



foto: Thibaud Mathelot

## **A win-win situation for both farmers and private companies**

**A case study of tea marketing in Phu Tho,  
Vietnam**

Vredeseilanden/VECO  
December 2013



A better  
deal for  
farmers

Tea is the second most popular drink in the world, after water. For a number of developing countries, including Vietnam, tea is an important commodity in terms of jobs and export earnings. However, as with many other agricultural commodities, real primary producer prices have fallen dramatically over the last three decades. VECO is active in Yen Lap district, Phu Tho province, where tea is a major crop, often accounting for over 40% of family income. Chain development is seen as an approach which can improve the quality of the tea by developing strong market linkages and collective actions, resulting in a better income for farmers.

Please click [here](#) to access the film 'A passion for tea' on the value chain in Yen Lap.



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### Box 1: About Vredeseilanden/VECO

Vredeseilanden is a Belgium-based, international NGO with 40 years of experience in sustainable agricultural development. It is renowned for its expertise on sustainable farming practices and its efforts to strengthen farmer organizations. The partner organizations are supported through 8 Vredeseilanden Country Offices (VECOs). Which is why, outside Belgium, the organization is mainly known as VECO. VECO's main focus today is on developing sustainable agricultural chains, locally and up to international level, in partnership

with organized farmer groups, private sector actors (traders, processors, retailers), NGOs, research institutions, and government agencies ... in 16 different countries. VECO plays a facilitating role among the relevant stakeholders to develop common strategies for inclusive business models aiming at economic, social and ecological sustainability. The aim is to increase benefits to all parties within each chain – especially to improve the livelihoods of smallholder farmers.



## 1. Tea sector in Vietnam

### 1.1 Tea production

Tea growing has been practised in Vietnam for over 3,000 years, and has shown a tremendous growth spurt over the last decade. Vietnam's tea-growing area expanded from 67,000 ha in 1998 to over 114,000 ha in 2011 (FAOSTAT, 2013) and its output has increased by 153% in only 10 years' time. Vietnam now ranks sixth in the world in terms of cultivation area and in terms of volume produced.<sup>1</sup> Tea production is labour intensive and the industry provides jobs in remote rural areas where millions of livelihoods depend on tea picking and processing.

**Table: Main tea-producing countries (production in tons)<sup>2</sup>**

|                  | 1990    | 1995    | 2000    | 2005    | 2010      | 2011      |
|------------------|---------|---------|---------|---------|-----------|-----------|
| <b>China</b>     | 562,369 | 609,392 | 703,673 | 953,660 | 1,467,467 | 1,640,310 |
| <b>India</b>     | 688,100 | 753,900 | 826,000 | 907,000 | 991,180   | 966,733   |
| <b>Kenya</b>     | 197,000 | 244,530 | 236,286 | 328,500 | 399,000   | 377,912   |
| <b>Sri Lanka</b> | 233,165 | 245,961 | 305,840 | 317,200 | 282,300   | 327,500   |
| <b>Turkey</b>    | 122,754 | 102,713 | 138,770 | 217,540 | 235,000   | 221,600   |
| <b>Vietnam</b>   | 32,247  | 40,200  | 69,900  | 132,525 | 198,466   | 206,600   |
| <b>Indonesia</b> | 155,919 | 154,013 | 162,586 | 177,700 | 150,000   | 142,400   |
| <b>Japan</b>     | 89,900  | 84,800  | 85,000  | 100,000 | 85,000    | 82,100    |
| <b>Argentina</b> | 50,505  | 51,481  | 74,256  | 67,871  | 88,574    | 96,572    |
| <b>Iran</b>      | 37,091  | 54,352  | 49,874  | 59,180  | 165,717   | 162,517   |
| <b>Thailand</b>  | 6,500   | 18,500  | 32,327  | 51,570  | 67,241    | 73,320    |

### 1.2 Tea exports

Vietnam exports tea to 110 countries worldwide.<sup>3</sup> Total tea exports represent 80% of national production, and account for 4.7% of world market share. According to the Ministry of Agriculture and Rural Development, the largest importers of Vietnamese tea include Pakistan, Russia, Taiwan, China and Eastern European countries. Vietnamese tea is generally considered to be low quality in world markets. While most exported tea is crude or semi-processed, tea sold in the domestic market is finished, of higher quality, and commands a higher price premium than the exports.

### 1.3 prices

Vietnam's tea sector is export-oriented and affected by global tea prices, with over 80% of production supplying foreign markets with black and green teas. When global tea prices collapsed in 2008, falling to USD 0.07/kg, this had a significant impact on the demand for and price of fresh tea. Many tea farmers removed their tea bushes and started to grow other crops, such as acacia or cassava, providing a more stable income. In 2009 and 2010, prices were restored and increased to reach highs of USD 0.14 and even USD 0.19/kg.

In contradiction to the rising tea prices on the world market, real primary producer prices have fallen dramatically over the last three decades. This is because tea trading and distribution remain dominated by a few international companies that benefit from stable retail prices. Processing factories and traders receive most of the profits, whilst prices for farmers remain low. Another reason for the low prices is the low quality of Vietnamese tea.

These low prices affect the sustainability of the sector, by putting a lot of pressure on small scale farmers in Vietnam, who often change to other crops or abandon their farms for a 'better' life in the cities.

<sup>1</sup> FAOSTAT, © FAO Statistics Division 2013, 03 September 2013

<sup>2</sup> FAOSTAT, © FAO Statistics Division 2013, 03 September 2013

<sup>4</sup> <http://wtocenter.vn/news/vietnam-tea-exports-reach-36-million-usd-q1>



## 2. The tea chain in Yen Lap district

In early 2009, VECO carried out a chain analysis in Yen Lap district, Phu Tho province, 160 km northwest of Hanoi. The purpose was to get to know the tea chain in the region, and identify the bottlenecks, important chain actors, and potential partners to set up a chain development pilot.

Cassava cultivation accounts for the largest proportion of agricultural land use in this area, followed by tea, rice, maize and sweet potatoes. Tea plantation stretches out over 13,864 ha, where 85% of production comes from small-scale farmers, and tea accounts for 30 to 40% of family income. The tea harvesting period is from March to November (8 to 9 months).

### 2.1 Challenges for tea farmers

#### 2.1.1 Tea quality

The main challenge of tea farmers in the area is the low tea quality. Tea bushes of the traditional variety (Trung Du) are now more than 30 years old and produce tea of low quality in small quantities of only 5 to 6 tons per ha, while the new hybrid varieties (LPD 1 and LPD 2) produce more than 10 tons per ha. The quality of the tea depends on the quality of the leaf and the taste of the end product. The new varieties have a fresher and better taste. Quality is also affected by the way the tea is produced, harvested and pruned (old leaves versus new buds). Tea farmers often lack the necessary skills to produce tea in an effective way, mainly because they care for their tea in a traditional way (not taking into account new technologies and innovation) and lack access to high quality technical

#### **Box 2: The difference between regular black tea, CTC black tea and green tea:**

Vietnam's main tea products include three processed tea types: regular black tea (60%), CTC black tea (7%) and green tea (33%).

All three tea types come from the same plant (*Camellia sinensis*), but are processed differently. Green tea is dried, but not fermented. Fermentation is what gives black tea its dark colour. CTC stands for 'cut, tear, curl' or 'crush, tear, curl',

and refers to a production method developed by William McKercher in 1930. Instead of the tea leaves being rolled at a final stage, they are passed through a series of cylindrical rollers with hundreds of small sharp 'teeth' that crush, tear, and curl them. CTC is considered a significantly improved method of producing black tea compared to the orthodox (regular) method, yielding tea that receives a higher price in the market.

training. A vicious cycle of low quality tea production has led to low prices, lack of investments in tea production, and lower income for farmers. The low income specifically affects women, who most often manage the revenues from fresh tea sales. Low income also pushes some farmers to consider replacing their tea plantations with more profitable cash crops such as cassava, corn, or acacia.

Since 2006 the government has taken up efforts to replant tea bushes of the new hybrid tea varieties LPD1 and LPD2, which give higher yields (over 10 tons/ha compared to the average 6 tons/ha). To support farmers in replanting tea bushes, the government cooperates with the Asian Development Bank (ADB) and Agence Francaise de Développement (AFD) to provide credit and grants to tea farmers. However, so far only 30% of tea plantation in Phu Tho province has been changed to the hybrid varieties. In Yen Lap district, there are three nursery gardens that produce 20,000-30,000 seedlings of the new hybrid varieties LDP1 and LDP2.

When global tea prices collapsed in the fall of 2008, this had a significant impact on the demand for and price of fresh tea in Vietnam, including the area where VECO made the chain analysis. In 2008 prices were so low that farmers did not invest in fertilizers, resulting in lower quality tea.

In Vietnam natural inputs (like manure) are usually used for rice cultivation but are not applied much on tea fields, as these are situated in hilly areas. Increasing the amount of inputs and chemicals (intensive production) on the Trung Du variety would not improve the quality of the tea in a sustainable way. A great concern in Vietnam's tea production is the poorly controlled use of agrochemicals. Therefore, VECO aims to promote the use of natural fertilizers such as green compost, manure and food industry by-products to improve quality.

### Box 3: Household information

Married couples in Yen Lap district usually have one or two children, but also take care of extended family members such as grandparents and siblings. More than 70% of these extended family households live in modest, thatched-roof wooden houses, with access to running water from wells and intermittent electricity.

A majority – 93% – of households have land-use certificates, 82% of which are under the husband's name. Thanks to the Land Law dated 26/11/2003, land ownership is changing, from land being owned by husbands only, to land being owned by both husbands and wives.

Most farmers in the area have completed secondary school and can read and write.

Farmers are free to decide what crops they plant on their land. Most households grow 70% of the food they consume.

On average, an area of 1-1.5 ha per household is allocated for tea production.

Over 70% of households have a motorcycle for transportation. A new road was recently paved, which now makes it easier for farmers to access the tea processing factories and Yen Lap centre, 20 km away.

In 2013 income from tea represented 39% of average household income. On average 44% of people's incomes is re-invested in tea farming, 29% is used for livestock raising and the cultivation of other crops, and 27% is spent on food, education and other living expenses.

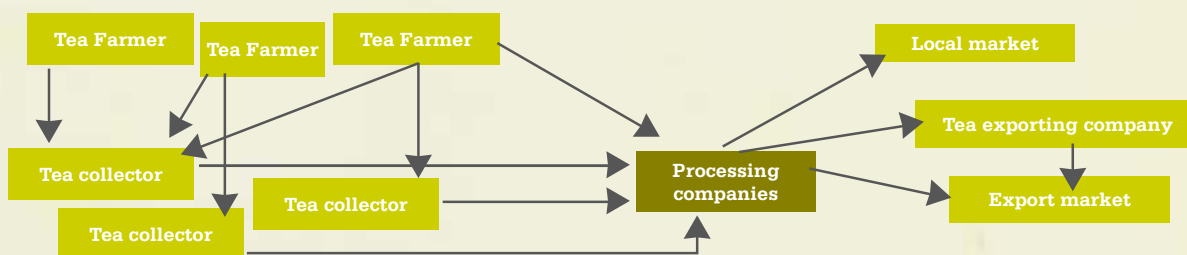
Poverty incidence in Luong Son commune in Yen Lap is high, at over 40%, with over 77% of the poor from the Muong ethnic minority.

#### 2.1.2 Limited leverage of farmers

Most farmers in Phu Tho do not dry their tea themselves but sell it fresh to factories, either directly or through local collectors. In Yen Lap district and neighbouring Cam Khe district there are several medium and larger scale processing enterprises with a capacity of 1,500 to 3,000 tons per year. The smaller-sized processing enterprises in the area have a capacity of 200 to 500 tons per year.<sup>4</sup>

Before VECO started working in Yen Lap, the farmers were not organized and worked independently on production and marketing, as in the rest of the country. Farmers individually sold their tea to local collectors, who occupied the space between the farmers and processing companies in the chain. Thus, collectors were in control of the prices, which were non-negotiable for farmers. A lack of information on market prices eliminated all negotiating power for the individual farmers and gave them no control over the share of the

#### The value chain in Yen Lap in 2009:



<sup>4</sup> Dr. Dai Peters (2008). *Tea supply chain analysis in Yen Lap District*.



foto: Thibaud Mathelot

profit that the collectors would pocket. In Yen Lap, each commune had on average two collectors, each collecting 100 to 150 kg/day directly in the fields.

As individuals, farmers only occasionally benefited from the short trainings offered by government agencies. Farmer groups, associations or cooperatives representing the farmers' interests did not exist and individual farmers had little leverage in the chain.

## 2.2 VECO's intervention

VECO's experience in other places indicated that organizing the tea farmers into strong farmer organizations could increase their influence in trade relations. In 2009 VECO decided to start a one-year pilot project in Luong Son commune<sup>6</sup> to explore whether chain interventions could lead to significant improvement of the chain. After consulting with the government extension station, various tea processing factories, and farmers of two villages of Luong Son commune, VECO selected its partners. The programme was developed together with its partners and direct beneficiaries: Phu Ha Tea Factory, which would be in charge of improving tea quality and volumes, and the Women's Union, which would focus on strengthening farmer organizations.

The pilot brought VECO to Tan Hoi, one of the small villages of thatch-roof mud houses of Luong Son commune in the hills of Phu Tho Province, where tea has been grown for over 30 years. Here, the first tea farmer group was set up with the support of the Women's Union, while Phu Ha Tea Factory supported the farmers to improve the quality of their tea (through training in good harvesting practices, correct fertilizer use and Integrated Pest Management - IPM). One member of the group was assigned to take up the role of collector, responsible for collecting the tea to sell to Phu Ha. In this

way a technical and business relationship was set up and trust was established between both parties.

It became quickly evident that this system led to a higher income for the farmers and better quality fresh tea for the factory. After one year, VECO evaluated the pilot chain intervention, acknowledged its potential, and made plans with partners for the 2011-2013 period to expand the pilot into a programme to support more farmers.

## 3. Towards a business organization, high quality and good prices

- Strong farmer organizations
- Better farming practices for higher productivity and better quality tea
- Collective marketing
- Strong contractual partnership between Phu Ha and the coop
- Stable and better prices

### 3.1 Strengthening farmers

Individual farmers generally lack access to correct price information, depend on a myriad of local tea collectors to buy their fresh tea, and have no negotiation power— all of which result in low prices. To break this vicious circle of low power, lack of information and low prices, the crucial step is to organize farmers into strong farmer groups.

<sup>6</sup> Administratively, Vietnam is divided into 4 levels: centre, province, district and commune. One commune is constituted of many villages, which exist as cultural-economic-social units but do not have their own government representative bodies (People's Com-mittees).

### 3.1.1 Group formation

In 2010, in addition to the Tan Hoi farmer group, 5 new groups were formed in the villages of Xuan Tan, Da Trang, Xuan Huong, Hung Thinh, Tan Lap and Phu Cuong in Luong Son commune. By 2011, VECO was working with 7 farmer groups with a total of 385 members. The Women's Union took up the role of forming the farmer groups and strengthening their management and marketing skills.

By 2011 the 7 farmer groups were functional, each with its own management board, democratically selected by its members, to serve for a 12-month term.

By organizing into groups, the farmers were able to increase their influence on government agencies to make it easier for them to receive financial support to improve their tea production. For example, the 7 tea groups successfully lobbied the government to change the requirements for loans for tea production at the Agriculture Bank of Vietnam so that loans were accessible for farmers with 0.5 ha instead of 1 ha of tea. Four tea groups also lobbied and negotiated with Phu Ha to get 70% of the total cost to buy fertilizers on credit. Farmers paid the remaining 30% on delivery and paid back the 70% in cash later at a low interest rate. Farmers were also able to get subsidies to buy harvesting machines when they lobbied the People's Committee.

To increase the negotiation power of farmers with buyers, it is very important for them to keep records of production data. The Women's Union has put a lot of effort into training the farmers in keeping a logbook. It was only recently, in May 2012, that the farmers started to more officially collect and record tea production data. These data also contribute to the monitoring of chain results and allow for data sharing with other organizations.

### Gender focus

To mainstream gender into the programme interventions, in 2011 the Women's Union organized a gender workshop to identify the still existing inequalities in the chain. One of the major concerns seemed to be that higher production volumes have increased the workloads of women significantly, since women pick tea by hand.

In the same year, the Women's Union introduced and monitored the use of a harvesting machine as a pilot in 4 of the 7 tea groups. Bringing in the harvesting machine means a change in roles, as men operate the machine, diminishing the workload for women. When tea is harvested by hand, women spend 33 work-days per ha, while men spend only 6 workdays per ha. When harvesting is done with a machine, the number of workdays for both women and men only amounts to 2 to 3.5 days per hectare. By the end of 2012 a total of 7 machines had been distributed to three production groups, and 60% of the members had used them successfully.



foto: Thibaud Mathelot

### BOX 4: Yen Lap Women's Union

Yen Lap Women's Union is a civil society organization with representatives at the village and commune level that has a total membership of 1325 women in Luong Son commune. In VECO's programme, its role is to support the farmers to register as groups; coordinate collective actions (input supply, marketing and trainings); and build the capacities of the farmer organizations in the areas of management, bookkeeping, data collection, and access to credit. Furthermore, the Women's Union supports the farmers to conduct meetings and address issues in the chain in a democratic way. At the end of 2011, with support from the Provincial Cooperative Alliance, the Women's Union successfully formed the farmer groups into a cooperative (LUSOTEC, see 3.1.2).

The Women's Union has improved access to credit through a variety of credit programmes that are available to most farmers with variable interest rates between 0.32% and 3% per month. So far, half of the households associated with the coop have enjoyed access to loans. Furthermore, each farmer group has a group fund to which each member contributes.

Having the Women's Union as a partner has increased the membership of women in the tea farmer groups to 69% as of 2013. Out of the 9 groups constituting LUSOTEC, 6 have a female group leader, one of whom is also the cashier of the coop. Women play an important role in tea production. It is mostly women who care for the plantation, harvesting and sale of tea to local collectors. Depending upon the nature of the work, the share done by women is as follows (according to the latest gender survey):

- Applying fertilizer, weeding – 70% done by women
- Spraying pesticide (organic) – 30% done by women
- Harvesting of tea – done equally by men and women if a harvesting machine is used (the man controls the machine while the woman picks the cut tea leaves), but done mostly by women when harvesting is done by hand
- Selling tea – 65% done by women
- Management of tea production investments and household expenditures – 70% done by women



### 3.1.2 Becoming a cooperative

The need to form the existing groups into a cooperative arose quickly. The farmer cooperative was formally established on October 31st 2011, bringing together 264 small-scale tea farmers under the name **Luong Son Tea Cooperative – LUSOTEC**.

Not all farmers of the 7 groups joined from the start. This was for a variety of different reasons: either because they had a limited amount of land available for tea, or they were investing more in planting acacia for the production of paper (less labour intensive), or they just wanted to wait before becoming members. In 2012, VECO expanded to two new villages, bringing the total to 9 groups. In the future the idea is to make this cooperative model replicable for other tea groups.

LUSOTEC is managed by a five-member management board (1 chair, 1 vice-chair, 1 cashier, 1 accountant and 1 controller) under the supervision of a 12-member administration board. At the moment coop members are organized into 9 production groups that meet every month to discuss the development of their groups and plans for the coming month. The leaders of the 9 groups report monthly to the administration board on problems, solutions and planning.

### Membership of LUSOTEC (December 2013)

| Group name   | Total farming area (ha) | Total number of members | Number of male farmers | Number of female farmers |
|--------------|-------------------------|-------------------------|------------------------|--------------------------|
| Thành Lập    | 4.6                     | 21                      | 8                      | 13                       |
| Đình A       | 2.2                     | 14                      | 3                      | 11                       |
| Đá Trang     | 5.0                     | 25                      | 9                      | 16                       |
| Hung Thịnh   | 10.9                    | 47                      | 17                     | 30                       |
| Phú Cuong    | 6.1                     | 37                      | 6                      | 31                       |
| Tân Lập      | 5.6                     | 27                      | 11                     | 16                       |
| Tân Hoi      | 3.0                     | 16                      | 5                      | 11                       |
| Xuân Huang   | 5.2                     | 28                      | 6                      | 22                       |
| Xuân Tân     | 3.9                     | 33                      | 11                     | 22                       |
| <b>Total</b> | <b>46.4</b>             | <b>248</b>              | <b>76</b>              | <b>172</b>               |

Note: There was a drop in the number of farmers involved from 253 in 2012 to 248 this period. The main reasons were that farmers got employment elsewhere or failed to follow cooperative regulations, hence were dropped from the list.

Some of the tasks of the cooperative are to provide technical training to its members, coordinate the harvesting of fresh tea, manage the centralized collection point (tea collection and delivery to Phu Ha), organize study tours and learning sessions for its members, seek and build relationships with new buyers, and organize collective input supplies.



Since 2012 the cooperative has delivered three major services to its members: technical assistance, input supply (also available to non-members), and tea collection and collective deliveries to Phu Ha.

LUSOTEC also promotes eco-friendly agricultural practices among its members and in 2013 it distributed 57 tons of organic fertilizer to its members. Moreover, as a strong cooperative, it can represent the interests of its members to local stakeholders such as government, buyers and financial institutions, and encourage other farmers to replicate the cooperative model.

5 centralized tea collection points have been set up where farmers can come to sell their tea to the collector. These collection points are managed by the farmer organization. There is one collection point and two collectors (also coop members) per production group/village. The share of the price taken by the collector is set in agreement with the farmers. Prices of tea are displayed at the collection point (fluctuating little and updated approximately twice a month). As the quality of tea leaves reduces quickly after harvesting it is best that freshly picked tea is delivered to the factories within 4 to 6 hours after harvest. As the distance is short, the loss of product quality during transportation remains minimal.

In 2011, about 50% of the 448 tons of tea produced by the farmer groups was sold to Phu Ha Tea Factory. The rest was sold to other factories when their market price was more competitive. However, all farmer groups reached their contract target of selling a minimum of 30 tons of fresh tea to Phu Ha. Phu Ha sells black tea for export (through a tea exporting company) and green tea for local market.

In 2012, 93.63% of the tea was collectively sold, including 298.5 tons (66.78%) sold to Phu Ha and 120 tons (26.85%) to Tien Cuong (a nearby company). In 2013 62.2% was sold collectively to Phu Ha.

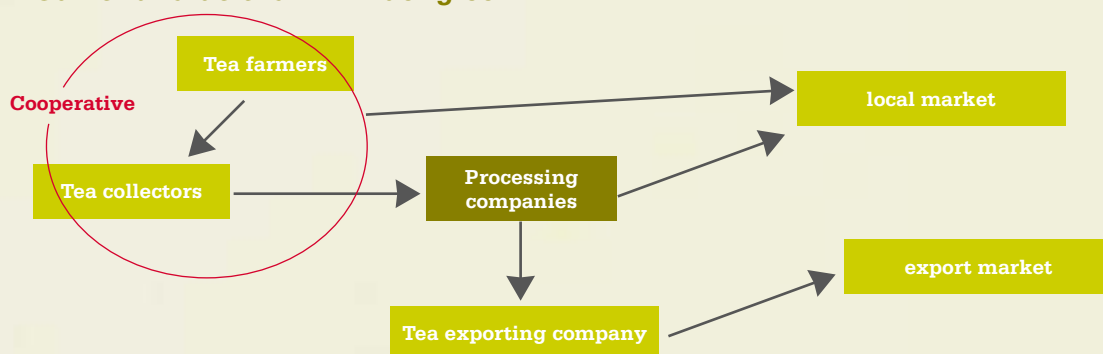


**Mr. Đỗ Tráng Tài – farmer group leader, Tan Hoi village**

“With VECO’s support farmer groups were set up, which has improved living conditions of farmers. We now master better techniques to grow tea and apply them skilfully. VECO has supported us on learning the correct techniques, while Phu Ha offers us a stable market for our products. Before the tea groups were established farmers could not always sell their tea, even when the quality was good. Today we are not worried about the market anymore, as a contract has been signed between the coop and Phu Ha. All farmers are excited about this.”

For the full interview click [here](#).

### Current value chain in Luong Son



**Mr. Dang Dinh Thanh – VECO Chain Development Facilitator:**

“The most important aspect of a true farmer business organization is to set up solid relations between the farmers and private companies. Both sides need to reach commercial agreements and understand each other’s needs, know each other and the desired outcome for each party. VECO’s major role is to set standards for tea production and processing, and to support its partners and the farmers to organize into a strong business cooperative.”

For the full interview click [here](#).

### 3.1.3 Enabling environment

As a part of Vietnam's "New Rural Development Programme" the government has been very much in favour and supportive of the creation of the cooperative. In progress since January 2012, this programme includes infrastructure and industrial zone development (for tea factories, animal husbandry, farming and fisheries), with a specific focus on supporting cooperative development. It issued a formal decision approving the establishment of the LUSOTEC cooperative in recognition of its official operation, without causing any delay or difficulties. Meetings held by the cooperative are attended by Commune People's Committee representatives who actively contribute ideas and suggestions to improve the functioning of the cooperative.

Organized as a cooperative, LUSOTEC has been able to sign up for benefits from a number of government programmes. The coop received USD 570 for the establishment of the coop from Phu Tho Cooperative Alliance, the provincial agency responsible for supporting cooperative development and USD 4,734 to install an office on land designated to them by the local government. As a coop they can also enjoy capacity-building trainings organized by the Cooperative Alliance. From Yen Lap district, the coop received free seedlings (60,000 covering about 5 ha) in the context of a policy to develop tea in the district.

## 3.2 Technical training

### 3.2.1 The role of Phu Ha

Linking the farmers with Phu Ha, a local family tea-processing enterprise, has improved the quality of the tea significantly, benefiting both the farmers and the company. The company has been supporting tea farmers in terms of production, tea collection and marketing. Farmers learn about Integrated Pest Management (IPM), harvesting techniques, the use of fertilizers (compost and manure), pruning, tea preservation, and so on. Farmers of all 9 groups in Luong Son commune have received training on the use of natural resources in a sustainable manner (green composting, mulching, appropriate use of NPK fertilizer, IPM).

**Phu Ha Tea Factory** is a family enterprise in Yen Lap, founded in 2006. In 2010 it processed 1,200 tons of black tea, equivalent to 5,160 tons of fresh bud tea of 22 different quality grades. Phu Ha exports most of its production to the Middle East through a national consortium of 12 tea factories named "Future Generation". In the tea chain, the company has been supporting tea farmers in terms of production, tea collection and marketing.

The culture of Phu Ha has changed since the start of the cooperation. Phu Ha used to think that farmers were not capable of cooperating with them and would prioritize company benefit over cooperation with farmers, without taking the farmers into account. Since 2010 Phu Ha has signed contracts with the farmer organizations on an annual basis. Phu Ha has established a solid working mechanism with smallholders, i.e., to set-up collection points, support transportation, and provide technical assistance.

In 2012, with support from Xuan Mai Agricultural College, Phu Ha organized a Training of Trainers (ToT) course for a selected group of farmers, including classes and field sessions on the use of fertilizers, harvesting and pruning (for which a high-quality training manual was developed for both trainers and farmers). These technical trainings have already showed a significant improvement in the quality of the tea, and taught the farmers how to sort and grade tea correctly. In 2012 Phu Ha started a project with the government, "Increasing Agricultural Competitiveness", to improve its capacity and produce quality and expand its market. One of the conditions to participate in the project is that the factory must have an established resource base to ensure the supply of raw materials to its processing plant. This was a very favourable condition for LUSOTEC farmers, paving the way to enhance cooperation between the factory and the cooperative.

Phu Ha Tea Factory encourages farmers to sell tea of high quality, and supports farmers with technical assistance in order to, on the one hand, increase good quality inputs for the company, and on the other hand, increase benefit for farmers.



### Classification of tea by Phu Ha:

Grade A: fibre & old leaves < 10%

Grade B: fibre & old leaves 10 to 20%

Grade C: fibre & old leaves 20 to 30%

Grade D: fibre & old leaves 30 to 40%

Grade E: fibre & old leaves > 45%

So far the tea production still does not comply 100% with the technical requirements, which affects the quality. Still too often, farmers do not follow the guidelines because they forget or do not find the time to change their practice. Which Ms. Tuyen, staff of Phu Ha, explains: "Often farmers cut old leaves and add a lot of fibre to get more weight per harvest. This not only impacts the price paid to farmers per kg but also impacts the ability of the shrub to produce nice young shoots. When tea is cut young, more and healthier shoots will grow, which can also increase harvesting frequency."

Regarding collective marketing both parties agreed to set up a collection team of 4 people for the 9 groups. Phu Ha coordinates the collective marketing and teaches LUSOTEC on how to keep record of the tea traded at the collection points on a daily, weekly and monthly basis.

### 3.2.2 Training of Trainers

It is important that farmers receive continuous training, so they can apply the newly learnt techniques properly. With the help of Xuan Mai Agriculture College, Phu Ha Tea Factory trained 19 key farmers in 2011 to become trainers, following a **Training of Trainers (ToT)** course. A high quality trainer's manual and farmer's handbook were developed to help improve the technical skills of both farmer trainers and students. Out of this group of 19 farmers, the best students are already conducting training courses for fellow farmers. To further improve their skills, an advanced ToT course was organised in 2012, in which new farmers were also trained.

Now that the cooperative has a pool of trainers, members receive regular trainings on tea farm management – from production to harvest to quality control. In the first half of 2013 the technical team of LUSOTEC organized 10 additional training courses on IPM according to UTZ<sup>7</sup> standards for a total of 7 farmer groups with the participation of 213 members (females accounting for 67.13%).

### 3.2.3 Quality standards

At present, Vietnamese tea is facing difficulties in terms of product quality, technical standards, and food safety. Vietnamese tea (like rice) is known in world markets to be of low quality and to have high chemical residue. Therefore, it can only be sold to non-discerning markets such as the Middle East.

No standards (like VietGap – Good Agricultural Practices) for tea quality have as yet been implemented in Vietnam and there is no international branding of Vietnamese tea, unlike tea from Sri Lanka or India. However, change is on its way.

The government signed a public private partnership (PPP) agreement in 2012 with Unilever to develop Rainforest Alliance-certified tea for Vietnam with a target of 25,000-30,000 tons by 2015. This, however, will only cover a tiny fraction of all tea produced in Vietnam.

The issue of chemical overuse and maximum residual level (MRL) in the tea industry has been the "talk of the town" since beginning of 2013. Potential international buyers who have come to Yen Lap have expressed their preoccupations with these and other issues to partners and farmers, and highlighted the need to change the production system to be able to compete in the market.

Phu Ha has trained farmers in Integrated Pest Management (IPM) following UTZ certification standards, in order to increase the quality and value of fresh tea. Both the producers and the factory recognize the challenge of quality control and the importance of training on production standards under the UTZ certification system. Phu Ha encourages farmers to follow UTZ standards, but for farmer organizations it is very difficult to maintain third party certification, as it is costly.

Therefore, LUSOTEC has introduced an Internal Control System (ICS) for quality control, which is in its early stage of adoption. The ICS is geared to support and maintain the safety and quality of the tea produced. So far, LUSOTEC is applying the "food safety certificate" (which all drinks and food on the domestic market need to have), and implementing the ICS, which is expected to culminate in a process of certification by UTZ for the international market in the future.



### Phu Ha Company – investing in sustainability

On its own initiative, the Phu Ha Tea Factory proposed a sustainable tea project to the government. Through this 2.5 year project (June 2011-Dec 2013), which the government accepted, Phu Ha will convert its traditional tea production and processing to comply with UTZ certification standards, with total combined funding amounting to about half a million USD. The conversion will take place in two communes (Xuan Vien and Hung Long – outside of the VECO work area) covering an area of 20 ha, with an estimated output of about 50 tons of UTZ-certified dry tea. Phu Ha's commitment to this project is partly a result of VECO's focus on sustainable agriculture, using IPM and natural fertilizers, and provision of information to the factory on various types of certification. This UTZ certification project, approved by the Phu Tho Department of Science and Technology, focuses on three components:

- Component 1: New tea variety to be grown - 10 ha
- Component 2: Processing that meets the standard requirements for food hygiene and safety
- Component 3: Safe products - 50 tons of green tea and black tea to be exported abroad.

Component 3 jibes well with the presence of and cooperation with LUSOTEC as a supplier of high-quality fresh tea.

<sup>7</sup> UTZ Certified is one of the world's largest sustainability programs and labels for sustainable farming of coffee, cocoa and tea. For more info: [www.utzcertified.org](http://www.utzcertified.org)



### **Ms. Dinh Thi Kim Tuyen – staff of Phu Ha**

“I like my work because I am also a farmer. When I started to work in the VECO project I realized that farmers had very limited knowledge, though we recognized farmers’ enthusiasm and eagerness to make changes and turn their existing tea into a true cash crop. This is my driving force and passion, and encourages me to be more self-confident. I hope that with the project’s assistance, the Luong Son tea as a brand, and tea in Yen Lap in general, will develop further and become a major source of income for local farmers.” For the full interview click [here](#).

## **3.3 Multi-stakeholder process**

Through chain partner meetings, held twice a year in June and November, and regular meetings (on a monthly, quarterly or ad hoc basis) VECO’s partners, including the farmers, come together to discuss and review the programme, and make recommendations and adjustments. Additionally, farmers are involved in all planning meetings, workshops, conferences and decision-making. This multi-stakeholder process has proven to be very effective in improving coordination among chain actors to the benefit of the tea farmers.



### **Public – Private Partnership with Unilever**

At the beginning of 2012, the Ministry of Agriculture and Rural Development (MARD) signed an official memorandum of understanding (MOU) with Unilever to support smallholders to improve their tea estates and to promote sustainable tea development in the country. The goal of this public-private partnership (PPP) is to help Vietnam increase its export of black tea to Unilever by enabling Vietnam’s designated tea growers and processors to improve the quality and overall competitiveness of their tea. More specifically, the agreement targets to increase Unilever’s black tea procurements from Vietnam to 25,000 to 30,000 tons of Rainforest Alliance (RA)-certified sustainable tea by 2015. This is the first concrete action taken by the government to support the development of the tea sector and its commitment to sustainable agricultural practices.

Phu Ben Factory, also located in Phu Tho province, is currently the only Rainforest Alliance-certified tea factory in Vietnam (certified in 2010). Phu Ben supplies Unilever with about 2,000 tons of dry tea per year. Another 4,000 tons, also RA certified, is supplied to other buyers. It currently has a tea production area of approximately 1,700 ha with about 3,000 farmers. Phu Ben provides all training to farmers and all inputs to control the supply chain. The farmers are motivated to follow the process because they have experienced the benefits of an increase of output from 8 to 22 tons/ha. This public-private partnership also presents opportunities for cooperation with NGOs. Phu Ben is interested in VECO’s tea programme and the LUSOTEC farmer cooperative. If Phu Ben agrees to cooperate with, train, and support LUSOTEC farmers, LUSOTEC will sell to them and comply with their RA-certification scheme.

### **Mr. Hoang Thanh Hai – VECO Field Coordinator**

“During the last partner meeting in Yen Lap I was reflecting back on two years ago when I just started to work for VECO. I can see a huge evolution in the way farmers, Phu Ha and the Women’s Union now interact, communicate, exchange. During the meeting everyone feels at ease to share ideas, doubts, issues ... It’s really nice to see how they respect and listen to each other. I have to say that I was stunned when the Chairman of LUSOTEC gave his presentation during the meeting. It was done in such a professional way.”





## 4. Results and future perspectives

### 4.1 Inclusive modern markets

One of the two chain intervention strategies of VECO is *“the support of farmers and their organizations to actively participate in markets that restructure and modernize, which means the increase of inclusiveness of modern value chains regarding smallholders. This implies strengthening of commercial farmer organizations as business organizations, strengthening the relations between small-scale farmers and the private sector ...”*

The tea chain in Yen Lap is a pilot for VECO – a way to develop, test, gather evidence on, and enhance the value of cooperation between a producer cooperative and a private processing company. In Phu Tho there are still very few factories or companies that directly support small-scale farmers and source from farmer organizations. Supply to tea factories is still dominated by individual collectors, who set the prices without allowing any space for negotiation by farmers. For the farmers of LUSOTEC, the situation now is different. For VECO it is important to understand the inclusion of smallholders in the value chain, measure the impact of the programme, learn from its experience, disseminate this information, and inspire others to replicate successful models.

Between February and June 2012 VECO used **Sensemaker**<sup>8</sup> methodology to measure the inclusion of the tea farmers in the chain, taking a close look at the cooperation between Phu Ha and the

farmers. Sensemaker can be used as a method to reveal the world through the eyes of the beneficiaries of a programme or important actors linked to the programme.

Through a probing question, 144 farmers were prompted to share a story or anecdote they found meaningful: *“Think about the agricultural value chain in which you are actively involved. Think of a specific moment or event when you felt particularly encouraged or concerned about producing tea and selling it to Phu Ha.”* After their stories were recorded, the storytellers were asked to self-signify their stories, by answering another set of questions.

In what follows the main findings of this study will be briefly presented. The full report can be found on the [website](#).

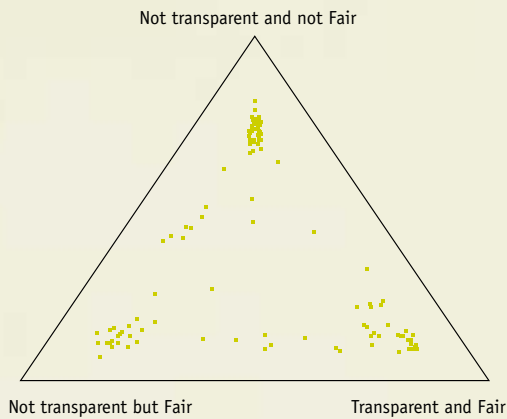
#### 4.1.1 Price setting

In many stories, farmers expressed their discontent with the instability and lack of transparency of prices. For the tea chain in Vietnam, as the following two examples illustrate, it is clear that farmers are the least powerful actor in price setting.

##### **In your story, price setting is...**

*“My story happened in September 2011. I do not understand how the market was going at that time but the price paid by the factory for a kg of tea was only 2,200 per kg. Therefore, my family stopped picking tea because the money gained from selling at this price would not compensate for a minimum workday wage. The low price was the main reason for the productivity loss of my family.”*(farmer story, Sensemaker 2012)

<sup>8</sup> Sensemaker, developed by Cognitive Edge, is essentially a patented pattern-detection software that comes with a methodology. It relies on the “capture” and analysis of a large number of fragmented micro-narratives from diverse sources to distil patterns in complex realities, and respond to these patterns in a timely manner.



*"I still remember one day when I collected tea for my group from early morning. By 5 pm I packed all the tea at the collection point and brought it to the buyer's location. Unluckily, it started to rain so I had to wait. At 9 pm when the rain stopped completely I brought the tea over there. I felt very sad because the price was only 2,700 dong/kg although I could have sold at 3,000 dong/kg at noon that same day ... However, I had to sell all the tea at that low price, as it was impossible to carry it back over a distance of 13 km from the collection point to the processing factory." (farmer story, Sensemaker, 2012)*

**In your story, prices paid to farmers are set by...**



This figure clearly indicates that prices are set by the Phu Ha company and others, but not by the farmers. In this case, the 'others' were defined by the storytellers as middlemen.

**4.1.2 Solid cooperation between Phu Ha and LUSOTEC**

**Prices paid to farmers**

Since 2010 Phu Ha has signed marketing contracts with the farmer organizations. On 29 June 2012 the farmer cooperative LUSOTEC was able to sign a new marketing contract with Phu Ha Tea Factory. This contract is different from the previous contracts as it specifies the buying prices for the different qualities of tea. The criteria for each grade of tea are indicated in the contract. For example, grade A tea contains no fibre and no yellow or thin leaves. The average agreed prices are 60% higher than those paid under the 2011 contract, and 16% higher than the average prevailing price. Before this

classification, prices were determined only upon delivery, which led to unstable and fluctuating prices. This new contract was a big step forward for the cooperation between both parties, and resulted in... in a better, more trusting relationship, and a better price for farmers.

The terms and conditions for this 6-month contract (June to Dec. 2012):

- Prices agreed: For grades A, B and C, the selling prices will be VND 5,000, VND 4,500 and VND 3,500 per kg respectively.
- The whole volume will be underwritten within 15 days, from the 10th to 25th day of each month.
- The two parties must cooperate to exchange information on and coordinate the collection and transportation of tea to the factory.
- If the market price falls, Phu Ha commits to keeping the same price as agreed in the signed contract, but if there is an increase in the market price, Phu Ha will notify the coop 3 days in advance.
- In addition, Phu Ha will also pick up and transport the tea free of charge from the central collection points of the cooperative to the factory as long as the volume is at least 3 tons per haul.

In the past 2 to 3 years the cooperative has substantially improved its confidence to negotiate with Phu Ha and successfully negotiated a new marketing contract until the end of 2013, with the following additional, favourable terms:



foto: Thibaud Mathelot



- Phu Ha will pay the cooperative a “commission” of 50 Vietnamese Dong for each kg of tea sold to the factory on top of the purchase price of the tea paid to the coop members
- Weighing and classification will be done at the LUSOTEC collection points by Phu Ha staff
- Phu Ha will reimburse transport costs of USD ± 5 for deliveries between 0.5 – 1 ton
- Phu Ha will pick up tea at the collection points when volumes are ≥1 ton

As Phu Ha Tea Factory now regularly informs LUSOTEC on the prevailing market price for tea, LUSOTEC is also in a better position when negotiating prices when their members sell to other buyers.

### Quality

There is solid cooperation between the farmer organizations and the Phu Ha Tea Factory on matters of quality, with the aim to create a win-win situation for both parties. On the one hand, Phu Ha supports the farmers to improve the quality of the tea, and on the other hand, the farmers commit to deliver certain quantities of good quality tea to the factory. Phu Ha cooperates with experts from Xuan Mai College to build the training skills of key farmers to conduct technical training courses for and give assistance to other farmers (on the use of fertilizers, especially organic ones, replanting new hybrid varieties of tea, IPM, use of proper harvesting and pruning techniques, and post-harvest care). This collaboration gives the farmers a better and more stable income (the average price for 2013 was VND 4,307 per kg compared to VND 3,881 per kg given by other local collectors) and provides the factory with a stable supply of quality fresh tea.

In one of the partner meetings in Yen Lap, the cooperative reported its lack of capital to improve tea production. In response, the Phu Ha Tea Factory offered to supply a better variety of tea seedlings “on credit” to gradually replace the existing old and low-yielding variety.

Stories that document the win-win situation:

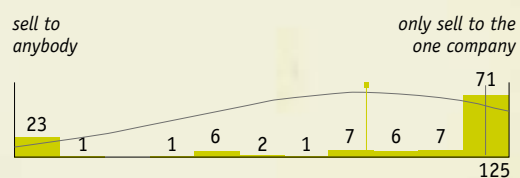
*“On November 17, 2011, I attended a training about pruning techniques held by the tea company. I learnt about how best to prune tea and applied this on my plantation. Several days later, the tea company staff visited my plantation to check my pruning method. She praised me as I had strictly followed the guidelines provided, so they decided to subsidize 54,000 dong for pruning. I felt very encouraged when the tea company helped my family.”* (farmer story, Sensemaker, 2012)

*“One day my family picked tea under hot and sunny weather, and the fresh tea became hot and discoloured. I felt worried and was not quite sure that I could sell the tea. When I got to the collector he decided not to buy our tea, but introduced me to the Phu Ha Tea company instead. I carried tea to Phu Ha and they accepted my tea with a friendly attitude. They also advised me not to put tea in packages but to spread it out on the floor to keep it fresh. I was pleased with their attitude. In my opinion, whether tea is harvested in sunny or rainy weather, sold at a high or low price, it does not matter, as long as I receive instruction and encouragement from the buyer on how to improve my tea quality”* (farmer story, Sensemaker, 2012)

### Farmer loyalty to and/or dependency on Phu Ha

Tien Cuong factory and other buyers are competing with Phu Ha to buy LUSOTEC tea, which directly pushes prices up, sometimes as high as VND 5,200 per kg for good quality tea buds. LUSOTEC gives priority to Phu Ha because of the favorable conditions negotiated in their marketing contract and their strong relationship. In 2013 LUSOTEC farmers sold 62.2% of their total produce to Phu Ha and 32% to Tien Cuong.

### In your story, farmers...



The Sensemaker study confirmed this and shows clearly that farmers prefer to sell to the Phu Ha; however, there were also some outlier stories. Reading those stories gave an idea of whom farmers would prefer to sell to elsewhere, and why (higher prices given by middlemen and/or middlemen who buy directly at the farmer's house).

Collection of tea gets strong support of Phu Ha, which also increases loyalty of farmers to the company. The LUSOTEC collection team coordinates deliveries of members with cooperation of Phu Ha to deliver high quality tea at the right time. Phu Ha also taught the collection team how to classify and weigh tea and run the collection point in an effective way. Furthermore, in 2013 Phu Ha purchased additional trucks to ensure better transport service to LUSOTEC.

#### 4.1.3 Position of farmers

In 2013 farmers successfully negotiated a new marketing contract with Phu Ha, which included additional beneficial conditions (e.g. further increased price, commission for each kg of fresh tea sold), indicating that as time goes by the contract is improving in favour of the farmers. Because the farmers prioritize sales to Phu Ha, competition between companies to purchase tea from LUSOTEC has increased, which puts the farmers in a better position to negotiate prices with potential buyers.

The farmers' position has strengthened not only in relation to the buyers but also the service providers. In 2013, LUSOTEC was able to negotiate a two-month deferred payment schedule with Lam Thao Fertilizer company. On top of this the cooperative successfully negotiated and then received subsidies from the Commune Agricultural Extension Division to replace old tea bushes with newer varieties, LDP2 60%) and PH11 (30%).

In 2012 and 2013 LUSOTEC has also been invited to participate in various official events and celebrations, which shows that the government supports and recognizes the importance of LUSOTEC and

its initiatives. These events are ideal opportunities for the cooperative to further promote its green tea.

## 4.2 Higher quality, volumes and prices

Average prices paid by Phu Ha have gone up significantly in the past three years. In 2011 the average price paid to farmers by Phu Ha was VND 2,650/kg compared to VND 2,637/kg given by other local collectors. In 2013 the average price paid by Phu Ha was VND 4,307/kg compared to VND 3,881/kg paid by others.

#### Quality and prices (in VND)

| Grade   | 2011  |        | 2012 |        | 2013* |        |
|---------|-------|--------|------|--------|-------|--------|
|         | %     | VND/kg | %    | VND/kg | %     | VND/kg |
| Grade A | 17%   | 3,200  | 31%  | 4,467  | 9.1%  | 4,490  |
| Grade B | 64.6% | 2,800  | 60%  | 3,878  | 43.3% | 4,274  |
| Grade C | 13.1% | 2,600  | 8.5% | 3,409  | 47.6% | 3,477  |
| Grade D | 5.4%  | 2,000  | 0.5% | 3,143  | 0     | 2,999  |

21 100 Vietnam Dong (VND) = 1 USD (December 2013)

\* There was a sharp drop in the volume of Grade A tea due to Phu Ha's explicit demand for more Grade B and C. Phu Ha primarily processes and sells black tea, which requires more Grade B and C, and only a small percentage of Grade A.

#### Production data

| 2010         |           |                  | 2011         |           |                  |
|--------------|-----------|------------------|--------------|-----------|------------------|
| Income/HH/yr | Income/ha | SGM <sup>9</sup> | Income/HH/yr | Income/ha | SGM <sup>9</sup> |
| \$ 251       | \$ 1,433  | 78.8%            | \$ 224       | \$ 1,109  | 71.9%            |
| 2012         |           |                  | 2013         |           |                  |
| Income/HH/yr | Income/ha | SGM <sup>9</sup> | Income/HH/yr | Income/ha | SGM <sup>9</sup> |
| \$ 278       | \$ 1,555  | 74.48%           | \$ 414.4     | \$ 2,216  | 79.72%           |

<sup>9</sup> SGM = Simplified Gross Margin = selling price – Direct Costs. SGM % = SGM/selling price x 100%. For example when the SGM% = 62.5%, this means that for every dollar you put in that product you get an additional 62.5% back in the form of a margin.





## Ms. Hoàng Thi Mai – Director of Phu Ha Tea Factory

“Since we began cooperating with farmers, we have made a great number of improvements. First of all the relation between the company and the farmers has become closer. Secondly, the farmers’ awareness of a sustainable production line has much improved. Finally, the farmers’ tea has increased in both quantity and quality, which is as beneficial for the farmers as for us. The change that we see in Yen Lap is the clearest evidence that VECO’s intervention reduces poverty. Tea is now an important economic crop in Yen Lap. In the past, local farmers refused to cooperate with private companies. VECO has made farmers begin to realize the importance of joining hands with companies to create a more sustainable production chain leading to a win-win situation for both parties.” For the full interview click [here](#).



In 2011 the tea yield was reduced because of less hours of sunlight (195 hours/year but weak sunlight compared to 210 hours in 2010), less rainfall (104mm/month compared to 125mm/month in 2010). The average temperature in 2011 was 21.9 C°, while a good temperature for tea is 25-33C°. The increase in income in 2012 was due to a combination of higher yield, better price, and savings on cost of production due to lesser use of expensive chemicals, in combination with a more favourable climate compared to 2011. In 2013 the income per hectare increased significantly to \$ 2,216 a 42.45% increase compared to 2012.

### Costs, turnover and net income

|                                   | Total average   |                |                |                |
|-----------------------------------|-----------------|----------------|----------------|----------------|
|                                   | 2013*           | 2012           | 2011           | 2010           |
| <b>Total cost per ha (in USD)</b> | <b>564</b>      | <b>504.1</b>   | <b>1,404.5</b> | <b>365.7</b>   |
| Fertilizer                        | 429.1           | 332.4          | 892            | 216.1          |
| Pesticide                         | 73.2            | 116.3          | 288.1          | 63.7           |
| Pruning                           | 61.7            | 55.4           | 224.4          | 85.9           |
| <b>Turnover</b>                   | <b>2,782.25</b> | <b>1,969.5</b> | <b>1,789.4</b> | <b>1,501.3</b> |
| Productivity (kg/ha)              | 9,700           | 11,606         | 10,498         | 8,725.5        |
| <b>Net profit (USD/ha)</b>        | <b>2,216</b>    | <b>1,465.4</b> | <b>385.9</b>   | <b>1,135.6</b> |

\* There was a drop in productivity in 2013 because some of the old tea bushes were replaced with the new tea variety (LDP1 and PH11). It will take at least three years before these new bushes will give tea.

## 4.3 Upscaling and future plans

### Upscaling

The Training of Trainers (ToT) of LUSOTEC can spark a scale-up of the pilot results in the tea chain. By delivering technical trainings to non-LUSOTEC members and farmers outside of Luong Son commune, LUSOTEC can promote the ToT system and the cooperative model throughout the area, while ensuring a source of income for the coop. By highlighting the ToT as a best practice, other stakeholders will be interested to follow this example. The plan is to standardize the model with high-quality training manuals and promotion material for networking and the replication of the model to other areas and by other NGOs.

The existing LUSOTEC-Phu Ha business model is not location-specific and can be replicated easily. In Yen Lap, government officials have already expressed interest in replicating the chain development approach of VECO to other value chains. Up-scaling could also

occur when another private company replicates the cooperation model adopted by Phu Ha Tea Factory with LUSOTEC.

### Future business opportunities

The coop is increasingly embracing a “business mindset”. This is clearly visible in the development of its own green tea processing business, and the improved terms and conditions of the new agreement it negotiated with Phu Ha. As the coop is producing a substantial volume in the local market and has access to price information, it also has increasing power to negotiate with other buyers.

The coop’s idea to develop its own green tea business was provoked by a study visit to Tan Cuong Tea Cooperative, which produces green tea in Thai Nguyen province. LUSOTEC was inspired by the idea that it could successfully create added value by producing and marketing its own green tea and took immediate action. The first step LUSOTEC took was to establish its own trademark for green tea. Then, a 10-day training course for 5 households was successfully conducted by 2 experienced processors from Thai Ngu-yen. Topics ranged from plant care to harvesting and processing. In mid-2013 the coop introduced green tea produced by select members to the market, using their own logo, label and packaging.

VECO financially supported LUSOTEC in the start-up phase to acquire small-scale equipment for processing and packaging green tea. The indications are good that the green tea is financially viable, and the coop is planning to use its own funds to buy additional equipment to expand green tea production.

As VECO Field Coordinator Hoang Thanh Hai explains: “When we explain to farmers in words that change is possible or an opportunity has arisen, they don’t believe us. Only if they can see it with their own eyes will they follow and invest.”

Both Phu Ha and LUSOTEC realize that in order to be competitive they have to adhere to widely accepted safety and quality standards in production and processing. Therefore, as previously noted, LUSOTEC is in the early stage of adopting an Internal Control System (ICS) for quality control. Geared to support and maintain the safety and quality of the tea produced, and expected to culminate in a process of certification by UTZ, the ICS will open new international markets for LUSOTEC’s tea in the future. Furthermore, Phu Ha has expressed its willingness to cover farmers’ certification costs and pay them a premium over non-certified tea.

## Lessons from VECO

It seems that as time goes by, the agreements made by LUSO-TEC with Phu Ha have improved in favour of the cooperative. This is a good indication of trade getting more favourable to farmers. The focus of the programme can now shift to supporting the coop to establish fair trading relationships and partnerships with various private processors instead of only one. VECO plays a facilitative role to establish and nurture strong and mutually beneficial links between the private sector and producers, which has proven to be a good strategic decision and is improving the relationship between both parties – beyond a mere seller and buyer relationship. All partners now openly share their thoughts with each other, which has led

to fair marketing practices.

Building the capacity of the farmers and coop takes time. Close follow-up and support by the VECO field staff is important in this regard.

Changing farmers' attitudes or behaviour is not easy and demands time. You cannot convince farmers to change their practices for the better just by telling them. They need to see the change. Therefore, it is important to support farmers when testing a new technique or business idea, so they can see for themselves. That is when real change can happen.



### **Eduardo Sabio – Regional Representative VECO Vietnam**

“For too long farmers have benefited the least ... this has to be changed. With value chain development, VECO can contribute to this change, as we play an important role in creating bridges. If private companies, traders, buyers and farmers exist in the market alone, big tensions exist. Normally, farmers are the weakest, therefore traders, ... capitalists impose on the farmers and reap the greatest benefits of this relationship. VECO doesn't normally present itself as biased strongly to one side, as it is about creating a fair and just trading relationship. If that is the view of both actors, we can gain trust from both parties. Therefore they would want to associate with us. We play a role in connecting and linking them so both can benefit.” For the full interview click [here](#).



## Profile of the programme

### Partner organizations:

Phu Ha Tea Factory  
 Women's Union  
 Luong Son Tea Cooperative - LUSOTEC

### No. of beneficiaries in 2013:

248 farmers (172 women, 76 men), 209 of whom are members of the Luong Son tea Cooperative

### Total farmland in 2011:

In Yen Lap district: 1,649 ha  
 Among VECO beneficiaries: 85.7 ha

### Farm size for tea production:

On average 0.2 ha per household

### Tea production:

2011: 6 tons/ha, of which 49% were sold to Phu Ha  
 2012: 8.35 tons/ha, of which 66.78% were sold to Phu Ha  
 2013: 9.7 tons/ha, of which 62.2% was sold to Phu Ha

### Farm gate price:

2011: USD 0.10 to 0.15/kg  
 2012: USD 0.10 to 0.21/kg  
 2013: USD 0.14 to 0.21/kg

### Average annual farmer income (from tea):

2010: USD 251  
 2011: USD 224  
 2012: USD 278  
 2013: USD 414

### Funding for 2011-2013:

216,601 euro

### Funding sources:

VECO, Belgian Directorate General for Development (DGD),  
 Misereor, Cordaid



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