

## POLICY BRIEF: Support Ethnic Minorities in Value Chain Development – VCIC Program

### 1 INTRODUCTION

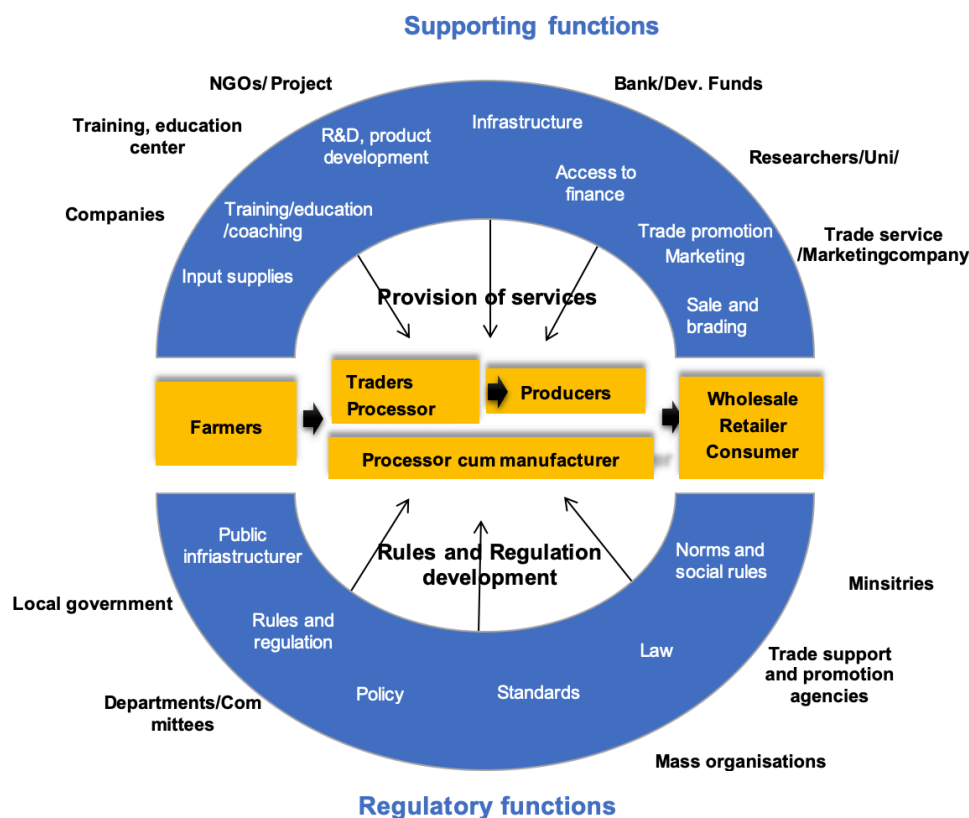
In Policy Brief 1, CRED presented general recommendations to support the value chain development for ethnic minorities (EM) and the respective specific solutions to each of the 5 key value chains associated with ethnic minorities<sup>1</sup>. With Policy Brief 2, CRED presents recommendations for a Market System Development to support ethnic minority value chains linked to the market system. The market system approach is recommended based on following:

- Actual changes in the economic development of Agriculture / Forestry / Fishery from self-sufficiency to production according to market demand;
- The prevalence of the market system approach proven to be effective in different economic sectors;
- From the practice of implementing packages of support services and consulting for startup projects of the VCIC program.

### 2 APPROACH

#### 2.1 Market System Development (MSD)

Activities in support of improved livelihoods for ethnic minorities will benefit from a market system development-oriented approach. The following market system model diagram fully incorporates three sets of elements: **Supporting function, Regulatory function, the Value chain** and linkages between the partners in those groups.



There are three sets of functions performed in a market system development-oriented approach:

<sup>1</sup> The 5 value chains include: Vegies, Tea, Cinnamon, Medicinal herbs, and Handicraft

- a) **Supporting functions:** are performed by diverse groups of service providers (which can be public services, businesses, NGOs or individuals) to customers who are actors in the value chain for EM people, including not just input services (seedlings, training, capital, product development ...) but also an output service (customer search, branding, packaging design, marketing, sale...). In addition, the support services will also include new content (different from traditional content) such as market research services, improving efficiency and effectiveness in production and business, innovative application, technology transfer, etc.
- b) **Regulatory functions:** has direct impact on the activities of actors in the product chain and on the performance of supporting functions.
- c) **The Value chain:** including actors involved in stages from raw material production to processing, storage, and distribution to the end consumer.

Supports to EM people will be in the form of a combination of indirect and direct, of which indirectly mainly through service providers to support in production development, processing and marketing/sale or through the the direct development of inclusive business models, which are directly linked to ethnic minorities, and generate significant benefits for EM people.

## 2.2 Inclusive business models

The aforementioned market system goes around the Ethnic Minority System, which ensures the significant participation of the EM people in the product chain, ensuring the opportunity to access the market and fair benefits sharing for the EM people.

## 2.3 Guarantee of inheritance

The development of the market system builds on the specific conditions of the ethnic minorities among regions, and at the same time inherit the results achieved from the previous ethnic minority support programs. Therefore, the ethnic minority support program should be divided into 2 phases:

- Phase 1 - Forming a market system and
- Phase 2 - Improving the efficiency and sustainability of the system.

## 3 SUCCESS FACTORS

Based on the experience of various value-chain pilots<sup>2</sup> in Vietnam, and international experience in similar contexts, the effective market system for ethnic minorities requires three conditions:

- a) **Size of the market:** must be large enough for the service providers to generate revenues and maintain sustainable operations. In the first stage, the State should have a price subsidy policy<sup>3</sup> so that the EM people or businesses in the product chain can access support services from the suppliers in the market system.
- b) **Linkage among EM households:** in the long run, it is necessary to develop a cooperative model for ethnic minority households, to increase production scale, and the ability to pay for services. The support is based on market principles.
- c) **Capacity of providers:** in addition to the two above factors, service providers also need to have sufficient capacity to be able to provide support in the most effective way. This is especially necessary in current Vietnamese conditions, where some output services such as market development, products, and branding are not yet developed.

## 4 PROPOSED SOLUTIONS TO POLICY GROUP

It is necessary to develop a market system for ethnic minorities, in which ethnic minorities are guaranteed the ability to access sustainably and efficiently the support services (both inputs and outputs). This can be done in two phases:

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<sup>2</sup> Some examples of the pilots are: the development projects for tea and spice sector, funded by SDC (2013-2016) and the project for Scaling up of Ethical BioTrade initiatives within phyto-pharmaceutical sector in Vietnam, funded by EU 2016 – 2020.

<sup>3</sup> For instance, it is common across the projects in the VCIC program that EM businesses cannot afford to acquire services, like brand design, certification of good farming practices (VietGAP), or participation in trade promotion events.

- Phase 1 is to build a system of professional service providers to respond to any needs of ethnic minority and other actors in production and business activities.
- In phase 2, the market system will be further strengthened in terms of efficiency, effectiveness and sustainability. Support activities will be built on the basis of a combination of lessons from Phase 1, and flexible in accordance with the diverse reality of actors in the chain.

## **4.1 Phase 1 (3-5 years)**

### **4.1.1. Objective**

- a) Build the foundation and initially form a market system, ensure the full provision of input and output support services to key actors of ethnic minority value chains from the production, processing, marketing and sale.
- b) Develop a number of inclusive business models which create economic and social benefits for many ethnic minority households in the target value chains in the localities<sup>4</sup>.
- c) Further improve the policy environment to support ethnic minorities through market system development, on the basis of lessons learned from the practical implementation of market system development and inclusive business model for ethnic minorities, including women.

### **4.1.2. Target groups**

Ethnic minority people, organizations and individuals are either participating in production, processing, selling products or providing input and output services to actors throughout the value chains.

### **4.1.3. Group of activities**

#### **4.1.3.1 Enhance the capacities of MSD service providers**

Capacity building activities for MSD service providers will focus on qualified organizations or individuals who are committed to work with EM. These activities include:

- For organizations, businesses and individuals with the potentials to participate in the provision of services needed by the EM groups: e.g. establishment of nursery for cinnamons for Dao group in Yen Bai; or training support on organic farming of vegetable for Hmong group in Son La, etc.
- For organizations, businesses, or individuals that have been providing support services to the value chains of ethnic minorities: provision of technical training (e.g. market research, branding, market access, finding partners and supporting technology transfer, access to finance for ethnic minorities ...), support in new product / service development or product modification / services are available in the direction suitable to the conditions and culture of the ethnic minorities.

#### **4.1.3.2. Develop a network of MSD service providers/ regulators and value chain actors to better support EM.**

Focus on two workgroups: Building connection tools and ensuring the accessibility and use of connection tools effectively for both service providers and service seekers.

- Connection tools include: a database with information about the service providers and people in need<sup>5</sup>, regular exchange events to facilitate suppliers and users in the product chain for ethnic minorities learn about the supply and demand, the capacities of the parties and the actual situation.
- Use of connection tools: mainly focus on communication and share of information about the mentioned connection tools. In Phase 1, the State consider the provision of financial support, fully or partially (depending on each case) for the provision of these services.

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<sup>4</sup> Selected value chains in which the business models will need to satisfy three factors: (a) If there is a market demand for the value chain products, (b) the businesses, with feasible interventions from development agencies, can produce the products in demand, and (c) the business models will generate sufficient development impacts, for instance, economic, social, or environmental value.

<sup>5</sup> The database may be on apps, internet websites, or in whatever forms that are accessible to EM farmers or entrepreneurs that run EM inclusive business models.

#### **4.1.3.3. Enhance production and business plan capacities for EM**

- a) Modes of support: focus on a new model of cooperatives, besides, it is also possible to support a smaller cooperative model – collaborative group.
- b) Content of support: ‘soft ware’ support<sup>6</sup> - capacity building for the development and operation of ethnic minorities, raising awareness of ethnic minorities about the market system; 'hardware' support such as infrastructure or input materials for poorer or very difficult regions/ethnic groups.

#### **4.1.3.4. Develop pilot business model for EM**

In addition to capacity building and linking the supply and demand of support services in the value chains for/of EM, there should be some typical business models<sup>7</sup> to show the effective support approaches towards EM from the developed market system for EM. The services provided by service providers should help value chain actors/EM overcome their difficulties but also help EM to be empowered to lead their own business, e.g., looking for market partners and lead the negotiations.

#### **4.1.3.5. Advocate for enabling policy support to EM in line with MSD**

This activity is based on lessons learned from the implementation of other activities proposed in this policy brief.

## **4.2 Phase 2 (3-5 years)**

### **4.2.1 Objectives**

- a) Improve the **efficiency** and **sustainability** of the market system for ethnic minorities.
- b) Replication of inclusive business models for ethnic minorities.
- c) Continue to strengthen production capacity and organize business production for ethnic minorities, ensuring efficient use of support services from providers.

### **4.2.2. Target group**

The same target group as mentioned in section 3.1.2, but can be extended to product chains that are not subject to local priority.

### **4.2.3. Group of activities**

#### **4.2.3.1. Improve the quality and efficiency of the Supporting Service System for product chains for ethnic minorities.**

In phase 2, the direct support to service providers (training, coaching, advices in market access, marketing, sale ...) will gradually decrease, to prioritize the resources for the improvement of institutional and policy supports to ensure sustainable development of the market system for ethnic minorities. Specific activities include:

- a) Expand the connection between service providers who have been providing support services to the EM and actors participating in the ethnic minority product chain. Priority is given to expansion to new regions or new EM groups.
- b) Support the service providers to improve service quality and efficiency. The specific activities will depend on each case and focus on: (a) Optimizing the support service costs of the providers, creating economic benefits for the EM people, (b) Improving the efficiency of the services, with special emphasis on market access and product development.
- c) Further improve the policy support in the direction of: Ensure the fair competition between local service providers, effectively implement the policy / legal environment to minimize risks for service providers to get paid in the provision of services and for the EM to receive quality services.

#### **4.2.3.2. Enhance business capacity for EM**

<sup>6</sup> For instance, building capacity for market access or product development, improvement of operational efficiency, and facilitation for establishment of sustainable market linkage.

<sup>7</sup> Such models are normally not the same, depending on the value chain products, local context, or market situation. The supports are hence to be tailored to specific business plans.

In phase 2, the support for the cooperative model (cooperatives and cooperative groups) will be adjusted according to the scale and level of the targeted groups (ethnicity, regions, economic conditions, etc.). This may be, for instance, enlargement of EM membership base or establishment of regional product brand to promote market position for EM specialty products.

- a) For cooperatives that have been in stable operation: priority is given to market development, improving production capacity, through **coaching/mentoring** programs (instead of training) link to specific activities and market linkage programs delivered by the **service providers**.
- b) For cooperative models newly formed in phase 1 and are not yet in stable operation: priority is given to capacity building and 'hardware' /infrastructure support (if budget allowed) such as machines, equipment, etc.

#### ***4.2.3.3. Replicate the successful business model of EM***

- a) Improve production and governance/operational capacities to meet replication requirements, including: cost of technology transfer, product development, management software, technology application, training sets for staff.
- b) Expand and develop sustainable linkages between a larger community of ethnic minority households and businesses, and market actors which enable the participation of ethnic minorities.

#### ***4.2.3.4. Apply innovation and IT in the connection of MSD service provision with ethnic minorities***

This activity should be carried out in the direction of applying an open mechanism to welcome innovative and use of new IT technologies enhancing the connection of ethnic minorities with actors in the market system. For example, the development of a software helps to enable direct interaction between EM households and customers, or technical solutions to solve production technical limitations, mechanisms / tools to reduce production risks.