

# Assessment and policy recommendations

**T**his Review, undertaken in close co-operation with the Vietnamese Ministry of Agriculture and Rural Development (MARD), assesses the performance of Vietnamese agriculture over the last two decades, evaluates Vietnamese agricultural policy reforms and provides recommendations to address key challenges in the future. The evaluation is based on the OECD Committee for Agriculture's approach that agriculture policy should be evidence-based and carefully designed and implemented to support productivity, competitiveness and sustainability, while avoiding unnecessary distortions to production decisions and to trade. Conducted in partnership with the OECD Investment Committee, the Review comprises a special chapter highlighting key challenges to be addressed to improve the investment climate in agriculture, drawing from the OECD Policy Framework for Investment in Agriculture.

## Assessment

With a territory of 0.33 million km<sup>2</sup> Viet Nam is a mid-size country in terms of area, roughly on par with Finland, Malaysia and Norway. Its population of 90 million makes it the 13th most populous country in the world. Around two-thirds of the population live in rural areas. Its population density is high, at 271 persons/km<sup>2</sup>, which is just above the level of the United Kingdom and slightly below that of the Philippines.

### **Viet Nam is rich in water, but poor in land resources**

While Viet Nam is on average relatively rich in water resources, agricultural land is scarce. With just 0.12 ha of agricultural land per capita, one-sixth of the world average, it is similar in proportion to Belgium and the Netherlands, just above the Philippines and India but less than China or Indonesia. Largely due to deforestation, total agricultural land increased by 61% in 1990-2012. Most of this expansion took place in the 1990s, with the arable land area remaining relatively stable since then. This might indicate that almost all accessible arable land is currently in cultivation and further production growth will need to be achieved through higher yields, which are already high compared to Viet Nam's Asian peers. There are continued pressures to convert agricultural land into higher-value non-farm uses (both urban and industrial). This has created a strong incentive to increase land intensity given the availability of relatively cheap labour, high soil fertility in some regions and relatively good climate conditions.

### **Strong GDP growth**

A variety of reforms, known widely as *Doi Moi* or "Renovation", were launched in the mid-1980s which shifted the Vietnamese economy away from a central planning framework towards greater market orientation. Since that time a long series of policy changes have continued to move the economy, including the agricultural sector, in the direction of open markets for trade and investment, private decision-making, private land use rights, and a greater role for private firms.

**Box 1. Viet Nam: Contextual information****Table 1. Contextual indicators, 1995, 2013**

	1995	2013 <sup>1</sup>
<b>Economic context</b>		
GDP (billion USD)	21	171
Population (million)	72.0	89.7
Total area (thousand km <sup>2</sup> )	331	331
Population density (inhabitants/km <sup>2</sup> )	217	271
GDP per capita, PPP (USD)	1 490	5 294
Trade as % of GDP <sup>2,3</sup>	89.5	154.1
<b>Agriculture in the economy</b>		
Agriculture in GDP (%)	27.2	18.4
Agriculture share in employment (%) <sup>4</sup>	70.0	47.4
Agro-food exports (% of total exports) <sup>3</sup>	27.1	17.0
Agro-food imports (% of total imports) <sup>3</sup>	6.3	9.8
<b>Characteristics of the agricultural sector</b>		
Agro-food trade balance (million USD) <sup>3</sup>	2 937	9 459
Crop in total agricultural production (%)	80	73
Livestock in total agricultural production (%)	20	27
Agricultural area (AA) (thousand ha)	7 079	10 842
Share of arable land in AA (%)	76	59
Share of irrigated land in AA (%)	44.5	42.4
Share of agriculture in water consumption (%) <sup>5</sup>	n.a.	95
Nitrogen Balance, Kg/ha	n.a.	n.a.

1. Or latest available year.

2. Ratio of the sum of exports and imports to GDP.

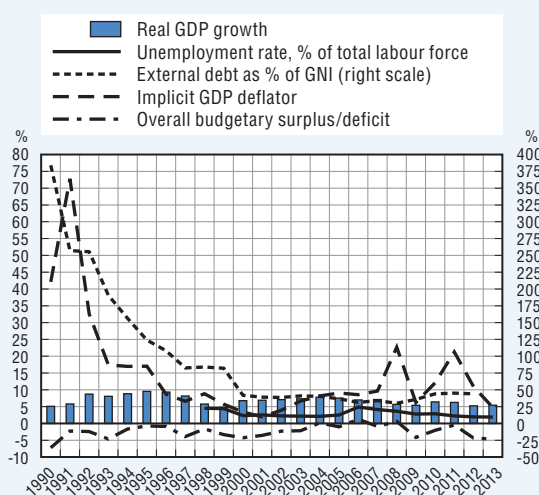
3. 2000 instead of 1995.

4. 1996 instead of 1995.

5. 2005 instead of 2013.

Source: WB WDI (2015); UN (2015), UN Comtrade Database; FAOSTAT (2015).

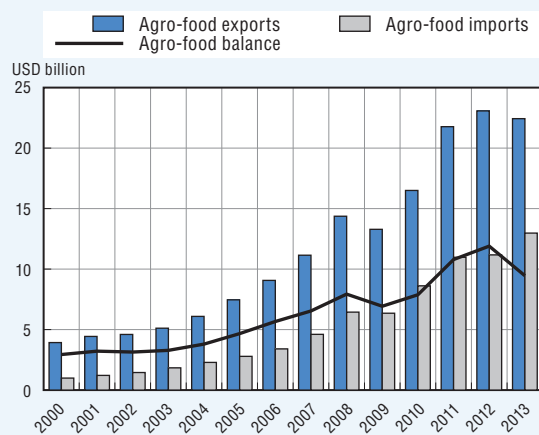
StatLink  <http://dx.doi.org/10.1787/888933223173>

**Figure 1. Main macroeconomic indicators, 1990-2013**


Note: Overall budget surplus/deficit in 1990-95 excluding grants.

Source: ADB (2005 and 2014).

StatLink  <http://dx.doi.org/10.1787/888933223188>

**Figure 2. Agro-food trade, 2000-13**

Note: Agro-food trade includes fisheries as well as natural rubber.  
Source: UN (2015), UN Comtrade Database.

StatLink  <http://dx.doi.org/10.1787/888933223198>

Reforms generated rapid economic expansion. Gross Domestic Product (GDP) growth averaged 7.4% in the 1990s and 6.8% in the 2000s, contributing to a three-fold real increase in GDP per capita over these two decades. Growth has slowed to 5.7% in 2010-14, but still compares favourably with most emerging economies.

Viet Nam's GDP is currently (2013) measured at USD 171.4 billion, which translates into USD 5 294 per capita at purchasing power parity (WB WDI, 2014). It joined the World Bank's category of lower middle-income countries in 2009 – an impressive accomplishment for a country that in the mid-1980s was one of the poorest in the world.

### **Poverty rates have fallen**

Not only did the reforms generate rapid overall growth but the growth was particularly inclusive. Poverty was alleviated in Viet Nam as much as in any country in the world except for China. Real incomes, adjusted for inflation, are steadily rising for both urban and rural residents. While in absolute terms the gap between the two is growing, the relative gap measured as the ratio of urban to rural incomes is closing. However, even by 2012, the income of urban residents was still on average double that of rural residents.

According to the national poverty line definition, rural poverty rates are much higher than those in urban areas. The gap tends to decline, but remains large. This decline in rural poverty rates from 21% in 2004 to 13% in 2013 reflects Viet Nam's success in increasing agricultural productivity for many farm commodities and in diversifying sources of rural incomes.

### **Undernourishment rates have declined**

Viet Nam has made astonishing progress in combatting undernourishment. The proportion of undernourished in the total population fell from 46% in 1990-92 to 13% in 2012-14. This represents a decrease of 72%, which is one of the highest rates for all countries, just after Thailand, and larger than in China. Nevertheless, 11.9 million Vietnamese suffered from undernourishment in 2012-14 (FAO-IFAD-WFP, 2014). Most food insecure people live in rural areas.

### **Robust supply response from agriculture**

Economy-wide and sector-based reforms, including the de-collectivisation of farms mandated in 1988 and the land use rights issuance in 1993, created conditions for a strong supply response to growing domestic demand and to rising international commodity prices in the 2000s. As a result, agricultural production more than tripled in volume terms between 1990 and 2013, outperforming all its major competitors in Asia.

However, the non-agricultural economy has grown substantially faster, pushing down the agricultural sector's (including fisheries and forestry) shares of GDP and employment. Its share of GDP fell from 39% in 1990 to 19% by 2005 and has remained at this high level up to 2013. Its share of employment fell from 70% in 1996 to 47% in 2013. The sector's share of employment remains 2.5 times higher than its share of GDP indicating relatively low labour productivity. This is one of the main reasons for the relatively low income of households dependent on farming.

The agro-food sector is well integrated with international markets. The ratio of total agro-food export value to agricultural GDP was 70-80% in the early 2010s, much higher than in China or Indonesia and equal to the ratio of total Viet Nam's exports to total GDP.

The ratio of agro-food imports to agricultural GDP is only half of that for exports, but it has tripled since 1990.

The annual rate of growth in agricultural production slowed from an impressive average of 5.7% in 1990-2002 to 4.2% in 2002-13. While Viet Nam has maintained growth rates higher than most other countries in the region, the gradual slowdown in more recent years is noticeable. Most likely, the rates would have declined still further in the last period had there not been the agricultural price boom that elevated many world prices by a factor of two. This might be taken as a warning signal that the earlier sources of the sector's boom based on institutional reforms and expanding use of cheap resources have begun to be exhausted.

Rice remains by far the most important commodity, accounting for about 35% of the total value of agricultural production in recent years. However, there has been an important change in the composition of production away from staple foods to other commodities, in particular perennial crops such as coffee and rubber, and livestock production, especially pigmeat. This reflects the strong export orientation of perennial crops and the changing preferences of consumers to higher value products.

### **Total factor productivity growth slowed in the 2000s**

Historically, Vietnamese agriculture has been labour-intensive. The total number of persons employed in agriculture increased up to 2009 and since then stabilised at around 24.4 million (including forestry and fisheries) (GSO, 2014). Agriculture is not yet at the stage of shedding labour in absolute terms, but it might be at the turning point and, according to some projections, farm employment might fall by 9% in the current decade (ILO, 2011).

Viet Nam's agricultural Total Factor Productivity (TFP) growth was strong and sustained over 1990-2010 (averaging 2.65% per year). It was significantly stronger than in the 1980s, clearly reflecting the positive impact of reforms undertaken in the late 1980s and early 1990s. However, while it was stronger than in Indonesia, India and the Philippines and equal to that in Thailand, it lagged behind China and more recently also Malaysia, reflecting a slowdown in the 2000s compared with the highest rates registered in the 1990s (Fuglie and Rada, 2013).

### **Agro-food exports soared**

Prior to 1990, Viet Nam was not a significant player in world agricultural commodity markets, with trade tightly controlled by the government. By 2011-13, Viet Nam had become the world's largest exporter of cashews and black pepper, the second largest exporter of coffee and cassava, the third largest exporter of rice and fisheries, and the fifth largest exporter of natural rubber. Annual exports for these commodities were well above, or very near to, USD 1 billion in the early 2010s. Such trade performance across a relatively wide range of commodities for a country the size of Viet Nam starting from virtually no export market penetration and experience, and within two decades, is unmatched.

Led by expanding exports of the above mentioned commodities, along with aquaculture and fisheries, the total value of Viet Nam's total agro-food exports increased six-fold between 2000 and 2012. Exports are around double the value of agro-food imports, contributing to a positive balance of agro-food trade of about USD 10 billion in 2011-13.

### **Export prices and value added in exports remain low**

Viet Nam's agro-food exports are commonly derived from low-value commodity sales. This "commodity" approach to exports is long on quantity growth, but short on quality and

value added. It is recognised in Viet Nam that moving up the value scale in food markets allows exporters, and usually farmers, to capture higher prices without having to increase production or find more inputs such as scarce land. For this reason, it is one of the main pillars of the Government's Agricultural Restructuring Plan (ARP), which includes the improved quality of basic farm commodities, and food processing into innovative products.

### ***The role of SOEs remains strong***

While the influence of state-owned enterprises (SOEs) across the Vietnamese economy has declined, their share of GDP remains high at one-third in 2011 and they are an important source of government revenue and export earnings (OECD, 2013). Moreover, many SOEs have been only partly privatised through a so called "equitisation" process, through which they are converted into public limited companies or corporations by selling a part of their equity to the public or a special investor, while the state still holds the majority of shares. In addition to the fact that the newly-created equity shares may be held by the state, the firm may continue to hold advantages from ex-SOE status, such as continued market power and easier access to credit. Within the agro-food sector, SOEs are involved in agricultural input supply firms, processing and storage firms, and marketing including exporting firms.

### ***The food safety regulatory regime needs to be effectively implemented***

Viet Nam undertook to comply with the requirements of the Sanitary and Phytosanitary (SPS) Agreement upon its accession to the WTO in 2007. The National Strategy on Food Safety for 2011-20 sets a general objective of implementing master plans on food safety from production to consumption by 2015, and controlling food safety over the entire food supply chain by 2020.

Despite these efforts to set in place a legal framework and structure for quarantine and food safety that conforms to international obligations, further work is required to effectively implement the regulatory regime. The capacity of testing agencies is limited, leading to inconsistent enforcement that adds to uncertainty for producers (Arita and Dyck, 2014). The large number of legal documents relating to food safety (about 400 documents issued by the central government and ministries and about 1 000 documents issued by local governments), result in overlap and lack a clear focus. Co-ordination between agencies, risk analysis and identification systems are poor, both at the central government level and between central and local government.

As a consequence, Viet Nam often experiences difficulties accessing export markets for some commodities. Similarly, exporters of agricultural products to Viet Nam face a complex administrative system, often experience inconsistent requirements and sometimes must comply with standards that are more restrictive than international norms.

### ***Farm structures are dominated by smallholders***

Large farms, predominately operated by SOEs, use about 10% of agricultural land focusing on the production of perennial crops. Around 9.6 million households farm on the remaining land; each using about 0.8 ha on average, typically further subdivided into four non-contiguous plots. While the process of farm consolidation in livestock production has started, consolidation of crop production is at its very early stages. Very few farms have grown to the "large scale" category of 2 ha or above.

### **Restrictions on land use persist**

All land is owned by the state and administered by it on behalf of the people. The Land Law of 1993 gave farmers a wide range of rights, including the right to rent, buy, sell, and bequeath land and to use land as collateral with financial institutions for mortgages. Holders of these rights are entitled to Land Use Rights Certificates. By 2012, rights to 85% of agricultural land had been certified.

Revisions of the Land Law made in 1998 and 2003 introduced restrictions on land use stating that changes in land use by the farmer were only allowed within the existing physical planning framework adopted by central and local governments. They mostly confine farmers to growing rice on paddy land at the expense of other crops (or fisheries) that could be grown more profitably on the same land. Farmers can apply at the district level for a change in their designated land use, but in practice changes or removals of these restrictions are rarely allowed.

The 2003 Land Law revisions allowed the state to appropriate land, including farmland, for economic development purposes. While it was introduced to help encourage industrial and urban development, it resulted in a sharp increase in highly contentious land disputes. Farmers are not only involuntarily losing their base for farming, but also they receive very low compensations.

The Land Law passed in 2013 made a number of modest improvements. However, the essential points of controversy in land disputes remain largely unaddressed. In particular, the Law has not given farmers the right to the market price for land expropriated for non-agricultural uses and has not removed restrictions on land use rights.

### **Environmental pressures risk reducing long-term productivity growth**

Rapid economic growth, combined with rising population and expanding agricultural production, is exerting massive pressures on the environment. The deforestation that accompanied the rapid expansion of agricultural land during the 1990s has only been partly remedied by reforestation efforts undertaken over the last 15 years. While the overall forested area has increased, undisturbed primary forests continue to disappear.

Agriculture exerts significant and growing pressure over the country's available water resources with the sector accounting for 95% of freshwater use. Further, due to the excessive use of fertilisers, pesticides and other chemicals, the sector has contributed to a progressive degradation of water and land quality.

Viet Nam is listed among the ten countries potentially the most affected by climate change. Climate change scenarios developed by the Vietnamese government predict increases in average temperature, rainfall and rising sea levels. The potential impacts on agriculture are serious, as floods and droughts are predicted to happen more frequently. In particular, large cultivation areas in the Mekong and Red River deltas are likely to be even more affected by salt water intrusion due to sea level rise (ISPONRE, 2009).

### **Private investment in agriculture has recently increased**

As a result of efforts to improve the business climate, private domestic investment in agriculture has increased since the Doi Moi renovation process, accounting for 56% of agricultural investment in 2008 – with the rest coming from SOEs (34%) and foreign investors (10%). A revised Investment Law has been adopted by the National Assembly on 26 November 2014 and entered into force on 1 July 2015. It clarifies the definition of foreign

investment, simplifies licensing procedures and reduces the number of sectors where investment is prohibited or conditional.

The government is promoting Public-Private Partnerships (PPPs). In addition to the creation of six PPP task forces formed by MARD around key commodities, a PPP Decree has been approved in February 2015 and covers not only infrastructure but also, more specifically, agricultural infrastructure and rural development services associated with agro-processing and the consumption of agricultural products. To ease investment, the government supports access to credit by providing producers with loans without collateral, subsidised credit for agricultural inputs and assets, and credit guarantees through state-owned banks.

### **Several constraints continue to deter agricultural investors**

Although numerous investment incentives are offered to small and large investors, laws, numerous decrees and provincial regulations lead to a complex web of investment incentives that creates uncertainty for investors who are granted such incentives on an *ad-hoc* basis. The absence of a strong independent Investment Promotion Agency accentuates this complexity. Indeed, promotion activities are performed by a mix of agencies, including the Foreign Investment Agency in the Ministry of Planning and Investment (MPI), Viet-Trade in the Ministry of Trade and Industry, the International Co-operation Department in MARD, and the promotion departments of provinces. Several constraints undermine private investment in the sector (Box 2).

#### **Box 2. Constraints to private investment in agriculture**

- **Restrictions on land use rights:** While the Land Law of 2013 strengthens the development of a land market, it keeps several restrictions on the duration of land use rights, land areas per household, the choice of crops and land transfers and exchanges. Such regulations intend to guarantee equal access to land among the rural population, but they limit land consolidation and hinder long-term investment.
- **Insecure land use rights:** Land use planning is not based on a participatory process which opens a possibility for forced conversions that have not been agreed by local communities. Agricultural land acquired in this way is priced at low levels and then rented out at much higher prices for other uses. This process is prone to corruption and involves numerous administrative payments.
- **Limited access to credit:** Financial markets in rural areas remain very concentrated. The rural finance market consists of several players in which Vietnam Bank for Agriculture and Rural Development (VBARD) and Vietnam Bank for Social Policies (VBSP) have leading positions, representing 66% of the sources of rural credit in 2010. Although Co-operative Banks – formerly known as Peoples’ Credit Funds – and other private financial institutions have been established, so far they have not achieved significant importance in rural finance. Such concentration may explain the limited access to formal banking services in rural areas and high interest rates. The lack of sufficient collateral also limits access to credit by small-scale farmers. As a result, half of rural households were still unable to access banking services in 2010 and the informal sector remains an important source of rural credit.
- **Inadequate infrastructure in rural areas:** Viet Nam has made impressive progress in infrastructure development, with now over 90% of the rural population having access to electricity and over 98.5% having access to roads. However, recent rapid economic growth



**Box 2. Constraints to private investment in agriculture (cont.)**

has resulted in serious infrastructure bottlenecks. New infrastructure is generally located in urban areas to connect major cities, airports, sea ports, and industrial parks, while rural infrastructure is often in poor conditions and not properly maintained. The implementation of infrastructure projects by local governments and SOEs delays implementation and leads to competition between localities which hinders a holistic development of infrastructure and results in fragmented, suboptimal infrastructure projects with low utilisation rates.

- **Lack of skilled workers and limited funding of R&D:** Enterprises underline the mismatch between the supply and demand of skills. Labour productivity remains low, amounting to 23.3% of Malaysia's and 37% of Thailand's in 2010. Extension services face several challenges, including limited human resources, the dominance of a top-down approach, a lack of services tailored to different types of farms, a weak participation of the private sector, and poor monitoring system. Most agricultural research is carried out by state research agencies with limited funding and not able to meet the practical requirements of farmers and private enterprises.

**Agriculture is a priority sector for the government**

Agriculture is one of the key strategic sectors identified by the government of Viet Nam. An important feature of the policy framework is the establishment of five-year Socio-Economic Development Plans (SEDP). While MARD has the main responsibility for policy development and implementation, a large number of other central government ministries and agencies are involved. Furthermore, since fiscal decentralisation in 2002, local government has been given a greater role in planning and implementing agricultural policy. These factors create co-ordination challenges in agricultural policy development at the central and regional level.

**Five distinct phases of policy development**

Agricultural policy development since reunification in 1976 can be divided into five stages:

- 1976-86: The role of agriculture during the first decade following reunification was to support the development of heavy industry as part of a centrally planned system. Agricultural production was organised around co-operatives and state farms, with state-owned enterprises providing inputs and controlling output markets. Despite minor reforms to incentivise production, agricultural output failed to meet state targets leading to food shortages and contributing to a major economic crisis.
- 1986-93: As part of the broad *Doi Moi* renovation process to stabilise the economy and develop the private sector, the role of agriculture was elevated to one of primary importance. The focus of agricultural management moved from co-operatives to farm households. Farmland was redistributed to farm households who were given the ability to make their own production decisions provided they met certain production quotas. Broader reforms opened up the market to both greater domestic and international competition. Agricultural production rose sharply, becoming a key driver of overall economic growth.
- 1993-2000: The focus in this period was one of encouraging agricultural expansion. Institutional reforms were introduced to replace the gap left by the collapse of the

co-operative system, for example with the establishment of a national extension service and credit facilities for farmers. Production quota obligations were removed and further regulatory barriers to trade were gradually lifted. A large number of bilateral and regional trade agreements and partnerships were entered into to expand market opportunities. The improved policy environment was supported by a rapid increase in budgetary expenditure. At the same time, a Price Stabilisation Fund was created to stabilise the prices of essential commodities including urea, paddy and rice, coffee and sugarcane.

- 2000-08: This period marked the beginning of the move from expanding production towards greater emphasis on improving yields, quality and value. The goal being to create a modern and industrialised agricultural sector. Previous reforms were locked in and further actions were required as a result of further international integration at the bilateral, regional and multilateral level. The final few quantitative restrictions over agricultural imports and exports were removed.
- 2008-present: Two major resolutions are currently guiding agricultural policy development: Resolution No. 26/2008/NQ-TD and Resolution No. 63/2009/NQ-CP. The first emphasises development based on the market economy with socialist orientation; the second seeks to ensure national food security by guaranteeing adequate food supplies, particularly for rice. There is potential for conflict in achieving both at the same time. These two resolutions have been implemented through a number of documents, including the ARP to restructure the agricultural sector towards improving value-added and sustainable development.

### **Agricultural policy objectives**

Agricultural policy objectives are set out in a number of documents and plans. These often set specific targets and various actions for their achievement. In general, these objectives focus on achieving agricultural production growth through improving productivity, quality and competitiveness; developing infrastructure; improving the living standards of the rural population; strengthening the international integration of the sector; and using and protecting natural resources and the environment in a sustainable and efficient manner.

### **Agricultural policy instruments**

These policy objectives are pursued through the use of output and input subsidies, and payments for the provision of services to agriculture generally (Box 3). Very little use is made of less distorting forms of support such as payments based on land or farm revenue that are not linked to production.

#### **Box 3. Overview of agricultural policy instruments applied in Viet Nam**

##### **Domestic policy instruments**

- *Price support measures:* Farm gate rice prices are supported by a subsidy to rice purchasing enterprises for the temporary storage of rice during harvest and establishment of target prices which vary between regions and crop season with the objective of providing farmers with a profit of 30%.
- *Irrigation service fee exemption:* Prior to 2009, farmers paid a contribution to the cost of managing, maintaining and protecting irrigation works in the upper-level systems. An exemption was provided for most farmers in 2009, leading to a substantial increase in government support to irrigation and drainage management companies.

**Box 3. Overview of agricultural policy instruments applied in Viet Nam (cont.)**

- *Seed and livestock breeding subsidies:* Many programmes provide plant genetic and animal breeding material to farmers at subsidised rates. At the national level, these are often provided as part of the package farmers recover from natural disasters or disease outbreaks.
- *Credit schemes:* Since 2009, a number of policy packages have been introduced to provide farmers with cheaper credit to purchase machinery, facilities and materials.
- *Payment based on area:* In 2012, a direct per ha payment was introduced for rice farmers as part of a broad package of measures to protect and support the development of paddy land.
- *Insurance:* A pilot insurance programme was introduced in 2011, providing subsidised premiums to rice, livestock and aquaculture producers in 21 provinces.
- *Income support:* Since 2003, most farming households and organisations have been exempt from paying agricultural land use tax or have had the amount they pay reduced.
- *Extension services:* Central government funding for extension has been allocated through an open bidding process since 2001. It is essentially a top down, supply driven extension system.

**General services provided to the agricultural sector as a whole**

- *Irrigation:* Funding of irrigation capital works is the largest area of government expenditure supporting agriculture.
- *Research and development:* Despite increasing over the 2000s, expenditure on research is relatively small in comparison to other countries. An attempt to achieve greater co-ordination in research occurred in 2005 with the reorganisation of the various research agencies under the oversight of the Viet Nam Academy of Agricultural Sciences.

**Trade policy instruments**

- *Tariffs:* The simple average MFN applied agricultural tariff decreased from around 25% in the mid-2000s to 16% in 2013. A MFN applied tariff of 40% applies to a range of commodities including meat or poultry, turkey and duck, tea (green and black), grapefruit, milled rice, refined sugar, and many types of prepared or preserved fruits and vegetables. However, the average agricultural tariff is just 3.4% and 5.4% on imports from ASEAN members and China respectively.
- *Import licensing:* For the purpose of enforcing minimum quality or performance standards, MARD regulates the importation of veterinary medicines, pesticides, plant and animal strains, animal feeds, fertilisers and genetic sources of plants, animals and micro-organisms used for scientific purposes.
- *SPS and food safety:* Since joining the WTO in 2007, Viet Nam has made some progress towards implementing the requirements of the Sanitary and Phytosanitary Agreement. However, the regulatory regime still suffers from limited capacity, poor co-ordination and a large number of overlapping documents.
- *Export taxes:* These are limited to a narrow range of agricultural related products: raw hides, rubber and cashew nuts, although for cashew nuts the tax is zero-rated. Between July and November 2008, a progressive export tax regime was introduced on rice exports with the intent of limiting price increase on the domestic market.
- *Export licensing:* The government maintains a large degree of control over rice exports. Exporters must meet specific milling and storage requirements, and certain administrative functions are given to the Viet Nam Food Association (VFA). The VFA is highly influenced by two large SOEs: Vinafood I and Vinafood II. SOEs play a dominant role in the export of some other commodities such as coffee, rubber and tea.

**Box 3. Overview of agricultural policy instruments applied in Viet Nam (cont.)**

- *Regional trade agreements:* Viet Nam is a member of the Association of Southeast Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), World Trade Organisation (WTO), supports trade liberalisation between ASEAN members and their major trading partners in the region, including China, Japan, India, Korea, Australia and New Zealand and takes part in the Trans-Pacific Partnership (TPP) negotiations.

***The level of support to agriculture is relatively low***

Developments in agricultural policy can be assessed by changes in the level of support measured by the %PSE (Producer Support Estimate as a share of farmers' gross receipts) and the %TSE (Total Support Estimate as a share of GDP). Over the period 2000-13, the level of support was quite variable without revealing any distinct long-term trend. Nevertheless, the %PSE remained positive over most of this period, indicating that producers generally received moderate support. The level of producer support as measured by the %PSE averaged 7% in 2011-13; less than half the level of support provided to producers in China and Indonesia, and considerably below the OECD average of 18%. Nevertheless, the %TSE at 2.2% for 2011-13 is one of the highest and well above the OECD average at 0.8%. This shows that for a relatively poor country with a low GDP and large agricultural sector, even if agricultural support as measured by the PSE is low, the burden on the economy can be relatively high.

***Price support and input subsidies dominate***

Market Price Support (MPS) is the dominant form of support to producers. Given the importance of rice within the agricultural sector, the MPS value for rice drives the overall PSE. The dominance of MPS in Viet Nam's PSE explains the annual variations in producer support that are observed because they depend on movement in world and domestic prices, exchange rates and production levels. Furthermore, these swings are relatively greater in Viet Nam and often produce negative values because of the government's efforts to balance the interests between producers and consumers. On the one hand, the government wishes to increase prices received by producers to encourage production and improve farmer incomes. On the other, it wants to keep prices paid by final consumers at an affordable level to help alleviate poverty and avoid social tension.

Budgetary transfers have remained relatively constant at about 20% of producer support on average over the period 2000-13. Expenditure associated with subsidising the irrigation fee exemption remains the dominant payment. A hectare payment with the objective of keeping about 4 million ha in paddy production has been provided since 2012.

General services for the agricultural sector have remained relatively constant as a share of total support transfers, suggesting there has been little re-orientation of policies towards those that can benefit both producers and consumers. The most important GSSE category, representing around 85% of GSSE expenditure, is development and maintenance of infrastructure, which is dominated by expenditure on irrigation systems. Expenditure on some general services such as inspection and control and marketing and promotion receive relatively limited support.

### **Import-competing commodities are supported**

Producers of import-competing commodities such as beef and veal, poultry, eggs and sugar cane are highly supported, receiving prices for their outputs above international prices. This is mainly the result of border protection measures. In contrast, producers of export-competing commodities such as natural rubber, coffee, cashew nuts and tea are implicitly taxed in that producer are paid prices for their outputs that are lower than international prices. However, it would be incorrect to interpret implicit taxation of crop products exclusively as a policy outcome. For example, poor infrastructure can impede market adjustment and exacerbate any policy impact on prices, therefore contributing to the negative results.

## **Policy recommendations**

Over the next ten years, both domestic and international conditions will be more challenging for Viet Nam's agricultural sector than they were in the 1990s and 2000s. Prices of many commodities exported by Viet Nam declined over the last two-three years from the peaks seen in 2007-08 and are projected to fall further in real terms over the medium term, though remaining at or above the pre-peak levels (OECD-FAO, 2014). Most of the easy sources for lifting production, e.g. expanding land area, employing more cheap labour and using higher rates of fertilisers, have been fully exploited and negative environmental impacts are increasingly seen. These will become major challenges for Viet Nam, but will also open opportunities to adopt new technologies, to give incentives for larger farms and to focus attention on quality and higher value added products.

The set of policy reforms suggested below are derived from analysis undertaken in the Review and are designed as key building blocks to support increased agricultural productivity, competitiveness and sustainability. These recommendations are not exhaustive and should be interpreted as a starting point for government consideration, refinement and elaboration. In particular, choices will need to be made across this wide range of recommendations as to which policy actions should and can be implemented quickly, and which might be acted upon more gradually.

### **1. Improve the enabling environment for agriculture**

#### **1.1. Ease the re-allocation of factors of production across sectors**

- **Ease constraints on infrastructure development.** According to the MPI, public funding is likely to only cover around 40% of the costs of necessary infrastructure development over the next ten years. Private investment in infrastructure will also be needed and can be attracted by, amongst other things, ensuring a level-playing field between SOEs and private enterprises. The effectiveness of available infrastructure funding would be improved by enhancing co-ordination between national and sub-national governments, avoiding duplication between provincial governments and promoting an integrated approach to infrastructure projects.
- **Enhance labour mobility across sectors and across regions.** The importance of labour moving from agriculture to the non-agricultural sector in maintaining economic growth and in reducing poverty cannot be overstated. Migration from rural to urban areas raises incomes of migrants, contributes to higher incomes of migrants' families through remittances, raises the wage rates of agricultural labour remaining in the countryside as its supply shrinks, enhances information flows and training, and improves land and water availability for those who remain dependent on farming. Even though Viet Nam

has reduced enforcement of the registration system for rural residents that denied migrants access to a variety of public services in locations outside the locality where they were born and registered, it is important that vestiges of these rules do not get applied, and that every effort be made to allow migrants full rights and no restrictions. Stronger integration of farm and non-farm labour markets is required.

- **Further reform state-owned enterprises.** While this process is ongoing, reforming agro-business SOEs should be given even more attention. They often possess considerable monopsony or monopoly power in particular sectors, even if there is formally no restriction on new entrants. The use of industry associations such as VFA to implement policy needs to be fully reviewed, as there is a strong possibility for vested interests to limit competition. Efforts to open up various components of the food chain, including importing and exporting, to private firms are unlikely to be successful if the incumbent SOEs have sufficient market power to deter entry. This may delay adjustments to market signals, including those calling for higher-added value products to be supplied to domestic and international consumers. Thus, there is a need to reduce the SOE's role through privatisation, removing explicit and implicit support and guarantees provided to them, and easing entry of truly private domestic and foreign firms to all segments of the food chain to enhance competition and to bring a more innovative and modern processing and marketing environment.
- **Remove impediments for moving up the value chain.** In Viet Nam, a number of policies act as impediments to the development of value-added agro-food products for sale on domestic and export markets. For example, the land use restrictions limit the possibility of moving from low value rice to higher value fruit and vegetable production. Other opportunities include enforcing the food safety regulatory regime, which would improve consumers' confidence in products, both processed and unprocessed, originating from Viet Nam. Government's Agricultural Restructuring Plan rightly states as one of the "core principles" that the role of government will shift to being a facilitator, providing an enabling market-based environment for the private sector at farm and agribusiness levels. It is important to allow businesses to identify export opportunities and private firms are generally more aware of the micro data that are important to determine if the benefits exceed the costs for moving up the value chain.

## 2. Ease constraints on investment

- **Review investment promotion measures.** Cost-benefit analyses should be undertaken to evaluate the opportunity cost and the impact of existing investment incentives. Such incentives are currently granted on a case-by-case basis. Investors should be aware of which incentives they would be granted prior to investing which requires clarifying the current design and implementation of such incentives.
- **Improve access to finance.** Facilitating access to credit by producers requires the development of a much stronger and more competitive financial market, for instance by supporting the development of Co-operative Banks. Efforts to establish credit reporting systems, credit and assets registry systems (both for movable and fixed assets) and to develop financial services such as equipment leasing and warehouse receipts, should be sustained, while public subsidies should be reduced.
- **Strengthen the legal framework for PPPs.** PPPs can enhance the co-operation between public and private actors, thereby increasing returns from public funds through cost and

risk sharing and securing contributions that are more adapted to both public and private demand. The main conditions for forming a successful PPP include: common objective, mutual benefits, complementarity of human and financial resources, clear institutional arrangements, good governance, transparency and public leadership. The new legal framework for PPPs in agriculture, to be refined in two circulars that MARD is developing, should thus clearly state the respective roles and responsibilities of the public and private sectors.

### 3. Improve agricultural institutions and governance systems

- **Strengthen institutional co-ordination between MARD and other relevant ministries implementing programmes supporting agriculture.** There are a large number of cases, e.g. in providing financial support to agriculture or in food safety regulatory regime, in which co-ordination between various agencies both at the central government level and between central and local governments is weak. Responsibilities and functions of different agencies as well as of different levels of administration should be clarified to improve the effectiveness of public programmes in meeting stated objectives.
- **Strengthen transparency and accountability of publicly-funded programmes.** Coherent data on budgetary support to agriculture combining support from all sources, including various ministries, central and provincial governments, and overseas development assistance are missing. While data on budgetary expenditures on key programmes under the responsibility of MARD are publicly available, data on expenditures to support agriculture from other sources remain sporadic and not necessarily defined in a way allowing comparisons over time and matching them with other funds targeting the same objective. Moreover, while data on budgeted amounts are occasionally released, data on amounts actually spent are missing. It would be advisable to charge MARD with an oversight of overall public expenditures supporting agriculture, including those under the responsibility of other ministries and provincial governments. Transparency would improve: the assessment of the support provided to agriculture and rural areas, the monitoring of sub-national government performance by MARD, the co-ordination of funding to achieve stated objectives, and the reporting process of relevant data to international organisations such as WTO, FAO and OECD.
- **Base policy decisions on adequate and accurate information and build monitoring and review mechanisms into the policy process.** Reliable and timely statistics are necessary to assess the results of reforms undertaken so far, formulate policy responses and design policies for the future. While user-orientation of agricultural statistics has been improving, there are still areas which need further attention. The accuracy of data on agricultural commodity prices at the farm gate and wholesale levels, overall farmland versus forest area, farm structures in terms of actual land use pattern (not just legal use rights) is far from adequate. A more comprehensive and coherent system of monitoring, analysing and reporting of Viet Nam's agricultural policies will help analyse, assess and improve policy performance.

## II. Improve agricultural policy performance

### 1. Pursue food security through a broader range of measures

- **Enhance production and income diversification.** Better infrastructure and unrestricted labour mobility across regions and sectors would be key factors to promote access to off-farm work for farm families, thus providing them with higher incomes and improving their access to food. Diversification from rice production into high-value crops would allow

farmers to earn higher incomes from a given amount of land, thus improving their access to food. It would also release resources to increase supply of higher value products for domestic and international markets. Currently, a wide range of agricultural policy measures focus on rice, locking more resources into this activity than otherwise would be the case. In particular, the commitment to provide farmers with a 30% profit on rice production is an unsustainable objective for a major exporter.

- **Allow market-driven diversification of diet.** With growing incomes, rice consumption in Viet Nam has started to fall and this process should not be slowed by any interference in relative price ratios across food products.
- **Assess the effectiveness of current insurance schemes and of alternatives to them.** Insurance schemes are at the experimental stage in Viet Nam. Such schemes are designed to provide a tool for farmers to deal with income variations caused by pre-defined types of natural disasters and epidemics. In the long term, sound insurance schemes would allow for a more stable policy framework and can reduce the need for one-off support payments to farmers. These pilot programmes should be assessed before being extended across a wider range of provinces and commodities. Such evaluation would need to include the cost of the programmes, the extent to which benefits reached intended beneficiaries, the actuarial soundness of the system, and their cost-effectiveness relative to other policy alternatives. In the short-term, a subsidy on the insurance premium can demonstrate to farmers the value of insurance and can help create a relevant database for developing viable insurance schemes. However, in the long run, a wider package of policies can serve to equip farmers better with the information and tools needed to manage a wide range of risks normally associated with farming.

## 2. Enhance farm restructuring

- **Encourage farm consolidation.** For most commodities, there are economies of size that help reduce some categories of farm costs. Larger land holdings become more valuable when farm labour becomes expensive and when there are options to mechanise to save labour. Even if raising farm size is not yet an economic imperative, the process should not be discouraged. A useful initial step would be to remove any barriers to growth in farm size: a) removal of the land size upper limits and the restrictions to land transfers under the Land Law, b) improving the availability of farm credit, including to smaller and medium sized farms, c) improving rural education, training and extension so that farmers can learn about and operate more efficient production technologies that involve larger scale, and d) avoid policy distortions that alter factor price ratios.
- **Limit the scope of compulsory land conversions.** Most land conflicts could have been avoided if the legal framework did not allow for compulsory land conversions for so called “socio-economic development” uses of land. If instead voluntary conversions or transactions between the farmer and the investor were allowed, corruption would be reduced, the need for costly support mechanisms such as resettlement would be smaller and social unrest would almost certainly decline. This would not preclude state designation of certain land areas for specific uses, such as for public investment and military uses, or land areas where defined uses would be prohibited. A specific area might be restricted to agricultural uses. But within the allowed uses as defined by approved land use plans, land tenancy transactions would be voluntary between buyer and seller.



- **Base compensation for land on open market land prices.** The Land Law of 2013 refers to the principle of compensation at market prices, but how district or provincial party committees do this is left open, and compensation is still based on the agricultural use value, thus much below market prices for alternative uses of land. The negotiation over the price of land should be left to the buyer and seller, so farmers could negotiate a higher price if they chose and could do so. It would then be less critical to alter the procedures for compulsory takings and price arbitration for truly state uses of land such as for a highway, which account for a small minority of current land conflicts.
- **Remove restrictions on agricultural land use.** Designating 3.8 million ha for rice production exclusively is unlikely to be the best policy approach in a country exporting large quantities of rice. If the main objective is food security, there are more effective means of achieving it. Indeed, diversification to achieve lower risk is a measure that adds to food security and is a separate (and commendable) objective of the government. The restrictions on crop choice work against diversification. And if the goal is increased exports, farmers should not be prevented from producing higher-value crops.
- **Enhance transparency in land management.** Bribery and the lack of transparency constitute significant impediments to investment. Social conflicts and corruption in the land administration may be reduced by developing participatory land use plans to clarify land allocation, limiting compulsory land conversions, and allowing direct transactions between land users without state involvement. Participatory land use plans would define land preserved for agricultural use and would guide farmland conversion to non-agricultural use in designated areas. Simplifying the procedures to obtain land use right certificates and publicising the various related fees would also enhance transparency.
- **Enhance various forms of co-operation between farmers.** Producers lack trust in the large co-operatives that existed prior to 1986 even though they have been transformed and restructured. Smaller co-operatives created around specific commodities such as milk, vegetables, and horticulture, can function well and provide input and marketing services. If supported by extension services they could more effectively help farmers access agricultural inputs, training, technology, and market information.

### 3. Improve the efficiency of resource use to minimise negative impacts on the environment

- **Reintroduce the water fee for farmers to cover operation and maintenance costs.** While the waiver of irrigation service fees has increased farmer income, it has reduced the incentive for farmers to save water, made the national budget fully responsible not only for capital investment, but also for financing operation and maintenance costs, and diminished incentives for irrigation and drainage management companies to provide quality irrigation services. While the government could remain responsible for all capital investment in the irrigation systems, farmers should cover all operation and maintenance costs. Re-establishing a water fee based on a per unit of water charge rather than a per hectare charge as previously used would encourage greater water use efficiency.
- **Reinforce monitoring, compliance and enforcement of environmental legislation.** Viet Nam has undertaken efforts to enhance environmental protection, promote sustainable water use and forest management, reduce GHG emissions, and respond to climate change, but enforcement mechanisms are weak. Education and extension services should better

demonstrate to farmers the short- and long-term benefits from implementing environmental legislation, e.g. lower production costs through reduced use of chemicals, particularly in areas characterised by overuse of such inputs.

#### 4. Reinforce agricultural innovation systems

- **Improve the institutional design of agricultural research and development.** Despite increasing by an average rate of 11% per annum between 2000 and 2012, government funding for R&D remains relatively low. Improving Viet Nam's domestic capacity to develop and improve plant varieties, improve animal breeding and develop technological solutions for farmers should be complemented by much greater efforts on more effective adoption of technologies developed by technology leaders. Good co-ordination with international, regional and sub-regional research networks would be important to improve Viet Nam's absorption capacity and to up-grade the national research system. To increase the available funding, the government should explore ways to harness the considerable R&D capacity in the private sector, for example through designing effective public-private partnerships. However, any increase in funding should be linked with a stronger focus on research that meets the practical needs of farmers and on areas going beyond primary production, such as post-harvest, processing, product hygiene and safety and environmental protection.
- **Re-orient the focus of agricultural education and extension services to improve farm management skills.** The current focus on primary agricultural production needs to be re-oriented to areas such as: marketing skills, preparation of business plans, co-operation arrangements between farmers, and use of more environment-friendly methods of production. The current top-down approach, with the government deciding what extension advice is to be provided to farmers, should be re-oriented towards a greater role given to farmers who could guide extension services according to their needs. While the current use of a competitive bidding process for the selection of extension projects creates the possibility for more efficient allocation of resources, there appears to be potential for overlap in projects awarded at the central and local government levels.

#### 5. Further integrate into international agro-food markets

- **Improve the transparency of non-tariff measures affecting agro-food imports.** Viet Nam has made significant steps in removing quantitative restrictions on trade. However, less transparent forms of licensing for the purpose of quality control, the collection of data, or the issuing of government guidance about what should or should not be imported have been introduced. While the policy objective of ensuring quality control is legitimate, the licensing system should not be used as a non-tariff barrier to trade. The import tariff quotas that exist for eggs, sugar and unmanufactured tobacco should be auctioned off to increase competition rather than given to existing end users. If there is no demand for product, then consideration should be given to removing the tariff quota altogether.
- **Strengthen the capacity of policy-making and implementation in quarantine and food safety.** This action is needed to ensure the protection of human, plant and animal health, improve Viet Nam's regulatory reputation and support the export of value-added agricultural goods. It is important that import requirements for food safety, quarantine, and standards and labelling purposes are implemented in a transparent manner, consistent with international guidelines and practice. This would help to facilitate the achievement of Viet Nam's ambitious goals on both trade and food security.

- **Overhaul the current system for controlling rice exports.** The current system creates a conflict between the objectives of improving the market orientation of the sector and ensuring food security. It limits competition, creates market uncertainty and reduces the incentive to develop long-term marketing arrangements. The result is a continued focus on supplying low-quality rice. The failure of the system to prevent the transmission of rising world prices onto the domestic market in 2008 suggests that the rationale for maintaining the policy in place is not sound.

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