

Bolaven Farms

Introduction

Bolaven Farms grows, mills and retails high quality coffee from the Bolaven Plateau in Southern Lao PDR. It defines itself as a 'privately owned, biotic diversified, beyond Fair Trade Organic farming business. The enterprise is aiming for a 'sustainable model that builds and manages the entire supply chain for premium coffee, offering consumers quality products that are beyond just paying fair prices and traceable produce of organic cultivation'¹. This involves a resident farmers programme to build the skills and capacity of the local farmers and then ensure a fair price for what they produce. Bolaven Farms main market for wholesale and retail roasted coffee is Hong Kong.

Lao PDR is rich in natural resources and has areas of highly fertile land yet it is one of the poorest countries in the Asia Pacific region and in the world. According to the United Nations Development Programme (UNDP) Global Human Development Index (HDI), Lao PDR is currently ranked 131 out of 173 countries (up from 141 in 1993) and an estimated 32 percent live below the poverty line. Geographical constraints such as being landlocked and restricted agricultural land provide barriers to infrastructure, transport and trade. The majority of the population live in remote and rural areas and there is rich ethnic diversity (49 officially recognised groups). Decades of war (civil and involvement in wider Indochina conflicts) have left the landscape filled with unexploded ordnances (UXO), such as bombs and landmines, and it is estimated that 50 percent of the land is currently contaminated with UXO threatening lives and livelihoods.

Lao PDR has a high level of biodiversity and encompasses some of the most significant forest areas remaining in Southeast Asia. Forests are a critical component of the ecosystem but moreover, forest resources serve as important sources of food and livelihood for rural communities.

The country's biodiversity is of tremendous value to the country's people, particularly in the agricultural sector. Agriculture is the most important economic sector in the country employing over 80 percent of the workforce, largely in subsistence agriculture that is characterized by low inputs and low output. Agricultural biodiversity is considered a crucial resource for food security, sustainable livelihoods and adequate nutrition.

Fuelled by a booming demand from rubber markets and investor interest, Lao PDR is experiencing a rapid expansion of rubber cultivations. In addition, the Government of Lao PDR has been promoting rubber and other cash crops as alternatives to shifting cultivation. Rubber is expected to become the Lao PDR's number one export with 300,000 ha of rubber planted by 2020. The rapid and uncontrolled expansion of rubber plantations has had a number of unintended consequences including conversion of primary forest, forest fallow and other agriculture land which has impacted on ecosystem goods and services, and affected food security of poor farmers.

While the incidence of poverty has declined, and the poor are getting less poor on average, malnutrition remains a significant concern in Lao PDR. Estimates suggest that 37 percent of children younger than five years of age are underweight and 40 percent suffer from chronic malnutrition, or stunting.

What prompted the founder to initiate the business?

Sam Say used to be a commodities trader in Hong Kong. Having been born in Lao PDR but moved through refugee camps after he had fled the country in 1977 he started a new life in Canada before he returned to the country and founded Bolaven Farms. His motivation, which also came from his religious faith and beliefs, was born out of the conviction that rural poverty in Lao PDR could be eradicated and his own personal need to do something in his homeland².

¹ Source: IBLF Inclusive Business Sourcebook

² This case study is based on an in-depth interview with the founder and additional information from the Bolaven Farms marketing manager as well as online resources.

Through his research and together with a small group of friends and in ongoing discussions with the village head it was clear that there were more opportunities for more productive and targeted farming which could help to improve people's livelihoods and dealt with the issue of credit and access to markets. A business plan was developed and submitted to government for its approval. In 2008 Bolaven Farms was set up as a private enterprise with vested personal resources from Sam Say.

What were the challenges faced in establishing the business? And what strategies were adopted to overcome these?

Lack of appropriate farming skills:

Coffee farming can be more difficult than other types of farming and major challenges include those related to knowledge, skills, market and accreditation issues. Mr. Say hired a farm manager from the Philippines to provide appropriate technical support. He has been working to oversee the establishment of the farm and train farmers locally.

Lack of other skills:

There are major challenges in terms of human resources as it is difficult to find the right people to fill various positions on the farm. In many cases graduates from Lao PDR are poorly qualified compared to neighbouring countries, lacking even fairly basic computer skills as there is limited use of information and communication technologies (ICT) in the country. Therefore Bolaven Farms is also working to contribute to the communities it is a part of through additional partnerships and interventions (for example it is currently looking for collaborators who might be able to help improve computer access in schools).

To build human resources locally, participant farmers commit for two years during which they receive on-the-job training in the farm's integrated organic farming system. Going forward Bolaven Farms hopes to be able to offer graduate farmers positions as contract farmers, with each farmer contracted to manage 5,000 coffee trees. The farm works to build the capacity of all employees to have a clear understanding of the whole value chain and hence, according to Mr. Say 'every person will also need to have coffee roasting and barrista training'.

Geographic challenges:

Lao PDR is a communist single-party socialist republic and its transition to a market economy is on-going. Most of the specialised equipment and supplies needed for the operation of Bolaven Farms, such as bull dozers or tractors, need to be imported. In starting and running a business there are many time-consuming bureaucratic processes to be overcome. There are also challenges related to market access, with no direct flights between Lao PDR and Hong Kong. Bolaven Farms is therefore lobbying airlines to set-up direct flights between Vientiane in Lao PDR and Hong Kong.

Corruption:

Lao PDR ranks 158 out of 180 on Transparency International's Corruption Perceptions Index 2009. While corruption is everywhere in the world it is particularly challenging in a country like Lao PDR where poverty is rampant and there is such a low pay scale for civil servants, a bureaucratic system for business to operate in, and limited checks and balances for transparency and accountability. Facilitation payments are common in order to "smooth" day to day business practices and there is a high level of social tolerance regarding corruption.

Bolaven Farms made a deliberate and strategic decision not to participate in any kind of corruption. This has slowed down the work at times and made it difficult for the farm to operate. Sam Say wants the farm to lead by

example, meaning that it will not even participate in quiet corruption, which involves only small amounts of money and low-level civil servants.

Local ownership and capital:

Bolaven Farms is producing and offering a locally grown product in a country where there is no strongly established coffee drinking culture and therefore no local demand for the product or even a 'concept of good coffee'. Knowledge of a quality coffee product is lacking.

This also results in a lack of opportunities for profitable points of sales. Within the country, Bolaven Farms works mainly with large established super markets, and tourist resorts and hotels. However, it will soon be opening and operating its own sales points with a coffee counter opening end of October 2010 and a coffee shop opening by January 2011.

Start up investment and level of risk:

Poverty is a major global challenge and many consider it too big of an issue. A very well thought through business plan had to be in place before investors were approached. For the founders, Bolaven Farms represents a platform for corporations and consumers alike to participate. Aiming for social returns in addition to financial returns has created a higher cost structure for the enterprise in comparison to other commercially driven plantations. With a longer time frame for returns on investment, there are more financial risks added to the model.

The challenge now is to operationally break-even outside of Lao PDR in another year and then to phase and expand. Once the model is proven successful and sustainable, Bolaven Farms is aiming to expand its farm area and to offer more graduates opportunities as contract farmers.

Costs of running the business:

The cost of running the business is significant and the enterprise is not yet profitable enough. This means that costs need to be kept low until the farm has been successful in tripling the usual coffee yields per ha. Management staff in Hong Kong accept salaries that are roughly 25 percent of what the farm is eventually aiming to pay them. The enterprise also benefits from the goodwill of other supporters and the Hong Kong offices (where rents are very high) are provided pro-bono by a local business person.

Product marketing

A major challenge is to find the right channel to market the coffee in Hong Kong. Coffee is a fast moving consumer good (FMCG), sold quickly at relatively low cost, with a business based on building powerful brands and achieving a high level of distribution. Bolaven Farms coffee is a premium coffee and as such more difficult to market and build the associated brand. A common strategy with coffee is to give away many free product samples to introduce the coffee and to build brand and reputation. A first result of these efforts has been winning Sodexo, an international provider of integrated food and facilities management services, as a major customer.

What is the impact so far?

While it is too early to gauge the impact of Bolaven Farms, it is anticipated that the benefits will be both within the country to combat poverty and child nourishment and globally to change purchasing practices, raise awareness and further promote ethical sourcing.

Bolaven Farms provides the opportunity to source coffee ethically from a sustainable production process in Lao PDR that nurtures ecosystems and promotes healthy and productive agrarian community developments. The farm is advocating fair and dignified prices.

The farm equips farmers with technical transfers and empowers them through contract farming program. During their one year commitment, every farmer receives

- Employment with housing and meals for the whole family, which includes a wage of 500 000 kip/month and 25 kg rice,
- On-the-job training in Bolaven Farm's Integrated Organic Farming system, and
- 30 percent contribution to medical bills.

Through Bolaven Farms' resident farmer program additional benefits are also provided to families. For example, children on site with their parents are able to benefit from three meals daily and receive English classes. They are also able to attend school in the nearby village.

Since the start of the farm in April 2007, more than 120 farmers graduated from the training program and went back to their villages. While this has an immediate impact on the farmers' personal life it also contributes to preserving biodiversity in Lao PDR. Graduates will usually go back to their villages and can practice individual integrated organic farming. In this way Bolaven Farms can provide an alternative to the large mono-crop plantations of agro-forestry companies who are buying up land throughout the country.

Discussion questions

1. What motivates people to dedicate themselves to address particular development challenges?
2. What are the leadership challenges in creating and sustaining a successful social enterprise? What role does the business acumen of the founders play?
3. What are other determinants for successful enterprises? How can enterprises overcome supply chain and product marketing and distribution issues when operating in locations with geographical and economic constraints?
4. Would Sam SAYS' concept also work for the poorest of poor who are farthest from resources and city centres? What different sorts of interventions might need to take place to target people in extreme poverty?
5. How do start up enterprises deal with corruption? What if participating in corruption can help you achieve your social goals faster through getting things where they need to be?

Links and where to go for more information:

Bolaven Farms website at <http://www.bolavenfarms.com/>

Agricultural Biodiversity in Lao PDR <http://www.fao.org/docrep/010/ai759e/ai759e00.htm>

Rubber Development in the Lao PDR: Ensuring Sustainability
http://www.nafri.org.la/document/URDP/documents/06_posters/rubbber/rubberbookletfinal.pdf

The Millennium Development Goals in Lao PDR <http://www.undplao.org/mdgs/>

IBLF Inclusive Business Sourcebook at
http://www.iblf.org/en/Iblf_In_Action/latactivities/2010/~/_media/1723C5A954E048C787ED5B12A42CE26E.ashx