

FINANCIAL INCLUSION TO SUPPORT AGRICULTURAL PRODUCTION IN VIETNAM

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ABSTRACT

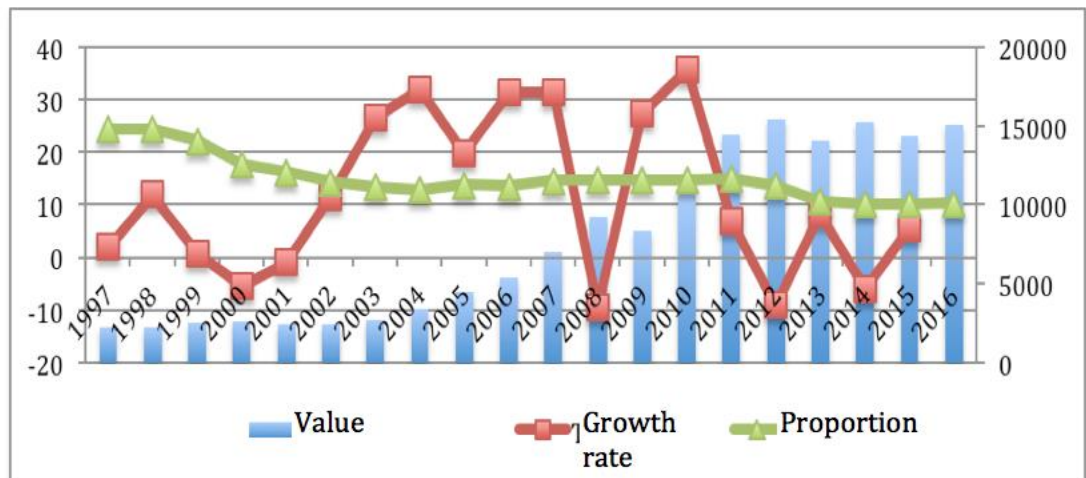
In Viet Nam, developing agricultural production always receive the Government's attention. With the favorable geographic location, rich terrain and nature, diverse ecosystems, Vietnam has advantage in agricultural production. So far, Vietnam is in top 25 biggest agricultural exporting countries. However, agricultural production in has not developed adequately with potential, the agricultural exports growth has been slow down. One of the main reason causing this decline is the world's demand for agricultural product quality is higher and higher. Thus, to enhance agricultural production and exports, investment for agricultural technologies and facilities plays an important role. To support this goal, financial inclusion development can be a pre-eminent solution that enhances access to capital for farmers as well as producers, processors and distributors of agricultural products. Therefore, financial inclusion will enhance the specialization in agriculture, create more agricultural value chains, achieve sustainable agricultural production and poverty reduction.

Keywords: Agricultural value chain, Vietnam, financial inclusion, agricultural export

1. The Agricultural exports situation in Vietnam

Along with the economic reform and international integration process, Vietnam has achieved considerable success in exports of agricultural products. Due to the availability of land and climate for agricultural production, agricultural products are one of the strength in Vietnam's export activities. Coffee, rice, pepper and cashew nuts are typical items. Agricultural exports in the period of 1997 - 2016 achieved encouraging results with an average growth rate of 14% per year; from the value of \$ 2.231 billion in 1997, agricultural exports was more than doubling in 2005 and eightfold by 2016 (Fig.1).

Figure 1. The Agricultural exports situation in Vietnam



Source. GSO of Vietnam

Although Vietnam has a modest land area on the world map, but with favorable natural appropriation in agricultural production, Vietnam has been an agricultural exporting country.

Figure 2. Top 22 major agricultural exporters in the world

| | % of world total | | | |
|---------------------------|------------------|-------|-------|-------|
| | 1995 | 2005 | 2010 | 2015 |
| World | 100.0 | 100.0 | 100.0 | 100.0 |
| United States | 11.5 | 9.0 | 9.5 | 9.6 |
| Netherlands | 9.4 | 7.9 | 7.4 | 7.0 |
| Germany | 5.8 | 6.5 | 6.1 | 5.5 |
| China | 2.7 | 4.2 | 4.7 | 5.5 |
| Brazil | 2.7 | 4.0 | 5.2 | 4.3 |
| France | 8.6 | 6.1 | 5.0 | 4.3 |
| Spain | 3.1 | 4.0 | 3.4 | 3.4 |
| Canada | 3.2 | 3.8 | 3.3 | 3.5 |
| Belgium | 4.2 | 4.4 | 3.6 | 3.1 |
| India | 1.5 | 1.5 | 1.8 | 2.5 |
| Italy | 3.1 | 3.2 | 2.9 | 2.7 |
| Thailand | 2.9 | 2.3 | 2.7 | 2.5 |
| Australia | 2.6 | 2.7 | 2.2 | 2.5 |
| Argentina | 2.0 | 2.3 | 2.6 | 2.2 |
| Poland | 0.6 | 1.4 | 1.6 | 2.0 |
| New Zealand | 1.5 | 1.9 | 1.8 | 1.7 |
| Viet Nam | 0.4 | 1.2 | 1.5 | 2.2 |
| Mexico | 1.5 | 1.7 | 1.6 | 2.0 |
| United Kingdom | 3.0 | 2.2 | 1.8 | 1.7 |
| Denmark | 3.0 | 2.4 | 1.8 | 1.5 |
| Turkey | 0.9 | 1.2 | 1.2 | 1.4 |
| Russian Federation | 0.2 | 0.6 | 0.7 | 1.2 |
| Others | 25.1 | 25.0 | 27.0 | 27.2 |

Source. FAQ

The market share of Vietnamese agricultural products has increased steadily over time. In 1995 Vietnam's agricultural exports accounted for only 0.4% of total world agricultural exports, this proportion increased to 1.2% in 2005 and 2.2% by 2015.

By the year 2015, Vietnam's agricultural exports are ranked 14th among the 22 world major agricultural exporters, surpassing New Zealand, Poland, the UK and Denmark. In Asia, Vietnam's agricultural market share is just behind India, China and Thailand.

Despite of impressive results in agriculture development, Vietnam's agricultural is facing with decline in some aspects, including:

- A decline in agricultural exports growth rate: Fig 1 shows us the apparently decline in agricultural export growth rate since 2011 in comparison with the growth rate in the period of 2002 – 2010. This is caused by the fall in export of rice (-15,7%), rubber (-14,1%) and coffee (-14,1). It is noteworthy that the decline in agricultural exports in 2013 and the slow recovery trend in recent years is because of climate change and the world market fluctuations causing the sharply fall in price of agricultural products. In addition, the world's tendency to consume high

quality agricultural product with increasingly technical standards is also a big challenges to Viet Nam's agricultural exports.

- A decline in agricultural exports share in Vietnam's total export. In 1997, agriculture accounted for 24.3% of total exports, but this number decreased by 10.3% in 2016. The share has been replaced by industrial product exports: Textiles and electronic items. This is the result of economic restructuring. The rapid development of the industrial and service sectors has brought the positive change in export performance. Now a day, the agricultural sector, with its particular difficulties in production and export as well as its internal inertia, accounts only one tenth of the total export turnover. This sets the requirements for reform and innovation in agricultural production.

2. The role of financial inclusion in motivating Vietnam's agriculture exporting capacity

In Viet Nam, developing agriculture production and export, improving rural living condition always receive the Government's attention. In Vietnam, developing value chain is very important in either agriculture or the whole production to enhance specialization and productivity, especially in condition of integrating into international market, exporting agricultural products.

In the Agricultural Sector Restructuring Scheme of Vietnam, the Government aims to shift agriculture to modern production with safe, sustainable and effective criteria; In particular, enterprises are the core force of applying high technology into the agricultural value chain. To develop a more sustainable agricultural economy, the best way is to effectively implement the value chain in the production, processing, consumption and consumption of agricultural products.

However, the total investment capital from the state budget and economic sectors in agriculture, farmers and rural areas is low, not meeting development requirements. To promote the development of agriculture and rural areas, the prerequisite is to raise funds for agriculture and open agricultural credit lines.

Although agricultural credit has been increasing recently, due to the large production capacity of the sector, credit policies have not yet met the demand and have not been as effective as expected. Main reasons including

- Agriculture production contains majeure risk from weather, pest and the world market fluctuation.

- Vietnam's agriculture production are mainly small and micro scale of production, they face difficulties in accessing and meeting requirement to receive bank loans to develop their production.
- Agricultural production has vary duration of crops, it's difficult to meet the rigid loan and payment period from the bank.
- To support loans accessibility of farmer and poor people, microfinance has been developed in Vietnam with 3 licensed microfinance institutions, approximately 50 large semi-formal PMTCT programs and over 250 other microfinance projects. This model has played an important role in enhancing farmer and pour people in rural area to improve their production and life. However, microfinance builds on the group's access to credit, requiring mutual supervision among borrowers, accessibility to loans is more complex than personal loans. Microfinance also do not encourage borrowers to invest in risky projects, especially agricultural production. Moreover, in microfinance, the repayment frequency is high and rigid, the first payment can start after 3-4 weeks after borrowing, leading to difficulties in agricultural production. Thus, the borrower may have to find another way to repay

With the above situation, to enhance access to financial services, including credit services for Vietnam agricultural businesses and farmers, Financial inclusion should be considered as an important pillar for agricultural production development, sustainable poverty reduction, contributing to the mobilization and efficient utilization of social resources. Financial inclusion is extremely important to society in general and agricultural production, namely:

- For society: Financial inclusion creates opportunities for full exploitation of vast numbers of small idle capital in society, especially from the low income and remote areas, with less access to services. Bank. Since then, comprehensive finance has contributed to the flow of investment and savings in society, contributing to poverty reduction and promoting economic growth.
- For households: Financial inclusion extends the opportunity to accumulate as well as consumption for individuals through financial services such as opening accounts, using electronic payments, consumer credit ... Financial inclusion has a broad client base with diversified forms of flexibility that are suitable for all types of population, especially low income residents.
- For farmers, cooperatives, agricultural enterprises and other agricultural businesses, especially small and micro organizations: Financial inclusion is the key to access capital to upgrade production, increase productivity, promoting export capacity. Since then, financial inclusion has assisted in the development of the agro-food chain as it will provide special support for specialized production models with particularities in scale and seasonality, which are unfavorable in access bank credits. The development of financial inclusion services is an

opportunity for agricultural cooperatives, farms and processing establishments to access financial services that meet their needs as well as their production and business's feature such as borrowing money, using payment and insurance services to support production and business.

3. Financial inclusion situation in Vietnam

Account is considered as one of the most basic tool in financial inclusion, this is the door for other financial products and services [3]

Thus, in order to measure the overall level of financial development of a country, studies often use the number of accounts in and outside the banking system.

Figure 3. Financial inclusion in Vietnam

unit: %

| | Viet nam | | East Asia&Pacif ic | Lower middle income |
|-------------------------------------------|----------|-------|--------------------|---------------------|
| | 2011 | 2014 | | |
| Account (% age 15+) | 21.37 | 30.95 | 69 | 42.7 |
| Account, income, poorest 40% (% ages 15+) | 9.39 | 18.95 | | |
| Account, income, richest 60% (% ages 15+) | 29.46 | 39.46 | | |
| Saving at a financial institution | 7.70 | 14.60 | 36.5 | 14.8 |
| Borrowed from a financial institution | 16.20 | 18.40 | 11 | 7.5 |
| Borrowed from family or friends | | 29.90 | 28.3 | 33.1 |
| Borrowed from private informal lender | | 1.80 | 2.5 | 8.5 |
| Borrowed for a farm or business | | 7.10 | 8.3 | 9.2 |
| Borrowed for education or school fees | | 10.20 | 7.1 | 10.1 |

Source. WB

Fig.3 reflects the financial inclusion development in Vietnam through the proportion of adults (over 15 years) that have individual accounts. Figures show that financial inclusion in Vietnam has experienced rapid development and achieved some remarkable results, they are:

- The proportion of adults that have accounts increased rapidly, from 21.37% to 30.95% in 2014. In particular, the sharpest increase of account holders was in the poorest group, from 9.39% in 2011 has doubled, reaching 18.95% in 2014. This situation reflects the opportunity to access financial services has been extending to all classes in Vietnam.

- The proportion of Vietnamese using credit services including borrowing and depositing has increased significantly. In details, the proportion of population borrowing money from financial institutions is significantly higher than the regional and low middle income countries average level. The ratio of loans from friends and family is approximately equal to the average, while the proportion of loans from informal private organizations is significantly low. This shows a good sign that the financial system of Vietnam has really promoted its role in the overall financial development. In addition to the development of loan services, capital mobilization services also have remarkable development. Residential savings rates in population have doubled from 7.7% in 2011 to 14.6% in 2014, which is close to the average for middle-income countries, but only half of the region.

- Microfinance - a form of financial inclusion - has received particular attention from the Government to create a favorable policy and legal environment for microfinance expanding and developing sustainably

- Credit policies for agriculture and rural areas, to encourage the development of the Agriculture value chains have been actively implemented by the banking system: Decision No. 1050 / QD-NHNN dated 28/5/2014 specifies pilot program for linkages in the chain of production and marketing of agricultural products and models of high-tech and scientific applications in agricultural production. The Government's Decree No. 55/2015 / ND-CP on credit policies for rural and rural development. One of the breakthrough policies is the Decree No. 55/2015 / ND-CP, that notifies enterprises, organizations linked in the value chain, apply high technology in agriculture can be trusted for unsecured loans up to. 70-80% of the value of the project

Although there have been remarkable results in comprehensive financial support in general and comprehensive finance supporting agricultural production in particular. However, Financial inclusion in Vietnam has remained low, specifically:

- The proportion account holders in Vietnam although increases sharply but remains low, only half of the East & Pacific region and two thirds of low middle-income countries. Therefore, the ability to expand financial services for all social subjects will be more difficult in the future.

- Vietnam hasn't had a comprehensive strategy for comprehensive financial development, but only in the stage of concentrated development of microfinance and traditional banking credit.

- The feature of microfinance institutions that loans often derived from programs / projects supported by non-governmental organizations, it is usually not large enough to meet people's demand for loans. Frequent lack of funds, no collateral or collateral has limited credibility, and the ability to access capital from other financial institutions to re-lend to the poor / low-income people.

4. Policy implication

To enhance agricultural production and exports, financial inclusion has become the important solution to help farmers, small and micro business to access loans adapting their need for production investment. The paper suggests some solutions:

- Study and apply the Trader Agent Intermediary Loans (TRAIL) model, a new version of microfinance in which local brokers (lenders) are Appointed as an agent to introduce borrowers to personal loans designed to allow agricultural activity. This model does not include peer monitoring, group meetings or savings requirements as the traditional microfinance model. In a randomized assessment conducted in West Bengal, India, TRAIL loans have higher rates of consumption and higher repayment rates than the group's overall debt in microfinance.

- Develop diversify types of credit services in financial system with flexible payment terms according to seasonal features and agricultural products. Credit institutions, from analyzing the opportunities and risks in agriculture of particular products, forecasts for specific periods of time to select loans by stages. For example, providing pre-harvest loans (loans to raw material suppliers or farmers directly borrowed) or mortgages in goods or movable assets or in the form of commercial financing.

- Continue to expand the value chain lending model, whereby enterprises participating in a production chain can open accounts at a bank. From there, the bank can transfer money from the production loan account to the production payment account of other production. This form of payment contributes to consolidating long-term cohesion and partnership between businesses and minimizing risks for banks. This model has been being piloted in Vietnam

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