

**C**apital is a precondition for rural industrialization and modernization. In other words, capital and selection of investment projects are decisive factors in this process. In the market economy where the public investment is limited and on the decrease, sources of credit become more important.

To estimate exactly the demand for capital and carry out effectively the industrialization and modernization strategy, full attention should be paid to the following tasks:

- The Government and local authorities should work out plans and measures to develop rural industries based on diversification of agricultural production and cooperation between manufacturing sector and rural industries.

especially financial support and credit supply.

- There should be policies to develop markets in rural areas, especially markets for agricultural materials and farm products for export.

Making zoning plans and setting orientation for rural industrialization and modernization are essential for the task of working out policies to develop and finance rural industries. In the market economy, the Government should play its leading role in the very first stage of the planning process thereby allocating sources of finance. This task is also a basis for making policies to make the best use of idle money held by the public, investment from the public funds and supply of credit.

In each zone, the work of zoning and making plan to raise funds for

### 1. Rural infrastructure

Infrastructure projects in rural areas could be financed by local governments, contributions from local residents and bank credit. Support from international organizations, foreign governments and investment from energy and communications authorities are also of great importance.

### 2. Irrigation system

According to a ministerial survey, the irrigation system requires from VND20,000 to 30,000 billion a year, and 50% of it comes from the banking system. To ensure the supply of credit for this project, many questions, such as who borrowers are; who guarantee the repayment and who evaluate projects; should be answered.

# CAPITAL FOR RURAL INDUSTRIALIZATION AND MODERNIZATION

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- Setting orientation and measures to develop the infrastructure in rural areas and agro-industries is a matter of great importance.

- The Government should adopt policies to support rural industries,

investment will be carried out by organizations suitable to local conditions and potential sources of finance.

### I. MAIN INVESTMENT TARGETS



### 3. Industries needed for agriculture

They are factories producing fertilizers, insecticides, veterinary medicines, farm machines and vehicles, animal feed and other agricultural materials. These industries require full knowledge of mechanization, chemistry and biology.

### 4. Agro-industries

At present, we should develop agro-industries processing farm products for export (rice, coffee, rubber, seafood and cashew nut). These industries are essential to the rural industrialization and modernization. The state factories could easily get credit from state banks, but the banks had better pay attention to small and medium companies, especially non-state ones, and the role of foreign investment.

### 5. Handicrafts in rural areas

This business, in general, can supply goods for export and create more jobs in rural areas. The investment program can aim at helping local residents and small and medium

companies buy machines and raw materials. The banking system had better work out an appropriate policy on this class of borrowers.

## **6. Building material industry in rural areas**

Factories of this kind need to be mechanized and credit supply could be extended to all borrowers (state companies, private companies and individuals).

## **7. Introduction of new farming techniques**

These new techniques can help farmers produce goods of high quality, high enough to be exported.

## **8. Investment in new occupations in rural areas**

Rural reforms should aim at introducing new occupations to farmers (growing mushroom, orchid or pet fish) and encouraging farmers change their way of life: building stilt houses in flood-plains, putting biogas in use; building animal cages outside houses, etc.

## **9. Developing zones with specialized plantations**

In Vietnam, many provinces could specialize in certain farm products (tea, rubber, coffee, sugar cane, wood for making paper, etc.), thereby providing a basis for the development of processing industries.

## **10. Development of rural markets**

Markets are indispensable to the rural industrialization and modernization. Well-developed markets can help farmers get necessary agricultural materials, consumer goods and other services; and sell their produce.

## **11. Public services in rural areas**

Investment could be used for developing networks of schools, health centers, vocational training centers, agricultural advisory service, etc.

In short, a master plan and various blueprints for each zone and industry are preconditions for estimating the need for capital and deciding how to use it effectively. Fields of investment should be defined clearly and mechanisms for supplying credit appropriate to each field could be worked out. What we list above show that the capital needed for the rural industrialization and modernization is very big.

## **II. POTENTIAL SOURCES OF FINANCE FOR RURAL INDUSTRIALIZATION AND MODERNIZATION**

Credits supplied to the rural industrialization and modernization program should be of medium and long terms, and part of it should be in foreign currencies and used for intensive investment. A better part of it should be in form of soft loans. In short, all potential sources of capital should be mobilized to carry out this program.

### **1. Foreign source**

- The ODA and external debts: The Government had better put this source of finance in the rural industrialization and modernization.

- Financial support from international monetary institutions (ADB, WB, EU, Kuwait Fund, etc.): This support is oriented towards anti-hunger and poverty programs. The Government should see to it that the foreign funds are disbursed and domestic counter funds are available on time.

- Investment from foreigners and overseas Vietnamese: Incentives should be given to this source of finance (in form of cuts in tax, land lease or interest rates) if it is put in rural areas.

- Commercial loans: Local commercial banks can use these loans to finance rural development projects.

- Financial support from NGOs for programs to struggles against poverty, hunger, pollution, male chauvinism and malnutrition.

- Support from export-import funds set up by foreign eximbanks.

- Other sources, such as foreign non-refundable aid.

### **2. Public funds**

Both central and local governments should allocate part of public funds every year to the rural industrialization and modernization program. Investment from public funds could be made through:

- National Investment Support Fund and local investment agencies (especially in Hà Nội and HCMC).

- Bank for the Poor, Mekong Delta Housing Bank, Bank for Revolutionaries.

- Bank for Agriculture and Rural Development and other commercial banks.

- Counter funds from the Treasury for foreign-financed projects.

- Refinancing loans from the SBV to state commercial banks.

### **3. Funds mobilized by banking institutions**

The rural industrialization and modernization required a lot of long- and medium term capital, therefore

the banking institutions should try its best to attract long-term deposits by issuing bonds and certificate of deposits of various kinds and terms. As for some short-term development projects, the Government could issue project bonds or have them issued by commercial banks.

The central bank should develop the inter-bank market in order to make the finance market more flexible.

## **III. POLICIES ON MOBILIZATION OF CAPITAL AND CREDIT SUPPLY**

### **1. Interest rate**

The central bank should use the interest rate to regulate investment and mobilization of fund by banks. At present, conditions are available for the central bank to control the banking system by setting its base rate (or the minimum lending rate) with a view to facilitating flows of fund in the market. This way of control also allows the central bank to deal with unreasonable interest rate on loans supplied to rural residents who had to pay a rate from 1.2 to 1.5 times higher than borrowers in cities did. This practice isn't favorable for the industrialization and modernization in rural areas where the labor productivity is low, business risk high, profitability poor and is badly in need of support.

### **2. Tax**

At present, rural banks are paying the same VAT rate as city counterparts are. This policy discourages banks from extending credit to rural residents. In our opinion, the VAT rate on rural banks should be cut at least by half.

### **3. Policies on lending and risk handling**

The Government's Decree on deposit insurance and guidelines on this policy have been issued but there is no detailed policy on supply of credit to the rural industrialization and modernization. The central bank had better adopt such a policy along with a mechanism for supplying long-term loans to farmers. The Government could give subsidies to banks taking part in this program when they suffer losses caused by acts of God. The mechanism for dealing with borrowers failing to repay debts when due because of natural disasters should be more flexible. Regulations on mortgage made by farm owners and small and medium enterprises in rural areas should be made more lenient.