

AN ANALYSIS OF THE INVESTMENT CLIMATE IN AGRICULTURE IN HANOI PROVINCE, VIETNAM

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ABSTRACT

Hanoi province, Vietnam has much potential for agricultural development with its large consumer market for agricultural products, soil and water resources, natural climate, physical and social infrastructure. It is also one of provinces that has attracted a large number of investors. However, there are few agriculture investment projects in Hanoi in recent years. This paper presents the results of the structure interview of 200 managers of agricultural firms, co-operatives and farms in Hanoi province in 2008-2009. Even if these enterprises are pleased with their business performance and profitability, the investment climate could have negative effects obstructing investment incentives in agriculture. The study revealed eight key factors determining the investment climate in agriculture in Hanoi province, which include: land issue, provincial policies for agriculture, capital, physical infrastructure, administrative procedures, market, technology and labor issue. Land issues and provincial agricultural policies are the most important constraints; the second group are capital, physical infrastructure, governmental administration; and the third are market, technology and labor issues.

Key words: business performance and profitability, agricultural firm, cooperative, farm

INTRODUCTION

The importance of the rural and agricultural investment climate has only recently been realized. In the 1960s and 1970s, governments in many countries believed that they should play a direct role in input supply, production, trade, transport, and distribution. The long legacy of state-controlled and managed markets left the institutions and policy frameworks for liberalized and private-sector-led markets underdeveloped and private-sector capacities relatively low in many countries (World Bank, 2007). Like the Vietnamese government, the authority of Hanoi found that agricultural development plays a significant role in the economic development. However, under the pressure of rapid urbanization and other factors, agriculture in Hanoi has been facing many challenges. Besides, Hanoi attracted many domestic as well as foreign investment projects, but agricultural investment projects are few. In 2000, Hanoi called for 373 foreign investment projects but only two were in agriculture. In 2007, of the 1,118 projects implemented, there were only four projects involving agricultural production (GSO, 2008).

This study aimed to evaluate the investment climate and conditions for attracting investment in agriculture in Hanoi province, based on the analysis of effectiveness and efficiency of agricultural businesses in the period of 2000-2008 and assessment of the eight components of investment climate in agriculture in Hanoi. It will then suggest some policy recommendation for attracting investment in agriculture in Hanoi.

METHODOLOGY

The primary data came from a survey of production and business units in the field of three types: agricultural firms, agricultural cooperatives, farms, and some basic relevant management agencies in Hanoi in 2008-2009. In addition, some secondary data were collected from the General Statistic Office (GSO). The fields of agriculture are classified as cultivation, animal husbandry, aquaculture, business of agro products and mixed type. A sample of managers of 200 units randomly selected among agricultural units in the studied site were interviewed using standard questionnaires, and orientation interviews of 60 civil servants in the local government offices were also conducted.

The conceptual framework

The World Bank (2004) shows that although the term investment climate is used broadly, it is taken to mean the policy, regulatory, institutional and governance environment that supports (or fail to support) entrepreneurship and efficient markets. The report emphasizes that a good investment climate encourages higher productivity by providing opportunities and incentives for firms to develop, adapt and adopt better ways of doing things – not just innovations of the kind that might merit a patent but also better ways to organize a production process, distribute goods, and respond to consumers. The study developed the conceptual framework presented in Figure 1. The investment climate in agriculture is generated by eight components including management capacity of local government, Hanoi’s agricultural policies, public infrastructure, markets for agricultural products, science and technology, land, finance and labor force.

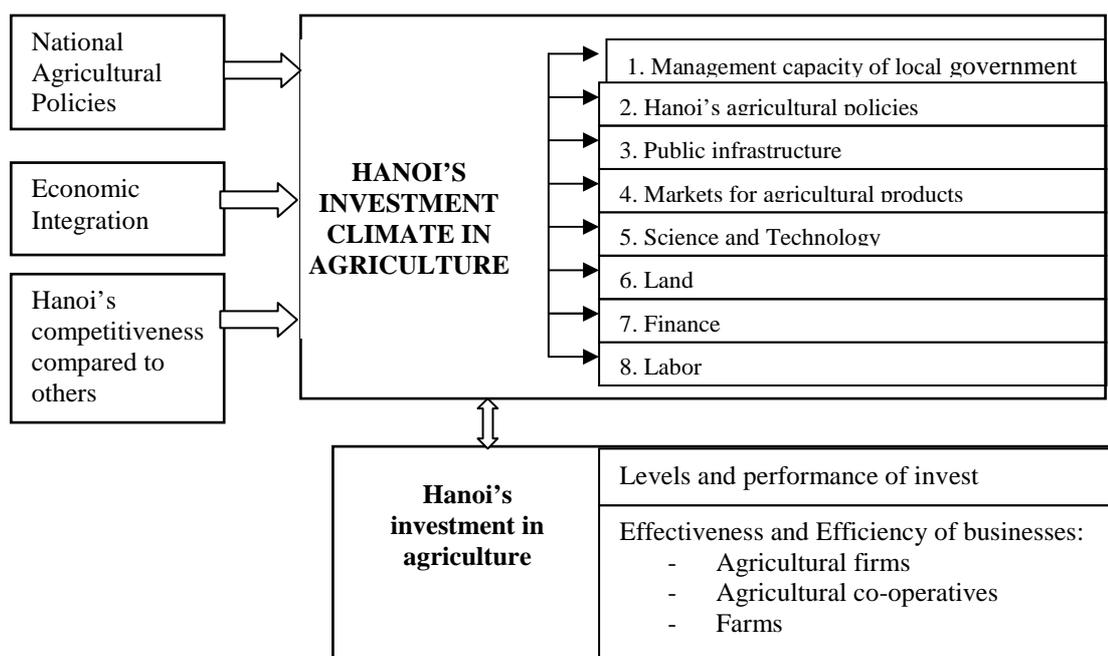


Fig. 1. Conceptual framework for analysis of investment climate in agriculture in Hanoi

A positive trend of these components, such as: a good management capacity of local government with a clear mechanism; stable agricultural policies; an adequacies system of public infrastructure; a large markets for agricultural products; the development in science and technology; and a good

mechanism for land hiring and finance will lead to an increase in efficiency of investment as well as improve attractiveness of investment climate in agriculture in Hanoi. On the other hand, the effectiveness and efficiency of investment will decrease, thus leading to a reduction in attractiveness of agricultural investment climate.

FACTORS AFFECTING THE INVESTMENT CLIMATE IN AGRICULTURE IN HANOI PROVINCE

There are two other factor groups affecting the investment climate in agriculture in Hanoi. The external factors include: national agricultural policies, degree of economic integration, and Hanoi's competitiveness compared to the other provinces. If national agricultural policies are in favor of agriculture development, Vietnam can integrate in the large world market. With the high capacity of competitiveness in Hanoi, investors will then be stimulated to invest more in agriculture of Hanoi. The second group includes internal factors referring to effectiveness and efficiency of agricultural firms, agricultural co-operatives and farms in Hanoi. Effectiveness of agricultural units measures the results of doing business in a specific period; efficiency measures the relative relationship between results and costs of doing business in a period, normally in a year. Some basic indicators were productivity of labor, of land, profit per labor, and profit per capital and so on. A high business performance and profitability of agricultural units will be a base for promoting and improving the investment climate in agriculture.

External factors

Economic integration of Vietnam in the world market also creates a good condition for improving the investment climate in Hanoi. Vietnam has joined ASEAN, WTO and other international organizations which allow Hanoi to attract and select more, high capacity investors. This in turn helps to develop agriculture in Hanoi towards high productivity, quality, food safety and ecological environment. On the other hand, it requires highly competitive products.

In comparison with other provinces, Hanoi seems to have higher competitiveness. Hanoi is a center of political, economic and cultural, as well as one of the largest cities in Vietnam. It has many favorable conditions for economic development in general and agricultural development in particular. It possesses both conveniently natural factors such as alluvium, water resource, and weather climate, and socioeconomic supporting factors like developed infrastructure systems, expanded market for goods and agricultural products. It is the location of many research centers, universities, and institutes which is a foundation for economic development. Moreover, the authority of Hanoi has established a long-term development strategy for agriculture in order to exploit effectively the inherent advantages. Hanoi is also one of provinces of the whole country which has attracted a larger number of investors. This also promotes the attractiveness of the investment climate in agriculture in Hanoi.

National agricultural policies also play an important role and influence the investment climate in agriculture of the country in general and Hanoi in particular. The government aims to focus on industrialization, modernize agricultural and rural development; increase investment in building infrastructure; establish logical structure of agricultural production, and apply science and technology achievement in agriculture. They have strived to improve the policies, create a good investment climate in agriculture through renovating administrative procedures, enhancing clearance, expanding markets, investing and developing human resources, social environment, and infrastructure. This will motivate the investment climate in agriculture of Hanoi.

The impact of these factors on the investment climate in agriculture are as follows:

Hanoi has gained many achievements in the development process. Gross domestic products (GDP) increased at an average growth rate of 35.98% during the period 2000-2007. Even the contribution of the agricultural sector to GDP decreased over time, GDP of agricultural sector in Hanoi rose at the average rate of 10.85 in the same period (GSO, 2003; 2008). The investment for the infrastructure in general as well as in agricultural sector increases over time with high average growth rate. However, the ratio of agricultural investment was very limited, accounting for only 8.4% in 2000, decreasing to 1% in 2006 and then increasing to 3.5% in 2007. On average, in that period, the amount of agricultural investment increased by 19.69%, which is lower than the average growth rate of total investment, in general, at 48.50% (GSO, 2003; 2008). This means that the role of agriculture in Hanoi is not considered properly.

The number of foreign investment projects in Hanoi increased over time, but the numbers in the agricultural sector still accounts for a very small proportion. In 2000, there were only 2 over 373 projects in agricultural sector, accounting for only 0.54%. In 2007, there were only 4 agricultural projects over a total of 1.118 projects in general, which was only 0.36%.

The registered and implemented capital of foreigners in the agricultural sector accounted for a very small proportion in total capital in Hanoi. The registered capital in the agricultural sector was only 2.3 million USD in 2000 and 4 million USD in 2007, which is very much lower than 7,340 million USD in 2000 and 10,257 million USD of total registered capital. The implemented capital in the agricultural sector in 2000 and 2007 were 2 million and 3 million USD while total implemented capital in general were 2,577 million and 5,138 million USD, respectively. This implies that the attraction in agriculture investment in Hanoi is very low (GSO, 2003; 2008).

Public capital invested in agricultural sector in Hanoi tended to reduce over time. In 1999, public capital invested in rural areas of Hanoi was 113.8 billion Vietnamdong (VND). The numbers in 2000 and in 2002 were 93.5 and 79.7 billion VND (HPC, 2004) wherein investment in the infrastructure system in rural areas such as irrigation, dikes and rural transportation system, dominated the largest proportion (more than 80%). Direct investment in production accounted for only 5% of total investment. The investment for developing seeds and newborn husbandry which applies technology is negligible. In general, public capital invested reduced in all fields over time.

Internal Factors

The internal factors refer to effectiveness and efficiency of agricultural firms, agricultural co-operatives and farms in Hanoi as indicators.

There was a big difference in the scale of investment capital among the different kinds of units assessed. On average, the total capital of an agricultural firm at the time of the survey was 16,358 million VND. It was 30.77 times higher than of an agricultural cooperative (531.5 million) and 16.65 times of a farm (982.6 million). The amount of expanded capital in firms and farms doubled, while those in the cooperative decreased. The business strategy of firms seemed concentrated on distributing agricultural products with an estimated capital of 12 billion VND while cooperatives and farms are in favor of providing inputs service for agricultural production. Only firms consider expanding the distribution of forestry products and producing inputs for agricultural production while farms only intend to raise animal and aquaculture (Table 1).

In 2008, agricultural firms invested 16.36 billion in agriculture, including 10.92 billion for expanding business. Investment was mainly in agro-products with a total of 12.12 billion or 75% of total investment. There were only 1.13 billion for cultivation (7%) while none in husbandry because of the bird-flu issue. Investment in cooperatives was a total of 531.5 billion wherein 161.8 billion was expanded investment. Investment focused on 157 billion for cultivation and 374.1 billion for

agricultural services. Farms invested 982.6 billion in which 668.8 billion was for expanding production in 2008. The allocation of this investment was for cultivation (62 billion), agricultural service (664.7 billion), agro- products (36.2 billion), husbandry and aquaculture (33.2 billion), and mixed activities (138.2 billion).

Table 1: Private capital invested per unit, 2008 -2009.

Indicator	Firm		Cooperative		Farm	
	Mil. VND	%	Mil. VND	%	Mil. VND	%
Total Capital	16,357.9	100.0	531.5	100.0	982.6	100.0
Primary Capital	5,443.3	33.3	369.7	69.6	313.8	31.9
Capital expanded	10,914.6	66.7	161.8	30.4	668.8	68.1
Classified by Business Strategy						
Total capital	16,357.9	100.0	531.5	100.0	982.6	100.0
In which:						
Cropping	1,131.6	6.9	157.4	29.6	62.7	6.4
Inputs for agricultural production	1,003.6	6.1	0.0	0.0	0.0	0.0
Services for agricultural production	927.9	5.7	374.1	70.4	664.7	67.6
Distribution of agricultural products	12,124.8	74.1	0.0	0.0	36.2	3.7
Animal and aquaculture production	0.0	0.0	0.0	0.0	33.3	3.4
Distribution of forestry products	1,170.0	7.2	0.0	0.0	0.0	0.0
Multiple purposes	0.0	0.0	0.0	0.0	138.2	14.1

Source: Generated from the survey 2008-2009

In comparison with the firms and cooperatives, profit per capital in farms was much higher at an average ratio of 30.1%. Most especially, cropping and seedling production farms reached the highest ratio (31.6%). Firms which did business in agro products, agricultural services and provided materials achieved a level of 20%, and those which produced inputs for the livestock gained 18.6%. Agricultural cooperatives got a ratio of 23.1%, much higher than 14.1% of the services cooperatives. These results show that the investing efficiency in agriculture in Hanoi is quite good (Table 2).

Firms that provided agro service had the highest profit on cost ratio (0.3); followed by those which did business on forest products which reached 0.287. Firms that produced inputs for livestock attained a very low ratio (0.008). The survey results also implied that investment in husbandry, aquaculture, and mixed farms promised a quite high efficiency (0.395).

Farms were likely to have the shortest time of return of 4.5 years, and it differed among various kinds of farms. The shortest time was 3.8 years for mixed farms and the longest was 4.9 years for cropping farms. The time for return of firms and cooperatives were 10.4 and 4.7 years, respectively. The longest time of return was 18.5 years mainly because of growing perennial trees. Time for return in agricultural cooperatives was 4.2 years, longer than the cooperative that provided agricultural service (3.1 years).

Although the average number of labor in agricultural units increased over time, most units had small and very small labor size. Approximately, 70% of firms had less than 50 laborers. Only 15% firms had more than 100 laborers. The average number of the labor force in firms increased from 75 at the time of registration to 100 people at present; 100% of cooperatives and farms had less than 50 regularly working laborers. The corresponding figures in the farms were 7 and 10 people. The labor force in cooperatives was almost stable at 12 people. At the high seasonal production, the

demand for labor increased, most of the units hired temporary workers to meet the requirements of production.

The professional qualification of workers in the investigated units was low. In general, 100% office laborers in the farms and 71.4% those in the cooperatives had not been trained. Unskilled supervised workers dominated 100% in the farms, 80% in cooperatives and 12% in firms. The trained workers in the firms were mainly technical workers (68.7%) and engineers (19.3%). About 20% of laborers in the cooperatives were trained just for operating electricity and the water system.

Table 2. Efficiency of capital invested in agricultural sector (%).

Indicator	Firm	Cooperative	Farm
Profit per capital (%)	17.5	14.4	30.1
Classified by Business Strategy:			
Planting	12.7	23.1	31.6
Inputs for agricultural production	18.6	-	-
Services for agricultural production	20.4	14.1	28.5
Distribution of agricultural products	20.3	-	-
Animal and aquaculture production	-	-	30.7
Distribution of forestry products	10.5	-	-
Multiple purposes	-	-	18.2

Source: Generated from the survey 2008-2009

Profit per labor of firms was 18.5 million, farms 17.6 million and cooperatives 14.5 million (Table 3). Agro-products business ventures achieved the highest turnover and profits per labor (303.6 and 20.7 million) while those in forest products got lower (76.2 and 2.6 million). In cooperatives, turnover and profits per labor of cultivated and manufacturing plants were 167.2 million and 52.4 million, two times higher than ones, which were in agro products. Breeding and aquaculture farms had profit per labor of 21.1 million. The mixed farms which attracted more workers than any other type of farm (15 workers per farm) gained higher turnover and profit per capital (46.8 million and 15.5 million).

Table 3. Efficiency of land and labor in agriculture (million VND).

Indicator	Firm	Cooperative	Farm
Revenue per hectare of agricultural land	118.2	93.8	103.6
Revenue per agricultural laborer	147.8	102.1	122.4
Profit per hectare of agricultural land	37.4	14.1	25.4
Profit per agricultural laborer	18.5	14.5	17.6

Source: Generated from the survey 2008-2009

On average, the firms' land area was 10.29 hectares (ha), in which cultivated land occupied the highest proportion (50.34%) followed by ground water ponds (39.46%). Forested land accounted for a negligible rate. For cooperatives, the average area was 34.16 ha, and that of farms was 4.82 ha. Area for offices and factories accounted for a small portion, only 6.22%, 3.43% and 7.26% of the total area in firms, cooperatives and farms, respectively. Most of the land used for the purpose of

manufacturing and trading of firms and cooperative come from land allocation with the corresponding ratio of 50.44%, 66.63%, while in the farm rented land accounted for 93.36% (Table 4).

Table 4: Status of land in investigated units.

Items	Firm	Cooperative	Farm
Total area (ha)	10,29	34,16	4,82
Structure (%)	100,00	100,00	100,00
<i>According to usage of land</i>			
- Cultivation	50,34	78,51	45,02
- Forestry	3,98	0,00	0,00
- Ground water ponds	39,46	18,06	47,72
- Other usages	6,22	3,43	7,26
<i>According to origin of land</i>			
- Government allocated	50,44	66,63	6,64
- Rented land	49,56	33,37	93,36

Source: Generated from the survey 2008-2009

Firms gained the highest level of turnover (118.2 million) and profit (37.4 million) on a hectare of land. The lowest level belonged to cooperatives with the turnover of 93.8 million and profit of 14.1 million. The corresponding numbers for farms were 103.6 million and 25.4 million (Table 3). Notably, cultivated and seedling production farms achieved quite a high turnover and profit per ha of land, at 152.9 and 44.9 million, respectively. It was twice higher than of the breeding and aquaculture farms (72.4 and 17.2 million). Highly efficient farms produced mainly high value crops such as flowers, ornamental plants (Tu Liem), jasmine (Soc Son) and others.

The average growth rate of profit after tax in firms was high, at 24.9% but their ratio of profit-after-tax on capital reduced from 7% in 2003 to 3.4% in 2007. There was a distant difference among different kinds of firms. Profit after tax in cooperatives increased but its speed decreased. The average growth rate of profit after tax in farms was high, at 26.6%. Firms contributed the highest amount into state budget; average number was 34,000 VND per one million of investment capital. The cooperatives and farms contributed at a very low level with the corresponding numbers of 8,000 and 11,000VND, respectively. The investigated units seemed to reduce their ratio of contribution to the budget overtime.

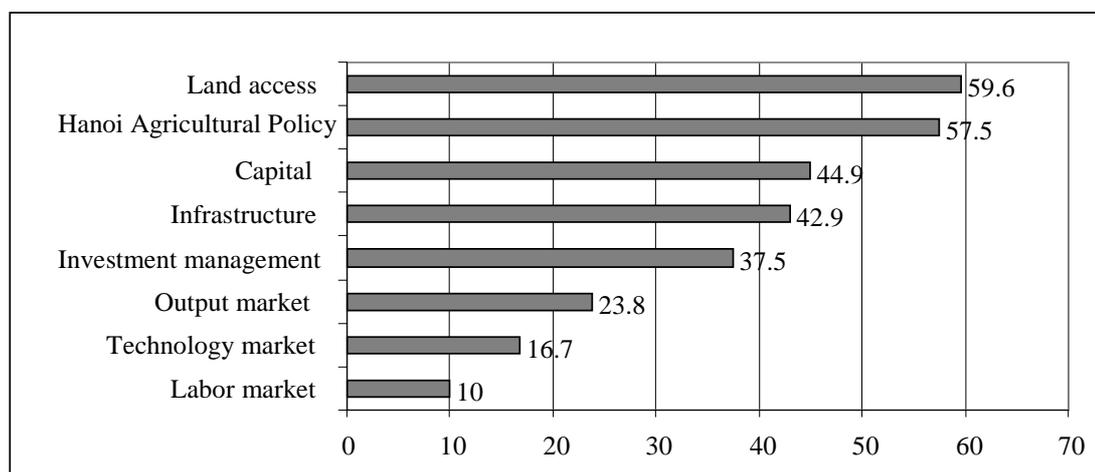
The number of jobs created based on investment capital had a tendency to decrease gradually. On the average, for every one billion investment in 2003, firms could create nine new jobs. In 2007, it reduced to seven. Farms created 29 jobs per one billion of investment. The capacity for creating jobs in cooperatives was the highest. These could create 153 jobs per one billion investments in 2007, much higher than firms and farms. However, in terms of absolute numbers, firms created the highest numbers of jobs. The contribution to build infrastructure and improve the natural environment of the firms was at lowest of 16,000 VND per a million of investment (2007), lower than for farms (38,000 VND) and cooperatives (102.000 VND).

In general, investment in agriculture can generate benefits in terms of financial, socio-economic aspects. Most of the investors interviewed said that their financial profit is not so high but it is stable and they do not need a big amount of capital. This implies business performance and profitability are not discouraging investors in agriculture. So, which factors have constrained

investment in agriculture? In order to find the answer for this question, we would like to look at the investment climate in agriculture.

THE INVESTMENT CLIMATE IN AGRICULTURE IN HANOI

The most obstructing factor for attracting investment in agriculture was land issues. Nearly 60% of the investigated units reflected that land issues limited their investment opportunities. Agricultural policies ranked the second, followed by capital, infrastructure, and management capacity of the local government. The least obstacle factors were markets, technology and labor (Figure 2).



Source: Generated from the survey 2008-2009

Fig. 2. Constraints in the investment climate for agriculture

Land issues

Land plays a significant role in the investment process in the agricultural units. Survey results showed that 20.6% of firms, 19.9% of cooperatives and 32% of farms considered land as a decisive factor in the production process. More than half of them indicated that land is basic for conducting business and production. However, investigated units expressed that the process of land leasing involved several inadequacies and difficulties. Only 77.6% of surveyed units answered questions about land hire and 48.2% experienced difficulties in renting. The reasons given were difficulty in access to land (12.3%), transformation of agricultural land for other purposes that leads to scarcity of land in some local provinces (12.1%). Other reasons are high fees of land rented and inconsistent procedures for renting land.

The main problems for land rental were documents approved by civil servants (41.3% comments), manners of local civil servants (26.6%), and status of embezzlement causing harassment (21.5%). The cooperatives and farms faced fewer difficulties in accessing land than the firms did. Land rental terms seemed too short compared to expectation of the units. On average, time of leasing for firms was 13 years; for cooperatives, 9.5 years; and for farms it was 12.5 years. Meanwhile, their expectations were 45, 50 and 40 years, respectively. In addition, it was difficult to access the information for renting land (47.4% comments). This is due to the scarcity of land and inefficient agricultural land planning.

Agricultural policies in Hanoi

The investigated units indicated that agricultural policies in Hanoi were neither stable nor adequate (60.3% comments). This led to a reduction in investment efficiency as well as diminished attractiveness of the investment climate in agriculture in Hanoi. There are two existing systems of land prices in Vietnam nowadays. State government regulates the formal system while the other operates under the informal market. Differences between the two systems are quite large that leads to the distorted price in the market. The market price in the urban and suburban areas is much higher than the profitability from land use. The price provided by the provincial People's Committee reached only 50% to 70% of market price. In addition, there is a lack of coherence, inconsistency between the overall socio-economic development planning and the duration of land allocation.

The Master Plan, which lasts for 10 years, is going to be considered for amendment in 5 years (Article 25 of Land Law), while the duration of land allocation for investment projects of firms is normally 50 years. Thus, many units had to move to other places due to changes in planning. This caused damage and risk because of deficiency compensation, and time wasted to build and stabilize production. In order to reduce risk, investors often choose short-term investment projects which in turn leads to inefficient land use.

The policy of value-added-tax is not suitable for agribusiness conditions. Inputs for the production of agricultural units come mainly from individual households which have no legal status. Therefore, these units often have to accept high tax of 3.1% yield value because they do not have billings to prove the origin of goods for reduction or completely free of value added tax. Policies to control volume and quality of agro products are not effective.

Farmers tend to cultivate intensively to gain high yield in a short time. They use chemicals unscientifically to stimulate their trees and animals. Thus, chemical residues often remain in the products. This imposes negative effects on the input of agricultural units and reduces their competitiveness against imported products. Moreover, agricultural units often sign contracts to support seed, pesticides, equipment, technology, and purchase farmers' products. Nevertheless, farmers usually break the contract and sell their produce to other traders. These units face many difficulties in collecting inputs and have to buy inputs from traders at higher prices. This phenomenon occurs commonly but there is no financial institution for handling it.

Capital

The units also emphasized the important role of capital in agricultural production because it helped them to stabilize the production (28.5%), widen their investment structure (19.8%), create opportunities and maintain business (5%), and equip facilities (1.6%). However, it was difficult for them to access credit systems for investment (49.1% comments). The main reasons were due to too complex administrative procedures (15.5%), lack of collateral (14.5%), lack of information and relationships (7.7%). It was also difficult to gain access to informal credit (33.6%), either due to insufficient collateral (5%), high interest loans (9.4%), lack of information (5%), shortage of cash (5%) and some other reasons.

Infrastructure

Infrastructure is gradually becoming an important factor before investors decide to invest in agriculture (43.8%). Consequently, transportation was considered the worst (31% bad comments), followed by wastewater treatment system (26%), planning of land issues and clearance (20%). The best comments were on education and training systems, information system, and security systems (Table 5).

Table 5. Ranking of infrastructure facilities (%).

Ranking	Very poor	Poor	Acceptable	Good	Very good	No answer
Transportation	6.9	24.1	38.8	23.3	2.6	4.3
Inventory facilities	1.7	12.1	36.2	17.2	0.0	32.8
Electricity	4.3	11.2	33.6	39.7	2.6	8.6
Irrigation	6.9	12.1	37.1	30.2	1.7	12
Liquid waste treatment	7.8	18.1	30.2	14.7	0.9	28.3
Information	0.9	2.6	33.6	53.4	6.9	2.6
Security	0.9	2.6	29.3	59.5	2.6	5.1
Planning	5.2	14.7	42.2	19.0	1.7	17.2
Education and training	0.9	0.9	46.6	26.7	0.9	24
Business support services	2.6	11.2	37.1	24.1	0.9	24.1

Source: Generated from the survey 2008

Management capacity of local government

The administrative procedures imposed many restrictions in the process of investing in agriculture. Land rental procedures were cumbersome and time-consuming (20.6% of comments), loan processing was slow (22.4%), and business licensing got troublesome (24.2%). Other interviewees reflected that income tax for firms at ratio of 25% was high and they thought it should be 20%. Interviewees also complained that many investment projects did not disburse due to slow implementation or time consumed to explore the market and select trading categories. Clearance for doing business was slow and cumbersome. Administrative procedures were complex. Procedures for clearance and settlement for land disputes were difficult. There were 26.6% comments which complained of high negative charge, vague administrative procedures and difficult to understand, especially the multi-stage procedures (14.5%), which led to time-consuming administrative procedures.

Another constraint came from civil servants' behavior. Authority in the People's Committees at the district level caused the most annoyance (13.7% comments), followed by staff of banks (7.6%), tax offices (5%) and customs offices (5.1%). This situation resulted from the numerous stage, unspecific procedures and negative charge. Other reasons were wrong appointments, multi appointments leading to confusion and lengthy procedures.

Output market

Most investigated units undertook a market research before investment (84.5%). It seemed very easy to purchase inputs for production (86.6% comments). Hanoi is a wholesale market for agro products in north Vietnam. It has a large supply, ventilated market mechanism and fast information system. The consumption of agricultural products is also easy because of a large, broad market and diverse demand. However, they complained that the competitiveness of agricultural products was low, and demand for products was unstable. About 23.8% of investigated units commented that output market is still a factor that constrained them to invest in agriculture in Hanoi.

Science and Technology

Hanoi is the heart of scientific research in Vietnam. Science and technology becomes more and more important in agricultural production nowadays (68% comments). Producers receive much support from scientific agencies. Their achievements bring success to many firms (49.9%) but less in the cooperatives and farms. Linkages between the scientific research centers with agricultural units were still weak (29.3%). Some units felt that technology has limited them when investing in agriculture.

Labor

Local labor resources have become more and more an important factor in attracting investments in agriculture (53.4% responses). Recruitment of unskilled worker seemed quite easy (49.8% responses). Nevertheless, some units complained of high wage level (3.4%) and labor in some case prevented them from investing in agriculture. Unskilled workers seem to dominate their labor forces, account for the largest share and meet their requirements. The ratio of unsatisfied workers was quite small (4.2%). The labor force was stable. On the average, 79.3% labor worked stably during the recruitment. This is really a stimulating factor in attracting investment in agriculture in Hanoi.

In addition, over half of the units said that the recruitment of highly skilled labor or experts was easy. It was due to available labor supply (33.5%). Hanoi is a good climate for attracting professional workers, as there are many nearby universities and colleges. The ratio of investigated units that recruited temporary labor is quite high, at 62%. Average numbers of temporary workers in firms were 146, in a cooperative were 49 and in a farm were 103. The least and the most numbers of temporary workers were 3 and 2100; 2 and 300; and 1 and 2400 workers, respectively. Corresponding workload of these workers were 37.1%, 57.3% and 46.7%, respectively. They indicated that hiring temporary labor could reduce their costs and exploit their labor forces. This is a typical characteristic for agriculture in Hanoi.

POLICY RECOMMENDATIONS

In order to develop the agricultural sector and make the best use of internal elements in the investment climate in agriculture, the first and most important thing that the Vietnamese government and Hanoi authorities should do is to improve the policies of land and capital. Good policies for reasonable land use and an investment plan based on the overall planning will stabilize agricultural production. In addition, Hanoi should set up a perfect and unique pricing framework for land usage, and upgrade incentive mechanisms and clearance. The local government should strengthen the capacity of management, simplify procedures for land allocation, land hiring, and have financial institutions with sanction to handle arising problems. This will motivate investors to invest more in agriculture. The national and local governments should also have a favorable credit system for agriculture such as the priority policy of interest rates for agricultural units. It is also necessary to increase speed and efficiency of procedures settlement, enhance capital for medium and long term and expand forms of loans. This will encourage the investors to participate more in the agricultural sector.

The second thing that Hanoi should do is to reform administrative procedures in the direction of ventilation, reduce the focal acquisition records and simplify records. Transparency and thoroughly consistent information, clear and standard instruction documents make it easy for investors to approach the Hanoi market. The civil servants need to change their manners. The capacity for management and monitoring should be improved more effectively. Besides, priority should be given to advanced technology in agriculture. High technology centers and agricultural firms should be built to perform and transfer new technology to others. It would be better to approach and apply the

efficient methods of management. It is also important to plan, build and upgrade rural and wholesale markets and create favorable conditions to exchange agro-products, encourage and support preliminary processing and storage of agro-products in the intermediaries markets at Gia Lam, Thanh Tri, Dong Anh and Tu Liem. The inspection system should be strengthened to detect counterfeiting, poor quality and unknown origin products. High quality input products should be encouraged and supported for higher value products. Economic markets and prices information need to be disseminated widely. This will contribute to improve the attraction of the agricultural sector in Hanoi.

Thirdly, linkage and coordination among departments and organizations should be strengthened. Value chain from research to producers and consumers should be set up for better agricultural production. Hanoi needs a good regime for scientists, experts, intellectuals and laborers working in agriculture. Training and transfer of scientific techniques to farmers should be performed. There should be preferred policies to encourage and support the training organizations and qualified high-tech agricultural laborers. Hanoi needs to strengthen and improve the quality of investment promotion to accelerate the potential and climate of investment in agriculture. Tripartite dialogue mechanism should be implemented regularly in order to detect and solve the problems and obstacles in the investment climate. This will support investors thus attracting more investment in agriculture in Hanoi.

To take the advantage of its location, Hanoi should strengthen incentives and support for investors in the agricultural sector. Hanoi needs to reduce income tax of agriculture units which are located in unfavorable areas (poor nutrition, soil, difficult transportation) producing high quality seeds or seedlings. Building warehouses, centers of agricultural trade and developing market information systems will create a condition for market development. Promoting export markets for agricultural products, supporting vocational training and research, application and transfer of new technologies need to be carried out. It is also significant to encourage agricultural insurance and support external risks such as storms, floods, droughts, epidemics and price fluctuation.

In addition, there is a need to improve rural infrastructure and apply science and technology achievement on agriculture. Although infrastructure system in agricultural and rural areas in Hanoi is more developed than other provinces in Vietnam, it was still inferior. We should increase investment on roads, irrigation and electricity systems. It is suitable to attract private sectors to bid and build infrastructure. Strong inspection mechanisms and financial sanctions to ensure unpolluted water and well-organized treatment of wastewater need to be implemented. The state budget should mobilize investment for canals, dikes system and regular dredging.

CONCLUSION

T.H.Hung et al (2006) showed that the investment capital can contribute transformation for structure of rural and agricultural economy, product diversification, improving value of agricultural products and technology as well as job creation and changing socio-economic status in rural areas.

Investment in agriculture in general, and in Hanoi in particular can generate benefits in terms of both financial and socio-economic aspects. Even if Hanoi has gained many achievements in the development process and attracted many investment projects in recent years, the investment capital in agriculture in comparison with total GDP is still very low, and its growth rate is unstable. Our research results show that effectiveness and efficiency of agricultural business units is not low. Most interviewed investors said that their financial profit is not so high but it is stable and they do not need a big amount of capital. The main constraint for investment in agriculture in Hanoi are the eight components generating the investment climate: ability and behavior of local government administration, Hanoi's agricultural policies, local public infrastructure, markets for agricultural products, science and technology, land, finance and labor force. Of these, land access, ability and

behavior of local government administration and province's agriculture are main constraints for the investment climate in agriculture.

In order to develop the agricultural sector, make the best use of internal elements and to take the advantages of location, Hanoi should improve policies of land and capital; innovate local administrative procedures; strengthen incentives and support for investors in agricultural sector; improve rural infrastructure and apply science and technology.

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