Policies for Investment and Growth in Vietnam

Tran Cong Thang and Nguyen Le Hoa
Institute of Policy and Strategy for Agriculture and Rural Development, Vietnam

1. Investment and growth situation in Vietnam

In the past 10 years, the agriculture sector in Vietnam posted a steady growth with GDP growth of 4 % / year. This is a fairly high level of growth compared to the world average. However, compared with the growth rate of the industrial and the service sectors, the agriculture sector is still left behind especially when the two remaining sectors have the average growth increase at 10.1 % / year and 6.5 % / year.

In the period 1995-2007, agriculture GDP increased quite slowly compared to other sectors of the economy such as industry and service, from 51 trillion VND to 82 trillion VND (1.6 times increase), while GDP of the industry sector increased from $58 trillion VND (with a starting point is quite similar to agriculture sector) to 193 trillion VND (more than 3 times), and GDP of service sector from 86 trillion VND to 182 trillion VND (more than 2 times). The proportion of the agriculture sector to total GDP decreased rapidly from 26.2% in 1995 to only 17.9% in 2007. Social investments in 2005 for agriculture sector accounted for 7% of the total investments for all economic sectors, and this figure is only about 1/3 of the GDP amount generated by the agriculture sector for the economy. Until 2012, it is estimated that social investment rate for the agriculture sector decreases and just accounts for about 5% of the total economic sector.

According to MARD, within the stakeholders investing in the agriculture sector, the public sector is the most important one. Investment capital of the state budget was 16.7 trillion VND, which accounted for 18.7% of the total investments for agriculture sector in 2001-2005. The largest source of investments in the agriculture sector is from the state-owned enterprises, and cooperatives with 37.7 trillion VND, accounting for 44%. The private sector's investment in the agricultural sector was 17.3 trillion VND, a half compared to state-owned enterprises and has no significant growth in recent years. This proves that agriculture is not attractive enough to entice investment in this sector of the economy. At the same time, the amount of FDI capital for agriculture sector is very low, only about 8.2 trillion VND from 2001 to 2005. FDI increased sharply from 2001 to 2004, but tended to slow down from 2005. In 2012, the FDI for the agriculture sector was only about 2 trillion VND.

Regarding public investment, currently it is very difficult to get data that will separate investments from MARD and the other Ministries / other sectors and provinces in the agriculture sector. At the same time, it is difficult to find data to separate items of public investments in agriculture sector. Current data on the investment program of the Ministry of Agriculture and Rural Development shows that investment for irrigation has accounted for the largest share in the total investments of MARD for the agriculture sector. This investment mainly focuses on the upgrading of existing facilities, canals and modernizing management and exploitation of irrigation works and safety management of reservoirs. Since 2005, the Ministry of Agriculture and Rural Development has mobilized resources through government bonds to invest in emigrant programs and rural socio-economic infrastructure projects.

2. Overview of policies affecting the relationship between investment and growth in agriculture sector of Vietnam

In the early years of the 21st century, Vietnam is still an agricultural country with 70 % of the population living in rural areas and over 57% engaging in agricultural labor. By 2012, the proportion of Vietnam agriculture sector still accounted for about 18% of the total GDP. To achieve the objective of sustainable and equal agricultural and rural development, the state has promulgated a series of policies to create momentum for the development of agriculture and rural infrastructure in order to attract more domestic and international investments into rural areas. The policies have certain positive impact which has changed fundamentally the rural areas in recent years, including business law, cooperative law, investment law, the tax policy, policy education and health, etc.

2.1. Enterprise Law

Enterprise Law was first issued on 01/01/2000 substituting for Private Enterprises Law and the Law for limited liability company and joint stock company. This law aims to encourage the development of the private sector by creating a more freedom business environment and reduce complex procedures. One of the most progressive steps is the "one stop mechanism", under which the enterprises just only need to pass an administrative agency to complete the business procedures. Business registration time was reduced to 7, or even 3 days in several provinces. Enterprise Law also expands the scope of the business and diversifies "type of business and investment opportunities, including the creation of fundamental limitation to manage at the enterprise level". With above reforms, the law has helped to increase the number of newly registered enterprises nationwide to 217 % after 4 years (CIEM , 2005). However, the Enterprise Law has been criticized (CIEM, GTZ, UNDP, 2004) because it limited the scope within the domestic private enterprises, even though these enterprises only accounted for over 10% of the GDP. The state-owned enterprises and foreign companies remains the object of other laws, and therefore they are treated differently. Other weakness of this law are the follow:

- There exists a large number of inappropriate licenses and sublicenses and lack of systematic facilities to deal with the new regulations;
- Lack of an effective national system to avoid duplicate names of the enterprises. This weakness is related to ineffective implementation of intellectual property laws in Vietnam today;
- The unreasonable limit on foreign investments into local enterprises; and
- The legal framework is not effective in the management of joint stock companies leading to the low interests of shareholders. The decision-making method is also not democratic.

According to Chu Tien Quang (2003), this law does not the meet requirements of the new business fields arising in the process of international integration. The weakness in law implementation and monitoring caused a large difference between the number of registered enterprises and the actual number of enterprises in the market. The weakness in the management of enterprises created condition for risky investments in the form of the company and thereafter caused fraud which led to damage of individuals' reputations and the “fall” other enteprises. The number of enteprises regularly reporting financial status just accounted for only 30% to 35% of the total number of enterprises. It is due to complicated procedures and lack of specific guidance.

With the effort to resolve these weaknesses, the new Enterprise Law was issued on 29/11/2005. This law aims to four targeted groups including Limited liability company, joint stock, joint ventures, and private enterprises. A major change of this law is the introduction of foreign enterprises as part of the law's scope. However, the state-owned enterprises are still subjected to be adjusted by other laws. This law aims to reduce the bureaucratic procedures, completes the management for four types of enterprises, and strengthens the management of the enterprise to eliminate illegal businesses. However, many enteprises complain that the number of licenses are not reduced but just simply switched from one form to another. According to CIEM, 150 types of authorization papers were eliminated according to the Steering Committee for implementation of the old Enterprise Law. Nevertheless, the current number of licenses has reached at least to old numbers, even much more. According to VCCI, the total number of current papers is 300.

2.2. Cooperatives Law

Cooperative Law which was enacted in 1996 and amended in 2003, confirmed the government's support for the new and dynamic cooperative, with operation mode following the bottom-up approach. The Cooperative mainly aims to ensure equilization than profit. This law upgraded the cooperatives to the same level with the enterprises. The cooperatives then can legally sign contracts with enterprises, export products, and have other rights under the law. Under the new laws and decrees, decisions, new forms of cooperatives are encouraged, capacity of cooperatives has increased significantly. The average size of cooperative decreased from 21 members in 2001 to 9 in 2005, marking the simplification of the system. Meanwhile, the average capital size of each cooperative increased from 240 million to 889 million in the same period. However, the number of cooperatives has decreased slightly from 7333 to 7130 due to the dissolution of the old cooperative. It promises that the number of newly established cooperatives will steadily increase (GSO, 2008).

Still the Cooperative Law has been criticized for not yet actually encouraging investments. According to the Ministry of Planning and Investment of Vietnam, approximately 300,000 cooperative groups have not been registered so they meet difficulties in activities. However, these groups also do not want to become cooperatives because if they are registered, they will have to meet other unnecessary constraints.

2.3. Investment Law

Investment Law was issued on 29/11/2005. This law includes the Law on Domestic Investments and the Law on Foreign Investments, for the domestic and foreign enterprises. This law strengthens the regulatory environment by maintaining a certain number of rights and continuing to support the enterprises even if the new laws and regulations are issued. The law also simplifies investment procedures by not requiring the investment projects under 15 billion VND and outside a list of conditional investment areas to have registration. However, this law failed to create specific incentives and effectiveness for enterprises investing in rural areas. Although the law refers to support tax and extends land use time in mountainous and remote areas, the support policies are still vague and allow local governments to adjust depending on the situation. The lack of specific guidelines has led to differences in investment environment in various provinces and inconsistent policies for attracting investments into "difficult" areas.

Besides, the government also implemented the state credit programs for investments and development (investments and development credit, export credit, supporting for investment interest rate) to develop agricultural and rural economy; giving priority of ODA fund for agricultural development from loans of the World Bank, ADB, AFD, using projects and programs on rural credit, rehabilitating irrigation projects, rural infrastructure.

2.4. Land Law

Land Law was enacted in 1993. The initially laid the foundation for the legal management of the state and land use of the rural residents and enterprises. Due to some unreasonable issues in implementation, the Law was amended in 1998, 2003, and the last time was in 2013 to create a more favorable environment for stakeholders to use and manage land in the most effective way. Land Law 2003 has solved some of the problems that the previous laws were still facing, such as land clearance to serve economic development. A new point of land clearance is the implementation of the “one stop mechanism”, the enterprise that only has to apply for land to the Department of Natural Resources, and not have to directly apply to the other departments as before. This Department will be responsible for coordinating with relevant departments to solve the application problem. However, according to the recommendations of the enterprises to the Prime Minister in 2004, the Law did not specify the coordination form of departments, so actually they still had to apply through many related agencies. In addition, the law had not yet set a time frame for administrative agencies to resolve application, so the waiting time is heavily affected by investments of enterprises. Another issue is that the Law which lets the enterprises to compromise themselves with farmers in clearing the land. According to former Deputy Minister of Natural Resources and Environment, this decision will "promote the dynamism of the enterprises." Contrary to the expectations of the law, enterprises had most constraints regarding this issue, because many households refused to cooperate or increased high prices to put pressure on enterprises. Investment of the enterprises were therefore seriously stalled.
However, there are also a number of support policies on land. Specifically, enterprises will be supported 50-100 % of compensation costs, land clearance for large projects, industrial zones. In addition, the enterprises that does investing in the regions, such as in remote areas, are also supported in terms of land rent or some land fees (CIEM, 2006).

2.5. Tax policy

The tax policies are so far difficult to fully understand not only for enteprises but also for the tax authorities. The advantage of the current tax laws (Law on Enterprise Income Tax and Law on Value Added Tax) is that it generally considered economic sectors as equal so it created a relatively common tax framework. However, the related tax policies also have a number of problems such as: complex procedures of tax reimbursement, tax declaration, while the ability of rural enterprises is limited. The reimbursement term gets time consuming, but there is no motivation as well as resolving forms so that the tax authorities can complete the tasks on time; to get value -added tax refund it requires input invoices, while the purchase of rural enterprises is sometimes in the informal basis and they do not have sufficient invoices; the tax policies are both complex and loose, causing the different ways in law implementation in each province, or even each tax officer; regulations on reasonable costs create inequality between state and non state sectors; Decree No. 88 dated 11 July 2005 on "policies to support and encourage the development of cooperatives" regulates that cooperatives having activities in the field of agriculture, forestry and fisheries are exempted from enterprise income tax for income from service and production activities but until now, there is still no implementation guidance.

In addition, there are also other specific tax policies. In 2001, the Government adopted a resolution amending and supplementing a number of socio-economic operational measures in 2001, in which it regulates the exemption or reduction of agricultural land use tax: tax exemption for poor households, agricultural households under Program 135 and reducing 50 % of agricultural land use tax for rice and coffee areas. In 2003, the Congress issued a resolution No 15/2003/QH11dated 17/6/2003, which provides tax exemption of agricultural land use from 2003 to 2010. Implementating the resolutions of the National Assembly, the Ministry of Finance issued Circular 112/2003/TT-BTC dated 19.11.2003 of exemption and reduction of agricultural land use tax. According to this, from 2003 to 2010, the agricultural land of households, state owned farm members, members of cooperatives, the entire area of poor households and agricultural production households in special difficulties communes are exempted of agricultural land use tax; as for exceeded land area and land of households which do not belong to the above list, they are reduced by 50% of agricultural land use tax. Law on encouraging domestic investment (amended in 1998) stipulates incentives for some areas and industries for the development of agricultural economy and rural areas, such as afforestation, forest regeneration; planting trees on fallow land, bare hills; reclaiming; salt production; aquaculture in unexplored waters; offshore fishing; processing of agricultural, forestry and aquatic products; technical services directly serving agricultural, forestry and fishery production; in areas that are having difficult socio economic conditions, there will be some incentives including: exemption or reduction of land use fees, land rent, enterprise income tax, exemption of supplemented income tax...

Regarding value added tax, the Law No. 07/2003/QH11 dated 17/6/2003 on amending and supplementing a number of articles for value added tax law including: Objects are not subjected to value-added tax including horticulture, livestock, fisheries, aquaculture products, which have not yet been processed into other products or preliminarily processed by organizations and individuals; breeds; plant varieties; salt products; irrigation and drainage serving agricultural production; clean water from organizations and individuals to serve daily life activities in rural, mountainous areas, island, and remote regions. Objects are subjected to group of low tax rates including products in the field of agriculture and rural development such as fertilizers, ore to produce fertilizers; pesticides and growth stimulants for livestock, crops; unprocessed crops, livestock, fisheries, and seafood products; fresh foods; unprocessed forest products; sugar, byproducts of sugar production, including molasses, bagasse, etc; products made by sedge, bamboo, leaves; domestic processed cotton; cattle, poultry and other livestock feeds; services directly serving agricultural production.

Enterprise Income Tax Law was passed by Congress and implemented from 01/01/2004, states that: Households, individuals, cooperatives, agricultural production cooperative attaining income from crops, livestock, aquaculture products are not subjected to enterprise income tax; the tax is exempted or reduced for investment projects for establishing new businesses belonging to investment encouraging sectors and regions, cooperatives are allowed to apply tax rate of 20%, 15 %, 10 %; investment projects for establishing new businesses belonging to investment encouraging sectors, regions and economic business is relocated under planning, economic business is moved to investment encouraging areas in the province are exempted for this tax with a maximum of 4 years, since they get taxable income and they are reduced to a 50% maximum payable tax in the next 9 years; the enterprise income tax is exempted for the business income

including: income from implementing the scientific research and technological development contract, from the products which are in the process of production testing, products which are made from new technology applied for the first time in Vietnam; the income from implementing the technical services contract which is directly serving agriculture; income of cooperatives, individual households that produce and trade goods and services with low income; enterprise income tax is reduced for businesses using a large number of labor, laborers are ethnic minorities; enterprise income tax is exempted for the income from vocational activities reserved for people belonging to ethnic minorities.
Based on the import and export tax policies in each period, the Standing Committee of the National Assembly, Government shall regulate import duty, export duty for a list of items; of which it gives high priority to agriculture and rural development such as encouraging agricultural product exports by providing an export tax rate of 0%; implementing the protection of domestic producers by regulating high tax rates for the imported agricultural commodities and agricultural inputs which can be produced domestically.

2.6. Credit policy

In 1999, Decree No 43/1999/ND-CP on state development investment credit was issued. It regulates lending form for investment development. From 1999 to date, the Prime Minister has issued Decision 66/2000/QD-TTg dated 06/13/2000, Decision 393/1997/QD-TTg, Decision 132/2001/QD- dated 07/09/2001, Decision 184/2004/QD-TTg dated 22/10/2004 regulating that the provinces can access preferential credit loans (through the Development Assistance Fund, nowadays it is the Vietnam development Bank) with 0% interest rates, the Central bank will subsidize interest rate for Vietnam development Bank to invest in permanent canals, rural roads, infrastructure of rural villages, offshore vessels for fishing and infrastructure for aquaculture. At the same time, the provinces are responsible to allocate funds from local budgets and mobilize people's contribution (in cash, materials and working day) to implement the projects and programs with the State preferential credit.
Decree No 106/2004/ND-CP on state development investment credit also limits the target group getting preferential credit for development investment and encouragement to 14 groups belonging to the manufacturing sectors. At the same time, the Decree also raises interest rates for credit of up to 70% interest rates of medium and long term loans of state-owned commercial banks, in order to create equality in investment and development loans between public and private sectors. Decree No 90/2001/ND-CP on supporting SME development also regulates the establishment of the Credit Guarantee Fund for SMEs, using capital contributed by commercial banks to provide capital support to businesses when they are not able to mortgage. However, in many provinces, this fund has not been established yet because the banks do not want to contribute to the fund.
In addition to the above large laws and policies, a number of other decisions and decrees were issued to assist enterprises, especially enterprises in rural areas (CIEM, 2005): Decision No. 132 / 2000/QD-TTg dated 11/24/2000 of the Prime Minister on policies to support handicraft village in rural areas and Decree No. 90/2001/ND-CP dated 23/11/2001 of Government on the establishment of institutions to support small and medium enterprises; Decision No 80/2002/QD-TTg 24/06/2002 of the Prime Minister on policies to encourage consumption of agricultural products through contract farming; Decree No. 44/2001/ND-CP of the Government on the right of enterprises to engage in import and export activities, etc. ...

2.7. Policies to attract investment of enterprise into agriculture and rural

In order to encourage enterprises to invest in agriculture and the rural areas, in 2010, the Government issued Decree No. 61/2010/ND-CP. This Decree regulates a number of incentives and additional investment support of the State for the enterprises which have investments in agriculture and the rural areas. According to this Decree, the enteprises are supported in terms of land such as exemption or reduction of land use fees; exemption or reduction of land rent, water rent from the State. The State also supports enterprises to invest in agriculture in terms of human resources training with the support for micro-enterprises, small and medium-sized enterprises respectively 100%, 70% and 50% of training funds. In addition, a number of other support are also implemented.

For example, market development support, consulting services support, science and technology application support, land transporation cost support.

Decree 61-2010/ND-CP of the Government is issued to address the existing shortcomings which led to the neglect of some enteprises to available incentives policies, or the enterprises which are not fully interested in investing in agriculture, and the rural areas when there are too many risks that can occur. However, over the last two years of implementation, that Decree could not really play the role as expected. Therefore, in 2013, new Decree 210/213/ND-CP was issued on 19 December 2013. In addition to retaining the advantages of Decree 61, Decree 210 has added many new points such as identifying responsibilities of the implementing agencies; the process of receiving support, conditions to receive preferential support; written commitment to support the enterprises when completing their investments; direct support from the budget for difficult provinces to build essential infrastructure.

Decree 210 also has specific instructions about incentives and support that enterprise will be received in each field such as support for investment in slaughtering houses for cattle and poultry; support for investment in livestock facility; support in the production of medicine trees; support for investment in marine aquaculture; support for investment in processing facilities for paddy, maize, cassava, sweet potato, coffee; support for investment in processing of wood exploited from production forest in the North West provinces and those provinces belonging to the poor districts under Resolution 30a/2008/NQ-CP of the Government. These solutions are the basis to attract investment from enterprises, contributing to resource development to innovate organizational forms and linkages between economic sectors in the rural areas, to promote production and processing technology, and development of markets.

These new additions and changes are necessary but as for the operation of the enterprise, the leading factor for making investment decision is the profit rather than to receive support from the state budget. So, to let the Decree 210/2013/ND-CP promote its efficiency, the core issue is to remove the "barriers". For example, the fragmentation of production organization; the risk of natural disasters and epidemics; market price, low efficiency in management of food quality and food safety; unstable material areas; lack of legal basis in linkages between enterprises and farmers. That is the root of the problem to create a competitive and healthy investment environment so that the enterprises can have good condition for their business and production in the agricultural sector and rural areas.

3. Policy recommendations

3.1. Policy on mobilizing investments into agriculture sector

- Ensure that the investment rate for agriculture sector in total social investment must be at least equal to the contribution rate of agriculture sector the GDP of the economy. The ICOR estimates show no evidence that investments in the agriculture sector is less efficient compared to other economic sectors. At the same time, demand analysis shows that increasing investments for the agriculture sector bring highest benefits for the entire economy in terms of growth, income, employment and social stability. That means investments in the agriculture sector should be increased by up to 18.7% of total investments in the economy, and the increase is 2.6 times more than the present.
- Ensure that public investment accounts for 50% of total investment in the agriculture sector. However, public investments should focus on developing and upgrading the infrastructure system, especially for irrigation facilities. For investment in irrigation, priority is for the Red River Delta, Mekong Delta to help expand the area and increase cropping seasons because the restriction on land is the main factor constraining productivity and growth in these areas. When increasing public investments for other infrastructure, it is important to consider carefully the effectiveness of public investments for other rural infrastructure systems such as roads, electricity, telecommunications, land reclamation, afforestation to ensure positive impact of these investment programs for the production of enterprises, cooperatives, agriculture farms and households.
- Increase public investments in the field of science and technology, education and training to ensure that these investment sources contribute most positively.
- In terms of state investments for state-owned enterprises operating in the agriculture sector, there is a need to re-evaluate the performance of these enterprises, cut subsidies, and decisively renovate these enterprises through form of equitization. This is the key to enhance the contribution of the state-owned enterprises to growth, particularly for agriculture and the forestry sectors.
- In addition to public investments, private funds need to be established to support preferential loans to other economic sectors to invest in the agriculture sector, ensuring that investments for the agriculture sector is equivalent to the contribution of this sector to the total GDP.
- Implement the stimulus program through public expenditure on products having strong links with the domestic economy such as rice, other crops and livestock.
- Technical support for improving the quality of competition, market information and trade promotion for sectors which have good potential for export such as crops, fisheries and forestry.

3.2. Investment Priority

As for the whole agriculture sector, investment priorities should focus on rice, industrial crops, livestock and fisheries to promote the growth of the agriculture sector to the highest level. The priority of investments should focus on the following regions:

- Mekong Delta: rice, animal husbandry and fisheries.
- Central Highlands: Perennial crops and food crops (beyond rice).
- Southeast: Perennial crops and food crops (beyond rice).
- Red River Delta: rice, livestock and fisheries.

For agriculture enterprises, the priority is for supporting investments in state and private small and medium scale enterprises in the agriculture and fisheries sectors.
For agricultural cooperatives, the priority is to support investments for small and medium-scale agricultural cooperatives, operating in the agricultural sector. For small and medium scale fisheries cooperatives, the support is only for the Mekong River Delta, Northeast and North Central regions.
For agricultural farms, the investment support is prioritized for small medium and sized farms that produce rice, food crops, livestock, fisheries and perennial crops.
For agriculture households, investment priority is for households who have under 1ha of land size, with main production in rice, animal husbandry and fisheries. The households who have more than 3ha of land but having lack of capital, and produce rice in the Mekong Delta, livestock in the Red River Delta, Central Highlands, Southeast and Mekong Delta Long Red River, and fisheries in the Red River Delta, Central Highlands, Southeast and Mekong Delta.

3.3 Investment climate improvement

To improve the investment climate in agriculture, promote the development of the economic sectors especially the enterprises, a series of policy recommendations were given by researchers. These policies focus on improving investment management, investment environment support, in which the focus are on the following issues:

- Establish a specialized agency for the management of FDI, as a bridge between investors and policy makers for investments. The goal of this agency is to assist investors in the establishment, preparation, and implementation stages of investment projects. In addition, this agency is also responsible for supporting the management of state agencies in the formulation of investment policy.
- To partly solve the problem of cumbersome procedures, in addition to policy adjustments, it is necessary to raise awareness and understanding of leaders and sector managers, local authorities about the spirit of the Enterprise Law, the Party and State 's policies on the private economy. The moral education for staff is important to reduce negative situations that still occurs in some places today.
- In order to overcome the fragmentation of materials, inefficient production, there should be an establishment of priority list to focus on some desired sectors, rather than the lack of investment strategy at present. To achieve this, we need to find out the existing strengths of Vietnam and focus to enhance them. This is particularly important in the context of international integration.
- Reduce investment barriers by reducing investment costs, simplify procedures for market entry and market exit. This policy will particularly bring forth positive effects to small and medium enterprises, which have low capital.
- The completion of the General Enterprise Law and Investment Law is also essential because the current laws have been conflicting, unclear, and are deemed confusing not only for businesses but also for people working in administrative agencies. The law is unclear so it creates constraints, causing inconvenience for many businesses. Currently, these two laws are still constantly being refined. However, this process needs to be speeded up even more to keep up with international integration. The above laws also need to be revised to create equality among different types of enterprises: state-owned enterprises, private enterprises

and foreign enterprises. Policies to support for enterprises and investments, as well as policies to attract FDI, should also focus more on regions where poverty is prevalent.

- The other policies to improve the investment environment are: to strengthen infrastructure development, especially in rural and mountainous areas; rural labor training; completion of markets for factors of production, such as labor market, real estate market, which make the access to these markets easy, flexible in term of price, space and time. Besides, under the direction of the Ministry of Agriculture and Rural Development, we should improve the efficiency of agricultural investment and development, sustainable use of natural resources. The agriculture sector will focus on the following important investment capital solutions:

1. Readjust the investment capital structure in the development of the agricultural sector towards more efficient direction;
2. Innovation in planning and allocating development resources, linking closely the planning with budgets;
3. Diversification in mobilizing investment capital and creating conditions to increase funds raised from the private sector, households, foreign direct investment into the development of the infrastructure, agricultural and rural services;
4. Enhance information systems, transparency in the development of orientation, planning of the sector to let many stakeholders be involved, implement and monitor the performance.

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