

Assessment of agro-products transaction modes in Viet Nam

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Rationale

During the economic renovation and integration, facing with fluctuations and pressing issues in actual transaction modes of agro-products, the study team from the former Agricultural Economics Institute (currently the Institute for Agricultural and Rural Development Policies and Strategies) had proposed and been agreed to implement to study into "*Assessment of agro-products transaction modes of in Viet Nam*". The study aims to study and analyse the actual application of agro-products transaction modes, strengths, weaknesses, opportunities and risks of each agro-products transaction mode, then to propose policies and solutions for diversification of transaction modes in contributing to promotion of agro-products production and trade and better impacts on markets.

Methodology

Analysis of the marketing chain and the value chain through steps in different transaction modes between farmers and related agents has been used. At the same time, the rapid participatory assessment method has also been used with participation of farmers, collectors, and sale agents, and comments from government authorities at different levels have been gathered. The study team applied SWOT analysis using software such as SPSS, Excel as supporting tools for quantitative and quality analyses.

Scope of study

The study team has selected and carried out surveys on 4 products groups (rice, coffee, fruit trees and sugar cane) at provinces including Tien Giang, Can Tho, Hau Giang, Dak Lak, and Bac Giang provinces and Hanoi and Ho Chi Minh cities. Total surveyed samples are 460 households who have been selling the four products groups in 2 years (2004 -2005); and 46 collectors, and sale agents. In addition, surveys at 8 agro-products wholesale markets have been also implemented.

A combination of products group review and surveys has been done to focus on analysis of domestic agro-products transactions.

Key results

For the 4 selected products groups at surveyed provinces and cities, there are 4 prevailing transaction modes as follows:

- (1) Free trade through networks of small traders (collectors, traders);
- (2) Contracts (agreements) between enterprises and farmers;
- (3) Agreements between enterprises and cooperatives, teams, groups, contractors being organizations or individuals as representatives of farmers;

(4) Transactions at wholesale markets.

Additionally, there exist other modes of transaction, for instance, some enterprises, companies and associations have set up close systems linking producers, collectors and other agents in the process of distribution of one agro-products group; farmers consign their agro-products at enterprises in receiving advance payments and partial payment modes are applied.

- **Free trade** without any agreement is recognized with strengths. It is suitable for traditional trading customs and habits of farmers so it is most frequent. However, this transaction mode also shows disadvantages. Further analysis of the marketing chain and value chain revealed that this transaction mode contains some intermediate phases that do not change physical forms of products, do not enhance quality of products, but increase costs to ensure benefits of the intermediate agents. In transaction mode, producers do not have close contact with processors and exporters. Producers and exporters cannot manage quality of products so produced products do not have good quality as consequence.
- **Transactions with written agreements** (including direct agreements between enterprises and each household and agreements with cooperatives and farmers' groups) have various advantages, which can be generalized, as "4 stables": stable material growing areas; stable quality of products; stable customers; and then stable enterprises and their production and trade development. Nevertheless, these transaction modes also have disadvantages, for example, farmers' production size is too small and scattered which cause difficulties for transaction of enterprises; enterprises do not pay adequate attention to investments and technical supports for farmers in order to mobilize advantages of high yields and good quality of products.
- **Transactions at wholesale markets** are at early development stage. Some markets have well played the role of trade centers so transactions at wholesale markets show benefits. Wholesale markets are, however, only built recently, transaction activities limit at those between domestic enterprises and traders, most of them are direct delivery without secondary transactions and later delivery. Transactions are done by businesspersons whilst market trading companies (or Management Board at some places) do not take part in those transactions but they involve in providing services such as surface renting, loading and unloading, and security.

Conclusion

Agro-products markets in Viet Nam are in stages of positive movement and development. In order to diversify and stimulate busy and effective market activities, it is essential to pay attention to the 4 fundamentals, i.e.: (1) rehabilitation and new construction of infrastructure and information; (2) human resources training including legal education, commercial and trade trainings for relevant agents groups, professional refreshment for trade organizations and experts and intermediates; (3) strengthening advisory role of provincial Departments of Agriculture and Rural Development and provincial Departments of Trade to Provincial and City People's Committees in planning and development of material growing areas, in development of professional training programmes on agro-products trade, and in providing directions relevant to agricultural extensions, etc; and (4) gradually making standardized and transparent norms, and standards (standards and norms on quality of agro-products, procedures, agreements, agro-product assessment and classification methods, etc) and a state management agency for agreement and management of agro-product quality standards should be considered for establishment.

Recommendations

- Implementing education programmes to abolish prejudices towards private traders;
- Given current circumstances, free trade mode has its own strengths; however, it should be focussed on large-scale products without strict requirements of high quality.
- In the long terms, the agreement transaction mode should be largely introduced and made predominant. In immediate terms, it is obligatory to apply this mode of transaction for export products or domestic products with high requirements of quality and food hygiene and safety. Main solutions recommended by the study team include: (1) Technical guidance and

monitoring by enterprises in order to ensure quality, food hygiene and safety to meet customers' requirements; intensified investments and directions to improve yields, productivity and effectiveness then to ensure higher buying prices of materials for contracted farmers compared to other products in the markets.

- A section of the provincial Departments of Agriculture and Rural Development and provincial Departments of Trade should be formed to be responsible for state management of agreement and agro-product quality standards management.
- Improving size of agreements by different ways including expansion of production size of households and strengthening cooperation between producer's households to form "contractors", cooperative groups and teams.
- Intensifying transactions by agreements with cooperatives, teams, groups or contractors as representatives of farmers' groups is one of the ways to overcome constraints of small production scale and develop advantages of cooperative economy. Main measures to promote this transaction mode comprise: bring into play democracy, accountability of each members in signing contracts as well as in implementation of contracts; cooperatives, teams and groups coordinate with enterprises in providing direction, technical guidance for higher yields, better and more stable quality of products. It is recommended that the State should have supporting policies for management fees, agricultural extension costs, technical trainings, credit privileges (low interest rate and longer payment periods).
- Wholesale markets should be recognized as a new market form to be developed in Viet Nam. The authors suggest comprehensive solutions on planning, incentive policies to attract investments in market construction, trade involvement, diversification of activities at markets and trade centers; promotion of the role of the State in public services; selection of and refreshment trainings for transaction experts, etc.
- For transactions at wholesale markets in Viet Nam, two different modes can be applied. In mode 1, businesspersons take the role of purchasing and selling goods, market-trading companies improve present services (using wholesale markets in Thailand as models). In mode 2, market-trading companies involve in all transactions and services like in Australia, Japan, and China. The
- State should sum-up domestic practices and foreign lessons in order to introduce Mode 2.
- In view of the close system model, although this is a new mode but is a development trend at different countries. Therefore, the State should have supporting policies in development of trade marks, geographical origin in order to encourage subjects (enterprises, companies, associations) in developing close systems for a specific product from production, processing, packaging, transporting and distributing to end users for the ultimate purpose of economic improved effectiveness, competitiveness of products.

Follow-up studies recommended

1. A profound study is required to develop incentive policies aiming to increase number, expand size and scope of operation of important businessmen, sale agents together with update of market information so that farmers can have direct access to important businessmen and sale agents and narrowing scope of operation of collectors and small traders.
2. The State should sum-up practices from models in management of wholesale markets and learn lessons from other countries in order to change to Mode 2.