



ACCELERATING RURAL DEVELOPMENT IN VIETNAM

Rural Development and Natural Resources Sector Unit (EASRD) – East Asia and Pacific Region

AN OVERVIEW OF AGRICULTURE AND RURAL DEVELOPMENT IN VIETNAM

Agriculture and rural development lie at the very heart of Vietnam's ten-year development strategy for 2001-2010. With three quarters of the population and around 90 percent of the poor living in rural areas, the development of agriculture as an engine for growth is vital for the achievement of broad-based rural prosperity and livelihood security.

Remarkable recent progress in agriculture sector performance (2000-2005)

The agriculture sector's performance in the last five years has been impressive but attributable largely to policies introduced in the past. The agriculture sector, including crops, livestock, forestry, aquaculture and fisheries, accounts for 22% of GDP (yet only 6% of public spend-

ing), 30% of exports and 60% of employment. *Doi moi* ('renovation') policies introduced in the late-1980s and 1990s moved Vietnam from chronic food deficit to being the world's second largest rice exporter. Key among these policy reforms following agricultural decollectivization were farm land allocation to individual households in the early 1990s, and the introduction of market-based incentives through agricultural commodity trade liberalization, which together released the tremendous growth potential of rural Vietnam.

In spite of an unfavorable external environment of low world commodity prices, agricultural growth over the past five years has been sustained at 4% a year. Agricultural diversification is receiving both farmer and government attention in response to market forces and is proceeding gradually with shifts away from products with relative price declines. Major improvements continue in rural infrastructure, which is vital to household welfare and to the competitiveness of rural economic activity. The result of these trends has been a steady decline in the share of rural households living in poverty, from 66% in 1993 to 46% in 1998 and 36% by 2002. Preliminary data from the 2004 Vietnam Household Living Standards Survey suggest that this downward trend has continued.

A sustained effort is required to accelerate the reform agenda in the agricultural and wider rural sector. While the agriculture growth rates achieved recently are high by international standards, the agriculture sector's relative contribution to GDP and to the value of total exports has fallen significantly, and in spite of the strong link between agricultural growth and rapid poverty reduction not all population groups have benefited equally. While the majority of the rural poor are located in the Mekong and Red River deltas, the rural populations with the highest proportion of people living in poverty are in the remoter upland areas of the North-West, North-Central Coast and Central Highlands regions, with poverty increasingly concentrated among ethnic minorities. Poverty reduction scarcely advanced for these groups over 1998-2002 and is a major and immediate challenge.



Significant challenges remain ahead (2006-2010)

In order to accelerate Vietnam's rural development and further reduce poverty, significant challenges remain to be addressed in the coming five years (2006-2010), including:

- **Stagnant agricultural productivity**, with annual growth rates in labor productivity and yields falling behind the rate of rural population increase. Under-funded and fragmented agricultural research and extension services are not contributing as



they should to the needs of poorer farmers in lagging regions or in bringing the benefits of science and technology to irrigated areas, nor are the maintenance and rehabilitation of existing irrigation schemes given sufficient priority in public expenditure;

- **Rigidities in promoting further agricultural and rural livelihood diversification.** *Agricultural investment has stagnated in real terms (1999-2002) and within the total the state (via the budget and state-*

owned enterprises) remains the dominant source, while domestic private enterprise (non-farm) and foreign direct investment are still very small and scarcely growing. In addition, the presence of subsidized state-owned enterprises in production, marketing and processing has tended to crowd out private sector investment. *Rice continues to dominate*, accounting for 45% of agricultural production and 60% of cultivated land. Industrial crops (e.g. coffee, rubber, cashew, sugar cane and pepper) now account for 20% of sector output by value but *diversification has been slow and insufficiently market-responsive*,

- **Problems of insufficient productivity growth, diversification and competitiveness in agriculture are compounded by under-developed marketing channels, institutions and infrastructure** resulting in high post-harvest losses and transaction costs. Regional variation is high in the level of infrastructure provision and



Box 1: World Bank Support in the Rural Sector to Date

The World Bank resumed its activity in Vietnam with the Agriculture Rehabilitation Project (Cr. 2561 - VN) in 1994. Since then a total of 17 rural development operations have been approved with credits totaling US\$1,684 million, around 15 policy studies have been completed and wide-ranging advisory services in support of rural development have been provided.

Projects	Bank Unit	Effective	Closing	Credit (\$US mil)	Status
Agriculture Rehabilitation	RD	June 1994	June 1999	96	Closed
Irrigation Rehabilitation	RD	September 1995	June 2003	100	Closed
Rural Finance 1	RD	February 1997	December 2001	122	Closed
Rural Transport 1	RD	April 1997	May 2002	55	Closed
Forest Protection and Rural Development	RD	February 1998	June 2006	22	Active
Agriculture Diversification	RD	December 1998	December 2006	67	Active
Mekong Delta Water Resources	RD	October 1999	June 2005	102	Active
Coastal Wetlands Protection & Development	RD	May 2000	September 2006	32	Active
Rural Transport 2	TR	May 2000	June 2006	104	Active
Rural Energy 1	EG	November 2000	June 2005	15	Active
Community Based Rural Infrastructure	RD	March 2002	December 2007	103	Active
Northern Mountains Poverty Reduction	RD	March 2002	December 2007	110	Active
Rural Finance 2	RD	April 2003	September 2008	200	Active
Water Resources Assistance	RD	August 2004	December 2011	158	Active
Forest Sector Development	RD	August 2005	March 2011	40	Active
Rural Energy 2	EG	--	December 2011	220	Signed
Avian Influenza Emergency Recovery	RD	November 2004	December 2006	5	Active
Total:				1.684	

there is a close relationship between rural access and poverty rates. Vietnam has achieved much higher levels of rural road access than other countries at similar income levels at 76% compared with the average among IDA-eligible countries of 43%. Similar achievements have been seen in rural household access to electricity (which increased from 63% in 1998 to 81% by 2002) and to potable water (which rose from 18% in 1993 to 40% by 2002);

- A widening poverty gap between urban and rural areas, and between leading and lagging regions and population groups.** Rural development was key to the rapid reduction in poverty over the past decade – poverty incidence has been halved, and a third of the total population lifted out of poverty – but the *gains from agricultural growth have not been shared equitably*



by all regions and ethnic groups. Wide spatial variations persist in rural poverty rates, with lagging regions including the North-West (54% estimated to be living in poverty in 2004), North Central Coast (41%), and Central Highlands (33%). Poverty incidence among ethnic minorities remains twice as high as that within the rural population as a whole (69% in 2002, compared with the rural average of 36%). Most worryingly, poverty reduction among ethnic minorities has slowed significantly in recent years;

- Unsustainable and inequitable patterns of natural resource use, access and control.** In the *forestry sector*, existing practices often result in land degradation, increased risk of flooding, food- and public health insecurity, and the loss of biodiversity, and as a result threaten to place the security of current and future rural livelihoods in jeopardy. *Water scarcity* is an emerging issue and will grow in severity as urbanization and industrialization place increasing demands on the resource base; and
- Vietnam is highly vulnerable to natural hazards**, particularly storm surges and flooding in low-lying coastal and riparian areas, which affect both household livelihood security (particularly for the poor) and national-level fiscal balances. Partici-



patory poverty assessments highlight the vulnerability of the poor and near-poor to natural hazards, price volatility, crop failure and livestock disease, leading to distress sales of land and other assets. Natural disasters are estimated to have reduced Vietnam's economic growth rate by around 2% of GDP each year over the last decade.

- The limited capacity of public institutions and misalignment of public expenditure serving rural sector interests** is perhaps the biggest impediment to a thriving, private sector-led rural development process. Public administration reforms have progressed slowly by comparison with the increasing market orientation of rural producers and with the rapid decentralization of public expenditure to sub-national governments. The share of sub-national government in consolidated public expenditure in agriculture almost doubled – from 43% to 79% – between 1998 and 2002, while the overall level of public spending on agriculture remained stable at around 6% of total public expenditure, low by regional and international standards. Central agencies have not adapted well to this rapidly changing environment and lack the fiscal information and management capacity to track budget performance across provinces and levels of government. They also lack the flexibility and demand-responsiveness adequately to support rural producers in this rapidly changing investment climate, while rural producers in turn have few opportunities to become organized and empowered.



New drivers of change in Vietnam's rural economy

The important drivers of change that appear to be shaping the evolution of Vietnam's rural economy through the end of this decade are:

- Continued deepening of domestic markets and stronger integration with world markets through World Trade Organization (WTO) accession will increase the opportunities and challenges for farmers to respond to shifting market incentives and diversify production;
- With the easy gains from agricultural liberalization and infrastructure rehabilitation already achieved, future production increases will be based less on bringing additional factor inputs into production and more reliant on efficiency gains in how public and private inputs are used;
- Rural demographics are expected to continue constraining several dimensions of rural growth, with absolute numbers of rural population not likely to decline this decade, implying continued pressure on rural natural resources and limited scope for farm land consolidation without accelerating rural landlessness and demands for faster job-creation;
- Allocation of land titles to smallholders is largely completed in the lowlands but incomplete in the uplands, with choices in reallocation of forest production land currently under the oversight of State Forest Enterprises important both to growth prospects and poverty impacts in these sizeable geographic areas;
- Mobilization of water resources, so critical to agricultural growth to date, will increasingly confront inter-sectoral competition and quality deterioration, with greater efficiency needed in agriculture

to enable further growth while releasing resources to other growing sectors; and

- Continued improvements in rural infrastructure will have impacts both on-farm, as market access broadens production options, and in the rural off-farm economy by facilitating business growth and job creation.



WORLD BANK SUPPORT FOR AGRICULTURE AND RURAL DEVELOPMENT IN VIETNAM

In view of these drivers of change, and to maintain the momentum on poverty reduction in the lowlands while bringing upland populations more fully into the process of economic growth, the future rural development program of the World Bank in Vietnam will rest on three pillars. This strategy is aligned with the Ministry of Agriculture and Rural Development (MARD) *Five-Year Socio-economic Development Plan 2006-2010* which was presented to the donor community in March 2005.

Three pillars of a rural development strategy

The updated Rural Development Strategy of the World Bank in Vietnam is founded on three pillars which support the Government's general objective for the sector to develop a commodity-production agriculture which is diverse, efficient, competitive, sustainable; and meets domestic and export demands for food and industrial inputs; provides jobs; and eliminates poverty and hunger:



- **Creating opportunity through accelerating market-oriented reforms.** Growth in the rural economy and of agriculture in particular will increasingly involve choices driven by market incentives and competitive pressures from world markets. Successful responses to these market opportunities and challenges will benefit from attention to four aspects: diversifying agricultural activities; deepening market systems and providing farmers and rural poor with better risk management tools; managing trade integration and the opportunities generated by Vietnam's expected accession to the WTO; and pursuing SOE reform, including in key agricultural commodities, State For-

est Enterprises (SFEs) and Irrigation Management Companies (IMCs).

- **Sustaining and managing natural resources for livelihood security.** The livelihoods of poor people in Vietnam still depend overwhelmingly on natural resources. Important issues remain to be addressed to enhance the livelihood-supporting roles and public environmental benefits of natural resources in four main areas: land, forests, water and fisheries.



- **Mainstreaming poverty reduction through inclusion and empowerment.** Much remains to be done to bring lagging regions and population groups into the mainstream of Vietnam's growing prosperity. Four strategic priorities stand out: revamping national targeted programs for poverty reduction; raising the agricultural productivity of poor upland producers; supporting those who are becoming newly vulnerable as a result of market integration to better cope with the new risks and opportunities; and addressing the specific needs of women and ethnic minorities.



Re-positioning the state

The strong potential for Vietnam's rural sector to deliver widely-shared prosperity will not be realized without re-positioning the state to respond to the challenges under each of the three strategic pillars outlined above. There are two dimensions to this agenda, which cut across all three pillars:

- First, **aligning agricultural public expenditure** is essential to ensure that the state is able to deliver the critical public goods required for broad-based agricultural growth and competitiveness. The agricultural sector received 5-6% of overall public expenditure, with total real growth of 88%, between 1997 and 2002. Capital expenditure has outpaced recurrent operation and maintenance spending growth, exacerbating existing deficiencies. An important change in fiscal management in the sector is the share of budget managed by local governments which rose from 43% to 79% in this period. This rapid decentralization of authority over public expenditure, with the additional delegation of budget authority of the 2004 Budget Law, brings major changes to the role of the central MARD to which it is still adjusting. Strengthening the capacity of public expenditure management will have to be addressed
- Second, there is a need also to **align sector institutions** from being primary, direct investors to becoming facilitators and regulators of private sector-driven economic growth and to assist agricultural producers and rural poor to better deal with the new market-based insecurity. A vast unexplored terrain also lies between the two in promoting *public-private co-operation* through the mediating role of rural producer organizations, trade associations, co-management entities (e.g, for irrigation, watersheds, forests, and fisheries), and other professional bodies between state and market. For further targeted poverty assistance to succeed, effective capacity-building efforts are required to ensure that the lowest levels of sub-national government are able to empower community groups under their jurisdiction. Devolution of responsibility and control over local investment and service provision will be ineffective without concomitant efforts to build local institutional capacity.



Program direction for the World Bank, 2006-2010

Rebalance activities toward agricultural development and market growth. Consistent with the strategic priorities identified above, the Bank intends to re-balance its RD program to place relatively greater emphasis on agricultural growth and development, and generally towards more market-oriented activities across all three pillars. New opportunities for sectoral investments include:

- Pillar 1 – Market Growth: food safety and agricultural health, agricultural support services, rural finance, livestock sector development, fisheries and aquaculture, agricultural technology;
- Pillar 2 – Natural Resource Management (NRM): land management and administration, water resources management, natural disaster risk management, forest sector development; and
- Pillar 3 – Inclusion and Empowerment: support to national poverty-targeted programs providing basic infrastructure and livelihood support services for ethnic minorities.

Analytical and Advisory Activities (AAA) Program.

Similarly, all proposed AAA activities have been clustered under the three strategic pillars, either to support building of the knowledge base in the operational areas of activity in the lending program or to further develop policy dialogue in the rural sector.

- Under the Market Growth pillar, anticipated AAA topics include completion of an initial phase of work on food safety and agricultural health, and new work on agricultural competitiveness, rural finance, rural investment climate assessment, and possibly on rural producer organizations.

- Under the Natural Resource Management (NRM) pillar, the main focus will be on water resources, with broad scoping work leading subsequently to follow-on work likely to include analytical support for small-scale irrigation and Irrigation Management Company (IMC) reform. Forestry and land AAA under the NRM pillar will concentrate on supporting implementation of State Forest Enterprise reform, and assessing forest-land linkages to promote socio-economic and environmental benefits from reallocation of land.
- Finally, under the Inclusion and Empowerment pillar the main activity anticipated is a public expenditure review focused on lagging regions. In addition, cross-cutting support will be provided to the provincial roll-out of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) process, including monitoring and evaluation activities, and cross-support in the preparation of Poverty Reduction Support Credits (PRSCs).

The process for conducting this AAA program will emphasize working in partnership with other stakeholders in different domains, particularly through the various technical working groups which bring donors and Government together for the development and implementation of joint work programs. This will be particularly important in the two areas – forestry and community development - in which Sector Wide (SWAp) approaches are being considered and which require additional knowledge and consensus building to establish a sound foundation for these new lending vehicles.

Box 2: Rural Operations in the Pipeline.

There are currently four projects under preparation for scheduled delivery in FY05 and FY06, for a total proposed IDA credit amount of US\$356 million. They are:

- Natural Disaster Risk Management Project (APL) (FY05 – estimated amount US\$86 million);
- Rural Water Supply and Sanitation Project (APL) (FY05 – estimated amount US\$100 million)
- Poor Communes Livelihoods and Infrastructure Program (FY06 – estimated amount US\$100 million); and
- Second Agricultural Diversification Project (FY06 – estimated amount US\$70 million).



Developing Partnerships

Working Group participation. The World Bank Rural Team in Hanoi is participating in seven Partnership Groups and in six Technical Advisory Groups (TAGs) in MARD and MONRE. With its broad involvement in both lending and advisory activities, the Bank plays an important role in the policy dialogue within these partnerships. These groups, in which government agencies, international donor community and civil society all participate, aim at sharing and disseminating information, facilitating the policy dialogue, improving donor coordination, and enhancing monitoring and evaluation. They are also responsible for looking at the broader picture of agricultural and rural development; for example, the issue of harmonization of donor procedures has been addressed in the Partnership to Assist the Poorest Communes (PAC), and joint work plans have been developed within common strategic frameworks in the Forest Sector Support Partnership and in the Natural Disaster Mitigation Partnership.

Numerous projects with Bank involvement are co-financed by bilateral and other development agencies. For example, support is provided by:

- the Netherlands government for the Forest Protection and Rural Development Project;



Box 3: World Bank Rural Development Team, Hanoi Office

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- the European Commission, and the governments of the Netherlands and Finland for the Forest Sector Development Project;
- the government of Australia for the Mekong Delta Water Resources Project;
- the government of Denmark for the Coastal Wetlands Protection and Development Project, the Hon Mun Marine Protected Area Project and the Community Based Rural Infrastructure Project;
- the government of France for the Agricultural Diversification Project;
- the United Kingdom government for the Northern Mountains Poverty Reduction Project;
- the UN Food and Agriculture Organization for the Avian Influenza Emergency Recovery Project (AIERP);
- the government of Japan for project preparation and implementation of the Vietnam Water Resources Assistance Project and the AIERP.

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