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**Agri-Business linkages: solutions for sustainable  
development of agriculture in Vietnam, case study of Cong  
Binh Private Company**

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## Summary

This paper aims to provide information of a case study of successful rice-business linkage between farmers and the Cong Binh private company in the Mekong Delta, Vietnam. The study's implementation based on interviewing director of Cong Binh Company, heads of cooperative groups and group discussion of farmers within the linkages. There are many interesting results: Farmer's profits were higher than these of non-linkage farms; Linkage goals were solved successfully with high production and income to the farmers, particularly poor farmers; 100% farmers sold all their paddy to the company; paddy quality was high and followed market requirements; more farmers wanted to join the linkages because the company shared a better profit/kg of paddy with a ratio of 50%-50% to the farmers, while this ratio was 30% if the farmers sold paddy to collectors. In addition, the case study indicates that many aspects regarding linkage benefits in rice value chain, the managerial capacity of the Cong Binh Company and supports of local government at all levels integrated successfully.

**Key words:** Agri-business linkage, RVT rice, farmer, Cong Binh Company

## 1. Introduction

Rice is Vietnam's staple food, accounting for some 78% of the average energy intake. Besides fish/shrimp, rice also dominates Vietnam's food exports, with annual exports of more than 6 million tons, valued at USD 2.7-3.0 billion (GSO, 2015). Over the past decade, there has been a steady decline in the rice planted area. While productivity gains have compensated for these reduced plantings, there is evidently increased competition for land, water, labor and other resources between rice and other agricultural activities and between the latter and non-agricultural uses. Weather-related shocks - both drought and excessive flood inundation - pose continuous challenges for the Vietnamese rice producers. The prospect of longer term changes in climate, water availability, and water quality is also a concern. Inefficiencies in the rice supply chain are also evident. The rice marketing system is highly fragmented with relatively weak vertical coordination, high levels of estimated quantitative and qualitative post-harvest losses, and relatively weak quality management. In particular, the Government actively manages rice supplies through production incentives (targeted access to extension, agricultural inputs and credit) and trade policy, including the periodic imposition of export restrictions (Loc. V.T.T., 2016).

The Mekong Delta (MD) is one of seven main economic regions of Vietnam with its natural area 39,713 km<sup>2</sup> (about 12% of the nation), and 21.1% of national population. The MD consists of 12 provinces and Cantho city. It is a national granary and the largest fisheries aquaculture. The MD's economy is mainly based on agriculture and fisheries (captured 53% of the nation). In fact, the MD annually provided from 51% - 57% in term of production volume and more than 60% of the national export value between 2009-2015. Particularly, the rice cultivation area in Vietnam was approximately 7.1 million hectares and more than 38 million tons of paddy in 2015, of which about 50% and 51-55% in terms of area and volume from the MD, respectively; rice export from the MD was approximately 92% (Loc. V.T.T., 2016). Rice farmer's income and related indicators, however, were still low compared to other agricultural products (Table 1).

**Table 1: Average income, profit and savings of farm households (H)\* in 2015**

Indicators	Unit	Rice**	Pangasius	Shrimp	Mango	Dragon
1. Product Income	VNDmill./H/year	83	5,156	281	128	347
1a. Product income/capita	VND1,000/month	1,729	107,417	5,854	2,777	7,229
2. Product profit	VNDmill./H/year	49	(-)**	111	109	214
3. H. Savings	VNDmill./H/year	14	(-)	53	54	144

(\*) Household; (\*\*) Rice area from 1-2ha/farmer; (\*\*\*) Pangasius production loss in 2015

Source: Loc, V.T.T., 2016

Rice farmers with a cultivated area of 1-2ha gained 49 VNDmill./Household/year, while small scale rice farmers with 0.5 -1.0ha just covered household expenses and costs for cultivating rice. Especially, farmers with a rice area under 0.5 ha were making losses (Loc, V.T.T., 2016).

In order to increase rice farmer income, both the government and the provinces have set up policies. One of these is agricultural restructure policy, which advocates the development of agri-business linkages through the value chain approach. Presently, there are 3 main types of rice linkages: input material linkages, output paddy linkages and both input-output linkages from companies and farmers. All three linkages are not successful so far, mainly due to lack of responsibility among partners, non-loyalty of farmers to linkage rules and weak capacity of companies (management, logistics and facilities). Today, less than 10% of the rice companies (160 rice companies by the government standards now) have successful agri-business linkages – not only solving the 3 main challenges of linkages mentioned above, but also improving farmer income and keeping linkages stable and sustainable. A typical case study is the linkages of the Cong Binh private company. The following details Cong Binh private company and its linkages.

## **2. Business profile of Cong Binh private company**

Cong Binh is a private company specializing in the production, processing and exporting of various types of rice, especially soft cooked rice and aromatic rice. The company was formed on June 19, 2006 with the support of the Planning and Investment department of the Long An province. Besides rice products, the company has other by-products of the rice industry such as broken rice, bran and husk firewood. In the last 5 years, Cong Binh received 21 domestic and international awards and quality certifications.

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CONG BINH PRIVATE COMPANY

*Address: Binh Hoa Hamlet, Binh Tinh Village, Tan Tru District, Long An province*

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*Director: Phan Cong Binh (cellphone. 0916 020 739)*

*Web. <http://congbinhrice.com.vn/>*

Cong Binh has an initial investment capital of over VND100 billion. Its current annual revenue exceeds VND1,000 billion and working capital is more than VND500 billion; Cong Binh operates on a manufacturing area of approximately 40,000m<sup>2</sup> with 200 staff (non-farmers). Its assets include a modern system of technology which can perform a production chain of rice from drying, milling, polishing, color separation, packaging, storing and exporting.

Business goals and targets at establishment: Initially, Cong Binh was just a producer of rice for domestic consumption. Its business significantly began expanding since 2009 when Cong Binh modernized its technology to produce higher quality products of rice, especially rice for exporting because of market requirements and advantages from the new Government policy - Act 109/2010/NĐ-CP signed 4/11/2010 relating to “The Rice Exporting Business” directly (not depending on Vietnam Food Association – VFA). Cong Binh currently exports soft cooked rice and aromatic rice to many Asian countries such as China, Hong Kong, Taiwan, Singapore, Malaysia, and Indonesia. Cong Binh has also developed markets in the United Kingdom and Australia. The annual export volume is currently about 100,000 tons (accounting for 60-70% of the total volume of rice sold by Cong Binh).

Cong Binh is highly valued for its growth rates both in turnover (50% growth annually) and profit (30% growth annually). The company has opportunities to expand market share through its international strategic partners. However, it still lacks investment capital and has limited production capacity to accept larger deals proposed by those partners. In general, a lack of access to credit and loans is the most difficult factor for Cong Binh to expand its scale of business operations. However, farmers belonging to Cong Binh linkage model do not need loans because the Cong Binh company provides input materials in advance including rice seed and cash (VND 5 million/ha/crop). So far, no other company can compete with Cong Binh in terms of such investment of input materials to farmers. In return, farmers outside the linkage model need loans from Agri. Bank with their land certification for buying their input materials – seed, fertilizer and pesticides.

In business operations, Cong Binh has received support in various ways, including from many Decisions, Decrees and regulations relating to business development, exporting, as well as market information from the Chamber of Commerce and Industry of Vietnam (VCCI), the Ministry of Trade and Industry, the Ministry of Agriculture & Rural Development (MARD), the Center of Trade Promotion, trade counselors, the Department of Agriculture and Rural Development, the Department of Trade and Industry, the Department of Planning and Investment, the Department of Natural Resources - Environment, the program for business partners, the program of agricultural restructuring and the linkage program between farmers and company, cooperative organizations and production information. For instance, VCCI organizes training courses or workshops related to free trade agreements, foreign CEO business experience, even receives feedback from businessmen to propose new policies to MARD,... In particular, Cong Binh realizes that local governments play a very important role in developing a successful business linkage between Cong Binh and farmers, cooperatives, and cooperative groups (CGs). Without local governments, these important linkages would not be possible because local governments help to choose suitable land for rice production, CGs' organization as well as technical support. In addition, Cong Binh also receives support from the Vietnamese embassies for introducing partners abroad and market information providing.

### **3. Business model**

#### **3.1 Fundamentals**

Although the company was formed on June 19, 2006, Cong Binh has started linkages with farmers in 2014 due to (1) market demand for high quality product, (2) the brand name of the company, (3) land owned for rice farming and (4) the opportunity from the decree No. 109/2010/ND-CP, dated Nov. 4, 2010 related to direct rice export without help from Vietnam Food Association (VFA) and other agencies.

Since 2014, Cong Binh has invested in developing land owned for rice farming to produce the right kinds of rice in terms of quantity and quality for its export markets (based on the value chain model). Currently, Cong Binh has investments for linkages with farmers to produce rice at the provinces of Long An, Soc Trang, and Hau Giang. The linkages relate to more than 3,000 farm households with a total area exceeding 3,000 ha.

Target objects for the company's linkages include cooperatives (Cs), CGs, and individual farmers (F) in the selected geographical area with natural conditions suitable for growing the company's rice varieties. This optimizes the competitive advantage of land owned for rice farming to produce a higher quality of rice at a lower cost compared to other regions. Cong Binh has good relationships with suppliers to ensure that farmers can receive input materials at the required quality standards with stable prices. In addition, the company buys all paddy produced by the farmers at VND200 per kilogram, higher than the market price at harvest time; farmers outside the linkage model can not receive this benefit. At this price, the benefit would provide an even split of profit/kg, 50% - 50%, between the farmer and Cong Binh company. Without the linkage, Cong Binh has to buy paddy and rice through other actors in the chain (collectors, traders) in which cases, Cong Binh still receives a profit/kg of 50% (with the remaining 20% going to the collectors and 30% to the farmers) but would not be able to guarantee rice quality because the paddy or rice from collectors is mixed with many other varieties of rice. As a result, the linkage brings to the farmer a significantly higher and stable income, especially for poor farmers who do not normally possess enough financial resources to acquire input materials to grow the rice crop. Without the linkage, the farmer has to acquire loans from banks and pay interest as well as pay interest to the input suppliers after harvesting. Feedback from many CGs' leaders indicates that linked farmers are extremely happy with this kind of linkage of the Cong Binh company. The farmers are satisfied with the stability and quality of input supply, the technical guidance received and the guaranteed sale of rice from Cong Binh.

### 3.2 Inclusivity

The Cong Binh company is currently linking farmers to produce four different varieties of rice: RVT, Nang Hoa, OM4900, and OM5451 for the demand of export market. Of those, RVT is the most significant one. RVT accounts for 40% of rice areas and 30% of the total turnover of Cong Binh. The company has currently a monopoly in exporting RVT rice. The reasons for extra support (training, seed and cash) to the farmers are (i) to help the farmers reduce production cost (if not, the farmers must pay interest to the bank to buy input materials) and produce rice with a quality determined by market needs; (ii) to help Cong Binh to have stable rice regions with high quality.

At present, total revenue and income of the company increases annually, its total costs are still increasing (but the growth rate of revenue is higher than that of costs) because there is currently an investment in modern production lines from Japan, plus the costs of searching for new markets abroad itself, label cost, and the cost of rice seed from research institutes of rice in the Mekong Delta. Cong Binh is, however, aiming for a rice specialty with higher quality due to current market demands, new customers and modern technology to produce it. These costs will decrease when the company has stable markets (the market is developing now), which would bring more profit in the future.

#### ***Details of the Business Linkage for RVT Rice Production between Farmers and Cong Binh:***

##### **3.2.1 Goals of the Business Linkage**

- Assist farmers to change their mind and behavior to produce rice according to market demand for higher quality and higher valued products; to improve the income of farm households including the poor ones.
- Develop and maintain farm land resources to produce RVT rice and promote the RVT brand. Meet market needs for higher product quality and be proactive in planning growing activities. Protect the environment with rice production procedures to meet quality standards set up by Cong Binh.

##### **3.2.2 Mechanism of Business Linkage**

###### **Cong Binh's Side:**

**Step 1:** After identifying a potential and suitable growing area for RVT rice, Cong Binh works with the local governments to initiate the linkage setup. Specifically, Long An DARD facilitate the formation of farmer CGs and help them to vote and choose a Group Leader and Vice-Leader. Long An extension center from DARD helps farmers to follow the technical processes required by Cong Binh. The salary of the government technicians are paid by the company to monitor linked rice areas of the company. At present, all local governments strongly encourage and support this kind of linkage between companies and local farmers.

**Step 2:** Cong Binh signs contracts with the CGs represented by the Group Leader and the local government – village president (three-side contract). In this contract, Cong Binh provides RVT seed and funds for fertilization. For instance, in 2014, Cong Binh supplied VND12 million per ha to farmers for input materials. However, in 2015 Cong Binh supplied RVT rice seed (to ensure quality of seed to the farmers) along with VND5 million per ha in advance to the farmers for other inputs (fertilizer, pesticides); Cong Binh's technicians and the Long An extension center provide guidance such as the crop calendar, production monitoring; and solving problems to production procedures when needed.

**Step 3:** 7-10 days before the rice harvest, Cong Binh sets up the price of rice with the farmer. It is done in a CGs' meeting. This determined price is guaranteed to be higher than the market price by 200VND/kg, then this price is updated in the contract. Cong Binh also provides complimentary bags with Cong Binh information on the bag for storing the rice to farmers (farmers are pleased with this decision because of both free bags and the Cong Binh brand name on the bag). After harvesting, Cong Binh pays the farmers in cash after deducting all advanced expenses.

#### **Farmer's side:**

**Step 1:** Any farmer in the chosen area for RVT production, who likes to join the CGs, makes a document to join voluntarily (many farmers outside the chosen area want to join the CGs but the linkage capacity of the company is limited – only 1,000ha for a linkage model (do a pilot project at the beginning and then learning for development)). However, it is no problem if some farmer at the chosen area does not want to join. In addition, the chosen area has higher competitive advantages in terms of land and water conditions that create better quality of RVT rice. The local government acts as a witness for this registration along with Cong Binh (signature of three sides).

**Step 2:** Local government organizes a vote for farmers to choose the group leader and vice-leader who are also farmers. The company also participates in this voting process (by a meeting of the three partners - Cong Binh company (1), all linked farmers (2), and the local government (3)) to know all information and then meet again with the group leaders to tell them the requirements of the Cong Binh company and knowledge for CG's management.

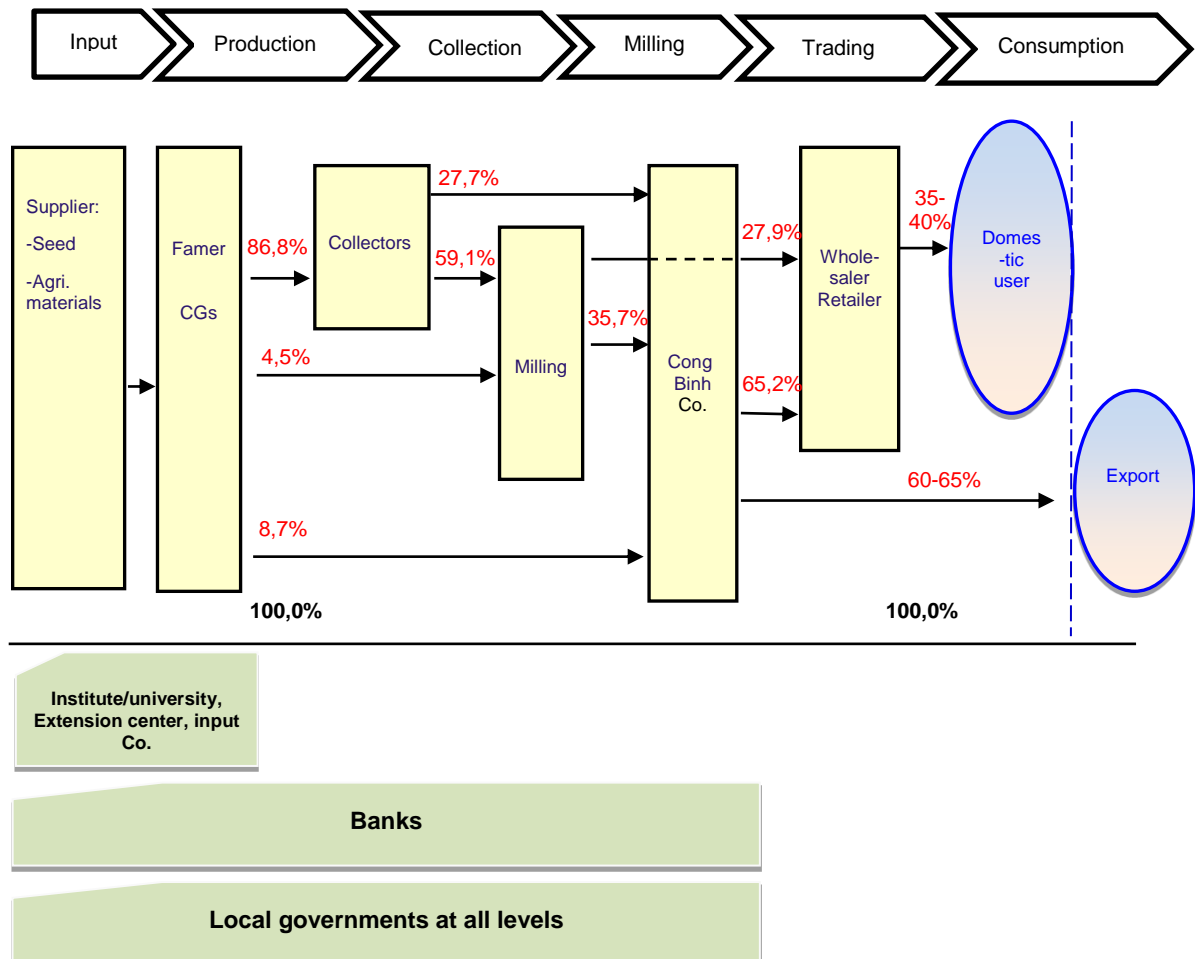
**Step 3:** The group leader then signs the contract with Cong Binh on the farmers' behalf. The group leader receives RVT rice seed and cash advances from Cong Binh (both the cash advance and the rice seed represent 100% of the required input materials for rice production). The group leaders then distribute the seeds and funds to each farmer based on the rice area committed by the household. The farmer signs acknowledgments of fund and material received.

**Step 4:** The farmers grow their rice crop based on the local timetable and production procedures set up by Cong Binh. After this, Step 3 from Cong Binh's side is followed.

### 3.2.3 Value chain content

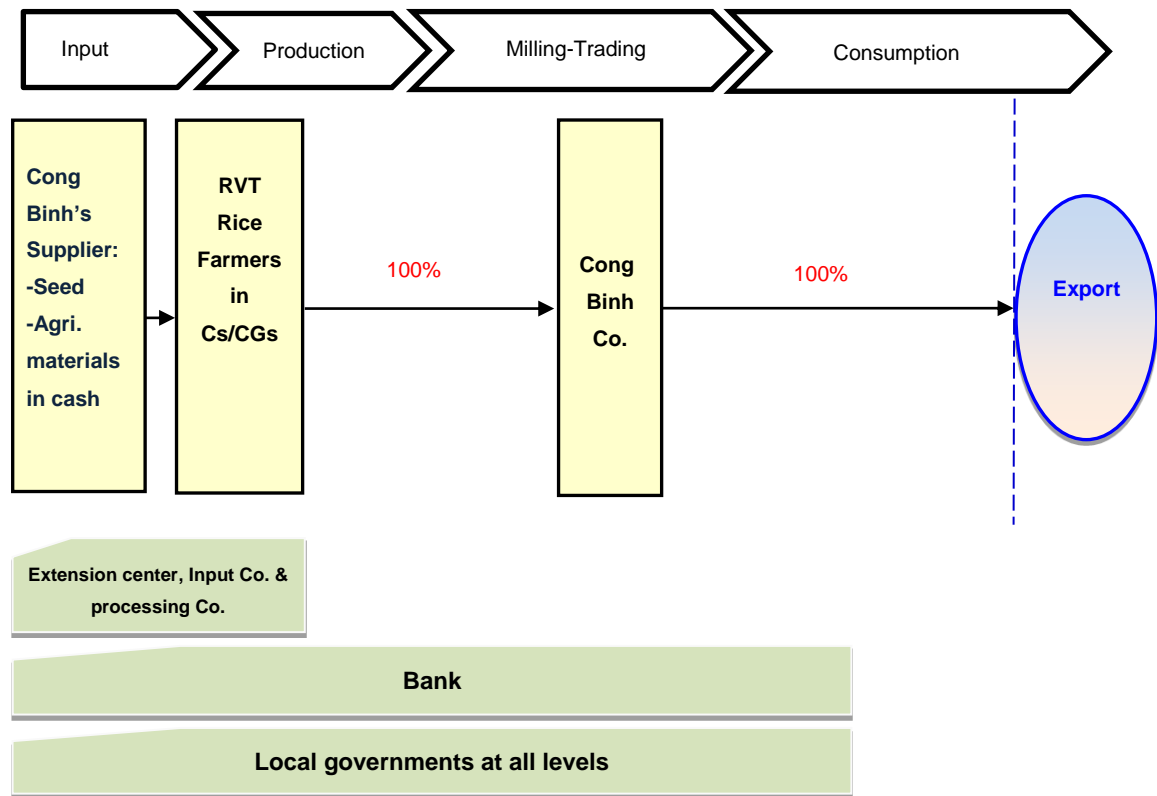
Cong Binh participates in the RVT rice value chain as a key actor for both providing input materials in kind and cash, and buying all paddy produced by the farmers. However, Cong Binh is working in both rice linkage and non-linkage models.

**Figure 1: Rice Value chain without linkage model of Cong Binh in 2015**



In Figure 1 of the RVT value chain, Cong Binh is one of the export companies buying rice in the value chain (not linkage model); the amount of rice of each company depends on its demand. Suppliers are seed companies and local input wholesalers from whom the farmers buy for their production. Cong Binh and other export companies can buy both paddy and rice from collectors and millers along the chain. Normally, export companies including Cong Binh, have their own collectors and millers to supply.

**Figure 2: RVT rice Value chain of Cong Binh's linkage in 2015**



In Figure 2, Cong Binh plays a role of both input supplier and rice buyer in the value chain (concentrated model). The differences of two models are explained below.

***Comparison of differences in with/without linkages with Cong Binh:***

As mentioned above, Cong Binh is buying rice and paddy using two channels – (1) from farmers of its own linkage model and (2) from collectors, traders and non-linkage farmers. The following table shows the benefits of the linkage model compared to the non-linkage model. Without middle actors, the benefits are higher in terms of profit/kg of rice for the farmers and better rice quality supplied.

**Table 2: Differences in with/without linkages with Cong Binh company**

<b>Without farmer's linkage</b>	<b>With farmer's linkage (RVT rice )</b>
Cong Binh supplies no input materials to the farmers	Cong Binh provides RVT seed and guarantees quality to farmers along with input materials in cash.
Rice value chain has 6 functions and 8 actors	Rice value chain has only 4 functions and 4 actors, with the farmers selling 100% of their rice production to Cong Binh directly.
Cong Binh has no decision making in any production matters of farmers	Farmers produce rice according to quality procedures developed by Cong Binh
Farmers receive no input capital from Cong Binh	Farmers receive support in terms of quality rice seeds and advanced funds as well as selling all their paddy to Cong Binh.
Cong Binh sells many varieties of rice, in which the rice export volume is between 60-65%, with the remaining share for domestic users.	RVT rice export volume is 100%
Share of profit/kg to farmer is 30%, while other actors in the value chain receive 70%	Profit share to farmer and Cong Binh is 50%-50%, nobody else in the rice chain. In this case, other actors are not related.
Farmers need loans for buying their input materials that cause high production costs due to bank interest.	Cong Binh provides rice seed and cash in advance for farmers and be deducted after harvesting without interest.

***Recommendations from farmers to improve business linkages:***

Cong Binh company considers the following recommendations by the farmers:

- Cong Binh should invest in more dryers to avoid post-harvest loss due to rice damaged by drying which is not in time, resulting in lower quality, especially during the summer season with lots of rain.
- To avoid rice harvests at the same time (overcapacity of processing), in case the “large-field” model is applied (the field with over 500 ha of many farmers as a CG to produce with the same technical process and seed in order to have the same quality of rice), it should plow and sow rice seed at different times within a linkage and among all linkages from different provinces.
- Cong Binh is suggested to organise field trips for its CG's leaders to visit other linkages in other provinces such as An Giang, Hau Giang and Soc Trang so that they can gain experiences to become a better linkage in terms of rice quality and management.

**4. Outcome so far**

There are many cases of farmers with unsuccessful linkages in the Mekong Delta. The reasons are (1) the companies do not supply seed, input materials or cash to farmers, (2) the companies lack technicians to observe and monitor, (3) It lacks a support from the local government and extension center (Cong Binh gains support from local government because Cong Binh directly works with the local government on the linkage models that the local government is concerned about for agricultural restructure); and (4) the farmers sell their paddy to other agents even if they signed a contract (in

case of Cong Binh, there is a involvement of local government as third partner and Cong Binh applies a rule that farmers cannot join the CG again if they sell rice to other agents). From lessons of many unsuccessful linkages implemented in the Mekong Delta including those done by Cong Binh itself for other varieties of rice, Cong Binh has made significant improvements in the program and content for the implementation of its RVT linkage with farmers. Exceeding its targets, the RVT linkage has been very successful. In fact, rice farmers increase their income and profit. This is more significant for poor farm households. The farmers sell 100% of their paddy to Cong Binh (no sale to other agents). Linkage rice meets the high quality demanded by the market. More and more farmers desire to register to become members of CGs belonging to Cong Binh's linkage so that they can enjoy a higher share of profit (50%-50%), rather than the previous (30%-20%-50%). The most significant achievement in this successful linkage model is that Cong Binh has been able to work hand in hand with farmers to communicate, listen, and make joint decisions to come up with solutions that are mutually beneficial to all parties – a win-win situation. In addition, Cong Binh shows that business ethics, reputation, willingness to share benefits with the farmers are very important factors for the successful linkage. In return, Cong Binh expects the farmers to produce the highest quality according to technical procedures, and maintain a clean environment at the same time.

## **5. Factors contributing to innovation and impact**

### **5.1 Formal incentives and compliance**

As mentioned above, Cong Binh's business significantly has expanded since 2009 after the decree No. 109/2010/NĐ-CP, dated Nov. 4, 2010 of the government on “Rice export business”. The decree has provided opportunities for private companies as Cong Binh to export rice directly. Cong Binh took that challenge and invested in assembly line production technology to produce rice (the technology lines from Japan, the company's staff were trained, and service available within 24 hours by the Japanese company's office in Vietnam). Its facilities can perform, after harvested rice, all the required steps including drying, milling, polishing, color separation, packaging, and storing for its final products. Furthermore, a long-term goal of exporting high quality of specialty rice, Cong Binh has been very proactive in the analysis of the overseas rice market (staff is recruited from universities and then retrained carefully from other professional units in Ho Chi Minh city and at the company with experts invited) and therefore it has much valuable information and knowledge to share with linked farmers about what needs to be produced in terms of quality and quantity. They are the cores of the value chain production and distribution with the linkage model to develop it for a long-term stable and sustainable business.

In addition, the successful linkage is also supported by local governments (the company works with local governments before creating the linkages) in terms of the crop timetable, integrated pest management (IPM), Cs' and CGs' establishment, three-side contract making, monitoring, and

managing production and environmental protection procedures without payment by the company except for technicians to work more for the company's model.

## **5.2 Business networks and partnership**

- Cong Binh has many domestic input partners and they are also Cong Binh's competitors including VinaFood2, FigiFood, Long An Food, AFiemx, and Gentraco. Using higher technology, Cong Binh gains its competitive advantage by being able to produce consistently and uniformly high quality products. In addition, its business process related to trade and services is very effective and incurs reasonable costs. The company is very proactive of input-output process, has a high reputation, and adheres to business ethics. It takes great care of its customers for the long term and invests in development of new markets. All the above reasons provide a significant competitive advantage for Cong Binh in domestic market. Cong Binh, however, is concerned about managing its brand at the level of the Asian region because there is illegal mixing Cong Binh rice products with lower quality rice (using Cong Binh brand name on the bag but rice inside of lower quality).
- Cong Binh is a member of VCCI and follows the VCCI rules (see website: [www.vcci.com](http://www.vcci.com)), so it receives benefits of business training and market information for both domestic and international segments.
- Input partners of Cong Binh include suppliers of rice seeds and other materials, farmers, cooperatives, group cooperatives, traders and rice millers (they are close suppliers of Cong Binh for a long time as mentioned above).
- Output partners of Cong Binh are restaurants/hotels, industrial zones, wholesalers/retailers (domestic consumption), and many rice importers located in different countries.
- Local government is the third partner for model linkage development of the company as well as technical support.
- Research institutes help to produce and develop rice seed.

## **5.3 Skill and information networks**

Cong Binh has a well-organized work force with a high capacity of finding overseas markets for rice products. This is also the main reason why marketing expenses are high (about VND 3 billion per year although demand for this activity is much more, the company is only spending the above amount), along with the cost of technology investment.

Cong Binh develops its market research by participating in various domestic and international trade shows and exhibitions, as well as by collecting information at the trade promotion center of Cong Binh company, and from various government agencies, local leaders and the Internet.

## 5.4 Challenges and solutions

According to the director of the Cong Binh company, although the linkages are good so far, there are many challenges that the company has to set up solutions (Table 3).

**Table 3: Challenges and solutions of Cong Binh company**

<b>Challenges</b>	<b>Solutions</b>
To expand such a linkage, Cong Binh needs a large amount of investment capital (for drying machines, working capital to pay cash to farmers at harvest time, and expanding other linkages), which is difficult to access so far.	Cong Binh is searching for opportunities to form partnerships with importers to raise capital for technology improvement and larger rice fields. Cong Binh also needs more bank loans, especially during harvest time when significant amounts of cash is required to pay for the farmers' paddy.
Competitors add and mix other varieties of rice with Cong Binh rice and then sell the 'fake rice' under CB's name. This action damages the company's reputation as well as its brand loyalty.	Cong Binh recommends the Government to impose severe penalties in any "fake rice" case discovered; Cong Binh will invest in seed production to completely control rice quality.
Some farmers still sell their paddy to other buyers (except for the RVT paddy). They are not yet completely loyal to the Cong Binh company	Cong Binh is willing and ready to listen to the farmers' arguments to come up with solutions beneficial to both sides. First, Cong Binh's director has a good heart and tries to understand what is needed by the farmers, to retain their loyalty to sell paddy to Cong Binh. If farmers sell paddy to other agents, they will leave the CG forever.
High technology and marketing costs result in high production cost	To compete successfully, Cong Binh sets a reasonable price of rice appropriate to market conditions; willing to accept lower short-term profit.

## 5.5 Lessons from the achievements of the incentives provided.

- With the linkage model, Cong Binh understands its partners (both the input and output partners)
  - Cong Binh and the farmer have a reasonable and fair profit share; direct communication and agreement between both sides regarding linkage contract matters witnessed by the local government.
  - Group leader and sub-leader are reputed people in the CGs. They are the most important links to Cong Binh. Since they receive an income between VND 80-100,000/ton of paddy delivered at Cong Binh Site (in which transportation cost amounts to 50% from above income amount paid by group leader), So the group leader's income is about VND 40-50,000 per ton that make him/her very responsible and effective in their works.
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