

**Report of Workshop on
Private Corporate Sector Investment in Agriculture in Southeast Asia**

10-11 November 2012, Bandung, Indonesia

January 2013



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This report was prepared by Dr Don Antiporta, President, Asia Pacific Policy Centre (APPC), in collaboration with Mr Saifullah Syed, Senior Economist, FAO, and Mr Daneswar Poonyth, Policy Officer, FAO. This work has benefited from the contribution of authors of the country case studies and presentations of the workshop participants.

We would like to express our gratitude to the Japanese Ministry of Agriculture, Forestry and Fisheries for funding the trust fund project GCP/GLO/267/JPN under the framework of which the Workshop was organized.

We wish to express our collective gratitude to Dr Hermanto Siregar, Brighten Institute, and all Brighten Institute staff for jointly organizing this workshop. Special thanks to Ms Dina Lianitasari and Mr Dicky Firmansyah for facilitating all logistics.

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1. Introduction

The persistence of poverty, the recent food crisis and the need to meet future food needs have prompted an urgent call to increase investment in agriculture. The main reason for such a renewed interest in increasing investment in agriculture is the centrality of agriculture to food security and poverty reduction. Given the financial crisis and the resource constraints of governments in developing countries and the budgetary constraints in many donor countries, the mobilization of private sector investment, particularly the corporate private sector investment, is becoming important sources of investment. In view of this, under the Japanese Trust Fund project *Support to Study on Appropriate Policy Measures to Increase Investments in Agriculture and to Stimulate Food Production*, the Food and Agriculture Organization of the United Nations (FAO) initiated case studies in Indonesia, Laos and Vietnam to better understand views and perceptions of the domestic and foreign corporate private sector regarding investment in agriculture.

The main purposes of the case studies were to take stock of private sector investment in agriculture in the selected countries and understand: (i) what are the factors hindering private agricultural investment from becoming vibrant; (ii) how the potential of private sector investment on domestic and foreign level can be effectively mobilised for agricultural development; and (iii) how collaboration and partnership with small farmers could be enhanced.

FAO, in collaboration with the Brighten Institute, Bogor, Indonesia, organized a technical consultation on 10-11 November 2012 in Bandung, Indonesia, to discuss findings of the case studies of Indonesia, Laos and Vietnam. The workshop was attended by representatives of the corporate sector engaged in agriculture, policy makers, investment experts and government officials.

The objectives of the Workshop were to:

- Better understand views and perceptions of corporate private sector investors concerning investment in agriculture, including their perspective on diversifying the agricultural sector;
- Identify drivers of corporate private investment and factors that hinder the corporate private sector investment in the grain sector, beside the rate of return which is reasonably higher for investment in estate plantation than food crops.
- Discuss policy options available to the government for increasing corporate private sector investment in agriculture and promoting partnerships with small farmers for enhancing agricultural production.

This report provides a summary of the main findings and recommendations that emerged from the Workshop. A list of the presentations at the Workshop is included in Annex 4.¹

¹ Full presentations can be found at <http://www.fao.org/tc/policy-support/investment-policy/events-and-meetings>.

Reports of the case studies on Laos and Vietnam are attached in Annexes 5 and 6, respectively. The case study report of Indonesia was, unfortunately, not prepared by the time of the preparation of this report.

2. Overview of the workshop and brief summary of presentations

Six presentations were delivered, three of which were the findings of the case studies of Indonesia, Laos and Vietnam, presented by the authors. Mr Yoshiaki Hata, Assistant Director, International Cooperation Division, Ministry of Agriculture Forestry and Fisheries of Japan (MAFF) presented the thematic topic of *Investment Promotion for Domestic and Global Food security*. Mr Saifullah Syed, Senior Economist, FAO, presented findings of the case studies of Kenya, South Africa, Tanzania and Uganda. Mr Ye Min Aung, Secretary-General, Myanmar Rice Federation (MRF), and Managing Director, Myanmar Agribusiness Public Corporation (MAPCO), made a presentation on *Implementing a New Vision for Agribusiness in Myanmar*.

2.1 Opening and key-note address

Opening

The Workshop was opened by H.E Tahlim Sudaryanto, Assistant Minister for International Cooperation, Ministry of Agriculture, Indonesia.

Mr D. S. Priyarson, Director, Brighten Institute, welcomed all the participants in his welcoming remark. He expressed his sincere gratitude to all participants, especially to those who had come from other countries to be part of the Workshop. FAO was represented by Mr Ageng S. Heriyanto, Assistant FAO Representative in Indonesia. In his welcoming remark Mr Heriyanto expressed his sincere gratitude and welcomed the participants. He emphasized that FAO is giving priority to increasing investment in agriculture in keeping with its mandate to enhance food security and promote agricultural development.

Keynote speech

H.E Tahlim Sudaryanto delivered the key note paper: *Agricultural policy issues in Indonesia and private sector investment*. In his speech, H.E Tahlim Sudaryanto highlighted the key features of Indonesian agriculture and pointed out some key policy measures adopted by his Government for the sector's development and some constraints to increasing private investments in the Indonesian agricultural sector.

He added that Indonesia is the world tenth largest producer of agricultural products. The agricultural sector contributes approximately 14.7 percent to Gross Domestic Product (GDP) and employs 33 percent of the total labour force. Indonesia is a net exporter of agricultural products, however, it is importing a large volume of food products. The Government of Indonesia targets to increase the self-sufficiency for certain food products such as rice, soybean, maize, sugar and beef. Although the Government has put in place major policy measures to increase investment and productivity, there are many policy challenges, i.e. the reduction of costs to realize self-sufficiency, the design of an alternative programme for fertilizer subsidy, the strengthening of the agricultural knowledge system and the increase of water use efficiency.

H.E Tahlim Sudaryanto pointed out that since 2000, investment in the agricultural sector has increased. Investment in plantation crops such as palm oil and bio-fuel crops has increased sharply in recent years. However, the level of investment including FDI in agriculture has been lower than the levels of investments in other sectors. Although the Government has put in place policies to promote investment, there are still some major constraining factors and challenges to increasing the corporate private sector investment in agriculture. These are:

- Complex and insecure land rights;
- Insufficient and poor quality infrastructure - damaged irrigation networks, high transport and logistics costs, and lack of reliable electricity;
- Limited access to credit by micro, small and medium enterprises; and
- Export taxes on crude palm oil and cocoa beans.

He stated that the Government of Indonesia is determined to address these constraints and its policy agenda includes:

- Acceleration of the registration of land rights;
- Clarification of the land tenure system;
- Recognition and protection of customary land rights;
- Simplification of business licensing procedure;
- Coordination and strengthening of periodic evaluations of the Negative Investment List;
- Assessment of short-term and long-term cost and benefits of export taxes on palm oil and cocoa beans.

2.2 Investment Promotion for Domestic and Global Food Security

Mr. Yoshiaki Hata made a presentation on the holistic approach adopted by the Government of Japan to address food security. His presentation emphasized the importance of increasing food production to feed the growing number of people in the world. According to his presentation, the world population is expected to increase to 7.7 billion by 2021 and 6.5 billion will be in the developing countries. He referred to the Public-Private Partnerships framework for an enabling environment to secure food supply both domestically in Japan and globally. He stated that in Japan stable food supply to the citizens shall be secured by increased domestic production as a base together with an appropriate combination of import and reserve, as stated in the Article 2 of the Food, Agriculture and Rural Areas Basic Act. He pointed out that stability in imports is influenced by the promotion of foreign direct investment and the diversification of sources of imports. For this to be successful there is a need to have public and private partnership, which follows closely the rules for responsible agricultural investment. He informed the meeting that Japan is supporting field-tests for the Principles for Responsible Agricultural Investment elaborated by FAO, International Fund for Agricultural Development (IFAD), United Nations Conference on Trade and Development (UNCTAD) and the World Bank through the World Bank trust fund *Japan Policy & Human Resources Development (PHRD) Fund*, and also supporting the FAO trust fund project *Support to study on appropriate policy measures to increase investments in agriculture and to stimulate food production*.

2.3 Corporate sector investment in agriculture: The Case of Indonesia

This case study was prepared by the Brighten Institute and presented by Mr Hermanto Siregar. According to Mr. Siregar, empirical studies have shown that the stagnation of Indonesian agricultural productivity growth is primarily due to the low level of agricultural investment both by private and public sector. The agricultural sector has a crucial role for the Indonesian economy. It is employing almost 40 percent of the workforce and contributes to about 14 percent of the national GDP. More than 60 percent of the poor are living in rural areas and mostly rely on the agriculture sector. Poor farmers are still facing problems that hinder them from making an appropriate investment including limited access to credit. The share of credit for the agriculture sector has declined and constitutes only about 5 - 6 percent of the total credit after 2002.

The speaker further pointed out that the share of government budget allocated to agriculture is approximately 1.5 percent and if irrigation is included, it is approximately 2.5 percent. According to the Ministry of Agriculture of Indonesia, both domestic and foreign direct investments in agriculture need to increase three fold by 2014, to be able to meet the investment need of the agricultural sector. For the much needed investment in agriculture to be made, private corporate investment should be promoted. The government has put in place various programmes and policies to encourage investment in agriculture by the private sector. However, he noted that FDI in agriculture is very low and along with the domestic corporate private sector investment it focuses on palm oil, rubber and a few other cash crops such as tea and coffee. The private sector is also engaged in the production of poultry feed, seeds and agro-processing while there is very little participation in the production of staple food crops. Mr Siregar highlighted constraints for corporate private sector investment in food crops, which were similar to those presented in the keynote address.

2.4 Agriculture Investment Trends - The Role of Public and Private Sector in Vietnam

This study was prepared and presented by Ms Nguyen Thi Duong Nga, Hanoi University of Agriculture, Vietnam. She started her presentation by giving an overview of Vietnam's agricultural sector and provided a definition of "investment" used by the General Statistical Office of Vietnam (GSO). The definition reads as follows: *investment is expenses to increase and remain physical assets in a given period. Investment can be seen through investment projects and national target programs mainly to increase fixed assets and change inventories in assets.* The finding of the study is based on secondary data and information gathered from eleven companies. According to Ms Nguyen, 66 percent of ODA goes to agriculture and rural development and data from GSO shows that public investment in agriculture has declined by more than 50 percent in the last ten years. The Government budget accounts for more than half of the public investment in agriculture. A majority of the investment is allocated for infrastructure development whereas 15 percent is invested to provide services to the agriculture and forestry sector and 10 percent is to other related services.

According to Ms Nguyen, the Government of Vietnam has undertaken various initiatives to promote investment and revise the law to encourage investment. She further referred

to the policies related to land use such as: i) subsidized land rental for investment in agriculture in case of calamities or risk damage (> 40% loss); ii) zero-rental for land from 3 to 15 years for investment in the priority list set by the government; and iii) reduction and exemption of agricultural land using tax for investors from an effective date to year 2020. There are credit and tax policies to promote investment in agriculture too.

Data shows that private investment in agriculture has increased much faster than public investment in the last ten years. Share of private investment was 48 percent of total investment agriculture in 2000 and it has increased to 64 percent. However, the number of agricultural enterprises has increased at a slower pace than non-agricultural enterprises. Private enterprises have grown rapidly at small and medium enterprises (SME) scales, mainly agro-processing for rice, cashew nuts, tea, fruits and salt. In 2006, 1,153 private enterprises invested in agriculture and there were 113,699 commercial farms. A rough estimate of total capital stock of the agriculture enterprises was about 80,000 billion VND.

As regards FDI, its share in agriculture has fallen from 24 percent in 1988-90 to only 0.5 percent in 2010-11. It has been concentrated at the upper end of the value chain, mostly in agro-processing, followed by investments in forest plantation and the processing of forest products.

Several recommendations for promoting corporate private sector investment emerged from the Vietnam study, which include the following:

- *Land use and planning:* land fragmentation should be solved. Speed up the planning of crop production in balance with the capacity of agro-processing enterprises.
- *Credit:* more favorable credit policies for the agriculture sector, lower interest, appropriate payment period and larger loan size, especially for farmers who engage in the primary production.
- *R&D in agriculture:* R & D should be strengthened, not only for the primary production, but also for post harvest, processing and the transfer of new technology and farming practices.
- *Infrastructure:* infrastructure for agriculture production (roads, communications, irrigation, disease prevention) should be upgraded to strengthen capacity to prevent diseases and calamities, improve accessibility to market and reduce cost

2.5 Implementing a New Vision for Agribusiness in Myanmar: Value Addition, Integrated Food and Energy Production, the Role of the Private Sector as Main Drivers

This study was presented by Mr Ye Min Aung, Secretary-General, MRF, and Managing Director, MAPCO. He started his presentation with a general overview of the natural resource of Myanmar as well as its human resource. Myanmar has the second largest land area among ASEAN countries after Indonesia. It has expansive forest which covers half of the total area of the country and exports 80% of the world's teak supply. Fertile land for agriculture amounts to 19.3 million hectares, out of which about 6 million hectares have not yet been exploited. Almost 8 million hectares are under rice cultivation. Currently

less than 60% of the sustainable yield potential of 1.05 million metric tons of fishery resources is used.

The presentation stressed the importance of agriculture in the economy of Myanmar. He explained two stages of reform adopted by Myanmar in achieving its vision to be a modernized, developed and industrialized nation. The first phase has focused on political reform and the second phase on economic development. With this approach the country has slowly opened its borders and gained the confidence of foreign governments and investors. FDI in livestock and agriculture are currently very low, 0.79 percent and 0.44 percent of total FDI respectively. Most of FDI is in the power sector and the oil and gas sector, representing shares of 46 and 35 percent respectively. According to Mr. Ye Min Aung, the investment law of 2012 has made provisions for land lease up to 70 years. However, the length depends on a type of business and an amount being invested.

He also presented the New Vision for Agribusiness in Myanmar. This is an initiative led by MRF and practically carried out by MAPCO along with 57 companies specializing in rice. This initiative addresses the major challenges of rice and agricultural sustainability regarding agribusiness as a positive contributor to food security, environmental sustainability and economic development. To advance progress toward this vision, a roadmap that outlines a framework for actions has been established to implement private sector-led and market-based solutions which are explicitly linked to national development priorities. Key priority areas to drive the vision are comprehensive supply chain mechanism, value addition, and investment in food and energy production industries.

2.6 Agriculture Investment Trends -The Role of Public and Private Sector in Laos

The presentation was made by Mr Antiporta, President, Asia Pacific Policy Centre, and coordinator of the study on behalf of its authors, Mr Linkham Douangsavanh and Mr Pasalath Kuns who were unavailable to attend the Workshop. He gave an overview of the country's economic situation and a breakdown of the total public and private investment achieved by the 6th National Socio-Economic Development Plan (NSED). More than 50 percent of the public investment was financed by ODA and the remains by the government, whereas almost all private investments were FDI. The Government of Laos has put in place a series of support programmes and legislations to promote investment, i.e. agriculture law, foreign investment promotion law and enterprise law. It has also setup a committee for the promotion and management of investment.

The recommendations emerging from the Laos study included:

- reform of laws and regulations for setting up enterprises and streamlining the process;
- improvement of the quality and professionalism of public service;
- enhancement of transparency;
- holding of regular meetings between the central and local level Governments and the private sector; and
- reform of regulations and administrative constraints that give rise to monopolies, for example, by allowing the movement of goods between provinces and provincial contracts with non-local firms.

2.7 Findings of the case studies in Africa

Mr Syed presented findings of the similar studies on Kenya, Tanzania, Uganda and South Africa which was conducted by the FAO subregional office for Eastern Africa in 2009. Every year, Eastern African nine countries, which have fewer than 4% of the global population, receive around 20% of the world's food aid. The subregion currently commercially imports over 5 million tons and receives food aid nearly 2 million tons of cereals. Cereal imports are projected to reach about 12 million tons by 2020.

Eastern Africa's growing dependence on commercial and charitable food imports is a microcosm of Africa's overall weakening agricultural performance. Africa imports every year US\$33 billion worth of agricultural products. The number of Africa's hungry is growing. Defeating pervasive poverty will require successes in agriculture. Over \$1 billion is spent annually by Eastern Africa on grain imports alone. Non-African suppliers have been supplying to this market for decades and their business is growing. Yet the commercial private sector within Eastern Africa has so far shown little interest in capturing the market opportunities by investing in farming. To understand better what restrains the domestic private corporate investment in Eastern Africa, these country studies were conducted.

Constraints found by the studies are as follows:

- Perception of the sector as risky: Private investors consider the sector as risky. Causes of the perception include: (i) changeability of public policies, procedures and actions, such as arbitrary setting of prices, bans on trade, unpredictable imports of commercial foods; (ii) vagaries of the weather and the consequent unpredictable production prospects; (iii) land tenure systems which do not guarantee long term rights and are changeable in response to the whims and resentments of the clan, tribal or national leaders.
- Policy deficiencies: (i) unfair competition from food aid, subsidized, substandard or inadequately taxed imports; (ii) non-availability or inadequacy of affordable credit; (iii) high costs of doing business due to inadequate public investments in rural areas; (iv) inadequate incentives or better incentives in other sectors.
- Regulatory, procedural and other institutional hurdles: Rules and procedures in the recipient countries are far too unstable and sometimes so complex which makes transaction costs prohibitive. Corruption was also mentioned.
- Negative attitudes: (i) while governments may declare it a priority, they appear to harbour doubts when practical support to it competes with more "modern" sectors such as manufacturing. At the same time, when foreign investors do come, resentment against external investors sometimes surfaces; (ii) small and medium farmers have been ignored and support to enable them act entrepreneurially has been undermined.

3. The Main findings of the Bandung workshop

In all the countries studied, evidence shows that investment in agriculture by the private corporate sector, both domestic and foreign (i.e. including multi-nationals), was found to be very small and most of the investment was on high value commercial crops and at the upper end of the value chain, i.e. processing, distribution and production of inputs such as seeds and fertilizers. A very small amount of investment goes into production of staple crops. There has been, however, phenomenal growth of SMEs mainly in agro-processing.

In view of these findings, the case studies also focused on the factors that influence the corporate enterprises' investment in agriculture, in particular, in staple food crops production. Despite many incentives that are provided by governments to encourage private investment in agriculture, private investors are facing a number of problems and constraints. Based on a semi-structured interview of leading corporations and business entities in the selected countries and secondary data, those problems and constraints were identified as follows:

a. *Difficulty in acquiring land for production:* Required documents and procedures for acquiring land are complicated and it is very time-consuming to prepare the documents and follow the procedures. Land resource also restrains agro-processing companies from establishing a production/processing areas with appropriate disposal treatment facilities.

b. *Poor and inadequate infrastructure*

Poor infrastructure, especially road in remote areas, leads to higher production and marketing costs (transportation cost, higher rate of deteriorated products). During rainy season, many secondary roads are inaccessible, therefore, harvested products cannot be transported from producing areas while processing enterprises face serious shortage of raw materials. In some cases, investors have to upgrade irrigation systems and/or secondary roads in rural areas by themselves.

c. *Limited access to credit*

Almost all respondents revealed that they face considerable difficulties in accessing credit from banks. Aside from procedures, loan size, interest rates and payback period are not appropriate for agriculture production. Although there are a number of advocated policies designed by governments for investors in agriculture, many of them are left ineffective because they are either lacking detailed guiding documents or found irrelevant for many enterprises.

Generally, farmers are given priority to borrow from banks if they submit contracts signed with enterprises (agro-processing). However, for a number of reasons, very few processors do sign contracts with farmers. For larger scale farmers (or commercial farmers), collateral is a major constraint, even though initiatives have been taken by governments to ease the access to credit for farmers.

d. *Limited supply of skilled labor in rural areas*

The majority of rural labours are unskilful and need training, which increases the sunk cost of investment. This leads to higher operation costs for investors. Not all contracted

farmers apply farming practices required by companies, which results in the dissatisfaction of product quality and quantity by companies.

e. *Legal framework*

In general, there is a lack of efficient legal enforcement of contracts between farmers and processors.

f. *Perception as risky sector*

The agriculture sector is perceived as high risk (changeability of public policies, procedures and actions, vagaries of the weather).

g. *Inadequate incentives*

Inadequate incentives in the agriculture sector or better incentives in other sectors. It is easier to capture tax and customs exemptions in other sectors than in the agricultural sector.

g. *Negative attitudes*

Governments may declare it a priority but then practically support more “modern” sectors such as manufacturing. Resentment against corporations and external investors is harboured (perceived as exploiting the locals or grabbing national assets).

4. Key recommendations to promote investment

The Workshop identified recommendations to promote private corporate sector investment in agriculture as follows.

Land use and planning: Land fragmentation should be addressed and procedures for acquiring land should be made simpler and faster.

Credit: More favourable credit policies for the agriculture sector should be introduced such as lower interest rates, appropriate payment period and larger loan size, especially for corporations which engage in the primary production.

Research and Development: R&D in agriculture should be strengthened, not only for the primary production, but also for post harvest and processing (product development, equipments), transfer of new technology and farming practices.

Infrastructure: Upgrading of infrastructure for the agriculture production (roads, communications, irrigation, disease prevention) to improve accessibility to markets, reduce costs and strengthen the capacity to prevent diseases and calamities. This should be aligned in the planning of material production regions.

Promotion of Public Private Partnership (PPP): PPP is critical in the current agricultural development. With lessons learned from previous efforts to link farmers-enterprises-governments-scientists, the PPP framework needs to state clearly roles, responsibilities, costs, and potential risks between the public and private sectors. Governments need to create fair or better market environment; for example, by enhancing

intellectual property rights regulations and efforts of their enforcement; and adopting preferential tax policy (compared with other industry).

Policy transparency: Policy introduction should be more transparent and understandable to enterprises. Abrupt interruption of exports/imports and trade agreements and/or control and regulations of prices should be avoided.

Workshop Concept and Purpose



FAO - Brighten Workshop on Corporate Private Sector Investment in Agriculture In Southeast Asia

10-11 November 2012, Bandung, Indonesia

Background

Agriculture investment in an economy can be categorized as emanating from three economic agents, namely: public sector (including development assistance); corporate private sector (domestic and international); and investment made by farmers/households themselves. Public funding has helped to create public capacities and facilities from roads and markets to research and educational infrastructure. In some cases, it has gone into irrigation and other direct productive infrastructure. The essence of investment in public goods is to create conditions that can attract private capital (corporate and farm level). However, as of now, corporate private sector (domestic and foreign) investment in agriculture remains limited both in volume and diversity. Corporate private sector investment remains concentrated in a few selected cash crops and upper end of the value chain. Investments by the farmers themselves are still the dominant driver of global agricultural production.

As the world awakens to the multiple dangers posed by soaring food prices simultaneously with climate change and difficulties in the financial sector, the need for more investment in agriculture is becoming more and more acute. However, given the resource constraints of governments in developing countries as well as the tight budgetary conditions in many donor countries it is not the time to continue the practice of seeking more donor aid and public investment. It seems more appropriate to reflect upon what has held back private agricultural investment from becoming vibrant, how the potential of private sector investment, both domestic and foreign, can be effectively mobilised for agricultural development and their collaboration and partnership with the farmers enhanced.

In view of this, under the Japanese Trust Fund project *“Support to Study on Appropriate Policy Measures to Increase Investments in Agriculture and to Stimulate Food Production”*, the Food and Agriculture Organization of the United Nations (FAO) initiated case study Indonesia, Laos and Vietnam to better understand views and perceptions of the domestic and foreign corporate private sector concerning investment in agriculture. FAO also conducted several case studies in Africa. From the findings of these case studies it is becoming increasingly evident that there is a need for broader discussion to gain a clearer understanding of the factors that could mobilise private sector investment in agriculture and collaboration with the farmers.

Issues to be addressed

In view of the above, FAO, in collaboration with Brighten Institute, Bogor, Indonesia, and with the participation of representatives of the corporate sector engaged in agriculture, policy makers and investment experts, is organising a technical consultation from 10-11 November 2012 in Bandung, Indonesia, to discuss the findings of the case studies of Indonesia, Laos and Vietnam, as well as the case studies from Africa.

The purposes of this workshop are:

- Obtain a better understanding of the views and perceptions of corporate private sector investors concerning investment in agriculture, including their perspective on diversifying the agricultural sector. The corporations have tended to invest heavily on estate plantation particularly oil palm and almost none in food crops such especially grains.
- Identify:
 - Drivers of corporate private investment.
 - Factors that limit the corporate private sector investment on the grains sector. Aside from the profitability rate which is reasonably higher for invest in estate plantation than food crops.
- Formulate Policy options for the government for increasing corporate private sector investment and partnership with the farmers for enhancing agricultural production.

WORKSHOP AGENDA
FAO –Brighten Workshop on
Corporate Private Sector Investment in Agriculture in Southeast Asia
10 November 2012, Bandung, Indonesia
Venue: Grand Hotel Prenager, Bandung, West Java, Indonesia

Agenda	Time	Remarks
10 November 2012, Bandung, Indonesia		
Workshop-Preparation (registration, etc)	09.00-09.30	Committee
Welcoming Speech	09.30-09.40	Mr. D S Priyarsono Director, Brighten Institute
Remark	09.40-09.55	Mr. Ageng S. Heriyanto Assistant FAOR, Indonesia
Keynote Speech	09.55-10.10	Mr. Tahlim Sudaryanto Assistant Minister for International Cooperation, MOA, Indonesia
Presentation Investment Promotion for Domestic and Global Food Security	10.10-10.15	Mr. Yoshiaki Hata Assistant Director International Cooperation Department Ministry of Agriculture, Forestry and Fisheries, Japan
Coffee-Break and Photo Session	10.15-11.00	Committee
Presentation II : Countries Experience in Corporate Sector Investment in Agriculture		
• Indonesia case Study	11.00-11.30	Mr. Hermanto Siregar Director, Brighten Institute
• Vietnam case Study	11.30-12.00	Ms. Thi Duong Nga Nguyen Hanoi University of Agriculture, Vietnam
• Private Corporate sector in Myanmar agriculture	12.00-12.30	Mr. Ye Min Aung Secretary Myanmar Rice Federation
Lunch Break	12.30-13.30	
Presentation III : Countries Experience in Corporate Sector Investment in Agriculture		
• Laos	13.30-14.00	Mr. Don Antiporta President, Asia Pacific Policy Centre and Regional representative for Asia, Erusma
• Africa	14.00-14.30	Mr. Syed Saifullah Senior Economist, FAO
Discussion	14.30-16.00	Mr. Arief Daryanto Brighten Institute
Concluding Remarks	16.00-16.15	Mr. Noer Azam Achsani
Closing and Photo Session	16.15-16.30	Committee

List of Participants

Participant Name	Professional Title	Organization
Mr. DS Priyarsono	Director	Brighten Institute
Mr. Ageng S. Heriyanto	Assistant	FAOR Indonesia
Mr. Tahlim Sudaryanto	Assistant Minister for International Cooperation	Ministry of Foreign Affairs, Indonesia
Mr. Yoshiaki Hata	Assistant Director	International Cooperation Department, Ministry of Agriculture, Forestry and Fisheries, Japan
Mr. Hermanto Siregar	Director	Brighten Institute
Ms. Thi Duong Nga Nguyen	Hanoi University of Agriculture	Vietnam
Mr. Ye Min Aung	Secretary	Myanmar Rice Federation
Mr. Don Antiporta	President	Asia Pacific Policy Centre and Regional Representative for Asia, ERUSMA
Mr. Syed Saifullah,	Senior Economist	FAO
Mr. Arief Daryanto		MB IPB
Mr. Noer Azam Achsani		
Mr. Tin Htut Oo	Chairman	Council of Adviser to the President of Myanmar
Bustanul Arifin		CPI
Takao Hattori	Assistant Director	International Cooperation Division, Ministry of Agriculture, Forestry and Fisheries, Japan
Fadhil Hasan		SINAR MAS

List of Presentations

1. The Keynote Presentation: agricultural Policy Issues: Focus on Private Sector Investment: Prof. Tahlim Sudaryanto, Assistant Minister, MOA, Indonesia
2. Investment Promotion for Domestic and Global Food Security: Yoshiaki Hata, Assistant Director, International Cooperation Division, MAFF, Japan
3. Corporate sector Investment in agriculture: Case of Indonesia: Brighten Institute, Bogor, Indonesia
4. Agriculture Investment Trends-The Role of Public and Private Sector in Vietnam, Nguyen Thi Duong Nga, Hanoi University of Agriculture, Vietnam.
5. Implementing a New Vision for Agribusiness in Myanmar: Value Addition, Integrated Food and Energy Production, the Role of Private Sector as Main Drivers: Ye Min Aung, Secretary-General, Myanmar Rice Federation (MRF), Managing Director, Myanmar Agribusiness Public Corporation (MAPCO)
6. Agriculture Investment Trends-The Role of Public and Private Sector in Laos: Linkham Douangsavanh, Ph.D and Mr. Pasalath Kunsy
7. Investing in African agriculture- A FAO Study: Mr. Saifullah Syed, FAO

**AGRICULTURE INVESTMENT TRENDS-THE ROLE OF PUBLIC AND PRIVATE SECTOR IN
Lao PDR**

By

Linkham Douangsavanh, Ph.D

Mr. Pasalath Kunsy

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Part A. Overview of the Report

A.1 Introduction

Since 1992, the Government of Laos PDR has been setting poverty alleviation as one of the national objectives and strategic priorities. The 6th Party Congress in 1996 defined the long-term development objective as freeing the country from the status of a least-developed country (LDC) by 2020. The National Growth and Poverty Eradication Strategy (NGPES) was introduced as the strategic framework under which all of the Government's future growth should be developed and implemented.

The NGPES also emphasized the link between governance and poverty reduction. As the Government has limited resources in terms of financial and human resource, improved governance is an integral part of the Government's effort to strengthen the overall environment for growth and development. One way to achieve this is by ensuring an efficient and low cost public service delivery through improved organizational structures and procedures, as well as creating a productive and motivated professional civil service. In addition, the improved governance also recognized that in the transition to a more market-oriented economy, the system of decision-making must be more community-based, transparent and accountable. In 2000 the Government introduced a decentralization policy which defies the provincial level as the strategic unit focusing on planning activities, the district level as the budget execution unit, and the village level as the implementation unit (Instruction No.01/PM). This governance programme aims to improve the four main areas which are public service improvement, people's participation, rule of law and sound financial management².

Under the Prime Minister's Instruction No. 010/PM dated June 25, 2001, poverty is defined as "the lack of ability to fulfill basic human needs such as not having *enough food*, lacking adequate clothing, not having permanent housing and lacking access to health, education and transportation services". Based on the Instruction No 010/PM, the Committee for Planning and Co-operation (CPC) and the provinces have identified 72 districts as being poor. A core group of the 47 poorest districts has been selected for priority investments for the period 2003-2005³. Therefore, it can be deduced that food security is one of the main factors of poverty. In order to eradicate poverty, food security must be addressed under the Government's programme.

Agricultural investment can emanate from economic agents such as the: public sector (including development assistance); private corporate sector (domestic and international); and farmers/households themselves. In most developing countries of Africa and Asia, public funding helps create public capacities and facilities, from roads and markets, to research and educational infrastructure. In many cases, these public capacities include irrigation and other direct productive infrastructures. The essence of investment in public goods is to create conditions that can attract private capital (corporate and farm level). Given the resource constraints of the developing countries of Africa and Asia as well as, the tight budgetary conditions many donor countries face, the private sector both domestic and foreign, has a potentially important role to play in undertaking agricultural investments in respective regions, thus moving development forward. However, private capital flow, in following up public investment, has not been particularly notable in most countries in Africa and Asia.

As the world awakens to the multiple dangers posed by the soaring food prices simultaneously with the climate change and the difficulties in the financial sector, it is not opportune to continue the practice of seeking more donor aid for public goods without taking time to reflect upon what holds back private agricultural investment from becoming vibrant. In view of this, it is envisaged to review corporate private sector investments in recent past, identify successes and challenges, and prepare the basis for a forum where the corporate private sector can discuss findings and highlight its perceptions of what discourages, encourages or is not sufficiently encouraging for them to invest on agriculture on a significant scale.

² Strategic Plan on Governance (2006 – 2010)

³ Somsavat Lengsavad, Lao PDR – National Growth and Poverty Eradication Strategy (NGPES)

A.2 Aims and scope of the paper

1. Identify key national, regional and international firms that invest in agriculture and, subject to available data, indicate patterns magnitudes of investment by sub-sectors/commodities and stages of the value chain (i.e. production, processing, marketing, etc.).
2. Conduct a questionnaire (to be provided) survey or interviews of operational officers of leading investors in the agriculture sector with a view to ascertaining their ideas and views on what they consider to be hindrances to more investment into agriculture and the opportunities they think are missed in further investment into the sector, and what they would like to see improved/changed for investment in agriculture to be attractive.
3. Undertake consultations with relevant government line agencies to ascertain present investor incentives offered to make agriculture more attractive relative to other sectors and summarize essential features.
4. Based on the findings and responses to the questionnaire, prepare a paper for presentation at a workshop where chosen firm representatives identified in all the three countries will be invited to exchange perceptions and views and discuss how to enhance corporate private sector investment in agricultural production.

A.3 Methodology and sources

Both primary and secondary data collections were implemented. The reviewing of essential documents includes laws, national development plan, investment research report on central level and local level. Moreover, 10 companies were interviewed. They were randomly selected from the country and are related to the main products of agriculture investments, such as rubber, sugarcane, palm oil, tea, maize, coffee, etc.

The research had utilized semi-structured interview schedules based on both qualitative and quantitative research approach. This is a non-experimental type of research which will be both explanatory and descriptive.

This research method was applied in both group discussion and individual interview. In addition, a validation workshop was organized to obtain the feedback and cross check the study's findings.

Part B: Overview of the agriculture sector

B.1 Agriculture sector performance (statistics on production, crops, imp/exp)

In order to ensure the economic growth of 7.5-8 percent, a total investment of 73.9 thousand billion Kip is projected to be required to support the Sixth Plan (2006-2010), which is equivalent to about 32 percent of Laos' GDP. The investment would increase at about 19.3 percent per year, from 29 percent of GDP in 2005 to 34.3 percent in 2010. Of the total, about 23.1 thousand billion Kip would come from the Government budget accounting for 31.25 percent of the total investment in the society. The investment from the private sector, both domestic and external, would cover the remaining 50.8 thousand billion Kip accounting for 68.75 percent of total investment.⁴

The ODA is projected to average at about USD 357 million per year over the five-year period 2006-2010 with about USD 600 million of foreign direct investment (FDI) mobilized each year. The sectoral shares of investment are projected at 16 percent for the agriculture sector, and 42 percent each for the industry and services sectors.

Conducive foreign policy has allowed the Lao PDR to gradually integrate into the regional and international economies and help to diversify its markets. From the period when traditional markets

⁴ Source: 6th NSCDP LAO PDR

consisted of Thailand, Vietnam and China to the end of the Plan, exports are now destined to 40 markets, which include the larger markets such as the European Union, USA, Japan and Australia, the United Kingdom, France and Germany. Border trade has also developed strongly. More prominently, during 2001-2005, many FDI enterprises have invested in export-oriented manufacturing activities.

In 2005, export revenues reached approximately USD 456 million (USD 500 million was planned for 2005) of which agriculture and forestry exports represented 10.2 percent. The total value of imports over the past five years amounted to USD 2.86 billion with an average annual increase of 4.9 percent. But, it remains lower than the Plan target of 8.6 percent per year. The value of imports per capita in 2005 was about USD 122.30. The composition of imports has changed in accordance with the capacity and requirements of the economy. More importantly, the proportion of rice and food products in imports declined significantly from 32.6 percent in 2000 to 9.9 percent in 2002 and approximately 4 percent in 2003.

The priority plans of the Government as laid out in the Sixth Five-Year Plan for rice production, are to reach 3.2 - 3.3 million tons by 2010, especially in the seven plains areas with existing agricultural facilities and infrastructure. Meanwhile, efforts should be made to diversify the agricultural and forestry products to meet the existing market demand and focus on the plantation of certain industrial crops based on each region's potential to increase the export volumes of commercial crops such as coffee, rubber, tea, cashew, maize, cassava, beans, tobacco and sugarcane. In addition, attention should be paid to raising cattle with focused efforts, such as cows and buffalos for export and goats, pigs and fish to meet the increasing domestic market demand. It is necessary to continue to develop and establish focal areas for production in many locations and uplift the production capacity by applying new technology.

An additional focus should be given on the processing industries to add value to the agricultural products for export. Over the five-year period 2006-2010, the areas of slash-and-burn rice cultivation were to be reduced by introducing new livelihood alternatives, such as industrial tree plantations and commercial crops, livestock rearing, and other permanent livelihood alternatives. It is necessary to establish and implement afforestation projects and water-shed protection areas, with the tree plantations reaching 25,000-30,000 hectares and increase the forest areas to 50% of the total land territory.

B.2 Subsector overview: main crops/livestock and markets

In order to achieve the above mentioned objectives in the five-year period 2006-2010, efforts were made to invest about 11.8 thousand billion kip in the agriculture and forestry sector, which accounted for 16% of the total investment. Currently, several new varieties have been introduced such as rice, maize, vegetables, beans, coffee, tobacco, tea, fruit trees and a number of domestic animals.

By 2005, the production of many crops significantly increased compared to the last year of the Fourth five-year Plan (2000). For example maize (corn) production tripled to 372,560 mt as compared to that in 2000. Maize is grown largely in the Northern Provinces of Bokeo, Sayaboury, Houaphanh and Xiengkhouang as well as in some Central Provinces. The production of coffee, concentrated in the Provinces of Champasack, Saravane and Sekong, increased by 6 percent thus reaching 25,000 tons. Peanut production, largely in the Provinces of Sayaboury, Luang Prabang, Vientiane, Saravane and Champasack, doubled to 26,990 tons. Soybean production, concentrated in the Provinces of Luang Prabang, Bokeo, Houaphanh and Champasak, also experienced a two-fold increase to 11,100 tons. The sesame plantation yielded 8,710 tons, up by 2.6 times, and was largely found in the Provinces of Luang Prabang, Sayaboury, Oudomsay, and Vientiane. The mung bean production, concentrated in the Provinces of Luang Prabang, Vientiane, and Cham, was up by three times to 3,700 tons. Tobacco, planted in the Provinces of Borikhamsay, Khammouane, and Savannakhet, provided a total harvest of 28,100 tons. Sugar cane, concentrated in Vientiane Capital and the Provinces of Luang Namtha, Phongsaly, and Borikhamsay, had a harvest of 196,100 tons. Vegetable production increased by 17 percent to 744,450 tons. Most noticeable is the plantations for export of vegetable

such as cabbage, chinese cabbage, bananas, potatoes and ginger on the Bolaven Plateau. Having won popularity, rubber trees are extensively planted in the Provinces of Luang Namtha, Oudomsay, Bokeo, Khammouane, Champasak, Saravane, Sekong and Attapeu. Orchards are being grown in a number of Provinces, particularly orange plantations in Luang Prabang, Sayaboury, Borikhamsay, Vientiane and Vientiane Capital.

The livestock and fisheries sectors are developing quite rapidly, mainly, due to the industrial farming systems applied in many localities as a result of the increased market opportunities and reductions in marketing costs. In 2005, the livestock numbers rose to 1.09 million buffalos (6 percent increase over 2000), 1.27 million cows (15.6 percent increase), 1.82 million pigs (28 percent increase), 19.8 million poultry (51 percent increase), and 190,000 goats and sheep (56 percent increase). Fish production rose to 143,000 mt (an increase of 15 percent), with fish farming accounting for 68.5 percent of the total and capture fisheries accounting for the rest (31.5 percent).

There were over 300 foreign direct investments in the agriculture sector between 2005-2010 mostly in rubber, softwood, sugarcane. Switch from small-holders to commercial entrepreneurs/concessionaires was observed. Rubber accounted for 30,000 ha in 2005 to over 250,000 ha in 2010. The accumulated FDI reached over 1.5 bil USD in 2010 (13% of total FDI).

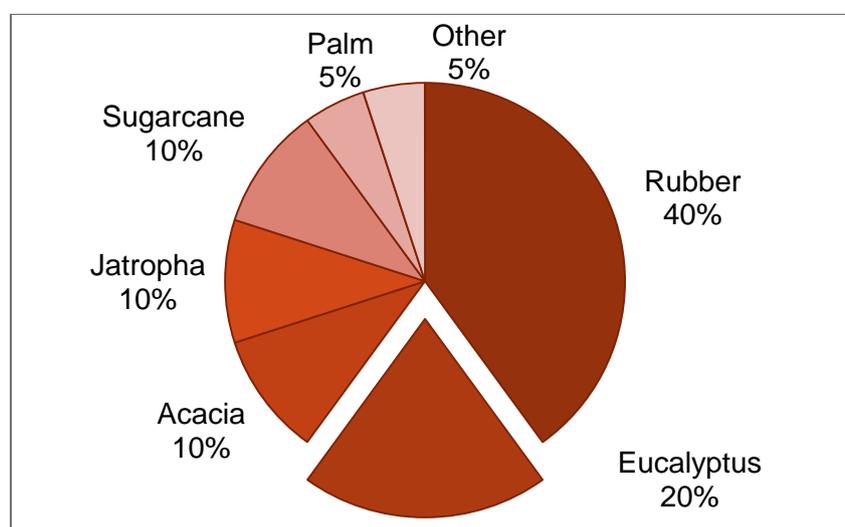


Figure 1: Investment Sectors, 2010

B.3 Agriculture policy framework (key areas)

The Government of Lao PDR has enacted policies to improve the sustainable development outcomes. NSEDP 7 sets the target for continued high economic growth, achieving MDGs, protecting the environment, maintaining political stability and peace, having an open economy integrated into the regional and world economy, and focusing on the quality of growth.

The Investment Promotion Law of 2009 aims to ‘contribute towards improvement of living conditions of people’ (article 5.1). The National Strategy for Private Investment Promotion and Management (draft 2012) emphasizes quality investments ‘that reduce poverty, enhance development of human capital, support a diversified economy and have least impact on the environment’.

The key policy which governs private investments is the Law on Investment Promotion, 2009. The 2009 Law stipulates a range of new investment incentives to attract investments and streamline investment approval procedures. Investments in general business activities are approved and managed by the Ministry of Industry and Commerce.

Other critical pieces of legislation that are in place to govern investments, particularly in the natural resource area, include:

- Agriculture Law
- Foreign Investment Promotion Law
- Enterprise Law
- Environmental and Social Impact Assessment Decree (2010)
- Land Law (2003) and Decree of Land Concessions (2009)
- Ministry of Planning and Investment
- Investment Promotion Department
- Committee for Promotion and Management of Investment
- Investment promotion incentives: profit tax exemptions for different zones

Part C: Public sector investment in agriculture

C.1 Current trends in public agriculture investment

C.1.1 Sources of investment

Because of the implementation of investment promotion and management in the past, the investment of private sectors on agriculture and forestry, both domestic and foreign, were very high, especially, land concession for the commercial production of crops, livestock, industrial trees and non-timber forest products (NTFPs) to distribute within country and export to abroad. According to the reporting of the planning and investment sector in both central and local level,⁵ there were recently a total of 600 companies with total investment of 2,276 million US\$ and total registered capital of 971 million US\$. Of those, domestic private sector investment is about 270 companies, with the total investment of 140 million US\$ or equally approximate 6% of total investment and the registered capital of 105 million US\$ or equally approximate 11% of total registered capital. Foreign private investment consists of 330 companies, with the total of investment of 2,136 million US\$ or equally approximate 94% of total investment and the registered capital of 866 million US\$ or equally approximate 89% of total registered capital. Particularly, the private foreign investments that are based on the project development agreement (PDA) with the Government, are total 30 companies (See table below), with the total investment of about 1,333.1 million US\$ and the registered capital of approximately 495.3 million US\$. The largest investment in-flows have been from the neighbouring countries of China, Vietnam and Thailand (IPD, 2010). In the Vientiane Province solely, concessions were granted for 293,487 ha (representing more than 15% of the total surface of Vientiane Province (1,852,500 ha)). The largest is the mining sector with 267,381 ha. Among the agricultural and agro-industry sectors land concessions of 12,114 ha were granted for the production of agro-fuel (mostly *Jatropha* projects), 7,290 ha for rubber production and 5,093 ha for wood production. Concession areas for food production accounted for only 1,079 ha. It is estimated that concessions for 2-3 million ha were granted all together (including domestic projects), representing up to 13% of Lao PDR's total land area. Besides Australia, which is engaged in mining activities, the main investing countries are the neighbouring countries of China, Vietnam, and Thailand, as well as South Korea. China and South Korea are mainly involved in food production, probably for export. Japanese investors such as Oji Paper and Indian Birla are also big investors, both focusing on the pulp wood production.

⁵ Land concession Presentation 2012

Table 1: Domestic and Foreign Investments

Investment	Number of Company	Total Investment (Mil. US\$)	Registered Capital (Mil. US\$)	Land Concession (Ha)
Domestic	270	140	105	70,000
Foreign	330	2,136	866	430,000
Total:	600	2,276	971	500,000

Sources: 2010

Table 2: Investment Value, Capital, and Land Concession Area by Countries

No.	Name of Country	Number of Company	Total Investment (Mil. US\$)	Registered Capital (Mil. US\$)	Land concession (Ha)
1	Vietnam	12	339.0	114.2	72,470
2	China	7	289.5	104.7	32,550
3	Thailand	3	162.5	65.0	22,610
4	Japan	2	89.0	26.0	74,975
5	India	1	350.0	125.0	50,400
6	Korea	1	40.0	38.7	12,290
7	Malaysia	1	53.3	16.0	10,000
8	Singapore	1	4.1	4.1	640
9	Sweden	1	3.7	1.1	810
10	Lao PDR	1	2.0	0.5	1,000
	Total:	30	1,333.1	495.3	277,745

Sources: 2010

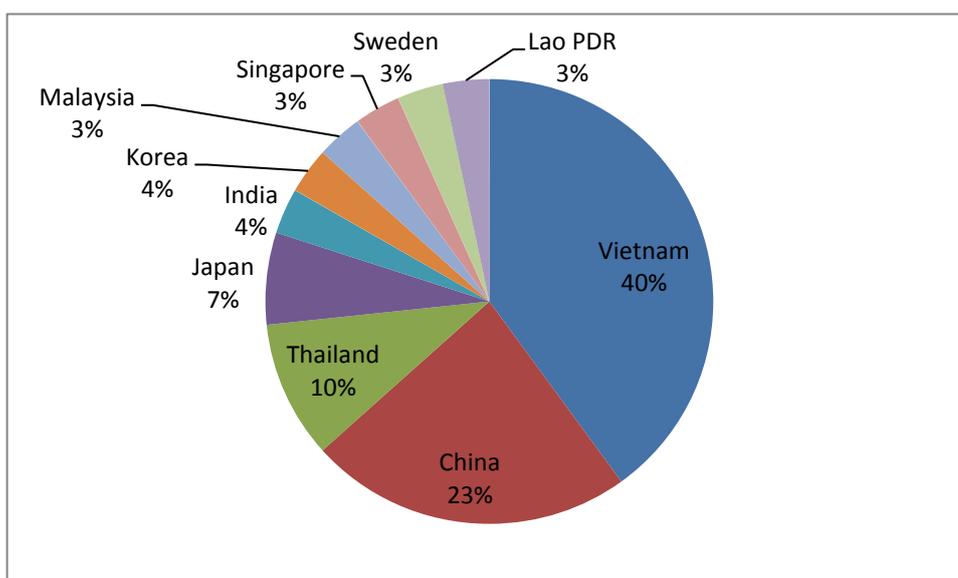


Figure 2: Investment by Country, 2010

C.1.2 Sectoral allocations

The domestic and foreign investment in the commercial production in agriculture and forestry consists of three sectors: Crop, Livestock and Industrial Tree. These sectors are composed of a total of 594 companies with total investment of US\$ 2,422 million and total registered capital of US\$ 994 million. Based on sectoral division, the cropping sector for agriculture and industrial crops production has 261 companies, with the investment of US\$ 580 or equally approximate 24% of total investment and the registered capital of US\$ 298 million or equally approximate 30% of the total registered capital. The livestock sector has total 90 companies, with the investment of USD 62 million or equally approximate 3% of total investment and the registered capital of US\$ 43 million or equally approximate 4% of the total registered capital. The industrial tree plantation sector consists of 243 companies, with the investment of US\$ 1,780 million or equally approximate 73% of total investment and the registered capital of US\$ 653 million or equally approximate 66% of total registered capital.

Table 3: Investment Value by Sectors

Investment	Number of Company	Total Investment (Mil. US\$)	Registered Capital (Mil. US\$)
Crop sector	261	580	298
Livestock sector	90	62	43
Industrial Tree sector	243	1,780	653
Total:	594	2,422	994

Sources: 2010

Total Investment (Mil. US\$)

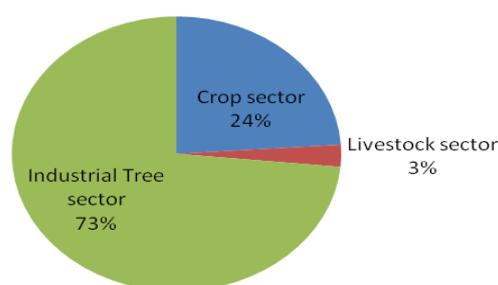


Table 3: Investment Value by Sectors, 2010

C.1.3 Government initiatives to promote investments in agriculture

Directives and tasks of development in agriculture and forestry of 7th NSEDP build the capacity and potential of agriculture by developing 7 priority plans, as well as developing small plans in the north of the country in an appropriate manner to ensure food security and supply raw materials to the processing industry. On the other hand, integrated agriculture, green agriculture and organic agriculture must be promoted in response to domestic and export demands.

Main targets:

Food production: By 2015, rice production should reach 4.2 million tones with a yield of 4 tons per hectare on average in one season; meat production should reach 221.5 thousand tons per year; and aquatic foodstuff (fish, frogs and shrimp) production should amount to 157.2 thousand tons per year.

Commercial production: 600,000 tons of rice to be produced for export annually.

Forestry: Increase forest coverage to 65 percent of the country's total area by 2015, rehabilitate 3.9 million hectares of natural forest and reforest 200,000 hectares. Undertake a survey of 60 percent of forest cover under the three classification types and expand the certified production forest area by 10 percent in 2015.

Food crops and vegetables: The production volumes of food crops should continue to increase to adequate levels to ensure food security and maintenance of food reserves. Rice production in 2010 should reach about 3.2 -3.3 million tons, with the volume of all food crops production reaching 3.8 - 4 million tons, thus, providing for an average food availability of 450-500 kilograms per capita. Corn production should be promoted by increasing the planted area to 28,000 – 30,000 hectares, with a total production capacity of 135,000 – 140,000 tons. The low productivity land areas should be transformed for plantation of other types of tree crops. Intensive agriculture should be promoted in order to increase the productivity of this sector. The agricultural focal areas should be developed with specialization in plantations, vegetables, and fruits with special Lao characteristics (e.g. organic fruits).

Industrial trees: The general guideline for the five-year period 2006-2010 is to establish various special plantation areas for certain types of trees in order to secure the quantity of supply to domestic/local processing industries and for export. The plantation of industrial trees should be coordinated with the establishment of infrastructure for processing industries. The focal and central investments should be organized to apply advanced technology and new improved varieties of higher quality so as to increase the volume of exports. The plantation of such crops as rubber, coffee, tea, tobacco, cotton and cashew should continue to be expanded in areas suitable for these types of crops.

Livestock: First, it is necessary to strive to ensure the supply of a sufficient amount of meat to domestic markets. Animal raising activities on farms should be promoted, with priority to large animal raising programs, especially big animals and poultry, through new effective breeding of high quality animals. Animal feeding should be ensured to enable the export of a larger quantity of animals. The efforts to increase the livestock should be intensified; especially big animals and poultry, with the growth reaching about 4-5% per annum. By 2010, the livestock sector should account for approximately 42 - 45 % of the total value of production of agricultural-forestry products.

Fish Production: The production of aquatic animals of high commercial value should be increased, especially fish raising in the Mekong and its tributaries. The fish processing industry should be improved and expanded to increase the value-added in this sector.

Forestry: The administration and exploitation of timber and non-timber forest products should be improved and reformed, with controls on the exploitation of timber. At the same time, tree plantation and forest protection should be promoted. The categorization of different types of forests, including the identification of ownership types (such as state-owned, collective, community and other forms of ownership) should be accomplished. The exploitation (use) of forest areas in the watersheds should be reduced by organizing strong management by the state units and increasing the forest cover. The investments should be focused on plantation in order to ensure the supply of raw materials to processing industries, such as paper and plywood mills.

The efforts on forestry plantation should be intensified to reach the level of 25,000 – 30,000 hectares. The forest cover should be increased to above 50 percent of the total land area of the country by 2010, including through mobilization of tree plantation in public places and alongside the roads.

Part D: Private sector investment in agriculture

D.1 Current trends in private agriculture investment

D.1.1 Key national, regional and international firms/banks investing in Agriculture

The key private foreign investments come from China, Europe, Japan, Korea, Singapore, Thailand and Viet Nam.

The main firms in agriculture investment

- Coffee
 - Dao Heuang (Champasak)
 - Sinouk (Champasak)
 - Lao Mountain Coffee
 - Outspan Coffee (Singapore)
- Vegetables
 - Lao Agro Industry (Vientiane Province)
 - Mme. Inpeng (Champasak)
 - Taniyama-Siam (Sekong)
- Textiles
 - La'ha (cotton indigo) (Savannakhet)
 - Lao Sericulture (Mulberries) (Xieng Khouang)

- Benzoin
 - Agroforex (France) in Huaphan
- Sugar cane
 - Mitr Lao (Thailand) in Savannakhet
 - Savan (Thailand) in Savannakhet
- Jatropha
 - Kolao (Korea) in Vientiane P
- Tree plantations
 - Oji (Japan) in Borikhamxay, khammouane)
 - Birla (India) in Savannakhet
 - Sun Paper (China) Savannakhet
- Cassava
 - Yetao (China) in Savannakhet
 - Henan (China) in Savannakhet
 - Tenghui (China) in Savannakhet
 - Hu Phu (Viet Nam) in Salavan
- Rubber
 - Dak Lak Rubber Co. (Viet Nam)
 - Quasa Rubber (VietNam)
 - Huang Anh Rubber (Vietnam)
 - Sino-Lao Rubber Co., Ltd. (China)
 - Zenhua Rubber (China)
 - Ruifeng Rubber (China)
 - Jianfong Rubber Development Co., Ltd.

D.1.2 Major areas of investment

The area of investment classified by country:

- China
 - Mostly in the North
 - Rubber, tea, vegetables, cassava, livestock, NTFPs
 - Rubber processing
- Europe
 - North, South
 - France: Jatropha, benzoin
 - Hungary: livestock
 -

- Japan
 - Central, South
 - Eucalyptus, Acacia, vegetables
- Korea
 - Central, South, North
 - Jatropha, NTFPs
- Singapore
 - South
 - Trade zones, coffee
- Thailand
 - Central, South
 - Sugar cane, coffee, vegetables, cassava, pigs, cattle, maize, macadamia nuts, oil palm, peanuts, castor bean, cardamom, cassava
- Viet Nam
 - South, North
 - Cassava, rubber, livestock, forestry, NTFPs, maize, cattle, buffalo

The area of investment classified by Agro- processing region:

- **Agro-processing: North**
 - Organic tea to China
 - Rubber to China
 - Maize to China, Thailand, Viet Nam
 - Soybeans to Thailand
 - White sesame to Thailand
 - NTFPs to China, Japan, Korea
- **Agro-processing: South**
 - Okra to Japan
 - Coffee to Hongkong, Europe, Thailand
 - Cabbages to Thailand, Viet Nam
 - Bananas to Thailand, Viet Nam
 - Cotton indigo products to Japan
 - Peanuts to Thailand, Viet Nam
 - Cassava to Viet Nam
 - Rubber to Viet Nam
 - Soybeans to Thailand, Viet Nam

- **Agro-processing: Central**
 - Maize to Thailand
 - Sweet corn to Europe
 - Vegetables to Europe
 - Peanuts to Thailand
 - Cassava to Thailand
 - Black glutinous rice to Europe, some organic

D.1.3 Investors' assessment of factors influencing their investment decisions

In general, there are limitations in attracting foreign direct investment due to the lack of a domestic workforce with technical capacity. Human resource development requires an extended period of time. A solution at the initial stage may be to import international labour required to support projects receiving foreign direct investments. Clearer labour policies will be issued to promote the private sector and foreign investors to invest more capital in developing the industries. Foreigners working for enterprises investing in the country have to contribute to commodity production. Employees and technical workers are urged to prepare for meeting the needs of foreign investments. Thus, there is an urgent need to train technical workers.

Based on occupation types and regional specialty, a development plan will be determined in order to attract foreign investment. For example, foreign investment will be attracted in hydro-electricity, mining, food processing, cattle rearing and export industries. A list of projects that require foreign investment will be compiled within each period of the five-years in relation to the granting of foreign investment permits. A supporting committee will be assigned to inform potential investors in capable countries to attract foreign investment. Major cities should set up meetings for discussion and report on the foreign investments that suit the capacities, strengths and priorities of the local people as well as the country. Senior government leaders should arrange meetings with local and international investors/enterprises to receive feedback in order to improve the public investment environment. The difficulties that confront the enterprises should be addressed and solved immediately in order to encourage and facilitate production and business operations. Regular budgets will be injected into enterprise activities to enhance integration, discussion and assistance, solving difficulties that confront foreign investors.

D.2 Foreign direct investments (FDI)

The 7th NSCDP has gathered a development aspects based on FDI to achieve the expectation of increase and target of development. Based on previous benefits from FDI, this five-year development plan is concentrated on attracting FDI under the following circumstances:

1. Generate government income for involving into social and human resource development;
2. Create stable occupation/profession and income to people for reducing poverty and increasing a civilization of country ;
3. Transfer new skills and technologies to local private business; and
4. Prevent environmental recourses.

From 2001 to 2005, the Lao PDR has received 585 FDI projects with total committed capital of US\$ 2.8 billion. But, only US\$ 1.07 billion worth of funds were actually brought in (disbursed) during the period. The agriculture sector received 14 percent of the total number of projects accounting for 7 percent of the total investment capital. The proportions of investment in the agriculture and service sectors show an increasing trend. In the five year period, FDI disbursements reached US\$ 933 million, of which US\$ 326 million was received in 2005. Capital injected from abroad reached

US\$ 855 million, accounting for 91.6 percent of the total.⁶ Disbursements in the agriculture, forestry and fisheries sectors amount to 4 percent.

D.2.1 Factors affecting the business climate for FDI in the agriculture sector (FDI attraction policy)

The overall strategy is to create a more favorable environment to promote the private sector and to attract foreign direct investment (FDI). Existing regulations, laws and procedures will be changed to accelerate the process of setting up a business. The rate of growth of foreign investment into various projects will be accelerated. Investment activities will be varied due to an open environment for attracting foreign investments from the private sector or expats to be involved in commodity production for domestic and/or international markets. There will be measures for developing market types, science and technology services, intellectual products and business consultancies.

The Government will conduct regular assessments of enterprise business operations for every economic sector (e.g. private and state sectors), and has policies to reward people with great achievements with medals. Regulations and services will be improved and disseminated in order to simplify investment and shorten the time for granting investment permits. The effectiveness of investment promotion will be improved and there will be a new method to gain awareness about investments with ownership and suitability for local conditions and types of enterprises. The policies on investment priorities will be reviewed, including the regulations on granting investment permits, especially land acquisition fees, transportation and telecommunication service charges and others, to build a more favourable investment environment in Lao PDR. Projects with permission can be implemented immediately and new project registration will be speeded-up.

Positive impacts from agriculture investments (evidence from PEI/IUCN/NERI studies), such as increased employment and income for local people, stimulate other investment opportunities (spillovers), contribute to community development, support development of rural infrastructure and generate revenues to provincial and national government. In contrast, its negative impacts include a loss of local people's access to land for agricultural/livestock and forests (NTFPs), land disputes, low returns to labor, possible increased vulnerability to food insecurity, impacts of chemical use on human and environmental health, costs of social environmental impacts, increased uncertainty and lack of adequate protection from market volatility.

D.3 Opportunities and incentive to private investment

D.3.1 Public sector support for private sector investments

Overall, FDI has made a positive contribution to the manufacture of goods, economic growth and the restructuring of the economy. It also helped to develop the private sector. These achievements were attributed to the incentives provided by the Government and other measures, such as the decentralization of foreign investment licensing. From 2005 onwards, provinces have been delegated by the authorities to license foreign investment projects valued up to US\$ 2 million. This has led to significant increases in FDI compared to the beginning of the Plan period. Annual forums with investors and businesses were organized to discuss constraints and explore solutions. At the same time, the infrastructure has been improved rapidly providing better facilities to attract FDI. In October 2004, the National Assembly revised the Law on Foreign Investment including the incentives, thereby paving the way for the increase in FDI in 2005 and thereafter.

The vision is to make the private sector an increasingly important driving force for accelerating economic growth, generating high-paying jobs and reducing poverty. Increased private investment will provide new income generating opportunities including many of new jobs during the next five years. Private sector investment will also play a pivotal role in increasing the competitiveness of the Lao economy in regional and international markets during this period.

⁶ From 6th NSEDP

D.4 Conclusions and policy recommendations

The Sixth Plan (2006-2010) will translate programme into actions and methods for economic development that incorporate foreign investments. There will be immediate materialization of laws related to foreign investments. The 5th National Assembly already made some changes to the mechanisms, policy, plans, procedures for granting investment permits, etc. These will be monitored regularly for further improvement and enhancement of the investment environment. This will create faster and simpler investment procedures.

Agricultural development Targets

- Reform the laws and regulations involved in setting up enterprises and streamline the process;
- Finalization, implementation and enforcement of the implementing regulations of the business Law;
- Improve the quality and professionalism of public service provision;
- Increase transparency;
- Hold regular meetings between the central and local level governments and the private sector;
- Reform regulations and administrative constraints that give rise to monopolies such as lifting restrictions on the movement of goods between provinces and abolishing limitations on restricting provincial contracts to local firms;
- Lift some restrictions on foreign workers;
- Reform the tax system, setting up proper monitoring agencies;
- Increase foreign investment;
- Continue to develop regulations and business operation laws, improve the business licensing processes, reduce unnecessary procedures and increase fast and convenient services to businesses and entrepreneurs;
- Promote the establishment of enterprises, cooperatives and family businesses in all areas permitted by the Government and increase people's access to financing.

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**AGRICULTURE INVESTMENT TRENDS - THE ROLE OF PUBLIC AND PRIVATE SECTOR IN
VIETNAM**

By

Nguyen Thi Duong Nga

SUMMARY

The paper presents an overview of public and private investment in agriculture in Vietnam and proposes key recommendations for encouraging investment in the sector in the coming time.

The study employs secondary data from various reports and surveys, and key informant interviews with 11 investors in agriculture in Northern Vietnam. Public investment in agriculture grew at rate of 17% during period 2000- 2010, however its share in total public investment has been decreased from 12.2% in 2000 to 5.9% in 2010.

Irrigation has been the top priority which took about three-fourth of total investment, followed by agriculture production (seed, breeds and other services), and R&D. Non-state investment in agriculture has been increasingly important, with a share of 64% in total country investment in the sector and the number of private agricultural enterprises peaked at 1,153 in 2006, accounting for 54% of agriculture enterprises. FDI has reduced sharply in the last twenty years and accounted for only 0.5% of total FDI in Vietnam. Big investors in agriculture focused on agro-processing and inputs for agriculture production.

Seven factors affecting business climate for investors in agriculture in Vietnam were identified, which related to land, infrastructure, credit, material supply, labor, macroeconomic environment, and legal framework. Recommendations for improving the business climate for investors in agriculture were proposed accordingly.

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Part A. Overview of the Report

A.1. Introduction

Investment in agriculture is seen as a source of the sector and economy growth in developing countries (FAO (2004), IPFRI (2010)). FAO (2009) indicates that there had been a global slowdown in the rate of accumulation of capital stocks in primary agriculture. The capital stock in agriculture grew annually at 1.1% during the period 1975–1990 and the rate dropped to 0.5% during the period 1991–2007. In a number of countries like India and Thailand, investment in agriculture has increased in absolute term but declined in the share of total investment. The trend is alarming because developing countries are largely agriculture based. Fan and Rao (2003) also show that public investment in rural areas has stagnated in recent years in many developing countries and its share of total government expenditure and of agricultural GDP has fallen. The decline in agriculture investment is driven partly by rising need for other sectors in structural adjustment programs and low priority attached to agriculture since the mid-1980s by many governments and donor agencies.

In Vietnam, agriculture sector shares more than 20% of GDP but more than 60% of population lives on it. Therefore, Government has considered agriculture as the key sector to promote economic growth and poverty reduction. Remarkable successes in economic development have been achieved, with average annual growth rate of GDP about 7% during the last two decades. Poverty rate was reduced from 37.4% in 1998 to 14.2% in 2010 (GSO, 2011).

Investment in agriculture has been used by the Vietnam Government as a key instrument to achieve socio-economic goals. However, like other economies in transition, the country also faces problems in resource allocation for agriculture sector, especially with the target to develop a modernized industry sector by year 2020. The Government also emphasizes the importance of industry and services sectors by setting a target to have contribution of 85% from these sectors to GDP by 2020 (Party Documents, 2010). This, coupled with government budget constraint, implies that capital mobilization for agriculture could not be based only on public sector. Therefore, non-public investment in agriculture has been receiving increasing concerns, especially by the Ministry of Agriculture and Rural Development (MARD).

A.2 Aims and scope of the paper

The paper aims to:

- Provide an overview of agriculture and public/private investment trend in Vietnam
- Identify problems and constraints to investment in Agriculture in Vietnam
- Provide policy implications to promote public and private investment in agriculture in Vietnam

A.3 Methodology and sources

Definition of Investment: There are several definitions of investment. FAO (1999) defines that “Agricultural investment refers to changes in the level of all inputs that augment agricultural production capacity. In addition to augmenting physical capital, the conservation of natural resources, knowledge and human capital development, rural infrastructures and post-production equipment, also represent the critical elements of investment”. Investment can also be understood loosely as the changes in public expenditure in support of agricultural production.

Zepeda (2001) defines investment as the change in fixed inputs used in a production process. In the narrowest definition, investment is the change in physical capital stock. An extension of the definition of investment covers changes in comprehensive capital stock. This means agricultural investment should include improvements in land, development of natural resources and development of human and social capital in addition to physical capital formation.

The General Statistics Office (GSO) of Vietnam defines that “Investment is expenses to increase and remain physical assets, in a given period. Investment can be seen through investment projects and national target programs mainly to increase fixed assets and change in inventories assets”.

Sources of data. Due to data availability on investment in Vietnam, the paper employs data from various sources, namely GSO, MARD, Ministry of Finance (MOF) and enterprises surveys. While GSO provides data on investment as defined, MARD and MOF provide expenditure data which is referred to as public investment in agriculture. As private investment is not officially defined, collected and released by GSO, enterprises’ capital was used as a proxy for investment.

The Foreign Direct Investment (FDI) data is collected from the Ministry of Industry and Trade. The interviews are made with five investors in agriculture, using semi-structured questionnaires. KIP is also done with government line agencies. Information on interviewed enterprises is given in Table 1.

Table 1. Sample description

No	Name of company/enterprises	Location	Type
1	Pacific Company	Hoa Binh province	FDI (100%)
2	Hoa binh Agro-processing company	Hoa Binh province	Joint stock
3	Thanh Son company	Hoa Binh province	Private
4	Hoa Binh Sugar joint stock company	Hoa Binh province	Joint stock
5	Phuong Huyen seedlings production and trading limited company	Hoa Binh province	Private
6	Dong Giao foodstuff export company	Ninh Binh province	Joint stock
7	Hong Quang seed company	Ninh Binh province	Private
8	Thanh An ago-processing company	Ninh Binh province	Private
9	Huong Nam Mushroom Center	Ninh Binh province	Private
10	Van Dac Phuc Processing company	Hai Duong province	FDI (100%)
11	C.P. group	Hanoi	Transnational

Due to the limited time, farmers, as private investors are not examined in this study. However, it should be noted that farm households and commercial farms have close links to agro-processing companies as well as agro-input production and trading companies.

Part B: Overview of the agriculture sector

B.1. Agriculture sector performance

B.1.1. Agriculture production

Agriculture contributed to nearly 40% of the country's GDP during 1980s and the share has declined to about 20% in the last decade (Table 2). However, labor force in rural areas has not been moved by the same fashion. In 1985, labor in agriculture accounts for 73% of the total labor force and has decreased to about 50% recently.

Table 2. Structure of Vietnam's GDP by sector (%)

Sub period	Agriculture	Industry	Services
1985-1990	33.57	26.70	39.73
1990-2000	25.79	31.28	42.94
2000-2010	19.18	40.01	40.81

Sources: Calculated from GSO data

Despite that the industry and services sectors experience higher growth rate (from 5%-15%) (Fig.1), the growth pattern is more erratic than the agriculture sector in the last two decades. Agriculture sector, therefore, is important not only in terms of providing livelihoods for large population but also in terms of sustaining the economic growth as a whole. However, a declining tendency of growth rate is observed in the sector, which reached 4% during period 1995-2000, declined to 3.8% during the following 5 years, and dropped to 3.3% in the period 2006-2010 (MARD, 2012).

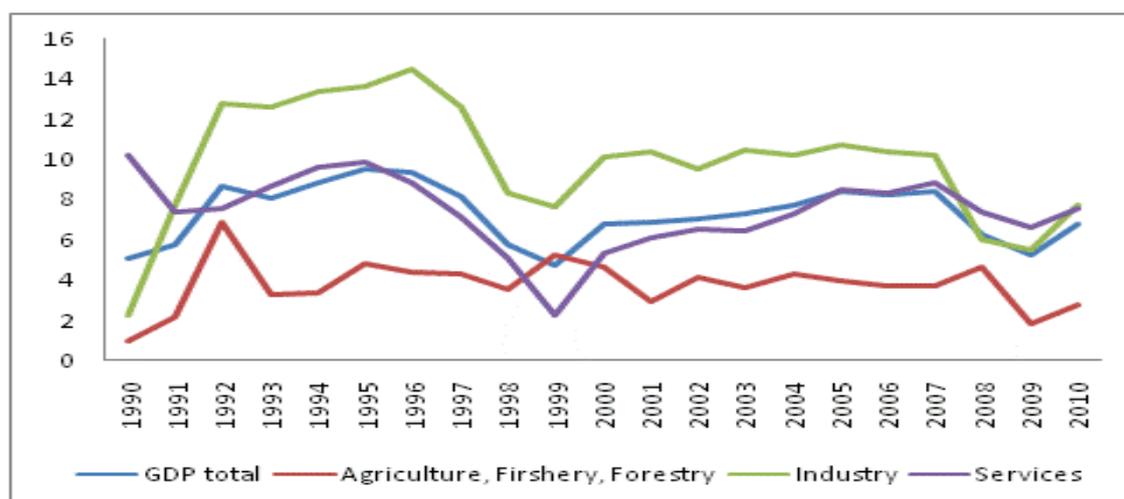


Figure 1. Annual growth rate of GDP components (%)

Agriculture has experienced structural changes. The crop production share in the agricultural GDP has declined from 62% in 2000 to 56.4% in 2010, combined with a slowdown in growth. Livestock and fisheries sub-sectors have become increasingly important, with a contribution in agricultural GDP in 2010 of 18.5% and 21%, respectively (MARD, 2012). The two sub-sectors enjoy a high growth rate during the last two periods (Table 3).

Table 3. Growth rate of output value in sub-sectors in Agriculture (%)

Period	Crop	Livestock	Forestry	Fishery
1990-1995	5.9	5.8	0.3	10.7
1995-2000	6.5	6.3	3.2	10.0
2000-2005	3.5	7.1	1.4	12.2
2005-2010	3.7	7.0	3.1	8.8

Sources: Calculated from GSO data

B.1.2. Export and Import

Vietnam has achieved remarkable growth in both production and export for key agricultural products such as rice, coffee, pepper and fishery products. Import has increased as well, but agriculture maintains positive trade balance (Table 4), while net import of the country has been around 15%-20% recently.

Table 4. Import and Export in Agriculture sector (millions US\$)

Trade Balance	2009	2010	2011
Export	15,627	19,527	24,982
Import	9,514	12,158	15,935
Net Export	6,113	7,369	9,047

Sources: MARD(2012)

Export. Vietnam exports agricultural products largely in the raw form or semi-processed form, mainly food crops, industry crops and aquatic products. Export values of the sector in 2010 are about 7 times as high as in 1995. However, the share in country's export revenues has declined from 46% in 1995 to 23% in 2010. According to MARD (2011), total export revenues of agriculture, fishery and forestry reached 19.15 billion US\$ in 2010, of which, contributions from rice, fishery and rubber is 17%, 26%, and 12% respectively.

Import. Feed and feedstuff takes the largest component in total import value of the agriculture sector. In 2011, the total value of imported feed and feedstuff is estimated to be 2.3 billion US\$,

accounted for 15% of total import value of agriculture sector. Import of this item increases due to the expansion of demand for meat and the limited domestic capacity to produce feedstuff such as maize and soybean meals.

The second most important imported item is fertilizer, which accounted of 14% of total agriculture import in 2010. Despite that Vietnam has invested in producing fertilizer, its supply does not meet the demand.

Vietnam has also paid about 1.3 billion to import wood and wooden products in 2010, which accounted for 8% in total agriculture import. Other main imported items in agriculture are cotton, oil, rubber, milk, wheat and pesticides, which, individually account for 5 to 8% of the total agriculture import.

B.2. Subsector overview

B.2.1. Crop production

Food crops (rice and maize) contribute largely to the total value of crop production in the country with a share of 67% in 1990 and 56% in 2010, due to emphasis on higher – value crops. Industry crops (such as coffee, rubber and pepper) have taken place with contributions of 26% in total cultivation GDP during the same period. During the last decade, total value of crop production grew at 3.6% annually, lower than the overall growth rate of agriculture output (4.2%). This sub-sector is export-oriented with selected crops such as rice, coffee, rubber and pepper.

Rice. In 1975, rice is cultivated in about 4.9 million ha and total paddy output was recorded at 10.3 million tons, which did not meet the domestic demand. Irrigation system construction, technology development and more capital investment have contributed to the rapid expansion of the rice area, which peaked at 7.6 million ha in year 2000. Rate of growth, however, has slowed down to about 2% annually in the last five years. In 2010, total paddy output is estimated to be about 40 million tons, accounting for about 6% of the world rice production.

Paddy is produced by a large number of households. Mekong River Delta (MRD) is the largest producing region which contributes to about 50% of the total output, followed by Red River Delta (RRD) (20% output). Production scale at the farm level is very different among regions, with an average size less than 0.2 ha in the RRD and 1.29ha in MRD (Ismard, 2011). While RRD mostly supplies rice for domestic consumption, more than 90% of produce in MRD is exported. Despite of the growth in rice export, MRD farmers face problems of flood inundation, salt water intrusion, drought, and outbreaks of pests and disease. Aside, as fertilizer and chemicals represent about 30-50% of the total cost of production, farmers are largely dependent on import. Historically, Vietnamese rice is evaluated as lower quality than Thailand and priced lower, which largely results from problems in both production and marketing. Thousands of farmers plant different varieties in fragmented small parcels. Most of them practice sun-drying (some sell fresh paddy at field), and rice is stored in very simple containers, resulting in both physical and quality loss. Dry paddy with different moisture content, maturity and varieties is sold to private traders/collectors, then moved to rice millers for husking and polishing and then handled by exporters.

Vietnam has been the second largest rice exporter since the mid-1990s. In 2010, the country exported about 6.9 million tons of rice (Table 5), valued at 3.23 billion US\$. Main importers are Philippines, Singapore, Malaysia, Cuba and Indonesia.

Table 5. Export quantity of main crops in Vietnam, selected years ('000 tons)

Year	Rice	Coffee	Rubber	Pepper	Tea	Cashew
1995	1,988.0	248.1	138.1	18.0	18.8	19.8
2000	3,476.7	733.9	273.4	36.4	55.7	34.2
2005	5,254.8	912.7	554.1	109.9	91.7	109.0
2010	6,886.0	1218.0	782.0	117.0	137.0	195.0

Sources: Calculated from GSO data

Coffee. Robusta is the main coffee variety planted in Vietnam. Coffee production boosted in 1990s, largely driven by the high world price. Frosts in Brazil had pushed coffee prices through the

roof to more than US\$2,400/ton in 1995. In 1994, Vietnam had 124,000 ha planted coffee, which doubled in the following two years and quadrupled in 2010. Coffee output grew at about 30% annually during period 1995-2000. However, it fluctuated strongly with negative growth rate during 2000-2005 (Table 6). Total coffee output was about 1.1 million tons in 2010, 10 times higher as compared to 1990. Coffee is mainly produced in the Central Highland. Favorable natural conditions and cheap labor have largely made Vietnamese coffee advantage.

Table 6. Annual growth rate of output production of selected crops in Vietnam, 1990-2010 (%)

Sub-period	Rice	Tea	Coffee	Rubber	Pepper
1990-1995	5.36	4.5	18.8	16.6	1.6
1995-2000	5.44	11.7	29.8	18.5	33.3
2000-2005	1.95	12.6	-1.3	10.6	15.4
2005-2010	2.22	7.6	8.0	9.4	6.7

Sources: Calculated from GSO data

Coffee has become one of the most important agriculture products and exports of Vietnam, as well as the most vibrant livelihoods for farmers in the Central Highlands – the region with highest poverty incidence. The value chain is comprised of many actors, from input suppliers (fertilizers and chemicals), farmers, collectors, processors to manufacturers and exporters. High growth in coffee production is largely based on intensive farming and area expansion. Coffee growers now face a number of difficulties, such as increasing input prices, pest and disease outbreaks, water shortage (over exploited ground water) and weather. Overuse of these inputs has resulted in unsustainable pattern of development of coffee in Vietnam. Like case of rice, poor quality is a problem resulting from production to processing stages. Small scale of production (around 90 percent of coffee is produced in an area of less than 1ha) deters farmers from adopting advanced techniques in production and harvesting. For example, growers harvest coffee beans using a strip-pick approach, making the rate of ripe coffee out of collected coffee cherries under 50% (IPSARD, 2010). Farmers also apply sun-drying for coffee beans without further sorting. Therefore, off-flavour, foreign matters and percentage of broken beans represent the bad quality of Vietnamese coffee. However, there is little incentive to improve coffee quality from farmers to exporters (Global Donor Platform for Rural Development, 2011). Export price of Vietnam's coffee is always lower compared to the world price. Recently, MARD has implemented 4C program for sustainable development in the Central Highland, where, about 10% of the coffee area is certified for sustainable farming.

From a very small export quantity of coffee in 1995, Vietnam has become the second largest exporter in the world. In 2010, the country exported 1.2 million tons of coffee beans (Table 5). However, Vietnamese coffee is considered to be lower grade, therefore, lower price than other exporters. Main importers are USA, Germany, Spanish, Italia and Japan.

Tea. Tea area has doubled in the last two decades, which was about 130,000 ha in 2010, accounting for about 36% of the world tea area. Total production is recorded at 889,000 tons in 2011 (MARD, 2012). Yield improvement largely contributes to the output growth. Through various programs, MARD has introduced high yield tea varieties to replace local varieties and encouraged intensive farming. Tea is mainly produced in the Northern mountainous midland (72% area) and Central Highland (22% area).

Like coffee, tea is produced by a fringe of small farmers. There are several key actors in tea value chain: tea growers, collectors, processors and exporters. Vietnam's tea is also, unfortunately, evaluated at a lower grade in the world's market. Consequently, the country enjoys only 60%-70% of the world tea price. In 2011, a "dirty tea" case resulted in the bad reputation of Vietnamese tea. Besides, intensive farming based on the use of fertilizer and agro-chemicals also increase dependence of farmers on imports and overuse of inputs results in a low quality of products, as well as, in environmental degradation.

Vietnam has quickly upgraded its position in the tea world market, ranking as the sixth largest tea exporter. In 2010, total tea export is recorded at 137,000 tons. Main importers are Pakistan, Taiwan, Russia and China.

Pepper. Pepper area has expanded quickly from about 9,000 ha to 50,000 ha in the last two decades, mainly distributed in Central Highland and South East. Total production reached about 110,000 tons in 2011, accounting for about 37% of the world production (VPA, 2012), thus positioning Vietnam among the top pepper producers in the world. As more than 90% of the output is exported, pepper production experiences quite erratic growth patterns and is strongly influenced by the world's market. The black pepper price has increased continuously from 1,790 US\$/tons in 2006 to 6,397 US\$/tons in February 2012, encouraging farmers to expand its production. Pepper production has evolved from traditional and extensive farming to organic farming, therefore, Vietnam's pepper quality has been improved. Some pepper areas have become old, giving low yield and low quality. Pepper growers now face threats of insufficient water, pest disease outbreaks and calamities.

Vietnam became the top pepper exporter in the world in 2001 with a total export quantity of 56,506 tons, accounting for 28% of the world's pepper export. Pepper is exported to more than 80 countries in the world. Top importers are the USA, Germany, the Netherlands, India and Egypt. During the period 2000-2010, the annual growth in pepper export was 13%.

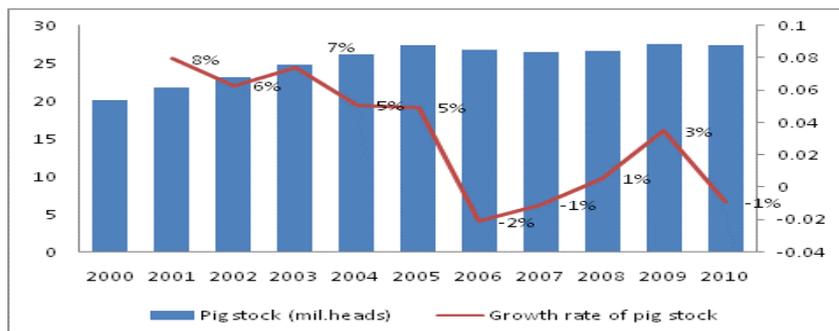
Rubber. Rubber production in Vietnam has grown at a rate of about more than 10% annually in the last two decades. In 1990, rubber production accounted for only 1% of the world's major producers, and this figure increased to 6% in 2010. Vietnam produced about 760,000 tons of rubber in 2010, of which more than 90% was exported. Rubber is planted mostly in South East and the Central Highland. Natural rubber export is estimated to be 782,000 tons in 2010 and valued at about 2.3 billion US\$. China and Malaysia are the two biggest importers. Vietnam is ranked at fourth in the world for rubber export.

B.2.2. Animal production

Animal final products are categorized in three types: cattle (big and small), livestock and non-meat products. There is almost no change in the structure of these sub-sectors in the last two decades. Cattle production contributes to 64% and livestock 17% in the total output value. Meat production has doubled in the last decade, of which about 75% is contributed from pig meat production. Most animal final products are for domestic consumption.

Pig production. Demand for pork is increasing as pork represents more than 70% of total meats consumed in Vietnamese daily meals. Pig is raised in all regions, but most densely populated in the Red River Delta, the Northern mountainous area and the Mekong river delta. Total pig meat production has doubled in the last two decades, with an average annual growth rate of 3.5%. However, an unstable pattern of development is observed, with negative figures in some recent years (Fig. 2). The porcine reproductive and respiratory syndrome (PRRS) and foot and mouth diseases are among the main reasons for this instability.

Figure 2. Trend in pig stock of Vietnam, 2000-2010



Fishery. Fishery output grew at about 9% annually in the last decade. In the 1990s, catching activities dominated with more than 80% in the total output produced. Aquatic farming has gradually taken place with an annual growth rate at 15% during the last 20 years, of which catching fishery grew at 6% and aquatic farming grew at 15% annually. In 2010, total fishery output was recorded at 5.13 million tons, of which fishery farming shares more than half of total output. The Mekong river delta, the North Central area and the Central coastal area contribute to about 80% of the total fishery output.

The sub-sector growth is driven by both increasing domestic and export demands. As income improves and awareness of food nutrition increases, domestic demand for fish, shrimp and other fishery products increases (Duc, 2011). Besides, trade liberalization in Vietnam has created chances for fisheries export (as well as other agricultural products). The rapid growth in fishery production is largely from aquatic farming, which is contributed by both area expansion and intensive farming. Basically, the actors in the value chain include producers (farmers), collectors, processors, wholesalers/retailers and exporters. The production is characterized by a number of small farmers, of which about 70% are contract growers for processing companies. Fishery farmers now face a number of problems, such as fish seed quality, lack of capital, disease outbreaks and residuals of antibiotics in products. Historically, Vietnam fishery export experienced anti-dumping case with the U.S in 2002, and antibiotic residuals in shrimps exported to Japan. Recently, MARD has promoted VIETGAP (Vietnam good aquaculture practices) in aquaculture.

The sub-sector enjoys a high rate of growth in export in the last 15 years with an average of 15% annually. Main export products are frozen fish, shrimp and squid. Top importers are the USA, Japan, Korea and Germany. Export of shrimp and catfish to developed countries has faced difficulties related to product quality standards.

B.3 Agriculture policy framework

Vietnamese Government had followed the centrally planned model since its reunification in 1975. Agriculture was prioritized as the most important sector in the economy. However, the country had not made significant achievement in agriculture until Renovation (*Doi moi*) in 1986 and especially market-oriented reform in 1989 and early 1990s.

Prior to *Doi moi*, the Government promoted collectivization in agriculture. The efforts were not successful due to lack of farmers' incentives. The "product contract system" was then initiated in 1981, under which farming groups and individuals cultivated on land contracted with cooperatives, paying back the amount of output specified in the contract. Some positive changes in agriculture production were realized, for example, annual growth rate of agriculture increased from 2% to 5.5% in 1975-1980 and 1980-1985. However, due to extremely high inflation, workers' real income decreased drastically. In 1984, about 75% of the population was under poverty line.

The Sixth Congress of the Vietnamese Communist Party in 1986 gave priority to economic mechanism and institutional reform. The objective was to transform a centrally planned economy into an open, state-regulated market economy with multiple sectors. Private sector was encouraged to develop, firstly in the agricultural sector. Farm households were recognized as the main unit of agricultural production, entailed to manage land (10-15 year terms). Input and output markets were

liberalized and price subsidy system was eliminated. There are major changes in policy which are significant for the development of agriculture, especially for the private sector:

Land: Promulgation of land Law in 1988, under which farmers are entitled to agricultural land. Land Law was amended in 1993, specifying that land use rights can be transferred, exchanged, leased, inherited and mortgaged.

Banking reform: The banking system was decentralized in 1989. In 1993, lending to farm households by the commercial banking sector was initiated by the Vietnam Bank for Agriculture.

Market reform: price was liberalized, the private sector was encouraged to participate in food marketing, internal trade restriction barriers between regions were removed and foreign trade was eased.

Other laws were promulgated to encourage the participation of multiple sectors in the economy, such as Foreign Investment Law (1987), Enterprise and Company Law, State bank Law (1990). In 1991, the support mechanism for state owned enterprises (SOEs) was basically removed. The private sector has also received more concerns through allowance to export, simplification of export and import licenses. Along with this, SOEs were renovated through rearrangement and equitization.

The integration of Vietnam to the region and the world is marked by its membership in ASEAN (1995), APEC (1998), and WTO (2006).

From the year 2000 up to now, the Government has implemented a number of national target programs. During the period of 2000-2006, six national target programs were implemented, of which three were implemented by MARD, namely the National Program on Hunger Eradication and Poverty Reduction and Employment Creation (including the National Program on Hunger Eradication and Poverty Reduction and Employment Creation, Program 135 (Boosting socio-economic development in 2,235 extremely difficult communes), and elimination and replacement of opium crop); the five-million hectares of forest program; and the Program for Rural Water Supply and Sanitation. During period 2006-2010, ten national target programs were approved, of which, MARD handled the program on clean water and rural sanitation. Especially, under the Central Resolution 7 on agriculture, rural and peasant's investment in agriculture and rural development in 2009-2011 reached 285,000 billion, which is double that in 2006-2008 (Bach Sen, 2012).

For the period of 2012-2015, sixteen national programs are implemented among which are training programs for labor and job creation, sustainable poverty reduction program, clean water, sanitation and environment in rural areas and a new countryside building program.

Part C: Current trends in public agriculture investment

C.1. Sources of public investment

Before 1990, investment was sourced from the State budget only, which contributed partly to serious budget deficit and extremely high deflation during the late 1980s. Since 1990, the Government has mobilized various sources of fund for investment, including state budget, state credit, state owned enterprises (SOEs), private sector and foreign direct investment. Generally, public investment comes from three main sources: state budget; loans (including domestic loans such as bonds and foreign loans); and equity of state owned enterprises. During the period of 1995-2010, the public investment in the economy has risen about ten times from 30,447 billion VND to 316,285 billion VND (GSO, 2012).

Table 7. Structure of state investment by sources for whole economy (1995-2010)

Sources of investment	1995	2000	2005	2010
State budget	44.6	43.6	54.4	44.8
Loans	19.9	31.1	22.3	36.6
Equity of SOEs and other sources	35.5	25.3	23.3	18.6
Total	100.0	100.0	100.0	100.0

Sources GSO, 2011

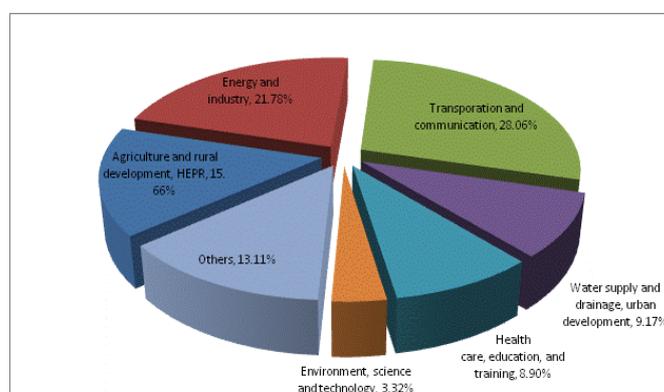
The share of the state budget of the total public investment remained about 45% during the period 1995-2010, while the share of loans had risen up from 20% to 37%. Concerns have been raised about the increasing public debt recently. According to the Ministry of Finance (MOF, 2011a,b), public debt has increased from a share of 32.2% to 54.6% of GDP during this period. However, Anh and Thai (2011) shows that this figure should be about 70% if loans of central bank and government units (such as SOEs), are counted.

State budget. State budget for agriculture and rural development is allocated for Ministries (central level) and lower levels budget (i.e. provincial level or localities). In agriculture, basic construction budget managed by MARD accounts for 48% of total budget in 1996, down to 27% in 2003 (MOF, 2004). State budget for agriculture and rural development is usually grant assistance for socio-economic infrastructure development, human resource development and environment protection projects, which have almost no capacity to pay back or takes very long time to pay back (Anh and Thai, 2011). National target programs and sectoral programs are also funded by the state budget. There are more than 30 target sectoral assistance programs which help to implement government decrees and resolutions. Some programs in agriculture and rural development are, for example: aquaculture development program (400 billion VND), flood prevention program (360 billion VND) and forest protection and reforestation program. State budget remains stable at around 50% of the total public investment (Table 7).

Domestic loans. A kind of state development credit with subsidized interest and guarantees by Government exists, which comes from either state owned credit or official development assistance (ODA). This kind of credit is usually for investment in priority areas set by government plans. Another important source of domestic loans comes from bonds issued by the Government, investing in selected areas such as education, energy, agriculture and rural development.

Foreign loans. Foreign loans come from outside through ODA to invest in projects committed to donors. The priority of using ODA depends on the demand for development investment capital as well as the development plan for sectors and regions. There are seven top priorities using ODA in the period 2006-2010 (Decree 290/2006/QD-TTg) such as: agriculture and rural development; economic infrastructure building; social infrastructure building; environment and natural resource protection; enhancement of institutional capacity; human resource development; and R&D. From 1993-2008, the Government and donors signed international commitment on ODA with a total amount of US\$35.217 billion, of which, ODA grants account for 20%. During this period, total ODA disbursement reached US\$ 22.065 million. Agriculture and rural development is prioritized with total investment from ODA amounted to US\$ 5.5 billion in the period of 1993-2008, accounting for about 16% of total ODA (Fig.3). Some of the important projects are: poverty reduction in the Northern mountainous area, community based rural infrastructure development, rural water supply and rural transportation.

Figure 3. Structure of ODA investment in Vietnam, period 1998-2003



Sources (MPI, 2009)

Investment of SOEs. Investment from SOEs comes from their own capital, which is largely built from the state budget. The number of SOEs has decreased over time through process of renovation and equitization. In 2009, the total number of SOEs is counted at 3,328 – down from 5,759 in 2000, accounting for 1.6% of the total number of enterprises (GSO, 2011). The capital of SOEs accounts for 48% of total capital of enterprises in Vietnam. However, since the Law of SOEs was put into effect in 2010 all SOEs have been transformed to single-member limited companies and other types with a state equity greater than 50% (hereafter still referred to as state enterprises). MARD has established a board for renovating agricultural SOEs to speed up this transformation.

C.2 Sectoral allocations of investment

Areas of investment. Total investment in the country grew at 18.6% annually in the last decade. Investment in agriculture accelerated from 74,000 billion VND in period 1996-2000 to 199,000 billion VND in 2006-2010, however, at lower rate (9.3%) compared to other sectors (Table 8).

Table 8. Vietnam's investment by sectors, 1996-2010

Sector	Investment amount (‘000 billion VND)			Structure (%)			Annual growth rate (%)
	Sub - period			Sub - period			
	1996 2000	2000 2005	2006 2010	1996 2000	2000 2005	2006 2010	2001 2010
Agriculture	74	123	199	12.4	9.0	6.4	9.3
Industry	na	573	1,276	na	41.8	41.4	19.2
Services	na	355	957	na	25.9	31.0	23.2
Health, Education, R&D, and others	na	319	655	na	23.3	21.2	16.3
Total	595	1,371	3,087	100	100	100	18.6

Sources: GSO, various issues.
Note: na – not available

Total public investment reaches 316,300 billion VND in 2010, more than triple that in year 2000 (Table 9). However, about 40% of public investment was allocated to infrastructure building, such as electricity, water, transportation and telecommunication.

C.3. Public investment in agriculture

Public investment for agriculture grew at a rate of about 17% annually in the last ten years. With the contribution of about 20% in the country GDP and the creation of jobs for about 60% of the labor force, agriculture, however, receives inadequate amount of investment. Public investment in agriculture accounts for only 12.2% of the total state investment in 2000 and this figure drops to 5.9% in 2010 (Table 9). However, this interpretation might not be totally correct since a large part of public investment comes from government bonds and is not counted in the state budget (Anh and Thai, 2011). According to MARD (2012), the total public investment in agriculture and rural development was put at 172,810 billion VND in the period 2006-2010, accounting for 20.9% of the total public investment where the state budget and government bonds are counted.

Table 9. Public investment in agriculture, Vietnam, selected years

Indicators	2000	2003	2005	2007	2010
Total public investment (‘000 billions VND)	89.4	125.1	161.6	198.0	316.3
Agriculture public investment (‘000 billions VND)	11.0	11.0	11.6	13.4	18.5
As % of total public investment	12.2	8.8	7.2	6.8	5.9

Sources: GSO data

Industry and services have been given more priority with increasing investment both in value and share in total investment, while important sectors of the economy (agriculture, education, health care,

R&D) receive less concern as compared to industry and services. Development of the two sectors on sacrifice of agriculture could be reasoned if it is more efficient in terms of economic, social and environment aspects. However, a number of large SOEs in Vietnam nowadays have serious financial problems. For example, Vinashin went bankrupt with a loss of more than 80,000 billion VND—equivalent to about US\$ 4 billion. Agricultural land (especially rice land), taken for industrial zones, is a controversial issue in meetings of Parliament, especially because farmers in some provinces are resisting. Environment pollution from industrial zones is an alarming problem in Vietnam, not only concerned to human health, but also of negative impacts to agricultural production. According to the General Department of Environment, about 70% of liquid waste from industrial zones is disposed directly without treatment.

C.3.1. Public investment in agriculture and rural development by sub-sector

According to MARD (2012), total public investment in agriculture and rural development for the period 2006-2010 amounted to 388,673 billion VND, of which 45% was allocated for agriculture, forestry and fisheries development. The rest went to rural development, focusing on the development of socio-economic infrastructure, hunger elimination and poverty reduction in rural areas.

Public investment in agriculture and rural development is managed by related ministries (at central level) and local levels. There has been a strong decentralization in managing investment in the last decade. In 1998, budget expenditure at central level accounted for 60% of the total state budget. The figure went down to 21% in 2002 (MARD, 2004). During the period of 2006-2020, MARD managed only about 10% of the total public investment in agriculture and rural development (MARD, 2012) down from 48% in 1996 (MARD, 2004). In this study, only data on public investment managed by MARD is gathered.

C.3.2. Sources of public investment (managed by MARD)

Public investment during the period of 2006-2010 comes from two main sources: state budget (55.4%) and government bonds (44.6%) (Table 10). This shows that the Government has made efforts in mobilizing resources for the sector. However, heavy dependence on loans (foreign and bonds) requires either sector's efficiency or economic gains to pay back somewhere else.

Table 10. Structure of public investment managed by MARD, 2006-2010 (%)

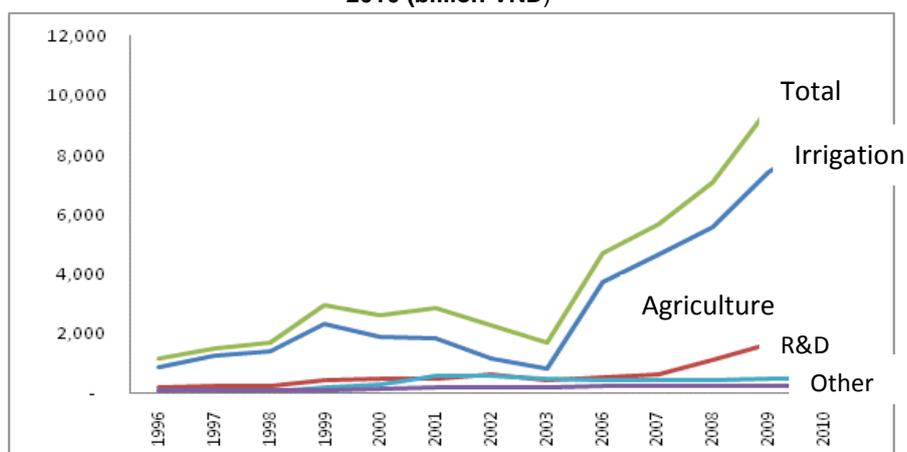
Sources	2006	2008	2010	Total (2006-2010)
State budget	51.2	57.7	53.4	55.4
<i>Domestic</i>	27.9	28.1	22.1	25.0
<i>Foreign</i>	23.3	29.7	31.2	30.4
Government bond	49.1	42.3	46.6	44.6

Sources: MARD, 2012

C.3.3. Sub-sector allocation

Public investment in agriculture through MARD has increased steadily overtime, where the largest part of the resource is allocated to irrigation (70%-80% of total), then to agriculture (including forestry and fishery)(Fig. 4). Other items include rural infrastructure (including rural transportation), water supply, education, warehouse, national target programs and others.

Figure 4. Trend of public investment in sub-sectors in agriculture, as managed by MARD period 1996-2010 (billion VND)



Sources: MARD (2004) and MARD (2012)

Agriculture Infrastructure

Irrigation. Irrigation receives most concerns which constantly takes more than three-fourths of total public investment in agriculture and rural development during the period of 1996-2010. In the past years, the Government has made efforts in building a multi-purpose irrigation system. Up to 2010, a total of 100 small and medium irrigation works had been constructed, including 1,967 reservoirs with a capacity of more than 200,000m, 10,000 pumping stations, 1,000 km large channels, 5,000 irrigate and drainage sewers, 23,000 km of dikes. During the period of 2003-2010, five main irrigation programs were conducted: safety for reservoirs program, irrigation projects for economic structure changes (such as for aquaculture, salt production), irrigation channel upgrading program, national target program on clean water and rural sanitation, and upgrading dike systems (MARD, 2009a).

Table 11. Results from public investment in irrigation, Vietnam, 2006-2010

Indicators	2006	2007	2008	2009	2010
Annual cropping area is irrigated (as % of total cropping area)	60	61	63	64	65
Annual cropping area is drained (as % of total cropping area)	77,6	78,1	78,7	79,4	80
Incremental irrigated area ('000ha)	200	120	80	20	30
Incremental drained area ('000ha)	56	72	48	32	35
Incremental area protected from saline water intrusion ('000ha)	31	38	41	40	42
Upgrading river dikes (km)	61	46	56	62	100
Upgrading sea dikes (km)	50	45	50	130	225

Sources: MARD (2012)

Infrastructure for fishery development. Investment in fishery infrastructure during the period 2006-2010 focuses on three important programs: Storm shelter anchorage and moorage for vessels program, Fish ports investment program and Fishery seed production and infrastructure investment program.

Infrastructure for cultivation and livestock development. Important areas of investment are: enhancing capacity in research and breeding; enhancing capacity in testing quality of seed, breeding, and

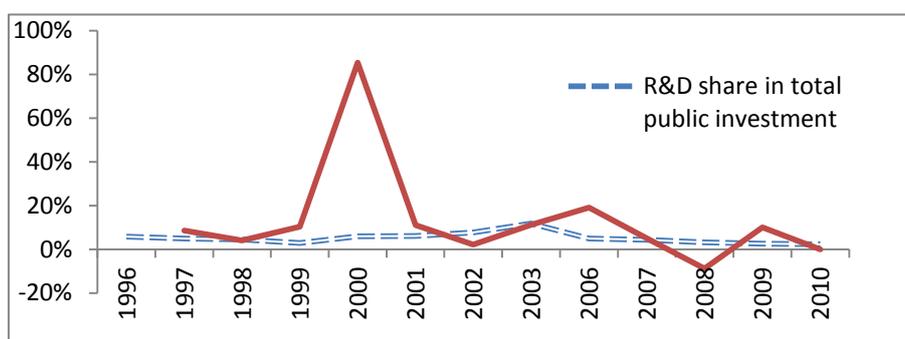
fertilizer; enhancing capacity in crop protection and crop quarantine to support for disease prevention and import – export of agricultural products; and enhancing capability of veterinary system.

Infrastructure for forestry development. During the period of 2006-2010, four projects in forestry seedlings production were implemented. A program on survey, evaluation, and inspection of forestry development (Phase 4) was implemented nationwide. A MODIS Ground Receiving Station was set up for an early detection of hotspots in forest. National parks and natural preservation areas also received investment from the Government for upgrading infrastructure in special-use forest.

Agriculture production. Investment in this area accounted around 15% of total public investment in the agriculture sector. The investment covers mainly seed, seedlings, breeding, plant protection chemicals, veterinary system, medicines, disease prevention and control, forestry, fishery, a forestation, resettlement, and others. Seed and seedlings for crop production, animal husbandry, livestock and forestry account for a considerable part of the total investment, for example, about 31% during the period of 1999-2003 in the seed and seedlings project (MARD, 2004). MARD has also approved another project on seed and seedlings for plantation, livestock and fishery production for the period of 2010-2020, with total investment of 69,900 billion VND (MARD, 2009b). Forestry and other related services took about 10% in agriculture investment (MARD, 2004).

R&D. Unfortunately, statistics show that there is not much change in R&D investment in the last 15 years. While total public agriculture investment increased about ten times, R&D investment is only more than triple, from 68 billion VND to 248 billion VND. R&D investment is not only allocated for annual activities of research agencies, but also incorporated in projects and programs implemented by MARD. During the period of 1996-2003, R&D investment for food crops took the largest share in total R&D investment (26%), followed by husbandry and veterinary (13%), irrigation (12.5%) and forestry (11.5%) (MARD,2004). R&D investment accounts for about 6% in the total public agriculture investment in 1996, reached 12% in 2003 and decreased to only 2% in 2010 (Fig. 5).

Figure 5. Investment of public R&D in agriculture in Vietnam, selected years



Fan et al (2004) found that government spending on irrigation, roads and agricultural research has all contributed to both agriculture growth and poverty reduction in Vietnam. During the period of 1993-2002, every 1 VND spent on agriculture research generated 12.22 VND of agricultural production value. The results show that return on irrigation investment was lowest among items (agriculture research, roads and education), estimated at 0.42 VND for every 1 VND spent. Agricultural research spending was found to have the largest return in poverty reduction. For every billion spent on education, 339 poor people would be lifted above the poverty line. Irrigation has the smallest impact on poverty.

In another study, Barker et al (2002) estimated determinants of agriculture growth for the same period with Fan et al (2004) and found that public investment in irrigation was the most important source of agriculture growth (accounting for 28% of the growth), followed by agriculture research (27%).

C.4. Government initiatives to promote investments in agriculture

The Government has made a lot of efforts to promote investment in agriculture. Aside from the allocation of resources for investment, the Government has introduced a course of policy to create an attractive environment for both domestic and foreign investors in agriculture.

C.4.1. General legal framework

The Investment Law defines selected sectors and geographic areas that are entitled to investment incentives (especially agriculture in remote areas). Other incentives are governed by specific tax, land and other regulations. Incentives are the same for both foreign and domestic enterprises.

Important laws related to investment and operation of enterprises has been introduced, such as:

- Law on Investment (2005) regulates investment procedures, investment incentives, the rights and obligations of investors, state management of investment and abroad investment from Viet Nam. The law specifies domains entitled to investment preferences, such as production of new materials, farming and processing of agricultural, forest or aquatic products. The Law also provides terms for direct foreign investment.
- Law on Enterprises (2005) defines types of enterprise and establishment procedures as well as regulates all forms of private enterprise, their organization and operation in Viet Nam.
- Law on Enterprise Income Tax (2003) stipulates that family households, individuals, cooperation groups and cooperatives engaged in agricultural production with incomes from cultivation, husbandry and aquaculture products are not liable to Enterprise Income Tax, except those producing at large-scale with high incomes as defined by the Government.
- Law on Tax Management (2006) provides equality among economic entities as well as among domestic and foreign investors.
- Law on Value Added Tax (2008) amends 1992 and 2001 laws, regulating the applicability, payment and rates of the Value Added Tax (VAT).

C.4.2. Policies related to land use

- Legal underpinnings for land use by nationals and foreigners are set by Land Law in 2003.
- Subsidized land rental for investment in agriculture in case of calamities or risk damage. In case damage is greater than 40%, an investor does not have to pay rental (*Decree 142/2008/ND-CP on land and water surface rental*). Zero-rental for land in 3-15 years for investment is in the priority list set by the Government.
- Reduction and exemption of agricultural land using tax for investors from effective date to year 2020 (*Decree 20/2011/ND-CP, which guides implementation of Resolution 55/2010/QH12*).

C.4.3. Policy related to credit

- Investors can avail to state credit amounted up to 70% of the investment project (fixed capital, term of loans could be maximum of 15 years for special project (for example rubber plantation) and fixed interest rate during term of loans (*Decree 151/2006 on state investment credit and state export credit*))
- Subsidized credit for investors in agriculture: *resolution 12/CP-CP dated April 6, 2009, specified by decision 497/2009/QĐ-TTg*, stipulates that farm households, individuals, cooperatives and enterprises enjoy subsidized credit when purchasing assets for agriculture production and house construction in rural areas.
- *Decree 131/TTg –CP in 2009* on subsidized interest rate for individuals and enterprises at 4% per annum in eight months, under certain conditions. The poor and selected stakeholders can borrow at rate of 4% per annum from Bank of Social Policy, as stated in the *Decision 579/QĐ-TTg in 2009*.
- Commercial farms can borrow up to 500 million VND without collateral, as stipulated by *Resolution 41/2010/ND-CP* on credit for agriculture and rural development.

C.4.4. Policy related to tax

- Individuals/groups investing in agriculture, fishery and salt production enjoy lower income tax and lower tariff (*Decree 108/2006/ND-CP*). Selected investment areas in agriculture are tax exempted, for example, direct services for agriculture production: irrigation, plough, harvesting and

others, income tax rate of 10% -20% is applied for selected investment areas as set by the Government (*Decree 124/2008/ND-CP*).

- Import tax exemption for goods served as inputs for agriculture and fishery production projects (such as seeds, animal breeds). Other goods imported for agricultural production are subjected to imported tax preference (*Decree 87/2010/ND-CP*).

- Value added tax exemption for raw or semi-processed agricultural and fishery products of selected producers, seeds and animal breeding, agricultural services (land preparation and harvesting) and salt production. VAT tax rate of 5% is applied for many agricultural inputs, as listed in the Law on Value added tax, 2008.

Recently, Decree 61/2010/ND-CP lists 2 main areas that agriculture investors enjoy preferences and supports from the Government. Investors enjoy lower or zero rental on renting state's land, supports on renting land of individuals/private organizations (up to 50% in the first 5 years). The Government provides other supports for investors (selected) in:

- Labor training costs (up to 100% for super small enterprises investing in special areas)
- Market development: supports can be up to 70% of total cost of advertisement
- Consultant services: supports up to 50% of the cost of consultant services in areas of investment, law consultant, R&D and others.
- R&D: supports up to 50% of the cost of research projects inventing new technology.
- Transportation: support could be up to 50% of actual transportation cost, under certain conditions

Specifically, there are initiatives to attract FDI in agriculture. In 1988, the government promulgated the Foreign Investment Law, then amended in the following years, creating a strong wave for capital inflows to the country. Other incentives are (FAO, 2012): carrying-forward of losses permitted for up to 5 years; no profit remittance tax; additional incentives for projects involving technology transfer in difficult socio-economic areas and other benefits in accordance with the law.

The Government has also promulgated a number of laws and documents under the laws to form a legal framework for investors. Other relevant laws concerning investments in agriculture are: Law on Water Resources (1998), Fisheries Law (2003), Law on Environmental Protection (2005), Law on Food Safety (2010). The Government encourages the private sector through public investment to be carried out by various projects and programs, which are managed by MARD⁷ and localities.

C.4.5. Other incentives for investment in agriculture

Increasing effective rate of protection (ERP) for agro- processing. According to CIEM (2010), during the period of 2005-2009, ERPs for agro-processing industries, such as cocoa, cakes products from flour, processed preserved fisheries, vegetables and fruits, processed coffee, tea, increased. In 2009, the products with highest ERPs (more than 50 percent) are those of the food processing industry (tobacco and cigarette, sweets, alcohol, non-alcoholic beverages, processed fruits and vegetables, coffee and other foodstuff).

Public investment program. From 1996, the Ministry of Planning and Investment (MPI) has designed and implemented Public Investment Programs (PIP) in accordance with 5-year plans (1996-2000 and the next two). The first PIP was designed as a pilot with support from international experts, while the second was designed by MPI and relevant line agencies and local agencies. ADB helped MPI for the third. Projects in PIP have gradually been required to satisfy international standards and principles, subjected to careful screening (Tuan and Thai, 2011).

Trade promotion program. The Government has made initiatives to help enterprises in market promotion under the national program on trade promotion (NPTP), implemented by the Department of

⁷ Aside from national target programs, six main programs in agriculture and rural development have been implemented by MARD during period 2006-2010, namely food safety management program, enhancing capability in R&D program, human resource development program, rearranging enterprises program, market and promotion program, and international cooperation program. All these programs also are initiatives to promote both public and private investment in agriculture.

Trade Promotion, the Ministry of Industry and Trade. Started in 2002, the NPTP aims to boost export performance. Specifically, NPTP focuses on enhancing trade promotion activities, expanding export and domestic markets, developing trading activities in remote and mountainous areas, and enhancing competitiveness of Vietnam's enterprises community.

MARD established a website on trade promotion in agriculture (<http://xttm.agroviet.gov.vn>) which provides market information, reports on production and market (both domestic and world markets) and news related to 14 key agricultural products and inputs, namely, rice, coffee, tea, rubber, cashew nuts, pepper, vegetables and fruits, meat, sugar, wood, fishery, salt, fertilizer and animal feed.

Public Private Partnership Initiatives in Agriculture

MARD and about 15 international groups (ADM, Bunge, Cargill Inc., Cisco Vietnam, DuPont Vietnam, METRO Cash & Carry Vietnam, Nestlé, PepsiCo Vietnam, Monsanto Vietnam, Swiss Re, Syngenta Asia Pacific, Unilever Vietnam, Yara International) have developed partnerships in 5 working groups including tea, coffee, vegetables, fishery and common commodity.

PPP coffee group: the private sector includes Nestle, Yara, Syngenta, Bayer, BASF, Cisco, EDE consulting, Dakman, Sara Lee, Vinacafe and others. The coffee group operates in Lam Dong and Dak LaK Province.

PPP Tea group: Objectives of this group is to enhance tea export and improve the quality of Vietnamese tea. Tea group operates in Phu Tho province with cooperation of Unilever, which collects approximately 30,000 tons of tea leaves per year (Cong, 2012).

PPP vegetables and fruits group: Application of GAP in the production of vegetables and fruits. Initially the model focused on potato growing in Lam Dong province (South), then Hai Duong, Bac Giang, Vinh Phuc and Ha Noi (North). PepsiCo, Syngenta and Yara are private companies participating in the partnership with MARD.

PPP Fishery group: Metro Cash & Carry Vietnam, Cargill and Fresh studio are those involved in the partnership with MARD and line agencies. Metro established a center for fishery products collection, processing and packaging in Can Tho in September 2011.

PPP Common Commodity group: The group targets to strengthen the sustainable production of maize and soya bean. Monsanto with the Institute of Policy and Strategy for Agriculture and Rural Development (IPSARD) conducted a study on GMO products in Vietnam.

PPP agriculture has also established a group specializing in finance and micro finance, called Finance- credit group. In-country agencies include MARD, State Bank and MOF. The group invited other organizations such as WB, ADB, IFAD and bilateral cooperations such as JICA, Dutch, FAO to mobilize financial sources

Others initiatives made by MARD.

- MARD has designed a plan to develop agricultural enterprises during the period of 2011-2015 (MARD, 2012b), which sets a target to have 10% of newly established enterprises, create 10,000 jobs, and have 30% of total SMEs benefited from human training program.
- MARD has also organized an annual dialogue meeting among agricultural enterprises, line agencies, government and scientists, in order to help investors to overcome difficulties.
- MARD provides information on government policy related to agricultural enterprises, Frequently Asked Questions, and proposals from enterprises and responses from MARD (on the website of MARD and Vietnam Agriculture Newspaper).
- MARD has conducted training courses for human resource of agricultural SMEs in some provinces, such as Bac Giang, Ha Noi, Hai Duong and Thai Binh.
- MARD and the Prime Minister have approved a number of regional plans for agriculture production. For example, Decision 150/2005/QĐ-TTg on approving planning of shifting the production structure on agriculture, forestry and aquaculture to 2010 and vision by 2020;

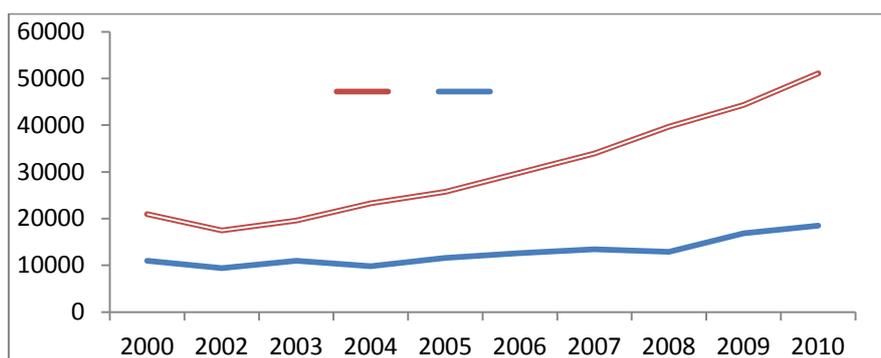
- Decision No.102/2008/QĐ-BNN on development planning of producing and consuming catfish of the Mekong Delta to 2010 and the orientation by 2020; Decision No.10/2006/QĐ-TTg on approving overall development planning of aquaculture to 2010 and the orientation by 2020; and Decision No.52/2007/QĐ-BNN on approving for development planning of vegetable, fruit, flower, and bonsai to 2010 and vision by 2020.

Part D: Private investment in agriculture

D.1. Current trend of investment in agriculture

Various incentives initiated by the Government have augmented private investment in agriculture. In 2000, the total investments made by the private sector accounted for less than 50% of the total country investment in agriculture. This figure rose up to about 64% in 2010 (Fig. 6).

Figure 6. Trend in public and private investment in agriculture, period 2000-2010 (billion VND)



Private enterprises. Total number of enterprises was counted at 448,393 in 2012 (GSO, 2012), which is about ten times as many as in 2000 (Table 12). While non-state enterprises⁸ grew sharply during the period of 2000-2008 in terms of both the number of enterprises and capital stock, the number of SOEs has been shrinking considerably with a reduction of nearly 50% (Table 12).

Table 12. Number of enterprises and capital stock amount by economic activity and ownership in Vietnam, selected years.

	Year 2000				Year 2008			
	Enterprises		Capital stock		Enterprises		Capital stock	
	No.	Structure	Amount (bil.)	Structure	No.	Structure	Amount (bil.)	Structure
Total	42,288	100.0	1,100,182	100.0	205,689	100.0	6,335,827	100.0
a. By economic activity								
Agriculture	3,378	8.0	27,047	2.5	8,619	4.2	77,027	1.2
Non-agriculture	38,910	92.0	1,073,135	97.5	197,070	95.8	6,258,800	98.8
b. By ownerships								
SOEs	5,759	13.6	746,527	67.9	3,287	1.6	2,526,050	39.9
Non-state	35,004	82.8	113,497	10.3	196,776	95.7	2,723,008	43.0
Sector of Foreign investment	1,525	3.6	240,158	21.8	5,626	2.7	1,086,769	17.2

Sources: computed from GSO data (2010)

⁸ Including Collective/Private enterprises, Collective name enterprises, Private Limited Co., Joint stock Co. having capital of State enterprises, Joint stock Co. without capital of State enterprises, and sector of Foreign investment (100% foreign capital enterprises and Joint venture enterprises)

A strong re-distribution of enterprises has occurred where the share of SOEs in total enterprise population was reduced considerably from 13.6% to 1.6% during the period of 2000-2008 (Table 12). The same trend is observed in the foreign investment sector. However, there is an asymmetric distribution of capital stock among the types of enterprises. For example, SOEs made up only 1.6% in population, but took 40% of the total capital stock of all enterprises. Conversely, although the number of agriculture enterprises grew more than double during the period of 2000-2008 and accounted for 4% in the total population, its share in total capital stock of the population drops from 2.5% to 1.2% showing that most of them operate at small and medium scales (SMEs).

According to MARD (2009a), private enterprises have grown rapidly at SME scales, largely in agro-processing for rice, cashew nuts, tea, fruits and salt. In 2006, a total of 1,153 private enterprises investing in agriculture (accounting for 54% of agriculture enterprises) were mostly in aquaculture and fishery catching. Total capital stock of the private enterprises was estimated at 5,320 billion VND, accounting for 16.6% of the total capital stock of agriculture enterprises.

There were about 10.4 millions of farm households and 113,699 commercial farms in 2006 (GSO, 2007), with a total capital estimated at about 80,000 billion VND, approximately equal to total capital stock of agriculture enterprises.

D.2 Key national, regional and international firms/banks investing in Agriculture

Vietnam's Bank for Agriculture and Rural Development (VBARD) is the top commercial bank supplying credit for the agriculture sector with a wide network developed since 1988. Total outstanding loan was estimated at around 450,000 billion VND by the end of 2011. VBARD also cooperates with MARD and other line agencies in implementing various programs in agriculture and rural development, such as national targeted programs and the rapid and sustainable poverty reduction program in 61 poor districts. According to Agribank (2012), main clients of VBARD are farmers (about 10 million) and agricultural enterprises (about 30,000 enterprises). VBARD is ranked 10th in top 500 largest enterprises in Vietnam, by VNR500 Club.

Vietnam *Southern food* corporation (Vinafood II) is the biggest rice exporting company in Vietnam, ranked 21th by VNR 500. The company was previously a SOE, which in 2010 transformed to a non-state company (single-member limited company). Its main activities are production and agro-processing, mainly rice.

C.P (Charoen Pokphand) group is a transnational group from Thailand, which started in Vietnam in 1993. Main activities are production and trade of seed, animal feed, piglets, chicks, and fishery seedlings, contract farming in pig and chicken, and food processing. C.P group is ranked 28th in VNR 500 in 2011. Proconco joint stock company (Vietnam and France), Cargill company limited, Greenfeed Vietnam and Japfa Comfeed Long An are also big producers of animal feeds in Vietnam.

Vietnam Dairy Products Joint Stock Company is previously a SOE. Main products are milk and milk products, such as condensed milk, drinking and spoon yoghurt, ice cream, and cheese. The company ranks 43rd in the top VNR-500 and top biggest private company in Vietnam.

In the field of production and trading agricultural inputs (plant protection chemicals and fertilizer), Unilever LD Vietnam (100% foreign capital) is top ranked, followed by An Giang Plant protection Joint stock company (top private enterprises in chemicals for agriculture production in Vietnam), Petrovietnam Fertilizer and Chemicals Company (SOE previously), Binh Dien fertilizer company (SOE previously).

Top investors in aquaculture, processing and trading aquatic products are private enterprises. Top ranking by VNR 500 is Minh Phu Seafood Corporation (established in 1992), Hung Vuong Corporation, Vinh Hoan Corporation, Minh Quy Seafood Company Limited and DABACO group.

D.3 Foreign direct investments (FDI)

According to GSO statistics, total number of FDI projects reached 12,575 during the period of 1990-2009 of which 738 projects were in agriculture (accounted for about 6% of total projects). There is, unfortunately, a downward trend in FDI in agriculture. During the period of 1991-1995, FDI in agriculture peaked about US\$ 1.4 billion, dropped to US\$ 993 million and US\$ 897 million in the

followed sub-periods (Table 13). In the period of 2007-2011, the agriculture sector attracted only US\$ 471 million from FDI, accounting for only 0.5% of the total FDI in Vietnam. In the first six months of 2012, there were only 4 new projects in agriculture among 452 FDI projects with total registered capital of US\$ 8.9 million, accounting for less than 0.2% of total FDI capital registered (FIA, 2012a).

Table 13. FDI in agriculture sector

	1988-1990	1991-1995	1996-2000	2001-2005	2007-2011
Total (mil. US\$)	1,413	17,018	21,263	10,211	102,010
Agriculture total (Mil. US\$)	350	1,409	993	897	471
As percentage of total FDI	24.7	8.3	4.7	8.8	0.5

Sources: computed from GSO data (2010) and Ministry of Planning & Investment data

FDI projects are concentrated in selected sub-sectors, namely forestry plantation, wood processing, livestock, animal feed processing and fishery, of which the first two accounted for about 78% of FDI in agriculture (Quang and Ngoc, 2011). According to the Foreign Investment Agency (FIA, 2012b), the total foreign investment in agriculture registered about US\$ 4.4 billion during the period of 1988-2007, of which agro-processing projects accounted for about 54% of total capital registered, followed by forest plantation and forestry product processing (25% capital) and livestock and animal feed (13% capital). The number of projects in crop production accounted for less than 10% in total agriculture FDI projects during the period.

Most of FDI projects are located in provinces with advantages in natural, climate and business environment, such as in the South East region (Ho Chi Minh city, Binh Duong, Lam Dong, and Dong Nai provinces) and Central Highlands. FDI in Vietnam comes from over 50 countries of which Taiwan, Japan, China and Thailand are top investors with a registered capital of about 60% of total FDI in agriculture (Quang and Ngoc, 2011).

D.4. Factors affecting the business climate for private and FDI in the agriculture sector

Aside from a number of incentives that the Government has created for investors in agriculture through various policies, the enabling environment for enterprises engaged in this sector is perceived not favourable enough. Aside from the risky nature of agricultural production, constraints and obstacles to agro-enterprises are largely a result of the implementation of the policy reality, the poor infrastructure, the macro policy and the recent economic recession.

1. Difficulty in acquiring land for production

It takes long time and complicated procedures for investors to acquire land for agriculture production/business. According to eight out of eleven respondents, the required documents and procedures for land acquisitions are complicated and very time-consuming. Two enterprises reported no problem with land, one of which is the Thanh An company (very small agro-processing company) and the Mushroom center, which operates in small scale and does not require much of land.

Hong Quang's seed company, which has received considerable supports from the local government to sign contracts with farmers (through agriculture cooperatives), also found difficulties in acquiring more land for seed production and set up a cool warehouse.

Land resource also limits the development of agro-processing companies in establishing a production/processing areas with appropriate disposal treatment facilities.

2. Poor and inadequate infrastructure

Poor infrastructure, especially roads in remote areas, has contributed to a higher production and marketing cost (transportation cost, higher rate of deteriorated products). Specifically, during the rainy season, many secondary roads are inaccessible; therefore, harvested agricultural products are stuck

at the producing area while enterprises experience serious shortage of materials. In some cases, investors have to upgrade the irrigation system or secondary roads in rural areas for production and marketing. These initiatives do not work if farmers do not follow strictly the contract clauses. This is the case of Hoa Binh Agro-processing company, which allocated about 100 million VND for upgrading infrastructure (such as irrigation, secondary roads) and supplying inputs to farmers in contracts. However, farmers broke agreements and did not return maize output back to the company. Thanh Son Company, on its efforts to procure maize from high mountainous and inaccessible areas, had to invest in roads and a system of pulley and cables across valleys and hills. Narrow roads in rural areas add more on transportation cost, as is the case of Thanh An company.

3. Limited access to credit

Almost all respondents reported that they face many difficulties in availing of credit from banks. Aside from procedures, loan size, interest and payback periods are not appropriate for agricultural production, which is riskier, lower profit rate, and long production cycle.

Despite the rapid development of the banking system recently, producers (farmers) and investors still find difficulties in availing themselves of credit from banks. In the latest survey of GSO (2012) covering 9331 enterprises, there were 5394 enterprises availing credit from different sources, of which nearly one-third had to pay interest at rate of higher than 19% annually. The majority of the respondents agreed that acceptable interest rates should be lower than 14%.

Although there are a number of advocated policies designed by the Government for investors in agriculture, many of them are left ineffective due to either lack of detail-guiding documents or irrelevance to many enterprises. For example, according to Decision 63/2010/QĐ-TTg to support investors in reducing post-harvest loss in agriculture production, investors can borrow subsidized credit from banks. However, equipments purchased (such as dryer, harvester) must have a domestic rate of at least 60% and be produced by (defined) manufacturers. These machines are practically expensive and not suitable for small and medium scale enterprises (the case of Hoa Binh agro-processing company). Quality is another issue concerned by farmers and investors.

Generally, farmers are given the priority to borrow from banks if they could submit contracts signed with enterprises (agro-processing). However, due to different reasons, very few processors sign contracts with farmers, For example, farmer's break down of commitment or high risk in agriculture production. For larger scale farmers (or commercial farms), collateral is a major constraint, even initiatives have been made by the Government to ease the access to credit for farmers⁹.

High interest rates and difficulties to avail credit from banks are two among the most serious constraints for their survival and development, as reported by 27% and 17.4% of total enterprise leaders (GSO, 2012).

4. Unstable sources of materials

Due to the demand for high volume of fresh agricultural products, processors have to source materials from growers (largely farmers). However, the low and inconsistent quality and the instability of material supply are persistent constraints to agro-processing enterprises. Several causes are:

- Small scale and fragmented production at farm level, for example, PACIFIC Hoa Binh currently contracts with about 600 farmers/farmer groups growing cucumbers in 350 ha

⁹ For example, the Decision No. 331/CP (4% interest rate/year), Decision No. 497/2009/QĐ-TTg on subsidized credit for farmers to buy equipment for agriculture production, Decisions no. 443/QĐ-TTg, 579/QĐ-TTg and 622/QĐ – TTg on subsidized credit for agriculture production, especially the Decree 41/2010/NĐ-CP states that commercial farms could avail credit up to 500 million VND without collateral.

- spreading in several provinces. Land for material production is not concentrated, so that processors have to seek for other sources in distant places.
- Contract growers break agreements when market price is higher than contracted price, or do not follow strictly technical requirement in production.

Conflicts among and between processors and traders arise about sourcing materials during the high price of materials. This is largely caused by the poor and slow progress of planning of the Government and the line agencies. Six of the surveyed enterprises reported that insufficient supply of materials was the main problem. Probably, Van Dac Phuc is a typical example, in which the supply of materials meets only 10-15% of its capacity.

Even though a number of planning proposals were approved (mentioned earlier), the progress of planning regions for specific agricultural products has been slow. Unbalanced development between material supply capacity and processing capacity is another problem. The rapid growth of the fishery sector, especially export market expansion, has resulted in the boost of the processing industry, leading to conflicts in sourcing materials among processors. According to Vietnam's Association of Seafood Exporters and Processors (VASEP), the situation of too many catfish processors in the Mekong rivers delta has contributed seriously to the under-capacity of operations. VASEP (2012) also alarms the situation of material shortage for catfish processors in the coming time.

5. Labor

Despite cheap labour, many of them are unskilful and do not strictly comply with rules of enterprises. The Government has taken initiatives in training for rural labour recently, however, these seem to be late and do not take into account demand of labour employees. Additional costs for training contribute to higher costs in operation for investors.

Not all farmers contracting with companies (almost through agriculture cooperatives) strictly applied the farming practices required by companies. This happened to all agricultural products, but at less extent to maize, for animal feeds which is grown by experienced farmers in upland areas (case of Thanh Son company, Hoa Binh agro-processing joint stock company).

Some enterprises also face difficulties in recruiting labours, due to competition among factories and with other job opportunities.

6. Unfavorable macroeconomic environment

High inflation has resulted in high cost of production (23% in 2008 and 18% in 2011, GSO data) while export price is kept quite constant (case of Pacific Hoa Binh). In addition, exchange rate policy is crawling bands with relatively narrow band (mostly from +/- 0.75% to +/- 3% during 2008-2011) (Vietnam Parliament Committee and UNDP, 2012). The exchange rate is kept at a relatively stable level. This, coupled with high inflation during period 2008-2011, has made agro-processing less profitable and discouraged investors, especially export enterprises¹⁰. High inflation is ranked the most serious constraint to enterprise development, as reported by 1820 entrepreneurs (GSO, 2012). The recent increase of fuel price has contributed to rising transportation cost for enterprises, especially for those operating in remote areas. This, coupled with unstable electricity, is considered one of the most serious constraints to enterprises to about 17% of respondents (GSO, 2012).

Despite the rising ERPs in agro-processing industry, several unprocessed agricultural products (such as other perennial crops, poultry, pigs, cattle and buffalos, rubber latex) have negative ERPs, meaning production of these commodities is not protected. CIEM (2010) concludes that Vietnam tends to protect industries with low competitiveness (including food processing) while it does not

¹⁰ Real effective exchange rate (REER) of Vietnam had increased by 20% in 2010 as compared to 2003 (Hang, 2011)

provide protection to unprocessed agricultural products during the implementation of WTO commitments.

Recent economic recession has worsened the situation. GSO (2012) reported that in 2011, about 8.4% of the total number of enterprises stopped working and waiting for dissolution.

7. Legal framework

Lack of efficient court enforcement of contract. In the absence of efficient court enforcement of contracts, breaking of contracts between farmers and processors, as mentioned earlier, is not always solved thoroughly even in the case of local government certified the contract. These cases happen usually during high market price of raw products. Some farmers behave opportunistically and sell raw products outside. In this case, investors have to pay additional cost for private enforcement mechanism, such as to set up check-up points in producing areas to prevent farmers from selling products to traders, or prevent traders from moving in (for example, cases of Pacific Hoa Binh, Hoa Binh sugar joint stock company, Huong Nam mushroom center, Hong Quang seed company). Van Dac Phuc company invested and signed contracts with several agricultural cooperatives in the past but failed due to contract breaking. Earlier initiatives on PPP were partly incorporated in the Decision 80/2002/QĐ-TTG for encouraging contract farming between enterprises and farmers. Thereafter, this was called “linkages among 4 stakeholders: farmers, enterprises, scientist and government”. However, the decision as well as the linkages defined above are shown not to be effective in reality for a number of reasons, one of which is unclarity of the legal framework for the coordination.

Complicated administrative management. Despite the efforts made in simplifying administrative procedures by the Government, enterprises still (especially those importing materials) find it very time consuming and costly. Initially, an agro-processing company/FDI is encouraged to source the materials produced domestically. However, in case some materials are either not available or not acceptable by customers (i.e. requirement of origin), import is needed. In case of Van Dac Phuc, it takes averagely 1.5 to 2 months to get materials after the container arrived.

Problem of policy transparency was also raised. Agro-processing enterprises are confused when there are many government agencies involved in checking food quality (Ministry of Health, MARD). While medium and large enterprises found it not difficult to get access to new documents/guides/policy, small (micro) enterprises especially in remote areas reported that they could not be updated with these because of poor internet condition as well as concerns from the Government. Besides, terms used in some documents are difficult for them to understand (i.e. they could be understood in different ways). Some documents are not in agreement, and released too frequently, creating confusion for users.

D.5 Conclusions and policy recommendations

Agriculture and rural sector continues to play a key role in socio-economic development in Vietnam due to its contribution to GDP and job creation. The development of agriculture is largely dependent on non-state sector, including millions of small farms producing fresh products and non-state agro-processing enterprises. In the context of economic integration and changing environment, incentives and supports from the Government in the form of public investment and other favorable policies are crucial to boost or crowd in private investment.

In the last two decades, Vietnam's Government has made a lot of efforts to promote agricultural development. Public investment in agriculture increased by 50% during the last decade, however, its share in total public investment has decreased. Public investment in agriculture grew at a rate of 17% during the period of 2000-2010. However its share in total public investment has decreased from 12.2% in 2000 to 5.9% in 2010. Irrigation is the dominant item receiving more than three-fourths of the total public investment for agriculture, followed by agriculture production (focus much on seed, seedlings, and other agro-inputs). Agriculture R&D has received less, in proportion to other items.

The non-state sector has evolved quickly with the number of enterprises and capital accumulation more than doubled during the period of 2000-2008. Based on GSO data, the non-state sector made up about two-thirds in total investment in agriculture in 2010. FDI in agriculture has decreased over time and accounted for only less than 1% of total FDI during the period of 2007-2011.

Despite the many incentives made by the Government to encourage private investment in agriculture, the investors have faced a number of problems and constraints related to land, credit, infrastructure and others. The improvement of the enabling environment is crucial for promoting investment in agriculture and PPP. The following recommendations are proposed:

Land use and planning: Land fragmentation should be solved in order to develop crop production on a larger scale. MARD and provincial governments need to speed up the planning of crop production in balance with the capacity of agro-processing enterprises. Procedures for acquiring land should be simpler and faster.

Credit: More favorable credit policies for agriculture sector: lower interest, appropriate payment period and larger loan size, especially for farmers who engage in primary production.

R&D in agriculture: should be strengthened, not only for primary production but also for post harvest and processing (product development, equipments), and transfer of new technology and farming practices that are widely accepted by customers, such as VietGap and Global Gap.

Infrastructure: Upgrading of infrastructure for agriculture production (roads, communications, irrigation, disease prevention) to strengthen capacity to prevent diseases and calamities, improve accessibility to market, and to reduce cost. This should accompany with material production regions.

Trade promotion: Trade promotion program has been implemented, but among surveyed enterprises only two participated in trade fairs abroad and five participated in provincial trade promotion activities. However, most of them felt little or no benefit from these activities, due to weak professionalism in organizing and implementing the program, as revealed by respondents. Therefore, this mission should be assigned to an agency which is professional in implementing trade promotion activities, especially abroad.

Supports in agriculture projects: in case of failures due to risks (calamities, market, diseases), some additional requirements accompanied with supports for investors should be removed, for example, requirements on domestic resources employment or hunger elimination and poverty reduction. Labor training programs conducted by the Government should be closely linked with demand of enterprises (for example, adoption of Vietgap or global GAP).

PPP is critical in current agricultural development. With lessons from previous efforts to link farmers-enterprises-government-scientists, PPP framework needs to state clearly roles, responsibilities, costs, and risks between the public and private sectors. The Government needs to create a fair or better market environment; enhancing IPR regulations and efforts of enforcement; adopting preferential tax policy (compared with other industries).

Others. Policy introduction should be more transparent and understandable to enterprises. There should be an agency in provinces which could help small and medium agriculture enterprises have voice to policy makers.

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Appendix 1

General profile of the interviewed enterprises

No	Name	Start	Main activities	Major Products	% Export	Sale ¹¹		Labor	Capital
						'000 US\$	% from Agr.		
1	Pacific Company	1993	Processing	Cucumber: 2,100 tons	100	2,600	100	400	Na
2	Hoa binh Agro-processing company	2004	Processing	Maize: 19,000 tons Cassava: 2,000 tons	0	6,242	100	59	na
3	Thanh Son company	1991	Processing	Maize: 25,000 tons Cassava: 500 tons	10%	8,642	100	90	na
4	Hoa Binh jointstock company	2005	Processing	Sugar: 4,700 tons	0	5,761	80	270	na
5	Phuong Huyen seedlings production and trading limited company	2005	Processing	Tea: 40 tons Piglets: 100	90% (tea)	96	100	50	na
6	Dong Giao agro-processing company	1995	Processing	Canned pineapple, sweet corn, cucumber, onion: 7,000 tons Rice seed: 100 tons	90%	12,963	80	1100	na
7	Hong Quang seed company	2001	Seed production & trading	Rice seed: 100 tons	0%	1,440	100	18	1.7-25
8	Thanh An ago-processing company	2005	Processing	Canned pineapple: 1000 tons Canned sweet corn: 1000 tons Canned green bean: 150 tons	50%	1,152	100	25	1.8-7.8
9	Huong Mushroom Center	Nam 2002	Mushroom production	Mushroom seedlings: 80 tons Mushroom (vegetable): 350 tons	0%	288	100	21	2.1-8
10	Van Dac processing company	Phuc 1996	Processing	Chilli sauce: 200 tons Soy sauce: 250 tons Pickled cucumber: 50 tons	90%	1,392	100	50	1.5mil . US\$
11	C.P. group (Northern)	1993	Processing Contract farming	Animal feeds Food processing (pork, chicken, aquatic)	Na	Na	100%	na	Na

Sources: enterprises survey, 2012

Na: not available

¹¹ Exchange rate 1 US\$ = 20,828 VND (World Bank, 2012)

Appendix 2

Perception of enterprises in future investment and PPP

	No. of Enterprises (n=11)	Notes
1. There are opportunities for future investment	5	Processing and utilize of by-products, increasing demand for high-quality and organic foods, increasing demand for inbred rice seed.
2. Plan to expand investment (develop new products, increase scale of production)	5	Dairy cows, organic fruits/vegetables, seed, seedlings, parental seed production, meat processing
3. Benefited from major incentives created by Government (selected companies and at early time of establish)	8	Land: for rice seed development; Credit: seed, mushroom, tea, processing; Support to train labor; Infrastructure: seed production (irrigation); Free from VAT for unprocessed/semi-processed products.
4. There should be difference in treatment between FDI and the rest	0	
Partnership with public sector	4	In rice seed R&D: seed company and Vietnam Agricultural Genetics Institute In processing of litchi: Dong Giao agro-processing company. In mushroom seedlings production: Huong Nam mushroom center and Vietnam Agricultural Genetics Institute. In tea production: Phuong Huyen company and MARD.

Problems/constraints perceived by investors

Problems/constraint	No. of Enterprise (n=11)	Notes
1. Land	8	Complicated procedure and very time consuming
2. Infrastructure	8	Roads for transporting products: poor, inaccessible, narrow, isolated after heavy rain. Irrigation system: weak in primary production areas
3. Credit	8	Difficult to avail credit, high interest rate (equal other non-agriculture sectors), inappropriate payback period. Credit incentives are difficult and time-consuming to apply for.
4. Raw material supply	7	In quantity (under capacity), farmers break contracts, bad weather, low yield. In quality: farmers did not follow strictly farming practices, inappropriate harvesting, transporting, preserving. Problem of land fragmentation
5. Labor	5	Part of farmers did not follow strictly farming practices (for all products, except maize for animal feeds)
6. Inflation	8	Rising cost of production: transportation, labor, material cost.
7. Policy	3	Not transparent, difficult to understand, not widely announced.