

In the economic reform process, the Government has paid full attention to investment in agriculture and rural areas and therefore changed the face of this sector remarkably. To industrialize and modernize this sector, however, big investments are needed and they should be used more effectively. How to secure enough capital for rural and agricultural development and how to employ it effectively are what we want to discuss in this article.

Necessary adjustments have been made to the strategy to develop rural areas and agriculture in an open economy and in a country whose 80% of its population live mainly on agriculture. Investment in this sector has come from different sources:

+ Domestic source: In the past few years, some 12% of the national



## IMPROVING EFFICIENCY OF INVESTMENT PROJECTS A MEASURE TO DEVELOP AGRICULTURE AND RURAL AREAS

by PHẠM THỊ KHANH

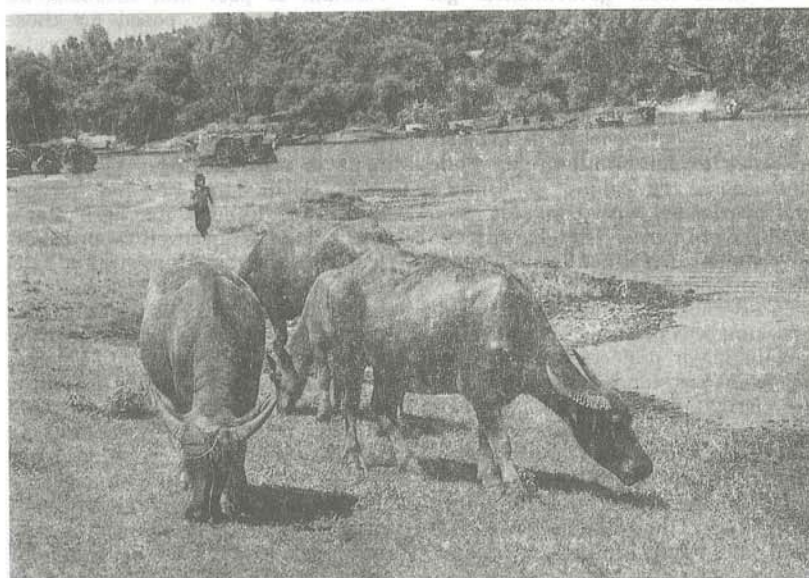
budget and VND380 billion has been put in rural and agricultural development. According to a rough estimate of 49 cities and provinces, contributions from local residents to infrastructure projects topped the VND5,000 billion mark. In 1997-98, it was estimated that private investment in rural and agricultural development equaled VND7,500 billion a year.

+ Foreign source (including FDI and ODA): Up to mid-1998, there were 282 FDI projects, with total registered capital of US\$2,135 billion, to develop rural areas and agriculture, representing 10% of FDI projects in Vietnam and 6% of FDI capital registered. Up to May 1998, the aid committed by foreign donors reached US\$8.43 billion, equaling 78% of ODA committed in the years 1993-97. Up to mid-1998, some US\$510 million out of the amount committed has been released.

This sum is expected to reach, by the year end, US\$1,430 million increasing by 20% as compared with 1997.

These investments, thus, have helped to increase the agricultural output. In 1998, the agriculture made the GDP increase by 2.73%, the value of agricultural output rose by 3.6%, the rice output reached 32 million tonnes and the living standard in rural areas was improved (1). However, it will be a mistake if we fail to see problems which have been posed for the rural and agricultural development in the past few years.

1. Investment from the Government in rural and agricultural development is limited and scattered





and the efficiency is poor because of an unreasonable investment structure.

Although the rural and agricultural development was one of eight important points of the industrialization and modernization program, the government investment in this sector is still small and allocated slowly in comparison with what other sectors received. Up to now, when half the time to realize the 5-year plan (1996 - 2000) has passed, only one-third of the planned investment in rural and agricultural development was made, so the task of mobilizing capital for rural and agricultural development in the next two years would be very difficult.

The structure of government investment proved to be unreasonable and contained egalitarian features resulted from the subsidized economy. The investment was distributed too evenly among provinces instead of being concentrated in major projects that could develop commercial farming areas. In addition, most of government investment was used for developing rural infrastructure, and even in this field, the government investment was also too small to complete major projects. Generally, the government investment in agriculture represents only 8.2% of total government investment (while other sectors receive some 20% on average) and increases by 16.7% a year. This structure is out of proportion to the importance of agriculture to the economy.

This unreasonable and scattered structure of government investment led to negative effects:

- + Most local governments got into the habit of waiting for money from the Treasury instead of trying to tap local sources of finance needed for infrastructure projects. Most of them only spent time and energy on working out investment projects in order to get grants-in-aid while this source of capital is limited and overloaded with demands from local governments. That is why the government investment couldn't produce intended results.

- + Because the government investment was distributed too evenly, certain major projects were delayed for want of funds. Among them are irrigation works of strategic meaning, such as Sông Đà reservoir and some others in Central Highlands. Without these reservoirs, we failed to deal with the prolonged drought in the summer of 1998 with the result that thousands of hectares of coffee and black pepper

worth some VND5,000 billion were destroyed. Damage caused by this drought to many provinces in Central Vietnam hasn't been repaired yet.

- + There was no satisfactory investment in scientific researches needed for overall agricultural development (producing new strains, applying new techniques, etc.), so the agricultural development in the past few years wasn't sustainable. Production of certain agricultural products (plum in Tam Hoa - Bắc Hà, litchie in Hà Bắc, sugar cane in Central Vietnam and Eastern South Vietnam, and mulberry in Sơn La and Lâm Đồng), after making some progress for several years, started to show signs of decline because of the lack of investment and cause great spiritual and material losses to both farmers and the Government.

In recent years, farming machines have been introduced to agricultural production but manual labor still plays an important role regardless of the fact that the twenty-first century is coming. Due to obsolete farming techniques, agricultural products from Vietnam are of poor quality and 70% of agricultural output are consumed locally. Certain products are good enough to be exported but aren't good enough to compete against foreign counterparts. The Government has established several agriculture institutes specializing in new rice strains but these institutes could only meet 15% of market demand in the North and 8% in the South. Thus, most farmers are forced to use old strains with the result that the quality of rice from Vietnam is poor and inconsistent. The question now posed for these institutes is why local farmers prefer Chinese rice strains to Vietnamese ones. These facts allow us to come to the conclusion that intensive investment in agricultural development is still lacking.

2. Both domestic and foreign sources of finance for agricultural development aren't well tapped. Particularly, the banking system fails to mobilize dead money held by the public because of its poor business strategy and red tape resulting from the centrally-planned economy.

According to a rough estimate, some VND100,000 billion are held by the people and the banking system could only mobilize some 40% of this sum (2). The rest are held in less productive investment (in gold, foreign exchange or real estate for example). The Bank for Agricultural and Rural Development

reported having mobilized VND24,305 billion in 1997, making a year-on year increase of 25.7% while its total credit supplied rose by 23% in comparison with 1996. This sum of money was put mainly in agricultural production, agro-industries or handicraft businesses in rural areas. In fact, however, 90% of this sum was paid to short-term savings accounts (from three to six months). This raises the question of why the capital mobilized from the public is small and why the public prefer short-term savings accounts to long-term ones. This problem is related to many economic policies adopted by the Government. Many factors made the public feel unsure about long-term deposits in banks: the legal infrastructure in Vietnam isn't firm enough to guarantee the initial value of long- and medium-term deposits; the market prices aren't stable; the inflation rate is high; and the economy is affected greatly by the Asian financial crisis. In addition, most banks failed to change their mode of operation in order to offer better services to customers, and failed to work out appropriate policies on short- and long-term deposits and loans. Some banks even refused long-term deposits. In short, the banking system hasn't played well its role as an intermediary between capital-surplus and capital-deficit units.

3. Capital for agricultural development is not only lacking, but also used ineffectively.

In a recent report, the Bank for Agricultural and Rural Development said that it had supplied VND56 billion to cooperatives but the doubtful debt had amounted to VND22 billion. Besides some productive projects, such as Lam Sơn Sugarcane Plantation and coffee plantations in Daklak, most of projects financed by the Bank proved to be ineffective (3).

Through inspection of 16 agricultural and rural development programs in 1995 and 1996, many violations of regulations on the use of government investment, including ODA capital. In 1997, the State Inspection Commission inspected 163 investment project boards at provincial (or municipal) level, 245 investment project boards at district level and 500 investment project boards at village level and found that of the total grant-in-aid of VND1,000 billion allocated in 1997, 107.24 billion was misused. More exact data are as follows:





- + Embezzlement: 5.264 billion
- + Payment without documents: 7.693 billion
- + Fee overcharged: 1.476 billion
- + Expenditure overspent: 1.448 billion
- + Wrong lending: 7 billion
- + Fund converted to other purposes: 21.733 billion
- + Waste: 6.609 billion
- + Commission retained after making payments to private persons: 194 million
- + Other misuses: 22.538 billion.

And even in the Program 327, the biggest investment project in 1995 and 1996 with a budget appropriation of VND1,315 billion, representing 27% of the total appropriation for all agricultural and rural development programs, only 60% of the fund allocated was employed correctly but the efficiency obtained was also low. Certain programs even ended in total failure (4).

At present when the national budget deficit is on the increase, the budget expenditure on agricultural and rural development always falls short of the amount required although it represents 15% of the total budget expenditure now. It's estimated that the agricultural and rural development in the years 1998- 2000 requires some US\$8 billion, or VND104,000 billion (at current price). Thus, if the Government fail to tap both domestic and foreign sources of finance as best it could and concentrate them in well-thought-out investment projects, poorly agricultural development will become an obstacle to the growth of the economy as a whole. To improve the efficiency of investment in agricultural and rural development, in my opinion, the Government had better take the following measures:

a. Reviewing all investment projects: this task includes not only re-assess the feasibility of all projects, but also working out new feasible ones and punishing all violations of regulations. This is the first and most important task which allows the building of investment strategies for different periods. The projects should be classified according to their importance (to the whole country, economic zones or industries). Based on this classification, the government investment could be concentrated on major projects instead of being distributed among too many smaller ones, thereby improving the efficiency of investment, encouraging commercial farming and expanding markets for Vietnamese agricultural products.

In the coming years, the public investment in agriculture and rural areas needs to be put in infrastructure, especially in roads to depressed areas.

Because the agricultural production is affected by climatic conditions, so necessary researches should be carried out in order to limit and control natural disasters: repairing and upgrading irrigation systems, especially in the Mekong and Hồng Deltas; building dams and reservoirs in Central Highlands and mountainous provinces in the North, etc. These projects require big investment that is beyond the reach of private persons, so the Government should make appropriate investment in these projects with a view to ensuring the sustainable development of agriculture and rural areas. In addition, proper attention should be paid to agro-industries to pave the way for industrialization and modernization of rural areas. However, the Government had better keep away from the tendency to develop rural areas at any price. The argument is that top priority will be given to agricultural and rural development if it helps the whole economy develop and keeps the debt ceiling at a reasonable level in the future.

b. Agricultural development requires long-term and big investment, so the Government should try its best to mobilize all sources of finance by making the legal infrastructure more favorable for both foreign and domestic investment in agriculture, offering appropriate rates of interest to encourage the formation of the capital market where long-term capital could be raised and controlling the inflation

rate in order to ensure the initial value of long-term deposits.

To attract more dead money from the public, various measures could be taken: improving the inter-bank market, developing the system of People's Credit Funds, simplifying procedures for getting bank loans (especially long-term ones), etc.

As for the banking system, modern facilities should be introduced, the supply of banking services should be computerized and information about the banking system should be available for the public in order to attract more customers.

c. Beefing up the management of capital invested in agriculture: There is a close relation between mobilization, distribution and employment of funds but the tasks of distributing and employing funds are of great importance. So good management of funds could allow better mobilization and employment of funds. In the coming years, the Government should:

- supplying training and refresher courses to officials working in investment projects and management bodies in order to improve their performance.
- carrying out overall inspections of investment projects and the banking system in order to prevent embezzlement and corruption, and prevent public funds from being converted to wrong purposes.
- reforming administrative procedures in order to smooth the mobilization of funds and supply of credit.
- forming the deposit insurance fund to anticipate and respond to changes in the economy and natural disasters.
- carrying out Decree 36/CP on exchange control and Decree 63/CP on control over gold trade in order to stabilize the money and capital markets.

#### Note:

- (1) Thành tựu nổi bật năm 1998 (Outstanding Achievements in 1998), Nhân Dân Jan. 1, 1999.
- (2) Đầu tư, No 37, May 7, 1998.
- (3) Ruộng đất, việc làm, đời sống của nhân dân Đồng bằng sông Cửu Long, a report on VTV1, Jan. 5, 1999.
- (4) Đầu tư No 21, March 12, 1998.