MID-TERM REVIEW

“MARKET ACCESS FOR FARMER ORGANISATIONS” PROJECT

Key Findings and Recommendations

Tiago Wandschneider, Thipavong Boupha and Alison Wilson (CIAT)

April 2009
Acknowledgements

The review team would like to express sincere thanks to Stuart Ling (VECO Country Director in Laos) for his openness and important insights. We are also very grateful to Ms. Kheuavanh (VECO Project staff) for her excellent interpretation, her patience in answering multiple queries, her good humour, and the very pleasant Sunday lunch by the river.

Finally, we would like to thank all the government partners and farmers that joined the interviews. Their willingness to engage in open, sometimes lengthy discussions with the review team is much appreciated. It is hoped that the views expressed and the information provided during the interviews is well reflected in this report and will help VECO deliver improved and sustainable impacts that benefit the group enterprises and local farming communities.
# Table of Contents

Acknowledgements .......................................................... i

1 Introduction ................................................................ 1  
   1.1 Background ........................................................ 1  
   1.2 Objectives of the Mid-Term Review ......................... 1  
   1.3 Methodology ..................................................... 1  
   1.4 Caveats ................................................................ 1  
   1.5 Structure of the report ........................................... 1  

2 Assessment of the project approach ......................... 2  
   2.1 Strengths .......................................................... 2  
   2.2 Weaknesses and risks .......................................... 2  
   2.3 The issues of subsidies for group investments ......... 2  

3 Assessment of project implementation .................. 6  
   3.1 Strengths .......................................................... 6  
   3.2 Weaknesses ..................................................... 6  

4 Assessment of farmer group enterprises ............... 8  
   4.1 Profile ............................................................ 8  
   4.2 Internal strengths .............................................. 8  
   4.3 Internal weaknesses and risks ............................ 8  
   4.4 Performance .................................................... 8  
   4.5 Sustainability .................................................. 8  

5 Assessment of outcomes and impacts ................. 12  
   5.1 Direct outcomes and impacts .............................. 12  
   5.2 Indirect outcomes and impacts ......................... 12  

6 Recommendations ..................................................... 15  
   6.1 Project timeframe ............................................... 15  
   6.2 Market research and analysis .............................. 15  
   6.3 Analysis of business profitability and risk .......... 15  
   6.4 Support to farmer group enterprises ................. 15  
   6.5 Maize chain .................................................... 15  
   6.6 Peanut chain .................................................... 15  
   6.7 Tea chain ........................................................ 15  
   6.8 Policy advocacy ................................................ 15  
   6.9 Market information ........................................... 15  
   6.10 Documentation ............................................... 15  
   6.11 Capacity development ...................................... 15  
   6.12 Partnerships and outsourcing ............................ 15  


<table>
<thead>
<tr>
<th>Annex</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annex 1</td>
<td>Terms of Reference for the Mid-Term Review</td>
<td>22</td>
</tr>
<tr>
<td>Annex 2</td>
<td>Fieldwork schedule</td>
<td>24</td>
</tr>
<tr>
<td>Annex 3</td>
<td>List of reports and documents consulted</td>
<td>25</td>
</tr>
</tbody>
</table>
1 Introduction

1.1 Background

This report presents key findings and recommendations from a Mid-Term Review of the “Market Access for Farmer Organisations” Project, implemented by VECO with funding from the Belgian Government and private donors. The project works in Houaysay, Meung and Tonpheung districts of Bokeo province, in the remote northwest of Laos, along the border with Thailand and Myanmar.

The Market Access Project started in March 2007 and will come to an end in February 2010. Its overall objective is to improve livelihoods in 75 villages through better access to markets and an increase in the value of local agricultural production. The project focuses on the development of farmer group enterprises that provide essential production, post-harvest, processing and marketing services to local farming communities.

The review was conducted by a team of three researchers from the International Center for Tropical Agriculture (CIAT). All team members have considerable experience in agro-enterprise development processes in remote and poor regions, not only in Laos but also in other Southeast Asian countries. Ms. Kheuavanh (VECO staff) provided valuable interpretation services and Mr. Phahon (Provincial Department of Agriculture and Forestry, PAFO) accompanied the team during the fieldwork. In each district, local project and partner staff also joined the discussions with key informants.

VECO asked CIAT to conduct this review because the CIAT Agro-Enterprise Development Approach (AEDP), developed for the Lao context, was used as an inspiration for the Market Access Project. The AEDP was especially influential in the decision to focus on village clusters and the design of participatory product selection and market research processes. This review was therefore of interest to CIAT, providing an opportunity to learn about the appropriateness and impact of AEDP-inspired approaches.

1.2 Objectives of the Mid-Term Review

The objectives of the Mid-Term Review are as follows:

β assess the effectiveness of the project, i.e. the progress achieved in reaching the target groups and generating outcomes and impacts that are in line with the project objectives,

β identify lessons, and

β make recommendations on how to improve implementation and maximise outcomes and impacts during the last year of the project implementation.

1.3 Research methodology

The review was based on focused discussions with VECO staff and members of six group enterprises and one producer group. Semi-structured interviews involved the Vice-
chairman of the provincial Chamber of Commerce and the Vice-Governor of Mueng. Direct observation methods were used during the field visits. The review team also had access to a series of project documents and project-generated data. Finally, the feedback workshop in Houaysay with members of group enterprises and government partners provided an opportunity to validate the analysis and gather additional views from key stakeholders.

1.4 Caveats

It is too early to make a full assessment of outcomes and impacts. The farmer group enterprises supported by the Market Access Project are still very young. Nine enterprises have been in operation for one or two years only. Eight other group enterprises have just been formed.

In addition, the findings presented in this report must be interpreted with some caution:

β The review team did not spend enough time with each enterprise, and one should be well aware of the methodological limitations of one-off interaction with members in a focus group discussion setting.

β The review team only interviewed members from one producer group and did not have the opportunity to consult private companies and provincial policy-makers. Interviews with these stakeholders would have allowed for a better understanding of project results and the policy and regulatory environment.

β The Market Access Project has produced little critical analysis on processes, outcomes, impacts and lessons. Greater availability of analytical reports and case study material would have been useful to the analysis presented in this report.

1.5 Structure of the report

The report is structured in six sections. The project approach is examined after this introduction, in Section 2. Project implementation is assessed in Section 3. Section 4 provides analysis on the profile, the strengths and weaknesses, the performance, and the likely sustainability of the farmer group enterprises targeted by the project. Section 5 discusses direct and indirect outcomes and impacts. A series of recommendations are provided in Section 6. The terms of reference for the mid-term review and the fieldwork schedule are shown in Annexes 1 and 2, respectively, while the documentation reviewed is listed in Annex 3.

2 Assessment of the project approach

2.1 Strengths

Participatory selection of supply chains

Farmers participated in the selection of target chains. Maize was chosen in nearly all
village clusters, which is unsurprising given its significant (and increasing) dominance as a smallholder cash crop in Bokeo. The choice of groundnuts in the Namphuk cluster of Houaysay also reflected its local economic importance. Finally, in the Nam Meung cluster of Meung, farmers selected tea with the expectation that the project could assist them to take advantage of a local resource that is starting to be commercialised.

The emphasis on chains that are rapidly developing and very relevant to the livelihoods of large numbers of communities is advantageous in a project such as the “Market Access for Farmer Organisations”, which aims to generate pro-poor impacts within three years. A focus on diversification to new crops, or an expansion of relatively minor crops, would have required additional financial resources and would have been too challenging in such a short intervention period.

Participatory market assessments

As highlighted during the field interviews, participation in initial market assessments has improved understanding of marketing systems and increased awareness of market opportunities amongst the participating group enterprises. These initial assessments also improved knowledge of technical issues and contributed to the development of market linkages, with some groups establishing valuable contacts with potential input suppliers and product buyers.

Focus on groups

While certainly challenging and not always sustainable, farmer group enterprises can provide a good entry point for the development of entrepreneurial and marketing skills, the transfer of technologies, local value addition, investments in storage facilities and processing equipment, and the generation of scale economies in processing and marketing.

Focus on village clusters

The activities of all but one of the group enterprises that were active in December 2008 cover several villages. Through such groups, VECO can potentially generate benefits to large numbers of communities and farmers for a relatively low intervention cost.

Member-driven group development processes

In its role as an external facilitator, VECO does not interfere excessively with group development dynamics. In line with best international practice, decisions regarding membership, group size, value of individual shares in the group enterprise, allocation and distribution of profits, conflict-resolution rules, and so on, are ultimately left to members. They are the ones best placed to decide how the enterprise should be run, taking into consideration the local socio-economic and cultural contexts and their own aspirations, ability to take risks, managerial and financial capacity, business development strategy, and so on. The role of VECO is to inform, not determine, such choices.
Multi-faceted support to group enterprises

When assisting group enterprises, VECO focuses on a wide range of support areas. This is good practice. For example, in addition to facilitating group formation, organisation and registration, VECO has provided training on leadership and management, supported access to market information, introduced new cultivation and processing technologies, co-funded investments in storage and equipment, and encouraged learning across groups.

Groups’ reliance on internal resources

Self-funding of group activities is one of the most critical determinants of group success. Members’ financial contribution to group investments and activities signals their commitment to the enterprise and ensures a minimum degree of self-reliance. In 2008 139 farmers from eight enterprises contributed US$67,500 (nearly US$500 per farmer) for group investments, in addition to the VECO co-funding contribution, which amounted to US$31,000.¹

No subsidies to group operations

While VECO has provided very significant co-funding (and in some cases full funding) for group investments, it does not subsidise operational costs, such as the purchase of inputs and the procurement and sale of crops. This is in line with good practice.

Subsidies to operations can mask the true viability of an enterprise and weaken the incentives for innovation and upgrading, which are so essential to its very future survival. In addition, subsidies to operations distort competition and may undermine the development of local production and marketing systems. They favour subsidised enterprises in detriment of other – local or non-local – service providers.

Focus on the governance of chains

Supply chain governance is an important component of the Market Access Project. Improvements in the policy and regulatory environment are critical in a province such as Bokeo, where the structure, conduct and performance of smallholder supply chains seems to be adversely affected by a myriad of costly and sometimes difficult to predict decisions from national and provincial governments on both sides of the border.

2.2 Weaknesses and risks

The VECO approach leaves limited or no room for working with non-group enterprises. This is its main weakness. As confirmed during the field interviews, small and medium private enterprises play an increasingly important role in local marketing systems. Thai and Chinese trading enterprises are increasingly active in Bokeo. There are also a

¹ Eleven group enterprises were active in 2008, but VECO has no records of the capital of two groups. Members in another group did not invest in the enterprise because of the Thai ban on maize imports.
growing number of local enterprises and entrepreneurs that provide production services to farmers and purchase their crops.

By ignoring individual enterprises, VECO may have missed opportunities for enhancing the performance of the chains selected and for generating benefits to local farming communities. It should also be noted that groups cannot compete on their own, depending on other enterprises for accessing inputs and technical assistance and for selling their own products. A neglect of individual enterprises may therefore weaken the much-needed development of market linkages. As such, initiatives targeting individual enterprises not only complement current interventions, but have the potential to also strengthen the group enterprises targeted by the project.

2.3 The issue of subsidies for group investments

Some discussion of the co-funding of group investments is required, given its critical role within the whole VECO approach. Clearly, without such subsidies, it is very unlikely that, in such a short period of time, the project would have succeeded in instigating the formation of 17 group enterprises, covering a universe of 77 villages, in three districts of Bokeo.\(^2\) Co-funding has been a critical “carrot” for the mobilisation of farmers around group enterprises.

Such subsidies are also acting as an important catalyst for mobilisation of members’ own savings for strategic investments, such as the construction of storage sheds and drying yards and the purchase of tractors, trucks, maize shelling equipment, and fertilizer pelleting equipment. These investments are critical for the groups’ own development. They enable such enterprises to add value to local products and to play a more active role within existing marketing systems. Those investments should also lead to improved access to post-harvest, processing and marketing services by whole communities.

There is a risk, however, that some groups may have been formed mainly as a vehicle for access to subsidies. In other words, in some cases, the strong incentives associated with co-funding, rather than the need to act collectively to address common problems and to access income opportunities, may have provided the main motivation for group formation. If that is the case, some groups may well disintegrate once the subsidies are phased-out. This problem has been well analysed in the African context (see, for example, Stringfellow et al., 1996).

VECO should be very aware of this risk and develop carefully-thought interventions that minimize the possibility of group disintegration after the project support is withdrawn. Ultimately, the sustainability of the group enterprises will depend largely on their ability to generate tangible income benefits to members that would not have been possible through individual action. Consequently, project interventions must be geared towards maximising the profitability of group ventures!

\(^2\) The Market Access Project has also been working with a group in Paktha district. This enterprise, which covers 22 villages, seems to have emerged from a previous VECO project and is not included in the analysis.
3 Assessment of project implementation

3.1 Strengths

The Market Access Project has focused on the establishment and development of farmer-controlled group enterprises. Emphasis has been given to group formation processes, the development of group rules, the investment in strategic assets, the upgrading of group management and technical capacity, and the generation of improved knowledge of markets. Nine groups were active within the first 18 months of project implementation and eight other groups have been recently formed and will start investing in 2009. This significant achievement is an indication of good progress in the implementation of project activities.

During the fieldwork, leaders and members of group enterprises showed much appreciation for the support received from the project. While the co-funding of investments was particularly highlighted, there was also much appreciation regarding the opportunity to participate in market assessments and the training and technical assistance received. The fact that some groups were successfully mobilised for the interviews with the review team at very short notice, and that most focus group discussions were very well attended, corroborate these views. During the interviews and feedback workshop, provincial and district partners also acknowledged the relevance of the project and the progress achieved in implementation of activities.

3.2 Weaknesses

The review team identified three major weaknesses in the implementation of the project approach.

Market linkages

The importance of market linkages for group profitability cannot be overemphasised. Despite some relevant and effective interventions, such as initial study tours along market chains, the review team feels that greater emphasis should have been given to the facilitation of linkages between group enterprises, input suppliers, and product buyers. An excessive emphasis on group investments and a general lack of attention to the private sector seem to have diverted attention away from a more intensive and process-oriented approach to market linkage development.

The market situation in Bokeo is very dynamic due to rapid commercialisation in the maize and other supply chains. Continued analysis of the changing structure of the target chains would have provided VECO with improved understanding of opportunities for upgrading current market linkages. If clear opportunities had been identified, the project could have organised visits to specific points in the chain, facilitated meetings between group enterprises and particularly strategic market actors, and supported them to meet any agreements that may have been reached with new suppliers or buyers. It may well be that opportunities for profitable collaboration across group enterprises, such as the joint signing of contracts with product buyers, may have been identified in the process.
Advisory and mentoring services

The review team feels that VECO has provided some but insufficient support to groups regarding the development and implementation of business and marketing strategies, which are so critical to enterprise profitability and sustainability. Advisory and mentoring services aimed at enhancing understanding of market opportunities, facilitating vision development, strengthening profitability and risk analysis, enabling strategy analysis and formulation, and so on, have lacked the necessary intensity and have not been tailored enough to the specific circumstances of each group. During the discussions, many group members mentioned that their enterprise could benefit from further support in these areas. The care taken by VECO to analyse the socio-economic situation of each group when deciding the amount of co-funding to provide should be extended to other areas of intervention.

Market information

Farmer group enterprises are expected to generate improved access to market information in the areas where they operate. During the field interviews anecdotal evidence that some group enterprises are becoming better integrated in supply chains, and accessing strategic market information as a result, was gathered.

The Bokeo Chamber of Commerce also features highly in the project strategy to improve access to market information. There were plans to support the Chamber of Commerce to develop a market information system. These plans were not implemented due to the poor capacity and performance of the Chamber of Commerce. At the moment the Chamber has 25 member enterprises and an annual budget of just US$500.

The review team does not believe that, during the coming years, the provincial Chamber of Commerce will achieve the level of organisation and professionalism required for the delivery of relevant market information services in a cost-effective and sustainable manner. The emphasis given to this stakeholder during the project design phase has proven unrealistic and therefore misguided. A focus on the group enterprises as channels for dissemination of relevant market information is much more feasible, cost-effective, and sustainable. This reinforces the need for greater attention to be paid to market linkages.

Governance of supply chains

Little progress has been achieved in the advocacy component of the Market Access Project. At the time of the fieldwork, a resolution to the licensing problems experienced by the Nam Meung tea processing enterprise was imminent, although the ability of that group to expand procurement activities to areas beyond the local village cluster remains to be seen.\(^3\) If resolved, this licensing issue will provide the only significant achievement within the advocacy component during the first two years of project implementation.

\(^3\) In Bokeo a Chinese company has been given concessionary rights over local tea production.
It seems that some groups are starting to approach district authorities to voice their concerns regarding particular problems, as in the case of the Sidonekhoune maize enterprise, which was experiencing difficulties across the border in Thailand. The fact that some of the members in this and other groups are also local leaders may enhance the ability of the enterprises to engage in advocacy activities, but on their own, they are unlikely to have a significant influence on the overall policy and regulatory framework.

Clearly, the emphasis given to the potential role of the Chamber of Commerce in policy processes has shifted the project’s attention away from the strategic task of informing the provincial policy agenda. This issue will not be resolved by merely shifting the project attention towards the development of a provincial Maize Association, as planned.

While the internal problems within the Chamber of Commerce are partly to blame for the lack of progress in the advocacy component of the Market Access Project, much more could have been achieved if focused policy and institutional analysis had been conducted in consultation with the government, the private sector, and farming communities. This would have provided critical insight into trends and inefficiencies in the policy and regulatory frameworks, and would have enabled VECO to identify stakeholders that could be targeted and channels that could be developed as part of policy reform processes. More in-depth research of marketing systems would have provided additional insights into the governance of the target supply chains and possible coalitions of interests that could be mobilised to advocate for positive change.

4 Assessment of farmer group enterprises

4.1 Profile

Generally speaking, most group members are relatively wealthy, capable, dynamic and influential men. Members of Kumban committee and village heads are often shareholders in the group enterprises. To be part of a group, members must make a significant financial contribution to the enterprise. Some have significant individual assets, including small storage sheds, trucks, boats, tractors, and maize shellers. Some of the groups visited rent tractors, boats, trucks, and shelling equipment from individual members.

These general features mask considerable variation in wealth and other attributes across groups. The value of each member’s share varies from US$60 and US$3,000, depending on the group enterprise. Some of the groups – but not all – have members with previous experience in trading. One group comprises just six members, while two groups have 29 members each. Most groups have had a rather stable membership, but in two cases (Pakngao and Siangdao) the size of the group has increased considerably over the past year, while in another case (Namphuk) there has been a significant reduction in membership. In one of the group enterprises visited (Sidonekhoune) all members belong to the same ethnic group, but in all other groups the membership is drawn from two to four ethnicities. The membership of two group enterprises comes from one single village, while the other groups draw their membership from several villages. One enterprise operates in one single village, whereas the other cover between three and 12 villages.
Diversity is a healthy expression of the member-driven processes, reflecting to a large extent differences in the wealth status of enterprise shareholders, their aspirations, and the local socio-economic and cultural context. Such diversity confirms the need for a tailored approach to interventions, which should take into consideration the specific circumstances of each enterprise.

Finally, it should be noted that some group enterprises are developing into highly diversified businesses. Many are providing technical advice to farmers, supplying agricultural inputs (such as seed, fertilizer and pesticides), starting to become involved in the production and perhaps future sale of compost fertilizer pellets, delivering land preparation and/or post-harvest shelling services, and marketing different agricultural products. The groups interviewed were engaged or planning to become involved in the procurement and sale of maize, tea, rice, soy beans, groundnuts, tea, job’s tears, broom grass, and māk tāo sugar palm fruits. One group is planning to develop broom grass processing activities while two other groups are starting to develop fish processing businesses. Finally, it should be noted that investments in storage and transport have had an impact well beyond the targeted chains, enabling groups to become more actively involved in the marketing of an increasingly diversified portfolio of local products.

4.2 Internal strengths

Small group membership

Small group size can contribute to good group performance. As mentioned, the largest groups have 29 members. Most have six to 12 members. While large groups can have positive implications in terms of asset accumulation and the availability of working capital, they are generally more difficult to manage and less participative. Communication and coordination between members becomes more costly, consensual decisions more difficult to reach, and active participation of members in the affairs of the enterprise more challenging.

Capable and influential membership

Group enterprises clearly benefit from having a relatively wealthy, capable and influential membership. This is conducive to good group performance. It can have a very positive impact on the quality of group leadership and management, internal entrepreneurial and business skills, and the ability of such enterprises to invest and take risks. It can also facilitate interaction with government bureaucracy, enable access to government services, and facilitate advocacy activities.

Democratic nature of the group enterprises

Group enterprises need to be managed democratically if they are to reflect the interests and aspirations of members. This is critical to ensure that members remain committed to the enterprise. Democracy is also essential for effective conflict resolution, as demonstrated by the experience of the Sydoneyeng maize group, which managed to deal appropriately with the exclusion of some of its initial members through a voting process.
It appears that most groups have not yet experienced serious conflicts, but these may well emerge as the enterprises develop, and swift and consensual resolution will be essential to ensure good performance and the sustainability of groups.

Reliance on internal financial resources

Members are using their own savings for investments that have been co-funded by the Market Access Project. For some group investments, VECO did not provide any financial support. Working capital also comes from members’ financial contribution and profits. A small share of profits is used to pay for administration and other running costs. Internal mobilisation of significant financial resources signals members’ commitment to the development of their enterprise.

Local presence

The fact that groups are embedded within the local context is potentially an important source of competitive advantage. In other words, the close links between groups and local farming communities should give them an advantage (vis-à-vis non-local competitors) in the marketing of local products.

Increasingly diversified business portfolios

The fact that some group enterprises are becoming active in the marketing and processing of a wide range of products can be a source of strength. On the one hand, diversification increases the complexity of the enterprise, requiring a more developed set of management and marketing skills as well as additional working capital. On the other hand, however, it can enhance the rationale for collective action, improve the profitability of groups, and reduce the risks that they are exposed to.

4.3 Internal weaknesses and risks

Scattered membership

Group membership is – in most cases – scattered across several villages. This can be a strength but also a liability. Dispersed membership enables wider geographical coverage and facilitates business expansion, but it also increases the transaction costs associated with group management. The greater the distance between members, the higher the communication and coordination costs.

Ethnically diverse membership

The ethnic diversity within the groups also poses some challenges and risks. One of the lessons from collective action is that cultural homogeneity contributes to the success of group enterprises.
Capacity and business strategy

Despite the profile of group members, which was discussed in sections 4.1 and 4.2, most group enterprises visited showed some weaknesses in terms of their capacity and business strategy:

- Some members of the Nam Meung group are illiterate, thereby having limited ability to participate in decision-making processes, check enterprise records, and hold leaders accountable.

- During the focus group discussions, the leaders and members of some groups had difficulties in articulating a clear vision and strategy for their enterprise.

- In the discussion in Namphuk, the Chairman and other members of the peanut processing enterprise could not present a full analysis of the profitability of their business, which is worrisome.

- The fact that the Pakngao maize group has invested in a truck before building a maize storage shed is puzzling and indicative of an inappropriate sequencing of investments.

- It is also surprising that the maize groups interviewed are providing seed and fertiliser on a cost basis, with no profit margin being charged. And when supplying inputs and services on credit, no interest is charged. Such practices are not appropriate from a group profitability perspective, although they may well reflect competition from alternative service providers.

- The lack of written contracts between some group enterprises and farmers constitutes poor business practice, and seems to have contributed to the credit repayment problems experienced by the Sidoneyeng maize group. Farmers still owe about US$1,500 to the group. Written contracts with clear enforcement rules are important in conveying the message that, upon signing a contract, the farmer is agreeing to supply the group enterprise and that failure to meet such obligation and repay the debt to the group will lead to exclusion from future service provision.

4.4 Performance

Most group enterprises are generating profits and investing in the growth of their business. Five of the six group enterprises visited reported profits ranging from US$350 and US$14,000 for 2008, although in some cases the figure provided excludes transport costs and/or the labour contribution from members. The fact that profits were generated in an extremely adverse environment, characterised by floods, a temporary Thai ban on maize imports, and a sharp drop in the price of maize and other commodities, cannot be overemphasised.

So far four groups have registered as formal enterprises. The project emphasis on formal registration of group enterprises was well judged. In some contexts, formalisation is a costly process that is not essential to group performance, while exposing it to taxation
and government interference. In the current case, however, registration is enabling groups to export to Thailand directly, to access bank loans, and to join business associations. In the future, the legal status of group enterprises will also enable them to import tax-free equipment and pursue legal action through courts, if necessary.

The ability of groups to avoid serious internal conflicts through transparent management and decision-making processes will be essential to their future survival and growth. Their ability to solve emerging conflicts swiftly will be equally critical. Hence, the fact that four of the six groups visited have managed to avoid serious internal conflicts, and that the other two groups (Namphuk and Sidoneyeng) have so far dealt with conflicts effectively, is encouraging.

4.5 Sustainability

Despite the challenges in predicting the future sustainability of group enterprises at such an early stage of their development, the review team would like to highlight three issues.

First, the ambitious geographical coverage of some enterprises may undermine their own sustainability. For example, the Sidoneyeng group services 12 villages, some of which are particularly poor and relatively difficult to reach. The group faced serious repayment problems in these villages. The temporary collapse of the maize market, the broader problem of declining maize prices, and poor communication between the group and contract growers may have contributed to this situation. But discussions with several maize enterprises strongly suggest that the situation is not a mere consequence of temporary factors: some villages may be simply too poor and too difficult to access to provide viable business opportunities for the group enterprises. If that is the case, there is a need to avoid a situation where development goals undermine enterprise profitability and sustainability.

Second, there is a risk that some of the more capable and dynamic members within a particular group may eventually decide to leave the enterprise and develop business activities on their own. Actually, it is possible that the support from the project will enhance the entrepreneurial skills of particular group members to such an extent that they will feel capable and confident to do business on their own. While this may undermine group performance and sustainability, it still represents an improvement in the local agro-enterprise and marketing landscape compared to the situation prior to the project.

Finally, it is important to avoid excessive reliance on co-funding as a driver of group formation and development, an issue that was discussed in section 2.3. The Market Access Project should therefore gradually shift its focus to other areas that are critical to enterprise competitiveness, such as marketing strategy, market linkages, management skills, technical expertise, and the governance of supply chains.

5 Assessment of outcomes and impacts

While an assessment of impacts is not part of the objectives of this review, the project documentation and the data gathered during the fieldwork provide insights that can prove
useful in future impact assessment exercises.

5.1 Direct outcomes and impacts

Project interventions have focused on the development of 17 farmer-controlled group enterprises. These have the potential to generate very tangible income benefits to a prospective membership of 250 to 300 farmers.

Improved access to production services and profits from value addition and marketing activities are clearly beneficial to the members of those enterprises. The benefits from selling shelled and dried maize in areas where the crop was being sold in the fresh cob, as in the Pakngao and Sidonekhoun clusters, are particularly impressive.

5.2 Indirect outcomes and impacts

Group enterprises are being developed not only as a vehicle for income generation to their own members, but more importantly, as a means to bring about much broader socio-economic impacts. More than 16,000 households live in the village clusters where the groups operate. The developmental impact of the Market Access Project will ultimately depend on the ability of groups to generate income benefits to this wider population.

Group enterprises can impact upon the livelihoods of the farming communities in two important ways. The first is through the provision of technical services and the supply of inputs and production services, often on credit. All can contribute to an expansion of production areas and an increase in farm productivity. The second channel for generation of indirect impacts is through the provision of marketing services, which are very important for improving market access and raising farm-gate prices. In short, by providing essential production and marketing services, group enterprises can potentially contribute to increased farm profitability and farmer incomes, which are a critical determinant of local livelihoods.

Diagram 1 Potential Indirect Outcome and Impact Trajectories
So far indirect outcomes and impacts have been largely confined to the maize chain. The Nam Meung enterprise has delivered some tea seedlings to local farmers but not yet started its tea processing and marketing activities. The Namphuk peanut snack enterprise has processed just 1 ton of fresh groundnuts, an insignificant share of local production. The fact that some groups are also active in the marketing of products other than maize, however, may be generating outcomes and impacts beyond the supply chains initially selected for support. The plans by several groups to invest in the production and eventual sale of compost fertiliser pellets may also generate significant impacts.

Maize group enterprises are filling important gaps in the local availability of a wide range of production services – technical advice, supply of seed and fertiliser, and land preparation. Input and land preparation services are typically provided on credit, which is very important for the resource-poor farmers serviced. These activities are developed in the context of written or verbal contracts with farmers, whereby the latter commit to supplying their maize crop to the group enterprise at harvest time.

In many areas, the presence of a group enterprise may have raised the confidence and ability of farmers to invest in production. The presence of a group enterprise offers some assurance regarding the availability of key production and marketing services. The presence of a group enterprise is also very convenient. Otherwise, farmers may have had to look for more distant and difficult-to-access service providers. And they may have had to contract one service provider for land preparation, purchased seed or fertiliser from another, and relied on a third one for the sale of the crop. It is unlikely that they would have received much technical support in the process. It is also unlikely that poorer and more remote farmers would have been deemed creditworthy, which would have led to lower levels of investment in production.

It should be noted, however, that no evidence has been gathered suggesting that group enterprises are supplying seed and fertiliser for a lower price than competitors. There is also no evidence that they are charging a lower fee for land preparation services when these same services are locally available. And some other providers also supply production inputs and services on credit, sometimes free of interest.

There is also no evidence that groups are paying a higher price than competitors, and cases have been reported where farmers are willing to sell to group enterprises for slightly lower prices than those offered by competitors because of convenience and because they have benefited from a wide range of services that were provided by the group. It should be noted, however, that the mere presence of a group enterprise may result in increased competition for the local crop, thereby having a positive impact on local farm-gate prices. In other words, group enterprises may be forcing competitors to offer higher prices to farmers.

Hence, while it is sensible to conclude that group enterprises are enabling farmers to expand areas and achieve higher yields, these impacts should not be exaggerated. Group enterprises are operating in a dynamic environment, characterised by increasing availability of production services and increasing competition in the marketing of maize.
and other local crops. The Bokeo maize case study included in a recent report on contract farming (Fullbrook, 2007) confirms this assessment.

The analysis presented in some project documents suggests that the expansion of local maize areas, the shift to two season-cropping, the increase in the productivity of maize farms, and rising farm-gate prices are mainly due to the activity of group enterprises. In other words, it is often assumed that these are outcomes of the project. Such assumptions are incorrect. They imply that group enterprises are operating in an extremely under-developed and static marketing system, characterised by an absence of other service providers. They also imply that changes in local prices are essentially a reflection of group enterprise activities, not a consequence of much wider forces. For example, the increase in local maize prices during the first half of 2008 was largely linked to a global boom in commodity prices. The subsequent fall in prices also reflected non-local factors, such as the fall in global commodity prices and the temporary Thai ban on maize imports. A more rigorous analysis, which takes counterfactual (with and without project) scenarios into consideration, is therefore needed.

6 Recommendations

Much has been achieved during the first two years of project implementation. The recommendations included in this section build on these achievements, while also focusing on areas where there is scope for improvement. The objective is to inform future project interventions, taking into consideration current strengths and successes, as well as existing gaps and weaknesses. A radical change in project direction is not recommended.

6.1 Project timeframe

The review team strongly recommends a two- or three-year extension of the Market Access Project. The reasons behind this recommendation are fourfold. First, project staff has gone a long way in moving from food security interventions with a focus on household production for own consumption towards more strategic interventions that target the development of agro-enterprises and support market-oriented production. A completion of the project in March 2010 would mean losing the valuable human capital that has been accumulated during the previous three years.

Second, the continuation of the Market Access Project would provide a good learning opportunity, not only for other organisations in Laos, but more importantly, for VECO. Value chain development is a relatively new but increasingly important priority in VECO programmes in Southeast Asia and other regions of the developing world. In this context, the Market Access Project has the potential to generate valuable lessons, provided proper emphasis is given to in-depth assessment and documentation of project experiences.

Third, the Market Access Project is relatively “cheap” and efficient. The total budget for the first three years amounts to US$270,000. A similar level of funding would enable the project to continue for another three years. As the investment (co-funding) component phases-out, resources could be allocated to other equally critical areas of intervention, such as the upgrading of group business strategies, the development of business and
management skills, the facilitation of market linkages, multi-group cooperative ventures, the reform of the provincial business environment, and the documentation of impacts and lessons.

Finally, and most importantly, it is unrealistic to expect a project such as the “Market Access for Farmer Organisations” to bring about significant change in several supply chains within such a short period of time. So far the project has delivered good results, particularly regarding the mobilisation and development of 17 group enterprises that provide key production and marketing services to local farming communities in three districts of Bokeo. But it takes a long time to develop competitive and sustainable group enterprises. By March 2010, some groups will have been in operation for little more than one year. Other group enterprises will have been active for just two or perhaps three years. Success in generating much-needed improvements in the local business environment is even more challenging, and also a long-term task. And there is a good rationale for extending interventions to other supply chains, particularly following on-going developments in many of the groups supported, which are evolving into diversified enterprises.

6.2 Market research and analysis

Project staff have perhaps placed “too much faith” upon the initial participatory market assessments. While such exercises have constituted a good first step, on their own they cannot provide a complete and dynamic perspective on production and marketing systems.

Market research and analysis can serve many useful purposes. It can inform the project’s technical and market linkage support, as well as its governance work. It can also help group enterprises to develop greater knowledge of market trends and marketing systems, to better understand their own competitiveness vis-à-vis other supplying areas and other enterprises, and to target particularly remunerative but feasible markets or buyers.

Given these considerations, the Market Access Project should undertake regular market assessments. These can sometimes be very focused in their scope. Market research exercises may involve government staff and farmers, but their participation should not lead to compromises in the depth and quality of the analysis. Independent market research is more conducive to good data collection and focused analysis, and can therefore be easily justified. Stakeholders can then be exposed to critical supply chain issues and opportunities through workshops, discussion meetings, and study tours.

6.3 Analysis of business profitability and risk

The Market Access Project is encouraging group enterprises to invest and add value to local products without a proper, ex-ante analysis of the profitability and risk of different options. This is a serious problem. Profitability and risk analysis should always guide decisions regarding investments, what and how to produce, and where and whom to sell the production.
Group profits are also not being fully assessed. As a consequence, the project is in a weak position to understand the performance and likely sustainability of its client enterprises, and make urgent and timely corrections in its support interventions.

It should be noted that profitability and risk analysis can be used as a critical tool for group capacity development. By participating in such exercises, group enterprises can start thinking and acting more strategically.

6.4 Support to farmer group enterprises

The need for more intensive support tailored to the specific needs of different enterprises has been highlighted throughout the report. This will require a re-orientation of the project focus, with a gradual phasing-out of co-funding and greater attention being paid to the provision of research, training, advisory and coaching services.

Areas that will require special attention include group vision, marketing strategy and skills, business plans, product development, market linkages, contracting systems with farmers, management, and record-keeping. Consideration should also be given to addressing functional illiteracy and innumeracy problems within some enterprises. Training and advisory services should take into consideration the whole range of businesses being developed by the groups, not just those that relate to the initially selected supply chains or compost fertiliser. The planned support to broom grass and fish processing businesses is a move in the right direction. Finally, opportunities for cooperation and synergies across group enterprises, such as the negotiation of joint contracts with large input suppliers and buyers or the sharing of assets, should be pursued.

Hands-on training and advisory services will require a detailed understanding of the conditions within each group enterprise. It will also require a more process-oriented approach. Interventions will need to be more responsive, opportunistic, iterative and flexible. This is not always easy to implement in the context of somewhat rigid annual planning processes.

6.5 Maize chain

A new, thorough assessment of the maize chain is recommended. This is justified by the dynamism of the maize sub-sector in Bokeo, the governance problems that characterise this chain, the importance of the crop to the livelihoods of farming communities in project areas, and the large number of maize groups supported by VECO. Such an assessment would provide insights into new opportunities for market linkage and other interventions, critical governance issues that merit further research and analysis, key actors that must be targeted as part of policy reform processes, and the establishment of a maize association.

6.6 Peanut chain

So far the Market Access project has only supported one peanut snack enterprise. This
enterprise is generating significant profits to its 10 members. The enterprise has plans to expand its business during the current and following years, but will remain a relatively small venture. The preparation of snacks is a very labour-intensive task, the enterprise faces working capital constraints, and is not planning to hire outside labour. Despite the profits from the processing of snacks, other people in the village are not interested to join the enterprise, allegedly because of the significant labour requirements. Processed volumes will therefore remain relatively small and the groundnuts will continue to come mainly from the members’ farms. The impact of this single enterprise in the peanut chain will therefore remain insignificant.

Given that the market for peanut snacks in Houaysay is currently under-supplied, VECO should promote replication of the business in other groundnut production areas. Special attention will need to be paid to the development of processing and marketing skills. A diversification of market outlets beyond the three restaurants currently being supplied will also be critical. Finally, the project should promote cooperation between the current and the new peanut enterprises to ensure good use of the existing shelling equipment, the production of a diversified range of snacks (at the moment, only three types of peanut snacks are being produced), and coordinated targeting of market outlets.

6.7 Tea chain

The review team has five main recommendations regarding the development of the tea chain. First, the Market Access Project needs to continue working with the relevant authorities to finalise and monitor the licensing agreement for the purchase, processing and marketing of tea in the Nam Meung cluster of Meung district. Second, the project should carry-out a market assessment to develop a better understanding of demand and market requirements, to identify different market channels, and to assess their viability and profitability. Third, there is a need to assist the Nam Meung enterprise to develop a profitable procurement and marketing strategy and to achieve the volume and quality requirements of the target channels and buyers. Fourth, the project should facilitate the development of linkages between the enterprise and target clients. Finally, based on the experience, the project should assess the scope for establishing and supporting new tea processing enterprises in other village clusters.

6.8 Policy advocacy

The Market Access Project has an inadequate understanding of the policy and regulatory framework. It is recommended, therefore, that VECO carry-out focused policy and institutional appraisals in consultation with the government, the private sector, group enterprises, and farming communities. A first and more general review should be accompanied by assessments of specific, particularly critical issues. These may then need to be regularly monitored. Only then will the Market Access Project be in a strong position to contribute effectively to policy reform processes.

While the idea to support a Maize Association is welcomed, the Market Access Project should also identify and pursue other opportunities to influence the policy debate. The project can play a role in identifying critical issues, raising their profile in the policy
agenda, informing policy options, and mobilising key actors around multi-stakeholder dialogue processes.

VECO concerns regarding the allocation of concessions to foreign (often Chinese) companies without clear performance targets and penalties for failing to achieve these targets are more than justified. Frequent changes in the rules regulating the export trade of maize, and occasional import bans by Thailand and China, are also very worrisome. During the review the team became aware that maize exporters need to obtain a five-day license for all export transactions carried out within that period. Quotas and licenses create barriers to entry and impose significant time and financial costs to small enterprises, especially those located outside the provincial capital. They limit competition and raise transaction costs along the supply chain, thereby having a negative impact on farm-gate prices.

These and other issues to be identified justify focused studies. These assessments should focus on the impact of policies and regulations on farming communities, the private sector, and government. The analysis must also look at different reform options and paths that are deemed feasible. Some policies and regulations may emanate from the national level. Other may be left to the discretion of provinces. There may be significant policy differences across provinces. And in some cases (e.g. maize) provincial frameworks are intimately linked to policies and regulations in the importing countries, i.e. Thailand and China. Such dynamics need to be well understood in order to grasp the scope for improvements, identify coalitions of interest within government and the private sector, convincingly argue for positive change, and generate information about pragmatic strategies and concrete steps to address the problems identified. An informed dialogue and effective collaboration between provincial, national and Thai stakeholders will play an important role in such processes.

The idea to advocate for monopoly purchasing rights for group enterprises within their geographical areas of operation has been raised in some project documents and during discussions with the Market Access Project Leader. The review team strongly advises VECO not to pursue this issue! A first buyer option for group enterprises creates significant entry barriers to other market players and limits competition for farmers’ production, thereby having negative impacts at farm level. This problem can be particularly acute if some group enterprises prove to be unsustainable.

Furthermore, asking government to allocate specific areas to specific enterprises not only reinforces current policy thinking and practice, but also raises a series of implementation issues. There will be too much scope for rent-seeking and corruption. Government should be promoting market entry and competition, not focusing on bureaucratic control. Government resources and energies should be channelled to the development of an enabling business environment, the upgrading of key services such as research and extension, and improvements in critical infrastructure, such as roads, markets and telecommunications.

The review team recommends that VECO focuses instead on strengthening group enterprises so that they are able to stand on their own and compete with other market
actors. While a threat to the survival of group enterprises, competition should also be regarded as an essential disciplining factor that will force those same enterprises to innovate and become more efficient.

6.9 Market information

As mentioned in section 3.2, the review team does not believe that, during the coming years, the provincial Chamber of Commerce will be in a position to deliver relevant, cost-effective, and sustainable market information services. Strong group enterprises, well-embedded within marketing systems and aware of key market trends and opportunities, appear to be a much more feasible, flexible, effective and sustainable vehicle for provision of market information.

Consequently, the review team is of the opinion that the Market Access Project should abandon the idea to support the provincial Chamber of Commerce to develop a formal market information system. Instead, the project should focus on improving the understanding of market trends and opportunities within group enterprises and strengthening their ability to intervene in the marketing sphere. In this context, the project should pay special attention to the provision of market information, market linkage and mentoring services to group enterprises.

6.10 Documentation

Project staff and partners have been very busy implementing project activities. The documentation of processes, outcomes, impacts and lessons has been disregarded as a result. The project needs to address this gap in order to be in a strong position to refine its intervention strategies, improve implementation of activities, measure results, and generate valuable lessons for group enterprises, government, donors, and other projects. In short, more and better documentation will strengthen monitoring and evaluation processes, improve the design and implementation of interventions, and generate strategic learning internally and externally.

6.11 Capacity development

VECO has devoted much effort to strengthening the capacity of its Market Access Project staff. This should remain a high priority in VECO’s agenda. The implementation of the recommendations from the mid-term review will require new skills and expertise. In this context, special attention needs to be paid to the following areas: qualitative and quantitative research methods, supply chain and competitiveness analysis, facilitation of group development processes (visioning, strategic analysis, market linkages, and so on), and outcome and impact assessment.

Opportunities to further develop the capacity of government partners should also be assessed and pursued. Areas that may merit special attention include market research, supply chain and competitiveness analysis, the provision of market-oriented farmer advisory services, and policy analysis and reform.
6.12 Partnerships and outsourcing

Additional staff capacity alone may not enable the Market Access Project to fully implement the recommendations regarding the need for further research, analysis, and documentation. The review team therefore encourages VECO to strengthen its links to projects and development organisations in Laos that may be able to provide experienced staff and perhaps some funding for carrying out some strategic activities, as part of their own agenda. VECO should also assess opportunities for commissioning work from relevant consultancy firms and universities in Laos.
1. Background to VECO in Laos

VECO (full name Vredeseilanden) is a Belgian non-government organisation working in 14 countries in Africa, Asia and Latin America. The Market Access project, which effectively began in May 2007, has the specific objective of “increasing the value and profits of agricultural production to farmers groups by providing improved access to markets”. It operates in three districts (Houaysay, Tonpheung and Meung). Full details can be obtained in the Project Proposal Documents, the MOU’s signed with the Lao Government, and the annual and quarterly plans and reports. In addition, a strategy paper was prepared to guide the implementation of this project – in particular, it emphasises that for sustainability, the farmers groups need to be transformed into small-scale agro-enterprises.

2. Objectives of the Mid-term review

β To assess the effectiveness of the project (ie. What progress is being made by the project towards achieving its objectives and reaching its target group)
To identify lessons that have been learnt and communicate these to all stakeholders via a half-day workshop

To make recommendations on how to improve the chances for success of the project over the remaining 1.5 years, which can be incorporated into the annual plan for 2009

3. Methodology

The mid-term team will make its findings and recommendations after:

- reading the relevant project documents e.g. project proposal; project MOU; project reports (quarterly, annual; etc); PRA-baseline studies; etc
- consulting with all stakeholders involved (farmers, government and project staff) by using participatory methodologies e.g. semi-structured interviews; focus group discussions,
- direct observation of project results

4. Expected Outputs

The review team is responsible to:

- conduct a half-day feedback workshop with all stakeholders in Houaysay to present the findings and recommendations
- write a final report (in either Lao or English) of findings related to the objectives of work (about 10 pages).

5. Composition of Evaluation Team

It would be up to CIAT to decide on the composition of the team. A representative from the PAFO would be made available to accompany the team.
## Annex 2 Fieldwork Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
</table>
| 10 March 2009 | Fly to Houaysay, Bokeo  
               | Debriefing with Stuart Ling and                                           |
| 11 March   | Interview with Mr. Khammet (Vice Chairman of the Bokeo Chamber of Commerce)  
               | Travel to Meung district                                                  |
| 12 March   | Interview with Mr. Khamman Chanthalith (Vice-Governor of Meung district)  
               | Mr. Mai Inkeo (staff from the District Leadership Committee)              |
               | Focus group discussion with leaders and members of the Nam Meung tea enterprise |
               | Focus group discussion with leaders and members of the Siangdao soy bean enterprise |
               | Travel back to Houaysay                                                  |
| 13 March   | Focus group discussion with leaders and members of the Pakngao maize enterprise (Houaysay district)  
               | Focus group discussion with leaders and members of one producer group in the Pakngao cluster |
| 14 March   | Travel to Tonpheung district                                             |
               | Focus group discussion with leaders and members of the Sidoneyeng maize group |
               | Focus group discussion with leaders and members of the Sidonekhoune maize group |
               | Travel back to Houaysay                                                  |
| 15 March   | Focus group discussion with leaders and members of the Namphuk peanut snack processing group (Houaysay district)  
               | Preparation for the debriefing and the feedback workshop                  |
| 16 March   | Preparation for the debriefing and the feedback workshop                  |
               | Debriefing with VECO                                                   |
| 17 March   | Feedback workshop with group enterprises and partners                    |
| 18 March   | Fly back to Vientiane                                                  |
Annex 3 List of reports and documents consulted


