

# Rice Contract Farming in Vietnam: Insights from a Qualitative Study <sup>†</sup>

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**Abstract:** Since 2002, Vietnam has implemented rice contract-farming policies to develop the linkage among stakeholders in the agricultural sector; however, there is very low participation of farmers. Therefore, this study aims to determine the perception on both advantages and disadvantages of rice contract farming (RCF); identify the reasons for non-participation and drop-out of rice contract farming; and indicate the typology of contract by using data from documentation, key informant interviews, and focus group discussions. The results indicate that farmers considered the guaranteed output price and stable income as the most advantages of RCF while the main disadvantages were reducing the household's freedom or losing flexibility in making decisions on-farm production, management, and selling product; possible delays in payments, in input delivery, in harvesting, and output delivery. In addition, farmers did not want to participate in RCF because of reducing the household's freedom in making decisions, not complying with RCF, not trusting cooperatives as well as enterprises, and because selling paddy to middlemen is easier and simpler. Farmers dropped out of RCF because the contracting companies breached the contract provisions. Farmers mentioned many provisions of the contract but the most important to them were payment, price options, and delivery arrangement.

**Keywords:** contract farming; perception; participation; typology; rice; Vietnam



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## 1. Introduction

Currently, with climate change being intense, the demand for high-quality food has been increasing. In this light, improving linkages between smallholders and companies to achieve efficient and sustainable production becomes an urgent issue [1]. In addition, small households are facing many production and marketing constraints [2]. Therefore, contract farming (CF) has been proposed as a relevant measure for small-scale farmers in developing countries [3].

In Vietnam, rice has been the main crop with a proportion of over 50% of the total planted area, but 85.13% of households using paddy lands are small households [4]. Therefore, since 2002, the Vietnam government has implemented CF policies to develop stable and sustainable production by the decision 80/2002/QĐ-TTg, and lately by decree 98/2018/ND-CP. Regarding these policies, paddy would be sold through contract; at least 30% of the total output by 2005 and over 50% by 2010 of the rice industry was directed toward producing high-quality rice to improve the value and competitiveness. However, to date, rice output sold via contract is only 9.77% [5]; planted area under CF accounts for only 1.78% with the participation of 5.33% of total paddy cultivation households, while CF agreements are unsuccessful up to 70–80% [6].

The literature review indicates that the main motivation of farmers toward the rice contract farming (RCF) schemes are better output market, supportive benefits for the production, and better performance of rice farming [7], while the factors affecting farmers' participation are commitment, sharing of benefits and risks, household awareness about the benefits of contracts, policy environment, management skills and enterprises capacity of link firms, and price issues [8]. Other studies revealed the perception of specific factors affecting participation such as risk perception and perceived credit uncertainty [9,10]. However, there is a lack of research on farmers' perception on both the advantages and disadvantages of RCF to generate a representative indicator or component factors, and then add this indicator or these factors in the participation model as the independent variable(s) to investigate the factors affecting farmers' participation; a choice experiment on contracts' attributes to meet farmers' preference to encourage them to participate in RCF. Therefore, this study aims to determine the perception on both advantages and disadvantages of RCF; identify factors affecting farmers' participation and the reasons for non-participation and drop-out of RCF; indicate the typology of RCF in Vietnam. This study also creates the foundation and direction for quantitative research through a household survey.

## 2. Materials and Methods

This study utilized multi-stage sampling for study site selection. The Mekong River Delta (MRD) was selected as it represents the largest region for rice production in Vietnam. In this area, An Giang, Can Tho, and Kien Giang provinces were selected for investigating RCF because they were the first province applying RCF, the main rice exporter, and the largest cultivated rice area, respectively. Finally, in each province, we selected two representative districts, then two representative communes in each selected district.

Data for this study were collected from the General Statistic Office of Vietnam (GSO); the Department of Cooperatives and Rural Development (DCRD); previous empirical studies; key informant interviews (KII); and focus group discussions (FGD). Key informants were selected by the purposive sampling method since it allowed for the researchers to select experienced respondents. The participants of FGD were contracted farmers and non-contracted farmers, and or directors of agri-cooperatives. KII and FGD were performed by using a semi-structured questionnaire. Collected data were analyzed by typology [11,12], constant comparison [13], and content analysis methods [14].

## 3. Results and Discussion

### 3.1. Perception on Advantages and Disadvantages of RCF

The results indicate that RCF gave farmers many advantages, such as secure output markets or access to new markets; stable price; more stable income; easier access to marketing support services; reduction of pre and post-harvest losses; more profit; reliable supply of inputs; easier access to inputs and services; easier access to credit and better credit benefits (reducing the cash pressure on households due to priority in receiving credit or inputs); better technical assistance/production support; improved production/technical efficiency and management skills in rice production; and easier introduction of new techniques, new varieties, and practices. However, farmers were still faced with some disadvantages during doing RCF including reducing the household's freedom or losing flexibility in making decisions on-farm production, management, and selling of product; possible delays in payments and late delivery of input; possible delays in harvesting and delivery of output; possible high price of inputs provided by the contractor; increasing dependency and vulnerability of farmers if buyers are unreliable or exploit monopoly; increasing environmental risks from monoculture; unequal bargaining power between farmers and buyers; and getting indebted from loans provided by buyers. These are nearly the same as the government officials' perceptions.

### 3.2. Farmers' Participation in RCF

According to the FGD and KII, the factors affecting farmers' participation in RCF were from both farmers and contracting companies as well as the contract provisions. On the farmer side, these factors were their trust in agri-cooperatives and companies, farmers' perception on RCF, and parcel location, while the factors from the companies were commitments and prestige. In addition, farmers pointed out that the payment schedule, price options, delivery arrangement, and the complicated level of production methods affected their participation.

The research also indicated that farmers did not participate in RCF because of reducing their freedom in making the decision; being used to old production practices; being afraid to change; not trusting cooperatives or enterprises; not accepting that parcels were not in the large field; the perception that farmers' egos were large; failure to agree to simultaneously sow the same seed. In addition, selling rice to traders had some obvious benefits such as flexible price offers, fast determination to price, fast weighing, and immediate payment. Farmers did not participate in RCF due to an unacceptable price of the complicated production requirement; difficulty in price negotiation when the market price changed; strict requirement of input materials and output quality; high price of input provided by contractors; lacking contracting companies. Moreover, farmers witnessed the discredit of the contracting companies in the previous crops or the surrounding areas when they breached the contracts' terms such as delay in payment; delay in delivery; delay in harvesting, or extending the harvest time. This discredit was also the reason for dropping out of RCF of farmers.

### 3.3. Typology of RCF

The study results indicate that most contracts are in written form. These contracts were signed before starting of the crop season, after sowing, or before harvesting depending on the types of contracts by different stakeholders. Except for market-specifying contractors, other contractors always supply inputs to farmers, but it was quite flexible. In case farmers had received inputs in advance but did not want to sell paddy to contractors because of an unacceptable price offered, farmers had to pay the value of received input to contractors after harvesting. Some contractors required farmers to use at least 500 thousand VND of the input value to be bought paddy (output). Some contractors did not force farmers to use their inputs, but they inform farmers to avoid using the banned active ingredients. In addition to inputs, farmers received services as well as technical assistance. To create prestige and trust, contractors normally deposited 1500–2500 thousand VND/ha, sometimes about 4000 thousand VND/ha when paddy price was estimated to increase.

In production, some contractors required specified methods to produce rice following the GAP, organic or high-quality standard, while most contractors accepted the production methods consulted by the relevant offices of the local authorities such as "1 must, 5 decrease" and "3 decreases, 3 increases". Then, the contracting companies accepted to buy all paddy quantities, as long as they met the minimum standard requirements. This quantity was specified in the contract by estimating the cultivated area and yield of the crop season.

The most important provisions of the contracts discussed enthusiastically by the farmers were payment, price options, and delivery arrangements. Farmers preferred immediate payment or 50% before harvesting and the rest 3–5 days after delivery, however, sometimes they had to accept the delayed payment from contractors. For the price, there were four options of price including fixed price, market price, adjusted price, and premium price. About delivery arrangement, most paddies were delivered immediately after harvesting; however, companies sometimes delayed because they did not have enough transporting boats at the peak of harvesting time, as well as having limited storing and processing capacity.

## 4. Conclusions

There were many advantages of RCF pointed out by the farmers and the officials in Vietnam mainly relating to the output while the main disadvantages were linked with

production. The factors affecting farmers' participation and the reasons for their non-participation in RCF were from not only both farmers and companies but also the contract provisions. Therefore, the solutions to encourage farmers' participation involves determining a reference price to set up reasonable price options, while enhancing the fulfillment of commitments, thereby increasing trust among the stakeholders.

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