2.5. Financing Sources for Village Agents of the Rice Channel in the Mekong Region

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INTRODUCTION

Since 1994, a research project has been implemented by the Faculty of Agricultural Sciences of Gembloux, the Faculty of Economics of Mons-Hainaut, the Institute of Agricultural Sciences of South Viet Nam, the University of Economics of Ho Chi Minh City and the University of Can Tho. The research is based on an integrated approach of the problems which are linked to the development of rice production in the Mekong region. It aims at setting up analytical tools which relate to agricultural policy concerning a strategic product channel in Viet Nam. As part of this co-operation programme, a large socio-economic survey has be done in Mekong region including 10% of agricultural households in 10 villages. Based on the survey results, this paper proposes a diagnosis concerning the financing of economic activities which are related to the rice channel at village level.

PADDY PRODUCERS

Agricultural productions require cash investments for the whole duration of the production cycle. This capital which is invested in crops is immobilised and unproductive until the harvest. Seeds, fertilisers, pesticides, salaries, equipment hiring fees, energy for irrigation, etc... must be gradually disbursed by farmers. Concerning rice production, the amount of cash they have to invest varies according to agro-ecological conditions but reaches VND3.5 to VND4.5 million/ha/season in 1996. These outlays account for more than 80% of the paddy cost price. The possibilities farmers have in order to finance their working capital requirement are official or informal credit, suppliers credit or self-financing.

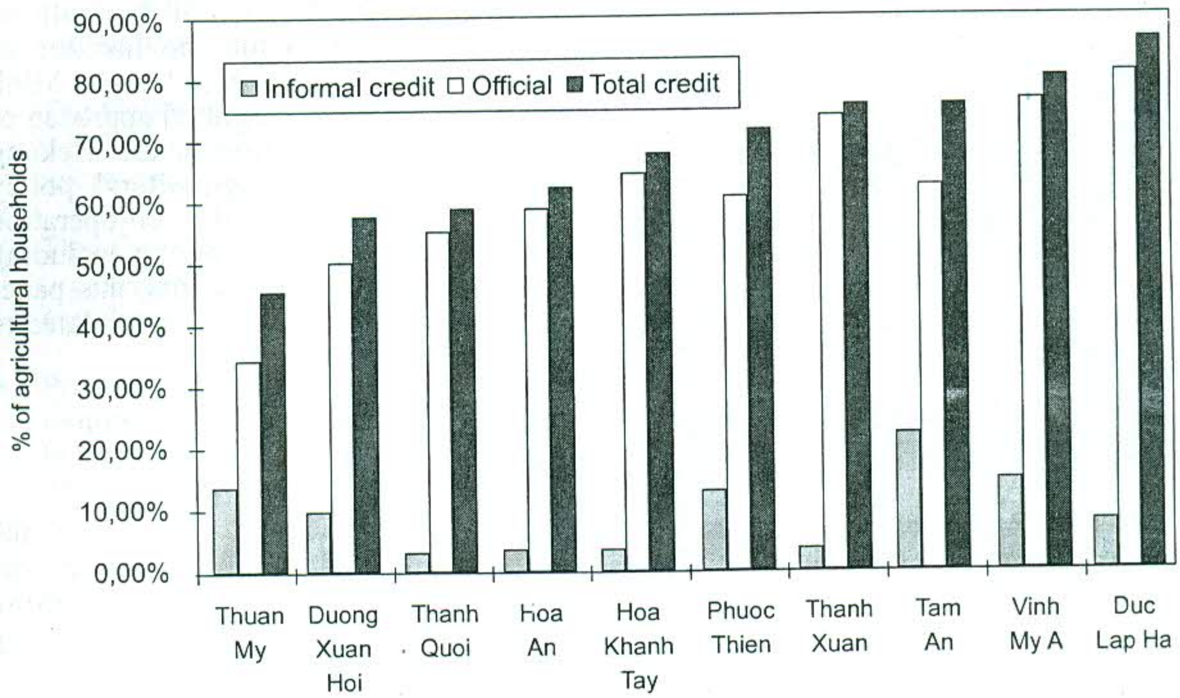
After the re-organisation of the banking system in 1988, the Agricultural Development Bank and the Commercial and Industrial Bank have been progressively established in districts and villages and offer credit facilities to rural families. In addition with this system, which grants the major part of credits, some credit funds are allotted to help the poorest, like the National funds for Poverty Alleviation and the National Funds for Employment. In some villages, other financing sources appeared through specific initiatives of NGO's or in order to promote one or another sector.

Banking systems have been gradually improved during the last years. The interest rates have been reduced from 3%/month in 1994 to 2.75% in 1995 and 1.5% in 1996. Meanwhile loan sizes have increased a little and cover only one third of total paddy production costs (around VND1,000,000 - VND1. 5 million/ha/crop) with a duration of 4 to 6 months. Long term investments like perennial crops plantations or the acquisition of expensive equipment must be financed from farmers own capital and reserves, because long and medium term loans are rarely granted.

Generally, the lack of cash capital has been a problem for most of farmers. Two third of them have been asking the support of official or informal credit networks. Nowadays, all villages are not similarly served by official credit institutions. Informal credit is still very much present in some villages, and most of all with the poorest farmers. Social disparities appear very clearly concerning access to official credit networks and poor farmers must turn their demand towards the informal sector which has very high interest rates.

The graph below presents the percentage of households using credit facilities in the different surveyed villages and the source of credit they use: official credit or informal credit.

% of agricultural households



(Source : Results of field survey)

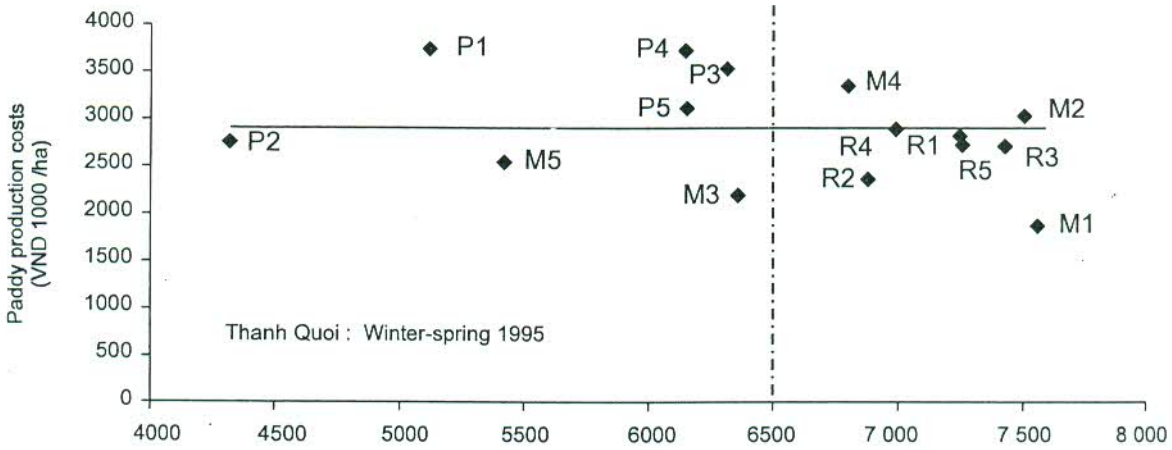
Poor farmers say they have difficulties with complex banking procedures and guaranties which are required in official credit system. If the interest rates in the official credit have been gradually reduced, they remain usurious in the informal sector reaching 5%, 10% or 20% a month. In addition, because they need cash to reimburse their loan, farmers must sell their products at harvesting time while prices are low. This has a severe influence on their incomes.

In addition to the problem of credit access for poor farmers, there is the issue of how to ensure an efficient use of the money they get. Some survey results have shown that poor farmers get higher cash investments in their crops and lower yields. Agricultural and basic management extension should be linked with the improvement of capital supply for this target group. The lack of appropriate cropping techniques and management leads poor farmers to suffer huge costs for fertilisers, pesticides and for the fees for hiring labourers and equipment while it also leads to negative effects on yields.

Since 1994, a permanent database on the cost accounting of paddy production has been implemented in 10 villages of the Mekong region involving 180 farmers.

The graph hereunder has been drawn according to the results of W-S paddy production costs in a village of Can Tho province. The sample includes 15 farmers and is divided into three socio-economic groups : Rich, Medium and Poor.

Paddy production costs
(VND1000 /ha)



Yield (kg/ha)

The horizontal line is the average paddy production costs of the whole sample and the vertical line is the average paddy yield of the whole sample.

The group of poor farmers (P1 to P5) is situated in the area of the graph where cash investments are the highest and paddy yields are the lowest. Their spending for fertilisers, pesticides and external services (labour and equipment hiring) are respectively 17%, 74% and 17% higher than the corresponding average expenses for the whole sample.

Besides the cash credit, farmers can be granted a supplier-credit when they buy fertilisers or pesticides. Some agricultural households are reticent to borrow money and prefer self-financing when they are able to do it. Others capitalise daily savings in animals such as pigs and can get a large amount of money when they sell them.

RETAILERS OF AGRI-MATERIAL

Retailers of agri-materials play an important role in the financing of rice production cycles. This practice has been generalised in the villages following the settlement of competition between dealers who supplant the banks in order to attract clients. Therefore they put a part of their working capital, which includes private capital, at the disposal of farmers and they recover their money at the next harvest. Retailers of fertilisers can be classified into different sizes according to the sales volume per season. The volume of commercial private capital varies according to the scale of seasonal activities as shown in the table below.

[Source : Results of field survey]

Size (Sales volume)	Working capital (in VND)	Reimbursement terms	
		Suppliers	Clients
41 ton/season	37,000,000	1 week	1 month
170 ton/season	110,000,000	1 month	1 month
350 ton/season	290,000,000	1 month	1 month

Generally, retailers give to farmers the same terms of paying back as do the wholesale dealers. After this period, an interest, of which the rate is almost the same as the banks rate, is added to the reimbursement.

PADDY COLLECTORS

Paddy collectors take part in the forwarding of paddy from producers gates to markets or other middlemen. Collectors have additional functions in the channel: they concentrate the paddy supply of farmers, negotiate the buying price at the farm gate, are in charge of paddy processing and bear the relevant risks. Paddy/rice collectors also finance their stocks, of which the amount varies according to the capacity of their boat or truck and the rotation speed of their working capital. Sometimes, in case they have a contract with a milling factory or another middleman, he may supply 50% to 100% of the working capital collectors need in order to buy paddy. Usually, payments are made in cash within three days, the same for suppliers and clients.

FACTORIES FOR PADDY MILLING

Factories for paddy milling in villages do the paddy husking and first whitening. These private enterprises work independently as service suppliers. They differ from each other in the role they play in the rice channel and sub-channels. There is a correlation between the factory size, which is measured by the maximum paddy input per hour, and the category of clients the factory works for. Milling units with low capacity (less than 0.5 ton/hour) work for paddy self-consumption of rural households. Milling factories, of which the input per hour is 1 ton or more, only work for paddy collectors who process large quantities of paddy.

The variation of the amount of investments for equipment and buildings is wide as shown in the table opposite. All interviewees self-financed their factory with private capital because they are service suppliers, the need of working capital is reduced and no loan grants were recorded.

Size	< 0.5 t	0.5 - 1 t	> 1 t
Investments	VND	VND	VND
Equipment	12,816,000	30,410,000	160,312,000
Buildings	5,708,000	20,100,000	39,187,000

[Source : Field survey results]

CONCLUSIONS

With limited land availability and manpower surplus in the agricultural sector, the capital is a crucial production factor and access to it is a determining factor because the change to commercial agriculture requires more and more use of commercial input. The restricted capital supply must meet the increasing demands and imposes restrictive criteria which finally single out the most efficient borrowers. The rich meet these access conditions and are becoming the privileged recipients of productivity increase.

The challenge is to pay special attention to the disadvantaged population bracket. Several experiences, of which many examples are to be given during this workshop, have been implemented in that way: granting loans with preferential interest rates, no guaranty requirement, joint bail or rotation scheme credit, for households groups which are willing to organise themselves, and liberating savings.

Besides the capital access issue, management and technical problems are often the cause of the inefficient use of capital leading to a spiral of debts.

On the other hand, modest enterprises initiatives of rural families must be financed mostly by their own private capital. Medium and long term loans with viable interest rates fail to appear. Investments in productive equipment's are minimised because the working capital takes precedence over immobilisation. Lack of capital and obsolete equipment curb rural modernisation and industrialisation.