The Rice Sector in Vietnam and Policy Development

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Overview of the Rice Sector

1. 60% rural households growing rice/paddy
2. Paddy land accounts for 40% of agricultural production area
3. Rice contributes 30% of production value of cropping sector
4. Ensure national food security
5. Contribute considerably to export earnings
Today’s Government Objectives for the rice sector

• Ensure national **food security** and improve **incomes** and livelihood of farmers
• Develop the production towards modernization and **sustainability**
• Improve productivity and quality and increase **competitiveness**
• Effective **use** resources of land, water, labor and capital
History: Yield as the driver of output

- Stagnation during 1976-1980
- High growth, mostly contributed by yield growth along with the partial reform in 1981
- Steady growth during 1986-2000 since the economic reform
- Lower growth from 2005 with less cultivated area
History: Market-oriented reforms as a driver of change

From hunger...

- Top-down cooperatives in 1975 followed by farmer’s resistance in the south. Rice production stagnated and hyperinflation.
- Imported rice reduction in assistance by the Soviet Union and the losses of SOEs further reduced farmer incentives.

... To surplus of rice as world 2nd player in rice exports..

- Market liberalization: switched from the collective agricultural production system to individual-oriented contract system in 1981 generating farmer’s creativity and initiative followed by sharp increase of rice production with an average annual growth rate of 5% during 1981-1986.
Measure 1: Land Allocation to all farmers

- The Land Law in 1989 legalizing the private ownership of farm assets and allocating the cooperative land to individual farmers for long-term use.
- Landless farmers account for only 2 percent.
- Farmers holders of land-use titles have five rights: “exchange, transfer, inheritance, lease and mortgage”;
- Farmers were allowed to buy, own, and sell agricultural inputs such as machines, buffaloes, and tools.
- Farmers no longer required to sell a large part of their outputs to State at low price.
Measure 2: Reduction of export tax and removal of import tax for fertilizers

- Eliminated most direct subsidies and price controls, set interest rates positive in real terms and devalued the foreign exchange rate,
- The export tax was reduced 25% to 0% in 1998.
- Restrictions on fertilizer import removed in 2001
- Participation of the private sector in rice export since 1997
Measure 3: Government Investments in irrigation and General services

- Around 8 billions US$ invested in irrigation
- Public extension service successful in disseminating high-yielding varieties, and plant protection techniques ...
Measure 4: Direct Supports & Subsidies; but less and less!

- Exempt poor households and agricultural households in difficult communes from agricultural land use tax
- Reduce 50% of agricultural land use tax for the rest of households
- Credits with subsidized interests to buy machines, materials for services in supply chain (plough, harvesting…)
- Exemption from irrigation fees
- Investment in general services, in R&D, science technology and agricultural extension
- Poorest have access to subsidized credits of Bank for Social Policies
- Free vocational training
- Production inputs given free or subsidized by pro-poor national and international programs (less and less applicable)
Measure 5: From fragmented land to large rice fields (ARP)

Land consolidation for Reducing cost of farming
Measure 6: Increasing incomes for farmers (ARP), through on-farm diversification

- Restructuring the subsector
- New value chains of specialty rice, targeting niche markets
- Diversification: More rice-fields turned into flowers and safe vegetable
- Models for test and demonstration > lessons learned and then
- Mass multiplication
Measure 7: Crop diversification

Low profit rates in rice production compared to other crops

Multi-purposes of the paddy land conversion

- Diversify farmers’ incomes
- Reduce imported inputs such as corn, soy, and fertilizers
- Create jobs for rural areas
- Ensure food security and protect nature

Profit (000 VND/ha)
Measure 8: Promoting on farm diversification

- After years of development, Sa Dec village in Mekong delta has now 212 hectare of flowers.
- The village’s flowers are transported by boats to other provinces in Mekong River Delta and Ho Chi Minh City, and even exported to Laos, Cambodia and China.
Measure 9: On farm Diversification

with corn

with soy-beans, which needs less water
Measure 9 (& 6): Higher incomes for farmers

Support general services and private investment

- State budget provided to infrastructure, improving quality of agricultural services, research & Development, education to improve productivity, competitiveness and the quality of services along the chain
- Enabling environment for domestic and foreign private companies to invest, aiming at long-term growth
- Market research, branding …
- Help networking and linking with international partners

Rice value chain development

- Higher added value
- Diversify rice products
- Intensify science & technology application
- Institutional reform
ARP-Policy: Development of Supply & Value Chains

- Studying **markets**; sale contracts signed with agreed quality standards and trademark, before production
- Building **partnerships**: Former buyers become partners and investors
- Having different **varieties** of coarse rice or basmati or jasmine or local varieties for different customers?
- Strict technical supervision
- Close collaboration between value chain actors, from farmers to end-consumers
- Traceability
- Good services for inputs supply and services
- Farmers are organized in **production groups**, with leader.
- **Lead-firm** “Loc Troi” provide good down stream services, after farm-gate: drying, storage, transportation, processing, marketing
- Government gives subsidized **credits** to farmers/contractors to buy machinery
- **Results**: Costs reduction and free labor for higher income activities (horticulture, rural non-farm jobs…)
- Sharing information about market and quality standards
Add value 1: Recycling by-products

- Recycling by-products:
- Processing of by-products to add values
- No pollution, no post-harvest losses through by-products
- Intensification with new varieties seed, fertilizer, pesticide, herbicide = value addition

Example: Making briquettes out of husks and straw for drying and other purposes
Add value 2: Recycling by-products

Using rice straw to cultivate mushrooms

Making compost from rice straw
Examples, Add value 3: Certified Production of Rice
Rice & Duck, Rice & Fish and Rice & flowers farming applied in Mekong River Delta. Flowers planted to attract friendly insects eating harmful pests.
Example, Add value 4: Certified Production of “Safe” Rice

- The floating rice system uses no pesticides and only a small amount of fertilizer.
- This is in contrast to the high-yielding varieties of rice that grow three to four crops per year in Mekong and that are agrochemical intensive.
- This farmer collecting wild freshwater fish for his protein sources.
- Although the yield of floating rice is low, the net return is relatively higher than that of summer-autumn high-yield variety rice crops grown by other farmers.
Examples, Add value 5: Differentiation of Rice Products
Example, Add value 6: The quantity of fragrant jasmine rice increases.

Export volume by rice varieties (ton)

- 2-10% broken rice
- 15-25% broken rice
- 25-50% broken rice
- Jasmine rice
- Brown rice
- Sticky rice
- Broken rice
- Others

## Focus for Policy development

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| **1. Investing in people**                            | - Training and retraining of rice researchers, policy researchers and extension staff…  
|                                                        | - Adopting a more results-oriented culture in innovation activities  
|                                                        | - Policies related to incentives (tax, access to land, credits …)  
|                                                        | - The State budget has more money to support farmers and the private sector  
|                                                        | - Between national research centers, extension and schools  
|                                                        | - Network with international research centers and private sector  
|                                                        | - Among ministries (Agricultural, Health, Infrastructure…)  
|                                                        | - Participation of communities in design, implementation, maintenance and monitoring  
|                                                        | - GAP certification, organic rice production and other crop production standards in order to access specific export niche markets |
| **2. Enabling environment for the private sector to invest in the rice sector** |                                                                                                                                            |
| **3. Privatization of SOEs**                          |                                                                                                                                            |
| **4. Enhancing linkages cooperation and coordination** |                                                                                                                                            |
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| 4. Equitable access and control over land & inputs | - Process of ‘land conversions’ more transparent and fairer  
- Protecting the farmer’s rights to land, more stable property rights  
- Land-use planning system  
- Small-scale farmers have equal rights, compared to large ones for access to credit, technology and market information.  
- Contributions by water users for operation, maintenance  
- Participation of communities in design, implementation, maintenance and monitoring  
- GAP certification, organic rice production and other crop production standards in order to access specific export niche markets |
| 5. Poverty reduction, gender equality | |
| 6. More participation in management of Drainage and Irrigation | |
| 7. Food safety norms, certification and regulations | - Policies facilitating investment in public R&D and technology transfer schemes, subsidies for private R&D, intellectual property rights |
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<td>8. R&amp;D</td>
<td>- Develop institutional and policy reforms to enhance farmers’ access to improved public agricultural and natural resources management services.</td>
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<td>- More participation in farming extension from communities, cooperatives, enterprises, private persons</td>
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<td>9. Methodology of farming extension services</td>
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<td>10. More on-farm and off-farm diversification</td>
<td>- More flexibility from Government in approving conversion of rice land to soy-bean, corn and cash crops</td>
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<td>- Same level of support from Government to corn or soy-bean production as to rice production</td>
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<td>11. Increase the production efficiency and competitiveness of rice value chains</td>
<td>- One process system with land consolidation</td>
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<td>- More long term credits for farmers and cooperatives</td>
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<td>- Improve the efficiency of farming extension and supervise process of sustainable production</td>
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<td>- More incentives from Government for private investment in rice</td>
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| **12. Market development, more lucrative markets** | - Enhance the competitiveness of the private sector  
- Develop new markets (South America, Africa, Middle East)  
- More market integration and linkages (trade agreements, product exchanges) |
| **13. Creating more added value** | - Provide private companies with more incentives and favorable conditions investing in agriculture  
  • Having direct linkages with farmers producing high quality rice (Japonica, Jasmine, Parboiled)  
  • Investing modern technologies of processing rice and recycling by-products  
  • Undertaking branding activities |
| **14. Market stabilization** | - Provide exporters having direct customers overseas with more incentives and favorable conditions  
- Provide vulnerable groups with rice, more food-for-work programs |
Reflections on policy for restructuring the rice sector

• The Government of Vietnam intends to reduce its role in productive activities (e.g. via SOE, subsidies), where the private sector is taking the lead as a driver of change.

• The Government now focus on creating an enabling environment including policies facilitating farmers and private business for sustainable long-term growth, as prescribed in the “Agricultural Restructuring Program (2013) (ARP).”

• Institutional strengthening, capacity building and policy reforms are needed to enhance farmers’ access to improved public services, as advocated in the vnSAT-project, supported by the World Bank.

• This policy change is initiated and endorsed by a Resolution of the VC-Party in 2013 and implemented by the PM and MARD
Reflections on policy for restructuring the rice sector

- There are no perfect or effective policies, since often trade-offs are observed “in everything”;
- Thus policy makers often ask themselves, if their current policy addresses as much as possible the stated objectives;
- To minimize mistakes, failures and obtain desired outcomes, make sure that new policies are based on sound (research) evidence;
- Improve transparency in the policy making process, including stakeholder participation and information on objectives, measures and policy tools;
- Policy implementation should be accompanies by a sound monitoring and evaluation (M&E) system
Thank you!
References

- Nguyen Luong Nhan (2015), How to add value to rice, IRC
- Vo Thi Thanh Loc and Nguyen Phu Son (2011) Rice Value Chain Analysis in the Mekong River Delta, Can Tho University