

MEKONG CONNECTION

The Newsletter of Mekong Institute

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BREWING A THRIVING COFFEE SECTOR

IN QUANG TRI PROVINCE, VIETNAM

How the Quadripartite model created a level playing field for local farmers

Digging at the roots

While nearly 95 percent of coffee produced in Vietnam is Robusta, Quang Tri province—with over 5,000 hectares of coffee—cradles one-seventh of the country's Arabica production. Evidently, almost 8,000 households in the province rely on Arabica farming as their main source of income.

"Income from coffee in recent years should be OK," said Mr. Ho Minh Phong, leader of Huong Do Farmer Group. "But it's really better than previous years. My life, as well as the other's here, had gone through many ups and downs with coffee trees since 1995." Phong recalled when thousands of people left their homes in the lowlands empty-handed and traveled hundreds of kilometers to the wild and desolate areas of Huong Hoa district to seek a better life. Through years of developing their livelihoods, Huong Hoa has evolved into the coffee-producing district it is today.

Akin to any industry, the coffee sector in Huong Hoa district had its own share of challenges characterized by short-term benefits and unhealthy competition among the coffee value chain actors. Factories and

traders manipulated prices by buying coffee cherries far less than their actual value while farmers cheated by soaking coffee cherries in water or by mixing foreign substances to make it heavier. Limited knowledge on proper cultivation and poor harvesting practices resulted to low productivity levels, which coffee growers attempted "to correct" by using fertilizers. However, due to the lack of access to finance, farmers purchased fertilizers on credit with high interest from trading agents whom they had to pay back with cherries at undervalued prices. They even resorted to poor quality or fake fertilizers. These factors eventually led to the decline of the coffee sector, which adversely affected the lives of local farmers. "Since our main income from coffee became unstable, many of us left our coffee trees uncared for, replaced them with planting other crops or even sold our coffee gardens," Phong explained. Despite efforts of the local government and other relevant organizations, changes appeared to be dim and the situation remained stagnant.

Cultivating change

Troubled by the situation, local farmers aspired for change but initially lacked the

ability to turn things around. In 2013, Mekong Institute launched the project on "Regional and Local Economic Development on the East West Corridor" (RLED-EWEC) in Quang Tri, signaling what would be the start of a turnaround for the province's coffee sector.

Anchored on promoting coffee market development, the project started with a comprehensive analysis of the coffee value chain from which the Quadripartite model was developed. Taking after the Making Markets Work for the Poor (M4P) approach, the Quadripartite model equips farmers with collective bargaining power by capacitating them on group management and operation. This market linkage enables farmers to increase income through reducing productions costs by facilitating better access to loans with preferential interest to buy quality fertilizers at cheap price, and by directly selling coffee cherries at higher price to processing companies. As its name suggests, the model involves four parties—farmers group, commercial bank, fertilizer company, and processing company—all linked together for mutual exchange and benefit.

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Dr. Watcharas Leelawath
Executive Director

Conversations on the subject of sustainable and inclusive growth have shifted the spotlight on small actors: women, local underdeveloped communities, small and medium enterprises (SMEs), smallholder farmers, etc., sectors with untapped potential yet hindered by limitations in technical skills and access to opportunities. The challenge of developing human resource capacity in the Greater Mekong Subregion (GMS) extends to these “small” actors in development.

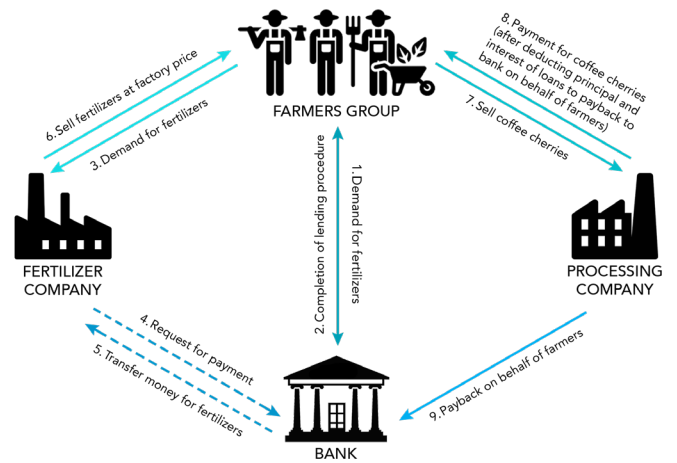
Mekong Institute is not new in this task. The Regional and Local Economic Development – East West Economic Corridor (RLED-EWEC) Project, launched in 2013, has an expressed preferential focus on smallholder farmers and SMEs. In the last five years, during its pilot phase, the RLED-EWEC project has delivered more than a hundred capacity building activities to over 1,000 smallholder farmers, enabling them to improve their farming and production practices. The project has also connected with more than 20 enterprises in the project sites in Lao PDR, Myanmar and Vietnam and engaged them to offer a range of support services and inputs to rice, maize and coffee farmers. As we undertake the project’s phasing-out phase, the focus still is on ensuring that smallholder farmers and enterprises continue to benefit financially in the gains accomplished in the project’s first phase.

In the first quarter of this year, MI embarks on a new collaboration that again places emphasis on the small actors of the economy. Building on the work we did in the IDRC Project on Making Trade Work for Small Producers in Southeast Asia’s Least Developed Countries, a project where we worked with women entrepreneurs to aid them in integrating with global markets, we are again working to improve the export capacity of SMEs in the region. This new collaboration with EQ Foundation aims to open more pathways for export participation of SMEs in the agro-food sector in Cambodia, Lao PDR and Myanmar, by working closely with them to strengthen their market research capacities and connect them with international buyers.

Unlocking the economic growth potential of these “small” actors – smallholder farmers and SMEs – entails creating an enabling environment that will allow them to prosper. This includes, in the case of SMEs for instance, strengthening both horizontal and vertical linkages so they can work with collective efficiency and gain better access to higher tier suppliers and buyers at the same time. Similarly, for smallholder farmers, this could mean creating mechanisms that will improve their production capacity and enhancing cross-border trading.

These are part of MI’s commitment as a human resource capacity development center working for the GMS. As we support the regional goal of sustainable progress for all, MI will continue to work with small actors in enabling their broader participation in the region’s socio-economic activities.

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Implementing the project was not an easy feat as it faced challenges and constraints in operation. In 2014, out of 15 farmer groups that MI established and supported, only one operated effectively. This group pioneered in directly selling their coffee cherries to one big processing company and earned an additional amount of USD 350/household, and saved USD 72/ton of fertilizer. Some farmers were committed at first but eventually settled to their old ways and harvested unripe coffee cherries. “It is not always easy for farmers to work together, even in my group at that time,” said Phong. “There are too many issues to deal with.” In this case, farmer group operations were challenged with issues concerning leadership, commitment, and compliance to group regulations. Ms. Thanh, a female member, said: “I saw some people who were committed at first, but later on, they still harvest unripe ones.” In many cases, the price offered by the processing companies devalued the farmer groups’ efforts. “We worked hard to supply high quality cherries,” a leader of an inactive farmer group said, “but finally the price offered by the factory was unreasonable, even lower than that of local collectors.”

The MI project team then closely worked with relevant stakeholders to underscore the need for farmer group strengthening. Numerous meetings with farmer groups were held to raise awareness and provide technical support. “I still remember when we organized another meeting to get a consensus on our business plan and arguments echoed in the room,” said Ms. Ho Thi Loi, a member of Sa Ry farmer group. She continued, “Luckily, Mr. Le Van Binh, who later became the group leader, stood up and asserted: I agree with you all that it is not easy to work in a group but it is no better to work individually. If we go back to selling coffee cherries as before, it will only pull us a step backward. There is no real change.” That particular meeting lasted past midnight from which a strategic business plan for coffee cherries was developed. Sa Ry farmer group would eventually turn into one of the most successful groups cooperating with a leading company in the area, encouraging other groups to also adopt the model.

Reaping benefits

Since then, the number of MI-supported farmer groups in operation has steadily increased. The project recorded nine, 15, and 18 effectively operating farmer groups in 2015, 2016, and 2017, respectively, with around 25-30 members comprising each farmer group. Additionally, there were 15 farmer groups established over the



past year by another international non-government organization that received technical support from MI in establishing direct linkages with processing companies.

From 2014 to 2016 alone, MI farmer groups enjoyed preferential loans to purchase fertilizer at cheaper price, allowing them to save USD 27,500 in total for three years. Moreover, by directly selling coffee cherries to companies at competitive rates, they earned an accumulated amount of USD 2.2 million.



Transcending financial benefits, MI's intervention has also contributed to more sustainable farming practices. "The coffee market in Huong Hoa has significantly improved in recent years. For one, many villages have discontinued the deliberate soaking of cherries in water," said Mr. Ho Van Cai, Chairperson of Khe Sanh Coffee Association. Of course, challenges in the coffee sector remain but it has taken a huge leap from its former condition especially now that farmers are realizing the viable benefits of producing high quality coffee cherries.

As a result, more and more processing companies have also begun to cooperate with the farmer groups, partly contributing to price corrections. "Collaborating with farmer groups means that the quality of coffee is higher than that of the dealers," said Mr. Tran Quang Hai, Director of Dai Loc Co., Ltd., one of the biggest coffee export companies in the district. "If we sell the best quality of coffee to the international market, we can earn 5 cents per kilogram. This means that with better quality coffee we can earn an extra USD 1/kg as the difference of market price over per kilogram of raw materials," he stated. Another enterprise, Minh Tien Coffee Import-Export Co. further

added, "Our enterprise also benefits a lot from cooperating with the farmer groups because processing clean coffee helps in reducing costs. Particularly, the enterprise can require the dealers to collect clean coffee to compete with the farmer groups."

Similarly, farmer groups enjoyed their savings from lower fertilizer costs, which influenced the price adjustment of other fertilizer retailers. A member of a farmer group said: "A lot of farmers in my village always ask local agents how come they sell fertilizers with higher price than that enjoyed by Mekong Institute farmer groups." As a result, local agents had to adjust their prices to attract buyers. Mr. Tho, an agent in Huong Phung commune, frankly shared: "I used to earn higher profits from selling fertilizers, but that has changed in recent years. At this point, I need to lower product markup to be able to compete with the prices that farmers purchase in the model."

"...The most important thing now is to regularly strengthen the group, develop active membership, and introduce the model to neighboring villages."

Extracting "Cs" for sustainability

The success of the Quadripartite model among the coffee farmers in Quang Tri has relied heavily on the farmer groups' **capacity**. MI has channeled priority to facilitate changes in awareness, behaviors, and practices among local farmers to equip them with a sense of accountability, ownership, and leadership. This has empowered them to directly communicate with company directors and negotiate for favorable prices. "Previously, we couldn't meet directors of processing companies. We merely relied on their staff to convey our messages, but unfortunately, failed to do so. Now, we can talk to company directors face-to-face and are able to negotiate the price ourselves," said Phong.

Once capacities are in place, mutual **connections** among key actors in the coffee

value chain are systematically re-structured and formed. Farmers sell quality coffee cherries at higher prices with reduced production costs while service providers have larger market share and trade volume with lesser processing and operation costs. Not only does this arrangement benefit the respective stakeholders but more importantly, the linkages are bound to create a wider impact to the coffee market in the region.



Finally, the **cooperation** and **commitment** of all stakeholders strengthen the linkage. To encourage farmers to avail financial loans, a commercial bank in Huong Hoa has expressed its support by providing flexible conditions with preferential interest rates. A leading fertilizer company in Quang Tri has also affirmed its commitment to MI-supported farmer groups by "retaining the existing factory price of fertilizers despite significant price increase in the coming future."

As the RLED-EWEC project moves into its phasing out phase, the emphasis has now shifted to scalability and sustainability. MI will continue to work with farmer groups, but it will give local technical agencies from the public sector more space as they assume the coordinating role with the communities.

With the model's success in the coffee industry in Quang Tri, the project is also exploring the feasibility of implementing it to other crops particularly black pepper and rubber. Driven by its ambition of wider impact, the project ultimately aims to connect farmer groups to the broader coffee sector in Vietnam and enable the formation of an alliance that will lend a more collective voice and encourage a more efficient sharing of resources. As Phong emphasized, "We hope for a better life. We were given an effective way of working. We have exercised it and succeeded. The most important thing now is to regularly strengthen the group, develop active membership, and introduce the model to neighboring villages." ■





KHMER ARTISANRY: PLAYING GLOBAL WITH A HEART FOR THE LOCAL

Khmer Artisanry may be a small dot in the growing SME industry of Cambodia but for founder Seila Polham, the positive inroads they have made as an enterprise are more than encouraging -- achievements that would not have been possible without the hard work of her weavers, her staff and the assistance of partners like Mekong Institute and the International Development Research Centre (IDRC).

Established with the objective of preserving the fragile art of Khmer weaving, Khmer Artisanry takes great pride in their carefully-woven silk fabrics featuring traditional Ikat technique and using only the natural dyeing process, an art deeply entrenched in history and the culture of rural weaving communities in Cambodia.

Developing a Better Business Structure

Even before joining the MI-IDRC's Project on Making Trade Work for Small Producers in Southeast Asia's Least Developed Countries, Khmer Artisanry has already been making waves in Cambodia's silk/fabric industry, winning, for instance, the Good Design Award in Japan in 2014.

But even Seila admitted there still is much to be improved when it comes to running her business. "Before, we didn't have a clear process on operations --only production, and management was very low," she narrates. "When it comes to money, I used to only give

a certain amount to my general manager and everything else is controlled by me...In marketing, it was not very clear in the past -- I used to only sell to people who know me or those who come into my shop."

Through the MI-IDRC Project, an initiative that set out to develop the entrepreneurial abilities of women entrepreneurs and enable their greater participation in the export market, Seila was able to develop a better structure and direction for her business, beginning with the creation of an organizational chart that defines who does what and the line of command for the enterprise's operations. "After the MI training, I realized, 'What if there are emergencies? What will my staff do because the money is with me?' So now I opened an account only for business. We also now have a petty cash system so it's easier to manage everyday expenses."



Making better use of an already existing database used initially for monitoring stock, Seila also worked with an agency so the database can be used for other financial processes, including computing sales commissions of her staff, managing pay-in and pay-out and even generating sales reports.

"I also learned that the description of the product -- the story behind the brand -- is very important," she says. "So when I went to Germany, I showed them our products and told them the story behind the designs, and they were very impressed. It has made it easier for me to introduce my products, my brand."

This brand story, now an integral ingredient in Khmer Artisanry's marketing strategy, has helped better sell the brand to its customers. In addition to the local market, the enterprise has been exporting scarves to Japan while doing consignment with sellers in the United States, Hong Kong and Australia. Since redefining their business' brand story after the MI training, Seila explains that they noticed an increase in orders. "For Japan, we usually have to wait for the first set to be completely sold. After the training, we emailed them with the product catalogue containing clear information and describing the quality of the product. After that, they placed a new set of orders for 300 pieces."

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CROSS-COUNTRY ACTIVITIES

- Study on cross-border trade facilitation of agricultural products and inputs in twin provinces of the East-West Economic Corridor (Savannakhet and Quang Tri, Khammouane and Nakhon Phanom, and Kayin and Tak provinces)
- Study on Improvement of Infrastructures and Regulations for Cross-border SEZs
- Joint study and survey of SEZs within Mekong Lancang Region to match complementary SEZs
- Assessment visits to Cambodia, Lao PDR and Myanmar under the project on *Making Trade Work for Development: Export Capacity Support for Small Exporters from Asia-Pacific Least Developed Countries in Specialty Agro-food Value Chains*

THAILAND

Workshops

- Synthesis and Evaluation Workshop on *Enhancing the Utilization of Free Trade Agreements*

Meetings, Forums and Other Activities

- Meeting and Formation of Technical Working Group for *Green Freight and Logistics Development in Mekong Countries Project*

LAO PDR

Workshops

- Consultation workshop on cross-border trade facilitation study

Meetings, Forums and Other Activities

- Meetings on Good Agricultural Practices and farmer group formation
- Roundtable meeting on cross-border trade facilitation

MYANMAR

Trainings

- Basic Accounting and Financial Management for SMEs
- Basic Logistics Management

Workshops

- Establishment of Border Economic Committee

Meetings, Forums and Other Activities

- Survey on contract farming for rainfed maize

CAMBODIA

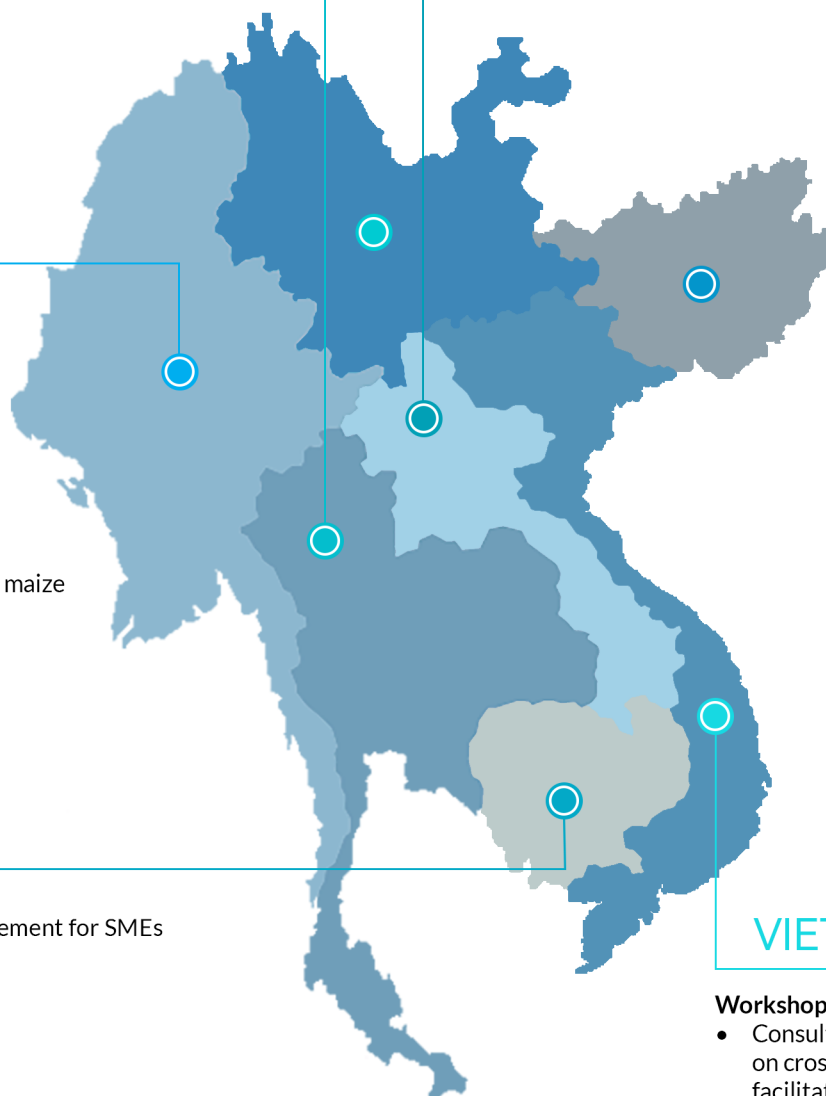
Trainings

- Basic Accounting and Financial Management for SMEs in Freight and Logistics Sector
- Basic Logistics Management

VIETNAM

Workshops

- Consultation workshop on cross-border trade facilitation study





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Seila remarks that their export plan, another product of the project, is still far from perfect but with the confidence gained from doing business in Japan and the US and the clearer direction that the plan provides, they are hopeful that they can expand more into the European market especially France and Germany.

Building a Brand that Cares

Certainly, there is more to Khmer Artisanry than business.

The MI-IDRC Project provided Seila an opportunity to work with and learn from the stories and practices of other women entrepreneurs in the Mekong countries, an experience that inspired and strengthened

her resolve to work more closely with her community of weavers. "I want women to be empowered. They stay in the community and have lesser opportunity to work so I want to provide them with livelihood."

Interestingly, it's not only women Seila now employs; her group of weavers also includes the disabled, two of whom are men. She proudly explains that providing employment to the local people is her business' most important contribution to Cambodia's development. "The community people want to work with my business because I allow them time to take care of their family and kids while earning money. They don't need to work in the factories and leave their families behind."

Now, Khmer Artisanry has added organic cotton to its product line while staying true

to their trademark process of natural dyeing. "After my participation in the MI project, I realized that I do not want to cheapen my products. I want to continue providing people with good, natural quality materials." Sharing her plans for this new line, Seila explains that she has had several meetings already with the local community, discussing how to work with them in growing organic cotton.

"I feel that I'm a better manager now," Seila describes, six months after her participation in the MI-IDRC Project. This, in turn, has set off a set of positive, domino-like effects: more confident staff, better partnership with the local community, and a thriving business that stays faithful to its original mission of keeping cultural pride alive. ■

MI HIGHLIGHTS

MI, Chiba University Sign MoU

Mekong Institute and Chiba University solidified their partnership with the signing of a Memorandum of Understanding (MoU) on February 11, 2018 at Chiba University, Japan. The MoU provides for the exchange of expertise between the two organizations in joint research, training, meetings and symposia; scholar/professional exchange; and information sharing and exchange of publication. The MoU signing was followed by the international symposium titled "From Mekong Commons to Mekong Community", organized jointly by Chiba University and MI. MI staff served as speakers and moderators in the event attended by over 40 participants from the government, academe, industry and civil society.



New Zealand Students Visit MI

Twenty-four students from six universities in New Zealand visited MI on January 22, 2018 as part of a study tour organized by the Victoria University of Wellington. MI Executive Director Dr. Watcharas Leelawath and Ms. Maria Theresa Medialdia, Director of the Agricultural Development and Commercialization Department, presented MI's initiatives in the New Zealand Aid Programme-supported Food Safety Project.



RLED-EWEC Leads Study on Cross-Border Trade Facilitation

The RLED-EWEC Project is conducting an in-depth study on cross-border trade facilitation of agricultural products and inputs in twin provinces of the East-West Economic Corridor, namely Savannakhet (Lao PDR) and Quang Tri (Vietnam), Khammouane (Lao PDR) and Nakhon Phanom (Thailand), and Kayin (Myanmar) and Tak (Thailand) provinces. The study, which commenced in January this year, seeks to identify solutions to non-tariff barriers negatively affecting cross-border trade. Consultation workshops were carried out in Quang Tri, Vietnam and Khammouane, Lao PDR on March 13 and March 15, respectively, to share initial findings of the study to relevant stakeholders including provincial authorities and agencies and businesses. Participants also identified and discussed action plans with specific interventions based on the study findings presented.



Trainings on Basic Accounting and Financial Management Organized for Freight Sector in Cambodia and Myanmar

The Trade and Investment Facilitation Department delivered back-to-back trainings on Basic Accounting and Financial Management for SMEs in Freight and Logistics Sector and Basic Logistics Management as part of MI's project on Sustainable Transport and Logistics in the Mekong Region. The two trainings were delivered in Myanmar on January 8-12 and in Cambodia on February 6-8, 2018. Around 60 senior and mid-level government officials from Myanmar and 50 officers from Cambodia joined the trainings, which aimed to promote more efficient delivery of logistics services in these countries. MI is jointly implementing the project with the German Agency for International Cooperation (GIZ) and the Greater Mekong Subregion Business Council.



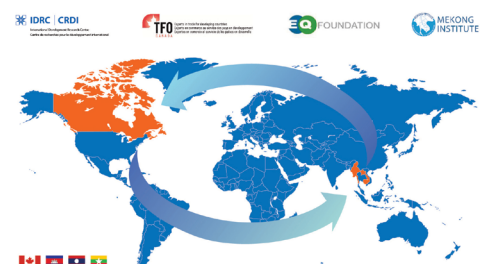
Members of Technical Working Group for Green Freight and Logistics Development Project Convene at MI

Members of the Technical Working Group (TWG) of the Project on Green Freight and Logistics Development in Mekong Countries gathered for the 1st TWG meeting last March 8, 2018 at the MI Headquarters in Khon Kaen, Thailand. The TWG consists of representatives from relevant government agencies in Cambodia, Lao PDR, Myanmar, Vietnam and Thailand (CLMVT), as well as international organizations like the GIZ and freight and transport associations in CLMVT. The meeting introduced the TWG members to the project's objectives and work plan. The project on Green Freight and Logistics Development is supported by the Mekong-Republic of Korea Cooperation Fund (MKCF).



MI, IDRC Collaborate for Agro-Food SME Development

Mekong Institute is working with EQ Foundation on a one-year project targeting small and medium enterprises in the agro-food sector in Cambodia, Lao PDR and Myanmar. Funded by the International Development Research Centre (IDRC) through the Trade Facilitation Office Canada (TFO Canada), the project Making Trade Work for Development: Export Capacity Support for Small Exporters from Asia-Pacific (ECSAF) aims to strengthen market research and export capacities of selected SMEs and build their linkage with Canadian buyers. MI, through the Trade and Investment Facilitation (TIF) Department, will be conducting information seminars, one-on-one consultations, as well as providing advisory support including facilitating market familiarization missions to Canada of selected SMEs.



ALUMNI TESTIMONIALS



Mr. Chea Sopheara

Svay Rieng Department of Commerce
Svay Rieng Town, Cambodia

Activity: *Regional Training Program in Trade Events Promotion*

The important thing I learned from this training that I can apply in my work is the topic on business matching. After this training [as part of action plan implementation], we organized a business matching in my province, and we gained a lot of results and insights from that.

We received a lot of new information from the experts and skilled trainers of the training program, and we are happy and very satisfied with the lessons. If there are more training courses in the future, we would like a chance to participate again.



Mr. Anthony Kwesiga

Ministry of Works and Transport, Uganda

Activity: *International Training Program on Green Freight and Logistics Development*

As part of our action plan implementation for this training, we carried out a logistics benchmarking program in Luxembourg last December 2017. We met with the Ministry of Transport, the Chamber of Commerce, airport services, transport companies and the cluster for logistics. This benchmarking exercise offered many lessons and best practices. For instance, we learned that it is important to incorporate clear environment, social and safety standards in our revised transport policy and that a certification program for green logistics should be initiated. There is a clearer awareness now of how vital green logistics is for our sector.

MI CALENDAR

APR

3-5

Regional Modular Workshop on Development of Transport Information Connectivity System along the Economic Corridors of the GMS

23-04
MAY

Regional Training Program on Sustainable Transport and Logistics Planning and Management



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