MARKET ACCESS
FOR SMALL FAMILY FARMERS IN 2015

Results of the 'Preparation Study' for the VECO International Forum on scenario development

VECO Vietnam

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Summary

As a preparation for the International Forum (autumn 2006) in Belgium on the long-term strategy development of VECO, this study was executed to gain insight in the current market situation of small family farmers in Vietnam. Through literature review, stakeholder analysis and interviews and a national workshop, information on trends, problems and solutions on market access of small family farmers was gathered as well as VECO's future contribution to tackle the problems and create solutions.

Twenty years after the introduction of 'Doi Moi' (renewal), Vietnam has overcome the problem of food security and is now an exporting country for many agricultural products (tea, coffee and rice). Therefore, improvement of quality is one of the key factors for further developing the agricultural sector. At the same time, the government tries to diversify agricultural production nation-wide, meaning the specialization at local level towards products that are suitable for that certain area. Farmers are increasingly collaborating in cooperatives or farmer groups to improve production and marketing efficiency. Although still in a beginning phase, the government supports this trend.

Small family farmers remain involved in production for self-subsistence farming. They do get increasingly involved in (local) markets, but five main clusters of problems can be distinguished that hamper their market access (in order of importance as defined during the national workshop).

1. **Commodity chains are small and unorganised**
2. **Quality of products is low**
3. **Low added value**
4. **Prices paid by buyers are low**
5. **Marketing & negotiation skills (and power) are low**

According to the stakeholders, the major problem is the small and unorganised commodity chains in which relations between stakeholders are difficult and transparency and trust are low. Improving quality of the agricultural products is essential to market access of small family farmers because it will create many opportunities in today's world, where demands for quality are high. Thirdly, the added value of farmers' products is low. Because of a lack of technical knowledge, cash to invest and motivation to innovate, farmers remain selling raw materials to traders and companies. Furthermore, prices paid by buyers are often low because farmers sell their products in peak season. Supply of the specific agricultural products is high and consequently, prices drop. However, as the need for cash is high, farmers cannot afford themselves to wait. Moreover, proper storage facilities are lacking. Finally, farmers have very little negotiation power, because of the small quantities of products that can be marketed.

VECO's role in increasing market access for small family farmers should primarily focus on the strengthening of farmer groups and cooperatives. By facilitating and assisting them on how to manage such organizations and how to negotiate within markets, farmers' bargaining power will increase. Furthermore, VECO should execute in-depth, but practical, farmer-driven research on specific market chains will enable farmers to improve their positions in that chain.

One could (and should) ask himself though, if the inputs and energy are used efficiently when invested in small family farmers? Investing in skilful, better-of farmers, who want to increase farm size and access new markets, might be more efficient than focussing on small family households could be. The basic question is if small family farmers have a future in more complex market systems? And if one doubts this, should VECO change its target group or its objectives?

1. Set up of the 'Preparation Study'

1.1 Context

VECO is an independent, pluralistic Non Governmental Organization (NGO) for development co-operation. It supports projects and programmes of partner organizations in 14 countries about sustainable agriculture aimed at food security.

During the last 5 years, most country programmes of VECO have experienced the natural outlining of a clear narrowing of their field of action within the activities around sustainable agriculture. Whereas the focus used to be on supporting processes and programmes directed towards improvement of production and sustainability (soil conservation, local seed varieties, control of pests and diseases, etc.), nowadays the focus is more and more on supporting programmes and processes of partner organizations (local service NGOs as well as farmer organizations) aiming at creating market access for the sustainable agricultural products of small-scale family farms. More and more, the chain approach takes the upper hand.

The ambition VECO sets itself for the following ten years (2006-2015) is therefore: to offer a real contribution to our partner organizations worldwide, in order to help them create this market access for their members and supporters. In the first instance, the aim is towards local markets, as this promotes the most sustainable form of food production and consumption, ecologically, socially and economically. However, (urban and international) export markets are not kept out of the picture provided they are based on the principles of international fair trade. VECO wants to determine their long-term strategy (2006-2015) during a scenario-thinking exercise at the International Forum (IF), in the autumn of 2006 in Belgium.

To avoid confusion avoid the concepts 'market access and 'small family farmer', this report handles the following descriptions and definitions: a market is a mechanism that allows people to trade, normally governed by the theory of supply and demand. To make these markets work better for the poor, to increase the access to markets for small family farmers, these markets expand the choices available to poor people and produces market outcomes that benefit the poor. Small family farmers are households that mainly run their farm with family labour. These farmers produce for own consumption, with an increasing need to sell. Farm sizes can vary from 2 to 50 sao.

Scenario-thinking

To develop an exact strategy in the above, the scenario-thinking approach will be applied. The objective of scenario thinking is to develop possible future scenarios. It aims towards informing decision makers and influencing and facilitating decision-making. In this context, the objective of scenario thinking can be described as follows:

- Obtain a better insight in what possible future situations may look like, how they are brought about and why they could be brought about that way;
- Produce new decisions by bringing new considerations to the surface;
- Facilitate the revision of existing decisions by offering a new context in which they are being taken;
- Identify proper decisions on what an organisation could do if confronted with specific circumstances.

Need for multi-stakeholder consultation

Sustainable agriculture as a lever for rural development will be highly dependent upon the access to fair markets for small-scale family farms. With 73% of the population living in rural areas and 62% of the Vietnamese households depending on agriculture (Statistical

Yearbook, 2004), the last one is of huge importance to Vietnam. On the other hand, the interlacing of markets as well as actors on these markets indicates that it will not be possible for separate groups of stakeholders to offer solutions. According to VECO, the complication of the theme itself and the apparently conflicting interests of the different stakeholder groups call for the set up of a communication between the different groups.

This communication between stakeholders has several advantages, the most important ones being to organize a consultation to learn from each other's insights, to develop a common language and to set up possible alliances between stakeholders with different backgrounds and interests.

Possible evolutions around markets for agricultural produce are too often considered by unilateral analyses, and precisely because of this unilateral approach the resulting proposals, strategies and programmes have only a small chance of success. When the various points of view and the possible scenarios of different stakeholders are juxtaposed, the likelihood of obtaining a more realistic view of the total image increases. This then allows to set up more realistic plans, strategies and programmes for all participants of the multi-stakeholder consultation.

1.2 Objectives

The main objective of this preparation study is to provide input for the scenario development exercises on 'market access for family farmers in 2015', that will be executed during the VECO International Forum.

The IF will be held in the autumn of 2006 in Belgium with staff from VECO and partner organisations from all 14-intervention countries. To better execute the scenario development exercises during the IF, input concerning the following issues will be provided in this report:

- **Background information on markets in Vietnam.**

This information tries to detect trends and describes ongoing processes. Issues that will be discussed are: long term trends; factors of change in near future; role of stakeholders; events that can alter the situation drastically in the future; policy on markets; development cooperation trends; evolution of small farmers in the area; migration; civil society; decentralization; global financial markets.

- **Stakeholder analysis**

What are the stakeholders' opinions on the present situation regarding market access for family farmers? What are their interests, needs, opportunities and threats?

- **Key factors and priority ranking**

What are the main criteria for success/failure of market access of family farmers in 2015? What influences the outcome? What is the order of importance of the key uncertainties?

1.3 Methodology

The information was obtained using various sources and methodologies. Available literature is analysed in chapter two. Using Internet, secondary literature and documents provided by different stakeholders, a short analyses was made on market access of small family farmers.

The stakeholders were identified during a brainstorm session with the Program Officers of VECO Vietnam's coordination office. The stakeholder analysis was done by interviews following questionnaires. Almost 20 interviews were conducted to get a good overview of what trends, feelings and ideas exist in the minds of the involved stakeholders. Most questions were open-ended to give the interviewees the opportunity to speak out and leave the possibility to focus on what they think is important. The interviews ended by discussing key factors for future market access. Realizing that it is hard to speak of a statistically justified analysis, this report should be seen as a guideline.

Most of the interviewees are somehow related to VECO's activities. Partners, people VECO works with in the field and people otherwise familiar with agricultural development and acquainted with VECO were questioned about the topics listed above. Interviews consisted of a series of multiple-choice questions and a limited number of open questions that would give the stakeholder the possibility to give his/her broader reflection. Interviews were executed by VECO's Program Officers and by myself in January 2006.

The National Workshop brought together a selected group of stakeholders to discuss the key factors that were mentioned by the different stakeholders during the interviews. Structured, common analyses lead to the mapping of the key factors and a prioritisation of these.

1.4 Structure of the Preparation Study

The document is structured as follows:

Chapter one:		Set up of the 'Preparation Study'
Chapter two:		Vietnamese Market Context; a literature review
Chapter three:	Stakeholder Analysis; summary of the interviews	
Chapter four:		National Workshop; ranking of key factors
Chapter five:		Conclusions
Annexes:	1.	Interviews per stakeholder
	2.	Cause-effect relations within the clusters
	3.	Participants of National Workshop
	4.	Consulted documents and websites

National workshop. Mr. Nguyen Van Nghi (Enter-oil company), explains cause-effect relations between key factors.

2. Vietnamese Market Context; a literature review

Vietnam is a socialist country, in which the central role of the Communist Party in politics and society is eminent. In 1986, central planning was officially abandoned with the introduction of 'Doi Moi' (Renewal) and market elements as part of a broad economic reform were introducted. Throughout the nineties this policy was elaborated in increasing detail for different sectors, having a huge impact on national politics and life in Vietnam in general. Substantial economical progress was achieved from 1986 onwards in moving forward from an extremely low level of development, significantly reducing poverty. Growth averaged around 9% per year in the mid nineties. The number of poor households according to Vietnam poverty standards decreased by a half from 17.5% to 7% (2005 compared to 2001).

2.1 Current trends

After 'Doi Moi', Vietnam has gradually overcome the problem of food security and is now an exporting country for rice (worldwide the second biggest exporter), coffee (third biggest exporter worldwide) and tea. Like other sectors, the agricultural sector maintains good growth rates. Industrialization and modernization becomes more and more important in developing this sector and production will be closely linked with markets for better efficiency. Economic legislative system has been increasingly completed and the content has been more appropriate to the market mechanism, satisfying various requirements of economic reform, giving favorable conditions for free enterprise, boosting up commodity- and service markets, facilitating the efficient operation of market mechanism, creating foundations for the formation and operation of markets of all types or of market factors.

Within the last decade some important trends can be seen:

- Increasing product quality. In the past, the focus was on the quantity of production as to increase food security and satisfy national food demand. These goals are now achieved, changing the focus towards increasing profit per area of production (meaning to improving product quality).
- Diversification of agricultural products nation-wide. Farmers tend to specialize in certain agricultural products, resulting in many different agriculture sub-sectors.
- Creation of cooperatives and farmer groups to increase quality, quantity and uniformity of production of the individual farmers and collectively plan and market their products. Cooperatives and farmer groups are better capable of producing high-value products.
- Decentralization and grass root democracy are becoming more and more a priority of the Vietnamese government. The underlying idea that people know, decide, execute and monitor has recently been captured in several nation-wide decrees and is now slowly integrating at local level.
- The government encourages growth of the agro-processing sector by: (1) liberalizing trade of processed agricultural products and of the raw agricultural products, introducing more competition into the agro-processing sectors. (2) Encouraging the establishment or expansion of 'production zones' (generally based on smallholder production systems) to produce raw agricultural products, and the establishment in parallel of medium/large-scale agro-processing plants to process and market the final output. Examples include the sugar, cassava starch, tea, groundnuts and rubber industries. (3) The provision of credit to agro processing enterprises. (4) Encouraging the growth of private-sector enterprises.
- Like in many other developing countries, supermarkets are on the rise in Vietnam. The success of different types of large self-service stores is changing the whole marketing system for many products, including fresh products such as meat, fish,

fruit and vegetables. Although the majority of fresh vegetable sales are still going through the traditional channels, the growth rate of the modern retail sector is expected to increase in the future. The impact this will have on small family farmers is expected to be low initially, because of the high standards required (quality, quantity).

- A newer marketing channel is the so-called "safe food" sector. To receive the rewards (higher process) for this, farmers work through cooperatives and sell to the more top-end food restaurants, hotels, schools and canteens.
- More and more (very) small scale farmers are leaving the agricultural sector and look for jobs in factories and cities. The industrial sector is growing strongly, creating a high number of jobs, even in peri-urban and more rural areas.

2.2 Problems

Small family farmers in Northern Vietnam produce mainly for self-subsistence. The total amount of land per family is generally low, sometimes not even providing enough for the families needs. But even those families have to sell some of their production as the need for cash for other services is there. They, and the farmers having a marketable surplus, mainly market their product on local markets, being it their village or commune. Their knowledge on the needs and wishes of their other, more distant costumers is little and knowledge about what potential new costumers want is lacking. Therefore, reaching new markets is a problem for them. Their knowledge on (urban or (inter) national marketing in general is very poor, like that of the collectors and middlemen. But because of the nature of their production (small quantities) they don't need to know more.

On a larger scale, the following problems remain:

- The legal framework for the market economy improved a lot, with the Vietnamese Government keeping the private sector under control. But, measuring with international standards (WTO, EU and US), fails to introduce an effective mechanism to protect the full rights of free enterprise, and is unable to create a sound, fair environment for competition.
- Although all agro processing sub sectors have experienced growth in average employee numbers (specially in the fisheries, wood products and tea sub sectors), the development of the agro-processing sector can be categorized as being at a low level compared with other sectors.
- Many of the companies involved in the agro-processing sector do not have advanced marketing systems, nor do they have much knowledge of the scope of their markets or even the type of competitive environment that they are operating under. According to many, marketing is categorized as being passive for many enterprises, with the firms selling mostly to local customers or to private traders only. But looked at the scale of production, their decisions are not that irrational, and behaviour not that passive.
- The supply of adequate quantities of raw materials remain a problem for sectors like the sugar cane and forestry sectors and sectors attempting to compete in high-quality markets.
- Small and medium firms (and larger firms to a lesser extend) have inadequate information about the markets, which they operate in. Often, demands of the costumers are not well known, making firms unable to choose the right products to sell in the market.
- Limited access to credit is possibly the single greatest constraint facing private agro-processing firms in Vietnam. Credit provision is heavily slanted towards the state-owned enterprise sector in agro-processing. But, access for private rural industries (especially small and medium scale industries) to credit is now

improving. The government seems to agree to create a more level playing field between private enterprises and state owned enterprises when accessing credit.

- Agro-enterprises have difficulties in obtaining a technically suitable site from which to undertake their operations. This is more pronounced for large firms, which require greater amounts of land and generally have to deal with local authorities when renting land. One of the key reasons behind this difficulty is the fragmented nature of land allocation in rural areas. In order for firms to obtain land use rights they will normally have to deal with a large number of landowners to whom agricultural land has been distributed. The difficulties in obtaining suitable land could lead to many industries relocating away from rural areas toward urban areas with relatively easier land use provisions.

2.3 Possible solutions and perspectives for the future

The goals set by the Vietnamese government for 2006–2010 are to improve the quality of agricultural production and strongly develop rural economy, satisfy domestic demands and increase export turnover. To improve production efficiency, linkages between industry and agriculture should be intensified. In order to achieve the above-mentioned goals the main tasks are as follows:

- Develop high-productivity and high-quality plant- and livestock varieties, contributing to the reduction of production costs and improvement of agricultural product competitiveness.
- Intensify quality management. Review, supplement and develop standards for product quality, regulations on product labels and trademarks, etc. Organize examination and inspection of product quality to protect the consumers and guarantee the prestige of Vietnamese agricultural and forestry products exported.
- Low-productivity areas are to shift to other crop cultivation or livestock rising, increase intensive farming and productivity. Continue the implementation of field de-fragmentation.
- Diversify fruits and vegetables typical of Vietnam, particularly fruit specialties; intensify food and foodstuff hygiene and safety, and increase organic products.
- Process high-value products and develop product trademarks.
- Develop large-scale specialization areas closely linked with the processing industry, gradually industrialize and modernize agriculture and rural areas.
- Well organize the agricultural extension network at grassroots, guide farmers to develop their production in accordance with plans, apply scientific and technological advances to cultivation and livestock raising.
- Intensify the development of cooperatives and farmer groups.
- Support the development of various forms of linkages between farmers and enterprises and scientists in production and sales through contracts.
- Well provide market forecasts and information to farmers and enterprises. Organize smooth and effective market and production information dissemination, including information collection, analysis, research, particularly forecasts and guidance in implementation. Develop strategies for big, long-term and reliable markets.
- A contract system can be effective for small family farmers if it represents their interests. It should be regarded a partnership providing a win-win situation for both parties, sharing the risks. Key factors providing a better 'contract'-environment include:
    - Facilitation of linkages between farmer groups and companies
    - Support for registration of trademark and strengthening trademark protection.
    - Strengthening procedures for safeguarding the integrity and value of contracts

The Ministry of Agriculture and Rural Development (MARD) have recognized the importance of the rural industry and agro-processing sector in the development of the rural economy. MARD has identified the development of the agro-processing sector as an essential component of the development of the agricultural sector in coming years, because:

- The development of rural industries producing labor-intensive products is a vital component in absorbing rural labor surplus and reducing the flow of economic migrants from rural areas to already overcrowded cities.
- The development of rural industries has the potential of increasing rural income levels relative to urban incomes by increasing the percentage of rural household income gained from off-farm activities.
- The development of agro-processing industries in rural areas can have a positive effect on adding value to products of the agricultural sector and in increasing and diversifying demand for agricultural products.
- Increases in rural incomes and rural production surpluses can lead to increased levels of available capital in the form of rural household savings. These savings can be mobilized as investment in small to medium scale agro-processing enterprises.
- Agro-processing can be an engine of general industrial and export development in developing countries such as Viet Nam. It can also lead to the development of export markets, which can then lead to the progressive diversification of industry and exports into other sectors such as textiles, engineering and electronics.

See annex 4 for consulted documents and websites.

3. Stakeholder analysis; summary of the interviews

During brainstorm session with the five VECO Program Officers, the stakeholders for this study were determined. After having doubted to choose one or two products in order to analyze certain commodity chains, it was decided to analyze the Vietnamese marketing situation according to the type of market (local, urban and international markets). After individual brainstorming and group discussion afterwards, the following stakeholders were identified:

- Producers
- Collectors/ middlemen
- Processing units/ factories
- Traders/ exporters
- Consumers
- Policy makers
- Research & Development
- Service providers/ technicians/ extension workers
- Non Governmental Organizations

The following is a summary of the trends, problems and solutions indicated by the stakeholders. Please take into account that all these are summaries of personal perceptions of all the stakeholders mentioned above, not realities. Many problems might be exaggerated or strongly biased. Detailed information about what was said by each specific group can be found in Annex 1. When opinions are related to one of the stakeholders only or when conflicting opinions exist, it will be mentioned.

3.1 Trends

Small family farmers mainly produce for self-consumption. Many of these families only sell very small quantities, just enough to foresee in their first need for cash. These products are mainly poultry and pig meat and to a lesser extend cash crops, which are mainly sold on local markets. Small family farmers sell their products as well to middlemen and collectors to reach more distant markets. Knowledge about prices, consumers' demands and quality indicators used by collectors and enterprises are very low.

Relations between actors are very much stable, meaning that once relations are established, little change is seen. Few people look for new markets or opportunities to sell their products with higher profits. Actors deal with each other on an individual and familiar basis. Relations are not limited to business only, making it difficult to negotiate good prices. Stakeholders having relations and doing business with larger collectors and companies have much more knowledge and skills on marketing issues and are innovative in the way they do business (via Internet) and with whom they do business (foreign costumers).

Specialization of farmers, farmer groups or complete villages or areas is visible. Depending on climate, geography, soil conditions, social- and marketing aspects, one product is focussed on and techniques and marketing chains are developed. At the same time, farms intensify and grow larger as high skilled, well qualified farmers try to rent or borrow land from others, while others might work elsewhere as labour migrants (30 to 40 % of the annual income is acquired off-farm). Within larger groups of farmers, individuals again focus on certain aspects of the production chain, such as seedling production, fertilizer supply, breeding techniques or conservation facilities. These trends are mainly visible in well-developed areas like the deltas and, to a (far) lesser extend, in the mountainous areas, where VECO-Vietnam is working.

Relations between producers and processors are sometimes fixed in contracts. Agreements about quality, quantities and sometimes-even prices are made and processors or companies might support farmers with technical advice or inputs. Too often though, the contracts are not followed by one of the parties (farmers don't follow the technical and quality guidelines, companies bargain on prices).

As Vietnam has overcome food shortages and established food security for the majority of the country by focussing on the quantity of production in the past, the focus (on national level) has now shifted to increase quality of agricultural products (in VECO's project sites though, food security is still a problem for many farmers). High quality products have to be produced to be able to find good markets.

Exporters and researchers argue that although total market share is still low, organic and fair trade products are becoming more popular for national and international markets.

Farmers start to create cooperatives and farmer groups to collaborate in production, processing and marketing. These days, farmers start to process raw materials as it can be relatively easy to execute a first (two) step(s) of processing. Again, the above trends are mainly visible in the deltas and to a lesser extend in VECO's project areas. Added value will rise significantly and companies are interested to purchase products like this. The Vietnamese government is promoting this trend.

3.2 Problems

- Most stakeholders have a very narrow view on (potential) markets.
- Farmers focus on local markets as they only produce small quantities.
- Collectors and middlemen have often fixed connections, leaving big potential unused.
- Farmers don't now the needs and requirements of (potential) costumers. They don't know the demand and produce at random.
- Farmers complain about low prices
- Farmers produce small quantities
- Farmers have small plots
- Many agricultural products are produced in remote areas, far away from processing factories
- Transportation costs are high, due to large distances and road conditions
- Infrastructure (roads, irrigation canals) is bad
- Farmers offer a wide range of products
- Supply of agricultural products is irregular
- Quality of agricultural products is low
- Little trust between stakeholders about the quality delivered and the prices paid. Contracts are often broken without further consequences.
- Collectors and middlemen complain about the high risks they face because of tax fluctuations and traffic fees/ tickets
- Farmers don't process raw materials into an added value product.
- Stakeholders are facing a lack of cash and funds. Collectors and companies cannot buy agricultural products without enough cash or before having found another actor to sell it to.
- Farmers have little capital to invest in inputs, technique and processing equipment.
- Farmers often don't follow the agreements set in contracts, resulting in lower quality, unsuitable products or complete refuse of delivery.

- Fluctuations between demand and supply. Farmers (and collectors) offer smaller or bigger quantities than the companies demand for.
- Establishing and maintaining good relations with customers is difficult.
- Vietnam has a bad reputation when it concerns agricultural products hampering the export markets.
- Commitment of farmers in cooperatives and farmer groups is low.
- Many stakeholders stress that little marketing information is available, but radio and TV does provide daily information on this
- Extension services from the government focuses on technical improvements and does not pay much an attention to marketing.
- Knowledge on marketing and commodity chains in general is limited. Few studies are done and research is too theoretical.
- The impact of Vietnam's access to the WTO cannot be predicted and it is therefore very difficult to anticipate on this. But it should be a reason for concern.
- Lack of property rights on seeds and other agricultural products make foreign investors hesitant to invest in Vietnam.
- Some exporters and traders mention that China and Thailand are taking over the Vietnamese markets with their products. If Vietnam doesn't anticipate and improve and increase production, the domestic market for agricultural products might be taken over by these countries soon.
- Expensive airlines (lack of competition) hamper export
- Relations between actors are often friendly, blocking a business-like approach.

Relevant differences in points of view between the stakeholders

Unlike described above, some stakeholders know very well the demands of the consumers and the methods to find this out. Larger and mainly exporting companies have much better marketing skills, know many stakeholders in the commodity chain and use modern techniques for both production and marketing.

Farmers complain about the low prices they get paid for their agricultural products. They feel very dependant on the middlemen and collectors and think they set prices by themselves, increasing their own profits. The middlemen and collectors paying these prices though, argue that they have high costs and high risks, limiting their own benefits. They say that because of the low quality of the products, companies can't pay good prices to them either. If this kind of exploitation really exists, should be further investigated.

Companies have indicated they would be interested to receive processed goods or added value products. One of the reasons farmers are reluctant though, is because they don't know if it is really beneficial. Will the extra labour and investment be rewarded?

3.3 Possible solutions and perspectives for the future

- Introduction (via innovative farmers for example) of new techniques and varieties will make farmers change once the evidence for improvement is there
- New market outlets (organic, fair trade, domestic, export) are emerging and have potential
- Improving infrastructure (which is a current focus of the government).
- Diversification of crops nation-wide and specialisation on farm or village level is a good opportunity for many farmers
- Collaboration of farmers in cooperatives and farmer groups could provide the opportunity to farmers to upscale production and strengthen their position on the market. It should be clear though, if farmers can really produce for markets or that they are still involved in subsistence only. And when organized, can the extra profit farmers gain overcome the additional costs of the farmer group or cooperative?
- Improve quality and formulate quality standards and a control mechanism.

- Branding and labelling of products
- Increase the added value of the agricultural products by starting to process the raw materials
- Create and maintain a dialogue between the stakeholders, which are involved in a same commodity chain to better understand each other's needs and demands
- Deliver a constant and stable supply, while increasing the volume
- Processing plants and companies should be situated close to the production areas
- Good, skilful farmers should have the possibility to grow and extend their activities so they can provide well-paid-work for others
- To increase markets access for small family farmers, commodity chains as a whole should be developed, providing win-win situations for all stakeholders involved
- Research on marketing should be practical and demand-driven (by farmers, collectors, companies)

Relevant differences in points of view between the stakeholders

The major difference in opinion here is about the collaboration of farmers in cooperatives or farmer groups. Although the 'Research and Development', as well as the 'Policy Makers' and 'NGO's' have the idea this is the future for small family farmers to increase their market access, farmers are very reluctant. This is in principal because of negative experiences in the past, when management was poor and too top-down. Thereby, farmers are aware that it is difficult to agree with all participants in order to come to decisions. High costs and related doubts about the benefits it will gain are a last cause of reluctance. It will be essential for future farmer groups and cooperatives to feel the need and see the benefits of creating such organisation themselves.

One solution (and trend) mentioned above is scale enlargement. This means merely that farmers who are not doing well, rent or sell their fields to a farmer who does well (better skills, more money to invest). By some stakeholders (research and development and policy makers), this is seen as a solution for improving rural economies (those big farms will generate labour for poorer families). Although small family farmers continue to exist (after a 'natural' selection), involving them in markets will be a different task then.

3.4 VECO's role (according to the stakeholders)

- Support farmers with technical- as well as administrative aspects of the production in order to help them understand the costs of production and the minimal selling price to make profit on their products.
- Provide information on the functioning of markets and the role and possibilities of farmers in this process. Provision of market information to the farmers on prices paid by different collectors, middlemen or traders and transport facilities.
- Acting as a 'honest broker', VECO should link farmers with companies and commercial enterprises. VECO should intermediate between them in the negotiation- and execution phase, helping farmers to follow the technical itinerary and make the companies and commercial enterprises follow their promises.
- Advise and assist in the creation of farmer groups and cooperatives. Develop and strengthen these organisations to make them competent and able to participate in markets (management and marketing skills more important than technical skills).
- Execute in-depth market studies or establish relations with research organisations that provide detailed and specific market related research.
- Work intensively in a few communes or districts and develop commodity chain (not only some aspects of it, but the whole).

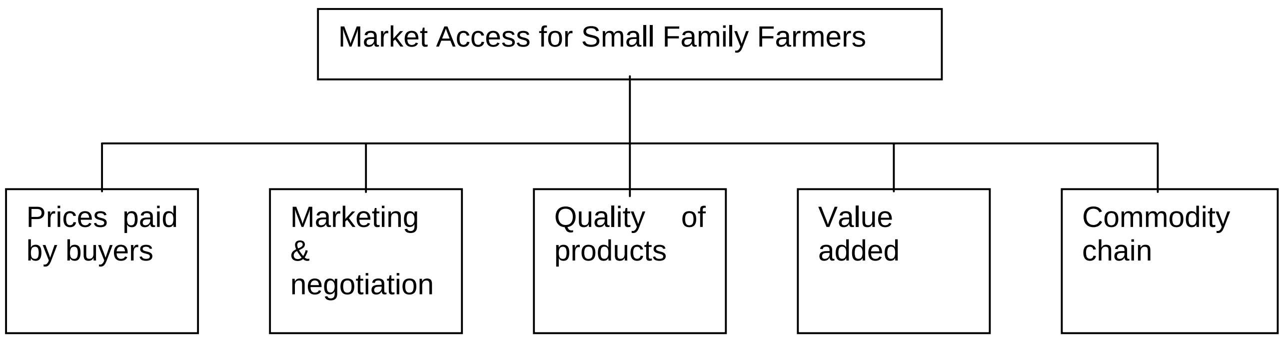
4. National Workshop; Building a key factor tree and prioritising clusters of key factors

4.1 Key Factor tree

The National Workshop was executed during one morning with 16 participants of whom only seven were outsiders (see Annex 2 for list of participants). The results obtained from the literature study and interviews with stakeholders were analysed and the 37 key factors were found. They were divided into five main clusters (of key factors) and presented in the beginning of the day. The clusters are the following[1]:

- Prices paid by buyers
- Marketing & negotiation
- Quality of products
- Value added
- Commodity chain

The first objective for the morning was to create a key factor tree. The key factor tree gives the relation between different key factors. Because of time constraints and of what was found during earlier analysis, this was the starting position of the exercise. Thus the key factor tree already looked like this:



The participants were given the task (split up in groups of 5 or 6) to determine the relation between different key factors within one cluster (find the cause-effect relation) and add missing key factors if necessary (12 key factors were added during the workshop). The findings of this are visualized in Annex 2. The key factor trees as presented below are again reflections of individuals and cannot be taken as the real situation.

Prices paid by buyers

Analysis of the results show us that in the cluster 'prices paid by buyers' the low prices that farmers get from collectors or middlemen and that collectors and middlemen get from companies or processing factories are the main concern. Because of a dominating middleman in the group (and the absence of farmers), this cluster is very much analysed from his point of view. The results should therefore not be taken as the opinion of all stakeholders. The three key factors that cause the low prices paid by buyers (in this case middlemen to farmers) are therefore mainly reasons why the middlemen can only pay lower prices to the farmers.

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[1] Cluster 'prices paid by buyers' and 'Marketing & Negotiation' where analysed by a trader, an exporter, a MARD-officer and two VECO staff, while the other three clusters were analysed by a farmer, an employee from the Institute of Agricultural Land Planning, a CIAT Program Officer, an Officer from the Department of Economics of Yen Lap District and two VECO staff.

A farmer present at the workshop, argues that farmers are very dependent on the buyers as they have barely no choice then to sell their products for the price that is offered for it, because they cannot afford to wait. Many farmers, especially the poor ones, often need cash immediately. To a lesser extend, the quality of their products will decrease rapidly after harvesting (as storage facilities are often absent or of bad quality). The farmer indicated that she understand very well that both farmers and middlemen want to sell their products when they get the best prices and that middlemen want to make profit as well, rather a high then a low one. Finally, farmers often don't know any other potential buyer.

National Workshop. Participants create a key factor tree.

Marketing & negotiation
Two main issues can be distinguished here. First of all, skills and knowledge in marketing and negotiation is missing for many stakeholders. For many, especially farmers, it is a new area in which they haven't been working before. Very little information on markets and market techniques is available for farmers. Government's extension services are still focussing on techniques and technical training and only in recent years, international NGO's started to work on it.

Secondly, farmers' negotiation power is limited because of the way they produce agricultural products. Many farmers produce for both self-subsistence and for markets. But the products they market are shares or sometimes even a 'left-over' of their self-subsistence production. It can thus be understood that the number of different products are high and quantities low. Taking into account the irregular supply as well, makes bargaining and negotiation power very limited for the farmers.
Because relations between farmers and middlemen are often stretching beyond business, many find it difficult to negotiate for better prices, as they know they are as well socially related.

Quality of products
This cluster relates to the fact that much of the farmers production is still of such low quality that it hampers (urban, national and international) market access or limits the choices that farmers have on how and where to sell it. First of all this is caused by the low level of technology of the producers. They often don't know how to produce higher quality products. Technical skills and training is simply lacking or farmers cannot afford the purchase of equipment, inputs or varieties needed to deliver higher quality. In most cases though, farmers don't have to know how to improve quality, because they are involved high demanding markets. It is not relevant for their situation to improve quality as they are selling to local markets only, where quality as they produce it, is accepted.

A second matter is the fact that quality has never got much attention. Only since recent years, Vietnam has reached a level of national food security. The minds of many farmers are still focussing in quantity because of the above-described reasons. But this is changing now.

Value added

Farmers often sell their products as raw material, without any added value. A main constraint in this is the lack of cash to invest in technical equipment and training for farmers. Some of them have indicated to be interested to do so although the majority of the producers have the feeling they are not able to it, because it is not their habit and 'tradition'. This is one of the reasons as well that few farmers are innovating or experimenting with adding value to their products. Next to that, the lack of insight on the functioning of markets and the demand of processing factories and consumers is not triggering the producers to change something.

The main question should be if processing will actually add value to a product and if the added value is enough to compensate for the investment the farmer makes. A farmer said it can be very interesting to add value, but the main problem is the proper equipment they need to do so. The cash and funds for that are lacking. Often, other natural resources used for processing (water, firewood) are difficult to obtain. It can sometimes be more efficient to have good storage and sell your products a couple of weeks later. Even improving quality can be result in more benefits. Processors though, are interested in processed goods from producers under the one condition that it fulfils their quality standards.

Commodity chains

The final cluster is related to the small and unorganised commodity chains that exist. Small family farmers who are involved in markets often sell their produce on the local market or to the local middlemen. Rarely, commodity chains for small family farmers are more extended or more complex than this.

Collaboration between stakeholders is often weak. Most deals are made without any contract or preliminary agreements. Only after harvesting, farmers start to think of where they can sell their produce. The first middleman around then asks the price he wants and farmers will often agree to sell. Although signing contracts becomes more and more a practice, the execution remains troublesome. Stakeholders don't bother breaking agreements when conditions are better elsewhere or when higher benefits can be obtained by selling production to somebody else. One of the reasons is that in Vietnam, contracts are seen as agreements, which are still negotiable, not being as fixed as they are in Europe. This generates a lot of distrust between stakeholders and hampers future cooperation and the intensification of collaboration.

4.2 Priority Ranking

The participants were asked which cluster of key factors has and will have the biggest impact on market access for small family farmers in Vietnam. By giving three point, they addressed a high impact of that particular cluster on market access of small family farmers. Two and one points were given to other, but less important clusters, leaving two clusters without any points. Because VECO staff was present in large numbers, only two of them were invited to participate in the ranking exercise. In total, seven persons gave their opinion, resulting in the following:

		Cluster	**Score**

Considered most important....	1	Commodity chain	16 (1+1+2+3+3+3+3)
	2	Quality of products	11 (1+1+2+2+2+3)
	3	Value added	9 (1+1+2+2+3)
	4	Prices paid by buyers	3 (3)
Considered least important....	5	Marketing & negotiation	3 (2+1)

Discussion

The first thing to notice is the small number of stakeholders that was present. Only one farmer was present, being a modest lady, by times not able to counteract the statements of the trader and researcher in the group. The key factor tree as presented above and as it can be seen in the annex must therefore be taken as a prejudiced one.

The high score for the 'commodity chain' clusters does not necessarily mean that it is the most crucial for market access of small family farmers. As the group was small and divers, making clear and harsh statements was difficult, like giving high points to clusters that give a strong point of view. From that perspective, the clusters with the highest score are clusters that are relatively safe to vote for, as they are quite neutral and don't cause any conflict.

One very remarkable finding in this context is the fact that the one farmer participant gives three points to the cluster on (low) prices paid by buyers[2]. Different from the results of the ranking exercise, it can be expected that prices paid by buyers (trader and collectors to farmers) are generally low and this is a main concern of farmers. Traders want to make profit and will try to maximize their own profit, meaning paying farmers less for their agricultural products.

National Workshop. Participants during discussion.

4.3 Afternoon session (VECO staff only)

In the afternoon, VECO staff was asked to determine to which cluster the solution and trends, derived from stakeholders interviews and literature, relate. Finally, derived from remarks from different stakeholders, suggestions for VECO's future role are given to increase 'Market access for small family farmers'. The following reflects the essentials of this analysis:

2 The methodology is only focussing on the total score of each cluster, while it would have been important to analyse whom had given points to which cluster and why.

Commodity chains

Trends: Although many small family farmers are still self-subsistent, they sell small quantities at predominantly local markets. Larger, commercial farms are on the rise, especially now Vietnam is becoming more and more an exporting country and large supermarkets are coming into existence (as well as organic and fair trade).
More and more farmer groups and cooperatives are created to collaborate in production and sales in order to produce increase volume, improve uniformity (attractive for companies) and better defend their interest. As a cooperative, they can cut out the middlemen from the chain and combine common facilities like storage and equipment. As processing is less and less done by the state agencies, there might be space for cooperatives and farmer groups to partially join in this task.

Solutions: Commodity chains as a whole should be developed, providing a win-win situation for all stakeholders involved. Better communication and intensive dialogue should make stakeholders first of all aware of the demands from consumers' site, but as well the situation in which other stakeholders work and the difficulties they face.
Bringing processing plants closer to the production area is an often-mentioned solution. A constant, stable supply should be guaranteed by the farmers and these may consist as well of good, skilful farmers that extend their farm seizes and like this, provide jobs for other farmers.

Quality of products

Trends: Because a major shift is visible in Vietnam from producing high quantities towards producing high qualities, farmers or even whole villages are specializing in certain products. Individuals can focus on (part of) the process and produce higher quality, more efficiently.

Solutions: Introduction (via extension services and innovative farmers) of new techniques and varieties will make farmers change their practices. Quality standards and a control mechanism should be formulated together with the stakeholders in a chain. Specialisation of farmers or villages is a good opportunity to improve quality.

Value added

Trends: Very slowly, farmers and cooperatives start to process raw materials to add value.

Solutions: Introduction (via extension services and innovative farmers) of new processing techniques as to increase the added value of the agricultural products. Branding and labelling of the processed (or non processed) products will increase added value even more.

Prices paid by buyers

Trends: Contract farming is on the rise as well. Improving infrastructure will be a focus for Vietnam in the near future, eventually reducing transportation costs and the increasing access to markets.

Solutions: Farmers are in need of support when they sign contracts with each other. Credit and funds have to become available for all stakeholders, from farmers to companies.

Marketing and Negotiating

Trends: Essential here is the situation that farmer groups and cooperatives are on the rise so collaboration in production and marketing will be more eminent in the future, providing participating farmers better negotiating power. The government is supporting this trend.

Solutions: Collaboration of farmers in cooperatives and farmer groups can be very interesting for small family farmers. They will have the opportunity to upscale production and strengthen their position of the market. Farmers' initiative should be highly supported, as farmers themselves should ideally create these groups. Capacity building on (financial) management and marketing topics is needed to strengthen the cooperatives. Specialisation on farm or village level should result in the production of lucrative, in-demand products.

VECO's role in the above could be to continue to strengthen the extension services on both technical issues (new or adapted techniques are always needed) as well as on marketing- and financial management issues. The extension services at its turn, can train farmers on these issues. An important task for VECO is to strengthen farmer groups and cooperatives. VECO should facilitate and assist to improve the management capacities of their organizations, but more important, increase their bargaining power by improving their negotiation skills.

VECO can increase small family farmers' access to markets as well by helping farmers to analyse market chains. In collaboration with other organisations, institutes or universities, VECO should execute in-depth, but practical, farmer-driven research on specific market chains (market chain analyses) and then help farmers to improve their positions in that chain or assist the farmers in choosing new product.

As obtaining credits or funds is still a major problem for many different stakeholders, VECO could work on the institutionalisation of processes or facilities that can provide credits or loans. This provides stakeholders with the possibility to be more flexible so they can better anticipate on market prices.

National Workshop, explaining the key factor tree

5. Conclusions

In Vietnam's agricultural production, a shift in focus has taken place in recent years from a high quantity- to a high quality production. National food security has been established and therefore attention should be paid to produce high value (high quality) products, as Vietnam is increasing their agricultural export markets, where standards are high (as well because of the upcoming WTO-access).

Therefore, diversification (nation-wide) of agricultural products and specialization on smaller scale (village, commune, district) is visible. Depending on geography, climate and market potential, complete villages, communes and districts start to specialize in one product. Forms of collaboration between producers are established (cooperatives and farmer groups) to increase efficiency and further specialization of individuals on certain sub-topics of the production process (input supply, seed production, pest management, storage facilities, etc.). Although occurring throughout the country, this is now mainly happening in the Mekong and Red River Deltas.

Small family farmers often lack behind these developments. At the moment, VECO's target group remains mostly involved in production for self-subsistence farming. They do get increasingly involved in markets, but these are often low profile, local markets. The key-factors determining small family farmers' market access can be categorized into five clusters. Underneath the five clusters as prioritised (by the stakeholders) on the impact they have on market access of small family farmers.

1. **Commodity chain**
2. **Quality of products**
3. **Value added**
4. **Prices paid by buyers**
5. **Marketing & negotiation**

According to the participants of the National Workshop, the major problem is the small and unorganised commodity chains. Good business relations between stakeholders are often difficult to establish and transparency and trust about prices and quality is low. Competition between different middlemen and collectors is low, so prices paid to farmers are low. Processing factories are located far from the production areas, giving farmers fewer options to sell their products. The development of complete commodity chains should improve the situation. All stakeholders should open the dialogue try to understand the needs, demand and difficulties of the other stakeholders.

Improving quality is essential to market access of small family farmers because it will create many opportunities in today's world, where demands are high. Thorough understanding from farmer's side on the needs and possibilities of quality should create a demand for more training and a standardized quality control mechanism (to avoid subjective judgement from buyers (middlemen, collectors and companies).

The third most important key factor is related to the low added value of farmers' products. Because of a lack of technical knowledge, cash to invest and motivation to innovate, farmers remain selling raw materials to traders and companies. But as there is a demand from processing companies and traders to receive processed goods, farmers should cease this opportunity and add value to products themselves. For every case it should be studied carefully, as some farmers say it is often not profitable to do so.

Prices paid by buyers are often low because farmers sell their products in peak season. Supply of the specific agricultural product is high and prices drop. But because the need for cash is high, farmers cannot allow themselves to wait. Moreover, proper storage facilities are lacking what makes the quality of the products decline rapidly for the ones who would have enough cash to wait. Contract farming is seen as a solution for the problem, in which agreements on (minimal) prices, qualities and quantities are made.

The cluster regarded as least important for market access of small family farmers is 'marketing and negotiating'. For many farmers, marketing is limited to the local market. Few of them, like many middlemen and collectors have the possibility and need to look for new markets to sell their products, as volumes remain low. A bigger problem for farmers though, is the fact that their negotiation power is so small, because of their way of production. Farmers often have very limited farming grounds, where they grow different crops. This results in very small quantities that can be marketed. Because of theses small, irregularly produced quantities, farmers have very little bargaining power compared to the buyers of the products. The creation of cooperatives, which is ongoing at the moment, unites farmers and gives them a stronger negotiation position.

For the following, it would be interesting to further investigate if and how exactly, VECO could play a role in increasing market access for small family farmers. VECO's role in the process of increasing market access for small family farmers should primarily focus on the strengthening of farmer groups and cooperatives. VECO should facilitate and assist to improve the management capacities of their organizations, but more important, increase their bargaining power by improving their negotiation skills. Furthermore, VECO should execute in-depth, but practical, farmer-driven research on specific market chains that can help farmers to improve their positions in that chain. Assisting farmers to choose a marketable product will help them as they often have little experience in marketing. A final role can be seen for VECO as creator of facilities that provide credits or loans to farmers.

Small family farmers are currently the target group of VECO. As can be read, their involvement in markets is limited and improving their market access needs lots of input and takes a lot of energy from many actors. Therefore, one should ask himself if the inputs and energy is used efficiently when invested in small family farmers? At this very moment, a major trend is visible of larger, more commercial farmers and agricultural enterprises that take over the agricultural production. Maybe, investing in those farmers who want to increase farm size and access new markets and do have the skills to do so, is more efficient than focussing on small family farmers? The basic question is if small family farmer have a future in more complex market systems? And if one doubts this, should VECO change its target group or its objectives?

Annex 1 Stakeholder analysis per stakeholder group

1. Producers

Interviewees: **Three interest groups (around 13 farmers each) in VECO Vietnam's project sites (Yen Lap, Son Duong and Lang Son)**

Trends

Meat (pig and poultry) was and is the main product marketed by small farmers. Pig meat is sold directly to collectors that come to the villages, resulting in little negotiation power, as quantities are small. Poultry was generally sold at nearby markets. Cassava is marketed occasionally. All other products (rice, vegetables, etc) are for private consumption only, used to fulfil the needs of the family only.

Today though, some farmers start to grow more specialized products like star anise (Lang Son province), due to newly introduced techniques. In Son Duong district, people start to move away from pig production and diversify production as well, Cassava being the main alternative. In Yen Lap district, fish production is on the rise (six farmers). As a result of VECO's intervention, about 20 to 30% of the farmers is marketing their produce with some sort of support from a cooperative or farmers group. Farmers don't indicate to do this more often in the future, though.

Problems

For the selling of these new products, farmers think they will still depend on local markets, individual consumers, collectors and middlemen. The low prices they are facing now is the main constraint to the farmers and they expect this to be the same in the future. Farmers see little progress towards an increased market access and lack a broader view of what market possibilities can be available in the future.

Solutions and perspectives for the future

For the future, farmers have intended to drop the production of poultry and focus on new, high value products like piglets, rice seed and star anise. The reasons for this are:

- The introduction of new techniques
- Examples of changing farmers around them
- The construction of new factories providing a possible market outlet for farmer's raw materials.
- Improved infrastructure will increase access to far markets

Diversification of products is best possible with the help of models and trials that trigger the interest of farmers, but the number of farmers doing so remains low, like the number of farmers that is convinced they can make a change in the future.

Farmers indicate they wish to collaborate (cooperative or interest group) in production. Up-scaling of products (both qualitatively as quantitatively) is something in many farmers' minds to attract collectors and increase bargaining power. A better market analysis should improve planning of production enabling farmers to finalize production before peak offer of product. Still, farmers have a limited and small scale thinking when it concerns expanding markets.

Farmers should invest time and money in increasing the added value of their products. By starting to process the raw material, products gain value and farmers can make better profits. Branding and labelling of the product or raw material is an important improvement as well when markets want to be concurred.

VECO's role
Support of VECO on technical and financial aspect of production and the provision of market information should increase farmers' position on the markets. Organizations and cooperatives work efficiently and produce a uniform, high quality product. Bargaining power improved and collectors and middlemen give better prices for their products (because of good quality).

2. Collectors/ middlemen

Interviewees:	**Mr. Dang Quang Hai, collector in Van Quan district, Lang Son province**
	Ms. Thong, collector in vegetables, Son Duong district
	Ms. Nhung, collector of beef, Son Duong district
	Ms. Nguyen Thi Ngoc, Director of Ngoc Hai. Ltd.
	Mr. Sam, collector/ processor of tea

Trends
Generally, collectors don't face to many difficulties at the moment. They determine the price for the farmers and are thus flexible to vary prices according to the prices they are paid for it by the processing factories (in general, 5% margin for collectors).

Vegetables are and will be booming in the future. They are obtained from individual farmers as well as other collectors by different means (brought to them by farmers, collecting at fixed points and with individuals). Sometimes, contracts are signed with farmer groups. This is preferred because the collector can already start to plan the distribution, as he knows the quality and quantity from previous experiences.

Criteria to buy products are the price/quality ratio. Often though, farmers do not produce different qualities, so no distinction can be made in price. The time of selling (compared to the peak season) is important as well. All collectors are bounded to a certain geographical area. Large quantities are always good. For selling, the one offering the best price gets it.

Collectors often have a variety of possibilities to sell their products. They have contacts with other collectors or middlemen throughout the whole country, but sell on the district markets as well. Personal relations (friends, relatives, connections) often form the basis for establishing trade between certain actors. Therefore, traded and collected products remain often the same throughout time, like the actors they are dealing with. Buying and selling is very small scale and on demand.

Few collectors have well-established relations with large companies to market their products. Those who have, add value to their products by processing their raw material. Their networks are more extended than the other collectors and they are better informed about markets and prices. They are the bigger, more professional collectors and have better knowledge and experiences in marketing. They store products and wait with sales till after peak production, when prices start to rise again. In choosing their partners they focus on reliability and financial capability. These collectors have more relations with other collectors and middlemen and group up for further sales of their products.

Problems
Scattered, small production by farmers (combined with the remoteness of the areas), imply high transport costs for collectors. Farmers' production is not specialized, resulting in a mix of products offered by one farmer. The quantity of these products is often low, resulting in low prices on the markets. Because supply quantities are irregular (surplus during harvest season and limited supplies out season) factories cannot be satisfied all year round.

The quality of the products remains very low. Farmers don't know how to produce quality products (but as well because of a lack of cash for inputs) but they do want to get paid 'quality' prices. Especially traders who are well integrated into markets express their concern about the low quality, because they are the ones in direct contact with the companies and know the companies requests.

Some other problems mentioned by the middlemen and collectors are:

- Relations between farmers and collectors are not always good as trust is low.
- Taxes are not fixed and fluctuate, leaving the collector with greater uncertainties and risks.
- Competition between collectors is driving up prices.
- Collectors face a lack of cash as they have to pay the farmers immediately for their products without having paid sold the goods to the factories.

Solutions and perspectives for the future

- Dialogue between producer and collector should create better understanding of needs and demand. Farmers should understand consumers demand. Quality standards should be developed in order to avoid misunderstanding between producers, collectors and factories in the future. Better follow up of contracts/agreements by farmers about the quality and quantity of the produce.
- Stable supply (quantity and quality) is essential. They should collaborate and produce in groups to establish this.
- Processing units close to the production areas increases the access to buyers and factories.
- Increased access to farmers and collectors to improve products and businesses. The loans should be based on the strategy and proposals of individuals and not on the property they have.

3. Processors

Interviewees: **Mr. Nguyen Van Nghi, Enter-oil Company, director of the Research Centre**

Trends

Enter-oil Company is focussing on the export of essential oils extracted from lemon grass. Having done this in recent years, the product is still popular and demand is foreseen to be high for the near future. Raw materials are bought (via collectors) from farmers whenever the quality is good enough for Enter-oil company to process it into high quality oils.

To be sure the right quantities and qualities, Enter-oil signs contracts with many of the lemon grass producers. They assist farmers as well in the development of the production area of the farmers (expansion and quality improvement).

All products are exported to Europe. Through the International Association of Essential Oils, the demand on the world market is known and can be anticipated on when we buy raw materials. We find our buyers in the same way (via internet). Because of a long history of trading, enter-oil Company has a lot of credibility with their costumers.

Problems

- Farmers have very little investment capital. Therefore applied techniques remains simple and primary production cannot be done by the farmers (they cannot buy the machines to do so).

- Enter-oil has little capital to prevent risks. When markets are bad (and prices low), we still have to buy the oil from the producers with whom we signed a contract.
- Thirdly, changing policies from the government can disturb our production as well. A change of focus from government site (construction of a sugar cane factory in Tuyen Quang) makes farmers change their crops, leaving us with problems in the acquirement of inputs.

Solutions and perspectives for the future
Sales is not a problem for the moment and even not foreseen in the future as Enteroil is controlling a huge part of the commodity chain. A diversification in production is foreseen for the future (Thanh Hao (Artemesia) and Nghe (saffron)).

Farmers remain essential to us as they provide us with the raw material. If their access to credit would improve, they could buy better seed and produce a higher quality product. The best they could do is to start to distil (first step in processing) the oils and provide us with a higher value product. Low interest loans should be available to them.

4. **Traders and Exporters**

Interviewees: Mr. Koen den Braber, Eco-link

Trends
Eco-link exports green tea (with different flavours added) to western countries. The tea is certified bio-organic and fair-trade. Three farmer groups of in total 30 farmers produce about 5 to 6 tons (1,5 ha) of organic tea. About 1 to 2 ton/year is sold. One farmer group is created by Eco-link, while the other two were created before. Eco-link has all the certificates to trade organic, fair trade tea. The requirements and criteria to do so are high and therefore they have an extended and strict internal control system to follow up the production of the participating farmers.

Eco-link signs contracts with the farmers about the methodology of production (following organic guidelines) and about quantity, quality and price. The last one is based on the farmers wishes regarding to what price they want to have for their product. Because prices paid too the farmers were so high in the beginning, farmers were not motivated to innovate and increase production under organic conditions. When prices were lowered, they had to innovate and find ways to improve the yield in order to get a certain amount of money from their land.

The consequences of the access to the WTO is still unclear. It is very hard to say what will be positive or negative aspects of that.

Problems
- It is very difficult to make farmers work according to the guidelines. They have to follow many rules and regulations, and when signing the contract, they all agree with it. Practice is much different and few farmers follow the instructions and guidelines completely.
- A second problem is the fluctuation in demand and supply. Farmers produce small quantities and are willing to increase production only when Eco-link can guarantee they will buy the total. But because of variable demand from (foreign) customers, they cannot. Eco-link cannot take up any loan or credit to buy the whole production at once and store it for later.
- Contacting and establishing good relations with costumers is very difficult but essential for good business. We face problems doing so. The whole sector is badly

organized. Good, reliable relations between traders, producers and companies do not exist.

- Vietnam has a very bad reputation for many agricultural products.

Solutions and perspectives for the future

- Opportunities are abundant in the organic and fair trade market. Demand in Europe and other foreign countries is growing, but even in Vietnam, demand is on the rise.
- The cooperatives and farmer groups that have been created last few years create a lot of possibilities. It is the only way for small farmers to survive; group up and sign contracts. But the commitment of the farmers is still a problem.
- China is more advanced in Organic tea. The Chinese pay high prices and the demand remains high. Therefore, Chinese companies are now looking for new supplies from (maybe) Vietnam.

VECO's role

NGO's (like VECO Vietnam) should focus on the collaboration between farmers and farmer organisations and enterprises. That is were long-term, stable, economic growth can be obtained for farmers. They should link up with commercial companies. NGO's could play the role of facilitator and help the actors to make, sign and follow up contracts. Farmers are often not aware what a contract means, what obligations and benefits are related to it. NGOs could help farmers (together with enterprises) to improve techniques and build on the relation between the actors. The NGO of the Future should be a "HONEST BROKER". VECO Vietnam should contact "Oxfam-wereldwinkel" and establish relations between farmers and the fair trade markets in the West.

5. Consumers

See literature research

6. Policy makers

Interviewees:	**Mr. Nguyen Van Ha, Department of Planning, MARD** **Ms. Chu Thi Hao, vice-director of Department of Cooperatives and Rural Development, MARD** **Mr. Tien, Department of Cooperatives and Rural Development, MARD** **Mr. Luong Van Tung, Head of Binh Gia (district) Economic Department**

Trends

In Vietnam agriculture in mainly practiced by small farmers. They focus on producing food for their own consumption. Only a very small number of better-off farmers sell their produce to urban centers. There is no definition for small family farmers and therefore a special policy is lacking. They are often categorized as poor farmers and so, fall under the National Program of Poverty Reduction. They receive training, extension and production assistance, favourable credits, free education and health. Concerning small farmers and marketing, there is no special policies. They are busy enough filling their own stomachs. Very few commercial farmers exist, although their numbers are on the rise.

At the moment, 100.000 production cooperatives exist already, mainly in southern Vietnam. They mainly take care of input supplies. In the north, farmers are still hesitant, because they don't see the need and benefits to do so. The government should not force them to start cooperatives as it should be farmers' own initiative. They have to see the benefits themselves and then cooperatives and farmer groups can work.

Consumers within Vietnam are getting richer and their demand for high quality products will rise, both in quantity and quality. Therefore, there is still a lot to win on quality improvement. Politics reacts to this and want large areas to specialize in certain cash crops (sugarcane, dairy cows, timber, tea), using a system of contract farming.

In MARD's 5-year plan, quality improvement is very important. It is foreseen to achieve this by improving production of commercial farmers. Introducing new, modern techniques and standardizing quality at national level should enable this group to significantly improve quality of production. Areas should specialize on certain products, depending on soil, climate and market situation. Enterprises, traders and producers will be gathered to better understand each other so better agreements and prices can be negotiated for both parties. Finally, the government will assist in signing contracts between farmers and enterprises to make sure the contracts will be followed. Marketing will be a main focus for MARD.

problems

- Because of their low knowledge and management skills, farmers still face difficulties marketing their products.
- Furthermore, they have poor equipment for storage.
- Decision-making processes in cooperatives or farmer groups are long and dynamics are low.
- Quantity is low and not uniform.
- Most farmers have small pieces of land. That's why quantities are often not sufficient to negotiate good prices at markets.
- For skilful farmers it is very hard to get access to more land. Selling and buying of land is still no option, so the question is how a farm can expand.
- High transport costs due to bad infrastructure. And because of this, small farmers are not triggered to start looking into large-scale marketing.
- Little to no processing is done to increase the value of the products.
- Difficult to attract middlemen because of low quantity and quality.
- Generally, negotiation skills are bad, but because of the low quantity and quality of their products, the prices will even be lower.
- Farmers don't plan their production. Therefore, products are often sold during peak season, when prices are low.
- At local level, authorities have not yet a plan on how to help farmers with marketing.
- Farmers are situated far from the marketing centres and infrastructure is bad.
- Farmers lack information on market mechanisms, policies and prices.
- Fluctuations of market prices.
- Farmers don't know how to present their products to the consumers. Labelling and branding is not practiced.
- Lack of trust between actors within the value chain.
- The quality of the agricultural products.
- Level of technology of farmers is low. They don't know how to grow HYV.

Solutions and perspectives for the future

- Integration into international markets, export and production as a whole will get a boost after Vietnam's WTO access. Farmers will profit from this, especially the big, commercial farmers, but even the small ones.
- Infrastructural improvements are now getting a lot of attention in Vietnam. This will improve marketing possibilities. At the same time, external products can reach remote villages, giving the opportunity to farmers to specialize in high value products for markets, while buying all food for the family from outside. In this way,

small farmers can shift from self sufficient to commercial farming, only with the creation of a good road.

- Some VECO intervention areas are close to China, where a huge market potential is waiting. There are many chances for selling agricultural and forestry products if farmers can produce in high quantities (chicken, pigs and buffalo).
- Remote areas can adapt their products to the bad infrastructural conditions. Some farmers in Ha Giang have been very cleaver by shifting to cow production. The cows walk to the market themselves and will be sold there, not facing any problems because of bad roads.
- MARD is providing market information in every province. By Radio, TV and extension staff, information on quantities, prices and quality is given to farmers, providing them with opportunities to make a better choice of which crop to grow and where to sell. This policy will be continued in the near future. Farmers need to know the consumers demand in order to anticipate on that.
- The introduction of good, well adapted varieties can increase yield significantly. A change in production towards high value crops like tea and other perennials and livestock in mountainous areas would be an improvement.
- Access to credit services is very important. MARD, together with the Vietnam State bank, tries to find ways to make it easier for cooperatives and farmers groups to borrow money.
- For small family farmers, it is very important to unite. There are two possibilities for that: 1) cooperatives or 2) farmer groups (less official, no internal regulations, no tax). These groups should have the purpose of improving production (both quantities and quality) and increase profits by improved marketing. By buying inputs and selling produce together, they can demand and offer larger quantities, what improves their negotiation position. MARD wants to stimulate these practices in the future, because it has seen many positive results. When created, the farmer groups and cooperatives should get training in marketing issues and meet with other actors in the chain to exchange ideas and explain the needs and requirements of each actor. Farmers should organize in order to survive. Cooperatives that control a whole commodity chain are doing better in general. By organizing production, do processing and trade, results are better. Cooperatives and farmer groups should gain power on a certain product on the market.
- Farmers should broaden their scope and produce for the national market, as the local markets are too small to sell all their products. Once the farmers start to specialize in certain products, quantities will soon start to rise and local markets will be satisfied quickly.
- At the moment, most processing plants are near the major provincial cities. When in the future infrastructure will improve (roads, electricity) and the skills and education level of the rural population improves, processing plants should move closer to the production areas.
- Some individual farmers are very active and innovative. These people have to be found and worked with. Make them aware of new techniques and processes via exchange visits. Farmer groups and cooperatives should exchange experiences and learn from each other.
- Private enterprises need the support of the provincial and district government in appropriate policies, easy to get needed papers, easy to get access to bank loans. The government should support private sector as much as they support state enterprises.
- Developing the number of big farms should be encouraged.
- Each district should focus on the expansion of several commodities only.
- The government should encourage and support state enterprises to practice contract farming.

VECO

- Veco's role could be to help farmers organize themselves to market their produce. They could assist in the relation with companies and help to improve the quality of the products to meet the needs of the buyers.
- MARD has many methods to help them, but they are now looking for innovative support to motivate them in creating cooperatives and farmer groups. We are looking for concepts and models on how to do this and VECO could be of help to experiment with this. Expand and disseminate models when proved successful.
- Strengthening management boards of existing cooperatives and farmers groups.
- Creating awareness among farmers on laws, benefits and reasons of organizing themselves (CARE, CIDSE and CIP are doing this very well at the moment).

7. Research and Development

Interviewees:	**Mr. Siebe van Wijk, Agriculture Economics Research Institute (LEI).** **Mr. Hoang Tuan Hiep, National Institute for Agricultural Planning and Projection**

Trends

At the moment small family farmers in Vietnam are only producing for self-consumption. Nothing or very little is left to market. If farmers have a small surplus, this is only sold at local markets, within their own commune or district (because infrastructure is often bad).

Because they are so little involved in markets, small farmers have not a clear idea about prices. Even their own production costs are often not known, let alone the profits they can make with certain products on different markets.

Large, commercial farms are on the rise. The current farms are too small to survive. Therefore expanding farm size is a trend that can already be seen and will only grow further in the future. The large farms will hire or rent land from less efficient farmers or farmers who have employment elsewhere and hire labour from outside. Good farmers are managing the farm, increasing land use efficiency.

Specialization goes hand in hand with increasing farm size and is ongoing in Vietnam. Villages or groups of farmers will focus on one product only, which is specific for the area. This increases quantities produced and thus attracts traders and collectors and favourable conditions can be created for both farmer and trader. Cooperatives and farmer groups can start processing the raw materials themselves. It will initiate a rise in local economies as a whole.

Within the specialization area, individual farmers further specialize and focus on certain parts of the production cycle (production of seedlings, input supply, fertilizer application, harvesting techniques, storage facilities). When specializing, farmers show an enormous innovation power. They experiment with new technologies and varieties and are very well capable of selecting profitable changes.

Farmers are not only living from on-farm activities anymore. They diversify their employment and work off-farm as well. Mainly men migrate to cities for seasonal jobs. On average, they earn 30 to 40% with these off-farm activities. Women take then care of the agricultural practices or land is rented out or leased to other farmers.

Processing of agricultural products is now mainly done by state agencies.

Problems

- Farmers have limited understanding of markets, especially international markets.
- Little market information is available. So even if farmers would understand markets better, it would still be difficult to anticipate because of the lack of information. They don't know what products are demanded by whom, they don't know quality standards and related prices and they don't know the requirements of their customers.
- Poor roads are the main constraint in getting market access for small farmers. Other infrastructure like telecommunication is as well seriously hampering market access.
- Extension by government and NGO's often focuses on techniques, paying little to no attention to the financial and economic situation that farmers are facing on the local market and what this results for their own profit.
- Specific field-oriented research on markets and market access of small farmers is lacking.
- Vietnam's access to the WTO will have a huge impact on agricultural production, but the exact effects are still unknown. This makes it difficult to anticipate on that at this moment.
- The property rights of agricultural seeds and products are not protected so far. No foreign company wants to invest in research or production when the result can be copied elsewhere without any restriction. The attraction of foreign investment is a tremendous stimulus for improving agricultural markets.
- China and Thailand are increasing their influence on the Vietnamese agricultural markets and it is more of a worry that they don't take over the VN markets. Therefore, the development of national markets should be a focus (and offer enough opportunities) for the near future.
- Few airlines are available in Vietnam to reach foreign markets, making it very expensive to export. It is therefore hard to compete as prices of Vietnamese products on foreign markets will be high.

Solutions and perspectives for the future

- For the future, farmers have to become involved in international markets. They have to be more knowledgeable about the products they grow and market. They can do this, but the government should help them by providing information on markets, prices and economics by TV, Radio and newspapers. Exchange of information by formal and informal meetings between different stakeholders should increase understanding of commodity chains and market principals.
- Good farmers should have the possibility to grow and expand their activities. Not all farmers are good farmers and to maximize efficiency it might be better for some farmers to give up their land so skilful farmers can maximize benefits.
- By improving roads and other infrastructural works, traders and collectors will come to a certain area and the market access for small farmers will increase automatically. Today's focus of the Vietnamese government is on infrastructure so within 10 years the situation will be much better.
- Farmers should organize themselves in interest groups to better sell their products. Signing contracts with traders and companies, fixing terms and conditions for their products will improve the farmer's position. Attention should be paid to the relations between the two parties. Nowadays, too often one of the parties involved, breaks the contract when conditions are more favourable elsewhere, not improving the cooperation and understanding between the parties. The more knowledge on marketing is developed, the more contracts will be signed eventually.
- The government should assist in marketing by developing whole commodity chains, not only one or two aspects of it. This implicates a selection of a few products only

to focus on. Then, a specialization of a village or area in a certain product is favourable and specialization of farmers will occur. In this way, production can be more efficient and costs can be reduced. In contradiction to what happened in the past, these cooperatives or interest groups, should determine themselves what they are interested in and choose the product of specialization. As a group, they should establish relations with buyers and companies to negotiate better conditions.

- Research should focus more on the integration of farmers in markets and the development of commodity chains as a whole. Let farmers decide what kind of research is needed. The research agenda should be set by them, bottom-up. Farmer Field Schools should talk with researchers and explain their problems. Research should be more integrated with the every day practice of farmers. Improvement of Education, Extension and research is crucial! Thailand is a good example of how marketing and agriculture should be integrated.
- Government should play a stronger role in quality check.

VECO's role
Provision of market information to the farmers. Market research in collaboration with interest groups and cooperatives will help the farmers to find a focus for their products. Internet access will be crucial in the orientation of farmers to market access. Finding prices and traders, contacting collectors and companies they will be able to better understand and participate in markets. Thereby it can be very useful to be involved in the establishment of interest groups.

VECO should be like a real estate: matching or linking different actors who can benefit from each other. Networking between actors who both see a benefit in collaboration. relation-building. Farmers with traders, collectors, companies, etc. VECO should facilitate this process and provide capacity building for the different stakeholders on marketing processes.

In the future, above described processes of specialization should be further elaborated. Contribute to the development of cooperatives and farmer groups. How to involve and motivate farmers in this process and what are favourable structures of organization. How to build capacity in management and how to guide the process of specialization?

8. Service Providers & Technicians

9. Non Governmental and International Organisations

Interviewees: **Mr. Dominic Smith, Agrifood Consultings & Asian Development Bank (ADB).**
Ms. Emeline Bergeron, Marketing SNV.

Trends
Government policy has changed from high production (yield/ha) to high value (income/ha). Focus on quality and not quantity. Food security is safe (reached) for the majority of the population, so now there is a switch to increase the income/ha.

Problems

- Recognize the limitations of markets. If farmers are really poor, when they don't have even enough to eat, it might well be impossible to involve them or increase their access to markets.
- Small family farmers have so far very little experience with processing their products. Prices for their raw products are low and small family farmers have not the confidence they can make a first step in processing. They feel it is not their job and they will not be able to do it. "It's not our job, we are just farmer's", is a often heard comment.

- Farmers are not organized. Production of a single farmer family is small due to small land size. Therefore, collectors or companies in need of the raw material have to contact many individual households to obtain the quantity of raw material they need. They cannot pay high prices and the small family households remain trapped as the marginalized group in the value chain. If producers could offer larger quantities to collectors or companies, they would have a much better position in negotiations. Small family farmers will never get anywhere.
- Relations between farmers and traders and collectors are often very close. They know each other for a long time and therefore relations are not strictly commercial anymore. Farmers have the feeling traders do not give the right price for their products, but because relations go beyond this trade (trader provides them with credit, brings children to school) and social interdependence exists, it is hard to discuss these prices.
- Costs of traders and collectors are increasing enormously because traffic police ask high prices with road traffic control. These prices are partially brought back to the producers.

Solutions and perspectives for the future

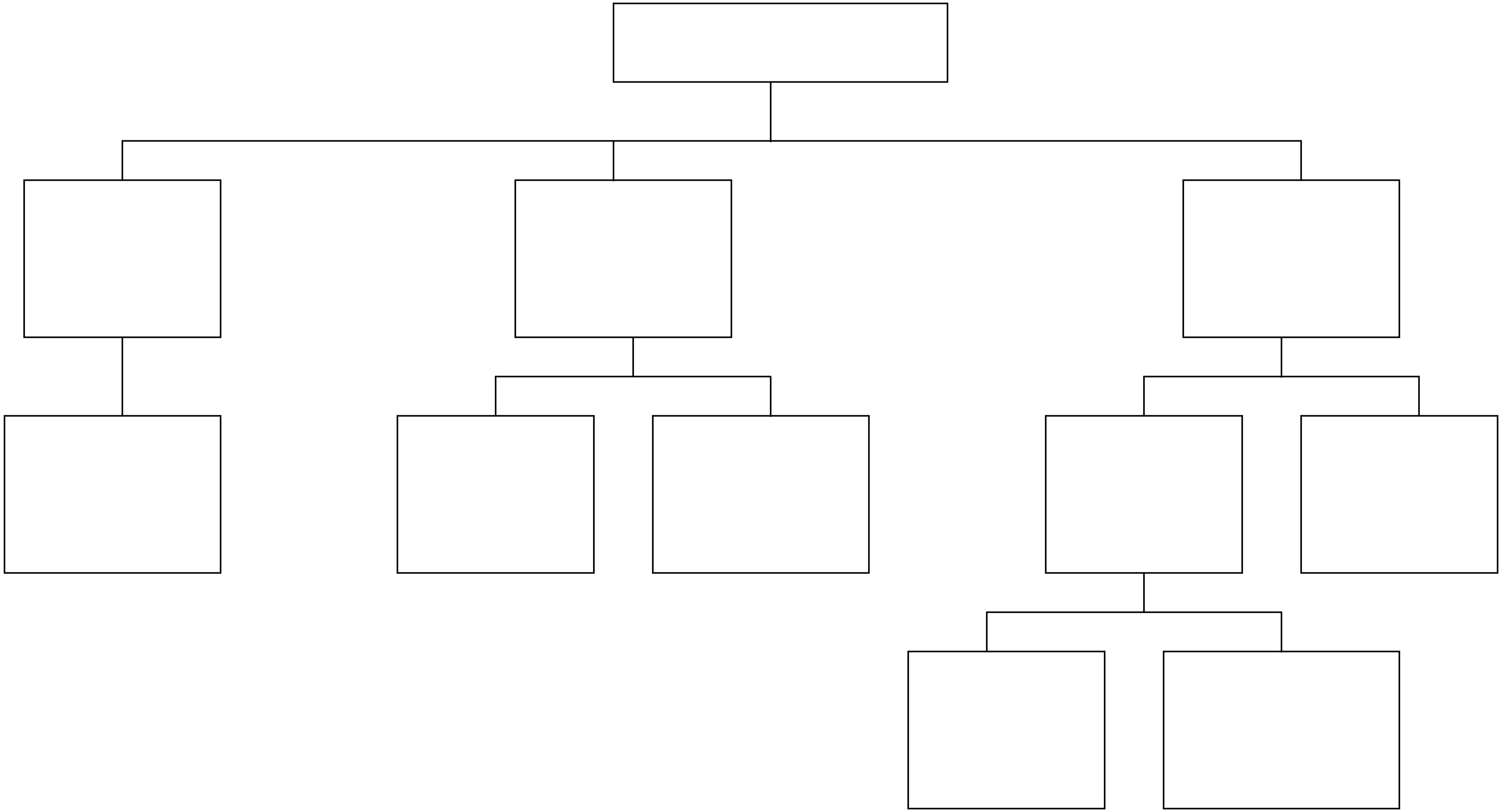
- Important for improving market access for small family farmers is thus to organize farmers and to increase quantities of raw materials. Collective action is needed to commercialise agriculture. Farmers should either increase in size or collaborate with others to obtain better positions in commodity chains, so they can get better conditions for the purchase of inputs, credits and the price of their product. Collective action will as well give individual farmers within a group the possibility to specialize, creating a more productive and efficient chain.
- Last few years, farmer initiated cooperatives are created throughout the country to make an effort in this. Farmer groups are created as well, not having the official status of a cooperative, but functioning with same or even better results. Essential is the feeling of ownership of such groups. When superimposed on them, not fully understanding the objectives and the functioning of the structure, it is likely to fail. The status, size and functioning of such groups is very important as well. When too big, decision-making processes can hamper the development of the group. Small groups might not be able to produce enough to obtain good bargaining positions.
- Contract farming between individual or groups of farmers and collectors and companies is giving both producer and buyer certainties and is likely to improve small farmers market access. Thrust and loyalty between the parties has to be firm to succeed in this.
- Branding and labelling is another means to improve involvement in markets. Creating a quality product that is specific for a certain area and has already undergone the a first processing step, may have very good possibilities to increase profits.
- Most products still have enough demand within Vietnam. The government supports export because of the foreign currency they will gain with it. Organic green tea and special rice varieties are products with potential for the international markets.
- To have any effect in commodity chain development, one should analyse and support the whole chain. One cannot limit one self to the producers only and neither to one group of producers. By creating linkages with other organisations, having specialities in other fields, it will be possible to cover and work on the whole commodity chain.
- Essential in achieving results, is the win-win situation for all actors involved. Actors in the chain will not work with poor farmers out of humanity. It should be worthwhile for both the small family farmer and the middleman, company or exporter to do business with each other.

VECO
It will be impossible to produce standard procedures for commodity chain development. When markets are already well developed (the delta's), limited market access might be more of a poverty- or land- problem for some farmers than that it concerns mal functioning markets. In-depth analyses should be done for every single situation, which could well be done by NGOs

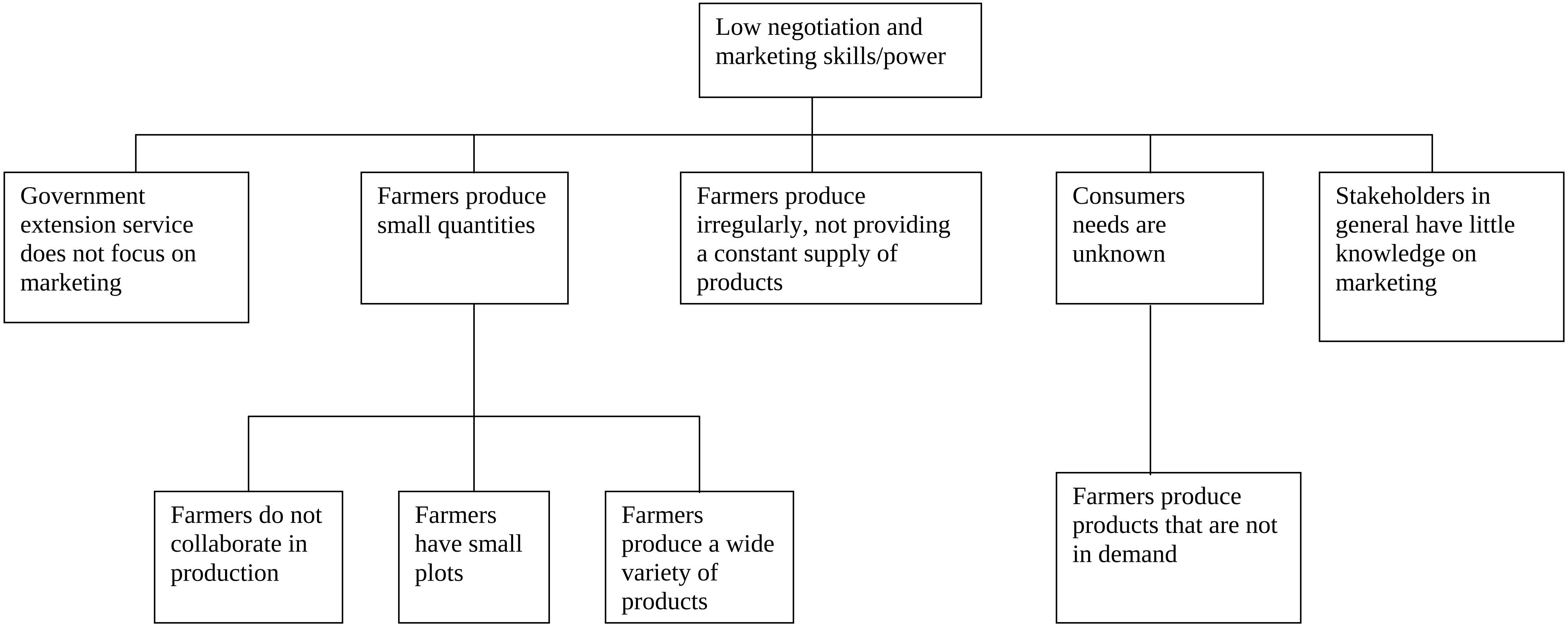
INGO's can work on the issue of increasing market access for small family farmers very well. Important in this is that they should work intensively within one commune or district to develop the whole chain. Developing and improving markets or a certain commodity chain is a very difficult and site specific issue, not having uniform problems and solutions. The solution to an improved market access in the one commune can have no result in the other. One commune is helped by a road to stimulate markets, while another is better helped by improving the electricity system or irrigation infrastructure.

Annex 2 Cause-effect relations within the clusters

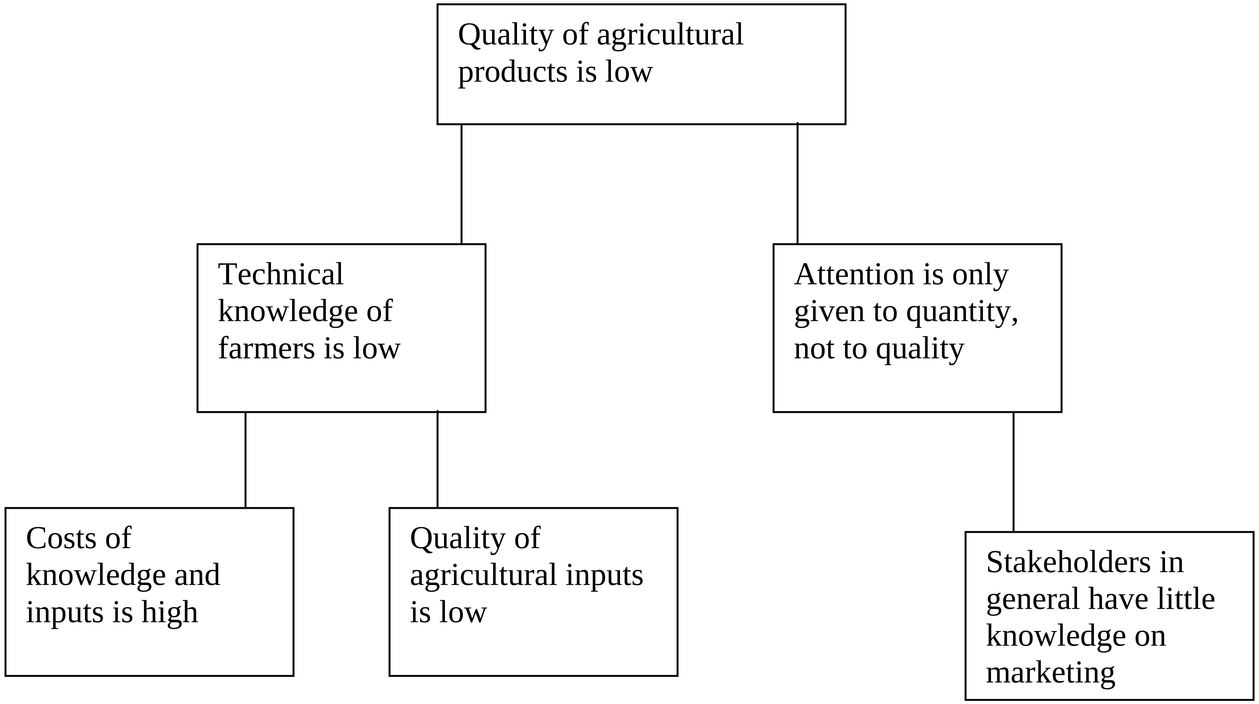
Prices paid by buyers



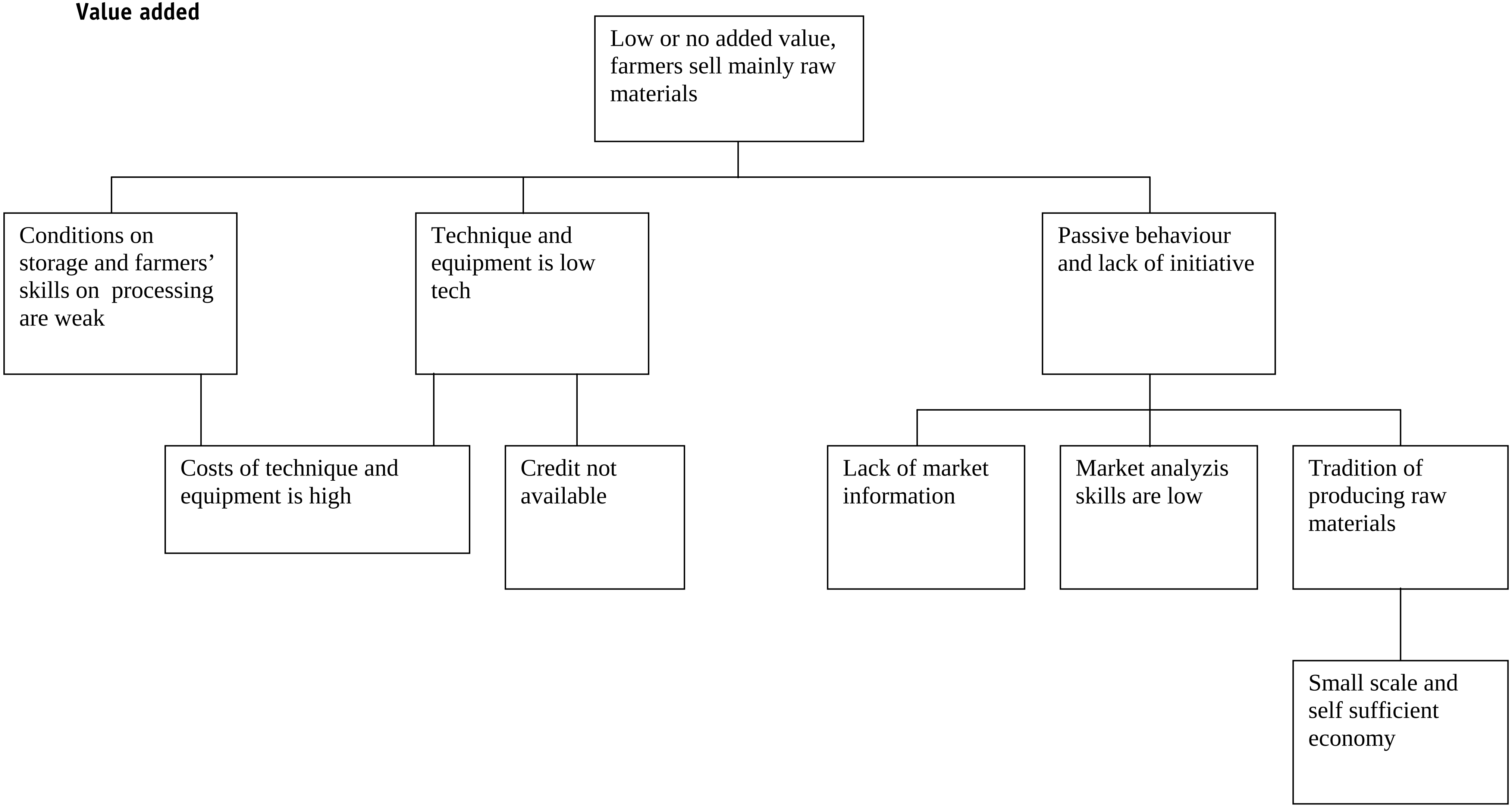
Marketing and negotiation



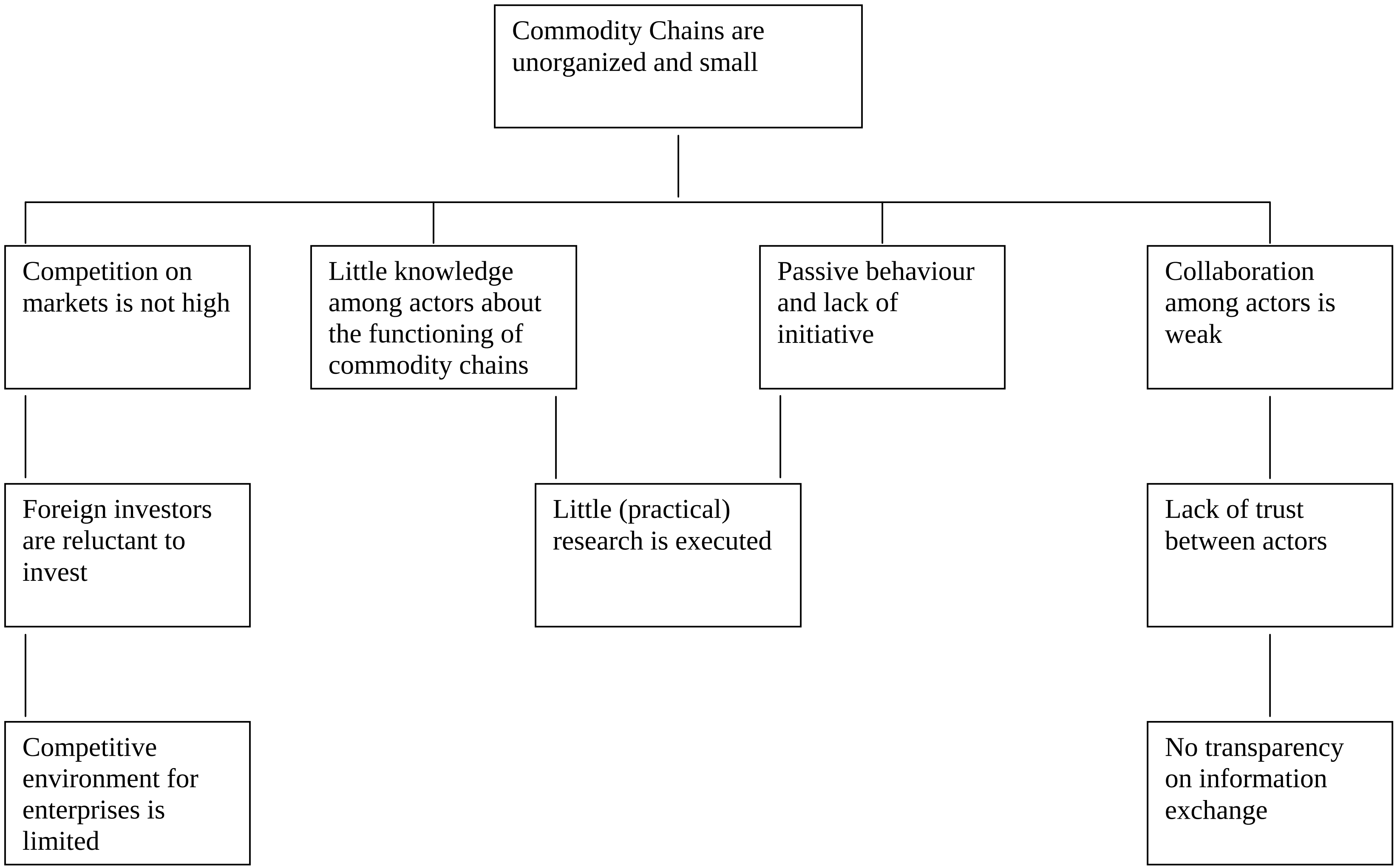
Quality of Products



Value added


Low or no added value, farmers sell mainly raw materials
Conditions on storage and farmers' skills on processing are weak
Technique and equipment is low tech
Passive behaviour and lack of initiative
Costs of technique and equipment is high
Credit not available
Lack of market information
Market analyzis skills are low
Tradition of producing raw materials
Small scale and self sufficient economy

Commodity Chains



Legal environment is not sufficient

Annex 3 Participants in the National Workshop

	Name	Position
1	Pham Thi Phong	Officer of Department of Economics, Yen Lap district
2	Vi Thi Hue	Farmer from Tan Duan commune, Lang Son province
3	Dang Quang Hai	Trader in three communes in Lang Son province
4	Nguyen Van Nghi	Director of the research centre of Enter-oil company (Essential Oils and Natural Products Company (export))
5	Nguyen Chi Trung	MARD, Institute of agriculture land planning
6	Cu Thi Le Thuy	CIAT, Program Officer of the SADU project
7	Ta Thi Kim Oanh	MARD, Cooperative Department
8	Nguyen Le Huyen	VECO, Translator
9	Nguyen Thi Chau	VECO, Program Officer and Gender Responsible
10	Nguyen Luong Nhan	VECO, Program Officer and Interculturality Responsible
11	Pham Thi Thuy	VECO, Marketing Program Officer
12	Nguyen Thi Mai	VECO, OSID Program Officer
13	Nerlita Manalili	VECO, Marketing Advisor
14	Johan Rock	VECO, SA Advisor
15	Marco van Grinsven	VECO, Country Representative
16	Koen Maathuis	Consultant
17		

Annex 4 Consulted documents and websites

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