



Good Practices and Lessons Learned from Contract Farming in Vietnam

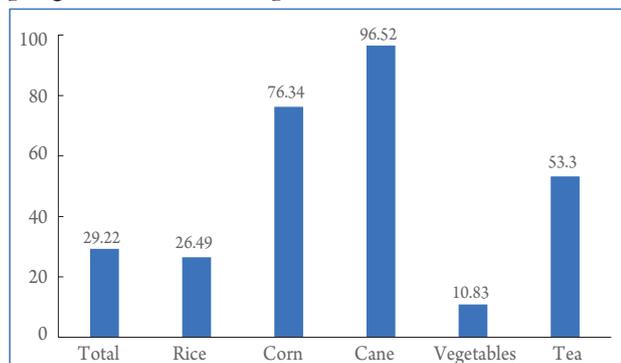
Key policy messages

Contract farming was formally introduced in Vietnam in 2002. Since then many effective linkage models have been developed in the agriculture, forestry and fishery sectors. There are four key models of contract farming: i.e. multipartite; centralised; nucleus estate; and intermediary and informal. A question surrounds which model has the greatest potential to engage and benefit small-scale farmers. Essentially, government policies should focus on establishing a business environment for agricultural enterprises that can play a key role in value chain management as well as on providing financial and technical support in the application of contract farming. The policies should also target farmer organisations, instead of individual farmers, in terms of capacity building to improve governance and credit access, and to sustain contract inclusivity. Policies to support local government agencies also play a significant and positive role in initiating and promoting contract farming in agricultural production and marketing.

Introduction

Contract farming has been promoted as one of the measures to facilitate the participation of farmers in the commercial production of agriculture, adding more value to agricultural produce. The study investigates contract farming to identify the best practices relating to

Figure 1: The ratio of the area in the large-scale field programmes with the purchase contract (%)



its implementation in Vietnam. Additionally, the study reviews and analyses the policies supporting contract farming and proposes policy recommendations for its development in Vietnam. The lessons learned from best practice and policy briefs will help international development organisations, enterprises, policymakers and relevant stakeholders to understand the current situation and constraints of contract farming in Vietnam. The analysis of the study will contribute important lessons for policy intervention and policy advocacy not only in Vietnam but also in other countries within the region, where contract farming is considered to be one of the key drivers of agriculture development.

Key Findings

There are four main types of contract farming in Vietnam. These include the multipartite model, centralised model, nucleus estate model, and an intermediary and informal model. The multipartite model is likely to be appropriate for smallholder farmers, while the centralised model often engages large-scale enterprises, particularly foreign and joint-venture companies, and farmers who are better off. In the nucleus estate model, the formerly state-owned farms have been equitized, and land has been relocated for individual households who are former members of the farms. The intermediary and informal models are based on a verbal contract or trust among partners. In general, there is no specific model of contract farming that is appropriate for all products, locations and farmers. Each type of contract farming has its advantages and disadvantages.

The findings from six case studies show that the efficiency of enterprises in terms of financial and technical support and monitoring, and the good performance of farmer organisations, are the key factors affecting whether or not the contract will be successful for agriculture in Vietnam. Enterprises prove their importance in providing appropriate input materials, technical guidance, monitoring mechanisms, purchasing output, and ensuring farmers' income. Meanwhile, cooperatives and farmer groups act as a bridge between

Table 1: Key success factors for contract farming in Vietnam

Company	Farmer	Cooperative	Public stakeholder (state government, DARD, etc.)
<ul style="list-style-type: none"> - Supports farmers with both technical guidance and inputs to advance production (fertilisers, pesticides, high-quality seed) - Directly supervises and monitors farmers' rice practices to ensure rice of good quality - The commitment to buy all of the product, ensuring a higher profit for farmers - Having a stable consumer market - Having significant financial capacity 	<ul style="list-style-type: none"> - Have good capacity (land, knowledge, skills, etc.) to comply with the company's standard requirements - Strictly follow the production plan set by the company / cooperative 	<ul style="list-style-type: none"> - Supports farmers in both technical guidance and inputs to advance production (fertilisers, pesticides, high-quality seed) - Having active leaders with a high capacity in terms of management - Having a high reputation with farmers - Having a good relationship with other stakeholders, such as enterprises, local government, etc. to find consumer markets 	<ul style="list-style-type: none"> - Strong support for other stakeholders, such as help to access land and credit, build farmer organisations, etc. - Promotion of successful models, and the benefits of participating in contract farming - Actively participate in contract signing and dispute resolution

enterprises and farmers. Cooperatives play an important role in managing, organising farmers, and sharing good practices among their members. Also, the cooperatives can support enterprises to monitor quality standards, to coordinate harvest schedules, to ensure the delivery of contracted products, and to maintain consensus among farmers about the terms of the contract. Finally, the support of local government, as the recognized and respected third party of the contract, significantly contributes to initiating and promoting contract farming in terms of agricultural production and sale.

Furthermore, empirical evidence from the six case studies shows that the multipartite model has the most potential to be an inclusive scheme to engage and benefit small-scale farmers in contract farming. The operational mode of the multipartite model is appropriate to the agricultural structural change process in Vietnam, which gives the contracted, small-scale farmers better opportunities to access technical knowledge, finance support and markets.

Policy Implications

To facilitate the application of contract farming, Vietnam's government has issued a series of support policies to promote links between the production and consumption of agricultural products (i.e. Decree 98/2018/ND-CP), value chain financing, agricultural insurance, and to attract private investment in agriculture (e.g. government Decree 55/2015/ND-CP and Decree 116/2018/ND-CP, Decree 57/2018/ND-CP and Decree 58/2018/ND-CP). However, in the implementation process, these support policies have revealed limitations in the forms of unfavourable conditions for animal husbandry, aquaculture, and the forestry sector (because these Decrees mostly apply to crop production especially rice). Weak legal enforcement, a lack of guidelines for contract procedures and regulations relating to contract farming mechanisms, particularly regulations guiding conflict resolution, further hamper the take-up and success of contract farming

From the evidence-based results of the six case studies, and the analysis of support policies, the following solutions have been proposed to encourage and enhance the efficiency of contract farming in Vietnam. First, the business environment for agricultural enterprises should be improved to attract them to become involved in contract farming models. The capacity of farmer organisations and cooperatives should be strengthened in terms of governance, management, and access to credit to sustain the inclusivity of the contract. Furthermore, local government agencies need support to actively facilitate the establishment and implementation of contract farming in agricultural production and marketing.

References

- CDRI and Agroinfo (2019), *Enhancing Research and Dialogue on Contract Farming in Lancang-Mekong Countries: Good practices and Lessons Learned from Vietnam*.
- Dang Kim Son, Nguyen Minh Tien et al. (2005), *Review of 3-Year Implementation of Decision 80/2002/QĐ-TTg of the Prime Minister on Policies Encouraging Agricultural Sales through Contract Farming*, Report to the Prime Minister, Ministry of Agriculture and Rural Development, Hanoi (mimeo).
- Department of Cooperative and Rural Development – DCRD (2018), *The development of cooperatives and linkage forms in agriculture sector in Vietnam*.
- Institute of Strategy and Policy for Agriculture and Rural Development (2005), *30 cases of contract farming: an analytical overview*, ADB
- Institute of Strategy and Policy for Agriculture and Rural Development (2019), *Đánh giá chính sách hỗ trợ doanh nghiệp đầu tư vào nông nghiệp nông thôn và đề xuất (Assessing the support policies for enterprises investing in agriculture and rural development)*.
- Ministry of Agriculture and Rural Development (2008), *Báo cáo số 578 BC/BNNKTHT về tổng kết 5 năm thực hiện Quyết định số 80/2002/QĐ-TTg của Thủ tướng Chính phủ về chính sách khuyến khích tiêu thụ hàng hóa nông sản thông qua hợp đồng (Report No. 578/BNNKTHT on summary of 5 years Decision 80/202/QĐ-TTg of contract farming in agriculture)*.
- World Bank (2015), *Contract Farming: Risks and Benefits of Partnership between Farmers and Firm*.