



## The role of farmer organizations in supplying supermarkets with quality food in Vietnam

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### ABSTRACT

The development of supermarkets in Vietnam, as in other emerging countries, is accompanied by increasing consumer concern for food quality. This paper investigates whether farmer organizations are able to help small-scale farmers obtain access to supermarkets as well as examines the role that supermarkets and public support play in the emergence and development of these organizations. The paper is based on case studies of a number of stakeholders marketing vegetables, flavored rice and litchi fruit in Vietnam. Eight farmer groups operating in the form of private commercial organizations act as regular supermarket suppliers for the selected products. Their ability to supply supermarkets is related to the combination of functions they make available to their members, especially with regard to promoting and controlling quality for which they receive public support. Their participation in flexible contracts with supermarkets, shops and schools is also a key issue. Supplying supermarkets via farmer associations increases farmers' profits per kilo compared to traditional chains, but the quantities supplied to supermarkets remain limited. The paper argues that changes in farmer organizations are not primarily due to supplying supermarkets, but rather to public and international support for food quality improvement which has been of benefit to supermarkets.

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### Introduction

The rapid development of supermarkets in both developed and developing countries has been covered extensively in reports in the last decade, particularly by Reardon et al. (2003). In Asia, the first supermarkets emerged in the 1990s after their rapid development in Latin America. The westernization of Asian diets, the development of supermarkets, fast food chains and exports in Asian countries are described by Pingali (2007) as the main drivers for change in the food systems. Private standards are developed by supermarkets as substitutes for non-existent or inadequate public standards. They serve as tools enabling them to compete with the informal sector by claiming superior product attributes (Ménard and Valceschini, 2005; Reardon and Timmer, 2005). Centralized procurement systems, requirements in terms of quantity and daily delivery and formalized transactions also reportedly result in the exclusion of small-scale farmers. The characteristics of small-scale family agriculture, with a wide diversity of farming systems and practices resulting in disparity and a lack of uniformity in agricultural pro-

duce, complicate matters for supermarkets with their stringent requirements and standards. According to the literature, this results in intermediaries such as wholesalers or farmer organizations playing an important role in connecting farmers and supermarkets, providing economies of scale and specialized skills in assembling, grading and transferring information between buyers and sellers (Vorley et al., 2007).

The role of dedicated wholesalers has been reviewed for China (Hu et al., 2004) where they are described as entering into contracts with local farmers or running their own farms while also providing a number of post-harvest services including packaging. In Costa Rica, dedicated wholesalers, including the Hortifruti Company, are described as the main suppliers of fruits and vegetables to supermarkets (Alvarado and Charmel, 2002). As regards farmer organizations supplying supermarkets, the literature paints a mixed picture of their sustainability. In China, they appear as dynamic. Agricultural associations have developed since the late 1990s as a result of legal recognition and public support. Public-private partnerships may link supermarket chains, cooperatives and public services in supplying horticultural and animal products (Hu et al., 2004; Reardon and Gulati, 2008). In other countries, fruit and vegetable farmer organizations are reported to be faced with a

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number of difficulties in responding to the demand from supermarkets. In Chile this is due to the insufficient scale of operations in relation to the costs generated (Reardon et al., 2002). In South Africa (Neven et al., 2005), in Honduras (Hellin et al., 2007) and in Nicaragua (Balsevich et al., 2006), this is due to low business skills and limited involvement of the group members and high dependence on a development project or an NGO, e.g. in terms of technical assistance, post-harvest infrastructures and liaison with supermarkets.

One conclusion of the “regoverning markets” program is indeed the need for more studies documenting best practices in connecting small-scale producers with dynamic markets in different policy environments (Vorley et al., 2007). Moreover, little effort has been made to investigate the ways in which supermarkets have transformed traditional food chains in Vietnam, a country currently experiencing rapid economic transition and which demonstrates certain particularities in terms of its agricultural structures and policy intervention. The retail sector has developed in parallel with the overall economic development. The growth rate of the value of the retail trade in USD is estimated at 10% per year for the period from 2001 to 2006. This rate rises to 11% for food sales. Modern trade, including supermarkets and convenience stores, is estimated by the same source to have grown by 20% per year between 2001 and 2006. Vietnam is considered to be the fourth most attractive retail market in the world (USDA, 2007).

On the supply side, Vietnam is characterized by a dynamic agricultural sector which still faces structural constraints. After the de-collectivization of land use in 1988, farmers achieved impressive increases in terms of rice yields while also beginning to diversify into various high added-value sectors, including horticulture and livestock. The typical farm is a small family-run affair. According to data from the Vietnam Household Living Standard Survey conducted by the General Statistics Office in 2006, the average farm size per household is 1.7 ha for the country as a whole, 0.6 ha in the Red River delta and 1.8 ha in the Mekong River delta, while median values are 0.9, 0.6 and 1.2 ha respectively. Following de-collectivization, cooperatives changed their function from the direct orientation of production to supplying services to their members. These services focused on irrigation, electricity and inputs delivery, while the role of cooperatives in the field of marketing has been described as limited (Dao The Anh et al., 2007). The case of Vietnam is interesting in terms of the development of farmer organizations because the country now faces a new need for cooperation between small-holders in the market economy.

The purpose of this paper is to investigate whether farmer organizations have adapted as a result of supermarket development in Vietnam and have proven successful in facilitating small-scale farmer access to more profitable market opportunities. More specifically, the following questions are addressed.

- (1) Are there differences in the organization of supermarket supply chains compared to the supply chains of traditional markets?

We assume that dedicated wholesalers and farmer organizations play a more important role in supermarket-driven chains than in traditional ones.

- (2) What advantages does collective action give farmers compared to individual action in supplying supermarkets?

We assume that collective action among farmers helps to ensure regular delivery to supermarkets and compliance with quality criteria by reducing transaction costs relative to individual transactions thanks to a combination of incentives and sanctions for members (Ménard and Valcheschini, 2005).

- (3) What is the role of supermarket development, public support and private initiative in the changes observed in the farmer organizations identified?

It is assumed that the development of supermarkets is the reason behind the changes in farmer organizations because of their specific requirements in terms of regular quantities and quality which cannot be fulfilled by individual farmers (Vorley et al., 2007).

- (4) Does participation in organizations supplying supermarkets improve the financial results of the farmers?

The hypothesis is that participation in organizations supplying supermarkets results in higher prices and higher profits for farmers (per kilo and per farmer).

The method used to answer the questions above is presented in the next section. The results are then outlined for each of the four questions: first, the importance of farmer organizations in supplying supermarkets; second, their characteristics and role for farmers; third, the financial results of members and non-members of farmer organizations; fourth, their historical development. In the discussion, the results are examined in relation to the initial hypotheses. The paper concludes by presenting a number of policy and research recommendations.

## Methods and data

The paper is based on case studies of four food distribution chains supplying Vietnamese cities: vegetables to Hanoi and Ho Chi Minh City; litchis and flavored rice to Hanoi. The places of production are selected peri-urban districts of Hanoi and Ho Chi Minh City and temperate highlands (Son La and Lam Dong provinces) for vegetables, Hai Duong province for litchis and Nam Dinh province for flavored rice (see Table 1). The commodities and areas were chosen because they involve poor, small-scale farmers (less than 0.5 ha) supplying supermarkets. Fruits and vegetables are characterized by perishability, seasonal and unstable supply and consumer concerns for safety (credence and experience attributes). By contrast, rice can be stored, its supply can be predicted more easily and consumer concerns for rice safety are limited. This indeed results in differences in the organization of commodity chains, with wholesalers more likely to play a role in the rice chain. However, we chose to consider the rice chain together with fruit and vegetable chains because it also presents credence attributes, i.e. its origin in the Hai Hau district which is considered by consumers to provide a specific—analytically non-measurable—taste quality.

The paper uses a value chain approach identifying the full range of activities required to ensure the delivery of a product (or service) to the end consumer from its conception through the different phases of production to disposal after use. “The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation” (Porter, 1985: 33). Yet the value chain approach is mostly applied to the operations of private companies rather than farmer groups. To investigate the rationale and results of farmer organizations, we used insights into the economics of rural organization (Hoff et al., 1993) considering organizations as substitutes for non-existent or incomplete markets in addition to their role in obtaining economies of scale. Farmer organizations have also been described in the literature as hybrid organizations (Bosc et al., 2001) combining a range of economic, social and political functions.

Due to the sensitive nature of the information required (implying relationships of trust with the interviewee) and the causal rela-

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