

ASIAN DEVELOPMENT BANK

TAR: LAO 37297

TECHNICAL ASSISTANCE
(Financed by the Poverty Reduction Cooperation Fund)

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR THE

MARKETING SUPPORT FOR ORGANIC PRODUCE

OF ETHNIC MINORITIES PROJECT

September 2004

CURRENCY EQUIVALENTS

(as of 14 September 2004)

Currency Unit	–	kip (KN)
KN1.00	=	\$0.0001
\$1.00	=	KN10,828

ABBREVIATIONS

ADB	–	Asian Development Bank
FOUF	–	Friend of the Upland Farmer Corporation
FTO	–	fair trade organization
Lao PDR	–	Lao People's Democratic Republic
NGO	–	nongovernment organization
NSCCP	–	National Steering Committee for Commodity Production
NTFP	–	nontimber forestry product
PPMS	–	project performance monitoring system
PRF	–	Poverty Reduction Cooperation Fund
TA	–	technical assistance

TA CLASSIFICATION

Sector	–	Agriculture and Natural Resources
Subsector	–	Agriculture and production, agroprocessing and agribusiness
Theme	–	Indigenous peoples

Following the Board approval of the R-paper, *Review of ADB's Poverty Reduction Strategy*, staff instructions to replace the PI/CPI classification with a new tracking system are under preparation, in line with para. 83 of the R-paper.

NOTE

In this report, "\$" refers to US dollars.

This report was prepared by M. Katagami (team leader).
--

I. INTRODUCTION

1. While many rural livelihood improvement programs of aid agencies and nongovernment organizations (NGOs) provide a wide range of income-generating assistance for poor rural farmers in the Lao People's Democratic Republic (Lao PDR), some farmers experienced difficulties in realizing additional cash earning by selling incremental products. The experience underscores the significance of support to expand market channels and generate higher value-added products. Based on that lesson, establishment of business linkages over the medium term in partnership with private enterprises was sought in the design of a new income-generating assistance for poor ethnic minority farmers. In close consultation with the local business community, NGOs, and ethnic minority farmers, the concept of the Marketing Support for Organic Produce of Ethnic Minorities Project was developed and endorsed by the Poverty Reduction Cooperation Fund (PRF) strategy meeting in December 2002 for PRF financing. Subsequently, the Government of the Lao PDR confirmed its request for technical assistance (TA) for the Project during the 2003 Country Programming Mission of the Asian Development Bank (ADB). A Fact-Finding Mission from ADB visited the Lao PDR during 4–12 December 2003 and reached an understanding with the Government on the project objective, scope, implementation, and costs and financing arrangements.¹

II. ISSUES

2. Poverty incidence is high in rural areas where 53% of the population fall below the national poverty line.² Ethnic minority groups are particularly poor: while the Mon-Khmer, Hmong-Mien, and Tibeto-Burmese represent only 44% of the total population, their poverty share is about 80%.³ They survive on shifting cultivation, food collection from forests, and income from agricultural labor, livestock, and handicraft making. The participatory poverty assessment⁴ found that ethnic minorities in upland areas are particularly in a state of severe poverty. The major causes of impoverishment are limited productive land and income-generating opportunities in rural villages. Among limited earning opportunities, sales of non-timber forestry products (NTFP), especially those which are grown naturally, and handicrafts are important sources of cash incomes for some ethnic minority groups in upland rural villages. For instance, sales of NTFP, such as rattan, cardamom, mushroom, and herbs, typically account for about 40% of a household's annual income, and the ratio increases to 80% in poor villages where no other income-earning opportunities exist. Given the level of poverty incidence and the economic state of ethnic minority groups, support to identify new market channels for their agricultural products, especially those grown organically, and to help them respond to the identified opportunities is directly relevant to their income-earning level. And increased sales of such items sold traditionally by ethnic minorities are expected to immediately improve the livelihood of the vulnerable groups.

3. Many poor ethnic minorities have a wealth of indigenous knowledge of organic NTFP, traditional medicine, and handicraft making. Ethnic minority farmers produce for sale mostly basic on-farm commodities such as maize, and some nonfarm commodities such as handicrafts. Their sales channels are often limited to local markets and traders that visit their villages. Within ecotourism areas, village visits of tourists also give occasional sales opportunities. NTFPs collected by ethnic minority villagers are typically sold in a raw state to local traders, and usually leave the country without any processing. Major constraints that ethnic

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 7 February 2004.

² National Statistical Center. 1997. *The 1997/1998 Lao Expenditure and Consumption Survey*. Vientiane.

³ Chamberlain J.R. 2002. *Assessment of Economic Potentials and Comparative Advantages of the Ethnic Minority Groups of Lao PDR*. Vientiane.

⁴ ADB. 2002. *Participatory Poverty Assessment in Lao PDR*. Manila.

minority groups face with the existing marketing channels, which were identified during village consultations,⁵ include (i) a limited number of buyers and infrequent sales opportunities; and (ii) sales prices that are too low to adequately compensate their labor inputs, and weak bargaining power of ethnic minorities due to lack of competition among buyers. Due to low sale prices of their traditional handicraft products, villagers tend to minimize their labor inputs for the production of sale items by simplifying traditional weaving and embroidery patterns, and replacing hand-woven and naturally dyed clothes with factory-made materials that are available in local markets. Consequently, the quality of their produce drops, and some villages are gradually losing their traditional knowledge and skills in producing woven materials and embroideries with the use of organically grown cotton, natural dye, and traditional patterns. In addition, the existing marketing channels do not differentiate organically grown products, which could yield higher values in other markets.

4. To address such constraints, marketing channels for their on-farm commodities need to be expanded, and they should upgrade their nonfarm commodities to supply to new markets that appreciate organic products. Two alternative marketing channels in the Lao PDR that ethnic minority groups could access, and appear to be effective options to satisfy such marketing needs are contract farming⁶ for on-farm products such as maize, soybeans, rattan, cardamom, and domesticated NTFPs, and fair trade markets⁷ for nonfarm products such as handicrafts. Both trading arrangements can provide (i) incremental and continuous sales opportunities through orders placed, (ii) higher sales price that ensure higher return to labor, and (iii) consequential better bargaining power toward local traders because of increased alternative sales opportunities. They also provide inputs and services required to access new markets, such as product development and marketing service, input and technical assistance, financing, packing and distribution support. Assistance to link ethnic minority communities with such alternative markets can generate additional marketing opportunities and higher income in the rural villages, while preserving indigenous cultures with the least disturbance to the minorities' social lives. By involving private enterprises in the form of contract-based production schemes under fair trade or contract farming systems, the provision of inputs and services that ethnic minority farmers need to access new markets has good potential to be sustained.

5. Initiatives to expand and diversify contract-farming arrangements have the potential to significantly expand market channels for on-farm commodities of ethnic minority farmers. In the Lao PDR, some private agroprocessing enterprises and NGOs' programs have developed contract-farming arrangements with poor farmers, including ethnic minority farmers, for grain

⁵ A fact-finding mission conducted 10 village meetings in Luang Namtha, Luang Prabang and Phongsaly provinces with ethnic minority villagers including Akha, Hmong, Lantan, Tai Dam, and Yao ethnic groups.

⁶ Coulter, J., A. Godland, A. Tallontire, and R. Stringfellow. 1999. *Marrying Farmer Cooperation and Contract Farming for Agricultural Service Provision in Sub-Saharan Africa*, ODI Natural Resources Perspectives, No. 48. Contract farming refers to the supply contracts between private agribusiness companies and farmers, under which the companies typically provide inputs (seed, fertilizers, pesticides, and extension advices) on credit and in return receive access to some or all of the farmers' produce. The repayment of any loans and the costs of providing these services are recouped when the produce is sold.

⁷ Fair trade is a trading partnership between wholesalers and retailers in developed countries and poor farmers in developing countries, which is designed to provide vital income to poor farmers by placing continuous orders over the long run, paying fair prices that will support living wages and safe and healthy conditions for workers in the developing countries, and educating consumers about the importance of purchasing fairly traded products. At least 200 institutions in 55 countries have become members of the International Fair Trade Association, which was established in 1989 as a coalition of producer organizations, export marketing companies, importers, retailers, national and regional fair trade networks, and financial institutions dedicated to the fair trade movement. Fair trade organizations generally assist producers in (i) modifying their products into what will appeal to fair trade markets; (ii) making their products conform to safety regulations in the developed countries; (iii) costing and pricing, production planning and management, distribution, quality control, packing and shipping, billing and collecting, customer service, and export documentation; and (iv) financing their input purchase.

cash crops and domesticated NTFP products. They provide poor farmers with agricultural inputs and required extension assistance and offer purchase contracts for the products at a fixed price.⁸ Their experiences indicate that commercially successful contract farming that would distribute a substantial share of generated benefits to farmers require (i) willing farmers that have production experience with the concerned crops, (ii) socially responsible agroprocessors that honor the contract purchase price, and (iii) follow-up assistance for farmers to encourage cash crop production.⁹ Relevant lessons from similar experiences in South Asia and Africa indicate that contract farming improves stallholders' access to new market opportunities and services required to support intensified production, and such production groups work best with small and cohesive groups that are contractually linked to input and output markets over the long-term (footnote 7). Another key lesson learned highlights the significance of literacy and numeracy skills that are the backbone of viable farmer groups, and suggests that concerted efforts be made to assure an adequate level of numeracy and literacy skills appropriate for the tasks at hand.¹⁰

6. Expansion and diversification of such contract farming arrangements between existing private agroprocessing businesses and poor ethnic minority farmers can be realized with assistance for community management, capacity building, marketing, and farm productivity improvement. There is also potential to add higher value to their basic on-farm commodities through processing and product certification such as organic testing.¹¹ While diversification could lead to expanded markets for new products, such product development should be preceded by business marketing studies of candidate products in specific potential markets. At the same time, even though export markets for certain crops are identified and agroprocessors are willing to increase their purchase from farmers, increasing the number of contracts with small farmers requires substantial social, technical, and managerial support for farmers, including promotional extension activities; establishing farmer groups to organize collection, sorting, and transport of their produce; and follow-up assistance.

7. With regard to nonfarm commodities, there seems to be significant potential to develop high value-added commodities by exploiting the comparative advantage of ethnic minorities' products under fair trade arrangements. Some of the skills and traditional knowledge of ethnic minority groups in making handicraft items from organically grown agricultural produce are valuable and there is a good chance of developing export items for fair trade markets with assistance in marketing and management capacity building. For instance, some ethnic minority women have unique textile and handicraft heritage, and sophisticated skills and traditional knowledge in the use of natural materials, natural dyes, organic cotton, and other agricultural produce, which are highly valued by consumers in developed countries. The nature of such products and the profile of ethnic minorities seem to have good marketing potential in fair trade markets in industrialized countries, where groups of consumers are willing to support alternative income-generating opportunities for socially marginalized population and to save their indigenous culture. New marketing channels for such traditional products of ethnic minorities have emerged with the fair trade movement and alternative trading networks in Europe, Japan, and North America. In the Lao PDR there are a few precedents of small farmers accessing such

⁸ Some contracts allow farmers to sell the products in local markets when the market price is higher than the contract price, in which case agroprocessors collect fees from contracted farmers to cover relevant input and extension costs.

⁹ Despite the absence of established legal procedures to enforce contracts in the country, contracts have been honored successfully through the long-term business linkage established between socially responsible agroprocessing enterprises and committed rural farmers.

¹⁰ Bingen, J. 2000. *Producer Groups: Becoming Full Partners in Agricultural Markets and Agro-Enterprises*. Washington, D.C.

¹¹ Upland ethnic minorities in general have the advantage of indigenous knowledge of organic agriculture production, which is free from use of harmful chemicals or pesticides.

niche markets. Past fair trade activities found that the establishment of long-term business relationships provides lasting economic value to poor farmers far beyond the duration of a traditional income generation program. Fair trade activities have been instrumental in generating sustainable alternative income for poor and socially marginalized populations by developing products building on local traditions and natural material, enhancing poor producers' own abilities, offering continuous purchase orders and fair prices that ensure productive wages, and educating consumers.

8. To initiate the establishment of business linkage for ethnic minority farmers with fair trade markets, assistance is required in (i) product development to meet relevant regulations and the product specifications that are on demand in the target markets; (ii) production group development to collectively produce items for a certain number of standardized products, and (iii) required literacy and numeracy training for ethnic minority farmers to plan and manage order-based production. While the progress of infrastructure development in the country is being made, remoteness and consequential difficulties in logistics and transport arrangements should be overcome by developing efficient local distribution networks. Further, to minimize relevant transaction costs and sustain such business linkages, systematic export administration needs to be in place at border crossings, where effective monitoring and supervision of the state is extremely crucial.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The Project aims to generate alternative income-generating opportunities for ethnic minority farmers in rural villages by addressing their primary marketing constraints. The outputs include (i) establishment of production groups among ethnic minority villagers and development of the groups' trade linkages with fair trade markets; (ii) increased production of crops that have identified markets under contract-farming arrangements for ethnic minority farmers, and identification of alternative markets for agroforestry products through market studies, sample product development, organic farming promotion and product certification; and (iii) evaluation of the development impacts of the project activities. The TA framework is in Appendix 1.

B. Methodology and Key Activities

10. The project activities will focus on marketing and related support for creating business linkages between selected poor ethnic minority communities and identified alternative markets, and aim to fill in the technical, managerial, and social shortfalls to complete every stage of the concerned value chain from production through sales for each selected product. The project will comprise three components: (i) production grouping and developing business linkage to fair trade markets (component A); (ii) expanding contract-farming arrangements, which will secure continuous income-earning opportunities over the long term (component B), and (iii) evaluating development impact (component C). Ethnic minority communities will be selected based on (i) poverty status of potential beneficiaries, (ii) willingness to participate in the project activities over the long term, (iii) marketability of their skills and knowledge of NTFP and handicraft production, and (iv) expected development impacts.

C. Cost and Financing

11. The total cost of the TA is estimated at \$706,000 equivalent, of which \$600,000 equivalent will be financed on a grant basis by the PRF. The TA will be administered by ADB. The Government will finance the balance of about \$106,000 equivalent by providing

counterpart staff support, office accommodation, and facilities for seminars and meetings. Detailed cost estimates and a financing plan are in Appendix 2.

D. Implementation Arrangements

12. The Secretariat of the National Steering Committee for Commodity Production (NSCCP) of the Ministry of Commerce will be the Executing Agency (EA) of the Project and provide all required support. A qualified project coordinator from NSCCP will be appointed to monitor and provide support for project implementation. Relevant provincial governments will appoint project managers to provide support and coordination assistance for project implementation as required.

13. The TA will be implemented over 3 years, commencing in October 2004, and will require about 36 person-months of consulting services: 12 international and 24 domestic. A fair trade organization (FTO) with adequate experience in fair trade transactions and established sales network in fair trade markets will implement component A in association with local community-based organizations. The Friend of the Upland Farmer Corporation (FOUF), an agroprocessor that develops contract farming with upland farmers in the country, will be directly selected to undertake component B. FOUF is a socially responsible commercial entity, which aims to provide alternative income-earning opportunities for vulnerable and marginalized social groups by engaging them in commercial agricultural production and trade activities. Having developed extensive marketing networks, FOUF is capable of effectively facilitating the development of marketable products and identification of long-term buyers of the products, and providing inputs in kind to beneficiaries. An FTO will be selected based on ADB's quality-based selection procedure, and both shortlisted FTOs and FOUF will submit simplified technical proposals. In addition, an individual consultant will be recruited for implementing component C in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. The outline terms of reference for consulting services are in Appendix 3. All equipment and services will be procured in accordance with ADB's *Guidelines for Procurement*.

14. The TA will be implemented using a participatory approach involving all major stakeholders. The project activities will be developed based on adequate consultations with relevant government agencies, private distributors, exporters, and potential beneficiaries. With due consideration for their traditions and preferences, ethnic minority villagers will be carefully consulted before planning project activities.

IV. THE PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$600,000 to the Government of the Lao People's Democratic Republic to be financed on a grant basis by the Poverty Reduction Cooperation Fund for the Marketing Support for Organic Produce of Ethnic Minorities Project, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal: Improved livelihood and reduced poverty among ethnic minorities</p>	<ul style="list-style-type: none"> • Increased household income of participating ethnic minorities in at least 25 villages by 50% after 5 years from the start of the technical assistance (TA) • Other measurable indicators: (i) housing quality, (ii) food consumption, (iii) grades and levels of school-going boys and girls, and (iv) livestock assets 	<ul style="list-style-type: none"> • Baseline survey • Case studies • Development impact evaluation report 	
<p>Purpose: Enhanced income-generating opportunities for vulnerable ethnic minorities through marketing support for their produce</p>	<ul style="list-style-type: none"> • Incremental number of alternative sales opportunities for ethnic minorities' goods • Incremental per capita cash income among ethnic minorities 	<ul style="list-style-type: none"> • Asian Development Bank (ADB) review missions • Development impact evaluation report • Case studies and progress reports 	<ul style="list-style-type: none"> • Stable regional economic growth • Peace and stable security situation in the project area • No major natural calamity in the project area
<p>Outputs</p> <ol style="list-style-type: none"> 1. Establishment of handicraft trade groups within ethnic minority villages and development of their trade linkages with fair trade markets 2. Expansion and diversification of contract farming arrangements for ethnic minority farmers 3. Evaluation of the development impact of the TA activities, and dissemination of the results 	<ul style="list-style-type: none"> • Number of trading groups established and linkages developed with fair trade markets • Volume or value of items of beneficiaries sold under fair trade • Number of beneficiaries engaged in contract-farming • Volume or value of farming contracts of beneficiaries • Baseline and impact evaluation reports, and case study documentations 	<ul style="list-style-type: none"> • TA progress reports • Baseline survey • ADB review missions • Development impact evaluation report • Case study interviews 	<ul style="list-style-type: none"> • Steady growth of fair trade markets • Stable commodity price • Strong Government support in minimizing administrative requirements for export activities • Evaluation to be conducted by a third party

Continued on next page

TECHNICAL ASSISTANCE FRAMEWORK– *Continued*

Activities			
1. Establish production and trade group and develop fair trade linkages	<ul style="list-style-type: none"> • Assessment of needs, willingness, and skill levels • Formulation of village trading groups • Development of product sample • Preparation of distribution and export logistics • Product testing and certification • Product promotion and advertisement • Fair product pricing workshops (production and distribution costs, and fair margins) 	<ul style="list-style-type: none"> • TA progress reports • ADB review missions • Benefit monitoring evaluation exercise • Development impact evaluation report • Case study interviews 	<ul style="list-style-type: none"> • Good understanding and strong willingness of ethnic minorities to participate in the TA activities • Both commercially and socially adequate orientations of participating private entities, and their commitment over the medium term • Management capacities of ethnic minority trade groups, participating local institutions, and private entities
2. Expand and diversify marketing opportunities for agroforestry products	<ul style="list-style-type: none"> • Improvement of product quality and delivery capacity • Number and types of new agroforestry products identified for contract farming • Improvement of post harvest processing facilities • Promotion of organic farming • Development of and market studies on non-timber forestry product • Sample development of new products and marketing within existing sales networks 		
3. Development impact study	<ul style="list-style-type: none"> • Product certification (organic, pesticide-free, etc) • Social analysis of living standards of participating ethnic minority groups (baseline) • Social impact evaluation of the living standards of beneficiary ethnic minority groups (project completion) • Preparation of project report, video, and presentation for distribution 		

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Poverty Reduction Cooperation Fund Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	230.00	0.00	230.00
ii. Domestic Consultants	0.00	72.00	72.00
b. International and Local Travel	20.00	4.00	24.00
c. Reports and Communications ^b	0.00	6.00	6.00
2. Equipment and Materials ^c	3.00	8.00	11.00
3. Advertisement and Promotion	34.00	0.00	34.00
4. Product Testing and Certification	6.00	0.00	6.00
5. Training, Seminars, and Workshops ^d	5.00	14.00	19.00
6. Surveys and Studies ^e	15.00	9.00	24.00
7. Village Follow-up Assistance	0.00	110.00	110.00
8. Miscellaneous Administration and Support Costs	0.00	8.00	8.00
9. Contingencies	25.00	31.00	56.00
Subtotal (A)	338.00	262.00	600.00
B. Government Financing			
1. Office Accommodation and Transport	0.00	30.00	30.00
2. Remuneration and Per Diem of Counterpart Staff	0.00	50.00	50.00
3. Others	0.00	26.00	26.00
Subtotal (B)	0.00	106.00	106.00
Total	338.00	368.00	706.00

^a Administered by the Asian Development Bank.

^b Including visual reporting production.

^c Including agricultural inputs for demonstration, product sample development, and computer and facsimile for the Executing Agency.

^d Including crop demonstration and extension workshops, training on standardization and production management, seminar on pricing and distribution management.

^e Including initial and impact evaluation social surveys, participatory rapid appraisals, and product-specific market surveys.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE

A. Fair Trade Organization (10 person-months, international, intermittent)

1. A qualified fair trade organization (FTO) will identify social, technical, logistics, and management constraints in developing access to the fair trade market for ethnic minority producers; propose countermeasures to address identified constraints; and implement the countermeasures under the project assistance so as to eventually generate substantial alternative income-earning opportunities for target ethnic minority beneficiaries by establishing sustainable and commercially viable business linkages between FTOs and the beneficiaries. Eligible FTOs will have (i) demonstrated knowledge and experience in fair trade transactions, (ii) adequate capacity to identify long-term buyers of ethnic minority produce and with established sales network in fair trade markets; (iii) a corporate objective to promote alternative earning opportunities for vulnerable social groups in developing countries by engaging them in trade activities, and providing long-term purchase orders and fair purchase prices; and (iv) strong commitment to develop fair trade linkages with ethnic minority farmers in the Lao People's Democratic Republic (Lao PDR) over the long term. Shortlisted eligible FTOs will submit simplified technical proposals, which will be evaluated based on the Asian Development Bank's (ADB) quality-based selection procedure. During the assignment duration of 3 years, the FTO will subcontract the village consultation and institutional capacity building tasks to local community-based organizations, and training and research institutions in the Lao PDR as required. The scope of project activities will be limited to services that are directly relevant to developing tangible alternative market access for the produce of target beneficiaries.

2. The project aims to facilitate the establishment of business relationships that have high potential to last beyond the project implementation period. The FTO and local partner organizations will make every effort to distribute a fair margin of generated benefits to poor ethnic minority producers by introducing fair trade principles into the distribution system to be developed under the project. For ethnic minority beneficiaries, incremental earning opportunities that are environmentally sound will be sought within the existing sociocultural framework. The FTO, in partnership with local organizations, will cover the costs of the payment for product purchase to beneficiaries, advance payment (50% where needed), freight, duties, warehousing, distribution, and after care. The FTO's performance will be evaluated based on the changes in generated incremental income of the target beneficiaries, and sales prices of their products over time.

3. **Initial Village Consultation.** This aspect will comprise the following activities:

- (i) Carry out field consultations with potential project beneficiaries (ethnic minority villages), explain the project concept, and confirm the target ethnic minority beneficiaries' needs and willingness to participate in the project.
- (ii) Study the potential beneficiaries' social profile, existing cash-earning opportunities, literacy and numeracy skills, technical and management skills, lifestyle and marketability of their produce.

4. **Product Development and Marketing Study.** This aspect will comprise the following activities:

- (i) Study the skills and traditional knowledge of target ethnic minorities in organic farming, non-timber forestry products (NTFPs), and handicraft production; and prepare a report.

- (ii) Evaluate the design, quality, and potential to access fair trade and other niche markets for their produce.
- (iii) Based on the traditional skills and products analysis, identify the substance, size, and shape of promising products that have high marketing potential in specific fair trade markets, and design new products. Product development that will utilize their traditional knowledge and substantially increase their cash earning with minimal disturbance in their cultural life is preferred.
- (iv) Conduct a rapid appraisal for identified products in specific markets, and examine the scale and nature of the identified market for the proposed ethnic minorities' products.
- (v) Analyze labor and other production costs, management costs, distribution and handling costs, storage, fleet, and taxes and duties, and develop a fair price to be paid to target beneficiaries for each of the proposed products.
- (vi) Recommend measures to improve their skill levels to meet the needs of commercial markets, and implement such measures as required with local partner organizations.
- (vii) Develop samples by placing orders and test product delivery, local distribution, and export. Develop arrangements with identified producer groups and provide them with a full explanation and specifications required to produce the samples.
- (viii) Based on the marketing studies and sample development, develop several promising fair trade products and a development plan for each identified product indicating product development process, quality improvement, required management arrangements, time frame for all relevant activities, and cost estimates.
- (ix) Improve product specification and develop cost-effective production, distribution, and trade administration procedures.
- (x) Facilitate identification of buyers, development of their procurement system from participating ethnic minority villages, and establishment of long-term business relationships between target beneficiaries and the buyers to ensure financial sustainability of the proposed activities after project completion.

5. **Fair Trade System Development.** This aspect will comprise the following activities:

- (i) Identify partner organizations in the Lao PDR and develop a marketing chain to distribute products of poor ethnic minorities to fair trade markets.
- (ii) Conduct workshops and field discussions with village production groups, Lao PDR-based product distributors, and community-based organizations that are relevant to the project activities; and explain the principles and structure of fair trade, and arrangements that will ensure fair trade practices.
- (iii) Conduct workshops with stakeholders to discuss the fair pricing of products that will adequately compensate the labor of beneficiaries and generate incremental income-earning opportunities for them.

6. **Product Advertisement and Promotion.** This aspect will comprise the following activities:

- (i) Develop an export marketing plan for identified items to be produced by the target beneficiaries, including description of target markets, distribution system to be used, details of international shipping and payment mechanism, and characteristics of the products and their packaging, a sales forecast, and advertisement and promotion activities.

- (ii) Based on the export marketing plan, carry out advertisement and promotion activities that will help develop alternative market and are directly relevant to the generation of tangible income opportunities to ethnic minorities. The scale of such activities should remain adequate compared with the total value of expected product sales.
- (iii) Assess the value of product certifications for identified products. As required, test the developed products for their quality and standard, such as organic, fair trade, azo-free certifications, so as to access specific markets.

7. **Distribution.** This aspect will comprise the following activities:

- (i) Facilitate the development of an adequate product distribution system to the identified export markets and arrangements for purchase of the produce of poor ethnic minorities at a fair price.
- (ii) Assess existing organization structures and management capacities of the identified production groups, and recommend producer support and required capacity building measures to develop a trading capacity and establish business linkages with fair trade markets.
- (iii) Fill in the critical activities to complete the marketing chain for fair trade among private buyers, local distributors, and entities assisting in product development for each type of ethnic minority products, from design and production through export sales.
- (iv) Study relevant custom clearance procedures, taxes, and duties required for trading identified products, and report to the Secretariat of the National Screening Committee for Commodity Production (NSCCP) and ADB when actual practices substantially deviate from the ones stipulated in relevant regulations.

8. **Institutional Capacity Development.** This aspect will comprise the following activities:

- (i) Assist beneficiaries in forming production or trade groups to manage the production of ordered products.
- (ii) Conduct training as required to ensure that target beneficiaries have a level of literacy, recording, and numeracy skills for the tasks at hand.
- (iii) Develop required fair trade arrangements for each of the identified products to ensure completeness of delivery of products from the production stage through their sale in identified markets, including distribution of financial benefits among beneficiaries, management of distribution logistics, export administration.
- (iv) Improve the efficiency and quality of production and distribution system for each type of product.
- (v) Improve the institutional capacity of producer groups and private entities concerned in the marketing chain of the project products, when their capacity needs to be developed to produce products that cater to specific niche markets and deliver products to contracted buyers.

9. **Benefit Monitoring and Reporting.** This aspect will comprise the following activities:

- (i) Monitor the sales of products to be developed under the project, and profitability of generated production and trade systems for each of the concerned entities.
- (ii) Develop and monitor measures to ensure equitable distribution of benefits among ethnic minority beneficiaries, and
- (iii) Prepare and submit to the NSCCP and ADB quarterly reports to summarize progress made and key issues to be addressed during the following quarter.

B. Friend of the Upland Farmer Corporation (24 person-months, domestic, intermittent)

10. The Friend of the Upland Farmer Corporation (FOUF) will expand its contract-farming arrangements for cash crops that have established marketability in identified markets, and identify new cash crops, such as domesticated NTFPs and organic products, which can be supplied to existing sales networks through market research activities. The FOUF will provide technical and social assistance to beneficiary farmers and community groups, and conduct marketing activities in partnership with local technical institutions and community-based organizations, as appropriate. The FOUF will prepare and submit to NSCCP and ADB quarterly reports to summarize progress made and key issues to be addressed during the following quarter. The performance of FOUF will be evaluated based on the changes in generated incremental income earning of the target beneficiaries. Specific tasks of the FOUF are as follows:

11. **Expansion of the Scale of Existing Contract Farming.** This aspect will comprise the following:

- (i) Facilitate within ethnic minority villages the development of production and trade groups and women's groups as appropriate, that are required for more efficient distribution of goods.
- (ii) Conduct village meetings to explain the project activities and possible contract farming arrangements.
- (iii) Examine the potential to expand the sales volume of currently traded cash crops within existing marketing networks.
- (iv) Promote the production of cash crops that are demanded in identified markets, and expand the scope of contract farming arrangements with ethnic minority farmers by providing input and extension assistance as required.
- (v) Provide assistance to farmer trade groups for capacity building in villages, and for improvement of trade logistics arrangements.
- (vi) Conduct training required such as functional literacy, simple numeracy, and recording to enable beneficiary farmers to adequately manage production and distribution under the contract-farming arrangements.
- (vii) Assist beneficiary farmers in establishing quality control, sorting, and distribution arrangements.
- (viii) Introduce or improve postharvest activities for better product quality if they will significantly increase the value of products.
- (ix) Promote organic and pesticide-free farming, test sales products, and obtain product certifications (organic, pesticide-free, fair trade, etc.), if those activities add value to the cash crop products.

12. **New Product Development.** This aspect will comprise the following activities:

- (i) Study indigenous knowledge of NTFPs; analyze the social, environmental, and poverty impacts of increased domesticated NTFP production; and identify domesticated NTFPs that have promising marketability.
- (ii) Assess the marketability of potential cash crops and domesticated NTFPs that can be introduced to ethnic minority farmers, and assess if the crops can be cost-effectively grown and processed locally, and sold at a profit in specific markets over the next 5–10 years.
- (iii) Based on such analysis, develop sample crops and products, and conduct marketing studies on them, utilizing business contacts within the existing sales

networks, including (a) identification of the variety, size, and shape, and other relevant characteristics of promising crops that can be sold in the specific alternative markets, (b) assessment of several import buyers' opinions on the proposed products and willingness to pay for the products, (c) estimation of what can be charged for the product delivered to a point at border crossings or the airport in the Lao PDR by deducting customs duties, shipping charges, and miscellaneous costs from the prices paid by importers, and (d) trial shipments to potential new markets to examine the level of transaction costs and distribution conditions.

- (iv) For each promising crop that has promising marketability in a specific market, develop a marketing plan indicating (a) a description of the target market or markets, (b) the distribution system to be used, (c) details of international shipping and payment methods, (d) characteristics of the products and their packaging, (e) a sales forecast, (f) the pricing strategy, and (g) promotion activities.
- (v) Assess the risks to, and potential for successful market entry and development, and propose specific measures to address any identified constraints.
- (vi) Study the relevant import duties and regulations, and confirm the required export procedures at specific points of border crossings by consulting with officials of regulatory agencies.
- (vii) Identify any additional legal and regulatory impediments in practice to the exportation and sale of the product, and report to the NSCCP and ADB as required.

C. Project Impact Monitoring Specialist (2 person-months, international, intermittent)

13. The project impact monitoring specialist will engage local institutions for survey works as required to conduct the following tasks:

- (i) Design and carry out initial social assessment of the participating communities at the project inception phase in close coordination with FTO and FOUP, and report to the NSCCP and ADB the target beneficiaries' profiles, social state, priority development needs, absorptive capacity, gender issues, and understanding and level of commitment to the project activities.
- (ii) Based on the outcomes of initial social assessment, construct a practical and effective project performance management system (PPMS), indicating monitoring indicators, and a framework to allow gender- and ethnic-disaggregated monitoring.
- (iii) Conduct workshops and training as required for the relevant local government and NSCCP staff to make effective use of the proposed PPMS.
- (iv) Conduct social assessment at project completion to evaluate the development impacts of the project activities, and prepare a project impact evaluation report.
- (v) Report the outcome of the project impact evaluation, using visual media such as video, and organize workshops to disseminate the results of project impact evaluation.