1. BACKGROUND

SOCIALIST REPUBLIC OF VIETNAM

- Total area: 332,000 km²
- Bordered with China, Laos, Cambodia and sea
- Total population in 2004: 82 million
  - Urban population: 26%
  - Rural population: 74%

ROLE OF AGRICULTURE IN VIETNAM

- Agriculture is a main economic sector, based on rice production
- Agriculture employs over 60% of labor force
- Production of major agricultural products in 2004:
  - Food crops: 39.3 million tons, of which: rice – 35.8 million tons
  - Coffee bean: 834.6 thousand tons
  - Rubber (dry latex): 400.1 thousand tons
- Export turnover of agriculture in 2004: USD 4.3 billion (30.1%)
  - Rice export: 4.05 million tons, USD 941 million
  - Coffee: 906 thousand tons; USD 594 million
  - Rubber: 495 thousand tons; USD 579 million
  - Fruits and vegetables: USD 167 million
  - Fishery: USD 2,397 million
2. OVERVIEW OF CONTRACT FARMING IN VIETNAM

2.1. Historical background

- 1954 – French colony defeated – land redistributed to rural poor
- After 1975: collectivization gradually removed

2.1. Historical background (cont’d)

- January 1981: Directive 100 → households entered into contracts with cooperatives
- In 1986, “open economy” policy introduced
- April 1988: Resolution 10 confirming the household economy.
- Land Law in 1987 and 1993: land owned by state. Farmers granted land use rights
- 24 June 2002, Decision No. 80/2002/QD-TTg on the policy promoting contract farming
2.2. Current situation

Five main types of engagement

- Sale contract with state processing enterprises
- Production contract with foreign companies
- Sale to private merchants by oral engagement
- Sale through service cooperatives
- Handicraft and industrial village network

<table>
<thead>
<tr>
<th></th>
<th>Crop output (percent)</th>
<th>Agricultural output (percent)</th>
<th>Total income (percent)</th>
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<tbody>
<tr>
<td><strong>1993</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Northern Uplands</td>
<td>22</td>
<td>36</td>
<td>68</td>
</tr>
<tr>
<td>Red River Delta</td>
<td>23</td>
<td>39</td>
<td>81</td>
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<tr>
<td>Whole country</td>
<td>40</td>
<td>48</td>
<td>84</td>
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<tr>
<td><strong>1998</strong></td>
<td></td>
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<tr>
<td>Northern Uplands</td>
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<tr>
<td>Whole country</td>
<td>54</td>
<td>59</td>
<td>87</td>
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<tr>
<td><strong>2002</strong></td>
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<td>Northern Uplands</td>
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<tr>
<td>Red River Delta</td>
<td>34</td>
<td>62</td>
<td>83</td>
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<tr>
<td>Whole country</td>
<td>61</td>
<td>70</td>
<td>83</td>
</tr>
</tbody>
</table>
2.2. Current situation (cont’d)

In first half 2003: enterprises signed contracts with farmers for:

- 1 million ha of rice (40% rice commodity);
- 50% of tea output;
- 90% of cotton and fresh milk;
- 70% of sugarcane output

2.3. Key players

- At present, data on the number of firms and farmers involved in the contract farming in Vietnam is not available.
- Number of state marketing and industrial enterprises in agriculture is decreasing and the number of private enterprises is increasing slowly.
2.4. Commodities covered

Contract farming covers almost major agricultural products in Vietnam:
• Plantation: rice, maize, cassava, coffee, rubber, pepper, cashew, sugarcane, coconut, fruit and vegetables, etc.,
• Forestry products: timbers, medical herbs, etc.
• Livestock: poultry, milk, etc.,
• Fishery products: shrimp, shell, fish

3. ROLE OF THE GOVERNMENT IN PROMOTING CONTRACT FARMING

3.1. Specific policies and legislative measures
• Policy for land use
• For investment
• For credits
• For technical advances and technology transfer
• For market and trade promotion

3.2. Support services and incentives
• Credit from VBARD.
• Construction of infrastructure: road, market place
• Transfer technology
4. CASES OF CONTRACT FARMING

Case 1: Lamson Sugar Company

• Core-satellite form:
  - Existing farmer’s organizations → horizontal integration in sugarcane production process (state farm, cooperatives, farmers groups).
  - Production contract system between processor and sugarcane growers → vertical cooperative relations.
Success for the company and beneficial impacts on the small farm community

<table>
<thead>
<tr>
<th>Cooperatives</th>
<th>1997 Yield of sugarcane (tons/ha)</th>
<th>1998 Yield of sugarcane (tons/ha)</th>
<th>Sugar extraction rate (CCS)</th>
<th>Sugar extraction rate (CCS)</th>
<th>Increase in the grower’s income (mill. VND/ha)</th>
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<tr>
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<td>70</td>
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<td>Ho Dam</td>
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<td>Xuan Chau</td>
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<td>60</td>
<td>9</td>
<td>11.5</td>
<td>6.24</td>
</tr>
</tbody>
</table>

Lessons learned

- **Company:**
  - Have a stable materials sources
  - Easily supervise, manage and monitor production
  - Reduce the transaction cost

- **Farm households:**
  - Have capital for production
  - Assured of product
  - All have right to participate, including the poor
  - have more bargaining power (through Co-op)
  - Have access to production technology.
  - Diversify to dairy livestock.
Case 2

- The contracts have largely been unsuccessful.
- Tie between two parties not strong enough. This makes the rate of performed contracts is relatively low
- 20 to 30 % of rice, vegetable and coffee contracts fail because of fixed prices

5. MAJOR ISSUES/CHALLENGES IN CONTRACT FARMING

- Clear and strong relationships between participants are necessary
- Participants in the contracting system should be well organized
- Contract farming is not suitable for all products and situations
- Contracts should be made in appropriate forms
6. CONCLUSION

- Contract farming can be a potentially effective way to draw the poor into a more commercialized agriculture
- Contract farming is profitable for farmers, collectives and enterprises, resulting in benefits for the whole society.

Solutions to limit the negative aspects and encourage farmers to participate in contract farming
- Create a more favourable business environment.
- Improve the legal environment, particularly articles on punishment of contract violations to improve contract performance
- Encourage and assist the development of farmers' organizations as a linkage channel between farmers and enterprises
- Encourage and create a favourable environment for enterprises and collectives coordination in improving product quality and establishing trademark for each commodity.
THANK YOU!