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Smallholder Contract Farming of Swine in Northern Viet Nam: Contract Types

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1. Background

The rapid growth in demand for pork in Viet Nam presents an opportunity for rural swine keeping households to improve their incomes. However, despite the fact that a large proportion of livestock production in Viet Nam still comes from smallholder production systems that generally have limited access to markets, inputs, and livestock services, government policy favours the development of large commercial livestock production of pigs intended for the export market, through investment and other incentives. If the reduction of rural poverty is one of the main policy goals, then there is a need to better integrate the rural smallholder producers into the growth process to enable them to capture some of its benefits. One possibility of closer integration would be through institutional arrangements that provide smallholders better access to markets and livestock services.

In partnership with national and international research institutions, PPLPI initiated a field research project entitled 'Contract Farming for Equitable Market-Oriented Smallholder Swine Production in Northern Viet Nam' to identify forms of contract farming of swine that allow smallholder producers to benefit from the rapidly changing production environment. The ultimate objective is to identify a set of policy and intervention options for the facilitation of profitable, market-oriented livestock farming partnerships between smallholders and larger enterprises.

This brief report summarizes initial findings on the typology of contracts between different market actors on northern Viet Nam.

2. Methods

Focus group discussions (FGDs) were conducted in Tay, Thai Binh, Bac Giang and Thanh Hoa obtain an understanding of the various types of institutional market arrangements. The FGDs included pig producing households having formal arrangements with cooperatives, 'satellite' farmers with production and marketing arrangements with 'leading farms', as well as smallholder farmers under various forms of informal contracts with market intermediaries.

Key informant interviews were also held to guide the finalization of the survey sites and sampling distribution.

3. Types of Market Linkages & Contract Arrangements

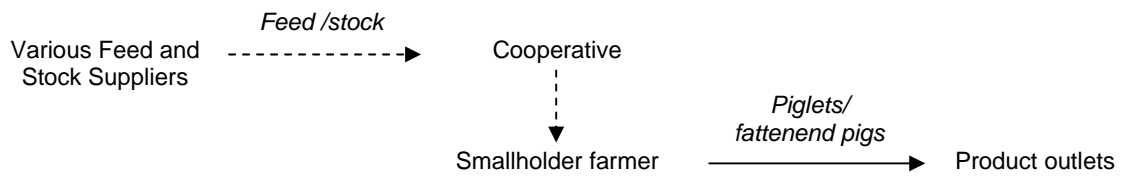
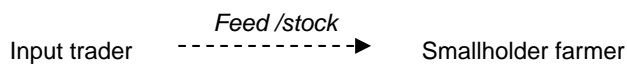
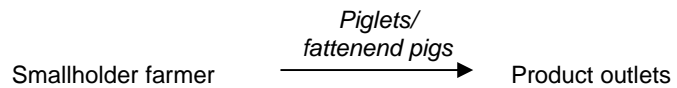
The FGDs and key informant interviews provided insights into emerging typologies of contract arrangements prevailing in northern Viet Nam. Seven types of contractual arrangements could be documented in the four provinces. The nature of the arrangements between the producer and market intermediary on the input and / or output side are shown in Table 1.

The following summarizes the cases into more general typologies:

Case 1 refers to the typical formal contract between a farmer and an integrator company, which involve larger-scale pig producers rather than the typical smallholder pig producing household in Northern Viet Nam. The arrangement involves a 'complete' loop where links to the input and output markets are provided by the same intermediary, in this case, the integrator company. The arrangement also represents a 'closed' loop as contracts link input side provision of inputs and services to the marketing of the output and distribution of returns.

Case 2 is a modification of Case 1 whereby the contract farmer maintains a contract with the integrator company, but the contract farmer engages in 'side arrangements' with smallholders. The smallholder producers do not enter into a direct relationship with the integrator company. This arrangement also involves a 'complete' loop with contracts covering the input and output sides, and the input contracts are also bound on the output side.

Cases 3 to 6 are similar to the first two in that the same intermediary facilitates both input and output linkages. However, they differ from the first two in that the relationship between the pig producer and the market intermediary represent an 'open' loop where the contract involves the provision of inputs and / or of services to the pig producer, but may not involve a commitment on the marketing of the output. Cases 3 to 6, in contrast to Case 1, are not limited to large-scale farms, but create opportunities for smallholders to engage in contract arrangements in the provision of inputs or services, and may also involve assistance on the marketing of output.

**Case 6: Open loop****Case 7: Input supply only****Case 8: Output supply only**

The FGDs and key informant interviews revealed the limited number of farmers engaged in formal or written contracts with the company integrators (i.e., CP company, or Japfa Comfeed contract growers), most of which were large-scale producers. These were only found in Ha Tay and Bac Giang. This prompted an explicit realignment of the sampling frame for contract producers to distinguish between those with formal (written) contracts and those that operated with informal contracts.

4. References

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- Costales, A., Son N.T., Lapar L., Tiongco M. (2005). Smallholder Contract Farming of Swine in Northern Viet Nam: Inception Workshop. PPLPI Research Report

5. Contacts and Further Information

This research report is an excerpt from the full Midterm Project Progress Report submitted to PPLPI. For additional information, please contact:

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