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LURAS Lao Upland Rural Advisory Service

Tea Sector Development in Lao PDR

Understanding 20 Years of Opportunities and Challenges

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Helvetas Advisory Services

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Contents

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The Lao Uplands Rural Advisory Service (LURAS) is a program of the Swiss Agency for Development and Cooperation (SDC) and the Government of Laos, implemented by Helvetas in partnership with the Department of Technical Extension and Agro-Processing (DTEAP).

List of Acronyms and Definitions

COPE- Community Organization, Participation and Empowerment Project

DAFO- District Agriculture and Forestry Office

PAFO- Provincial Agriculture and Forestry Office

MAF- Lao Ministry of Agriculture and Forestry

Mao Cha- A Chinese term for sun-dried tea, often translated as “rough tea” and used to make aged Pu’er type teas

MHP- Maeying Huamjai Patthana

MOIC- Lao Ministry of Industry and Commerce

MOPI- Ministry of Planning and Investment

ODOP- One District One Product program

PTDC- Phongsaly Tea Development Committee

Pu’er tea- A form of aged tea produced

SSSJ- Soum Son Seun Jai Project

VECO- A Belgian NGO, now renamed as Rikolto

Executive Summary

Tea, or *Camellia sinensis*, is native to the northern mountainous provinces of the Lao People's Democratic Republic, and has been produced at a small scale for hundreds of years. Commercial tea production has grown since the 1990s, but tea remains a minor crop and export product for Laos, important provincially in Phongsaly and locally in some districts of other northern provinces and the Bolaven plateau. Tea grows best in high elevation, often remote areas where opium production was previously widespread and where eradication of shifting cultivation and poverty have been long-term policy priorities for both the government of Lao PDR and its development partners. This has led to a small but steady stream of donor and government programs promoting it as a sustainable livelihood option.

The paper examines the experience of the tea sector since 2000, starting with a review of the trends in the literature and dialogue about the sector. Trends were drawn from a review of papers and presentations about the tea sector hosted on the LaoFAB document repository, articles and book chapters found on SpringerLink or found through other online resources. The most prominent topics and recommendations found in the review of these documents included farmer groups, technical production issues, organic certification, the roles of DAFO and PAFO, domestic marketing, packaging and branding, sector collective action and sector strategies.

The next section of the paper reviews six experiences of tea sector development initiatives from the northern Lao tea producing provinces of Bokeo, Xayaburi, Huaphan, Oudomxay, Xieng Khouang and Phongsaly. Across these provinces, key issues constraining development depended heavily on the local context and the development models promoted by government and development actors. The challenges of collective action approaches and expectations of farmer groups to transform into business-oriented cooperatives were important in Bokeo and Xayaburi, while Oudomxay and Huaphan demonstrated the negative impacts that land concessions and inadequate attention to political economy and power relationships can have in the tea sector. The experience of Xieng Khouang showed that ending exclusive trading concessions can boost growth, but this growth can have significant unintended consequences. Finally, the case of Phongsaly provides and example of how a sector strategy can be created, but also the need for effective, sector-driven execution of strategies after they are developed.

Comparison of literature about the tea sector and the experiences in the six tea-growing provinces shows that some of the seven common themes are relevant, although gaps exist. Areas of weakness include excessive expectations on the role of farmer groups and cooperatives, a questionable focus on packaging and branding tea for local markets and inadequate recognition of the sector's diversity and the lack of shared interests needed to support collective action. The comparison also suggests more attention is needed to business skills in the sector, inclusion of new types of public and private supporting service providers, secure and efficient access to the key Chinese market, land concessions and the political economy and power relationships in the sector.

More systemic analysis of the tea sector would contribute to better targeting of development and policy interventions supporting the tea sector. Analysis and intervention design is most appropriate at the provincial level, and needs to examine the *functions* and the *rules* that determine how the sector works, as well as the *interests, incentives, capacities and power* of the actors involved.

Introduction and Purpose of Study

This study was commissioned by the SDC-funded LURAS project to catalogue and learn from the development experience of the Lao tea sector between 2000 and 2021, focusing especially on the period between 2015 and 2021. Tea, as it is grown in Laos, has many characteristics that make it attractive for promotion by government and for development interventions. Tea grows best in high altitude uplands, which made it attractive for opium substitution early in the research period and as an alternative to shifting cultivation (swidden) for smallholder farmers throughout. As a native species well suited to forest gardens and polyculture, tea production in Laos is generally considered an appropriate option for sustainable livelihoods.

Despite its advantages, tea has never been a key economic sector or a top development priority across the entire uplands of northern Laos, though it is locally important in some provinces and districts. Over the past twenty years government policies and small development interventions have continuously supported tea sector development, but never in a sustained or widespread way. The moderate level of development support has generated a similarly modest quantity of publications, presentations and public discussions about tea. Overall, the sector has maintained a low profile compared to prominent or controversial agricultural sub-sectors such as rice, bananas or rubber.

The lack of attention to the tea sector is unfortunate, as it broadly reflects the issues facing the Lao economy and Lao agriculture. Like Laos itself, the tea sector is small, export dependent and heavily influenced by the Chinese market and Chinese foreign investment. Like other agricultural sub-sectors, issues related to markets, quality, commercialization and sustainability are important. Understanding what works and what doesn't work for tea holds lessons for other agricultural products, and for Lao economic development in general.

After a brief introduction to Laos and its tea sector, this paper examines the trends and common themes found in documents discussing the tea sector in Laos over the past two decades. The documents are drawn primarily from the document repository on LaoFAB**,** but also from online searches of SpringerLink and other publicly available material. For purposes of brevity, only the trends are discussed, but a bibliography of the papers is included and all publicly available documents have been organized and filed on LaoFAB[1] and Laotea.org[2] for readers' reference.

Following analysis of trends in the literature the study reviews cases from six tea producing provinces in northern Lao PDR, examining their experience with tea sector development initiatives. In each province key issues and lessons learned are identified, focusing on the most important constraint limiting equitable

[1] www.LaoFAB.org

[2] www.laotea.org

growth at the time of review. The focus on “problems” is intended to facilitate learning, not as a critique of development and policy interventions in those provinces which have often been highly successful.

The final section of the paper looks at the similarities and differences between the common themes in the literature comparted to the issues identified in the case studies. The comparison shows that some themes in the literature are relevant, while others miss the mark, leading to suggestions for re-orientation of interventions and for additional research. The paper concludes with recommendations on how analysis and intervention design can be strengthened for the tea sector in the future.

Context

Introduction to Lao People’s Democratic Republic

The Lao People’s Democratic Republic (Lao PDR, also referred to as Laos) is a small, landlocked country in Southeast Asia, bordered by China to the north, Vietnam to the east, Cambodia to the south and Thailand and Myanmar to the west. The country has a surface area of 237,995 km^2, including flat lowlands along the Mekong river in the center and south and largely mountainous terrain in the north and along the eastern border with Vietnam.

With a population of 7,165,000 and a nominal GDP of $18.174 billion USD in 2019[3], Laos has the smallest population and economy in mainland Southeast Asia. The economy has grown rapidly over the past twenty years, driven by investment in mining and hydropower and growth of the services sector. Despite a steady erosion of its role in the Lao economy, agriculture remains important with more than 61% of the labour force estimated to work in the sector as of 2020[4].

Within the agricultural sector, subsistence production remains important but is slowly declining as semi-commercial and commercial farming grows. FAO statistics estimate that 33% of farmers in Laos produce crops mainly for sale[5], with the highest rates of commercial production in non-staple crops such as coffee, sugarcane and cassava. While not mentioned by FAO, tea is also an important commercial crop in some upland areas of Laos, grown as a source of supplemental income or as a key cash crop in a few more established tea production zones such as Phongsaly.

[3] Source: https://data.worldbank.org/indicator/SP.POP.TOTL?locations=LA, accessed 03.02.2021.
[4] Source: https://www.statista.com/statistics/804983/employment-by-economic-sector-in-laos/, accessed 03.02.2021
[5] Source: http://www.fao.org/laos/fao-in-laos/laos-at-a-glance/en/, accessed 03.02.2021

History and Structure of the Lao Tea Sector

Tea is considered native to the northern mountains of Laos, and small-scale production and use of wild stands and domestic plots of *Camellia sinensis* for local use has taken place since time immemorial. Traditional tea users used the plant to make the infusion we commonly know as tea, but in some areas also produced a fermented product intended for chewing known as *mieng*. Well known to the people of Laos, this product caught the attention of Europeans in the 19th century[6] but has remained an obscure local specialty.

Export of tea to China is believed to date back to at least since the 7th century[7], and has continued at varying levels over the following centuries. Despite this early start, commercial tea production was very limited through French colonial times and in the post-independence period. The sector began to grow in the 1990s, with further expansion taking place in the 2000s when a boom in *Pu'er* type teas on China created demand for the *Camellia sinensis v. assamica* tea that grows naturally in Laos. While the crash of the *Pu'er* tea bubble in 2008 temporarily reduced Chinese demand for Lao tea, the market has since recovered and the China remains the largest destination for Lao tea by a large margin.

Lao tea production is small by global standards, with total production area officially recorded as 5,430 hectares by NAFRI in 2019[8]. This estimate of production area can be misleading due to the low to very low intensity of Lao tea production systems and the inclusion of low density stands of wild tea in the statistics. According to FAOSTAT, in 2019, 8,055 tons of tea leaf were harvested from 4,195 hectares[9], which would have been equivalent to approximately 1,650 tons of finished tea. (Accurate estimates of volumes and value are difficult to obtain and must be considered to have a margin of error due to widespread under-reporting of production and prices in order to minimize taxes.) Production areas stretch across the mountainous northern provinces of the country, where tea trees grow wild and agro-climatic conditions are suitable. Smaller quantities of tea are also produced on the highlands of the Bolaven Plateau in southern Laos, but is overshadowed by the much larger coffee, vegetable and fruit sectors.

Lao tea prices vary between provinces and seasons, but are substantially higher than world prices for bulk commodity tea. Relatively low priced green and black tea produced in Phongsaly in July 2020 was being exported for $6 USD per kilogram in May 2020, at the same time that Mombasa tea auction prices were between $2.29 and $2.30 USD per kg, and Vietnamese export prices averaged $1.65 per kg[10]. High reserve labour rates, transportation and logistics costs and significant unofficial transactions costs makes Laos uncompetitive in high-volume, low margin commodity tea production, forcing producers to focus on high value, low volume market niches.

The presence of Shan-type tea genetics and the availability of large areas suitable for tea production mean that low-intensity tea production systems are dominant in Laos. As characterized by the then National Agriculture and Forestry Research Institute, three types of production system exist in Laos producing teas of different values:

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[6] Bulletin of Miscellaneous Information (Royal Botanic Gardens, Kew) Vol. 1892, No. 70 (1892), pp. 219-222 (4 pages)

[7] Earth Systems 2016, Industry Position paper: Sustainability Development of the Lao Tea Sector (DRAFT), Vientiane Capital, August 2016.

[8] See presentation Unlocking the Potential of Lao PDR's Tea Sector, Khamphou Phouyyavong, NAFRI, 2019

[9] http://www.fao.org/faostat/en/#data/QC, Accessed 19.03.2021

[10] http://asemconnectvietnam.gov.vn/default.aspx?ZID1=8&ID8=97942&ID1=2, Accessed 1.20.2020

- **True wild tea collected from forests**. This comes from large, mature trees that must be climbed to pick the leaves. This extremely labour-intensive production system produces very high value tea that is sold based on its wild origins.
- **Wild tea collected from coppiced stumps growing back after slash and burn agriculture**. These trees are "wild" and "ancient" genetically, but because they have been cut and regrown from multiple shoots, are much easier to harvest.
- **Plantation grown tea produced from local genetic resources, sometimes sourced from wild "mother" trees**. These low intensity plantations are much easier to harvest, but still low-density and labour intensive compared to commodity tea production in other countries.

Plantation grown tea grown from high productivity *Camellia sinensis v. sinensis* seedlings and clones have been introduced but remain rare in northern Laos. Some examples exist where development or investment projects introduced foreign strains of tea previously[11], but this has not become a significant part of the industry.

All three types of tea have defined seasons which strongly influence demand, prices and therefore the timing of production and marketing. The three main tea picking seasons in northern Laos are:

- Early pickings during the dry season (approximately March to May) are appreciated in the Chinese market, are most demanded and sell for the highest prices. Most available tea resources of all three types are harvested during this season.
- Wet season tea (June to September) is less appreciated in the Chinese market, and inadequate alternative demand exists at prices Lao producers consider adequate. Because Lao tea is labour intensive and Laos has high "reserve wages", a large portion of the available tea crop is not picked except in the most prestigious production zones.
- Autumn tea produced after the rains end (October to November) is considered higher quality than wet season tea, although still somewhat inferior to early dry season tea. Prices can be similar to wet season tea but higher demand means that more of this season's tea is picked in many areas.

Granting of land and exclusive trade concessions is by far the most common form of government intervention in the tea sector. Concessions are typically agreed between a Lao or foreign[12] investor wishing to produce and market tea from a specific area. Concession agreements give companies property rights to an area containing wild tea resources and/or exclusive rights to buy tea from producers in enumerated villages, usually at a set price. In return tea companies pay concession related fees to government and usually commit to provide reliable markets to producers and provide some amount of

[11] For example, tea growers in Xaysetthan district of Xaignabouly provinces report that some of their tea trees were provided from Vietnam as part of a development project in the 1990s.
[12] Disproportionately Chinese

technical support for production. Concession agreements are often disliked by tea farmers, who often feel they have little input into the terms or enforcement of the agreements.

The informal nature of the border trade with China makes it impossible to obtain accurate data on the volume and value of tea traded to China. Even without reliable data, it is clear that Chinese tea imports drive the Lao tea sector and are likely to do so for the foreseeable future. Other export markets including Vietnam, Thailand and Germany are growing and can be locally important for tea produced during the wet season, but remain too small to dilute the influence of the Chinese tea market.

Despite the long history of tea production and use, domestic demand in Laos is small. In the hospitality sector, tea is overshadowed by Laos' vibrant coffee shops that have grown rapidly and sell increasingly sophisticated products. In retail and traditional markets, cheaper imported Vietnamese, Chinese and international blended tea is easily found throughout the country, dominating the mass market niche. The remaining high-end niche is small and can only absorb a small proportion of production, although margins can be attractive for companies adroit enough to capture market share.

Literature on the Lao Tea Sector

A modest amount of research has taken place on Lao tea, with varying levels of intensity over time. A first high-point was reached in 2010-2011 when CARE, NAFES and NAFRI conducted a series of studies on the tea sector culminating in a final report delivered in 2011[13] as part of the SDC-funded Lao Forest Tea Project. At that time, the sector had just come through a period of boom and bust driven by a speculative bubble in *Pu'er*-type teas in China.

A second surge in attention happened in the mid-2010s when GIZ, TABI, CCL, Helvetas and Oxfam worked on the sector and the Mekong Regional Land Governance Project commissioned an important 2016 paper by Earth Systems International[14]. Publications about tea slowed after 2016, continuing at a slower pace through conference presentations and papers by NAFRI, research conducted by the TABI project and other documentation created by the COPE[15], SSSJ[16], Mekong Tea[17] and LURAS[18] programs and others.

Review of the LaoFAB document repository, SpringerLink and Google searches of other online resources in early 2020 uncovered a total of 50 papers that dealt with the Lao tea sector in a meaningful way. Of these, only two were academic articles or academic oriented book chapters, 40 were non-academic publications produced by projects or related policy and development initiatives and seven were copies of presentations or other notes of discussions at public events.

The number of documents and presentations created by development practitioners, policy makers and public institutions appears proportional to tea's status as a minor crop. Attention from academic writers appears disproportionately low, especially when compared to the extensive academic literature on crops such as rubber, maize or bananas. It is not clear why this this discrepancy exists, as the tea

[13] CARE 2011, Tea sector Development in Northern Laos: Wild tea feasibility and Design Study- Final Report, Vientiane Capital, 2011
[14] Earth Systems 2016, Industry Position paper: Sustainability Development of the Lao Tea Sector (DRAFT), Vientiane Capital, August 2016
[15] Funded by HELVETAS Swiss Intercooperation and McKnight Foundation
[16] Funded by IFAD and Luxdev
[17] Funded by AFD
[18] Funded by SDC

sector deals with many of the same academically interesting issues such as controversial foreign investments and land concessions that motivate academic discourse on rubber, maize or timber production.

Common Trends and Recommendations in Tea Sector Literature

Clear trends emerged in documents about the Lao tea sector produced over the last 20 years. Some of these trends appear to be linked to growth and maturation of the sector, while others follow changes in prevailing trends on development and government policy. Seven of the most notable trends are described below, selected based on the frequency they were mentioned and on a subjective estimate of the importance or weight given to the topics by the authors. Qualitative judgement of the importance of topics gave greater weight to content created by Lao speakers in English to adjust for Lao language content that was not reviewed for this paper.

Farmer groups: A large amount of attention is given to producer groups in the literature, which is unsurprising considering that development projects and government policy usually target better outcomes for poor farmers. The expectations put on these groups[19] by government and development projects can be very ambitious, often extending to ownership of assets and collective conduct of tea processing and marketing businesses. Assumptions about collective action are often built into these expectations for farmer groups, as implied by the statement on the website Laotea.org stating that *"…small volume of production because of non-collective action organized by individual farmer households and factories[20]"* is a key problem for the sector.

Farmer groups were given the highest amount of attention in the early 2000s but got proportionately less coverage in documents from the late 2010s. This decline is in part due to the increasing sophistication of the tea sector as a wider variety of value chain actors got involved, but also appears to be influenced by changing trends in development methodologies over time.

Technical production issues: Tea production, harvest and processing techniques are common topics, mentioned to greater or lesser extent in most tea sector literature. Within this area agronomic issues included as pruning, plucking techniques, use of ground cover and fertility management, while top processing issues included post harvest handling, appropriate processing styles[21] and techniques, availability of suitable factories and equipment and food safety practices and certifications.

One of the interesting features in the literature is an apparent conflict in assessments of the quality of Lao tea, which is said to be high quality by some authors and to have significant quality problems by others. In reality both of these statements are true. Lao tea is high quality in the sense that it has special

[19] The understanding of what a "group" is ranges from relatively simple groups created to receive training to much more sophisticated cooperatives that own assets and conduct business

[20] https://laotea.org/about-lao-tea-sector/, accessed 1.28.2021.

[21] For example, *mao cha*, green tea, or black tea

characteristics that make it appropriate for high priced specialty teas and the vast majority of Lao tea is sold in premium markets at prices far above world prices for commodity teas. On the other hand, much of the tea produced is *mao cha*, an intermediate product that must be further processed, fermented and aged before being sold to consumers. This rough tea and conventional green and black teas can also suffer from quality defects due to inappropriate processing techniques. Processing quality varies widely between growers and processors, but the overall sector tends to rely on the inherent quality of the Lao tea resource to make up for inadequacies in post-harvest handling and processing.

The environmental sustainability of tea production stood out as an issue, particularly in documents produced in the 2010s. The premier example is the paper produced by Earth Systems in 2016 with support from the Mekong Region Land Governance Project[22], which had sustainability as the central theme. The priority given to sustainability is partly due to genuine issues such as maintenance of tea genetic diversity and prevention of erosion on sloping land, but is also clearly driven by the priorities of policy makers and the development community.

Organic certification: Organic production and certification are very frequently mentioned in Lao tea sector literature. Production is sometimes said to be "organic by default", with certification the logical next step to unlock greater value. This rests on the assumption that certified organic tea has greater market potential than uncertified tea grown without chemical inputs. This assumption seems to rest on a second assumption that organic certified tea will be sold in Western or domestic markets, as organic certification is generally not required for exports to China[23].

The frequency that organic certification of tea was mentioned or recommended did not significantly change over time. This is despite the fact that certification was only relevant for sales into the small domestic market or for small-scale exports[24] to Europe, North America and other developed countries. This changed in 2018 when sea containers of organic certified tea began to be exported from Phongsaly to Europe, proving that organic certification can improve market access at least in cases where volumes are sufficient for international trade.

DAFO and PAFO: District and Provincial Agriculture and Forestry Offices are frequently the official MOU partners of NGOs working on agricultural product value chains, and sometimes implement tea development projects directly as part of larger ODA programs such as SSSJ. The roles and involvement of DAFO and PAFO are therefore commonly discussed in tea sector literature.

[22] Earth Systems 2016, Industry Position paper: Sustainability Development of the Lao Tea Sector (DRAFT), Vientiane Capital, August 2016

[23] While Chinese buyers do want to buy tea produced without use of chemical inputs, this is done without certification.

[24] Generally 500 kg or less

While the attention given to DAFO and PAFO is not itself problematic, other government ministries and departments likely to be relevant to the tea sector receive much less attention. It is not clear whether lack of attention to non-agricultural issues facing the tea sector leads to less attention for other line ministries, or whether lack of involvement of other line ministries such as the Ministry of Industry and Commerce (MOIC) or the Ministry of Planning and Investment (MOPI) reduces attention to issues under their jurisdiction.

Domestic markets, packaging and branding: Developing domestic markets, particularly by developing consumer facing brands of packaged tea[25], is a common recommendation often made with the explanation that it will add value for tea producer cooperatives or processors. The disproportionately high attention given to the small local market for Lao tea is in contrasts with the proportionally lower level of attention to the Chinese market which absorbs a large majority of Lao tea production.[26]

Based on the frequency of mentions in the literature, development projects appear to be supporting packaging and branding and local market development somewhat less in recent years. This decline may be due to a shift in strategies, or because promotion of packaging and branding has been taken over by the *One District One Product (ODOP)* program, a long-running initiative of MOIC which supports tea companies in a number of northern provinces.

ODOP

ONE DISTRICT ONE PRODUCT

Collective action: Collective action and approaches is the most pervasive of the seven themes identified, in part because collective action through farmer groups is nearly ubiquitous in tea sector development initiatives. This tendency towards collective approaches influences the expectations placed on farmer groups, as mentioned in the previous section.

Suggestions to form representative bodies or platforms to work collectively on shared issues and policy changes became more common in the 2010s, including in papers from GIZ, Earth Systems, AFD and AVSF. These recommendations often recognize that the Lao tea sector is too small and dispersed to create a formal sector association, and instead recommend looser forms of organization such as networks[27] or propose a convening role for development partners and government[28].

Recommendations for collective action implicitly or explicitly recognize that a variety of actors are required to make a sector work. While this is very similar to *market systems* thinking it is more often described as a need to “coordinate value chains” or as “value chain structuration”.

Sector Strategies: While not present in papers focusing on village or district level interventions, proposals to create sector strategies are common in literature focusing on the national level, and includes materials related to the now completed sector strategy in Phongsaly. Tea sector strategies were barely mentioned in papers from the 2000s, but became more common in the 2010s. Increasing attention to sector

[25] Branding and packaging for export are also considered in some cases, but less often than for domestic markets.
[26] Significant attention is given to the Chinese market in some papers, but overall, it is under-represented compared to its overwhelming importance to the Lao tea sector.
[27] For example, in Earth Systems’ paper
[28] As happened during development of the Phongsaly tea sector

strategies coincided with greater maturity of the tea sector during that period, especially as markets for *Pu'er*-type tea recovered after the bust of 2007-8.

An increased focus on sector strategies is also linked to the evolution of issues facing tea producers and processors in established tea producing provinces, where many basic production and processing issues have been adequately dealt with. In these provinces, the issues now constraining sector prosperity tend to be more complex and to require policy responses.

Conclusions from Tea Sector Literature

Documents on the tea sector cover many other topics than the seven common themes described above. Even taking this wider range of issues into consideration, a number of subjects received substantially less attention than one might expect in a complex, export-oriented market system. Topics that might be inadequately covered include supporting services needed by tea producers and processors, trade agreements covering tea, use of land and trade concessions as a development tool and analysis of political economy and power relationships that set informal rules in the tea sector.

Suspected gaps in the literature about tea may exist because these topics simply are not issues, or because policy makers, donors, development actors and academics have blind spots or biases, do not prioritize these issues or are afraid to discuss sensitive topics. The next section of this paper will examine tea sector development efforts in six provinces of northern Lao PDR, seeking to identify one or more key issues. Later in the paper, the problems identified in the cases will be compared against the seven popular themes from the literature to determine whether they are in fact the most important areas for intervention and whether there are gaps that require more attention in the future.

Case Studies

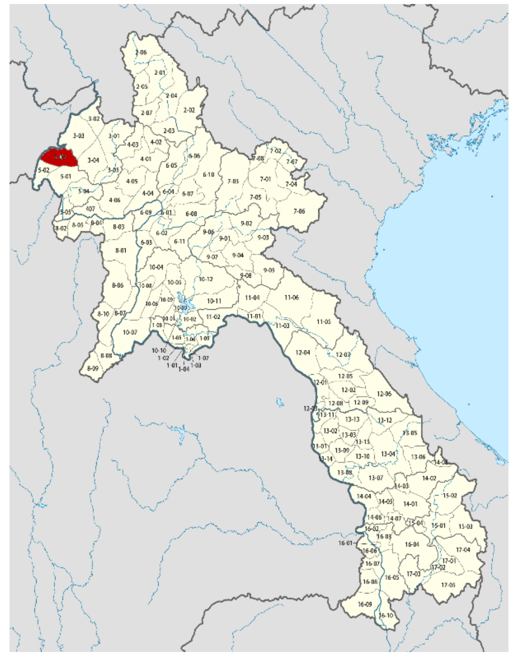
The following case studies were prepared based on a mix of primary and secondary research, some of which has not previously been published. During preparation of the paper field-based primary research was disrupted by the COVID pandemic, which restricted the author's ability to travel to Laos. As a result, research for the province of Oudomxay was carried out primarily through remote interviews with key stakeholders.

Bokeo

The province of Bokeo is a minor tea producer, but with significant pockets of valuable wild tea in high elevation areas. This resource was not commercially harvested until the *Pu'er* boom of the early 2000s, which opened new market opportunities in China where the majority of tea production is exported. Currently, tea processing in the province is dominated by Chinese tea processors operating with government-granted trade concessions, and a Lao tea cooperative based in Meung District which takes a more inclusive approach.

The Bokeo Wild Tea Cooperative emerged from work done by VECO in the 2000s, when the Belgian NGO ran rural development projects covering multiple agricultural commodities. Farmer groups were central to these development initiatives as part of the participatory and inclusive approach used by VECO. At the time, tea production in Meung district was in its infancy and most of VECO's interventions were on other crops, but Chinese demand was growing and farmers were interested to produce it.

As VECO phased out its involvement in Bokeo, the local NGO Maeying Huamjai Patthana (MHP) carried on efforts to develop the tea sector in Meung district[29]. By 2016, this effort led to formation of a tea cooperative to provide sustainable livelihood options to ethnic minority women and men. The cooperative also provided an alternative to the established economic model of foreign investors dominating tea production through land and trade concessions. The cooperative has 40 members, 60% of which are women and the majority of which are from the Akha ethnic group.



Bokeo Wild Tea is organized as a cooperative under a Lao law[30] that came into force a few years prior to its formation. The cooperative format was not originally the preferred choice for all stakeholders, but was recommended by local government officials as the administratively easiest and most appropriate form of organization. There is no record that the organizational development needs of an export-oriented enterprise were considered when the recommendation was made to form a cooperative.

Bokeo Wild Tea Cooperative's innovative model, inclusiveness and origins in a development project allowed it to obtain external support over a period of years. This included funding to build a tea factory and install equipment, leaving them with an adequate processing facility that nevertheless suffered from a number of limitations.[31] The organization also received technical support from tea experts to improve processing quality, assistance to map wild and ancient tea resources, help with organic certification and opportunities to meet overseas buyers.

Despite this external assistance, growing the business has been difficult and the cooperative likely would have failed without the continued championing and investment of time and money by Ms. Vansy Senyavong. This allowed for investment in equipment to process green tea[32] and to provide working capital needed to continue operations. Ms. Senyavong's investments were not matched by tea producing members of the cooperative, who are both less affluent and do not wish to invest because the cooperative has not yet made a profit.

Bokeo Wild Tea Cooperative has a compelling product with a backstory attractive to international buyers, but has not been able to develop markets and sell enough tea to cover costs and provide a return to members. In the organization's own words:

> *While the potential demand for organic, wild forest tea is there, the high-end domestic and international markets require very strict standards which are challenging for a farmer's co-operative comprising ethnic communities in a remote area of Lao PDR to satisfy.*[33]

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[29] Map source: Wikipedia, used under Creative Commons License

[30] *Decree on Cooperatives,* No. 136/PM, 05 March, 2010

[31] Being located in an inappropriate part of the village; not the right selection of machines to produce the types of tea most appropriate for the high-end raw materials

[32] Producing green tea was found to be more appropriate for the type of leaf available in the area, and is considered to have greater market potential than the types of tea previously being produced.

[33] Source: https://www.f6s.com/meungmountainteacooperativelaopdr, accessed 24.02.2021

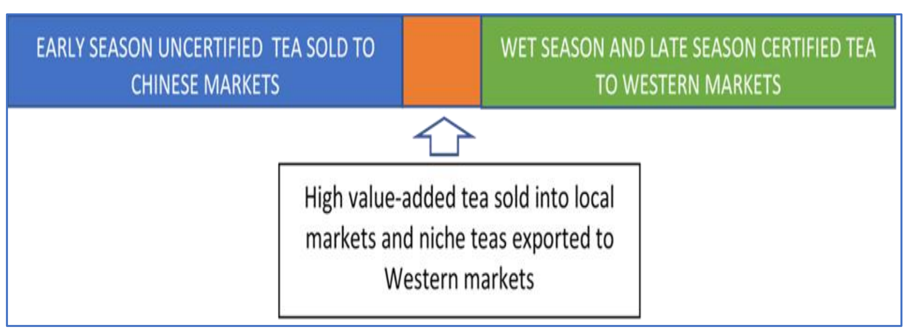
Creating a competitive, export-ready business is difficult in the best of cases. For Lao tea producers and processors targeting high-end markets, critical success factors include:

- Business skills sufficient to manage supply chains, food safety, marketing and export logistics and to integrate these into a coherent business plan
- A robust managerial structure that ensures key functions in the company are fulfilled in a reliable and timely way
- Language and communication skills to engage with international business partners
- Financial management capacities for costing and pricing of product and management of the company's finances
- Knowledge about how to navigate import and export procedures
- A strong understanding of the products unique selling point for targeted buyers, and the ability to translate this into a realistic marketing strategy

While not inherently inappropriate for a tea processing business, Bokeo Wild Tea's cooperative structure adds managerial and institutional complexity, reducing the time and attention available to work on key issues. The cooperative format also limits opportunities to raise much-needed capital by restricting the ownership stake of individual members to 20% of the total capital stock. With most cooperative members unable or unwilling to invest when the organization is not yet profitable, this structure makes it impossible for more motivated members to provide working and investment capital once they have reached the 20% limit.

At the time of writing, a new AFD-funded project called *Mekong Tea* is starting to work with the Bokeo Wild Tea Cooperative. A major strength of this project is its strong connection to Ethiquable, a French commercial partner willing to work with and source from the Bokeo cooperative. Managed properly, this commercial opportunity could give cooperative members the confidence to invest time, money and credibility in the business. This is especially important in the case of Bokeo Wild Tea Cooperative due to its ongoing difficulties finding markets and selling the tea its members produce.

The link with Ethiquable also provides the cooperative with a specific market opportunity that can be translated into a defined plan of action. This includes basic compliance issues like food safety, but also choices about what types of tea to produce (i.e. green, red, black) which then determines what processes and equipment to use. This clarity should allow the cooperative to use their limited equipment and resources more efficiently, avoiding wasted time and money on less viable products.



A remaining question for the Bokeo Wild Tea Cooperative is what to make of the Chinese market. Prices for fair-trade and organic tea may be high by international standards, but consumption of premium tea by Western countries is very small compared to China. With a surplus of tea to sell, it makes more sense for cooperative members to maximise their incomes by selling the highest value tea from the spring season into Chinese markets via an intermediary trader, switching to production for domestic and Western markets in the wet season when Chinese demand is lower. This strategy would diversify markets and extend the season for producers, while selling tea profitably to China without land concessions and under their own management.

Improved market access will not solve all the challenges of the Bokeo Wild Tea Cooperative. Under the current arrangement, the cooperative is unable to raise much needed capital from members and is *de facto* operating as a social enterprise with one member holding a majority of shares. Restructuring offers an opportunity to create a stronger, more sustainable organization capable of competing on world markets if it is based on solid analysis linked to the organization's strategic goals.

A lesson to be learned from the experience of the Bokeo Wild Tea Cooperative is **that organizational structure matters for businesses in the tea sector and for the development initiatives that support them. Decisions to choose collective business structures such as a cooperative need to realistically assess the costs and benefits of collective approaches in the context of the proposed business.** Ultimately, these decisions must be taken by stakeholders, but development partners and government have an important role to provide the information and advice stakeholders need to inform these decisions.

In fact, analysing the benefits and drawbacks of collective approaches is good practice and relevant to many other aspects of tea sector and agricultural development. Thinking critically about the costs and benefits of collective action may sometimes lead development programs to select alternative options, but can also improve the quality of collective business models and actions.

> One restructuring option that could help Bokeo Wild Tea Cooperative and its members meet their goals is to spin-off processing and exporting into a new social enterprise. The remainder of the organization would become a focused tea grower's cooperative, 100% owned by its producer members and supporting them on production and sale of fresh tea leaves and possibly also processing of *mao cha*.
>
> Under this scenario the cooperative or its members could retain shares in the social enterprise, encouraging preferential buying and selling relationships between the two. Freed from the legal restrictions placed on cooperatives and the cumbersome structure, the social enterprise would have more options to raise capital, streamline management and strengthen the processes and skills needed to compete in international markets.

Xayabouli

Xayabouli province is located in north-western Laos between the Mekong river and the Thai border. The Luang Prabang range in western Xayabouli has appropriate soils and climates for tea production, particularly in Xaysathan district. With steep topography, difficult road access and a small population, sustainable livelihood alternatives to shifting cultivation are limited in Xaysathan. Tea production has been promoted in the district for a number of years, including in the villages of Ban Samet Noi and Ban Samet Nyai.

Though tea production is locally important in Xaysathan, production volumes are small and processing is dominated by Champa Kham[34], owned by a large Chinese investor that also owns a factory in Xieng Khouang province. In addition to sales of fresh tea leaf to this company, tea producers in Ban Samet Noi and Ban Samet Nyai received irregular visits from informal traders purchasing *mao cha* for export to China and were able to sell some tea at farmgate to passing motorists on the main road between the district

[34] Officially, Lao Xiang Chang Natural Resource Development Sole Company Ltd.

center and the provincial capital. Like many tea farmers in Laos these villages could easily sell their dry season production, but experienced low demand for wet season tea for the export to China.

When visited in 2018, tea producers in Ban Samet Noi and Ban Samet Nyai reported a history of tea development projects stretching back to the late 1990s. Most recently, two parallel approaches to develop the tea sector had been operating concurrently in these villages over the preceding five years. The first of these approaches was a concession agreement reached between the Chinese-owned company Champa Kham and local government. Under this agreement, the company was given exclusive rights to buy and process tea from certain villages, including Ban Samet Noi and Ban Samet Nyai. The agreement set "year-round" prices for tea and defined the company's responsibilities to provide reliable year-round markets and technical and other support to tea farmers.

While the concession agreement was officially structured as a private development initiative, it did not operate that way in reality. Farmers reported receiving little if any technical support from the company, but were more concerned about the interaction between the set price and the buying commitments in the concession agreement. Prices for fresh tea leaf had been set at 12,000 LAK per kg for both dry and wet season production, which was a good price for wet season tea but a low price during the dry season. In practice, the company bought very little tea during the wet season and when visited in early September 2018 the factory had been idled for approximately two months. Without purchase of wet season tea to increase producer incomes, the set price in the concession agreement became a *de facto* ceiling price for higher quality dry season tea that directly benefitted the company and local government[35] at the expense of farmers.

The second program working concurrently on tea production in the villages was the IFAD-funded Soum Son Seun Jai (SSSJ) project implemented by the Ministry of Agriculture and Forestry. This multi-year program supported community-based food security and economic opportunity in nine districts of northern Laos, including Xaysathan district. The SSSJ project supported tea sector development in Xaysathan, as well as Pakbeng district of neighbouring Oudomxay province. Implemented on the ground through District Agriculture and Forestry Offices (DAFO), the project worked with producer groups, organizing them and providing technical advice on improved tea production techniques.

In addition to improved production, the SSSJ project assisted tea farmer groups in Ban Samet Noi and Ban Samet Nyai to start processing and marketing their own tea. Two small tea factories were built on land contributed by the villages which the project paid to outfit with equipment for tea processing. The factory at Ban Samet Nyai was substantially more sophisticated than the one at Ban Samet Noi, which was a basic wood structure without adequate electrical service to operate motorized processing equipment.

[35] While it was not possible to view a copy of this concession agreement, concession agreements generally include payments to local government, making them beneficiaries of concessions as well.

Marketing support for tea produced in the new factories was arranged by the SSSJ project in coordination with the *One District, One Product* (ODOP) program. Consumer-oriented packaging and branding was developed, targeting the domestic market in Laos. The farmer groups received support from the ODOP program to promote their tea, and the Provincial Agriculture and Forestry Office (PAFO) took on the role of distributors, providing the tea to shops in the provincial capital and using the it for official gifts for visitors and dignitaries.

Despite the extensive support SSSJ facilitated for the two producer groups prior to 2017, by September 2018 neither were working to process and sell their tea collectively, although group members sometimes used the equipment individually. While the farmer groups existed on paper, neither had the structures or skills required to operate their factories as going concerns. Had the producer groups processed and packaged their tea, distribution and sales would have been a problem as the main distribution channels were a few small traders in the market in the provincial capital, use as gifts by government officials and occasional direct sales at ODOP-sponsored events.

A first lesson to be learned from this case is that development strategies and support **need to be tailored to the interests, incentives and capacities of the people and organizations involved**. The key stakeholders in this case were the two tea producer groups. The producers had an economic interest to find an alternative to selling their tea to Champa Kham at low prices, and an interest in recovering the economic autonomy they had lost through the concession agreement. The producers did not have the technical or organizational capacities to operate a competitive, integrated tea processing and marketing business targeting consumers.

Developing these capacities to the point where the groups could run their businesses sustainably might have been possible, but would have required a longer and deeper investment of time and technical support than SSSJ could provide. A more realistic development strategy[36] would have focused on market options that required less ambitious capacities that could be developed within the term of project support. This might have included improved processing of *mao cha* and establishing stable, dependable relationships with traders who move tea to the Chinese border. While not as prestigious as owning a tea factory producing branded product, a less ambitious business model could have helped the producer groups transition in to processing and marketing tea, potentially paving the way for running their own factories in the future.

[36] Making realistic plans was the most critical point in the external review of the SSSJ project

Understanding why the SSSJ project promoted production of packaged and branded tea instead of taking a more gradual approach to improving tea processing and marketing in Ban Samet Noi and Ban Samet Nyai requires a deeper look at the political economy of the tea concessions in Xaysathan district. At the time SSSJ was operating, tensions between Champa Kham and tea producers were high due to the concession agreement described above. Given local government's role in the trade concession and DAFO's key implementing role in SSSJ in Xaysathan, the project needed to deal with these tensions in order to work effectively with tea farmers.

Conversations with local, provincial and national stakeholders in 2018 described intense discussions about whether the farmer groups could process and sell their own tea outside of the concession agreement. SSSJ's processing and marketing interventions in Ban Samet Noi and Ban Samet Nyai can be understood as the compromise between the interests of the stakeholders that emerged from these discussions. Farmers achieved increased freedom to market their tea, allowing the Ministry of Agriculture and Forestry to diffuse tensions enough to implement SSSJ activities in the tea sector of Xaysathan. The company and district government were largely able to maintain the concession that benefitted them and got a prestigious new ODOP product as compensation for a marginal loss of control over tea sales. From this perspective, SSSJ's intervention was really a government-approved option for tea farmers to circumvent the restrictions placed on them by the trade concession[37]. To the extent that farmers had a precedent to justify processing and trading some tea outside of the concession, the intervention was a qualified success even if sales of packaged and branded tea was not.

The examples of Ban Samet Noi and Ban Samet Nyai show the importance of political economy and power relationships in and for development interventions. Political economy analysis is widely recognized as critical for effective development[38], but it is an area that has been badly under-emphasized in development support for the Lao tea sector. It is understandable that the parties involved do not want to reveal the deal-making and political accommodations and unrealistic to expect them to do so at the time they take place. Even if open discussion and documentation of these issues is not possible when projects are being developed and implemented, *post facto* documentation to harvest lessons learned are a critical input for effective, locally appropriate development interventions and policies in the future.

Huaphanh

In a remote area in the mountains of District X[39], local people have always known about and harvested wild forest tea for personal use. In the mid-2010s a tea trader from a neighbouring district visited to prospect for new sources of wild tea and learned about a large stand of tea trees growing just outside a village in the west of the district. The trader obtained and processed samples and sent them to China for tasting, where the response was very good. Based on the size and quality of the tea resource the businessman decided set up a new tea processing factory.

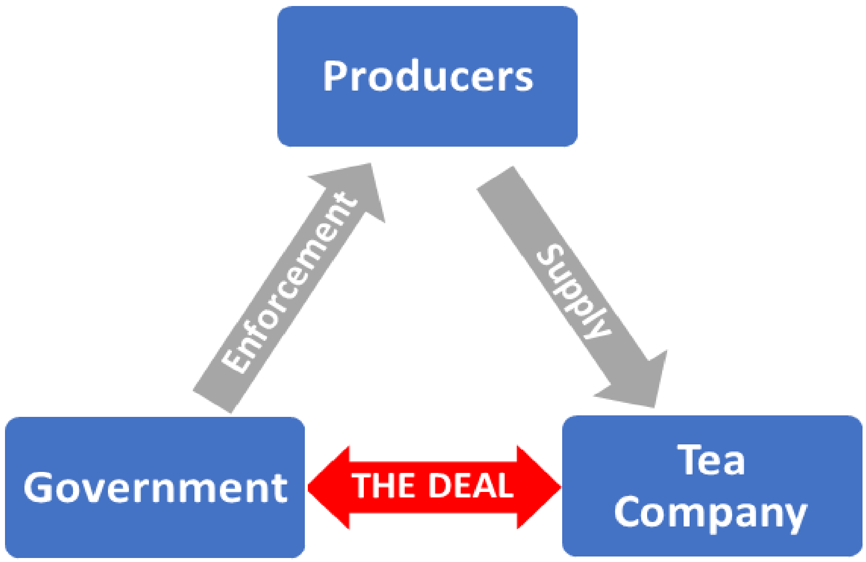
Excited by the potential for a new, prestigious export product, district and provincial government officials worked closely with the tea factory owner. A small factory was built on rented land just outside the village, the company obtained a business license, and signed a land concession agreement with the

[37] The pattern of districts being more supportive of concessions than higher levels of government is also seen in provinces such as Phongsaly and Xieng Khouang.

[38] For example, see BEAM Exchange's explanation at https://beamexchange.org/guidance/analysis/political-economy-analysis/#:~:text=Political%20economy%20analysis%20focuses%20on,that%20enable%20or%20frustrate%20change.

[39] The identity of this district is not being revealed to avoid contributing to conflict.

government that assigned rights to 145 hectares of land where the wild tea was located. In return, the company agreed to annual payments to government[40] and support for the new tea producers from the village who would grow and harvest the tea.



The company commenced operations late during the first growing season, collecting enough tea to produce 500 kg of finished product and paying 12,000 LAK (about $1.35) per kilo for fresh leaf collected from wild tea trees. Prospects for the following year seemed good, but unfortunately for everyone involved problems soon emerged between the villagers and the factory.

To find out what was wrong and how it might be resolved, a rapid survey of tea production in District X was commissioned. The survey discovered four key problems:

1. Inadequate information about tea market opportunities and requirements.
2. A lack of technical and production support for new tea producers.
3. Inadequate supply of seedlings sourced from wild tea trees in the forests to expand production.
4. A land concession awarding monopsony rights to the tea production area, the wild tea resource, and unofficially restricting the rights of village inhabitants to trade tea they grew themselves.

While each of these four constraints were important, the land concession agreement controlling tea production and marketing was the key problem***.*** The concession agreement assigned 145 hectares of land where wild tea trees grew at a cost of $60 USD per hectare annually plus additional fees and taxes in return for exclusive rights to trade tea from this zone. As described by the company and government officials, the other main terms of the deal were: a) financial benefits to the state, b) the company's responsibilities to provide technical and other support for producers to increase tea production and, c) a set price of 12,000 LAK per kg.

The situation that unfolded in District X is typical of how concessions for tea are awarded in Laos, in that it ***did not include agreement(s) between the company and producers*** who are the main parties involved in the transaction of tea production and trading. Instead, the company signed contracts with local government and there was never a "meeting of the minds" between villagers producing the tea and the tea processor. This, combined with the legally questionable message that tea producers were not permitted to sell tea produced outside the 145-hectare land concession to other buyers led to significant tensions.

The trigger for the collapse of wild tea production in the district happened when the tea producers discovered that similar or lower quality fresh tea leaf sold for at least 20,000 LAK per kilo in Xieng Khouang, which was 67% more than the 12,000 LAK they were receiving. Even worse, producers in

[40] Including a small payment to the village.

Xieng Khouang were able to process their own tea and sell it for 300,000 LAK per kilo[41] to whomever they pleased. Within one year of the tea factory opening, tea producers had stopped selling to the company, the company had no revenue and local government officials were concerned that "*farmers don't understand the policy of the company and the government*".

The study also looked deeper into the economics of the concession, seeking to understand how it worked, if there were surpluses that could be reallocated to producers and whether the concession was an economically rational strategy for the company. Interviews revealed that the concession came at a significant cost, even excluding provincial taxes on trade of processed tea.

Annual Official Maintenance Costs for District X Concession		
Land concession cost @ $60 USD/ha per year	$8,700 USD/year	76,592,000 LAK/year
Tax to province (flat)	$625 USD/year	5,500,000 LAK/year
Tax to villages (flat)	$170 USD/year	1,500,000 LAK/year
Land concession management fee to province (flat)	$400 USD/year	3,500,000 LAK/year
Total official fees related to the land concession	**$9895 USD/year**	**87,092,000 LAK/year**
Straight-line Amortization of Costs to Obtain Concession[42]		
15-year concession costing 450,000,000 LAK to obtain	$3,410 USD/year	30,000,000 LAK/year
Total Cost of Land Concession		
	$13,305 USD/year	**117,092,000 LAK/year**

A key feature of the concession was that its costs were fixed rather than linked to production levels. This was especially important in the early years, when production was very small, starting at only 500 kg, with an expected output of around 1.5 tons per year over the first five years and an aspiration to eventually reach 5 tons per year. The following table shows the cost of the concession per kilogram of finished tea produced, and for the corresponding amount of fresh tea leaves procured from villagers.

Production volume (dry tea)	**Concession cost per kilo dry tea produced**	**Concession cost per kilo of fresh leaf purchased**
500 kg per year	234,184 LAK/kg	52,040 LAK/kg
1.5 tons per year	78,060 LAK/kg	17,346 LAK/kg
5 tons per year	23,418 LAK/kg	5,204 LAK/kg

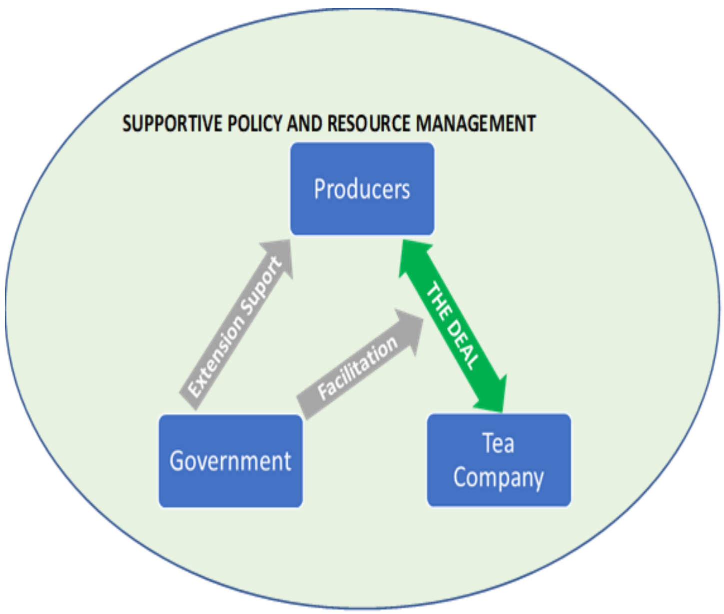
The tea company in District X entered into the concession agreement with the understanding it would have benefits greater than its costs. This was a serious miscalculation[43], as the concession:

A. Was <u>much</u> more expensive than competing with other tea buyers through higher prices, relationship-strengthening investments in producers or a mixture of both.
B. Destroyed the relationship with the village inhabitants who were otherwise interested to produce tea, leading to a complete halt in operations.

[41] With one kilo of tea requiring a maximum of five kilos of fresh tea leaves, the farmers understood that tea producers in Phongsaly were earning five times more for their tea than they were.
[42] Calculated without assigning a time value of money, and therefore significantly underestimating the actual cost.
[43] The only clear benefit the company obtained in this case is to exclude other companies from taking a concession for the area in question that would preclude them from doing business.

In the end, tea producers, the tea company and government all ended up losing in District X. Tea producers lost a promising and sustainable opportunity for much needed cash income. The tea factory lost their significant investment of both time and money, which may otherwise have developed into a profitable and prestigious business. Government lost income that would have been generated from taxes on tea trading and the credibility that would have come with successful and sustainable economic development in a remote rural area.

To avoid similar unintended consequences in the future, the government of District X should reconsider the use of land concessions as a development tool, as has happened in Xieng Khouang and other districts of Huaphan Province. In this case, a more successful approach would have seen local and provincial governments:



1. Encourage the company and villagers to negotiate a mutually agreeable deal on tea production, acting as a neutral third party to facilitate and validate discussions
2. To the extent they are able to, provide producers with extension and technical support needed to sustainably and profitably produce quality wild tea
3. Provide a stable and supportive policy environment and that includes effective management of the wild tea resource and land for new tea production.

Oudomxay

Oudomxay province, located on the border with China, is a major transit point for Lao tea exports and a minor tea production area, growing a mix of forest tea, wild tea gardens and plantation tea. Tea growing areas of the province are home to the Khmu ethnic minority who have traditionally depended on shifting cultivation of upland rice and the collection of a wide range of forest products. In 2015, the LURAS project, collaborating with PAFO Oudomxay, identified forest tea as having high market potential, a good environmental profile and high potential for inclusiveness of poor and ethnic minority women and men[44].

Tea processors and traders were some of the most important players in the sector, offering a potential entry point for LURAS' interventions. Helvetas and SNV, the implementing partners for LURAS, had previous experience in collaborating with private companies to improve delivery of agricultural extension (often referred to as 'the EMRIP model') and set out to apply the same approach to the tea sector in Oudomxay. Three processing companies were active in Oudomxay, each of which had negotiated exclusive access to tea producing villages with district and provincial governments. When one of the companies ceased operations, villages assigned to them were divided between the other two operators, creating a pair of parallel monopsonies broken occasionally when informal traders came to buy tea.

[44] Joost Foppes and Souvanpheng Phommasane, *Review of Tea Sector Development in Oudomxay,* Vientiane, 2017

With only two players in the market, LURAS had limited options for private sector collaboration in the tea sector of Oudomxay. Agreements to cooperate on tea sector development, including extension support to producers, were signed between the project and the companies Salika and Sengchan in 2016. Soon after this took place, a number of concerns were identified relating to the sustainability of production systems, economic equity of trading relationships and the capacity of LURAS and its partners to deal with these issues. The tea concession agreements assigning exclusive rights to the two tea companies were integral to these issues, as were producer complaints that companies rarely came to collect tea outside of the peak dry season harvest and kept prices artificially low. Before the end of the year, the project progress report was already noting that:

> *…agreements with companies in Oudomxay have raised important questions about engagement with the private sector. The due diligence process did not reveal the fact that hundreds of farmers in Beng are liable for a sizeable debt to Nayoby Bank as a result of earlier efforts by the District authorities to promote the development of the tea sector*

To identify options to overcome these challenges, LURAS commissioned research in 2017 that included field work in Oudomxay and comparative analysis with the tea sectors in the provinces of Phongsaly and Xieng Khouang. Field and desk research were followed by a workshop in Oudomxay where the consultants' findings were discussed by stakeholders and proposals for future actions developed. Based on the data and views collected, the consultants made thirteen recommendations aligned with LURAS' three main outcomes[45]. These ranged from defining land use and resource rights, to tea labelling and developing a tea sector strategy. While it was never likely that LURAS would be able to implement all recommendations, taken together they show the diversity of issues facing the Oudomxay tea sector[46].

Of equal importance, the consultants concluded that LURAS' partners were not able to effectively deal with the problems facing the tea sector. This observation led the consultants to comment that:

> *A range of support activities are needed to improve the tea sector: developing co-management systems, sustainable production guidelines, assessing impacts of tea on environment, mapping and tenure arrangements, strengthening groups, reviewing the quota system and creating linkages with Chinese buyers to achieve better prices for primary producers.*

At the time, LURAS was working on a diverse range of other products and problems in Oudomxay, including pig feeding, fish conservation, organic vegetable marketing, cardamon varieties and pesticide misuse. The management team recognized that this piecemeal approach, typical of many agricultural extension and rural development projects, had limited impact and subsequently adopted a more

[45] These include 1. Increasing demand for rural advisory services, 2. Increasing supply of effective rural advisory services, and 3. Creating a more conducive policy framework.
[46] Even this list is likely incomplete, as it does not include work to change tea company business models in ways that would improve equity and shift the way Oudomxay tea is marketed in China

systematic approach addressing fewer topics in Phase II but was not able to commit to dramatically expand its scope of work in the tea sector at that time.

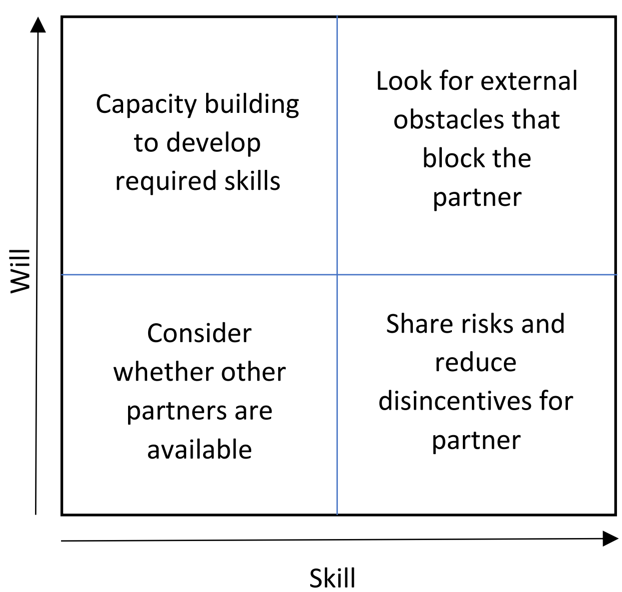
Acknowledging that LURAS' scope could not meet all of the needs of the tea sector, the consultants suggested:

> *…a province-level tea sector development taskforce, which would be comprised to representatives of all relevant government agencies and key private sector representatives, which meets every quarter and steers the development of the tea sector, following a road-map that outlines key activities to be implemented through partnerships between stakeholders.*

In effect, the consultants proposed a taskforce as an arrangement to support tea sector growth over the long term. This taskforce would need to include a full range of stakeholders relevant to the tea market system in Oudomxay, including Chinese tea processors. This would have been challenging due to language issues, the fact that the Chinese tea entrepreneurs only reside in the production zone during the harvest season. As the case of Phongsaly province will show, instigating and maintaining this type of institution takes significant time and effort, even in a province where tea is much more important to the economy than in Oudomxay.

Another challenge that would have faced a tea sector development taskforce is the political sensitivity of the tea concessions, which would have made open discussions difficult or impossible. Navigating this situation would have required an in-depth understanding of the politics and power relationships of the concessions by a party trusted by stakeholders to facilitate difficult discussions. While it was theoretically possible for LURAS to take on this role, the project's partnerships limited options. In the words of the consultants:

> *LURAS partners have neither the experience nor the skills to do most of these things[47]. LURAS could consider to develop a detailed training needs assessment and hire third-party training experts for each topic to train Government and Company staff.*



Whether training of government and companies would have been successful can be understood using the concept of *will and skill.*[48] As described by the consultants, LURAS' partners did not have the skills required to support tea sector development, placing them on the left side of the matrix. Neither the consultants nor LURAS documented discussions about the willingness of partners to deal with land and trade concessions, but given the sensitivity of these issues and the

[47] Note that the consultants were referring to comprehensive value chain development, not only about the tea sector task force or issues related to concessions

[48] This matrix is adapted from: The Springfield Centre (2015) The Operational Guide for the Making Markets Work for the Poor (M4P) Approach, 2nd edition funded by SDC & DFID

interests of provincial, district and private sector stakeholders in maintaining the status quo, it is safe to assume they would have a low level of will. The combined low will and skill puts LURAS' partners in the bottom left quadrant, which are very difficult to work with

In contrast to LURAS' main partners, tea farmers had a clear interest in challenging the concession agreements and the associated low prices, and in principle, LURAS could have assisted them with the skills to advocate on their own behalf. While the Will/Skill framework suggests this might have been a viable approach, but ***analysis of power relationships within the tea sector of Oudomxay suggests tea producers did not have the power to make change happen***.

Tea concessions in Oudomxay and elsewhere are linked to a bundle of policies that includes opium replacement schemes, efforts to eradicate shifting cultivation and the resettlement of ethnic minorities. Within this policy environment, ethnic minority communities have limited voice or choice what they produce and who they can sell it to. According to Andrew Bartlett, Chief Technical Advisor to LURAS:

> *The rigour with which this strategy is applied varies considerably from district to district, making it more or less difficult for projects such as LURAS to apply participatory approaches that empower small producers. Rarely, however, are projects willing or able to expedite changes in the underlying relationship between rural communities and decision-makers at the District and higher levels*

LURAS' intention when entering the tea sector was to try applying the so-called "EMRIP Model", which had previously been applied in the rice sector of southern Laos.[49] In reality, the approach taken by EMRIP was specific to the context of rice production and milling in those provinces: a fragmented milling sector reduced millers' market power and provided many partnership options, a focus on a non-perishable staple crop provided farmers to store, trade or eat their production, and manageable power relationships between primarily ethnic majority communities and locally-owned SMEs. This contrasts with the Oudomxay tea sector characterized by a processing duopoly reinforced by concessions, production of a cash-crop that needed to be sold and a large power difference between ethnic minority producers and foreign-owned processors. While it was worth analysing whether the lessons of EMRIP could be applied at LURAS, the very different context made this a poor choice for the Oudomxay tea sector.

Xieng Khuang

Upland areas of Xieng Khouang have wild tea resources that were developed experimentally in French colonial times but only grew in earnest from the early 2000s. Production rose from a low base to reach an estimated 300 hectares in 2016[50], including both widely dispersed forest tea and more intensive tea gardens.

Production is concentrated on Phu San mountain, where stands of wild tea trees exist and where agro-climatic conditions are good for Shan-type tea similar to that produced in the Pu'er tea region of Yunnan. The vast majority of tea is exported to China, although some small exports to Thailand, US and Vietnam and also take place. Domestic marketing is limited, with ethnically Lao tea processors selling 10-20% of their production in-country, while larger Chinese-owned tea processing companies sell little or none of their production into the Lao market[51].

[49] The author of this paper was the Chief Technical Advisor for EMRIP.

[50] Ole S. Pedersen, Mike Carroll, Liang Chen and Shixiong Yang, *From Early Days to Current Production and Market Development*, Agro-biodiversity Project, September 2016.

[51] Andrew Wilson, *Phu San Tea Market Analysis Report*, LURAS Project, January 2019.

The key to Xieng Khouang's success is the wild tea resource. Ancient wild tea trees are relatively abundant, and approximately 3,000 were mapped by the now completed Agro-Biodiversity Project (TABI). These trees have been critical to the growth of Phou San tea production, both as the main source of seeds for new plantations and as a part of the area's image in China as natural, clean and wild.

Attracted by this potential, the Chinese owned San Jiang company operating as Champa Kham built a factory in Xieng Khouang. In 2016 the company signed a concession agreement giving it exclusive rights to tea produced in the main Phou San tea producing villages in Paek District. The concession set prices paid to farmers for fresh tea leaves and semi-processed *mao cha*, causing significant dissatisfaction amongst tea farmers who complained that the company did not provide technical support or other benefits under the concession agreement. Pressure from producers eventually led to revocation of the concession agreement.

With no concession to suppress demand for tea leaves, competition increased and the prices paid to farmers began to climb. In 2015, research funded by TABI found that processed tea produced in the dry season sold for between 120,000 and 230,000 LAK[52]. A 2018 survey of the same villages found that dry season tea processed into *mao cha* by producers in Phou San sold for an average of 300,000 LAK per kilogram. Tea farmers with access to wild tea or mature tea plantations had been earning substantial profits, even if some issues with product quality and post harvest handling remained.

District and Season	2015 Prices	2018 Prices
Paek District[53], Dry Season	100,000 to 230,000 LAK	300,000 LAK average
Paek District, Wet Season	80,000 to 100,000 LAK	100,000 LAK average
Phou Khoud, Dry Season	80,000 to 100,000 LAK	100,000 LAK
Phou Khoud, Wet Season	75,000 to 100,000 LAK	80,000 LAK

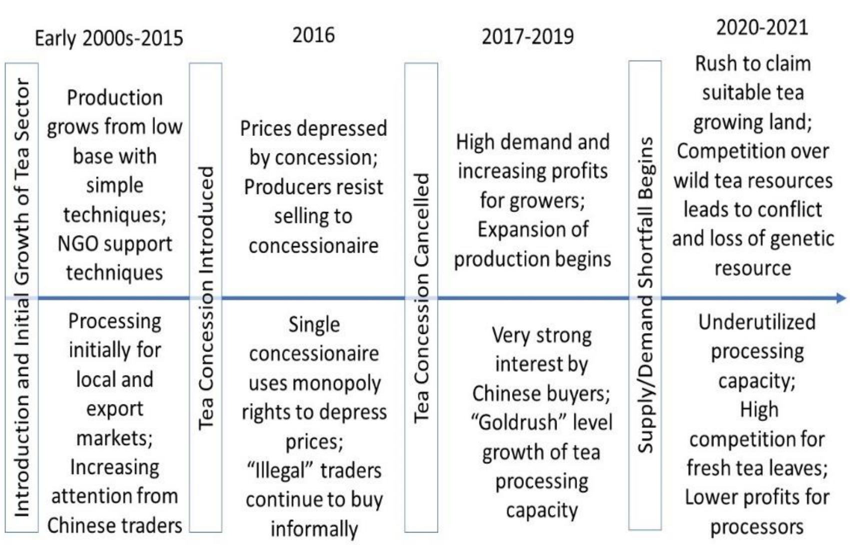
As the above table shows, prices for tea from the Phou San production area in Paek district increased between 2015 and 2018, especially for the dry season tea in highest demand by Chinese buyers. During the same period, prices remained stable in neighbouring Phou Khoud district that was not subject to a concession. This suggests that the concession in Paek successfully supressed farmgate tea prices, and that increased competition between buyers benefitted tea farmers when the concession was cancelled.

[52] Ole S. Pedersen, Mike Carroll, Liang Chen and Shixiong Yang, *From Early Days to Current Production and Market Development*, Agro-biodiversity Project, September 2016.
[53] Oh An and Ngot Phieng villages

While tea farmers were enjoying their profits in 2017 and 2018, investment by tea processors and traders now able to enter the area continued to increase. In late 2018, the Provincial Industry and Commerce Office reported at least 3 new foreign tea processing factories were being built in the area, including one Chinese factory able to process 160 tons per year of finished product[54] annually. PICO also reported at least 3 existing factories were substantially expanding processing capacities at that time, although this is likely an under-estimate. By late 2018, significant and continuing over-investment in processing was taking place, without a corresponding increase in production. As observed at that time:

> *…(due to) expansion of processing capacity, demand for fresh tea leaves in the area will significantly exceed supply in 2019 unless there is an unexpected decrease in processing and trading of mao cha. This seems especially likely in core Phou San villages… In the short-term, lack of balance between tea production and rapidly growing tea processing capacity is likely to lead to volatility. As tea is a perennial tree crop, new plantings will not begin to produce for three to five years and for Phou San tea are limited by the number of wild mother trees available to provide seeds and seedlings… As a result, new and existing processors will be running under-capacity and competing for supplies with traders in 2019… This lack of balance is unlikely to persist in the long term, but it will be a powerful influence on the market during the short to medium term.*

Farmers and aspiring farmers observed the high prices and market opportunities with new processors, and responded entrepreneurially. With booming markets for their tea leaves, the main challenge for farmers was how to increase production. Competition increased for the finite supply of truly wild tea trees as sources of both top-quality tea leaves and valuable seeds for establishing new tea gardens. Prime tea land on and around Phou San was cleared to increase tea gardens, sometimes including a greater amount of land than farmers could actually plant to tea at the time. Eventually, increasing competition led to conflict over ownership of the tea resource and a rush to obtain suitable land for tea production.



The rush to expand tea production on Phou San mountain has had serious negative consequences for the environment and biodiversity. A Significant amount of protected forest was illegally occupied and cleared and many of the same ancient forest tea trees that made the production area famous were being cut. The motivation for cutting these valuable ancient trees has not been clearly established, but may be influenced by:

- Clearing land to show occupation of sites that farmers wish to claim for future tea gardens, especially in areas close to transportation
- Coppicing large, wild trees so it is easier to pick tea from them, reducing labour requirements

[54] This factory alone will require at least 700 000 kg per year of fresh leaf in order to operate at full capacity.

- Theft of tea seeds used to grow seedlings for new plantations
- A result of conflict over property rights to specific trees or areas where wild tea trees grow

Multi-stakeholder meetings to respond to the evolving situation were held in the provincial capital, Phonsavanh, starting in January 2019 when the results of the rapid evaluation were first released. At this time stakeholders were aware that forest encroachment was taking place but did not know the extent of the problem. A follow-up survey of tea plantations and forest resources on Phou San took place in 2020 and was presented at a follow-up meeting that September. This survey found that ***1,000 of the 3,000 mature wild tea trees previously mapped*** by the TABI project had been cut[55] and that encroachment was extensive.

By the time a third multi-stakeholder meeting was arranged in April 2021, stakeholders agreed that a provincial tea development strategy was needed. Topics prioritized for the strategy include increasing productivity of existing tea plots, improving land/forest management to reduce encroachment on forests and loss of mature wild tea trees, and trade issues including taxes and fees levied by local authorities and increasing productivity of existing tea plots.

Stakeholders' shared sense that a tea development strategy is a valuable pre-condition that greatly increases the chance of developing a quality document that will actually be put in action. In Xieng Khouang, this shared sense of purpose emerged from both the opportunities and unintended negative consequences of eliminating an unpopular concession agreement. If designed carefully, the new sector strategy will unlock additional constraints on the growth of Phou San tea while managing the risk of negative environmental consequences. Facilitating the process will require: a) adequate analysis before and during strategy formulation to allow informed decision making; b) proactively including less powerful or confident stakeholders in strategy formulation to ensure buy-in and commitment, and; c) having a high enough level of political involvement to draw different departments together and give credibility[56]. As the following case from Phongsaly shows, it will also be important to develop realistic options for execution of the strategy in the future.

Phongsaly

Phongsaly is the small, mountainous, northernmost province of Laos, surrounded on three sides by China and Vietnam. Despite its small size and population, Phongsaly is the largest tea producing province in Laos by a significant margin, producing an estimated 600 tons per year. Officially the province exported 68 tons in 2020, a number which appears to grossly underestimate production and sales from a reported 2400 hectares of tea production . While significant in the Lao context, Phongsaly's production volume of production is miniscule compared to neighbouring countries like China or Vietnam.

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[55] Cutting of these trees does not necessarily mean that the genetic diversity has been lost, as many will grow back from shoots.

[56] This likely requires at least a Deputy Provincial Governor to be involved and champion the initiative.

The tea sector in Phongsaly faces challenges but overall works reasonably well and is one of the few opportunities the province has for sustainable and inclusive growth in upland areas. Tea is therefore a political priority in Phongsaly, and the provincial and district government departments are willing to expend time, resources and political capital to support it. A long-running example of this policy support is the declaration of tea growing areas as organic zones, where use of agrochemicals is prohibited. This organic policy helps maintain the reputation of Phongsaly tea as "clean" in the important Chinese market, and provided a foundation for recent growth of organic and Fairtrade tea to European markets.

Unlike some other provinces, land and trade concessions for tea production do not exist in Phongsaly. This is the result of provincial policy, and as explained in the Phongsaly Tea Development Strategy:

> *The province has encouraged open competition between traders and processors over production areas and this has translated into advantages for the farmers during spring picks. By contrast, at district levels there is still support for monopsony systems whereby one trader is given exclusive purchasing rights to tea from a particular growing area.*

In reality, the combined approach of provincial and district governments is a hybrid system with effectively free trading of *mao cha*, but with "zoning" for trade in fresh tea leaf if tea processors agree to work with farmer groups. Due partly to this policy and partly to the influence of development projects, it is common for tea factories to have close working relationships with the tea producers they buy from.[57]

Until recently, the Phongsaly tea sector almost exclusively exported tea to China, especially high value, spring picked, Shan-type tea with a small amount of wet season production sold in the high-end of the Lao domestic market. Despite Phongsaly tea's high market share within the domestic market segment, demand was far below wet season production capacity. Collaboration between producers and processors was a key success factor for opening new export markets for wet season tea in Europe, which are absorbing an expanding proportion of production and which appear likely to continue growing for the next three to five years.

With tea producers and processors making progress on production and marketing problems that were under their control, policy issues outside of their control became increasingly urgent. Security of access to the Chinese market, inadequate public research and extension services for tea farmers and high transaction costs for tea trading could not be changed by growers or processors and required government involvement. While no other provinces had created a development strategy for tea, examples from other agricultural sectors such as coffee showed what was possible.

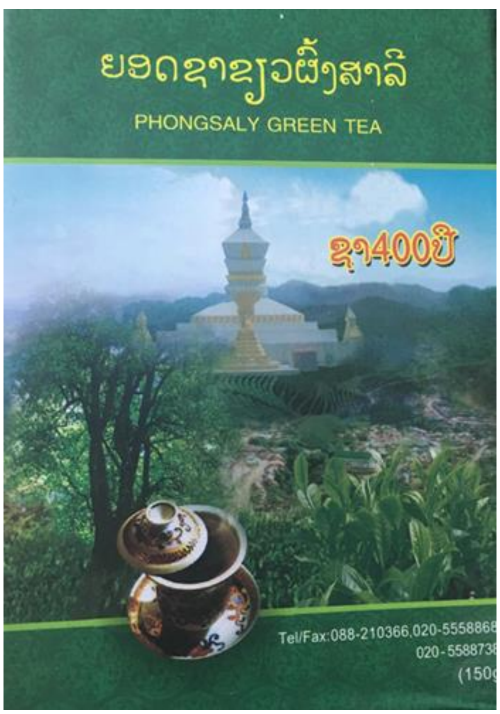
To deal with policy issues, Phongsaly provincial government, tea sector stakeholders and development partners initiated a dialogue process in 2015 that led to the *Phongsaly Tea Sector Development Strategy*. The strategy laid out a plan to develop the tea sector by 2025, although it took until 2019 to complete. The process to develop the strategy included provincial and

[57] These relationships are intended to be cooperative, but sometimes have adversarial aspects when the interests of producers and processors diverge. Overall, the

district government, representatives of tea producers, private sector processors and traders and development partners.

During the development of the strategy, multiple rounds of consultation took place, with all actors given the opportunity to discuss their understanding of the problems the sector faces and what they needed to overcome these issues. Based on these inputs, the strategy contains five objectives to be achieved by 2025:

1. *Establish model tea gardens to support smallholder farmers adoption of environmentally friendly tea production systems that maximize returns to labor and capital through improving the quality of tea cultivation, picking and post-harvesting.*
2. *Improve quality of processed tea including through use of improved industrial processes, enabling entry into higher value and more diverse markets.*
3. *Promote Phongsaly tea including through linkage with tourism activities and facilitate its entry into new and more stable and sustainable domestic and international markets, including through promotion of the use of relevant intellectual property rights (Geographical Indications and trademark in particular).*
4. *Create an enabling business environment for tea processors and traders that reduces transaction costs and uncertainties.*
5. *Establish and develop a sustainable Tea Development Centre and capacity building to support the sector's growth and strategy.*



While not noticeable from the strategy's objective statement, assistance to tea producers includes both technical advice and a goal for land allocation for tea production. Processing quality improvement activities cover in-factory processing and on-farm processing, an approach which implicitly supports tea farmers' freedom to trade *mao cha.* The marketing component of the strategy includes a diverse range of activities covering both export and domestic markets and making linkages to agrotourism and registration of geographical indication.[58]

The most distinctive activities under the strategy are related to Objective 4 on the business environment and Objective 5 on supportive institutions and capacity building. Best considered as a pair, these two objectives foresee creation of a ***Tea Development Committee*** (PTDC) that will act as a focal point and driver of change for the Phongsaly tea sector. Activities under these objectives include organization of this new institution and a number of specific steps to improve access to credit, improve access to the Chinese market, streamline cumbersome domestic requirements for tea exports and encourage greater competition in tea trading.

[58] The marketing and branding section of the strategy does have elements of this "orthodoxy", but this makes sense since Phongsaly tea is better priced for and has a dominant position in the domestic tea market.

A key strength of the strategy is that it defines roles for provincial government departments in a clear and rational way[59]. Government was also given a dominant role in strategy execution, as the mechanism created to implement the strategy was almost entirely public sector. Assumptions about the role of government by stakeholders who expect government to "provide solutions" was one influence on this dominant role. Another reason government was selected to lead implementation is because the tea sector in Phongsaly is small and unorganized, without an alternative institution capable of hosting sector development activities[60].

As of the first quarter of 2021, most but not all activities in the Phongsaly Tea Strategy are moving forward. That the strategy continues to be executed during the global COVID pandemic is a credit to all stakeholders and shows that the tea sector is a priority in Phongsaly. Continued progress appears fragile though, as PTDC depends on a partnership with the COPE project to fund and support implementation of actions in the strategy. With the COPE project ending in the near future, Mr. Kaysone Senesombath, Project Manager of the COPE project provided the following insight:

> *There are several limits for the Phongsaly Tea Development Committee to independently implement the Tea Sector Development Strategy. Things TDC should do before the COPE project ends are:*
>
> 1) *Arrange contribution of financial support from the province/relevant departments*
> 2) *Establish the tea development center/technical service center in the province*
> 3) *Develop a clear action plan for sustainable operation of the tea development center*
> 4) *Clearly define roles and responsibilities of provincial departments*
> 5) *Improve human resources in the province by hiring a Junior Tea Expert*

The PTDC and the provincial government of Phongsaly can and should become more active in executing the tea sector strategy, but it would also help if the strategy focused on a smaller number of activities with the greatest impact and the highest buy-in by all stakeholders. This would require government and development partners to agree to cut "pet projects" of lesser interest to the whole Phongsaly tea sector[61].

The *de facto* government implemented and donor-funded arrangement currently in place gives these parties disproportionate power and prestige compared to producers and processors, reducing pressure for accountability by PTDC to key groups of stakeholders despite their involvement in the steering mechanism. Rebalancing these power relationships within PTDC could improve execution of the strategy if producers, business and government can learn to see themselves as coequal partners in a collective endeavour. Changing these power relationships and engrained expectations will be a slow process and may never lead to perfect parity between government, business and producers, but even a modest shift in the relationship would substantially strengthen PTDC.

[59] In many other provinces, the author has found that these departments have limited exchange on specific sector issues, especially for minor crops like tea.

[60] Parallel to the strategy development activity, an association was created to work with a new Geographic Indication for Phongsaly tea, but this remains embryonic and could not realistically have delivered on the strategy by 2025.

[61] For example, the new GI, which was built into the strategy because of a development project and government despite the fact it only targets tea from two villages and is not a realistic contributor to tea marketing at a provincial level.

Analysis and Conclusions

The experience of tea sector development initiatives featured in the preceding case studies show that some of the seven common recommendations and themes in the literature such as farmer groups and creation of sector strategies are genuinely important. On the other hand, recommendations to develop branding and packaging for local markets appear not to correctly diagnose key problems and a tendency to prioritize collective action, particularly creation of cooperative businesses, also led to sub-optimal strategies in some cases.

Tea sector literature also under-represented or failed to cover some issues that were significant in the case studies. Topics such as business skills and capacities, land concessions and the role of political economy and power relationships receive little attention, but were important constraints in more than one province. The following section reviews and comments on the seven common themes identified in earlier sections of this paper as well as five areas which deserve greater attention in the future.

Conclusions About Common Themes from Literature

Farmer groups: Farmer groups are important to many development initiatives in the tea sector and are discussed in the literature at a level appropriate to their roles in improving productivity and increasing representation. Both the literature and practice are weaker in realistically assessing the ability of tea farmer groups to move beyond production and into collective business ownership and management or to advocate on difficult issues. The consequences of excessive expectations on farmer groups were evident in Xayaburi province, where the producer groups received short-term assistance to get factories and equipment without adequate help to build durable institutions able to run cooperative businesses. Even with longer-term support, the Bokeo Wild Tea Cooperative has struggled to transition from a producer group to a functioning business despite the presence of a champion willing to lead and invest significant capital over a period of years.

The lessons learned from the cases lead to two recommendations to increase the success of work with farmer groups:

1. If government and development partners wish to encourage producer groups to take a stronger role in tea processing and trading, these should focus on ***business strategies that are most suited to the interests, incentives and capacities of producers and their groups***. In most cases, this will involve production of tea for the Chinese market. This market is large, profitable, and can be accessed without the expensive factories and complex business structures needed to produce for other markets.
2. When working with farmer groups, take into consideration the full range of other actors in the market system, including those that may not yet work with tea but could be interested to do so. ***Where agri-entrepreneurs, companies or public bodies can provide inputs, services or advice at a reasonable cost and quality, it will often make more sense to link them with farmers*** rather

than asking farmers to collectively create and manage vertically integrated tea companies performing all steps along the value chain.

Farmer groups' roles in tea sector representation was not widely discussed in the literature, and was inconsistent in practice. Xieng Khouang producer groups were able to overcome the concession that was in place, but power relationships constrained Oudomxay tea farmer groups from dealing with concession agreements that were detrimental to their interests. Empowerment initiatives can help rebalance power relationships over the long-term if development programs work with the proper constellation of partners and with an appropriate approach informed by political economy and power analysis prior to intervening.

Technical production issues: Agronomic production issues such as pruning, nutrient management and sustainable agriculture technique[62]s were not the main constraint in any of the cases covered, although they are invariably described as a significant concern for stakeholders. A likely explanation for this is that agricultural extension is a core responsibility of DAFO and PAFO, which are usually involved with tea sector development, and extension is therefore a topic that is given attention supported to the best of their ability.

That agronomic techniques and technologies remain an issue is connected to the low level of tea-specific capacities within the extension system, especially in districts where commercial tea production has a short history. Developing extension capacities for tea in the government system or through alternative arrangements therefore remains a priority.

Similarly, processing techniques and technologies did not appear to be the most important constraint in any of the cases reviewed despite the fact that quality problems are still common, especially in areas where tea production is newly established or rapidly expanding. In more established tea production zones such as Phongsaly, this is influenced by the significant progress in processing techniques over the past two decades[63], often influenced by Chinese processing techniques and equipment. In other areas, problems with tea quality may be hidden by strong competition for limited supplies of tea during the dry season, while contributing to low demand for wet season tea that might be marketable with better quality management.

Organic certification: The only case where organic certification was definitely shown to be important was Phongsaly, where volumes and prices of tea are suitable for Western markets and where tea companies are strong enough to export successfully. This strategy may also work in Bokeo, where the French

[62] Sustainability issues in Xieng Khouang related to the "land rush" on Phu San tea mountain are real, but more related to policy issues than to production technologies.

[63] As noted in feedback about Lao tea during cupping by the International Tea and Coffee Academy seen at https://www.youtube.com/watch?v=6sY3y0dVWaI

company Ethiquable is interested to buy organic certified tea. Outside of these two provinces, key Chinese and other Asian markets value clean, natural and wild production systems but do not prioritize or pay a premium for certified product. In these cases, uncertified organic production that maintains Lao tea's reputation makes more sense and ***recommendations for organic certification should be limited to cases where producers and processors have a viable business plan to enter Western or other markets that value certification***.

As the cases of Phongsaly and Xieng Khouang show, environmental sustainability of tea production needs to be improved, whether tea gardens are organic certified or not. Instead of targeting organic certification as a default choice, the tea sector should first apply best practices for sustainability which are valued in all markets. With sound environmental practices already in place certification to an appropriate standard for a Western buyer will be much easier and can be obtained based on buyer requirements when an opportunity is identified.

<u>DAFO and PAFO</u>: Given the importance of technical advice for producers and processors, the regular involvement of DAFO and PAFO is sensible. Both levels of MAF are commonly constrained by limited knowledge about the tea sector, largely due to the fact that commercial tea production at scale is relatively new in Laos and tea remains a minor crop that must compete for attention with staples like rice and maize. Working with DAFO and PAFO to increase their ability to support tea sector growth can have a positive long-term impact.

Problems arise when attention to the role of DAFO and PAFO de-emphasizes or displaces the involvement of other government bodies that are equally important to the success of the tea sector. As an example, the issue of land and trade concessions typically involves the Governor's office, Industry and Commerce and Planning and Investment. Similarly, the over-investment in processing that resulted in the land-rush and damage to wild tea resources in Xieng Khouang is linked to multiple of government departments at the district and provincial level. To deal successfully with these issues, ***districts and provinces need to take a whole of government approach[64] to the sector and development projects need to cooperate with multiple departments based on their importance to the sector, not just their MOU partners***.

<u>Domestic markets, packaging and branding</u>: "Opportunities" in domestic tea markets were commonly mentioned in papers about the Lao tea sector, but these markets were not important sources of demand in any of the cases covered by this review.[65] This is unsurprising, given the low overall consumption of tea in Laos and the high price sensitivity of consumers who prefer more competitively priced imported tea. In export markets, the costs and difficulty of market entry and the fact that truly high-end tea is often sold bulk makes branding and packaging an expensive and high-risk strategy. Few, if any, Lao tea companies except the largest, most established Chinese processors have the resources or capacities to make this happen.

To formulate better strategies in the future it is important to understand why recommendations to brand and package tea are so common. The fact that Lao organizations cannot directly export tea to China themselves is a contributing factor. *Value addition* is consistently connected to packaging and branding in the literature, which intuitively makes sense but ignores the fact that significant value is already being

[64] This refers to an approach where all of the relevant parts of government come together to comprehensively deal with an issue or sector.
[65] It is possible that the frequent use of tea as a gift at official meetings and at Lao New Year may give policy makers the mistaken impression that there is significant domestic demand.

added by exporting highly valued *mao cha* to the Chinese market. Smallholder tea farmers are able to capture value added by *mao cha* processing through increased farm-gate prices, spreading economic benefits widely. In comparison, value addition through branding and packaging is added at the processor level and likely to be captured by a small number of businesspeople.

At best, initiatives to promote packaging and branding of tea seemed to have a neutral impact in the case studies[66]. More often, these types of domestic market development initiatives distract government, development actors, tea companies and producers, as was the case in Ban Samet Noi and Ban Samet Nyai in Xayaburi province. ***While domestic markets and branded and packaged products can be a part of a successful strategy, these must not at the expense of supporting improved, reliable access to the profitable, high-volume markets that stakeholders depend on for the bulk of their sales***.

Collective action: The provincially-focused case studies do not deal directly with national-level collective action increasingly mentioned in tea development literature in the 2010s. The case Xieng Khouang shows the need for collective action at the provincial level, though the experience of the Phongsaly Tea Development Committee shows that inadequate collective involvement by stakeholders can lead to an over-reliance on government to "solve problems".

Taken together, the cases suggest that effective, sustainable collective action by the tea sector is difficult at the provincial level, and will be even more challenging at the national level because:

- Provincial tea sectors face very different problems and constraints. This diversity does not make national collective action impossible, but does reduce the motivation of stakeholders to organize and cooperate because they do not prioritize the same issues.
- Even common problems shared across a majority of provinces, such as land concessions, are rooted in highly localized political contexts and power structures.
- National level collective action is less likely to led to concrete, tangible changes that will motivate stakeholders to invest their time and credibility in a national process.
- Some stakeholders may not welcome efforts to monitor, rationalize or coordinate operations.

These challenges do not mean that collective action is impossible for the tea sector at the national level, but they do suggest ***a strong shared interest such as reliable access to the Chinese market is needed to rally stakeholders to invest time and credibility in collective endeavors***. Before moving ahead with such an initiative, government and development partners need to analyze the interests and incentives of stakeholders to participate and invest in the long-term. If this analysis shows insufficient shared interest to support a collective initiative, alternatives such as providing opportunities for learning and exchange between stakeholders from different provinces would be a productive use of time and money that may also lead to a shared sector identity over time.

[66] For example in Phongsaly, where domestic sales of packaged products provided a small but profitable niche market

Bringing together groups with a shared identity and interests also makes sense in this context. Despite differences in ethnicity and production systems, tea farmers share interests in production issues and technologies and in maintaining the freedom to sell their production as they see fit. Helvetas has demonstrated the benefits of farmer-to-farmer exchanges between tea farmers from different provinces, through the activities of the LURAS, COPE and Biotrade projects. A more sustainable platform for organising this type of support exists in the form of the Lao Farmers Network which is now in the process of establishing a number of commodity-oriented sub networks; plans to establish a tea producers' network - among others - were approved at the LFN General Assembly in November 2020.

<u>Sector Strategies</u>: The diversity of the Lao tea sector demonstrated in the cases also has lessons for sector strategies. Facing diverse issues and a lack of shared identity, the geographically and culturally dispersed stakeholders in the tea sector have few shared interests to drive collective action. In these contexts, a national sector strategy, association or network will struggle to get the stakeholder commitment needed for effective execution of polices and strategies, even with a helping hand from donors and government. Over time, convergence between provinces may reduce the disparities, but ***for now policy and strategy development at the provincial levels has a greater chance of success***.

Targeting one or two nationally important issues with a strategy makes more sense than striving for a comprehensive tea sector strategy at a national level. One area where targeted strategy makes sense tea export, which is critical to the sector. Reliable, stable access to the Chinese market is crucial for the success of the sector and for the livelihoods of the people who depend on it, and should therefore be prioritized. Diversification of markets is also desirable and could be part of an export strategy, but is a long-term process that also requires significant improvements to export readiness by companies.

Topics Deserving Increased Attention

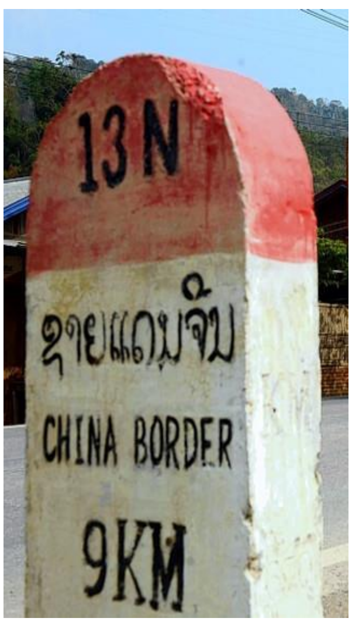
<u>Effective business structures and skills:</u> Tea production is a business with increasingly sophisticated requirements as the sector grows and aspires to reach more diverse markets. Despite this, none of the papers reviewed dealt extensively with the business skills and processes required by tea companies. This may be partly because a large proportion of these businesses are operated by Chinese investors, who are either difficult to communicate with or are assumed to be sophisticated business people. It is less understandable why this topic is not given more prominence for Lao-owned businesses and cooperatives for whom business capacities are often the most important barrier to success. Common issues include organizational development (especially for producer groups expected to run businesses), financial literacy, human resource management, marketing, business strategy and language skills for international trade.

In the context of the Lao tea sector, and for Lao agriculture in general, limited business skills need to be considered from an early stage. On the one hand, development interventions and sector development strategies should ***include support for business skill development***, whether working with farmer groups or with agricultural businesses. On the other hand, there is a limit on how far and fast these capacities can be developed, so projects need to ***support realistic development options for producers, processors and traders***. Is it also important to consider whether the required skills can be maintained over the longer-term, particularly for rural enterprises that must compete for skilled employees with employers in urban areas.

Actors providing supporting services: While core value chain functions and actors are usually adequately analysed in tea sector literature[67], providers of supporting services are badly underrepresented. One explanation for this is that businesses such as nurseries or small equipment retailers in target areas do not deal with tea, although they may be interested to do so if approached.

A more common reason for the lack of engagement with supporting service providers is well documented in project reviews: government and development projects too often provide these services directly to beneficiaries instead of investing in sustainable change of the market system. As a result, supporting actors such as financial service providers, logistics companies, distributors, trade promotion agencies or marketing service providers are barely mentioned, despite access to finance, exporting and marketing being recognized as key problems for the sector.

Public sector's role in service provision and involvement in changes to "rules of the game" are also less commonly dealt with than one would expect given the development needs of the tea sector. In addition to the Ministry of Agriculture and Forestry and its subordinate bodies, Ministries of Industry and Commerce and Planning and Investment both play important roles as regulators and service providers. Future policy initiatives and development interventions should ***take the time to understand all of these private sector and government actors involved in the wider tea market system and at least consider whether it is appropriate to involve them***.



Secure & efficient market access: Almost all papers about Lao tea recognize the overwhelming importance of the Chinese market, with the output of the 2010-2011 Lao Forest Tea project led by CARE producing the most comprehensive studies to date. Variable access to the Chinese market is frequently mentioned, and rightfully so since this variability is a key driver of decision making by tea producers and processors. Chinese demand sets the market in northern Laos, responsible for the boom in Xieng Khouang in 2019-20 and the bust in Xayaburi in 2018 when traders did not arrive.

Interestingly, there are far more recommendations to deal with instability of Chinese border trade through diversification to other markets than there are to formalize and stabilize access to China. While market diversification is certainly a positive step, it is difficult and no other market is able to absorb the volumes of tea at the premium prices that Lao growers and processors have come to expect. ***For the tea sector to truly flourish, negotiating secure access with the government of China is a top priority***.

Within the portion of the export chain within Laos, high and irregular transaction costs reduce profitability for value chain actors, redistributing benefits away from producers and disincentivizing sustainable growth[68]. This issue is seldom discussed, perhaps because few projects or researchers have interviewed or researched the disproportionately informal Lao and Chinese traders participating in the border trade. ***Cataloging and analysing the official and unofficial costs at the district, provincial and national levels***

[67] In some cases, tea companies and traders are not given the same attention as producer groups and DAFO extension services, but they are generally taken into consideration.
[68] While these issues are less common, they are dealt with in some papers and are recognized in the Phongsaly Tea Sector Development Strategy.

will reveal opportunities to improve trade flows inside Laos but must take into consideration political economy and power issues.

Concessions: Land and trade concessions are very common in the Lao tea sector, usually offering an "investor" a monopsony or near-monopsony over tea produced in a defined area in return for official payments to public accounts and frequently also unofficial payment to local officials. Despite being top of mind for tea producers,[69] the issue of concessions is discussed much less frequently than it deserves. One document that does discuss this subject in some depth[70] euphemistically refers to it as "zoning", and focusing on the difficulty of enforcing monopsonies due to competition from "unregistered traders" without going further into the desirability and alternatives to these types of agreement.

The absence of tea concessions from published literature contrasts with the large number of papers examining concessions in general or in agricultural sectors such as rubber. These are useful starting points for policy makers and development actors, but are insufficient to understand how concessions operate in the tea sector because of tea sector-specific features like:

- Tensions between monopsonies created by commercial concessions and government policies such as the promotion of agricultural cooperatives, support for branded and packaged ODOP products, land and resource allocation and protection of the environment and tea genetic diversity. How these competing policies are understood and reconciled by district, provincial and national levels of government is a rich area for further research.
- Frequent overlap or a lack of clarity between land concessions and trade concessions in the tea sector. Tea concessions may assign rights to land with (usually wild) tea growing on it, exclusive rights to buy and process fresh tea leaves, exclusive rights to buy all tea produced in an area or a combination of these rights. In some cases, the understanding of companies, government officials and producers about which rights have been granted under a concession are not the same.
- The genuine need to manage wild tea resources, which are finite, valuable and may be considered traditional property of one or more specific villages or groups and concurrently as public property. As the case of Xieng Khouang shows, inadequate management of these resources can very quickly result in their degradation or destruction.

Dealing effectively with concessions in the tea sector requires a deeper understanding of how they operate, their legal status and the interests, incentives and power of the parties involved. Research papers looking into tea concessions would be a good starting point to frame discussions on the topic.

Political economy and power issues: The lack of power and political economy analysis is, in the opinion of the author, the most important gap in the literature on the Lao tea sector. Low attention to issues of politics and power may be due to a focus on formal regulations and policies that excludes the informal rules determining "how things really work" and/or reluctance of some authors to raise sensitive issues even when they recognize them as important.

Political economy and power relationships were critical factors in most of the cases reviewed in this paper, and in Huaphan were even responsible for the failure of a promising new wild tea production zone. While these are sensitive topics within the tea sector, similar issues are regularly and openly discussed in relation

[69] And for competing processors and traders without concessions

[70] European Chamber of Commerce and Industry in Lao PDR 2017, Lao Tea Sector Industry Report, Vientiane Capital, October 2017.

to other Lao agricultural and forestry products such as rubber[71]. If it is possible to have open, respectful dialogue about other sectors, surely it must also be possible for the tea sector. Overcoming this gap is important, and to do so interested parties should:

1. ***Commission or support socio-economic research on the tea sector in Laos, including the power dynamics that exist between largely ethnic minority tea producers, local and foreign private sector processors and traders and relevant levels of government.***
2. ***Conduct political economy and power analysis before policies are developed and projects are designed. To generate meaningful results, this needs to examine both the formal and informal "rules" that determine how things really work.***
3. ***Create public policies and development interventions that deal with political economy and power issues, and put in the effort to see them through.***

Strengthening Analysis for Intervention Design

Systemic, well structured, and objective analysis is the starting point for actionable development initiatives and policies. This analysis needs to be holistic yet specific, looking at both tea value chains themselves and the supporting *functions*[72] and *rules*[73] in the wider system that determine how well value chains work. The process should be holistic in the sense that it examines how all the pieces of the system fit together, but specific in that it simplifies complexity by identifying and conducting deeper analysis only on the key constraints that limit the tea sector in the location or context being examined.

Finding the right balance of analysis to get started without getting bogged down in "paralysis by analysis" can be difficult. As a rule of thumb, analysis is sufficient when the following questions can be answered with a reasonable amount of confidence:

1. **The Change**: What is the systemic change you prioritize? How does it improve the performance of the overall system?
2. **The Partner:** *Who* (what type of partner) will drive the change, and *why* do they want to do it more than anyone else?
3. **The Model:** For value chain functions, what is the sustainable business model for the organization driving change? For rules, what interest does the group targeted by the partner have in changing the formal or informal rule or to shift power dynamics in favor of the excluded?
4. **The Barriers:** What key thing or things (constraints) stop the stakeholder from implementing the new business model or changing the rules?
5. **The Facilitation**: What options do project(s) or policy makers have to facilitate the change and help stakeholders to overcome barriers?
6. **The Exit Strategy**: When the intervention ends, how and why will the changes to the market system continue and increase in scale?

[71] For example, *Assessment of governance mechanisms, livelihood outcomes and incentive instruments for green rubber in the Lao PDR*, Miles Kennedy-Lazar, 2016
[72] This refers to the services, resources and infrastructure the value chain needs to function well
[73] The "rules of the game" include both formal laws and regulations, and informal social rules and power dynamics that influence the tea value chain

Analysing and Intervening at the Right Scale

The six case studies examined in this paper demonstrate the diversity of the Lao tea sector and the differing challenges it faces across northern Laos. Important differences in production systems, the politics of land and concessions and varying market and sustainability challenges in these provinces makes it unrealistic to analyse tea in Laos as a homogenous national sector. To create strong policies and development interventions, analysis needs to be fine grained geographically and regularly adapted as contexts and conditions change over time. Analysis at the district level would be excessively time consuming and repetitive, so the “sweet spot” for analysis and intervention seems to be at the provincial level.

The need to analyse and intervene at a provincial level does not argue against having a coordinated national program targeting the tea sector. Done properly, a national tea development program that analysed and intervened at the provincial level while encouraging exchange and learning could leverage learning from more advanced provinces to speed the development of provinces with less mature tea industries.

Final Conclusion

Like the country itself, the Lao tea sector made significant progress over the past 20 years despite continuing challenges. This progress is a testament to the tea producers, processors and traders who have grown the industry into an increasingly successful niche exporter. The incentives for these stakeholders to continue this growth is clear, but the health of the overall sector can sometimes be undermined by conflicting short-term interests of stakeholders. Long-term success requires a long-term perspective and mutual interest in growth of a tea sector that works for everyone.

For policy makers and development partners, significant opportunities for improvement remain in a sector that can be inclusive, profitable and sustainable if done properly. Future interventions intervening systemically, basing design on thorough analysis and incorporating best practices and adapting to locally specific contexts have a better than average chance of making a meaningful difference to livelihoods and the environment in northern Laos and deserve further consideration.