

LAO PEOPLE'S DEMOCRATIC REPUBLIC  
Peace Independence Democracy Unity Prosperity

Ministry of Agriculture and Forestry  
Agence française de Développement

NORTHERN UPLANDS SUSTAINABLE DEVELOPMENT CORE  
COHERENT PROGRAMME

DESIGN AND FEASIBILITY STUDIES

WORKING PAPER ON VALUE CHAINS AND PRODUCERS  
ORGANISATIONS VC/PO

-draft-

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## I.INTRODUCTION

This document is the working paper drafted by the “agriculture / value chains specialists” invited to contribute to the feasibility and design studies for the Northern Uplands Sustainable Development Core Coherent Programme (NUSDCCP). These studies are commissioned by MAF with financial support from AfD, EU, SDC and also GTZ. The studies have been carried out between end of November 2008 and end of February 2009.

The consultants<sup>1</sup> assignment was for 7 weeks including meetings at all levels, workshops with MAF and the donors, field investigations in three provinces and reporting.

The object of this assignment is to design the value chains/producers organisations development component of the CCP. The terms of reference are available in annex.

Information and data have been collected through document review and unstructured discussions with various stakeholders during field investigations<sup>2</sup>:

- agriculture, commerce and planning departments at district and provincial levels
- middlemen and traders whose contacts were communicated by producers and agencies
- kumbans / villages authorities and producers in Viengthong (Houaphan) and Viengkham (Luang Prabang)

Time limitation and poor coordination in preparing field investigations have hampered field work efficiency but the team has managed to meet all key agencies at district and provincial levels.

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1 The “agriculture/value chains specialists” : Emmanuel Jouve for 42 days and Pouangsouvanh Sygnavong for 30 days

2 Field investigations have been conducted in five districts: Viengxay and Viengthong in Houaphan Province, Viengkham and Nambak in Luang Prabang Province, Samphan District in Phongsaly Province

## II.ASSESSMENT

This section provides a summary assessment of the key issues related to development of export commodities, the value chains that could be included in the CCP, focusing on existing value chains, the initiatives on value chains and support to producers organisations that can be “scaled up”

### A.Review of the diagnostic study

Main opportunities and area for improvement are:

#### Value adding and marketing

- Improvement of basic infrastructure for value adding.
- Development of a national strategy on value adding, and regulations and standards for commodity grades.
- Create incentives to develop local enterprises.
- Strengthen farmer links to local, regional and global markets.
- Streamline and enhance taxation and trade regulations and their implementation

#### Producers organisations

- Develop a regulatory frame-work for groups and associations.
- Conduct research studies and train extension staff to understand local perspectives and constraints in group formation.
- Train extension workers in flexible approaches to group formation
- Build capacities amongst district and kum ban staff to facilitate linking groups to markets.
- Explore opportunities to engage with the private sector in remote areas
- Encourage groups to use savings to attain supplementary funding for start-up and expansion of group activities.

### B. Key issues

The most striking features of the northern provinces agriculture is surely the recent explosion of commercial agricultural productions to supply the growing neighboring markets. Demand has been growing for a wide variety of products. A large part of what lao farmers produce is set to Vietnam via the roads of Houaphan and Xiengkhouang, and to China via Phongsaly.

On the push factor side, the Ministry of agriculture and forestry has developed a “four objectives, thirteen measures” strategy against which Provincial agriculture and forestry services to report upon. The 2006 -2010 plan currently under implementation.

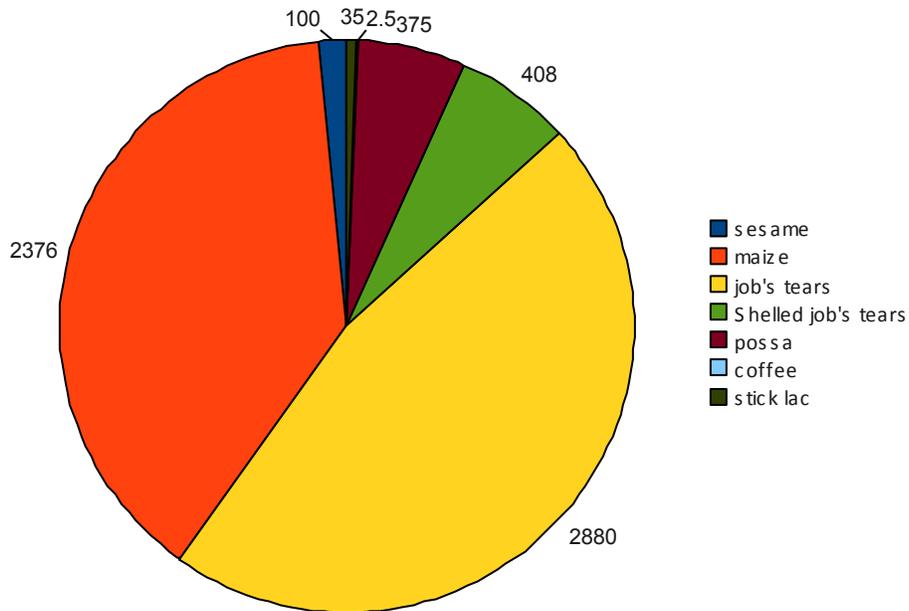
Policy for eradication of slash and burn agriculture has translated into promotion of modernised cropping systems focusing on cash crops for export in replacement of upland paddy production. As a positive result, agricultural products contribute significantly to provincial exports in the three selected provinces.

Value of exported agricultural commodities (In millions kips)

| 2007/2008                       | Phongsaly | Houaphan | Luang Prabang |
|---------------------------------|-----------|----------|---------------|
| Total export value              | 41,206    | 66,544   | n.a           |
| Total agricultural export value | 24,421    | 32,352   | 6,176         |
| Agriculture in %                | 59%       | 48%      | %             |

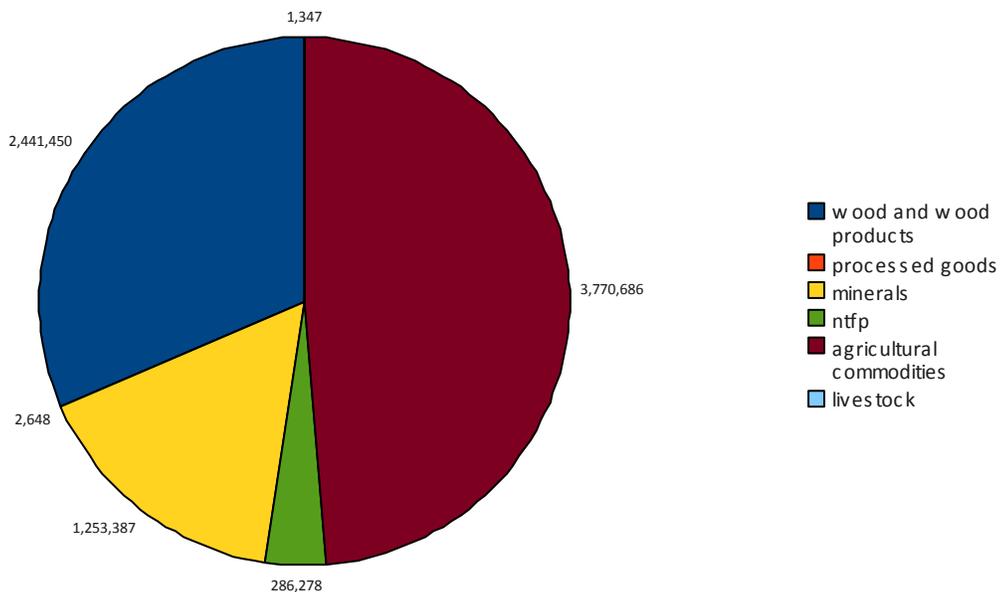
In Luang Prabang province, between October 2007 and September 2008, the province has produced a total of 6.18 billion kips in commodity for export, mainly maize and Job's tears.

About 93% of the maize produced in Luang Prabang is exported to Vietnam, the balance going to Thailand 4 % and Vientiane province (3%). Plans for 2008/2009 indicate that animal feed corn is still a priority. Production of stick lac for export to China is also being promoted and will become a major commodity over the next few years.



Commodity exported from Luang Prabang province in 2007/2008 (in Mkips)

Houaphan is well connected to Vietnam through three border check points: Nameo, Pahang, Bandan, Somvang. Data available at provincial commerce department show that maize has been the major contributor to provincial exports in 2007/2008 with a total value of more than 3.5 million USD. Overall, agricultural product accounted for 49% of the provincial exports in 2007/2008. Graph: Exports from Houaphan province in 2007/2008 (US\$)



Maize represents 94% of agricultural products exported (to Vietnam), followed by paddy and soybean.

Once a remote province, Phongsaly is now better linked with the rest of the country and with China through border check points at Pakha and Lantouy. A road link to Vietnam is also planned through Samphan and May districts, in the project area. Better road access has been a key factor in the recent development of cash crops production. According to data from the commerce department, sugar cane export was the major exported commodity in 2007/2008 with a total value close to 12 Billion kips.

Exports from Phongsaly province

| Export (value in Mkips)  | 06-07             | 07-08             | Plan 08/09        | Av price in 07/08 (kips/kg) | volume in 07/08 |
|--------------------------|-------------------|-------------------|-------------------|-----------------------------|-----------------|
| sugar cane               | 11,198,400        | 16,711,800        | 12,934,152        | 200                         | 83,559          |
| maize                    | 77,800            | 1,890,000         | 89,856            | 2,000                       | 945             |
| paddy                    | 492,000           | 1,792,500         | 568,260           | 1,500                       | 1,195           |
| capsicum                 | 72,000            | 1,200,000         | 83,160            | 5,000                       | 240             |
| tea                      | 17,820,000        | 682,380           | 20,582,100        | 8,500                       | 80              |
| Cardamom (kuang tung)    | 2,800,000         | 506,250           | 462,000           | 12,500                      | 41              |
| milled rice              |                   | 500,000           | 187,715           | 2,500                       | 200             |
| galangal                 | 196,700           | 375,200           | 227,189           | 14,000                      | 27              |
| banana                   |                   | 335,800           |                   | 400                         | 840             |
| watermelon               |                   | 225,000           |                   | 500                         | 450             |
| groundnuts               |                   | 72,000            | 63,063            | 6,000                       | 12              |
| sesame                   | 416,000           | 70,200            | 480,480           | 400                         | 176             |
| teak (plantations)       |                   | 60,000            |                   | 600                         | 100             |
| leather                  |                   | 24,584            | 28,394            | 4,390                       | 6               |
| dried chilli             | 17,250            |                   | 19,924            |                             | 0               |
| <b>total ag products</b> | <b>33,090,150</b> | <b>24,445,714</b> | <b>35,726,293</b> |                             |                 |

As per the plan, tea was expected to be the main commodity but farm gate prices dropped from around 50,000 kips /kg down to 3500-4000 kips/kg. Over the past two years, prices paid to farmers for those few promoted commodities have dropped sharply under the conjunction of two main factors: prices on world market have dropped and defavorable exchange rate fluctuations between the Vietnamese Dong and the Kips.

The following table provides an indication of prices paid to farmers for those products. Price ranges depend on distance and accessibility conditions.

| Commodities for export          | 2006/2007        | 2007/2008           | Remark  |
|---------------------------------|------------------|---------------------|---|
| Maize (grain)<br>houaphan       | 1000-1200kips/kg | 500 to 700 kips/kg  | In Viengthong district.<br>Price agreed upon at the start of the season: 1000 kips/kg |
| Sticklac<br>Luang prabang       | 12,000 kips/kg   | 6,000 kips/kg       | Contract guaranteed price: 10,000kips/kg  |
| Tea (fresh leaves)<br>phongsaly | 50,000 kips/kg   | 3500 – 4000 kips/kg | In Phongsaly district   |

For farmers, production of cash crops in replacement of upland rice had beneficial impact on household income but allocation of productive land and labour to those cash crops have transformed diversified farming systems into monocropping systems. Farmers have become more dependent on a single crop for their revenue. As prices dropped, they experienced net losses and were left with no alternative source of income. This evolution has followed a boom and bust pattern over the last 4 to 5 years for maize, stick lac and tea.

Unfavorable evolution of commodity prices paid to farmers is now the major issue. Farmers' strategy is to seek more reliable alternatives on both the production side and the marketing side.

### **1.Producers' access to market and monopsony situations**

For the export commodities mentioned above, the typical stakeholders are listed below:

| stakeholders          | location           | role  |
|-----------------------|--------------------|---|
| Producers             | village            | Production of raw product- no sorting of quality  |
| Middlemen / collector | District center    | Supply seeds and buy products, shelling for the maize   |
| Transporter           | Provincial level   | Transport product to provincial center  |
| Traders               | Provincial capital | Drying, storing and export<br>Supplier of inputs and credit,                                  |
| Foreign investor      | Abroad             | Financial support for input supply and access track, supply market demand in china or vietnam |
| District authority    | district           | Arrange 2+3 contract schemes  |
| Nayobay Bank          | Provincial level   | Provide credits to farmers  |

Farmers access to market is conditioned by government intervention. District authorities, through agriculture and commerce services, are in charge of organizing the market under the 2+3 contract arrangement model. When a trader request the authorisation to operate in a district, the authorities will designate a group of villages were the trader will be guaranteed exclusivity to promote cropping and buy the production.

Traders invest in input supply: hybrid seeds, staplings for tea and stick lac. Those inputs are to be repaid by farmers either in deduction of the production at the time of the transaction (for maize) or through profit sharing between the producers (60 to 70%) and the trader (30 to 40%) for stick lac.

In some instance, traders also invest in building access tracks when villages allocated by the district are not accessible. Farmers have also to contribute to this investment.

Under those arrangements, traders find themselves in a monopsony situation. Farmers are heavily dependent on one single stakeholder for input supply, credit and market outlet. When farmers experience a loss due to low productivity or low prices, they are not in a position to repay for seeds and inputs supplied and for the access track if any. They become in debt to the trader, worsening their level of dependency.

In the many cases where products could not be bought at prices agreed upon or guaranteed by the trader, the district and provincial were not in position to intervene in favor of the farmers. This emphasises the issue of legal framework and contract enforcement.

On the other hand, traders are also affected by price fluctuations and they have experienced severe cash flow problems. In many instances, farmers reported that traders refused to buy the production. Under the monopsony situation, farmers did not have any alternative outlet. By the time the traders were able to complete the transaction (as late as January 2009 for the maize) the products were spoiled. Traders' drying and storage facilities capacity is too limited to overcome this situation. Developing drying and storage facilities at producers level is a major area of improvement identified for the programme.

As farmers have stopped producing rice to allocate land and labour to the promoted commercial crops, their demand for rice increases. The district authorities with the financial assistance from the Nayobay bank have been establishing rice stores to supply villagers. This also have induced more debt on the farmers side.

Producers bear most of the risk involved in the transaction. Wherever the team had the chance to discuss with farmers, they insisted on the need to get access to more marketing options through the intervention of several traders. A major option for the programme will be to promote quality (through post harvest operations, drying, sorting) and to seek for market outlets that can reward quality products with higher farm gate prices.

## **2. Producers organisations and cash crops development**

Populations in the Northern Uplands have relied on both subsistence farming (mainly paddy production on slash and burn agriculture) and commercial agriculture. Farmers who started getting involved in cash crop production with some success will not easily revert to subsistence agriculture. There is no dichotomy between “subsistence villages” and “commercial agriculture villages”. There is a gradient between areas that are more or less well connected to markets and where a combination of push and pull factors have induced livelihood transition.

As production factors (labour, land and capital) are limited the farmers have to make a choice as of where to allocate resources. This choice should belong to producers in response to individual or common strategy and undistorted market signals (demand, prices) and incentives.

In the context of cash crops development stakeholders from the private sector have been more and more present in the rural areas. In some instances, they have started to organise themselves on a formal or an informal basis. Associations of middlemen, traders have been established and registered at chamber of commerce.

On the other hand, farmers do not tend to get organised. There is little social capital to build upon when assisting farmers in organising themselves in interest groups. It will be a critical area of the project, especially in the most vulnerable villages.

## **3. Poor access to extension services, information, credit and agricultural inputs**

Extension services in support to development of cash crops production have been very limited. On the technical side, inappropriate cropping techniques have depleted soil fertility, inducing rapid decrease in productivity over few cropping cycles. The investors in the 2+3 contract arrangements have conducted virtually no training or technical support to farmers.

On the organisational side, there is no support for farmers to get organised. Producers depend on village authorities as their representative when dealing with middlemen and traders. In the near future, NAFES will have the mandate to support producers organisations.

Very little information is provided on market demand, quality standards, prices, etc. The only market signals that reach producers are the one emitted by the middlemen. Commerce department at district level have also very limited or no information on market demand, quality standards, prices.

As mentioned earlier, credit and inputs are provided by traders at a high cost, inducing high debt level on farmers side. There is a need to provide farmers with alternative source of credit.

#### **4.Trading procedures, quotas on NTFPs, taxes, transportation costs,direct price control**

##### Trading Procedures

The traders have to request a certain number of documents and authorisations to be able to operate.

- trading license at commerce department is delivered for 60,000 kips with a limit of 100 tons. Traders refer to “quota”, for what is actually a license to trade a limited volume.
- authorization from agriculture services cost 50,000 kips
- fees at finance department cost 35,000 kips.

Overall, trading 100 tons of maize would cost the trader 145,000 kips in administration fees, plus a turnover tax of 2%. The trader can also choose to pay a 35% tax on profit instead of the 2% turnover tax.

A significant trader with appropriate connections in Xamneua town (Houaphan province) said all documentation can be completed within one day.

##### Tax system

Tax collection has been improved as taxes can be paid either at village, district or provincial level. In Viengthong district, tax is a flat rate of 2% of the farm gate price for agricultural products such as maize and 10% for NTFPs. In Viengkham district, there is no tax on maize trade.

Tax systems vary from one district to another and there are numerous inconsistencies depending on respondent. There is a need to streamline the tax system to make it more transparent.

##### Transport costs and export taxes

Transport costs are generally charged per kg of product. For instance from Viengthong district center to Nameo border check point to Vietnam, it would cost 250 kips/kg this year, against 300kips/kg last year, when fuel was at 12,000 kips/liter.

##### Costs related to transport and export

|   | Houaphan province                               | Xiengkhouang province                      |
|---|---|--|
| Weight station                            | Fee of 800,000 kips/truck, overload “tolerated” | No fee charged but overload not authorised |
| Export fee Lao border checkpoint at Nameo | 1,000,000 kips/truck                            | 100,000 kips/truck                         |
| Export fee Vietnam border checkpoint at   | 5,000,000 VND/ truck                            | 200,000 VND/truck                          |

|       |  |  |
|-------|--|--|
| Nameo |  |  |
|-------|--|--|

Traders are now exporting to Vietnam preferably through Xiengkhouang where conditions are more favorable.

#### Price control

the government controls price of key commodities such as rice and meat. The control is done through the Foodstuff company a State Own Enterprise with provincial branches. This has been mentioned by commerce department in Houaphan province and confirmed by the department of internal trade at ministry level.

### **5. Service providers**

There is under-investment in processing of agricultural products by the private sector. The existing drying facilities for maize and jobs' tears located in Houaphan (Vengxay) and Luang Prabang (Nambak and Luang Prabang districts) have limited capacity and the bulk of the production is exported without any form of processing.

The reasons are related to the unfavorable business environment in rural areas:

- the poor physical infrastructure which affects transport access and costs,
- weak regulatory frameworks for contract enforcement – or no contract at all
- disruptive government intervention in market
- cumbersome tax system
- poor access to and high costs of formal financial services,

The resulting unfavorable business environment is a major limiting factor in developing value chains. Farmers have limited market options and the domestic economy suffers of the lack of transformation and value adding of agricultural products.

Agribusiness also have to bear part of the risks related to cropping systems: low technical levels in cropping techniques, poor understanding of market requirement on farmers side, high risks of crop failure (pests, weather)

Currently traders and associated middlemen are generally small enterprise, driven by quick return and low level of risk as their interest is protected by district authorities. The programme will try to attract more reliable stakeholders, interested in a longer term approach to participate in the development of value chains oriented to more quality.

### **C. Identified value chains**

At the design and feasibility stage, existing value chains have been identified and categorised as follow:

- High priority value chains are to be included in the programme at a very early stage as assistance has been requested by producers, middlemen: maize, jobs' tears, sticklac. Currently, significant production areas are involved and are set to be further expanded. Those products are produced for export and are major contributors to the provincial economy. They have been a major source of cash income for producers in the last few years.
- Value chains with potential for local processing: soybean, sesame, peanut. Those products are already present in the target provinces. There might be a potential to

process some of those products to produce oil and to prepare animal feed at village level.

- Value chains with high potential for development are generally niche market products : wild tea, cardamom, galangal, kay noy rice, organic rice, river weeds, honey. Some of those produces could be eligible for certifications such as fair trade, Geographic Indication and -in a lesser extent-organic agriculture. Fruits and vegetables also present some potential for income generation, either sold fresh or commercialized after processing.
- NTFPs value chains should be treated with a specific approach in relation with land use planning at village level. The market demand for those products is also very product specific and quantities involved can be quite limited.
- Value chains that have to be further assessed are rubber and teak. Rubber will enter in production phase in few years.

The current distribution of products in the three provinces is as follow:

|   | <b>Phongsaly</b>                       | <b>Houaphan</b>        | <b>Luang Prabang</b>                            |
|---|--|------------------------|---|
| High priority value chains                      | Planted tea, cardamom, galangal        | Maize, bamboo, soybean | stick lac, maize, job's tears                   |
| Value chain with potential for local processing | Peanut, Sesame                         | Peanut, sesame         | Peanut, sesame                                  |
| Niche market value chains (Fair trade, IG)      | wild tea, honey, fruits (plum, litchi) | kay noy rice, fruits   | Fresh produces (vegetables, fruits), river weed |
| NTFPs value chains                              | Posa, broom grass, etc                 | Man Onling, Peuak bark | Posa, broom grass, etc                          |
| To be further assessed                          | Rubber                                 |                        | Rubber, teak                                    |

Livestock value chains are also to be included in the program in every province.

### **1.Maize**

Compared to the two other target provinces, Houaphan is a major producer of maize for export . This is a very recent evolution - 2 to 4 years depending on districts - pulled by demand from neighboring Vietnam for raw material to supply animal feed factories. Expansion of maize production is also in line with government policy to modernize agriculture and stabilise slash and burn cropping systems.

Maize production in the three target provinces in 2007/2008

| 2007/2008            | Phongsaly | Houaphan | Luang Prabang |
|----------------------|-----------|----------|---------------|
| Area (ha)            | 2,200     | 33,654   | 478.6         |
| Average yield (t/ha) | 3.61      | 5.94     | 4.2           |
| Production (t)       | 7,942     | 199,908  | 2,015         |
| Export (t)           | 945       | 30,808   | 1,080         |

|                    |       |        |       |
|--------------------|-------|--------|-------|
| Value (Mkips)      | 1,890 | 30,338 | 2,376 |
| Av price (kips/kg) | 2000  | 984    | 2200  |

Data available from department of commerce show that only 15% of the maize produced last year in Houaphan would have been exported. In reality most of the maize is exported to Vietnam through Xiengkhouang because of more favorable conditions at border check point. Quality of maize produced in Houaphan has been very low this year: collection by middlemen has been delayed and maize stored at village level has been spoiled. Also maize has been exported in ears, while it is mainly exported in grain in other provinces, explaining the difference in price.

Currently the dominant production system is mono-cropping with very low if any application of fertilizers / pesticides. In the first years of cropping under slash and burn agriculture, productivity is good (soil fertility and few weeds). There is also very little mechanisation for soil preparation so far, but this is set to change in the near future as witnessed by the traders' investment plans below.

#### Maize production plan in Houaphan province for 2008/2009<sup>3</sup>

|              | seeds         | planned area  | traders   | dryer     | access track  | tractors   | shelling     | rice mill  |
|--------------|---------------|---------------|-----------|-----------|---------------|------------|--------------|------------|
| districts    | ton           | ha            | companies | unit      | km            | unit       | unit         | unit       |
| Xamneua      | 35.49         | 2,211         | 18        | 1         | 119           | 0          | 0            | 0          |
| viengthong   | 33.01         | 2,165         | 17        | 29        | 10            | 3          |              |            |
| Sobbao       | 56.67         | 3,245         | 16        |           | 2             |            | 4            |            |
| xiengkho     | 74.26         | 4,931         | 5         |           | 43.5          | 177        | 17           | 145        |
| viengxay     | 67.69         | 4,512         | 5         |           |               | 3          | 11           |            |
| xamtay       | 61.65         | 4,209         | 10        |           | 82            | 106        | 20           | 40         |
| Aed          | 76.98         | 3,856         | 12        | 1         | 25.87         | 15         | 30           | 10         |
| houamuang    | 68.29         | 3,794         | 10        |           |               |            | 51.5         |            |
| <b>total</b> | <b>474.03</b> | <b>28,923</b> |           | <b>31</b> | <b>282.37</b> | <b>304</b> | <b>133.5</b> | <b>195</b> |

In 2008/2009 maize production area should be around 29,000 ha, a 13% decrease compared to 2007/2008. Traders plan to invest heavily in infrastructures (drying facilities and access tracks), in production and processing material (tractors, shelling facilities and rice mills) and in inputs (mainly seeds).

Traders expect a return on those investments in various ways:

- seeds provided at the beginning of the season are to be repaid by the producer
- for access tracks, villagers are to repay the investment over a period of time in accordance with a signed agreement
- services provided to farmers (soil preparation and shelling) are charged to the producers

In those monocropping systems, the main source of cash for farmers is maize, implying that they will pay the trader in kind at harvest time.

To protect the investor and secure those investments, traders and district authorities negotiate long term exclusivity to buy maize from areas where they have invested. This creates local

<sup>3</sup> This draft plan has been provided by the department of commerce at provincial level and has yet to be approved at district level by planning & investment, agriculture and commerce departments

monopsonies where farmers become dependent upon “their” trader as their only way to reimburse the debt is to produce maize for that trader.

Quality of inputs is generally low. In Viengthong district, seeds stored by a middleman were expired for two years. Traders do not provide technical services to producers. Under 2+3 contract farming scheme, the investor is expected to supply inputs, to provide technical advice and to ensure market outlet. Investors have provided very little technical support, but have provided infrastructure and other services to producers.

For district authorities though, extension of cash crops for export and development of infrastructures are positive outcomes to report upon the 4 objectives and 13 measures set by central level. In short, traders tend to substitute to government agencies to provide credit, inputs, services, and develop infrastructures at the cost of the producers.

Picture: An example of access track built by a trader to access maize production area in Viengkham District (cost about 25 Mkips/km)

On farmers' perspective though, the conditions are putting pressure on income and on livelihood. Most of the risks are on producers' side.

Prices: As assessed in Viengthong district, prices have decreased from around 1000 kips/kg in 2007 down to 600 - 700 kips/kg this year. The price announced at the beginning of the season was of 1000

Productivity has also dropped under the conjunction of bad weather and soil fertility in areas where the maize has been cropped several seasons in a row. Farmers in several instances estimated that economic threshold would be at 500kg/kg of seed.

In the first year of production, productivity used to be about 600 to 700 kg per kg of seed. With a farm gate price around 1000 kips/kg, farmers would have had a gross margin of around 100,000 to 200,000 kips. In 2007/2008, yields have dropped down to 200 kg/kg seed

On farmers prospective, maize had positive impact on livelihood in the first years of production before yields started to decrease and when farmers got better prices for their product.

#### Potential for programme interventions

Value chain analysis on the base of the comprehensive study that has been commissioned by AfD in 2008. This study is not published yet.

Encourage the establishment of small interest groups of producers

Pilot open market zones with intervention of several selected buyers

Improve supply chain of quality inputs and credit

Improve technical extension services on production techniques (sowing, weeding) and post harvest operations

Facilitate and support the construction of small scale dryers, storage facilities at Producers groups level

Build access tracks and in order to reduce dependency on traders

#### Risks and assumptions

Risks are related to prices and market uncertainties and to existing contractual arrangements between the district and the traders

## **2. Stick lack (khang)**

Stick lack is a red resin produced by an athid inoculated on Pigeon pea (*cajanus cajan*) as the main crop. In Muang Ngoi district “may liang”, a local tree species is also used.

On pigeon pea, stick lack can be harvested twice a year, once in april and once in october. Average production is of 800 g of fresh stick lac per plant per year (400 g per season). Average productivity is between 800 kg to 1 ton per ha. Gross product on a hectare can be up to 6 Mkips.

Stick lack production has been promoted in Luang Prabang for few years, to supply a chinese company that has signed an exclusivity contract with the governement at central level. The market is a monopsony with a trader in Nambak and collectors/middlemen at district level.

Although prices are guaranteed at 10,000 kips per kg, the farmers now receive only 6000 kips/kg of stick lac. One middle man in Ngoi District in Luang Prabang has expressed his concern over this change in price as farmers feel the contract is not enforced. They have taken loans from the nayobay bank to cover production costs and buy rice as they have stopped slash and burn agriculture.

In 2007/2008, 50 tons of stick lac have been produced in Luang Prabang. After available data stick lac was traded at 7000kips/kg to the Chinese market.

Plan for year 2008/2009 is of about 4000 ha, out of which 940 ha in Ngoy district, 927 ha in Viengkham district, 900 ha in Pakseng district and 254 ha in Pakseng. As the areas are going to be extended in target districts, and there are some marketing issues involved, it is recommended that the programme intervene to indentify potential actions to assist producers on the organisational and commercialisation sides.

### Potential for programme interventions

This value chain should be assessed in priority, including identification of potential alternative outlets for sticklac.

The main area of improvement from the CCP would be on establishment of stick lac producers organisations to be better represented in the value chain.

There might be potential for added value from drying operations

### Risks and assumptions

The current monposony context is defavorable to farmers and there might be reticence on the creation of producers organisations from authorities and the traders side

Price have dropped sharply in 2008 and the might not be attractive on the long term

## **3. Tea**

Komen villagers are very proud of their “four hundred years old” tea trees. Tea has been grown in the area for centuries, after domestication of a wild variety. The village is located at 1500 masl, only few kilometers out of Phongsaly capital town.

More recently tea production has been promoted by provincial authorities as an alternative to slash and burn agriculture with the support from the Lao American project. Three companies are present in the Phongsaly district: a Chinese company (Pufa tea company), a Malaysian company and a Lao company (Kabmany company, Mr Khamphan)

The Pufa tea company has been operating for 10 years and it has developed 850 ha of tea plantations with a variety of Yunnan. The production of dry tea is of about 150 t/year.

The Malaysian company has developed a storage and processing facility in the outskirts of Phongsaly district town on the way to Komen village. Farmers reported that the company has refused to buy tea leaves from the farmers because of limited storage and processing capacity.

Overall 3477 families in 97 villages are involved in tea plantations. The area as of December 2008 is of 2183 ha of which 80% in the Phongsaly district. To reach the target area of 3774 ha, the government agencies plan to increase production area by 622 ha in 2009 and 1161 ha in 2010 mainly in the Nyot Ou district.

| tea area / district | kumbans   | villages  | families    | target area (ha) | achieved up to yr 07-08 | plan for 2009 | plan for 2010 |
|---------------------|-----------|-----------|-------------|------------------|-------------------------|---------------|---------------|
| phongsaly           | 5         | 32        | 1320        | 1673             | 1746                    | 60            | 60            |
| may                 | 1         | 3         | 16          | 10               | 1                       | 9             | 0             |
| koua                | 2         | 10        | 303         | 40               | 15                      | 10            | 15            |
| sampham             | 5         | 21        | 607         | 162              | 162                     | 0             | 0             |
| bounneua            |           | 9         | 383         | 298              | 154                     | 44            | 100           |
| nyot ou             | 2         | 5         | 439         | 1451             | 53                      | 467           | 932           |
| bountay             | 2         | 17        | 409         | 139              | 52                      | 33            | 54            |
| <b>total</b>        | <b>17</b> | <b>97</b> | <b>3477</b> | <b>3773</b>      | <b>2183</b>             | <b>623</b>    | <b>1161</b>   |

In the last few years, the price paid to farmers were very high, up to 50,000 to 60,000 kips in 2006/2007. Now the price paid to farmers is 3,500 kips to 4,000 kips/kg and the farmers complain that tea does not generate high enough income to cover family living expenses and buy rice. As per the policy and with increasing income, farmers did reduce or abandoned slash and burn agriculture to allocate their labour to tea harvesting.

Rice stores have been established in the village to supply the farmers. They can buy rice at 4000 kips / kg. This price includes a 200 kips/kg administration fee. Also, tea farmers have access to loans from the Policy bank to up to 10 Mkips, with an interest rate of 20% p.a. Heavy indebtedment has been reported by the farmers.

The project will be implemented in areas where tea plantations have not yet been developed, but it could advise the province on improving the current value chain for planted tea and propose an approach for new plantations to be developed in koua and samphan.

The major potential would be from wild tea that could be promoted with a certification such as Geographic Indication or fair trade.

#### **4. Bamboo**

Bamboo is widely present over the project area. It can be collected and also cultivated. Bamboo value in chain in Houaphan has been studied in detail by SNV in 2007. Oxfam Hong Kong through the Prosperity Initiative program is involved in the bamboo value chain in Houaphan. The programme will liaise with those initiatives and identify scaling up opportunities. There is a demand for off-season bamboo shoots. Detailed assessment the market in Laos and Northern Vietnam for dried bamboo should be conducted.

## 5. Cardamom (mak naeng)

Cardamom is traditionally a forest product, collected to be commercialized and exported to China. Commercial production has been developed in Phongsaly using the Guang Dong variety from China. PAFO reported low germination rate on that variety and the recent introduction of the “paksong” variety.

Prices were around 50,000 kips/ kg in 1998 and then progressively dropped to 15,000kips in 2002. The prices are currently around 30,000 kips/kg.

Area involved in Phongsaly is about 1557 ha.

Cardamom could be developed although the market has not been assessed during this study. It seems there is potential to develop a value chain for cardamom as demand in China is growing and prices are up again. One option would be to form producers groups that could provide drying and transport services to the members.

## 6. Galangal

Traditionally a forest product, galangal (*Alpinia galangal*) is a zingiberaceae that is now cultivated as a perennial crop. Its fruits are exported to China where they are used for medicine. Fresh roots are also exported, to Thailand and China as a food condiment.

In some instance, galanga is intercropped with rubber plantations in the first year.

There is significant market demand for this product in China, where galanga fruits are used in medicine. Also the rhizome is use a condiment in Thai cuisine and a traditional dish in Sichuan.

In Phongsaly, the total area cropped so far would be of 850 ha.

In Viengkham district, Luang Prabang province, current prices paid to farmers for galangal are around 10,000 kips/kg.

There is potential to develop a galanga value chain, as there is a steady demand for galangal rhizome as an ingredient in Sichuan food. It is an easy crop but fructification is dependant upon weather conditions inducing risk of crop failure

## 7. Rubber

Rubber plantations development has sparked controversy in Lao PDR, because of potential negative impacts on livelihoods and the environment. The CCP will phase in as some of the plantations will enter production stage in Luang Prabang. Phongsaly province plans to establish new plantations in the next few years.

|                      | Phongsaly       | Houaphan             | Luang Prabang            |
|----------------------|-----------------|----------------------|--------------------------|
| Area (ha) up to date | 12586 ha        | 100                  | * no data in pafo report |
| Planned 2008 to 2010 | About 20,000 ha | No extension planned |                          |

Several publications have been made on rubber, including a recent study by GTZ in Luang Namtha. In the three provinces visited, provincial authorities have expressed their concern over environmental and social impact of rubber concessions and contract farming arrangements. No additional rubber concessions are planned for the next few years, but concessions already granted will continue implement their plans.

Profit sharing agreement between farmers and the company. As the company has provided seedlings to the farmers, the profit sharing agreement is 70% for the farmers and 30% for the company. In Viengkham district, a model farmer supported by PAFO have produced and distributed rubber seedlings to individual farmers. He also follows the same profit sharing agreement.

#### Phongsaly rubber development plan

| Rubber (ha)        | Target area (ha) | companies | Achieved in 2006/2007 | Cumulated up to 2007/2008 | By companies | farmers plantations | Plan 2008/2009 | Plan 2009/2010 |
|--------------------|------------------|-----------|-----------------------|---------------------------|--------------|---------------------|----------------|----------------|
| phongsaly          | 6000             | 3         | 85                    | 313                       | 313          |                     | 3810           | 1907           |
| may                | 4000             | 1         | 303                   | 1053                      | 1053         |                     | 1964           | 983            |
| koua               | 9000             | 2         | 2226                  | 3666                      | 2124         | 1542                | 4654           | 2372           |
| samphan            | 0                | 0         | 10                    | 20                        | 0            | 20                  | 15             | 30             |
| bounneua           | 2800             | 2         | 917                   | 1893                      | 1893         |                     | 942            | 471            |
| nyot ou            | 2184             | 2         | 329                   | 1804                      | 563          | 1241                | 1080           | 540            |
| Boun tay           | 2462             | 3         | 1862                  | 3837                      | 531          | 3306                | 1287           | 643            |
| <b>total prov.</b> | <b>26446</b>     |           | <b>5732</b>           | <b>12586</b>              | <b>6477</b>  | <b>6109</b>         | <b>13752</b>   | <b>6946</b>    |

Areas involved have more than doubled between 2007 and 2008 and should be over 26000 ha by 2010. Available data indicate that farmers' plantations would represent half the total area. For 2009 and 2010 two districts have included farmers plantations, namely Samphan (45 ha) and Koua (150 ha). Of the three districts selected, Koua is the main target for rubber in the province with one third of the total area. The province does not plan to grant additional concessions or 2+3 contract schemes in the next few years.

The CCP should further assess market and transformation options and provide information and advice to farmers who have developed plantations or plan to do so.

### 8. "Industrial crops"

#### Job's tears

Job's tears is produced in Luang Prabang mainly for the Thai and Chinese market. Last year 1200 tons have been exported at a price of 2400 kips/kg and 136 tons of shelled job's tears exported to China at 3000 kips/kg. This is a major export commodity and a detailed value chain analysis should be conducted to assess potential interventions and support to producers groups.

Soybean and sesame are crops that offer good potential for processing by producers organisations: Oil production and animal feed preparations.

Peanut is a product that can be consumed, sold on local market or exported.

### 9. Kay Noy Rice

Kay noy rice is a glutinous variety of rice that is specific of northern Laos (Xiengkhouang and Xamneua). It is highly regarded for its aromatic character and excellent eating quality, on account of which it is sometimes eaten alone without the usual side-dishes.

The PEIG project has been working in both provinces to establish maps of the cultivated area (mapping) and work on specifications for certifications.

Kay Noy rice has been identified as a pilot product – among four other ones - with potential for Geographic Indication certification.

Geographic indication is one of the quality schemes that are being developed in Laos. A law on intellectual property has been promulgated in 2008, but an application decree is yet to be signed. The application decree will include Geographic Indication certification.

PEIG has been coordinating with NAST is in charge of issues related to Intellectual Property. NAFRI on assessing khao kay noy potential for certification. The PEIG will end in October 2009 and it is recommended that the CCP should promote and continue coordination efforts.

### **10.NTFPs**

There is a wide variety of NTFPs that are commercialised in the three provinces. The main products traded are:

Paper mulberry for export to Thailand. SNV is currently working on improvement of the possible value chain, by focusing on linking producers and the market in Thailand.

Broom grass is an NTFP that can be easily produced. Area planned for 2008/2009 in Luang Prabang is of 2220 ha. It is exported to Thailand and Vietnam by small traders that collect the product from middlemen. The value chain is

Peuak Meuak - *Boehmeria malabrica*- is a tree bark that is collected to be sold in China for its glue content and for incense. An adult can collect up to 60 kg per day, and price paid to farmers are around 4000 kips/kg. Houaphan exported 979 tons of peuak meuak last year, totalling 1.565 billions kips. There is good potential to develop a value chain on this product.

Honey production has been promoted by the ONG Germany Agro Action in Phongsaly. Although honey production requires technical skills and experience, there might be a market for such a natural product. requires a high level of technology, it should be included in the screening of value chains.

## D. Initiatives

There are promising initiatives in two main areas that the CCP could built upon: in the areas of Producers organisations and Value chain development in partnership with the private sector.

As reviewed at diagnostic stage and mentioned in the Annex section 1 of the report, there are several initiatives in the area of value chains and producers organisations that

| Initiative                   | Focus  |
|------------------------------|--|
| VECO                         | Maize in Bokeo, farmers enterprises  |
| SADU                         | Small-Scale Agro-Enterprise Development in the Uplands   |
| PDDP                         | Tea and cardamom in Phongsaly, multi purpose driers  |
| PCADR / PAB                  | Coffee producers groups and association- AGPC<br>Coffee processing facilities<br>Fair trade and Geographic indication certifications |
| SNV                          | Value chains: Bamboo in Houaphan and Mulberry paper in Luang Prabang   |
| Nyot Ou project in Phongsaly | Diversification on sloping land  |
| GAA project in Phongsaly     | Pilot honey production   |
| PEIG                         | Programme Indication géographique- khao kay noy in Houaphan and Xieng Khouang is relevant for the CCP                                |

Extracts from the Diagnostic study on the two main experiences that should be built upon for the CCP:

Small-Scale Agro-Enterprise Development in the Uplands (SADU) has been very successful in developing internal and cross border marketing systems and initiating downstream small agri-business by bringing together local business men/traders and producers of various commodities including peanuts, paper mulberry, and cattle. (diagnostic study, 2008)

### PACDR/ PAB

Farmers groups offer potential to improve efficiencies of scale, local value added production and strengthen the bargaining position of farmers. A very unique example is the Coffee Producers Association on the Bolovens Plateau. With assistance from the RDD of MAF, 52 village coffee production groups were formed and have been given semi-legal status through a system of 'agreements' which are officially acknowledged by the district government. Pilot work is proceeding to take these producer groups to a second level where an "association of groups" is being established. (MAF-SWGUP, 2008: Policy Brief #3)

More information initiatives are available in annex (extracts from the diagnostic study)

### **III.COMPONENT DESIGN**

#### **A.Approach and strategy**

The top priority for this component is to facilitate the establishment and strengthening of producers organisations. It is recognised that small and medium agribusinesses are currently not in the position to provide services to producers in an efficient way. Due to unfavorable business environment, there is very little investment in the area of agri-processing and input supplies. Those functions are fulfilled by large foreign traders, leaving little added value within country.

The programme approach is to integrate business development services within the producers organisations development approach. Producers organisations will be set up with the main rationale of providing BDS to their members. In parallel, the programme will assist in improving the government policy for a more favorable business context that can attract local investors.

The programme will also:

- support the development of small scale adding value infrastructures and access tracks
- improve producers linkage to market and their integration in the value chains
- pilot open market areas to enhance competition between middlemen and traders

#### **1.Producers organisations as service providers**

Establishment and strengthening of producers organisations aim at two objectives:

- improve quality and commercialization of products by providing services to groups members
- protect producers interests and improve relations with other stakeholders in the value chain

At the first stage of the programme, the producers organisations will provide services for a single priority commodity, leaving open the possibility to gradually provide services for additional products at a later stage.

Each producers organisation will provide services to between 10 and a maximum of 50 members. Bigger groups tend to be difficult to manage and have limited internal cohesion. There is little capacity at community level for group management and literacy and level of education are generally very low. The programme will not encourage the multiplication of groups and committees in a given village.

Producers organisations promoted by the CCP will be interest groups, which members have willingness to share a common aim and interest in receiving services to improve the quality of products and/or improve representation when interacting with traders, suppliers or local authorities.

The range of services that could be provided by the interest groups include post harvest operations (drying, sorting, grading), storage, processing (i.e. oil extraction), packaging, marketing, input supply, access to credit. A given SIG would be able to provide one or more services to members depending on needs and capacity.

The representation function will allow producers to obtain better trading conditions, to better express needs and complaints to district authorities, to have a better visibility in the value chain to promote quality products.

As an estimation, the programme will be able to facilitate the **creation of up to 140 small interest groups (SIG)**, which, on average represent, three to four SIG per kumban. Over the three provinces and nine districts covered by the project, **a total of 7000 families may – if they want - benefit from services provided by SIGs.**

At the notable exception of WUAs (Water Users Associations) there is currently no legal framework to establish and register a producers organisation as a legal body. The status of the SIG will be an informal organisation. During the course of the programme there might be options for formal recognition of SIGs at district and/or provincial level. In this case, groups might be granted the right to open and maintain a bank account and to sign contracts with traders and suppliers.

The structure of those interest groups should be kept as simple as possible to avoid administrative burden and guarantee transparency and information dissemination. It is suggested that each group would be managed by a board of no more than 3 people (chief, deputy, and secretary) elected by the members. Representation will be taken in charge by one of the board member.

As groups develop, governance issues will inevitably appear. There should be separated bodies for management and governance functions. While SIG boards will be in charge of the management and representation functions, the governance function will be carried out by village authorities that will be in charge of monitoring the SIG management board.

The key level of representation needed is at district level, where traders and government authorities set trading conditions and sign contracts. Rather than establishing a representative committee of SIGs, every single SIG will be directly represented at district level by one member of each SIG board. This may add up to 16 people which is manageable when organising meetings. This presents the advantage of avoiding the multiplication of levels between representatives and members thus ensuring communication efficiency.

| Level               | Number of producers members           | management                             | representation                                      | governance  |
|---------------------|---------------------------------------|--|---|---|
| At SIG level        | 10 to 50 producers                    | board of 3 ppl                         | 1 person from the board                             | Assembly of members and Village authority           |
| At kumban level     | 3 to 4 SIG<br>Up to 200 producers     | Representative committee of SIGs 4 ppl | Representation by a committee of 4 ppl (1 per SIG)  | 5 ppl: 4 Villages authorities and 1 chief of kumban |
| At district level   | Up to 16 SIG<br>Up to 800 producers   | -                                      | Representation by a committee of 16 ppl (1 per SIG) | District authorities                                |
| At provincial level | Up to 48 SIGs<br>Up to 2400 producers | -                                      | Umbrella organisation regrouping several            | Provincial authorities                              |

|                 |                                     |  |                 |  |
|-----------------|-------------------------------------|--|-----------------|--|
|                 |                                     |  | successful SIGs |  |
| Overall for CCP | Up 140 SIGs<br>Up to 7000 producers |  |                 |  |

Establishment of a management board at kumban level is essential for exchange of information between SIGs and communication with traders. It is also important for management of services provided at this level by the groups: medium scale drying or processing facilities located at kumban level. When possible, the programme will establish value added infrastructures at SIG level to guarantee proximity between producers / members and their service provider / SIG.

Membership to interest groups will be based on common interest and willingness to join. There could be two types of membership:

Permanent members that are registered and are part of the general assembly can influence decisions, elect the board and can have equity in the SIG (under the form of contributed labour for instance). A membership fee could be paid to cover administration costs. It could be waived for poorest families to allow them joining the organisations.

Temporary members that receive a service from the SIG on a ad-hoc basis or for a season would pay membership fee and/or pay a fee to the SIG for the service received. Compensations for the board members should be left to the general assembly to decide.

The SIG could establish a capital build up mechanism or access loans from the existing credit schemes. The programme will not include a credit component.

On the longer run, SIGs in a district that are able to supply a quality product to a sustained and reliable market could seek representation at higher level than district. In this case, an umbrella organisation could be established level to represent SIGs a provincial level and beyond. This umbrella organisation could be managed by hired professionals that will provide improved services to members in the areas of marketing and technical support for instance.

The programme will provide different types of support to SIGs:

- organisational services : establishment, definition of mandates, rules and regulations, administration, information dissemination, accounting, etc
- technical services in the area of transformation and commercialization of agricultural products
- institutional: in their representation and relationship with other stakeholders

#### Risks and assumptions

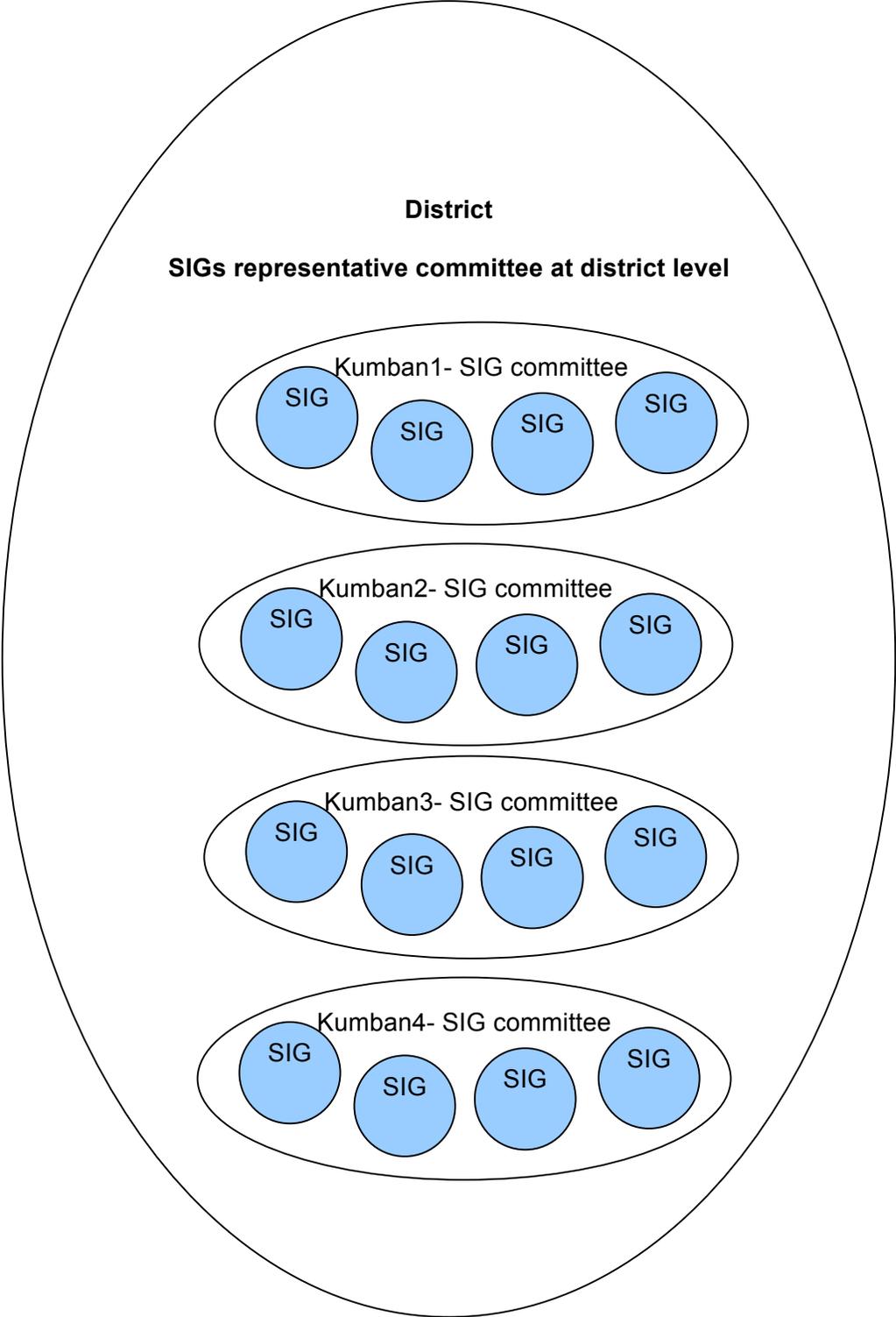
The draft decree on associations may not be approved during the course of the programme.

Reticence on the side of the authorities on establishment and strengthening of producers organisations

Information dissemination is key in the process of establishing and strengthening farmers organisations. A major role for the programme will be to facilitate information dissemination to SIG members.

Specific attention and mechanisms will be included to ensure inclusion of women and vulnerable people in the SIGs.

Proposed insertion of SIGs at kumban and district levels



In parallel with producers organisations development, the programme will conduct participatory value chain assessments. The 9 Value chains that will be selected to be included in the CCP will depend on initial screening based on suggestions made in chapter II. Some of the values chains selected could cover several provinces as in the case of maize and bamboo for instance.

The strategy is to improve relationships between value chains stakeholders (producers, middlemen, traders) in order to supply the market demand for quality products. The programme will promote diversification to reduce the level farmers dependency on a single commodity.

Results from the value chain assessment will be presented and discussed with stakeholders. Options for improvement identified will serve as a basis for planning activities with producers organizations.

## **2. Infrastructures to improve quality of products and access to kumban centers**

The development of infrastructures pursues three main objectives:

- to improve quality of agricultural produces and in turn allow the producers to capture a part of the added value
- to reduce producers risks and level of dependency upon traders that are in monopsony position
- to improve access to technical support through improvement of access tracks

The infrastructures that will be developed by the programme will be selected in accordance with plans developed by the SIGs. The selected type of infrastructure will be related to market demand and will focus on the best options for value adding.

- post harvest operations: grading, sorting, shelling, drying
- storage
- processing: oil extraction
- packaging
- access tracks to link producers to kumban center

Those facilities will be located SIG level or at kumban level depending on the critical mass of product and production capacity. The producers will contribute in labour and local material. The programme will supply construction material and technical assistance. For infrastructures that cannot be built by producers, the programme will select contractors through local shopping procedures.

Some of the facilities may require energy to operate. In cases where electricity is not available, the programme will identify alternative sources of energy: solar, biogas, biofuel. Environmental considerations will be integrated in the selection of appropriate technology. For instance, dryers fueled with wood can have an impact on forest resources.

### Post harvest facilities

Drying pads and static dryers using hot air already exist in the target provinces. They involve simple technology and can be built by producers themselves.

#### *Case of a static dryer for maize*

For a static dryer, investment is between 10 and 20 millions kips per unit (estimated 2000 USD) It can be used for 10 years, so depreciation cost is 200USD/year.

Capacity is of about 5 MT of corn per day. For a group of 20 farmers, with an average of 1ha and a productivity of 5 t/a, a dryer would process the production of an area of 25 ha.

Operating cost: 10USD per day including 2 labours and electricity for the fan. Maize cobs to fuel the dryer do not present an operation cost (crop residue, no opportunity cost)

Depreciation cost over 10 year period: 200 USD / year resulting in a 10 USD /pa depreciation charge per farmer.

That would represent a cost of 20USD/year to process maize, or 4USD /ton.

Those are multipurpose dryers and several types of product can be dried such as maize, job's tears, soybean, cardamom, bamboo shoots, chillies, etc. The size and location of those facilities will depend on the production capacity in the area.

Middlemen are used to buy produced that are not processed. The adding value operations at producers level will induce an increase in the price of the products for the buyers. However, weight of the products will be decreased. For the middleman, buying dried and sorted products will reduce the risks involved in buying and transporting the products. Assessment of value chains will analyses the benefit that each stakeholders will get from the improvement of product quality.

#### Storage facilities

With small scale storage facilities the SIGs will have more control on the marketing of their products in relation with price fluctuations. Those storage facilities will be located within the SIGs and be made of local material. The OPs will contribute in labour to the construction of those facilities.

#### Small Processing units

Small processing units will improve revenue by adding value to raw products. Production of oil and animal feed from pressing sesame and soybean can integrate the crop value chain and the livestock value chain with great potential for added value.

#### Commodity specific processing facilities

The project will assess the feasibility of introducing commodity specific processing facilities for commodities that have a long term potential as for instance rubber, bamboo and teak wood.

Those infrastructures may be beneficial to several kumban and will be located accordingly to cover a large supply area and a significant number of SIGs.

#### Packaging facilities

Packaging facilities could allow producers to commercialise products on the national market. Potential products would be tea, medicinal plants, dried fruits, honey, etc. The packaging facilities could be established at kumban level to reach critical mass of product supply. The SIG committee at kumban level will be in charge of management, operation and maintenance.

#### Access tracks

The programme will include the development of access tracks with two strong rationales:

- Facilitating access to villages for the extension services providers, minimizing the need for resettlement of villages that have potential for cash crops and livestock development
- Access tracks are one of the trade-off offered by traders to secure a long term monopsony position to buy maize produced in an area allocated by district authorities.

Those tracks will be of low standard such as the ones developed by the PRF, at a cost of about 25 Mkips per km or about 2270 euro/km.

The programme will be able to develop an average of about 10 km of access tracks per kumban. Selection of target alignment will be done in coordination with district authorities.

The tracks will be constructed by local contractors selected locally through shopping procedures.

### **3. Market linkages**

During field assessment it appeared that traders have little information on the communities there are working with. They rely on middlemen generally located at the district center. Those middlemen role is to distribute seeds and inputs, to collect the product at harvest time. On the other hand, producers are not informed on characteristics requested by the market for their products. The programme will facilitate direct communication between the buyers and the producers and other value chain stakeholders. The programme will not promote a market information system per se. The approach will be based on study tours for producers and producers-buyer workshops.

### **4. Pilot open market zones**

In areas where a single crop has been promoted and where market is artificially segmented, the farmers are highly dependant on the traders and are very vulnerable to price fluctuations. The programme strategy is to identify areas where monocropping and monopsony situations are dominant and to promote a more competitive context on the marketing side. An open market zone is a group of villages where producers and traders interact directly to enter into agreements without government intervention on contract arrangements and market segmentation. The programme will encourage several traders to enter into the pilot zone to compete freely and sign agreement with producers organisations. The programme will also support district authorities in their regulatory role and will train staff to monitor the pilot to ensure that agreements and transactions are fair to all stakeholders.

The programme will adopt an iterative consultative approach by facilitating workshops at district level with all stakeholders.

### **5. Contributions to PBA**

this component will contribute to the PBA in three ways:

- The successful pilots on value chains will be scaled up
- The experience on SIGs will also be scaled and serve as a basis for an improved legal framework for producers organisations
- Improvements to policy will be proposed on the following area:
  - incentives for local agri-business development
  - streamlined tax system and trading procedures
  - producers association sub-decree

## **B. Objectives and expected outputs**

### **The objectives of this component are:**

to improve producers income through value adding of agricultural products  
to reduce farmers vulnerability and improve their position in the value chains  
to contribute to policy development in trade and Producers Organisations

## **Expected results**

1. Market demand and stakeholders are analysed for nine products
2. Farmers are organised in producers organisations that provide services to members
3. Value is added to products at producers organisation level
4. Interactions between private sector and producers organisations are improved
5. government agencies (district and province) have better capacity in supporting producers organisations and in VC development
6. Policy for business environment and producers organisations is improved

## **C.Activities**

This component of the CCP will be organised in four main activities:

1. Producers organisations
2. Value adding Infrastructures
3. Market linkages
4. Pilot Open market zones

### **1.Producers organisations**

#### **Expected result 1 :Market demand and stakeholders are analysed for nine products**

##### **Activity 1.1: Introduction of the VC/PO component and value chains screening**

Dissemination of information about the programme to stakeholders and identification of potential value chains. It is expected that more than one value chain is identified for each kumbar.

The high priority value chains proposed in this document will constitute a starting point and will be confirmed based available data and field investigations in the target districts.

the screening will be implemented by completed in the first two months of the programme.

##### **Activity 1.2: conduct participatory value chain analysis**

Detailed analysis of the 9 selected value chains and action plan for each of the value chain

The participatory value chains analysis will focus on stakeholders and their relationships and will include the following elements: importance of the product in national economy and relation with international economy, structure of the value chain, operation of the value chain, Interpretation through swot analysis, action plan for the programme.

A maximum of 9 value chains analysis will be completed within the first two years of the CCP. The most urgent value chains to be assessed are maize (focusing Luang Prabang and Houaphan), job's tears, stick lack (focusing on Luang Prabang) and tea (focusing on Phongsaly).

The results of the value chain assessment will be presented at provincial level to the main stakeholders, including selected producers, private sector, government agencies. This will result in action plans for each of the value chain selected. The programme may decide to drop a value chain If the assessment is not positive.

This activity will be conducted by the value chains specialists (international and national) in collaboration with district and provincial stakeholders

**Expected result 2 :Farmers are organised in producers organisations that provide services to members**

**Activity 1.3: Facilitate establishment of Small interest groups of producers**

Establishment of up to 140 Small interest groups that provide services to their members to improve value added

This activity will involve intensive consultations at district, kumban and village level to:

- advertise potential support from the project to producers organisations on the selected value chains
- Assess the needs expressed by the producers in term of services to be provided by the group to the members
- Select Small Interest Groups on the basis of their commitment and need for improved services
- Registration of membership and election of a small management boards and mechanisms for governance function, clarification of the mandates, roles, regulations,
- Assist the group in setting up a general action plan to provide services

This activity will be completed within the first two years of the project and will be conducted by the Provincial OP coordinator and the district OP facilitators

**Activity 1.4: Provide continued assistance to groups in their operation**

Small Interest Groups will receive support from the programme for all aspects of operation and administration:

- member registration
- Planning of group activities
- Meetings and General assembly
- Information dissemination on markets demand
- operation and maintenance of value adding infrastructures
- facilitation of products transactions
- representation of the SIGs in the value chains
- capital build up mechanisms

All training activities will be conducted on an informal basis by the Provincial OP coordinator and district OP facilitators throughout the lifetime of the project

**Activity 1.5: Assess potential for the creation of an umbrella organisation (association of SIGs)**

This activity will be in preparation of the second phase of the programme (PBA)

It aims at drawing lessons from the experience of the establishment and operation of the SIGs during the CCP time frame. It also aims are drawing conclusions on policy dialogue related the evolution of the legal framework on producers organisations status and legal entity.

This activity will be conducted by the OP specialists and will be completed in the final year of the CCP

**Activity 1.6 Identify and train business development services (local companies)**

The programme will identify and assist small local companies (business development services) that are interested in being associated to the programme activities. Those local companies

could be input suppliers, service providers, that will fill the gap for services that cannot be provided by SIGs to their members.

The programme will conduct trainings for BDS in the area of business registration and management, contracts, access to bank loans, etc.

A total of 24 training sessions will be organised, including assistance in registration of small businesses interested in providing a service to SIGs.

### **Expected result 3 :Value is added to products at producers organisation level**

#### **2.Value adding infrastructures**

It is recognised that both post harvest /processing infrastructures and access track can contribute to add value to products

#### **Activity 2.1: Assess feasibility of Value infrastructures and build models**

Expected output: appropriate value adding infrastructures are identified are

For each kumban included in the project, a small scale infrastructure development plan will be prepared by the SIGs in coordination with the district authorities and with the assistance of the programme.

In the first year only models of possible infrastructures will be built for testing purpose. The investment, operating costs, operation and maintenance and impact on added value will be assessed. Adaption of farmers to the technique will also be evaluated: impact on labour, social aspects, etc.

Several types of post harvest, storage and processing could be built as model for testing purpose in a SIG.

Exchange of farmers between SIGs can be organised.

This activity will be coordinated by the agricultural product processing specialists (international and national) in conjunction with the Team Leader

#### **Activity 2.2: Scale up proven models of infrastructures**

All infrastructures are built and operational

The appropriate infrastructures and technologies will be scaled up in year two.

The infrastructures to be built will be selected based on SIGs plans within the budget limits of:

Euro 20,000 for each kumban for added value infrastructures

Euro 25,000 for each kumban for access tracks

the program staff will monitor construction of the infrastructures.

Building access tracks are beyond producers capacity. The track construction will be contracted through local shopping procedure. For small scale adding value infrastructures, the producers will contribute in labour and local material when possible. The programme will supply construction material such as cement, roof elements, small material, etc For medium scale adding value infrastructure, the programme may also contract companies through local shopping procedures.

This activity will be coordinated by the agricultural product processing specialists (international and national) in conjunction with the Team Leader

### **Activity 2.3: monitor O&M of the infrastructures by the SIGs**

The benefit from added value infrastructures is acknowledged and can be scaled up for PBA. The programme will continue monitor the effect of the infrastructures on value added and revenue, as well as O&M by the SIGs.

This activity will be coordinated by the agricultural product processing specialists (international and national) in conjunction with the Team Leader

### **Expected result 4: Interactions between private sector and producers organisations are improved**

#### **3. Market linkages**

##### **Activity 3.1: Producers study tours**

Participating producers have a better understanding of the value chains. They will have the opportunities to exchange experience with other initiatives: AGPC in Boloven, VECO, SADU, etc.

Also study tours will be organised to visit other stakeholders in the value chains: transporters, processing, traders, etc. Producers will participate to study tours to better apprehend market demand in terms of quality and price by visiting other stakeholders in the value chain. This could involve study tours abroad in China and Vietnam.

In total 16 study tours could be organised. Participants will be representatives of the SIGs and Representatives from DAFO and department of commerce.

##### **Activity 3.2: Producers groups – traders workshops**

Workshops between SIGs and traders will be organised to provide the opportunity to buyers and producers to express their respective constraints and needs in relation with contract farming. The farmers will have a better understanding of the market demand and dynamics and new market opportunities could be identified. The traders will have the opportunity to better understand farmers' limitations and potential in supplying better quality products for instance.

##### **Activity 3.3: Facilitate certification of products in Quality schemes (fair trade, IG)**

The programme will explore the opportunities for certification of niche products. At least two products will be in the process of obtaining a certification, either fair trade or geographic indication.

One of them should be the Khao Kay noi rice for which the process of IG certification has already been initiated. Another potential product for certification could be the Phongsaly wild tea. The PDDP has been working on the subject.

This activity will be carried out conjointly by the value chain specialists and the OP specialist.

### **Expected result 5: District and provincial staff have better capacity and skills in supporting producers organisations and have better understanding of market dynamics**

#### **4. Pilot open market zone**

This result is also under the FDI component

#### **Activity 4.1: Organise consultations with district authorities and stakeholders**

These consultations will be conducted in District Workshops to discuss and assess potential and feasibility for open market zones. One Workshop will be conducted in each district, even though the pilot will be implemented in a single district in each province (A total of 9 district workshops)

Expected Benefits of operating in a more competitive environment will be discussed with all stakeholders including district authorities and several potential buyers. The producers and the buyers will have the opportunity to exchange views on their respective needs and constraints. The district authorities will discuss conditions contract arrangements, including contracts that will have been signed before the project phases in. If a compromise can be reached, the pilot will then be cleared by the authorities to start.

#### **Activity 4.2: Monitor Implementation of a pilot open market zone**

There will be a maximum of 1 open market zones per province.

The selection of the zone will be done in conjunction with traders, authorities, SIGs and private sector. The open market zone should be implemented on a voluntary basis by all parties in order to get a positive synergy during the pilot period.

During the period of the open market zone test, the district agencies will be trained and associated the monitoring and evaluation.

The pilot open market experience will be evaluated by all stakeholders and positive lessons will be capitalised to be scaled up in PBA

#### **Activity 4.3: Conduct training for agencies**

During the course of the programme, staff from line agencies at district and provincial levels will be associated and trained on the job.

The learning process will cover a wide range of topics related to: market demand assessment support to producers organisations, development of value adding infrastructures, role of agencies in contract farming, etc.

At the end of the programme they will have capacity to assess market demand and assist producers organisations and private sector to develop the value chain.

Two Formal training sessions will be held per province and per year, making a total of 24 training sessions for district, provincial and central level staff.

### **Expected result 6: Policy for business environment and producers organisations is improved**

#### **Activity 5.1: Producers organisations participate in trade fairs**

Selected SIGs will have the opportunity to present production and progress on producers organisations in Fairs or events organized in the region. A total of 12 sessions will be organised.

#### **Activity 5.2: Improve communication on PO and their products**

When Producers Organisations have a better visibility in the value chain, there might be opportunity to access higher quality markets: Selected "natural products" could be promoted on local markets in Luang Prabang town, Xamneua, Phongsaly, Vientiane.

The programme will assist the SIGs in preparing leaflets profiles for the nine districts and 36 kumbans presenting the production potential by products, the characteristics of the area, the producers organisations and their plan, etc

#### **D.Implementation arrangements**

This component will be implemented by project staff located at provincial and district level

Three main areas of expertise are needed:

- institutional to establish producers organisations and contribute to institutional framework improvement in the are of farmers associations
- technical for the post harvest and processing facilities
- marketing expertise for the participatory value chain assessments

As per the assessment government agencies at provincial level have limited capacity in those areas. The component will be implemented by project staff that conduct on the job training for provincial and district personnel.

#### **1.Provincial and district counterparts**

The component will work in coordination with provincial and district counterparts from the agriculture services and commerce departments and will conduct on the job training for counterparts.

#### **2.Monitoring and Evaluation**

The technical assistance will be responsible for developing a monitoring and evaluation system in conjunction with the programme executing agency

#### **3.Social safeguards**

The programme is pro-poor oriented. Specific and pro-active mechanisms will be included to ensure that women, ethnic groups, vulnerable households, poor farmers have the opportunity to participate to project activities. See poverty, ethnicity and gender cross cuttings issues component.

#### **4.Proposed TA team for the VC/PO component**

The CV/OP component will be implemented by the TA that will conduct on-the job training for counter part from DAFO and PAFO along the way

|   | Number of positions                          | Man months                   |
|---|--|------------------------------|
| Producers organizations specialist          | 1 International                              | 11                           |
| Producers organisations specialist          | 1 national                                   | 22                           |
| Value chain specialist                      | 1 international                              | 6                            |
| Value chain specialist                      | 1 national                                   | 18                           |
| Agricultural products Processing specialist | 1 regional                                   | 8                            |
| Agricultural products Processing specialist | 1 national                                   | 16mm                         |
| Provincial PO coordinators                  | 3 international junior / volunteers e.g. DED | 48 mm per province<br>144 mm |

|                         |  |        |
|-------------------------|--|--------|
| District PO facilitator | 6 national in the first year<br>9 national for year 2 to 4 | 396 mm |
|-------------------------|--|--------|

## Terms of reference – Technical Assistance

### **Producers organisation specialists**

the PO specialists will be mobilised

The specialist will be based in Vientiane or Luang Prabang with extensive travel in the target provinces. The specialist will have at least 15 experience in development countries in the area of producers organisations and small business development. The PO specialist will be responsible for the overall strategy, implementation and coordination of the Value chain / producers organisations component. He will report to the team leader

#### Responsibility

- Prepare an overall strategy and detailed work plan for the VC/PO
- Supervise the provincial PO coordinator
- Facilitate establishment of producers organisations plans
- Organize and assist in the implementation of workshops and study tours for the producers organisations
- Coordinate with MAF and NAST to promote Quality schemes including Geographic Indications and continue work that has been done by PEIG on kay noy rice in Houaphan province
- Ensure feed back to MAF, other line agencies and policy making level on Producers association legal framework and business development environment and scaling up for PBA

### **Value chains specialists**

The value chains specialists main responsibilities will be to

- assist the OP specialist in screening potential products
- conduct 9 participatory value chains assessments
- participate in the preparation and implementation of district workshops in relation with open market pilot zones
- conduct training on VC development for government agencies representatives
- 

### **Provincial producers organisations coordinators**

The three Provincial producers organisations coordinators will be junior international positions based at provincial level on a permanent basis. Their responsibility will be to bring continuous support to SIGs in the their respective province and to ensure that on going experiences and lessons learning process are shared with other provinces.

They will act as trainers and supervisors for the district PO facilitators, and counterparts at District and Provincial level.

### **District producers organisations facilitators**

One District PO facilitator will be based in each district on a permanent basis. Their responsibility will be to assist in the establishment and management of SIGs. They will also support and monitor the planning and implementation of SIGs activities. They will act as trainers for SIGs. They will report to the Provincial PO coordinator.

### **Agricultural products processing specialists (1 regional and 1 national)**

The agricultural products processing specialist will be responsible for the activity 2: Adding value infrastructures. He will work in close collaboration with the VC/PO specialists

His main responsibilities will be to

- identify appropriate adding value technologies and infrastructures in relation to selected Value Chains
- Assess feasibility of the infrastructures proposed and implement 1 test/model per kumban over the first year
- Assess the result of the test and scale up the appropriate infrastructure
- Prepare specification and contracts for the infrastructures subject to shopping including roads and medium size adding value infrastructures
- monitor and propose improvements on the infrastructures developed

# Annexes

## REFERENCES from province and district level

### Phongsaly province

PAFO Phongsaly – Proceedings of the Provincial Agriculture and Forestry annual meeting for 2008 – December 2008 (Lao)

DoIC Phongsaly Province, Import Export management division – Report on implementation of the socio-economic development plan for 2007 2008 and plan for 2008/2009 - October 2008 (Lao)

Provincial agriculture and forestry office Phongsaly province – List of personnel for 2011 to 2015

### Luang Prabang province

Provincial agriculture and forestry office, Luang Prabang, planning division – Report on 2007/2008 and plan for 2008/2009 – December 2008 (Lao)

Provincial agriculture and forestry office Luang Prabang – organigram

Provincial agriculture and forestry office Luang Prabang – List of personnel

Provincial agriculture and forestry office Luang Prabang – Model contract for rubber cropping

### Viengkham district, Luang Prabang province

Department of Industry and Commerce, Viengkham district - Report on industry and commerce 2007/2008 and plan for 2008/2009 – September 2008 (Lao)

Department of Industry and Commerce, Commerce division, Viengkham district - Report on year 2005/2006 and plan for 2006 to 2010- September 2006

District governor – Evaluation report on implementation of the socio-economic development plan for 2007/2008 and plan for 2008/2009, January 2009

Viengkham District -

### Houaphan Province

Department of Industry and Commerce, Houaphan province – Export data for year 2007-2008

Department of Industry and Commerce, Houaphan province – Import data for year 2007-2008

District agriculture and forestry office, Viengsay district – report on agriculture and forestry for 2007/2008 and plan for 2009/2010 – October 2008

District agriculture and forestry office, Viengthong district – organigram

DPI Houaphan province – Internal and foreign investment in Houaphan province 2001 to 2007

DPI Houaphan province – Evaluation report on implementation of the socio-economic development plan for 2007/2008 and plan for 2008/2009 – November 2008

DPI Houaphan province – poverty data for year 2008 – January 2008

Ministry of Planning and Investment, DPI Houaphan province – Public Investment plan for 2008/2009 – August 2008

## Initiatives

Extracts from the diagnostic study about initiatives in the areas of producers organisations and value chain development.

*SADU is implemented by CIAT with support from SDC and uses an AEDP process to identify (a) which products are in demand; and (b) constraints that can be addressed along the market chain. A key difference in this approach is that it is an 'area-based' rather than product based approach and the main platform for this is not the village, but the kum ban which allows an exchange of experiences between villages, and a forum for on-going exchange of information between farmers and the private sector. The process thus enables scaling-up by (a) selecting the right products, which enables rapid scaling up can occur within a single season; (b) enlisting inputs from the private sector for dynamic scaling up; (c) ensuring exchange of information within the kum ban. These mechanisms create a critical mass of production in a cluster of villagers, which then attracts the private sector to the area, even in remote uplands. By using the kum ban as a focus, farmers can be linked with major traders, which enables bulking of produce to facilitate the use of labour saving equipment, and increased output and reduce spoilage. These mechanisms thus offer very cost effective means to achieve scaling up for agricultural production. Furthermore, through analysis of the market chain, underlying structural issues can be illuminated. As production is scaled- up, this can then lead to local authorities having the commitment to address structural issues as the final obstacle to significant trade.*

*Prosperity Initiative (PI) is a regional initiative working in China, Laos, Vietnam and Cambodia and focuses on accelerating the development of market sectors that deliver value to the poor. The current focus in Laos is on developing the Bamboo sector in Houaphan and selected other provinces. However, the initiative is also looking at other regional markets such as coffee, rubber, maize, tea, tourism, etc. PI also focuses on strengthening skills of local institutions fundamental to market analysis and development. The work that it will be doing at the local level as well as analysing markets will be of use to the programme.*

*VECO Sustainable Agriculture Project: VECO support 18 farmer group enterprises in Bokeo Province. VECO assists these enterprises to analyse the value chain of their products in order to identify ways to improve member incomes. This includes the development of business plans in post harvest processing, which VECO can then support with co-funding and technical expertise. In addition, VECO supports the Provincial Chamber of Commerce to set up a provincial information system which will benefit all actors in the value chain.*

*The ADB Smallholders Project is focused on achieving increased production and marketing of diversified, non-rice dry-season cash crops, livestock, and fisheries and improve smallholder access to domestic and international markets and market information. The project works in four central and southern provinces and has attempted to link farmers to major markets in Thailand. The project has learned a number of lessons in trying to facilitate markets access, particularly in the types of products and support to be provided, the skills necessary for government staff to be able to provide effective support and how to establish producer groups. The project has piloted an interesting SMS-mobile phone driven pricing information system.*

*The Rural Development in Mountainous Areas (RDMA)/GTZ and model contract farming has been working at the centre of the rubber boom in Bokeo and Luang Namtha provinces. It has commissioned a number of ground breaking studies on rubber as well as developed some*

*model contracts for rubber smallholders that can be used as an example for how agricultural offices at district and provincial level can support the linkage between farmers and investors.*

*SNV is focusing its current efforts on specific value chains which can maximise income for the poor. The main market chains SNV is currently working on in the North are the Bamboo sector in a Houphan province and paper mulberry in Luang Prabang. Value chain analysis as carried out in November 2007 and early 2008. Where possible, SNV works in partnership with other organisations, such as PI, and with CIAT on paper mulberry. Before this focus, SNV worked on developing a national NTFP network and adapted the Market Analysis and Development for Small- scale forest enterprises methodology with NAFRI and FAO. In the South, SNV is working on a Fodder Maize Value Chain in Savannakhet as smallholder cash crops. We have consequently identified market based solutions, providers of the solutions and our interventions. We are working with the Provincial Department of Industry and Commerce, Small Holder Development Project and private maize trading companies. SNV is also exploring possibility to expand maize value chain in Khammouane in the near future. The value chain approach that we have applied has the following six steps; (1) Selection of value chain; (2) Value chain analysis; (3) Identification and selection of market based solutions; (4) Assessment of market based solutions; (5) Identification of interventions; (6) Performance measurement system.*