

briefing

No 04

The participation of the poor in the value chain for tea*

Introduction

The Asian Development Bank's (ADB)'s Viet Nam Resident Mission is currently implementing a regional project entitled 'Making Markets Work Better for the Poor'. The project aims to (i) conduct analytical work on the functioning of markets and the extent to which the poor are able to benefit from them; and (ii) build capacity to support pro-poor market development through research activities, networking, and promoting policy dialogue.

The project seeks to assess the effects of participation of by the poor in the value chain for tea, and to identify ways to improve this participation. It is being implemented by researchers affiliated with the Informatics Center for Agricultural and Rural Development (ICARD) of the Ministry of Agriculture and Rural Development, and the Tea Research Institute, and an international consultant. The following report summarizes the findings.

Research Context

This report adopts a value chain approach toward understanding the tea sector in Viet Nam, and its linkages with domestic and international consumers. A value chain encompasses the range of activities required to bring a project from conception to consumption. In contrast to the more traditional linear notion

of supply chains, this approach envisages a network of relationships affecting the process, and assigns a key role to institutions and governance mechanisms in determining who benefits and to what extent. In relation to the poor, it pays careful attention to various types of integration mechanisms at play, and the potential opportunities and threats they present. Agrifood value chains have become the dominant force in the global food system in recent years, posing potential opportunities and threats for the poor. The question is not whether to participate, but how to do so in a way that best improves well-being.

While poverty has fallen dramatically in Viet Nam over the last decade, evidence suggests that growth has been less inclusive. Some areas and groups have benefited less than others: rural areas, particular regions (especially Northern Uplands, North Central Coast, and Central Highlands), and most ethnic minority groups. The underlying reasons go beyond the scope of this work, other than to note that most research in this area emphasizes the need for rural development in general, and the promotion of diverse agriculture and off-farm activity in particular.

Tea plays an important role in income improvement and employment generation in rural areas of Viet Nam, especially in the northern uplands (Ha Giang, Yen Bai, Thai Nguyen and Phu Tho); north east south (Lam Dong province); and north central coast (Nghe An province). Tea has a strong potential to contribute to poverty reduction because it is planted mainly on small farms in poor areas, is heavily grown by ethnic minorities, requires few inputs, and is labor-intensive. The two main tea-producing regions are the country's poorest. And because tea is one of the few crops suitable for cultivation in these regions, its promotion has strong social implications.

* This paper is derived from MMW4P's Discussion Paper No 1 "The participation of the poor in the value chain for tea" based on a study conducted by researchers affiliated with the Informatics Center for Agricultural and Rural Development (ICARD) of the Ministry of Agriculture and Rural Development, the Viet Nam Tea Research Institute (VTRI), and international consultants from Agrifood Consulting International (ACI).

Methodology

Along with the analysis of existing work in this area, fieldwork was carried out in Phu Tho and Thai Nguyen provinces. These provinces were chosen because, along with Lam Dong in the south, most of Viet Nam's tea is produced there. However, these provinces are much poorer than Lam Dong, and most of their tea is produced by smallholders. Moreover, several large factories and many small-scale processors have emerged in recent years, making it possible to analyze the effects of these developments on poor producers. Finally, two nongovernment organizations (NGOs) have been active in promoting tea using intensive pest management (IPM) methods in both provinces and tea cooperatives in Thai Nguyen, allowing an examination of the impact of this activity.

Choice of these areas could be subject to the critique that the research overlooks the more remote highlands, where the poorest tea farmers live. However, studying the effects of value-chain development on poor producers in areas where it has emerged strongly is important to better understand its potential effects in more remote areas.

Within the two provinces, communes for study were selected according to their poverty level, involvement in tea farming, share of ethnic minority farmers, proximity to the provincial capital, and farmer participation in either horizontal associations and/or vertical linkages with processors. The research methodology involved a range of qualitative and quantitative activities with government officials and all stakeholders in the tea value chain—from tea pickers to representatives of export companies. Activities included interviews with all stakeholders, focus groups and larger participatory rural appraisals (PRAs) with producers, and a small formal survey of processors.

SUMMARY OF FINDINGS

Overview of the Value Chain for Tea

The tea sector in Viet Nam is export-oriented, with more than 80% of its production supplying foreign markets. Currently Viet Nam's sixth largest export commodity, the volume of tea exports has risen tenfold over the last decade. Viet Nam has a comparative advantage in tea production, though domestic resource cost (DRC) figures calculated by the team indicate

that tea's comparative advantage is not as strong as rice or cashews. While production has developed significantly over the last decade, it has been steady and relatively controlled, and its export still does not have a major effect on world prices. Tea exports remain profitable despite a declining trend in prices since 1998. However, Viet Nam's reliance on a limited number of main export markets poses grave risks for all of its stakeholders. Iraq is Viet Nam's largest export market, accounting for about 40% of exports on average (1995-2002). The collapse of this market in 2003 due to the war in Iraq took a heavy toll on the tea sector in Viet Nam, particularly on those affiliated with state-owned companies exporting through VINATEA. Moreover, the quality of exported tea remains very low.

Tea production in Viet Nam, which began under the French rule, developed strongly in the decades after independence with the establishment of state farms that focused solely on tea. During this time, farmers planted old varieties—namely Trung Du tea in the midlands and Shan tea in the highlands—which have low yield and quality, compared with newer varieties, such as PH1 or imported clones. At present, most tea gardens in Viet Nam (about 60-70%) are over 30 years old—past their most productive age. This suggests that considerable gains could be derived from their replacement with new and more productive varieties. At the same time, cultivation techniques are outdated, fertilizer is used inappropriately, and pesticide tends to be overused in very commercial areas, with adverse effects on health and the environment.

The opening to a market-oriented economy brought about numerous changes for Viet Nam's tea producers and encouraged many farmers to begin growing tea. The tea value chain in Viet Nam has two main channels that overlap. The first channel, dominant in the past, is centered on wage farmers (called "worker farmers" in our analysis) or contract farmers affiliated with large plantation-based factories producing tea mainly for export (through VINATEA in the case of state-owned or joint-stock companies). The second channel, encompassing the majority of farmers, involves smallholders producing tea along with other crops and livestock. In this channel, smallholders are described as "unlinked," which means that tea sales are derived solely through market-based relationships rather than any formal integrative linkages with other actors in the chain.

Two channels continue to be largely separate, although less so than in the past, as large

plantations have begun in small measure to source tea from contracted smallholders, who largely retain their independence and engage in a mix of market and contracted sales. However, contracted sales remain small in general due to problems among both producers and processors in keeping to the terms of the contract when market price changes (as it did significantly in 2003).

In the first channel, worker farmers and contract farmers have a closed contractual relationship with factories under the framework of the 1995 Decree 01, which granted them land rights to produce tea for up to 50 years. These farmers must provide all or a large proportion of their output to factories. In return, the factory provides them with stable demand, credit for inputs, and technical training. However, the tea price is not addressed in the contracts and may fluctuate below the market price (particularly with state-owned enterprises [SOEs]). Moreover, these farmers do not have land certification, which limits their access to credit. When factories face difficulties, it affects these farmers particularly, since they depend solely on the factory and their income derives mainly from tea.

In the second channel, unlinked farmers sell fresh tea mostly to assemblers (who may sell to large or small processors) or directly to small-scale processors. Alternatively, they may process tea leaf at home then sell dry tea to assemblers. The development of private sector traders and processors—along with improvements in technology and transport infrastructure, and reductions in the cost of processing equipment—has enlarged the size of the market, creating a large scope for farmers to improve employment and income. With the establishment of processing units, especially since 1998, farmers have many more choices for their sale. While the development of private processors has increased competition in the tea market and reduced the monopoly power of state companies, their scale remains small.

Since 1994, some VINATEA members have cooperated with foreign investors to establish joint-venture companies, notably Song Cau and a Japanese partner in Thai Nguyen province, and Phu Ben and Phu Da in Phu Tho province. In addition, 11 foreign companies have established operations in the country. These companies, with their abundant capital and large scale, have increased the demand for tea in their surrounding areas. Furthermore, advances in management and cultivation techniques have helped tea producers, especially worker farmers

and contract farmers, reap the rewards of higher yield and quality.

The tea leaf market is competitive, with few barriers to prevent farmers from entering and participating. An analysis of the costs and benefits accruing to different stakeholders in marketing channels shows that, for fresh tea producers, being a worker farmer is typically more profitable than producing fresh tea for the market, and that producing tea as an unlinked farmer is more lucrative in Thai Nguyen than in Phu Tho provinces. Manufacturing dry tea increases the returns accruing to smallholders, as would be expected. Producing for export rather than domestic consumption appears to be more lucrative for farmers in Phu Tho, while the opposite appears true for those in Thai Nguyen, where tea sells at a premium on the domestic market.

The widespread growth of the tea sector has also created a sizeable labor market for tea pickers and workers in the processing industries. Tea harvesting is a highly labor-intensive activity particularly in the peak season, although working conditions are hard and most tea pickers hope that this employment will be temporary. The development of private processing industries over the last 5 years has absorbed a large amount of labor, on both a temporary and a permanent basis. Workers generally report reasonable working conditions, though these appear to be better in larger scale companies, as are wages.

Impact of Tea Production on Poor Producers

Despite gaining relatively low margins from tea production, tea farmers often enjoy better living standards than other producers. Data collected from tea producers in the course of this study suggest that incomes for tea producers are higher than non-tea producers in Thai Nguyen, but the opposite is the case in Phu Tho. Anecdotal and survey evidence from our fieldwork revealed that in several communes, incomes had reportedly doubled since the production of tea began. One commune leader told the study team that monthly incomes from tea in his commune equaled yearly incomes from rice production.

The study considered the impact of tea farming on worker farmers, contract farmers, unlinked farmers, and farmers associated with one another through cooperatives. Among these four

types, contract and worker farmers are typically better off than their counterparts. Poverty is concentrated among unlinked farmers, including those in cooperatives, and their poverty tends to be more severe. The question of cause and effect remains open since only relatively more privileged farmers typically meet the conditions to become worker farmers or contract farmers. Nonetheless, it appears that they continue to benefit in several ways from their situation.

Worker and contract farmers

Worker farmers and *contract farmers* typically enjoy better living standards than other tea farmers. These farmers receive benefits, such as stable output procurement and prices, access to good quality company land, technical training, inputs on credit, and a retirement pension and social insurance against sickness (worker farmers only).

In the companies with direct export channels and stable output markets, these linked farmers enjoy more benefits and suffer less from the negative effects of participation. The research focused on exports, since the tea sector is overwhelmingly export-oriented. If the companies have stable output demand, they do not impose such a high water discount rate or strict quality control on tea leaves delivered by *worker farmers*. Furthermore, *worker farmers* can avoid the negative effects of the overuse of pesticides if the company directly exports processed tea to the European high-income markets with high-quality standards.

In contrast, farmers linked to state-owned companies exporting through VINATEA find themselves at a disadvantage because they suffer more from the negative effects of low and unstable procurement prices, strict quality control, and a high water discount rate. Those negative effects are caused by difficulties in the export market managed by VINATEA, as well as the companies' inefficient production and high transaction costs.

However, it is difficult for other tea farmers to register as *worker farmers* because of historical factors and the limited size of the companies' tea plantations. Moreover, the need for sufficient labor, youth, technical experience, good education, and available capital impedes poor tea farmers from becoming *worker farmers*. As a result, it is not feasible to integrate poor tea farmers into large companies' value chains, given the current tea market's instability. In the long term, such vertical integration could be

established only if large investments were made to expand the scale of processing companies and their tea plantations.

It is much simpler to become a *contract farmer* rather than a *worker farmer*. The two basic determinants are capital availability to hire the company land and technical experience. If the company obtains a certain level of stability in the output market, then the expansion of land area for contract farmers is not too difficult. Even for smallholders, the possibility of participation as contract farmers is quite feasible if they can form a group to sign a contract to hire land and deliver products to the company. We found examples of this at Phu Ben Company (100% Belgian) and at Song Cau Company (an SOE). The company may enable such farmers to pay the land rental fee over a long duration.

Cooperative Farmers

Tea cooperatives have been established by international NGOs within the last 3-5 years to protect the environment, ensure safer tea consumption, and support the poor. In the long run, participation in cooperatives may bring net benefits to cooperative farmers in general, and to the poor in particular, if cooperative sales can increase. Moreover, it is typically not difficult for the poor to fulfill the membership requirements. However, sales to date have been minimal, and most cooperative members sell the overwhelming majority of their produce independently.

In part owing to their recent establishment, cooperatives only operate perfunctorily. Their working capital is very low, and they typically do not have any valuable assets to put forth as collateral for bank loans. Low working capital and lack of marketing experience preclude cooperatives from procuring and storing high volumes of tea leaves, and from finding marketing channels for large sales. It partly explains why the tea volume sold via cooperatives is insignificant (less than 5%). Moreover, members tend to produce tea of very uneven quality, which also militates against bulk sales.

For cooperative sales to expand, *cooperative farmers* may need to produce tea of higher and more even qualities, which could potentially impede the participation of the poor. Therefore, it is necessary to consider carefully the trade-off between the cooperatives' efficiency *versus* their support for the poor. If the cooperatives only intend to accept the procurement of high quality

tea, it would be very difficult for the poor to participate without outside support.

Viet Nam currently has one small cooperative producing organic tea. Its farmers, however, report that yields have fallen since making the transition, but consider its production to be much safer. However, sales to date have been minimal, due to risks in securing markets, both domestically and overseas. Without the further development of organic marketing channels, domestically and in overseas, organic production will remain very small and largely experimental.

Unlinked Farmers

Unlinked farmers specializing in tea production are typically not as well off as their counterparts that are vertically integrated with processing companies. Poor *unlinked farmers* do not have the necessary conditions to benefit from tea value chain involvement, even though market expansion may open opportunities for them.

The analysis suggests several constraints to these farmers, namely: a lack of land, capital to invest in improving tea varieties or processing equipment, inputs, labor, irrigation (essential for profiting from lucrative dry season production), and technical training. Although special credit is targeted toward the poor, poor tea farmers are generally fearful of investing in their tea gardens for fear that a market downturn would make it impossible to repay their loans. As a result, their investment in tea is sporadic; when the tea price is low, many farmers neglect their tea gardens—which means, in good years, only richer farmers reap the benefits of continual investment. Tea farmers in general—and the poor in particular—have little bargaining power. They rely almost exclusively on traders and factories for price information and in any event, the fact that tea leaf begins to degrade 4-6 hours after picking greatly narrows their options for its sale. Finally, the fact that the majority of producers are producing a low-value, mostly undifferentiated, product further limits their bargaining ability.

As a result, majority of the benefits from increased production and export have accrued to better off unlinked farm households and farmers linked to companies outside the state sector. Meanwhile, the poor suffer disproportionately from market downturns as price changes are transmitted locally, and they have less ability to withstand shocks.

POLICY RECOMMENDATIONS

The results of the study suggest that institutional linkages (both horizontal and vertical) that connect poor farmers to the tea value chain need to be supported. Otherwise, only wealthier unlinked farmers and worker/contract farmers will continue to capture the opportunities offered by tea market expansion and increasing prices, since processors and assemblers prefer them owing to their large amounts of tea land and good quality tea.

However, it is necessary to consider first that the tea value chain is currently structured the way it is—with a preponderance of market-based relationships—because tea leaf is widely available, mostly undifferentiated, and of poor quality. Accordingly, processors have no need to forge relationships with farmers to ensure a steady supply. However, at the same time, larger factories, particularly private ones seeking to enter higher value overseas markets, have worker farmers or are contracting with unlinked farmers. This partly stems from historical factors (especially in the case of SOEs), but is increasingly driven by processors' needs to produce higher-value products, which benefit from a closer relationship with farmers to ensure that they grow appropriate varieties, using the necessary inputs and production techniques.

In the research, *low quality of products* was the unifying constraint mentioned throughout each component of the value chain. Low quality compromises producers in a number of ways. First, the prices received are often low and/or variable on the basis of water content or other quality issues, resulting in a lower income than would otherwise be received. The overuse of pesticides has a further detrimental effect: high residues thwart access to certain markets and are a source of health problems for producers. Paradoxically, measures that reduce the level of pesticides (through IPM clubs or organic farming) increase the market risk associated with tea farming, and often result in a low-quality product as well. Traders and processors report that quality impacts on their operations in terms of obtaining consistent volumes of high-quality products. Processors are affected doubly by low-quality inputs and limited technology that creates low quality outputs. Such issues affect exporters and retailers as well. Thus, while market-based relationships may dominate at present, it is difficult envisioning improvements in quality without greater linkages within the value chain and, correspondingly, a shift from

market-based to more coordinated forms of governance.

Quality is further related to issues of *upgrading*, which can take one of four possible types: process upgrading, product upgrading, functional upgrading, and chain upgrading. In the tea sector, the first three types of upgrading are the most relevant dimensions, in terms of improving varieties, techniques, and technology (process); developing new products, brands, and trademarks (product); and increasing the scope of household processing by both unlinked farmers and cooperatives (functional).

Improving quality in the tea value chain in Viet Nam revolves around the interaction of three key themes: improved diversification, development of better governance structures, and enhanced enabling environment. Figure 1 below illustrates the interaction of these strategies and highlights the fact that such recommendations are fundamentally linked. The causality of the linkages is also illustrated in Figure 1. For instance, improved governance and an enhanced enabling environment are crucial for Viet Nam to achieve quality gains (i.e., governance and the enabling environment can help enhance quality). Consequently, improved quality allows for greater diversification of markets and products. By combining these dimensions, higher value will be achieved in the sector; focusing on only one component in isolation will not be sufficient.

Issues of *competitiveness* are also an important factor in improving quality and value-added. While improvements in the governance and institutions in the tea sector will play a major role in improving quality and diversifying markets, factors external to the value chain may impinge on the overall success of a quality-oriented strategy. Distortions in *other* value chains (e.g., input markets and energy) could negatively impact on the competitiveness of Viet Nam's tea, even if quality gains are realized. Thus, while interventions were focused on the tea sector, awareness of external issues are important and should be a key consideration among policymakers.

Sector-Wide Recommendations

1. Diversify the export market in terms of countries and products, and seek to shift to higher value added rather than bulk production.

The diversification of tea markets and products is a crucial step for Viet Nam to upgrade its productive and value-adding opportunities. Indeed, from the standpoint of international markets, the market downturn of 2003 highlighted the danger of focusing on only a few main markets, particularly by the SOE sector. Access to new (and particularly high-value) markets is fundamentally predicated on improving the quality of tea produced in Viet Nam, and is necessary in realizing the gains of upgrading the sector. Conversely, understanding the needs of diverse markets can play a pivotal role in determining the types of product improvements that are necessary. Three particular issues need to be stressed.

First, improvements in marketing and the development of new overseas partners need to be realized. The research found that most customer relationships have been cultivated primarily on the basis of personal relationships. While this aids in the stability of current markets, further diversification requires the active participation of the industry and the Government in foreign trade shows, overseas marketing campaigns, and brand development to gain entry to new markets. The development of such tools may require improved capacity in marketing and business skills, particularly among SOEs. Regulatory systems that are recognized and respected by buyers, and improved market information, will also play a vital role.

Second, Viet Nam should pay careful attention to trends in international markets with respect to adding value in production. In particular, international demand for green tea has grown markedly over the past 7 years and now comprises 40% of total international exports. Moreover, green tea has a higher unit value and fewer global suppliers. Given the strong domestic reputation Thai Nguyen tea has in Viet Nam, there is an opportunity for Viet Nam to capitalize on these trends, although to do so will require significant upgrading in the quality of domestic production and of regulatory infrastructure.

Thirdly, from the standpoint of domestic markets, it must be recognized that there is a large, latent tea-consuming population within Viet Nam that needs to be targeted by domestic producers. The rise in popularity of urban tea houses has been recognized by foreign tea companies, but domestic producers have been slow to seize such opportunities. Moreover, since there have not been any surveys on domestic tea consumption, tea processors do not have a clear vision for domestic market exploitation. Ali

et al (1997) present a strong argument for developing domestic markets on the basis that satisfying local demand allows companies a solid platform upon which to base overseas trade (p. 79). At the same time, given the rapid growth and urbanization in Viet Nam over the past 10 years, a focus on only the domestic market could nonetheless be quite fruitful for some companies. Other types of specialty channels (hotels, restaurants, tourism) should be explored.

2. Improve governance mechanisms in the sector that institutionalize stronger linkages between actors in the value chain and promote higher-quality production.

Two distinct governance systems are at play in the Vietnamese tea sector. First, there is an integrated sector consisting of worker and contract farmers linked with companies primarily producing for export. Second, there is a channel emphasizing market-based transactions between unlinked farmers and processors. Furthermore, the PRA analysis demonstrates that players in the first channel are typically better off than unlinked farmers, although there is considerable variability among unlinked farmers. This tentatively suggests that governance mechanisms that improve integration and linkages within the value chain should be explored. Doing this through worker farmer programs would be difficult due to historical reasons, but improvements in contract arrangements are essential to promote contract farming.

One such mechanism could include developing associations, which strengthen the collective power of farmers under contract relationships and give companies more confidence in dealing with producers. Cooperatives could also be another form of organization to be explored, particularly for the poor, although the experience of cooperatives to date lends caution to this recommendation. Cooperatives in the tea sector have had problems with management, marketing, and organization, which have limited their effectiveness. Thus, it will be important to strengthen the institutional framework underlying such types of organizations so that all parties have more confidence in entering into contracting arrangements. Further research to identify suitable mechanisms of organization will be needed.

A final type of governance mechanism that could be explored is ways to better integrate *functions*

that take place within the value chain. Household producer-processors had higher incomes than dedicated producers, implying that there may be gains toward increasing the functional capabilities of players in the chain. The addition of processing capabilities could be a way for cooperatives, given their greater resources, to generate more income for members while simultaneously improving their bargaining power with traders, exporters, and other stakeholders.

3. Improve the enabling environment for players in the value chain, particularly in terms of credit access, regulatory enforcement, technical training, and market information.

Several key issues arose from the research, suggesting renewed focus on improving the enabling environment for the private sector. First, in the processing and export sides of the value chain, the Government still favors SOEs relative to the private sector with respect to credit access and other support. Better access to credit by the private sector will strengthen the value chain and enable it to be an engine of growth that can, in turn, facilitate growth and expansion upstream.

Second, the regulatory environment as applied to the tea (and other agricultural) sectors need to be strengthened. The research showed that contract enforcement is negligible among producers and processors alike, and this limits the ability of promoting stronger linkages within the value chain. Regulations concerning land titles disadvantage farmers already linked in an integrated production system. Further regulatory strengthening is required with respect to trademarks, labels, and certification programs that increase consumer confidence in tea and facilitate the provision of added value through labels, for example. Current regulations are not viewed as credible, while international certification is often expensive and not universally recognized by all trading partners (for example, organic certification).

Third, the dissemination of information in the tea sector needs to be improved. Information is limited and incomplete within components of the tea sector. While traders are generally well-informed about prices and market movements, significant variability among processors (especially those affiliated with SOEs) and producers (particularly unlinked farmers and the poor) exists. There are also information gaps between worker/contract farmers and tea companies regarding procurement practices for

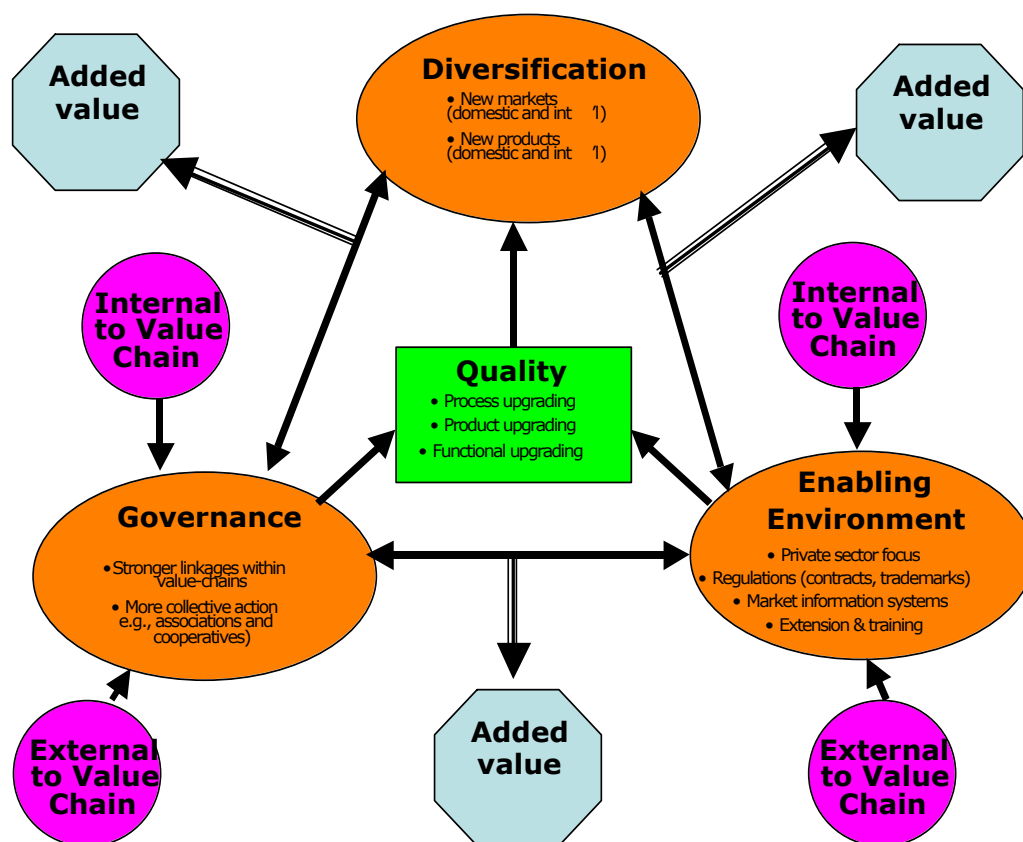


Figure 1. A Typology of Sector Recommendations for the Tea Value Chain

tea. Streamlining information needs of the value chain through better and widely available market information systems would help reduce such deficiencies in information and assist in developing higher-quality products. An additional area of improvement concerns ways to better analyze and measure trends among consumers, both at home and abroad. Trade associations, such as VITAS, should be empowered to conduct market surveys that help players stay abreast of key developments in the sector.

Finally, strengthening public and private extension services is needed. Strong extension services will help bolster and enforce regulations for tea quality to avoid the overuse of pesticides that cause health problems and give Vietnamese tea a bad reputation. This should be accompanied by more technical training for farmers. The research suggests that CIDSE (International Cooperation for Development and Security) IPM courses raised farmers' awareness of the adverse effects of overuse of fertilizer and pesticides, helped farmers use fertilizer more efficiently, and created a basis for cooperation between farmers. However, their spread is

impeded by the fact that producing "clean" tea raises production costs—at least for the first 3 to 5 years—and does not fetch any returns in the market.

Recommendations Aimed at Poor Farmers

* **Improved governance relationships through increased organization.** Poor farmers, particularly unlinked farmers, could be served by actively encouraging the establishment of poor tea farmer groups and/or associations, by strengthening the existing tea *cooperatives*, and establishing new ones. Such associations are a good basis for capital support for the shift toward new high-yielding tea varieties, for the support for rotating credit funds, and for technical training. The issue of fostering market linkages with processors—large and small—should be given particular importance. Government extension, as well as nongovernment organization and private sector support, should be directed toward this end.

Increased collective action could also improve the ability of producers to develop other activities, such as processing, and further add value for the poor.

Moreover, such relationships need to be enhanced with better contracting mechanisms that strengthen interaction between producers and buyers. This should include developing greater transparency in procurement arrangements, so that producers understand the standards imposed by processors and that processors fairly apply such standards.

*** Improvements in infrastructure.** Such improvements have several dimensions. First, enhancing the quality of roads, storage, and transport facilities is a public good that benefits the poor in general. Since tea perishes rapidly, poor farmers have very few options to sell if constrained by the ability to transport tea. Further improvements to restock old varieties with new ones would help poor producers improve yields, while investments in irrigation could facilitate the harvesting of lucrative dry-season tea. Funds are available for such infrastructure improvements in poor communes and districts under the 135 program, but their allocation depends significantly on local decisions.

*** Strengthen extension services for smallholders.** In particular, cultivation techniques that cost little can add a great deal to value. In some areas, fertilizer and pesticides are not applied sufficiently. This should be addressed, as should the need for soil conservation.

*** Facilitate credit access to producers.** Direct more credit to poor farmers, and for longer time periods, to enable them to invest in tea production. Similarly, look at ways to bestow land certification on estate farmers (or to get factories to support their credit applications) so they too can borrow money. Better access to credit could help farmers purchase small-scale processing equipment, which was shown to increase incomes for producers in Thai Nguyen.

*** Disseminate price and market information more widely.** Most farmers who were interviewed relied entirely on traders and factories for market information and may thus be less informed on market conditions relative to other participants. Developing market information systems at the commune level, which are easily accessible to the poor, is key.

This briefing paper is one of a series produced by the Regional Technical Assistance Project "Making Markets Work Better for the Poor", which supports activities in Viet Nam, Lao PDR and Cambodia. The purposes of the project are to (a) conduct analytical work on the functioning of markets and the extent to which the poor are able to benefit from them, and (b) to build capacity to support pro-poor market development through research activities, networking and the promotion of policy dialogue in the three project countries. The project is co-financed by the Asian Development Bank (ADB), ADB Institute and the UK Department for International Development (DFID). More information on project activities is available at www.markets4poor.org.

For more information, please contact:

ASIAN DEVELOPMENT BANK
Vietnam Resident Mission
"Making Markets Work Better for the Poor"
Unit 701-706, Sun Red River Building
23 Phan Chu Trinh Str., Ha Noi, Viet Nam
Tel: + (844) 9331374
Fax: + (844) 9331373
Website: www.markets4poor.org