

COFFEE VALUE CHAIN IN DAK LAK PROVINCE

Value chain development activities: April 2007 until March 2009

OVERVIEW



Figure 1: Vice Chairperson of Krong Buk DPC at coffee harvest

Coffee trees were first introduced in Viet Nam in the late 19th century. Three kinds of coffee were introduced then namely, Arabica, Robusta and Liberica. True to its name, only the Robusta proved to be geologically 'robust' and now thrives in the central highland provinces of Gia Lai, Dak Lak and Lam Dong. Arabica, on the other hand, is sparsely planted in the mountainous central and northern provinces such as Quang Tri and Son La.

During the coffee boom in the mid-1990s, farmers in Viet Nam's Central Highlands began to intensively cultivate the Robusta coffee.

Today, Vietnamese coffee plantations span around 450,000 ha, with 170,000 ha in Dak Lak province alone. Viet Nam has thus become the world's second largest coffee producer after Brazil.

The tables below show the worldwide production of coffee over recent crop years and the major importers of Vietnamese coffee in 2007/ 2008

Total production of exporting countries

Mn 60kg Bags	Crop year	2005/06	2006/07	2007/08	2008
Brazil	Apr-Mar	32.9	42.5	36.1	45.9
Vietnam	Oct-Sep	13.5	19.3	18.0	
Colombia	Oct-Sep	12.3	12.2	12.4	
Indonesia	Apr-Mar	8.7	6.7	6.4	6.3
India	Oct-Sep	4.4	5.1	4.4	
Mexico	Oct-Sep	4.2	4.2	4.5	
Ethiopia	Oct-Sep	4	4.6	5.7	
Guatemala	Oct-Sep	3.7	4.0	4.0	
Peru	Apr-Mar	2.4	4.2	3.0	4.3
Honduras	Oct-Sep	3.2	3.5	3.8	
Uganda	Oct-Sep	2.2	2.6	2.8	
Ivory Coast	Oct-Sep	2.0	2.8	1.5	
Costa Rica	Oct-Sep	1.8	1.6	1.9	
Others		14.8	31.9	14.4	
Total		110.1	127.2	118.9	

Source: ICO www.ico.org

Ten major importers of Vietnamese coffee, crop 2007/2008

Thousand Metric tons	Quantity	Value (Mn USD)
Germany	136.0	273.8
United States	106.4	210.8
Belgium	88.5	168.1
Italy	86.4	171.1
Spain	73.7	148.4
Japan	59.2	127.4
South Korea	42.2	82.9
UK	35.2	69.3
Switzerland	29.4	54.4
France	24.4	47.5
Total	681.4	1353.7

Source: VICOFA

Since 2001, coffee prices have been steadily declining due to a glut in the world market. This was mainly caused by an increase in production from the low cost and highly efficient producers, namely Brazil and Viet Nam. Due to these low prices, many coffee farms in Viet Nam's marginal production areas were abandoned and replaced by other staple or cash crops. Around 50,000 ha of coffee have been reportedly taken out of production. These areas were considered unsuitable due to steep production costs for irrigation, unsuitable soil and high fertiliser needs. These farms were profitable as long as coffee prices were high. However, as soon as prices dropped, farmers could not maintain profitability. Only efficient farmers could keep up production while making small profits.

Nowadays, the Vietnamese coffee industry aims to avoid significant fluctuations in production and strives to improve coffee quality. This will contribute to a sustainable basis for the coffee industry, especially at farm level. To achieve this, practical training measures and the distribution of information at farm level is needed.

SMEDP's INTERVENTIONS

Project design

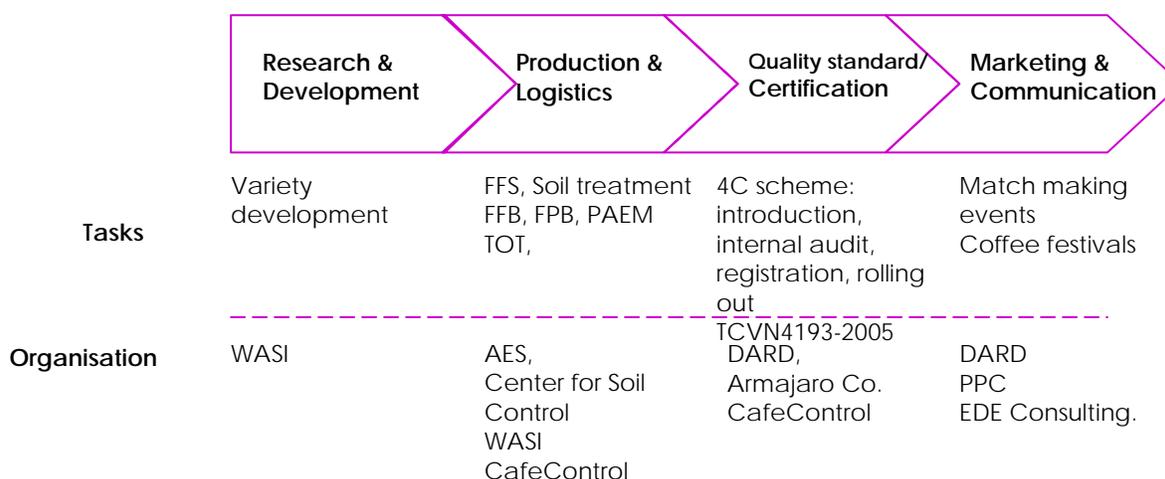
A Participatory Appraisal of Comparative Advantage (PACA) exercise with local stakeholders conducted in March 2006 proved that coffee is the primary engine of development in the Krong Buk district in Dak Lak. It also fuels the development of other industries such as mechanics and general trading. The PACA exercise revealed that the district has obvious advantages to become more competitive in the market. These include considerable knowledge and expertise in coffee production, close relationships between farmers and enterprises, entrepreneurship and an initial capacity to extend and diversify the business.

With such preconditions, the Krong Buk district was the perfect location for SMEDP and its partners to start a two-year coffee sector support project, which commenced in April 2007.

The objective is to strengthen the capabilities of actors in the coffee value chain in Krong Buk who can then contribute to the sustainability of the coffee sector and add value to the product. Furthermore, it aims to roll out the sustainable coffee initiatives of the Common Code for the Coffee Community (4C) in the whole province and nationwide, by supporting the national task force in charge of reforming the sector.

This support is expected to improve quality and efficiency at the farm, processing and marketing levels of the value chain. This then leads to economic benefits for the farmers, the processors and the businesses involved in selling the final product. It is also expected to contribute to a more environmentally sustainable coffee value chain.

The above objectives could be achieved through four main intervention areas with expected participation of different stakeholders:

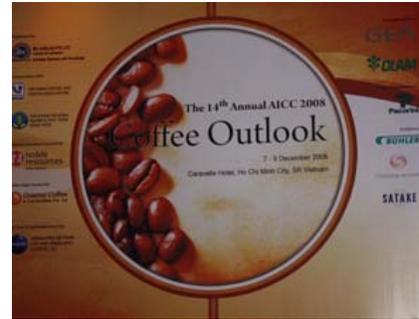


More detailed tasks:

1. Farmers will be trained on Good Agricultural Practices (GAP) for Robusta coffee, using the Farmer Field School (FFS) methodology. Key farmers and extensionists were trained on Participatory Agriculture Extension Method (PAEM) to be able to deliver training to other farmers of the project
2. Farmers will also apply the so-called Farmer Field Book (FFB). This system has been used in various coffee projects worldwide allowing farmers to register all coffee related activities and analyse efficiency on issues ranging from nutrient management to hired labour for individual field activities. It also serves as the basis for an Internal Control System, a prerequisite for all certification schemes.
3. Farmers and collectors will be trained on recent developments in the coffee industry, with focus on certification and sustainability. The project will pay attention to the preparation of farmers for potential

certification such as Utz Certified and Common Code for Coffee Community (4C). The project will also link farmer groups directly to potential buyers.

4. Farmers / processors will be trained and supported in advanced wet processing techniques, using the Farmer Processing Book (FPB) as a tool.
5. Collectors will be trained on value chain management and quality improvement.
6. Linkages to other sustainable coffee projects in Viet Nam will be established. A national level task force is working toward rolling out sustainable practices to the entire Vietnamese coffee sector.



Chain players and partners

The major chain operators comprise more than 200 coffee farmers – households in the Pong D'rang and Doan Ket communes of Krong Buk, a dozen coffee collectors and two big coffee buying companies, Buon Ho and Armajaro.

The project's major supporting agencies were:

- The Department of Agriculture and Rural Development (DARD) of Dak Lak, which is the project's coordinator and technical implementing agency.
- The Krong Buk Economic Division under the District People's Committee, who is the beneficiary of the project and plays an administrative and supporting role in the mobilisation and establishment of farmer groups at the project sites.
- The Western Central Highland Agricultural and Forestry Institute (WASI) participated as a service provider in the development of Good Agricultural Practice (GAP) for Robusta coffee cultivation, training key farmers and extensionists on GAP and development of seedling varieties.
- The Viet Nam Superintendence and Inspection company for coffee and agricultural products (CafeControl) trained key farmers and extensionists on FFB and FPB techniques and analysing the data collected; introduction of coffee standards and verification for the 4C scheme.
- The Centre for Soil Control (CSC) provided training on soil management and techniques for making compost from coffee cherries.
- The Agricultural Extension Station (AES) is a training body for Farmer Field Schools and supports in FFB and FPB recording.
- EDE Consulting Co played the role of project designer, and provider of technical inputs and linkages to the national roll out of the 4C scheme.
- The GTZ SME DP, steered and managed the project besides providing technical assistance to the project by involving consulting companies in different subjects.

ACHIEVEMENTS TO DATE

After about two years of upgrading, the project has achieved the following results:



- A group of 30 key farmers and extensionists were trained in 14 courses on FFB, FPB and PAEM techniques and were able to train other project farmers.
- Farmers in the project areas were trained in FFB and FPB, and data from FFB and FPB were collected and analysed for economic efficiency and helped achieve more sustainable coffee production in the project areas.
- 76 Farmer Field Schools have been organized. Farmers in the project

Figure 2: a group of key farmers at PAEM training, Aug.2008

areas were trained on coffee cultivation, harvesting and post harvesting techniques to optimize the production effectiveness and ensure sustainable coffee production.

- 15 pilot models on wet coffee production and making compost from used coffee cherries were established.
- While the original target was to have 200 farmers in the Pong-D'rang and Doan Ket communes joining the project, a total of 224 farmers - comprising households, 02 collectors and Armajaro, a big coffee buying company – participated in the project. They registered and were verified for the 4C coffee scheme with an output of about 800 tons of 4C coffee.

IMPACT AND NEXT STEPS

The main impacts:

- Consistent and high quality coffee supply from the project areas in the Dak Lak province.
- Farmers trained in GAP improve efficiency (more rational use of inputs) and produce coffee in a sustainable manner.
- Cost effectiveness and premium price for coffee processors through 4C coffee registration.
- Coffee producers in the project areas have better access to the world market and improve their bargaining power.
- Local supporting agencies are familiar with the value chain development approach and are able to carry on similar activities in future.

Next steps:

- The Department of Agriculture and Rural Development (DARD) in Dak Lak province is coordinating a World Bank project – Agriculture Competitiveness Project (ACP). It will also develop a provincial project for sustainable coffee production. Experiences from the Krong Buk coffee value chain will contribute to learning and innovations. The project's farmer households will be linked to these two above-mentioned initiatives.

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