Botanic Garden Meise wild coffee nursery in Yangambi - DRC

Photo credit: Axel Fassio/CIFOR

CHAPTER 28

Vietnam's Coffee Story: Lessons for African Countries

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Highlights

1. Vietnam has remarkably grown its share of the global coffee market in a generation - from 92 thousand tonnes in 1990 to 1.7 million tonnes in 2019. It is now second only to Brazil in volumes exported
2. In the same period, the total market share of African countries has either significantly reduced or stagnated under the same market conditions
3. Evidence points to proactive government policies, investments, and actions across all phases of the value chain, contributing to the success of Vietnam's coffee sector
4. The reforms employed have been applied to production advancement, policy incentives, land policies, institutional governance and value-addition investments
5. African countries can learn from the proactive policies and investment approaches deployed in Vietnam and from the mistakes made so far

1. Introduction

Coffee represents an important tree commodity for several developing countries across the humid tropics, with massive evidence in Asia (as illustrated in van Noordwijk et al 2022). This is apparent from the commodity's role as a source of employment, revenue, and a huge influence on the balance of payments. Following Brazil, Vietnam is the second-largest exporter of coffee in the world. It has come from a little-known coffee producer to a commanding player with more than 10% share in the global coffee market in about a generation. In 1990, the coffee production was estimated at 92,000 tonnes and rose to 1,683,971 tonnes in 2019 (FAOSTAT 2019). This places Vietnam at a production position of 59% of the Asian & Oceania total

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production. This is far beyond the total African production of 18,514 (thousand 60-kg bags) (FAOSTAT 2019). According to the Department of Crop Production of Vietnam (2019), the total land area of coffee is 664,000 ha, of which 93% Robusta and 7% Arabica ([CUC TRÔNG TROT]). To its national economy, coffee contributes 1.5% of the export revenues; hence, presenting 3% of the GDP and making it the second most valuable agricultural commodity (UNIQUE, n.d.). The export value of the coffee sector in 2015 was estimated at USD 2.67 billion, with Germany and the USA as the largest importers at a share of 13.4% and 11.7% market share, respectively (Thang and Phuc 2016).

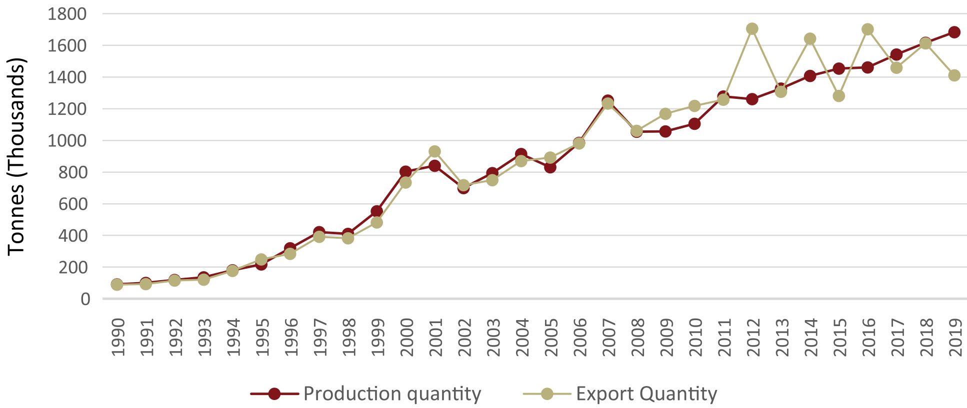

Figure 28.1: *The production and export quantity of Coffee in Vietnam (1990-2019).*
Data Source: FAOSTAT 2019.

In Figure 28.1, Vietnam has exhibited an extraordinary annual increase in coffee export volumes that belies the logic of response to the global industries elastic prices regimes that tend to dictate trade levels in many other coffee producing states. There is, therefore, a definite need to study the coffee industry in the country. The impressive growth of Vietnam in market share occurs when Coffee production in African countries such as Ethiopia and Kenya has otherwise stagnated or declined. In comparison to the African context (discussed in Duguma et al 2022), we use Ethiopia and Kenya, as noteworthy players in the sector, for the comparison with Vietnam. For the three countries, coffee provides a highly valuable revenue source, has strong smallholder coffee development systems, creates an opportunity for understanding power relationships along the value chain and provides comparative distinction in institutional, policy and management. Figure 28.2 shows the comparison of the production quantities of coffee within the three countries in thirty years (1990-2019).

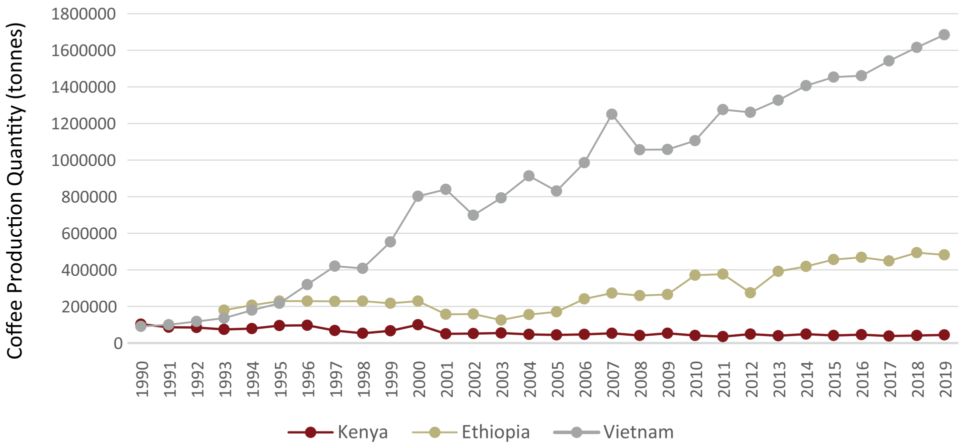

Figure 28.2: *Coffee production quantity of Kenya, Ethiopia and Vietnam in 1990-2019.*
Data source: FAOSTAT 2019.

Marsh (2007) notes that the exponential growth of the coffee industry in Vietnam is attributed to the successful development in people, policies, resources, and technology. Further, Thang and Phuc (2016) highlight that this growth is attributed to coffee area expansion, favourable weather in previous seasons, investments in sustainable production, increase of the rejuvenation area and stability of prices within 2014-2015. This case study focuses on the impact of policies in propelling the coffee industry in Vietnam and drawing lessons that can be applied within the African context.

2. Background

The ICO (2019) records the history of coffee in Vietnam, where French missionaries introduced coffee Arabica in 1857. After much testing in the Northern provinces, a discovery was made on its exceptional suitability in the central highlands. Later in 1908, the Robusta and Exelsa coffee were introduced, among other varieties from the Congo. After this, the area under production continued to grow; however, the growth was not reflected in the low output. In 1986, the government intervened through resource investment with state-owned farms while encouraging household production of coffee. This intervention saw exponential growth in production area, output, and exports. Thus, Vietnam became globally recognised for its high and diverse quality in aroma and flavour of the Robusta coffee (ICO 2019). Table 1 highlights the major milestones of the coffee industry in Vietnam from introduction to liberalisation.

Table 28.1: Milestones in the coffee industry in Vietnam

Date	Major indication
	French colonial era
1857	First introduced by the French, who propagated coffee through plantations
	The colonialists huge land grants to French settlers and Vietnamese collaborators to grow export commodities, while marginalising the majority of rural dwellers under poor tenant relations.
1945	Independence and birth of modern Vietnam
1954	Division of Vietnam into two countries, northern and southern
1955	During the war, the South Vietnamese government took measures to compel migration, settlement, and further commodity cultivation in the Dak Lak region due to its strategic significance in the conflict
1970	The 70s saw the state encourage expansion of the coffee industry through preferential credit to growers and exporters, export bonuses and programmes for facilitating land access in the highlands.
1975	After the war, the victorious communist government designated the Dak Lak region for several new economic zones establishing hundreds of state farms and cooperatives out of previous plantations and claiming new agricultural land through deforestation
	The state stepped up efforts to encourage coffee growing in Dak Lak, most of it for use in barter trades between Vietnam and Soviet Bloc allies,
1976	Re-unification of Northern and Southern Vietnam
1981	First steps were taken in the gradual privatisation of cooperative farms, allowing individual households to own plots under a variety of conditions
1986	End to decade long economic and political isolation
	Under the banner of ‘Doi Moi’, the government initiated a series of broad-ranging economic reforms: • Steady dismantling of collectives • The privatisation of state assets • The liberalisation of markets • Various incentives to encourage smallholders to switch to cash crops for export
1988	The formation of the wholly state-owned Vietnamese Bank of Agriculture and Rural Development (VBARD), the main source of credit for farmers
1990	Throughout the 1990s, the state continued to strategically manage the coffee economy through direct involvement, subsidies, and incentives. Further, the state compelled exporters to contribute to a Price Stabilisation Fund to support farmers when prices fell below the cost of production
1993	The enactment of a Land law allowing land to be traded inherited and used as collateral for loans and permitted land allocations to individual farm households of 20years for annuals and 50 years for perennials.
1995	The establishment of the Vietnam Coffee Corporation (Vinacafe), one of the most important state-owned enterprises (SOEs) which took over coffee activities previously run by the Agriculture ministry

Date	Major indication
1999	The enactment of the Enterprise Law, which provides a framework for the privatisation of state-owned enterprises (SOEs) and the formation of a domestic private sector
2001	In response to the **coffee crises**, the state ordered banks to freeze repayments for up to three years to forestall widespread default of coffee grower loans. Further measures included diversifying coffee exports through the promotion of higher-quality Arabica beans, offering free land, low-cost loans, and technical support
2011	Through coffee statecraft, the state sought to avoid the negative effects of the coffee crises and positioned the country to take advantage of boom periods. This was carried out through devotion to trade liberalisation within the context of local-level economic growth and social stability

3. Coffee Reforms in Vietnam:

We discuss here below, six key areas of reforms that enabled Vietnam's coffee success story, namely: strategic planning, production reforms, policy incentives, land policies, institutional governance and investments in value addition:

3.1. Strategic Planning

The government of Vietnam embarked on a series of strategic plans around improving the coffee sector. The government issued several plans for the improvement of the country's capacity in competing towards sustainable development and added value. These plans include Developing Vietnam's coffee sector to 2020, Vision 2030, Increasing added value by process improvement and reducing post-harvest loss to agro-commodities, Developing sustainable coffee to 2020, conducting coffee rejuvenation in Central Highlands in 2014-2020, and Agricultural restructuring.

In Vietnam, the government is the most influential institution throughout the sector's value chain and in the input and credit markets (World Bank 2004). Not only has the government been part of each value chain section, but it has also been the key to the policies and regulations that have propelled the sector forward. This is evident from the land allocation laws, price stabilisations and incentives that have allowed maximum functionality among the farmers. Originally, the institutional structures within the Vietnam coffee sector were centred around the government for the realisation of policies, as well as SOEs and financial institutions. The institutions were active in numerous roles across the industry, such as the supply of agricultural inputs, rural credit, production, processing, marketing, and export. Throughout the 1990s, the state continued to strategically manage the coffee economy through direct involvement, subsidies, and incentives.

3.2. Production reforms

The phenomenal success of the agricultural sector continues to be essential to Vietnam's economic and political stability. An overriding objective starting in the 70s by the state in Vietnam was the expansion of the coffee industry. The reforms enabled increased production. The state undertook the following measures:

- Offered preferential credit to growers and exporters, export bonuses for coffee and government programmes to facilitate land access in the highlands
- State-run coffee farms provided a variety of technology and extension services for growers
- Incentives for farmers to switch to cash crops. These incentives included the following measures:
  - Preferential loans
  - Subsidised inputs including low-cost land, seedlings and fertilisers
  - Extension packages including irrigation and agronomic support
- Emphasis on high-input production based on extensive chemical fertiliser and irrigation use

Even further, support was extended to the farmers through the national and local allocation of funds for agricultural extension. This saw the distribution of the training to the agricultural enterprise workers in different production scales of micro-small, small, and small and medium enterprises. Additionally, a key feature in Vietnam's coffee production is the critical role played by smallholders (~600,000). Smallholders own the majority of the land producing coffee, and since foreigners and large companies are not allowed to purchase land and establish their farms, they are forced to rely on smallholders. On the one hand, this is a government's strategy to intervene and control coffee production when needed. On the other hand, it makes coffee production outputs mainly low-quality robusta since the application of large-scale, modern technology becomes very difficult. Nevertheless, this led to the need for the government to a concert with the smallholders, which brought about the policy reforms and governance described in the following sections. Although it is important to note that the smallholders' approach may not be applicable in other countries as it is in Vietnam.

3.3. Subsidies and Incentives

Prior to the coffee crises in the late 90s and early 2000, the institutional environment was deliberately woven in such a manner as to support a large population of semi-autonomous smallholder class that was wholly dependent on commodity exports to the global markets. Very specific incentives were provided in the sub-sector, including subsidised credits, tax incentives and price controls and stabilisations.

Subsidised Credits: The Vietnam coffee statecraft provides a logical framework for overcoming the negative aspects of path dependency resulting from decades of spearheading the growth of class by smallholders heavily dependent on global coffee commodity exports. In this regard, the state has in control substantial amounts of credit, an extensive financial offering for the rural sector (World Bank 2004). The state also provides for the very small producer households that would otherwise not qualify for partnerships with formal banks through membership with Vietnam Bank for Social Policy, a quasi-private large scale not for profit micro-lending entity. The formation of the wholly state-owned Vietnamese Bank of Agriculture and Rural Development (VBARD) created the main source of credit for farmers

Tax Incentives: A number of tax incentives were issued for farmers. These included:

a. Enterprise income tax exemptions in disadvantageous regions
b. The tax rate of 10% on income from enterprises within the coffee sector
c. Exemption of personal tax on individual directly involved in production and processing
d. The exemption of tax for agricultural input such as fertilisers (Thang and Phuc 2016)
e. Removal of 5% VAT in commodities such as coffee.
f. Reduction of the value-added tax for agricultural inputs such as fertilisers and pesticides.
g. Import tax exemptions were accorded to production materials, artificial materials, and plant varieties, among others.

Prices controls and stabilisation: To increase exports, the government also persuaded the cooperation of farmers through maintaining control over the prices of basic food items such as rice so that farmers could venture into uncontrolled commodities such as coffee (Marsh 2007). Further, the state compelled exporters to contribute to a Price Stabilisation Fund to support farmers when prices fell below the cost of production (World Bank 2004). Additionally, in response to the **coffee crises**, the state ordered banks to freeze repayments for up to three years to forestall widespread default of coffee grower loans.

One role that the Government of Vietnam played very well is coordinating and channelling ODA support (not as incentives) to the coffee sector's (sustainable) development and infrastructure, thereby enabling easier access to market and farmers to engage in the coffee value chain. This had tremendous impacts on the coffee sector in the Central Highlands (See EU report).

3.4. Land Policies

Policies are a critical element in the development of tree commodities, especially for the communities involved (discussed further in Nzyoka et al 2022). In Vietnam, the enactment of a Land law allowed land to be traded, inherited and used as collateral for loans and permitted land allocations to individual farm households of 20 years for annuals and 50 years for perennials. Despite the state still having ownership of the land, these reforms formed the 'Land Use Rights' (LUR) where two pathways of land assignment – the red book and the green book as referred to in local terms. For the Red Book, private land could be assigned for up to 50 years in the production of perennial crops such as coffee. In the Green Book, the time of assignment was shorter, and the transfer of ownership required approval from the state (Marsh 2007). To also increase the production, resolutions and decrees were issued to reduce and exempt taxation of land use in agricultural practices, such as the resolution 55/2010/QH12 and decree 20/2011/ND-CP (Thang and Phuc 2016).

3.5. Institutional Governance

The government of Vietnam developed a hands-on approach and developed a number of institutions that helped propel the coffee industry. This was in two main groups, first in terms of organising farmers and secondly state-owned -enterprises. In the very first instance, the Vietnam Coffee and Cocoa Association (Vicofa) was formed in the late 1980s to aid in the organisation of the sector and assist in policy formulations. Additionally, the government has taken further steps to establish a coffee coordinating board provincial production associations, developing the state and domestic enterprises, and strengthening the cooperation within the Central Highlands (Thang and Phuc 2016).

State-owned-Enterprises: As the coffee sector progressed, liberalisation allowed the role of the private sector to increase, and with collaborations among the societal and government organisations, the advancement of coffee is assured. The enactment of the Enterprise Law provides a framework for the privatisation of state-owned enterprises (SOEs) and the formation of a domestic private sector. The SOEs provide around 40% of the coffee produced in Vietnam. They also play a significant role in processing, trading and marketing. The SOEs have broad mandates and use the coffee incomes to develop public services and infrastructure, including schools, roads, and clinics.

The establishment of the Vietnam Coffee Corporation (Vinacafe), one of the most important state-owned enterprises (SOE) which took over coffee activities, was previously run by the Agriculture ministry. The Vietnam coffee corporation (Vincafe) is one of the largest state-owned coffee enterprises. Established in 1995, Vincafe administers 40 farms, 27 processors, traders, and service providers. It employs 27,000 people, adding a further 300,000 workers during peak coffee seasons. Vincafe is highly involved within the coffee value chain, from credit, fertiliser, irrigation, roasting and instant coffee processing. It is noticeably amongst the world's largest single-source exporters.

3.6. Investments in Value Addition (Processing and Marketing)

The demand for Vietnam's Robusta coffee has been well developed both within the country and in the international market. Despite Vietnam being a dominantly tea-consuming country, the domestic consumption of coffee continues to rise, with almost 70,000 tons within the domestic market share (World Bank 2004). This is due to the increase of foreigners migrating to live within the cities. Additionally, intensive processing of coffee is identified in roasted, ground, and soluble coffee products. In 2019, ICO noted about 176 processing facilities with about 52,000 tons of coffee processed each year. Moreover, the country aims to raise this figure to the process of 25% of the national coffee production; thus, increasing the income from value addition (ICO 2019). Processing of coffee within the country is carried out in households, private collection facilities and enterprises. The quality of the coffee increases depending on the processors, with households having the lowest and entrepreneurs the highest. This is attributed to the use of advanced technology, such as the use of machinery in processing activities. To improve the colour and taste of coffee, enterprises import new technology. Additionally, Vietnam is identified to have among the lowest cost in coffee processing due to advantages in low labour and raw material prices (Nhung et al 2019).

The processing of coffee is supported within the government's plan and decision to support the reduction of post-harvest losses and the improvement of the processing stages of coffee. Further, the support has been noted in supporting processing activities such as the provision of 3 billion for the infrastructure of a processing project, extension of the loan time to 36 months in coffee export, the removal of 5% in VAT of commodities such as coffee, and the establishment of modern coffee consumption promotion systems. To promote value addition, commodities such as coffee were added into the economic strategies, such as economic integration strategy for agriculture and rural development.

In terms of marketing, the trademark of coffee products was initiated by the National Office of Intellectual Property to recognise geographical indications of Buon Ma Thuot coffee from the Dak Lak province. To also improve this sector, the government has been keen to provide incentives that encourage foreign investment into production and processing stages (Thang and Phuc 2016).

For the quality of export products, the government supported the standards by UTC, 4C and GAP and documented the quality of food safety and hygiene standards (Thang and Phuc 2016). Hence, these strategies exponentially increased the production quantity of coffee within the country. Further measures included diversifying coffee exports through the promotion of higher-quality Arabica beans, offering free land, low-cost loans, and technical support.

3.7. Negative Externalities

The coffee boom in Vietnam came at the expense of the environment. Subsidising coffee allowed for negative externalities and not charging 'polluter pay' costs. Here are the four ways in which the boom brought in huge environmental costs.

- Focus on "Quantity": Vietnamese farmers typically achieve yields of more than 3.5 tonnes per hectare, whereas Robusta yields per hectare average 0.8 tonnes in Thailand, 0.5 tonnes in Indonesia, and 0.4 tonnes in Laos (Gro-Intelligence 2017, Scott & Gheyssens 2020).
- Excessive fertiliser use, together with weak water management practices, has led to a large proportion of fertiliser running off into streams and groundwater and emissions into the atmosphere as nitrous oxide. Between one-half and two-thirds of fertiliser, nutrients are not taken up by crops. The long-term impacts of excessive application of fertiliser and other agricultural inputs have been shown to increase soil acidification and soil hospitability to nematodes and plant diseases, which in turn reduces soil and fertility, requiring increasing levels of fertiliser to compensate for reduced productivity (World Bank 2016, Scott & Gheyssens 2020).
- Water: Water resources are a key factor in the success of the coffee industry of Vietnam. There is evidence that these resources are now on the edge of sustainability. As water has been considered a free resource, little care has been taken to use it in an economical way or account for its cost (Marsh 2007).
- There is also coffee imports in the USA, Germany, and Italy induce dramatic deforestation in the Central Highlands of Vietnam (Hoang & Kanemoto 2021)

There is a growing recognition of these externalities by the government, and a number of measures have been implemented in recent years in response to this. There is a VN-SAT (World Bank's 300 million USD) Project targeting 36,000 ha of sustainably grown coffee in central highlands under the VnSAT project (vir.com.vn). A few other initiatives in partnership with IDH are also ongoing. This program is important to rejuvenate coffee plantations in Central Highlands.

4. Lessons for Africa

This case study chapter set out to examine the Vietnamese coffee sector evolution and dynamics given its remarkable rise and draw lessons for African countries. Two sets of lessons emerge:

Firstly, learning from the policy incentives and investment approaches that enabled Vietnam's rise to the top of coffee markets over the years. These include strategic planning, production reforms, policy incentives, land policies, institutional governance and investments in value addition, as explained hereinabove in some detail.

Secondly, learning to avoid the mistakes that Vietnam made in the process. These include mainly the fact that while the '90s saw an almost 277% increase in coffee exports (D'haeze et al 2005), the expansion of the coffee industry has had ecological and environmental ramifications. Ecologically, Vietnam's comparative coffee advantage was premised on the production of low-quality beans produced through high-productivity, high-input methods, thus requiring large doses of chemical fertilisers and irrigated water. There are, therefore, some ecological consequences of this path dependency. These include (i) Increased use of synthetic fertilisers and the attendant consequences of pollution, biodiversity loss and emissions; (ii) A 19% decline of forested area in the central highlands of Vietnam; (iii) Soil erosion due to rapid expansion of plantations into sub-optimal highland areas. In the African context, increased production rates have caused negative environmental externalities within coffee chains such as deforestation, greenhouse gas emissions and pollution (discussed further in Wainaina et al 2022).

African countries can tremendously benefit from agroforestry, certification and zero-deforestation commodity measures currently applied globally, including Vietnam, to ensure sustainable tree commodities beyond coffee. But more importantly, African countries can draw from the creative policies, incentives and strategies that Vietnam deployed to enable its rise to the top of the global coffee market.

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