

**Sector Study for  
Agriculture and Rural Development  
Sector  
in the Socialist Republic of Viet Nam**

Final Report (Draft)  
(Main Report)

**July, 2003**

Sanyu Consultants Inc.  
for  
Japan Bank for International Cooperation

## **Contents**

<b>CHAPTER 1 OVERVIEW OF VIETNAM .....</b>	<b>1</b>
<b>1.1 ROLES AND CHANGES OF AGRICULTURE AND RURAL AREA IN THE ECONOMY AND SOCIETY .....</b>	<b>1</b>
<b>CHAPTER 2 THE PRESENT SITUATION AND ISSUES OF THE AGRICULTURE AND RURAL AREA OF VIETNAM.....</b>	<b>3</b>
<b>2.1 THE PRESENT SITUATION AND ISSUES OF THE AGRICULTURE.....</b>	<b>3</b>
2.1.1 Issues Facing the Vietnamese Agriculture .....	3
<b>2.2 THE PRESENT SITUATION AND ISSUES OF THE RURAL AREA .....</b>	<b>7</b>
2.2.1 The Present Situation of the Rural Area.....	7
2.2.2 Problems of Rural Areas .....	24
<b>2.3 POLICIES OF THE GOVERNMENT OF VIETNAM .....</b>	<b>29</b>
2.3.1 Policies of the Government of Vietnam.....	29
2.3.2 Mechanisms for Policy Formulation and some issues .....	37
2.3.3 Mechanisms for policy implementation and some issues .....	41
<b>CHAPTER 3 MAJOR ISSUES OF DEVELOPMENT IN THE AGRICULTURE / RURAL DEVELOPMENT SECTOR AND POLICY MEASURES FOR ADDRESSING THEM .....</b>	<b>46</b>
<b>3.1 MAJOR DEVELOPMENT ISSUES OF THE AGRICULTURE / RURAL DEVELOPMENT SECTOR.....</b>	<b>46</b>
3.1.1 Past Performance of the Agriculture / Rural Development Sector and Emerging Problems .....	46
3.1.2 Relations of the Problems .....	49
3.1.3 Approaches for resolving the problems and some issues.....	51
<b>3.2 POLICY MEASURES FOR ADDRESSING THE ISSUES (AREAS OF IN-DEPTH STUDY).....</b>	<b>55</b>
3.2.1 Restructuring of Agriculture and Promotion of Agricultural Diversification .....	55
<b>CHAPTER 4 IN-DEPTH STUDIES.....</b>	<b>61</b>
<b>4.1 RURAL FINANCING AND MICRO-FINANCING SECTOR .....</b>	<b>61</b>
4.1.1 Financial Sector Reforms, and Rural Financing and Micro-financing Sector.....	61
4.1.2 State of Operations of Agriculture / Rural Credit Institutions .....	68
4.1.3 Financial Analysis of Agriculture and rural development related financial .....	

institutions .....	76
4.1.4 State of Financial Affairs in the Rural Households .....	79
4.1.5 Problems and Future Issues of Rural Financing in Vietnam .....	83
4.1.6 Japanese Experiences in Institutional Credit (For Reference).....	89
<b>4.2 MARKETING AND AGRICULTURAL ORGANIZATIONS.....</b>	<b>98</b>
4.2.1 Present Situation.....	98
4.2.2 Overview of Marketing and Agricultural Organizations .....	101
4.2.3 Experiences in Japan.....	103
<b>4.3 IMPROVEMENT OF AGRICULTURAL PRODUCTION INFRASTRUCTURE.....</b>	<b>106</b>
4.3.1 Overview of Agriculture Infrastructure Development.....	106
4.3.2 Issues of irrigation project implementing and water management for enhancing benefit sustainability.....	109
4.3.3 Participatory irrigation management and the Japanese institutional framework .....	110
4.3.4 Proposal for irrigation project implementing and water management for enhancing benefit sustainability.....	111
<b>CHAPTER 5 PROPOSAL .....</b>	<b>113</b>
<b>TABLES AND CHARTS.....</b>	<b>114</b>

## **Chapter 1 Overview of Vietnam**

### **1.1 Roles and Changes of Agriculture and Rural Area in the Economy and Society**

Since around the end of the 1980's, Vietnam has carried out the modernization and industrialization of the economy in transforming it toward a market oriented economy. In this course of development, the secondary industry like manufacturing has achieved a rapid growth at an annual rate over 10% and led the economic growth. The share of agriculture including forestry and fisheries in the gross domestic product has gradually declining from around 40% in 1990, yet in 2000 the agricultural sector produced about one fourth of GDP and remains as one of the important industries.

Vietnam could not support itself the rice that it consumed until around the end of 1980's and imported almost every year. Entering into the 1990's, the rice production increased at an annual rate of over 5% from 19.2 million ton (in paddy equivalent) in 1990 to 31.4 million ton in 2000. In terms of food supply per capita, it increased from 325 kg to 449 kg in the same period. Consequently the shortage of rice as well as food was resolved except a certain area in the country. Concerning other agriculture products than rice, the output of livestock products like pork has increased at a rate of more than 6 % per annum while the output of vegetables, fruits and aquaculture products have also been in upward trends. Accordingly the development of agriculture has not only resolved the food problem pending for long time but also become to provide sufficient food at reasonable prices to the people, that has been increasing at a rate close to 2% every year.

Vietnam is a producing country of coffee and rubber for long time. During the 1990's such new products as pepper, cashew nuts, tea, sugarcane and marine products joined the exporting items, production of which has increased at an annual rate of 13%, and the country becomes one of the major exporting country of agricultural commodities. Since the export of petrol and garments has been increasing, the share of the export value of agricultural, forestry and fisheries products combined together of the total export revenue has declined from 46% in 1995 to 20% in 2000. Nevertheless it amounted to about 2.9 billion USD in 2000 and is playing a significant role in earning the foreign currency needed for the economic development

In rural area of Vietnam, nearly 60 million people live. With development of the economy, the levels of income and consumption of rural people has steadily risen. On the other hand, with the intensification of agricultural production, as the purchase of fertilizers, insecticides and farm

machinery has increased, the importance of the rural market to the manufacturing industry has ever become significant. As a result, the domestic purchasing capacity expands, which in turn supports the growth of industrial sector. In such a way, agriculture and rural area also play an important role in securing the stable and sustainable development of the economy.

The rural area of Vietnam including forestland takes place s substantial part of the country where 58.8 million people accounting for 75% of the total population live. The people living in rural area depend on most of their income, employment and livelihood on agriculture, forestry and fisheries. Agriculture accordingly not only contributes to preserve the national land but also is indispensable to attain an equitable development of the society.

## **Chapter 2 The Present Situation and Issues of the Agriculture and Rural Area of Vietnam**

### **2.1 The Present Situation and Issues of the Agriculture**

#### **2.1.1 Issues Facing the Vietnamese Agriculture**

The Vietnamese agriculture has the problem that, since a great number of agricultural households cultivate limited agricultural land, the operational acreage per households is extremely small. As of 2000, about 11,000 agricultural households (about 25 million agricultural labor force) cultivated a total area of land of 9.3 million hectares. The agricultural land per household is 0.74 hectare and 0.37 hectare per agricultural labor, which makes the country with one of the smallest agricultural area per person compared with other East Asian countries. According to the agriculture census held in 1994, more than 70% of agricultural households have less than 0.5 hectare of operational acreage, those over 1 hectare some 10 %, and the remaining belongs to the size from 0.5 to 1 hectare. Such a tiny operational size of land is primarily caused by the equal allocation of land use rights on the basis of the labor force in individual households when the land use rights was allocated in the early 1990's but is considered as the outcome that a number of people live and intensively cultivate the limited agricultural land for many years.

In transforming the economy from planned to a market oriented one, agricultural households became to be able to independently decide the production and sales of agricultural products, thus their economic incentives were released. Consequently, agricultural households had made efforts to produce and increase the income as much as possible on the given land. For the purposes, farmers have increased to apply more labor and such input materials as high yielding seeds and seedling, chemical fertilizers, insecticides and livestock feed, and undertaken a labor intensive production to land. As a result, land productivity has rapidly increased. In fact, the average yield per hectare of paddy in the whole country increased from 3.2 ton in 1990 to 4.1 ton in 2000 by 30% for a decade.

Meanwhile the labor in agriculture and rural area continued to increase from 18 million in 1990 to about 25 million in 2000 by 40%. Agricultural households use the abundant labor force very intensively on limited land. According to a survey in a Red River Delta<sup>1</sup>, the labor input per

---

<sup>1</sup> Yoichi Izumida and others, Micro-Analysis of the Vietnamese Agricultural Structure – Results of Field Survey in Ninh Binh and An Giang Provinces, “Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in the Socialist Republic of Vietnam, Phase 3”, March

hectare of paddy production is 190 to 210 hours. The average working time in agriculture of rural households is as few as 21 hours per person per week (Vietnam Living Standard Survey in 1997/98), which implies a number of underemployed people in rural area. With the increase in agricultural productivity, the population pressure on the tiny operational size of land has increasingly become a serious issue to further develop the production.

Moreover, In addition to the above problems, as indicated by the export prices of rice and coffee, prices of many agricultural products have declined or stagnated in recent years. The international prices of rice started to decline from around mid-1998, though it has slightly recovered in 2002, and remains at a lower level than in previous years. It affected to a decline of the domestic price of rice, which in turn constrained the increase in household income. The price of coffee suddenly declined around 1996 to nearly one sixth of the peak price in 1995 (the average price of 2001). Moreover, prices of horticulture crops and livestock products, in addition to the temporary and seasonally falls, are generally in declining trends in recent years.

In line with the income increase, demand for agriculture products has rapidly changing as shown in Table 1. While the per capita consumption of grains mainly rice has shown a slight increase, the consumption of livestock products and vegetables is increasing. These changes are more pronounced in recent years. Although, in order to fully understand changes taken place in the total demand, it needs to consider the population increase at around 2% per year and the exports of some agricultural products in addition to the change of per capita consumption, it is evident that the demand has been rapidly changing in recent years.

**Table 1. Change in Per Capita Consumption a/**

(kg/year)

	Rice in milled	Pork	Milk and milk products b/.	Poultry meat	Egg	Vegetable	Fruits
1990	153.8	10.7	1.3	2.5	1.2	49.5	41.3
1995	161.1	13.5	n.a.	2.4	1.6	56.6	46.3
2000	170.3	18.1	6.5	3.7	1.7	74.9	47.7
2001	n.a.	19.3	7.0	3.9	1.8	n.a.	n.a.
2002	n.a.	20.7	7.5	4.2	2.0	n.a.	n.a.
Increasing rate per year % c/	1.02	5.65	15.72	4.41	4.35	4.23	1.45

---

2001.

---

Source: FAO, Food Balance Sheet

Notes: a/ net supply per year.

b/ milk equivalent.

c/ the average increasing rate from 1990 to the latest year available.

The stagnating trend of agricultural prices is regarded to reflect not only the imbalance between demand and supply in the international market but also the failure of adjustment of production and marketing to the changes taking place in the domestic demand.

The problems facing the Vietnamese agriculture have not basically changed in spite of the increase in agricultural production and income with the progress toward a market oriented economy in the 1990's. In respect to agricultural structure in which an overwhelming number of tiny sized agricultural households dominate, since the employment opportunities outside agriculture is limited, farmers tend to maintain their land thus transfers of land use rights is highly limited, therefore the structure has hardly changed in many parts of the country.

In Northeast of South and Mekong River Delta, however, there is a sign that landless and near landless households has been increasing, which implies that agricultural households purchasing or rent the land of those households and expand their sizes are emerging. Large sized agricultural households called "farms (tran trai)" are appearing. These "farms" account for about 60,000, cultivate 650,000 hectares of agriculture land, mainly engage in perennial commercial crop growing and aquaculture, and employ on average 6 persons including family members. However, from the aspect of the country as a whole, such a change is highly limited and most of rural area and agriculture households still carry out agriculture on tiny land as before. On the other hand, the acreage of agricultural land increased by 30% from 7 million to 9.3 million hectares during the 1990's, most of which however is located in remote or mountain area far from main agricultural regions<sup>2</sup>, it thus appears to be unlikely to further expand the agricultural land in a substantial amount.

Moreover, the working population in rural area has been increasing at a pace of 1.2 to 1.3 million persons every year, while the employment opportunities outside agriculture is still few, hence many people are forced to stay in agriculture and rural area. The employment opportunity in urban area not much increased. In addition that the inflow of population into cities is limited,

---

<sup>2</sup> For example, the exploration of the Plain of Leeds, which expands in the northern edge of Mekong River Delta brought about 700,000 hectares of land into cultivation. Moreover an area covering its surrounding provinces called "the Long Xuan Quadrangle" is being exploited from swamps into agricultural land.



unless one is registered he/she cannot benefit from social security and education, most of the immigrant workers from rural area engage in temporary or seasonally work. Although the employment opportunity outside agriculture in rural area appears to be increasing, the situation is likely to continue at least for the time being.

The problems facing the Vietnamese agriculture as discussed above are summarized:

1. Under the tiny operational size in which many agricultural households cultivate limited agricultural land, agricultural households directed to an intensive production in enhancing the productivity per unit of land. This has resulted a remarkable production increase in the 1990s.
2. While the migration of agricultural and rural labor force toward urban area and other industries is restrained, labor force in agriculture and rural area remain in excess resulting in the low labor productivity. Accordingly, the increase in agriculture income is relatively slow.
3. In addition in recent years, the stagnation of international prices of exporting agriculture commodity as well as change in domestic demand as indicated in the rapid increase of consumption of livestock products, vegetables and fruits are taking place.
4. Reflecting a failure of adjustment of production and marketing to these changes, prices of agricultural products have been declining or ceasing the rises as realized in previous years, which negatively affects the further growth of agricultural income.

## **2.2 The Present Situation and Issues of the Rural Area**

### **2.2.1 The Present Situation of the Rural Area**

#### **【Summary】**

- ① The percentage ratio of rural population stands at 75% in year 2001. The labor force of agriculture, forestry and fisheries is in the range of 25.00 million to 26.00 million. More than 80 % of those living in the rural areas is engaged in agriculture, forestry or fisheries;
- ② The per capita GDP growth rate of agriculture (3.3 %) is smaller than the corresponding rate of the entire industries (4.7 %);
- ③ About 10 % of the households in the rural areas engage in hand craft industries. A large percentage of farm households engage in off-farm activities on a part time basis. Incomes from agriculture, forestry and fisheries account for only half of the total income of rural households.
- ④ Living conditions in the rural areas are improving. There are regions, however, which lag far behind with respect to electricity and access roads. In particular, lagging behind are North West, North East (Roads), Mekong Delta (Roads), and Central Highland (Electricity)
- ⑤ The incomes of rural households are increasing. But, the income disparities between urban areas and rural areas are getting bigger in terms of both absolute figures and relative figures.
- ⑥ Percentage Ratio of population living under the Total Poverty Line decreased in rural areas from 58 % (1993) to 37%(1998). On the other hand, those in the urban areas decreased by far greater rates. Consequently, about 90 % of the nation's poor now live in rural areas.

#### **(1) Labor and Employment**

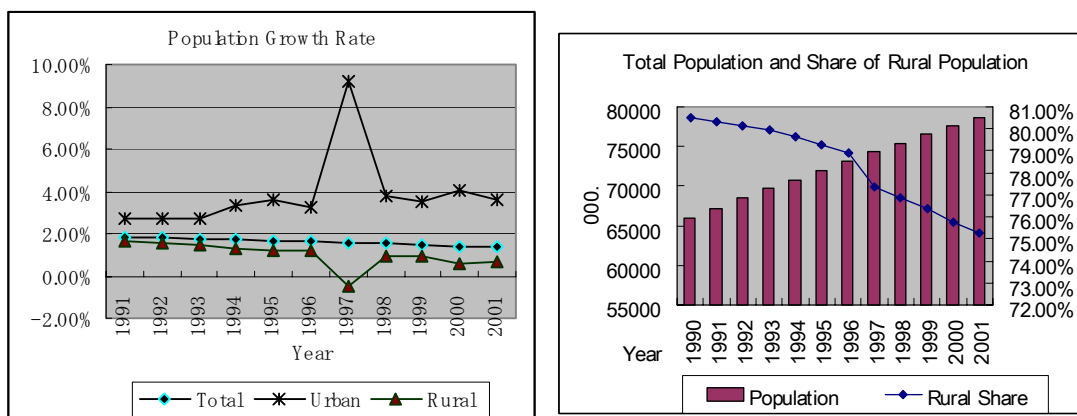
##### **① Population and Internal Migration**

According to a Statistical Year Book<sup>3</sup> of General Statistics Office (GSO Statistics 2001), the total number of population of Vietnam is about 78.69 million in year 2001. The population who lives in the rural areas is about 59.2 million, and accounts for 75 % of the total. The total

---

<sup>3</sup> GSO, 2002, "Statistical Yearbook 2001" Statistical Publishing House

population of Vietnam increased from 66.02 million to 78.69 million, or 19.2%, during an 11-year period from 1990 to 2001. The annual rate of increase in population decreased over the period year by year from 1.9 % to 1.35 % in year 2001. (Refer to the Charts below)



The ratio of population between rural areas and urban areas was understood<sup>4</sup> to be 8:2 for a long period of time (1975 – 1996). It was a rare phenomenon when compared to rapid rates of increase in urban population in the order of over 4 –5 % per annum in other developing Asian countries over the same period. Vietnam, however, decided in January 1988 to remove part of restrictions on the internal migration after the implementation of Doi Moi policies. As a result, internal migration to cities such as Hanoi or Ho Chi Minh City increased rapidly<sup>5</sup>.

**The term, “Rural Areas” is defined in various ways**

- **Definition given in official statistics of Vietnam:** “Rural Area” is supposed to be areas outside of “Urban Areas”. Urban areas are urban districts (Quan) located in centrally administered cities (Hanoi, Ho Chi Minh, Hai Phong, Da Nang), Cities under Provinces (Thanh pho), Precincts (Phuong) and towns (Thi tran) under districts. There are rural districts (Huyen) as well in the centrally administered Cities.
- **Survey by UNIDO (VIE/98/022/08)** defines the rural areas this way; ”In this study, the rural areas are considered in relation to the more developed areas, which have more urban characteristics by recognizing that there are areas with overall characteristics which are lagging behind compared to “urban areas.”” Not clear.
- **For the purpose of Rural Credit by World Bank / ADB,** the rural areas are defined rather extensively.
  - **Second Rural Finance Project of World Bank** sets the eligible areas of sub-loan as ”Areas outside the urban areas of Hanoi, Ho Chi Minh City, Hai-Phong, and Da Nang”
  - **Agriculture Sector Development Program of ADB** also sets the eligible areas of sub-loans under its Agro-industry Loan component as ”Areas inside the municipal boundaries of the major cities of Hanoi, Ho Chi Minh City, Hai Phong, and Da Nang are excluded” The same as World Bank.

<sup>4</sup> UNIDO “Rural Industrial Development in Vietnam” VIE/98/022/08 Table 3

According to GSO Statistics 2001, the urban population of Vietnam increased in 1990's by over 3 % per annum<sup>6</sup> (3.59 % in year 2001). Those rates of increase are well over the rates of increase in total population. Therefore, the rates of increase in rural population (0.64 % in year 2001) stayed, during the 90's, constantly below the rates of increase in total population and the population of rural areas increased comparatively slowly resulting in the decrease in the share of rural population from 80 % to 75 %.

That rate of increase just over 3 % may be low if the long period of restriction on internal migration is taken into consideration. On the other hand, it may high if we think of issuance of land certificates that began after 1988. The land use rights were distributed, based on the number of work force, on an equal basis in real terms<sup>7</sup>. Farmers should have preferred to remain in the place they used to live just to get land use right certificates. In view of the state of land use right certificates: i.e., high percentage of farm households that got certificates and the social recognition of associated rights with the certificates, and given the prospects for an increase in off-farm employment, chances are that the rate of increase of the urban population would continue to be on the upper side rather than the lower side.

A census<sup>8</sup> reports internal migration among the regions over a period from 1994 to 1999. Ho Chi Minh City received 410 thousand more that it sent out. Hanoi got 115 thousand more. Regions got more are Southeast (excluding Ho Chi Minh City), 250 thousand, and Central Highlands, 190 thousand. All the rest sent out more than they received.

According to a living standard survey<sup>9</sup> (VLSS), 48 % of those migrated into urban areas and residing there came from rural areas and 49% from urban areas (the rest are from overseas). The regions that have higher percentage of incoming migration are Southeast (50.3%) and Central Highlands (44.4%). In addition, there are persons who work on a temporary basis in other urban and rural areas than their home. VLSS reports the percentage of those in the rural areas who work away their home is 3.6 %. Those percentages differ from region to region; North Central Coast has a higher percentage, 4.6 %, while they are lower in Red River Delta and Southeast,

---

<sup>5</sup> JBIC 2001 "Poverty Profile Socialist Republic of Vietnam" p14

<sup>6</sup> The outlying rate in 1997 is due to rezoning. Some communes were incorporated into Phuong or Thi tran.

<sup>7</sup> Doan Doan Tuan, Masayoshi Satoh 1998 "An Analysis of Land Redistribution and Its Impact on Agricultural Practices in the Rural Communities in the Red River Delta, Northern Vietnam" *Transaction of Japanese Society of Irrigation, Drainage and Reclamation Engineering* No. 196 pp.125-139

<sup>8</sup> GSO 2001 "Census Monograph on Internal Migration and Urbanization in Viet Nam" Statistical Publishing House

<sup>9</sup> GSO 2000 "Viet Nam Living Standards Survey 1997-1998" Statistical Publishing House

i.e., 1.5 % and 1.8 % respectively. The lowest is Central Highland and it is 0.6%.

## ② Labor Force and Employment

Actual number of population in working age was not found in statistical books. According to VLSS, the ratio of the population in working age<sup>10</sup> between rural and urban areas is 75 to 25. That is the same with the ratio of population between rural and urban areas in year 2001. There is a difference between rural and urban areas in the percentage ratio of economically active<sup>11</sup> working age population to working age population; it is 76 % in the urban areas while it is 89 % in the rural areas. The unemployment rates<sup>12</sup> differ from urban to rural areas; 4.5 % in urban areas and 0.8 % for rural areas.

According to GSO statistics of 2001, numbers of employed persons have increased from 1995 by the average annual rate of 2.13 % and they are 36.7 million in year 2000. Based on this number of 36.7 million and applying the ratios as above, the population in the working age is calculated<sup>13</sup> to be 43.5 million. Accordingly, it follows that the economically active population in the working age of the rural areas is 29 million, and that the number of persons employed in the rural areas is 28.8 million. The number of persons employed in agriculture, forestry and fisheries carried in GSO statistics of 2001 is about 25 million (agriculture and forestry: 24.3 million, fisheries: 0.7 million); they are all supposed to live in rural areas. Given all those, the number of persons employed in other industries than agriculture, forestry and fisheries is estimated to be 3.8 million, or 13 % of the total number of employed persons.

A statistics on agriculture, forestry and fisheries<sup>14</sup> (Agricultural Statistics) carries figures on labor as well. Households engaged in agriculture, forestry and fisheries counts to 11.58 million in year 1999, (agriculture: 11.2 million, forestry: 0.04 million, fisheries: 0.34 million); 11.58 million households account for 87 % of the total number of households of 13.3 million. The number of persons employed in agriculture, forestry and fisheries is 26.17 million (agriculture: 25.26 million, forestry: 0.1 million, fisheries: 0.82 million), and the total population of the households engaged in agriculture, forestry and fisheries is 54.09 million (agriculture: 52.16 million, forestry: 0.23 million, fisheries: 1.71 million).

According to the figures in GSO Statistics 2001, annual net incremental number of employed

---

<sup>10</sup> Female aged from 15 to 55 years old , male aged from 15 to 60.

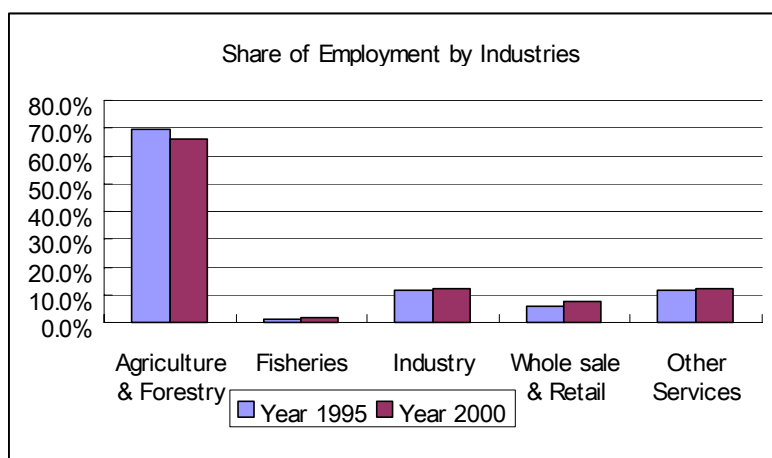
<sup>11</sup> Those having a job (employed) and those not having a job but having a desire to work (unemployed)

<sup>12</sup> Unemployed / economically active population in working age

<sup>13</sup>  $X=36.70/(0.25*0.76*0.955+0.75*0.89*0.992)$

<sup>14</sup> GSO "Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975-2000" Statistical Publishing House

persons in each year from 1995 to 2000 ranges from 730 – 740 thousand. Question is “how many new entrants?” VLSS tells that the percentage shares of population aged from 10 to 14 years old and those from 15 to 19 years old are 13.1 % and 11.9 %. Assuming one tenth of those persons aged from 10 to 19 enter the economically active population in the working age, the annual new entrants would number in 1.95 million, which is calculated based on the total population of 78 million. Taking the size of population in the working age as estimated, i.e., 43.5 million, and assuming the average longevity of work years is 35, then 1.24 million persons will retire annually. If all the vacancies of the retirees are filled, they create job opportunities for 1.24 million persons. The sum of replacement of 1.24 million jobs and that incremental employment of 0.74 – 0.74 million is 1.98 million, which is just enough to match the number of annual new entrants of 1.95 million. Of course, the average longevity may be longer; then, the number of retirees gets smaller and those who could not find decent jobs must increase and the number of unemployed should accumulate year by year.

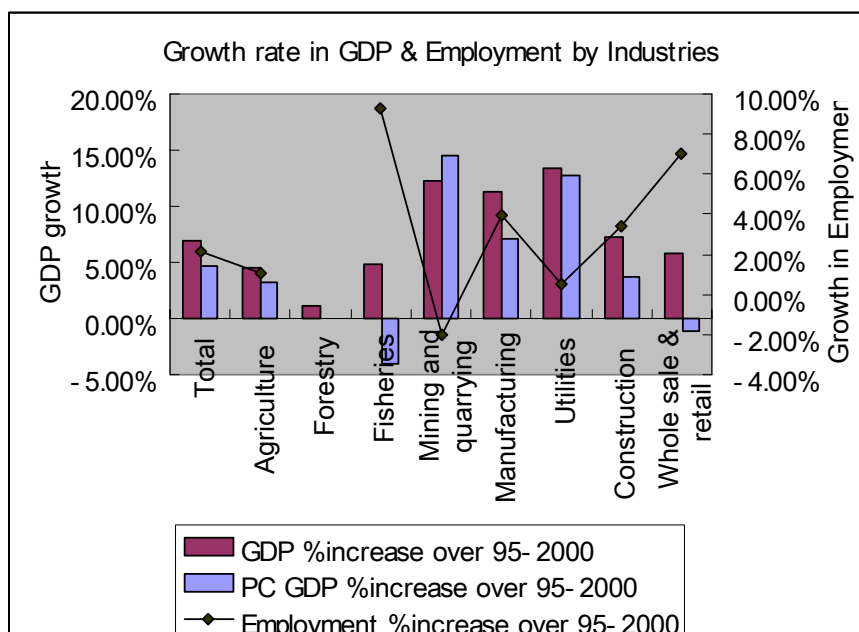


Source: GSO, 2002 ibid

The above chart compares the percentage share of employment by industry<sup>15</sup> of year 1995 with that of 2000. The salient feature is the dominant share of agriculture and forestry; it is well over 60 % in both years. And, the share of agriculture and forestry has decreased while all the other industries, including fisheries, have increased their shares. However, it should be noted that the number of persons employed by agriculture and forestry is increasing. The following chart shows average annual rates of increase in the number of employed by industry over the period from 1995 to 2000 and two kinds of average annual rate of increase: GDP growth rate and Per capita GDP<sup>16</sup> growth rate, both by industry over the same period.

<sup>15</sup> “Industry” in this chart includes mining, public utilities, and construction as well as manufacturing

<sup>16</sup> Amount of GDP by industry / number of persons employed in the respective industry



Source: GSO, 2002 ibid

The average annual rates of increase in the number of employed persons are depicted by the square dots (linked by the line) according to the measure on the Y - axis on the right. The average annual rate of increase in the persons employed in agriculture<sup>17</sup>, 1.06 % is less than that for the total number of employed, 2.13 %, and the share of persons employed in agriculture and forestry decreased. On the other hand, GDP growth rates of agriculture and forestry, i.e., 4.5% and 1.2% respectively, are below the rate of growth of the entire industries (7.0 %), and the per capita GDP growth rate of agriculture (3.3 %) stopped short of the corresponding rate of the entire industries (4.7 %) notwithstanding the decreased share of agricultural employment. Consequently, per capita income disparities between agriculture and non-agriculture have to get wider.

Conspicuous is the rate of increase of over 9 % in persons employed in fisheries. As a result, per capita GDP of fisheries decreased. But, the output value (1994 constant prices) of fisheries increased, by an average annual rate of 10% over the same period (1995 – 2000), and this rate of increase surpassed the rate of increase in the number of employed. Incidentally, Mekong River Delta region accounted for 60 % of the total value of fisheries output of Vietnam.

<sup>17</sup> Including those employed in forestry

Whole country: Output Value at constant 1994 Prices (Bill. VND) and Annual Growth Rate (1995- 2000) (%)				
Year	Agricultur e	Forestry	Fisheries	Industry
1995	82.307	5.033	13.523	103.374
2000	112.111	5.901	21.777	198.326
Growth Rate	6.38%	3.23%	10.00%	13.92%

Source: GSO, 2002 ibid

Mining and public utilities are outstanding in terms of both GDP and per capita GDP growth rates, but they are below average when it comes to the rate of increase in the number of employed persons. These capital-intensive industries cannot play much role in offering job opportunities because of their small shares in the entire employment and low or negative rates of increase in employment. Manufacturing, on the other hand, achieved high GDP growth rates together with high rates of increase in the number of employed persons. Resulting per capita GDP growth rate of 7 % is well above the overall average, 4.7 %. That is one of the reasons why the strategy for broad based economic growth puts focus on the promotion of manufacturing, particularly on labor-intensive manufacturing, with a view to poverty reduction.

Wholesale and retail achieved a rapid employment growth. But, it is a pity that the rate of GDP increase did not matched the pace of employment increase. Per capita GDP of wholesale and retail decreased over the period from 1995 to 2000. The employment increase rate of construction is just the same as that of manufacturing. But the per capita GDP growth rate of construction is below the overall average because the rate of GDP growth was not up to that of manufacturing.

According to GSO Statistics 2001, the rate of used working time of labor in rural area is 74 % as of July 1, 2001. Region-wise differences are not big. The rates of each region roughly fall in the narrow range from 70 – 78 % over the 5-year period from 1996 – 2001 and they show a modest improving trend over the years for each region. A Survey by UNIDO<sup>18</sup> quotes that there are gaps in the rate of used working time of labor between agriculture and other industries. In year 1997, it was 71 % in agriculture, ranging from the lowest of 65% in Red River Delta to the highest of 86% in Central Highland, while they were 83 % for Manufacturing and construction and 83 % for Services. The gist of employment issues in the agriculture sector may not be an increase but more effective use of existing labor force.

---

<sup>18</sup> UNIDO VIE/98/022/08 ibid Table 5.



(2) Off-farm Jobs in the Rural Areas

In the Study, we estimated the number of persons living in rural areas and employed in off-farm industries is 3.8 million, or 13 % of the total number of employed persons in rural areas ( (1) ② ). According to VLSS, persons with farm self-employment account for 53.1 % of the total number of persons employed in rural areas; persons with farm self-employment together with either wage employment or non-farm self-employment account for 33.9 % (together with wage employment: 18.3 %, together with non-farm self-employment: 15.7 %). The sum of the both, i.e., those who engage in agriculture, is 87 %; and the remaining percentage, i.e., those whose main jobs are off-farm, is 13 % and coincides with our estimation.

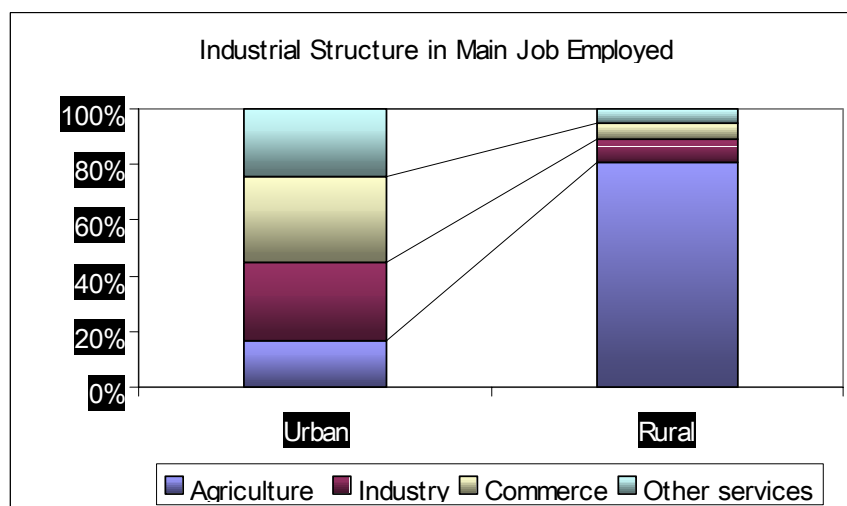
UNIDO survey<sup>19</sup> estimated that 55% of the total number of persons employed in manufacturing and construction lived in the rural areas and it was about 2 million. In addition, there are households mainly in the center of communes that trade consumer goods, agricultural inputs, and other services such as restaurants and blacksmiths.

According to VLSS, the breakdown of employment (classification by the main job) in the rural areas is; agriculture 80.5 %, manufacturing 6.15 %, commerce 5.73 % and so forth. The employment structure of the rural area by industry is shown in the following chart<sup>20</sup> in comparison with that of the urban areas. The employment structure of the rural areas looks like that of the entire nation but more skewed to agriculture. It gives a clear contrast to the employment structure of the urban areas that is well balanced with commerce, other services, industry and agriculture in this order.

---

<sup>19</sup> UNIDO *ibid* VIE/98/022/08 p24

<sup>20</sup> Industry (Manufacturing) here includes mining, utilities, and construction



JICA carried out a survey<sup>21</sup> on villages where villagers engage in artisan craft industries (craft villages). The survey set up criteria for identifying craft villages; (1) more than 20 percent of the entire households of the village are engaged in manufacturing artisan crafts and (2) more than 20 percent of the entire income of the village comes from artisan crafts. All the communes in the rural areas are surveyed and 2017 villages were found to meet the criteria. The region-wise distribution was: Red River Delta 43 %, North Central Coast 17 %, Northwest 12 %, Mekong River Delta 11 %, etc.

The number of households, more than 50 % of which income is accounted for by artisan crafts (Artisan Craft households) was found to be about 1.42 million as against the total number of households of 14.4 million of all the surveyed communes. The percentage of Artisan Craft households is about 10 %; provinces with higher percentage are Lang Son 30.9 %, An Giang 28.6 %, Hung Yen 25.6 %. Some have higher percentage while some have not so high, but it can be recognized that artisan crafts are manufactured in the rural areas quite extensively. Specific craft items include lacquer wares, pottery, embroideries, wood works, wood paints, etc. Most of those items have long history of manufacturing. Craft villages with less than ten years of production history are less than 20 %; villages with more than 30 years of history account for more than 50 % and 30 % have more than 100 years of history of production.

The survey of UNIDO<sup>22</sup> shed light on similar activities in the rural villages as did the JICA survey; it referred to “Occupational” communes or villages. The occupational communes are a

<sup>21</sup> JICA 2002 “The Study of Artisan Craft Development for Rural Industrialization in Vietnam” Workshop on Model Provinces Selection Oct.2002 The survey will be concluded by August 2003.

<sup>22</sup> UNIDO VIE/98/022/08 ibid P31

salient feature of the Vietnamese rural industry, and in the occupational communes or villages, around 30 to 80 % of the households are engaged in the same manufacturing activity; it may be textile and garments, agro-fisheries processing, potteries, wood works, etc. There exist about 800 such occupational communes / villages around the country, and half of them are in Red River Delta. The total employment in such occupations is 500 thousand. There are some occupational communes / villages that have long tradition, but most of them developed their own occupations over this decade. That is considered to be encouraging in view of promoting household industries in the rural areas.

### (3) Living Environment

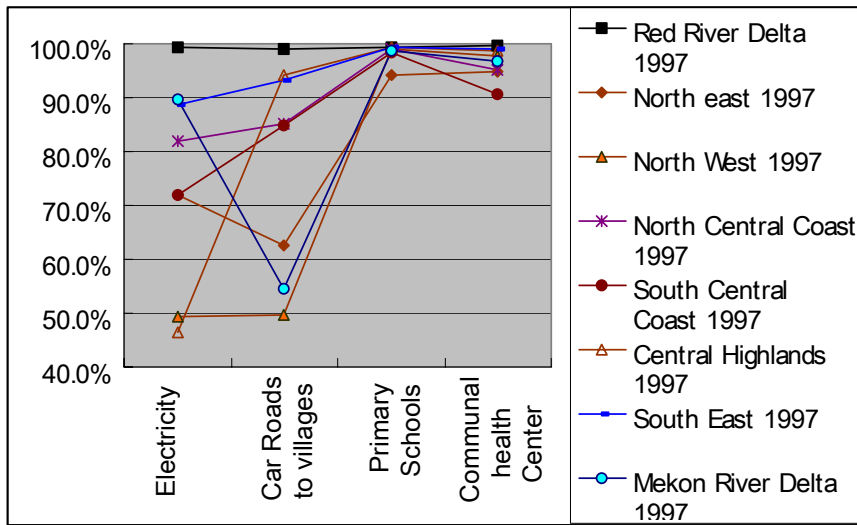
There have been many improvements in the living environment for the rural dwellers. According to VLSS, 71 % of rural houses are not temporary any more. Due to the development of water supply systems and wells, the percentage of households that rely directly on rain or river and lakes as sources of drinking water came down to 27 %. But the percentage of households without toilet still remains to be 22 % as against 13 % in the urban areas. In particular, South Central Coast (42 %) and Mekong River Delta (33 %) are lagging behind. 48 % of households have T/V sets, and 42 % have radio-cassettes. Bicycles are owned by 72 % of households, and motorcycles are by 16 % (44 % in the urban areas). Households that have telephone account for only 2 % in the rural areas while 25 % have in the urban areas.

UNDP<sup>23</sup> conducted an interview sample survey on the needs of farmers during a period from October to December 2002. The results shows; 51 % of surveyed farm households use treated water for drinking, in particular, 84 % in Southeast, and 74 % in Mekong River Delta. The percentages of households that have T/V are 72 %, bicycle 84 %, motorcycle 45 %, telephone 9 %. The survey appears to indicate the improvements achieved since VLSS (1998).

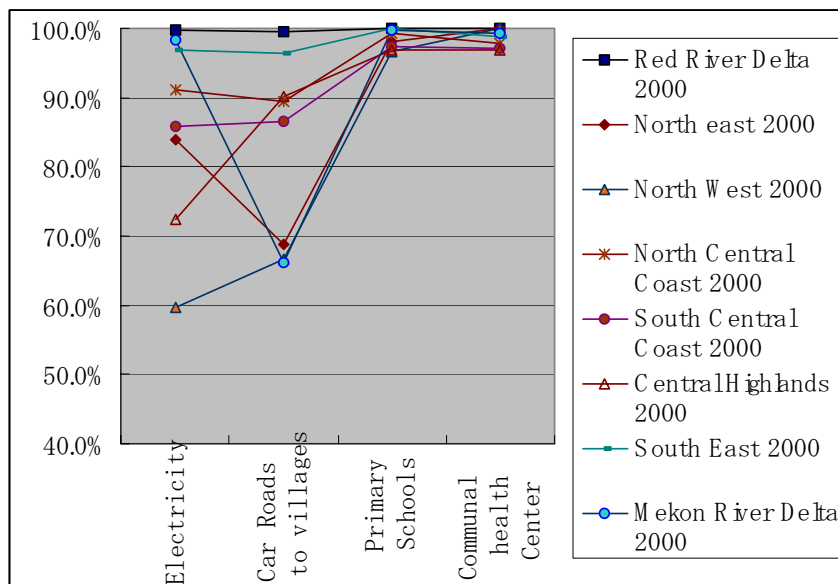
GSO Statistics 2001 carries data on the state of infrastructure (for everyday life) development in the rural areas by the communes. Take four indicators: communes with electricity, communes that have roads passable by cars connected to villages, communes with primary schools and communes having communal health center. The following chart shows, for each region, the percentage ratios of the communes with such amenities, to the entire communes of the region in year 1997.

---

<sup>23</sup> UNDP 2003 "National Survey on Farmer Needs" VIE98/004/B/01/99 In all the 8 regions, in 30 selected districts, 1261 farm households were interviewed.



In Red River Delta, nearly 100 % communes enjoyed in 1997 all the four kinds of living amenities. But in the other regions, development of basic living infrastructure was not extensive except for primary school. In particular, electricity and road were not accessible for as many as 50 % of the communes of some regions. Central Highland and Northwest had more than 50 % of communes without electricity and South Central Coast and Northeast had trouble as just little over 70 % communes could use electricity. Road was a problem for Northwest and Northeast and notable was Mekong River Delta, which showed higher percentage in other 3 indicators, had very low development percentage in road. It was below 60 % and suggested it might have trouble with transportation by roads although alternative means of vessel transportation sufficed for the local needs. State of infrastructure in 3 years later is shown in the chart below:



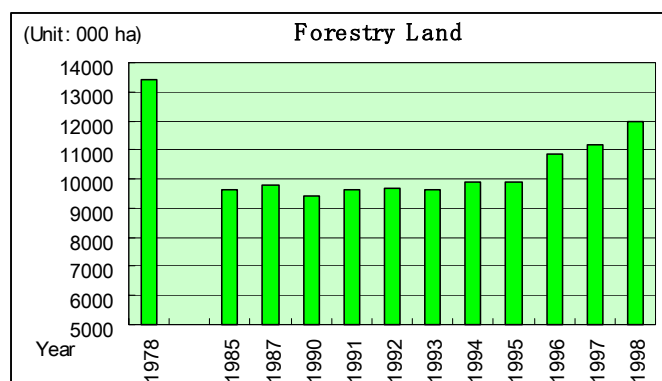
Electrification was advanced substantially in Central Highland. Also was in Northwest. The

percentage of the communes provided with electricity surpassed 80 % by a great margin in South Central Coast and Northeast. Road access was improved in Northwest and the percentage came close to 70 %. Improvement was noticeable in Mekong River Delta. But, the percentage of communes with car road access stagnated in the range of 60 to 70 in Northeast and there appeared not substantial improvement in terms of percentage ratio. As regards primary schools and health centers, regional disparities narrowed further. Development targets in the future may be on Northwest for electricity and road, Central Highland for electricity, Mekong River Delta for road, and Northeast for road.

The survey by JICA on craft villages reported on the state of access to various basic public services. According to the results shown, water supply in craft villages covers roughly 60 to 80 % of the entire households of each craft village. 10 to 30 % of households of each village have telephones. Those percentages on telephone are deemed significant in comparison with the percentage reported in VLSS, 2 %, even if the post improvements were taken into consideration, and in comparison with 9 %, a result of UNDP sample survey in 2002. Craft villages appear to be relatively well developed in the rural areas.

#### (4) Forestry and Rural Areas

Forestry gets much attention in the discussion for agriculture and rural development. The interests shown in forestry are rather from the viewpoint of the roles forestry and forest itself play in environmental protection, although attentions are given to the productive aspects of forestry as an industry. The forest coverage, once supposed to be 14 million ha, decreased at some point of time, to the point below 10 million ha (See Chart below). Due to the efforts thereafter, the forestry coverage began to recover gradually. The forest coverage rate increased from 28 % (1990) to 32 % (1998).



Source: GSO "Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975-2000"

The well-known "Five Million Hectare Afforestation Program" sets, as its first objective, the

environmental protection as follows:

“To plant 5 million hectare of forest as well as to protect the existing forests in order to increase the coverage to 43%, contributing to the environment security, alleviation of natural disasters, increase of aquatic livability, conservation of genetic pools and biodiversity” (Underlined by the Study Team)

This program aims at: (1) 2 million ha plantation or demarcation of protection forest for the purpose of environmental protection, (2) 2 million ha plantation of trees for providing raw materials for paper mills and plywood production and for other uses in collaboration with farmers and private enterprises, and (3) 1 million ha plantation of fruit trees and industrial crop trees (e.g. rubber, tea, etc.) in collaboration with farmers and private enterprises. After the preparatory period from 1998 to 2000, the program envisages to advance plantation over the 10-year period from 2001 to 2010.

GDP share of forestry<sup>24</sup> at current prices did not change much over the past 6 years; it was 1.24 % in 1995 and 1.24 % in 2001. It decreased, however, if estimated at 1994 constant prices, because the GDP growth rate per annum of forestry over the period from 1995 to 2001 was 1.2 %, substantially less than 6.95 %, the average annual growth rate of GDP as a whole.

The regions that have higher regional shares in the national total output of forestry (1994 constant prices) include, in year 1999, Northeast (30.6%), North Central Coast (19.4%), Mekong River Delta (15.1%), and Northwest (10.2%). Among those 4 regions, only three increased their shares over the period from 1995 to 2000: Northeast, Northwest, Mekong River Delta. In particular, the forestry output in Northwest achieved a remarkable average annual growth rate of more than 9 %. Just for comparison, the agricultural output of Northwest in year 2000 was 2.1 trillion VND, and it is only three times as big as that of forestry, 0.7 trillion VND. Forestry is comparatively important in Northwest in view of its relatively big share in the regional output and its rapid rate of growth, over 9 %, when compared with the corresponding rate of agriculture, 5.9 %.

---

<sup>24</sup> GSO, 2002 *ibid*

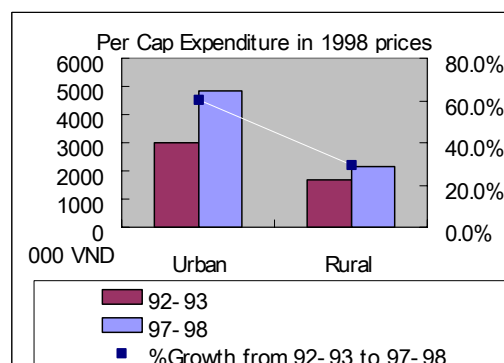
Forestry by Region					
	1999 Labor Force (person)	1999 Output value (1994 price: B vnd)	1999 Labor Force (Structure)	1999 Output (Structure)	1999 PC Output value (1994 price: M vnd)
Whole Country	98349	5.624	100.0%	100.0%	57.2
Red River Delta	2651	273	2.7%	4.9%	103.0
North east	14620	1,723	14.9%	30.6%	117.9
North West	2578	576	2.6%	10.2%	223.4
North Central Coast	19677	1,092	20.0%	19.4%	55.5
South Central Coast	16187	423	16.5%	7.5%	26.1
Central Highlands	5180	352	5.3%	6.3%	68.0
South East	19438	332	19.8%	5.9%	17.1
Mekon River Delta	18018	850	18.3%	15.1%	47.2

Sources: Labor force: "Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975- 2000"  
Output: "Statistical Yearbook - 2001"

Forestry households in year 1999 counted to 40 thousand in the country, and persons engaged in forestry were 100 thousand<sup>25</sup>. Regional share of forestry employment is higher in North Central Coast, Southeast and Mekong River Delta. On the other hand, in all of those three regions, per capita forestry output figures are below or at most level with the national average. Per capita outputs are higher in Northwest and Northeast. It should be noted, however, persons engaged in forestry in Northwest and Northeast were just equal, respectively, to 0.35%, and 0.29% of the persons engaged in agriculture<sup>26</sup>. In any way, forestry is a comparatively small industry if viewed from GDP (money) and employment share.

#### (5) Incomes of Farm Households

As the agricultural production increased, so did the incomes of farm households<sup>27</sup> and rural households<sup>28</sup>. Comparison of the average per capita incomes (expenditure base) of rural households at 1998 constant prices between the two VLSS (1992/93 and 1997/98) reveals



<sup>25</sup> GSO "Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975-2000" ibid

<sup>26</sup> According to UNDP 2003 ibid p50, the shares of the persons engaged in forestry are 46% in Northeast, 33% in Northwest, 16% in South Central Coast, 7% in North Central Coast. There were virtually none in other regions. On average, the share of forestry employment as a whole was 9%. The percentage figure appears grossly different from that of official statistics. It is probably due to the sampling bias as there were involved only 30 districts.

<sup>27</sup> "Farm households" or "agricultural households" is defined, in the statistics, to be households, all or more than half of which members are engaged in cultivation, animal husbandry, or services for agriculture, and more than 50 % of which income come from those activities.

<sup>28</sup> "Rural households" is defined to be households that reside permanently in the rural areas, or those that register to reside permanently or temporarily in the rural areas and engage in agriculture or non-agricultural activities. Rural households include not only farm households but also other non-farm households.

that the average per capita income of rural households increased from 1669 thousand VND in 1992/93 to 2166 thousand VND in 1997/98, an increase of about 30 % over a 5-year period. This increase is shown in the right chart with a comparison to that in the urban areas. Noticeable are (1) the rate of increase in the per capita income of the urban areas surpasses the rate of rural areas; (2) the difference in the per capita income between the urban and rural areas increased in absolute terms; (3) The ratio of per capita income of urban to that of rural areas increased.

	Real income per household per year by source of income			
	(Unit: 1000 VND)		Structure	
	Urban	Rural	Urban	Rural
Agriculture	106	6384	0.3%	49.7%
Non- farm self- employment	15011	2645	42.1%	20.6%
Wages	13497	2111	37.9%	16.4%
Pension, subsidies	954	398	2.7%	3.1%
Other income	6089	1307	17.1%	10.2%
Total	35657	12845	100.0%	100.0%

Source: VLSS 97- 98

The table above compares the sources of income between rural households and those in urban areas. The structures are different. Agriculture, including forestry and fisheries, accounts nearly 50 % of the income of rural households. That percentage is low if the 80 % share of agriculture in the employment were considered. It is presumed that off-farm income in farm households and/or incomes of persons employed in other industries are significantly large though the employment share of those is relatively small.

Structural changes in income of the agricultural sector were quoted in a JBIC study report<sup>29</sup>. Over a period from 1993 to 1998, income from rice showed gradually increasing trends (increase of 22%), and income from perennial crops and fruits increased much (more than 100% for each). The direction of agricultural crop income diversification appeared to have some linkage with the increases in farm income. There are, however, a study report<sup>30</sup> that tells increases in yields account for 49 % of increases in agricultural crop income in Northern Uplands and crop diversification in Northern Uplands contributes only 11 % to the total increases as against the national average of 22 %.

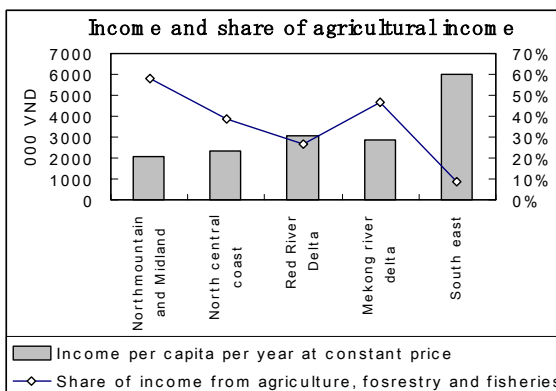
---

<sup>29</sup> JBIC 2001 *ibid* P24.

<sup>30</sup> JBIC 2002 "Income Diversification and Poverty in the Northern Uplands of Vietnam (Draft)" p8-4



VLSS<sup>31</sup> states, “Regions with higher proportion of income from agriculture, forestry and aquaculture usually have lower overall income, ...” and provides the data presented in chart form as right.



The statement appears to be backed-up by the data except for those on Mekong River Delta. To put that in different way, the profitability of agriculture in Mekong

River Delta is comparatively superior to other regions. Such a view on the agriculture in Mekong River Delta somehow corresponds to the statistics referred to in (5) of 2.2.2

According to a JICA survey<sup>32</sup>, the percentage of poverty incidence in the identified craft villages among the craft households that earn more than 50 % of the total household income from artisan crafts is only 3.7 %. This percentage is well below the average percentage of poverty incidence, 10.4 %, in the entire surveyed communes. An increase in the share of non-farm self employment or wage employment may be a key to an increase in the income of rural households.

## (6) The Poverty

### ① Definition

There are two official sources of poverty data: General Statistical Office (GSO) and Ministry of Labor, Invalids and Social Affairs (MOLISA).

GSO defines two kinds of poverty lines: food poverty line and total poverty line. These two lines are defined in such a way that they are the same in real terms over the time. Therefore, it is possible to compare poverty figures over the years. The database is VLSS. Since the first VLSS was a living standard measurement survey carried out by World Bank, the poverty lines of GSO are sometimes called World Bank Poverty Lines or International Poverty Lines. The details of GSO poverty lines are given below:

<sup>31</sup> GSO 2000 ibid p300

<sup>32</sup> JICA, Oct. 2002 ibid

GSO Poverty Lines		
Kind	Criteria	Poverty line
Food Poverty Line	An amount to purchase food equivalent to 2,100Kcal/man/day	107,000 VND/Month (VLSS 97-98)
Total Poverty Line	Assuming the food poverty line account 70% of total minimal expenditures, an amount including the remaining 30 %	149,000 VND/Month (VLSS 97-98)

On the other hand, MOLISA identifies the poor at the commune level<sup>33</sup> for the purpose of public administration to select target communes for poverty reduction program that is to be implemented taking commune as the basic unit. The poverty line is defined based on the amount of cash income that meets the minimum requirements. The poverty lines have been modified from time to time and it is difficult to make comparison over the years. The latest figures as shown below are applicable for the period from 2001 to 2005.

MOLISA Poverty Line			
Year of revision	State of Poverty		
	Rural Areas		Urban Areas
	Mountains & Islands	Plains	
2001	80,000VND/Month	100,000VND/Month	150,000VND/Month

In the 1990's, along with annual economic growth rate of 7-8 %, income of Vietnamese people increased. That increase in income, combined with improvements in living environment, achieved remarkable performance with respect to poverty reduction. Poverty incidence by MOLISA Poverty lines decreased from 30% in 1993 to 15.7 % in 1998; and the poor by GSO Food Poverty line decreased from 25 % in 1993 to 15 % in 1998 along with the reduction in the poor by GSO Total Poverty line from 58.1 % to 37.3 % over the same period. CPRGS<sup>34</sup> estimates the poor in year 2000 to be 13 % by Food poverty line, and 32 % by Total Poverty line.

## ② Overview of Poverty

JBIC issued a detailed report<sup>35</sup> on the poverty in Vietnam. Just an overview of the state of poverty is presented here.

The decrease in poverty incidence percentage of the rural areas is larger than that of the urban areas in absolute terms, but the percentage of reduction of the rural areas is very small compared to that of the urban areas. Over the period from 1993 to 1998, poverty incidence by

<sup>33</sup> If the poor identified according to this poverty line account for 40 % or more of the entire households of a commune, and if the commune has less developed infrastructure, then, the commune is identified to be a poverty commune.

<sup>34</sup> The Socialist Republic of Vietnam 2002 "The comprehensive Poverty Reduction and Growth Strategy"

<sup>35</sup> JBIC 2001 *ibid*

the Total Poverty line decreased by 16 % from 25 % to 9 % in the urban areas, and in rural areas by 22% from 67 % to 45 %. The ratios of reduction to the percentages in the starting year are 64 % for the urban areas and only 33 % for the rural areas. The result is about 90 % of the poor in the country live in the rural areas.

The regions that have large number of the poor are Northern Uplands, Mekong River Delta and North Central Coast. Those three regions account for 70 % of the entire poor in the country. To crown it all, each of those three increased the regional share of the poor. On the other hand, those that have higher percentage of poverty incidence are Northern Uplands, Central Highlands and North Central Coast. In all of those regions with higher poverty incidence, agriculture is the dominant economic activity. In addition, the depth of poverty<sup>36</sup> in the rural areas of each of all regions continued to be larger than that of the urban areas. Poverty incidence tends to concentrate, within the region, in mountain areas, remote areas, and those areas / communes where minorities live. In sum, the poverty appears to be a localized problem.

## 2.2.2 Problems of Rural Areas

### **【Summary】**

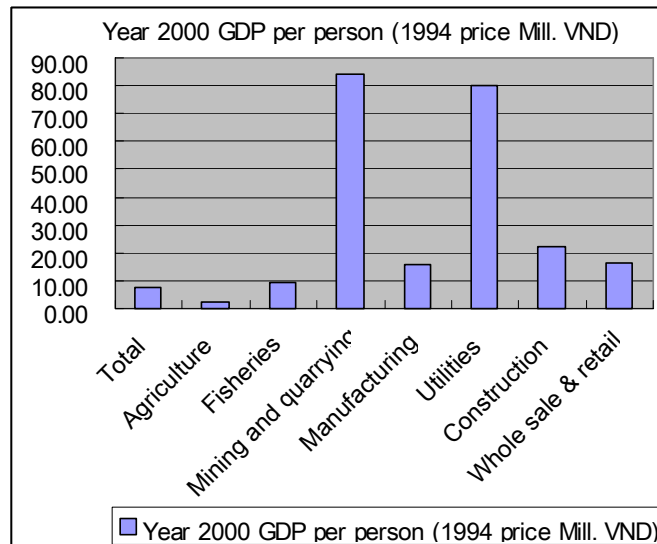
- ① Increasing income disparity between the urban and rural areas: share of agriculture and forestry in employment is decreasing but not as much as the share in GDP is decreasing;
- ② Accumulation of excess labor force in the rural areas: those who can respond to economic incentives are able to move from the rural areas to the urban areas; but those who cannot remain in the rural areas and engage in agriculture. The employment rate of the rural areas is high but the rate of used working time of labor in rural area is low;
- ③ Shortage of off-farm job opportunities: the number of new entrants into work force in the rural areas is 1.45 million per year. The number of off-farm jobs provided annually in the rural areas is 0.4 million if estimated by trends. The number is absolutely small;
- ④ Less developed state of rural infrastructure: for creation of job opportunities, investment is indispensable. The level of infrastructure development is an important factor that affects investment decision. The state of rural infrastructure in general is less developed as is understandable from the policy issues of how to meet the minimum requirement;
- ⑤ Widening income disparities among regions and among different income classes: the rate of increase in income is the lowest among the people in the lowest income class.

---

<sup>36</sup> The depth of poverty is an indicator that shows the difference between the poverty lines and the average consumption expenditure of the poor.

(1) Widening income disparity between the urban and rural areas.

In the preceding sub-section: State of Rural Areas, at (5) Incomes of Farm Households, it was confirmed that the disparities in income between rural households and urban households are widening. The principal factors contributing to these widening disparities is (i) the percentage share of those who engage in agriculture, in which per capita GDP is very small compared to other industries (see chart on the



Source: GSO 2002

right), is greatly larger in the rural areas compared to the urban areas; and (ii) the share of agriculture in employment is not small enough compared to the share in GDP.

(2) Accumulation of excess labor force in the rural areas

In the preceding sub-section ( (1) ② ), the number of annual new entrants to economically active population in the working age was estimated to be 1.95 million. The share of the rural areas in the new entrants is 75 % and the number is about 1.45 million. The total population in the working age of the rural areas was estimated to be 29 million. Given those numbers, it is calculated about 0.7 – 0.8 million will retire each year in the rural areas. Even if the new entrants fill all the vacancies that are made by the retirement, the remaining 0.65 to 0.76 million new entrants have to find new additional job opportunities.

If the rate of increase in employment in industry, 4 %, is taken to be the rate of employment increase in off-farm industries, off-farm employment in the rural areas will increase<sup>37</sup> by 0.20 – 0.25 million per annum. On the other hand, employment in agriculture increased by the average annual rate of 1.06 % over the period from 1995 to 2000, and agriculture gave new job opportunities to about 0.25 million new entrants annually. The sum of new job opportunities in agriculture and off-farm is up to only 0.5 million. Adjustment of labor force between rural and urban areas in the order of 0.15 – 0.25 million is to be made by the internal migration. And it has resulted in the difference in population increase rates between rural and urban areas.

<sup>37</sup>  $29.00 \times 0.2 \times 0.04 = 0.23$

Migrations involve costs and risks. Those who cannot absorb the costs and risks, in other words, those who have low labor mobility choose to stay in the rural areas and engage in agriculture and forestry although they perceive the returns are decreasing to the additional entrants. That reasoning explains the very high rate of employment and the relatively low rate of used working time of labor in the rural areas and lay foundation for the view that the rural areas have excess labor force. Statistics on internal migration<sup>38</sup> states as follows:

“As shown in this monograph, most of the long-term rural-urban migration that has occurred is for the young, more highly skilled, rural dwellers.--- The bulk of the rural labor force does not belong to this group. They are unskilled, are typically married with families and hence have strong ties to their rural places of residences, but live a marginal economic existence.”

### (3) Shortage of off-farm job opportunities

There may be two reasons why the per capita GDP of agriculture and forestry is relatively small. No. 1 is the rate of growth of agriculture and forestry is smaller than other industries. No.2 is the employment in agriculture and forestry still increase nonetheless. As was seen in (2) above, the ability of off-farm industries to generate job opportunities in the rural areas is the same as that of agriculture and forestry in term of absolute numbers. But the share of other industries than agriculture and forestry is too small, and their gross ability to absorb new entrants is only 0.4 million. That figure is less than half of that of agriculture and forestry, i.e., 0.9 million. Many people know that having diversified sources of income other than agriculture is the key to increasing the total income of households but they also know it is not easy to find such jobs as the opportunities are limited to most of the rural dwellers.

### (4) Less developed state of rural infrastructure

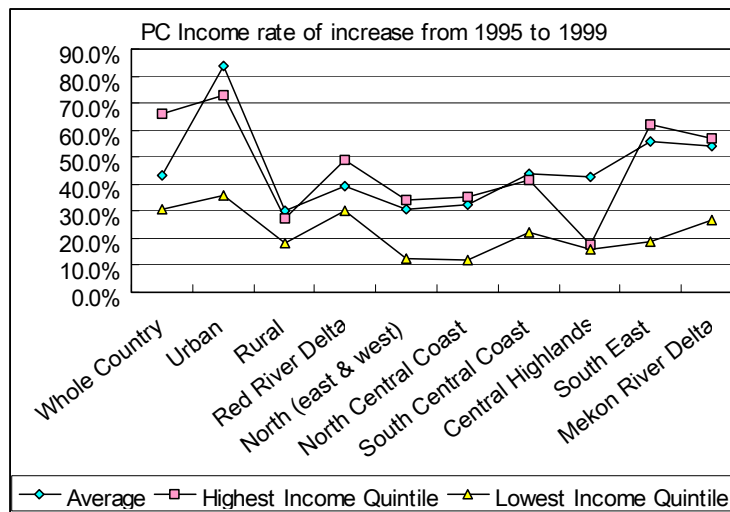
There are great demands for off-farm job opportunities in rural areas. Generating job opportunities require investment that in turn creates demands for labor inputs for operation after the start-up. Investment takes place where there are good prospects for return on investment. There may not be any investment in the places where there is no electricity, no road passable by cars, no telephone connections unless there are any particular resources of great values that assure extraordinary returns on investment. The state of infrastructure in the rural areas is in general less developed as was seen in (3) of the preceding sub-section.

### (5) Widening income disparities among regions and among different income classes

---

<sup>38</sup> GSO 2001 *ibid* p103

Per capita income, particularly the rate of increase, matters in discussing poverty. The chart on the right shows the percentage rate of increase in per capita income (current price) over a period from 1995 to 1999 of the highest income quintile, the lowest income quintile



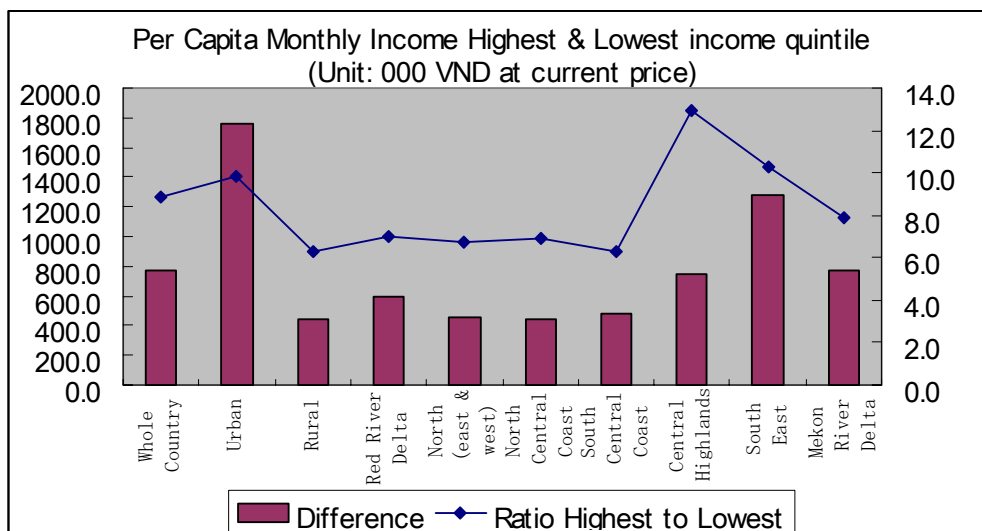
and the average for the whole country, urban and rural areas, and each region. (Source: GSO 2002)

Three dots for the whole country tell that the largest rate of increase is that of the highest income quintile, the lowest is that of the lowest quintile. Remarkably, for each of all the regions as well as urban and rural areas, the rate of increase of the lowest quintile is the lowest. That means the disparity in income between the lowest quintile and other two, i.e., average and the highest quintile, increased in every region, in rural and urban areas, and in the country as a whole.

As for the figures for rural areas, they are all below 30 % and by far small compared to those for urban areas. In the urban areas, the rates of increase are generally very high; even the rate of increase of the lowest quintile, which is the lowest among the three, is over 30 %. The gaps, however, are bigger in the urban areas; it is more than 50 % between the lowest quintile and the other two. On the other hand, in the rural areas, the range between the highest and the lowest is narrower. In other words, there are no growth sub-sectors, or if there are, they are too small in the share. If the trends were left as they had been, the rural economy would lag far behind in terms of per capita income growth.

The next chart shows the gap in per capita income between the highest and the lowest quintile in 1999 and the corresponding ratio of the highest to the lowest. In the rural areas, the gap is smaller and the relative disparity (the ratio) is also small while in the urban areas, the both of them are larger. Southeast appears to possess the gap and the ratio similar to those of the urban areas. Central Highland has a big gap. It may be attributable to the distribution of income; income of the highest quintile (805 thousand VND) is in the same level as the national average

of the highest quintile while the income of the lowest (62 thousand VND) is the lowest among the regions.



There are two other regions than Central Highland where the income of the lowest quintile is below the national average income of the lowest (83 thousand VND); they are North Central Coast (75 thousand VND) and Northern Upland (North East & West) (78 Thousand VND). Both North Central Coast and Northern Upland are conspicuous in their large number of the poor and high percentage ratio of poverty incidence. As can be seen in the previous chart, in those two regions, the lowest income quintile increased their income by just a scant margin of 10 % over a period from 1995 to 1999. Both regions are in need of special attention from a poverty reduction point of view. Mekong River Delta has a large population of the poor, but the per capita income and the rate of increase in it of the lowest quintile of the Mekong River Delta are above the respective figures of the rural areas. There seems to be a good prospect for improvement in the incidence of the poverty in Mekong River Delta if those trends continue for some time.

## **2.3 POLICIES OF THE GOVERNMENT OF VIETNAM**

### **2.3.1 Policies of the Government of Vietnam**

Some Laws, Plans, Policies and Programs that have great relevance with the agriculture and Rural Development are listed in Annex Table 7. Here is an overview of some of those that are of our interest.

(1) National Development Strategy, Plan and others.

a) Ten-year Strategy for Socio-Economic Development

Ten-year Strategy for Socio-Economic Development is aimed at promoting industrialization and modernization along with the transition to market economy with the socialist orientation, laying foundations for Vietnam to basically become an industrial country in 2020. The Strategy states the direction of development in each region as well. The development approaches adopted in the Strategy include the following:

- Economic growth is to go along with social progress and equity, and environmental protection.
- To closely link building of an independent and autonomous economy with proactive international economic integration

The sectoral development orientations for agriculture, forestry and fisheries are as follows:

- To speed up agricultural and rural industrialization and modernization and to form a large-scale commodity agriculture meeting market demands and taking advantage of natural endowment of each region;
- To form a rational agricultural production structure (demand and supply, productivity, quality);
- To enhance the scientific and technological potentials in agriculture including information and bio-technologies;
- To continue developing, completing and improving irrigation and drainage systems including flood control;
- To develop industry and services in rural areas by setting up industrial clusters, spots and craft villages, etc.

All of those are desirable in view of the state of agriculture and rural areas.

b) Five-year Plan for Socio-Economic Development

Five-year Plan for Socio-Economic Development has been formulated since 1970. It is the 7th five-year plan that covers the current planning period from 2001 to 2005. This plan



complements the ten-year strategy for socio-economic development, and is accompanied by a series of annual plans. The five-year plan also states the direction of development in each region.

The 7th five-year plan that cover the first half of the current ten-year strategy listed, among others, the following general targets:

- To push up economic growth in a fast and sustainable manner;
- To shift the economic structure, labor market structure, etc., in the direction of industrialization and modernization;
- To establish institutional frameworks for the market economy with socialist orientation;
- To enhance human resource capabilities, quality of education and training, and science and technology;
- To eliminate hunger and social vices, to reduce the number of the poor, and to create more jobs.

The orientations for agriculture and rural development are set as follows:

- To restructure agricultural production and rural economy (establishing areas specializing in products that suit the local potentials, forming linkages between agricultural production, and the processing and markets);
- To develop rural industry (agro-forestry products processing, handy craft industry, etc.) and to develop infrastructure in rural areas (roads, electricity, water supply, rural hygiene) and to improve living standards of the rural residents by creating off-farm job opportunities;
- To develop irrigation and drainage systems (including Ta Trach dam);
- To continue the program of hunger eradication and poverty reduction;
- To protect and develop forests, to develop fisheries, etc.

All of those are desirable in view of the state of agriculture and rural areas. Cares, however, should be taken in advancing import substitution type agricultural products processing such as dairy product processing, sugar cane mills & refineries and edible oil production so that the profitability of individual plants is well secured. In this five-year development plan, it is envisaged to allocate 15 % of ODA to agriculture and rural development and for poverty reduction.

The following table shows targets of the major economic indicators adopted in the current 10-year strategy and 5-year plan in comparison to the achievements in the previous 5-year plan period (6th plan: 1995-2000). One of the features of the current strategy is the estimation of substantial reduction in the share of agricultural employment.

	Actual (1996-2000)	Target (2001-2005)	Target (2001-2010)
Average annual growth rate (%)			
GDP	7.0	7.5 (Double of 1995)	At least twice of 2000
Ag. Fo, Fisheries	5.7	4.3	4.0-4.5
Manufacturing, Construction	13.5	10.8	10.0-10.5 c/
Services	6.8	6.2	7.0-8.0 c/
Domestic saving (GDP%)	27.0		30
Public Investmenta/ (VND billion)	555,000 (as percentage of GDP: 28-29%)	840,000 (as percentage of GDP: 31-32%)	
GDP and (employment) percentage structure (%) b/			
Ag. Fo, Fisheries	24.3 (over 70)	20-21	16-17 (50)
Manufacturing, Construction	36.6	38-39	40-41
Services	39.1	41-42	42-43

Note: 10-year strategy for socio-economic development and 5-year plan for socio-economic development as are presented to the 9th Communist Party Congress, 8th Party Central Committee

a/ Source: Public Investment Plan 2001 – 2005 at constant prices of 2000

b/ Actual 2000, targets for 2005 and 2010

c/ Source: CPRGS

#### c) Comprehensive Poverty Reduction and Growth Strategy (CPRGS)

Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was presented at the Consultative Group Meeting in May 2002. The World Bank<sup>39</sup> takes it that the objectives of CPRGS in broad terms are three-folds: (i) High growth through a transition to a market economy; (ii) An equitable, socially inclusive and sustainable pattern of growth; and (iii) Adoption a modern public administration, legal and governance system. ADB<sup>40</sup> seems to be in the same boat as it points out three objectives of CPRGS: Sustainable Growth, Inclusive Social Development, and good Governance.

CPRGS states to implements, with the view to an increase in income and reduction of income disparities through rapid quality sustainable broad-based growth, the following policies and policy measures:

- To raise efficiency and to diversify agricultural production;

<sup>39</sup> WB 2002 “Country Assistance Strategy” p6

<sup>40</sup> ADB 2001 “Country Strategy and Program” Executive summary

- To vigorously develop forestry;
- To realize growth potential in aquaculture and off-shore seafood exploitation;
- To strengthen applied research and technology transfer;
- To continue and accelerate the implementation of the Government Resolution No. 09 and No. 05 regarding the restructuring of agriculture and marketing agricultural products;
- To continue to encourage agricultural diversification and the development of rural professions;
- To improve access to financial (including deposit) and credit services in rural areas;
- To reorganize production, protect and encourage household, farm and private economies towards large-scale labor intensive production;
- To develop a disaster prevention strategy to minimize losses, and stabilize livelihoods and production in disaster-prone areas.

All of those are desirable in view of the state of agriculture and rural areas.

What is good about CPRGS is the reduction of poverty incidence all right, but there existed another view<sup>41</sup> on it; Interim Poverty Reduction Strategy Paper (I-PRSP), a predecessor of CPRGS, is a document that is needed for negotiating credits for poverty reduction between the government of Vietnam and World Bank / IMF. After the Prime Minister approved I-PRSP in March 2001, the Government was granted two program (cash) loans by IMF (Poverty Reduction Growth Facility: PRGF) and World Bank (Poverty Reduction Support Credit: PRSC) with highly concessional terms and conditions. It's a well-known fact among those concerned that a steady implementation of CPRGS, especially achievement of medium term (3 year) targets of macro economics listed in Appendix 2 and implementation of policy measures presented in the matrix format as Appendix 3 is a prerequisite to the uninterrupted disbursements from PRGF and PRSC.

On that aspect, the World Bank<sup>42</sup> is very cautious; it notes, "The Ninth Party Congress, held in March 2001, endorsed a ten-year Socio-Economic Development Strategy covering the 2001-2010 period." Then, it point out, "CPRGS seeks to translate the vision laid out in Vietnam's ten-year Socio-Economic Development Strategy into concrete measures and programs." There is no denying such a view because CPRGS reiterates the macro economic framework and targets figures for other indicators that are adopted in the ten-year strategy and five –year plan.

---

<sup>41</sup> Statement expressed by the Government at the occasion of publicizing the 6th edition of I-PRSP

<sup>42</sup> WB 2002 *ibid* p4&p6

d) Public Investment Program: Period of 2001-2005 (PIP)

Public Investment Program: Period of 2001-2005 (PIP)<sup>43</sup> aims at securing sustainable growth by programming investment over the five year period with due regards to the investment structure in terms of sectoral and regional distribution. It takes into full consideration the objectives and targets proposed in the ten-year strategy and the five-year plan for socio-economic development. In particular, PIP backs up the implementation of the five-year socio-economic development plan financially and in terms of concrete investment projects / programs.

PIP estimates funds available for investment from five different sources: (i) State budget (including ODA grant and ODA program fiscal assistance), (ii) State credit (including ODA sub-loans), (iii) investment by SOE, (iv) investment by domestic private enterprises, and (v) Foreign Direct Investment. Having taking into consideration all the foregone five sources, PIP wraps up (i) through (iii) as the public investment program and describes them in detail.

There are various changes appeared in the current PIP compared to the previous five- year period (actual) as follows:

- A substantial increase in the total amount of investment (at constant prices of 2000) from 555 trillion VND to 840 trillion VND, or 53 % increase;
- A greater percentage increase of 68 % in the total amount of public investment from 327 trillion VND to 550 trillion VND;
- An increase in the share of public investment in the total investment from 53 % to 59.3 %;
- An increase in the percentage ratio of total investment to GDP from 28-29 % to 31-32 %;
- Increases in the share of education, health and social welfare in the public investment and a decrease in the share of agriculture, forestry and fisheries from 18.5 % to 17.7 %;
- Expenditures for operation and maintenance (for those on the state budget) are estimated for the first time in PIP. (In the agriculture, forestry and fisheries sector, irrigation accounts for 71 % of O&M expenditures of the sector)

The percentage ratio of total investment to GDP was already at high level in the previous five-year period, and PIP for 2001-2005 expects to increase it further. As the rate of increase in foreign direct investment is assumed to slow down, the share of the Government in PIP has increased. To fund sufficiently the investment by the Government, it is a must to mobilize the domestic resources with all the efforts. Even if the share of ODA in the total expenditure of the Government is kept unchanged, a substantial increase in annual disbursements of ODA is

---

<sup>43</sup> Socialist Republic of Vietnam 2002 “Public Investment Program Period of 2001-2005”

needed to meet the targeted increase in the Government's investment expenditures.

As the public investment is expected to increase greatly, cares have to be taken when undertaking new projects / programs for the implementation capacities of the executing agencies in those areas where the shares of public investment increase. New initiatives in estimating and budgeting O&M expenditures are welcome and the impact that change may bring about in the fields should be monitored and evaluated.

## (2) Agricultural Policies

### a) Government Resolution No. 09

Government Resolution No. 09 on a number of undertakings and policies on economic restructuring and marketing of agricultural Products puts forth development orientations for each sub-sectors of agricultural production and concrete policy measures for further consideration based on the past performance of Vietnamese agriculture. The point in the restructuring of agriculture is its approach where the orientation of restructuring is to be determined based on the consideration of the trends in the market demands and competitiveness of the products. Along with that approach, the production levels, types, structures, etc., of each sub-sector are to be determined taking into consideration the characteristics and competitiveness of each region or area in principle although the resolution gives indications for the orientation of each of the major sub-sectors.

In the resolution, the Government states that it would undertake necessary measures for implementation. They are among others:

- Technological development and extension of crop seeds, plant protection, irrigation & drainage, farm mechanization, food processing;
- Improvement and diversification of the forms (contracts) of linkage between farmers and processing and marketing industries including strengthening farmers' organizations such as agricultural cooperatives, and equity participation in SOEs;
- Tax reduction, the support of the Government with wholesale market improvement and development and other services related to agriculture, increase in government credit, development of credit guarantee system and export insurance system

Some of the above was already examined, formulated into concrete policy measures and put into implementation such as the Prime Minister's Decision No.02/2001/QD-TTg

The Government resolution No. 09 clearly states the need for a shift in production management to that with market orientation based on the demands (including consideration of product qualities) away from the past management style that was based on the production potential, in

which the issue was how many quantities can be produced, i.e., target planning – allocation of necessary monetary and material inputs – production for achieving targets. This shift in production management is the desirable and important choice in view of the state of Vietnamese agriculture and it means a fundamental change in agricultural policy.

Izumida<sup>44</sup> et al presented several issues regarding the Resolution No. 09 based on the analysis of the resolution and the state of restructuring at the level of individual farm households. Among others, No.1, whether interests in and cares for domestic demands are too small as a result of a little too much emphasis on the international markets when thinking about “market”; and No. 2, whether attention is given to numerous small holders when discussing ways to strengthen competitiveness. Such issues appear to have something common with the recognition expressed in the Resolution No. 14-NQ/TW that was adopted in the 5th Plenum (March 2002) of the Party’s Central Committee. It went as follows:

“Theoretically, cooperatives and the cooperative economy are an inevitable product of a commodity economy. When the commodity production is further developed, households and members of economic organizations will face strong competition in the market. As a result, if they want to stay firm and further develop, they have to join hands with each other in various forms in an effort to create an aggregate strength in terms of investment capital, production means and other productive forces.”

From the viewpoint such as that recognition, CPRGS, given the objective of high growth in an equitable socially inclusive and sustainable pattern, shall be taken to mean the request for changes in economic structure to achieve broad-based growth, rather than just poverty reduction simply from a social policy point of view.

b) Prime Minister’s Decision No. 132

Prime Minister’s Decision No. 132 on a number of policies to encourage the development of rural trades aims at advancement of cottage industry, handicraft production, and other processing industries in the rural areas as well as service industries catering for the production and every day life of the rural population. It identifies policies, land issues, materials, fiscal investment and credit, taxes and fees that should be examined to address the development of rural trades and specifies the ministries that should take charge of working out policy measures. On the other hand, for development of small- and medium-sized enterprises, there exists the Government decree No. 90/2001/ND-CP that decides the establishment of the SME Development Promotion Council and the Department for SME development in the Ministry of Planning and Investment.

---

<sup>44</sup> Izumida, Y. Shindo, S. Duong, P. B. 2002 “The state of agricultural restructuring in Vietnam and issues” The University of Tokyo, Agriculture and Resources Economics Major, Working Paper Series No. 02-F-03 pp18-19

Izumida<sup>45</sup> et al viewed Resolution No. 09 on the restructuring of agriculture in comparison with the issues of the Japanese agriculture in 1960's where the theme was "Selective Expansion" with the view of transforming agricultural production in line with the shifts in the demand structure for food items. They pointed out two decisive differences. No. 1, there were no viewpoints in the Japanese agricultural policies in the 60's for expanding exports while the Vietnamese agriculture at present has a very keen eye on the expansion of exports. No. 2, transforming agriculture into large-scale and modernized form was sought in 1960's in Japan under the condition that the excess labor in the rural areas was to be absorbed, due to general economic growth as a whole, into other industries and urban areas while restructuring of agriculture in Vietnam has to be carried out under the widespread existence of under-employment in agriculture and in the rural areas. Given the extensive underemployment in the rural areas, creation of off-farm job opportunities has to be rigorously pursued in tandem and complement with the policies for restructuring of agriculture. Creation of off-farm jobs in the rural areas is strongly supported in CPRGS.

### (3) Programs

#### a) National Program for Hunger Elimination and Poverty Reduction (HEPR)

National Program for Hunger Elimination and Poverty Reduction (HEPR)<sup>46</sup> originates from a local program for hunger elimination and poverty reduction undertaken by Ho Chi Minh City. The Government of Vietnam took up that program in 1998 and started to implement it as a national program. The Government continues to proceed with the program in the five-year period from 2001-2005 as one of the key programs that drive the socio-economic development strategy for 2001-2010 and the socio-economic development plan for 2001-2005. HEPR is comprised of a number of projects such as targeted credit projects, health, education, vocational development and production assistance, resettlement through infrastructure development, support for the minority in an extreme poverty situations, provision of various guidance for the poor capacity building of the training officers and so forth.

#### b) Program 135

Program 135 is aimed at socio-economic development in 2,235 (originally in 1,715 communes) especially disadvantaged communes. The thrust of the program is building infrastructure such

---

<sup>45</sup> Izumida, Y. Shindo, S. Duong, P. B. 2002 *ibid* pp22-23

<sup>46</sup> HEPR, together with Program 135, is implemented under "The Ten-year Strategy for HEPPR" and "The Five-year Plan for HEPR" that are formulated by MOLISA on behalf of the Government differently from I-PRSP or CPRGS. That is the reason why Vietnam has two kinds of poverty data sources. (see 2.1.1 (6)) incidentally, CPRGS states on page 17, "In the future, Vietnam will move towards using one common poverty line for estimating poverty incidence in the country,..."

as rural access roads, electricity, clean water supply, in the remote, mountainous, minority areas for poverty reduction.

HEPR and Program 135 are the major programs of “the National Target Programs” for poverty reduction receiving about 35%<sup>47</sup> of the state budget expenditure allocated for the National Target Programs in year 2001 in the final account. The project costs are shared by the Central Government, Provincial governments, state credit programs, beneficiary communes, etc. In general, the Central Government will fund about 30% of the total expenditures needed for the program implementation. Five million hectare afforestation Program and Program for rural water supply and sanitation are included in the National Target Program. CPRGS urges the implementation of each of the National Target Programs and the intension of the Programs are good. CPRGS<sup>48</sup>, however, point it out to improve the targeting mechanisms of HEPR and Program 135 and implement them in a more participatory way.

### 2.3.2 Mechanisms for Policy Formulation and some issues

#### (1) Formality of Policies

Policies related with agriculture and rural development are made public in different forms; e.g., “Strategy,” “Plan,” “Resolution,” “Decision,” “Program,” etc. In addition, it turns out some “Programs” are just common names and in legal formalities, they are “Decisions.” The following table<sup>49</sup> shows the legal structure of Vietnam.

	Legal Category	Vietnamese	Establishing Entity	Authorizing Law	Comments
1-1	Constitution		National Assembly		
1-2	Constitution amendment	Hien phap	-ditto	Constitution	
2-1	Law	Luat	-ditto	-ditto	general laws
2-2	Resolution	Nghi quyet	-ditto	-ditto	economy, social plan, policy, etc
3-1	Ordinance	Phap lenh	Standing committee, National Assembly	Constitution and authorization by the N.A.	general laws within the given authorization, but subject decision by the N.A. after a certain period of time
3-2	Resolution	Nghi quyet	-ditto	-ditto	guidelines for enforcement, control of legal system, control on the government organizations
4	Order,	Lenh quyet	President	from 1 to 3 in	President may delegate

<sup>47</sup> Socialist Republic of Vietnam 2003 ibid p50

<sup>48</sup> The Socialist Republic of Vietnam 2002 “The comprehensive Poverty Reduction and Growth Strategy” Policy Matrix B III 4 (p136)

<sup>49</sup> JICA (Office in Hanoi: Inaba I.) “A Study on Poverty and IT (Socio-cultural Factors)” 1-10 Legal system



	Decision	dinh		the above	drafting power to ministries, but has to promulgate in its own name
5-1	Resolution	Nghi quyêt	Government	from 1 to 4 in the above	implementation of specific policies, budget execution, etc.
5-2	Decree	Nghi dinh	-ditto	-ditto	- implementation guidelines on 1~4 above - regulation that has legal power under the condition where law or Ordinance is not appropriate (subject to approval of standing committee of N.A.)
6	Decision, Directive	Quyêt dinh Chi thi	Prime Minister	from 1 to 5 in the above	Orientations of the Government, Policies on the management of the Government, specifications of each ministry's functions
7-1	Decision	Quyêt dinh	Ministry	from 1 to 6 in the above	Regulations on the organization of each ministry
7-2	Directive	Chi thi	- ditto	- ditto	Management rules for the subordinate organizations
7-3	Circular	Thong tu	- ditto	- ditto	Operational guidelines on the 1~4 above in respect of the organizations under each ministry

Policies and policy measures of the Government are those classified in the row 5-1 and below. Take Government Resolution No. 09 on restructuring and marketing of agricultural Products for example, it is a resolution of the Government signed by the Prime Minister on behalf of the Government and classified in row 5-1. The contents of the resolution No. 09 includes concrete tasks of policy implementation and those ministries that are given the tasks work out policy measures and propose them to the Office of the Government (i.e., Prime Minister's Office) for the decision. The Office of the Government examines the proposed policy measures. Once the Prime Minister decides that the proposed policy measures be implemented, they come into force for implementation. An example is Decision No.02/2001/QD-TTg, "Investment support from DAF for exports production & processing projects and agricultural production projects" that is listed under Resolution No. 09 (See Annex Table 7).

## (2) Drafters and Initiators

Drafting specific policies and policy measures as well as drafting laws is the duty of the ministries. Japanese practices, in this respect, are that the ministries usually identify the policy issues, and formulate policies & policy measures to address the issues, and draft laws based on

their own analysis of the information and data gathered through their own channels<sup>50</sup>. On the other hand, it appears in Vietnam that the most important source of information on policy issues is the Party. Take again, for example, Resolution No. 09; it starts off with the first sentence that reads, “In realization of the Party’s renewal line,....”

Resolution No. 06-NQ/TW made by the Party’s Central Committee<sup>51</sup> in November 1998 is a good example (see Annex Table 7); it is on a number of agricultural and rural development affairs. The Resolution recognizes that science and technologies, competitiveness of marketable agricultural products, surplus labor, infrastructure, life in the remote areas are the issues to be addressed and then points out the industrialization and modernization of the agricultural economic structure, increases in incomes, poverty reduction and the protection of ecological environment as the targets. Further, the Resolution takes the development of each sector of the multi-sectoral<sup>52</sup> economy and the potentials for mutual linkage to be the key axis of the development, and from that angle, the Resolution guides the policy orientations for technologies, land, State investment and credit, development market places, etc. Such recognition and policy orientations are adopted in the Government Resolution No. 09, as well as the 10-year Strategy and the 5-year Plan for Socio-economic Development. The sequence of those resolutions and strategy and plan implies that the Government followed<sup>53</sup> the guidance shown in the Resolution No. 06 of the Party’s Central Committee and formulates the 10-year strategy, 5-year plan and other specific policies for supporting them.

### (3) Decision makers and the processes

The decision makers vary according to the degrees of impact and importance of policies. In general, each ministry drafts, along the decisions of the Government, specific policies in its area of responsibilities (and shares in the responsibilities with other ministries, if necessary) and implements them upon the decision of the Prime Minister. A ministry drafts policies, consults with other ministries concerned on the matter, and then, present them to the Government Office. When the Government Office receives a policy draft, it forms a task force of several experts invited from relevant ministries, the Party and the Localities for the purpose of examining the presented policies and makes a decision based on the result of the task force examination. If everything goes smoothly, it takes only one year from the start of drafting to the decision of the

---

<sup>50</sup> Councils set up by the organization decrees of the ministries and other advisory panels may be listed among those channels.

<sup>51</sup> It is an executive organ of the Party. Its members (150) are elected in the Party’s Congress. The term is 5 years.

<sup>52</sup> The sectors include households (including ‘Farms’), Cooperatives, and State enterprises and other types of association among them.

<sup>53</sup> Or, it should be construed that the Government secured the endorsement of the Party on the policy issues to be addressed in advance and then drafted policies and other measures.

Prime Minister.

Ten-year Strategies for development and five-year Plans for development are approved, not by the National Assembly but by the Party National Congress<sup>5455</sup> that is held once in five years. In other words, the Party decides on the fundamental orientations of the Country such as participation in the international society, shift to socialist oriented market economy, or industrialization and modernization of the economy. Once the endorsement for the ten-year Strategy and the five-year Plan is obtained from the Party, the administration of the budget for the implementation of the Strategy and the Plan is to be entrusted to the Prime Minister. If that is the case, there is no wonder that the Prime Minister approves five-year Public Investment Plans.

The process of the formulation of CPRGS looks different from the usual pattern of policy formulation and planning. First, the formulation processes are open to public at large. MPI worked as a coordinator setting up a drafting team composed of 52 members from ministries. CPRGS was drafted with the help of consultants from within and outside of the Country. After a series of consultation with relevant ministries, wide spectrum of donors and NGOs, CPRGS was presented, after about one year from the start of drafting in June 2001, to the mid year Consultative Group Meeting in May 2002. During that one-year process, all the 61 provinces as well as many NGOs and concerned donors were said to have participated in the formulation of CPRGS.

Second point is the decision maker of CPRGS. In this connection, it should be noted that CPRGS itself pointed out its character as follows:

“CPRGS is an action plan that translates the Government’s Ten-Year Socio-economic Development Strategy, Five-Year Socio-economic Development Plan as well as other sectoral development plans into concrete measures with well-defined road maps for implementation.”

Put it more plainly, CPRGS picks up all the concrete policy measures that have relevance with Poverty reduction from the current strategies and plans, gathers them together and put priority to each of them. CPRGS is no doubt a state strategy but the decision maker to approve CPRGS

---

<sup>54</sup> Actually, the Party’s Central Committee discusses the ten-year Strategies and the five-year Plans. Incidentally, both ADB and World Bank are of the view that the 9th Party Congress approved (ADB) or endorsed (W/B) them. ADB 2001 *ibid* p1; WB 2002 *ibid* p4

<sup>55</sup> MARD formulated the ten-year strategy and the five-year plan. As regards those strategy and plan, ADB noted, “the Ministry of Agriculture and Rural Development (MARD) developed a new agriculture and rural development plan and strategy for 2001-2010. ... The ninth Party Congress approved this strategy in mid-2001 as part of its 10-year development plan.” ADB 2002 “Report and Recommendation for the Agriculture Sector Development Program” pp4-5. The description on the Strategy and Plan of MARD in Annex Table 7 is based on the notion of ADB.

was not confirmed in the document. As for the I-PRSP, the Prime Minister approved<sup>56</sup> it in March 2001.

#### (4) Issues

For the enforcement of Laws, associated Governmental and ministerial orders and regulations have to be made public to guide the application. As can be seen in the case on the 1998 amendment to the Law on Land, accompanying orders and regulations are rare to come on time of the promulgation of the law itself. Policies also need implementing regulations but those regulations often lag behind the issuance of the Government's resolutions and decrees, leaving the practitioners in the field at a loss about the implementation. The guidelines on the "Farm" was made public 5 months after the Resolution and the time lag is considered rather short in Vietnam. Against such a background, CPRGS pin points several laws and decrees that need accompanying implementing regulations such as Revised Land Law in 2002, or Decree No. 90 for SMEs development.

If the Government made it a practice to elaborate the implementation details after confirming the responses of the people to the resolutions and decrees that are made public, such a practice may be a choice. For example, the Ordinance on hydraulic works that sets an orientation for transferring the management of hydraulic works to farmers appears to be discussed by the stakeholders in many provinces, but the implementing regulations have not been published, and not many actions of management transfer have been recognized. It is however preferable to make the time lags shorter as much as possible between the resolutions that set the principle and the guidelines on the detailed implementation from the view point of reliability and efficiency of the public administration and the Government.

#### 2.3.3 Mechanisms for policy implementation and some issues

The National Assembly establishes laws but its involvement in policy formulation is very limited although it may call the attention of the Government to the policy issues of its concerns. The National Assembly, however, ratifies the annual final account and plan of State budget for public investment that is one of the most critical factors for the implementation of the Government policies and policy measures. The annual State budget expenditure plan of the Government for development investment as well as for current expenditure is decided by the Prime Minister based on the comments of MPI that coordinates annual plans of ministries and 61 provinces. The National Assembly examines the Government's annual plan of State budget

---

<sup>56</sup> The Socialist Republic of Vietnam 2002 "The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)" p4

and ratifies it.

Annual State budget plan of the year (including both development investment expenditure and current expenditure, but not including State credit and the investment by SOEs) and the final account of the two years back are published annually. According to the latest figures<sup>57</sup>, the final account of State budget expenditure in year 2001 was VND129.8 trillion of which VND40.2 trillion was expenditure for development investment. That level of expenditure for development investment was not bad as the targeted figure for year 2001 of the Five-year Public Investment Plan for 2001 – 2005 was VND41.5 trillion (2000 constant prices). By the same token, the planned budget for development investment in year 2003, VND44 trillion is also not bad, as it is level with VND43.5 trillion (2000 constant prices) of the Five-year Public Investment Plan.

#### (1) Annual Plan

The formulation process of State budget expenditure annual plan proceeds along the following line:

Toward the end of July, the Government Office gives instruction on the preparation of annual plan. At the same time, MPI issues guidelines on the preparation of annual plan. MPI calls for a meeting with all the ministries, other authorities<sup>58</sup> at the same level with the ministries, and all the Provincial People's Committees; and in the meeting, MPI explains the basic orientations of annual plan preparation.

Given such instruction and guidelines on the annual plan preparation, all the ministries including MARD consult with the SOEs that are under their supervision and relevant Provincial department (in case of MARD, it is Department of Agriculture and Rural Development) about the basic orientations for annual plan preparation. In the consultation, MARD agrees on the major projects and the reporting format on the progress of the previous plan with SOEs and the Provincial departments. It takes about a month after that consultation for SOEs and Provinces to prepare annual plans. At the end of August, SOEs and Provincial departments submit their respective annual plans to MARD. MARD meets major SOEs and Provincial departments and listens to what they explains about their own annual plans

Around the middle of September, ministries including MARD explain the outline of their annual plans to MPI. Annual plans are submitted to the Governments. MPI gives approval to the annual plans of the ministries and the Provinces based on the examination of the submitted

---

<sup>57</sup> Ministry of Finance 2003 "State Budget Final Accounts for 2001 and Plan for 2003"

<sup>58</sup> The number of the ministries and authorities that are equal to the ministries are 25 in all together. In addition, there are more than 20 other organizations that are under direct control of the Government.

annual plans. In addition, MPI submits in October a summary report to the Government on the annual plans of the ministries and Provinces.

The Office of the Government, upon examination of the summary report submitted by MPI, would request ministries to submit a detailed report on the annual plans if deemed necessary. When the Government plan is decided, the plan is submitted to the National Assembly for its considerations. The ministers answer queries raised by the members of the Assembly. The session of the Assembly that discusses the State budget annual plan for the next fiscal year (coincides with calendar year) is convened in December, and is expected to ratify the annual plan by the beginning of the next fiscal year. The National Assembly is held for three months per year; in May, mid of the year Assembly is convened to consider the revisions made to the annual plans. The foregoing is depicted in the chart form as follows:

Month	SOEs Province/DARD	Ministries	MPI MOF	Government Office	National Assembly
End July	Meeting for explanations on the preparations of annual plan				
Beginning August	Consultation for preparations of annual plan				
Beginning September	Annual Plan →				September Session
Mid September		Explanation of outline of annual plan			
		Annual plan →			
		← Annual plan approval			
October			Summary Report →	Submit	
				Annual plan →	Submit
December					Annual plan consideration / approval
January					
February					
March					
April					
May					Revised annual plan consideration
June					

One point to note here is the annual plans of Provinces. Expenditures needed for the development investment that is executed by the Provinces are included solely in the annual plans of the Provinces but not in the plans of ministries and the Provincial annual plans are

submitted directly<sup>59</sup> to MPI. When the annual plans are ratified, budgeted funds are channeled directly to the account of each Provincial people's committee. The National Target Programs for Poverty Eradication are implemented by various ministries and by the Provincial people's committees. State budget allocations for the Programs are made to each of the ministries and the Provincial people's committees to fund the expenditures to be incurred by each of them. There should be no duplications among the annual plans of the concerned ministries and the Provinces. It is not easy to grasp the entire state of the progress of the National Target Programs, as there are various ministries and Provinces that are involved in the implementation and do their own part independently.

(2) Issues

a) State budget annual plans of the ministries and the Provinces

Project owners are determined by the size of total investment amount of specific projects. The ministries implement projects if they are big and important for the Country while the people's committees of the Provinces or below do the others. If a big project is to be carried out, the project is divided according to the executing agencies and central Ministry, Province and Districts execute their parts respectively. The power to execute can be coordinated by delegating the authorities from the ministry to the Province, but the division of budget still remains between the ministry and the localities.

In the five-year public investment program for 2001 – 2005, the State budget expenditure for development investment in year 2001 was estimated to be VND10.9 trillion; the expenditure of final account on the State budget for development investment incurred by MARD in 2001 was only VND1.6 trillion. It is therefore desirable to coordinate very well about the State budget annual plans with the Provincial people's committee or rather to list all the necessary expenditures in the annual plan of MARD when big projects should be implemented. State budget expenditure of final account in year 2001 of MARD is VND2.37 trillion, annual plan for 2003 is VND2.50 trillion of which VND1.66 trillion is for development investment.

b) Budget Control<sup>60</sup>

Revisions to annual plans are said to be routine exercises. The chart above shows that the mid-year session of the National Assembly is convened to consider the revisions to the State budget annual plan. Causes for the revisions are explained to be changes in the market prices

---

<sup>59</sup> It is said that the rank of the chairmen of Provincial people's committees is equal to that of the ministers because the Prime Minister who appoints the ministers appoints the chairmen of the provincial people's committees. That is, they say, the reason why Provinces submit their annual plans directly to MPI.

<sup>60</sup> The details of annual plans of the ministries and the Provinces are not published. The statement in here is based on the hearing and induction.

and the ceiling of the Government budget or surpluses that can be allocated additionally. But, those are due to rather inaccurate estimations on the budget revenues and expenditures. It is better to squarely address the true causes and to complete the development investment projects and programs in an orderly and timely manner (to avoid leaving projects half done due to budget ceiling).

There is one more concern: whether the contract amounts that lead to the annual expenditures and annual authorizations for expenditures are subject to strict control of the State budget annual plan. If the control is weak, then, contracts are concluded with amounts exceeding the annual authorizations and the jobs are done accordingly but at the end of the year contractors cannot receive the total amount due. The project owners are owed to the contractors and try to pay up the over dues from the next year budget authorization; thus, they cannot complete the project in a planned time frame and cannot meet implementation targets of the program. Unless the budget appraisal has direct impact on the field works, monitoring of the budget and expenditure of final account does not tell much about the physical performance.



## **Chapter 3 Major Issues of Development in the Agriculture / Rural Development Sector and Policy Measures for Addressing Them**

### **3.1 MAJOR DEVELOPMENT ISSUES OF THE AGRICULTURE / RURAL DEVELOPMENT SECTOR**

- There arise new problems notwithstanding remarkable performance of Vietnamese agriculture and rural development:
  - ① The disparities in per capita income between rural and urban areas are increasing;
  - ② The per capita GDP growth rate of agriculture is smaller than the corresponding rate of the entire industries;
  - ③ Prices of some major agricultural products are in the downward trends;
  - ④ The rate of used working time of labor in rural area is low. Accumulation of excess labor force is observed in the rural areas.
- Relations of the Problems:
  - ① An increase in the disparity cannot be overlooked in view of the goal of socio-economic development;
  - ② A factor contributing to an increase in the disparity is the less than average rate of increase in the per capita GDP of agriculture and forestry;
  - ③ Agricultural prices and sheer number of bloated labor force put substantial stress on the task of increasing per capita income originating from agriculture and forestry.
- Approaches for resolving the problems and some issues:
  - ① Causes for the problems are small-scale farming units, over-production and limited opportunities for off-farm jobs;
  - ② Approaches for resolving the problems are: restructuring and diversification of agriculture; and creation of off-farm job opportunities and diversification of income sources;
  - ③ Issues are attention to smallholders, reform of domestic marketing systems, and promotion of private sector investment.

#### **3.1.1 Past Performance of the Agriculture / Rural Development Sector and Emerging Problems**

The agriculture and rural economy of Viet Nam are undergoing a major transition along the series of economic reforms being actively pursued for shifting the centrally planned economy to

the market oriented economy. The Politburo's Resolution No. 10 in April 1988 triggered the transition of agriculture and rural economy. The Resolution guided the transition from the centrally planned collective production rural economy with emphasis on production targets, subsidies and food self-sufficiency, to the individual decentralized market oriented rural economy by approving the individual households as the self-standing economic units and allowing them to make decisions on production and marketing their produce.

The Vietnamese farmers welcomed the reforms, and adopted themselves very well. Farmers sell their surplus produce and there are some farmers who shift their production to a single farm commodity in collaboration with middlemen that emerge as a result of market liberalization. The rural economy has expanded very lively. In 1990's, the agricultural production grew by the rate of 5.5% per annum; Vietnam achieved self-sufficiency in rice and sugar and became a world-ranking exporter of rice, coffee beans, cashew nut, rubber, fishery products and other agricultural commodities. In addition, production of other crops than rice, e.g. livestock and horticultural crops increased to meet changes in the demand of the domestic markets. Aqua-cultural products also recorded remarkable increases. The Vietnamese agriculture attained a rapid growth and diversified its production extensively.

Along such advancement and development in agriculture, the livelihood in the rural areas improved as well. The incomes of rural households increased and the ratio of the households below poverty lines decreased. Communes and villages were provided with better social and living infrastructure and rural households came to possess more items of consumer durables.

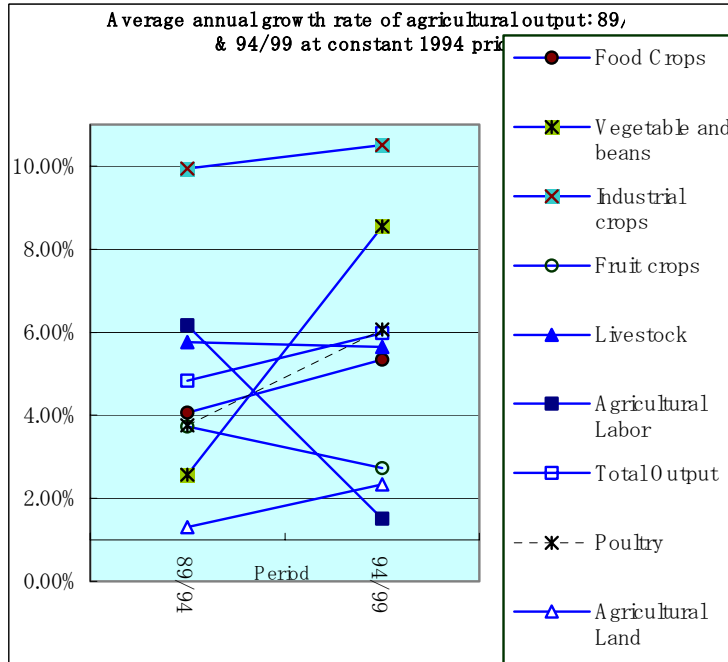
There are, however, emerging problems. No.1: the disparities in per capita income between rural and urban areas are increasing (see 2.2.1 (5)). As a result, 90 % of the poor of the whole country now lives in the rural areas. The lowest income quintile increases its income by the lowest rate among the three different classes: the highest, average and the lowest (see 2.2.2 (5)). The disparities between the haves and the have-nots are increasing.

No. 2: the per capita GDP growth rate of agriculture is smaller than the corresponding rate of the entire industries (see 2.2.1 (1) ②). There exists a study view<sup>61</sup> that the annual rate of increase in the production of Vietnamese agriculture in the 1990's is accountable largely by the increased use of input factors such as labor, land, fertilizer, and water pumps for irrigation, with the total factor productivity through other technology accounting for only 4%. The small sized

---

<sup>61</sup> ADB 2002 "Report and Recommendation of the President to the Board of Directors on Proposed Loans to the Socialist Republic of Viet Nam for the Agriculture Sector Development Program" p7

land holding by individual household remained unchanged; and there appeared not much improvement in the productivity of labor. The following chart, however, may be construed to imply something different is happening in the latter half of the 1990's in contrast to the first half. The chart shows the annual sector and sub-sector output growth as well as the labor and land that are used for agricultural production.



Source: GSO "Statistical data of Vietnam agriculture, forestry and fishery 1975-2000

The rate of growth of labor input is different; in the 5-year period from '89 to '94, agricultural labor increased by the rate greater than that of the total agricultural output (the productivity of labor<sup>62</sup> decreased) while in the later half from '94 to '99, the rate of increase in labor (1.5%) was far below the rate of increase in the total output (6%) (the productivity of labor increased). In spite of such gains in the labor productivity, the per capita GDP growth rate of agricultural labor is less than that of other industries. Factors attributable to the increase in the productivity of labor in the latter half are thought to be the increases in the area cropped and in the yields; and in addition, shifts in agricultural production to industrial crops, vegetables and animal husbandry (or diversification of production).

No. 3: Prices of some major agricultural products are in the downward trends (see 2.1.2). The

<sup>62</sup> The productivity of labor here is used on the assumption that the difference in the output is attributable to the difference in the agricultural labor (number of person engaged in agriculture)

Vietnamese agriculture is full of energy and highly flexible. It responds to the upward changes in the market prices and shifts quickly its production toward the crops that appear to yield higher returns. The above chart shows the resulting data of those dynamic production shifts; they are reflected in the high rates of increase in industrial crops, vegetables, and animal husbandry. The growth rates, over 4 to 5%, of food crops (of which rice accounts for more than 80 %) are an evidence of concentrated production efforts to take advantage of sales with much profits. Such a pattern of production behavior sometimes lead to over-production and market crashes as have been encountered in the cases of rice and coffee, Vietnam's major export crops. Pork now gives good prices; but if it follows the well-known textbook model of pig cycles, it may experience the downward phase of the cycle in the future as hurdle to the new entry to pig raising is not high in terms of initial capital investment. Of course, the crash is avoidable as long as the domestic demands for pork and pork products are increasing rapidly because large part of the Vietnamese pork is consumed at present within Vietnam.

No. 4: The rate of used working time of labor in rural area is low. Accumulation of excess labor force is observed in the rural areas (see 2.2.1 (1) ② and 2.2.2 (2)). More than 80 % of rural work force engages in agriculture. Farmers usually take off-farm jobs on part time basis; but such job opportunities are limited and the more limited are the opportunities for changing jobs from agriculture to others. The labor force engaged in agriculture, forestry and fisheries is not in a state of fully using the working time and deemed under-employed. But, the substantial portion of the new entrants to the work force in the rural areas which is estimated to be in the tune of maximum 1.5 million per annum is absorbed into agriculture, forestry and fisheries as there are not appropriate other job opportunities.

The foregone view is schematically shown in Annex Chart 1.

### 3.1.2 Relations of the Problems

The agriculture, forestry and fisheries of Vietnam is supposed to provide the nation and the people with foods and other needed produce steadily and efficiently in response to the changing demands and at the same time they are also supposed to contribute to earning needed funds to lay foundations for the nation to become an industrialized and modernized economy by increasing the export of their products as much as possible. As for the provision of foods to the nation, Vietnam achieved self-sufficiency in rice more than a decade ago. Vietnam now exports more than 10% of rice it produces. The responses to the changing demands for foods have been quick as far as the farmers can grab the opportunities the markets offer and realize the good returns on their investment, although there a few food items such as milk and dairy products that need considerations and the policy decisions upon the orientation from the viewpoint of the

volume of domestic demands and import liberalization. The good performance in the exports of agricultural, forestry and fisheries produce is undeniable even though there are adverse changes in the prices of some major export items. In sum, the Vietnamese agriculture, forestry and fisheries are playing its roles fairly well.

How about the rural areas where almost all the people who engage in agriculture, forestry and fisheries live? The utmost attention is directed to their livelihood as well as to the ways they use the national land and other natural resources. Such attention is due to the concern as to how the benefits of economic development are shared by the people because the goal of socio-economic development is the sustainable growth, of which benefits shall be shared equitably among the society. Along this line of thinking, problem No. 1 as listed in the sub-section 3.1.1, the increasing per-capita income disparity between the rural and urban areas and the resulting percentage (90%) of the poor living in the rural area cannot be overlooked.

As was seen in 2.2.1 (2), about 80 % of the labor force of the rural areas engages in agriculture, forestry and fisheries. The combined share of agriculture and forestry in GDP (at current prices) is 21% in year 2000 while the share in the labor force is 66%. That means the per capita GDP of the agriculture and forestry is far smaller than those of other industries. It is true the gap has been between the rural and urban areas. The thing is, as has been seen in the previous sub section, the per capita GDP growth rate of agriculture and forestry is below the rate of the economy as a whole in the latter half of 1990's. This is one of the causes for a widening disparity of income between the rural and urban areas.

Is the Vietnamese agriculture stagnating? No, not at all, it is thriving. The chart in the previous sub section shows that the agricultural output (1994 constant prices) increased in the first half of 1990 by an average annual rate of about 5% and by 6% in the latter half. That is the view observed by the sector as a whole. The point at issue is per capita income and it involves two additional factors. They are prices and numbers of employed in the agriculture and forestry. The prices of agricultural commodities are not friendly to the producers in the latter half of 1990's. The international prices of major export agricultural commodities plummeted. Those were exogenous changes the Vietnamese agriculture itself cannot do much about. Domestic prices also dropped. From the farmers' point of view, they were due to over production that glutted the markets.

They may be due to glutted markets; however, they also have something to do with the efficiency and effectiveness of the post-harvest systems including collection, sorting to the standards, storage, processing and distribution that exist between the farmers and the consumers.

That is because the same kind of agricultural product is not the same anymore in the market if the qualities and standards are different, and processed agricultural products are completely different commodities from the original products. And in conclusion, the point at issue is which players add how much value in the processes that link the producers and the consumers; in other word, how much the farmers can share in the retail prices the consumers pay for the agricultural products because what matters is income of the farmers.

In the plains that have been traditionally the heart of the Vietnamese agriculture, the average size of household farming units is small; and the efforts have been made to use the limited land intensively by putting input factors generously, especially labor. That tradition holds true even in the first half of the 1990's as can be seen in the chart in the previous sub-section. A new trend in such a tradition, however, is observable also in that chart in the latter half of 1990's in which higher rate of growth in the outputs was achieved with lower rate of increase in the agricultural labor. But, it is not enough for the agriculture to increase per capita income by the rate comparable with those of other industries; and the state of under-employment in the rural areas has not improved much as pointed out by the problem No. 4. It is needed to improve the rate of used working time of labor in such a way as to realize reasonable return to the labor input and to achieve the higher rate of growth in the output with lower or negative rate of growth in the employment to reduce the number of the poor, not to speak of mitigating the disparity. One of the root causes of the poverty in the rural areas may be the state of under-employment of work force over-employed in the rural areas.

The relations of the problems are shown in Annex Chart 2. The widening income disparity is set as the core problem that has a direct relevance with the per capita GDP growth rate while the disparity has much to do with the accumulation of excess labor in the rural areas. On the other hand, the per capita GDP growth rate is viewed to have correlation with the downward trends in the prices and the excess labor.

### 3.1.3 Approaches for resolving the problems and some issues

To resolve the problems identified in the previous sub-section, the causes for the problems have to be found out. Annex Chart 2 shows a diagram of causal linkage. In the first place, the small-scale farm management units (in terms of agricultural land area under crops) underlie the problem of per capita GDP growth (Problem No.2) and it brings forth the intensive use of land and resulting comparatively low productivity of labor in the cultivation (annual cropping) agriculture. Small-scale units are understood to constrain the introduction of renovations to agricultural production and thus bring about the per capita GDP growth rate problem.

On the other hand, farmers are keen to the opportunities of profit taking, may be due to the small-scale units, and given such opportunities, they increase, as far as they could, the production to grab the opportunities by expanding their routine products or introducing new crops. The increase in the production is based solely on the individual farmers' judgments; there is no macro-level organized guidance for production and the linkages between the producer and the consumer are non-existent or fragile if there are. Under such situations, a fallacy of composition tends to arise, and it results in the over-production that causes the problem of drops in prices (Problem No. 3).

The limited opportunities for off-farm jobs are taken to be a main cause for the low rate of used working time of labor and excess labor force (Problem No. 4). It should also be noted that the agriculture itself plays some role in making the rate lower because it has inevitable peak- and off- work periods. From another angle, the low rate is a kind of heritage resulted from the poor productivity of agriculture in the old days. When the agriculture could not yield sufficient surpluses to keep artisans that served agricultural communities, the opportunities for off-farm job were limited. The result was an increase in the labor force engaging in agriculture up to the point where per capita agricultural produce was just a bare minimum for subsistence.

To eradicate such causes, the first thing to undertake is to resolve the over-production; the change is achieved not only through the shift to other traditional crops but also through the introduction of new crops that are equally or more profitable. Next is to improve the productivities by replacing the crops of low productivity with the crops that are more fit with the local natural environment and more profitable (Example: shift to aqua-culture of prawns from low yielding paddy production). In addition, those farming units that cannot introduce renovations to their mainstream farming items, due to the constraints of small farming size, expand the farm management size in terms of outputs by introducing additional farming items and improve the labor productivity of a farming unit as a whole (Example: small-scale composite farming management with multiple sub-sectors such as paddy, vegetable, pigs). Those are approaches for restructuring and diversifying agriculture.

Diversifying agriculture in Vietnam means, if viewed from bird's eyes, without any doubt, diversification of agricultural products; the traditional major crops such as rice and coffee reduce their shares in the total outputs of agriculture while those in the sub-sectors that have good prospects of growth, e.g. horticulture, fruits, livestock and aqua-culture, may increase the shares. When it come to the individual management units, some may go literally along the line of diversification and adopt composite farming items, while some may undergo changes in the farming items and become large-scale farms (e.g., large-scale pig farm), each of which

specializes in a specific agricultural production.

Such an approach aims at increasing the scale of the individual farming unit (not necessarily, the area of agricultural land per farming unit) and is expected to contribute to the improvement in the under-employment of agricultural labor. That expectation is justifiable if the diversification of agriculture is to be achieved in the traditional way where diversification took place with the proportional increase in agricultural labor together with the increase in land to be cropped. There is a clear distinction of diversification in the context of restructuring of agriculture from that in the past; the diversification should be attained with accompanying substantial gains in the labor productivities. Therefore, restructuring and diversification of agriculture by themselves, cannot contribute much to the amelioration of the state of under-employment in rural areas as a whole, although the labor force remaining in agriculture should have an improved rate of used working time.

Creation of off-farm job opportunities is necessary, together with the restructuring and diversification of agriculture, to provide employment opportunities to the excess labor stagnating in the rural areas and new entrants into the rural labor market. The approach is: to increase off-farm job opportunities not only in rural industries such as agro-business (e.g., processing), local handy craft industries, manufacturing plants invested and controlled by the central offices in urban areas but also in other trades such as petty artisans and merchants providing services to the rural dwellers; and thereby to increase the income of rural households through diversified sources of income other than agriculture.

It is supposed to contribute to the attainment of stable and rapid growth, and a sustainable growth in the sense that the fruits of growth are shared among all the spectrums of the society, by taking those two approaches with the view to increasing the incomes of rural households. These approaches of diversification of agriculture and income sources are not new and they have been identified in CPRGS as well as the ten-year Strategy for Socio-economic Development.

There are points to note, however. As has been touched upon in 2.3.1 (1) b) Agricultural Policies, Izumida et al<sup>63</sup> presented the following four points of issues based on the analysis of the Government' resolution No. 9 and the state of restructuring at the level of individual farm households:

- a) Export market and domestic market (measures are needed for domestic demands);

---

<sup>63</sup> Izumida, Y. Shindo, S. Duong, P. B. 2002 ibid pp18-22



- b) Diversification of smallholders and large-scale specialized farming (Pay attention to smallholders);
- c) Reform of marketing (Reform of marketing systems is the key to the increase in producers' income and the growth in the sub-sectors with growth potentials);
- d) Triggers of renovations in farming management (Foster entrepreneurship).

Paraphrasing those issues, presented here are three points:

- a) Attention to smallholders;
- b) Reform of domestic marketing systems;
- c) Promotion of private sector investment

Issue No. 1, "Attention to smallholders" is just the same as the issue No. 2 of Izumida et al. As there are about 70% of agricultural households that have agricultural land of less than 0.5ha, it is imperative to work out ways for restructuring and diversification of agriculture that enable smallholders to gain through the introduction of modern technological improvements. There are agricultural products that demonstrate clear benefits of scale of production while there are crops that can yield handsome returns even to smallholders (e.g., some vegetables and fruits that need intensive cares of cultivation control). It is also observable that innovative ways of management enable smallholders to improve the efficiency of production (e.g., formation of concentrated areas of production and realization of scale merits by organizing smallholders). People talk about the importance of new modern technologies and managerial know-how with regard to the restructuring of agriculture; but to be noted is the impacts those innovations would bring about on the different classes of agricultural households. The impacts are not scale neutral, and the researches for advancing agricultural science and developing technologies should be designed taking into consideration the possibly different impacts of the expected outcome.

Issue No. 2, "Reform of domestic marketing systems" is the issue No. 3 of Izumida et al taking their issue No. 1 as given. The prospects for upward shifts in the overall level of income in Vietnam and increases in the urban population would entail a rapid increase in the demands for vegetables, fruits and livestock products. The existing marketing systems for those agricultural products have been shaped by the efforts of those who are concerned, and they are rational in a sense they are in service anyway. There are, however, some rooms for improvement in order to better meet the demands and provide more smoothly the agricultural products to the consumers.

For one thing, the areas in which the markets collect and distribute agricultural products should be expanded. At the same time, the markets should be open to anybody who wants to sell their products. If such areas are narrow, then the difference in prices of the same products among the

different markets become bigger and the wider the range of price fluctuations. Formation of concentrated production areas may be constrained because of the limited outlets. If the markets are closed somehow, they are not markets anymore in the true meaning of the word.

For another thing, the facilities of the markets need upgrading. Farmers cannot respond correctly to the needs of the consumers if the market information, i.e., the differentiated prices of different categories of quality, is not disseminated due to the lack of proper facilities in the markets. They should be improved so as to properly reflect the interests of the consumers in the quality and safety of the foods. The marketing systems should be improved with the view to providing stably a variety of agricultural products in large quantities and reducing the range of price fluctuations as much as possible. In such processes of improvement, farmers get more opportunities to participate in the marketing, and the stakeholders will recognize the merits entailed by the cooperative marketing by the smallholders.

Issue No. 3 “Promotion of private sector investment” is proposed in recognition of issue No. 4 of Izumida et al. The driving force of restructuring and diversification of agriculture is the investment by the individual unit of management based on its own judgment. That is more pronounced in the case of creation of off-farm job opportunities. Investment is comprised of project plan (technologies and ideas), management capabilities, capital and land (building). One more factor is “entrepreneurship” that is pointed out by Izumida et al. Much discussion has taken place as to where the Government should support and where should be left to the private sector. There is one important point unanimously agreed upon; it is the need for the Government to provide an enabling legal and institutional environment for investment including the removal of all the implicit unwritten prohibitions and obstacles so that entrepreneurs can try their ambitions freely. Otherwise, special discretionary treatments<sup>64</sup> proliferate and the ideal of the market economy, i.e., the efficient allocation of resources, cannot be achieved through market mechanisms.

## **3.2 POLICY MEASURES FOR ADDRESSING THE ISSUES (AREAS OF IN-DEPTH STUDY)**

### **3.2.1 Restructuring of Agriculture and Promotion of Agricultural Diversification**

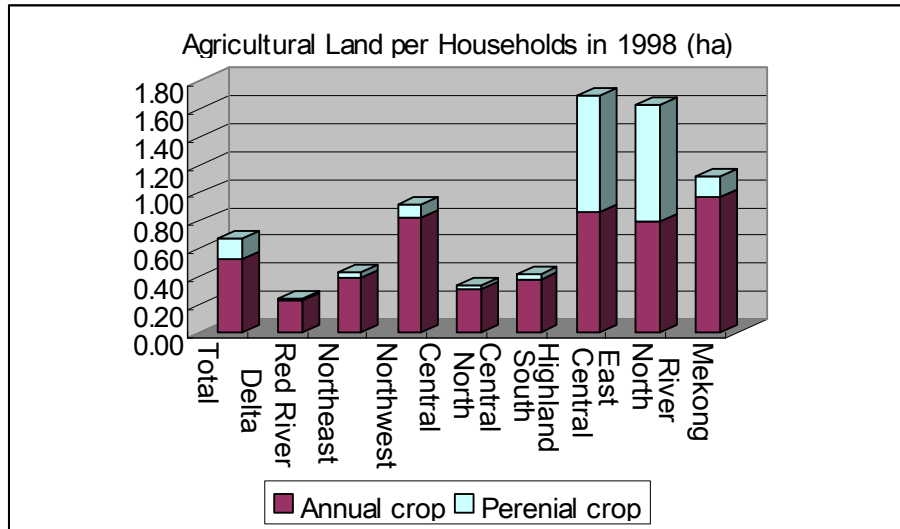
#### **(1) Improvement of agricultural production infrastructure**

An issue has been made so as to work out ways for restructuring and diversification of agriculture that enable smallholders to gain through the introduction of modern technological

---

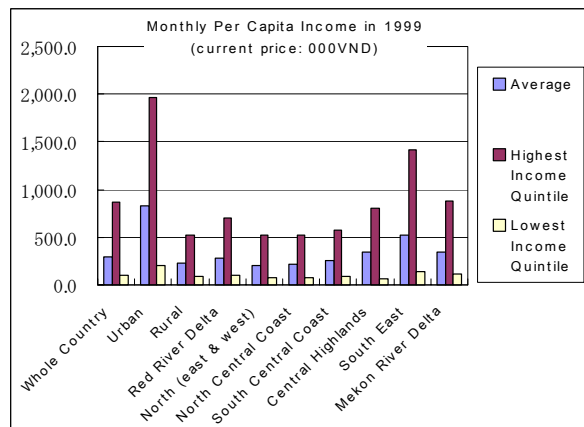
<sup>64</sup> A case of Metro Cash and Carry is referred to in ADB, ANZDEC Limited, 2001, “Viet Nam Agricultural Sector Program Rural Industrialization and Agro-Processing in Viet Nam” p17

improvements. Where do those 70 % of agricultural households live that have less than 0.5ha of agricultural land and what kind of agriculture do they engage in? The following chart tells they are mainly in Red River Delta, Northeast, North and South Central Coast regions. The sum of agricultural households in those regions account for 64% of the national total.



Source: GSO Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975 - 2000

The agricultural households in those regions mostly engage in paddy farming; the shares of paddy field area in the total agricultural land area that cropped to annual crops are: 93% in Red River Delta, 67% in Northeast, 76% in North Central Coast and 59% in South Central Coast. The chart in the right (source: GSO 2002) shows incomes of households in each region. The average



incomes of Red River Delta, Northeast, North Central Coast and South Central Coast are below the national average. That fact is construed to reflect the fact that the income from paddy farming in those regions is small.

In the agricultural areas where paddy is dominating, there is virtually no farm road and a number of farming households cultivate up to more than ten patches of small and scattered

paddy plots<sup>65</sup>. Irrigation canals are usually earth canals and existing irrigation and drainage pumps are old. The difference in productivities due to micro topography, which is an evidence of poor improvement in irrigation and drainage conditions, has not been overcome and the efficiency of water management and related agronomic work remains low. Such a state of land and water circumscribes the improvement in the production efficiency and the advancement of diversification of agricultural production. It is of great importance to improve the state of land and water in the agricultural areas where paddy is dominating if the efficiency of agricultural production is to be improved and the diversification is to be advanced in such areas. Of particular importance is to improve such conditions of land and water so that new alternative crops can be introduced. Such improvements in land and water conditions in combination with the accompanying farm road development is considered to be a prerequisite to the introduction of new farming organizations in the paddy agriculture areas where low income smallholders are predominant.

Priorities for improving and developing agricultural infrastructure in Vietnam are thought to be:

- a) Development of infrastructure in the areas where rudimentary infrastructure is lacking;
- b) Improvement of operation and maintenance system of existing infrastructure including renovation of obsolete irrigation and drainage systems;
- c) Up-grading, and in most cases developing, on-farm facilities, i.e., field ditches, drains and farm roads.

The point is to deliver water to each plot of field. The focus is on the on-farm facilities and related infrastructure. Development of such facilities and related infrastructure and/or improvement of operation and maintenance of them, are to be advanced by organizing the farmers with the view to substantial farmers' participation in the undertaking.

The Vietnamese systems for operation and maintenance of irrigation and drainage facilities have evolved on the basis of responsibility sharing among the central & local governments and the water users. The Vietnamese institutional framework is superior to those in other countries in the Asian monsoon region. And the central Government is trying to implement a policy for transferring part of management responsibilities to the farmers along with the adoption of implementation modality in which medium to small projects are executed by mobilizing local funds and labor. The trends are shifts away from the traditional Government dominating development and operation & maintenance. Such an orientation is understandable when considered a change in the land policy, i.e., issuing land use certificates and consolidating them.

---

<sup>65</sup> Doan Doan Tuan, Masayoshi Satoh 1998 *ibid*

That policy of inclusive development is good for improving the efficiency of the existing systems and advancing self-standing operation & maintenance; and it deems necessary to develop an institutional framework, incorporating the farmers' participation and contribution, for on-farm development and operation & maintenance of irrigation and drainage systems. Cares should be taken so that the framework shall facilitate the "initiatives" of the farmers but not the "participation" that are called for by the outside authorities in implementing infrastructure development projects and operation & maintenance of irrigation and drainage systems. The initiatives of the farmers would bring about the welcoming causal linkage: effective project ~> good operation & maintenance ~> solid sustainability. An in-depth study has been carried out having such viewpoints in mind.

(2) Improvement of marketing systems of agricultural products and organizing farmers

This Sector Study focuses, among growing sub-sectors<sup>66</sup>, horticultural sub-sector and animal husbandry (livestock) sub-sector in view of restructuring and diversification of agriculture. Two reasons for that choice: No. 1, those two sub-sectors are important in view of providing foods for the nation because the domestic demands for the products of those sub-sectors are increasing, and No. 2, those two sub-sectors have much to do with the improvement of the income of smallholders and poverty reduction because at least for the time being substantial number of small holders engage in those two sub-sectors and produce a large part.

To facilitate growth in the two sub-sectors in response to the growth in demands, the improvement of marketing systems for the products appears to be needed as pointed out in the previous discussion (in 3.1.3) about issue No.2. As the individual producers are small<sup>67</sup> in the production sizes, hence salable quantities, organizing farmers, including in the form of agricultural cooperatives, looks worthwhile exploring the ways in order to enable them to gain something by getting big as a group. Based on the voluntary organization of producers, concentrated areas of production are to be established to enhance the consumers' perception of the reliability on the products and their delivery. Having established such foundations, ways are to be explored for strengthening marketing channels, processing systems, and handling & transportation facilities, of the products. As for marketing and processing, one choice may be to encourage individual producers or organizations of producers and those that do business in marketing and processing to set up "contract-based systems" in which both parties play their own roles to their mutual benefits.

---

<sup>66</sup> Other growing sub-sectors may include aquaculture, especially, prawns.

<sup>67</sup> There exist large-scale plant-like farms that keep sows with foreign origin in the pens of foreign know-how and feed pigs and piglets with feed purchased from the makers. On the other hand, micro-finance often lend money to small holders to purchase piglets and feed, and those small producers cannot be left out.

Demands for horticultural and livestock products are estimated to increase rapidly especially in urban areas, and not only quantities but also quality are expected to require sophisticated handling and treatments. Given such an expected change in demands, it is desirable to improve and strengthen the existing marketing facilities, including those for processing and storage, in order to improve the efficiency of the post-harvest handling, to foster appropriate production responses according to the changes in demands, and thereby to stably provide agricultural products to the consumers. In view of issue No. 2 in sub-section 3.1.3, an in-depth study has been done focusing on the improvement of marketing and organizing farmers.

### (3) Strengthening rural financing

Encouraging the introduction and expansion of growth sub-sectors and thereby advancing restructuring and diversification of agriculture is tantamount to expecting individual management units to make new investments. As has been referred to in sub-section 3.1.3 regarding issue No. 3, investment is comprised of project plan (technologies and ideas), management capabilities, capital, land (building) and entrepreneurship. To encourage investment by individual management units, there are a number of policy measures for each of the investment components. In this study, the focus is set on the demand and supply of funds. For one thing, an introduction of new farming items usually requires funds to procure seeds and seedlings and other associated farming implements. Further, more funds of medium to long term are needed to develop or improve irrigation and drainage facilities, livestock pens, facilities for storage and processing, etc. Aside from agriculture sector, in the mountainous and other areas where land suited to forestry is wide and open, long-term funds mainly for forestation is in great demand. On the other hand, in the places where aquaculture and fisheries are closely linked with the development of rural economy, undertaking new schemes in aquaculture and fisheries is supposed to require a substantial amount of medium-term funds.

The bottom line of restructuring of agriculture is the restructuring and diversification of agricultural management at the level of individual management unit. Funds needed for such restructuring and diversification are to be mobilized by the individual management units based on their own judgment and responsibilities although the state budget and credit may come to aid with a limited scope, for example, support for developing a tract of land for wholesale market construction, in order to improve the investment environment for the private sector. It follows that providing funds not through the state budget but through the commercial financial institutions are indispensable for the implementation of the national strategy for socio-economic development and of the poverty reduction and growth strategy. The financial state of individual households that engage in agriculture is weak; therefore, the improvement of their accessibility

to commercial financial institutions is supposed to need urgent attention.

Among those institutions in Vietnam that are accredited as banks or non-bank financial institutions and engage in rural financing, the Vietnam Bank for Agriculture and Rural Development (VBARD) has the longest record of business and the largest balance of outstanding loans. Since the inception of its direct lending to individual agricultural households in 1991, VBARD has steadily expanded its operations for loans to individual households and at the same time strengthened its functions as a state owned commercial bank and the associated operational frameworks. In addition to VBARD, the Vietnam Bank for the Poor has also expanded rapidly the outstanding balance of its loans to the poor mainly in rural areas since its establishment in 1995. People's Credit Funds (PCFs) are also accredited cooperative financial institutions and they are doing business mainly in rural areas for mutual financing. Further more, in some areas, banks in the form of joint-stock company are in business in the rural areas. Most of all those banks and financial institutions have some operational relations with mass organizations in the rural areas; they help organize borrowing groups and intermediate between the banks and the borrowers. For the sound development of rural economy within the framework of market-oriented economy, it is of vital importance for those banks and financial institutions to provide funds, in a financially justifiable manner, sometimes complementarily and sometimes competitively, in response to the needs for improving the efficiency of agriculture and rural economy. An in-depth study on the rural financing and micro financing has been carried out from such a point of view.

## **Chapter 4 In-depth Studies**

### **4.1 Rural Financing and Micro-financing Sector**

#### **4.1.1 Financial Sector Reforms, and Rural Financing and Micro-financing Sector**

##### **(1) Financial Sector Reforms**

A series of financial reform packages were put into practice two years after the initiation of Doi Moi reform in 1986. Starting with the separation of commercial bank functions from the central bank in 1988, a whole set of deregulatory measures have been being introduced; interests regulations and collaterals requirements were loosened, scope of bank operation enlarged. In sum it was a shift from mono-bank system (central bank with the functions of commercial banks unique to centrally planned economies) to more market oriented multiple banking system. As a result, Vietnam has a two tier banking system, where State Bank of Vietnam (SBV) acts as central bank (first tier), and four major state owned commercial banks (SOCBs), all used to be a part of SBV, follow with overwhelming market shares in both deposits and loans. Two SOCBs, Vietcombank (VCB), which used to be Foreign Trade Bank, and BIDV (Bank for Investment and Development of Vietnam taking charge of industrial development finance) have been in existence since 1950s and VBARD (Vietnam Bank for agriculture and Rural Development) and ICBV (Industrial and Commercial Bank of Vietnam) were newly born as a part of financial sector reform in 1988.

The banking system has been mostly state-run; except rather limited presence of foreign banks and foreign banks affiliates, financial sector players are either state owned or quasi state owned (indirectly owned through state owned enterprises—SOEs) and cooperatives. VBARD is the largest bank in Vietnam with an outstanding record for financing to its franchise industrial sector, agriculture and rural development, which corresponds to priority sector for nation's development.

Legally SBV is one of the ministries forming cabinet of ministers, which has authorities to plan and implement key financial policies. This in turn has made SBV as more like ministry rather than a central bank. Virtually Government has made major financial policies and decisions on serious management issues of banking institutions. Because most financial institutions are primarily state owned there have not been any clear definition and/or boundary between policy and commercial lending. In case Government promotes specific loan programs given by state owned banks, this is nothing but policy lending. At the same time because Government support



management of banks, the confidence of people of Vietnam on banking sector has been strengthened. Rapid and drastic shift from informal to formal financing in rural areas are the very evidence of such achievements.

(2) A Short History of Development and the Present Situation of Rural Financing and Micro-financing Sector

a) Development of Rural Financing in Vietnam in the 1990's

The Government changed the policy around the end of the 1980's and adopted a new policy called Doi Moi (the renovation). Under the institutional reform, land use rights were allocated to individual agricultural households. Agricultural households could freely carried out production on the allocated land and sell the products. As a result, agricultural production resumed the previous level in a short period. Further with the development of commercialization of agriculture, the relationship with the external economy deepened, which generated the demand for fund, not met by agricultural households themselves.

In responding to the transformation towards a market oriented economy, rural financing institutions were rearranged; two departments of the State Bank of Vietnam were separated and became two state owed banks, that is, the Bank for Industry and Commerce, which mainly addressed commerce traders and manufacturers in cities, and the Bank for Agriculture, which mainly addressed rural area.

The Vietnam Bank for Agriculture (renamed to the Vietnam Bank for Agriculture and Rural Development in 1996) expanded the lending amount in rural area in receiving the fund from the Government. Yet the major part of loans was directed to state enterprises in rural area, while those lent to agricultural households was none in 1990, even in 1995 amounted to 7,308 billion VND, which reached only 30% of total agriculture households,

Most credit cooperative, which were the sole financing institution in rural area before Doi Moi, bankrupted due to the two digit inflation around 1990 and the subsequent tight monetary policy. Under such a situation, in responding to the demand for fund in rural area, the Government in 1993 started a project to create the People's Credit Fund, and in 1994 decided to extend all over the country.

The People's Credit Fund is a mutual financing organization closely linked with local people. The Fund, in taking advantages of a mutual credit institution closely linked with local people, absorbed the surplus money of agricultural households, which might be otherwise spilled over

from the operational network of the Vietnam Bank for Agriculture and Rural Development, financed not only for production but also consumption purposes, thus rapidly expanded as a close-at-home financing institution.

In the formal rural financing of Vietnam around 1995, the Bank for Agriculture took more than 90% of the total outstanding lending and enjoyed almost the monopolistic position, while the remaining portion was shared by the People's Credit Fund and rural joint stock banks. In such a situation, the Vietnam Bank for the Poor was established in 1995 and, starting its operation in 1996, has rapidly expanded its share.

In the latter half of 1990's, in the background of the increasing income in urban area and the expansion of overseas market, such commercial crops as livestock products, fruits, vegetables, coffee, rubber, tea and sugarcane gained the production momentum. In line with the progress of commercial production, an increase in application of fertilizers and other materials, thus a capital intensive agriculture developed, which caused a further increase of demand for fund.

The rapid growth of Vietnamese economy through the 1990's was led by manufacturing and service industries mainly located in urban area, and the gap in income between urban and rural areas widened. Even among rural area, mountainous and remote area, which was left behind the agricultural development, showed an evident delay in development thus the disparity among regions in rural area gradually widened. The poverty in rural area particularly became a grave social issue.

In the latter half of 1990's, in responding the increasing demand for financing from individual households and request of policy financing for poverty reduction, the existing two formal financing institutions - the Vietnam Bank for Agriculture and Rural Development and the People's Credit Funds - were joined by the Vietnamese Bank for the Poor and these institutions rapidly expanded the operations and consolidated the foundations. The ratio of the total lending amount from formal financing institutions comparing with the gross domestic product of agriculture has risen, which indicates a considerable enhancement of the intermediary function of credit in rural economy.

## b) The Situation of Rural Financing and Micro-financing in Vietnam

### i) Formal Financing Sector

The formal financing sector refers to those institutions established according to the Law on Credit Institutions, which carry out the credit operations and are supervised and inspected by

the State Bank of Vietnam. At present, the following institutions are included with some related to rural finance.

- Four state owned commercial banks: that related to rural financing is the Bank for Agriculture and Rural Development.
- Vietnam Bank for Social Policies: closely related to rural financing.
- Fifty joint stock banks: those related to rural financing are 19 rural joint stock banks.
- 888 People's Credit Funds: all closely related to rural financing.
- 69 credit cooperatives: few related to rural financing.
- 32 branches of foreign banks and 4 joint venture bank: no relationship with rural financing.

The trend of rural financing from around 1995 to the recent years on the basis of three formal financing institutions is summarized as follow:

- The lending amount has considerably increased. In fact, for the six year period from 1996 to 2001, the total lending amount combining those of three institutions has increased by 3.5 times from about 20,000 billion to 73,000 billion VND. In 2002 it further increased by 33% compared to the previous year and reached 92,000 billion VND. This increase is mainly supported by expanded operation of the Vietnam Bank for Agriculture and Rural Development, while it has kept the share of 85-88% through the period. The share of the People's Credit Fund has moderately declined after 1999 as a result of mergers and abolitions of some Funds carried out by the State Bank after the economic crisis and the consequent decline in the number of Fund.
- The outstanding amount of deposits has rapidly increased. In the same six-year period, it has increased by 2.5 times, which, though falls behind the increasing rate of lending amount, represents a substantial increase. In the savings mobilization campaign, the Vietnam Bank for Agriculture and Rural Development has played the leading role in taking place a share of 90-93% of the combined total of three financing institutions except in 1999. Deposits at the Vietnam Bank for the Poor on the other hand remain at a low level of 0.2 to 0.3 percent of total amount. The People's Credit Fund have steadily collected the deposits of respective operational areas with the increase in membership and strengthening the activities.
- The composition of lending has changed. For the recent three year period for 2000-2002, the following changes are observed:
  - By lending destinations, the ratio of state owned enterprises has decreased while that of non-state enterprises and households has increased. It has been caused by the strengthening activities of private enterprises not only in the surrounding area

of large and local cities but also in rural area. The progress in the privatization of state owned enterprises is also regarded as one of the causes that the lending to state owned enterprises has relatively decreased.

- By economic sectors, a rapid change has also taken place. A decline in the ratio of agricultural lending is observed against the increase in manufacturing, handicraft, commerce and service industries. In particular the increase in manufacturing and handicraft industries are prominent which have in absolute terms increased by more than 5 times from 2000 to 2002.
- The ratio of medium and long terms loans to the total amount of loans has increased. For the latest three years it has considerably risen from 43 % to 57 %. Most of the increase has been attributed to that of the Bank for Agriculture and Rural Development.
- The use of lending from formal financing institutions reached to a fairly high level. In combining three institutions together, nearly 55% of total households borrowed, while in some regions nearly all households lent from formal institutions. Even though there is a considerable difference of the ratio among regions and institutions and in considering the fact that one household may borrow from more than two institutions, the improvement of outreach is fairly significant.

ii) Semi Formal Rural Financing Sector

Rural credit institutions and organizations classified in the semi formal sector include mass organizations, NGOs and others, which do not obtain the licenses of credit operations according to the Law of Credit Institutions.

Mass organizations including the Vietnam Women's Union, the Vietnam Farmer's Union have a countrywide network covering from central to commune levels. Mass organizations in the system down to the grass levels undertake various activities including lending to agricultural particularly poor households. There are two ways in the credit activity of mass organizations:

- As an agent of formal financing institutions, they intermediate lending.
- Using the fund by their own or other donors like NGOs, they lend and manage the savings of members.

NGOs. Apart from mass organizations, many NGOs carry out micro-financing focusing on the poor. In practice, these NGOs provide solely technical assistance to mass organizations, or provide fund as well as technical assistance (the second case of the above), or play the intermediary role as an agent of formal financing institutions. In any case, the operational size is limited and the money involved is not particularly large.

Credit activity of agricultural cooperatives. According to a survey held by the Ministry of Agriculture and Rural Development in 1999 concerning the activities of 3,267 selected agricultural cooperatives (multiple answers), the cooperatives carrying out credit activity were only 8%, many of them being located in Central Highlands and Northeast of the South.

The following three reasons are indicated why the number of agricultural cooperatives conducting credit activity are few.:

- In the Law on Cooperatives, credit activity is not stipulated. Many are carrying out credit activity not as a credit institution under the Law on Credit Institutions.
- The capital base of agricultural cooperatives is generally weak and the fund for credit is not sufficient. Cooperatives owing enough working capital such as cash and membership fees are far less.
- Staff and their capacity to carry out credit activity are not sufficient.

There would be three alternative ways that agricultural cooperatives carry out credit activity in future: (i) Only lending activity for members; (ii) Both lending to and receiving deposits from members; and (iii) To borrow the money from formal financing institutions and lend the money to the members participating in the production, sales or input purchasing projects that agricultural cooperatives organize.

In order to make it possible to carry out above alternatives (i) or (ii), it needs to set up an institutional framework and provide fund and know-how for lending operations so that an agricultural cooperative could start the credit activity. Specifically for conducting the alternative (ii), it needs the deposit guarantee and sound financing situation. In any case, it should be proceeded according to the conditions of individual agricultural cooperatives. Generally speaking, it may be the promising approach that agricultural cooperatives formulate projects as shown in above (iii), for which they lend the borrowed money to the members participating in the projects in taking the intermediary function.

State Credit. The State makes investment and financing from the budget for national programs, in which loans in long term and with lower interest rate are often included. Financing is channeled through the State or quasi-state institutions like the Bank for the Poor (starting from 2003 it becomes the Social Policy Bank together with the financing component in the employment promotion program). In any case, since they are investment and financing to achieve such policy objectives as poverty reduction, improvement of basic infrastructure, and development of strategic industries, it needs to devise so as to specify the target people and fields and to focus the investment and loans on them.

The Development Assistance Fund

The Fund was established in June 1999 and started the operations from 2000. It is an institution directly belonging to the Government, has no function of policy making instead extends medium to long term loans to the projects of important industries including state owned companies and basic infrastructure. The Fund carries out such other operations as interest subsidies, credit guarantee and short term export promotion financing as well.

Regarding the rural financing of the Fund, the following features are indicated:

- The processing industry of agriculture, forestry and fisheries products is not only an important lending destination but also it takes a fairly large portion in terms of amount. (Lending amount for agricultural and rural development is estimated to be 5,000 billion VND in 2002).
- Projects subject to long and medium term loans include those of agricultural restructuring like planting of concentrated material forests, perennial crops and fruit trees.
- About 1,000 billion VND of short term loans are extended for export promotion mainly for agriculture, forestry and fisheries products.

iii) Informal Rural Financing

Informal financing in rural area in Vietnam can be divided into the following three groups.

- Borrowing from relatives and friends.
- Borrowing from individual moneylenders.
- Traditional rural informal organization called “Ho” or “Phuong”.

The Vietnam Living Standard Survey held in 1992/93 indicated that the borrowing from informal sources out of total borrowing amount of rural households was 73%. In the same survey held in 1997/98, the borrowing from informal sources declined both in absolute and relative terms. The ratio considerably declined to 50%. These observations suggest that the importance of the informal financing has steadily declined with the expansion of formal financing system. Yet there is a problem that 60% of low income households cannot access to the formal financing.

#### 4.1.2 State of Operations of Agriculture / Rural Credit Institutions

##### (1) VBARD, PCFs, VBP

Table 1 shows the loan distribution ratio (number of loan accounts divided by number of households) for VBARD, PCFs and VBP<sup>68</sup>. Many International Organizations define rural finance as all loans in the country except Hanoi and Ho Chi Minh cities, so the Table 1 excludes these two cities. Loan distribution varies by province/region and financial institutions. Even in the same region, there can be a large difference among provinces or institutions. The current state of economic development, population density, road networks, poverty, competition with other financial institutions, intentions of authorities such as SBV and the People's Committee appears to have affected this result. Although it is difficult to generalize, the following trends can be identified from Table 1.

##### a) Current Situation

##### i) As a whole

- Loan distribution by formal financial institutions is high

The loan distribution ratio by VBARD, PCFs and VBP (Current VBSP), has reached 59% as a whole country excluding Hanoi and Ho Chi Minh cities. Out of which 36% was met by VBARD, 4% by PCFs and 19% by VBP. Regional and provincial differential was relatively small. Most of provinces recorded the ratio higher than 35% except Lam Dong of 21% and Hi Phong of 34%.

- The region/province which is economically developed or poor recorded high loan distribution

The economically developed region such as the Mecong Delta recorded high rate of 68%. Additionally, the poor regions such as the North Central Coast and the Northern Mountains also recorded high rate of 65% and 60%. It is observed that VBARD tends to contribute in economically developed areas and VBP in poor areas.

##### ii) VBARD:

---

<sup>68</sup> The bases for calculating the loan distribution ratio differs from VBARD/VBP and PCFs. To calculate the ratio, VBARD and VBP use the number of loan accounts at the end of 2002 but PCFs adopts the number of loans during 2002. Use a figure of the number of loans tend to overestimate the ratio but use of the number of loan accounts underestimates in the case of financial institutions like PCFs which mainly provide short term loans and some clients borrows several time in a year. However, financial institutions like VBP which provide medium and long term loans shows adverse results.

Loans to the economically developed as well as poor areas are high.

iii) PCFs:

The loan distribution ratio varies widely. PCFs are located in relatively wealthy areas. There is a large difference in size among PCFs.

iv) VBP:

Loans to the poor areas are high. A concern is that the loan distribution ratio of some provinces is higher than the ratio of poor households.

- Statistical information regarding household numbers is based on 1999 data, but the number of loan accounts is 2002 data. Therefore the household number is an underestimation when taking into account the increase in population during this period;
- Most loans granted by VBP are medium and long term loans. Therefore, households that are now no longer in poverty still have loan outstanding balances at VBP;
- Non-poor people also receive loans from VBP.

Table 1. Loan Distribution Ratio by Financial Institutions



*Agriculture and Rural Development Sector in the Socialist Republic of Viet Nam*

Region/Province	Number of households (A)	Loan distribution ratio				Ratio of Hungry, Poor 1998	Ratio of Hungry, Poor 2000
		VBARD	PCFs	VBP	Total		
<b>Northern Mountains</b>	<b>2,715,100</b>	<b>30%</b>	<b>2%</b>	<b>28%</b>	<b>60%</b>		
Ha Giang	113,600	1%	2%	44%	47%	31.2	18.0
Tuyen Quang	142,500	34%		33%	68%	18.9	3.6
Cao Bang	100,800	14%		35%	49%	31.7	15.5
Lang Son	137,000	37%		34%	71%	17.5	11.2
Lai Chau	105,000	29%		28%	57%	34.7	23.4
Lao Cai	114,900	35%	0%	40%	75%	21.8	18.1
Yen Bai	142,800	28%	5%	28%	62%	22.1	14.0
Bac Can	51,000	29%		33%	62%	29.5	21.8
Thai Nguyen	210,000	53%		30%	82%	13.5	8.7
Son La	165,000	18%	2%	30%	51%	35.1	18.2
Hoa Binh	160,000	30%	2%	45%	76%	30.5	14.3
Vinh Phuc	230,000	30%	7%	15%	52%	17.9	8.5
Phu Tho	285,000	34%	5%	24%	63%	25.6	14.0
Bac Ninh	217,500	26%	4%	20%	50%	12.2	6.0
Bac Giang	330,000	40%	2%	22%	63%	20.9	11.5
Quang Ninh	210,000	17%		22%	39%	17.9	10.6
<b>Red River Delta</b>	<b>3,444,500</b>	<b>23%</b>	<b>8%</b>	<b>18%</b>	<b>49%</b>		
Ha Tay	480,000	26%	10%	15%	52%	7.7	4.4
Hai Phong	406,000	15%	3%	15%	34%	11.1	5.9
Hai Duong	408,000	24%	12%	15%	51%	6.8	3.6
Hung Yen	214,000	34%	17%	31%	83%	12.2	10.5
Thai Binh	470,000	17%	12%	19%	48%	7.7	5.9
Nam Dinh	480,000	22%	4%	16%	41%	10.2	6.5
Ha Nam	190,000	29%	2%	20%	51%	12.6	9.3
Ninh Binh	215,500	23%	7%	26%	56%	13.7	7.0
<b>North Central Coast</b>	<b>2,148,300</b>	<b>38%</b>	<b>3%</b>	<b>25%</b>	<b>65%</b>		
Thanh Hoa	772,300	42%	2%	20%	64%	22.4	13.2
Nghe An	606,000	34%	4%	18%	57%	27.8	14.0
Ha Tinh	298,000	32%	2%	26%	60%	24.5	15.4
Quang Binh	171,200	36%	6%	39%	81%	32.7	33.0
Thua Thien-Hue	185,000	25%	2%	45%	72%	20.2	23.4
Quang Tri	115,800	64%	5%	32%	101%	18.9	22.5
<b>South Central Coast</b>	<b>1,677,900</b>	<b>29%</b>	<b>4%</b>	<b>17%</b>	<b>50%</b>		
Quang Nam	310,000	41%	1%	21%	62%	26.5	23.3
Da Nang	131,000	47%		21%	68%	6.8	9.4
Quang Ngai	249,700	31%	4%	17%	51%	30.6	19.8
Binh Dinh	309,000	21%	7%	8%	37%	12.6	8.8
Phu Yen	168,900	35%	1%	15%	52%	15.6	5.6
Khanh Hoa	209,000	21%	1%	18%	39%	13.9	7.7
Ninh Thuan	100,300	37%	2%	23%	62%	11.1	12.4
Binh Thuan	200,000	9%	10%	18%	37%	13.1	9.1
<b>Central Highlands</b>	<b>734,800</b>	<b>35%</b>	<b>3%</b>	<b>16%</b>	<b>54%</b>		
Gia Lai	191,500	40%	1%	20%	61%	33.7	18.9
Kon Tum	64,000	35%	3%	32%	70%	35.1	15.5
Dac Lac	275,000	50%	2%	17%	69%	26.4	8.9
Lam Dong	204,300	9%	5%	7%	21%	13.3	7.0
<b>South-East</b>	<b>1,851,900</b>	<b>41%</b>	<b>5%</b>	<b>12%</b>	<b>57%</b>		
Binh Duong	145,500	39%	13%	9%	61%	4.9	4.2
Tay Ninh	198,000	51%	6%	14%	70%	5.5	6.4
Binh Phuoc	135,000	66%	1%	30%	97%	20.6	14.8
Dong Nai	410,000	32%	4%	7%	43%	9.8	3.5
Baria-Vung Tau	150,000	30%	1%	8%	39%	4.3	5.7
<b>Mekong Delta</b>	<b>3,311,600</b>	<b>51%</b>	<b>4%</b>	<b>12%</b>	<b>68%</b>		
Long An	345,000	44%	7%	7%	57%	11.8	6.3
Dong Thap	310,000	55%	4%	19%	77%	11.4	11.4
An Giang	410,000	46%	11%	10%	67%	10.5	7.8
Tien Giang	316,000	54%	4%	12%	71%	17.2	10.1
Ben Tre	260,000	45%	1%	14%	60%	15.3	19.4
Vinh Long	220,000	59%	1%	8%	68%	11.8	9.7
Tra Vinh	200,500	51%	5%	15%	70%	16.0	18.3
Can Tho	360,000	31%		8%	39%	13.0	8.5
Soc Trang	222,100	94%	6%	15%	116%	24.3	17.7
Kien Giang	305,000	38%	5%	10%	53%	15.3	9.2
Bac Lieu	145,000	66%	6%	21%	93%	20.5	14.8
Ca Mau	218,000	62%	0%	13%	75%	25.4	13.7
<b>Total</b>	<b>15,884,100</b>	<b>36%</b>	<b>4%</b>	<b>19%</b>	<b>59%</b>	<b>15.66</b>	<b>10.64</b>

Source: Information from VBARD, CCF, VBP and "Statistics of Agriculture and Rural Development 1996-2000" Agriculture Publishing House 2002

b) Future prospects

i) VBARD

Since the establishment, VBARD has been engaged in loans for the poor as an executing agent of the policy based lending for the poor and as an actual operator of VBP, which had no branch networks. The loan distribution ratio by VBARD in 2002 was 36%, but a fact that the actual loan operations of VBP were run by VBARD is taken into account, the real loan distribution ratio by VBARD is 55%. This shows that most of the formal rural finance was provided by VBARD.

When taking into account the facts that the policy based lending operated by VBARD will be transferred to VBSP and that VBSP will implement lending to the poor through its own branch networks in districts, the contribution of VBARD on lending to the poor seems to decline following the establishment of VBSP. On the other hand, VBSP has a plan to provide loans by agents to the areas where VBSP can not cover by its own branch networks, so that there is a possibility that VBARD will be the largest agent and take part in a considerable proportion of VBSP's loans. Therefore, it is difficult to predict the impacts of VBSP on rural finance in this moment when VBSP's concrete operation plan has not yet set.

VBARD will continue its expansion to rural areas with taking into account profits. In "Institutional Development Plan from 2002 to 2005", VBARD specifies that it will purchase 750 vehicles for mobile branches, establish further inter-commune branches and strengthen saving and loan groups. These activities will have positive impacts on people who have no access to financial services. However, it may be difficult to expect that the loan distribution ratio will increase drastically when taking into account the facts that VBARD already has a large branch network covering whole country, that around 60% of households already have access to formal credit, and that the mechanism, in which agricultural inputs such as seeds, fertilizers and chemicals are provided on account and farmers repay them when they harvest, is widely accepted in the country (this operation is categorized as informal finance). Therefore VBARD seems to give emphasis on increasing loans to no-agriculture loans, enlarging a size of loans, and mobilizing savings. The poor areas which have weak economic foundations such as limited road accesses, low land productivities and limited accesses to market tend to prevent people living in the areas to utilize loans effectively. In these areas, an increase of loans has a risk resulting in increase of poor because borrowers may have to sell their land use certificates or livestock to repay their loans instead of poverty alleviation. Therefore the integrated approach is required to support the poor in the poor areas.

ii) PCFs

The increase of PCF seems to be limited because of as follows.

SBV, which has led PCF's development for last 10 years, is rather careful in PCF's further expansion. Since 1998, SVB has been intending to strengthen existing PCFs through limiting new establishment of PCFs and introducing restructuring as well as amending regulations to give more attention on the economic conditions where PCFs are operating.

- PCFs expanded in the early 1990s when VBARD had smaller proportion of rural financial market in the country. However, VBARD has expanded its branch networks in commune level since 1998 and it occupies a large share in the market now.
- PCFs and VBAED compete with each other, because both of them are targeting economically developed areas. VBARD has already established a large branch network and is active in many areas. It seems to be difficult for new PCFs to enter into these areas and establish new businesses. The areas where VBARD is not active seems to be unattractive for PCFs neither.

### iii) VBSP

VBSP will be a large bank with 7~800 branch network and assets of VND 16,000 billion by expanding its own branch network and combining fund for policy based lending scattered to several financial institutions. But VBSP is under preparation of its operational plan and there seems to be some modifications. For instance, the costs to expand branch network in all districts and to allocate staff to them will be a heavy burden for the government. Additionally, the operation of VBSP based on the reversed interest rate requires large subsidies from the government. The government intends to separate policy based lending from SOCBs through the establishment of VBSP, but there is a possibility that the actual operations of VBSP would heavily rely on VBARD like VBP. VBSP is integrated into the central and local authorities. There is a concern how VBSP will maintain its independence as a financial institution in this operational framework. It may takes sometime to get concrete feature of VBSP.

## (2) Joint Stock Commercial Bank (JSCB)

Following the start of economic reform in 1988, Joint Stock Commercial Banks (JSCB) were approved for establishment in 1991. Since then, the number of JSCB has increased, reaching 51 in 1999. Although the number of JSCBs has grown at a rapid pace, the banks have been facing several management problems that were especially apparent after the Asian Financial Crisis. JSCBs recorded the highest rate of non-performing loans of financial institutions in Vietnam reaching 16.6% in 1999 and 24% in 2000. As a result, there is a possibility of a financial crisis occurring due to the operational inefficiencies of JSCBs.

To deal with this situation, the government has undertaken an integrated reform program for JSCBs since 1998. Through these measures to restructure JSCBs, banks in financial difficulty were liquidated or amalgamated and the number of JSCBs was reduced to 37 by 2003, of which 23 are urban JSCBs that operate in large cities such as Hanoi and Ho Chi Minh, and the remaining 14 are rural JSCBs based in rural towns. Although there are two categories, urban JSCBs are rapidly increasing their branch networks in rural towns where investment opportunities are increasing. The JSCBs that were interviewed are making concerted efforts to improve their management and increase their capital.

### (3) Other Organizations Working for Rural Finance and Microfinance

As already discussed, a large proportion of Vietnam's rural finance and micro-finance is carried out by VBARD, PCFs and VBSP. In this section, other players such as NGOs, the Women's Union and the Farmers' Association are examined. NGOs implement micro-finance programs in rural area as semi-formal financial institutions and mass organizations such as the Women's Union and Farmers' Association support VBARD and VBSP to extend loans to people in rural areas and the poor.

#### v) Microfinance Decree

SBV is preparing the Microfinance Decree with assistance from the Asian Development Bank (ADB). A draft has been completed and the first review was conducted in 2002. Those concerned expect the decree to be signed by the first half of 2004.

The lack of legal base for micro-finance institutions (MFIs) is said to have hindered the development of micro-finance in Vietnam. Because of the defective legal framework, the rights and duties of MFIs have become unclear, making it difficult for them to expand their operations. Additionally, to protect clients, MFIs should be regulated to maintain sound operations through establishment of an appropriate legal framework. These are the main reasons for introduction of the Micro-finance Decree.

#### vi) NGOs

The number of international NGOs listed in the NGO directory is 181, of which, 52 provide micro-finance services. No information regarding current activities of NGOs is available. Micro-finance activities by NGOs are also not so active in Vietnam compared to in other countries. Some international NGOs that have good working experience in other countries have withdrawn from Vietnam recently.

In rural areas, VBARD, PCFs and VBSP are quite active and more than 50% of households have access to formal financial institutions, which is extremely high for a developing country. Therefore, conditions for NGOs in Vietnam are quite different from those in other countries.

Although the size of NGO activities is limited, the quality of their activities is said to be high. In general, it is thought that the actual recovery rate of loans held by SOCBs are lower than reported when taking into account that loans are rescheduled rather easily. Therefore NGOs are thought to be stricter in loan operation than SOCBs. Additionally, NGOs provide not only funds, but also technical support, knowledge and education. Therefore, some people think that NGO activities have high social impacts such as on alleviating poverty or improving living standards.

vii) Mass Organizations

There are groups of so-called mass organizations in Vietnam that are comprised of different social categories. Examples of these mass organizations are the Women's Union and Farmers' Association. Most of these organizations were established in 1930s as support groups for the Vietnamese Communist Party. Nowadays, they tend to function as a semi-government and some have authority like ministries. The organizations have large networks from the central level to provincial, district, commune and village levels. Based on this grass root network, they play an important role in implementing government policies in rural areas.

i) Women's Union (WU)

WU provides financial services in two ways. One is to support VBARD and VBSP, while the other is to manage funds by themselves. WU supports women and poor households in gaining access to loans. In this way, WU supported 1.1 million households with VND 500 billion in loans in 2000.

WU manages funds from the government such as poverty reduction programs, donors and NGOs. The funds are managed in two ways. One is where WU functions like a bank to manage the funds and the other is where WU supports establishing saving and loan groups and these groups are responsible for managing funds.

ii) Farmers' Association (FA)

Like WU, FA works together with banks. FA and VBARD signed an agreement for implementing banking credit policy on agriculture and rural development in 1999. The agreement defines the collaboration and responsibility of each partner in extending credit to farmers. Utilizing this arrangement, FA has extended loans of VND 4,027 billion to 1.8 million

farmers, with the average size of loan at VND 2.2 million.

Like WU, FA has its own loan scheme. FA is responsible for managing the Farmers' Support Fund established by the government and other funds such as the Hunger Alleviation and Poverty Reduction Fund from provinces and districts. Total funds managed by FA in 2001 amounted to VND 164.5 billion and the loan interest rate was set at the same as that at VBP.

#### 4.1.3 Financial Analysis of Agriculture and rural development related financial institutions

The financial analyses presented below are on VBARD, PCF/CCP (People's credit fund/central credit fund), VPB (Vietnam Bank for the POOR) and BIDV. Data used for the analyses are primarily from annual reports 1997-2001 of relevant institutions.

The total assets of VBARD increased from VND 22.3 to 66.4 trillion, almost 3 times growth in five years from Dec 1996 to Dec 2001. About a half of this growth financed by rapid increase of deposit collection (an increase of VND22.9 trillion from 8.0 to 30.9). Not completely but to a substantial extent VBARD succeeded in deposit collection for its asset expansion. The outstanding loans increased to VND51.5 trillion from 17.7 trillion, an increase of 33.8 trillion, around 3times growth, reflection of strenuous demand for borrowing.

For the last three years (1999, 2000, 2001) the medium and long-term loans increased, as of the percentage of total outstanding balance, from 39.0% to 42.0% and then 42.7%. This is true to the credit to agrarian households; a little less than 40% was medium and long term. Deposits grew from VND8.0 to 30.9 trillion from 1996 to 2001, an increase of 22.9 trillion, 3.9 times; the increasing pace has been much higher than those of total asset and loan outstanding. Deposits increased in the percentage point share of total funding by 10.7% from 35.8 to 46.5%, similarly trust account increased by 1.4% from 3.8 to 5.2%.

The return on capital employed (Interest received/Average balance of deposits, borrowings and bonds) lowered by 3.9% (1997) from 12.1 (2001) to 8.2%. With present level of profit it will take as long as 10 years to clean assets impaired.

Total assets of CCF increased 5.3 times during five-year period from 1996 to 2001 (VND170 to 910 billion). Customers' deposits increased by VND 270 billion from VND50 to 320 billion, reflecting efforts for deposits collection. The loan to deposit ratio (average loan outstanding to average deposit balance) declined from 511 to 316%, an improvement of 195%, but 316% was still an abnormally high level. As for the percentage point change in the balance sheet items, deposits and TB increased by 12.3% from 6.4 to 18.7%, investment and fixed assets rose by 0.8% from 0.5 to 1.3%, and loan outstanding declined by 13.1% from 93.1 to 80.0%. For liability side, big jumps of customers' deposits by 26.1% from 8.7 to 34.85 and borrowings and bonds by 25.1% from 20.0 to 45.1% respectively but equity dived sharply by 51.2% from 71.2 to 20.0%.

The profit margin declined from 5.5 to 4.5% but recovered 6.3% as a result of merger with RCF (regional credit funds). The non-interest expense to total average assets ratio worsened by 3.4% from 2.5 to 5.9%, so did the ROA (return on asset), down by 4.7% from 6.5 to 1.8%. As to the fund balance, increment of lending amounting to VND360 billion (2001) was financed with deposits increase (VND280 billion), trust (40) and other increase (40), stable balance.

The total assets of VBP were VND 6.4 trillion, which were mostly loans outstanding (VND 6.2 trillion) and deposits to other banks (VND 0.2 trillion). The sources were borrowings (4.7: other banks-3.8, SBV-0.9), trust (0.4), equity (1.0), and deposits from customers (0.3). The total asset grew from VND 2.0 to 6.4 trillion, an increase of more than 3 times, during the five-year period from 1996 to 2001, which was primarily due to growth of loans (from VND 1.7 to 6.2 trillion). The increase of loans amounting to VND 4.5 trillion was financed through increase of borrowings from other banks and SBV (3.5), equity increase (0.5), trust (0.3) and customers deposits increase of 0.2 trillion.

The deposits increase was very minimal from VND 20 to 31 billion, which made the loan to deposit ratio to further high level of 121,556% from an extremely high figure of 95,801. As a percentage of fund sourced, borrowings increased by 9.2% from 65.3 to 74.5% and correspondingly equity declined by 9.7% from 25.6 to 15.9%. The return on capital employed (interest received/Average balance of loans and deposits) decreased from 8.5 to 7.0%, 1.5-point decline. The rate of funds sourced (Interest paid/Average balance of deposits, borrowings and trust funds) declined by 2.6% from 8.9 to 6.3%, increasing the profit margin a little from minus 0.4 to positive 0.7. The ROA (before provision) was kept at a stably low level, moving from 0.2 to 0.1%.

The total asset of BIDV as of the end of 2001 was VND 60 trillion in which the outstanding loan balance was 42.6 trillion. The total assets of 60 trillion were financed with deposits from customers (29), CD (10), Deposits from SBV and Treasury (10), trust accounts (6) equity (0.5) and others (4.5). The total asset became almost 3.5 times during the five year period between 1996 and 2001, increasing VND 43 trillion from 17 to 60 trillion. The loans increased by VND 28.6 trillion from 14 to 42.6, other use of funds for deposits and treasury bills by 14 and investment and fixed asset by 0.4 respectively. While deposits from customers increased by VND 23.5 trillion from 5.5 to 28.9 and borrowings/bonds by 20.4 from 4.4 to 24.8, trust increased as well by 3.4, equity decreased by 4.2 reflecting a substantial amount of write-off.

Loans grew at about the same pace with assets, the growth of VND 28.6 trillion, from 14 to



42.6. There have been a apparent shift to commercial lending of which shares increased from 54% of 1999 to 60% (2000) and the to 75% in 2001, making policy lending and ODA loans look smaller.

Deposits increased at much higher pace than loans and assets, an increase of VND 23.3 trillion from 5.5 to 28.9, 5.3 times growth whereas growth of assets and loans were 3.1 times. Time deposits were 62% of all deposits in 1999, 57% (2000, growth rate 29%) and 67% (2001, 35%); relatively stable deposits structure.

The loan to deposit ratio (excluding CD) declined sharply from the high of 1997, which was 334% to 150% in 2001, and the share of deposits in BIDV's funding have been heightened. The percentage share of deposits increased by 16.4% from 31.8 to 48.2% and so did borrowings/bonds by 15.6% from 25.9 to 41.5%.

The rate of funds sourced declined by 3.2% from 7.5 to 4.3%. The profit margin improved from 0.5 in 1997 to 3.2 in 1999 and 3.0% in 2001, drastic recovery.

#### 4.1.4 State of Financial Affairs in the Rural Households

##### (1) Purpose of Rural Household Survey on Financing

A set of interview surveys is to be carried out with individual rural households using a pre-set questionnaire to assess the access to loans and credits and also get information on the practices of group borrowing. Interviews with rural opinion leaders are conducted with a view to grasping the degree of participation in the group borrowing by the rural administrative organizations and mass organizations.

##### (2) Method of Survey

The interview surveys were carried out in collaboration with local consultants and were performed over March 13 2003 to April 27 2003. Communes to be surveyed were picked up one in each of the selected Provinces, namely, Phu Tho and Hung Yen in the North and Red River Delta, Ha Tinh and Thua Thien-Hue of North Central Coast, and Ben Tre and Long An of Mekon River Delta. Phu Tho, Ha Tinh, and Ben Tre are the provinces that are eligible for assistance under Poverty Sector Project Loan by JBIC while remaining three are close to mega cities and considered relatively advanced. Interviews are to be made with about 60 rural households per one commune selected by random sampling after selecting one commune by each province. Also the group interview was performed to the opinion leader etc. to understand the actual condition of group borrowing.

##### (3) Structure of Borrowing Money in the sampled households.

###### a) No. of households borrowed money

The sampled households of each commune have borrowed money at a high rate. Especially, in Tan Phu Tay and the Phu Thanh commune, it exceeds 90 percent and also the three remaining communes except a Phuoc Loi commune (70%) are over 80 percent.

###### b) Financial sources for sampled households for borrowing money

About 70% of the household has borrowed money by VBARD. VBP and PCF shares only under 10% for each, JSCB shares only 4 %.

###### c) Interest rate/Term for borrowing

It can be said that interest rate of VBP is low and borrowing term is also longer, and borrowing term of PCF is shorter than other institutions on the whole.

###### d) Mortgage/Guarantor

Although the number of household in Cham Thang commune is fewest, 26 households of 52

households (50%), over 70 percent of the household in other 5 communes answered that mortgage was required, especially in Phu Thanh commune, over 90 percent of people are asked for mortgage. The remarkable difference was seen by commune about the necessity of guarantor. In the Nanh Hoa commune, 50 household of 53 household (94%) answered that the guarantor was required for borrowing money, on the other hand, the number of the household which answered that the guarantor was required in the Phu Thanh commune was only 2 household (4%) of 55 household. Furthermore, it turns out that the rate asked for mortgage becomes high as the amount of money will become bigger. About a guarantor, on the other hand, the rate asked for guarantor become low as the amount of money will become bigger.

e) The amount of borrowing

The amount has a large difference by commune. It is Huong Lung commune that the amount of borrowing money is smallest (about 3.6 million VND/household) and it is about 1/3 level of that of Phu Thanh commune (about 10.1 million VND). There is some gap between the amount of household applied for and actually received for almost all the communes. Moreover, when seen by financial institution, there is largest gap between the amount of household applied for and actually received on the average amount of borrowed money from JSCB (2.5 million VND per household).

f) Purpose of borrowing money

An agricultural production purpose accounts for about 70 percent, and it turns out that it is overwhelming, and the purpose of consumption is about 30 percent. On the other hand, non-farm activity purpose occupies only 5%, very few. As for the agricultural production purpose, 65% of household borrowed money from VBARD, and 12% of household economy borrowed money from VBP. Majority of the household (80%) borrowed money from VBARD for the purpose of non-farm activity, and no household borrowed money from VBP. Although the share of PCF is slightly larger than that of other purpose, the VBARD accounts for 68% for the purpose of consumption. Over 30% of the loan use household borrowed money for the livestock purpose, and for rice, about 50 percent of the loan used household in Nanh Hoa borrowed money for this purpose, over 20% in the Huong Lung commune and the Phu Thanh commune. As for non-farm, compared with the agricultural production purpose, the amount of loan is larger. As for consumption purpose, the rate of the household borrowed money for the purpose of consumption in Nanh Hoa commune is very low (3.1%) compared to other 5 communes, on the other hand, many households of Cham Than (54.2%) and Puoc Loi commune (42.1%) borrowed money for the purpose of consumption, and there is difference by commune.

#### (4) Rural Credit and Mass Organization—Group Borrowing

It proved that there are 2 kinds of borrowing groups in this survey:

The first type of borrowing group (1) is established voluntarily by members to help development of economy of each other's called "supporting team" or "saving group for loans". The members in a group usually are "living closely together" so they know clearly each other and it is convenient for them to hold meeting. Each group has about 8- 10 members, usually set up by the members of women union according to the Vietnam Women Union program of credit saving.

The second type of borrowing group (2) is one which is established according to the VBP's need of capital management: The group structure is not sustainable because the group only exists during the lending campaign; as there is the maturity the group will break up; if a group member pays back the loan he/she can quit the group. The responsibility of the group leader is not high and there is not strong tie between the leader and the group members so some members are not willing to pay debt to VBPs, making VBPs hesitated in implementing these programs. Because the efficiency of this capital source is not high and the rate of overdue debts is high so some VBPs carry out the lending hesitated. Recently some VBPs turn a part of this financial source to lend to the first type of borrowing group.

#### (5) Issues for the Future

##### a) Households which can access but didn't

We asked the question "why you didn't borrow money?" for the households which have never borrowed money and "what is your concern about borrowing money" for every sampled household. 80% of household in Phuoc Loi, about 50% in Tan Phu Tay, and about 40% in Phu Thanh answered "I didn't need to borrow money" for the former question. Although there are households which need the loan but they cannot use it because of the reason for "interest rate is too high", "insufficient mortgage", or "I didn't know how to borrow money", there are also households which can access the loan but they do not use it in selected households. Taken it consideration into, the level of outreach of rural finance may be higher than the survey result.

For the latter question, it turned out that a large majority of household are holding the uneasiness to the situation which cannot be expected beforehand such as a uncertainty about the output because of natural calamity, disease, and/or others and uncertainty about the prices of product for borrowing money. It may be concerned with the fact that the share of agriculture income to total household income is higher than non-farm income in every 6 communes (please refer to chapter 1.4.2.1-Socio-economic characteristics of sampled households of 6 commune in the detailed survey report). Not only the increase in income but also lessening the anxiety associated with borrowing money should be well taken into consideration.

b) Non-farm household

The Survey asked the household to evaluate the loan (please refer to chapter 1.4.2.3 (7) in the detailed survey report). Although many households seems to be satisfied with the loan as a whole, it seems that they are not completely satisfied with each of the asked items (interest rate, amount, and term), especially not with the amount they borrowed. The amount loaned has much to do with the evaluation of the mortgage and the guarantor. In response to the interview with the non-farm household, the household head replied, “I wanted to borrow more money but I could not because I do not have the certificate for land-use-right (red book), but only have the certificate for ownership of house” The present condition of loan use of non-farm household is not extensively discussed in this study because not so many sampled households use the loan for non-farm activities. It is desirable that the financial state of non-farm households be studied in more detail in the further. In addition, data on savings should be collected in detail to understand more deeply the situation of rural finance in Viet Nam.

#### 4.1.5 Problems and Future Issues of Rural Financing in Vietnam

##### (1) Problems and Future Issues of Rural Financing Sector

In transforming itself toward to a market oriented economy, the economy of Vietnam achieved a high growth rate at an annual rate of 8 to 9 % during the 1990's. The effect of Asian economic crisis starting from the latter half of 1997 was relatively insignificant though the direct foreign investment reduced, and the economy resumed the growth at the annual rate of 6 to 7% from 2000. During the period, the agricultural production had steadily increased and diversification and commercialization of production developed, while in recent years the price of agricultural products declined and the increase in incomes of agriculture households and rural area stagnated. On the other hand, the Government has been actively tackling with the poverty reduction, particularly in rural area and the poverty incidence has reduced since 1993 from 26% to 11% in 2000 for a period of seven years<sup>69</sup>.

On the other hand, the hyperinflation and considerable depreciation of the Vietnamese currency from the late 1980's to the early 1990's considerably eroded the trust in the Vietnamese economy and currency. Thanks to the conservative economic management afterwards, the rate of inflation was constrained by a few percentage points annually, and the trust in the economy restored, as a result the national savings increased. While the savings was concentrated in urban area, particularly in the form of dollar deposits, which nevertheless contributed to expand the lending of financing institutions and led to the development of intermediary function of financing. As the indicator, the proportion of lending amount of banks to GDP shows an increase from 13% in 1990 to 27 % in 1995, and further to 44% in 2000<sup>70</sup>.

To enhance the role of rural financing in the economic development, it is important to create a competitive and efficient financing market. The financing market of Vietnam has been built in the course of transition toward a market-oriented economy in consolidating the relating institutions and systems. Regarding rural financing, after establishing the Vietnam Bank for Agriculture and Rural Development, the People's Credit Fund and the Vietnam Bank for the Poor were established respectively in 1993 and 1995. Meanwhile, the rural financing developed responding to the increasing demand for the fund mainly in the individual households. Deposits in rural financing institutions have also considerably increased in recent years. However, since the Bank for Agriculture and Rural Development is in an overwhelming position in the area of

---

<sup>69</sup> According to the poverty standard of the Government of Vietnam. In the same period, the poverty incidence in the international standard has reduced from 58% to 32%.

<sup>70</sup> Vietnam Development Report 2003.

rural financing with a broad branch network covering the whole country and takes place nearly 90% of total lending amount, the competitive situation is not necessary realized.

In order to enhance the efficiency of the financing sector, the Government of Vietnam has been carrying out the financing sector reform including the state owned commercial banks. One of the issues closely related to rural financing is the liberalization of interest rates. After abolishing the upper limit of deposit interest rates in 1996, then instead of abolishing the upper limit of lending interest rate, the “base interest rate” has been introduced which is set in August 2000, in considering the risk spread. Thus interest rates are basically liberalized so that individual financing institutions can set interest rates freely and in a timely manner. As shown in Figure 4, in fact little relationship between actual interest rates and the “base interest rates” is observed. The issue is, however, as the competition among banks becomes intense, the margin (spread) at banks is not fully secured as lending rates cannot be raised in parallel with deposit rates. It affects to reduce the profit of state owned commercial banks and hinders to strengthen their profit base. The State Bank sets the upper limit of lending rate for the People’s Credit Fund (1.35% per month). The lending rate of the Bank for the Poor is set at a lower rate than the market (0.5% per month). The rates of various policies financing are also determined at lower rates than in the market.

Next issue is the separation of policy financing from state owned commercial banks and securing independent management of these banks. The Bank for Agriculture and Rural Development has extended various policy loans such as sugar program, housing construction program in Mekong flooding area<sup>71</sup> and financing for natural disasters, which have generally a low recovery ratio and are supposed to comprise a considerable part of non-performing loans of the Bank. The Government is examining to establish a purchasing institution of non-performing loans for reducing those of state owned commercial banks. Since the financing to state owed enterprises is still undertaken, it is an important issue to strengthen the appraisal capacity of state owned commercial banks so as to avoid further accumulation of non-performing loans. Lending of the Bank for the Poor is determined by the local people’s committees and its implementation and recovery are made by the Bank for Agriculture and Rural Development, thus constitutes part of its debts. The Social Policy Bank is expected to separate these policy loans (non-commercial loans) from commercial banks so that they could improve their efficiency. In this aspect the establishment of the Social Policy Bank is expected to give a positive impact on the efficiency of the financing system.

---

<sup>71</sup> The on-stilt housing construction program in the Mekong flooding area was transformed to the Mekong Housing Development Bank in 1997.

## (2) Problems and Future Issues of Rural Financing Institutions

It needs to facilitate and to expand financing operations in responding to the ever-increasing demand of fund in future as the restructuring and diversification of agriculture would develop and the employment opportunities in rural area would increase. Since the loan utilization of the formal financing institutions as a whole have reached at a high level, it is more important in future to enhance the access of agricultural households in the area so far not reached, in considering at the same time the efficiency of financing institutions. Already, the Bank for Agriculture and Rural Development has been strengthening the number of mobile banks and the inter-communal branches as well as an expansion of borrowers groups in cooperation with such mass organizations as the Women's Union and Farmers' Union so as to bring those who have not accessed to its services while to reduce the financing cost. The raising of the upper limit of lending without collateral from 5 million VND to 10-30 million VND for individuals and 50 million VND for groups<sup>72</sup> also contributed to the expansion of outreach.

As stated earlier, the deposits from clients have been steadily increasing in both the Bank for Agriculture and Rural Development Bank and the People's Credit Fund, thus the lending to deposit ratio is declining. On the other hand, the competition for acquiring deposits among commercial banks is intense particularly in urban area so that a slight change in deposit interest rates affects the collection of deposits. The Bank for Agriculture and Rural Development has maintained a relatively high lending to deposit ratio as a whole by appropriating the money collected by the branches in the urban area to those in rural area (Table 7). It is therefore urgently required to expand the collection of savings in rural area. Regarding the People's Credit Fund, the fund shortage is replenished by the Central People's Credit Fund, which as the sources of the fund depends on deposits in urban area and Official Development Assistance. Since the borrowing of the whole PCF-CCF system from the State Bank has been declining, the system may be considered to improve the sustainability as financing institutions.

Medium and long term loans has been rapidly expanding as far as the Bank for Agriculture and Rural Development is concerned and at the end of 2002 they take place 43% of the total outstanding lending amount. Lift of the using limit of the fund of short-term deposits to medium and long term loans up to 35% contributed to the expansion.

The average length of lending is one and half year even though being classified as medium and

---

<sup>72</sup> In addition, up to 20 million VND and 50 million VND of non-collateral loans are respectively provided to the "farm" managers and the construction of aquaculture seedling facilities.



long term loans, which is not sufficient for meeting the need for facilities and machinery with a longer period of depreciation. Most of the deposits of the People's Credit Fund are the period of less than 6 months seldom over one year, accordingly the proportion of medium and long-term lending is still low.

In this connection, the Official Development Assistance Fund is considered to be a significant source of funds for medium and long-term loans. Actually, loan fund from the Asian Development Bank is lent from the Central people's Credit Fund to People's Credit Fund through the State Bank in the conditions of 0.75% per month with 5 year grace period, and the fund from the World Bank through a wholesale bank is lent to the participating financing institutions in the conditions of 5 year grace and 20 year repayment periods. Therefore, these funds are the important source for medium and long term lending to these financial institutions.

In Chapter 3 of Annex Report on Rural Financing, the financial situation of three financing institutions is analyzed on the basis of relevant data and indicators. Together with this analysis, problems and future issues of rural financing institutions are summarized as bellow:

a) Bank for Agriculture and Rural Development:

- In view of the profit ratio to the total assets, a relatively good profitability is obtained. On the other hand a considerable amount of non-performing loans may exist, thus an increasing effort is required to improve the profitability.
- While some signs of improvement like the decline in lending to deposit ratio are appearing, it needs to strengthen the own capital while disposing the non-performing loans.
- In addition, such issues as disposal of frozen loans, disposal of subsidies extended under the policy lending, capacity building of staff, staff reduction and merges of branches are to be addressed.
- Since the utilization ratio of lending (the figure of lending account numbers divided by total number of households) has reached at a relatively high level in the country as a whole, the Bank can concentrate its effort to expand the lending outreach to rural area far from branches. This could be achieved by means of expanding mobile banks and lending groups, provided the cost is justified from the accruing benefit. At the same time, provision of technical assistance to borrowing groups of such as agricultural production, processing and marketing may be worthwhile to be considered.
- Collection of the Fund of medium and long-term needs to reinforced by such means as medium and long term deposits, issuing of bond, development of new deposit products and strengthening savings mobilization campaign.

- A further effort to mobilize the savings in rural areas would be considered. Specifically, it may be useful to widen the difference of interest rates between short-term deposit and medium and long-term deposit (at present around 0.07% between six month and two year deposits).
- b) People's Credit Fund and Central People's Credit Fund:
- The People's Credit Fund, in considering the borrowing from Central People's Credit Fund, procures almost all fund within the system, thus is regarded to maintain the soundness from financial point of view. From the aspect of expansion of operational basis, the increase in the number of Fund would be considered. However it not only requires a considerable amount of fixed cost, but also meets the criteria that the State Bank imposes on new establishment of Fund, which altogether may restrain its rapid expansion.
  - Regarding the Central People's Credit Fund, the profitability indicator is at an average level yet the operation cost is too high which should be reduced. While the lending to deposit ratio is rapidly declining, it is still at a high level indicating an unsound financial structure.
  - It also needs to collect an increasing amount of medium and long-term fund by various means, while at the same to raise the ratio of utilizing the short term fund to medium and long term lending.
- c) Bank for Social Policies (Former Bank for the Poor):
- In view of the negative interest rate structure, in which deposit rate exceeds lending rate, and the increasing trend of government subsidies, the sustainability issue as a financing institution persists.
  - Profit ratio to total asset is so low that the institution should reduce the operational cost to enhance the profitability.
  - Selection criteria of the target poor subject to loans are not uniform among localities.
  - In starting a new policy bank, many issues need to be resolved such as training of staff and others. It needs also to examine the advantages and the disadvantages of setting the number of branches and entrusting the operation to other institutions.

### (3) Problems and Future Issues of Micro-financing Organizations and Institutions

The Law on Credit Institutions stipulates the credit institutions and banks<sup>73</sup>, and the conditions

---

<sup>73</sup> Credit institution means an enterprise for the purposes of conducting currency business and providing banking services, of which the principal activities are receipt of deposits and use of such deposits to provide loans and payment services. Bank means a form of credit institution permitted to conduct all banking operations and other

of issuing the operating licenses of credit and banking operations. As stated earlier, however, most of such organizations and institutions as mass organizations, NGOs and agricultural cooperatives carry out credit operations without obtaining licenses under the Law. Accordingly due to unspecified rights and obligations in the activities, the expansion is often hindered. An initiative is being taken to provide a legal framework to the micro-financing organizations and institutions so as to secure their sound management in the legal framework, thus to promote the micro-financing activities. In fact, a draft Decree “Regulating Micro-financing Activities and Micro-financing Institutions in Vietnam” is under discussion.

Although micro-financing activities of NGOs are currently limited, the quality of services is considered fairly high. Further since many NGOs combine the activities of new technology, knowledge and education with credit provision, the effect to social development like poverty reduction and improvement of living conditions would be significant.

Following issues are raised in respect to micro-financing:

- The legal framework of micro-financing should be prepared so as to facilitate organizations and institutions to enter into and expand micro-finance activities.
- In order to promote the participation of NGOs into micro-finance activities and to facilitate their use as agents by formal financing institutions, the financial soundness and operational capacities of NGOs need to be enhanced. In this connection, establishment of a micro-financing association and its assistance of capacity building would be considered.

Credit activity of agricultural cooperatives basically needs to be proceeded depending on the conditions of individual agricultural cooperatives. To this effect, an institutional framework so as that a cooperative can easily start the activity should be prepared, and the initial capital and know-how for initiating credit activity are to be provided. Yet in view of the prevailing situation, it may be more promising that an agricultural cooperative formulates projects including production, input purchase and product marketing and lends the money borrowed from formal financing institutions as an intermediary to the agricultural households participating in the projects.

---

related business operations.

#### 4.1.6 Japanese Experiences in Institutional Credit (For Reference)

In the “Japanese Experience (Reference)”, the agricultural land policies, improvement of irrigation and drainage , structural improvements in agriculture, rural development and other projects and measures taken during the agricultural land reforms in the post-war recovery and period of increase in food production and period of rapid and stable economic growth to enhance the productivity and incomes in the agricultural sector and the funding needed in the implementation, i.e. the system of subsidies and system finance have been described.

##### (1) Agricultural Land Reform and the Birth of Agricultural System Finance

###### a) Agricultural Land Reform and the Creation of Agricultural Cooperatives

In the Agricultural Land Reform that began in 1947 and completed in 1950, almost 80% of the former tenant farmland was transformed into owned farmland resulting in 90.6% of total cultivated land into owned farmland and 62% of all farming households becoming landed farm households reversing the pattern of farm ownership (Land Ownership System) that prevailed before the war. By the Agricultural Land Reform, the fruits of the enhanced productive capacity reverted to the hands of the cultivating farmers but the Agricultural Land Reform that effected such redistribution of assets and income revolutionized the post-war agricultural structure.

Another change that took place was the rebirth of Agricultural Societies and other agricultural organizations, which increasingly became institutions for control during the war into “Agricultural Cooperatives (hereinafter referred to as “Coops”)” under the Agricultural Cooperative Law, which was enacted in 1947 in which the establishment and enrolment were free. This signified the birth of an institution that took on the role bearing the burden for both industry (albeit almost entirely farming) and finance (credit extension businesses) in the rural areas. That is to say, by the Agricultural Organization Preparation Law, which was enacted at the same time, 10,721 municipal agricultural societies, 144,596 farming unions, 34,450 sericulture associations were dissolved by statute, while 22,119 unit Coops were approved and established.

###### b) Agricultural Land Reform and Agricultural Finance

Agricultural Land Reform also brought about dramatic transformation of the agricultural finance. One of the primary effects of the Agricultural Land Reform was the exclusion of financing by specialized banks using farmland as collateral. The Agricultural Land Law did not legally proscribe lending of funds against farmland collateral. The liquidity of farmland was eliminated. This is because the Agricultural Land Reform prohibited acquisition of farmland for

purposes other than farming the land. Thus, this effectively closed the avenues for private sector banks to alleviate their financial risks by taking farmland as collateral. Since then, even through today, private sector financial institutions other than those that specialized in agriculture (cooperative related financial institutions referred to above) have been conspicuously absent from the agricultural financing field.

Agricultural Land Reform also had material effect upon agricultural funds (funds for seeds, fertilizers and feeds). With the Agricultural Land Reform, the Landlord System collapsed and under the wartime controlled economy, the power of rice and feed merchants lost much of their influence. With the providers of short-term farming funds now non-existent, all demand for farming funds were concentrated upon the newly born Coop Affiliated financial institutions.

For several years following the end of the World War II, increased food production was a national issue with an absolute importance, but in order to meet the needs, it was necessary to provide in volume medium and long term funding as well as short term farming funds and yet at low rates of interest. However, with the elimination of financing based upon real estate collateral, the lack of capital on the part of farmers who had just been able to become landed farmer and the newly born Coops also deficient in funds, by necessity the reliance upon the role of the government and policy financing particularly in the area of agricultural finance expanded.

c) Establishment of Agriculture, Forestry, and Fisheries Finance Corporation

With the Peace Treaty taking effect on April 28 1952, Japan regained its independence and the core of the then government's policies were on the establishment of economic autonomy and within this, as a basic foundation, the need for enhanced food production to increase the degree of self-sufficiency in food was further heightened. At that time it was projected that each year long term funding totaling some 40 billion was needed to finance projects including the 5-Year Food Production Increase Plan, 10-Year Husbandry Promotion Plan, 5-Year Sericulture Promotion Plan, 10-Year Forestation Plan, Fishing Port Maintenance Plan and Domestic Salt Production Expansion Plan. In order to adequately and smoothly meet such massive demand for funding, in 1953 the Agriculture, Forestry, and Fisheries Finance Corporation was newly established.

Further, in May of 1956 the Agricultural Improvement Fund Assistance Law as enacted establishing Agricultural Improvement Funding System to provided necessary financing for improvements, creation, and acquisition of technology and agricultural facilities by the farmers. In addition, in March of 1961 the Agricultural Modernization Funding Assistance Law was enacted establishing the Agriculture Modernization Funding System with the objective of

achieving enhancements of capital equipment of farmers and modernization of farm management through the use of funds from the Coop Affiliated financial institutions whose capital positions have been enhanced over the years.

At this stage, the 3 long-time pillars for the agricultural financing system were established:

- AFC funds for which the country's fiscal funds formed the funding base,
- Agricultural Improvement Funds whose funding is from fiscal funds from the prefectures, and
- Agricultural Modernization Fund whose funding is based on Coop Affiliated funding

## (2) Land Improvement Projects and the Structure of Agricultural System Financing

### a) Nature of Japan's Land Improvement Projects

In the rural Japan, which is principally rice paddies, residential dwellings are clustered in the villages and each small-scale farming household cultivated land that were owned and dispersed in area surrounding the village. It did not present a situation that facilitated "modern agriculture" that relied on introduction of large-scale machinery. In order to overcome such handicap, it was necessary to devise a means to transfer rights to amalgamate farmland into the hand of the cultivating farmer. Land improvement projects with the objective of changing the shape and essence of land plots were vital

Another vital characteristic was the issue of irrigation. Although the issue of irrigation rights may not appear to be as prominent as ownership, in the context of land improvements in Japan, it played an extremely vital role. Issues dealing with water from building a reservoir, building trunk and arterial waterways, ditches, water feed to the fields and paddies demonstrates the public interest aspects of how the land improvement projects depend upon the cooperative and collective works at every level of the community. The fruits of public capital investments, although varying in the degrees, each individual farmer whose owned land directly and exclusively receives benefits must also bear the cost for such benefits received.

The evolution of a project structure combining the prefecture and groups where, for projects adopted based on request from beneficiaries, the country and the prefectures provide assistance through subsidies while providing system financing in order for the beneficiaries to fund their share of financing of the project is a major contributing factor for the dramatic progress made in land improvements in Japan. The Cost Bearing Method (Fund Supply Method) utilized for this is quite simple as described below:

- In the case of government assisted projects – subsidies + beneficiary burden (system finance + own capital)

- In the case of non-government assisted projects – system finance + own capital

b) Establishment of Land Improvement Law

In June 1949, as the Agricultural Land Reform neared a plateau, the Land Improvement Law was enacted. This established the legal foundations for the land improvement projects and possessed the following features:

- i) It provided the legal backing to national, prefecture and organizations as the project sponsors
- ii) It eliminated the Cultivation Land Planning Union and Ordinary Water Irrigation Unions and unified them into Land Improvement District
- iii) Membership of the Land Improvement District was defined to be, in principle, cultivating farmers and defined its foundations to be made up of landed farmers that were created out of the Agricultural Land Reforms from that centered on Landowners
- iv) It provided for that the Land Improvement Projects are to be based on application from the beneficiary
- v) It also provide that the levies are enforceable

c) Structure of the Land Improvement Project

i) Land Improvement Projects based on the Law

Land Improvement Project is a project that improves, develops, preserves and collectivize owned land based upon the initiative from related farming households in the beneficiary districts (in practice by signature and seal impression on the consent form in the project application) and the benefits of the project reverts to individuals. Therefore, it possesses the personal aspects of the costs for the projects being borne by the beneficiaries. From public aspects, as commented upon earlier, because of the physical nature of the projects, projects that address only some of the farming households cannot produce adequate benefits and it is necessary for the projects to be implemented collectively by many households; therefore, a public bearing of part of the project funding is provided for in the structure. In addition, in order to ensure the smooth implementation, rather than requiring unanimity, only a two-thirds majority consent is required for the implementation and provide for enforceability upon all households for their respective portion of the burden

ii) Project Principal as Provided for in the Law

The principal of the project is, by definition, the Land Improvement District. An organizationally run project implemented by an organization, the Land Improvement District, is the basis of the Land Improvement Project. Based on this principle, for large-scale projects (extent of beneficiary acreage & households, expanse of the basin, overlapping irrigation rights,

etc), or projects requiring sophisticated technology, a structure has been provided to have such projects implemented as national or prefecture projects based upon application. In addition, for smaller scale projects, it is also provided for in the Law that organizations other than the Land Improvement District can also become a project principal. That is to say, in addition to the Land Improvement District described above, three types of groups are recognized as qualified as eligible project principals: A: Agricultural Cooperatives, Association of Agricultural Cooperatives, agricultural land ownership rationalization corporations; B: municipalities; C: parties who possess qualifications to participate (Article 3) (referred to as cooperative undertaking).

iii) Non-government assisted Funding (Interest Relief Target Project Loans)

Land improvement projects that are not subject to subsidies from the countries are referred to as “Non-Government assisted Land Improvement Project” and as the nomenclature suggests, the project is one financed by loans and own capital. All group project and financed portion that relied on borrowing had depended mostly on the Agriculture, Forestry, and Fisheries Finance Corporation (hereinafter “AFC”) funding.

The interest rate applied to non-government assisted projects were fixed at 5.0% per annum, as compared to 6.5% interest rate (the same rate as the cost of funding) and since the founding of the AFC in 1953, loans comparable amount of loans as loans to government assisted projects have been undertaken but since 1958, for part of non-government assisted projects through interest reduction, a low interest loans at 3.5% interest rate have been extended. Since 1958, projects that were target for the non-government assisted interest rate relief qualified projects covered almost all of the land improvement projects near the farming households and the loan extensions increased as easy to access funding source.

d) Scheme for the Lending to the Organization Run Projects

The principals for the organization run projects are land Improvement District, Coop, municipality or joint undertaking but the AFC loan is not necessarily extended to the project principal as the “Borrower”. The loans are classified (i) by the fund users as project principal and borrowing principal, (ii) by lending method, either direct or agent lending, (iii) the obligors into primary obligors and end obligors (On-lending method and non-on-lending method) with a further classification of (iv) evaluation of requirements that need to be fulfilled from a policy perspective (requirement review) and evaluation from a financial risk perspective (management review). These form the features of AFC funding. This is the prerequisite for the joint working among the administrative agencies, Land Improvement District, Coop Affiliated financial institutions, and the AFC.



(3) Agriculture Structural Improvements and Establishment of Agricultural System Financing

a) Enactment of Basic Law for Agriculture and Structural Improvement Projects

1955 was a year for a bumper rice crop producing a total of 12.38 million tons of (brown rice). This had greatly ameliorated the demand and supply conditions for food. It made possible the transition from the increase in production of food to a period of being able to be selective of foodstuffs. On the other hand, with the rapidly expanding economy and the increased level of national income, exodus of workers from the farming sector into other sectors had begun. Ability to rely on livestock and human power in farming was fast approaching its limits.

From the late 1950's, the agricultural sector began to see dramatic improvements in agricultural technology and major increase in the physical inputs into farming, associated with such technological advances, including agricultural equipment, agricultural chemicals, fertilizers and feeds. In spite of the expansion in agricultural production, the farmers saw their increase in the agricultural incomes decline. There was also the abnormally rapid development in the non-agricultural sectors and the income gap between the agricultural and non-agricultural sectors continue to deteriorate each year and it had become obvious that the development of farming faced an obstacle of fragmentation of farm management. Farming households found jobs in developing non-farming industries (including migrant work) and increased their dependence on dual employment. The phrase, "the turning corner for agriculture" very aptly describes the situation that existed in the agriculture.

As a way to breakthrough this, in May of 1960 the "Basic Issues Facing Agriculture and Basic Measures" was submitted to the government and as a means to realize this the Basic Laws for Agriculture was enacted (promulgated and implemented on June 12 1961). The Basic Law for Agriculture had as its objectives expansion of income to enable the farming workers to enjoy equal level of life as workers in other industries by improving agricultural productivity to correct the productivity gap that existed between agriculture and other industries. The Law provided that the items below "must be adopted comprehensively".

- i) Selective expansion of agricultural production
  - increase production of agricultural produce which are expected to increase in demand
  - switch out of agricultural products whose demand is expected to decline
  - rationalization of production of agricultural products that are in a competitive relationship with foreign agricultural products
- ii) Improve Agricultural Productivity and Expand the Agricultural Gross Production

- Effective utilization and development in agricultural usage of land and water resources
- Rising the technology levels in agriculture
- iii) Achieve Expansion in the Scale of Farm Management, Collectivization of Farmland, Introduction of Livestock, Mechanization, and Other Measures to Rationalize Farmland Ownership and Modernization of Farm management (collectively referred to as “Agricultural Structural Improvements”)
- iv) Rationalization of Physical Distribution of Agricultural Products, Promotion of Food Processing and Expansion of Demand
- v) Stability of Prices for Agricultural Products in order to Correct the Disadvantages in the Production Conditions and Terms of Trade for Agriculture and Securing of Farming Income
- vi) Production and Rationalization of Physical Distribution of Farming Materials and Achieve Price Stability
- vii) Development of Human Resources Capable of Performing Modern Farm Management
- viii) Establishment and Maintenance of Transportation, Sanitation and Cultural Environment in the Rural areas, Improvements in Living and Rationalization of Female Labor to Improve the Level of Welfare of Farm Workers

In this way, “structural improvement districts”, “undertaking items” and “undertaking period” were specified and within the scheme the “Agricultural Structural Improvement Undertaking Promotion Measures” to prepare “necessary conditions for the structural improvements in agriculture” were begun to be implemented and continued to be implemented over the next 41 years.

b) Establishment of the Comprehensive Funding System

Agricultural Structural Improvements had been initiated but the development of autonomous farm management, the essence of the structural improvements did not experience a smooth beginning. As a result, from October 1968, the “Comprehensive Funding System” was established to foster autonomous management for management of individual farms.

The concept of autonomous management is defined in Article 15 of the Basic Law for Agriculture but the practical issue was the realization of the concept into practice. In the operation of the system, the governors of the prefectures established various indices as targets to be achieved in the medium to long term of 5 – 10 years. These included: (i) level of farming income, (ii) scale of management unit that serves as the mainstay for each standard management form and (iii) standard level of capital equipment. At the time of the start of the program, the target levels of management scale were as shown in the following table.

Type	Scale of Principal Business		Target Year for Achievement (roughly)
Rice Cultivation	Paddy	3.5 - 4.5 ha	5 years
Vegetables	Green House	40 - 50 a	5
Mandarin Oranges	Orchard	2.0 - 2.5 ha	10
Apples	Orchard	3.0 - 3.5 ha	10
Dairy	Multipara Cow	13 – 15 heads	8
Hog Raising	Hogs (full-time raising)	220 – 270 heads	5
Poultry Farming	Number of poultry raised	4,000 - 5,000	5
Sericulture	Mulberry Field	2.0 - 2.2 ha	7

#### (4) Rural Building and Role of Agriculture System Financing

Takes another look at the “Undertaking and System” commented upon in 1 – 3 above, from the perspective of “Village Building”.

##### a) Coop and Common Facility Funding

Cases have appeared where the Coop takes a hand in the processing and distribution of agricultural products within its district or where the farmers themselves form a group to undertake farm processing. Common Facility Funding is the fund supplied for the facilities that become the nucleus of such activities. The eligible items under the financing were varied and included:

- Agricultural Facilities: farm storage facilities, fertilizer warehouses, agricultural equipment
- Live Stock Facilities: Dairy facilities, livestock artificial insemination facilities, meat processing facilities, livestock market facilities, feed production facilities, livestock medical facilities, other
- Electrification Facilities: small thermal or hydro electrical generation facilities, receiving stations
- Coop Hospital Facilities: Hospital wards, treatment wards, catering facilities, medical machinery, and equipment

- Other Common Facility Funding: rural industry, joint prevention facilities, sorting stations, collection stations, storage and sales facilities

(Note) Loans for rural industries include loans for manufacture of starch, rice, and wheat milling, flour production, soybean paste and soy sauce manufacturing, fruit processing, tea manufacturing among others. Among other eligible items are tomato ketchup, fruit juice, canning, and juice all of which develop into food product industries and also include farming machinery and equipment, propane filling, material warehouse and many other items.

b) Village Building Nature of the Agriculture Structural Improvement Undertakings

The agricultural structural improvement undertakings are undertakings that have been promoted as part of the country's policies, but beginnings for the demand for the projects can be found in the disparate desires of individual farmers. Some of these may include desire to expand farmland, improve irrigation, desire to acquire cultivation machinery, desire for agricultural facilities, etc, These desires were not those that called for improvements in productivity or gain international competitiveness but because these were undertakings to create the village that could only have been done as a collective forced the municipal authorities to take action The farmlands owned individually by the farming households were fragmented. Irrigation facilities were not for use by a single farming household and no individual household in isolation could realize the functionality of installing the machinery.

In this scenario a coordinator to bring together the individual and groups, plan formulation and execution of the undertaking and maintenance after construction are needed and this role would be filled by the municipal assembly and municipal hall (administration). As the municipal offices needed to fulfill the role of the coordinator, the plan principal became the municipality and the Coop, Land Improvement District, and voluntary associations (group of farm households) took on the role of being the principals for the undertaking to promote the agricultural structural improvement undertakings. Increase in the size of a farming plot, collectivization of farmlands and improved farm roads were all attractive results.

Consequently, the hours worked in rice production was reduced from 141 hours per 10 Ares worked in 1965 to 40 hours by 1993. This brought about some leeway to pursue other businesses and poverty was stricken out of the rural areas. At the same time, horses and oxen for farm work disappeared and human labor were also reduced and "non-farm work" that existed in farming villages such as breeding place, blacksmith, farm implement shop, veterinarian, bamboo workshop, carpenter, plasterer, furniture maker, rice miller, lumber mill were also eliminated. Agriculture structural improvement undertaking affects also the businesses of non-farmers in the rural villages and in addition to being an economic undertaking, it was also village building.

## **4.2 MARKETING AND AGRICULTURAL ORGANIZATIONS**

### **4.2.1 Present Situation**

#### **(1) Marketing System**

##### **a) Horticultural Crops**

The economic reform process of Vietnam has stimulated fruit and vegetable productions. The dominant marketing channels of vegetables and fruits are through wholesale markets in urban areas, retail markets in local towns and suburbs, and small markets in rural areas of the commune levels. However, the market infrastructure has not been improved yet, and the farmers and agricultural cooperatives are facing the issues of post-harvest losses and loose marketing opportunities.

Regarding the transactions for farmers with processing and export enterprises, the government has promoted the contract farming. But the processing enterprises need the stable quality and volume of the products. In order to achieve it, huge efforts of extension of cultivating techniques and provision of seeds and seedling are required. The contract farming is a new approach for most of farmers

The fresh vegetables and fruits in domestic markets are traded freely. For the distribution of processing for export, the state owned enterprises have strong networks with the former state farms and provincial foodstuff enterprises. As well, the provincial and city owned companies are mainly located in the south and produce frozen vegetables/fruits and bottled mushrooms. The large-scale private companies have been established, and have the specific clients in exporting countries and concentrate the specific products.

The small-scale processing in rural areas becomes an important cash income sources. In some areas, there are the specialty products such as foods and cakes using beans, sesames, groundnuts with sticky rice, etc. The household-based processing for tofu, dried tomatoes, dried mandarins, dried medical herbs and roasted green tea also can be observed. The leading agricultural cooperatives have started to process bottling products of cucumbers/ baby corns, fried chips of potatoes/ banana, dried mango, durian cakes, etc.

##### **b) Livestock Products**

The production of livestock products is rapidly increasing by individual farmers. Backyard animal husbandry is commonly found in rural area. The farmers are breeding pigs, chickens, hen, buffaloes and cattle. Small-scale pig raising is also popularly extended in the streamline

of the diversification policy. The farmers are using animal feeds of the manufacturer even in small scale. The many commercial farmers have been transferred the raising techniques from the private companies such as CP Vietnam Co. Ltd., and produce pigs, broiler chickens and eggs.

The meat processing is done by the state owned companies such as Amimex Group and Vinalivesco Group, which companies were used to export to Russia. Now they explore to export to China, Hong Kong and Singapore. Regarding to the animal feeds, the foreign companies enter to the Vietnamese market accordingly increase of domestic demands by farmers. Feed compounding plants have been invested and operated by CP Vietnam from Thailand, Proconco from France and Cargill from USA. In the regions of South West and Mekong Delta, the private medium-scale feed companies are growing. The feed production by the private sector is exceeding to 95% (MARD information).

## (2) Market Facilities

In order to reform marketing system for agricultural products and improve market facilities and operation, the State proclaimed the market facilities of planning/ investment/construction and establishment of market management boards. The major roles of planning and implementing of wholesale markets are given to provincial and central city people's committees. The Ministry of Trade (MOT) has prime responsibility in the central government to improve institutional frames. MOT should examine the construction and investment plans submitted by the provincial/ city people's committees and coordinate the related agencies such as MPI and MARD.

The implementing agencies are appointed by the people's committees or through bidding companies, and they order to contractors. The agency should establish 'Market Management Board' and contract for use right at decided duration or lease of plots with marketers such as wholesalers and retailers. It is also focused that the small-scale producers, traders and vendors should be provided the transacting places. In markets construction plans, the social/economical weak clusters of people should be paid attentions.

The numbers of markets are accounted for 8,231, which rapidly increases at 2.3 times comparing with 3,556 markets in 1993. The permanent markets, which have solid structures, are 957 markets (11.6%), but the distribution is lower investment for market facilities in the regions of Red River Delta at 6.7%, North Central Coast at 8.4% and North West at 9.3% and the temporary markets and open markets are accounted for 4,666 markets or 56.8% in whole country.

The ratio of establishment of market management boards is exceeding only to 55% in the planned markets, and the members of the board are accounted for 17,645 persons. Most of the market management boards are non-profit organizations and rarely operated by Veterans Association or Market Management Companies. The urban markets cannot absorb all traders, thus the spontaneous markets are excising at 25%. In these markets, the issues of food hygiene and safety of labors cannot secure because of absence of market management boards.

### (3) Farmers' Groups and Agricultural Cooperatives

Under the direction of Doi Moi Policy, the Law on Cooperatives was enforced in January 1997. The Law is aimed to transfer and develop from the collective agricultural production units (the former cooperatives) to the agricultural cooperatives, which should be formed own decision-making organization in order to support economic activities of individual farmers' households such as production, processing and marketing. Furthermore, the Model Statute of Agricultural Cooperative is enforced in April 1997 for more detailed definitions of cooperative operations.

For the registration into the new agricultural cooperatives, it is necessary to refund the debts on goods purchase and from banks, or complete to re-confirm the debtors during the former cooperatives. The reality in production plan noted in the registration application form affects the process of approval. However, the debts of cooperatives are refunding and transferring and the numbers of the registered agricultural cooperatives has slightly increased since 2000.

As the right of participation and withdraw from cooperatives is guaranteed by the Statute, the cooperatives will be collapsed if there is no advantage on membership. In this area, it is expected that the economical conditions may become worse and be caught in a vicious spiral of poverty. Most of agricultural cooperatives monitored by MARD provide input services, which are including rural infrastructure works. The agricultural cooperatives provide services, of which 84% for irrigation and drainage and 77% for joint-purchase of agricultural inputs. 54% of the agricultural cooperatives provide services of rural electrification, install transformers, transmission cables and Watt-hour meters using the funds of district people's committees, and collect fees from individuals. The leading cooperatives also provide services of piped water. Thus, the agricultural cooperatives in Vietnam have significant roles in infrastructure development and management supporting livelihoods in rural areas.

The processing and transport services by agricultural cooperatives have been started. Most of agricultural cooperatives do not possess appropriate technologies for processing and funds to

construct processing facilities and purchase transporting vehicles, so that the funding for processing can be one of key factor to reinforce activities of agricultural cooperatives and farmers' groups. The agricultural processing including handicrafts production creates job opportunities in rural areas. Therefore, development of the marketing channels, sales methods and partners to provide customers' demands/ specifications should be the most significant activities for agricultural cooperatives including not-registered farmers' groups.

Since enforcement of the Law on Cooperative in 1997, the mode of transaction and marketing channel have been diversified for agricultural products. In Decree No.80/2000, the State promotes contract farming with processors, wholesalers and other buyers.

#### 4.2.2 Overview of Marketing and Agricultural Organizations

##### (1) Farmers Groups and Agricultural Cooperatives

The development stages of agricultural cooperatives in Vietnam can be simplified as from infrastructure services and joint purchase to joint commodity development and joint marketing with credit services. Currently, the leading agricultural cooperatives have started to have business visions, especially in joint marketing, and also have intension to develop their original products in contract basis.

An idea of what the new agricultural cooperatives ought to be stipulated in the Law of Cooperative is 'initiative participation', 'mutual profits generation' and 'democratic management'. This is reflected on the past lessons of unsustainable management of the former collective cooperatives due to compulsion to be organized by the central decision, and the production unit is given to farmer's household. The agricultural cooperative has the objective to achieve upgrading of living standard. In the communes, where have been disorganized the former cooperative system, the individual farmers produce and sell freely in their responsibility, but some farmers form the production groups in self-initiative participation for the specific product(s) and register as an agricultural cooperative. This phenomenon is found particularly in the Mekong Delta.

Among an idea of the agricultural cooperative, the 'mutual profits generation' should be secured for the sustainable operation. For that, it is necessary that the supports should be extended corresponding to requests from agricultural cooperatives or farmers' groups in self-reliance and their relevance. The commercial farmers in the agricultural cooperatives also spread to other cooperative members in technically and economically and create job opportunities for landless farmers or women.



Vietnamese farmers react the prices of agricultural products sensitively. Under the free and noninterference policy, if the prices were higher for the period, the farmers for same crops appear in the wide areas and the products flood in the markets with the sharp decline of the prices. Vietnam experienced the serious constrains for robusta coffee, latex rubber, rice and litchi in recent years. In the globalization of the commodities distribution, it is very difficult to solve to secure the profits in the individual levels. Therefore, agricultural cooperatives or farmers' groups should survey the clients or marketplaces themselves, and look for the way to joint marketing.

Consequently, it is necessary to support for the capacity building of the leaders of agricultural cooperatives/ farmers' groups and commercial farmers and technical assistance in commodity development for income generation of the farmers. These programs should be tackled in long-term basis and flexibly with consideration for the next generation in the commune.

## (2) Market Infrastructure

As the results of the liberalization of domestic marketing with renovation of land use right for farmers and increase/change of food consumption in urban people, individual farmers and agricultural cooperatives have the opportunities to sell their products. Since the market infrastructure has not been improved totally, the principal functions of the market on efficient forwarding and suitable pricing cannot achieve because of insufficient space to absorb traders/vendors and products and restriction of transacting time. The improvement of wholesale markets would be one of the important targets for restructuring and diversification of agriculture.

Regarding the markets to urban consumers, the City People's Committees have prepared the improvement plans; new 9 medium-scale wholesale markets to disperse the current 4 wholesale markets in Ha Noi, and new 3 large-scale wholesale markets in Ho Chi Minh City. These wholesale markets will have the role of re-distribution terminals to retail markets in neighboring provinces. The installation of logistic terminals of agricultural products can be positioned as a part of urban planning with improvement of circulating roads. By the plans, the expansion of the market zone to suburbs and neighboring provinces and distribution of agricultural produce would create good circumstance of accessibility to the markets for the farmers and traders, and promote the competition among production areas. However, the investment opportunities for construction and management of wholesale markets are limited for private sector, because the projects cannot generally create the large profits.

The wholesale markets in major producing areas have the functions to stabilize the prices of

agricultural products and establish the evaluation system for quality. For fruits, the Litchi is targeted due to relatively higher prices and huge fluctuation. The market is aimed to alleviate the price fluctuation by means of preservation in temperature/ humidity controlled cold storage and adjustment of forwarding volume, and to avoid excessive interference by middlemen. However, there is a possibility that the installation of joint use marketing centers at level of an agricultural cooperative or a federation of agricultural cooperatives in closed distance would be more feasible. Since the crops of paddy, coffee, green tea and rubber latex can be preserve for longer periods, there is time to call buyers. There is possibility to improve as auction markets for these crops, but more studies are required.

The improvement of rural markets is still low. Most of farmers and agricultural cooperatives do not possess the transportation means except motorcycles, and wish to sell the products nearby villages as much as possible. It is very much meaningful to develop rural markets for the opportunities of cash income generation.

#### 4.2.3 Experiences in Japan

##### (1) One Village One Product Movement

‘One village, one product movement’ was originally launched in 1979 by the initiative of Governor of Oita prefecture in southwestern part of Japan. In order to activate the community, the movement aimed to create unique and high-value products, which is oriented to the world market, with making the most of local peculiarity and local resources including human resources. People started promotion of mostly agricultural products and have successfully developed their business to be profitable.

The history of ‘one village one product movement’ is the history of try and error. There are roughly three main stages in the development history of the movement such as finding the best of product, which is suitable to be produced in the villages, finding the products demanded from the market, and building up capacity of the people in the villages. The original idea was introduced from Ohyama Village Agricultural Cooperative, which is isolated from the major markets of Tokyo and Osaka, and limited in agricultural lands of 0.4ha per household. The chief of the cooperative advised to the Study Team and Vietnamese farmers as follows: -

- a) The harvesting should be considered as all year around to alleviate huge works for farmers.
- b) The products should be market-oriented, and we should investigate markets ourselves by face-to-face communication with the buyers.
- c) To avoid price fluctuation of products, the cooperative should look for the processing commodities. But the products should be diversified, because many people will copy

business models.

- d) Quality control is important to have reliability with clients.
- e) Lead farmers in the area should transfer to other farmers to have scale merits and to reinforce the community power.

As the role of local government, 'one village one product movement' aims to enhance peoples' independency and creativity as well as to foster human resource. Therefore, people in the community are much expected to play main role of the movement. The local government, on the other hand, is supposed to support the activities of the people beside. Accordingly, to provide technical assistance and foster the leaders, the local government established the research/training centers, and arranged the seminars calling success businessmen and meetings of passionate leaders in villages. Consequently, the networks among leaders have conducted to marketing consultation, creation of commodity development in designs/processing techniques/taste, competition affecting each other, receiving of timely/effective information of government services, and traditional festivals calling clients from outsides.

## (2) Roadside Station Program

'Roadside Station' programs have started in 1993 in Japan to prepare spaces and occasions for passengers so as to support proper road transportation. Accordingly, the Roadside Station has three main functions such as 'resting place' for drivers; 'information center' for road user and community; and 'the place of linkage' between town to town in order to accelerate community relationships. As of June 2003, total 701 stations are registered in nation-wide to perform the three main functions: -

Resting place: All the Roadside Stations in Japan maintain parking lot and toilets. Also, more than 80% of all the stations provide rest room and more than 95% of all have parking lot at the capacity of more than twenty vehicles.

Information Center: As an information devise, pamphlets, maps and information boards are arranged at more than 70% of the stations. Professional guides are also working at about 40% of all the stations. Roadside Stations mainly provide information touring guide and traffic information as well.

Place of the Linkage among the Communities: Although this concept is quite ambiguous, various activities are being conducted. Of all others, more than 80% of the stations established sales booths to sell the local products. In this regard, it successfully ties the relationship between visitors and local producers and has great effects to activate the community.

As the function of the government, the Ministry of Land, Infrastructure and Transport undertakes the project of the Roadside Station. Regarding the registration of stations, the ministry authorizes the stations, which satisfy the minimum requirement of three main functions through the process stated below. Administrations of the stations are performed basically by the collaboration between local government and management body, in most of cases. Particularly, management body of the road is responsible for the maintenance of a parking lot, a toilet and signboards, while local government manages the facilities for community development. Responsibility of each organization, however, depends upon case-by-case.

The impacts on the local product shops are very ideal, because the small-scale farmers and elder farmers can sell their products in small quantity without intermediate costs. In some roadside station, the processing factories are attached creating job opportunities. For this, the ideas from women groups are very important to meet demands from women buyers considering safety for children. The business chances for women in rural areas are quite limited even in Japan.

### **4.3 IMPROVEMENT OF AGRICULTURAL PRODUCTION INFRASTRUCTURE**

#### **4.3.1 Overview of Agriculture Infrastructure Development**

##### **(1) Legislation and Policy**

Vietnam's legislative process and structure of laws and regulations are defined by the Constitution of 1992. The policy, practice and legislative framework, which established responsibility for the management of water resources and the operation of IMCs during recent years, includes the following;

- (1) The Law on Water Resources, 20 May 1998*
- (2) The Land Law, 1993*
- (3) The Cooperative Law, 1996*
- (4) Decree 112-HDBT on Water Fees, 25 Aug. 1984*
- (5) Circular 860-CT/VN, Guidelines for Restructuring IMCs, 7 May 1992*
- (6) Ordinance on the exploitation and protection of irrigation systems, 31 Aug 1994*
- (7) Decree 73/CP, on Functions and Responsibilities of MARD, 1 Nov 1995*
- (8) Decree 98/CP, on Use and Maintenance of Irrigation System, 27 Dec 1995*
- (9) Circular 90/1997/TTLT-TC-NN of 19 Dec 1997 is a joint policy agreed by the Ministers of MARD and Finance to facilitate financial autonomy of IMCs*
- (10) Circular 6/1998/TT-BNN-TCCB, Guideline on the organization and operation of IMCs, 9 Mar 1998*
- (11) Decision 1959/BNN-QLN, on the Strengthening, consolidation and reforming organization of irrigation management at lower level, 12 May, 1998*
- (12) Circular 134/1999/TT-BNN-QLN, on Guideline for canal lining, 25, Sep 1999*
- (13) Instruction 66/2000/QD/-TTY, on Authorizing funds for lining canals, 2000*

##### **(2) Framework for Project Implementation**

###### **a) Project Operation Organization**

Project Operating Organization concerning development of irrigation and drainage systems, operation and maintenance and on-farm management are as follows.

- ✓ Central Government
- ✓ Provincial Government
- ✓ Irrigation Management Company (IMC)
- ✓ Water Users Cooperatives (WUC)

b) Proposal and Approval of the Project

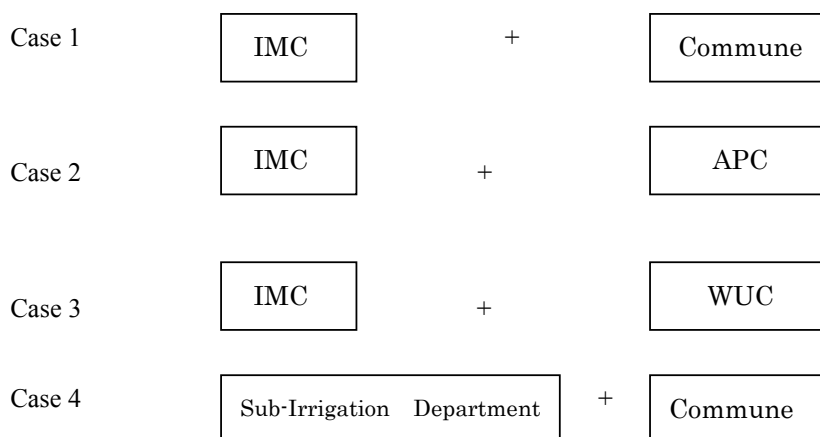
The proposal is divided into new and rehabilitation project. Each province proposes their project to the department of capital investment (DPI) and construction and department of water resources and irrigation project management (DWRIPM) based on the province master plan requested from districts and communes. Each proposal is evaluated base on policy (new project evaluated by DPI, rehabilitation project evaluated by DRRIPM) and finally minister and vice minister select priority projects.

Ministry of Planning and Investment (MPI) and Ministry of Finance (MOF) based on MARD's proposal determine MARD budget. However MARD can select the project by them after approval of the budget, but in case of exceeding 200 billion dong of the project cost, government's approval shall be necessary through MPI. On the other hand, in case of small-scaled projects less than 20 billion VND, province can get the budget directly from MPI not through MARD.

(3) Institutional Framework for Operation and Maintenance

a) The body for Operation and Maintenance

There are several types of organization for operation and maintenance in Viet Nam. Typical organization is summarized 4 cases as follows and Case 2 and 3 are most popular in the North.



Where agricultural cooperatives provide good irrigation services, water users cooperatives are not found. In case of small-scaled irrigation system, agricultural cooperatives and communes play their roll effectively, but in case of inter commune facilities it is necessary to adjust several communes for the water distribution. In this case water user cooperative shall be established based on irrigation system boundary

b) Level of Water Fee

The decree 112-HDBT on water fees of 25 August 1984 issued. The decree provides for the regulation of water fees to be set at different rate, but excludes the recovery of investment capital. It also provides for a regulation to embrace mode of payment of water fee collection. Breakdown of water fee consists of ①repairing and rehabilitation cost,② electricity and gasoline,③Salaries and management cost of IMC. In order to reduce the water fee, basic depreciation of big pump machines has not been calculated temporally. Whenever there is needed for bigger pumping machine purchase or replacement, Ministry shall receive funding from the Central budget through annual basic construction investment plan

Water fee (% of average productivity) is regulated for area unit of actively irrigated rice as follows:

Level of Water Fee

Service		Spring-Winter	Autumn Crop	Seasonal Crop
A	Gravity Irrigation & Drainage	4-6.5%	4.5-7%	3-5.5%
B	Irrigation using electric pump, gravity drainage	4-7%	5-7.5%	5-6%
C	Irrigation and Drainage using electric pump	5-7.5%	5.5-8%	4-6.5%

Furthermore, the Provincial People's committee defines the water fee by themselves base on their own irrigation and drainage conditions.

(4) Organization for on-farm management

Generally in each commune, there is a cooperative responsible for irrigation and drainage and some other activities regarding agriculture. According to National Survey on Farmer Needs UNDP(Jan.2002), water providing agencies vary such as ①farmers by themselves, ② commune irrigation group, ③Cooperatives, ④Group of farmer households, ⑤Irrigation station of the district and ⑥Private irrigation station in Red River Delta and North Central Coast rely on Commune Irrigation Group and Cooperatives irrigation water. The regional

features exists, farmers in the North and Central are well organized but not organized in the South.

#### 4.3.2 Issues of irrigation project implementing and water management for enhancing benefit sustainability

##### a) Farmers participation and project implementation

In Viet Nam, number of 75 medium and large scaled irrigation project covering 2.2 million ha led by government initiatives. Government prepared plan, budget and then implemented these projects. In these projects farmer's participation for planning cannot be seen.

At present Government is going to promote the policies for promoting transfer of development, operation and maintenance responsibilities of agricultural production infrastructure in rural areas away from the Central Government to the Province in such a way that the local authorities and the farmers should mobilize their means to develop, operate and maintain the infrastructure with their own initiatives and responsibilities. Farmers are requested to establish Water User Organization in order to receive the transferred facilities and to take part in planning to implementation of secondary, tertiary, and on-farm canals. In particular, in view of the fact that irrigation facilities can only be effective only when fields are actually irrigated and crops are harvested and sold, it is important that the necessary water is distributed into the terminal facilities closest to fields. In this sense, it is clear that benefit sustainability cannot be achieved without participations of farmers who know well about their field.

Water users cooperatives in Vietnam did not get involved in the entire cycle of project from the application to the operation and maintenance. They just get involved in the operation and maintenance after the completion of the projects. (There are few cases where participation starts in the beginning but they are limited to cases of small project or on-farm facilities development). It is better to have a certain set of clear rules even for individuals to work ingeniously, but there appears to be no institutional frameworks in Viet Nam that set who are responsible for project initiative, applications, planning, implementation and operation & maintenance. The executing agencies of projects are determined case by case. The demarcation of central government, province, district commune and farmer is not clear.

##### b) Reformulation and strengthening of WUC and development of institutional framework for effective and efficient water management

The responsibility for the operation and maintenance is divided into two organizations. IMCs



manage main facilities and communes manage terminal facilities. However, in many cases, it is still founded that IMCs manage all facilities to the terminal. Accordingly the Government is promoting the policy of the transferring of hydraulic structures to the communes. However, irrigation boundary and administrative boundary is not the same because hydraulic structures are designed based on the watershed boundary. Accordingly inter-commune WUC/District Federation/WUC Confederation is necessary to use irrigation system effectively and it is urgent to establish new organizations based on canal alignments, not on administrative boundaries.

Present water fee level based on Decree 112-HDBT includes rehabilitation cost, electric and oil fee, management fee and salary, but not include construction cost. With Water Resources Law (1998) as a turning point, the Decree 112-HDBT is under revision, and the revised Decree is expected to recognize the role of farmer's organization in O&M and to levy water fees and charges on all the water users. Burden sharing should be settled among the stakeholders so as to allow WUC to be self-standing economically.

On the other hand, the vicious cycle of project, i.e., degrading irrigation systems + inappropriate O&M→shortage of irrigation water→difficulty of water fee collection→financial difficulty, is pointed out along with shortage of money and lack of technical capabilities of organizations including IMC. Together with revision on the burden sharing with respect to water fees and charges, institutional frameworks should be worked out with regard to the division of labor between WUC and other stakeholders for the operation and maintenance with the view to enabling equal and fair water management.

#### 4.3.3 Participatory irrigation management and the Japanese institutional framework

The Vietnamese institutional and organizational framework of operation and maintenance has a number of similarities with that of Japan. However, there is one important point of divergence; that is the initiative of the farmers. Projects are implemented in Japan upon the request made by the farmers; however, such practices are not institutionalized in Viet Nam. Another point of divergence is the division of service area for irrigation management and operation & maintenance. It is according to administrative boundary in Viet Nam while it is based on irrigation system boundary in Japan. In Viet Nam, IMC manages main structure and WUCs manage secondary, tertiary and on-farm canal, but in principle, one Land Improvement District (LID), i.e., farmers' organization, manages the entire irrigation system in Japan.

The government, either the central or local determines the level of water fee. Although the general meeting of members has the supreme authority in decision making of the cooperative, the decision about water fee is not found among the powers of the general meeting according to

the model By-Law of WUC. By the same token, there are no provisions for

- a) Bond issuance or obtaining loans and method of amortization;
- b) Budget for expenditures and revenues;
- c) Water fees and other charges including those in kind and ways of collection;
- d) Annual report, revenues and expenditure statement, and list of assets and their approval.

#### 4.3.4 Proposal for irrigation project implementing and water management for enhancing benefit sustainability

##### (1) Project implementation and farmers participation

The study confirms the necessity of the farmers' participation in the project cycle from the very beginning of identification and planning in order to operate and maintain better the project facilities after the physical completion. Further, it identifies inevitability of some burden sharing of the project costs by the farmers to keep sustainability of the project benefits. It may be necessary to consider institutionalize the farmers' initiative and application (request) for implementation. The thing to consider is to find out ways for the farmers to squeeze funds to meet the assigned share. A policy to enable the farmers to get loans through WUC from public institutions is one way and another may be to get involve the farmers in the physical works on the wage basis thus open a way for them to get cash income.

##### (2) Reformulation and strengthening of WUC and attainment of sustainability, and effective and efficient water use through better water management and maintenance of facilities

Operation and management is carried out in Viet Nam by IMC that is established by the provincial people's committee together with WUCs established by the communes. Usually, irrigation area boundaries does not coincide with the administrative boundaries, and accordingly super structures such as inter-commune WUC at the district level, Federation or WUC Confederation are needed to use irrigation systems effectively

IMCs, however, play the role of District Federation/WUC Confederation, and the idea of Federation and Confederation system is not considered realistic. Reorganization of IMCs in such a way to have farmers participate in the management is taken to be more realistic. Reorganization should be done to materialized the following:

- a) Farmers' participation in project planning;
- b) Water management by the WUCs;
- c) Empower the WUCs to borrow money;
- d) Ensure the transparency of financial state of WUCs.

It may be necessary to prepare an institutional and organizational framework that enables such decision-making together with the introduction of farmers' initiative and application (request) for implementation.

(3) Development and improvement of roads and agricultural infrastructure development

Poor farm and rural road conditions cause inconveniences in daily life and difficulty with transportation of crops from the field to the house especially during rainy season and become one of the major factors that constrain the improvement in agricultural productivities. Farm/rural roads should be developed along the improvement of on-farm ditches and drains and related systems as the roads for operation and maintenance of such terminal facilities cum the roads for everyday life and access to the market places.

Equity was the guiding principle of land redistribution, and it brought about fragmented and scattered land holdings, thus requiring intensive labor input in cultivation. In Viet Nam, land consolidation will become most important project to promote restructuring agriculture in the near future. To gather together fragmented and scattered plots of land holdings bring big benefits to the farmers. Furthermore, the land consolidation project based on exchange and consolidation of land can squeeze out patches of land for non-agricultural use by reducing, across the board, the land holding of each of the concerned by the same minute rate. It is effective and may contribute to supporting agro-industrial development by providing places for the SMEs to locate their plants and workshops.

(4) Introduction of burden sharing by the farmers

In order to secure virtuous cycle of effective projects ~>better O&M~>sustainability, water users cooperatives, i.e., the farmers, should possess a kind of ownership of the systems. To enhance the project ownership among the farmers, one choice is to have the farmers to pay part of the project construction costs. It is desirable to consider the legal framework for asking farmers' contribution to the project implementation costs. . In Japan, implementation of irrigation and drainage projects in accordance with the Law on Land Improvement entails

- a) Legal power of enforce collection of water fee from all those in the project area;
- b) Governmental subsidies

Percentage of cost sharing is defined in the regulations and circulars made under the Law. In Viet Nam, given the wider and more deeply in-grained recognition of the land use right as a solid and objective right, a legal framework for fostering farmers' initiative and the associated obligation of bearing portion of project implementation costs should be worth examining.

## **Chapter 5 Proposal**

**PROPOSALS WILL BE PRESENTED AND DISCUSSED AT THE INTERIM SEMINAR**

## **Tables and Charts**

ANNEX Table 1 Selected Indicators of Agriculture, Forestry and Fisheries

ANNEX Table 2 General Situation of Rural Population and Labor

ANNEX Table 3 Movement of Rural Labor Force a/

ANNEX Table 4 Changes in Acreage and Production of Main Agricultural Products

ANNEX Table 5 Changes of Exports of Agricultural, Forestry and Fishery Products

ANNEX Table 6 Selected Indicators Relating to Paddy/Rice and Food

ANNEX Table 7 Laws, Plans, Policies and Programs in Agriculture and Rural Development Sector

ANNEX Chart 1 Past Performance Tree Analysis

ANNEX Chart 2 Problem Tree Analysis

ANNEX Table 1 Selected Indicators of Agriculture, Forestry and Fisheries

	1985	1990	1995	1998	1999	2000
Gross Domestic Product (billion , constant 1994 price)a/	106,176	131,968	195,567	244,596	256,272	273,666
Agriculture	54,175	61,817	82,307	96,102	104,786	112,112
Forestry	4,216	4,969	5,033	5,257	5,624	6,068
Fishery	6,682	8,135	13,523	16,920	18,253	21,775
Ratio in total GDP (%)						
Agriculture	51.0	46.8	42.1	39.3	40.9	41.0
Forestry	4.0	3.8	2.6	2.1	2.2	2.2
Fishery	6.3	6.2	6.9	6.9	7.1	8.0
Gross output (billion VND, constant 1994 prices)	109,189	131,968	195,567	244,595	256,269	273,666
Agriculture	33,536	35,717	43,658	49,639	52,370	54,493
Forestry	1,710	2,205	2,399	2,459	2,536	2,544
Fishery	2,686	4,081	5,262	5,768	5,987	6,680
Agricultural land (000 ha)	6,942	6,993	7,358	7,843	n.a	9,345
Ratio in total land (%)	(21.0)	(21.1)	(22.2)	(23.7)	n.a	(28.4)
Total population (000)	59,872	66,107	71,966	75,456	76,597	77,635
Rural population (000)	-	53,136	57,057	57,922	58,515	58,830
Agricultural population (000)	41,244	45,413	50,335	52,051	52,160	52,638
Ratio of rural population (%)	-	(80.5)	(79.2)	(76.8)	(76.4)	(76.1)
Ratio in total population (%)	(68.9)	(68.7)	(68.1)	(67.5)	(68.1)	(66.9)
Forestry population (000)	-	131	155	185	227	207
Ratio in total population (%)	-	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
Fishery population (000)	-	1,171	1,390	1,557	1,706	n.a
Ratio in total population (%)	-	(2.6)	(2.8)	(2.0)	(2.2)	n.a
Agricultural labor force (000)	15,665	17,678	24,041	24,985	25,257	25,399
Ratio in total labor force (%)	-	(68.6)	(69.5)	(68.3)	(66.8)	(66.3)
Forestry labor force (000)	-	60	71	90	98	103
Ratio in total labor force (%)	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Fishery labor force (000)	-	554	658	765	818	-
Ratio in total labor force (%)	-	(2.1)	(1.9)	(2.0)	(2.2)	(-)
Total Households	-	-	12,250	12,588	13,301	13,909d/
No. of agricultural households (000)	8,315	9,357	10,468	10,981	11,199	11,377
No. of forestry households (000)	-	26	31	38	42	n.a.
No. of fishery households (000)	-	229	268	302	340	-
Size of agricultural land (ha)						
Per agricultural household b/	0.83	0.75	0.70	0.71	-	0.74
Per agricultural labor force c/	0.59	0.40	0.35	0.31	-	0.37

Sources: (1) General Statistical Office (GSO), Statistical Data of Agriculture, Forestry and Fishery, 1985-1995  
(2) General Statistical Office (GSO), Statistical Data of Agriculture, Forestry and Fishery, 1990-1998  
(3) GSO, Agriculture of Vietnam, 1945-1995.  
(4) GSO, Statistical Yearbook 1995

Notes : a/VND : Vietnamese dong, in 1994 prices, ratios in GDP represents the figures in 1986 prices  
b/Calculated agricultural land divided by no. of agricultural households  
c/Calculated agricultural land divided by no. of agricultural labor force  
d/ As of October 2001

ANNEX Table 2 General Situation of Rural Population and Labor

(number and % per annum)

	1990	1995	1996	1997	1998	1999	2000	2001
Total population	60016.7	71995.5	73165.7	74306.9	75456.3	76596.7	77635.4	78685.8
(Annual growth rate)	1.92	1.65	1.63	1.56	1.55	1.51	1.36	1.35
Rural population	53136.4	57057.4	57736.8	57471.5	57991.7	58515.1	58830.1	59204.8
(% of total)	88.54	79.25	78.91	77.34	76.85	76.39	75.78	75.24
(Annual growth rate)	1.80	1.17	1.19	-0.46 b/	0.91	0.90	0.54	0.64
Total labor force a/	30286	34589.6	35178.26	35588.46	36579.6	37783.8	38643.1	39489.8
(Annual growth rate)	4.65	1.14	1.70	1.17	2.79	3.29	2.27	2.19
Rural labor force a/	24228.8	27671.68	28027.141	27735.311	28367.88	29363.42	29917.09	30301.94
(% of total labor population)	80.00	80.00	79.67	77.93	77.55	77.71	77.42	76.73
(Annual growth rate)	NA	1.14	1.28	-1.04 b/	2.28	3.51	1.89	1.29

Source : Statistic Data of Labor Force and Employment in Vietnam, 1996-2000 and 2001

Note: a/ Economically active labor force (15-60 years old for male and 15-55 years old for female)

b/ In that year, some rural communes changes into precincts and towns in many localities.

ANNEX Table 3 Movement of Rural Labor Force a/

(number)

	1990	1995	1996	1997	1998	1999	2000	2001
Labor Force at the beginning of year								
Whole country	28939.7	33600	34589.6	35187.3	35588.5	36579.6	37783.8	38643.1
Rural	23150.5	26880	27671.7	27727.1	27735.3	28367.9	29363.4	29917.1
New entries								
Whole country	1346.3	989.6	597.7	401.2	991.1	1204.2	859.3	846.7
Rural	1077.8	791.7	55.5	8.2	632.6	995.5	553.7	384.9
Newly created employment in rural area	1062.8	780.6	54.8	8.0	625.5	984.5	550.0	380.6
Labor force end of year b/								
Whole country	30286.0	34589.6	35187.3	35588.5	36579.6	37783.8	38643.1	39489.8
Rural	24228.3	27671.7	27727.1	27735.3	28367.9	29363.4	29917.1	30302.0
Un-employment rate (%)								
Whole country	2.6	2.4	2.32	2.27	2.21	2.34	2.4	2.2
Rural	1.4	1.4	1.3	1.2	1.11	1.15	1.2	1.1

Source: Statistic Data on Labor Force and Employment in Vietnam, 1996-2000 and 2001

Note: a/ Figures may be calculated on the basis of estimated percentages etc. Years may be reduced according to the availability of data.

b/ Labor force at year beginning + new entry (+or – urban migration) – retirement = end of year



ANNEX Table 4 Changes in Acreage and Production of Main Agricultural Products

( 1 ) Harvested Acreage

	(000 ha)						
	Paddy	Other food crops	Vegetables	Beans	Annual industrial crops	Perennial Industrial crops	Fruits
		a/			b/		d/
1985	5,704	1,130	224	145	558	405	46
1990	6,028	1,080	261	165	512	623	157
1991	6,303	1,145	269	157	543	619	163
1992	6,475	1,232	279	166	495	590	166
1993	6,559	1,237	293	182	567	621	186
1994	6,599	1,210	305	190	629	639	196
1995	6,766	1,206	331	188	717	895	373
1996	7,004	1,214	359	206	694	1,005	385
1997	7,100	1,231	377	219	728	1,139	426
1998	7,362	1,178	401	222	808	1,204	434
1999	7,648	1,220	459	201	892	1,322	496
2000	7,666	1,222	465	195	729	1,446	419
2001	7,485	1,264	495	204	741	1,474	439
2002 estimate	7,486	1,380	500	212	805	1,496	459

(2) Production

	(000 ton)						
	Paddy	Other food crops	Vegetables	Beans	Annual industrial crops	Perennial Industrial crops	Fruits
		a/			b/	c/	d/
1985	15,875	2,523	3,605	82	5,060	702	462
1990	19,225	2,263	3,225	94	5,910	1,085	1,981
1991	19,622	2,368	3,214	94	6,673	1,259	1,967
1992	21,590	2,624	3,305	93	7,030	1,370	1,902
1993	22,837	2,665	3,485	105	6,758	1,462	2,024
1994	23,528	2,670	3,794	122	8,451	1,434	2,032
1995	24,964	2,607	4,186	127	10,549	1,552	1,999
1996	26,397	2,821	4,707	134	12,007	1,771	2,044
1997	27,524	3,094	4,970	151	12,529	1,864	2,126
1998	29,142	2,714	5,150	144	14,510	1,810	1,891
1999	31,393	2,860	5,792	144	18,428	2,186	2,644
2000	32,530	1,868	5,732	143	15,668	2,957	2,637
2001	31,970	2,429	6,677	142	14,990	3,177	2,809
2002 estimate	34,063	2,639	6,800	160	17,599	2,857	3,090

Source: GSO Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975-2000

Notes: a/ maize, sweet potato, potato, cassava

b/ cotton, jute, rush, sugarcane, tobacco, soybean, groundnut

c/ tea, coffee, rubber, pepper, coconut, cashew

d/ orange, lemon, mandarin, banana (after 1990), pineapple, mango, longan (after 1995), rambutan (after 1995), litchi (after 1995)

**ANNEX Table 5 Changes of Exports of Agricultural, Forestry and Fishery Products**

	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total export (million US\$)	699	2,404	2,087	2,581	2,985	3,600	5,449	7,256	8,900	9,360	11,540	14,483	15,027
Total export of agri., forestry and fishery products (million US\$)	397	1,106	1,089	1,276	1,444	1,728	2,521	3,069	3,400	3,323	3,774	2,894	2,628
Ratio of total export (%)	(56.8)	(46.0)	(52.2)	(49.4)	(48.4)	(48.0)	(46.3)	(42.3)	(38.2)	(35.5)	(32.7)	(20.0)	(17.5)
In which agri. products (million US\$)	274	783	628	828	920	1,081	1,746	2,160	2,231	2,274	2,546	2,563	3,249 <sup>b/</sup>
Main agricultural products (000 ton)													
Rice	59	1,624	1,033	1,947	1,722	1,950	1,988	3,003	3,575	3,730	4,508	3,477	3,729
Tea	10	16	8	13	21	17	19	21	32	33	36	56	68
Coffee	9	90	94	116	123	156	248	284	392	382	482	734	931
Rubber	35	76	63	82	97	105	138	195	195	191	265	273	308
Processed meat a/	-	16.2	25.0	12.1	19.7	12.6	12.1	10.2	28.8	12.0	11.8	11	26
Frozen shrimp	9	38	42	40	42	54	45	51	68	432 <sup>a/</sup>	402 <sup>a/</sup>	-	-
Frozen cuttle fish	1	4	7	6	11	15	14	20	40	61 <sup>a/</sup>	103 <sup>a/</sup>	-	-

Sources : GSO, Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975-2000,  
GSO, Statistical Data of Agriculture, Forestry and Fishery 1990-1998 and Forecast in the Year 2000,  
Statistical Yearbook 2001

Notes: a/ million US\$

b/including agriculture and forestry products

ANNEX Table 6 Selected Indicators Relating to Paddy/Rice and Food

	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 <sup>d/</sup>
<b>Paddy/rice <sup>a/</sup></b>														
Total production (million tons)	15.8	19.2	19.6	21.6	22.8	23.5	25.0	26.4	27.5	29.1	31.4	32.5	31.9	34
Cropping area (thousand ha)	5,718	6,043	6,303	6,475	6,559	6,598	6,765	7,004	7,100	7,362	7,648	7,666	7,485	7,485
Yield per hectare (ton per ha)	27.7	31.8	31.1	33.3	34.8	35.7	36.9	37.7	38.8	39.6	41.0	42.4	42.7	45.5
Output per capita (kg per year)	265	295	290	311	322	324	337	350	358	373	412	419	405	-
Ratio of high yielding varieties (%)	n.a.	47.5	52.1	58.8	63.2	71.6	76.2	82.8	87.0	87.2	-	-	-	-
Ratio of spring paddy (%)	39.0	40.9	34.5	42.4	40.0	44.7	43.0	46.3	48.4	46.5	44.9	47.9	-	-
<b>Food <sup>b/</sup></b>														
Total production (million tons)	18.2	21.5	22.0	24.2	25.5	26.2	27.6	29.2	30.6	31.9	34.3	34.5 <sup>c/</sup>	34.1 <sup>c/</sup>	-
Output per capita (kg per year)	304	325	325	349	359	361	373	387	399	407	449	444 <sup>c/</sup>	433 <sup>c/</sup>	-
<b>Exports</b>														
<b>Paddy/rice prices <sup>e/</sup></b>														
<b>Farmgate prices</b>														
(paddy, VND per kg)	-	-	-	994	1,215	1,137	1,704	1,441	1,468	2,029	1,739	1,481	1,316	1,701
<b>Retail prices</b>														
(milled rice, VND per kg)	-	-	-	2,092	2,100	2,325	2,418	2,790	2,707	3,411	3,162	2,718	2,534	2,915

Source :GSO, Statistical Data of Vietnam Agriculture, Forestry and Fishery 1975-2000.

Notes: a/ in paddy

b/ until 1999: sum of paddy, maize, sweet potato, potato and cassava, in paddy equivalent: cereals 1:1, potatoes 3:1, cassava 5:1.

c/ after 2000: sum of paddy and maize.

d/ preliminary figures for production.

e/ medium quality rice. 1992-1995: purchased prices of Ving Long province.1996-2000 : prices in Mekong River Delta.

**ANNEX Table 7 Laws, Strategy/Plan, Policy and Program related to Agriculture and Rural Development**

	<b>Item</b>	<b>Classification/No</b>	<b>Year/Month</b>	<b>Decision maker</b>	<b>Comments</b>
<b>Laws / Regulations</b>	The Land Law 1998	Law	1998/12	National Assembly	Amending and supplementing some Articles of the Land Law 1993
	-Government Decree -Guidelines	No.17/1999/ND-CP Circular	1999/03 1999/09	Government	(Amended again in 2002) Procedures for exchange, transfer, lease, etc of land use right On the implementation of Decree No.17/1999/ND-CP
	The Cooperative Law -Model Statute	Law	1996/03 1997/04	Assembly	Covering 6 kinds of cooperatives Model Statute of agricultural cooperatives
	The Law on Water Resources	No.8/1998/QH10	1998/05	Assembly	Management, protection, exploitation and use of water resources
	Ordinance on hydraulic works		2001/04	Assembly	On the use, protection and transfer of hydraulic works
<b>Strategy / Plan</b>	Strategy for 2001-2010	-	2001/04	9 <sup>th</sup> CP Congress	Strategy for Socio-Economic Development 2001-2010
	Five-year Plan	-	2001/04	9 <sup>th</sup> CP Congress	Five-year Plan for Socio-Economic Development 2001-2005
	Public Investment Program	Decision: No.6759	2002/12	Prime Minister	Public investment program for period 2001-2005
	CPRGS	-	2002/05	(Prime Minister)	Comprehensive Poverty Reduction and Growth Strategy
	Ten-year Strategy (MARD)		2001/04	9 <sup>th</sup> CP Congress	Ministry of Agriculture and Rural Development developed a new agriculture and rural development plan and strategy for 2001-2010
	Five-year Plan (MARD)		2001/04	9 <sup>th</sup> CP Congress	
<b>Policies</b>	Resolution No. 09	No.09/2000/NQ-CP	2000/06	Government	Undertakings and Polices on Economic Restructuring and Consumption of Farm Produce
	-Decision	No.02/2001/QD-TTg	2001/01	Prime Minister	Investment support from DAF for exports production & processing projects and agricultural production projects
	- Decision	No167/2001/QD-TTg	2001/10	Prime Minister	Measures and policies on milking cow development
	Resolution No. 03 -Guideline on Farms	No.03/2000/NQ-CP Circular 69/2000/TTLT/BNN	2000/02 2000/07	Government	Recognition of "Farm (Trang Trai)" as one form of farming Guidelines on Criteria to identify Farms
	Decree No. 90	No.90/2001/ND-CP	2001/11	Government	To create favorable conditions for development of SMEs
	Decision No. 80	No.80/2002/QD-TTg	2002/06	Prime Minister	Policies to encourage selling agricultural products through contracts
	Decision No. 132	No.132/2000/QD-TTg	2000/11	Prime Minister	Policies to encourage the Development of Rural Trades

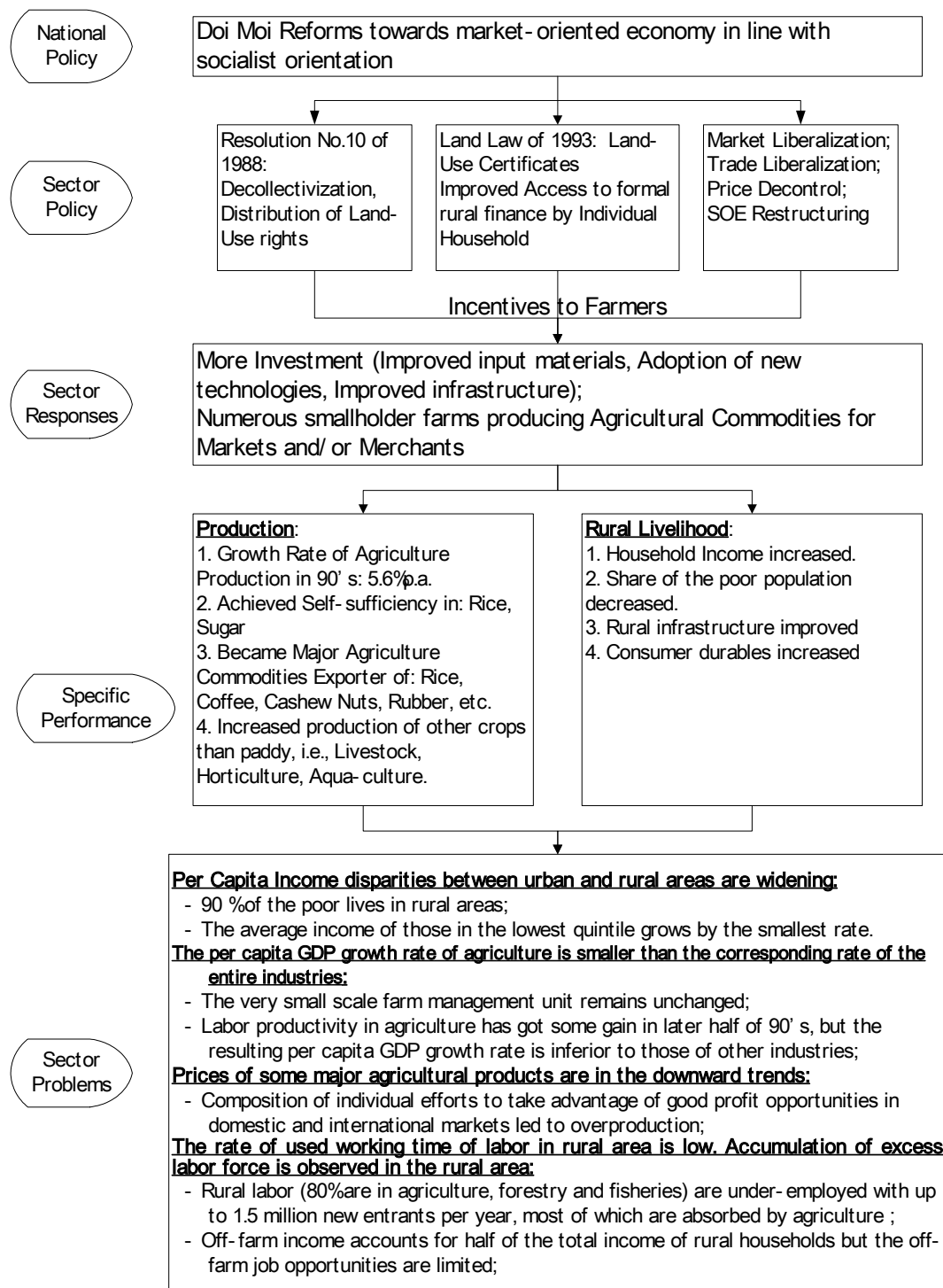
Programs	Decision No. 143 (HEPR)	No.143/2001/QD-TTg	2001/09	Prime Minister	Hunger Eradication and Poverty Reduction (HEPR) Programs
	Decision No.135 (Program 135)	No.135/1998/QD-TTg	1998/07	Prime Minister	Socio-economic development in 2.235 specially disadvantaged communes (amended by Decision No.138/2000/QD-TTg)
	Five million ha afforestation	No.661/1998/QD-TTg	1998/07	Prime Minister	Five Million ha afforestation Program
	Decision No. 104	No 104/2000/QD-TTg	2000/08	Prime Minister	Program for rural water supply and sanitation
	Decision No. 132	No 132/2001/QD-TTg	2001/09	Prime Minister	Program (finance mechanism) for developing rural transport, and infrastructure for aquatic products raising and craft villages
	Decision No.66	No 66/2000/QD-TTg	2000/06	Prime Minister	Program (finance mechanism) for lining canals and ditches

**【Reference】 Resolutions made by the Party Central Committee**

Resolution No 06	No.06-NQ/TW	1998/11	Central Committee	On a number of agricultural and rural development affairs
Resolution No 14	No.14-NQ/TW	2002/03	Central Committee	-On renewing, developing and raising the efficiency of the collective economy; -On continuing to renovate mechanisms and policies to encourage and facilitate development of the private economy; -On speeding-up agricultural and rural industrialization and modernization

**Annex Chart 1 Past Performance Tree Analysis**

**Past Performance Tree Analysis**



Annex Chart 2 Problem Tree Analysis

Problem Tree Analysis

