

Rice production has made good progress in recent years: per capita rice output has increased by 40kg in a short period and Vietnam has become a big exporter of rice. The progress was made because the farmers had got the right to use all possible resources (land, labor, capital, etc) to increase their income in the market mechanism.

When private farmer family is considered as an independent economic unit, both factors of production and product are commercialized. However, the participation of various

rial supplies. A farmer family sells 68.3% of its output and 46% in which is used for paying for raw materials and services supplied. The market supplies 85% of needed materials to farmers, the remaining 15% is made by farmers themselves. Of needed raw materials, the chemical fertilizer occupies 63% of materials bought by farmers (report of the RCP/VIE/2358 Project)

The commercialization of agricultural materials allows the farmer to obtain needed materials at a reasonable price. However, just because of lack of capital and sources of soft

could make appropriate policies and institutions in order to enhance the business performance of the network and protect interests of the farmer. In this article, a lot of attention will be given to the distribution of fertilizer and medicines used for plants which are the most important materials to the farmer.

1. Policies on agricultural material distribution

The agricultural material distribution has ceased to be a government monopoly, but state enterprises still supplied from 30% to 40% of retailed materials. In the Mekong Delta, the

that private traders should have trading licences and professional knowledge and should pay deposits into a central agricultural material company (this measure aims at limiting the number of private traders engaging in this business). Many private traders have chosen to co-operate with a state enterprise in a joint venture in importing agricultural materials. HCMC Tân Quy Group is an example. Taking part in a joint venture state enterprises could mobilize the source of capital from private traders. However, the policy on paying deposits into a central company could lead to formation of the oligopoly in certain localities. At present there are from five to seven private traders in each province. If a high deposit is required, this number may reduce.

When commercial activities are liberated there's no remarkable difference in prices between provinces and a fair competition has come into being. In such a situation, the farmer could buy needed materials at reasonable prices and sell their output at higher prices.

When Vietnam market is intergrated into the world market, the prices of agricultural materials in Vietnam will change in parallel with those in the world market. The abolition of price support program has produced a two-sided effect: on the one hand, it made the production cost increase and discourage the farmers because there hasn't been no really fair competition in rural areas. On the other hand, it forced the farmers to develop their business, maximize their income by making the best use of their comparative advantages.

As for medicines used for plant, a list of permitted or limited insecticides was publicized by the Government. This saved Vietnam from becoming a paradise for imported insecticides

THE DISTRIBUTION NETWORK OF AGRICULTURAL MATERIALS IN THE MEKONG DELTA

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economic sectors in factor and product market is different from one locality to another, so is the dependence on agricultural materials market: farmers in the Hồng River Delta market around 5% to 10% of their output whereas farmers in the Mekong Delta sell from 80% to 90% of their output. Generally, farmer become more and more dependent on mate-

loans, the farmer had to buy materials at a high price from private traders or pay high interest rate if they buy on credit. As for private traders, naturally, they can't have retail outlet at each village and can't offer the farmers financial assistance.

Understanding the structure and operation of the distribution network of agricultural materials, we

retailing network is operated by the private traders. High overhead expenses have prevented state enterprises from competing efficiently against private traders. Surveys show that over 30 agricultural material trading companies at provincial and district levels suffered losses and received subsidies from the Government.

Regulations require

where foreign companies could sell all medicines whose use was banned in their countries. However, on the mass media, especially on radio and TV, commercial advertisement for foreign insecticide taking the form of supplying agricultural knowledge has made farmers confused.

2. Farmers income and expenses on agricultural materials

Although the agricultural product trading is liberated but their prices have increased slower than prices of agricultural materials and other manufactured goods. The following pie charts show farmers' income and expenses in farming one hectare of high yield rice. In the chart 1, we see that expense on agricultural materials represented around 30% of total expenditure including amortization of tools and machines and payments for family needs. The chart 2 shows that the expense on materials represented no less than 50% of total cash payments for farming one hectare of rice.

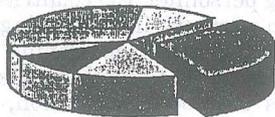


Chart 1: Expend on Materials in total expenditure (around 30%)

3. Distribution network

Besides state enterprises, there are many private companies specialized in producing and distributing fertilizer and insecticide. Importation of agricultural materials is still a government monopoly while private traders control the best part of distribution network of agricultural materials, especially in the Mekong Delta. Theoretically, there's the duopoly in production of agricultural materials and the fair competition in distribution them. It's the

competition between state and private companies and between private traders.

The competition has had many good effects:

- Reducing freightage: Surveys show that the marketing margin of a private company represented only 0.5% or 0.6% of its sales, whereas the marketing margin of a state-owned company is from 30% to 40% higher. Freightage of 1 kg of urea from HCMC to Cần Thơ is VNĐ100 to a state company, but only VNĐ60 to a private one.

- Improving product quality: The keen competition forced both the state-owned and private companies to improve their products and develop new lines of products continuously. Many companies have offered after-sales services or supplied information or technical assistance with a view to attracting potential customers.

- The presence of foreign invested joint ventures could lead to the technology transfer, introduction of new seed and farming techniques, supplies of soft loans or materials and

tion and fluctuation of prices in the world market could have disastrous consequences for the agricultural production and the farmers' income. The Government had better map out a price stabilization program to cope with this situation.

- Sales promotion campaigns of both private and state companies should be co-ordinated with agriculture encouragement program in a more proper manner in order to help the farmers improve the output and income, instead of making them confused as mentioned above.

4. Marketing strategies

- Diversification: Medicines for plant are increasingly diversified. Many new lines of product with various designs have come into being. Along with diversification of agricultural production, this tendency is necessary.

- Pricing: Competition between producers and between traders led to the stabilization of prices. State enterprises, with their great reserves, have played an active role in sta-

forbids carrying fertilizer and agricultural medicines in passenger buses makes the freightage higher.

- Sales promotion: Most of state-owned and private companies have carried out sales promotion campaigns now: offering discount of various kinds, advertisement, exhibition, publicity, etc. Agricultural encouragement agencies can co-operate with these companies in supplying technical assistance to the farmer.

Besides the policy on agricultural renovation and orientation of the agriculture towards the market mechanism, we had better establish farmer's organizations replacing old-styled co-ops in order to help the farmers obtain the collective bargaining and encourage them to take part in management of public works.

In the Mekong Delta, there has been a relatively fair competition. The government intervention is needed to keep the prices of agricultural materials at a reasonable level. The fair competition is necessary

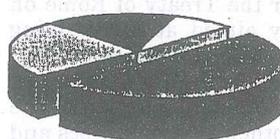


Chart 2: Expend on Materials in total cash payments (around 50%)

bilizing prices. Private traders have tried best to minimize overhead expenses, thereby reducing retail prices. Recent fluctuations of price are due to changes in the world market.

- Overhead expenses: As for wholesalers, the overhead expenses represented a small percentage. Of these expenses, freightage occupied 40%, wages 25% and taxes 25%, amortization and warehouse 10%. However, there are seasonal variations in expenses. Regulation which

for both the market for agricultural materials and the market for agricultural products.

As for medicines for plant, because of a difference in knowledge of them between sellers and buyers, the Government had better intervene for the sake of the farmers and the environment. Experience of surrounding countries shows that farmers will benefit from the collective bargaining if they co-operate together.