketing for selected products in the uplands of Dak Lak Province

Proposed Period: 15 - 31.12.2008 (in Germany)

Background

The project on Rural Development Dak Lak (RDDL) is implemented by the Department of Planning and Investment with assistance of the German Agency for Technical Cooperation (GTZ). It envisages alleviation of poverty and improved livelihood of the rural population through an increased participation of ethnic minorities in the economic development of Dak Lak Province. So far, phase I of RDDL (2003-2005) has focussed on the development and piloting of participatory models and procedures in community development planning (VDP/CDP), land use planning and allocation (LUP/LA), community forest management (CFM) and in sustainable upland farming (PTD/PAEM). Phase II (2006-2008) aims at integration of these approaches into the overall framework of public administration with regard to provincial planning, procedures of budget allocation and service delivery. Until the end of phase II it is anticipated that public development planning, budget allocation and services correspond in 2 districts with the needs of the ethnic minorities and that the administration of the province has approved the province-wide application of successfully implemented models. The project intervention is focussed on 3 components:

- I. Participatory development planning and budget allocation
- II. Participatory land use planning, land allocation and community forest management
- III. Upland farming and integration in value chains and marketing

Component 3 of the Project aims to develop and improve upland farming systems in the project areas. RDDL in coordination with the Agricultural Extension Centre Dak Lak (AEC) has adopted an approach based on PAEM/Participatory Technology Development (PTD) in order to develop sustainable farming practices particularly for the ethnic minority farmers in the uplands of the province.

RDDL has cooperated with the Agriculture Extension Stations of Lak and Ea H'Leo Districts to test and select a number of upland farming options, which are suitable for ethnic minority farmers with regard to improving their staple food supply and generating additional income through production of marketable food and cash crops. In addition, improved production practices for sustainable Robusta coffee, which is the main source of income in the province, were developed in cooperation with the Department of Agriculture and Rural Development and the private sectors. Trials on improved production of coffee, black and white pepper are still on-going pending final evaluation with regard to their suitability for a wider application.

Although there is substantial demand on local, regional and international markets for all these products, most smallholders and particularly those from the ethnic minority communities find it difficult to either access these markets at all or realise better prices through improved product quality or feasible on-farm processing. The fact that most buyers, i.e. middlemen or processing factories, usually do not differentiate prices according to quality while providing most processing services themselves poses a major obstacle.

The capacity of many smallholders and in particular most ethnic minority farmers in the project areas is rather limited with regard to production technology and to financial investment possibilities. This also limits their possibilities to access more lucrative markets and to participate more actively in most value chains. The challenge is to identify the realistic potential where and how these farmers do fit in and how they can effectively increase their benefit. This in turn requires a clear understanding of the concept of value chains and its specific application for the situation of poor smallholders and ethnic minority farmers in Dak Lak Province and in the project areas in particular.

In summer 2006 RDDDL in cooperation with the Agricultural Extension Centre engaged an international expert in marketing and promotion of value chains (in the following “the consultant”) to help identifying respective possibilities for the smallholders and particularly the ethnic minority farmers in the project areas and to formulate an action plan for concrete pilot activities to be implemented in the framework of the project. During a first mission the pilot projects were identified and structured. The main restriction particularly for the poor ethnic minority farmers to access the otherwise well functioning value chains was identified to be their high dependency on middlemen and traders for loans for productive inputs but also for daily household expenditures and the limited quality of their produce. Not seldom, do farmers have to spent up to 80% of their harvest to pay back these loans (often in kind) while not being able to take advantage of price incentives for quality products. This dependency also limits their flexibility to organise themselves with regard to input supply and marketing.

Several groups of farmers interested in participating in the pilots were formed in the project areas. In close cooperation with the Agricultural Extension Stations in both project target districts concrete concepts and activities for the pilots on coffee and pepper have been formulated. Detailed action plans including activities and milestones were developed for the coffee and pepper groups. Besides, the WUs started supporting two women saving groups to pilot the household economic management aiming to improve income and efficiency expenditure of their own family.

Objective

After the last mission of the international expert RDDDL and GFA started a discussion on lessons learnt of the pilot projects. It was decided to ask the consultant to summarize the findings of the last 2 years taking into consideration also experiences from other VC projects inside and outside Vietnam. For example, the consultant is familiar with the GTZ GFA SMNR-VC project in Dong Hoi and their activities in VC development. In addition,

experiences from other VC projects outside Vietnam and other best practices and approaches should be considered, e.g Sustainable Livelihood Framework, a tool developed by the Department for International Development (DFID).

Therefore, the objective of this assignment will be an analysis of the progress made in the RDDDL pilot projects in the last two years resulting in “lessons learnt” for other/future projects.

Approach/Activities

The lessons learnt are understood as a contribution to the discussion of linking EM/vulnerable groups to (international) value chains. Main output of the assessment should be recommendations for future projects/activities.

The approach is to draw lessons from

- The initial concept/approach of the pilot projects
- The implementation plan of the projects and actual implementation
- Tools used for the implementation
- The service providers, their role and the trainings provided
- The responsibilities for the project implementation
- The support provided by the project itself with regard to the local facilitators involved and the contribution/support of the main project staff plus of the international consultant
- Capacities/knowledge of the involved staff and capacity building measures
- The monitoring approach
- The role of the project in the cooperation with other value chain actors
- The links between the activities with farmer groups and women groups
- The impact/results of the pilot projects (including the impact of the value chain approach) and
- The crucial factors supporting or jeopardising the approach.

These lessons learnt should be compared with experiences of other projects. This requires a brief description of the other projects and their approaches. Also “best practices” should be presented allowing a comparison of the approaches.

Output/Reporting

The findings of the analysis will be presented in a report in English.

Time frame

The report of the lessons learnt will take place in the period from 15th to 31st of December 2008; in total 10 days in Germany.