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POLICY BRIEF: Ethnic Minority's Value Chain Development – Challenges and Support Needs

Summary:

Ethnic minorities own agricultural and non-timber forest products of high market demands and values. Allover Vietnam, almost every ethnic group and region has products that specify the geographic location, or indigenous knowledge and culture. To name a few, Shantea with Dao and Tay ethnic groups Ha Giang, Yen Bai, Lao Cai or Lai Chau; Cinnamon with Dao, Ty, Nung in Yen Bai, Lao Cai, Quang Nai; Medicinal herbs with several ethnic groups in every province, etc.

Yet, ethnic minorities have not yet established strong awareness of market mechanism and inherent activities. As a result, value chain decision making is happened at times when the demand for a certain domestic spend arises, for instance, paying school fee for the kids or purchasing furniture for the family, in Sapa, Lao Cai province, households stop harvesting for already placed order by customer when there is wedding in the village. Consequently, farm output products normally do not have enough volume and quality a desired by customers. What is more, farmers are discouraged from making innovation, say for product development or cost minimization, due to the absence of market mentality.

In addition to the above is a number of constraints in ethnic minority value chain:

- **Lack of market information** drives producers and local traders to passive positions and often sell their produces under value.
- **Marketing capacity** is under-developed, especially at the nodes of producers and processors. Producers and local processors tend to invest more in production, rather than in marketing.
- **Value chains are inefficiently long** which leads to two major issues: high-cost production and difficult to control quality.
- **Enabling environment not yet conducive to business/investor.** An important point is the absence of mechanism to encourage and protect private sector's investment in ethnic minority communities. A lack of effective enforcement of farming contract is the most common complaint among private investors.
- **Poor production techniques:** remain significant to many ethnic minorities, not only to traditional products (for instance, vegies, cinnamon, and tea) that households have been on production for generations, but also to new product like medicinal herb plantation.



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- **Poor production infrastructure:** due to production sites are geographically scattered and in the face of budget constraint, investment in production infrastructure is not up to the level to sufficiently support farming activities.

Special supports are needed:

There are a number of policies to support ethnic minorities at most stages of the value chain, such as training, credit access, input support (seed, fertilizer), construction of infrastructure, production linkages, market access ... However, in order to promote more effectively the goal of helping ethnic minorities to actively build value chains, **the effectiveness of implementing policies is to be improved.** At the same time, there are additional adjustments to directly address specific issues related to cultural and socio-economic conditions of ethnic minorities.

To increase effectiveness, support for ethnic minority people to actively build up value chains should be presented under three different levels: **general level, industry level, and the level of individual value chains.** Because value chains vary widely in terms of markets and production and business conditions, this approach can address, more in depth, specific issues of individual value chains.

Support activities should be carried out on the principle of **building a market system** when possible, for example, the interventions will not be made directly to the beneficiaries but through service providers of inputs and outputs for actors in the chain.

1. At general level

Raising **awareness of ethnic minorities on market economy activities:** training, study tours, dialogues between actors, events for learning from models / ethnic minority individuals who have succeeded in building value chains. These activities should be carried out in the principle of image-rich, hands-on work, at the same time, integrated in or built close to the daily activities of ethnic minorities.

Further improve access to credit: establish mechanism to provide sufficient information on credit sources in the area, build and replicate people's credit models (there have already been many successful models in many localities). However, the support should not only focus on procedure to access to the loan but also on **providing advice in assess and management of loan risk (when appropriate).** It is possible to study and test a trilateral loan model, linked to output enterprises, to enhance the linkage among chain actors.

Improving distribution and production infrastructure to serve the value chain: the solution can be completely open with the **aim to attract investment resources** for the items most needed to develop the target value chain in the area. Some examples of activities are: organizing exchange seminars to identify investment needs, connecting with development programs and funds, seeking investment socialization through participation of private sector and indigenous peoples.

2. At sector/industry level



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Determine priorities for a number of sectors with high potential for ethnic minorities to actively participate and develop the value chain. Not all industries have the same potential. Tea and cinnamon are the products participated by large communities of ethnic minority households due to the characteristics of the resource area; in contrast, pharmaceutical products are unlikely to attract many households due to limited demand volume. Priority criteria are based on three main pillars: ethnic minority participation / leadership, market potential, and available resources.

Attract businesses / cooperatives to invest in the target sector and play a leading role or lead in the value chain. This could be delivered by: organizing public-private dialogue, introducing investment opportunities, building brand of regional supply base (for example: Hoang Su Phi tea area in Ha Giang province, Bac Ha's medicinal herbs region in Lao Cai province, and Moc Chau temperate vegetable growing region in Son La province), reviewing and improving policies to attract special investment for ethnic minorities, in which it is necessary to develop a number of mechanisms to help minimize risks related to the development of input supply base.

Facilitate the **formation of production and business groups / organizations of ethnic minority people**. These are expected to become key actors in target value chains. Interventions should be focused on three mutually reinforcing target groups: (a) Form and build up capacity on production and business management, in which teamwork skills in production and sales are particularly of importance, (b) develop programs to identify and train up core ethnic minority leaders, who show high potential of competence in leadership and business administration, (c) develop and strengthen connections between the groups and individuals mentioned above.

Replicate ethnic minority-inclusive production and business models: this should not be widespread. To ensure effectiveness, conditions for successful replication are to be carefully identified to provide evidence-based input for selecting models for replication.

Establish **innovation funds at regional level for ethnic minorities:** innovation to receive support can be on a different scale, from incremental improvement to break-through ideas. The purpose is to facilitate realization of small initiatives, which are not prioritized by ethnic minority actors due to high level of perceived risks or. Fund activities should not only stop at seeking and approving grants, but should also cover risk management consulting, business planning for innovative ideas, and business plan implementing.

3. *At individual value chain level*

Experiment specific mechanisms for development of new products/sectors that have high potential to build up value chains for ethnic minorities. These could be specialties, produced on the basis of local advantages, or new products having significant market potential but involved with high level of risk (for example, the herbal medicinal products).



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Provide **support to businesses / cooperatives that have a leading role in value chain**. Specific actions are to be determined and varied, according to the findings of feasibility assessment on individual actors' business plans. Based on the value chain issues as identified in the above Summary section, it is foreseen that the support to businesses / cooperatives will fall in the following groups:

- Provide training courses on basic and advanced production knowledge and skills as per standards on agricultural farming practice demanded by market, for instance, VietGAP, GlobalGAP, Organic, GACP -WHO.
- Subsidize certification cost in the principle of descending, until when the certificate holder can cover the certification costs itself from the revenue stream of new certified product. The duration of support should be at most three years. Specific amount should be assessed on a case-by-case basis, and decided in principle that the recipient has to achieve a break-even point within a maximum of 3 years.
- Enhance marketing capacity: provide training on sales management / sales skills for businesses / cooperatives. To ensure effectiveness, support in this group should be built into comprehensive packages, covering a range of important topics of market access, from marketing strategy development, brand identity, and implementation advice. Marketing capacity is especially indispensable for ethnic minorities who are usually lack of end users' information.
- Co- invest in some key infrastructures and technologies required to improve value chain's competitiveness and sustainability. The particular investment category should also be determined based on the business plan and the specific circumstances of each business / cooperative.