

## Lessons learned from successful crop-based agribusiness companies in the Vietnamese Mekong Delta

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### Abstract

Market-based problems are one of the most important factors contributing to success in diversifying to upland crops to cope with climate change and agricultural restructuring in the Vietnamese Mekong Delta (VMD). This paper summarises lessons about successful links between farmers and agribusiness companies in the region, based on different cash crops, fresh fruit and rice. To assist smallholder farmers, many cooperatives were established in the last 20 years in Vietnam. These cooperatives also provide input and output services. Linking to processing companies or distributors are the most common value chain models in the region recently. Private companies vertically integrating production, distribution and trading roles is another model that is becoming more popular in food value chains in the VMD. Determinants of successful market engagement included leadership, technical and financial support, products with high demand, and mechanisms to reduce market risk. However, companies or cooperatives still have low capacity, small scale and are risk-averse, with implications for smallholder farming livelihoods and income security.

### Introduction

This paper summarises the successful cases in private sector engagement to identify and analyse market and governance components of successful crop-based industries in the Mekong Delta. It is an initial assessment to identify relevant institutions in the wider agricultural industry, and social factors and institutions that enhance or stifle the adoption process. The core project team worked with government and business to select participants (stratified purposive sampling) for a series of qualitative data collection activities regarding the drivers and barriers in production, marketing, organisational structures and policies. Value chain stakeholder participants included farmers, retailers and associated stakeholders in government and NGO sectors.

Analysis and reporting has involved (i) thematic analysis to explore issues such as common constraints and enabling factors, private sector engagement, gender participation/access, and governance arrangements (e.g. land ownership), and (ii) putting the analyses in context regarding how generalisable the findings are, how they compare to other research, and their policy implications. Case studies of successful agribusiness companies or groups, such as input suppliers (e.g. crop protection, machinery), traders and processors allow identification and provide illustrative examples of the key components required in the cropping systems diversification process in the VMD.

### Methodology

Household surveys (HHS), key informant interviews (KIIs) and focus group discussions (FGDs) were conducted to identify constraints and successful commercial and policy strategies to facilitate crop diversification. Three groups of cases were collected in 2023 including cash crops (green bean and baby corn), fresh fruits (star/milky apple) and rice. Human research ethics approval was obtained from the University of New England (HE22-004).

“Successful cases” were identified by Department of Agriculture and Rural Development (DARD) authorities and experts. “Successful” means collaboration or transaction between the cooperatives, producers and enterprises, with consumption or processing companies being successful or in operation for some years. The process to identify successful cases was conducted first by KIIS with Sub-DARD staff and experts to determine successful cooperatives, farmer groups or farms supplying consumption or processing companies. The priority of the cases chosen was cash crops (green bean, baby corn, etc.), then rice, and

then fruit (star/milky apple and honeydew melon). From these talks, we obtained lists of cooperatives or companies (46 cooperatives). We short-listed the best proposed cases from each province or group of crops, and conducted phone interviews with these cooperatives and companies (16 cooperatives). After phone interviews, we chose six cases for KIIs. Meetings were mostly conducted with farmer cooperative heads, management boards or senior staff (Bao Gia Farm). The adaptive process was conducted based on the information collected from each case.

## Results

### Business models

From the six cases there are three groups of business models. First of all, cooperatives are the most favourable in the opinion of local authorities. The idea of this model is to gather smallholder farmers into cooperatives. These then represent farmers in dealings with input and output agents to improve farmer efficiency and provide a collective voice. The successful cooperatives cases in this report were selected from hundreds of cooperatives in the Mekong Delta, especially in Soc Trang.

The second business model is a community-based approach introduced by ABAVINA Corp. ABAVINA is a group of farmers linking crop production with consumption at end markets. Instead of adopting the cooperative model, ABAVINA was established as a corporation. They pursue climate agriculture technologies with organic farming orientation, adopt indigenous knowledge in farming, and create opportunities to generate income for farmers from all products of their farms, not only on the basis of single products: for example, 3 rice crops per year or 1-2 fruit harvests per year. ABAVINA has a vision to develop their company; however, due to lack of resources, they have not been successful in expanding their business scale, increasing the number of farmers in each community, or developing new communities. The third business model is the private Hai Au Corp. They fully invest in all stages from research to market engagement. The first field visit exploring this business model was to Ba Gia Farm, a research farm belonging to Hai Au Corp, since they were growing rockmelon, one type of cash crop that the research group prioritising for interview. We found this one promising business model can be used to disseminate or upscale the cash crops introduced by the FOCUS project. Private investment must take efficiency into account, meaning that the company reacts quite fast to changes in the market. This helped us to screen the activities to identify trends in how these business models may be able to develop or expand.

These are three business model that FOCUS may adopt to upscale the crops that may be introduced at the end of the project. All three of them have both advantages and constraints, at present and in the future.

### Successful factors of market engagement

#### *Leadership*

The six cooperatives were established in a recent five year period (2017 – 2021), based on central and local policy to support the development of cooperatives in the whole of Vietnam. However, not many successful cases were listed by the local authorities, such as in Soc Trang, from amongst the hundreds of cooperatives established in the last five years. Most of the heads of the cooperatives were active middlemen, agricultural input suppliers or staff of these communes or villages. For example, the head of the cooperative Tan Trung (green soybean) was formerly a high school teacher and has been an active collector for Antesco Corp for many years. The head of the Loc Mai cooperative (milky apple) was formally a middleman, and fruit collector in the region.

#### *Getting technical, financial and policy support*

Financial and technical support are very important for cooperatives and the other business models to be successful. As part of cooperative development policy, support was provided from different projects to build the capacity of the cooperatives, for example the modern community programs (Nong Thon Moi Program), and certification (e.g. VietGAP). These were useful forms of support to new cooperatives to set up their activities. However, many cooperatives could not maintain or become self-sufficient in their activities when the supporting projects ended. Technical support through training was also difficult to continue to disseminate once these projects ended. In some cases, local farmers preferred to grow and market their produce independently.

### *High demand from the market*

Milky apple in the two cooperatives in Soc Trang provide a good example that of success. This fruit has high demand for export to Asian communities in the US. However, this fruit has also not been successfully grown in Thailand and in other regions of Vietnam. According to the local communities in Ke Sach, Soc Trang, this fruit grows quite well in Soc Trang, but the quality is not as good as when they are grown in other provinces such as Can Tho, Tien Giang or Ben Tre.

### *Reduce market risks*

Farmers, groups of farmers and cooperatives have chosen to collaborate with the enterprises in selling their farm products to reduce market risks such as fluctuations in selling price, and to make it possible for companies to buy large quantities from farms (green soybean, baby corn, milky apple and rice). For example, farmers who grow more than 0.2 ha of green soybean expect to sell their products to the enterprise rather than to middlemen. However, selling products to enterprises might result in a lower price than selling products to the middlemen.

## Constraints in market engagement and upscaling

### *Low market demand*

Milky apple can be exported by Loc Mai cooperatives. However, they can only export about 10 - 30% of products in this commune to T&T Corp and Anh Duong Sao Ltd. A similar situation is found in the Long Duc cooperative with regards to rice production. Relying on only 1-2 enterprises to consume (buy) produce is very risky, while there is also relatively small demand for the products.

### *Upscaling the business model*

ABAVINA is a good business model in gathering farmers, though they still remain very small scale businesses. It is very difficult for ABAVINA to expand their business and to increase the number of farmer communities involved, due to lack of resources. There was also a lack of human resources to expand their business and activities, and a lack of financial and market research support.

### *Small scale of business*

In many cases the local authorities and cooperatives relied mostly from single companies such as Ong Tho Corp (Tan Hung Cooperative), Antesco Corp (Tan Trung and Hoi An Cooperative), T&T Corp and Anh Duong Sao Ltd. (Loc Mai and Xom Dong 2 cooperative). However, these companies cannot buy products of the whole commune or district. Thus, they purchased only a proportion of the products from their cooperative members. At the same time, the cooperatives do not have capacity to find new buyers. Expansion of production area, for example for green soybean and baby corn, has occurred rapidly, while this might also occur for milky apple in Xom Dong 2 cooperative in the next few years. Antesco Corp have less customers after COVID, requiring them to restrict the quantity of green soybean and baby corn buying from their collecting agents or cooperatives.

### *Small scale farming*

Small scale farming is associated with difficulties in gathering big volumes of products with the uniformity and quality required by large buyers or exporters. This has reduced efficiency of small scale farming. Learning from this problem, Hai Au Corp chose to invest themselves in upscaling farming activities to market produce via high price channels, such as their own private shops (e.g. Danny Green), supermarkets (e.g. Go, Vinmart, Lotte), and plans to export. This strategy might not bring benefits to the public; however, it is a good routine that FOCUS may consider for disseminating crop options suggested by the project.

### *Contracting schemes*

In rice contracting, farmers have not accepted long term contracts or contracts at the beginning of the season. Suppliers and buyers only made price decisions 20 days before harvest. This suggests that they do not trust one another. Farmers have not been willing to implement contracting for their farms. From single company buying products from cooperatives, these companies have more power in price decisions. Thus, the scheme of market engagement in the case of cooperatives of rice, green soybean and baby corn generated a transaction between a big processing companies and small farmers or new cooperatives. The cooperatives do not have a strong voice to bargain or negotiate price and payment terms more effectively with these companies.

### *Low efficiency*

Efficiency is the most important factor leading both farmers and traders to maintain their farming and business. Because of low efficiency, the change in crop farming as well as their business happens. The shift from two rice crops to three rice crops when the rice price is high in the last two years. The production area of green soybean and baby corn has shifted to rice or other upland crops. Antesco Corp also expand the processing and canned fruits to compensate the reduction of green soybean and baby corn export.

### *Fear of making a loss*

Cooperatives, enterprises and smallholder farmers need to build sufficient trust so that buyers and sellers are willing to enter into contracts from the beginning of the crop or to make longer-term contracts, a situation found in rice, soybean and baby corn. Sorting the products before selling might generate more return for farmers, however they are not familiar with this practice and fear receiving a lower return if sorting their farm products. The fear of loss and to try new things also arises from the failure of previous business engagement programs. The trading companies are actually small scale business and do not have much control have lose control on the input quality (Antesco Corp, An Duong Sao Ltd.), and therefore may potentially lose their customers or contracts due to the violation of product requirements. As a result, Hai Au Corp chose to operate the production by themselves instead to link with cooperatives or collectors.

## Discussion

The cooperatives and collectors are relatively weaker than trading companies, resulting in monopolies (e.g. Long Duc, Hoi An and Tan Trung cooperatives). Therefore, it is difficult for cooperatives and collectors to negotiate prices with these trading companies. The companies bear with risks related to the problems of small-scale farming. They also find difficulty in creating specialty in their products, an important factor to increase comparative advantage. Many companies were also impacted by COVID-19 and their business has not been as good as it was before the pandemic (e.g. Antesco Corp).

## Conclusions

This paper presents preliminary findings from successful cases in market and private sector engagement. Even though they are listed as the best practice of enterprise engagement in the VMD, the scale of business is still small and weak in their operation. These value chains are quite novel given that market engagement and collaboration in upland crops has not been popular compared to very well established rice value chain. Businesses have been experiencing either progress or degradation in their enterprise. Nevertheless, these three business models provide realistic empirical examples to analyse, and to understand which type of business model or models may be used to disseminate information about market engagement for new crops and to support upscaling efforts by government, NGOs and the private sector.

The factors that lead to successful market engagement included effective leadership of the cooperatives or enterprises. This is one of the most important factors that maintained market-oriented production in all six case studies. Continuing product demand is a core factor leading to sustained linkages between the output enterprises and cooperatives, farmer business enterprises or groups of farmers. Further support from government agencies to promote cooperative development, start-ups and agribusiness innovation can provide opportunities for expanding these models and reducing risk.

Besides the successful factors, there are several constraints for value chain development and market engagement for upland crops. These include low market demand for the products, the small scale of production and processing, and possible restrictions on the upscaling potential of these three business models. Other factors include details in contracting schemes, and fear of income loss. Further analysis will go deeper into each case, to understand the relationship among stakeholders that leads to the success or constraint in their business. This will provide a better understanding of the specific and generalised factors driving successful agribusiness engagement in the VMD.

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