

# LAO PEOPLE'S DEMOCRATIC REPUBLIC CASE STUDY

The project “Fostering green exports through Voluntary Sustainability Standards” of the United Nations Conference on Trade and Development (UNCTAD) has developed an approach to help developing countries build their capacity to achieve sustainable growth through green exports.

To address the challenges associated with organic certification, UNCTAD conducted a reality-check of Lao People's Democratic Republic's state of play in the sector of organic agriculture. Using the VSS Assessment Toolkit designed under this project, the Lao coffee value chain was selected as a case study for this purpose. As part of this process, UNCTAD analyzed the business model based on buyer-producer trust of a local cooperative engaged in organic production, as compared to the third-party certification business model commonly found elsewhere.

Findings of this study contributed to feed the discussions of the 7th edition of the Lao Organic Agriculture Forum, serving as the national multi-stakeholder platform for the Lao organic sector. The event was held in November 2019 and resulted in an action plan to upgrade Lao's organic agriculture strategy to the national agenda.

This country case study was conducted in partnership with the Ministry of Agriculture and Forestry (MoAF) and the Ministry of Industry and Commerce (MoIC) of Lao People's Democratic Republic.

## WHY LAO PEOPLE'S DEMOCRATIC REPUBLIC?

### A SUSTAINED INVESTMENT IN GREEN MARKETS

Sustainable commercialisation of agriculture for the local market and for exports is one of the key pillars of the sustainable development policy of Lao People's Democratic Republic.

Relevant policies and guidelines have been developed to facilitate and enhance the production capacities of the value chain's actors (e.g. producers, processors, traders, exporters, and government) and the access of local agricultural products to international markets.

The country, through the implementation of a project led by the Swiss-funded UN Trade Cluster Initiative, developed commercial linkages between local small-scale organic producers and the country's tourism industry.

Following this project, the country has expressed its interest in tapping into rapidly growing demand for their organically produced vegetables, coffee, tea and silk in regional and international markets.

## PRELIMINARY STAGE: IDENTIFYING A HIGH-POTENTIAL PRODUCT AND ITS VALUE CHAIN

### LAO PEOPLE'S DEMOCRATIC REPUBLIC AND COFFEE PRODUCTION

Currently, coffee is the country's top 3 agricultural crop for exports in terms of value ([Lao's National Socio-Economic Development Plan 2016-2020](#); [World Bank, 2018](#)), and accounted for around 14 per cent of its total agricultural exports in 2017 ([World Bank, 2018](#)). In this context, there are more than 20,000 smallholder families making a living from selling coffee beans, and more than 300,000 people (or about 6 per cent of the total working age population) engaged in jobs linked to the coffee industry.

FAO estimates that coffee production in Lao People's Democratic Republic has increased annually on average by 12 per cent between 2012 and 2017, from 87,330 tons to 150,795 tons (FAOSTAT), and the Ministry of Agriculture and Forestry aims to increase coffee production to reach 1 million tons by 2025. The growth of the Lao coffee sector is supported by promising market opportunities, as the national and regional demand for coffee in neighbouring Asian

countries increases. Moreover, the global demand for high-grade specialty coffee and/or “sustainable” coffee, a production of which the Bolaven Plateau is well suited for, is rising quickly. However, despite this steady growth, the sector is still small and fragile vis-à-vis regional and international competitors.

Green or organic production is suggested as one of the approaches for better marketability by quality improvement in the Lao Coffee Sector Development Strategy by 2025.

## STAGE 1: IDENTIFYING THE MAIN ACTORS AND THEIR KEY CONCERNS

### INTRODUCING VSS AS A TOOL FOR STAKEHOLDERS IN ORGANIC AGRICULTURE

In December 2017, the Lao Ministry of Agriculture and Forestry (MoAF) and UNCTAD jointly organized the 6th Lao Organic Agriculture Forum (LOAF 6) on the theme “Expanding Organic Exports Through Sustainability Standards”.

The meeting brought together producers, manufacturers, traders, exporters, government agencies and development partners to share their views and experiences on organic agriculture.

The workshop introduced VSS as a potential tool to expand the market opportunities of Lao organic products and discussed:

- 1) approaches to cope with the high costs of organic production and certification; and
- 2) the future role and direction of the LOAF meetings.

## STAGE 2: DEVELOPING POLICY OPTIONS BASED ON A REALITY-CHECK

### OPPORTUNITIES AND CHALLENGES OF ORGANIC COFFEE – ASSESSMENT OF AN ALTERNATIVE MODEL

In coordination with the authorities of Lao People's Democratic Republic, UNCTAD conducted a pilot study of the Lao coffee value chain and formulated policy options for its organic certification to improve access to domestic, regional and international green markets. Relying on UNCTAD's VSS Assessment Toolkit, this reality-check yielded:

1. The current state of Lao coffee value chain. In doing so, the study conducted an analysis of the organic trust-based business model operated by Jhai Coffee Farmer's Cooperative (JCFC), which does not require a third-party certification;
2. Opportunities and challenges associated with organic certification, such as perceived by non-certified JCFC producers;
3. A set of policy options to address the identified challenges.

#### Lao Coffee Value Chain

##### Value Chain Analysis

Actors in the value chain can be classified into three categories: agricultural input providers, coffee growers and coffee traders.

- Agricultural input providers mainly supply machinery, equipment, fertilizer, and seedlings;
- Coffee growers/producers are grouped into two groups: (i) independent or individual smallholder farmers, groups and cooperatives; and (ii) large-scale commercial coffee producers, many of which were set up by foreign investors;
- Coffee traders are mainly small-scale coffee traders who play an important role in collecting and selling coffee to big companies.

On the one hand, farmers who own portable washing or pulping machines process coffee by themselves, then sell it as parchment beans to traders. The margin that a farmer would make from selling organic parchment beans per hectare is 250 per cent higher than the margin made from selling non-organic beans.

On the other hand, farmers who do not own washing machines sell fresh coffee cherries to traders, even though this might result in them incurring a loss. Traders then sell coffee cherry to processors/exporter companies in town.

## **Organic Trust-based Business-Model of Jhai Coffee Farmer's Cooperative**

JCFC is one of the largest coffee farmers' organizations in Lao People's Democratic Republic. It gathers 298 families from 18 different villages in the Bolaven Plateau, working together to produce specialty coffee, mainly for foreign markets.

The cooperative encourages its members to allocate a certain size of their existing coffee production area to organic production of specialty coffee or high-quality coffee (ka-fe phi-seth). In the area that is not allocated for ka-fe phi-seth, members are required to apply Good Agricultural Practices (GAP), promoted by Clean Agriculture Standard Centre (CASC), whose role is to support, advise and provide technical training on organic agriculture to producers.

JCFC collects parchment beans of specialty coffee beans only in bulk, adds value to the beans by hulling, cleaning, sorting and grading, and exports directly to international buyers. Individual members may sell non-specialty coffee beans (or "commodity" coffee) to local traders or coffee processing firms.

JCFC's main foreign markets are Japan and the United States of America. Buyers in Japan and the United States of America demand high-quality specialty coffee beans. However, even though JCFC members are said to grow coffee using good agriculture practices and organic farming systems, JCFC is not certified organic.

In fact, JCFC was once certified for Fairtrade and for organic standards but decided not to renew the certification even though they continue applying Fairtrade as well as organic methods to the production of specialty coffee. This is because their buyers do not ask for third-party certification.

Indeed, Alter Trade Japan's (ATJ) approach for instance is to work together with coffee producers to achieve sustainable production. ATJ is physically present with JCFC farmers all the time and provide farmers with necessary knowledge and skills in producing quality coffee. As for quality assurance, a coffee sample is taken every year although the coffee is grown in the same farm.

As a result, JCFC chose to work closely together with their oversea buyers to build a trust-based relationship, instead of paying for high certification cost.

However, JCFC faces several challenges with respect to their future business expansion:

- Lack of productive capacity to meet quantity demand: every year the number of hectares used for specialty coffee changes based on the quantity demanded by foreign buyers. However, JCFC stated that they experienced difficulties in meeting the increasing overseas demand for their coffee.
- Lack of human resources: JCFC is managed by farmers who have not systematically developed their business, managerial or even foreign language skills. Lack of capacity to communicate in English is a key barrier for JCFC to market their quality coffee beyond their current buyers.

## **Perceived Opportunities and Challenges for Organic Certification of Coffee by Non-Certified JCFC Producers**

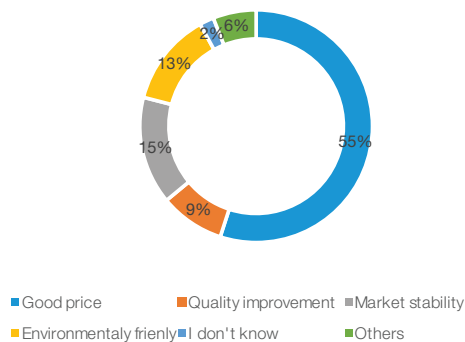
The study also examined how smallholder producers perceive challenges and opportunities associated with organic certification, based on interviews and face-to-face surveys of selected coffee producers of JCFC.

### **Opportunities**

**Almost all producers expressed their interest in organic certification, mainly because they agreed that organic certification would help them secure higher prices for their coffee.**

In addition, they also considered that organic certification could guarantee market access to niche organic markets abroad - considered more reliable or trustworthy - and presented both health benefits and a favourable impact on the preservation of the environment.

Figure 1. Biggest Benefits of Certification (233 surveyed producers)

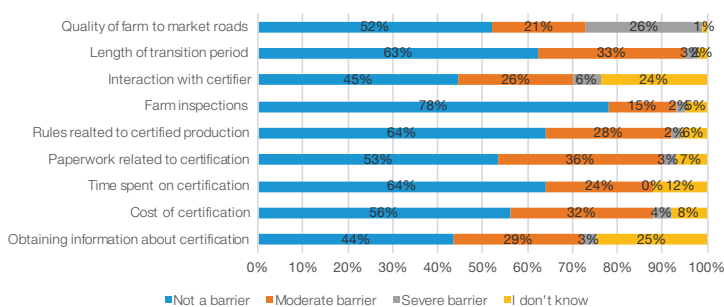


Finally, the availability of financial support or subsidies was regarded as a decisive factor in applying for and obtaining organic certification.

## Challenges

JCFC producers identified the following main barriers to organic certification: **the quality of farm-to-market infrastructure, the paperwork related to certification, the length of transition period, and the cost of certification.**

Figure 2. Barriers to organic certification



However, organic certification alone would not help smallholder coffee farmers obtain stable access to organic markets. Indeed, UNCTAD's reality-check identified **other factors hindering smallholder farmers from producing quality products and finding export opportunities:**

- Lack of knowledge on production techniques beyond traditional farming
- Limited extension services at the local level
- Lack of information on certification
- Lack of a reliable mechanism of organic certification
- Low participation of businesses in organic and sustainable development
- Lack of access to finance or subsidies as an incentive to support organic production
- Lack of support in developing basic organizational and business skills among producers and cooperatives

## Policy Options for Lao People's Democratic Republic

**Policy Option 1.** Widely disseminate information related to certification;

**Policy Option 2.** Revise the 13-year-old national standards for certification to an international level or at least a regional one;

**Policy Option 3.** Consider setting up a resource centre for organic and sustainable agriculture;

**Policy Option 4.** Introduce a first-party certification system suitable to Laos' local specificities, such as the participatory guarantee system (PGS);

**Policy Option 5.** Increase domestic consumption and sales of organic products by improving the information channel concerning organic agriculture, building trust and developing more organic markets;

**Policy Option 6.** Strengthen the capacity of farmers' organizations and cooperatives such as JCFC to improve production techniques and practices in order to meet levels of quality and quantity demanded by the markets.

## STAGE 3: BUILDING AN INCLUSIVE DIALOGUE LEADING TO A POLICY FRAMEWORK

### GREEN EXPORTS AT THE HEART OF A REINFORCED ORGANIC AGRICULTURAL STRATEGY

The 7th edition of the Lao Organic Agriculture Forum (LOAF 7) was jointly organized by the Ministry of Agriculture and Forestry (MoAF), the Ministry of Industry and Commerce (MoIC) and UNCTAD in November 2019.

Over 150 stakeholders of organic agriculture - including smallholder producers, traders, processors, exporters, buyers, development partners and government officials - discussed the opportunities and challenges Lao

organic agriculture faces to reach international markets, and how to best organize supporting actions.

Participants repeatedly highlighted that successful commercialisation is key to the future of organic agriculture in Lao People's Democratic Republic. Another major strategic orientation identified in the discussions was the need to shift the focus of the organic export strategy from developed-country markets alone to include neighbouring markets.

Finally, participants discussed specific actions to ensure the continuity of LOAF into the Lao Organic Movement Association.

The outcome of this Forum is reflected in an action plan drafted by MoAF and endorsed by other ministries in order to upgrade Lao's organic agriculture strategy to the national agenda.