

# Linking small-scale farmers to supermarkets and other quality chains

Final Superchain report

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## **Project summary:**

### **Superchain project helps small farmers to promote new quality food items in Vietnam and Laos**

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The Superchain project aims at bringing more stable business income to small-scale producers in Vietnam and Laos and at the same time guaranteeing better quality food for urban consumers. To achieve this, the project is establishing new forms of information and co-operation among producers and between producers and distributors who are looking for products of a specific quality. In Vietnam, the project is focussing on “safe” vegetables in the province of Hanoi, *Hoa Vang* sticky rice from Hai Duong province and Mong beef from the Cao Bang highlands. In Laos, the production of vegetables without insecticides in Xiengkhuang province is gradually being converted to fully organic vegetable gardening. The two-year project is being funded by the IFAD and started in May 2007. It is being implemented by the MALICA consortium in Vietnam and the National University of Laos, with co-ordination by CIRAD.

For the different commodity chains studied by the project, research has been conducted on consumer and retailer demand, mainly with regard to quality criteria. The findings of the studies have been disseminated through consultation meetings involving producers, businesspeople, representatives of consumers and the public authorities. They point up a need for producers to promote the origin and specific characteristics of their products which are not always known to their customers. For vegetables, a safety certificate is required by large volume distribution purchasers in Vietnam, as well as sufficient variety of the proposed kinds (over ten). For sticky rice, what is looked for is the aroma and cooking quality. For beef, people want certification that the animal was in good health and was raised on natural food. In Laos, people are looking for vegetables grown without the use of chemical pesticides. In all cases, consumers and retailers are not familiar with the origin of the produce, nor are they familiar with the specific characteristics of quality inherent in the different production sites.

In response to this needs identification in Vietnam, producer groups were set up for vegetables (total of seven groups, 143 producers and 6 hectares), sticky rice (3 groups, 120 producers, 6 hectares), and beef (4 groups, 103 producers, 300 head of livestock). Members of the group agree to follow production specifications, especially with regard to the use of chemicals, type of seed or breed of animal, procedure for fertilisation or feeding, treatment of disease. The co-ops of Tien Le and Phuong Bang were given certificates upon meeting conditions for safe vegetable production, issued by the Provincial Agriculture and Rural Development Department. Vegetable group leaders were trained in the new VietGAP certification procedure, based on producers registering their practices and internal and external inspections of different standards relating to safety at the production and post-harvest stages.

Numerous contacts were developed between vegetable producers and distributors in Hanoi. However, they are confronted with the lack of produce variety. For this reason we are supporting the formation of an alliance of certified vegetable production and distribution units in Hanoi province. Three meetings have been held to date with representatives of 33 producer groups and businesses that got together to complement one another in the supply of a variety of produce for which there is a market demand. An inventory of safe vegetable production groups with their contacts has been drawn up and a Web site of safe vegetable groups is being prepared.

The Hoa Vang Sticky Rice Production and Marketing Association in Hai Duong was officially formed in December 2008 with 134 founding members. Sales are picking up with a variety of purchasers (supermarkets, stores, export companies, etc.). Sticky rice quality control is ensured through several mechanisms: at the group level, inspection by group leaders and differentiated purchase prices (such as according to the type of seed stock used); control by the Hai Duong Province Health Department, which gives special attention to the cleanliness of the rice.

In November and December two seminars to introduce vegetable produce and rice were held with 200 members of the Hanoi Association of Women Consumers.

We are improving the traceability of beef by having labels put on mountain beef. However it is currently very difficult to garner the co-operation of slaughterhouses in Hanoi to make sure that the labelling stays on right up to the retail stage. We are attempting to move the slaughtering stage closer to the production zones and to get the distribution groups involved in the cold transportation of meat from the abattoir to retail shelves.

An assessment of the efficiency of different forms of vertical co-ordination (relationship between sellers and purchasers) is being made by means of surveys of producers and vegetable group leaders representing the different types of co-ordination: non-contract selling to collectors (65 people surveyed), employment by a production and distribution company, contract with a supermarket or distribution company (44), direct sale to consumers (30). Initial results show that the most profitable strategy for producer groups is direct sales to consumers in their own outlet stores, followed by different contracts with supermarkets and canteens (food services). The project developed guidelines on good trading practices. Good trading practices are here defined as practices providing satisfactory conditions of transactions for the farmers with adequate reward, and at the same time acknowledging the necessity of providing satisfactory conditions of purchase to sellers who are considered as long-term partners. A training on GTP was organized on April 24 in Son Phuong commune, Hoai Duc district. It gathered nineteen leaders of vegetable groups (belonging to five cooperatives), as well as four officials of the agriculture and trade departments of the district.

In Laos, a seminar was held in Phonsavann on November 6, 2008 to outline the findings of the Xiengkhuang province vegetable and sticky rice market studies to a panel of producers and local authorities. Labelling activities highlighting the origin were launched for three types of vegetables (cabbage, cauliflower and Chinese mustard). An assessment of the forms of co-operation between vegetable producers showed that these were effective in terms of contact with purchasers, but they have to be made official, especially for quality control. Training sessions on organic agriculture are being held with producers in co-operation with a project being carried out by the NGO Helvetas.

The results achieved by the project will be used as a basis for hands-on intervention guidelines in order to more effectively link small-scale producers with city markets. This will also be helpful for provincial officials involved in agriculture and economic development. A wrap-up seminar will be held in on May, 22, 2009 in Hanoi.

# INTRODUCTION

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## Summary

*The objective of the Superchain Project is to improve the livelihoods of small-scale farmers in Vietnam and Laos by enabling their access to new high-value food chains in the domestic market. In Vietnam, the project is focusing on “safe” vegetables in the province of Hanoi, hoa vang sticky rice from Hai Duong province and Mong beef from the Cao Bang highlands; and in Laos on vegetables in Xiengkhuang province. The choice of these areas and products is based on inclusion of poor households, location advantages for specific quality, existing market linkages with cities, and IFAD project intervention area. The project is based on a value chain approach, and a combination of technical and institutional innovations. Major activities of the project related to the evaluation of buyer demand; stakeholder information and networking, including supermarket buyers; testing new good farming and quality control practices; evaluation and promotion of farmer organisation and intra-chain coordination; and guidelines on good trading practices.*

## I - Rationale

In the last ten years the food sector in the region has undergone profound changes due to: (i) market liberalisation; (ii) urban growth; (iii) market segmentation in the domestic and export sector based on consumer income and quality preferences. Some data on urban and economic growth in the region are presented in Table 1.

Table 1 – Some demographic and economic indicators in the region

	Vietnam	Laos	Thailand
Urbanisation rate (2005)	26.4	27.4	32.3
Urban growth rate (2000-2005)	3.13	6.02	1.49
GDP growth rate in 2007	8.5	7.5	4.8

In Vietnam, consumers are especially concerned with the quality of food, quality referring mostly to freshness, taste and safety. A recent survey, conducted in 2005 on 800 consumers (500 in Hanoi and 300 in Hai Phong) shows that 75 percent of consumers are extremely concerned with the safety of food (Luu Hong Minh et al, 2005). For 57 percent of consumers, problems of safety mostly relate to the presence of chemical residues in or on food. Food safety is of primary importance in vegetables, fruit and meat, together with the freshness of these products.

The modern retail sector has developed in parallel with the overall economic development, and also with consumer concerns about food safety. Modern trade, including supermarkets and convenience stores, is estimated to have grown by 20 percent per year

between 2001 and 2006 and to represent 12 percent of food distribution 2007 while it was inexistent in the beginning of the 1990s (USDA, 2007).

In 2005-2006 the MALICA group<sup>1</sup> conducted a study on the participation of the poor in supermarket-driven chains, under the Markets for the Poor Project (Moustier et al, 2006). The study focused on vegetables, litchi and flavoured rice value chains supplying supermarkets. One conclusion of the studies was that no poor households were directly involved in supermarket-driven chains, except in flavoured rice chains. On the other hand, small-scale family farmers, with less than 0.5 ha of land, may be involved through farmer groups promoting products of special quality and joint labelling. Farmers in groups delivering to SM chains get higher incomes than in conventional markets thanks to higher prices and regular quantities sold. Yet farmer groups face a number of difficulties which make their long-term involvement in supermarket chains precarious: the way quality is controlled lacks rigour and credibility. Moreover, the quantities and diversity of products are irregular.

In Laos, consumers still buy the bulk of their food in open retail markets. An increasing number of small shops and restaurants are observed. Products of differing origins (Laos, Thailand) and quality characteristics, e.g. safety, are not clearly distinguishable and recognisable by retailers and consumers (Moustier, 2006).

In the project, in line with sustainable livelihood approaches (SLA), not only do we consider that the poor are to be viewed as deprived of resources, but we should build on their strengths and opportunities, including their specific skills. In 'livelihoods focused' development efforts, a key objective is to remove constraints to the realisation of potential (DFID). In the case of Vietnam and Laos, the poor have some specific advantages in supplying specific quality products (low use of inputs, labour availability, location in mountainous areas). Developing these advantages requires improved information and coordination in the value chains

## **II - Objectives**

The goal of the project is to improve the livelihoods of small-scale farmers in Vietnam and Laos by enabling their access to new high-value food chains in the domestic market. The specific objectives are as follows:

- 1) Inform farmers, extension workers and decision-makers of the technical and institutional conditions for inclusion in high-value food chains
- 2) Support farmer decisions on different marketing options
- 3) Improve modern retailer assurance regarding the safety of food supplied by farmer groups and
- 4) Improve consumer assurance regarding the safety of food sold at retail distribution points.

## **III - Selection of areas and products**

The project focuses on the following commodities and areas in Vietnam: IPM/safe vegetables in Ha Tay province (Hoai Duc and Thuong Tin districts), Hai Duong sticky rice and Cao Bang beef. The project also operates in Laos, focusing on organic vegetables and sticky rice from Xiengkhuang province. The choice of these areas and products is based on

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<sup>1</sup> MALICA (Markets and Agriculture Linkages for Cities in Asia) is a consortium on food marketing providing an umbrella for CIRAD, IPSARD and VAAS.

inclusion of poor households, location advantages for specific quality, existing market linkages with cities, and IFAD project intervention area.

Cao Bang province is a mountainous region characterized by a high prevalence of poverty: 39.6 percent in 2006 compared with 26 percent at the national level (Hoang Xuan Truong, 2009). It is home to IFAD-funded project “Developing Business with the Rural Poor Programme” (2008-2013). Seventy percent of the poor are of the Hmong and Nung ethnic minorities. The main source of income for these ethnic groups is cattle raising and maize growing. The production of cattle is presently supported by various national and international projects (Helvetas, IFAD, Luxemburg). Cao Bang beef has special quality characteristics in terms of texture, colour, taste and weight, in particular due to the natural feeds. But these receive little recognition in the market due to the mixing of beef of different origins.

The Red River Delta is considered to be one of the most developed areas in Vietnam with low ratio of poor families. Yet the absolute number of poor families (2,203,000 in 2005) is very high (even higher than that in the area with the highest poor family ratio in Vietnam) (Le Thi Nham, 2008). While the poverty rate of Hai Duong province is quite low (5.2 percent), it is home to some communes of high poverty, such as An Phu commune, with a 13.1 percent poverty rate (Pham Cong Nghiep, 2008). The major source of agricultural income of the province is rice. In An Phu commune, sticky rice accounts for 25 percent of total rice income. The income from sticky rice is higher than from ordinary rice for the same unit of land. Yet this income is still limited by the fact that different kinds of sticky rice are mixed in the market, while the “true” *hoa vang* rice originates from Kinh Mon district. As for vegetables in the Red River Delta, they generate higher incomes than rice, but are subject to low and unstable prices. Hoai Duc district in Hanoi Province was selected because of its proximity to the Hanoi market, and strong support from the agriculture department for the production of safe vegetables.

In Laos, Khoune district in Xiengkhuang province is among the poor districts considered as priority by the National Statistics Centre in 2003 (Silinthone Sacklokham, 2008). It has benefited from IFAD road infrastructure projects. Chick rice and green vegetables represent important sources of incomes for the poor (more than 60 percent of the income in the production villages), and they are also special in terms of quality characteristics. Vegetables are grown without pesticides, but when they are sold to Vientiane market, they are mixed with vegetables of other origins.

#### **IV - Collaborating institutes**

The project is coordinated by CIRAD, operated in Vietnam by MALICA, a consortium made up of CIRAD, CASRAD (Centre on Agrarian Systems Research and Development), FAVRI (Fruit and Vegetable Research Institute) and IPSARD/RUDEC (Rural Development Centre), and in Laos by the Faculty of Economics and Agro-processing of Nabong University. The project is implemented in close collaboration with the provincial departments of agriculture, as well as private stakeholders in the selected commodity chains.

#### **V - Method and activities**

##### **A) General approach**

The different activities are summarized in Figure 1. The major objective of the project is to help small farmers to have access to new buyers in Hanoi concerned with produce quality. To do this we need an approach centred on the value chain. The term *value chain*, used in a broad sense, corresponding roughly to the French term “*filière*,” includes the full range of activities that are required to bring a product (or a service) from the initial stage through the different phases of production to its delivery to final consumers and disposal after use (Kaplinsky, 1999). The final food quality, as well as farmer incomes, are dependent upon the

practices of farmers, traders, processing and transport enterprises and final consumers. To better meet the requirements of the market, especially in terms of quality, the project combined technical and institutional innovations. Changes in techniques have to be embedded in institutional changes, in particular as regards access to resources, e.g. credit, inputs, land, labour, technical and market information (Dorward, Kydd and Poulton, 1998).

## B) Evaluation of buyers' demand

A first step of the project has been to identify the organization of the value chains for the selected products, and to evaluate buyer demands. We concentrated on the buyers as both individual consumers and retailers, as they are the ones with the most demanding quality requirements relative to others in the chain (see Table 1).

Table 1 – Market surveys

	Number of buyers surveyed	Institute in charge	Note
Vegetables	10 supermarkets (out of 27 selling vegetables), 10 shops (out of 53), 5 canteens	FAVRI	Use of the survey of 800 consumers in Hanoi and Haiphong in Luu Hong Minh et al (2005)
Beef	300 consumers in Hanoi 17 restaurants, 12 slaughterhouses, 3 supermarkets, 2 shops	RUDEC CASRAD	Random choice in districts of varying socio-economic characteristics
Sticky rice	300 consumers in Hanoi	RUDEC	Random choice in districts of varying socio-economic characteristics

## C) Information and networking

This information was fed back to farmers and public authorities supporting farmers by the way of stakeholder workshops, including a panel of farmers, traders, consumer representatives and public authorities (see Table 2). In the special case of vegetables, further workshops were organized to establish a network of safe vegetable groups, as it was found that cooperation between groups was necessary to ensure an increased diversity in vegetables supplied, especially for supermarkets. These were held on July 1, September 19 and November 13, 2008. An inventory of safe vegetable production groups with their contacts has been drawn up and a Web site of safe vegetable groups has been prepared.

Regular contacts were organized between farmer organizations and potential buyers, including supermarket and shop vendors and distribution companies. The difficulties in reaching final agreements were documented. Packages with labelling including information on place of production were designed and disseminated, as well as leaflets presenting the farmer organizations, the production and control protocols.

Table 2- Stakeholder workshops on the results of buyer surveys

Commodity	Date	Number of participants	Number of private chain stakeholders
Vegetables	Nov 7, 2007, Hanoi	34	8 farmers, 7 retailers (including 4 supermarkets), 2 consumer representatives

Beef	March 31, 2008, Cao Bang	36	10 farmers, 3 collectors, 1 consumer representative
	May 22, 2008, Hanoi	27	1 farmer, 1 supermarket retailer, 1 hotel caterer, 1 consumer representative
Sticky rice	June 10, 2008, Hanoi	42	6 farmers, 7 supermarket retailers, 6 shop retailers, 5 processing companies, 1 consumer representative

#### D) Quality guarantee systems

Production protocols were designed, aimed at getting stable product quality in line with the potential of the area and the demand of the final buyers. Control protocols were also designed, based on internal control organized by members of farmer organisations. All these documents were designed in a user-friendly way, and incorporated the feedback of farmers gained by various meetings. These production and control protocols were then disseminated by way of farmer training. Contacts were developed with local administrations to organize external control (plant protection department of the province and Favri for vegetables; department of health of the province for sticky rice).

#### E) Farmer organizations

Institutional innovations related to farmer collective action, intra-chain coordination and public-private partnerships for provision of public goods and services. Collective action reduces uncertainty related to quality in different ways. Farmer organizations pool together resources to build and signal quality, including training, access to inputs, access to buyers, and communication on quality. They provide incentives to put effort into achieving quality. In farmer organizations, there can be the dual impact of the supply of adequate inputs and joint contacts with buyers (which may be referred to as inter-linkages between input and output markets). Farmer organizations also involve inclusion and exclusion mechanisms: the commitments of farmers to follow regulations, sanctions enforced in case of non-compliance. The farmer organizations developed in the project are presented in Table 3.

Table 3 – Farmer organizations developed in the project

Vegetables Hoai Duc district, Hanoi province	1 group, 2 cooperatives Total: 143 farmers; 6 ha	Joint production protocol, packaging and labelling Internal control system External certification Common collector in charge of shop
Sticky rice Kinh Mon district, Hai Duong province	3 groups, 60 members/group, 2 ha/group	Joint production protocol, packaging and labelling Joint contacts with shops in Hanoi
Beef Ha Quang district, Cao Bang province	4 groups, 25 to 27 members/group (total = 103 members), 2 to 7 head/household	Joint production protocol and label Credit for stock

#### F) Intra-chain coordination

Developing and guaranteeing food safety involves additional costs and investments for farmers, which are lost if farmers cannot sell to buyers who value these quality efforts.

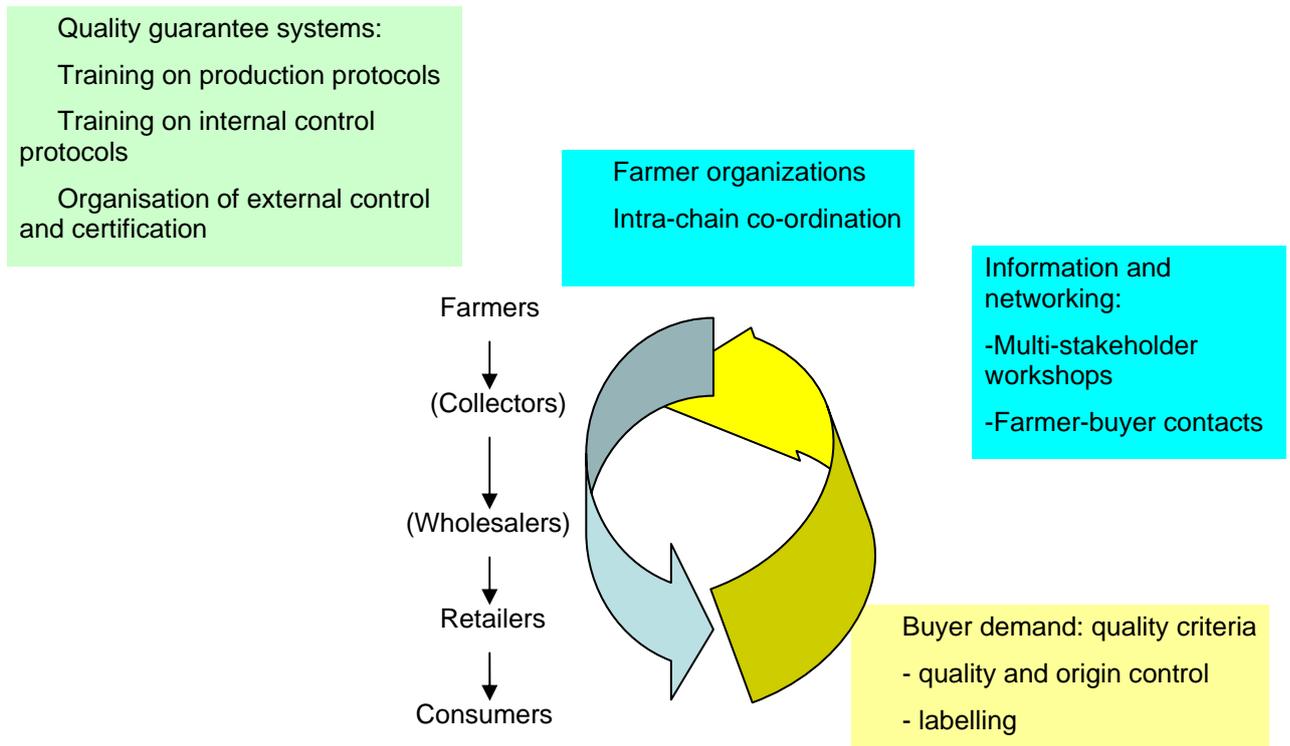
Securing outlets is facilitated by farmer collective action, and also by intra-chain coordination, i.e. regular dealings between the stakeholders in the value chains, exchanging information and various services in addition to the market transaction. During the course of the project, we preferred contacts and contractual arrangements between the groups and new buyers, including supermarkets, and shop vendors.

An assessment of the efficiency of different forms of vertical co-ordination (relationship between sellers and purchasers) in terms of farmer incomes was made by means of surveys of producers and vegetable group leaders representing the different types of co-ordination: non-contract selling to collectors (65 people surveyed), employment by a production and distribution company, contract with a supermarket or distribution company (44), and direct sales to consumers (30).

The project developed guidelines on good trading practices (GTP). Good trading practices are here defined as practices providing satisfactory conditions of transactions for the farmers with adequate reward, and at the same time acknowledging the necessity of providing satisfactory conditions of purchase to sellers who are considered as long-term partners. A training on GTP was organized on April 24 in Son Phuong commune, Hoai Duc district. It gathered nineteen leaders of vegetable groups (belonging to five cooperatives), as well as four officials of the agriculture and trade departments of the district. Finally, the project is developing guidelines on access of the poor to high-value food chains, which can help to replicate the pilot organizations developed in Superchain project.

The results of all these activities will be developed in the following chapters.

Figure 1 – Summary of project activities



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