

# CAPITAL MOBILIZATION FROM FARMERS AND PURCHASE OF FARM PRODUCTS AT HIGH PRICES

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The policy on the purchase of agro-products at high prices was affirmed by Prime Minister Võ Văn Kiệt. On the first days of the New Lunar Year, when everyone was enjoying Tết, the Prime Minister instructed relevant establishments to buy all farmers' commercial paddy, not to cause the fact that farmers get a bumper harvest but suffer fall in paddy prices.

The policy on the purchase of farm products is obviously attached with the capital mobilization, since only if farmers sell off their paddy at high prices, they can put their savings into banks.

The two plans are proposed:

a. The bank offers loans to enterprises for their paddy purchase, so these businesses are able to make payments to the farmers.

b. Using the exchange rate to lift prices of exported agro-products.

For example: At the end of 1980s, the exchange rate soared increasingly. Many articles reporting about fierce competition in purchasing pepper and cashew nut were published on newspapers at that time. Contrarily, when the exchange rate was adjusted stably, however, "bumper crop, but no joy" appeared on newspapers.

## SUGGESTED PLANS OF PURCHASE

Plan 1: Let everything happen in line with the cur-

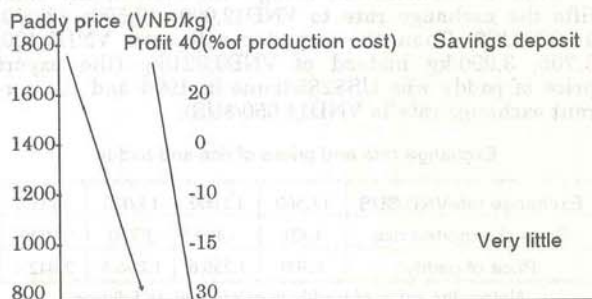
rent economic trend:

After the winter-spring crop has been already reaped, the bank and tax agency urged farmers to pay tax and debts. To gain money for these payments and the next crop, poor farmers had to sell their paddy hastily. In the winter-spring crop, the Mekong Delta output reached above 6 million tonnes of paddy. If the commercial paddy is estimated at 4 million tonnes and priced at VNĐ1,700/kg, the total funds needed are:

$$\text{VNĐ}1,700/\text{kg} \times 4,000,000,000 \text{ kg} = \text{VNĐ}6,800 \text{ billion}$$

This is a huge sum of money paid within one or two months at most. The paddy purchase in the Mekong Delta is entirely different from the southeastern provinces or HCMC. In HCMC, the farm products buyers work almost the year round, they buy pepper, cashew, maize, sliced manioc...this purchase takes place all the year round, so they do not need large capital at a specific time. In the Mekong Delta, contrarily, the purchase is urgent, more sellers and less buyers. The price of paddy goes down, as reported by the Thời Báo Kinh Tế: "the price of paddy dropped from VNĐ1,700-1,800/kg in 1995 to VNĐ1,000-1,150, even VNĐ800-900 in some areas". With the price of VNĐ1,700-1,800/kg the farmer's profit can account for 40% of the production cost. But when it fell to VNĐ1,400-1,200-1,000-800, the profit comes to 0%, then to a negative number. Certainly in this case, the bank will mobilize nothing from farmers.

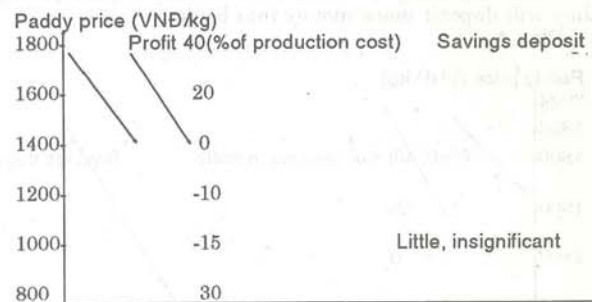
Plan 1



Paddy price from the crop beginning to end.

Plan 2: Suppose the bank agrees to grant rather big loans to exporters, and allows these businesses to issue bills of payment to farmers, the farmers can use these bills to pay debts to banks and taxes to the Government. With this plan, paddy price can avoid falling. Farmers will earn higher profits, but they still cannot have savings to deposit into banks.

Plan 2



Paddy price from the crop beginning to end.

Plan 3: Assume the bank agrees to allow farmers to keep paddy in their barns and fill the declaration form of paddy stock, then they can mortgage these forms for an advance, after paying tax to the Government and debts to banks, farmers are encouraged to deposit their

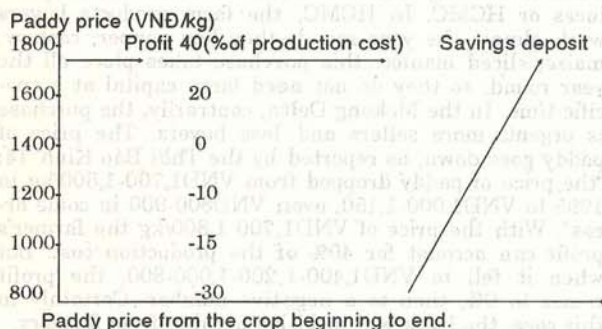


money into banks in two accounts:

- Current account: the farmer deposits cash and earnings from paddy sales in this account.
- Savings account: the farmer makes term deposits from debts of paddy buyers who cannot pay promptly to the farmer.

With this plan, the companies can buy more paddy and the price of paddy is stabler. Farmers begin to put their savings into banks. However they still feel unhappy because they have to do it and it cannot bring more benefits to farmers.

#### Plan 3



**Plan 4:** Assume that along with Plan 3, the bank lifts the exchange rate to VNĐ12,000; 12,500; 13,000; 14,000/US\$. Then the exporter will earn VNĐ3,420; 3,705; 3,990/kg instead of VNĐ3,321/kg (the export price of paddy was US\$285/tonne in 1996 and the current exchange rate is VNĐ11,650/US\$).

Exchange rate and prices of rice and paddy

| Exchange rate VNĐ/US\$ | 11.560 | 12.000  | 13.000  | 14.000  |
|------------------------|--------|---------|---------|---------|
| Price of exported rice | 3.321  | 3.420   | 3.750   | 3.990   |
| Price of paddy         | 1.700  | 1.750.6 | 1.896.5 | 2.042.4 |

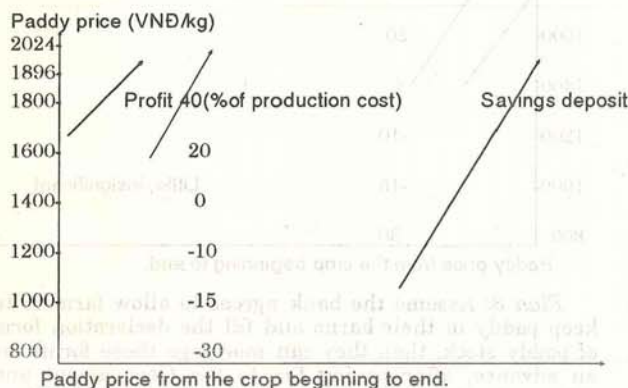
Notes: the price of paddy is calculated as follows:

$$1,750.6 = 1,700 \times 3,420 : 3,321$$

$$1,896.5 = 1,750 \times 3,705 : 3,420...$$

When paddy price rises, the farmer's profit will go up, however it cannot be calculated exactly since prices of fertilizer and petroleum will also jump. Because these factors are only a part of production cost, the farmer's profit will be raised although it cannot be known exactly. We only assume that there is a relation between increase in exchange rate with profit in accordance with the following chart 4. When farmers earn higher profit, they will deposit more money into banks.

#### Plan 4



These charts explain how to encourage farmers to put their money into banks. The answer is if the bank offers no big loans to purchasing companies, then the price of paddy will drop as in 1996 and the farmer's profit will be negative and they can hardly make deposits into banks (Plan 1). If the bank offers loans and at the same time allows companies to issue bills with the aim to reduce demand for borrowings, then the price of paddy will drop slightly, farmers will earn some profit but they may not put their money into banks (Plan 2). If the bank permits farmers to keep paddy in their barns and open current account and savings account, then buying companies will not be in short of funds, paddy price will be higher and farmers will put their money into banks, especially deposit sums of money which buying companies owe them, nevertheless farmers still see they do not earn high profits when putting their money into banks (Plan 3). If the bank use exchange rate to lift paddy prices, farmers will gain high profit and make deposits into banks (plan 4).

**Plan 5:** Encouraging farmers to make medium- and long-term deposits.

Farmers will enjoy some benefits as follows:

- Companies will purchase paddy at price of VNĐ500-800/kg higher than that of plans 1, 2, 3, 4. This price must be determined previously and notified at purchasing places by the Government, bank and buying company.

- Being granted loans three times higher than usual when they have plans to build their houses, develop husbandry or handicraft.

- Being offered lower prices when buying ploughing machines, dryers, fishing vessels, electricity generators...due to exemption from tax if their savings exceed a certain amount (10 million, 20 million,...).

- If farmers agree to transfer their savings to capital contribution in major enterprises in the Mekong Delta, they have rights to introduce their relatives to work in these enterprises.

- The Government should implement some key projects in the Mekong Delta such as: Cần Thơ port, dredging Vĩnh Tế canal, building Cần Thơ bridge, gas pipeline from offshore basins to Minh Hải Province and establishing a power plant and a nitrogenous fertilizer company here, etc. These projects will help industrialize and modernize the Mekong Delta. Farmers are patriotic, they will respond favorably the local government's appeal of capital contribution to these projects besides their medium- and long-term deposits.

- The Government should launch a campaign to explain clearly that if everyone wants to get cash promptly, then banks, the Government, purchasing companies will never meet all their requirement since that amount is huge as mentioned above. On the contrary, if farmers agree to put their money into banks, the maintenance of high prices of paddy and the raising of profit...as stated in plans 1,2,3,4 can be carried out. Once farmers grasp thoroughly, they will help the Government and the bank and everything will run through.

#### CONCLUSION

One who reads the Bible will know the dream of 7 fat cows and 7 thin cows. Seven thin cows ate all the fat ones. Egyptian Pharaoh awoke and did not understand the dream meaning. Later he was explained that seven fat cows were seven years of good harvest and seven thin cows seven years of crop failure. The Pharaoh was warned he should buy paddy for reserve. He carried it out and his people did not suffer famine in seven years of crop failure.

But we wonder how the Pharaoh could have enough



gold coins (at that time there was not paper money, deposits, stock as at present) to buy paddy for reserve in some successive years. He also could not have enough warehouses to keep that amount of paddy and prevent paddy from destruction of weevils. The agricultural economy has no accumulation. The Mekong Delta, for example, even though enjoys bumper crop, its production boosting results in stockpiled paddy and price fall. Farmers turn into breeding pigs, but paddy used for animal food cannot settle the market recession. Then the King theory become effective: prices of farm products such as wheat, paddy go down very quickly when supply exceeds demand. In short, the Mekong Delta has no savings and accumulation when paddy price falls because the paddy output exceeds the amount needed for human and animal. And that demand is limited.

Storing paddy is impossible because of destruction of weevils, only in few months, they will damage paddy stocks.

In addition, farm economies cannot develop because they cannot produce farm machinery, insecticides and chemical fertilizers.

In recent years, our economy changed into open one. At present the Mekong Delta is integrating into the international economy. Therefore new paddy seeds, technologies of plantation, fertilizers, insecticides, petroleum, farm machinery... are imported. One dollar to import these inputs can turn out from twofold to tenfold farm products, for example, one kilo of urea fertilizer can yield more 3 to 5 kg of paddy. The price of urea fertilizer is US\$150 per tonne, exported paddy US\$285 per tonne. As a result, the Vietnamese policy tends to import necessary inputs for farmers and this has boosted paddy output. In 1997 Vietnam imported 2,832,000 tonnes of various fertilizers including 1,467,000 tonnes of urea; 600,000 tonnes of DAP; 450,000 tonnes of NPK, 350,000 tonnes of other fertilizers. With 1,300,000 tonnes of fertilizer made domestically, the total amount reaches 4.5 million tonnes. However only 3.5 million tonnes are used, so there is a surplus of one million tonnes.

We have to export rice to earn dollars to import these inputs for farm production. In 1996, above 3 million tonnes of paddy were exported, worth US\$900 million. Its better part came from the Mekong Delta, especially in the winter-spring crop.

Through international trade, the Mekong Delta's possibility of accumulation takes shape. The Mekong Delta exports paddy and aqua-products and imports other inputs for agricultural production, along with some consumer goods to improve the living standard. This work is necessary. The policy on boosting export, importing machinery and materials, limiting foreign consumer goods will help industrialize, modernize the Mekong Delta.

But the policy also reveals some shortcomings: prices of agro-products and minerals are very low and unstable. Farmers work hard to produce paddy but it is sold at only US\$285 per tonne. Whereas a Honda is imported at US\$2,000. That means over 7 tonnes of paddy or 12 tonnes of paddy can be exchanged for a Honda. Why don't we try to produce Hondas when our country possesses iron and rubber?

Therefore, farmers should make medium- and long-term deposits with a view to building plants producing Hondas, cars, color TVs and other high-quality goods.

If farmers sell their paddy at high prices and save much money, they are ready to deposit their money which the Government owes them since it does not have cash to pay for paddy purchase on condition that the

bank will give loans three times more than their savings when they have projects on expanding production such as husbandry and handicraft.

Through activities of the bank, the rural areas will have savings and investments because industrial production begins to take shape there.

In brief, we should organize well the paddy purchase, keep paddy price from dropping and lift paddy price. Farmers will earn more profits, so they will make short-, medium-, and long-term savings deposit. Up to now, the Mekong Delta's farmers almost has made no contribution to savings and investments. If we can mobilize 5 to 15% of paddy value thanks to raising paddy price for farmers, it will be a good solution to capital attraction in the Mekong Delta.

The article should have ended here if there had been no sudden change after Tamexco case. That is, State-run enterprises' own capital is very little, accounting for only 5% to 10% of the working capital, the rest is loan capital. Many State-owned businesses have only land and houses to guarantee their loans, but they may not be eligible for using their land and house for mortgage. So the bank has no firm guarantee when loaning. The *Thời Báo Ngân Hàng* (The Banking Times Magazine) reported: "Many levels, branches warned banking activities would be frozen after the case of Tamexco" This situation had bad effects on buying price of paddy and cashew nut and incomes of farmers.

As a result, to avoid the above mentioned situation, the Chairperson of local People's Committee must assume responsibility for recommending businesses to borrow money from banks. In addition, the bank should have right to inspect casually warehouses mortgaged to the bank or the accounting system of the enterprise with a view to seeing whether the loans are used properly for the targets agreed upon by the bank. Only by doing this, can the bank's policy on lending and mobilizing capital be effective.

The problem on paddy purchase is pressing in the current Vietnamese economy and should be soon settled by relevant agencies ■

