

## Attracting FDI in agriculture and rural development- status and solutions for improvement

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### Background

During the past time, foreign investment in agriculture and rural development has been still limited, not equal to the potentials as well as the advantages of Vietnam and seemed to be decreased. In addition, the efficiency of FDI projects in this field is lower than that of other fields. Thus, this report is aimed to assess the status of foreign investment in agriculture and rural development, and to recommend measures to improve the competitiveness and efficiency of attracting and using foreign investment in this sector.

### Method of study

- Analysing, synthesizing information, documents, official publicized reports relating to the study by Ministry of Agriculture and Rural Development (MARD), Ministry of Planning and Investment (MPI), and other international organizations
- Getting comments from localities, enterprises through survey questionnaires and organizing a site investigation to have a direct exchange with them to collect information relating to the Study.
- Organizing workshops, meetings for representatives of ministries, sectors, localities, enterprises and experienced experts to exchange directly among them.

### Scope of study

- Policies to attract foreign investment in agriculture & rural development, related international commitments, and experiences of some regional countries (ASEAN members, China)
- Status of FDI in Agriculture and Rural Development
- Viewpoints, objectives, requirements, orientation and major measures to improve efficiency of attracting FDI in this field.

### The main study results

#### *A. Status of FDI in Agro- Forestry – Rural areas*

The main achievements of FDI in Agro-forestry - Rural areas as follows:

- Firstly, FDI projects in this field have contributed to the supplementation of capital source for investment in its development and increasing the revenue source for the State budget.
- Secondly, the projects' activities have initiatively implemented the guideline of agro-forestry and rural areas economic structure transition, contributing to the diversification of products, improving the value of exported agricultural goods and acquiring new technologies.
- Thirdly, it has created more new employments, increased income for local inhabitants and improve socio- economic life of many agricultural and rural areas

#### *B. Shortcomings of FDI in Agro- Forestry & Rural areas:*

- Low proportion of FDI in this field, just about 7% and continuously decreased since 1988.
- FDI in this field has not fully promoted the country's potentials.
- Unbalanced distribution among different localities.
- Lack of diversity of foreign partners.

Following are factors that considerably restrict FDI in both quality and quantity in this field:

- **Agro-forestry** production in general and attracting FDI in this field suffer from more risks than other fields due to the impacts of weather, climate, weakness of infrastructure, land and human resources.
- Vietnam's agriculture is still in severe characters of small production, self-supply, scattered investment and lack of specialization.
- Unclear strategy and orientation of attracting FDI in this field.
- Laws, mechanism and policies of FDI in this field are not appropriate or attractive to foreign investors.
- FDI promotion and mobilization activities are not effective.

### *C. Objective, viewpoint and orientation in attracting FDI in Agro-forestry and Rural areas*

Objective: Effective attracting and using FDI is the important solution for agriculture and rural economic structure transition towards the orientation of industrialization and modernization.

#### *Orientation of attracting foreign investment in agriculture and rural development:*

- Ensuring to comply with the planning and economic structure of sector, region, and the planning of material areas.
- Saving and improving the efficiency of land using.
- Using the local material source effectively and creating more jobs for farmers.
- High feasibility especially of project sites, consumption markets, material supply sources.
- Combining big-scale projects which affect significantly the economy in general and agriculture sector in particular with medium-scale projects in difficult socio-economic to ensure the regional and sector economic structure.
- Subsectors / products need to attract foreign investment:
  - o Cultivation and agricultural products processing
  - o Livestock and livestock products processing
  - o Forest planting and wood processing

## **Conclusion and recommendations**

Through the Study, the following options of policy groups are given to improve the efficiency of attracting FDI in the sector.

- *The first option:* Improve the efficiency and quality of making development planning and plan of each subsector/product based on the linkage with objectives, tasks, and development measures stated in the Plan of agriculture and rural development period 2006-2010 as well as in the Strategy of attracting and using FDI by 2010 and in following years. Localities and subsectors, based on these plannings, formulate the list of prioritized projects calling for FDI with detail information of objectives, project sites, capacity and Vietnamese counterparts to organize investment campaign programs.
- *The second option:* Completing mechanism, policies of attracting FDI, including:
  - Preferential and investment supporting policies ;
  - Policies of capital and investment credit market development ;
  - Market and trading policies;
  - Land policies ;
  - Policies of material sources development ;
  - Policies of agriculture and rural infrastructure
  - Policies of human resources development
- *The third option :* Strengthening, improving the efficiency of FDI promotion and attraction activities based on the following orientation :
  - Supporting, facilitating the implementation of licence-granted FDI projects for effectiveness are considered to be the best measure to formulate the picture of attractiveness and competitiveness of FDI in Vietnam's agriculture and rural development and increase the awareness of foreign investors about it.
  - Detail plans and campaign programs of attracting investment in the country and from outside should be developed quickly, focusing on key subsectors/projects and counterparts.

- Finance for investment promotion activities should be allocated sufficiently as one separate item included in the annual budget of the Ministry of Agriculture and Rural Development ;
- Fund of investment promotion in the sector is formulated based on the allocation by the State budget in combination with the contribution of enterprises, and other organizations ;
- Studing investment potentials from other countries/regions in this sector should be conducted to make appropriate policies and mechanisms.
- Documents on FDI probagation in general and FDI in agro-forestry in particular should be improved to create initial attraction for foreign investors.

These solutions should be implemented regularly and continously and included in the common agriculture and rural development policy. However, in the short coming time, it's necessary to conduct the following next steps :

- Reviewing and completing planning of each subsector/product
- Completing the list and briefing of FDI proposals (attached Annex 1)
- Allocating finance for investment promotion activities;
- Studying the investment potentials of other counntries/regions.
- Organizing investment campaingnes in foreign countries;
- Preparing documents, publications of investment probagation in agriculture and rural development.

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