

# **CONTRACT FARMING IN VIETNAM**

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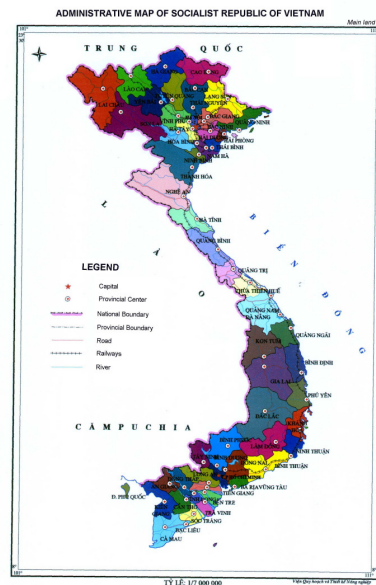
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## 1. BACKGROUND

### SOCIALIST REPUBLIC OF VIETNAM

- Total area: 332,000 km<sup>2</sup>
- 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
- Agriculture share in national GDP: 21.76% (2004) down from 24.53% in 2000
- 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
- 1960 – 1970s – collective production → ineffective production → Vietnam faced chronic food deficit
- 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/QĐ-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

## 2.2. Current situation (cont'd)

### Share of output that is sold

	Crop output (percent)	Agricultural output (percent)	Total income (percent)
<b>1993</b>			
Northern Uplands	22	36	68
Red River Delta	23	39	81
Whole country	40	48	84
<b>1998</b>			
Northern Uplands	33	44	75
Red River Delta	29	45	88
Whole country	54	59	87
<b>2002</b>			
Northern Uplands	33	50	69
Red River Delta	34	62	83
Whole country	61	70	83

## **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

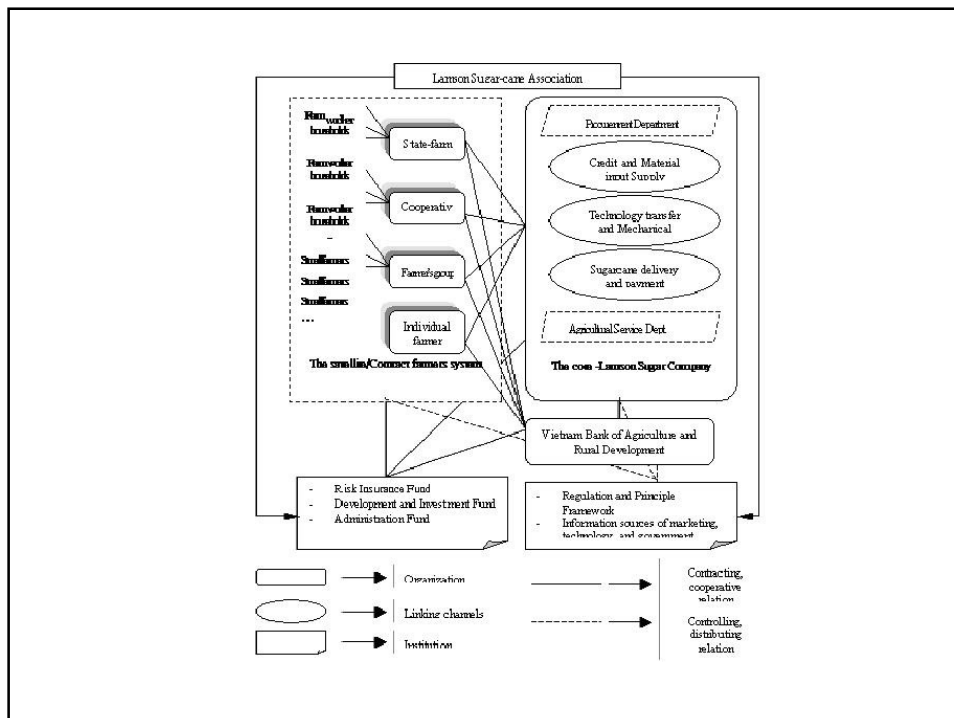
## 4. CASES OF CONTRACT FARMING

### 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

Cooperatives	1997		1998		Increase in the grower's income (mill. VND/ha)
	Yield of sugarcane (tons/ha)	Sugar extraction rate (CCS)	Yield of sugarcane (tons/ha)	Sugar extraction rate (CCS)	
Cua Trat	60	8	70 <sup>(a)</sup>	10	5.72
Ho Dam	50	8	80 <sup>(b)</sup>	10.5	11.44
Xuan Chau	50	9	60 <sup>(a)</sup>	11.5	6.24

## 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!