Draft Final Report

On

Farmer Organization and Institutional Linkages,
for Chestnut Development and Marketing in Cao Bang Province,
Northern Vietnam
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By

Anna Hocking
Social Anthropologist

Cao Bang – Bac Kan Rural Development Project

E.C. and Vietnam
Summary

This Report on Farmer Organisation for Chestnut Development and Marketing presents a compilation and analysis of alternative forms of farmer organisations available in the present socio-political structure of Cao Bang Province. The information was collected through interviews of government officials at all levels, and informal discussions with farmers.

Eight forms of farmer organisation are described and their advantages and disadvantages described. No single form of organisation is without disadvantages, and the policy framework in the Province is in flux. The key for the recommendations was to try and establish that whatever organisation was adopted, it should remain within the control of the producer farmers themselves.

Recommendations are made, the two most important ones being as follows.

1. Farmers should organise themselves at Commune level into informal Interest Groups with Commune support, and formal New Cooperatives should be formed at District level comprising all the Interest Groups for that District.

2. The CBBC – RDP should provide financial and technical support for each District-level New Cooperative to establish a Chestnut Processing Centre, with relatively simple post-harvest processing facilities for cleaning, sorting, grading, and drying chestnuts, and a cold store for short-term storage of fresh nuts before sale.

Other recommendations are made relating to details of the organisations of farmer groups, and the setup, management, and financing of the Chestnut Processing Centres.
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List of Abbreviations

ARDO(s) Agricultural & Rural Development Office(s)
BSP Bank for Social Policy
CB Cao Bang (town or Province)
CBBCRDP Cao Bang Bac Kan Rural Development Project
DARD Department of Agriculture and Rural Development
DOLISA Department of Labour, Invalids and Social Affairs
DOSTE Department of Science, Environment and Technology
DPC District People’s Committee
E.U. European Union
FA Farmers’ Association
FE Forest Enterprise
GoV Government of Vietnam
GTZ German Technical Assistance
HL Ha Lang District
MARD Ministry of Agriculture and Rural Development, Hanoi
PMB Project Management Board
PPC Provincial People’s Committee
QU Quang Uyen District
TK Trung Khanh District
UNICEF United Nations Children’s Organisation
VBP Vietnam Bank of the Poor
VIBARD Vietnam Bank for Agriculture and Rural Development
VND Vietnam Dong
WU Women’s Union

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Farmer Organization and Institutional Linkages,
for Chestnut Development and Marketing in Cao Bang
By Anna Hocking

1 Introduction
Cao Bang is a mountainous Province of northern Vietnam. In Trung Khanh District and also in two or three adjacent Districts, Chinese-type chestnuts (Castanea mollisima) grow well and produce nuts of exceptional quality: sweet and easy to peel (David Klinac, consultancy Report of October 2000). This is recognized by the Provincial authorities, who support expansion of chestnut production through a Provincial Project under implementation in the Districts of Trung Khanh, Ha Lang, and Quang Uyen (see description in later Section of this Report).

The Cao Bang-Bac Kan Rural Development Project (CBBCRDP), supported by the European Union (E.U.) and the Government of Vietnam (GoV), has the objective to increase the sustainable livelihoods of rural people of the area. One component of its activities is to provide further support to chestnut development through technical advice and through financial support to the respective District Agriculture and Rural Development Offices (ARDOs). The technical advice comprises chestnut horticulture, propagation, post-harvest technology, marketing and growers’ organization.

Chestnut development is a priority in the Province of Cao Bang because, it, like Vietnam nationally, is in the process of transforming from a centrally planned economy to a market economy. Since 1986 Vietnam has hugely increased its rice production, the major staple crop, to a level where it now exports surplus. Rice provides food security and income maintenance but the very success of the farmers in increasing rice production has meant that real prices have fallen and rice farmers face the prospect of stagnant incomes. The demand for staple foods grows only slowly and by increasing production further, the profit to the farmer gets less and less. On the other hand, as the country as a whole gets wealthier, buying power rises and demands arise for higher-value-added foods.

The national government’s macro-econmic planning in reponse to the plateauing of rice prices is to encourage diversification into other crops and markets.

Cao Bang Province is responding to this structural transformation by promoting diversification in farm production, from animal feed crops for improved livestock to cash crops of high-value commodities. One of these potentially high-value crops is chestnuts.

In the three chestnut-growing districts of north-eastern Cao Bang Province hundreds of farmers are now engaged in establishing plantations of chestnut
seedlings, the total planting target is for 2,500 ha by 2006. By 2008 some of these new trees will begin producing and adding to the already active chestnut market each autumn. At present the harvest from existing mature trees is roughly estimated to be around 70 tons per annum, of which around 50 tons comes on the market (Anna Hocking 2003). By 2008, the harvest volume should have increased significantly, and the current *ad hoc* system of marketing probably would not bring the financial benefit to the farmers that this valuable crop deserves.

Collective selling by primary producers can strengthen the hand of the producer-seller in the face of hard bargaining by the buyer-traders who at the moment control market prices. In turn, the traders should welcome wholesale venues where larger volumes of produce can be bought in one transaction rather than having to undertake numerous small transactions at individual farm gates.

It is this premise that underlies the investigations into the following options for chestnut farmers in Cao Bang.

For the full Terms of Reference of the present study, please see the Annex. The reader is further referred to the related Report on Marketing (March 2003), and Reports of experts in chestnut horticulture and production.

**Background: The Provincial Chestnut Project – 2001 to 2008.**

The conception of this project came from the XIV Provincial Session of the Communist Party in February 1999 when the decision was adopted to promote chestnut growing in the three districts of Trung Khanh, Ha Lang and Quang Hoa (now Quang Uyen).

The Chestnut Project was to be a component of Central Government’s Decision 661 or, as it is commonly known – the 5 Million Ha Reforestation Programme.

The Cao Bang People’s Committee (PPC) in February 2000, under decision 249/QD, approved the parameters of investment and planning for DARD to develop the details of the project.

On 5 May 2001 DARD submitted its project document for approval by the PPC.

In summary - 2500 ha of new chestnut tree plantation are to be planted, with an investment of 7,300,790,000 VND. Of this 3.7 billion VND is Provincial investment/ budget; 3.55 billion VND will be the contribution of the farmers through their labour.

Another 1166ha of chestnut plantation are to be rehabilitated (Mr. Eng).

The Investment management is controlled by the PPC.

The Implementing agency is the Forestry Development Sub-Department, a sub-department of DARD who implement through District Project Management Boards. In Ha Lang and Quang Uyen, where there is no Forest Enterprises, the members of the Project Management board are the Vice Chairman of the DPC and the Head of ARDO. Where there is still an office of Forest Enterprise then the Head of this office is also a member of PMB.
2 Methodology

This study was conducted by interviews of officials and technicians of relevant agencies and institutions, and by interviews with farmers both individually and in small groups.

The analysis and recommendations were arrived at through extensive internal and outside discussions. Preliminary versions were pre-discussed with high-level Provincial officials, and were further developed only after receiving their qualified conceptual support for the directions being followed.

The Terms of Reference are given in the Annex.

3 Farmer Group Options

3.1 Objectives for interest groups of Chestnut Farmers:

1. Facilitates sharing of information and experience between farmers
2. Helps farmers identify where they need advice, training or support
3. Facilitates organization and delivery of trainings, demonstrations and trials
4. Farmers can share post-harvest facilities
5. Farmers can share market information and contacts
6. Farmers can pool resources
7. Farmers can pool their produce - chestnuts, for marketing larger volumes
8. Farmers can invest together to ‘value-add’ to their chestnuts

In questioning about how each option might operate in practice, an over-riding consideration was how farmers might be helped to retain direct control. It was also considered important that it should be kept as simple as would be consistent with having a legal existence, capable of financial integrity qualifying for loans and to own assets for post-harvest processing.

3.2 Possible structures for Farmer Groups

1. Informal, unstructured village groups under guidance of Head Man
2. Informal group under guidance of Commune
3. Formal group, with a constitution, under Commune and District
4. Formal group under Farmers’ Association
5. Formal group under Inter-Cooperative of Cao Bang (Lien Minh Htx Tinh Cao Bang)
6. Producer Group funded by Fund 120 under DOLISA
7. Formal Company (supported by DOSTE)
8. New Cooperative under DARD

3.3 Alternatives for Farmer Groups: Analysis

3.3.1 Informal, unstructured village groups under guidance of Head Man

Advantages
Easy for farmers to control and understand.
Local established relationships may strengthen the group and enhance its activities.
There is already a precedent of farmers collaborating for mutual economic benefit, viz. farmers in Chi Vien Commune formed loosely associated, informal groups for the sale and transportation of sugarcane to the feed mill (but see below for disadvantage).

Disadvantages:
Farmers distrust their group’s ability to set up and run appropriate and trusted recording systems to ensure that each member is paid appropriately for her or his produce.
Farmers are reluctant to commit their scarce funds to paying for a group system where they are unsure of an economic benefit to themselves.
Limited influence or representation outside the village.
Informality may reduce ability to command credit and other inputs.
Local established relationships may get in the way of making the group active.

3.3.2 Informal Interest Group under guidance of Commune

Advantages
It is small and local and can be influenced by its members
It is familiar and the farmers know the process of organizing and running it.
The membership can make their own decisions on the level of financial and other contributions required.
The selection of a representative from the group to attend the District umbrella group is a well-established and familiar process.
The first objective is to establish and agree with and among the farmers what activities their new interest groups will do – an achievable goal.
Commune officials have access to information and resources that can help the group.
Recognition by the Commune gives credibility to the group.

**Disadvantages**

Local established relationships may control the group and take it in a direction not wanted by group.

Limited influence and experience of Commune officials and farmers may stifle innovative moves to make the group a success.

Formalization of the group and the regulations required to function may inhibit understanding, engender a reluctance to participate and reduce drive to take action.

### 3.3.3 Formal group under Farmers’ Association

**Advantages**

There is a representative of the Farmers’ Association (FA) in every commune. The FA is generally a fairly effective organization at commune level for disseminating propaganda and advice but they don’t usually deal with farm products or outputs.

The FA is able to extend credit for a range of inputs.

**Disadvantages**

The mandate of the FA is to deal with agricultural inputs and advice only. They do not (as yet) have a mandate to run programmes on post-harvest processing and marketing of farmer products.

The orientation of the FA is to assist the government to reach targets as set for the different agricultural projects, though periodically they do lobby on issues that affect significant proportions of the farming community eg. needs of ‘Poor’ farm households.

Their mandate does not equip them to meet the particular needs of individual small groups of farmers.

Also there is a history of FA promotions that will discourage farmers from placing their trust in the efficacy of FA support.

### 3.3.4 Formal group under Inter-Coooperative Alliance of CB

**Advantages**

This is a well-established mass organization (Lien Minh Htx Tinh Cao Bang) with a clear mandate and objectives, funded by the Government.

The Policy Unit of DARD will soon launch its new project on agricultural cooperatives that will enhance the profile of ‘new’ cooperatives generally and create an improved climate for all cooperatives to prosper.
The objectives and mandate of the New Cooperative Alliance and movement are in-line with the marketing needs of chestnut farmers/producers.

New Cooperative groups can be large or small, a flexibility that is advisable for the initial phase of establishing interest among chestnut farmers.

The Umbrella organization has access to funding from Fund 120 from DOLISA and it distributes cheap loans to member cooperative groups who meet the criteria of job creation.

**Disadvantages**

The new Cooperative movement is small and seems to lack political influence in CB. Cooperative activities are still tainted by farmers’ memories of days of powerful cooperatives and much food shortage in the 1970s and 1980s.

The legislation and regulations for the New Cooperative movement date from 1995. It is due for an update, which is, we hear, in the pipeline. At the moment procedures are cumbersome, sometimes irrelevant and obscure.

The success rate for Agricultural Cooperatives under the Alliance is low. At the moment there are 41 registered cooperatives with the Alliance. Eight of these are focused on Agricultural products but only three are active. One of the active three is a fishing cooperative, which leaves two focusing on agricultural produce, or 5% of the total.

### 3.3.5 Producer Group, funded by Fund 120 under DOLISA

**Advantages**

DOLISA has a substantial budget to support the creation of new jobs. Cheap loans, at 0.5% interest, are available to a wide range of different types and styles of small producer groups, small and medium businesses, a farm household and even individuals. The applicant must have an address, and if a group, a formal constitution, rules and regulations and identified officers.

The State Treasury presently administers DOLISA loan monies. However this responsibility is in process of being handed over to the new Bank of Social Policy, an amalgamation of the old Vietnam Bank of the Poor and the State Bank. It is not yet revealed what the new procedures under the Bank of Social Policy will be.

**Disadvantages**

Many farmers are resistant to any dealings with banks and associated credit schemes or loans. They prefer to take loans from relatives and neighbours where the repayment expectations are well understood and negotiable. To them, bank loans lack flexibility for repayment and the procedures seem cumbersome, obscure and opaque.
The history of Government-promoted cash crops and agricultural credit is littered with schemes that have been ill-conceived and where the farmers bore the brunt of the financial risk, viz. apricots in late 1990s, sugar cane last year in TK and QU (FA pers.com), tobacco last year (TK ARDO pers. com)

3.3.6 Formal Company (supported by DOSTE)

Now that the Chestnut Project is underway, the Province is planning to establish a Company for post-harvest processing of chestnut, longan, mak mat and other fresh produce. This Company would provide a guaranteed market, offering market prices to the farmers for chestnuts.

Advantages

The formalities required for registering a company are relatively easy. However there is more to running a company than the registration, the business plan will be a guide for the farmers to take the appropriate actions to make the business profitable, so long as a reliable market has been established.

Cao Bang DOSTE has established and now spun off one company, the Bitter Tea Company”. It is unique in Cao Bang but may be a possible model to follow, as DOSTE is also mandated to research and establish marketing for chestnuts.

DOSTE gave, and still gives, substantial financial and technical backing to the Bitter Tea Co. This year they have been given an interest-free loan to expand their planting of bitter tea and collecting of leaves from farmers.

For chestnuts, DOSTE has already committed 900 million dong to development of post-harvest processing. This is conceptually for the purpose of developing a chestnut marketing company along the lines of the Bitter Tea Company.

Disadvantages

The Bitter Tea Co. is unique and came out of a long process of research and investigation by the department which then spun it off as an independent company when it gave promise of being a viable entity.

There is no partnership role for farmer producers in the Bitter Tea Co. Their relationship is one of contracted producers with no participation in the profits of the company and no control over the grading and pricing of the tea leaves.

If followed, this model would give chestnut farmers no control or share over the processing and sale of their chestnuts and the Company would have all the powers to decide the buying price.

Analysis

A prospective independent “Chestnut Company” set up and run by the farmers would be in direct competition with the potential chestnut company which is
planned by DOSTE. A joint-owned farmer company would not have the considerable financial backing that the DOSTE-sponsored company will have.

There is potential that DOSTE may be interested to discuss a collaborative sponsorship of a company part or wholly owned by farmers. This however would not conform with their previous positive experience with the Bitter Tea Company whose buying arrangements are modelled on the familiar systems from the past.

The Bitter Tea Company, the Phuc Hoa Sugar Mill and the Tobacco Company all reflect the old state-owned model for processing agricultural produce. In the new era of a burgeoning market economy, these State-owned companies have now been partially privatised, but they still receive considerable government financial underpinning. They all have in common the characteristic of offering farmers a ‘guaranteed’ market -- but at the lowest price levels, a factor over which the farmers have no control and little or no negotiating power.

The Head of DOSTE assures that farmers will receive market prices from the prospective DOSTE-supported Chestnut Company. However, what are these market prices? Initially the company will buy chestnuts for drying, as this is the equipment for which they have made a huge investment. It only makes market sense to dry the smaller Class 2 and Class 3 nuts, that are not attractive in the more profitable market for fresh chestnut. At the moment farmers do not bother to sell the lower grades separately because the price is not worth the labour of preparation. They are likely to receive only about 7000 dong /kg or less. DOSTE will provide a guaranteed market for farmers to sell their chestnuts, buying at the market price.

Finally, such a DOSTE-supported company would be bound to press for lowest procurement prices and sell at highest market prices, retaining the profit for itself. A farmer-owned and operated enterprise (see proposal for integrated Chestnut Processing Centres below) would be able to return the profit margin to its farmer owners, either as post-market dividends or as higher procurement prices.

3.3.7 New Cooperatives under DARD

The People’s Committee of Cao Bang Province has decided to establish commodity-based, farmer-operated New Cooperatives for post-harvest processing and collective marketing to increase added-value in-Province, and thereby farmer profits. The Policy Unit of DARD has been mandated to work out the modalities and procedural details. The justification stems from the perception that marketing is the weak link in expansion and diversification of agricultural production in Cao Bang:

“With the introduction of market economies there is more production, but farmers don’t know how to sell.” Quote from Mr. Lanh Danh Gia, Head of Policy Unit at Cao Bang DARD.

Advantages

Under the procedural guidelines being developed by DARD, farmers will be encouraged to form interest group Cooperatives around their common
commodity crops to share post-harvest processing, marketing methods and outlets. The New Cooperative will have a Management Board of elected local farmers who appoint a paid manager, a capable person who is contracted to manage funds, get loans and provide technical support. He or she should also be able to foresee and avert difficulties and call on outside support in times of financial or technical problems.

Under this procedure, farmers will retain control of the affairs of the New Cooperative, including the power to agree and set procurement and selling prices.

Registration of the Cooperatives will be at the District-level, through the DPC with the officer in charge of Industrial and Commercial Businesses

**Disadvantages**

The memories of the period under the Old Cooperatives in the 20 Century still vividly haunt the farmers of today. They were required to contribute all their means of production, their land, their tools and their labour for the common weal. Many suffered periods of severe food shortage and were not compensated for the depreciation of their property when it was returned at the closure of the Cooperatives in the late 1980s and early 1990s.

The term, “Cooperative”, therefore retains negative connotations for many farmers owing to poor experience during the collectivisation period. However, the DARD Policy Unit is sanguine that the New Cooperatives, with their new way of working, will be acceptable to the farmers. Mr. Gia’s maxim is, “Old jug with new wine”.

**Analysis**

New Cooperatives will have a high level of support from the District ARDOs and will be in a position to attract low-cost loans for capital development. The political backing for the concept ensures that they will not be permitted to fail, through continuing monitoring and necessary policy adjustments and other types of support.

4 Recommendations for Farmer Organisation

The following recommendations are premised on the objectives of poverty alleviation. The recommendations consider what might be the most effective institutional arrangement to maximise benefit to the farmers themselves.

The recommendations are a compromise between what may be called the “ideal” plan, and the need to conform to realities of farmer ‘action’ within the constraints and pressures of the ‘system’, the administrative and socio-political framework.

Many farmers feel safe with individual household marketing of chestnuts. It is familiar and makes no additional demands on them other than what is compatible with their whole farming system. A collective system of marketing chestnuts will
inevitably make organizational demands that to some farmers may not justify the gains. Nevertheless the hugely increasing volume will lead most producers to rationalise post-harvest management for maximum gain.

4.1 Preamble

In recent years DARD has encouraged farmers, through demonstrations and trials, by provision of inputs like seed, advice, incentives and propaganda, to expand the range of crops that they grow to include more cash crops. Some examples of these are - hybrid rice, hybrid maize, fruit trees, sugar cane, tobacco and chestnuts.

Most of these surplus or cash crops are sold on the open market, bought and sold at wholesale and retail levels by private entrepreneurs. DARD has intervened in the marketing of only a few commodity crops by supporting a regional processing plant that provides a guaranteed market for the crop, albeit often at rather low prices. In the case of sugar cane and tobacco the Government established processing plants to buy the harvests. It also is investing heavily in a small company for collecting, processing and retailing Bitter tea. However for rice, maize, fruit and chestnuts the farmers must independently sell their surplus crops on the open market to traders and entrepreneurs and are subject to market forces.

As an example, farmers are selling hybrid maize at the Commune Centres or on the roadside to small traders, who then on-sell to middle men. These larger traders collect several tons of maize to sell at the Chinese border-crossings, where periodically the price is higher than within Vietnam.

Similarly, farmers sell chestnuts to petty traders at the farm gate or in the local markets. Medium traders, with a more extensive catchment range, buy from them, and then sell larger volumes in the Provincial Cao Bang market or to traders from out of Province.

4.2 Recommended Process for Development of Farmer Groups

Many considerations enter into making the recommendations that follow. Some detail of these considerations is developed in the later paragraphs, but for ease of reference an outline of the overall recommendation is presented first.

**It is recommended that:**

1. Farmers are encouraged to start a collective system for marketing their chestnuts, to improve the prices that they can command through increased volume and improved and standardised quality.
2. The unit of the proposed collective system is an informal farmer-run Interest Group with Commune support.

3. The ARDO, Project Management Board and Communes encourage formation of Chestnut Interest Groups in every Commune of the three focus districts where significant chestnut tree planting exists or is occurring.

4. Each Interest Group within a District contributes one representative to an umbrella group at District level, run by a farmer-elected Management Board. At present it appears that a suitable “umbrella group” would be a “New Cooperative” registered at District and Provincial levels.

5. The Management Board employs a Manager to run the Chestnut Centre. Farmers suggested that the Manager’s salary could initially be paid through a levy of 3% on the turnover of chestnuts through the New Cooperative. As turnover grows and profit margins increase, other ways might prove to be better.

6. Each District-level New Cooperative has a Chestnut Processing Centre (CPC), consisting of a small warehouse with space for cleaning, sorting and grading of chestnuts, plus a dryer and a cold store, the provision of which would be financially supported by the CBBC-RD Project.

**Grading of chestnuts**

At present the market recognizes three grades of chestnut:

- **Class I** – the largest and best, the ones most commonly sold in the open market.
- **Class II** – medium size, less frequently sold by themselves in the market; sometimes mixed with Class I and the mixture sold at a slightly lower price than Class I.
- **Class III** – presently used for home consumption and animal feed; potentially, after cleaning and ejecting rotten nuts, could be dried for sale dry or for grinding into flour.

With better sorting and grading and more reliable product quality, better prices can be realised for each grade.

**What Interest Groups can do**

The farmers can improve on the present system of marketing by taking three steps:

1. Sort and grade the chestnuts more rigorously at the Commune level, by eye and by using a flotation system to remove small and diseased nuts.

2. Collect into larger volumes at the local processing centre for transport to the District level for further cleaning, sorting and grading.

3. Potentially, process in various ways before sale to traders.
What a Chestnut Processing Centre can do

Establish a cool store in order to be able to keep the fresh nuts for a slightly longer period. The farmers will benefit from being able to sell good quality (well graded) chestnuts in larger volumes. Traders from Hanoi and further away will be more interested to establish a trade linkage when larger volumes are consistently available.

By taking these relatively small steps now, there will be a foundation organization for the farmers to develop and control the increasing volume of chestnuts as the new trees now being planted come into production in about 2008.

They will also have an organization that can be converted into a system of New Cooperatives, if they so wish.

Considerations of post-harvest processing options

DOSTE is researching drying and cold storage systems. They have invested significant amounts in designing a dryer.

Drying is the safest and most secure technique for processing chestnut because drying inhibits and kills the commonest of the organisms – mildew, which very rapidly starts rotting fresh chestnuts. Chestnuts are very perishable fresh but will keep indefinitely once dry. The product of the drying process can be packaged and sold, either whole for re-constituting or milling to flour form when it can be used as gluten-free flour.

It is likely that the ‘special’ flavour and quality of TK chestnuts will be less discernable once reduced to flour form. It would be harder to distinguish between flour from TK chestnuts and flour from Chinese chestnuts than it is between the fresh forms. In this current early stage of the market, when the saleability of these dry products in Vietnam has not yet been investigated, there will have to be extensive advertising and promotion to encourage consumers and customers to buy an untried product like chestnut flour, even with the promotion of the label Trung Khanh. The most likely customers will be the food industry for conversion into snack food.

It is unlikely therefore that it would be profitable to use Class I chestnuts in the dryer. The farmers will get more benefit from selling in the ‘fresh’ market, especially if the volumes can be increased to attract traders from Hanoi and elsewhere.

Steps for Establishment of Chestnut Processing Centres

1. Each District Umbrella Group to appoint a waged Manager to manage Chestnut Processing Centre.

2. Each District ARDO contributes a building for a Chestnut Processing Centre.
3. Mr. Kobayashi of Kohki Vietnam be employed as designer and construction supervisor for building a drier and a cool store at each of the District Processing Centres. Mr. Kobayashi has demonstrated high skills in using locally available materials to build efficient equipment for processing. He is an intermediate technology expert.

4. Manager manages planning and running of Chestnut Processing Centre – maintenance of records, rigorous supervision of sanitary management of cool store, maintenance of both cool store and dryer.

5. Manager supervises daily delivery of graded nuts from Commune groups during the two month harvest.

6. Nuts Treatment - Grade I nuts – record delivery, check quality by flotation process, treats with sodium hypochlorite (bleach), dry thoroughly and stores in cool store.


8. Organize and negotiate wholesale selling to traders of Class I fresh nuts from Cool Store.

5 Sources of Money for Farmer Groups

It is recommended above that establishment of the Chestnut Processing Centres be financed by the CBBC-RDP. If this is realised, the farmer groups may still need a certain amount of borrowed money to initiate operations until a cash flow is generated through sales of fresh and processed chestnut products.

The following analysis presents options and conditions available at present.

5.1 VBARD:

Vietnam Bank of Agriculture and Rural Development (VBARD) is now defined as a commercial bank and its fiscal policies are geared to making the bank a profit. In comparison the new Bank of Social Policy is a social service bank, capitalised and subsidised by the National Government and the Provincial Government.

Bank Staff

VBARD generally has four credit staff members to cover each District. Each is responsible for about three communes. Each credit staff spends two thirds of his/her time in the communes.

Their duties in the communes are to –

- Check the validity of new loan applications, check ownership and value of stated assets of the applicant, offered as collateral. Get a character reference from the commune.
• Check after a short period that the loan monies are being spent as planned in the approved application, ie. check the welfare of the bank’s property.
• Check on those who have fallen behind in the repayment schedule. Reschedule repayments or in extreme cases cancel loan and start process of recouping bank property.
• Train Commune staff on procedures for loan applications
• Hold Village Meetings to encourage use of bank’s services.

Credit staff transportation cost is covered by interest paid on loans

5.1.1 Working Capital
Each District branch of VBARD bank uses as its main source of funds the deposits of its account holders.

When there is a shortfall for its activities, the branch can borrow from other District branches at a rate of 0.1% pa interest.

5.1.2 Individual Farmer Loans
The standard rate of interest for a loan is 1.05% pa

In “Poor’ Communes the Government subsidises 30% of interest. Hence the rate of interest for the majority of communes in Cao Bang, except the town itself, is –

- 0.98% pa for medium term loans; medium term is 12 months to 5 years
- 0.63% pa for short-term loans; short term is less than 12 months.

Minimum loan is VND 100,000

Maximum loan is up to limit of collateral the borrower can offer.

Most loans are for large livestock – many for draught power and pig raising. Some are for crop in-puts – fertilizers and selected varieties of seeds.

5.2 Bank of Social Policy (BSP)
The newly formed (April 2003) Bank of Social Policy incorporates the old Vietnam Bank of the Poor and the Fund 120 administered by DOLISA (Department of Labour, Invalids and Social Affairs). Fund 120 is a job-creation fund. In the future BSP Bank plans loans for students and workers abroad, as well as loans for small enterprises.

The Bank Staff
BSP is so new that they do not yet have adequate staff in the districts. To date they have one representative per district in a rented room. They must rely on the staff of VBARD and ex-VBP to cover the daily administration and field visits.

**Working Capital**

As a social service this bank is fully capitalised by the National and Provincial Governments. It is therefore in a position to supply highly subsidised loans to poor households, poor areas and proposed new business. Part of their budget comes from administering Fund 120, part from VBP.

**VBP**

As VBP the bank received an annual budget to supply soft loans to designated poor households and groups of poor. No collateral is required other than group and commune verification. For those who renege on loan repayment, if there is a legitimate reason the loan is forgiven, otherwise social and authority pressure is applied to persuade compliance. The bank recoups the bad loan losses from the Government.

**Fund 120**

The annual allocations to Cao Bang Province since 2000 have been about 3 billion dong annually. To date they have administered 18 billion dong's worth of loans. The interest rate is 0.5 % and the DOLISA administrator did not know the rate of loan repayment. Even if this is only 50%, the pool of capital available annually for loan investment should be increasing rapidly.

The new bank will hold this investment capital and in collaboration with DOLISA, as the ‘investor’, will promote and verify loan applications that are sent from the districts.

There are several categories of approved applicant and all loans will only be approved and verified if the application includes a proposal for job creation:

- Individual Households
- Invalids and disabled
- Production groups
- Farm Households
- Cooperatives

### 5.3 Mass Organization Loans

All the mass organizations are well represented and active at village level. Both the Women’s Union and the Farmers’ Association have much experience in forming village level groups to manage collective loans from Fund 120 and other sources like UNICEF. The terms of the loans are almost identical to those of direct loans from Fund 120 through DOLISA and the BSP.
The Mass Organizations of Cao Bang Province receive an annual budget of 1 billion dong from Fund 120, for direct dispersal by them, as loans. The Mass Organizations have their own internal agenda of priorities and activities. Post-harvest chestnut processing and marketing does not fall easily into any of their agendas.

5.4 Individual Loans

Under the old system with VBP, village interest groups would apply for a loan from VBP. Each member is entitled to a loan of up to 10 million dong. The chairperson of the group is responsible for the payment of interest to the bank each month and is paid a small fee for this duty.

These small loans are usually applied to agricultural inputs or small stock, like poultry. They are short duration and normally repayable within 12 or 24 months. The interest rate is 0.5% and in remote area 0.45%

5.5 Informal loans

It is apparent from many examples and from the small survey on Household financial management that most small farmers keep all cash earned from selling crops and livestock, in a cache in their houses. They freely lend to relatives and neighbours.

These informal loan systems have no interest applied and the duration is verbally agreed and flexible. There is a constant free flow of cash among households, neighbours and kin, moving to where there is socially acceptable and legitimate need.

Frequently when farmers are pressured to accept a new agricultural input they will plead shortage of cash as a reason for not investing in the new technology. There are usually multiple reasons that lead the farmer to rejecting new technologies, firstly is the availability of an obvious, secure market, secondly is shortage of labour, thirdly is unfamiliarity and the risk involved.

However when there arises an obvious, concrete opportunity the farmers are well able to pool their cash resources and take advantage of it. This was clearly illustrated in Can Yen. The farmers were reluctant to take up new agricultural technologies even when given thorough training in financial and business planning and training in how to apply for bank loans. However when their new commune access road was under construction, the farmers vigorously took up the opportunity for supplying stone materials and bought stone-crushers using local resources.

“Shortage of cash” is a relative state and depends on many other factors. However the pool of local cash is a major resource and the favoured one for most farmers.
6 Linkages among Extension Agencies

The normative version of the Chestnut programme has an internal coherence. DARD is the implementing agency and its various components have been tasked with appropriate sections of this programme. Where linear, hierarchical command structure exists, the activities have been deployed successfully. But there remain weakness in the Institutionalisation of the linkages amongst them.

The Chestnut Programme Management board at Provincial level has tasked the Sub-Department of Forest Development as the main implementing agency. It in turn deputed the implementation to the District Level representative of Forest Enterprises (FE). However because Cao Bang has no productive forest the Forest Enterprise has been mainly disbanded. The only district with an FE representative is Trung Khanh and he has so little infra-structure support that in actual fact, as in the other two districts, it is through the ARDO that the programme is being implemented. In each district there is a project Management Board consisting of the DPC, FE and ARDO Chief.

The active implementers in the communes are the ARDO extension staff.

Other activities that are important to the overall success of the Chestnut Programme are the action research trials for production of quality seedlings. The relationship between the investigative and research arm of DARD – the Department of Science, Technology and Environment (DOSTE) and its mainline programme seems to be rather tenuous.

The researches on chestnut seedling quality and grafting were not effectively fed into the main programme

7 Linkages to Export Trade.

Exporting chestnuts and other specialty crops is the ultimate goal for a successful cash crop.

Each year the National Government is making such trade easier by reducing procedures. According to Dr. Dang Kim Son at MARD’s Information Centre for Agriculture and Rural Development, once a company is properly registered there are few official hurdles for exporting their goods. We have not investigated the details and realities of these procedures as yet.

A company in HCM, named TANTAN, who already has a national trade in snack peanuts, have expressed an interest in sampling TK chestnuts for product research. This company already has extensive international links for marketing its products in SE Asia. There is active correspondence with TanTan to ascertain in what form they would be interested to buy TK chestnuts – fresh in the shell, without shell dried whole or chestnut flour.

There are several other Foodstuff Companies who regularly market their produce in CB who may also be interested to invest in product development once an adequate volume of chestnuts can be procured.
BPSC, a training centre in Hanoi, supported and funded by GTZ for Small and Medium Enterprises, provides a support scheme for entrepreneurs wanting to export their products. In later years, once the chestnut business is more firmly established nationally, it would be useful to use such a support scheme for expansion internationally.
8 Annexes

8.1 Terms of Reference: main study

TASKS:

1. Through discussions at Provincial, District and Commune levels, analyse the existing systems of linkages among the administrative and technical agencies concerned with chestnut development in Cao Bang, especially those concerned with delivery of farmer advice and extension.
2. Similarly analyse existing formal and informal institutional structures and channels that link chestnut growers.
3. Liase with the separate Technical Expert in Chestnut Technology, to identify technical areas in which there is a fundamental logic for collective action by producer group(s) (for example, in post-harvest treatment and storage, as well as in marketing), and include these in the analyses.
4. Through field visits, interviews, and follow-up tracing of chestnut traders, analyse existing formal and informal systems and networks of chestnut marketing from Trung Khanh, Ha Lang and Quang Uyen Districts.
5. Based on the above, propose options for a “Chestnut Growers Association”, describe pros and cons, and recommend a selected option for follow-up action. Include proposals for sustainable financial viability for the selected option, such as a cess on flow of product to market.
6. After approval of the organisational option by Project and Province, provide sustained and sequential follow-up support to Districts, Communes, and farmers in creating an active and viable Chestnut Growers Association.
7. Support the institutionalisation of coordinating linkages among the extension agencies and the Chestnut Producers Organisation.
8. Make recommendations for ways to improve efficiency, price, and terms of trade for producers.
9. Through discussions at Provincial and National levels, look into the appropriate channels for developing an export trade in Cao Bang chestnuts, and propose ways to link the Chestnut Growers Association to potential export trade.

8.2 Terms of Reference: follow-up actions

TASKS:

Financial & economic part:

1. Collect capital costs of proposed components of Chestnut Processing Centres (CPC’s) (cleaning & sorting, cold store, drier, basic building/room).
2. Estimate the operating costs per kg of chestnuts for each process (cleaning & sorting, cold store, drier, mechanical maintenance, building maintenance).
3. Collect estimated details of farmers’ costs (direct and indirect) per kg for chestnut production (Note: this does NOT include establishment of plantations).
4. Collect actual or likely sale prices per kg for potential chestnut product lines (fresh, cooked & vacuum packed, dried, flour).
5. Perform basic financial cost-benefit analysis comparing farmers’ costs plus process costs with product sales. Include sensitivity analysis for different sale prices (how much sale price is needed to cover operating costs?).
6. Perform basic economic cost-benefit analysis including capital costs to establish Chestnut Processing Centres. Include sensitivity analysis for different sale prices.
7. Discuss with farmers and ARDOs, potential for using CPC facilities (drier, cold store) for other crops out of the chestnut harvesting season.
8. Discuss with Mr Hai of DOSTE, potential links of the CPC’s with the DOSTE pilot post-harvest processing facilities in Cao Bang.

Farmers’ organisation part:
9. Visit each District (TK, QU, & HL) to present proposals for District Chestnut Processing Centres (CPC) and discuss with interested stakeholders including PMB, ARDO, DPC, Cooperative Alliance, etc). In Districts where there is general support for the proposals, continue with the following tasks.
10. Explore availability of existing buildings suitable or that could be adapted for a District CPC and ask for assurances that it would be made available for a farmer Cooperative to operate as a CPC.
11. Visit each District DOLISA representative to present proposals. Establish potential and procedures for availability of Fund 120 loans to Production Groups of chestnut farmers for start-up of CPC’s.
12. With a chestnut extension officer of the ARDO, visit each Commune (see list of communes below) in the three Districts where there is potential to form a chestnut Interest Group (Producer Group). Organise a farmer meeting, present proposals for discussion, and facilitate interested farmers to form an Interest Group.
13. Starting with Trung Khanh District, organise a meeting at District level of representatives of all the Commune-level farmer Interest Groups to establish a “New Cooperative” and facilitate registration under the Cooperative Alliance in Cao Bang Province.
14. After establishing at least one Interest Group at Commune level in each District, organise meetings at District level of representatives of all the Commune-level farmer Interest Groups in each of Quang Uyen and Ha Lang Districts to establish a District-level “New Cooperative” and facilitate registration under the Cooperative Alliance in Cao Bang Province.
List of Communes with potential for farmers Chestnut Interest Groups:
(but also check with District ARDO for current situation)

Trung Khanh: Chi Vien, Dinh Phong, Phong Chau, Kham Thanh, Ngoc Khe, Phong Nam

Quang Uyen: Quang Hung, Phi Hai, Doc Lap, Cai Bo

Ha Lang: Lu Quoc, Duc Quang, Thang Loi, Thanh Nhat, Dong Loan, Quang Long

8.3 People and organisations consulted

National Level
1 Dr. Dang Kim Son Director of Information Centre for Agriculture and Rural Development, MARD

Provincial level
2 Mr. Le Vice Head, Planning Section - DARD
3 Mr. Tiep Officer, Tech. Sec. – Resettlement Sub-Dep.
4 Phuong Thi Nghiinh Vice Chairman, Cooperative Alliance
5 Mr. Tham Van Eng Vice Chairman of DARD
6 Mr. Lanh Danh Gia Head of Policy Unit of DARD
7 Mr. Nong Ding Hai Head of Dept. of Science, Technology and Environment
8 Mr. Be Ich Hong Head of Sub-Dept. of Forest Development
9 Mr. Dam The Lam Vice Director, Technical Dept., Sub-DFD
10 Mrs. Dam Thi Bam Director of Labour and Salary Dept., DOLISA
11 Mrs. Phuong Thi Nhinh Vice Director of Inter-Cooperative of CB
12 Mr. Yoichi Kobayashi Director of Kohki Viet Nam Co, CB
13 Mr. Nguyen Trung Dung Technical Manager, Kohki Viet Nam
14 Mr. Hoang Quoc Lam Director, Bitter Tea Co., CB
15 Mr. Nong Trong Ho Director of VBARD, CB
16 Mr. Khanh Director of Bank of Social Policy, CB
17 Mr. Quyen Section Head of Technical Office, 6BSP,CB
18 Miss Tran Thi Van D7ept. of Planning an8d Investment

District Level
Trung Khanh District
20 Mr. Khuay Project Management Board, TK
21 Mrs. Rien Head of ARDO
22 Mrs. Lan EW of ARDO
23 Mr. Hoang Duc Nguyen Vice Chairman of DPC TK

Chi Vien Commune
24 Mr. Cau Chairman, Commune People Committee
25 Mr. Truong Vice –Chairman, Commune People Committee
26 Ms. Loan Secretary, Communist Party
27 Ms. Uyen  Extensionist  Na Tuy Village
28 Ngan Ba Nghiep  Farmer  Doong Luong Village
29 Ngan Ba Phu  Farmer  Doong Luong Village
30 Nong Van Chu  Farmer  Ban Khay Village
31 Ngan Ba Luc  Farmer  Po Tau Village
32 Nong Van Chu  Farmer  Na Son Village
33 Trieu Minh Suong  Farmer  Na Mu Village
34 Nong Van Phuc  Farmer  Ban Khay Village
35 Hoang Thi Toi  Farmer  Ban Khay Village
36 Nong Van Duc  Farmer  Ban Khay Village
37 Hoang Son On  Farmer  Ban Khay Village
38 Nong Van Gia  Farmer  Ban Khay Village
39 Nong Van Cai  Farmer  Ban Khay Village
40 Nong Van Thong  Farmer  Na Mu Village
41 Hoang Van Thien  Farmer  Na Mu Village
42 Dam Thi Van  Farmer  Na Mu Village
43 Doan Canh Chuong  Farmer  Na Mu Village

**Dinh Phong Commune**
44 Nong Van Ranh  Extensionist  Vuon Luong Village
45 Nong Thi Thuy  Farmer  Pa Con Village
46 Luc Van Ky  Farmer  Pa Con Village
47 Ly Van Nhat  Farmer  Pa Con Village
48 Nong Van Khuong  Farmer  Pa Con Village

**Dinh Minh Commune**
49 Luc Van On  Head  Garden Group
50 Luc Van Hai  Farmer  Thong Thi Village

**Ha Lang District**
51 Mr. Tang  Head of ARDO
52 Mr. Tuat  Vice Head of ARDO
53 Mrs. Nong Thi Ngoan  EW of ARDO

**Thanh Nhat Commune**
54 Be Ich Lau  Farmer  Nguong Khang Village
55 Cao Xuan Hung  Farmer  Doong Hu Village
56 Hoang Manh Tien  Farmer  Doong Hoan Village

**Quang Uyen District**
57 Mr. Phung Chi Soi  Forest Ranger
58 Mr. Ly Van Dai  Nursery Operator
59 Mr. Anh  Extensionist  DARDO
60 Phung Chi Soi  Head  Forest Ranger Station

**Quang Hung Commune**
<table>
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<tr>
<th></th>
<th>Name</th>
<th>Position</th>
<th>Village</th>
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<td>61</td>
<td>Ly Van Dai</td>
<td>Farmer</td>
<td>Po Lau Village</td>
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<td>62</td>
<td>Nguyen Dinh Quan</td>
<td>Extentionist</td>
<td>Thac Det Village</td>
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<td><strong>Doc Lap Commune</strong></td>
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<td>63</td>
<td>Mr. Hai</td>
<td>Chairman</td>
<td>Commune Peole Committe</td>
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<td>64</td>
<td>Mr. Be Ich Bien</td>
<td>Head</td>
<td>Commune Farmer Associtation</td>
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<td><strong>Cai Bo Commune</strong></td>
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<tr>
<td>65</td>
<td>Dam Quang Giang</td>
<td>Farmer</td>
<td>Ban Bang Village</td>
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### 8.4 Questions for Farmers

1. Do you want to improve the quality and quantity of your chestnuts?
2. What are your needs to improve quality and quantity?
3. What money/credit will you need to achieve this?
4. What are your possible sources of credit?
5. What action can you take to protect the good name of your TK chestnuts?
6. How can you improve the benefit from your crop?
7. What selling process would maximize your benefit (profit)?
8. What is the best way for you to deal with traders?
9. Do you think you could organize groups of farmers to sell to the Provincial Departments?
   (Good prices)