



Growing Inclusive Markets

Business Works for Development • Development Works for Business

CASE STUDY

South East Asia • Vietnam

MDI Betterday Fairtrade products: Better Quality, Better Health and Better for Society

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Sector • Agriculture; Food & Beverage

Enterprise Class • MSME



Executive Summary

Challenging the common idea that fair trade would only appeal to the 1 billion people in the well-off global North, MDI is a young familial-owned company specialized in equitable trade of Vietnamese agricultural products, including coffee, green tea, jasmine tea, snow mountain tea and cashews under the trademark ‘Betterday’.

The headquarters of MDI is located in an urban district of Hanoi, the capital of Vietnam. Packing, marketing, sales and administration are done at the business office in Hanoi. Production and primary processing of products are undertaken in conjunction with farmer groups in rural areas in Thai Nguyen, Yen Bai, Lao Cai, Lai Chau, Son La, Quang Tri, Binh Phuoc and Binh Thuan provinces. MDI works in partnership with groups of smallholder farmers, mostly from ethnic minority groups in poorer and remote areas of Vietnam.

The company is committed to the development of the rural sector in Vietnam and believes that the best way to accomplish sustainable development is by doing business in a fair and ethical way with people in the sector: by engaging producers as trading partners, MDI can improve their livelihoods, increase their incomes and assist them in linking with markets on terms that are beneficial for them.

MDI works with farmer groups to help improve quality of production and achieve Fairtrade and organic certification. By improving quality and achieving certification, the value of the product can be increased significantly. In addition, MDI processes and produces branded and certified consumer-ready products for domestic sale and for export.

With their motto ‘Development through pro-poor business’, MDI has a ‘double bottom line’, meaning that in addition to being a ‘for-profit’, their success is also measured by the social impact that they can achieve.

MDI is the first Fairtrade-certified exporter and processor of cashew kernels in Vietnam and is a Fairtrade-certified exporter and processor of tea. MDI is also the world's first company from a developing country licensed to develop and sell Fairtrade-labeled products for domestic market and export.



Introduction

Set up in Hanoi in April 2007 by Ms. Nguyen Tuyet Minh and her husband Mr. Dominic Smith, MDI is a young and small 20-staff company specialized in equitable trade of agricultural products, including coffee, green tea, jasmine tea, snow mountain tea and cashews grown in eight provinces across Vietnam under the trademark 'Betterday Fairtrade'.

MDI works in partnership with groups of smallholder farmers, mostly from ethnic minority groups (including Black Mong, Flower Mong, Dao, Ha Nhi, Thai, and Van Kieu) in poorer and remote areas of Vietnam.

The MDI network currently counts around 1,000 people representing in total household size about 4,500-5,500 people. Along with its trading activities, MDI is also providing the producers with technical agricultural assistance on Good Agriculture Practice (GAP) (showing how to select and pick up the best tea leaves for example), management skills training, marketing support and infrastructural facilities, such as space for drying and storing goods.

MDI is the first Fairtrade-certified¹ exporter and processor of cashew kernels in Vietnam and is a Fairtrade-certified exporter and processor of tea. MDI is also the world's first company from a developing country licensed to develop and sell Fairtrade-labeled products for domestic market and export.

Market and Location Context

The headquarters of MDI is located in an urban district in Hanoi, the capital of Vietnam. Packing, marketing, sales and administration are done at the business office in Hanoi. Production and primary processing of products are undertaken in conjunction with farmer groups in rural areas in Thai Nguyen, Yen Bai, Lao Cai, Lai Chau, Son La, Quang Tri, Binh Phuoc and Binh Thuan provinces. Most of the groups already existed when MDI approached them but they were not organized under the Fairtrade standards (no leaders elected, no Internal Control System etc.).

TEA ORIGINS

Yen Bai

Betterday works with two Black Mong minority farmer groups in Yen Bai Province to produce highland green tea from the Shan Tuyet tea variety. The tea is produced at high altitude (more than 1,300 metres) and is rich in antioxidants and relatively low in caffeine. Spring and autumn teas have a high content of delicate snow white buds. The two farmer groups expect to gain the Fairtrade certification in August 2010.

¹ In the case, Fairtrade-certified refers to the FLO Certification and International Fairtrade Standards. <http://fairtrade.net/sites/standards/standards.html>



Lai Chau

Betterday is working with a group of Flower Mong minority farmers in Lai Chau province to produce a rich malty Assam style orthodox processed black tea based on the Shan Tuyet tea variety. This tea is grown at high altitude (more than 1,000 metres). The ‘Snow Mountain’ black tea has sweet floral and honey notes. The tea is extremely tippy, with a profusion of delicate white buds. The farmer group is Fairtrade certified by FLO.

Lao Cai

Betterday has recently started cooperation with a group of White Dao minority farmers in remote mountainous area of Lao Cai province to produce tea from rare 100-year-old tea trees (some more than 10 metres in height).

Thai Nguyen

Thai Nguyen is considered one of the premium growing areas for Vietnamese midland-lowland green tea. Betterday works with the Tan Cuong Tea Farmers Club to produce EU Organic Certified and Fairtrade Certified green and jasmine teas

COFFEE

Son La

Produced in conjunction with Thai ethnic minority farmers in Son La province, this is a wet-processed Arabica with very different characteristics to Vietnamese coffee

Quang Tri Coffee

Produced by ethnic minority farmers in Quang Tri Province with the assistance of ACEP (Advancement of Community Empowerment and Partners), a Vietnamese non-governmental organization (NGO). This is a selected high altitude (more than 1,000 metres elevation) and wet processed Arabica.

CASHEW

Betterday cashew products are Fairtrade certified by FLO and produced by two farmer groups in Southern Vietnam. One farmer group is in Binh Thuan Province and the second group is in Binh Phuoc Province. The cashews are high quality, with around 60% of the total production being graded at WW320 or higher.

Description of the Business Model

VALUE PROPOSITION OF THE BUSINESS

As Vietnam rapidly integrates with the international economy, small producers are becoming increasingly linked with international commodity markets. MDI Joint Stock Company (International Market Development and Investment) aims to assist producer groups to take advantage of these new opportunities on terms that are fair and equitable.



HISTORY OF MDI

The company was set up by Ms. Nguyen Tuyet Minh, Director and Founder and her husband Mr. Dominic Smith, Agricultural Economic Advisor, a dynamic couple in their forties who used to have ‘well paid jobs’. Minh has more than ten years of management experience in marketing, and another five years of high-level positions with NGOs focusing on Vietnam. Dominic, as for him, has 17 years of experience across Asia (Indonesia, Philippines etc.) and another eight in Vietnam.

“We have been working in the development area with farmers for several years; however, we somehow felt frustrated by the short term efficiency of development projects we carried out. When a project finishes, it seems that everything just gets back to the way it used to be. Small farmers can gain technical skills from projects but it is then still hard for them to find markets. I was working in the development field, and my activity drove me to remote areas where I met very poor people. I was then looking to help the poor in a more efficient and long-term way; and then I came to this idea to set up a company to help farmers on the technical side but also on the commercial side, by buying and distributing their products,” explains Minh.

With their previous experience in running development projects in rural provinces across Asia, the concept of Fairtrade then rapidly and naturally emerged in their business project for Vietnam. *“The idea came from our previous experience because we wanted to take some practical action to directly work with farmers to achieve sustainable development,”* explains Dominic. In 2007 they decided to launch a social entrepreneurial company to commercialize tea, a Vietnamese traditional and popular agricultural product, according to fair trade principles.

Beginning in 2007, they first approached a tea fair trade group existing in the Thai Nguyen province in Vietnam, which surprisingly hadn’t sold any tea product under the Fairtrade mark. This first tea group was introduced to MDI by the FLO (Fairtrade Labelling Organization International)

They also contacted the People’s Committees (the executive arm of a provincial government, responsible for formulating and implementing policy) in agricultural rural remote areas to explain their initiative. This approach was welcomed and Minh and Dominic also received some group references from the provinces.

The company was legally set up in April 2007, as a 100%-owned Vietnamese family company. The necessary set up capital of US\$200,000 was self-funded, coming from the couple’s own savings. Being self-financed, Dominic and Minh did not need to take loans to start the business.

Legally, MDI is a Joint Stock Company with three shareholders and one Director (Ms. Minh).



Minh and Dominic then started their activity with the Thai Nguyen tea group and contacted another cashew group, also through the introduction of the FLO, willing to explore the European market.

The main requirement is that the groups adhere to fair trade principles such as equal participation, gender equity, eco-friendly farming and no child labour. For MDI, two selection criteria are essential: Good (or potential) quality production and enthusiasm. *“To be enthusiastic and willing is in fact the most important,”* explains Dominic.

Minh and Dominic left for the mountains and started to work with local communities who live in very difficult conditions. They built their trust, helped them to get organized and showed them how to collect the best tea leaves and how to process these into quality tea. *“We had some knowledge about tea production, but not in great detail. We had to learn as we worked, and also to employ staff who were more knowledgeable than us. First time of meeting and discussing is always challenging, especially in minority communities. We had to take a lot of meetings and introduce the concepts carefully. Also we had to discuss with local authorities a lot and raise their understanding so that they could help us to work with the farmers.”*

Having already worked on agricultural development projects with farmers in their previous positions, Minh and Dominic were not so worried about the difficult living conditions in the mountains, but more by the reaction of the farmers. *“In the beginning it is challenging to be accepted and trusted, but after a while of buying tea and providing assistance then the trust grows. We did not experience any hostility.”*

MDI launched its first organic tea product in December 2007 in Hanoi MDI has helped the farmers to form as a group and is working with them to coordinate harvesting/tea picking in order to maximize quality and efficiency. Efforts are done jointly by the group in planning for harvesting, quality control, as well as planning for how to utilize Fairtrade premium money whereas tending the crop on each households land is done individually.

MDI gives a lot of encouragement to the groups to work together effectively and they are also motivated by improved prices and stability of markets. *“Because the farmers are used to working individually, it is sometimes challenging for them to work with each other. One of the major responsibilities of MDI staff is to continuously encourage the farmers to work together and maintain their Internal Control Systems.”*

Each household gets income from selling products from their land whereas the group collectively utilizes the Fairtrade Premium money for projects that they vote on as a group. Leadership is chosen at the annual general meeting of the groups, where the village leaders are voted for as well as the leader of the Internal Control System and the overall leader of the group. Though it is still early to judge the results, MDI can certainly see farmers paying close attention to correct harvesting and production techniques.



“At the beginning, because fair trade is very new to Vietnam, people thought we were a bit crazy,” smiles Minh. “My friends and family were also very worried for my health when they saw me working so hard and going to remote areas in very difficult conditions. Then they understood that we were trying to set up this business not only to earn our living but also induce a social impact and generate more income for the farmers. For our first big order of tea we went to Europe to meet and discuss with potential buyers and introduce our products. It was quite difficult because we were not known by anyone and also we were not experienced in how to do business or sales/marketing...”

Today, MDI concentrates on three main ranges of products:

- Cashews: farmers deliver raw cashew nuts to MDI. MDI rents a warehouse to dry the nuts and also rent space in a factory to process the nuts.
- Tea: This includes traditional Vietnamese green teas, highland green teas, jasmine tea, highland black teas, ancient tree green teas and ancient tea snow tip white tea. All the Betterday tea range is produced organically, without the use of chemical pesticides and fertilizers and is hand processed and dried. Only the black tea is processed in an MDI-owned factory, employing three staff.
- Coffee: Arabica wet-processed has been produced by two farmer groups since 2008 and is still under development.

Ninety percent of the total MDI production is exported to international clients in Denmark, Germany, the Netherlands (the main importer), UK, Hong Kong, and Japan. Raw materials amount to 85% of the exports whereas finished products represent 15%.

Only 10% of the production is sold on the domestic market through one main shop in Hanoi and 23 selling outlets (small retail shops and supermarkets) in the Hanoi region. MDI also operates one warehouse for cashew nuts and one black tea processing factory.

FAIRTRADE STANDARDS

MDI works with farmer groups to help improve quality of production, achieve Fairtrade and organic certification. By improving quality and achieving certification the value of the product can be increased significantly. In addition, MDI processes and produces branded and certified consumer ready products for domestic sale and for export. Clear written contracts are signed between MDI and all groups, outlining all conditions and the respective roles/responsibilities of each party.

By definition, Fairtrade standards comprise both minimum social, economic and environmental requirements, which producers must meet to be certified, plus progress requirements that encourage continuous improvement to develop farmers’ organizations or the situation of estate workers.



Hundred and ten million artisans, farmers, growers, producers, and supporters driving Fair Trade through cooperatives, networks, brands and businesses with a 100% Fairtrade commitment delivering US\$2.2 billion in Fairtrade sales worldwide.²

The Fairtrade Certification Mark is a registered trademark of Fairtrade Labelling Organizations International (FLO). It certifies that products meet the social, economic and environmental standards set by Fairtrade. The Mark certifies products not companies. It does not cover the companies or organizations selling the products.

As all participants in the chain have to be certified by FLO both the farmer groups and MDI own the certification: so MDI is certified and the farmer groups themselves are also certified. To get the certification, MDI has to pay Euro 3,000 per year and the farmer groups have to pay Euro 1,500 -Euro 1,900 per year. So far MDI has paid for the farmer groups and did not ask for any money back. In 2010, MDI is planning to pay up front for the groups and then get the fee back through a small levy on sales.

The certification is valid for three years and the incumbents are inspected every year. The process adopted for the first time certification and for renewal is clearly defined: Each applicant has to fill out an application form and then be inspected to make sure they meet all the conditions. For the farmer groups the process takes about one year. MDI works with the farmers to help them with the agricultural practices and monitoring; then FLO inspects the certified groups every year. Since its launch in 2002, the Fairtrade Mark has become the most widely, recognized social and development label in the world.

For producers, Fairtrade uniquely offers four major benefits:

1. Stable Prices

For most products, prices that at least cover the costs of sustainable production – even when world market prices fall.

2. A Fairtrade Premium

The Premium helps producers to improve the quality of their lives. It is paid on top of the agreed Fairtrade price, and producers decide democratically how to use it. Typically they invest it in education, healthcare, farm improvements or processing facilities to increase income.

3. Partnership

Producers are involved in decisions that affect their future. Fairtrade certified producers jointly own and manage FLO. The 24 members of FLO around the world produce or promote products that carry the FAIRTRADE Certification Mark. They developed the Fairtrade labelling model and are responsible for decision making within FLO. The members include

² (Source: the Fair-trade Foundation) http://www.fairtrade.org.uk/what_is_fairtrade/faqs.aspx, last date of access December 27, 2009 –



19 Labelling Initiatives, 3 Producer Networks and 2 Associate Members (Fairtrade Label South Africa and Comercio Justo México.) The Fairtrade Labelling Initiatives and the Producer Networks are full members of FLO and have the right to vote at the annual General Assembly.

All members and certified producer organizations participate in FLO's decision-making through the General Assembly and their respective Assemblies: the Labelling Initiatives' Assembly or relevant Producer Network Assemblies. Through the FLO Board, its Committees and consultation processes producers can influence prices, premiums, standards and overall strategy.

4. Empowerment of farmers and workers

Empowerment is a goal of Fairtrade. Small farmer groups must have a democratic structure and transparent administration in order to be certified. Workers must be allowed to have representatives on a committee that decides on the use of the Fairtrade Premium. Both groups are supported by FLO to develop their capacity in this area.

Fairtrade rewards and encourages farming and production practices that are environmentally sustainable. Producers are also encouraged to strive toward organic certification. Producers must:

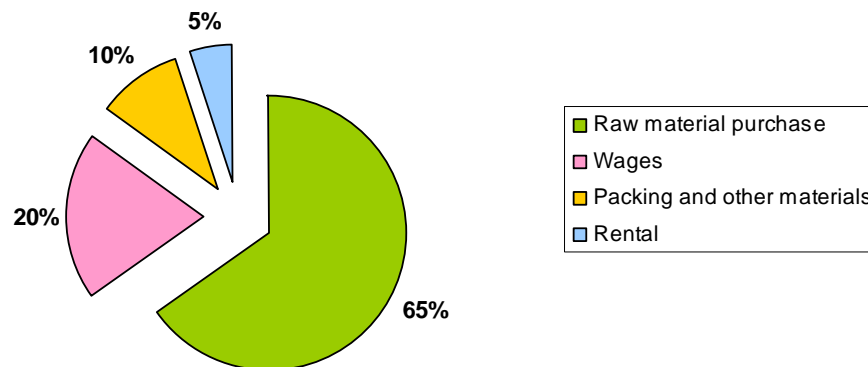
- Protect the environment in which they work and live. This includes areas of natural water, virgin forest and other important land areas and dealing with problems of erosion and waste management.
- Develop, implement and monitor an operations plan on their farming and techniques. This needs to reflect a balance between protecting the environment and good business results.
- Follow national and international standards for the handling of chemicals. There is a list of chemicals which they must not use.
- Not, intentionally, use products which include genetically modified organisms (GMO).
- Work out and monitor what affect their activities are having on the environment.

Financial model

MDI is a familial small business, employing 20 staff, 100% Vietnamese founded and owned.



Graph 1: Break-up per heads of cost for MDI, December 2009



MDI has some staff in the mountains, but in fact they are mostly people who already live there and were recruited afterwards by MDI. *“It is always difficult to find good people. About 75% of our staff are female and most of our staff are young and not from the wealthy segment of society. Most of them come from farming families or have disabilities.”*

As for any Joint Stock Company or globally speaking privately-held company, MDI is required to comply with the corporate regulations and administrative procedures (financial statements filing, corporate income declaration and taxes settlement).

OBJECTIVES

The company is committed to the development of the rural sector in Vietnam and believes that the best way to accomplish sustainable development is by doing business in a fair and ethical way with people in the sector: through engaging producers as trading partners, MDI can improve their livelihoods, increase their incomes and assist them in linking with markets on terms that are beneficial for them.

The business has a ‘double bottom line’, meaning that in addition to being a ‘for-profit’, their success is also measured by the social impact that they can achieve.

Value Creation and Distribution

Farmers and cooperatives of the network sell their production at a decent price, the Fairtrade Minimum Price and get the Fairtrade Premium. The Fairtrade Premium can then be reinvested into the farming. Betterday tea producers have until now used the Fairtrade Premium to buy organic fertilizer they need to grow their tea.

MDI pays farmers following the Fairtrade Minimum Price and Fairtrade Premium table. In September 2009, these prices were:

- Cashew nuts: 7.26 US\$/kilo plus 22 cents Premium
- (Finished) Coffee: 3,10 US\$/kilo plus 22 cents Premium



- Tea is paid under a double market price: leaves are negotiated apart and paid 12US\$ (400,000 VND) per kilo. Then Premium for finished tea is 1.10 US\$ per kilo (5 kilos of tea leaves are necessary to obtain 1 kilo of finished tea).

Payment is made in cash directly to the farmer upon delivery of the crops, which are immediately checked by MDI. During the crop season, MDI employees are indeed present on each collection centre in order to control quality and pay the farmers on the spot. MDI then takes care of the processing/transportation to their warehouse.

Quality control is a crucial step now well understood by the farmers, but at the beginning producers were not familiar with the concept of quality and control check. *“They were a little upset when some of their delivery was refused by MDI. (After a quality check, we always explain why a delivery is not accepted: tea leaves not corresponding to standards for instance.) Progressively, they understood the importance of ensuring high quality crops. A sane emulation was created over time within the communities and they collectively and individually thrive today for quality,”* says Dominic.

At the start of the cooperation, MDI organized numerous meetings and presentations on Fairtrade with the farmer groups and the company is also providing ongoing trainings on quality control system and monitoring.

The participating farmers have therefore improved their working conditions and increased their income while gaining more skills and experiences in sustainable farming. The end-customers can enjoy quality and healthy food and certified Fairtrade products, produced and processed to the highest international standards.

From a more general prospect, value is also created through the business as the entrepreneur is a woman highly motivated and invested into developing and promoting Fairtrade in a still very traditional and male dominated society.

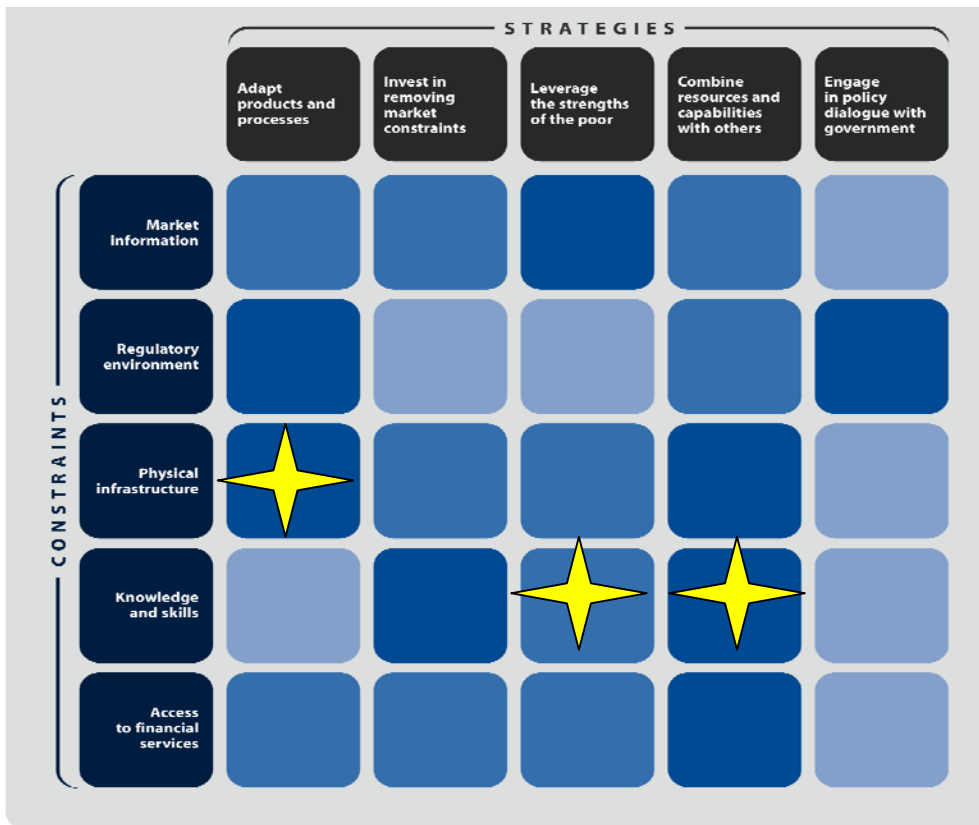
Constraints

The main constraints faced by the business are:

- Physical Infrastructure and MDI had to ‘Adapt Product and Processes’, by recruiting for instance local staff in the mountains to collect and check the quality of tea crops.
- ‘Knowledge and Skills’ and ‘Market Information’ that MDI overcame in ‘Combining Resources and Capabilities’ and ‘Leveraging the Strengths of the Poor’, by holding numerous meetings and discussions as well as providing to farmers ongoing trainings on quality management.



Figure 1: Growing Inclusive Markets Strategy Matrix



Besides, as a small structure with limited human resources, the company has to undertake many tasks, from providing support to farmer groups right through to marketing their products internationally. Furthermore, MDI does not have a big budget for marketing and advertising their brand.

The Business and its Relationships

After two years and a half, MDI today works with some 1,000 farmer families regrouped into clubs or cooperatives in rural areas in Thai Nguyen, Yen Bai, Lao Cai, Lai Chau, Son La, Quang Tri, Binh Phuoc and Binh Thuan provinces.

Most of the farmers come from ethnic minorities, a high proportion of which cannot even speak Vietnamese (the official national language). MDI can communicate with them through their chosen delegates who can speak Vietnamese.

In terms of gender break-up: Cashew farmer groups are mostly male (about 70% of members), whereas tea group members are registered as being mostly male, but in fact all of the activities regarding tea are done by women, including decision making about premiums.



Table 1: MDI Farmer Groups as per December 2009

Group Name	Ethnic origin	No. of farmers and structure (club / cooperative...)	Location (North, South, Centre)	Product and quantity	Date of partnership with MDI
Lai Chau Tea Sustainable Development Group	Flower Mong, Dao	65 families, cooperation group	North	Tea 10 tons annually	2008
A Mu Sung Tea Group	White Dao, Ha Nhi	100 families, cooperation group	North	Tea 15 tons annually	2009
Pung Luong Tea Sustainable Development Group	Black Mong	150 families, cooperation group	North	Tea 20 tons annually	2008
Nam Khat Tea Sustainable Development Group	Black Mong	170 families, cooperation group	North	Tea 25 tons annually	2008
Son La Coffee Fairtrade Group	Black Thai	200 families	North	Coffee	2008
Huong Hoa Coffee Group	Van Kieu	250 families	Centre	Coffee	2008
Duc Phu Cooperative	Kinh	49 farmers Cooperative	South	Cashew 50 tons raw cashew annually	2007
Tien Hung Cashew Sustainable Development Group	Kinh/Stieng	50 farmers Cooperative	South	Cashew 250 tons raw cashew annually	2007
Tan Cuong Organic Farmer Club	Kinh	20 farmers club	North	Tea 8 tons annually	2007

KEY ACTORS OF THE BUSINESS MODEL

Key actors in the business model include:

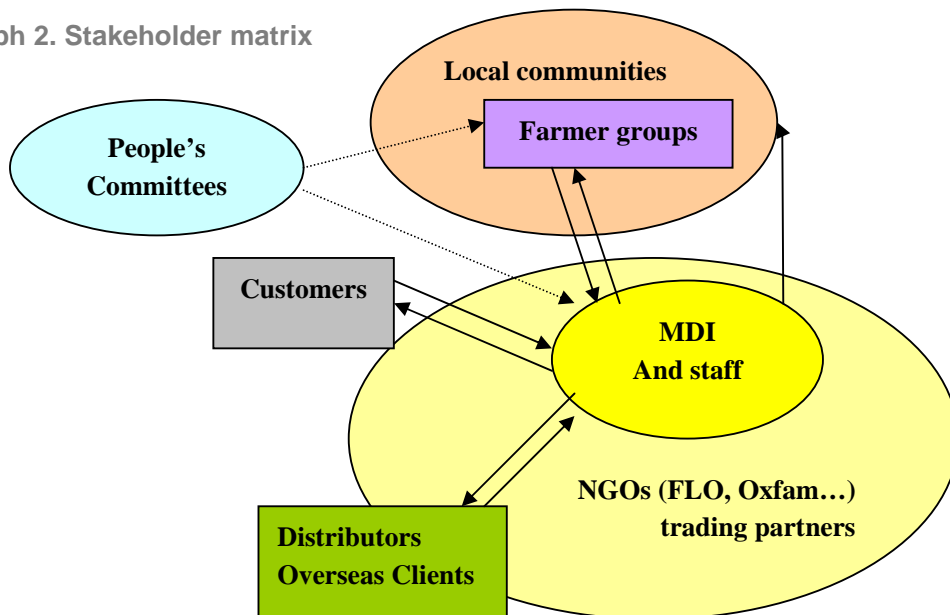
- The poor as producers with direct benefits and revenues for their families. The relation is both transactional and collaborative.
- Local communities (villages) as indirect beneficiaries. The relation is collaborative.
- NGOs (Oxfam Hong Kong or FLO) as partners provide contacts and linkages and assistance on international markets. The relation is collaborative. Oxfam International is a confederation of 14 like-minded organizations working together and with partners



and allies around the world to bring about lasting change. Oxfam International works directly with communities and seeks to influence the powerful to ensure that poor people can improve their lives and livelihoods and have a say in decisions that affect them. In 2007, MDI contacted Oxfam Hong Kong to present the company and could indeed receive their assistance. Oxfam Hong Kong helped MDI with the launch of Betterday Fairtrade products into Vietnamese supermarkets in December 2007 and also introduced their products in Hong Kong. In 2008, Oxfam subsidized MDI paying 50% of their trip to exhibit their Fairtrade products at the Hong Kong Food Expo. Oxfam also supported a trip to meet tea farmers in Nghe An in Central Vietnam, where Oxfam has been working for over a decade. For FLO (Fairtrade Labelling Organization), the relation is both transactional (as MDI needs to pay for the fair-trade mark certification) and collaborative.

- Supermarkets and outlets as distributors. The relation is transactional
- Customers and Buyers (Retail and Wholesale). The relation is transactional.
- MDI Staff of 20 located both in the mountains and Hanoi office. The relation is both transactional and collaborative.
- Government agencies and provincial People's Committees. The relation is collaborative.

Graph 2. Stakeholder matrix



Within MDI business model, no specific hindering actors and no tension or disagreement were identified.



COSTS AND BENEFITS OF COORDINATION

The poor as producers and their communities equal cost in terms of time and logistics as these farmer groups live in very remote areas with poor infrastructure. There are benefits in productivity, quality, loyalty and scale as they get more professional, certified and skilled. *“It took a long time for the farmers to organize themselves and truly work as a group. It also took time for them to trust each other and to trust MDI,”* explains Dominic. *“For instance, our black tea is produced in the Lai Chau commune regrouping four villages from different ethnic origins. We used to have problems in the black tea processing. We dedicated a long time and great effort to coordinate between the different ethnic groups.”*

NGOs offer the benefit of belonging to a network, gaining information, assistance and linkages on international markets.

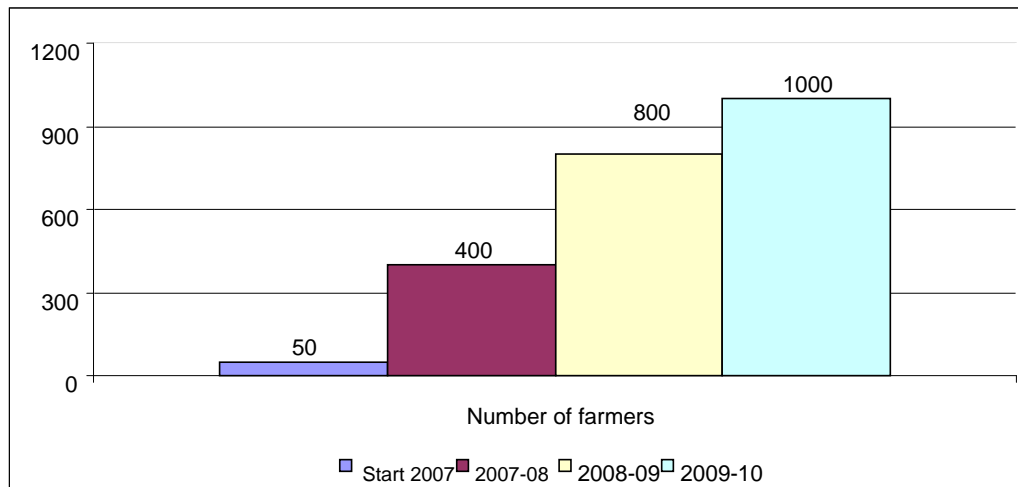
Supermarkets and outlets as distributors represent a cost in terms of time and efforts while approaching and selling the brand and concept as MDI is still quite new on the market. However, they also represent a benefit linked to the development of the distribution of MDI products in Vietnam.

Results Created by the Business

Today, the company employs around 20 staff. As with any new business, there is an important initial investment; in the case of MDI US\$200,000 was self-funded. In 2009, the business has reached breakeven point and MDI is today the largest Fairtrade Company in Vietnam in terms of number of farmer partners and volume of production. The business hasn't generated much profit so far and the owners don't get so 'much financial benefit'. They personally can only receive a very small salary every month.

Over their three years of activity, MDI has increased notably their production capacity, starting with 50 farmers in 2007 and at the end of 2009 counting more than 1000 farmers.

Table 2: Number of farmers working with MDI (from 2007 to 2010)



ECONOMIC RETURNS

By improving quality and achieving certification the value of the product can be increased significantly. In addition, MDI processes and produces branded and certified consumer ready products for domestic sale and for export, further enhancing value adding in Vietnam. Prior to 2009, income and livelihood gains by farmers were modest as the company was still investing in setting up systems and production. From 2009 more significant gains are starting to be seen.

Though still young, the business model has the potential to expand and scale up. In the future, the company plans to keep the same number of farmer groups but to get more farmers into these existing structures. As regards to the products, MDI is also exploring the development of new products: spices (lemongrass and cardamom) and organic crackers or biscotti.

SOCIAL RESULTS

MDI works with farmer groups to help improve quality of production, achieve Fairtrade certification and organic certification. MDI is currently working with around 1,000 farmers, representing total household size about 4,500-5,500 people. All of the farmers they work with live below the international poverty line of US\$1 day; most are ethnic minority people; and many live in remote mountainous regions.

By definition of the Ministry of Labours, War Invalids and Social Affairs (MOLISA) the poverty line in Vietnam is at monthly average earnings of less than VND 200,000 (US\$11) in rural areas and VND 260,000 (US\$14) in urban areas in 2009.

The average land holding of the farmer groups depends on the product grown. Low land tea farmers each have about 1,000-2,000 square metres of land and upland tea farmers about 3,000-4,000 square metres of land. Coffee farmers and cashew farmers each have about one hectare of land.



Most of the farmer groups are composed of families organized in cooperatives/cooperation groups or club. Before collaborating with MDI, the average income of the farmer groups varied from group to group, but in general the tea farmers were below the Vietnamese poverty line, cashew farmers in Binh Thuan around poverty line and cashew farmers in Binh Phuoc were middle-income level.

Because MDI only started recently and two of their farmer groups only got certified this year (2009), the impact on income is still quite modest. However, the tea farmers were able to double their income from tea this year – tea is about 1/3 of their overall ‘income’ but represents almost all of their cash income.

MDI is still at an early stage of its activity, but it can be noted that the farmers feel more pride in their products and are excited to see that their tea and cashew is being sold in the international market but still retaining the identity of the producer groups. *“We are proud to know that our products are sold in many foreign countries and...I cannot believe that my picture is in fact appearing on tea boxes to many people!”* explains a young Mong lady.

Besides the leadership of the groups have been able to visit India this year for the meeting of the Asian Producer Association of Fairtrade and they feel very proud and excited about that.

Many of the farmers cannot speak the official Vietnamese (Kinh) language and do not know how to write or to read.

Since the revolution in August 1945, and especially after Doi Moi (Renovation) in 1986, ethnic minorities in mountainous areas of Viet Nam have had a significant role to play in the country’s economic and social development activities. Among other things, they are a sizeable proportion of the overall national population. According to the national census in 1999, the 53 ethnic minority groups in Vietnam total 10,527,000 people, accounting for 13.8% of the total population of the country. This represented an increase of 1.82 million over the decade 1990–1999.

After the Doi Moi, a strong population growth rate of 58.4% occurred especially in the Central Highlands with the population in this area increased by a factor of 1.6 over a decade. This is the result of both natural growth and the migration policy of the Government. Ethnic minorities and Kinh people have been relocated from the northern mountainous regions as well as from the Red River Delta. The relocation process has caused significant changes in the population composition in mountainous regions. Some researchers suggest that the mountainous regions should no longer be considered sparsely populated with an abundance of natural resources for further exploitation.³

³ Asian Bank Development report - Ethnic Minorities and Poverty Reduction - Viet Nam – June 2002 - ISBN: 971-561-441-8



MDI has also contributed to balance the gender relations in rural communities. As tea picking is traditionally a female activity and the women working for MDI receive fair payment for their crops and can improve their household conditions. The Black Mong ladies can for instance buy books and send their children to school. It may be still premature to quantify the gender impact generated however MDI operates with a clear principle:

- The farmer receiving the income is the person doing the actual harvesting and delivery – for tea this is women.
- Therefore, even if the registered member is the man in the family, MDI pays directly to the women as they are doing all the work with tea.

The payment process does not affect really the gender relationship as in these rural areas; women are traditionally controlling the cash income.

By working together on a more organized and professional basis, the groups also influence positively their communities. The production is more structured and confidence is increased between the community members.

The example of the first farmer group MDI partnered with can concretely illustrate the social impact of MDI: the Thien Hoang Organic Tea Club is a Fairtrade-certified tea cooperative in Thai Nguyen Province in Vietnam.

Mr. Nguyen Van Kim, Chairman of the Cooperative, remembers when he first met the representatives of MDI in his village. The company announced that they were interested in buying the cooperative's organic tea under Fairtrade and selling it to Vietnamese consumers. Months later, when the first Fairtrade-certified tea was made available to Vietnamese consumers, Mr. Nguyen Van Kim and the other 18 members of Thien Hoang – 16 of whom are women – were filled with pride. Selling Fairtrade certified tea in the local market is an additional opportunity for the cooperative to receive the Fairtrade Minimum Price and the Fairtrade Premium. Until now, they have used the Fairtrade Premium to buy organic fertilizer they need to grow their tea. As Fairtrade sales continue to increase, this cooperative has even bigger plans for the future. They want to invest in a factory to process their tea. *“We are planning to build a factory to process our tea. At the moment, each member has their own basic drying facilities at home, but we want to professionalize this with a factory. The Fairtrade Premium will be used to co-invest in building this factory,”* declares Mr. Nguyen Van Kim — Chairman of Thien Hoang Organic Tea Club.⁴

⁴ Fair Trade Labelling Organizations International Annual Report 2007, available on www.fairtrade.net



ENVIRONMENT RESULTS



Ms. Minh preparing organic compost with Mong farmer group (Photo credit: MDI)



Correct pruning of tea bushes gives greater yields of tea (Photo credit: MDI)

The Betterday products are produced from eco-friendly farming and meet European agricultural standards for food safety and chemical use. Tea traditionally uses the most pesticides, up to 25 sprays per growing season. Betterday tea is all organic, with no chemical pesticides or insecticides used. Instead, a mixture of ginger, chili, garlic and water is sometimes used. Cashews processing can be toxic and requires protective clothing, which Betterday provides as a responsible Fair Trader, even though Vietnamese law does not require it. The company also promotes low-cost low environmental impact technology for productivity improvement – such as composting and tea bush pruning.

The farmers were not using the pesticides and chemicals before, so there is no reduction in the use of these products. Following improved organic farming practices and pruning of tea bushes increases yields about 20% from before. For compost, the farmers have used a total of about 200 tons of buffalo manure, 200 tons of weeds and 200 tons of dry waste that all had no value before and turned it into organic fertilizer. Total land for tea farming is about 300 hectares (sum of all groups land). For cashew it is about 200 hectares total.

Trade-offs are not easily measurable today, as the company is rather young and has just reached the breakeven point earlier in 2009. However, having a ‘double bottom line’, the company gets structured and organized to generate profit while creating sustainable social impact. In practical terms this is for now measured by how many farmer households MDI can work with and the impact that can be achieved on their livelihoods.

As an example, a tea farmer can get 200,000 VND (around US\$12) per kilo of tea leaves in the conventional market, when working within MDI Fairtrade network, the farmer gets the double 400,000 VND (around US\$24). So far, there is no additional cost for a farmer working with MDI compared with a conventional farmer, as MDI has been paying for the entire Fairtrade certification process. MDI has also been providing assistance in monitoring the Fairtrade agricultural standards.



In 2008, while the conventional market was paying 9,000 VND per kilo of raw cashew nuts, MDI was offering a price at 13,000 VND (i.e. 45% more).

Growth Strategy and Future Outlook

CHALLENGES

As explained by Minh: *“It is very challenging to working with ethnic minority farmers in very remote areas with poor infrastructure. We have some staff based in the countryside and we need to visit the tea and coffee producers every month, and we stay with the cashew producers during the entire crop season, in September.”* Besides, *“it is sad to say but the level of knowledge of Fairtrade in Vietnam is very low, and internationally the knowledge of Vietnamese products in the Fairtrade system is also very low,”* she adds. *“So we try to raise awareness and promote Fairtrade products from the health and safety angle, so that this concept speaks to a larger audience.”*

MDI also works with different Embassies and international organizations and associations in order to promote Vietnamese Fairtrade products.

In addition, MDI is currently involved three development projects in Vietnam:

- M4P (Making Markets Work Better for the Poor) a three-year regional technical assistance project co-financed by the Asian Development Bank (ADB), Department for International Development in the UK (DFID) and the Tokyo-based ADB Institute
- Commercialization of Pro-Poor Agricultural Research carried out by the Australian Centre for International Agricultural Research
- The Social Dimension of Global Production Systems: The Case of the Coffee Industry in Vietnam and Costa Rica carried out by the International Labour Organization (ILO)

“You know, when we started, we thought we knew about working with farmers or international markets, but afterwards we just realized we don’t know anything and that we have to learn everything from the beginning. Moreover, as the Fairtrade concept is rather new to Vietnam, we can’t not discuss or share ideas with other people on this activity,” comments Dominic. *“A very concrete example, you see this barcode on our products? Well at the start, we didn’t know how to find a barcode or how to arrange the logistics etc. We were not in the situation of junior trade employees who worked up but had to start directly as the owners of a trade company.”*

OPPORTUNITIES

MDI aims at increasing the value of Vietnamese agricultural products while designing a new sustainable model of production and consumption. They are working hard with farmers on producing international high-quality organic products.



MDI also communicates clearly on three main benefits of their products to the customers:

- High Quality: Betterday Fairtrade products are certified by Fairtrade to be produced and processed to the highest international standards
- Good Health: Betterday Fairtrade products meet European agricultural standards for food safety and chemical use
- Social Benefits: The purchase of Fairtrade labeled products enables the improvement of working and living conditions of farmers in Vietnam and encourages environmental protection

PROSPECT

With a professional and enthusiastic management, the company has a good potential for growth. MDI is now focusing on targeted communication efforts and brand awareness operations. For instance, the business has partnered with the Embassy of Denmark on 1 April 2009 to promote fair trade. The Danish Embassy has become a Fairtrade Workplace and changed its own consumption pattern, starting with using the coffee from Betterday products.

As recognition of their activity, MDI VIETNAM won the first South-South BE FAIR Award on 6 October 2009. “The Belgian Minister for Development Cooperation, Mr. Charles Michel, rewarded the Vietnamese organization MDI (International Marketing Development and Investment) as best initiative for the development of South-South Fair Trade. The newly established award wants to emphasize and promote the development of local and regional marketing of fair trade products (or fair trade services, like tourism) in developing countries. Twenty three organisations from 16 countries in Africa, Asia and Latin America participated in the contest. Apart from MDI, four other candidates made it to the shortlist: Community Friendly Movement (India), Fair Trade in Tourism South Africa, Fairtrade Producer Society (Ghana) and Gourmet Gardens (Uganda).

The members of the jury chose MDI as winner of the Award for the direct impact MDI’s work has on the lives of smallholder farmer groups, mainly women of ethnic minority groups in North-Vietnam and for the dynamism MDI shows to develop fair trade markets in the South. MDI has developed the first fair trade certified South-owned brand ‘Betterday’, sold in Vietnam and other Asian markets, and actively raises awareness of fair trade in Vietnam.”⁵

HOW TO IMPROVE

As the business has now reached the breakeven point, the company can start to capitalize on its assets and focus on efficient growth and expansion. More focus on clarifying the financial and commercial results and plans would be also beneficial. Given their relatively young existence, the company is currently concentrating more in developing their activity. Having reached their breakeven point, MDI would need now to structure their corporate strategy, clarify and set up a financial plan, make decisions on cost allocation and profit reinvestment.

⁵ BE FAIR website, last date of access 30 November 2009



INSIGHTS

The MDI business model is innovative and inspiring, introducing a new concept of fair trade, sustainable and responsible consumption to Vietnam. On the other hand, as the first Fairtrade social enterprise in Vietnam, they are also facing concrete difficulties and practical challenges. The concept the business is building on is a bet on the future of Vietnam. Minh is confident as hopes that *“the Vietnamese government will support and encourage more people to work for the protection of the environment and more social oriented businesses helping the farmers and delivering high quality agricultural products to the customers.”*

“The achievements are not from us, but from the farmers. Most of them cannot speak Vietnamese or read. It was very challenging for us to introduce this new fair trade concept, to write contracts, to set up production processes etc. But we are so proud to see what the farmers have achieved. For instance, we are working with the tea farmers from the Black Mong minorities in the Yen Bai province. They took the FLO certification in July 2009 and got the perfect score. They didn’t fail any point; this almost never happens. They are proud to sell their tea in high-end stores in Denmark or Hong Kong. We are proud to say that none of our high quality products was made by rich people, everything was made by the poor.”

When asked on the name of their brand Betterday, Minh explains: *“With our products farmers get a better life and when drinking our tea, our coffee and eating our cashew nuts, you will also enjoy a stressless and smooth day, a better day while contributing to a better society!”*



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The case was completed in February 2010 and released in 2011.

The information presented in this case study has been reviewed by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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Design: Suazion, Inc. (NJ, USA)

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