

# MAIN POLICIES AFFECTING CORPORATE PERFORMANCE OF AGRI-FOOD COMPANIES IN VIETNAM

**Junaid M. Shaikh, Curtin University Malaysia**  
**Dinh Thi Bao Linh, Asia e University**

## ABSTRACT

*Vietnam is now one of the leading producers and exporters of important agricultural commodities, which has helped the country to have more influence in food security and trade of the region. In addition to its success in production and export, Vietnam also attracts investors and business around the world by its legal framework reform. In addition to a review on corporate performance of agri-food companies in Vietnam, an analysis of legal framework and policies affecting corporate performance of agri-food companies in Vietnam will provide a panorama on the business environment in the process of economic integration and trade liberalization.. However in the coming times, more policies adjustment and measures should be taken in order to encourage the sustainable development of agri-food companies.*

*Along with the economic integration and trade liberalization, Vietnam is opening its market with 100 million consumers and also business opportunities to international business and investors. Is the stock market a transparent and efficient channel for their choice? That depends not only on the legal framework, but also on the performance of Vietnamese companies that may become their partners or rivals.*

**Key words:** Policies, Corporate Performance, Agriculture, Vietnam

## INTRODUCTION

### Topic statement

Vietnam is now one of the leading producers and exporters of many agricultural commodities such as rice, coffee, natural rubber, cashews, cassava, and black pepper and some aquaculture products like catfish and shrimps. Efforts of producers and business in the sector combined with opportunities from economic integration have helped the country to have more influence in the regional food security and trade.

Vietnam is attracting more and more investors and business around the world by its legal framework reform (World Bank, 2008). Since the Renovation in 1986, a long series of policy changes have moved the agricultural sector, in the direction of open markets, private ownership of land use rights, the acceptance of private firms, and measures to attract foreign trade and investment. But in parallel with positive effects, the implementation of commitments to open the domestic market has led to greater competitive pressure on agriculture, requiring a system of trade liberalization countermeasures, which must be consistent with international rules but helps Vietnam to really benefit from free trade agreements (FTAs). A various factors affecting corporate performance are discussed in several studies. The performance of firms

should be compared over a period of time and be sensitive to contextual factors, such as sectoral and operational differences. Known factors stated in many research include ownership structure, firm size, firm age, and tangible assets (Alfredo Koltar, Campopiano and Cassia, 2013) or emerging determinants including leader and top management team; strategic focus; trust in the future; and resources support (Fernando Ribeiro Serra, Manuel Portugal Ferreira, 2010). These findings motivated us to study the characteristics and Vietnam's legal framework and policies affecting determinants of agri-food corporate performance such as the ownership structure, firm size, sectoral and operational differences, trust in the future, resources support.

### **Purpose of the study**

The study aims to examine the current situation of agri-food companies' performance in Vietnam, their main difficulties and problems. It reviews and examines also main policies affecting corporate performance of agri-food companies in Vietnam and gives the legal reform in order to support agri-food companies to improve their corporate performance.

## **METHODOLOGIES**

In addition to a review on corporate performance of agri-food companies in Vietnam, an analysis of legal framework and policies affecting corporate performance of agri-food companies in Vietnam will provide a panorama on the business environment of agri-food companies in the process of economic integration and trade liberalization. The policy matrix is built to assess the policy main content, objectives, measures and the implementation process. It identifies also the pros and cons of these policies in term of support agri-food companies, which is necessary to the legal reform in order to support agri-food companies to improve their corporate performance.

Main policies affecting corporate performance of agri-food companies in Vietnam data has been studied observing primary and secondary data as available from record of annual report.

### **Corporate Performance and Main Problems of Agri-Food Companies in Vietnam**

#### **Corporate performance: A brief literature review**

There has been a long debate on corporate performance, its measurements and how these measurements should be combined to reflect performance of different firms' operation in different sectors. In 1980s, traditional performance measurements are based mainly on tangible financial indicators. Then, from the year of 1990, people recognized limitations of traditional measurements and added intangible measures including public image, reputation, customer satisfaction, employee satisfaction and attrition, skills levels, innovations in products, etc. (Maskell, 1991, Ahire et al., 1996; Atkinson et al., 1997; Forslund 2007; McAdam and Hazlett, 2008; Fullerton and Wempe, 2009).

In today's climate, there is a general consensus that the old financial measures are still valid but it is necessary to add more intangible measures. According to Richard et al. (2009), performance measurement is a multi-disciplinary issue (such as finance, marketing, operations and human resources), and researchers working in their own disciplines using functional performance measures (such as market share in marketing, schedule adherence in operations and so on) need to link their discipline focused performance measures to overall organizational performance.

Two typical approaches should be seen in the research of Murphy (1996) and Andre Dwijanto Witjaksono, (2012). According to Murphy (1996), corporate performance measurement is based on the aspect of finance and institution. Financial performance is to maximize profit, maximize the returns on assets and maximize shareholders' value. Operational performance is mainly measured by revenue growth and market share. In another point of view, Andre Dwijanto Witjaksono, (2012) divided the performance into two groups, namely hard performance (more easily measured and is associated with cost, consists of unit production costs, fast delivery, flexibility, cycle time), and soft performance (more difficult to measure, and is associated with quality, consist of manufacturing quality, design quality, customers satisfaction, market share, employees satisfaction).

### **Corporate Performance of Agri-Food Companies in Vietnam**

According to statistics of Vietnam General Statistics Office (GSO, 2013, 2014), there are about 6,610 companies in agri-food sector. Most of them are small and medium sized companies. Food production in general is supported by the increasing consumption in Vietnam. The growing and modernization, retail system and changing consumption habits show a promising trend for the retail food industry, which will spur food and beverage processing in the future.

Analysis based on statistics of Vietnam GSO and Ministry of Agriculture and rural development (MARD) in the period of 2007-2013, show that compared to the average level of companies in Vietnam, agricultural companies have some higher corporate performance ratios including ROA, ROS, ROE, capital growth, current solvency ratio, capital turnover.

Current solvency ratio indicates whether a company's cash flow is sufficient to meet short-term and long-term liabilities. The higher solvency ratio, the higher company can deal with its liabilities. The current solvency of agricultural companies looked to be improved in the years 2010-2013 in comparison with the period 2007-2009. In 2013, this ratio of agricultural companies in Vietnam was 4.9 (higher than the average level of enterprises in Vietnam, which was only 3.2).

The interest coverage ratio indicates how easily a company can pay interest on outstanding debt. It is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period. The lower the ratio, the more the company is burdened by debt expense. Although interest coverage ratio of agricultural companies are always higher than the average level of all companies in Vietnam, this ratio declined sharply in the period 2009-2012, from 11.2 to 6.6, before recovering to 9.5 in 2013.

Interest coverage ratio of cultivation and livestock enterprises and seafood processing companies fell sharply in 2009-2012 then increased in 2013. Seafood processing companies had the highest interest coverage ratio because they gained more from export.

Return on asset (ROA) of agricultural enterprises was around 3 times higher than the average of the entire business sector (11.5% compared to 3.4% of the entire enterprise in 2013), thanks to high ROA of seafood processing companies. However, while ROA of seafood processing companies increased from 17.3% in 2007 to 19% in 2013, ROA of cultivation and livestock companies and forestry companies was low, only around 5% and 3.5% respectively.

Return on equity (ROE) of agricultural enterprises is also much higher than the average level of the entire business sector, except to the year of 2012. In 2013, ROE of agricultural companies was 14.5%, compared to 6.6% of the entire area businesses. ROE of seafood

enterprises reached over 20% while only about 10% in 2007-2012 and fell 7.8% by 2013. ROE is a key indicator for investors to choose fields having higher profit margin, and looking at ROE, the seafood sector was more attractive.

Return on sales (ROS) of agricultural enterprise fell slightly from 10% in 2007 to 9.3% in 2013, but much higher than average ROS of the entire business sector which decreased from 4.8% to 4% in the same period. ROS of seafood processing companies only was higher than cultivation and livestock enterprises in 2007-2010. Since 2011, the gap between two sub-sector has decreased. In 2013, ROS of seafood processing companies, cultivation and livestock companies and forestry companies was 10.1%, 8.7% and of 7.7% respectively.

According to a survey carried out by the Institute of policy and strategy for agriculture and rural development of Vietnam (IPSARD) in 2014 and published in 2015, on a sample of 200 agricultural companies in 10 provinces in Vietnam in 2014, more than 74% of surveyed enterprises agreed that there have been various factors hindering their performance.

The shortage of labor quality and low technical qualification of employees are among factors hindering operation of agricultural enterprises, mostly when they need to promote science and technology in production in order to improve quality, reduce costs and improve competitiveness in the market. The IPSARD's survey in 2014 shows that 32.5% of agricultural companies suffer from low quality labor. Main reasons for this constraint include (i) The majority of small agricultural companies owners come from farmers, lacking of knowledge and financial capacity, they often accept to use only manual labors. To keep low wage costs, the recruitment based only on workers' health and the salary that workers accept. (ii) Almost private companies pay no attention on training for qualified employees; (iii) Qualified labor does not prefer to work in agricultural sector because of low wage.

In general, it is easier for well performing companies to attract more credit. But with small asset and equity, the majority of businesses have difficulty in accessing bank credit, even when they have good profit. Only 14.7% of companies could access easily bank credit. Therefore, many agricultural companies had to borrow money from informal loan sources at higher interest rate. Some small companies had to rely on loans from family or relatives, but it was small and did not meet their capital demand. Five main reasons for the difficulties in accessing credit include (i) Many companies did not have collateral to get loans; (ii) Term loan did not suit business activities of enterprises, e.g. cultivation companies need loans of 7-8 years to harvest their perennial crops, but the bank gave them only short-term loans; (iii) Banks worried on high risks in agricultural sector, (iv) Many owners of private enterprises could not design and submit project documents for bank loans; (v) Big banks were often reluctant to give big loans to small enterprises while most of agricultural companies need big loans to improve their production infrastructure or applying new technologies.

Regarding factors affecting firm size, many SMEs in agricultural sector are still struggling for land for large scale production and business. About 33.4% of surveyed enterprises encountered difficulties in land and this is the major obstacle to their business operations. 13.2% of enterprises said it severely hampered their performance, 7.2% considered it as very serious obstacle. This difficulty can be explained by main reasons as follows: (i) Public land is not sufficient for large-scale production in localities because of policy on allocating agricultural land to farmers with limits in the past. (ii) In some localities, enterprises want to lease land from farmers, but it is difficult to rent land in long-term because farmers prefer to hold lands even when farmers' direct production was not profitable. On the other hand, companies are afraid of agreement interruption from farmers who live mainly by agriculture and have not any other

livelihood. (iii) Land rent price is increasing in many localities so that businesses have not sufficient financial capacity to lease large scale land. For example, in Dak Lak province, rent land price increased 3 times in the period of 2010-2014. (iv) In case of food processing companies, the price of land rent in industrial zone is too high while the infrastructure does not meet their requirements on food safety or technology (IPSARD, 2014).

About 84.4% of surveyed companies confirmed their big difficulties in accessing both input and output markets because of different obstacles as follows: (i) lack of market information, (ii) inefficient distribution channels, (iii) low trade promotion capacity. (iv) unstable price of input and output, (v) high technical barrier and (vi) unfair competition.

Through analysis of the difficulties and impediments, we can sort the factors hindering business activities of agricultural enterprise as follows (Table 1).

<b>Intrinsic difficulties</b>	<b>Ranking (top down)</b>	<b>Objective difficulties</b>	<b>Ranking (top down)</b>
Lack of capital, difficult to access credit	1	Increase in input price	1
Difficulties in infrastructure and land leases	2	Technical barriers	2
Difficulties in accessing both input and output markets	3	Unfair competition	3
Difficulties in access qualified labor	4	High natural risk	4
Low technology	5	Institutional and policy changes	4

## **Review and Assessment of Policies Affecting Corporate Performance of Agri-Foods Companies in Vietnam**

According to WTO (2013), in the process of economic restructuring and comprehensive international integration, the Vietnamese Government is strongly committed to the multilateral trading system and considers it main focus of Vietnam's economic integration policies. Since its adhesion in WTO, Vietnam has continued to complete its policies and engage with trading partners to recognize Vietnam as a market economy. Currently, about 40 countries has recognized Vietnam's market economy status.

In this paper, we focus on policies directly affecting agri-food companies, including (i) Production land policies; (ii) Policies on infrastructure and production surface, (iii) on investment, credit and taxes; (iv) Policies on research and technology; (v) Policies on market development and trade promotion; (vi) Policies to on human resources and (vii) Administrative and Public services reforms.

### **Production Land Policy**

Land policies for companies in agriculture are specified in the Land law over time and under law documents (Dang Kim Son et al, 2011). In this paper, we summarize the main content of land policies concerning SMEs in agriculture as follows:

The Land Law was enacted in Vietnam for the first time in 1987, then was replaced by the 1993 Land Law, then the Land Law in 1993 was revised two times in 1998 and 2001. The third Land Law was issued in 2003, with several new innovations, including the issue of land for investment projects. Accordingly, the right of access to land is built more in line with the market

mechanism. Most recently, in 2013 the Revised Land Law was passed by the National Assembly and took effect from the July, 2014.

The most important innovation in the Land Law 2013 is to establish equality in access to land between domestic investors and foreign investors and between different types of enterprises with different scales when State land acquisition; application forms allocation or lease of land, equal rights and obligations of domestic enterprises and foreign enterprises in the implementation of laws.

Other improvement of the Land Law in 2013 compared with the Land Law in 2003 includes (i) Support for enterprises with foreign investment in agriculture, forestry, fishery and salt to access land and production premises; (ii) Additional principles of land use and the responsibility of land users; (iii) Separation of specific kinds of non-agricultural land as a basis for management for each type of land that enterprises are using; Specification of the basis for determining the type of land to serve as a basis for compensation and assistance when the State recovers land; (iv) Additional provisions on prohibited acts; (v) Removal of land using plans at commune level; (vi) The planning period is 10 years, 20-year vision; (vii) Regulation on the allocation, lease and transfer of land, which must be based on planning and land use plan of the district annually and (viii) Limitations of local competence in the transfer of land use from agricultural to non-agricultural land to help enterprises assured long-term investment;

In the Revised Land Law (adopted version Nov, 2013), the Government extends the limit of agricultural land use for families and individuals to 50 years from 20 years in the previous regulation. For paddy land, the State supports infrastructure investment, science and modern technology application for the paddy rice to increase yield and quality. It is not an export support, but for the purpose of ensuring food security in Vietnam as well as in the region. New regulation protects agricultural land, but allows flexible change of land use between paddy and other crops. It is necessary to transfer paddy land with inefficient production into other agricultural product like animal feed crops (potato, maize, cassava), fruits and vegetables, aquaculture, and other higher value production activities.

### **Policies on Infrastructure and Production Area**

Agricultural production infrastructure has been seen as the major concern of the government for a long time. There were two major policies to develop infrastructure a decade ago, namely the Decision No. 66/2000/QĐ-TTg and the Decision No. 132/2001/QĐ-TTg. Their focal point was to build, maintain and concrete canals and rural roads. The government also assist the agricultural companies through public financing on infrastructure building and encouraging the private sector to invest in infrastructure in rural areas.

In order to encourage enterprises to invest in agriculture and do it themselves infrastructure for their project, in 2013, the Government issued the Decree No.210/2013/ND-CP (dated 19 December, 2013) replacing the Decree No. 61/2010/ND-CP on policy for encouraging investment on agriculture and rural. The Government supports 20% of land rent, water rent in the first 5 years after the basic construction, contribute to improving infrastructure for agricultural production and encouraging investors to build infrastructure for agricultural production.

These policies are contributing to improving infrastructure for agricultural production and to maintaining agriculture production. On another hand, a major risk of this support is the inefficient management of resources and infrastructure in some localities where the infrastructure management may be loosed in order to attract business and investment. In contrast, localities

lack of incentives (tax, management mechanism) for the socialization of infrastructure investment and management (the participation of private investors is still limited).

In 2014 an irrigation restructuring scheme was introduced with the following objectives: improving efficiency in the irrigation sector to contribute to agricultural restructuring towards greater added value and sustainable development; meeting the development requirements of socioeconomic sectors; building capacity for disaster prevention and response to climate change; and contributing to the modernization of agricultural and rural infrastructure and new rural development. In addition to irrigation, an extensive system of dykes provides flood protection. In order to provide greater protection from forecast sea level rises associated with climate change, the government has embarked on a programme of maintaining and upgrading the MRD sea dyke system

These above policies have contributed to improving infrastructure for agricultural production and encouraging investors to build infrastructure for agricultural production. In the period of 2006-2012, total investment in irrigation in the Mekong Delta is 14,870 billion VND. Of which, budget under management MARD is 4,970 billion VND and the remaining is under the local management. On average, each year nearly 2,200 billion VND is funded for irrigation in the MRD. Thanks to accelerated investment in irrigation development, the MRD has so far been five reservoirs; 1,221 pumping stations at large or medium size, thousands of small-scale pumping stations, 2,447 culverts, channel systems on 80,000 km (including channel axis, level 1, level 2 and level 3); flood control. The delta has also about 25,900 km of flood protection embankments for rice, 460 km of sea dykes, 1,600 km of river dykes and over 200 km of river dykes to keep the water against fire.

However, a risk of these supports is the inefficient management of resources and infrastructure because in some localities, the infrastructure management may be loosed in order to attract business and investment. In addition, these policies lack of incentives (tax, management mechanism) for the socialization of infrastructure investment and management (the participation of private investors is still limited).

### **Policies on Investment, Credit Access and Taxes Incentives**

Financial intensive including credit support has been one of main channels for providing support to agricultural producers and business in recent years.

#### **Investment Support**

Regarding investment support, the Government issued a series of decrees including Decree No 133/2013/NĐ-CP dated 30th Aug, 2011, Decree No. 54/2013/NĐ-CP; Decree No. 75/2011/NĐ-CP; then the Ministry of Finance issued circulars to guide the implementation of these decrees including Circular No.77/2013/TT-BTC; Circular No. 52/2008/QĐ-BTC. These policies, loan rate for each project does not exceed 70% of the total investment of the project. The loan term is 12 years. Lending rates is not lower than average rate of the Agricultural and Rural Development bank. Overdue interest for each disbursement is 150% of loan interest rate.

Many ministries take the responsibility for implementing the policies. Ministry of Agriculture and Rural development re-plans the storage system and lists machines that will be supported by funds from Ministry of finance (MOF). Ministry of plan and investment (MPI) presents mechanism to attract foreign investment in machine manufacturing. Ministry of industry

and trade (MOIT) orders factories to manufacture machines to serve agricultural production. MARD is now editing the Circular guiding the implementation of the Decision No. 68/2013/QĐ-TTg.

### **Credit Support for Mechanization**

Mechanization in agricultural production has been low because of an enormous number of small size households. It also differed among enterprises, cooperatives and households. In case of paddy production, ploughing, watering and transportation have higher extent of mechanization than drying and sowing. The level of mechanization of enterprises is highest, followed by cooperatives and households. About 14.8% of enterprises own tractors and ploughs, 74 times higher than the average of agricultural sector (0.2%). The numbers of engines and generators have been 09-38 times as many as the average agricultural sector. In order to facilitate the investment in machinery and equipment, the Government issued different policies including the Decision No. 497/QĐ-TTg; Decision No. 2213/QĐ-TTg; Circular No. 09/2009/TT-NHNN; Circular No. 02/2010/TT-NHNN. Accordingly, the Government supported credit in 24 months for the organizations and individuals to buy machinery, equipment, facilities, serving produce, the maximum loan amount equal to 100% of the value of goods. These policies contributed to encouraging and promoting investment in technology innovation which is necessary to the improvement of products quality. But some polices for investment in machinery and equipment went over (Decision No. 497/QĐ-TTg; Decision No. 2213/QĐ-TTg; Circular No. 09/2009/TT-NHNN; Circular No. 02/2010/TT-NHNN) because they provides only temporary support, and in fact there were many policy gaps, mostly in identifying beneficiaries.

### **Credit Support to Reduce Post-Harvest Losses**

The state budget supports interest on loans in VND to buy machines, equipment which helps to reduce losses in agriculture. The state budget also supports for the difference in interest rates between commercial loans and credit loans for investment and development of the government. SBV provides interest support for designated commercial banks which offer preferential loans to farmers. Credit policy support for purchase of machinery and equipment in order to reduce post-harvest losses initially meet the urgent requirement of farmers, especially in commercial rice production in the Mekong River Delta (Table 2).

<b>Commodities</b>	<b>2008</b>	<b>2011</b>	<b>2013</b>	<b>Target to 2020</b>
Paddy	16%	11-12%	11-12%	5-6%
Maize		13-15%		8-9%
Vegetables, fruits	25-20%	20-22%		10-12%
Coffee			15.5%	
Cassava	20-22%		18-20%	
Fisheries		20-25%		

(Source: MARD, 2011, 2014 )



### **Credit Policies for Purchasing Inputs**

The Government support credit access and interest rate to producers to buy agricultural inputs (e.g. chemical fertilizer, pesticides) with the maximum loan amount equal to 100% of the value of goods (but not exceeding 07 million VND/ha) and at the interest rate of 4%. The support duration is in 24 months for the organizations and individuals to buy machinery, equipment and facilities serving production with the maximum loan amount equal to 100% of the value of goods. SBV, MOF, MOIT and MARD guide the implementation and report to the Prime Minister. Provincial People's Committees perform the support and actively use local budget. These policies are now expired because in realities, they were not as effective as anticipated in many areas. For example, the requirement of submitting bill prescribed by the MOF or ex-warehouse is inappropriate. Requirement of local content of 40% or more of machines is not realistic because of low localization. The policy requires registration together with the listed price while market prices always fluctuate.

### **Credit Incentives by Sub-Sectors**

According to annual statistics from the State Bank of Vietnam, credit growth for the whole economy has been kept at low level recently except to credit for agriculture and rural areas, which has grown at 20% per year since 2008. As of December 31<sup>st</sup>, 2012, total lending for agriculture, farmers and rural areas was 561,533 billion VND. Despite the large lending amount, creditors have not focused on small economic entities because it will take much time, money and effort to creditors to approach small debtors. About 55.7% of communes had difficulties in accessing credit for agricultural production as reported by GSO, leading to the fact that lack of capital remains one of biggest obstacles to the development of agricultural production. During the period of 2002-2008, the share of liabilities for agricultural sub-sectors, forestry and aquaculture was stable at 29-30%. In 2010, the bad debt rate started decreasing and touched its lowest point at 13.2% because of the high interest rates, low consumption, slowly recovered agricultural production and export. After the launch of the credit support policy, the liabilities for agriculture and rural development have increased again up to 20-22% in 2011-2012. However, it is worth noting that the liability growth during the last two years is lower than its average growth rate before the economic crisis, although agricultural sector has significantly contributed to the economic recovery and export growth. Due to these limitations, the credit policies have not played a full role in enhancing agriculture and rural development. The inappropriate credit disbursement has retarded the establishment of large-scale and sustainable agricultural production.

### **Tax and fee incentives**

To reduce the burden on the agricultural production, contributing to raising incomes and increasing competitiveness for the industry, since 2008, the National Assembly, the Government has issued many policies on taxes and fees.

With the aim of reducing the burden on the agricultural production, contributing to raising incomes and increasing competitiveness for the industry, since 2008, the National Assembly, the Government has issued much support on taxes, fees and other fiscal support including land tax, fee irrigation.

In addition, in order to support businesses and farmers to overcome difficulties in 2014, the government issued the Decree No. 209/2013/ND-CP dated 18<sup>th</sup> December, 2013, guiding

some provisions of Law on Value Added Tax, then the MOF issued the Circular No. 219/2013/TT- BTC guiding Decree No.209/2013/ND-CP. According to these legal documents, preliminary processing and storage (drying, husking, nut separation, slicing, grinding, chilling, salting and others) of agricultural products are levied at the VAT rate of 5%. The MOF holds responsible for the implementation. The Government also reduced the corporate income tax for companies producing machinery and equipment for agriculture and irrigation.

According to the Law No. 32/2013/QH13 dated 19th June, 2013, amending and supplementing a number of articles of the Law on Corporate Income Tax, corporate benefit from preferential tax rate of 20% in 10 years, the maximum tax-free for 02 years and a 50% reduction of the total tax amount for the next 04 years for corporate manufacturing machinery and equipment for production agriculture, forestry, fishery and salt; irrigation equipment manufacturing, production, refining animal feed, poultry, fisheries, development of traditional industries.

The Government grant also VAT incentives. Since July, 2013, the Department of Tax has applied the scheme “check first, reimburse later”. The Tax department examine bill from the first seller, if the companies meet all conditions, they will be refunded VAT.

In order to support business and producers to overcome difficulties in 2014, the Government issued the Decree No. 209/2013/NĐ-CP dated 18<sup>th</sup> December, 2013, guiding some provisions of Law on Value Added Tax, then the Ministry of Finance issued the Circular No. 219/2013/TT- BTC guiding Decree No. 209/2013/NĐ-CP. According to these legal documents, preliminary processing and storage (drying, husking, nut separation, slicing, grinding, chilling, salting and others) of agricultural products are levied at the VAT rate of 05%. The MOF holds responsible for the implementation.

### **Policies on Research and Technology**

In recent years, Viet Nam has introduced policies to develop research and development activities in agriculture that are consistent with the goal of modernizing the sector. Policies to support enterprises in agriculture to improve technology capacity and technical qualifications are prescribed in the Law of Science and Technology in 2000; Law on Science and Technology in 2013; Law on Technology transfer in 2006 and bylaws including Decree No. 210/2013/ND-CP; Decision No. 3246/QĐ-BNN-MOST; Decision 68/2013/QĐ-TTg. The policy focuses on the following incentives: (i) The Government give priorities and take measures to promote the wide application of achievements of science and technology to promote the modernization of agriculture and rural development, with particular focus on areas with the conditions of socio-economic difficulties and special difficulties; (ii) Business is dedicated in part to investment capital in development of science and technology, technological innovation and to enhance the competitiveness of products. Capital cost for development of science and technology enterprises should be incorporated in agricultural product price; (iii) Enterprises are allowed to establish fund for science and technology (iv) Enterprises, which study the problems in the field of science and technology priorities may receive support from the Government and (v) Enterprises investing in science and technology are exempt from income tax in 4 years and 50% of the tax payable in the next 7 years.

Other solutions are innovations in technology, including research on equipment integration; forecast capacity enhancement; flood warnings, drought and saltwater intrusion, as

well as research on hydrological regimes and flows to improve the quality of reservoir operation processes, particularly in emergency situations.

The National Assembly enacted the Resolution No. 26/2012/QH13 on continuously raising the effectiveness and efficiency of public investment for agriculture, farmers and rural areas. Its main focus is on identifying the prioritized agricultural investment portfolio.

In December 2012 MARD set in place a strategy for the development of science and technology for agriculture and rural development over the period 2013-20, with specific targets for science and technology to become a key driving force for the industrialization and modernization of agriculture and rural development; contributing 40% to the value-added agriculture in 2015 and 50% in 2020; high technology products of will represents 15% of the agricultural product value in 2015 and 35% by 2020.

Despite the impressive increase, funding as a percentage of GDP remains relatively low at around 0.03% of GDP. The limited funding means that much of the research has not met the practical requirements of farmers, business and science.

According to the survey of IPSARD (2014) on 200 agricultural companies in 10 provinces of Vietnam, the proportion enterprises benefiting policy support to improve the capacity and the technical level is still modest: only 3% of companies supported the purchase of machinery and equipment at industrial promotion programs; 0.5% of enterprises supported technology transfer from foreign countries and 9% of enterprises supported staff training for companies.

### **Policies on Market Development and Trade Promotion**

As Viet Nam joined the WTO with a commitment to not maintain agricultural export subsidies from the date of accession, direct payments to exporters were discontinued (WTO, 2013).

In recent times, the Government has launched some new measures to facilitate the access to commodity markets and support producers, business in term of trade promotion. The policies to support agricultural companies in market development and trade promotion are provided in Decree No.56/2009/ND-CP; Resolution 22/NQ-CP dated 05/05/2010; Decree No.61/2010 /ND-CP; Decree No. 210/2013/ND-CP; Decision No 62/2013 / QD-TTg; Decision No.161/QD-TTg dated 05/02/2007;

According to the Decree No.210/2013/NĐ-CP ( issued in 19<sup>th</sup> Dec, 2013 and effective from 01<sup>st</sup> January, 2014)) replacing the Decree No 61/2010/NĐ-CP on policy for encouraging investment on agriculture and rural, the Government will support 50% of the cost of advertising on the mass media; 50% of cost for fair exhibitors in the country; 50% of cost market information and service fees from trade promotion agency of the State; encouraging investment on agricultural through incentives on advertising, market information access and service from trade promotion agency.

In early 2014, the Government has approved the Resolution No.01/NQ-CP (dated 2nd Jan, 2014) which gave more priorities for trade promotion activities, especially export promotion of key agricultural commodities such as rice, coffee, pepper, cashew nuts, seafood, fruits to potential markets.

These above policies are encouraging companies to invest more on agriculture through incentives on advertising, market information access and service from trade promotion agency.

Regarding export promotion and marketing assistance, Vietnam promulgated a national trade promotion programmed through the Decision No. 279/2005/QD-TTg of 3<sup>th</sup> November 2005. At present, the national trade promotion programme is implemented according to the Decision No. 72/2010/QD-TTg of 14<sup>th</sup> November, 2010.

A national trade promotion programme has been in operation since 2005. The national trade promotion programme granted funds for trade promotion activities, such as the hiring of domestic and foreign experts for advice and assistance on export development or product quality improvements; the organization of trade fairs and exhibitions. The enterprises were sponsored to participate in several trade events in Vietnam and abroad and to carrying out surveys or market investigation. The stated fund covers 100% of the expenses for the construction and decoration of pavilions at trade fairs but the hiring fee of consultants or participation at overseas fairs required the co-funding (50%) by the beneficiary enterprises.

### **Policies on Human Resources**

As most agri-food companies are still labor intensive, better human resources are a condition to the improvement of corporate performance. Therefore, the Government is interested in supporting businesses to improve the quality of human resources. The policy for this purpose is stipulated in the Decision No.132/2000/QD-TTg; Decision No. 1956/2009/QD-TTg; Decision No.1831/QD-TTg. The policy focuses on the following contents: (i) support to raise the level of technical expertise and management skill for staffs of agri-food companies; (ii) Preferential on short term training for workers of enterprises investing in agriculture (primary level vocational and vocational training under 3 months).

### **Administrative Reform**

In response to public demand on a better environment export and foreign investment attraction, administrative reform has pushed up in public services mainly focus on the following contents: administrative reform to simplify registration procedures for establishment and dissolution of companies; Improved administrative procedures on taxes, charges and fees; Supports for the establishment of associations at the local businesses; support for the establishment of centers of trade promotion and investment, development and advisory assistance activities for enterprises; reforms in the administrative inspection for businesses. In recent years, the Government have put more efforts to simplify administration in business and investment. The “One door” administrative scheme have been applied to make administrative system more transparent.

The Decree No.63/2010/ND-CP (dated 8th June, 2010) of the Government on controlling the administration and Decree No. 48/2013/ND-CP (dated 14th May, 2013) amending the Decree No.63/2010/ND-CP, specifies regulations on administration procedures, rights and responsibilities of Stated administrative agencies on administrative control and publication.

### **Policies on Linkage between Stakeholders in the Value Chain**

In order to encourage the co-operation and linkages between production and business in agricultural sector, on 25<sup>th</sup>, October, 2013, the Prime Minister signed the Decision No. 62/2013-QD-TTg on the policy encouraging development of the co-operation and the linkage between

production and the consumption of agricultural products and the construction of large field (replacing Decision No 80/2002/QD-TTg) provide various kinds of supporting for the linkage between stakeholders including Sanctions to ensure the link between the agent whereby the breach of contract case.

The Decision No.62/2013-QD-TTg regulates a number of preferential policies of the State to encourage the coordination between stakeholders in the supply chain of agricultural products which belong to large field projects under the planning and approved by competent authorities. According to this decision, large field production model is a form of cooperation between farmers and enterprises. It aims to increase productivity, improve quality and the competitiveness of agricultural products on markets.

### **Policies on Agricultural Soes and Private Companies Reform**

In the context of general economic reform, the Vietnamese government launched an equitisation programme in 1992 as a part of the State-Owned Enterprise Reform Programme. The programme is divided into two stages, a pilot stage (from 1992 to 1996) and an expansion stage from 1996 onwards. (Truong Dong Loc, 2016).

Thanks to these above efforts, Vietnam has experienced strong growth as a result of past reforms, including economic liberalization. To reap its full growth potential, a second wave of reforms is now needed. This process includes creating a level playing field for private and state-owned enterprises (SOEs) and restructuring remaining SOEs (Thornton Matheson, 2013).

### **POLICY ANALYSIS SUMMARIES**

According to Scott R. Pearson (1989), the Policy Analysis Matrix methodology is very important to providing input information for the policy making process. In this thesis, it is a tool to examine sector objectives, constraints of policies affecting the agri-food sector. The qualitative policy analysis is necessary because the process of updating economic analyses allows policies to be altered in step with changes in the economy and in the priorities established for the agricultural sector (Table 4).

<b>Macroeconomic policies</b>	<b>Incentives policies</b>
<ol style="list-style-type: none"> <li>1. Improving legal framework to make the market more stable and reliable;</li> <li>2. Protecting the rights and legal interests of the participants in the market;</li> <li>3. Keeping inflation rate at the reasonable rate to maintain the development of the economy;</li> <li>4. Assuring macro balances, especially keeping the budget deficit at safe limitation.</li> </ol>	<ol style="list-style-type: none"> <li>1. Encouraging the participation of the professional investors who will gradually push up the market to become more professional, competitive and transparent.</li> <li>2. Providing supporting services to securities investors such as lending, information provision, and services relating to stock transactions such as stock investment consultation.</li> <li>3. Facilitating the operation of credit rating organizations, auditing organization, consultations, payment banks.</li> <li>4. Creating a mechanism for effective transactions through organizational setting and operations of the stock exchange centers and departments including the transaction, monitoring, information announcement system.</li> </ol>

Recommendations on policies for pushing up agricultural production and business.

We summarize the main content of each policy then determine whether these policies are conducive, negative to support corporate performance of foods and agricultural companies in Vietnam. The macroeconomic policies and incentives policies for improving the function of the stock market as a stable and efficient channel of capital mobilization are described as (Table 3).

To develop sustainable agriculture, it is necessary to enhance the restructure of the agricultural sector, with a strong focus on public investment restructuring and public service restructuring in agriculture, to create a favorable environment for the formation of effective and sustainable agricultural value chains based on regional and local comparative advantages.

POLICY DATA ANALYSIS				
POLICY	MAIN CONTENT	SUPPORT AGRI-FOOD COMPANIES	HINDER AGRI-FOOD COMPANIES	RECOMMENDATION
<b>Group 1: Agricultural planning - Macroeconomic business environment for agri-food companies</b>				
Decision No. 124/QD-TTg approving the master plan to develop agricultural production by 2020, vision to 2030	Decision No. 124/QD-TTg: Land used for forestry and aquaculture will be enlarged about 1.1 million hectares in the period of 2011-2020, including 37 hectares for rice, 60 thousand ha for annual crops, 100 thousand ha for perennial planting, and 930 thousand hectares for forestry planting. Land for agricultural production in 2020 will be 9.59 million hectares, down 580 thousand ha compared to 2010 ; annual crop land layout 6.05 million ha , of which 3,812 million ha of rice land, land plants feed 300 thousand hectares of farming land for 3.54 million hectares of perennial crops . Land for forestry in 2020 will be 16.2 - 16.5 million hectares, an increase of more than 879 thousand hectares compared to 2010, including 8,132 million ha of production forests land, 5,842 million ha of protective forests and 2,271 million ha of special-use forests. Land for Aquaculture	A package of measures set out in the No. 124/QD-TTg supports for agri-foods companies including: (1) To raise awareness of companies on operating in a market economy, (2) To enhance market development and trade promotion to implement the objectives of planning; (3) To strengthen scientific research and transfer of system; (4) To facilitate infrastructure development to meet the requirements of agricultural production , forestry , fisheries and salt production as planned (5) To renew forms of organization of production and services (6) To develop mechanisms and policies to help farmers to own equity in the enterprise and agricultural projects by contributing land use rights, (7) To promote agricultural mechanization and production scale expansion by focusing on intensive and large field production.	The plans lack of enough powerful policies and solutions to develop and implement mandatory ; lacking of measures to assess and determine effectiveness The dissemination of information on planning for people and stakeholders are not effective, many people do not know about the plans programs and measures for agricultural development at the local level do not to mention planning. There is no coherence between plans and no regional links, industry links. From sectoral planning to switch to plan economic development of local social cohesion does not have a	To promulgate policies and solutions to comply with mandatory plans have been promulgated. To evaluate the effectiveness of planning activities for timely adjustment of suitable for practical planning. To review and adjust planning towards ensuring the industry moving from agricultural planning to development planning economic and social cohesion regions; with a mechanism ensuring the link between the planning and the continuity the regional, sectorial linkages To adjust, remove infeasible and backward points in the planning which did not mention to market forces, science and technology and investment capacity. To promote dissemination of information on agricultural planning to the community. Facilitate the participation of the in monitoring the implementation planning. Especially the implementation of the “ <b>New rural</b> ” in localities must be monitored closely by the people.

	will be 790 thousand hectare, an increase of 99.7 thousand hectares compared to 2010 , in which farming area in the Mekong Delta accounts for 70% . Land for salt production will stabilize at 14.5 thousand ha, in which 8.5 thousand ha will be used for of industrial salt production.		mechanism, leading to difficulties in switching to the new rural planning . Planned land size for livestock production is only 300ha, a very limited size in comparison with the large number of labor in the sector and a high demand for livestock products. There is not enough land to grow livestock industry, especially large-scale farming.	
The project to develop cultivation industry by 2020, vision to 2030, issued by MARD (dated 16/4/2012)	Developing cultivation towards modern, sustainable, large-scale commodity production, increasing productivity, quality, efficiency and competitiveness in order to meet the diverse needs of domestic and export; improve the efficiency of land use, water, labor and capital, increase income and livelihood of farmers	Key measures are approved to promote and apply high yielding varieties and manufacturing process, high quality irrigation system; accelerate mechanization of the production contract; modernize industrial storage, processing , enhance the quality, hygiene and food safety and value - added agricultural.		
Decision No. 10/2008/QD-TTg approving the livestock development strategy by 2020	Policies to support livestock industry to become a goods manufacturing industry, in order to cover all domestic consumption and gradually tend to export. Supports focus on key products including pork, poultry, dairy and beef cattle.			To strengthen policies for processing and distribution, creating sustainable output for the livestock industry because with the current pace of development in the near future the domestic livestock industry will face with the oversupply. To promulgate policies to create conditions for survive and growth of the livestock industry under the impact of the TPP.

## Summary of Findings and Recommendation

### Summary of Findings

Vietnam have issued various policies supporting agri-food companies, which have contributed to the development of agri-food production and business in Vietnam without violating international commitments of Vietnam on removing export subsidies. Its results may be seen clearly in the export volume of agri-food products. Despite these successes, the government remains concerned about the unsustainable direction in which agriculture is headed. The competitiveness of the sector is low and relies on low labour cost and natural advantages; value added is limited. There is a high dependence on some traditional export markets; excessive uses of chemical inputs are polluting the environment; and the major agricultural labour force remains unskilled and unstable. Some polices were even inefficient in practice.

The policy review shows that the Government succeeded in implementing policies on production supporting, agricultural infrastructure building, credit support, science and technology while policies on linkages between production and business, institutional reform and export market development are still inadequate. Main reasons for limitations in these policies is the lack of reasoning in policy making, especially in institutional building; monitoring and evaluation of policies impact. The policies implementing process lacks also of mechanisms to collect policy feedback from beneficiaries, which is necessary to the policies adjustment and improvement.

### **Recommendations**

In the coming times, more policies adjustment and measures should be taken in order to encourage the sustainable development of agri-food companies. Credit policy from the Government should ensure the fairness between the SOEs and non-state enterprises, in order to avoid the cases that enterprises with higher rate of state capital have priority in loans. This is also the motivation for companies after equitization to be listed in the stock market, because when they cannot rely on the loans priorities from the Government, they have to compete to mobilize funds from market, by improving their corporate performance and reputation. Simultaneously with the termination of discrimination in capital access between SOEs and private companies, the Government should adjust the macro-financial policies to improve the capital market, with lower lending rates in overall, because our finding suggests that the lower cost of capital of listed companies have, the higher added value they get. In recent years, tax policy in agriculture recently has had several incentives for the agricultural sector. However, to create favourable conditions for the sustainable development of foods and agricultural companies, the Government should implement tax incentives for SMEs in agriculture to encourage enterprises to invest in agriculture and rural development. Tax incentives become more important in the context of economic integration, because when the economy is more and more opened with the removal of a range of import tariff, products of Vietnam have to compete with imports, not only by prices but also by quality and sale services. Therefore, companies need incentives in income tax and other tax lines to increase domestic production.

Land policy should be adjusted in order to help well performing companies (i.e. agricultural companies after stock listing) to easily access land to expand their production and create more jobs and value added. This policy is very important because in the past, most of public agricultural land was granted to SOEs or state farms. Then along with the industrialization, a part of these land resources have been re-allocated to other economic activities outside agriculture. But a large share of public agricultural land is still under the management of SOEs and become its advantage in accessing credit and expanding production, despite their ineffectiveness of land uses for production. In addition to the reallocation of land in a transparent land transfer market, the Government should clearly identify objectives of land rent exemption and reduction. The land incentives should be substantially implemented to encourage companies to invest in profitable areas of agriculture and foods sector so that they can create more jobs and income for agricultural labors. Not only the central government, the local governments should be more active to create conditions to support land acquisition funds.

Regarding administration, although these initial reforms were extensive, they did not necessary go far enough and were sometimes reversed. Administrative reforms should be based on interest of companies, so that it improve the overall business environment in Vietnam and increase the competitiveness of Vietnamese agri-food companies.



## ENDNOTE

1. These provinces are Son La, Nam Định, Hà Tĩnh, Ninh Thuận, Bình Thuận, Đắk Lắk, Lâm Đồng, Bình Phước, Đồng Tháp, Bạc Liêu provinces. These provinces are selected on the criteria of socio-economic region, of which Son La is in the North mountainous of Vietnam, Nam Dinh in the Red River delta in the north, Ha Tinh in the central region, Ninh Thuan, Binh thuan in the coastal central region, Dak Lak, Lam Dong in the Central Highland, Dong Thap, Bac Lieu in the Mekong river delta.
2. WTO (2013). Report by the WTO secretariat on trade policy of Vietnam. Summary version. WT/TPR/S/287

## REFERENCES

- Ahire S., Golhar L. & Damodar Y.(1996). Quality management in large versus small firms. *Journal of Small Business Management*.34,1-15.
- Alfredo, D.M., Josip, K., Giovanna, C. & Lucio, C. (2013). Dispersion of family ownership and the performance of small-to-medium size private family firms. *Journal of Family Business Strategy*. 4,166–175.
- Andre D. W.(2012). The Differences of TQM Practice and Organization Performance between TQM Firms and Non TQM Firms. 2nd International Conference on Management, Economics and Social Sciences (ICMESS'2012) June 30-July 1, 2012 Bali,pages 139, 140.
- Atkinson A, Waterhouse J.H. (1997). A Stakeholder Approach to Strategic Performance Measurement. *Sloan Management Review*. 38,25-37.
- Dang K.S. & Nguyen D.A.T.(2011). Land policy for development in Vietnam: Opportunities or Challenges? *A study under working framework of the Institute of Policy and Strategy for agriculture and rural development in Vietnam*.
- Fernando R.S. & Manuel P.F. (2010). Emerging determinants of firm performance: A case study research examining the strategy pillars from a resource-based view", *Management Research: Journal of the Iberoamerican Academy of Management*.8 (1), pp.7 – 24.
- Forslund, H. (2007). The impact of performance management on customers' expected logistics performance. *International Journal of Operations & Production Management*. 27, 901-918.
- Fullerton R.R & Wempe W.F. (2009). Lean manufacturing, non-financial performance measures, and financial performance. *International Journal of Operations & Production Management*. 29,214-240.
- IPSARD. (2014). *Recommendation on support for smes in agricultural sector in vietnam*. A project funded by stated budget from the Ministry of Agriculture and Rural development of Vietnam.
- Maskell B.H. (1991). Performance measurement for world class manufacturing: A model for American companies. *Productivity Press*.
- McAdam R, & Bailie B. (2002). Business performance measure and alignment impact on strategy the role of business improvement models. *International Journal of Operations and Production Management*. 22, 972-966.
- Murphy (1996). Measuring performance in entrepreneurship research; *Journal of Business Research*. 36(1),15–23.
- Richard P.J., Timothy M.D., George S.Y. & Gerry Johnson. 2009. Measuring organizational performance: towards methodological best practice. *Journal of Management*. 35: 718 originally published online 6 February 2009. DOI: 10.1177/0149206308330560.
- Thornton M. (2013). Reform of state-owned enterprises. Paper presented in the *conference on “Vietnam: Retaining Stability, Regaining Competitive Edge, Reaping Growth Potential”* in Hanoi, April 18, 2013.
- Tran Q.T., Keishiro I.(2012). Agro-Enterprise Performance and Rural Investment Climate: Evidence from the North of Vietnam. *International Business and Management*.5(2),28-36.
- Truong D.L. (2006). Equitisation and Stock-Market Development: The Case of Vietnam; Chapter 4. The Impact of Equitisation and Stock-Market Listing on Firm Performance in Vietnam: Case Studies.
- USDA (2015). Vietnam Food processing ingredients 2015 annual report. *GAIN report number: VM5006*.
- VCCI. Annual reports on corporate performance of Vietnamese companies. 2013, 2014.
- Vietnam GSO and IPSARD’s surveys on corporate performance of agricultural companies during 2007-2013.
- World Bank (2008). Agriculture Competitiveness Project (*Report No.44575-VN*).
- WTO (2013). Report by the WTO secretariat on trade policy of Vietnam. Summary version. WT/TPR/S/287.