

## **Farmer groups for production and marketing in remote upland areas: From the reality of a piggery production group in Kha village, Quy Hoa commune, Lac Son district, Hoa Binh province, Vietnam**

### **1. Brief introduction on Kha village, Quy Hoa commune, Lac Son district, Hoa Binh province**

Kha village belongs to Quy Hoa commune, Lac Son district, Hoa Binh province in Northern Vietnam. Quy Hoa is a remote commune in a hilly and steep upland area. The distance from the commune People Committee to the nearest main road (provincial road) is 6 km. The road to the commune is being upgraded and blacktopped. The population of the village is 129 households with 603 people, of which 100% belong to the Muong ethnic group.

The village has 20.7 ha paddy land, 37.9 ha plantation forest and 50 ha natural forest. The main occupation is crop plantation and livestock raising. Except for small agriculture inputs suppliers, there is no other non-agriculture job in the village. Main products are maize, rice, pig and poultry.

At the moment, there is a tendency that youths in the village and commune are migrating to urban areas and southern provinces to look for job as they cannot earn enough for their living in the village.

### **2. Context to set up the piggery production group**

In 2005, with the support of the Extension and Training Support Project for Forestry and Agriculture in uplands of Vietnam (ETSP), the extensionists from Lac Son district extension station initiated in Quy Hoa commune several Farmer Field Schools (FFS). In each village, the FFS focused on the topics, which the villagers considered the most important. Several analysis tools were applied in order to define the most important products, which contribute most to an improvement of the livelihood of villagers. Basing on the constraints and difficulties, which villagers are facing in producing such products, learning topics were identified and addressed through the FFS.

Analysis results in Kha village showed that pig for fattening is one of the most promising products, which already now contributes to cash income of villagers but has a potential for growth. At that moment, farmers in the village are lacking certain knowledge and skills related to pig raising techniques. Inputs for pig raising (feed and piglet) are costly because of the long distance to the market, and are often of low quality. In addition to that, the selling price is lower than in other areas, which have easy access to markets. Therefore, the idea of setting up the piggery production group was initiated with the purposes of:

- i) Reducing production costs by organizing a group to purchase inputs in bulk;
- ii) Making use of technical support from outsiders by organizing technical training courses for the group members; and
- iii) In long run, selling products in group in order to increase the bargaining position or capacity of the producers

The ultimate objective of the group was to increase the cash income from pig raising.

### **3. Progress and achieved outputs**

ETSP supported the process of the establishment and running of this piggery group as a learning case. As always the project works through existing extension service providers, in this case the district extensionists, the local veterinary service and a university institute for consultancy services. From the point of view of ETSP the objective of this initiative is to understand the prevailing constraints (such as lacking capacity among the service providers, institutional bottlenecks, policy drawbacks), which allows the project to design capacity building measures and to feed lessons learnt into the policy dialogue on provincial and ultimately at national level.

#### **3.1. Visit to Hop Thanh piggery cooperative**

The first step was a visit to Hop Thanh piggery cooperative in Luong Son district, Hoa Binh province. Villagers, who were interested in raising pig for fattening, joined the trip.

Hop Thanh cooperative is a commercial production group, which is lead by a young farmer. Through the visit the villagers not only learnt about pig raising but also exchanged and learnt about organizational matters, managing a farmers' group and tips regarding transactions with other stakeholders like input suppliers and traders.

#### **3.2. Rapid market appraisal on pig market and presentation of survey results to villagers**

The second step in the whole process was the training on rapid market appraisal for the village head and core farmers. The training was delivered by the two district extensionists. In this training the farmers did not only learn about basic knowledge on market and marketing but were also equipped with the necessary skills for collecting market information.

With the support of the two district extensionists, the farmer group conducted a rapid market survey, which followed the market chain of the pigs from the commune to the provincial capital Hoa Binh. A series of interviews with different market actors (including producers, local traders, local slaughter houses, local retailers, and slaughter houses and retailers in Hoa Binh town) were conducted. Through the survey the team collected information about demand, seasonality of demand, consumer needs regarding pork products, the preferred pig breed and raising techniques. Information about input suppliers, contact addresses for selling products and credit sources were also collected.

Based on the gained information the team analysed and formulated recommendations on input supply (feed and piglet), raising techniques, and access to market (to whom to sell? How to sell? And when to sell?), and the most promising credit source.

The next step was a meeting with interested villagers. The objective of this meeting was to: I) inform about the survey results; ii) discuss the recommendations made by survey team; and iii) develop an action plan.

The rapid market appraisal was not only a practical method that helped farmers collecting information about the market system of Quy Hoa pig but by presenting its results to villagers, farmers became aware that market demand, identification of potential customers and their needs should be the first consideration before deciding what to produce. Engaging in this process, capacity (information collection, communication, presentation skills and decision making skills) of key farmers have been strengthened.

#### **3.3. Establishment of the pig production group**

The group members agreed to organize themselves for the time being in a group (not a formal cooperative). The Commune People Committee endorsed the establishment of this group. Organizing in such a

manner reduces administrative procedures but still ensures the legal basis for future transactions of the pig production group (e.g. borrowing credit from the bank, signing contract with input suppliers, entering contracts with traders).

The Management Board was set up consisting of village heads, commune veterinary staff and commune credit staff. Group regulations were discussed and passed. The regulations indicate tasks and benefits that each stakeholder in the group has.

### 3.4. Getting credit from the bank

To get capital for starting up the business, the group targeted the National Fund for Job Creation No 120 (a national programme), which can be borrowed through the policy bank channel. According to the findings of the survey, this governmental credit scheme allocates credits to each commune, district and province. The producers can borrow from this credit source in group or by individual with the purpose of doing business. Interest of this credit is not high (0.65% per month) with a repayment period of 9 to 12 months (if the purpose of business is raising pig).

The business plan of the group was also developed (see annex 1). Objective of developing this business plan was to use it as the basis for getting credit from the bank and to manage and operate the group effectively.

## 4. Difficulties in the process

It is obvious that the idea of setting up the pig production group is a good and suitable initiative for farmers in upland areas where the access to markets is difficult. Organizing farmers in groups will reduce the production cost by purchasing inputs in bulk and increase the bargaining position of farmers when doing transactions with other market actors. This group has some advantages. Firstly, the demand on pork in Hoa Binh province is quite promising. It means that farmers will not face any difficulties in finding a market for their products. Secondly, the local Quy Hoa pig is quite competitive (good meat quality) thanks to the semi-industrial raising practices, which does not require much technical support from district veterinary station.

However, the group has faced many difficulties and challenges, which are preventing the group to come to reach a great success so far.

1. The first challenge is that the group is still struggling with **access to credit**. The total needed capital to start the business as planned for the twelve households in the group is 114 million Vietnamese Dong (VND) (around 9000 USD). The group intends to borrow 60 million VND (equal to around 400 USD per household) from the bank.

However, access to the most promising credit source - the National Fund for Job Creation No 120 – proved to be cumbersome.

First of all the amount and date of the release of the funds to the districts and communes are unclear and delayed. Until today the group was not able to receive any credit from this source.

Secondly, information about this credit is not announced transparently to all producers but is kept internally among a small number of commune staff.

Finally, this fund is being used ineffectively as business plans are not required before getting the credit. It seems that many households used this credit line not according to their business objectives stated to the bank (e.g. buying motorbike instead of planting bamboo).

2. The second challenge is **capacity** in management, organization and marketing. Organizing a group requires dynamic and good management-leadership. Now, the Management Board of the Pig production group is still weak in terms of organization and management including marketing skills and business-plan elaboration.

At the moment, the group still relies on outside support from the district extensionists. But for them themselves business operations and marketing are new topics.

## 5. Proposed solutions

### 5.1. Direct solutions for the pig production group

With regard to the **access to credit**, the most practical solution at the moment is that the group members continue their pig raising in small scale (2-3 heads/household) and wait for the release of the Fund 120. In case, this fund will be released in September (as informed by the district banker), this will be a good time to start raising pig in larger scale as farmers later can sell their product just before Tet holiday (national holiday) when the pig price is at peak.

With regard to the **management capacity** further training is required. Through ETSP service providers may be found and hired to further strengthen the capacity of the management board of the group and the district extensionists.

### 5.2. Lessons for ETSP

**Access to credit** is indeed one of the most important elements to start up a business. Having sufficient capital for starting up business is always a challenge for small households, especially the one in upland and remote areas. Although, the Vietnamese government has initiated several credit programs, which provide favourable conditions to the poor, those programs are not always pro-poor-oriented in the reality. Those credits should be used more effectively by:

- Decentralizing the management to district level (in the case of Fund 120). This will reduce the administrative procedures and time required for producers.
- Using business plan of individual and group of producer as the pre-requisite before getting credit (in the case of Fund 120).
- Establish the transparent management of the credit in order to reduce “unnecessary free” for producers.

Through its coordination mechanisms ETSP is in a position to feed these recommendations into the relevant for an on provincial and national level.

**Capacity building for extension staff** is the core activity of ETSP. The example shows that capacity on agriculture markets, facilitation skills, market information collection and analysis skills of the extensionists should be further improved so that they can support farmer groups to develop business plans, to link farmers with good input suppliers and other market actors, and to update farmers with appropriate market information. ETSP addresses this challenge in various ways, which include training manuals, trainer of trainer courses, extension-training strategy on provincial level etc.

## **Annex 1: Business plan of the pig production group in Kha village, Qua Hoa commune**

### **General introduction about the group**

- Name: Livestock production group, Khan village, Quay Hoax commune
- Contact address: Mr. Bui Van Tim, Kha village, Quay Hoax commune. Tel:
- Business address: Khan village, Quay Hoax commune, Lac Son district, Hoax Bin province
- Management Board:
  - Bùi Văn Đê - Group head
  - Bùi Văn Na- Deputy
  - Quách Công Ninh - Cashier
  - Bùi Thị Hạnh - Accountant

### ***Why the production group is set up?***

At the moment, one of the main income sources for farmers is pig. However, pig raising is giving no profit to farmers due to: i) high price of piglet and feed (which was consequence of long distance to market); low productivity (which was consequence of the lack in technology); and low selling price. Therefore, the idea of establishing the pig production group was initiated with the purpose of:

- Reducing the production cost by organizing group in purchasing inputs in bulk;
- Making use of technical support of district vet station; and
- Increasing position of producers in doing transaction with outsiders.

### ***Form of business operation***

- In short run, the group will not register for business but only ask for establishment decision of the Commune People Committee. Such decision will be a basis for group to do such transaction as borrowing credit, signing contract with input suppliers.

### ***Objectives of the group:***

- The group will try to target 120 pig head/round. Expected profit from pig raising is 45.000 VND per head/month

### ***Estimated cost for business***

- Total estimated cost: **114. 508.800 VND**

### ***Intended sources of fund:***

- The National Fund for Job Creation and self-financed by household members.

**Part 1: Production plan**

- Household members will raise pig in their home compound. Required facility is pig stable. Necessary inputs are: piglet, industrial feed and local-available feed, vet medical.
- In the process, the district Vet Station will be invited for technical support. The leaning will be organized in a group, learning by doing from reality according to the growing circle of the pig.
- The Management Board shall responsible for monitoring the technology application of each household member.

**Part 2: Organization and Management plan**

The Management Board consist of:

- The head – Bùi Văn Đè- Village head
- Deputy – Bùi Văn Na
- Accountant – Bùi Thị Hạnh – Commune vet staff

Every member has to follow every items in following regulations:

1. Household members have to attend all regular meeting of the group (including the training).
2. The Management Board supervise, monitor and provide guidance for each activity.
3. Set up the group fund start up with .....VND in order to cover the expenses for meeting, making contact and transaction with service providers such as piglet, feed, credit providers and customers.
4. Household use the credit with the purpose as mentioned and committed in the credit borrowing form.
5. Members committed to pay interest every month as agreed with the Management Board. Any household that does not following agreement, the Management Board and village head will consider the reasons. If there reasons are not acceptable, the Management Board will be recovered the borrowed credit and eliminated from the group.
6. The Management Board will consider the risks happening when using the credit. The members in the group has responsibility to support the unlucky member so that he/she can pay back credit as committed.

**Part 3: Input management plan**

The Management Board will contact with piglet production farm, purchase and transport piglet for group members. The piglet should be F1 or F2 breed with small head, little feathers, short snout, and should be vaccinated to prevent from 4 main diseases before bring in stable.

The Management Board will contact the feed supplier (may be Mr. Tang agent) to make contract to buy feed. The Management Board will negotiate to have the pre-finance from the feed supplier.

The group members will cover the transportation and transaction cost, and per diem for Management Board when doing above tasks.

**Part 4: Selling plan**

In general, the customers like lean meat with bright red color. Normally, breed F1 and F2 can give such quality of meat. The demand on pork is always exist in the market within Hoa Binh province.

However, the demand peak is at Tet holiday (and before and after Tet). Avoid selling pig in summer (June, July and August) when the selling price of meat is very low.

In short run, the group will continue to sell pig to local traders. When the group become more stable and produce more pig, the Management Board will contact slaughter houses in Hoa Binh town (the contact addresses have been surveyed) to sell directly to them.

### **Part 5: Financial plan**

#### ***For each household (10 pig head/household on average)***

For one round of 4 month

No	Item	Quan	Unit	Unit cost	Total	Remark
<b>1. Total expenses</b>					<b>6,542,400</b>	
	Depreciation of stable		VND		200,000	
	Purchasing piglet	150	kg	20,000	3,000,000	Including transportation and other costs.
	Industrial feed	234	kg	8,600	2,012,400	
	Vet medial	10	Pig head	12,000	120,000	
	Others(fuel, water)	10	Pig head	8,000	80,000	
	Available feed (maize)	10	Pig head	100,000	1,000,000	
	Bank interest(4 tháng)	4	month	32,500	130,000	
<b>2. Estimated income</b>					<b>8,450,000</b>	
<b>3. Estimated total profit (1-2)</b>					<b>1,907,600</b>	
<b>4. Estimated profit per month per pig head</b>					<b>47,690</b>	
<b>Start up capital (= variable cost + stable building cost):</b>					<b>9,522,400</b>	
<b>Borrowing from the bank:</b>					<b>5,000,000</b>	
<b>Self-financed by household:</b>					<b>4,542,400</b>	

#### ***For the whole group***

Total credit : 5,000,000 x12 = 60,000,000

Self-finance by household: 4,542,000 x12 = 54.508.800

**Total start up capital: 114. 508.800**

After one year, total profit for each household is 5,722,800. If they have to pay back credit to the bank, it means that, there will be no saving for continuing their business in the following year. Therefore, only if the duration to pay back credit is 2 years, farmers can raise profit and can pay back money to the bank.