

Impact Assessment of Credit and Investment Promotion Policies for the New Rural Development Program in Vietnam

Dao The Anh
Agro-economist,
Vice-president of Vietnam Academy of Agricultural Sciences (VAAS)

Nguyen Ngoc Mai
Farming system,
Senior researcher,
Vietnam Academy of Agricultural Sciences (VAAS)

INTRODUCTION

Vietnam's New Rural Development program (NRD) is a comprehensive program that has been implemented nationwide (in nearly 10,000 communes) for a long period, from 2010 until 2020. Due to its significance, large investments have been mobilized from different resources (from the government, businesses, people, communities, and so on) for the implementation of this program. There are also policies designed to make use, directly and indirectly, of resources from other programs and projects.

NRD is an unprecedented and integrated rural development program. Many mechanisms and policies needed for the program are, therefore, not synchronized or even absent. Accordingly, the NRD has been implemented in a manner of learning by doing, resulting in the fact that many related policies have been amended in recent years to adapt to the real situation.

The NRD focuses on residential communities which play both the roles of an actor and beneficiaries of the program. The aim of the program is to meet the needs of rural population based mainly on social resources. In 2011-2013, VND 485 trillion (equivalent 22 billion US\$) was mobilized for the NRD implementation, of which 33.4% was from the state budget, 47.7% from credit capital investments, 6% from businesses, and 13% from the people's contribution. Nevertheless, there is still a large shortfall to meet the needed capital investment as initially stated in the Decision 800.

Thus, it is necessary to have an impact assessment of the NRD policies, particularly the ones for investment attraction from other resources rather than the government, in order to make amendments to existing policies and to better support the NRD implementation. The focus of this paper will be placed on two major policies: the credit policy for NRD as stipulated in the Decree 41/NĐ-CP dated April 12, 2010 and the policy to promote business investment in Decree 61/2010/NĐ-CP dated June 4, 2010.

METHODOLOGY

Data collection

- Secondary data: documents and reports of the NRD pilot program as well as related research materials and policies within the scope of the paper.
- Primary data:
 - Participatory Rural Appraisal (PRA) to collect information from local people, authorities, and experts;
 - Expert meetings with banking institutions and management agencies at provincial,

- district, and commune levels;
- Structured survey with households, enterprises, and trained workers;
- Case studies of both individuals and groups.

Survey location

Seven provinces from seven socioeconomic regions have been selected for the survey based on the following criteria:

- Each province represents a socioeconomic region.
- Each province has a commune for the NRD pilot in 2009-2011, which was strongly influenced by the initial policies.

Respondents

- Provincial level: NRD Coordination Unit, Department of Agriculture and Rural Development (DARD); Department of Labor, Invalids and Social Affairs (DOLISA); Department of Planning and Investment (DPI); local State Bank of Vietnam (SBV); local Bank for Agriculture and Rural Development (Agribank); local Vietnam Bank for Social Policies (VBSP); and two commercial banks.
- District level: working with NRD Steering Committees and local Agribank and VBSP in one district (each province) that has a central-level exemplary NDR commune.
- Commune level: three communes each province, of which one is a central-level exemplary NRD commune and the other two are referred by the provincial authorities. In each commune, working with NRD Steering Committees, one PRA with 25 people including commune and village officials and people to discuss the impact of NRD on the local socioeconomic life, difficulties and policies to support if any.
- Working with three enterprises investing in agriculture and rural areas, who enjoy the incentives set in Decree 61; 45 households of different groups in terms of living standards and production activities to consult about their access to credits and vocational training, income improvement, and their opinions on the impacts of new infrastructure.

Sample selection

- Due to differences of the two policies, the sample selection is made depending on the purpose of each policy:
 - Credit policy: Based on the list of borrowers in three surveyed communes collected from the district branches of Agribank, 25 households borrowing from credit institutions in each province were randomly selected. The sample size is 195 households in total.
 - Policy to promote business investment in agriculture and rural areas: Since Decree 61 has not been implemented in many localities, the selected respondents in each surveyed province were three enterprises investing in the sector. In province where Decree 61 is active already, the priority was given to enterprises enjoying preferences under the Decree. The total number of surveyed enterprises was 21.

The indicators for output and impact assessment

The indicators for assessment of agricultural and rural credit policy

- The indicators for output assessment: (i) agricultural and rural loan outstanding

- balance; (ii) proportion of agricultural and rural outstanding loans to the total outstanding loans of the economy.
- The indicators for impact assessment: (i) the growth rate of agricultural and rural outstanding credits to the growth rate of total outstanding credits of the economy; (ii) proportion of agricultural and rural credits to the total credits of the economy; (iii) the average value of unsecured loans; (iv) proportion of agricultural and rural outstanding credits from private institutions; (v) expansion of credit institutions providing agricultural and rural credits.

The indicators for assessment of policies for the promotion of agricultural and rural investment

- The indicators for output assessment: (i) number of enterprises entitled to incentives and support; (ii) money amounts of incentives and support to enterprises; (iii) conditions for enterprises to be entitled to incentives and support.
- The indicators for impact assessment: (i) proportion of newly registered capital investment in agriculture and rural areas; (ii) proportion of enterprises investing in agriculture and rural areas; (iii) proportion of enterprises agreeing that incentives and supports help to facilitate their investment in agriculture and rural areas.

RESEARCH RESULTS

Impact assessment of agricultural and rural credit policy

Policy overview

The credit policy for agricultural and rural development was issued under Decree 41/NĐ-CP dated April 12, 2010, replacing Decision 67/QĐ-TTg since 1999. On June 14, 2010, the SBV issued Circular 14/2010/TT-NHNN guiding the implementation of Decree 41. Decree 41 was created to overcome the limitations of Decision 67 since small loans did not help meet the demand for investment in production. Moreover, commercial banks were not interested in providing loans in agricultural and rural development and the land tenants or people who did not have land use right certificates (LURCs) were not able to access to credits for social policies.

There are six groups of borrowers according to Decree 41: (i) households and households doing business in rural areas; (ii) individuals; (iii) farm owners; (iv) cooperatives or farmer groups in rural areas; (v) organizations and individuals providing services of plantation, husbandry, and consuming and exporting products of agriculture, forestry, fishery, and salt; (vi) enterprises processing agricultural products or doing business in the fields of industry, commerce, non-agricultural services whose business establishments are in rural areas.

Eight preferential sectors for lending include: (i) loans for production in agriculture, forestry, fisheries, and salt; (ii) loans for occupation development in rural areas; (iii) loans for infrastructure construction in rural areas; (iv) loans for processing and marketing agricultural, forestry and fishery products and salt; (v) loans for the sale of products and services for agriculture, forestry, salt production and aquaculture; (vi) loans for industrial production, trade and non-agricultural services in rural areas; (vii) consumer loans for improving the lives of rural people; (viii) loans under the Government's economic programs. Thus, the capital loans are basically allowed for all socioeconomic sectors in rural areas.

Maximum loan amount: the maximum amount of loans without collateral asset is (i) up to VND 50 million (equivalent 2273 US\$) for individuals or households that are agricultural, aquacultural, forest and salt producers; (ii) up to VND 200 million (equivalent 9091 US\$) for households that are involved in rural industries or provide services related to agricultural and rural development; (iii) up to VND 500 million (equivalent 22727 US\$) for cooperatives and farm owners. The Decree also clearly stipulates that households can use the LURCs or the certification by Communal People's Committee of land use right in the application for unsecured loans.

Besides, Decree 41 stipulates policies on capital addition and risk reduction for credit institutions making agricultural and rural development loans; provisions regarding the participation of credit institutions making loans for agriculture and rural areas; provisions regarding the responsibilities of individuals and organisations concerned...

Evaluation of policy implementation

However, at the central level, the Ministry of Finance (MOF) and the State Bank of Vietnam (SBV) have yet to issue the guidance on debt classification, provision for credit losses related to agricultural and rural development loans, and mechanism to address non-performing loans related to agricultural and rural development loans without collateral assets. The absence of those guidance makes credit institutions hesitant to promote unsecured lending.

Decree 41 clearly stipulates that the Ministry of Agriculture and Rural Development should provide guidance for households, cooperatives, farm owners and other actors in preparing agricultural production proposals as the basis for loan applications. However, the survey of 195 households in 07 provinces that took out loans revealed that assistance to households in proposal development is provided only by banks.

At the provincial level, Provincial People's Committees (PPC) have issued the directives on the implementation of Decree 41, highlighting the coordination responsibilities of the provincial branches of the SBV, credit institutions, and line provincial Departments to implement the Decree 41 in the provinces. In addition, provincial PPCs have issued the official letters requesting the respective provincial branches of the SBV to instruct the credit institutions in the provinces to expand the lending activities in the communes of new rural development program for the period 2011-2015. There was no significant difference among the provinces in this regard; the provinces generally issued two types of policy documents: (i) the directive of the provincial PPC on increasing the credit for communes of new rural development program; and (ii) the instruction of the SBV (provincial branch) for credit institutions to offer loans in accordance with Decree 41.

As for the profile of the borrowers, reports of the provincial branches of the SBV showed that loans taken out by individuals made up the bulk, accounting for 45.97% of the total outstanding loans. They were followed by loans made to households which accounted for 30.96% and loans granted to enterprises which made up 22.94%. The amount of loans given to farms and cooperatives was meager. By the end of 2012, loans for farms accounted for as low as 0.03% of the total outstanding loans. The figure for cooperatives and farmers' groups was merely 0.09%. The main cause was the fact that most of cooperatives in the rural areas did not have the collateral assets (LURC, other assets...) and farms was still waiting for the grant of their LURC or the farm status certification. The land-attached assets (e.g workshops) or production projects of cooperatives were not considered the collateral asset for loan application. Additionally, the effectiveness in the economic operation of cooperatives and farmers' groups was still limited. This high level of risks involved was the main reason why banks refrained from making loans to cooperatives. For example, the

report of the Ha Tinh provincial branch of the SBV revealed that of the 114 cooperatives operating in the rural areas, 103 cooperatives (90.4%) did not meet eligibility criteria to get a loan. Of the 11 eligible cooperatives, 9 cooperatives did not have the demand for loans.

Individuals, households, farms and agricultural services provider in wards and towns are not entitled to incentives stipulated in Decree 41. This treatment is not appropriate because many wards and towns have agricultural production as their principal economic activities and the income of inhabitants thereof is still dependent on agriculture.

As for the sectoral composition of loans, outstanding loans are recorded in all 8 sectors with *the majority of the loans granted for production development*. Particularly, outstanding loans for agriculture, forestry, fishery and salt production accounted for 49% of the total amount, followed by credit granted for development of rural industries (12.1%) and credit for agricultural processing and trade (10.1%). Outstanding loans for rural infrastructure development made up the lowest percentage of the total amount at 1.71%. Banks considered loans related to infrastructure development highly risky. Conversely, small loans for production development involved less risk. Plus, this was also in line with the focus of Decree No. 41 on promoting credit for production development.

For the 7 provinces survey as a whole, the average value of unsecured loans was VND 13.8 million (equivalent 627 US\$). Compared among the provinces, Bac Giang province posted the highest average value of unsecured loans at VND 20.1 million (equivalent 914 US\$) while the lowest average value at VND 11 million (equivalent 500 US\$) recorded in Ha Tinh province. Thus, the average value of unsecured loans was still very far from the maximum threshold at VND 50 million (equivalent 2273 US\$) per loan as per the expectations in Decree 41. The survey results also pointed out the limited access to credit of some types of borrowers such as farms and cooperatives. Specifically, in Lam Dong province, the average value of unsecured loans for households and business households was VND 15 million (equivalent 682 US\$) while farm owners did not have access to this kind of credit.

Results of credit policy implementation

According to the data of the SBV, as of December 31, 2013 outstanding loans for agriculture and rural areas nationwide stood at VND 671,986 billion (equivalent 30.54 billion US\$), up 19.67% year over year, higher than the growth rate of economy-wide outstanding loans at 12.51%. Compared to the end of 2009 (prior to the promulgation of Decree 41), the amount of outstanding loans for agriculture and rural areas increased 2.29 times. Generally speaking, the percentage of outstanding loans for agriculture and rural areas in the total economy-wide outstanding loans hovered around 20%.

In addition to the regular “channel” of commercial credit provision, there were credit programs for poor households and other target groups under government preferential social policy in the rural areas of the VBSP. As of the end of 2013, the outstanding loans under the programs of VBSP amounted to VND 121,698 billion (equivalent 5.53 billion US\$), up 6.83% year over year. The number of borrowers was as large as 2 million, primarily under a number of large credit programs such as: credit for poor households, loans for student with difficult conditions, credit for households performing productive activities in areas with difficult conditions, loans for clean water and environmental hygiene in rural areas, credit for employment creation, home construction loans for poor households...

Evaluation of the impacts of the credit policy for agriculture and rural areas

The impact of Decree 41 on credit provision for agriculture and rural areas

According to the data of the SBV, outstanding loans for agriculture and rural areas has strongly increased since the promulgation of Decree 41. Particularly, the amount of outstanding loans as of December 31, 2013 was 2.29 times higher than that in 2009. This trend was also confirmed by the survey done in the 7 provinces. The linear regression results demonstrated that the amount of outstanding loans grew by VND 873 billion (equivalent 38.68 million US\$) each year in the provinces.

Decree 41 caused the substantial expansion in the credit provision for agriculture and rural areas in the past years. Under the instruction of provincial PPCs, outstanding loans for communes under the new rural development program increased rapidly and accounted for a large proportion of the total outstanding loans for rural areas. The past period also saw the increase in the number of non-state credit institutions participating in credit provision for agriculture and rural areas as well as their more active engagement in providing loans for agriculture and rural areas. However, that change on the part of those non-state credit institutions, especially joint stock commercial banks, was induced by the economic crisis. Under those circumstances, the level of risks involved in credit for agriculture and rural development was lower compared to other sectors. Following the Decree 41 promulgation, the proportion of outstanding credit for agriculture and rural areas in the total outstanding credit increased in a number of provinces, especially provinces with strong agricultural sector. By contrast, in the provinces with decreasing proportion of agricultural sector in the provincial GRDP, the percentage of outstanding credit for agriculture and rural development was on decline.

Impact of credit on rural households

First, credit helped rural households, though not many (9.2% of the number of households obtaining loans), develop new livelihoods. New livelihoods included both agricultural and non-agricultural activities. Households tended to use the loans to expand the productive activities, to pay for fertilizer or hire labour, especially in the provinces like Lam Dong and Binh Phuoc. The survey also revealed that there was no significant difference among the seven provinces in terms of new economic activities generated from access to credit. Second, credit generated income-boosting effects. 71.3% of households surveyed responded that the loans helped them increase the income from the productive activities. Third, credit produced positive impact on households' living conditions. 66.1% of households indicated the improvement in the family living standards thanks to the loans from banks.

In summary, credit had positive impacts on productive activities and living conditions of the rural households, thereby contributing to rural development. Easier access to credit for rural population would produce positive effects on new rural development program.

Limitations of Decree 41

- The Ministry of Finance (MOF) and SBV was slow to issue the guidance on debt classification, provision for credit losses related to agricultural and rural development loans, and mechanism to address non-performing loans related to unsecured loans for agricultural and rural areas.
- The lending mechanism as stipulated in Decree 41 was not appropriate for cooperatives and farmers' groups in rural areas. Therefore, these groups had very limited access to preferential credit in reality.
- The stipulation that the beneficiaries of the preferential credit policy should reside in rural areas (communes) was not appropriate. It is a matter of fact that some ward or town residents still involve in the same activities or share the same field with

other rural residents.

- There is a lack of preferential treatment for credit for rural infrastructure development. Therefore, the proportion of outstanding loans for production development in the total outstanding loans was the highest while that of outstanding loans for infrastructure development was the lowest.
- The average value of unsecured loans was still small and much lower than the level as per the expectation of Decree 41. The main reason was the absence of a mechanism for dealing with bad debts and non-performing loans in relation to unsecured loans.
- There was no policy in place to encourage the provision of medium- and long-term credit, which caused the difficulties for people in rural areas in accessing the medium- and long-term funding.
- The feasibility of the preferential credit policy for households covered by agricultural insurance was low because the system of agricultural insurance in Vietnam was nascent and still in the period of experimentation.
- The stipulation that moratorium may be granted in case of natural disasters and widespread epidemics were not appropriate. Such a policy failed to provide timely assistance given the diversity of risks currently faced by the currently fragmented system of agricultural production.
- Incentives stipulated in Decree No. 41 were not attractive enough for credit institutions to expand credit for agriculture and rural areas.

To sum up, Decree 41 provided for a number of measures to encourage credit institutions to expand credit for agriculture and rural areas as well as creating easier access to credit for rural households. However, the feasibility of those measures was limited because the necessary conditions for the effective policy implementation were still lacking.

Evaluation of the incentive policies for enterprises investing into agriculture and rural areas

Policy overview

By the incentive policy for enterprises investing into agriculture and rural areas issued under Decree 61/NĐ-CP dated June 4, 2010 of the Government, the Ministry of Planning and Investment was the lead agency in issuing Circular 6/2011/TT-BKHDT dated June 6, 2011 guiding the implementation of Decree 61.

The targeted beneficiaries of the incentives and support stipulated in Decree 61 are investors with agricultural projects eligible for special investment incentives, agricultural projects eligible for investment incentives and agricultural projects eligible for investment promotion.

Substance of incentives and support: investors with agricultural projects eligible for special investment incentives, agricultural projects eligible for investment incentives and agricultural projects eligible for investment promotion are entitled to land incentives (related to land use levy, land lease, land accumulation, land for worker accommodation); micro-, small- and medium-size enterprises with agricultural projects eligible for special investment incentives, agricultural projects eligible for investment incentives and agricultural projects eligible for investment promotion are entitled to support in human resource training, market development, consultancy services, science and technology application, transportation fee subsidy.

Decree 61 provides for a wide variety of incentives and support for enterprises. However, the expenses related to the implementation of those incentives and support are

covered by provincial budget.

Under Circular 06, an enterprise with investment project in agriculture and rural areas that wants to enjoy the incentives and support in accordance with Decree No. 61 should, in the first place, obtain the “Certificate of additional incentives and support for enterprise investing into agriculture and rural areas” (shortly referred to as the Certificate). After obtaining the Certificate, the enterprise shall continue to apply for different types of incentives, depending on the characteristics of the investment project. So, before the investment project can enjoy particular incentives and support, the enterprise should make two applications: for the Certificate and for the incentives.

Evaluation of the policy implementation

Among the seven provinces surveyed, only Ha Tinh province established the Steering Committee for the implementation of Decree 61. Some provinces did not issue the provincial policy documents for implementing Decree 61 but promulgated incentive policies for enterprises investing into the provinces, e.g. Binh Phuoc province promulgated the Regulation on the policy for investment incentives and promotion for investors in Binh Phuoc province; Nam Dinh province promulgated the Regulation on the policy and mechanism for encouraging and supporting investment into industrial points in the rural areas of Nam Dinh province. In those provinces, enterprises investing into agriculture and rural areas are the beneficiaries. Some provinces such as Kien Giang did not issue the guiding document, using Decree 61 itself as the basis for implementation in the province.

Department for Planning and Investment (MPI) was assigned as the lead agency in implementation of Decree 61. In Ha Tinh province, the implementation followed the procedures prescribed by the Ministry of Planning and Investment. A number of enterprises surveyed in Ha Tinh also appreciated the way the Decree 61 was implemented by the relevant provincial authorities. Kien Giang and Bac Giang provinces also followed the procedures stipulated by the MPI for Decree 61 implementation. However, the process of obtaining the Certificate was very time-consuming for the enterprises. The reason was that the relevant departments and agencies were too slow in providing opinions and judgement, which made it take longer time than stipulated to grant the Certificates for the enterprises. Quang Nam, Lam Dong, Binh Phuoc, Nam Dinh have yet to implement Decree 61.

The survey revealed that the incentives stipulated in Decree 61 were not widely communicated to enterprises which were the targeted beneficiaries. The primary cause was the stipulation in Circular 84 of the MOF that the provincial authority was responsible for funding related to implementing those incentives. The provincial Departments of Planning and Investment indicated that the provinces still faced fiscal deficit and were not capable of providing budget for Decree implementation. As in the case of Quang Nam, Lam Dong, Binh Phuoc, Nam Dinh provinces, when enterprises contacted the relevant authorities to ask for more detailed information and procedures on how to enjoy the incentives stipulated in Decree 61, they were not be able to get the guidance needed but were told to wait for further information.

In contrast, Ha Tinh, Kien Giang and Bac Giang provinces have communicated the policy to enterprises. The provinces established the list of enterprises and investment projects in agriculture sector and rural development, sent official letters to enterprises with information on incentives that enterprises are entitled to, and/or organized meetings to provide consultation and guidance for enterprises on relevant procedures. For example, the Department of Planning and Investment of Kien Giang province published the incentives policies prescribed in Decree 61 on the newspapers and departmental website, sent departmental officials to enterprises interested in Decree 61 to provide guidance for the

latters on how to complete the necessary formalities to enjoy the incentives in the most convenient and quickest manner. The Department of Planning and Investment of Ha Tinh province hosted a training course for line departments, agencies, enterprises and co-operatives to communicate the incentives stipulated in Decree 61 and provide guidance for enterprises on the formalities to obtain the Certificate.

The reason why some provinces have yet to implement Decree 61 or only carried out partial assistance was the fact that the provinces must use their own resources to support the enterprises as prescribed by Circular 84 of the MOF. Therefore, it was difficult for poor provinces which were still facing with fiscal deficit to implement Decree 61.

Investment attraction policy implementation results

Within two years of Decree 61 implementation, only 10 out of 63 provinces/cities issued the Certificates. The number of enterprises enjoying the incentives was 44, accounting for 0.002% of the total 25,760 enterprises investing into agriculture and rural areas. The forms of incentives and support granted primarily were the reduction and exemption of land tax and fee for land and water surface lease.

The amount of funding used for granting incentives in 2010: in terms of land incentives: VND 3.89 billion (equivalent 176,818 US\$), in terms of investment support: VND 4.28 billion (equivalent 194,545 US\$), in the form of packages combining land incentives and investment support: VND 1.4 billion (equivalent 63,636 US\$).

The amount of funding utilised for granting incentives in 2011: in terms of land incentives: VND 4.44 billion (equivalent 201,818 US\$), in terms of investment support: VND 29.47 billion (equivalent 1.34 million US\$), in the form of packages combining land incentives and investment support: VND 7.11 billion (equivalent 323,182 US\$).

The survey of 21 enterprises in seven provinces comprising of both the enterprises that did not receive the incentives under Decree 61 and the enterprises that already enjoyed those incentives, revealed that as many as 70% of the enterprises did not have any knowledge of Decree 61, including the incentive policies for the enterprises. The remaining 30% of the enterprises, which already obtained the certificate and enjoyed the incentives, commented that it was very time-consuming to complete the necessary formalities for obtaining the certificates. After that, they still had to make application for the incentives stipulated in the certificate granted. Many enterprises felt frustrated because they had to spend a lot of time but the value of incentives offered was not substantial. Particularly in Kien Giang province where the incentives were granted to many enterprise and the value of incentive was considerable, 100% enterprises surveyed responded that the preferential policies prescribed by Decree 61 did not take the reality into full account. The policies also failed to reflect the real difficulties that the enterprises currently were facing with such as limited market for their products and lack of resources for investment into production. Therefore, the incentives provided by Decree 61 did not have much impact on the development of the enterprises at the present.

Evaluation of the impacts of investment attraction policy

Few enterprises enjoyed the incentives and support and value of support provided to enterprises was low, mostly in the form of reduction and exemption of the fee for land use and land lease. Therefore, the impact of Decree 61 was very limited. The measures stipulated in the Decree did not constitute the breakthrough in promoting enterprises' investment into agriculture and rural areas as expected. Most measures in the form of direct assistance from state budget were not implemented. That kind of assistance to enterprises

was still mostly provided through other government programs in operation in the localities such as the project on training 1 million rural labourers up to 2020 (according to Decision 1965/QĐ-TTg of the Prime Minister), National Foundation for Science and Technology Development, industrial promotion program...

Limitations of Decree No. 61

Decree 61 provides for a variety of incentives and support for enterprises with investment projects in agriculture and rural areas. However, those measures could not be fully implemented due to the following reasons:

- The provinces were not able to arrange for the resources needed in providing support for enterprises, especially the provinces facing fiscal deficit and receiving subsidies from central government. The guidance policy documents were slow to be promulgated and the financial mechanism was unclear. As a result, the provinces found it difficult to implement the policy.
- The value of incentives and support was low: the incentives and support stipulated did not commensurate with the risks involved in the investment into agriculture and rural areas. A majority of the enterprises suggested that the incentives prescribed by Decree 61 were not substantial while the formalities were complicated, failing to encourage enterprises to carry out investment projects in agriculture and rural areas. The support provided for in the Decree did not really match the needs of the enterprises.
- The mechanism of the Decree was complicated. The support was divided into small components such as consultancy, vocational training, research, marketing, fee subsidy... The calculation of these items was not straightforward, which made enterprises unable to predict the support to be received. Besides, the authorities also found it hard to implement the policy.
- The application for incentives was complicated. Enterprises in the provinces where the Decree 61 were not implemented suggested that it was tough to get access to the incentives. To enjoy the incentives, enterprises must go through many formalities. Even for small support (consultancy, training, etc.), enterprises still need to obtain the Certificate first. This was unnecessary and highly unproductive. According to the enterprises, investment projects in agriculture and rural areas should be automatically granted incentives. However, under the regulation, they had to make application for incentives. Therefore, most enterprises were not interested in the incentives prescribed in Decree 61.
- The provision regarding the organization of Decree implementation for line ministries and provincial authorities was unclear, causing some confusion during the implementation. The guidance on Decree implementation was not issued in a comprehensive manner. The information on the Decree was not widely and timely disseminated, leaving many enterprises unaware of the policies.

Due to those limitations, Decree 61 did not have significant impact on the ground. To replace Decree 61, the Government promulgated Decree 210/NĐ-CP dated December 19, 2013 on incentive policies for enterprises investing in agriculture and rural areas.

The novelty of Decree 210

Regarding the beneficiaries: Decree 61 targeted micro-, small- and medium-sized enterprises. Decree 210 stipulates that the incentives and support are available for all enterprises with agricultural projects eligible for special investment incentives, agricultural

projects eligible for investment incentives and agricultural projects eligible for investment promotion.

Regarding the substance and level of support: Decree 210 generally provides for investment support in terms of human resource training, market development and science and technology application. The norms of these kinds of support do not differ from Decree 61. However, the support in terms of transportation cost subsidy and infrastructure development are specified for each particular field of activity.

Decree 210 provides for specific cases entitled to investment support. For each specific case, Decree 210 stipulates the substance of support and the eligibility criteria.

Decree 210 stipulates seven areas covered by investment support policies. The Decree prescribes the substance and norms of support provided and the eligibility criteria, making it convenient for authorities and enterprises to determine the particular support to be granted.

Regarding capital sources and investment support mechanisms: Decree 61 stipulated that the provincial budget should be responsible for covering investment support in agriculture and rural areas, but it did not specify the percentage of the provincial budget appropriate for that purpose. To fill the gap, Decree 210 clearly prescribes that both central budget and provincial budget shoulder the financial responsibility. Each year, the provinces should set aside between 2% and 5% of the provincial budget for investment support activities in accordance with Decree 210. The central budget shall contribute between 60% and 80% of the resources needed for investment support, depending on the fiscal position of the provinces. This provision resolved the major limitation of Decree 61 that is the lack of sufficient budget for investment support purpose for provinces. That way, Decree 210 is likely to encourage the provinces to enhance the policy communication to prospective investors.

The problems with Decree 61 which have been resolved by Decree 210 are:

- The provinces receive the support from central budget to implement the incentive policies for investment into agriculture and rural areas.
- The contribution rate from central budget and the percentage (2%-5%) of provincial budget set aside for incentive policy implementation are clearly specified.
- Detailed provisions regarding the substance and norms of support as well as the eligibility conditions for receiving support have been put in place. Transparency is therefore enhanced, making it more convenient for both authorities and enterprises to implement the policy.

However, some problems remain with Decree 210 as follows:

- The formalities for enjoying the incentives are considered cumbersome and involve a high level of discretionary decision-making.
- There are too many types of support with some kinds of support being not significant in value. However, enterprises have to obtain the Certificate and complete the formalities if they wish to enjoy any kind of support.
- Decree 210 stipulates that the investment support shall be disbursed in two installments. The first tranche of 70% of the total support is disbursed when the investment component of the project is finished. The remaining 30% of the support is disbursed when the project is accepted by the authorities. This provision makes the enterprises bear the borrowing cost to implement the activities entitled to support.
- The policy does not pay attention to the current problems which enterprises are facing with: sale of products, investment capital, supply areas, raw material supply areas, high level of investment risks, and so on.
- The circular providing guidance on Decree implementation has yet to be in place so that the provinces have not proceeded to the implementation.

Conclusion and recommendations for policy improvement

Conclusion on positive and negative impacts of NRD policies

Credit policy under Decree 41

After Decree 41 was promulgated, the SBV issued Circular 14/2010 and Circular 20/2010, guiding the implementation of credit policy for NRD. However, the guidelines on debt classification, use of the risk reserve fund for agricultural loans, and mechanisms for dealing with unsecured debts were not provided, causing difficulties for credit institutions and hindering the promotion of unsecured loans.

Provinces, therefore, have actively provided directions to the banking system for agricultural and rural development loans, propagandized the policies, and supervised the implementation.

Credit institutions prefer to provide loans for households, individuals, and enterprises since they have collateral and less likely for cooperatives and farmer groups often due to their lack of collateral and their poorly-rated performance. Households, individuals, and organizations that have agricultural production but reside in urban areas (wards or townships) are not able to access loans by credit institutions as stated in Decree 41. Loans from these credit institutions serve mainly production purposes with highest proportion of 49% for production activities of agriculture, forestry, fishery and salt production. Loans for rural infrastructure accounted for the lowest proportion (1.71%) since loans for infrastructure construction are often of higher risk while small loans for production are less risky.

The average value for a secured loan is VND 13.8 million (equivalent 627 US\$), much lower than the maximum allowable rate of VND 50 million (equivalent 2273 US\$) for a loan to an individual or household. Credit institutions still provide short-term loans (up to 12 months), which accounts for 64.1% of the total outstanding balance. Because of the instability of agricultural production while there is an absence of agricultural insurance, short-term loans would be easier to manage. Preferential loans for people with agricultural insurance have not been provided yet because most of farmers are not currently having insurance.

Thanks to Decree 41, the loan outstanding balance has increased sharply in recent years. This steady tendency in the share of loans for agriculture and rural development, even in the time of crisis and credit supply tightening, is considered a positive impact of Decree 41. Decree 41 also facilitates the involvement of commercial banks, resulting in an increase in the share of outstanding balance of these private credit institutions to the total loan outstanding balance of agricultural credits.

Agricultural credits have helped also generate more employment opportunities and income for the people. This result confirms that improving rural people's credit access helps improve their livelihood and contribute effectively to the NRD program.

Promoting the involvement of enterprises under Decree 61

Decree 61 was promulgated in 2010 but only implemented in ten among 63 provinces. The number of enterprises that enjoyed preferential treatments was 44, accounting for 0.002% of the total number of enterprises investing in rural development. Enterprises also receive preferential treatment on land but most of them do not know about it since provinces do not implement the policy. Meanwhile, enterprises who are aware of Decree 61 hesitate to apply for the treatment because of complicated procedures for only a small amount of money.

Moreover, Decree 61 defines that the money to support enterprises would be from the local budget, so provinces do not have funding to implement the policy.

Decree 210 was promulgated to replace Decree 61 and to deal with the issue by clearly defining the norms and conditions for receiving support in eleven different sectors. However, Decree 210 has not resolved the problems for enterprises investing in agriculture and rural development.

Recommendations for policy improvement

Credit policy for agriculture and rural development

- It is necessary to provide instructions on (i) debt classification, use of risk reserve fund for rural loans and (ii) mechanisms for dealing with bad debts and loans without collateral.
- Beneficiaries of agricultural credit policies should include all people and households active in agriculture, forestry, fishery, and salt production regardless their location of residence or production. Households engaged in agricultural production in rural areas should be entitled to preferential loans under Decree 41 even when they live in urban areas (wards or townships).
- Credit institutions are often reluctant to provide loans for agriculture and rural development due to high transaction costs. In order to encourage credit institutions, particularly private ones, there should be a policy of preferential interest rate for agricultural credit. The support should be from the state budget. Also, credit institutions providing medium and long-term credits for agriculture and rural development should have preferential interest rate and tax reduction.
- There should be also studies for the promulgation of policies for better credit access of cooperatives and farmer groups. Valuable assets, such as machinery or workshops, should be allowed to be collateral and more responsibilities of the members of cooperatives and farmer groups are needed. Accordingly, cooperatives or farmer groups have to obtain agreement of its members for the loans, and the members are responsible for paying off the loans in case their cooperatives or groups fail to do so. Although it means more procedures for cooperatives/farmer groups, the loans will be more secured this way. Nevertheless, this solution might only be applicable to those who have a small number of members (not suitable for such a cooperative with hundreds of members as in the North).
- Credit policy should target villagers for village infrastructure construction. Currently, the government subsidizes little for the village infrastructure construction and the major contribution is from village communities or households. However, with limited financial capacity of the people, large sums of money cannot be mobilized in a short time. In order to support villages to build infrastructure, credit institutions should be allowed to provide credits in the following ways: (1) Proposal for credits should be made by village representative and clearly state the total amount of money for the loan and how much each household in the village would shoulder in case the village fail to pay off the debt; (2) Agreement and commitment of households should be reflected in a signed statement for specific amounts they would shoulder (which could vary by household); (3) The proposal needs to be certified by commune people's committee for their pledges to urge villagers to repay on time.
- Preferential loans for cooperation models: the SBV is currently piloting the lending to enterprises for agricultural development under Resolution 14/NQ-CP dated March 5, 2014 by the Government. Accordingly, enterprises cooperate with

farmers to produce and consume agricultural products are entitled to preferential loans. This policy is getting the attention of the business. It is necessary to have a report on situation of the pilot to soon implement the policy. In addition, it is necessary to study the mechanism to lend both cooperatives and enterprises also.

- Holding LURCs as collateral for unsecured loans should be removed to allow households to access loans from other banks.

In addition, to encourage more provision of agricultural credits, it is necessary to accelerate the implementation of agricultural insurance to reduce risks for credit institutions. The government should soon issue so as LURCs of residential land and LURCs of agricultural land (expired in 2013) for households to access loans since banks do not accept expired LURCs.

Policy recommendation for promoting investment of enterprises in agriculture and rural development

It is recommended to early promulgate the circular to guide the implementation of Decree 210. Although the Prime Minister issued the Directive 09/CT-TTg on April 25, 2014 to request the Ministry of Planning and Investment to issue the circular before June 30, 2014, there are still no guidance so far to provinces and cities for the implementation of Decree 210.

Decree 210 should be revised to simplify the procedure for preferential policies on corporate income tax, taxes on the use of land, water surface, and provision of credits at favorable interest rate to better support enterprises.

Although Decree 210 is more progressed than Decree 61 by defining the central and local budgets and support conditions for 11 sectors, many problems have not yet been resolved for enterprises to invest in agriculture and rural development. It is therefore necessary to improve the policies following below suggestions:

- To revise the corporate income tax rate. The current rates applicable to enterprises investing in extremely difficult areas are as same as those for investors in economic zones and high-tech parks where the government develop infrastructure well. Enterprises investing extremely difficult areas, thus, should enjoy lower income tax for their projects of special investment incentives. More specifically, enterprises should have corporate income tax exemption in the first 10 years and the tax rate of 5% in the 10 following years for projects of special investment incentives in extremely difficult areas; and corporate income tax exemption in the first 5 years and 50% tax reduction of 5% in the 10 following years for projects of special investment incentives in difficult areas.
- To further support enterprises investing in agriculture and rural development with preferential credit provision in accordance with Resolution 14/NQ-CP dated March 5, 2014 of the Government on lending to promote cooperation between enterprises and farming households.
- To promulgate soon the policies and guidelines for the implementation of PPP in agriculture and rural development for the commitments of local authorities to investors to fortify their confidence and to eliminate the “ask-give” practice.
- The government should increase investments in infrastructure, particularly roads and electricity for large production areas to attract investors in product processing and consumption.
- To build planning for large areas of agricultural production and make it publicized for enterprises, as well to build the list of PPP investment projects to call for investors.
- To allocate ground for production and doing business, particularly for handicraft

enterprises.

- To build mechanisms to protect investors for their investment in developing raw material areas and to avoid the unfair competition from businesses which do not invest.

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