

**FARMER GROUP ORGANIZATION MANUAL-  
COFFEE VIETNAM**

Prepared by:

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## **INTRODUCTION**

The Vietnam coffee sector was developed with the contribution of small-scale holders. The majority of the total area of 500,000 ha under coffee production is managed by small-scale producers in various forms of land possession and utilization. The scale of a producer is very small with 85% possessing less than 2 ha and 15% between 2 to 5 ha. Vietnam has about 560,000 households producing coffee; the average area per household is less than 1 ha. The majority of households producing coffee obtain the majority of their income from coffee production.

Coffee producing households in Vietnam have limitations in production, trading, market access and resource management, as well as limited access to scientific and technological knowledge to improve production efficiency. The major tendency in the coffee sector therefore, will be to strengthen the capacity and position of coffee producers to be able to better manage resources and production. Emphasis must be placed on households pro-actively managing their investment in the sector, while adjusting capacity building activities to the small scale and current capacities of Vietnam's producers.

Land allocation for the development of industrialized scale production cannot be established for coffee production in Vietnam. What is the solution for this situation? By examining the reality of agriculture in general and coffee production in particular, farmer groups based on household groups have proved a viable solution. In coffee production, there are examples of household groups organized and managed by commercial organizations such as manufacturers or exporters. These producer groups were organized to implement the objectives of improving production practices, addressing environmental concerns and improving working conditions of laborers to meet international standards such as the Utz Certified, 4C, Rainforest Alliance, Fair Trade, Organic. The household groups involved in these programs have demonstrated their ability to improve production skills and support trading at the group level, while maintaining each household's individual ownership.

However, the existence of each household group depends on its level of organization. The self-managed household group (which is not popular at present) will be the condition needed to strengthen the pro-activeness of the household groups to ensure the sustainability of group activities without depending on external management. Household groups and member households could manage their activities directly and take the leadership in trading their product and selecting commercial partners. The development of these household groups is a positive trend in the coffee sector and critical for meeting the sustainable development demands of the coffee sector.

In addition to the trend of sustainable development through certified coffee production is the increasing market demand for high quality coffee, produced with accountability, environmental protection, and respect for the rights of producers and laborers. Experience has shown that compliance with standards for sustainable coffee production such as Utz Certified, 4Cs, Rainforest Alliance, Fairtrade and Organic requires the grouping of small-scale households into functioning organizations as a pre-condition to ensure the needed level of performance or compliance.

In response to this situation, and based on a national needs assessment conducted by the Sustainable Commodity Assistance Network (SCAN) in partnership with Solidaridad in 2009, the need to

improve producers organizational was prioritized. SCAN and Solidaridad, therefore, through the support of The State Secretariat for Economic Affairs of Switzerland (SECO) and in partnership with ISEAL Alliance and Accountability coordinated the development of this manual to instruct coffee producer households with the following objectives:

- To present concrete instructions on how to organize groups of producer households and how to conduct activities of producer groups as service and business organizations, structuring members' participation in the most appropriate manner for their particular group.
- To promote that the group's activities are aimed at supporting each member in production, trading and consumption of their product as well as strengthening the producer groups to become a strong business unit, which can be self-financed, and has the skills and technology required to implement the planned assignments.
- The producer group is also instructed on how to conduct training activities to guide farmers to improve cultivation conditions, increase the efficiency of management and production, protect the environment, meet social criterion and support market access. As well it provides a guide for establishing the traceability systems for coffee that certifications may require.
- This manual also serves as an instruction for producer groups to implement and prepare the most general conditions that certification and verification programs require. Instructions on how to comply with certification will be integrated into the instructions on how to organize and manage the producer groups.

This manual is compiled by a group of experts, senior specialists in the area of organization and management of groups, cooperatives, coffee specialists and certification specialists. Solidaridad and SCAN sincerely express their gratitude to the precious contributions of those specialists who have contributed to and commented on this manual. We hope to continue receiving comments to improve this document.

SOLIDARIDAD

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## **PART 1: ORGANIZATIONAL MODELS FOR COFFEE FARMER GROUPS**

### **1. COFFEE FARMER GROUP AND GROUP CERTIFICATION**

The Coffee farmer group, which is discussed in this manual, is the organization of households who produce and cultivate coffee in a common manner and production scale, are geographically near each other and have the mutual desire to participate in a group as a business and service oriented organization, under a structure that is appropriate to the management capacity and the desire of the participating households. Farmer groups have the objective of providing technical, financial and trading support to the production and business of each farmer household, to provide services for coffee production to generate income for the group and to enhance the competitiveness in the market for its members. The group, through increased efficiencies, improved product quality and improved production practices, can move towards certified sustainable production.

*▽ Sustainable production certified under standards like Utz Certified, 4Cs, Rainforest Alliance or Fair Trade have become important trends in coffee production. These certifications can be tools for producers to implement sustainable production, support social conditions and ensure the rights of producers while providing evidence to consumers about the responsible production and processing methods used, and thereby help improve producers' access to markets for certified products.*

*▽ Given the scale of household production in Vietnam, the organization of households into groups is a fundamental condition to ensure compliance with sustainability standards can be achieved at a non-prohibitive cost. Groups of households with coffee certifications are groups of coffee producers with uniform scale, and with similar managerial or production models. Groups are not necessarily formed as business units with legal status. However, groups need to be organized with managerial mechanisms or internal auditing systems to operate and to comply with certification regulations of the program they will be entering.*

#### **General characteristics of groups and coffee farmer groups in particular:**

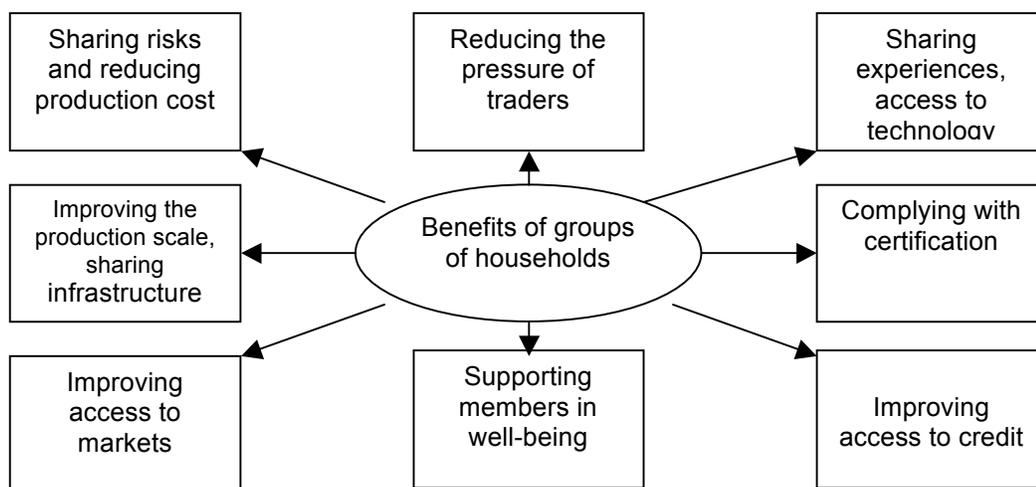
- As a voluntary agreement, that is self-managed and self-controlled, the group's activities are flexible. Procedures for formulating and dissolving the group are simplified.
- Producer groups are formulated under the accountability of the community, with management systems that are not complex but can ensure efficiency, equity and transparency.
- Producers rely on each other to create the community strength. Producer groups return the final profits to the group's members, create favorable conditions to improve the production and business practices, access scientific technology, enhance access to capital for production and trading. Producer groups also reduce production costs, increase product quality, strengthen its members' competitiveness, and promote improved market access.
- Group members are small-scale producer households.
- The number of group members depends on the managerial level of each group.
- In each coffee producer group, there might be smaller sub-groups or sub-teams.
- Beside collaboration for coffee production and trade, producer groups can provide other agricultural services such as pesticides, fertilizers and other agricultural services.

- A producer group is key pre-condition for producers to participate in certified sustainable production.
- Coffee producer groups can work together for coffee storage, drying and processing (including obtaining needed infrastructure) for better product processing and trade.
- Households in coffee production groups can coordinate exchanges between farmers to meet peak demands for laborers in coffee production at a low cost.

## 2. ROLES AND BENEFITS OF PRODUCER GROUPS

Roles and advantages when participating in producer groups:

**Fig 1: Role and benefits of producer group**



## 3. PRINCIPLES OF GROUP ORGANIZATION AND OPERATION

### Principle of voluntarism

Household's participation in each group is entirely voluntary, and is not under the pressure of any administration, organization or individual. When the producer household has requested to participate in a producer group, they write an application to join, as well, when they wish to separate from group they also inform the group. Participating members voluntarily accept and comply with the common rules and regulations that the group has set.

### Principle of equality and democracy

Each member has the right to participate in the management, control and monitoring of the group by voting. Each member has equal rights while voting, which are based on the group's general regulations for group management and rights and obligations of each member of the group.

### Principle of openness and transparency

Producer groups are open and transparent to their members and inform them through periodic written documents on information related to member benefits, obligations and the rights of members as well as information about the producer group's operations.

### Principle of self-responsibility, accountability and mutual benefit

In line with this principle, all activities of producer groups are decided by the group itself and accounted for by them, without external interventions. The producer group decides the number of households who can join the group, the formality and organization of the group, the groups' management mechanism, the services to be provided and the group's business structure. The group and household members are accountable for the achievements of its operations. Business achievements as well as risks are shared among group members, under agreed upon procedures.

#### **Principle of cooperation and community development**

In line with this principle, each household is encouraged to advocate for strengthening cooperation and collaboration in the producer group and their community. Producers need to share both profits and difficulties, grow together, and exchange experiences for the overall strength of the community.

∇ *Below are principles of certification. They are integrated into the concrete requirements on group organization and management.*

### **4. ORGANIZATIONAL MODELS FOR PRODUCER GROUPS**

When households agree to formulate a producer group, it can be difficult to select which type of organization to create. It is, however, essential to select the proper type of organization before starting the business. This selection can have remarkable impact on the existence and development of the group. Constraints caused by the improper selection of the type of organization can include:

- Capability to mobilize resources;
- Investment risks;
- Complication of procedures and cost of establishment;
- Ineffectiveness of managerial mechanism

In Vietnam, the existing legal system regulates the type of economic unit from a bottom-up structure to a higher level organization. Beginning with households or teams (as stipulated by Civil Law), cooperatives (as stipulated by Cooperative Law) or other types of business organization (as stipulated by Business Law). Each type of organization has specification in its organization and operation, which leads to specific limitations or advantages.

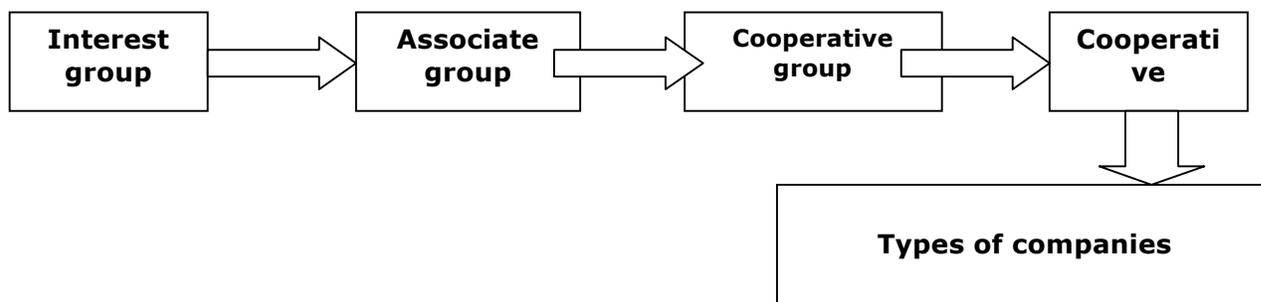
The types of organization that households group may consider are the following:

- Interest group or association
- Cooperative group
- Cooperative
- Collective name company
- One member limited liability company
- Two member limited liability company
- Joint-stock company

With countries having development conditions such as Viet Nam, the types most suitable for a coffee producer group are: interest group, associate group, and cooperative group. When a producer group becomes strong and there is a demand to shift to another other organizational type, producer groups can change to cooperatives or enterprises with registration for operations as stipulated by the Law on Enterprises. (See Figure 2).

▽ When the group is established with a certification objective, the group is not necessarily required to register as a legal entity. However the group still has a written regulation about its organization that identifies the relationship of internal management and group members. The group is established with a clear organizational structure with a development roadmap. The scale, function and objectives of the internal management system are identified clearly to reflect the group's specifications. The internal management and its members should understand their responsibilities in the group.

**Figure 2: Types of producer groups**



#### **4.1. Interest group and Associate group**

An Interest Group is a self-managed and independent group of farmers who have the same objectives and interests. Group members work together to achieve common objectives by mobilizing existing resources to better access external resources, with the aim of sharing profits.

An Associate Group has a better organization than an interest group, with all group members striving towards the common objective of improved commodity production and trade.

In coffee production, the associate coffee producer group is a group that associates coffee production households in one locality (province, district or commune) on a voluntary basis (witnessed by the Commune or Town People's Committee). The members contribute the efforts of implementing the various stages of coffee value chain (planting, cultivating, seedlings supplies, pesticides and selling products to the markets), aiming at improving the efficiency of coffee production. The coffee producer group is the subject in the civil relationship.

An Associate Group submits its application for registration in the Commune People's Committee (CPC), then the CPC, based on production area division, consolidates the list, and organizes a meeting with registered households for establishing the associate group. The area of production needed for easy implementation, monitoring and certification in the later stage is also identified.

#### **Procedure of Interest or Associate group development:**

- **Step 1:** Identify the needs, scale and area of the group in which associate activities will begin the group.
- **Step 2:** Identify the nuclear producer household and participating households and committed people with high recognition and strong capability to mobilize the community.

- **Step 3:** Meet to discuss with participating households the principles of operation. The application form to join the group will be sent to all producer households.
- **Step 4:** Preparatory meeting. All applications of members wishing to join the group will be consolidated and the leadership of the group will be voted on. The unified application form to join the group will be submitted to the CPC (for sample of application - see Annex 2).
- **Step 5:** Registration of group's operation at the CPC.
- **Step 6:** Inauguration of group: to approve the list of members; the principles of operation and the minutes from the group's establishment.

#### *4.2. Cooperative group*

The cooperative group is established based on the cooperative contract, which is certified by CPC, with at least three members or more, who contribute properties and efforts to implement certain activities, to share benefits and to be accountable as the subject in civil relationship.

#### **Specification of the Cooperative group:**

- The Cooperative group is a self-established organization, by individuals, as a type of cooperative economy of social civil organization.
- There are at least three members.
- CPC certifies the cooperative contract;
- The Cooperative group is not a legal entity; it operates for the social and economic interests of the group, which do not conflict with existing laws.
- Members of the cooperative group are those individuals from 18 years of age and above, with full capacity to act as a civil citizen.
- The cooperative group owns the right to sign labor contracts with non-members to execute certain works.
- The representative of the cooperative group in civil transactions is the team leader who is nominated and voted by members.
- Properties contributed and created by group members are the cooperative group's assets. Group members manage and utilize cooperative group's assets within established agreements. The disposal of group properties requires the agreement of all group members.
- The cooperative group is responsible in civil cases regarding the group's properties; if these properties are not sufficient to implement the common obligation of the group, members need to be proportionately liable for responsibility, with compensation provided by his or her own property.

#### **The cooperative contract has the following key contents:**

- Objectives, expiration of cooperative contract;
- Name and residence of team leader and members;
- Level of property contribution, if any; procedures for interest and benefit distribution among

members;

- Rights, obligations and responsibilities of the team leader, executive board and members;
- Conditions for admitting new members and to expel members from the group;
- Condition to end a cooperative group;
- Other agreements.

### **Procedure to establish a cooperative group:**

**Step 1:** Advocate creating the team, of at least three members, with individuals who have strong knowledge regarding cooperatives, high recognition within the community and the capability to mobilize community members. Members are citizens who are 18 years of age and above with full civil responsibilities. For coffee producer groups, the minimum number of producer households should be 20 households or more.

**Step 2:** Formal application of members.

**Step 3:** The cooperative contract is developed and agreed upon by members

The cooperative contract contains the following key elements:

- Objectives, expiration of cooperative contract;
- Name, residence of team leader and members;
- Level of property contribution, if any, from members; methodology for distributing interest and benefit among members;
- Rights, obligations and responsibilities of the team leader and members;
- Conditions for admitting new members and for members to leave the cooperative group;
- Condition to end a cooperative group;
- Other agreements.

Members establish the principles, action plan, organization and management of the cooperative group. The Cooperative group nominates a team leader, vice team leader, secretary to take notes (preferably someone knowledgeable in accounting, book keeping). The team will meet and discuss the team's operations.

**Step 4:** Apply for certification of the cooperative contract from the CPC; the team leader of the Cooperative group submits the contract to the CPC for certification. After being certified, the Executive Board manages the team as stipulated in the agreed contract.

**Step 5:** Presentation of the Cooperative group to the public.

### **4.3. Cooperative**

The Cooperative is the collaborative economic organization contributing capital and efforts of individuals, households, legal entities (in general members of a cooperative) with common interest and benefits. The Cooperative is established under regulations in the Law on Cooperatives, in order to promote the combined strengths of each member of cooperative, to help each other to achieve

efficiency of production and business activities, with the aim of improving the material and spiritual lives of its members and contributing to socio-economic development of the country.

Cooperative is a special type of enterprise, with legal identity, self-control, self-accountable for the financial obligations in the scale of its charter capital, accumulated capital and other sources of capital of the cooperative as stipulated by law.

### **Specifications of a cooperative:**

- A cooperative is a collaborative economic organization. Members are the owners of the cooperatives with full ownership to determine organizational issues, operations and distribution in the cooperative as stipulated by the Law on Cooperatives.
- A cooperative should have at least 7 members or more.
- A cooperative could register and operate in all sectors and branches that are not prohibited by law.<sup>1</sup>
- A cooperative is an open organization with social features.
- A cooperative operates based on following principles: voluntarism, democracy, equity, transparency and solidarity.

### **Procedure to establish a Cooperative**

- **Step 1:** Founder(s) advocate(s) for the creation of the cooperative. Founders are required to: formulate concrete ideas for establishing the cooperative, identify potential members, recommend production and business conditions and the requirements of members and identify potential markets, challenges and advantages. Founders also need to mobilize members for the cooperative.
- **Step 2:** Conduct a feasibility study, to understand the feasibility of the business ideas and activities of the cooperative. The founders need to study the requirements and capacities needed to meet the requirements, identify appropriate activities and services, the resources required, and identify opportunities as well as risks.
- **Step 3:** Develop the production and business proposal and plan of action based on the identified plan of action with clear objectives and solutions to achieve those objectives with concrete activities and services.
- **Step 4:** Report to CPC about the location of the Cooperative
- **Step 5:** Develop the draft regulations of the Cooperative
- **Step 6:** Advocate participation, establish management and organization mechanisms.
- **Step 7:** Hold a founding congress, with participation of all members of the cooperative, to discuss and approve the cooperatives direction, production and business plans; plan of action

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<sup>1</sup> Article 15 Law on Cooperative

of the cooperative; draft regulations of the Cooperative; name, logo (if any) of the cooperative and list of members. The management system is also approved and positions filled.

- **Step 8:** Business registration. After the Congress, the Chairperson of the Cooperative (legal representative) will advance the procedure to register the business. The business registration profile consists of the following documents:
  - Application for business registration;
  - Regulations of the cooperative;
  - Number of members of the cooperative, list of managerial Board, Auditing Committee of the Cooperative;
  - Approval of minutes from the Establishment Congress of the Cooperative.

The Cooperative registers as a business at the business registration organization of the province or district where the Cooperative plans to house its head office.

**Step 9:** Initiate the Cooperative’s activities

The most suitable business organization for the coffee production group is the associate group or the cooperative group which are the most practical given the requirements of coffee production and trading and which are suitable to the managerial skills of coffee producers. Based on the experiences of founding and implementing the activities of the producer or cooperative group, the group could then move forward to the establish a cooperative, union of cooperatives or other types of enterprises. These enterprises can include multi-member limited liability company or shared stock company when the group’s production demands require such an expansion and the management and organizational capacities of the group can met these requirements. (See annex 4).

The table below provides a comparison of the establishment procedures and structures of different types of producer groups.

**Table 1: Comparison producer group types:**

Criteria	Interest group	Associate group	Cooperative group	Cooperative
<b>Objectives</b>	Obtaining access to scientific and technical advances; information exchanges and experiences in one production area.	Implement general production activities in line with commodity production	Implement production activities in line with commodity production. Provide services inside the cooperative group	Cooperative is a collaborative economic organization with common interests and shared profits; voluntarily contributed capital and efforts to implement production and business activities with efficiency, aiming at improving living standards both material and spiritual.
<b>Function</b>	Promote farmers to join in the exchange of experiences in production	Promote farmers joining centralized production processes, focused on trends in commodity production	Promote farmers joining centralized production of commodities at a sufficiently large scale to improve competitiveness	Improve the efficiency of the trading and production practices. Promote agricultural production towards commodity production at a large scale

<b>Participating Members</b>	Represents types of farmers households: Poor, medium, and those better-off.	Medium and moderate households	Medium, moderate and better-off households	Medium, better-off and wealthy households
<b>Relationship between groups</b>	Is the starting point of the establishment of associate groups	Associate group is the starting point for establishing the Cooperative Group or Specialized Cooperative	Cooperative group is the starting point for establishing the Cooperative or Enterprises as stipulated under the Law on Enterprises	Is the starting point for establishing enterprises as stipulated by the Law on Enterprises
<b>Managerial organization</b>	Group leader	Management Board of Group leader	Executive Board or Management Board and Group leader	Executive Board or Management Board, Group leader
<b>Liability</b>	Unlimited	Unlimited	Unlimited	Limited
<b>Legal identity</b>	No	No	No	Yes
<b>Law to adjust</b>	Civil law	Civil law	Civil law	Law on Cooperatives

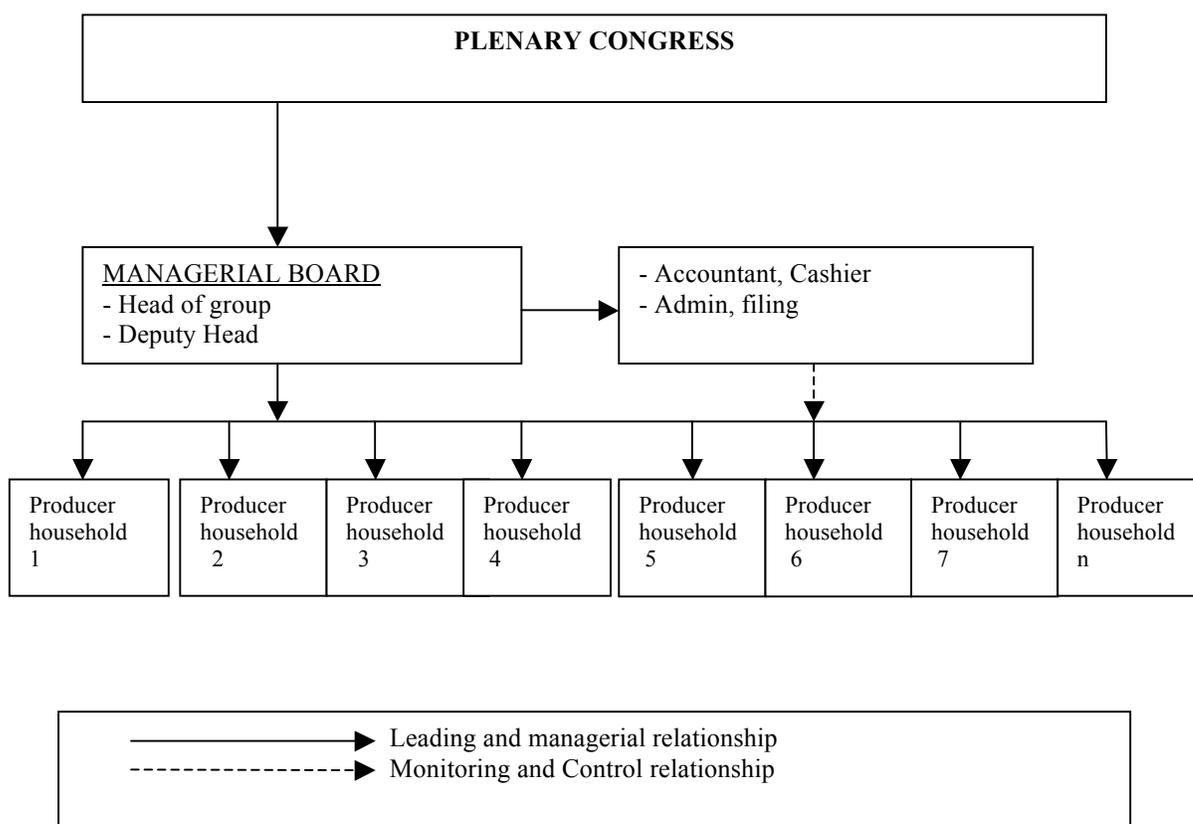
∇ *These types of groups are suitable for the implementation of group certification. Under the structure of interest groups or associate group, the structure and function of the internal management board as well as operational rules and internal relationships within the management and between the management and members can be further defined by specific certification schemes.*

## 5. ORGANIZATIONAL STRUCTURE OF GROUP

The coffee producer group can select a structure that that is an associated group but at a smaller scale. The organizational structure should be simple and light. The coffee associate group at a small scale can be split into three sections:

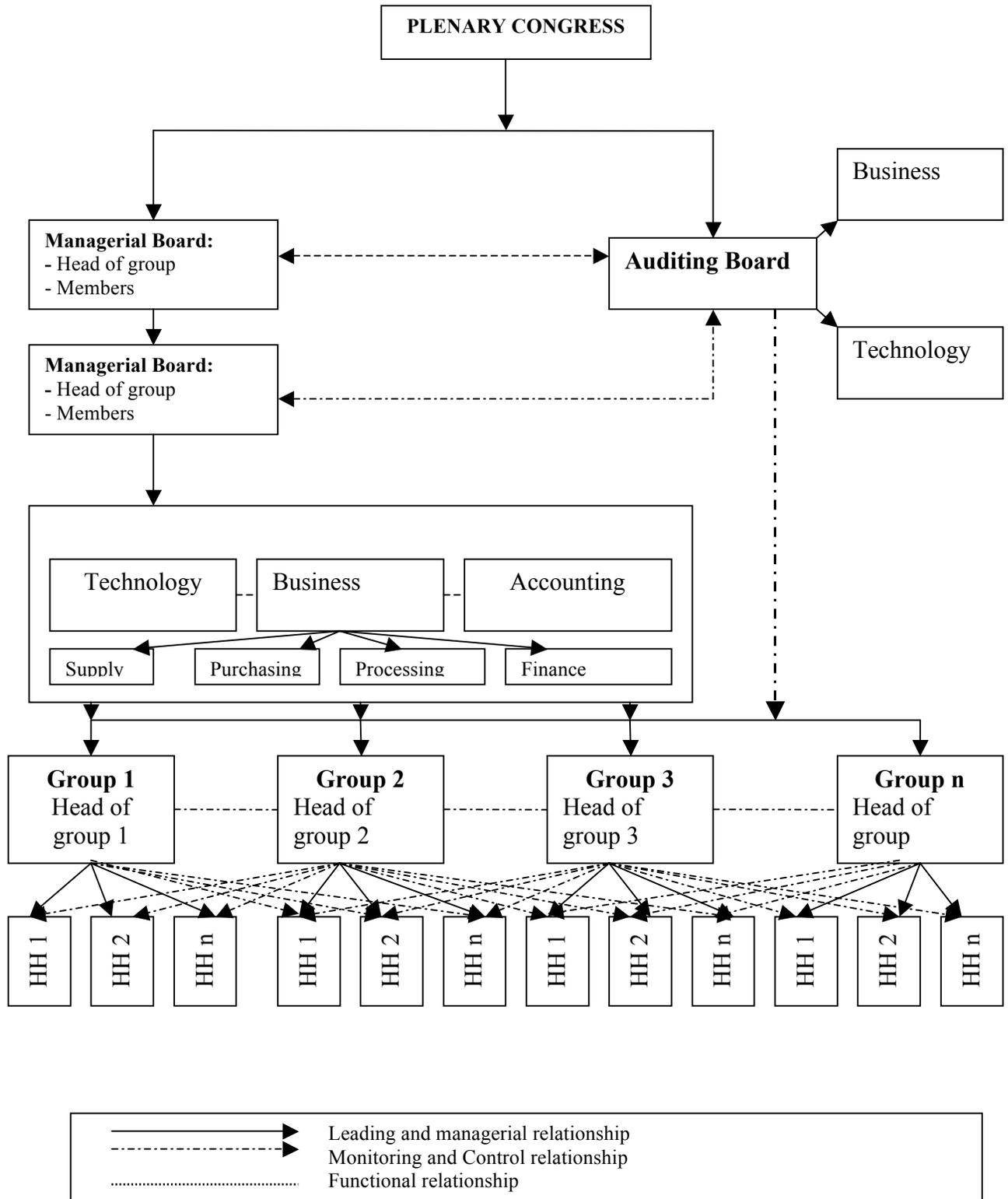
- Plenary Congress of the farmer group
- Executive Board
- Professional Section

**Figure 3: Organizational Chart of small-scale group**



For larger scale producer groups (in particular those groups implementing sustainability certification(s)) the cooperative group or the cooperative could be an option. In this instance they would need to establish an Executive Board, a Control Committee and a separate Management Board would be required. Those individuals nominated to the Executive Board could be selected from among the members or contracted by the Management Board.

**Figure 4: Organization Chart of large-scale group**



## *Plenary Congress*

### **Organizing the Plenary Congress**

- The group organizes a Plenary Congress of all group members once a year or several times a year.
- The group organizes extraordinary meetings when:
  - There are difficulties on which the Plenary Congress has authority to take decisions;
  - The majority of members or a majority of the administration or executive board members request it.
  - The Auditing Board convenes the extraordinary meetings
  - Within 15 days, since the letters from at least one third of the members are received requesting the organization of a meeting which the Administrative Board did not hold.
  - When there are violations of the laws, rules and regulations of the producer group.

### *Administration Board/Executive Board of households group*

When the group is small, the function of the Administration Board and Executive Board are combined in the function of the Executive Board.

**The Executive Board** is a management unit that manages the households group, consist of group head and members. The term of the Executive Board in accordance with the term of the Plenary Congress, is specified in the contract of partnership of the farmer group.

The session of the Executive Board consists of regular and extraordinary meetings. The regular meetings are hold at least once a month by the Board Head or an authorized member who convened and chaired. The extraordinary meetings are organized to settle unexpected problems as requested by at least one third of members or group head.

For this model, the Plenary Congress votes:

- Executive Board and Auditing Board
- Group head (also cum Executive Board's Head)
- Deputy heads of the group.

### **Functions and rights of Executive Board**

In case the group sets up a households group of management and execution as, the Executive Board has rights and obligations as follow:

- **Issues relating to organization**
  - Appoint, dismiss the deputy heads according to the group head's proposal;
  - Decide on the group's organizational structure of the farmer group (including any professional sections);
  - Consider the admission of new production household and settle the member's termination from the group and report to the Plenary Congress for approval.
- **Issues relating to function, operation**
  - As a representative of the group's property ;
  - Implement the Plenary Congress's resolutions;
  - Prepare reports on: work plan, plan of mobilizing and utilizing capital, plan of profit sharing, activities of the Administration Board submitted to the Plenary Congress;
  - Assess the results of farmer group.
- **Management of the households group**

- The person who is responsible for the group's general management work is the group head. The Plenary Congress agrees on standards, ways to elect the group head and vote for the group head.
- The head of the Executive Board can be the group head or others who are appointed or hired for management. The number, criteria, and methods for establishing the executive board are conducted according to the Plenary Congress's agreement.
- The change of the group head must be recorded in the minutes of the Plenary Congress and shall notify in written document to the Communal People's Committee that certified the cooperation contract.

In case, the households group establishes an unit of management and a unit of execution separated from the Administration Board and Executive Board,

The Plenary Congress shall elect:

- Administration Board and group head
- Auditing Board and Head of Auditing Board (specified in the part of the Auditing Board)
- The Administration Board elects the Executive Board or appoints to hire the Executive Board from the outside.

#### **Functions of Administration Board:**

- The administration Board is responsible for issues of strategic policy;
- Convene and chair the meetings of the Administration and the Plenary Congress;
- Elect the Executive Board;
- Appoint, dismiss or terminate the contract of hiring the Executive Board's head;
- As a representative of the households group's property;
- The Administration Board has other rights and obligations relating to the organization similar to the Administration Board in the households group to establish an unit of management and execution.

#### **Functions of Executive Board:**

- The Executive Board is responsible for execution regular activities of the group.
- Implement the resolution of Plenary Congress and the Administration Board.
- Prepare reports on work plan, plan of mobilizing and using capital, plan of annual profit sharing, activities of the Executive Board submitted to the Administration Board and the Plenary Congress.
- Assess the performance of the groups annually

#### **Responsibilities of group head**

- The group head takes the following responsibilities:
  - A representative of the group setting up the civil transactions for the households group's activities.
  - Implement and manage the group's activities.
  - Check the compliance with the regulations of the group.
- The group head could authorize the executive board member or other members of the group to do some specific works in line with law.

#### **Rights of households group**

- The households group is not limited to operate within the scope of local administration where the households group registers for operation.
- Directly export, import or joint ventures with domestic organizations and individuals as well as foreign organizations, individuals to expand production and business as stipulated by law.
- Enjoy the supporting policies and participate in developing and implementing plans, programs and projects of supporting collective economic development; plans, programs and projects of socio-economic development, job creation and poverty alleviation in the locality.
- Open a separate account at a bank on behalf of the group represented by a person under his name according to the mechanism of representative as stated in the contract of cooperation
- Signed civil contracts for setting up, changing or terminating the civil rights and obligations. For the disputes on civil contracts, if the two parties can not reach any agreement, mediation, the Court will address the case. The cooperative group is responsible for the infinite with the entire assets of the group and its members in proportion to the contribution of his own asset.
- Decide on the distribution of profits and interest and liquidate the group's losses.
- Have other rights stated in the cooperation contract, but not inconsistent with the law's provisions.

#### **Civil responsibilities of households group**

- The households group must take civil responsibilities of complying the civil rights and obligations determined by the representative, conducting the responsibilities on behalf of the households group.
- The households group is responsible for civil responsibilities by the common property of households group; if the assets are not sufficient to cover the general obligation of the group, the members take correspondingly joint responsibilities with their own property contributions.
- Carry out the agreement committed with the other members, organizations and individuals.
- Carry out its responsibilities for the employees hired by the group under the provisions of the labor law.
- The households group must take social responsibilities for the production organization.

▽ *In the general requirements of certification schemes, the Group Management Board must implement and follow the Internal Management System (IMS), including the Management Board has to ensure that all the members comply standards and certification requirements.*

▽ *The Internal Management System should have enough resources from qualified and competent human resource as well as financial resource to set up the internal management system in order to manage and monitor each household's compliance with certified standards in the most transparent way. The management system should specify a person or a group of members who are responsible for specific management works. This system must be made public and all the members as well as the auditor know who are responsible for what.*

▽ *The Management Board must ensure monitoring the problems of potential conflicts of interest. If the individuals may have conflicts of interest, they do not participate in activities or decisions in management work that can arise the conflicts of interest and make partial decisions.*

▽ *Each member in the management board, administration board, or internal auditing, procurement staff or others are required to be qualified to execute their tasks. It is the responsibility of the group management board to determine the necessary competences of each position and to provide training for them to conduct necessary actions. It is necessary to organize training courses for the new staff or elected personnel on work requirements. Records or degrees, certificates of these*

*training activities have to be kept by the group. This helps to prove the fact that management board members are qualified to conduct their jobs.*

∇ *The Internal Management System has to determine clearly the process of group management. The process includes the regulations of administrative management as follow:*

- *The general regulations consist of role and responsibilities of the staff, elected positions and set up committees.*
- *The process of admission of new members, process of sanction and exclusion, petition*
- *Process of internal auditing*

*Technological processes and production management of group are following:*

- *The production process and coffee product transportation from the household member to the group and the clients.*
- *Internal standards include certification standards that the group opted to implement*
- *Risks assessment in coffee production and processing as well as in human resources and product.*
- *Process of transactions, transport and deposit products*
- *Requirements of recording and book keeping cultivation activities of member households*

∇ *The Management Board of households group will be audited by an independent auditing unit to assess the function and efficiency of management work of households group, ensuring compliances of group to the certification's requirements.*

## ***Members of households group***

### **Conditions and procedures for admission of member to households group**

Conditions for admission of member:

- *If a coffee producer in the region wants to be a member and be endorsed by members of households group, he can apply to join the households group.*
- *The contract of cooperation can prescribe additional standards for the members of households group.*

Procedures for admission a new member:

- *The producer submits an application form to the group's head, in which specifies his admission desire and commitments to carry out the contract of cooperation of households group.*
- *The members' meeting considers, votes and recognizes the new member when the majority of the members agree, unless another agreement is applied.*

∇ *In the certification, the household member must sign a contract or an agreement of cooperation with the group management board. The management board must ensure that the members understand all the terms in the contract. The contract must include the following elements:*

- *Member's commitments to comply with internal standards and regulations relating to the certification;*
- *Member's commitments to provide necessary information for the group management board;*
- *Member's admission to the internal audit and external audit for the purpose of certification*
- *Member's obligation to inform the management board about non-compliance due to the member's intention or carelessness;*
- *Right to terminate the membership of household member.*

*The group management board should help the members understand their obligations and rights when joining the households group.*

▽ *Member household is accepted as certified member when audited internally and complied with full requirements of certification, executed recording and books keeping obligation of production activities as internal standard.*

▽ *All members must have a copy of the requirements and regulations of the group (including standards and certification requirements). The requirements and regulations can be presented in charts or graphics. Depending on the types of certification, the certification's standards can be stated in a document of general regulations of the group or put into a separate document of its own internal standards.*

*The member households must understand properly the right production activities/practices that they need to carry out.*

▽ *The documents of internal regulations or standards must be interpreted in a way that consistent with the language and perceptions of the household members*

▽ *The member households should have sufficient knowledge about the standards, regulations and production methods through appropriate training or coaching, exchange and application of skills and experiences.*

### **Member's rights**

- Taking part in deciding issues related to the farmer group's activities, monitoring the group's activities;
- Receiving incomes and profits from the group's activities under the agreement;
- Checking the farmer group's activities through the internal auditing system;
- Leaving the households group in line with the agreed conditions and ways;
- Other rights in the cooperation contract, not inconsistent with the law's regulations.

### **Member's obligations**

- Carry out the cooperation based on the principles of equality, mutual benefit, mutual assistance and ensuring common interests of the farmer group;
- Compensate to the group for damages caused by the member's faults;
- Perform other duties as agreed in the cooperation contract, but not inconsistent with the law's regulations.

### **Member's rights and obligations when leaving the group organization**

- When leaving the group, member household has a right to reclaim properties that he/she had contributed to the group. He/she gets a share of the common property of the group, except for property not share as agreed by the majority of members. If the division of assets in kind affects the continuous operation of the group, the assets are converted to cash;
- When leaving the group, the household member must perform their obligations for the groups according to the agreement.

### **Internal control unit**

- The internal control is the unit that monitors and checks all the group's activities that comply with law and regulations/contract of cooperation of the farmer group.
- The number of members of the Auditing Board is stipulated in the regulations of the households group.

- If the organization is small, the Auditing Board might not be set up. Therefore, the auditing work is covered by all the group members, or only one auditor is appointed.

### **Functions of internal control unit**

- Auditing function: monitor the activities of the Administration Board/Executive Board and members of the group in accordance with the law and its rules, regulations of the group.
- Auding function:
- Check the compliance with the rules, regulation and the meetings' resolutions of the households group.
- Check the achievement of planned planning targets
- Check the finance, accounting, income distribution, and liquidation of losses, use of group's funds, assets, loans and supporting funds from the State .....
- Check the members' compliance with the regulations or internal standards that were proposed to comply with the standards of the certification.

### **∇ Internacontrol system/unit certification**

- *Certification schemes require to set up an internal control system. The Plenary Congress or Administration Board decides the establishment of the internal auditing system together with the auditing mechanisms and internal auditing that agreed in the Plenary Congress.*
- *The internal control system in certification takes responsibility to ensure compliance with certification regulations that was selected by the households group is carried out at management board level as well as at the member household level through the monitoring and auditing activities.*
- *The internal control officers should have professional qualification of certification, coffee production and inspection auditing to execute their tasks. Internal auditing officers are required to archive degrees and certificates to prove their qualifications. Internal auditing officers are assessed by independent auditors on their performances.*
- *To ensure the principle of no conflict of interests between the auditor and being audited.*
- *The Head of Internal control unit/system is responsible for monitoring compliance with the regulations of the group. The group's Head and the Plenary Congress are responsible for monitoring the operation of the Auditing Board.*
- *The procedure of internal auditing needs to be approved by Plenary Congress or the Executive Board*

### **∇ Auditing activities of internal control system in certification implementation :**

*Each member household must be audited annually, according to the group's auditing/control process. The group identifies and proposes the unexpected auditing based on risk assessment. The internal auditing should be conducted at different times of the year, not regularly at the same time to ensure auditing the reality, not coping with auditing.*

*The new member households must always be audited before their products are considered as certified product. The auditing is a mandatory condition to be recognized as certified products.*

*The internal auditing officers can make recommendations for the member households but not for households that they conduct the audit to ensure fairness, no conflicts of interest. Therefore, there must be a mechanism of cross-audit.*

*After the internal audit, the Management Board must confirm the membership of each household annually, as an official member or not, or suspended or expelled due to non-compliance. Therefore, the determination of the membership must be conducted transparently and straight-forward.*

*The member households have rights to complain about the decisions on membership or determination of non-compliance. It must be ensured transparency during the process of auditing and monitoring.*

*The internal management system must work out the process or procedures for sanctions if a member does not comply with certification rules and internal regulations. The sanctions must be made public in the group. The sanctions may include: rejecting the certified products, suspension of membership, and excluding from the group ect... This creates a motivation for complying with certified standards and internal regulations.*

## **6. REORGANIZATION AND DISSOLVEMENT OF GROUP**

Reorganization of households group is the consolidation, merging, division, separation or change of the group.

### ***Consolidation of households group***

Consolidation of households group is two or many producers groups consolidated into a new households group, by moving the entire property, the legal obligation to the consolidated households group, and termination the existence of the consolidated group .

### ***Merging of households group***

One or some of households groups are merged into the other households group, by moving the entire property, the legal rights, obligations and benefits to the merged households group and termination the existence of the merged groups.

### ***Splitting of households group***

In operation, when the number of member households group is too many, the group can be splited into many new households groups. When splitting the group, the group shall terminate its existence to set up the new households groups.

### ***Change of households group***

The change of households group is the change from the households group model to another model to push up the group's development in the future.

Example: Change from the interest group to the cooperative group or the cooperative group to the Cooperative or the Joint Stock Company.

## **PART 2: OPERATION MANAGEMENT OF COFFEE FARMER GROUP**

### **7. OBJECTIVES AND MISSIONS OF GROUP**

#### **Strategic objectives**

Strategic objectives of the coffee production farmer group are creating the cooperation among small and individual production households to achieve objectives in production, trading which were identified when group was established. Strategic objectives of the coffee production households groups aimed at:

- Promote the benefits of each individual member household that linked to achievements and position of the farmers group.
- Regularly improve the skills and develop the specialized expertise for member household.
- Continuously improve the production methodology and products aiming at sustainable cultivation, ensuring conditions and social benefits for all members and environmental friendly production.
- Contributing to improve the living values for consumers as well as the prosperous development of Viet Nam coffee production.

#### **Duties of coffee production households group**

One coffee production households group has following duties:

- Developing the households group from small scale and scattered production to large and centralized scale, producing commodity goods with efficiency by strengthening cooperation among households.
- Activities of the coffee production households groups are voluntary, self-managed, ensuring the principle of receipt pay for expenditures and business with interests, sharing profits and risks among household members.
- Maintain close relationship with scientists in production and processing technology transfer, strengthening the relationship between buyers, markets and coffee consumers

∇ *When the certification of the households group is identified to strive for, households group need to organize necessity activities such as enhancing the households group's organization, production and cultivation activities, environmental protection activities, the group and member households will meet the requirements, comply with requirements of that certification.*

### **8. BUSINESS PLAN OF GROUP**

Business plan is a written document that describes and analyzes business which includes forecasts, detailed calculation of the future development. It also consists of financial issues when starting the operation as well as business expansion of a coffee production households group. One business plan consists of key following contents:

- Description of business
- Market
- Development and Production
- Sale and Marketing
- Management Board
- Finance

∇ *How to start activities of the group's operation needs to be mentioned clearly in this business plan for the households group of certification implementation. Certification implementation needs to be executed as major business activity that yields to better quality coffee, more valuable and with high selling price.*

### **8.1. Description of business**

Part of description of business of coffee production households group consists of the following activities:

- General introduction on coffee production and business of households group in the local business and production environment
- Introduction of households group: strength, advantages and disadvantages of the group
- Description of product/service of coffee production households group
- Identification the position of coffee production households group

#### **Business activities**

Let's start with a brief summary on business of coffee production households group. The description need to show:

- The existing situation as well as the future tendency of the business.
- Potential impact of the market to the business of the group.
- Common factors and tendencies will have impact to business.

#### **Discussion about coffee farmer group**

The discussion on the coffee production households group starts with job description, objectives that group is striving for. Some fields need to be added:

- Coffee production households group belongs to which type of business: production, purchasing, or services.
- Organizational and legal scheme of the households group.

#### **Objectives of establishment the households group:**

Encourage farmers to join households group to improve the situation that coffee production farmers are not associated in production, investment, market accessibility, information exchanges. From the group, they will be benefited:

- Having opportunities to share experiences in sustainable coffee production
- Assisting each other in production process, purchasing and selling processes, sharing and improving the efficiency of labor utility
- Sharing common objective towards production of good quality product
- Coffee production comply a common guiding process that is unified, meeting the requirements of buyers
- Study the market research together to collect ideas, information and share information better
- Create strength for all members in their capacity to compete in the market
- Be capable to cooperate with each other to negotiate the price of supplies as inputs to production, they might have discount when purchasing big quantity of supplies.
- When selling product with big quantity, they might negotiate to increase the price of product..

∇ Though certifications in coffee production such as UTZ CERTIFIED, Fair Trade, RFA, 4C or GlobalGAP are different in concrete requirements, certification that tends to ensure environmental standard, other focuses more on commercial advantages for producers, certification focuses both socio-economic and environmental issues at different levels. However, all certifications certified the production and processing procedure to produce coffee seeds which is certified as Standard certified coffee in the market.

In the households group, coffee production will be implemented by each household, role of households group is to organize the certification of these households, that means the households group has to:

- Develop the production procedure, processing and transportation coffee that households and group have to implement to comply with certification's requirements
- Develop the monitoring procedure and implement it (by using internal audit system)
- Have a plan to implement supporting activities to member households in organization, managerial and technological aspects.
- Implement internal audit activities, independent auditing for certification provision.
- Implement marketing and consumption of certified products of households and using to the utmost the advantages and quality of certified products to generate income for households and for the group.

### **Products or services of coffee production households group**

Describe each production or service activities of coffee production households group. Emphasize its specification or differences that group created.

#### **Activities that generate income of coffee production households group might consist of:**

##### **1. Coffee production and planting**

∇ Support member households to improve cultivation condition which is sustainable, efficient, environment protection, improving the quality and value of the product. Knowledge about the advanced production technology transferred. Monitoring and supporting households upon certifications that was opted by the group

##### **2. Trading / purchasing / authorized dealer**

Trading / purchasing or authorized dealer of coffee to generate income from differentiated price or commission, consumption coffee for member households or households not in the group and the authorized dealer for commercial and processed units.

∇ In many certifications such as UTZ CERTIFIED or Fair Trade, purchasing or selling the products must comply with regulations of certification to ensure traceability or benefits in income and selling price of producers.

##### **3. Services.**

Households group could implement the related services for member households or for community:

- Supplies provision.
- Storage to retain products, selling and dealers for selling or purchasing coffee.
- Processing services
- Technical services of coffee plants nursery, pesticides and diseases resistance, technological training course, technology transfer.
- Transportation services
- Capital services

- Other services that the group could meet the requirements of the market

∇ *Some of these services become inevitable or obligatory for certifications to ensure supporting role or technological services to assist the production to comply with certification's requirements and to improve the product's quality.*

## 8.2. Market

This part required the study of the existing scale of the market for products and services the group is providing and the tendency of market development for those products. The content describing the market consists of:

- Customers of the product and services provided by the group
- Scale and tendency of the market
- Level of competitiveness
- Estimated scale of services and the turn-over

### **Market of Coffee produced by a households group is described as the following:**

Currently households are purchasing cherries for Company A and B for wet processing or dispatch for individuals who purchase directly, dealers of processing and business companies (A,B,C, D..) and sell directly to these companies. At the moment, the quantity of cherries sold for wet processing accounts for 15% total quantity of the households group, 35% sold to individuals, 40% total quantity sold to purchasing dealers of commercial and processing companies (A, B,C,D...), 10% sold to small roasters in the province.

Selling cherries yield high efficiency but required the high percentage of ripped cherries, when selling to dealers with 5% lower in price comparing with direct selling to factory but the transportation cost was added. Selling price for individuals is 8% lower than selling to factory but individuals do not request for high quality products. With the scale of productivity of households group, they could export directly if they invest to processing, classifying and polishing. Selling to roasters in the province with higher price but the demand for quality is also high and the quantity of product is not stable.

Based on market analysis, the households groups select the consumption market, prioritization level to ensure the utmost efficiency of selling:

- Selling to direct purchasers
- Selling to authorized dealers
- Sending to storage of company or dealers and agree on price later
- Selling to processing and exporting companies
- Exporting directly

∇ *Certified coffee is a special product in the market. Each certified coffee has separate consumption market. The demand and supplies as well as the total cost to implement the certification vary and become different in each country and locality. The households group need to analyze the scale, market trends of the certified coffee as well as cost and turnover of the product, non-cash advantages of each coffee such as support to sell product, to approach the customers, or certification to guarantee the good quality product ... to decide which certification to implement, seeking for customers for group certification.*

### **Analysis the market for services on fertilizers and agricultural material supplies:**

With the output ..... On the area of ... ha of the group, the group require annually the estimated material supplies as the following:

- .... Tons of Urea
- .... Tons of NPK
- .... Other types of fertilizers
- .... Biological fertilizer
- .... Types of Pesticides (quantity or value)

Differences in retail price and factory price for fertilizers are in the range from 10 to 20%, the fake fertilizers or low quality fertilizers will not be controlled if farmers buy retail.

Credit services and pay back with product is popular, however the interest rate is rather high, double interest rate comparing with the interest rate of the bank while the cost of product to pay back is 5% lower than normal price.

Currently only well-known supplies production companies are able to access to the credit and accept the first rank of dealers with the commission of ...%.

If all households in the group commit to use supplies provision services, that will bring back the estimated turnover .....

In addition, the capacity of using supplies services of households in the region is rather high, accounting for % the group demand.

### 8.3. Development and Production

Content of development and production consists of:

- Currently the product and services development: what do they have? What do they lack of? Which do they need more?
- Production and service provision cycle
- Cost of product development and services
- Demand for laborers
- Requirements on cost and capital

In the reality of coffee production, farmers face with challenges in improving the productivity, quality of coffee cultivation. Coffee seeds produced with rather high price, however, the quality is not high due to many reasons such as collecting green cherries, coffee plants lack of shadows, not appropriate processing procedure lead to low income due to low price. The cultivation that is not properly, using big quantity of pesticides or watering more than requirement lead to the resources waste and efficiency reduction. Instruction to member households about the sustainable cultivation technology could increase remarkably the coffee values for each household and for the whole group. The current processing and classification units of all types of coffee for export could earn good income from differentiated price of coffee seeds and the good quality coffee for export. However, the fluctuation of coffee price with high margin has brought risks to processing units for export. High cost of production leads to surplus of credit demands of households and the existing credit from banks could not meet these demands. Unofficial credit with high interest rate caused difficulties for household in coffee production ...

From these facts of production, households groups could implement the services as: supporting the planting technology, processing, product consumption for member households, credit provision or supplies provision services, processing services ... Then the services module will be analyzed to become feasible and the demand for investment to implement activities and services will be

proposed..

∇ *In the production plan, it is required to concretize the plan of action in certification implementation in which coffee production activities at households is the major part. The group needs:*

- *Develop the cultivation and production procedure and annual plan of production (seasonal schedule) and instruct for implementation.*
- *Develop the procedure and plan of selling, purchasing, processing, transportation internally and externally of the households group.*
- *Plan of supporting activities as training, consulting, audit, internal monitoring as well as cost and personnel plans*
- *These plans are designed to ensure all standards of certification are mentioned and implemented.*

#### **8.4. Sale and marketing**

Sale and marketing content of coffee production households groups consist of three major contents:

- Major selling types
- Promotion and supporting activities of households groups

Major product of households groups is the coffee seeds, main selling type is channeled through mediators to processing and exporting units of coffee seeds. The quantity of roasted coffee which was used inside the country is limited. The selling type could be direct supplies or recorded in the storage book and fixed the selling prices when the household has requirement to sell. Other services products (as supplies provision, credit, main clients are member households and households not in the group). It is required to promote to encourage members using services to generate income for the group. Promotion activities could be profit proportion which is shared parallelly with turnover of services utilities.

∇ *In marketing of certified coffee, it is required to utilize supporting activities to selling and market that certification could provide (as UTZ CERTIFIED). Advocacy of coffee production households group is the certified coffee with various types, needs to be well planned to take advantage of certification. Certifications always require (obligatorily or voluntarily) clients to reward producers. Rewards might be defined as the highest level or the negotiated level.*

#### **8.5. Management Board**

The presentation on Management Board should demonstrate its ability to successfully manage the operation of the coffee household group. Each member of the Management Board should possess necessary talent and experience relevant to the business activities of the group. And another important factor is that the members of the Management Board should have the skills and be able to support each other in their work. Description on the Management Board includes:

- Introduction on the Management Board
- Ownership
- Administration/Coordination Committee
- Supporting activities

**Management Board of the coffee household group:** consists of outstanding individuals to

perform management functions, especially focuses on developing strategies, planning and searching for development opportunities:

- Conduct diversified business activities to prevent losses (profits cover losses): Always encourage the household members to increase the amount of capital contributed (beyond the mandatory amount of capital required) for the group to have sufficient capital to operate, using different methods such as: Raise interest rate for capital or special deposit scheme...
- Provide the farmers and customers with sufficient and satisfying information about goods and services that the coffee household group supplies. The coffee household group should provide delivery-to-home service; buy coffee products from household members at a rate higher than the market price to compete with other buyers.
- The group could organize special programs such as: Leave the coffee in the members' houses to wait for price increase (especially when the price is low); deposit scheme by coffee...
- For the members who are facing financial difficulties, the group should have a lending program to provide them with agricultural supplies with no interest according to their production plan in order to decrease the production costs. The group could also look for interest-free funding or financial aid sources to lend to the members...

*∇In coffee certification, Management Board could be the group's Management Committee or a part of the Management Committee depending on the group size or depending on the fact whether the group members go for 100% certification or not. The group itself decides the methods to organize the Management Board and the Certificate Management Committee. The responsibilities of the Certificate Management Committee emphasizes on: organization of production and processing activities; coffee marketing activities in accordance with the certificate rules, strengthen the capabilities of the group and the Certificate Management Committee as required, conduct internal and independent monitoring and inspection activities to be awarded the certificate.*

## **8.6. Financial Matters**

This section provides explanation and justification for the feasibility of the business plan. Financial matters include:

- The risk factors;
- The Cash Flow Statement
- The Balance Sheet
- The Income Statement
- Requirements for investment and profits

*∇Certification activities require a lot of investment at the household and group levels. The investment expenses include:*

- *Standardized production costs: to purchase suitable types of supplies, to ensure hygienic standards of equipments and warehouses for production and processing...*
- *Expenses for improving production and processing conditions as required: e.g. costs for waste water treatment or having more shades....*
- *Expenses for management, training, consultancy and inspection for certificate, and possible membership fees for some types of certificates.*
- *Certification activities bring about many cash and non-cash benefits that the group needs to consider: financial rewards, high selling price due to quality and reputation, reduction of production cost, better access to customers and the market...*

**The possible risks in the coffee household group’s operations:**

- Competitors reduce price;
- A main customer cuts the contract;
- Production costs go higher than expected;
- Failure in achieving planned revenues;
- Failure to hire skilled labourers.

Normally there are five (5) options to prevent or minimize the risks that the coffee group could consider:

- Take the initiative in avoiding the risks;
- Conduct damage preventive and minimization measures;
- Self protection or set up emergency fund;
- Block the risks
- Risk transfer to insurance.

**9. HUMAN RESOURCE MANAGEMENT AND TRAINING IN GROUP**

**HUMAN RESOURCE MANAGEMENT**

Human resource management of the coffee household group focuses on four areas as follows:

- Identify the needs for human resource;
- Prepare job analysis;
- Staff assignment;
- Performance appraisal.

**9.1. Identify the needs for human resource**

Identification of human resource needs is to answer the following questions:

- What types of staff needed, and how many?
- When do we need them?
- What types of skills do they need to have?
- Does the group have suitable people to fill in?

Short term needs for human resource is included in a human resource plan as follows:

**Table 2. Summary of human resource requirements**

Name of the Coffee Household Group.....														
Date.....														
Types of staff	Job title	Department	Estimated work duration											
			Total	1	2	3	4	5	6	7	8	9	10	11
001														

**9.2. Job Analysis**

Job analysis aims to identify the job scope, capabilities, skills and responsibilities needed to best perform a particular job. Job analysis includes the following items:

- Sources of human resource
- Work responsibilities and relationships;
- Qualification and experience needed;
- Required knowledge and skills;
- Other material requirements ...

### 9.3. Assignment of staff

Based on the needs for human resource, job analysis and the number of staff of the coffee group, the group Management Board assigns staffs according to their qualification and skills. There are following positions in a coffee household group:

#### **Management/Administration Board**

The group Manager/Coordinator should understand all the positions in the entire farmers group as well as advantages/disadvantages of each position. He/she should have helicopter view over the work and be decisive in order to make fast decisions. The Manager/Coordinator has the following responsibilities:

- Develop new ideas for business, formulate business goals and plan of actions;
- Organize, motivate staff to work to execute the plan;
- Ensure the execution of plan of actions in order to achieve the set goals.

#### **Technical staff**

To look for a good technical staff, followings need to be taken into consideration:

- Review the business ideas and list the works that need to be done;
- Describe the skills and other requirements for the technical staff;
- Decide the number of technical staff needed to perform the job.

#### **Labour needs of the group's members**

The group is responsible to coordinate labour supplies amongst the group's members when necessary. Especially during peak periods, the coordination role becomes extremely important to help improve productivity of each group's member. Income made from coordination activities is counted as one income source from the group's services.

#### **Before conducting job assignment to each person, following items should be taken into consideration:**

- Purchasing staff should know the sources of supplies and ensure reasonable price, time and venue of delivery are in accordance with the supplies requirements of the group.
- Technical staff should possess necessary qualification, skills and experiences;
- Bookkeeping staff has the responsibility to record income and expenses according to provided templates, compute profits and losses. This person should be able to read, make simple computation and be disciplined;
- Marketing staff should be able to look for customers and ensure that the customers understand well about the products and competitiveness of the group...

*▽Staff assignment in certification activities should be combined with staff assignment for general activities of the group. Combined job or double assignment can be sued to reduce management costs.*

∇ *Staff assignment in certification activities should ensure there is no conflict of interests. The decisions should be made in transparency. There should be cross inspection whereby the inspectors do not inspect the group that they may provide technical advice or the group of relatives.*

∇ *The main positions needed to perform certification activities are:*

- *Head of the group/Head of the group management board;*
- *Staff in charge of technical matters, training, internal consultancy and processes in certification. There are certificates that require the group to have staff responsible for social matters such as ambulance and first aid, complains, equipment management and management of environment conditions...*
- *Staff responsible for goods transportation; recording and bookkeeping;*
- *Head of production team;*
- *Internal control/inspection committees.*

#### **9.4. Performance Appraisal**

Performance Appraisal is an activity to systematically evaluate individual capability and work efficiency, including job outcomes, working methods, qualifications and skills relating to the job. Performance Appraisal include following steps:

##### **Preparation**

- Review the assessment system that the coffee household group applies;
- Review the responsibility of each individual.

##### **Implementation**

- Collect information using measures such as observation of staff performing the job; inspect the work outcomes performed by the staff; recording of important events, consultation with others and talk to the individual;
- Negative and positive feedbacks.

##### **Evaluation**

- Identify evaluation criteria: individual quality; completion of the assigned job; skills and growth potential.
- Make recommendations on capacity building contents for each individual and/or position;
- Propose changes in staff assignment, human resource allocation and positions.

## **TRAINING ACTIVITIES**

Training is a process to enhance capabilities of human beings in of physical, intellectual terms as well as assign, allocate and maximize the potential of each member for the development goal of the entire coffee household group.

### **Identify and develop training needs**

- *Develop training objectives:* Based on the job scope analysis for each staff, development goal of the coffee household group; current and past work performance of each individual and each production step to formulate objectives in knowledge and skill training.
- *Identify training and development needs:* based on the current capability of each individual to identify capabilities needed to perform the tasks and common goals of the entire group.

### **Select training methods**

Each training method has its pros and cons. The household coffee group could select different training methods depending on actual local situation and conditions. The training methods for farmer group include:

- Training at the group: It is a form of experience exchange and transfer from more knowledgeable people to others.
- On the job training
- Involve technical specialist to provide training:
- Internal training: Conduct training activities whereby both trainers and trainees are members of the group, according to the set forth training plan.

### **Methods to support training**

It is necessary to maximize the training opportunities from other organizations such as:

- The Farmers' Association
- The key farmers who have been trained;
- The technical staff that have been trained by coffee companies or coffee buying units.
- Commune, district and provincial agriculture Extension Services;
- District Agriculture Extension station;
- Research institutes and universities.

The coffee household group should provide training to other member of the group who in turn will re-train others in terms of cultivation methods, group business management, bookkeeping and filing of each member and the entire group.

### **Training contents for coffee household group that applies for certificates:**

▽ *Technical training on coffee cultivation techniques enables the members of the group enhance their knowledge and skills in coffee production, thus producing better quality coffee at more reasonable price. These are the requirements for many certificates such as UTZ CERTIFIED, RFA, 4C, GlobalGAP ... which require the farmers to understand and apply production methods that they have learned through training and information exchange.*

▽ *Monitor the entire production process is a general requirement for certificates. The group Management Board has to fully control each step in the production process as well as the entire process. Therefore the bookkeeping and recording in each household member as well as other steps such as purchasing and product management of the group should be conducted to help trace the origin of the product. The group needs to develop recording procedure as well as the forms and report templates for execution. The necessary recording and training information include: all cultivation activities in the field such as shoots trimming, fertilizer spraying, watering, insecticides spraying, supplies inputs as well as sales details (buyers, sellers, quantity, selling price, promotion price, quantity, inventory stock, training activities).*

▽ *The group members as well as staff in charge need to be trained on general certification requirement and the specific requirements that the members or staff have to abide;*

▽ *Inspection staff in charge of internal control and inspection should be trained on knowledge and skills of coffee cultivation and inspection skills to ensure the certification requirements is met;*

∇ *There is a need to train staffs that provides consultancy and training activities for the farmers.*

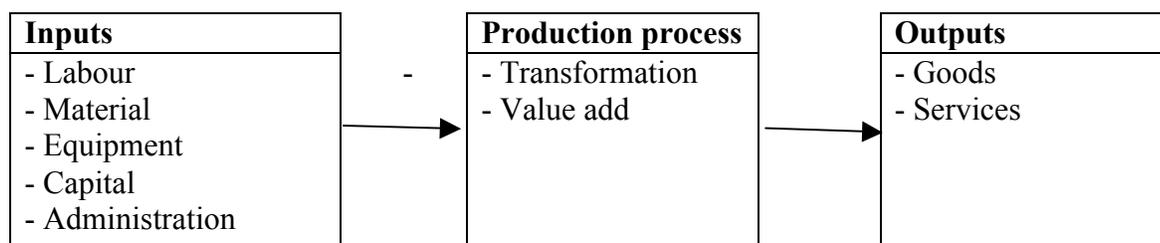
∇ *Training on business management for the group members and group managers. Training on marketing, promotion and quality control. In UTZ CERTIFIED certificate, sales of products should be registered online; therefore, staff in charge of sales and trading of the group need to be trained.*

∇ *Based on the requirements of all the certificates, all training and information exchange activities in different forms should be recorded in terms of date, venue, training contents, who are the trainees and trainers.*

## 10. PRODUCTION MANAGEMENT OF GROUP

Production system includes all activities relating to inputs, production process and outputs. The production system is summarized in the below diagram:

### Production system diagram



#### ***Inputs of the coffee household group include:***

- Orchards
- Labour
- Technical, production and management skills
- Equipment, supplies
- Basic infrastructure
- Capital

#### ***Coffee production process:***

- Transform orchards
- Cultivate nutrient, pesticides, irrigation, increase productivity and quality of the coffee beans.
- Expand business activities and services using the existing available capital
- Make full use of inputs factors such as production skills, basic infrastructure (warehouses, processing equipments) to add more value to coffee or services;
- Apply for value added certification for coffee.

#### ***Outputs:***

- Coffee beans with better quality
- Acceptable services at competitive price;

## DETAIL OF PRODUCTION MANAGEMENT

### 10.1. Production Management of the coffee farmer group

The identified main types of business of the coffee household group could include:

- Manage cultivation and processing processes of the group to increase effectiveness and quality;
- Provide supplies;
- Provide capital and technical services.
- ....

It is necessary for the group to identify the inputs needed for production and manage will the inputs.

#### **▽ Coffee Rotating Management within farmer group**

*There should be a detailed description of the coffee rotating process as well as maintained records during the entire process, including all the steps taken by the group. Group Management Committee should be in control of each step as well as the entire production, processing and consumption processes. Coffee should be able to be traced through each step. The tracing could be done through attachment of logo, numbering or having a visible characteristic of each place that coffee is transported or stored.*

*To meet these requirements, staff or household member should fully understand the coffee rotating process and be able to identify each step of the process. They should be able to identify the risks for mixture of certified and uncertified coffee in order to minimize the risks.*

*The Management Committee should be able to control the sales of the certified coffee produced by farmer group. The Committee should manage the entire process from production to sales of coffee.*

*Household member only sells coffee to the group in order to get the coffee certified. The group also should define the coffee as certified one. Collective supervision could be used to make sure that it is certified coffee and the coffee could be traced. The Inspection Unit issuing certificate could monitor the coffee rotating process in order to trace its origin.*

*There should be measures to make sure that uncertified coffee cannot be brought in for processing and consumption. Possible measures include:*

- > Estimate the annual yield;
- > Check the outputs in reality.

*These measures help to make sure that the certified coffee is actually certified one.*

#### **▽ Records requirements for the group:**

*Records of the group and of each of the members should meet the following minimum requirements:*

- > The contracts between the group and the members;
- > The list of the members;
- > The map of the production area;
- > Records of sales, purchases, processing, transportation and certificates;
- > Internal inspection reports;
- > Records of the non-compliances of the group and the members, the penalties applied and coping measures after internal and independent inspection.
- > Complains and Responses

*When a group member fails to do recording on its own then the group has to take over and has to record everything including purchases and sales of the household. Therefore, it is necessary to have to recording system from each member to the group.*

*All the members should be listed in the member list of the group. The list should be updated regularly and include the following details:*

- > Name of the household member or code assigned to the household;*
- > Cultivated land area;*
- > Outputs;*
- > The household's certification status;*
- > Date of internal inspection;*
- > Other details required by the group.*

*The map of group should show all cultivated areas of all the group members and related information. The group members should agree on the method to draw the map. The map can include other production activities, enamouring areas.*

*There should be records of outputs and products sold from the members to the group and from the group to the market. Main activities of the group should be recorded including purchase of supplies.*

### **Inputs Management:**

- Coffee orchard: Identify the actual situation of the coffee orchard of the members to made decision on investment methods (capital, supplies, techniques, management) to increase quality and affiance;
- Make assessment on production supplies and level of supplies use of each member and the entire group (fertilizer, pesticides, and materials, breeding plants...)
- Monitor the sources and quality of supplies. Analyze technical specification of supplies and select suitable suppliers. Criteria for selection of suppliers include price, quality of service, and level of trust in delivery time.
- Manage the supplies provision: Make assessment of the supplies requirements of the group and methods of distribution (direct selling, lending), keeping stock, inventory, delivery, supplies quality control and inventory settlement;
- Make assessment of basic infrastructure including warehouses, drying ground of each household member and of the whole group, internal transportation system, offices for group's Management Committee, based on which identify the minimum and maximum investment levels.
- Make assessment of technical equipments of the household members and of the group, usage conditions as well as ability to maximize the use of equipments in the group (production tools, pumps, tilling machines, vehicles to transport supplies and goods, grinding and dryer machines) to see if the household members share the equipments and machines or if the current equipment and machines are sufficient to meet the households' needs. Assessment helps to identity the gap in equipments, types and quantity needed, best methods of use to increase productivity
- Based on the inputs need assessment, develop a suitable business plan that consists of activities and services.

### **Capability and condition for technical support:**

- Conduct assessment on technical capability and production experience of the household members, strengths and shortcomings in cultivation and processing techniques that need to be changed.

- Identify farmers with knowledge and experience to transfer to other households as well as other sources of technical support in production and processing (schools, institutes and agriculture extension services...)

### **Labour Management**

Labour characteristics of the coffee household groups are:

- Household members are the main labourers;
- Labour exchange between the households is on voluntary basis;
- Coffee production requires labourers with good skills in shoots trimming and shape forming;
- Due to high demand for manual labour during the harvest, there is often a lack of labour supply and the labour cost increase which lead to the rising cost for coffee production and decreased quality of coffee beans since the unripe beans are harvested due to the lack of labour.
- Therefore, it is important for the household members to share labour, maximize the use of highly skilled labourers in shoot trimming and shape forming. The labourers should be assigned to do the job based on capability, health conditions and level of skills.

Labour Management in a coffee household group includes the following tasks:

- Plan and assign labourers based on their levels of skills and each step of the production process.
- Approve a labour rotation and sharing plan, wages rates and duration of labour use. Sign contracts, make wages payments and provide lodging and food for the labourers in order to build up a seasonal labour source with good quality and sufficient quantity to meet the needs of the household members and of the group.
- Develop a plan to assign labourers and staff to meet the administration, financial and technical needs.
- Conduct recordings and filing of the working hours and other social benefits that the hired labourers entitled to receive.
- Re-arrange the production, harvest, and transportation processes to be suitable to the labour management plan.

**Table 3. Labour Management in a production process**

Production step	Types of skills/labourers needed	Work hours	Remarks

### **Assets and Equipment Management**

Assets of group can be tangible or intangible. It is necessary for the group to make assessment on what types of assets needed for business activities and the forms of ownership as well as most suitable form of utilization.

- Tangible Assets (assets that can be seen) are equipments and tools that can be used in production process but still maintain their original forms;  
For example: Warehouses, drying ground, vehicles, pumps, tools...
- Intangible Assets (assets that cannot be seen) are the assets that are not in physical forms but have invested values.

For example: Land use certificate, product brand name, copyright,

The members of the coffee household group can mobilize capital from internal and external sources to buy equipments, machines or build warehouses, workshops, drying ground needed for its production activities. The internal sources include the group's accumulated fund or contribution from the members. The external sources include loans from financial institutions, Agriculture Bank, Social Policy Bank, financial aids from other projects or other sources. The capital in kind in forms of equipments, basic infrastructure or rotating use of equipments by the members under coordination of the group help to maximize the use of existing equipments and infrastructure in order to best utilize the capital of each member or the group as well as to decrease the amount of capital invested.

**Assets and Equipments Management includes the following tasks:**

- Make a list of equipments and infrastructure needed for the group's planned production activities and ability of each members and of the entire group and meeting the equipment needs;
- Make assessment on the current equipment and tools as compared to the needs to ensure productivity;
- Check the ability to meet the safety and quality standards; identify areas that need improvement and/or change of equipments;
- Develop a plan to purchase, build, rent and rotate equipments between the group's members. Identify the capital sources and management mechanism;
- Identify a possibility to join investment in machinery, equipments and propose management options.

**Table 4. Tools/Equipments Management:**

Name of tools/equipments	Quantity	Time of use	Remarks

**10.2. Outputs Management**

Main outputs of the coffee household group are coffee bean or fresh coffee to be sold to processing factories. The objective of group is to increase the coffee quality and conduct sales promotion for each household member. Collective sales through the group create competitive edge as well as increases access to potential buyers and reduce intermediary steps. Thus, the quality control becomes an extremely important factor for the group activities. The group needs to:

- Review the cultivation process of the household members to identify shortcomings that may have effects on coffee quality, especially in using fertilizer, shoots trimming, watering, harvesting, processing, grinding, drying and storage. If necessary, can ask specialists or experienced farmers to conduct this review and develop a standard process suitable for the local conditions;
- Analyze the flaw of products (coffee beans, fresh coffee) to identify root causes and measures to fix the problem. For instance: mould from processing or storage, extraneous matters from unhygienic harvest step or drying process, poor quality of coffee due to harvesting unripe beans or use of fertilizer or insufficient shading ...

- The group should provide centralized processing service or dryers to ensure regularity and quality of coffee and to increase productivity for each member as well as for the entire group, ensure quality of harvest on rainy days.
- The group should provide good quality storage facilities.

For services:

- Ensure competitiveness of services through quality, price and right to profit sharing of the group members.
- Identify advantages of the group in providing services to maximize: consumers' network as group members, suppliers (fertilizer and other supplies), working with agents with high commission rates.
- Recommend measures to add value and increase quality of the services: home delivery of supplies, lending of supplies, provision of well trained and experienced technical support staff, reliable and safe warehouse and storage facilities.

### Cost Management

To manage the cost, it is necessary to evaluate and compare the actual costs of production with standard costs (budgeted costs) that have been planned annually, based on which to identify measures to improve productivity, reduce costs to increase competitiveness of the coffee produced by the group.

When prepare budget, there are three items that need to be considered:

- The costs paid in the past;
- The estimated costs;
- The standard costs.

In costs management, it is necessary to include both fixed costs and variable costs. Fixed costs include depreciation of infrastructure and productions tools/equipments. Variable costs include other costs relating to coffee breeding plants, fertilizer, different types of labour... Experiences in recording activities of the farming households include recording activities and supplies used for production and the annual expenses, which help the members and the group better control the costs after comparing the past expenses with the current and estimated ones as well as comparing the costs with the outputs.

Estimation/Control of production expenses covers:

**Estimation of expenses for raw materials:** The expenses are estimated based on quantity of materials needed, buying price and standard consumable rate for a unit of outputs.

**Table 5. Estimated annual costs for raw materials in year ...**

No	Types of supplies	Unit	Quantity	Unit Price	Amount
1	Nitrogenous fertilizer	Kg			
2	Potassium fertilizer	Kg			
3	Phosphorous fertilizer	Kg			
4	Agricultural lime	Kg			
5	Micro fertilizer	Kg			
6	Insecticides	Litre			
7	Lubricants	Litre			
8	Diesel	Litre			
TOTAL					

**Estimation of direct labour costs:** is prepared based on the number of labourers, wages fund and wages rates.

**Table 6. Estimation of direct labour costs**

No	Production step	Types of labour	Number of work hours	Wages rates	Amount
1					
2					
	TOTAL				

**Estimation of general costs of production:** Based on the figures of the previous year, prepare estimated budget for production costs for the following year. Estimated costs of production are prepared based on statistics and estimation. Depreciation costs for fixed assets are calculated based on the value of the fixed assets in the reporting period and the planned fluctuation of the fixed assets in the next reporting period.

**Table 7. Estimated costs for production in year ....**

Indicators	Amount( VN dong)
1. Depreciation of the orchard	
2. Depreciation of the fixed assets	
3. Costs for managers	
4. Insurance costs	
5. Costs of outsourcing services	
6. Production tools	
7. Other costs (in cash)	
<b>Total</b>	

**Estimated budget for sales:** is also prepared based on statistics and past experiences in analyzing internal and external business factors of the coffee household groups; there is no fixed rate for each item.

**Table 8. Estimated budget for sales in year...**

Indicators	Amount
1. Costs for sales staff	
2. Management costs	
3. Stationary costs	
4. Depreciation of fixed assets	
5. Insurances	
6. Costs of outsourcing services	
<b>TOTAL</b>	

## ANNUAL PRODUCTION PLAN

To prepare Annual Production Plan means to estimate and plan production activities in accordance with a specific sequence with particular targets.

## 1. Basis for formulation of an Annual Production Plan

An annual production plan is prepared based on the following factors:

- The existing resources of the coffee household group;
- The external resources that the group could tap on;
- The market needs for coffee products and services of the coffee household group;
- General production timeline;
- Forecasts of analysts, researchers and managers.

## 2. Contents of an Annual Production Plan

An annual production plan consists of the following contents:

- Cultivation plan;
- Business and service plan.

Coffee cultivation plan has to be prepared before embarking on production activities.

∇ *In the request for Certificates, the Group Management Board has to prepare and execute plan(s) to improve governance and promote implementation of certificate requirements. The plan(s) should assess the risks in production and processing, the non compliance flaws and other possible mistakes during the internal inspection or independent inspection processes, and the complains, based on which to propose measures to improve business and operation activities of each member as well as of the entire group.*

∇ *In analyzing the risks in non compliance of the certification requirements, the group Management Board should specify the risks at different steps such as:*

- > *In production process of each household member;*
- > *In coffee rotation process;*
- > *In internal management system.*

*This is the measure to identify what steps need to be paid attention or monitored during the production and rotation process.*

∇ *The group Management Board should conduct measures to prevent or minimize the damages of the risks in order to comply with the certification requirements. At the same time, more resources should be given to these activities.*

**Table 9. Production Timeline (combined monthly, seasonal and yearly plan)**

Month	1	2	3	4	5	6	7	8	9	10	11	12
<b>Household 1</b>												
- Field no 1												
- Field no 2												
<b>Household 2</b>												
- Field no 1												
- Field no 2												
- .....												
.....												