

THE ROLE OF AGRIBANK IN FINANCING AGRICULTURAL VALUE CHAIN IN VIETNAM



CONTENTS

- 1. AGRIBANK OVERVIEW**
- 2. PRACTICE OF VALUE CHAIN FINANCING IN VIET NAM**
- 3. AGRIBANK'S ROLE IN FINANCING VALUE CHAIN**
- 4. ACHIEVEMENTS IN VALUE CHAIN FINANCING**
- 5. CHALLENGES IN VALUE CHAIN LENDING**
- 6. VALUE CHAIN LENDING SOLUTIONS**



1. AGRIBANK OVERVIEW



- Agribank was established in 1988, playing a key role in agricultural credit, contributing to regulating the market and implementing monetary policies.
- Leading the Vietnamese banking system in terms of:
 - Network (2,229 branches, transaction offices)
 - Staff (nearly 40,000 members);
 - The proportion of loans to agriculture and rural areas, accounts for 70% of the total outstanding loans of Agribank and 50% of the outstanding loans of the whole banking system for agriculture and rural areas.
- Total assets are over 1.5 million billion VND (USD 65.2 billion);
- Total mobilization reached VND 1.4 million billion VND (USD 60.8 billion), accounting for 14% of the mobilization of the entire banking system in Vietnam.
- Total outstanding loans reaches 1.2 million billion VND (USD 52.2 billion), accounting for 14% of the loans of the entire banking system in Vietnam;
- International Rating: Ba3 (Moody's);



2. PRACTICE OF VALUE CHAIN FINANCING IN VIET NAM

- In 2019, Vietnam's GDP grew by 7.02%, of which the agriculture, forestry and fishery sectors increased by 2.01%, accounting for 13.96% of GDP;
- Vietnamese Government has issued multiple policies to encourage the cooperation and partnership in producing and consuming agricultural products, the mechanisms of credit preference to promote the development of clean and high-tech agriculture.
- The State Bank of Vietnam has issued specific policies to support value chain lending, such as the regulations for compulsory reserve, refinancing; credit allocation; support for customers in difficulties, etc...
- Vietnam currently has two major forms of value chain lending: (i) no advance for production cost and (ii) advance for production cost to chain's members.
- In 2018, Vietnam has about 1,600 value chains allocated in 13 agricultural sub-sectors in 53 provinces and cities, 17 credit institutions that lend agricultural value chains according to the Government's policies:
 - Outstanding loan to agricultural value chain reached 10,100 billion VND (equivalent to 437 million USD);
 - Loans without collateral was around 22%.
 - Proportion of value chain loans in agricultural production only accounts for 1.5% of the total outstanding loans for agriculture, forestry and fishery.

3. AGRIBANK'S ROLE IN FINANCING VALUE CHAIN

Agribank plays a key role in the development of Vietnam's agriculture sector in general and the agricultural production value chain in particular

- **For chain members:**

- *Facilitating farmers and smallholders, especially those with poor financial capacity, to access to funds, sign contracts with focal businesses; providing them materials, inputs and supporting product consumption;*
- *Helping members make effective use of production resources, improve efficiency of capital use, ensure capital for stable product development;*
- *Assisting members to increase productivity, improve product quality and value, raise the competitiveness of products;*
- *Promoting the transparency and diversification of information of the value chains, the dissemination of technology, breeding techniques and care methods;*
- *Harmonizing interests of all parties, ensuring the interests of smallholders;*
- *Increasing the participation of businesses in agricultural production.*

3. AGRIBANK'S ROLE IN FINANCING VALUE CHAIN (cont.)

- **For the society and economy:**
 - *Contributing to the change of the agricultural production modes towards modernization, improving the efficiency of the agricultural sector;*
 - *Developing specialized farming areas, promoting economic restructuring;*
 - *Increasing competitive capacity and product value;*
 - *Expanding the scale of operation of the chain model;*
 - *Creating jobs for workers in the agricultural and rural areas;*
 - *Contributing to reduce risks in agricultural production.*
- **For the bank:**
 - *Controlling cash flow invested in the chain;*
 - *Saving lending costs;*
 - *Expanding cross-selling of products.*

4. ACHIEVEMENTS IN VALUE CHAIN FINANCING

Agribank spends a minimum budget of VND 50,000 billion (USD 2.2 billion) for lending high-tech agriculture, value chain programs:

- Agribank provides loans without collateral to customers who meet the conditions with loans up to 80% of the project value;
- Agribank's outstanding loans for value chain reached nearly VND 1,000 billion (over USD 30 million);
- Agribank has actively participated and provided loans to various linkage models in traditionally agricultural production localities and regions over the country (lending in value chains in 18/63 provinces)



5. CHALLENGES IN VALUE CHAIN LENDING

- Agricultural value chains have not yet operated effectively;
- Investment in agriculture is risky but lack of mechanisms of backup, risk settlement and especially agricultural insurance that has not been widely implemented;
- Compliance with agricultural contracts of members in the value chain is still inadequate, lack of sanctions to increase the binding;
- The links of the value chain is the cooperatives facing difficulty in accessing loans under the chain model;
- The coordination of ministries and agencies in promulgating the legal framework for financing the value chain of agricultural production has not been consolidated;
- Vietnam's agricultural products are facing fierce competition and technical barriers from importing countries

6. VALUE CHAIN LENDING SOLUTIONS

- Increase investment in agriculture and rural areas, especially investment from the State budget in infrastructure, science and technology application;
- Develop the plan and orientation for the sector, agricultural production regions based on strengths and market demands and in line with the value chain models;
- Strengthen the control over prices and quality of agricultural products on the market, especially agricultural products for export in order to ensure the prestige of Vietnamese agricultural products;
- Issue more specific and synchronous policies in managing, directing, selecting and supporting enterprises to join the chain; create the close linkage between enterprises and smallholders in the chain;
- Enforce regulations for the implementation of agricultural value chain contracts;
- Put forth specific provisions on technical support, technology application, capital, interest rates, market, corporate income tax preference.

VIETNAM BANK FOR AGRICULTURE AND RURAL DEVELOPMENT



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