

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

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Introduction

- Investment in Agriculture: sources of growth
- Vietnam's Agriculture:
 - Shares > 20% of GDP, income sources of > 60% of population.
 - Be considered as the key sector to promote economic growth and poverty reduction.
- GDP annual growth rate of GDP: 7% (1990-now)
- Poverty rate: 37.4% in 1998 to 14.2% in 2010

Introduction

- Resource constrain for investment in agriculture in the context:
 - Government budget constraint with increasing foreign debt (31% GDP in 2010)
 - Government targets to develop a modernized industry sector by year 2020.
 - Investment in agriculture went through State – owned – enterprises – which have been shown less efficient as compared to non-state sector.

Capital mobilization from non-state sector has become increasingly important.

Objectives

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

Definition of Investment

The General Statistics Office (GSO) of Vietnam defines:

“ 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 and change in inventories assets”.

Sources of data

- Secondary data: GSO, Ministry of Agriculture and Rural Development, Ministry of Finance

Limitation:

- GSO data follows its definition on “investment” and does not cover all sources of public expenditure in agriculture
- MARD and MOF: More on public expenditure
- Primary data: Survey of enterprises in the Red River Delta (11 enterprises)

Sample size

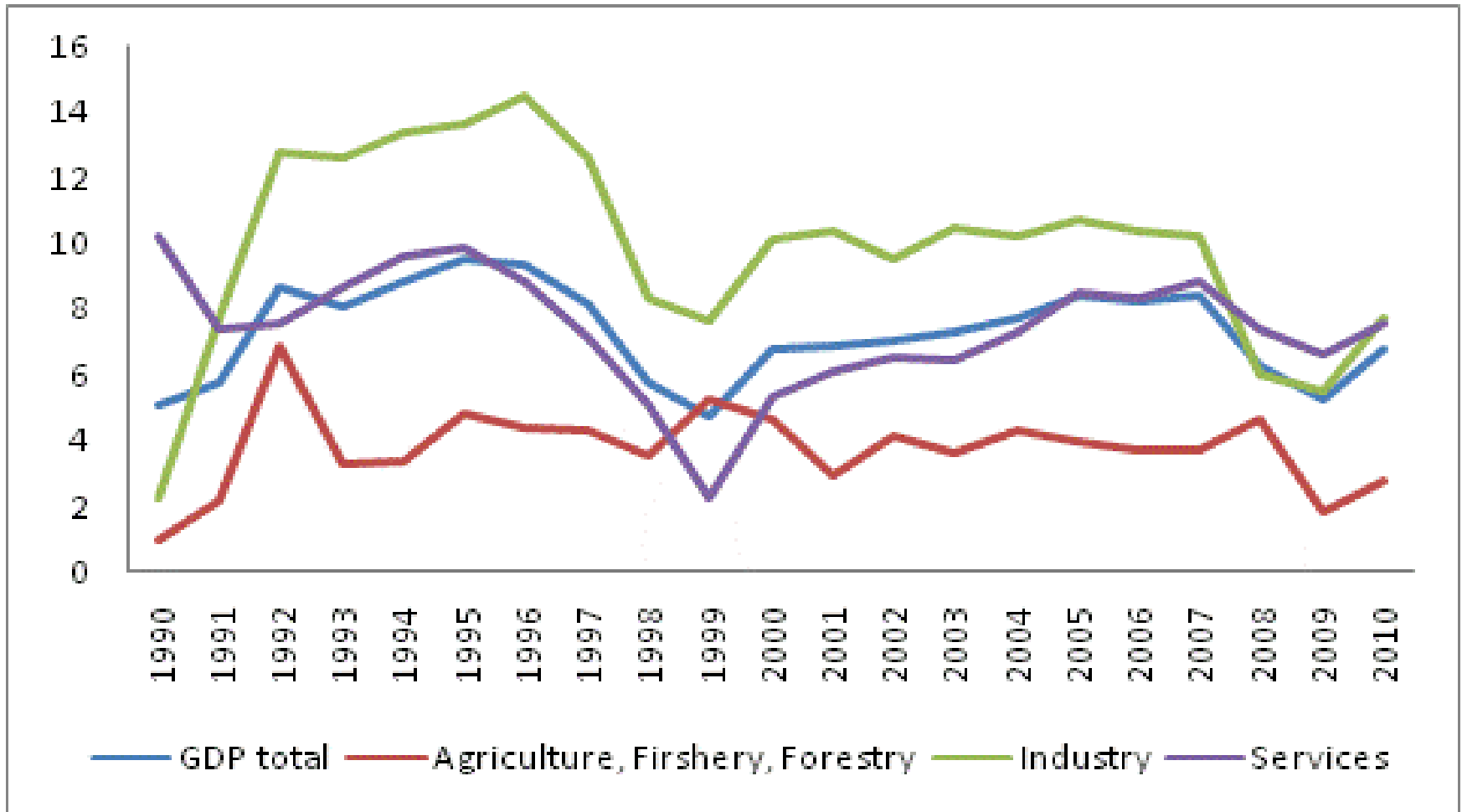
No	Name of company/enterprises	Location	Type
1	Pacific Company	Hoa Binh province	FDI (100%)
2	Hoa binh Agro-processing company	Hoa Binh province	Joint stock
3	Thanh Son company	Hoa Binh province	Private
4	Hoa Binh Sugar joint stock company	Hoa Binh province	Joint stock
5	Phuong Huyen seed production 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

Overview of Agriculture Production

GDP composition, Vietnam (%)

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

Sector growth



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

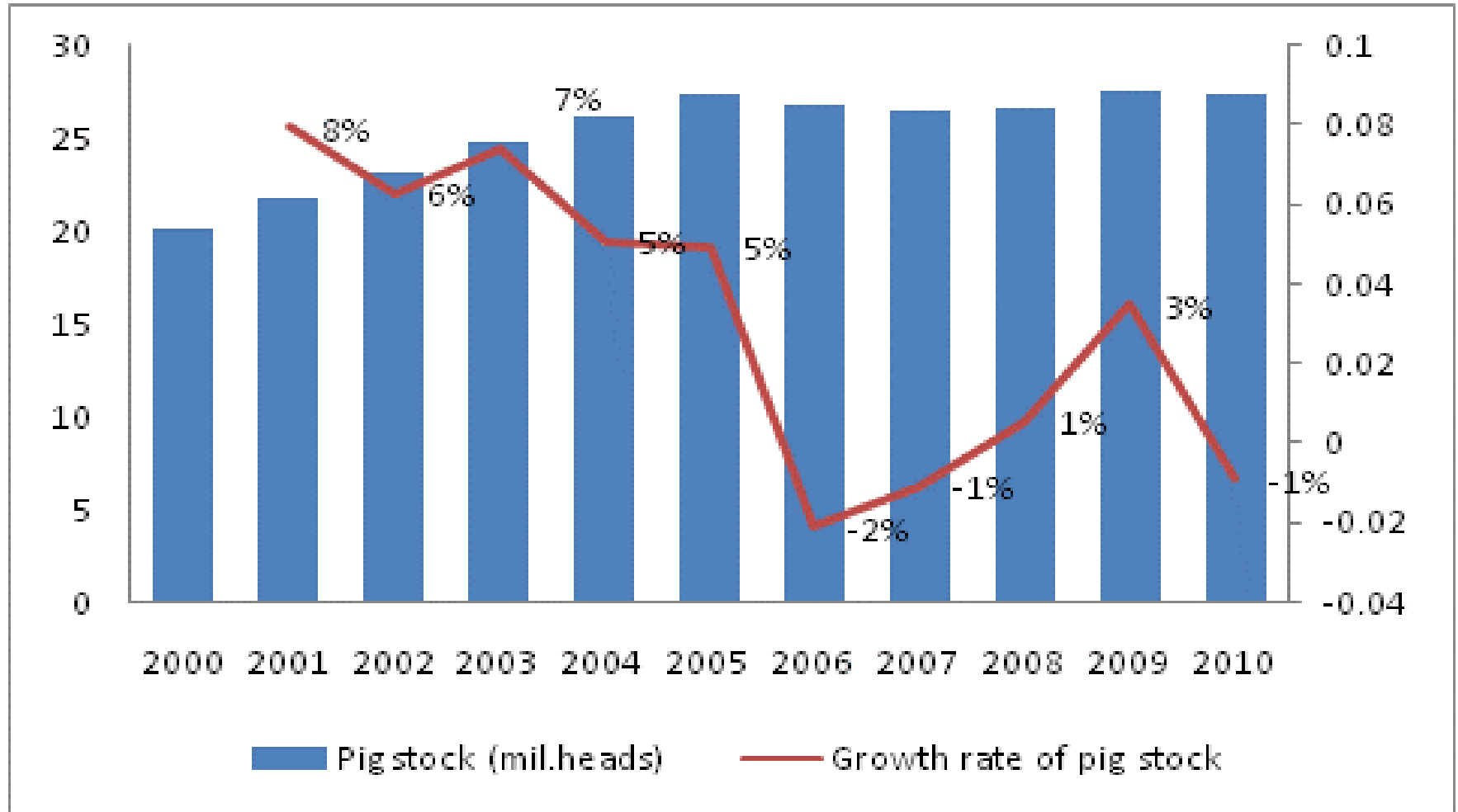
Import and Export in Agriculture sector (millions USD)

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

Major export commodities (000 ton)

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	1,218.0	782.0	117.0	137.0	195.0

Livestock production - pig



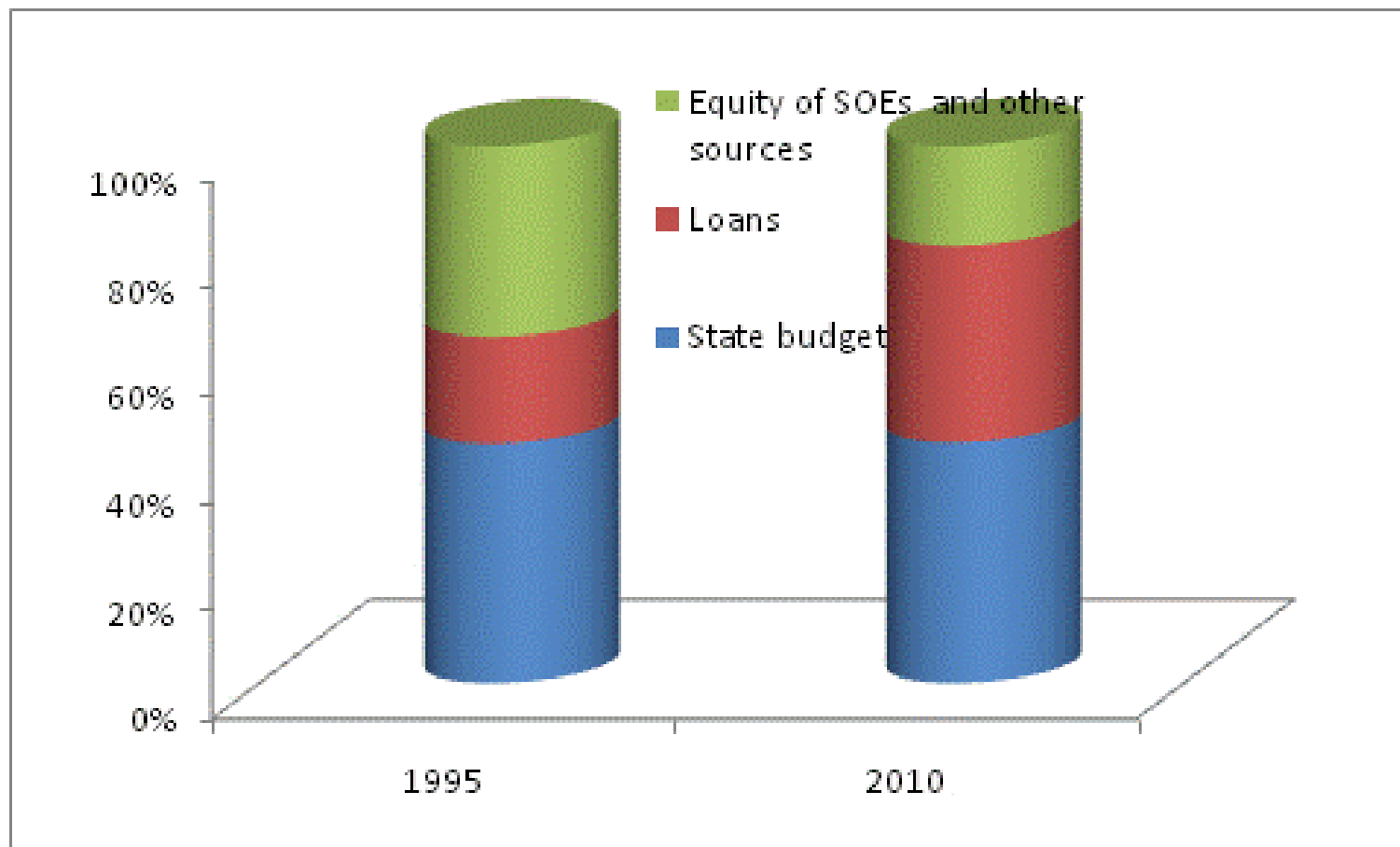
Agriculture policy framework

- Land: Land Law in 1988, amended in 1993: farmers are entitled with agricultural land. Land use rights can be transferred, exchanged, leased, inherited, and mortgaged
- Banking reform: In 1993, lending to farm households by the commercial banking sector
- Market reform: price was liberalized, private sector was encouraged to participate in food marketing, internal trade restriction barriers between regions was removed and foreign trade was eased.
- Other laws : foreign investment law (1987), Enterprise and Company Law, State bank Law (1990).
- Private sector also has received more concerns through allowance to export, simplification of export and import license.
- Integration : ASEAN (1995), APEC (1998), and WTO (2006).

National programs

- Period 2000-2006: six national target programs, including
 - National Program on Hunger Eradication and Poverty Reduction and employment creation
 - Five – million hectare of forest program, and
 - Program for Rural Water Supply and Sanitation.
- Period 2006-2010: 10 national target programs, of which MARD handled program on clean water and rural sanitation.
- Central Resolution 7 on agriculture, rural, and peasants
- Period 2012-2015: 16 national programs are implemented, of which are training program for labor and job creation, sustainable poverty reduction program, Clean water, Sanitation and Environment in Rural Areas, and new countryside building program.

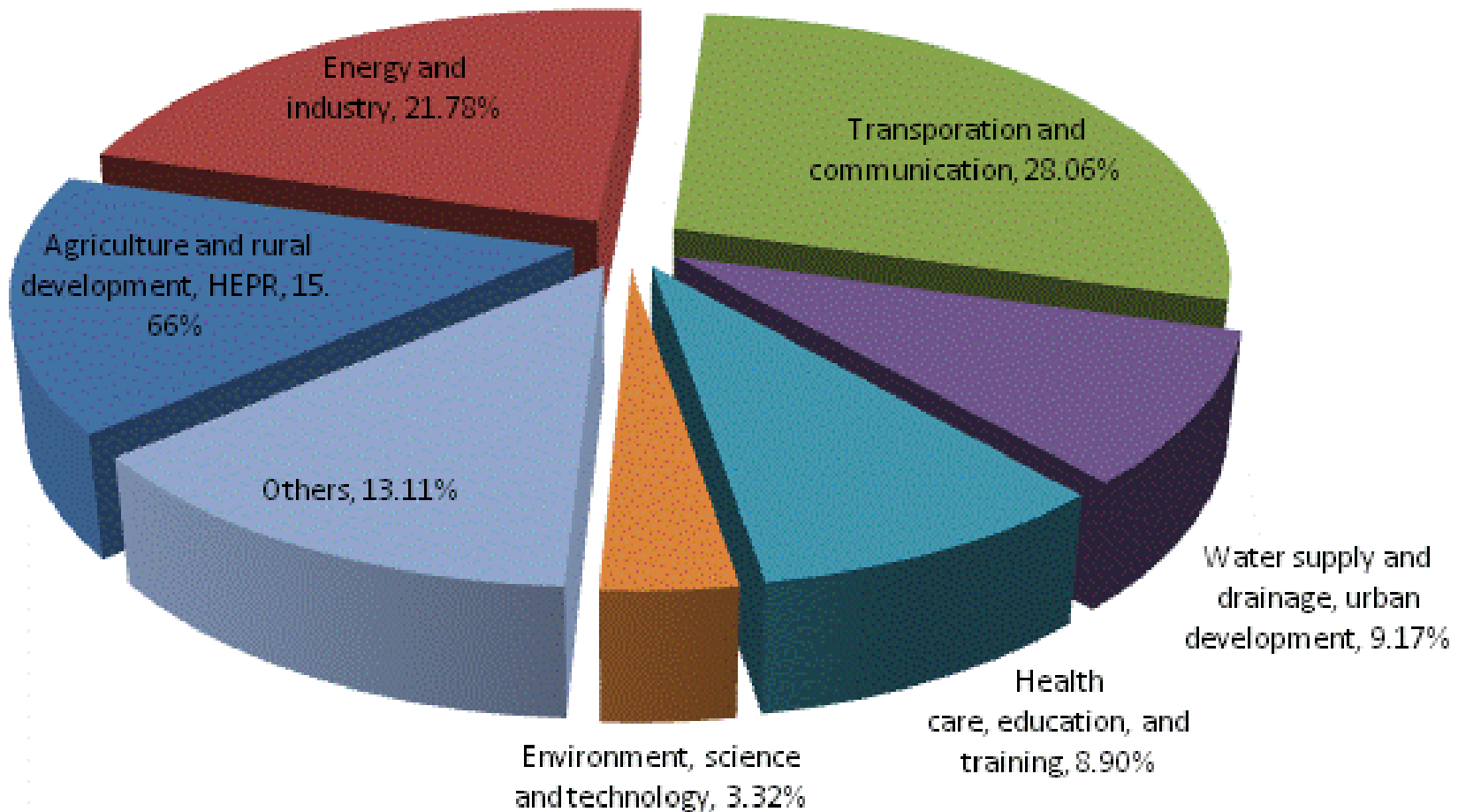
Public investment : Source



State budget for ARD

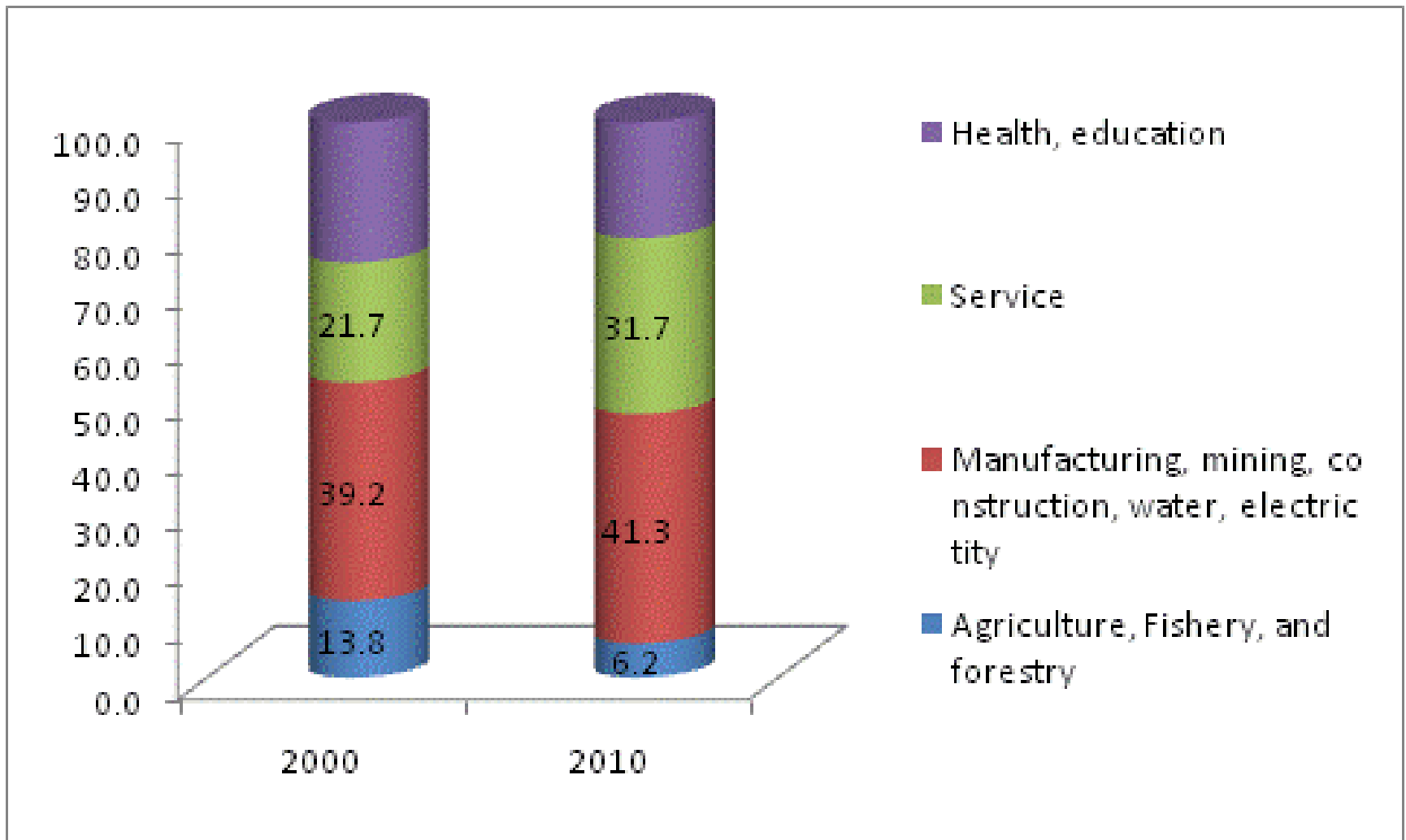
- Allocated for Ministries (central level) and lower levels budget (i.e. provincial level, or localities).
- Strong decentralisation over time. Basic construction budget managed by MARD accounts for 48% total budget in 1996, down to 27% in 2003.
- Grant assistance for socio – economic infrastructure development, human resource development, and environment protection projects, national target programs, sectoral programs

ODA



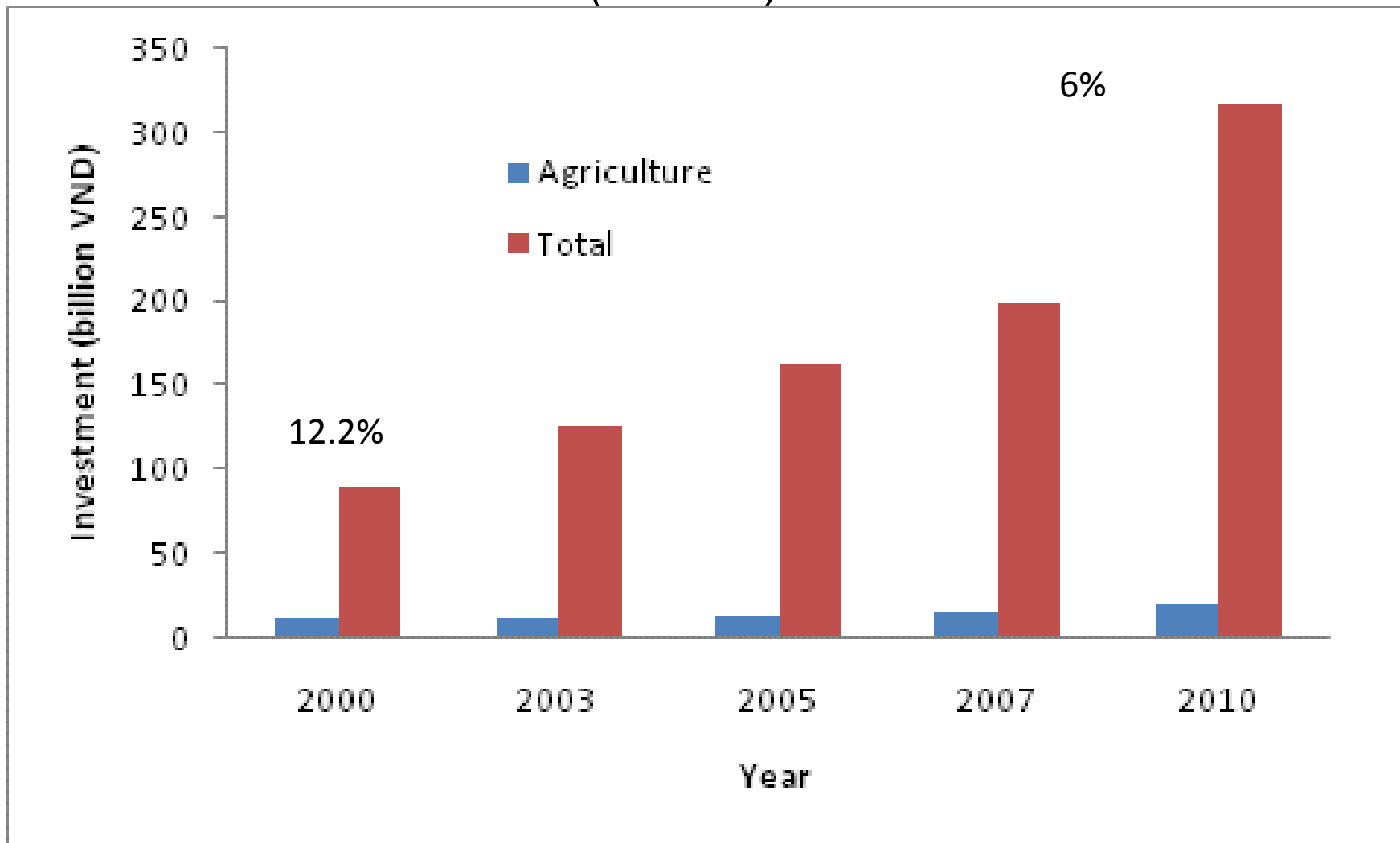
Total public investment composition (%)

(GSO data)



Public investment in Agriculture

(GSO data)

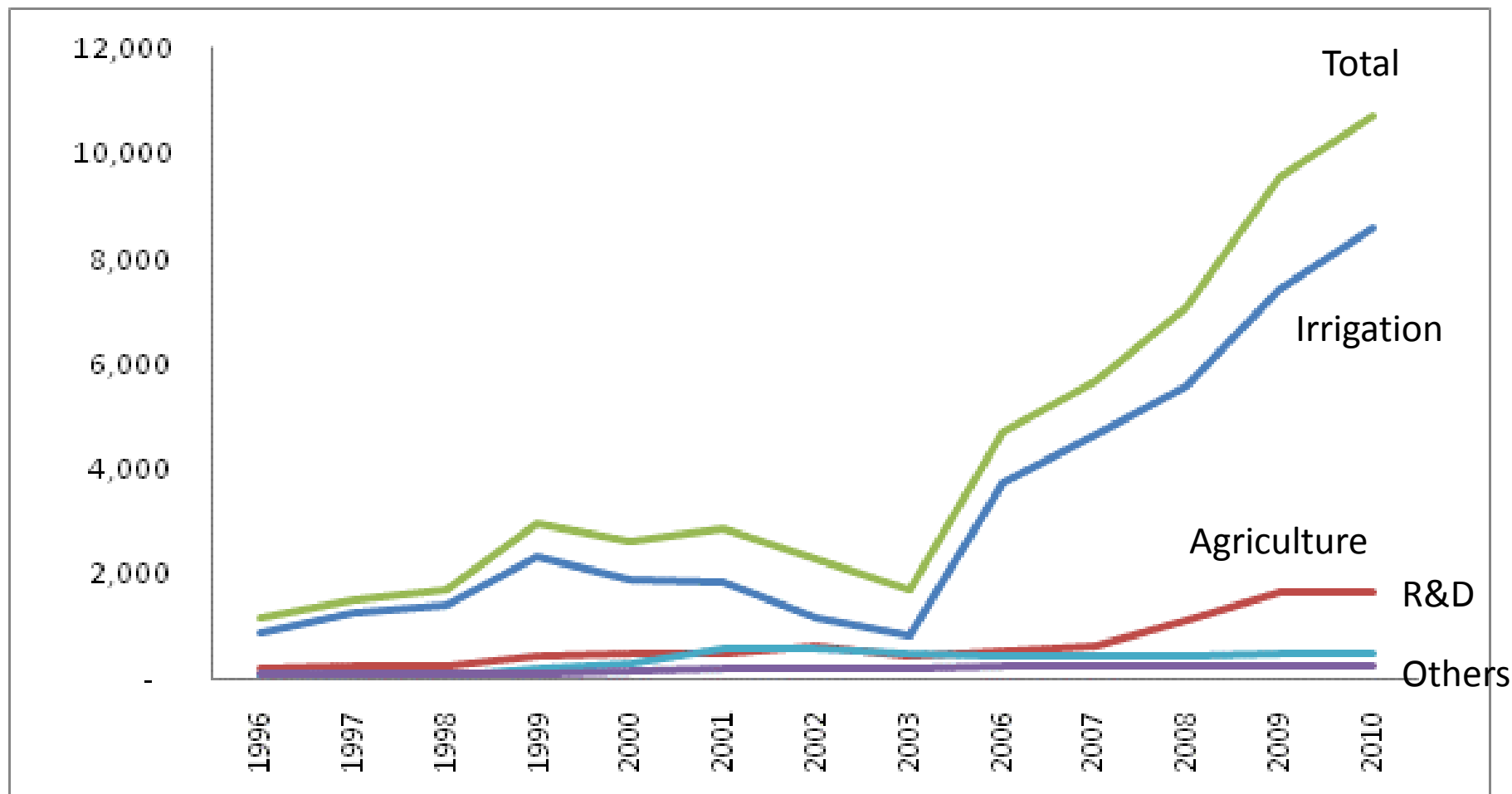


Source of public investment (MARD)

Sources	2006	2008	2010
State budget	51.2	57.7	53.4
<i>Domestic</i>	27.9	28.1	22.1
<i>Foreign</i>	23.3	29.7	31.2
Government bond	49.1	42.3	46.6

Public investment in sub-sectors in agriculture

managed by MARD, period 1996-2010 (billion VND)



Investment in agriculture Infrastructure

- *Irrigation*: about 75% of total (1996-2010)
- *Infrastructure for fishery development* : 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*: enhancing capacity in research and breeding; enhancing capacity in testing quality of seed, breeding, and fertilizer; capability of veterinary system, ...
- *Infrastructure for forestry development. (2006-2010)*: Program on survey, evaluation, and inspection of forestry development; MODIS Ground Receiving Station; National parks and natural preservation areas

Investment in agriculture Infrastructure

- *Irrigation*: about 75% of total (1996-2010)
 - Irrigation works: reservoirs, pumping stations, channels, sewers, and dikes.
 - In 2003-2010, 5 main irrigation programs: safety for reservoirs program, irrigation projects for economic structure changes, irrigation channel upgrading program, national target program on clean water and rural sanitation, and upgrading dike systems

Results from public investment in irrigation, Vietnam , 2006-2010

Indicators	2006	2010
Annual cropping area is irrigated (as % of total cropping area)	60	65
Annual cropping area is drained (as % of total cropping area)	77,6	80
Incremental irrigated area ('000ha)	200	30
Incremental drained area ('000ha)	56	35
Incremental area protected from saline water intrusion ('000ha)	31	42
Upgrading river dikes (km)	61	100
Upgrading sea dikes (km)	50	225

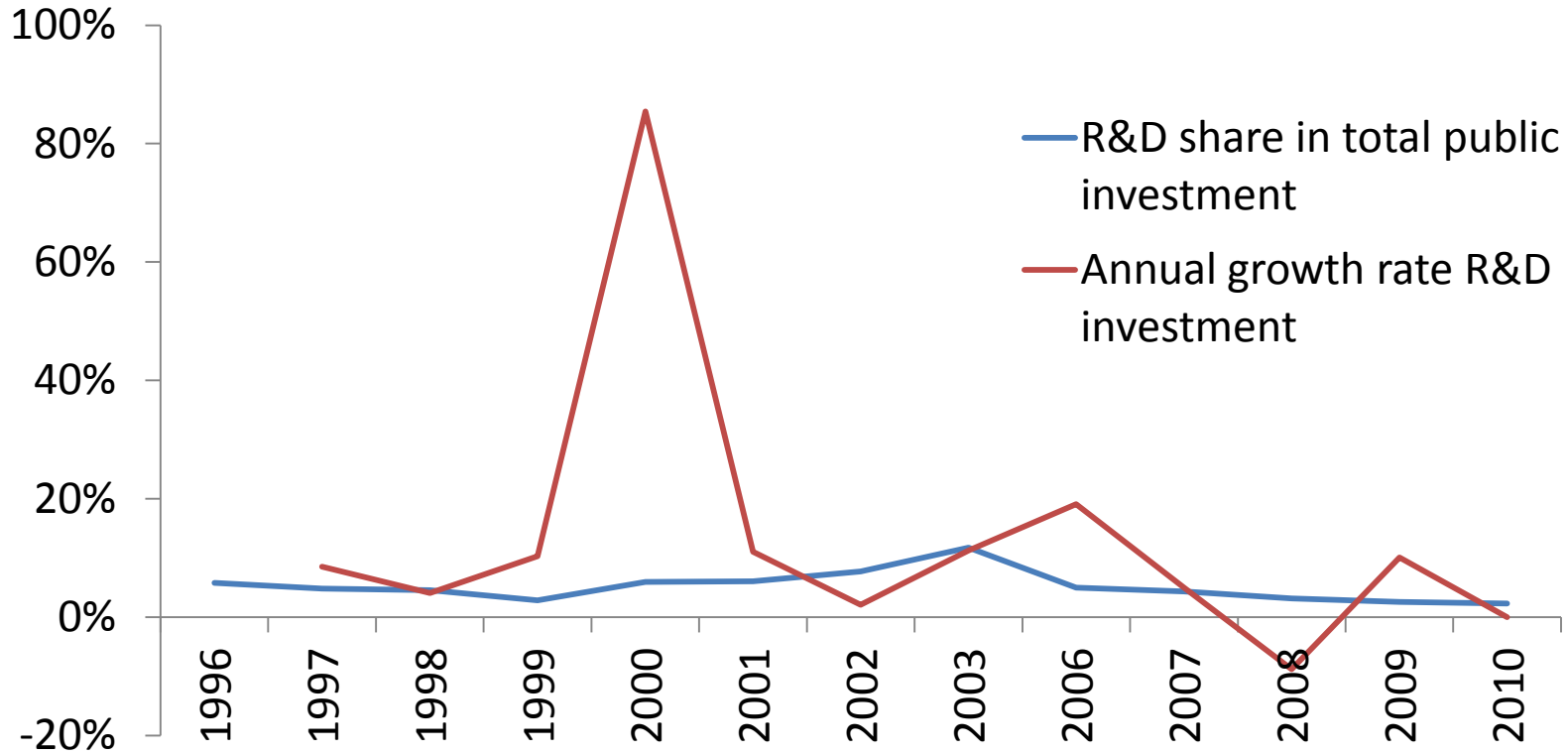
Investment in agriculture

- *Agriculture production.* 15% of total public investment in agriculture sector, covering seed, seedlings, breeding (31% during period 1999-2003), plant protection chemicals, veterinary system, medicines, disease prevention and control, forestry, fishery, afforestation, resettlement, and others.
- Forestry and other related services took about 10% in agriculture investment (MARD, 2004).

Investment in agriculture

- *R&D*. 68 billion VND to 248 billion VND (1996-2011).
- Annual activities of research agencies, incorporated in projects and programs implemented by MARD.
- During period 1996-2003: food crops (26%), by husbandry and veterinary (13%), irrigation (12.5%), and forestry (11.5%)

R&D in Agriculture



Government initiatives to promote investments in agriculture

- ***General legal framework***

- Law on Investment (2005)
- Law on Enterprises (2005)
- Law on Enterprise Income Tax (2003)
- Law on Tax Management (2006)
- Law on Value Added Tax (2008) amends 1992 and 2001 laws

Government initiatives to promote investments in agriculture

Policies related to land use

- Subsidized land rental for investment in agriculture in case of calamities or risk damage (> 40% loss)
- Zero- rental for land in 3-15 years for investment in the priority list set by government.
- Reduction and exemption of agricultural land using tax for investors from effective date to year 2020.

Government initiatives to promote investments in agriculture

Policy related to credit

- Investor can avail state credit amounted up to 70% of the investment project (fixed) capital, term of loans could be maximum of 15 years for **special project**
- Subsidized credit for investors in agriculture: purchasing assets for agriculture production and house construction in rural areas.
- Subsidized interest rate (4% per annum in eight months, under certain conditions).
- Commercial farms can borrow up to 500 million VND without collateral (time defined)

Government initiatives to promote investments in agriculture

Policy related to tax

- Individuals/groups investing in agriculture, fishery, and salt production enjoy lower income tax and lower tariff; some tax exempted: irrigation, plough, harvesting and others, income tax rate of 10% -20%.
- Import tax exemption: inputs for agriculture and fishery production projects (seeds, animal breeds).
- Value Added Tax exemption for raw or semi-processed agricultural and fishery products of selected producers, seeds and animal breeding, agricultural services and salt production.

Other incentives

- Labor training costs; market development; consultant services, R&D; transportation
- *Increasing effective rate of protection (ERP) for agro-processing*: processed fruits and vegetables, coffee and other foodstuff
- *Public investment program*. in accordance with 5-year plans, 1996-2000, and the next two. ADB helped MPI with the 3rd one
- *Trade promotion program*. Aims to 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.

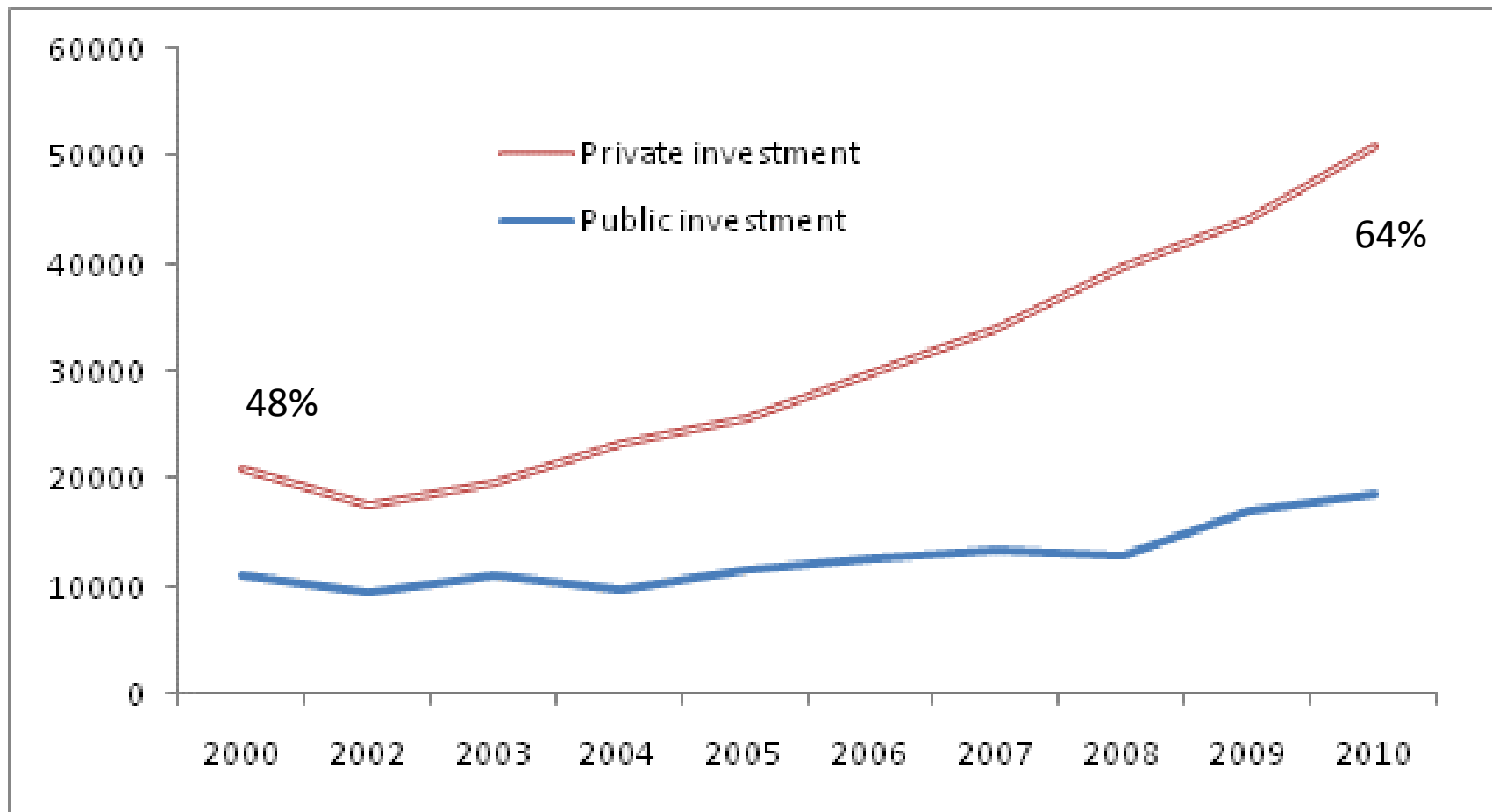
Public Private Partnership Initiatives

- MARD and about 15 international groups:
 - *PPP coffee group*: private sector includes Nestle, Yara, Syngenta, Bayer, BASF, Cisco, EDE consulting, Dakman, Sara Lee, Vinacafe, and others.
 - *PPP Tea group*: cooperation of Unilever
 - *PPP vegetable and fruits group*: Application of GAP in production of vegetables and fruits. PepsiCo and Syngenta, Yara.
 - *PPP Fishery group*: Metro Cash & Carry Vietnam, Cargill, and Fresh studio.
 - *PPP Common Commodity group*: The group targets to strengthen the sustainable production of maize and soya bean. Monsanto with IPSARD conducted a study on GMO products in Vietnam.

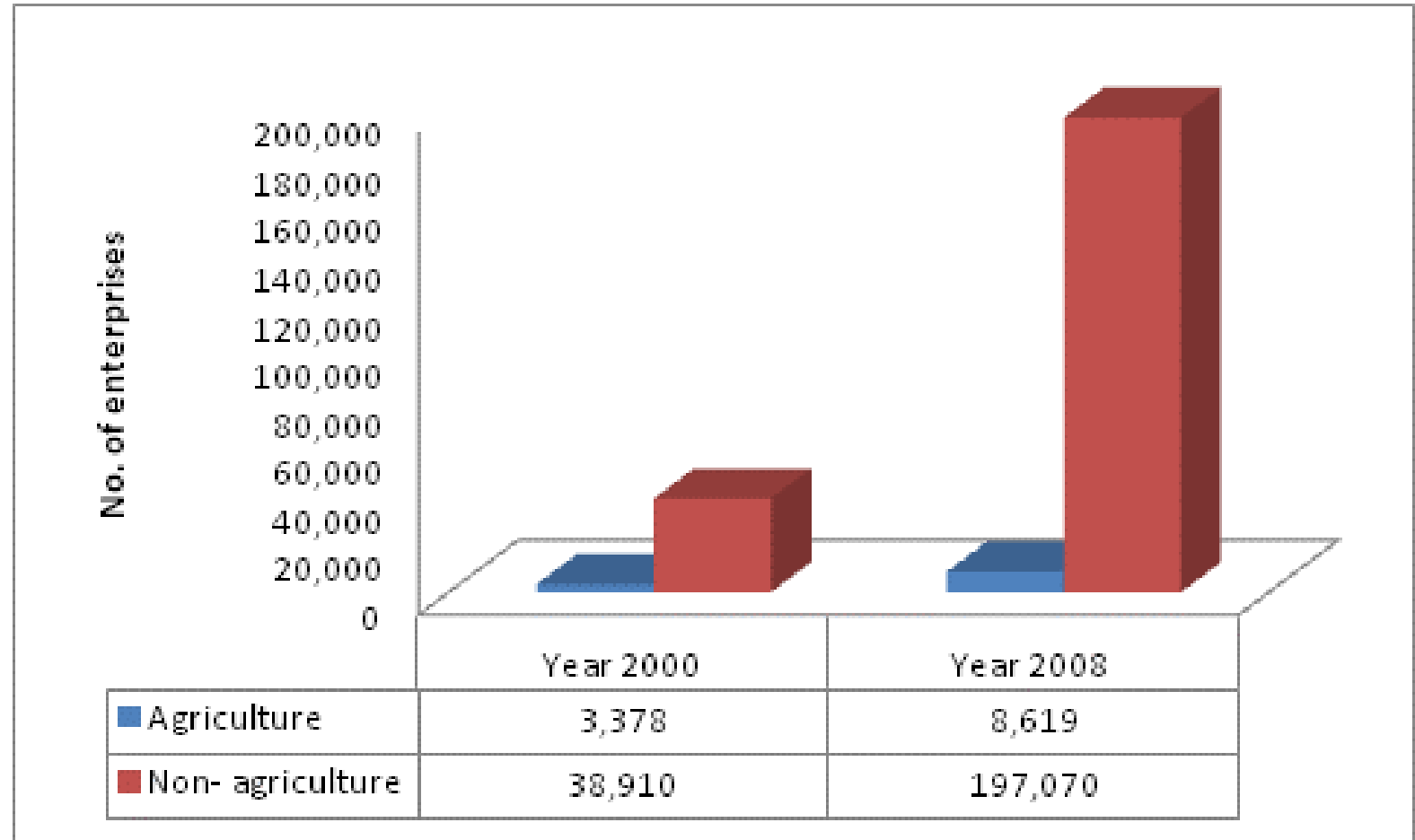
Others initiatives by MARD.

- Designed a plan to develop agricultural enterprises period 2011-2015, which sets target to have 10% newly established enterprises
- Organizes annual dialogue meeting among agricultural enterprises, line gencies, government...
- Provides information on government policy related to agricultural enterprises.
- Approved a number of regional planning for agriculture production: shifting the production structure on agriculture, forestry and aquaculture to 2010 and vision by 2020; catfish production and marketing; vegetable, fruit, flower.

Private investment in agriculture (billion VND)

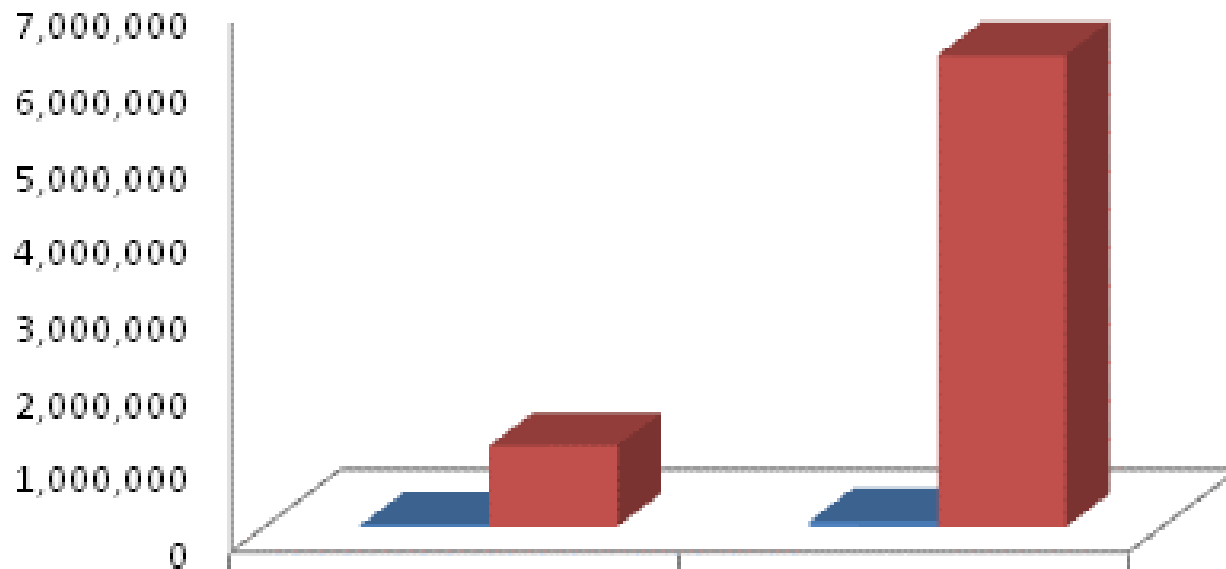


Enterprises



Capital

capital of enterprises (by sector)



■ Agriculture	27,047	77,027
■ Non- agriculture	1,073,135	6,258,800

Private sector in Agriculture

- Private enterprises have grown rapidly at SME scales: agro-processing for rice, cashew nuts, tea, fruits and salt.
- In 2006, 1,153 private enterprises investing in agriculture (accounting for 54% number of agriculture enterprises)
- 10.4 million of farm households and 113,699 commercial farms in 2006. Total capital estimated at about 80,000 billion VND, approximately with total capital stock of agriculture enterprises

Key national, regional and international firms/banks

- Vietnam Bank for Agriculture and Rural Development (VBARD). Main clients of VBARD are farmers . 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, rank 21th by VNR 500.
- C.P ranked 28th in VNR 500 in 2011. Proconco joint stock company (Vietnam and France) , Cargill company limited, Greenfeed Vietnam, Japfa Comfeed.
- Vietnam dairy Products Joint – Stock Company , ranked 43rd in top VNR-500 and top biggest private company in Vietnam.
- Production and trading agricultural inputs: Unilever LD Vietnam, An Giang Plant protection Joint stock company, Petrovietnam Fertilizer and Chemicals Company, Binh Dien fertilizer company.
- Top investors in aquaculture, processing and trading aquatic products are private enterprises: Minh Phu Seafood Corporation , Hung Vuong Corporation, Vinh Hoan Corporation, Minh Quy Seafood Company Limited, and DABACO group.

Foreign direct investments (FDI)

Sub- period	1988-1990	1996-2000	2007-2011
Total FDI (mil. USD)	1,413	21,263	102,010
Agriculture total (Mil. USD)	350	993	471
As percentage of total FDI (%)	24.7	4.7	0.5

Foreign direct investments (FDI)

Period: 1988-2007

- Agro-processing projects accounted for about 54% total capital registered,
- Forest plantation and forestry product processing (25% capital),
- Livestock and animal feed (13% capital).

Number of projects in crop production accounted for less than 10% in total agriculture FDI projects during the period.

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

1. Difficulty in acquiring land for production
2. Poor and inadequate infrastructure
3. Limited access to credit
4. Unstable sources of materials
5. Labor
6. Unfavorable macroeconomic environment
7. Legal framework

Recommendations

- *Land use and planning* : Land fragmentation should be solved. Speed up the planning of crop production in balance with capacity of agro-processing enterprises.
- *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 for only primary production, but in post harvest and processing, transfer of new technology and farming practices
- *Infrastructure*: Upgrading infrastructure for agriculture production (roads, communications, irrigation, disease prevention) to strengthen capacity to prevent diseases, calamities, improve accessibility to market, and to reduce cost.

Recommendations

- *Trade promotion: the mission* should be assigned for agency which is professional in implementing trade promotion activities, especially in abroad.
- *Supports in agriculture projects:* in case of failures due to risks (calamities, market, diseases). Some additional requirements accompanied with supports for investor should be removed, for example requirement on domestic resources employment, or hunger elimination and poverty reduction.
- 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.