

**Concept Note**

**Draft**

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## **Mekong Market Portfolio Project**

### ***Feasibility, Strategy Formulation and Development of Market Sector Portfolio Projects Impacting Poverty at Scale for The Mekong Sub-Region (Vietnam, Cambodia, Laos)***

#### **- Inception and Sector Identification Phase**

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## Can We Accelerate Poverty Impacts - At Scale?

Oxfam Hong Kong and its donors and partners are developing a series of new projects which adopt a strategic, demand-centred market based approach to developing markets to impact poverty at scale in the Mekong countries of Vietnam, Laos and Cambodia.

The approach is based on the premise that priority sectors can be identified, grown and exploited to accelerate market-based benefits to address specific development targets. Market demand opportunities (local, regional, global) which match the comparative advantages of poor localities and regions can be tapped by working concurrently on production and supply chains, business and investment domains, and demand side factors.

The promotion of private sector development to achieve growth, poverty reduction, and broader development impacts is increasingly accepted modality for public sector and donor investment and intervention. The important, yet inadequately developed part of this practice though is how to prioritise sectors and specific interventions within them to maximize impact and return on public sector resources.

Poor countries tend to be rural economies with low sector diversification, with 40 countries depending on a single commodity for more than 20% of the export income. Rural economies also have high on-farm labour rates and low overall productivity. They engage in commodity markets which are highly competitive, with small margins and high price risks (owing to oversupply etc). Opportunities for identifying potential for competitiveness (through productivity gains and targetting comparative advantage) are important in this context, as is the relationships between production policy environments and real demand - now and into the future. So in this context, which are the best sectors to promote targeted pro-poor economic development required to lift large numbers out of poverty.

Governments and development agencies routinely promote groups of sectors at local, provincial or even national levels as a basis for designing interventions. Yet these groupings are rarely based on strategic analysis of the sector opportunities most likely to achieve desired development outcomes, and very often based on outmoded concepts of economic development to be effective in the new global market place. With limited public (and private sector) investment resources what characteristics of sector potential should we seek to identify? Will any sectors do? Will the current sectors that the poor predominate in be strong, adequate or even possible candidate sectors to drive the targeted economic development required?

## What Sectors Should Be Developed?

In a liberalizing global economy<sup>1</sup> there will be three primary criteria which should be satisfied for any sector (or sector segment) to achieve targeted pro-poor economic growth

1. **Demand and scale potential.** Scale and potential volume is everything. How big is the market being targeted, how is it structured, where is it heading on the strategic horizon. What is the scale of production that could be supported by this demand?
2. **Benchmarking and Analysis of Competitiveness.** The location/country must have the potential to compete effectively in the market place (local, domestic, regional, global). Without this, only unsustainable subsidies can keep a sector afloat. Are productivity gains through improvements in

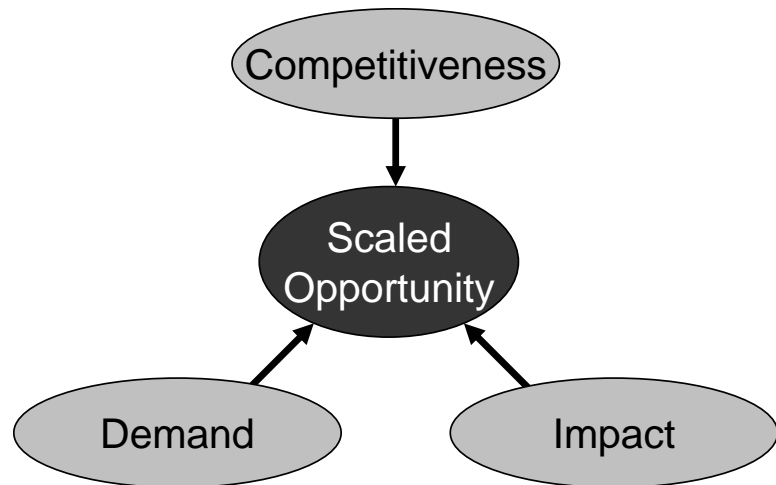
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<sup>1</sup> Vietnam and Cambodia have joined WTO, and Laos is currently planning to.

technology, skills, and sector enabling environment (SEE) feasible to underpin competitiveness enabling access to current and future market demand?

3. **Supply side attribution of benefits.** The supply chains and structure of the inherent comparative advantages, business operating environment and control of resources should be such that a sector structure (sets of supply chains) could potentially distribute benefits in such a way as to achieve intended development impacts (targeted poverty on geographic, ethnic, gender groups of people). This principle underlies much work in Value Chain Analysis work. Do we have good evidence that there is strong and growing demand for the resources controlled by the poor (farm products, labour) within the sectors being targeted in our programmes?

Without all three, sustainable market-derived impacts on poverty will not occur. For example, if you have a capability to produce products for market more cheaply than others (competitive), and a corresponding demand in the marketplace for these goods, but without high direct attribution of benefits to target groups this sector will not achieve development goals if rural poverty is a target.



## An Example: The Mekong Bamboo Case

The bamboo sector is illustrative of this approach and is useful for comparison. It has been identified by OHK and IFC-MPDF in a recent feasibility study and pilot supply chain project as having the potential for scaled targeted pro-poor impact.

### 1. Demand for bamboo products is on the rise.

Owing to Chinese innovations which increased the range of bamboo products so that they now compete effectively in a range of timber and pulp markets (furniture, construction, fibre product markets),

- The global market is growing (today USD7 billion, 2017 15-20 billion).

	<u>Global</u>	<u>China</u>	<u>Vietnam</u>	<u>Laos</u>	<u>Cambodia</u>
2007 Market Share (USD):	7Bn	5.5Bn	250Mn	4Mn	7Mn

### 2. The Mekong countries are potentially very competitive.

- 75-80% of sector output are resource and labour costs
- On the cost of both resources and labour, the Mekong out competes the global leader, China.

	<u>China</u>	<u>Vietnam</u>
Costs: Raw Bamboo	\$100/tonne	\$37/tonne
Labour	\$150/month	\$50/month

- If efficient supply chains, benchmarked against the global leader – China can be developed, the Mekong Countries can gain market share
- Investment & technology requirements to achieve this are modest and appropriate to current capacities of poor rural areas
- Sector Enabling Environment issues – which focus at the provincial level, can be addressed, although targeting of leading provinces where business environments are better is the best way to realise the regional sector development opportunity.

### 3. Supply chains impact the poor:

- 75% of the total sector financial output is pro-poor – either as farmer incomes (for bamboo grown) or as labour. In the industrial bamboo sector farmers are the main beneficiaries (60% of subsector output), while in handicraft, labourers of whom 60% are women, are the main beneficiaries capturing 70-80% of subsector output. Bamboo shoots is a smaller subsector, and farmers are beneficiaries of what is a lucrative crop in \$/ha per year terms.
- Bamboo is not a competitive crop in lowlands. Farmers will get better returns doing other things. In the uplands, bamboo provides perhaps one of the best returns on sloping land (as well as sustainability compared to other things). There is an inherent opportunity for a growing sector to map directly onto existing poor upland areas, with considerable benefit to poor rural communities.
- There are large areas of bamboo and the capacity to produce it in the poor areas of The Mekong countries

	<u>China</u>	<u>Vietnam</u>	<u>Laos</u>
Bamboo Resource:	3.4m ha	1.4m ha.	1.5mha

### Potential Opportunity

The Mekong countries have the potential to grow the current USD260million sector employing 400,000 to a ~1.2Billion employing ~1 million by 2017. Key dimensions of the potential are shown

Sub-sector	Overall impact	Impact scale			Gender bias of impact % of FTEs to women	Rural bias of impact % of FTEs to rural communities	Environmental Impact
		Pro-poor financial impact	Financial output	Job creation (000's)			
		\$m	\$m	FTE			
Handicrafts	*****	***	***	*****	*****	*****	*****
		266	336	920	60%	95%	
Bamboo shoots	**	**	*	*	*	*****	****
		111	136	16	30%	100%	
Industrial Processing	*****	*****	*****	****	***	***	***
		532	716	296	45%	62%	
<b>Total</b>		<b>909</b>	<b>1,185</b>	<b>1,232</b>	<b>56%</b>	<b>87%</b>	

## Why this Approach?

### Why a Portfolio?

Portfolio principles are about risk spreading. For lasting, large scale impact, development of rural sectors must provide investment and livelihood choice to poor farmers and communities. Viable choice allows them to manage the set of inherent risks in their own economic livelihoods. Choice can only be achieved by the growth of a portfolio of sectors for which demand is strong, and for which goods can be delivered to market competitively.

Economic vulnerability can best be measured by the number, and the short and long run viability of sectors on which a community depends. In an increasing liberalized market regime, this risk is unavoidable and needs to be managed to escape poverty. While fairer trade rules at a global level might avoid unfair conditions, and unlock potential markets, the principles of demand and competition will still hold, and will should not be avoided if our development ambition is to eradicate poverty.

A portfolio approach enables all stakeholders not to put all eggs in one basket – whether from a private investment point of view - at household or enterprise level; or from a development and public sector investment level, ie at provincial or national government programme level.

### Why Not Leave it to the Private Sector?

Some arguments might suggest that we should leave such strong opportunities to the private sector. While it is true that we need to have private sector agents investing and taking risk from small-holders to larger manufacturing firms, there are a number of reasons to support the private sector, including:

- Small scale private sector players (ie poor farmers) will have no demand to access if larger scale businesses are not investing and taking risks (especially in new sectors).
- Larger Scale businesses need assured supply. If they depend on a sector which farmers or small scale processors are not investing/producing in also into the future (owing to return periods on investment), they will not invest.
- Public sector has a role in sharing of early risk, experimentation with technology, businesses & supply chain models
- Public sector has a role in market governance – important for competition between firms for the products of farmers – means best price to producers for products in demand, and is essential to drive supply chain productivity to make the sector competitive – which is what drives the capacity for increasing market share, volume and impact at scale.
- Farmers & the poor must control the productive assets which produce that which is in demand. Private owned plantations might only be justified where economy of scale is unachievable in any other way, and in this case outgrower partnerships with a plantation owners provide a model for competitive market access. Informed policy is required to understand market access, competition, and impact.
- A2F and SEE problems – sector specific. Competition, investment climate, business services support is necessary.

Sector development should be seen as a win-win partnership between donors/public sector and the private sector. Growth is not necessarily ideal, but *targeted* growth benefits all sector participants, and for the right group of sectors, a large bulk of these participants will be the intended beneficiaries of development investments.

## **We Need Gov- Private sector-Donor partnerships?**

There are a number of reasons including:

- Government capacity. Within the region, the shift from centrally planned economy coupled with generic skills required to conduct strategy and market analysis is being developed
- Market Governance, capacity for government to manage a policy environment which promotes the private sector and which guards against concentration and monopoly is sometimes weak at provincial levels where investment is targeted.
- The Private Sector is an important partner because the public sector is less experienced in what it takes to run a competitive business, how to make a return on investments, and how to develop interventions which can promote a competitive sector with a responsiveness to market movements in a global marketplace.

# Project Objectives and Structure

The Portfolio project is a multi-stage project with 6-10 year horizon.

## Objective

Broadly, the objective of the project is to accelerate the end of rural poverty and the subsequent emergence of a middle-income rural economy on a large scale.

The primary indicator is the number of people lifted out of poverty with available public sector and private resources.

## Principle Innovation in Modality

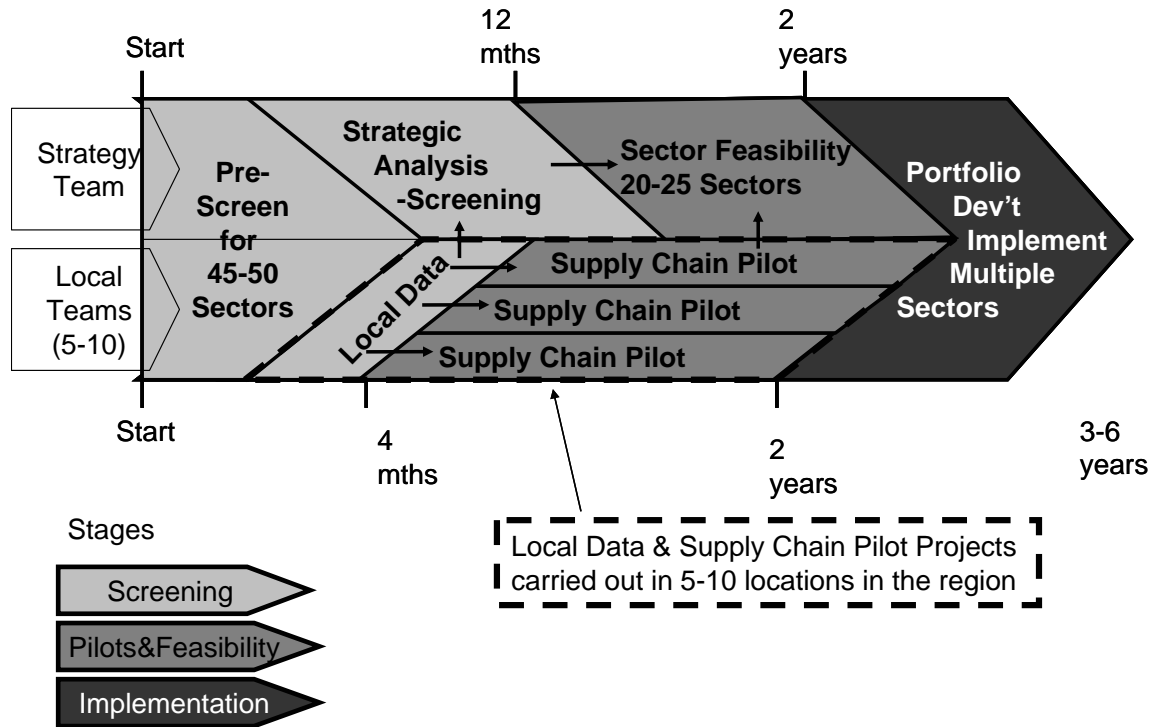
In accordance with the Paris Agreement, the project provides a mechanism to coordinate the commitments and resources of donors interested market sector development at both local and strategic levels to:

- build data-driven market knowledge base and skills to underpin the investment choices which achieve effective targeting of public sector/donor/NGO market oriented development projects.

## The Outcomes

- **Provincial rural economic development** (in the selected 5-10 provinces): Development and implementation of better targeted rural economic development plans able to better coordinate policies and development assistance towards a defined group of higher potential impact rural sectors for the province. The output from the project will provide a framework and evidence for targeted interventions to exploit the specific comparative advantages of the different agricultural-economic zones in each province. It will have also piloted practical supply chain support activities in key sector that can then be roll-out on a larger scale to accelerate impact and benefits to rural communities.
- **National rural economic development:** Creation of a knowledge base of detailed information on a wide range of rural sectors covering demand, competitiveness and impact. This knowledge base can then help support evidence based decision making on rural economic development strategies at national level and at an individual provincial level in provinces across the country. It should also help provide the type of evidence needed to better coordinate and direct international development assistance into those areas with greatest potential impact, by systematically analysing and comparing potential impact from different interventions in different sector.
- **Capacity of key organisations:** At both national and provincial level, the project should strengthen the existing capacity of key organisations and a wider cadre of individuals to lead similar market-driven sector development activities to underpin continued economic development and poverty reductions in open market conditions.

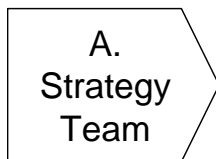
To achieve this, there will be 3 main stages to the project, each with local and strategic dimensions (illustrated below).



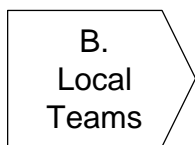
## Mekong Market Portfolio Project Structure

With reference to the figure, the project has 3 stages, with two workstreams carrying out specific tasks and interacting through the project. Stages and Workstreams are explained in the following:

### Explaining the Workstreams

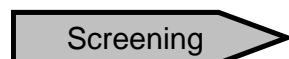


**Workstream A.** Skilled market strategists, working with national government and consultant partners will build a set of knowledge and stakeholder capacities across the region for pro-poor sector strategy development and implementation. This will be delivered by a Strategy team which will be comprised of several workteams (4-5 persons each) based out of Hanoi (with potential satellite offices in Phnom Penh, Vientiane) with significant travel in the region to link with local project work. Each workteam will be responsible for specific outputs based around the screening of a specific set of sectors (each team 10-15 sectors each).



**Workstream B.** Locally with local/provincial project partners and local consultants to gather baseline and situational data, implement supply chain pilot projects in strategic sectors, and to build collaborative platforms. This will lead to subsequent phases to plan and implement a portfolio of sectors which accelerate impacts for the target groups (poor, upland, women etc). This will be located in 5-10 target provinces in the Mekong countries (Vietnam, Laos Cambodia).

### Explaining the Project Stages



## Stage 1 - Screening [THIS PROJECT]

[includes pre-screening step, followed by full scale screening of 40-50 sectors]

**Screening Step 1. Initial sector nomination and pre-screening:** to choose the 40-50 sectors that will be the focus of the project at the strategic and local level. This will be a process in which each of the 5-10 provinces as well as key national ministry level teams and others can make the case for inclusion of sectors they believe to be most relevant to them. This process will also be the main mechanism for building early ownership of the process at the local level.

- **Workstreams A & B** (all teams) will coordinate on this step, to be lead by the Strategy Team.

**Screening Step 2. Identifying sectors for feasibility analysis and piloting:** the stage will have two interdependent workstreams that will form the heart of the activities on the project;

- **Workstream A. Strategic analysis of sectors** covering demand, competitiveness and supply side impact potential., to be implemented jointly by the core project team and strategic national level partners (e.g. IPSARD). The screening process will identify the most promising 20-25 sectors (from the nominated 40-50) for in-depth feasibility studies and local priority supply chain pilots. The screening process will be carried out in teams of 4-5 analysts who will complete the screening of 10-15 sectors over a 9 month period. This work will gather and synthesise demand, supply and competitiveness issues analysis to sufficient for a preliminary assessment of impact potential. The 40-50 sectors will be compared and the best 20-25 taken forward to in-depth sector analysis. This process will take 9-12 months overall.
- **Workstream B. Current situation analysis and planning for priority sector supply chain pilots.** For each local project in the overall initiative, this step includes local implementation team and local partners working on baseline **data gathering**, and broadbased **provincial engagement of stakeholders**. The data gathering will inform assessments of local impact potential and competitiveness in (a) above and will take about 4 months in each province. This will be followed by **planning for supply chain pilots** in some of the most promising sectors for the provinces (based on information from the screening activity). This planning will be done together with the strategy team to ensure linkage and leveraging of piloting work across local projects in the three countries.

## Stage 2 - Feasibility

Feasibility stage is a more detailed stage including demand and competitiveness studies, and the implementation of pilot supply chain projects. The output of this stage should form the basis for informed strategic decisions based on a comparison of opportunities. It should provide much of the data and relationships between government, the private sector, and implementing partners to design and implement sector based activities (at multiple activities in the region) at scale. Feasibility stage will include:

- detailed demand side analysis (local/global),
- viability existing supply chains (as laboratories);
- Supply chain innovation pilots and evaluations of existing best practice
- benchmarking best global supply chain practice,
- sector competitiveness benchmarking (provincial/national)
- internal sector opportunity benchmarking – comparing the likely development returns on each sector for given Public investment

- policy analysis,
- production capacity and supply side value chain analysis,
- business environment analysis
- Deepening collaborations, sectoral leads and initiatives develop

The two workstreams [A – strategy level work & B – Local data and supply chain pilots] will converge towards the end of this period leading to a process with each province choosing the best portfolio for their province followed by implementation of local sectors development strategies for the chosen sectors. The Province will be support in this process by the Strategic Analysis team and the strategic national level partners (e.g. IPSARD).

- **Workstream A. Feasibility** For the strategic team, each of the chosen 20-25 sectors will have an in-depth feasibility study completed, including global benchmarking, industry expert analysis etc - again covering demand, supply and competitiveness issues analysis but in greater depth to provide detailed assessment of impact potential from a range of sector specific support strategies and intervention. Priority will be given to the most promising sectors. Analysis of each sector will take about 6 months and the overall process about 18 -24 months.
- **Workstream B . Priority supply chain pilots. Local teams** will set-up supply chain pilots in response to demand and resources from the Province and their partners and donors. Each pilot may last around 18 months and will focus on specific sectors believed to have most potential for that province. The pilots will test opportunities to build competitiveness and grow sectors to achieve poverty impacts. Pilot activities will be informed by the Strategic Analysis of each sector and the lessons and evidence from the pilots will be used during the Feasibility Studies to validate assessment of the impact potential for each sector. Successful pilots are expected to develop into important, growing demonstration segments of a new priority sector which forms part of the ultimate provincial portfolio.

### Stage 3 Implementation

Support the development of multiple interlinked new supply chains.

Project activities at levels of

- Farmers, Resources and Production,
- Businesses and Supply chains businesses, &
- Policy and research at sector level
- Development of integrated portfolios including work on SEE factor

## Stage 1 - Screening Budget and Funding

This project co-ordinates the strategic interests of agencies who need to make choices about investing to develop rural market sectors across the region as well as agencies looking to invest in project to support specific sectors to target poverty in a province or location.

The project encompasses both dimensions, and its design coordinates the resources and commitments of donors/projects with the interests outlined above. It is at its core a collaborative endeavour leveraging the resources of strategic donors and partners to achieve both local and broader regional poverty impact.

Budgets are based on our experience in bamboo, biofuels, tourism, and meat and livestock work.

### **The Strategic Analytical work**

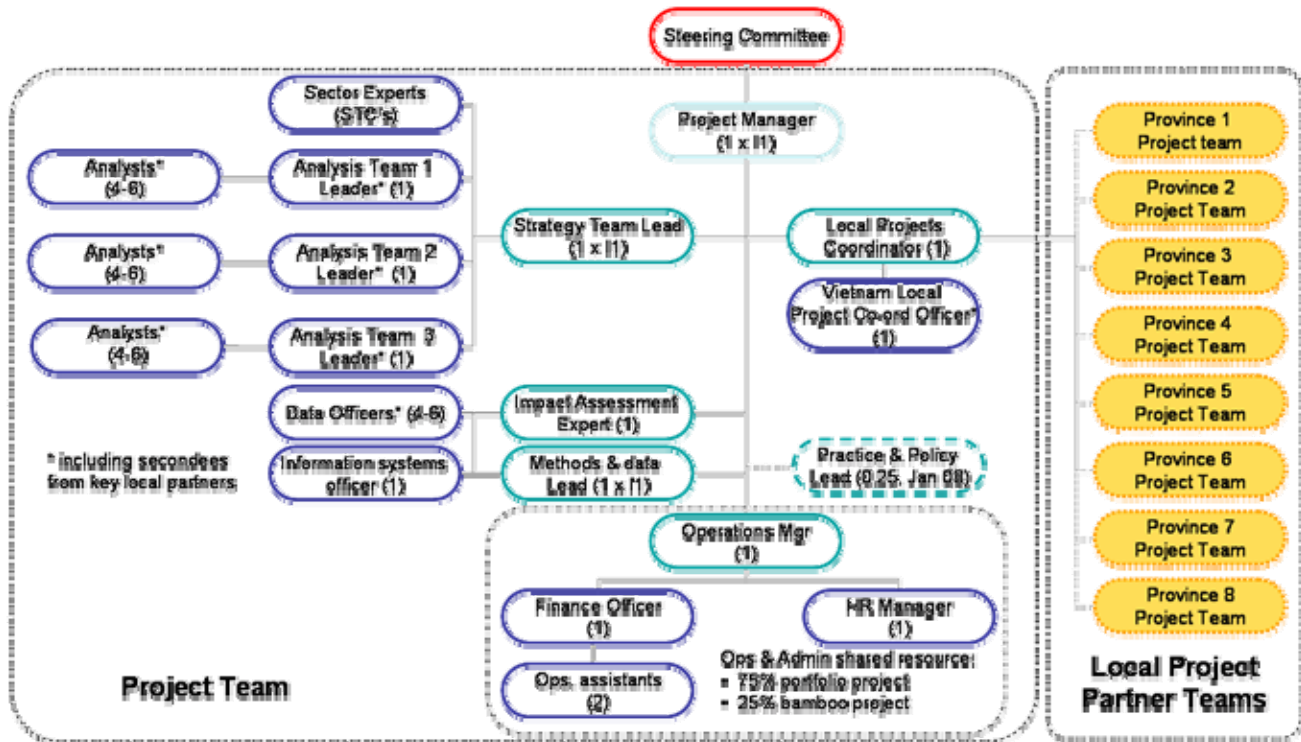
Is coordinated centrally and will be funded by Donors directly. The project budget is ~USD2.5million, for a 12 month project, of which in principle commitments are in place for around ~60% of the budget. Owing to the modular/scalable structure of the project, we are resourced now for a June rolling start. Project timelines will be flexible.

### **The Local Project work**

Each location project owner should fund local project inception and data collection (~USD100,000) and subsequent supply chain pilot activity. While the budget for inception and data collection is known (as we have done this work before), the supply chain pilot budgets will become clearer once opportunities are understood. Our experience indicates this will range from USD150-400,000 pa for 2-3 supply chain pilots within a provincial project area, each one with a potential broad reach to farming households numbering into the thousands.

Three local project partners are already identified, and have committed resources for the local project work, 2 in Vietnam (Quang Ngai, Nghe An) 1 in Laos (Hua Phan). We are in consultation with a range of others. A minimum of 5 and a maximum of 10 local project partners will be included in the screening phase.

## Team Structure



# Annex OHK/MPDF Mekong Bamboo Initiative

## Summary

Transition from Phase 1 (Feasibility) to Phase 2 (implementation) underway. Critical supply chain work with businesses, smallholders is ongoing.

**Outcome of the feasibility study.** The feasibility work and a supply chain pilot demonstrate the potential for a USD 1.2 billion sector in the Mekong (75% pro-poor) by 2017. The Mekong Bamboo Consortium is currently developing in Laos, Vietnam and Cambodia, replications are beginning, and planning and resourcing for phase 2 is advanced.

## The Context

Rural poverty is widespread in the Mekong region despite recent economic growth: 17 million Vietnamese people still live in extreme poverty<sup>2</sup>, 35% of Cambodia's 13.9 million<sup>3</sup>, and 33.5% of the 6.3 million<sup>4</sup> Laotians are below the poverty line. In addition to these 24 million living in dire poverty, a further 20-30 million people live only marginally above the poverty line. Poverty rates are worst in upland and remote rural and ethnic communities, exceeding 85% in some areas. The causes of this deep and persistent poverty are numerous, yet a key factor has been the failure to create sustainable markets for poor communities and the commodities they can produce.

## The Project

### Supply Chain Pilot

MPDF led the initiation of bamboo supply chain project in Thanh Hoa province after recognizing the potential of the bamboo as sector with poverty impact potential. The supply chain pilot was based around work to support farmers producing bamboo, supplying to

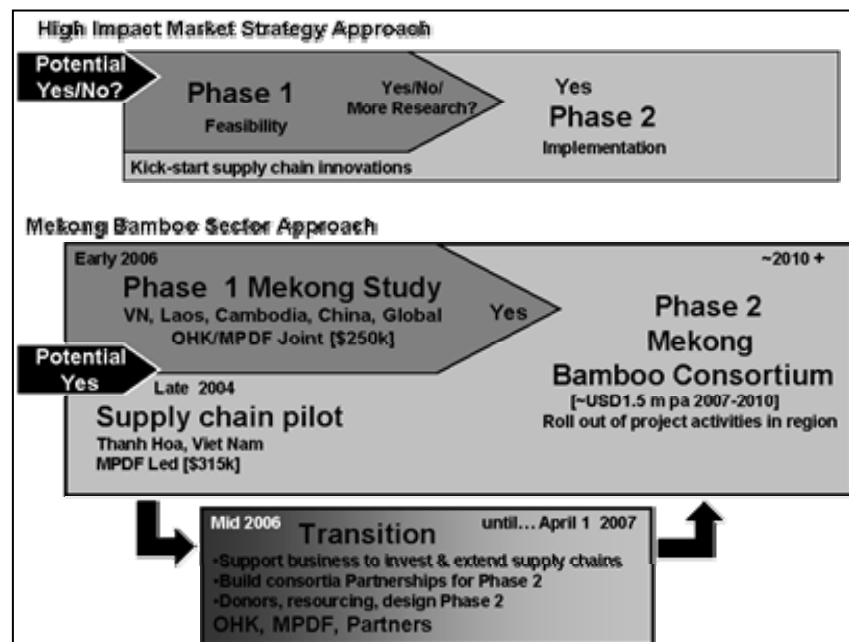


Figure 1 Phased Approach to Bamboo Sector Development

## Notes:

<sup>2</sup> World Bank, *Vietnam Development Report 2004*, <http://www.worldbank.org.vn>

<sup>3</sup> Tim Conway, How the Poverty Line and Poverty Rate are Calculated, *Cambodia the World Bank Newsletter*, Volume 3, Number 12, December 2005, <http://siteresources.worldbank.org>.

<sup>4</sup> Lao's People Democratic Republic, *Sixth National Socio-Economic Development Plan (2006-2010)*, <http://www.unlao.org>

pre-processing workshops in turn supply to a large flooring factory (TBF) in turn proving to a large European buyer (IKEA).

## **Phase 1 Feasibility**

OHK joined with MPDF to carry out a feasibility study of the bamboo sector in the region. Broadly the outcomes indicate very strong potential impact on poverty in the region. The findings and outcomes of this work as well as Phase 2 implementation follow.

## **Phase 1 Outcomes**

### **China - Market Innovator and Leader**

The global market for bamboo is currently around USD7 billion. China produces around 5.4 billion of this. It has achieved this status primarily because of a sustained investment and support to policy, technology development and support to businesses. It now has highly efficient supply chains providing enormous pro-poor impacts through the growth of the sector over the past 10 years.

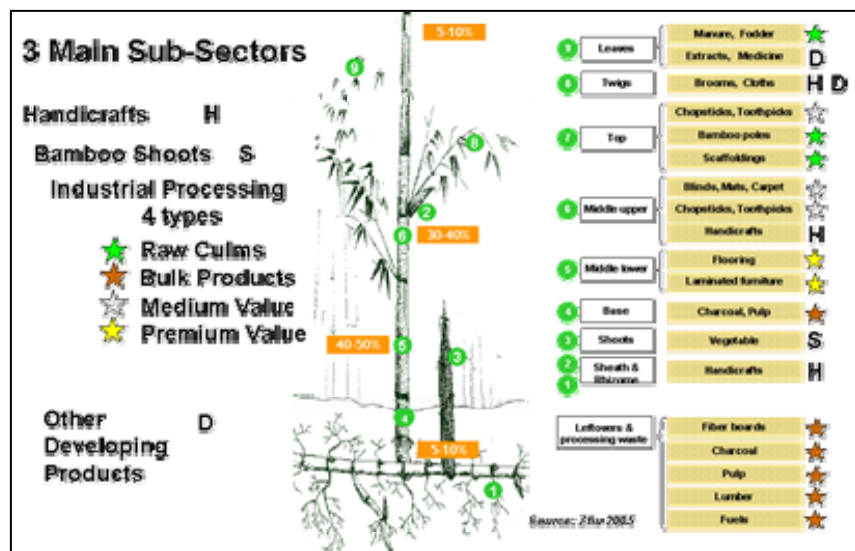
China has innovated to maximize the utility of its bamboo resource. It had >3million ha of bamboo distributed across its 10 bamboo heartlands. Investment in technology development, progressive policy support and land reform, coupled with demand boom and innovations in the private sector lead Chinese producers to drive supply chain innovations which maximized the utility of the bamboo culm in its industrial product markets.

The primary innovation was to respond to combine two issues. The first is the large quantity waste that was accumulating with specific bamboo product manufacturers; a chopstick maker buying bamboo culms would end up with mountains of unusable waste.

The second was that with technological advancements, new bamboo products required different parts of the bamboo plant. The higher value products (eg laminated flooring, furniture) require certain parts of the culm etc).

The Chinese industry response to was to introduce the step of pre-processing bamboo near source, then distributing the different parts to factories and production processors as required. This permits 100% utilization of the plant, minimization of transport costs, and most significantly for poverty two things:

1. Overall sector competitiveness and growth of a market sector (**growing the pie**)
2. A shift to adding more value near source (**distributing the new bigger pie**).



## The Potential

The bamboo sector has the potential to have large scale impacts on poverty in the Mekong region and be a pioneering sector driving rural industrialisation in some areas. This potential can be achieved by targeting the large and growing world market for a diverse range of bamboo products, currently worth over USD 7 billion p.a.

The OHK-MPDF feasibility study concluded that by 2017 the global market could grow to USD15-20 billion, and that a Mekong sector could realistically grow from its current size of USD 250million, to be worth USD 1 billion<sup>5</sup> p.a., providing approximately 1 million FTE<sup>6</sup> jobs and at least 75% of this impact could be captured in rural areas and poor communities through appropriate policy and sector support measures.

**Table 1 Bamboo sector potential - Mekong 2017**

Sub-sector	Overall impact	Impact scale			Impact efficiency			Gender bias of impact % of FTEs to women	Rural bias of impact % of FTEs to rural communities	Environmental Impact
		Pro-poor financial impact USD millions	Financial output USD millions	Job creation FTE (000's)	Pro-poor financial impact USD/ha.	Financial output USD/ha.	Job creation FTE/ha.			
	*****	***	***	*****	*****	*****	*****	*****	*****	*****
Handicrafts		266	336	920	11,300	14,300	39.2	60%	95%	
Bamboo shoots	**	**	*	*	*****	*****	*	*	*****	****
		111	136	16	3,100	3,800	0.4	30%	100%	
Industrial Processing	*****	*****	*****	****	**	**	***	***	***	***
		532	716	296	1,113	1,498	0.6	45%	62%	
<b>Total</b>		<b>909</b>	<b>1,185</b>	<b>1,232</b>	<b>1,690</b>	<b>2,203</b>	<b>2.3</b>	<b>56%</b>	<b>87%</b>	

In addition, there is strong evidence from China that the bamboo sector can be a pioneering sector driving rural industrialisation in suitable areas of developing countries.

<sup>5</sup> from its current size of approx. USD250 million p.a. and 450,000 jobs FTE

<sup>6</sup> FTE = full-time equivalent

## **The Opportunity and the Challenge in The Mekong**

Despite large resource base and clear competitive advantages on resource and labour price, the biggest barrier to growth is the lack of competitiveness of processors in the Mekong. In order to grow, the Mekong sector must be able produce products that can compete in international markets, both within existing bamboo markets as well as wider products markets such as wooden flooring, furniture or panels. At present, the Mekong bamboo processing sector struggles to compete despite an apparent 45% cost advantage<sup>7</sup> from significantly lower input factor costs and widespread resources (> 2m ha. of bamboo).

Benchmarking Demonstrates Market Competitive Potential		
	<u>China</u>	<u>Vietnam</u>
Resource:	3.4m ha	1.4m ha.
Industry size:	5.45 bn	0.25bn
Costs:		
Bamboo	\$100/tonne	\$37/tonne
Labour	\$150/month	\$50/month

Serious inefficiencies in material utilisation are the root cause of this lack of competitiveness of Mekong processors. The study found material waste rates typically >70% for bamboo processing businesses in the region compared to <10% for similar businesses in China.

## **The Solution for the Mekong**

Primary processing workshops are a simple, low-cost innovation in the supply chain that has led to high production efficiencies and greater competitiveness in China today.

Furthermore, increased competitiveness has been important for the continued growth in global demand for a diverse range of bamboo-based products now competing in mainstream markets.

Under this innovative supply chain structure, bamboo is sold by farmers to Primary Processing Workshops and not directly to businesses producing finished or semi-finished products (as is currently the dominant model in the Mekong). Primary processing workshops divide the culms into their various parts and supply each part to the secondary processors according to the type of material they require. By concentrating primary processing in a single workshop, almost all of the bamboo can be economically exploited (including sawdust) and waste reduced to 5-10%.

The result is a sector that is both more competitive in the market AND delivers far greater benefits to farmers. This is possible because the dramatically higher material utilization rates more than offsets the higher prices paid to farmers for their bamboo<sup>8</sup>.

<sup>7</sup> Bamboo and labour typically represent 60% and 20% respectively of the cost of processed bamboo products such as flooring, chopstick or blinds. In March 2006, one tonne of equivalent grades of raw bamboo used for flooring cost USD80 in Zhejiang Province in China and USD37 in Thanh Hoa province in Vietnam. Typical factory labour costs were USD120 and USD40 per person per month respectively. Together these should give Vietnamese manufacturers a 45% cost advantage. In fact, the cost of producing 1m<sup>2</sup> of bamboo flooring is typically 5%-15% higher in Vietnam.

<sup>8</sup> In the pilot, based in a bamboo flooring supply chain, the first demonstration primary processing workshop was established in late 2005. Within 9 months, 7 additional primary processing workshops were established by local entrepreneurs and farmers groups to supply part-processed bamboo to the flooring factory and other supply chains such as chopsticks, paper and charcoal. No financial subsidies were provided either to the demonstration workshop or later workshops.

**Table 2 Innovations and Policy Making to Maximise Poverty Impacts in Mekong Bamboo Sector**

<p><b>1. Industrial Innovation in China</b> Supply chain innovation In china introduces the preprocessing step near source. This creates the opportunities for local value adding, as well as sector efficiency and optimisation</p>	
<p><b>2. Mekong Competitiveness.</b> The current Direct Supply Model in the Mekong is inefficient. By supporting innovations to introduce primary or pre-processing steps, businesses can outsource much of their internal preprocessing, shift jobs and adding value to rural areas, at the same time as increasing their competitiveness. This provides impetus for investors and the sector to develop.</p>	
<p><b>3. Pro-poor impact.</b> Different bamboo products create different levels of impact. By determining the impact created in jobs created and total financial returns to the poor (farmer and worker incomes) we can identify which products to maximize within an industry mix if we are to maximize the poverty impact of the bamboo sector in the Mekong.</p>	
<p><b>4. Policy Choices.</b> So a Mekong bamboo industry could be made up of different 'product' mixes. Increasing levels of medium to high value products and limiting the amount of resources going to raw and bulk products will create maximum poverty impact in a new bamboo sector in the region.</p>	

## Phase 2 – Implementation.

This project will replicate supply chain structures at scale in the Mekong sector. Thus raising the competitiveness of the sector and contributing to the continued growth of demand for bamboo products by providing increasingly competitive products in markets such as wooden flooring, laminated furniture, panels and charcoal.

OHK, MPDF and partners are now developing the consortium and programme of work to take the programme to scale in the region. Multiple agencies (government, development agency, private sector) will be involved in this effort.

The structure of the programme is for areas of work:

- Coordination and management
- Policy, strategy and research
- Markets, and processing businesses and industrial chains
- Farmers and resources

	Vietnam	Laos	Cambodia	Regional	Key Focus
<b>Co-ordination &amp; management</b>	<ul style="list-style-type: none"> <li>• VN dev. aid coordination and promotion.</li> <li>• VN networks</li> <li>• Project &amp; policy co-ordination</li> </ul>	<ul style="list-style-type: none"> <li>• Laos dev. aid coordination &amp; promotion.</li> <li>• Laos networks</li> <li>• Project &amp; policy co-ordination</li> </ul>	<ul style="list-style-type: none"> <li>• Local dev. aid coordination and promotion.</li> <li>• Local networks.</li> <li>• Project &amp; policy coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Regional dev. aid coordination and promotion.</li> <li>• International &amp; regional networks</li> </ul>	Pro-active leadership of: <ul style="list-style-type: none"> <li>• Project and policy coordination.</li> <li>• Development aid coordination.</li> <li>• Network facilitation</li> </ul>
<b>Policy, strategy &amp; research</b>	<ul style="list-style-type: none"> <li>• National strategy &amp; development plan</li> <li>• Provincial dev. plans</li> <li>• BEE / farmer policy</li> </ul>	<ul style="list-style-type: none"> <li>• Local sector development plans</li> <li>• BEE</li> <li>• Farmer &amp; forestry policies</li> </ul>	<ul style="list-style-type: none"> <li>• BEE</li> <li>• Land use / farmer context</li> <li>• Integration into local development plans</li> </ul>	<ul style="list-style-type: none"> <li>• Regional &amp; int'l trade promotion.</li> <li>• Impact monitoring</li> <li>• Knowledge sharing</li> </ul>	National & local policies & planning to stimulate the parallel growth of: <ul style="list-style-type: none"> <li>• markets &amp; industries</li> <li>• farmers &amp; resources</li> </ul>
<b>Markets &amp; processing industries</b>	<ul style="list-style-type: none"> <li>• Investment promotion</li> <li>• Technology &amp; mgt dissemination</li> <li>• Value chain pilots</li> <li>• Market access</li> <li>• Access to finance</li> </ul>	<ul style="list-style-type: none"> <li>• Investment promotion</li> <li>• Technology &amp; mgt dissemination</li> <li>• Value chain pilots</li> <li>• Market access</li> <li>• Access to finance</li> </ul>	<ul style="list-style-type: none"> <li>• Small enterprise focus</li> <li>• Upgrading handicraft, shoots &amp; fishgear sectors</li> <li>• Market research (e.g. Thai baskets)</li> <li>• Access to finance</li> </ul>	<ul style="list-style-type: none"> <li>• Market Research</li> <li>• Technology adaptation</li> <li>• Standards development</li> <li>• FDI promotion</li> </ul>	Development of 3 distinct industry groups: <ul style="list-style-type: none"> <li>• Handicrafts</li> <li>• Industrial processing</li> <li>• Bamboo shoots</li> </ul>
<b>Resources &amp; farmers</b>	<ul style="list-style-type: none"> <li>• Awareness promotion</li> <li>• Farmer extension &amp; support</li> <li>• Production pilots and trial</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness promotion</li> <li>• Farmer extension &amp; support</li> <li>• Production pilots and trial</li> </ul>	<ul style="list-style-type: none"> <li>• Link to community forestry plans</li> <li>• Farmer extension &amp; support</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge sharing</li> <li>• Resource planning coordination</li> </ul>	Intensification and expansion of bamboo production to meet expected future demand for commercial species.
<b>Management Board</b>	Government, MPDF, Oxfam, Key donors & Implementing partners	Government, MPDF, Oxfam, Key donors & Implementing partners	Government, MPDF, Oxfam, Key donors & Implementing partners	MPDF, Oxfam, Key donors & Regional partners	

Figure 2 Mekong Bamboo Initiative Phase 2