ACCELERATING VIETNAM'S RURAL DEVELOPMENT: GROWTH, EQUITY AND DIVERSIFICATION

VOLUME III

ALIGNING PUBLIC EXPENDITURE AND SECTOR INSTITUTIONS TO AGRICULTURE AND RURAL CHALLENGES

NOVEMBER, 2005

THE WORLD BANK

EAST ASIA AND PACIFIC REGION

RURAL DEVELOPMENT AND NATURAL RESOURCES SECTOR UNIT
CURRENCY EQUIVALENTS

Currency Unit = Dong
US$ = 15,850 Dong (June, 2005)
Government Fiscal Year
January 1 to December 31

ACRONYMS AND ABBREVIATIONS

5MHRP  5 Million Hectare Afforestation Program
AAA   Analytical and Advisory Assistance
ADB   Asian Development Bank
CIEM  Central Institute for Economic Management
CPRGS Comprehensive Growth and Poverty Reduction Strategy
FDI   Foreign Direct Investment
DAF   Development Assistance Fund
GDP   Gross Domestic Product
GoV   Government of Vietnam
IDA   International Development Association
IMC   Irrigation Management Companies
MARD  Ministry of Agriculture and Rural Development
MOF   Ministry of Finance
MONRE Ministry of Natural Resources and Environment
MOST  Ministry of Science and Technology
NAEC  National Agricultural Extension Center
O&M   Operations and Maintenance
ODA   Overseas Development Assistance
PAR   Public Administration Reform
PER   Public Expenditure Review
PIM   Participatory Irrigation Management
SOE   Statement Of Expenditure
VBARD Vietnam Bank for Agriculture and Rural Development
VND   Vietnamese Dong
PREFACE

This Report, in four Volumes, was prepared by the World Bank as an update, with a special focus on agricultural diversification, of the 1998 report *Vietnam: Advancing Rural Development from Vision to Action*. The current update is intended as an exploration of medium-term issues facing Vietnam in maintaining robust rural economic growth through the end of this decade. The report has served as a contribution to the Government’s, and in particular Ministry of Agriculture and Rural Development’s, retrospective assessment of rural and agricultural growth, and to preparation of sectoral inputs for the national Five Year Plan 2006-2010, as well as to the World Bank’s own planning and programming of support. The four Volumes of the Report are:

- Volume 1 – Overview
- Volume 2 – Three Pillars of Rural Development
- Volume 3 – Aligning Public Expenditure and Sector Institutions to Agriculture and Rural Challenges
- Volume 4 – Agricultural Diversification in Vietnam

Eight working papers were prepared for this Report. “Customary Land Tenure Study” was prepared by the study team of Bui Quoc Toan, Elke Foerster, Nguyen Van Chien, Thu Nhung Mlo/Thu Nhung Mi Duon Du, Ulrich Apel, Vuong Xuan Tinh. “Vietnam Public Expenditure Review: Agricultural Sector” was prepared by William Cuddihy and Pham Lan Huong, with this material appearing also in the Bank’s *Vietnam Public Expenditure Review and Integrated Fiduciary Assessment* (2005). “Rural labor market participation and relationship between non-farm household self employment and poverty alleviation” was written by Nguyen Chien Thang. The team of Nguyen Ngoc Que, Vu Trong Binh and Le Xuan Sinh wrote the working paper “Agricultural Diversification in Vietnam.” The study “Policy Environment for Aquaculture Development” was prepared by Le Xuan Sinh. The report “Policies for Agriculture Diversification in Vietnam” was written by Nguyen Ngoc Que. “Agriculture Diversification and Farming Systems in Vietnam: A Commodity Chain Analysis for Rice, Coffee and Rubber” was authored by Nguyen Tu Siem. Finally, “Strategies for Designing Sustainable and Diversified Farming Systems in Vietnam: Synthesis, Recommendations and Proposals” was prepared by Andre Chabanne, CIRAD. Technical workshops were held on a number of occasions to discuss draft versions of the customary land tenure and public expenditure working papers.

The main analytical results and conclusions of the draft Report were presented and discussed on a number of occasions, including an informal consultation with donors in Hanoi in September, 2004, an International Support Group meeting in November, 2004 and last consultation workshop on June 28, 2005 on the draft final report volumes. Throughout, numerous fruitful discussions took place with senior officials and researchers from various Ministries and government agencies.

Acknowledgement is gratefully made to Wim Vijverberg, Rob Swinkels, Carrie Turk, Marko Katila for valuable guidance, detailed comments and other inputs provided at various stages. Peer reviewers were Eija Peju, Shawki Barghouti, Paul Dorosh and Olivier Gilard. Substantial contributions from the World Bank’s rural development team for Vietnam are also acknowledged, particularly from Robin Mearns, Susan Shen and Laurent Msellati. Task management for preparation of the report was by Stephen Mink, Binh Thang Cao and The Dzung Nguyen. Finally, excellent logistic support and document processing was assured by Minhnguyet Le Khorami, Brenda Phillips, Ethel Yu, Evelyn Laguidao, Thu Thi Le Nguyen, Huong Thu Vu and Dung Thi Thuy Dao.
EXECUTIVE SUMMARY

Remarkable Progress
Vietnam’s rural economic growth and progress reducing rural poverty have been remarkable, but new challenges are faced ahead. Agricultural growth, at 4% over the past five years, has been achieved despite a difficult external environment of low commodity prices on world markets. Food security at the national level is significantly improved, with rice surpluses routinely exported, although household poverty keeps food security an issue of affordability for the poor. Agricultural diversification is receiving both farmer and government attention in response to market forces and proceeding gradually with shifts away from products with relative price declines. Major improvements in rural infrastructure, vital directly to household welfare and to competitiveness of rural economic activity, are ongoing.

Broad poverty indicators have improved as a result of these various gains, but with regional and ethnic group exceptions that are appropriately receiving increasing attention. While the majority of rural poor are located in the Mekong and Red River deltas, the areas with highest proportions of population being poor and with higher poverty gaps are in the remoter highland areas of the northwest and central highlands, amongst ethnic minorities. Poverty reduction scarcely advanced for these groups over 1998-2002, and renewing progress is a major and immediate challenge facing rural development.

Shifting Challenges
Rural households have remarkably diverse sources of income. Farming continues to predominate but is rarely a full-time activity. Rural labor market participation continues to evolve with farming and non-farm self-employment declining, while wage employment is growing broadly. The poorest households, though, are not leaving agriculture, a result more of their asset and opportunity constraints than of choice. Regional economic differences affect rural labor market participation also. In the Central Highlands, farm labor is moving to both wage and self employment in response to the coffee price collapse, in the Southeast the dynamic economy is providing farming opportunities for demand-led growth of agricultural diversification into higher valued products, while in the other southern regions the predominance of rice and small holdings provides meager incomes and is driving farming households to seek wage jobs despite low compensation. The rapidity of shifts in sources of income for the Central Highlands during 1998-2002 is a compelling case since indicating the power and speed of external market impacts on the rural economy, of sobering relevance as Vietnam continues to open its economy in preparation for WTO accession.

Sources of agricultural productivity gains are shifting. Past growth was largely based on bringing additional physical factors of production into use, from land and irrigation water to labor and fertilizer, and policy shifts in incentives that came through land allocation and titling. Technical change and productivity increases made a less important contribution, but moving forward these relative roles are expected to reverse, as physical expansion of factor use is reaching limits. However, these past sources have lost momentum prior to the possible new sources having picked up pace. The increasing reliance this will likely place on productivity growth puts a heavy emphasis on greater success with agricultural research, extension and technology transfer, as well as farmers being able to make (and adjust) efficient use of resources in response to market opportunities.

Land allocation and management options will remain an important element of rural sector growth and its distribution. The potential is unlikely to match the
tremendous gains of earlier *đổi mới* reforms regarding land, but an important second generation agenda exists and presents opportunities worth seizing, particularly related to the production forest land that is currently overseen by State Forest Enterprises and of particular importance to the highland populations for whom poverty reduction has been slow.

Diversifying the sources of sector investment will be beneficial to growth but is not yet happening. Agricultural investment has stagnated in real terms (1999-2002), and within the total the state (budget and SOE) remains dominant, while domestic private enterprise (non-farm) and foreign direct investment are still very small and scarcely growing. Government wants private commercial sources of investment in the rural economy, but the slow response in agriculture so far is an indication that there are constraints in the investment climate that need addressing.

Vietnam’s tariff protection levels for agriculture are comparatively low for the region, and stand in striking contrast to the much higher levels for manufacturing. This bias in trade protection disfavors the agriculture production base, and is a reason for the low level of private enterprise investment in the sector.

Finally, agricultural trade growth, a major contributor to rural growth during the 1990s, has slowed and begun declining as a share of sector value added. Moving beyond past successes will require a different approach than past reliance on low-value, low-quality commodities such as rice and coffee.

**Three Pillars for Future Rural Development**

**Creating opportunity through accelerating market orientation**

Growth in the rural economy and of agricultural in particular will increasingly involve choices driven by market signals and competitive pressure from opening markets. Successful response to these market opportunities and challenges will benefit from attention to four aspects, diversification of agricultural activities, deepening of market systems, management of trade integration and pursuit of SOE reform.

*Agricultural diversification.* Vietnam is making progress in agricultural diversification. But more is needed to develop the capabilities of farmers to flexibly adjust to market opportunities by diversifying, whether horizontally across products or vertically into different aspects of adding value. Diversification characteristics differ across regions due to distinctive agro-ecological and economic conditions, and not all regions are diversifying with comparable success. The two main rice producing areas, the Mekong and Red River deltas, where most of the poor live, are the least diversified. The highlands of the Center and North have high diversification, but due in part to modest off-farm employment opportunities in these remote areas and poverty-linked on-farm diversification for self-sufficiency and risk management. Accelerating agricultural diversification will require a package of efforts tailored to the different production systems. Strengthening agricultural support services is critical across these systems, encompassing research and extension, agricultural technology, food safety, vocational training and information dissemination. Expanded access to financial services will be important, as will further improvements of the quality of trade infrastructure related to supply chains for new inputs and non-traditional product lines.

*Market development.* Deepening of market structures remains an important agenda to achieve better transmission of market information to participants in product value chains, heighten competitiveness through efficiencies gains in product market functions, and improve smallholder integration into evolving market structures. Existing market structures in Vietnam vary
tremendously by product, but for emerging markets in particular there is significant scope to improve business links among farmers, traders, processors and buyers through concerted action in commodity value chains. Constructive support from the public sector still needs calibration; strong encouragement in recent years for farmers to enter into contracts, especially with SOEs, for farm product marketing, has not yielded a strong environment of contract performance. More attention needs to be given to food safety and standards, with greater partnership with the private sector in developing these systems, and strengthening regulatory capacity on both input and output markets. Finally, longer-term market development will proceed more quickly with an opening of the legal scope for different types, and stronger, autonomous farmer organizations which are capable of representing their own interests.

Trade integration. Vietnam preparation to join WTO is poised against the backdrop of recent slowing growth of its agricultural trade. WTO accession thus provides the potential for reaccelerating trade, which is important for its contribution to rural growth and as a complement to domestic market demand for agricultural products.

In promoting trade, care will be needed that new regulations to enable tariff rate quotas not be deployed so as to raise protection excessively for crops in which Vietnam has little comparative advantage (e.g. cotton) or that risks penalizing high potential sub-sectors in favor of others (e.g. maize, both a farm output and input (as feed)). More use could be made of trade promotion (but not through export subsidies, currently low), particularly through public support in collaboration with product associations, a direction that Vietnam is already heading in. Behind-the-border adjustments to support trade promotion are needed to strengthen the legal system for contracts, improving financial services for trade, and continuing to deepen infrastructure.

As the domestic economy continues to open, government’s capacity to support households coping with trade shocks needs to develop. The recent experience with coffee shows that such shocks can hit regions and sub-sectors quickly and hard. Short term interventions to buffer immediate impacts on incomes of poor producers are particularly difficult within the agricultural sector, and in the absence of a fuller array of social safety net instruments than currently exists. More effective responses may be available outside the agricultural sector, such as through the targeted national poverty programs, which offer options for channelling resources into particular communities. Within the agricultural sector, short-term responses can assist poor households with emergency provision of critical production inputs and rescheduling of official credits, but the longer term effort, through research and extension, should focus on expanding options for agricultural activity to shift away from crops with unfavorable markets.

SOE reform. Continued progress on reforming SOEs in the agricultural sector is an important component of accelerating market orientation. SOEs absorb a significant amount of credit from state-owned banks, as well as resources directly from the budget, and this risks crowding out the private investment that is needed to accelerate market-deepening. Restructuring and reform agendas exist for the four Decision 91 SOEs and the 12 additional SOEs that MARD oversees directly, and these need close monitoring to avoid further slippage.

State Forest Enterprises (SFEs) are an additional category of SOEs with a reform agenda of particular importance to rural households in poorer highland areas. They control a substantial amount of forest land, the reallocation of which could provide more benefits to society and income opportunities to poor local communities. Partial reforms over recent years need to be
taken further to realign mandate, ownership and managerial foundations. Forest land classification needs to be completed, towards the important goal of separating the public functions currently filled by SFEs (protection forest management) from the business-oriented functions (production forest management). Forest land for the latter would beneficially be reallocated to alternative modes of management, including by individual households and communities, options which are now being tested yet merit careful assessment prior to more widespread application. Public function forests should be managed by public entities, and provinces need assistance from the central government to assure adequate budgetary support for these.

Irrigation Management Companies (IMCs) play an important role in provision of irrigation services and in management of investment decisions. Both are integral to broader agendas of market-orientation, agricultural diversification, and public expenditure efficiency. An IMC reform process is advancing slowly, and dynamic changes in the agricultural sector will maintain the pressure for these to advance quickly. Public sector roles are refocusing, these are putting pressure on existing public resource allocations which remain dominated by water infrastructure, and agricultural diversification is resulting in greater demands for more reliable and flexible irrigation services. Making investment choices to meet these demands need better linkage with market prospects and farmers’ crop intentions, which in turn will require better integration of farmers and their associations into decision making and financing of these investments.

**Managing natural assets for broad-based growth**

**Land.** The equitable redistribution and use-titling of land, introduced in the early 1990s and continued over the past decade, is a major contributor to the rapid poverty reduction and broad-based productivity growth in Vietnam’s rural economy. This phase has run its course, and with passage of a revised Land Law for implementation starting 2004, Vietnam is moving to a second generation of land administration and policy issues, of which three stand out. Strengthening land management and administration is a top priority to consolidate and protect the use-right security and rural and peri-urban land markets emerging from the earlier redistribution as well as inclusion of wives’ names on Land Use Certificates. Farm parcel consolidation offers potential for dealing with the highly fragmented farming landscape which is often considered a brake on agricultural productivity. Yet a go-slow approach is advisable for government intervention, since rural demographics will not favor spontaneous consolidation for some time as absolute rural populations will not be declining, top-down approaches have a poor track record in countries where attempted, and availability of complementary inputs is necessary to attain the desired productivity gains. Customary land use titling can contribute to forest resource management and poverty reduction in upland areas with ethnic minorities. The framework for pursuing this is newly enabled by the revised Land and Forestry Laws. But experience is very limited, sensitivities quite high, and this combination argues for a phase of careful design and implementation of pilot interventions. This should proceed initially for forest and “unused” land dominated by ethnic groups with largely intact traditional social structures, and formalize the arrangements (on over 1 million ha) where authorities have allocated land for community management on a de-facto basis. Once this phase is comprehensively assessed, it can be scaled up, in association with restructuring of SFEs.

**Forests.** The country’s long decline in forest cover is now being reversed, and while still at 43%, a major portion of this is
degraded. Improving forest resource management has importance for the livelihoods of the estimated 25 million rural inhabitants and ethnic minorities who rely on forests for subsistence and income, and for provision of environmental services. There are five key action areas for forest management. The first involves alternative approaches to allocation of land and forest resources use rights which are critical to investments in forestry activity. The allocation can be to farm households, to communities on the basis of customary tenure, or viable business enterprises, and the testing of these options which the Government is now undertaking need assessment and then scaling up. Second, SFE reform warrants acceleration, to release forest land into household and community-based secured, transparent and equitable long-term tenure rights or use contracts for land which remains with SFEs. Third, for commercial forest plantation, additional capacity building for policy implementation is a higher priority than attention to the legal framework which is already in place and market development which is already occurring through the private sector including shifting to higher value species with no need for direct public assistance. Fourth, integration of forestry investment and management into community-based rural development endeavors would be consistent with the FSSP approach of focusing on communities as planning units. Government already has the coordinated support of many donors in this area through the Forest Sector Support Program, and this path clearly merits continuation. Finally, as part of preparation of the National Five Year Development Strategy (NFDS), and assessment of alternative scenarios for the future development of the forest sector, articulation of the ways in which government will raise funds for investment in the sector, and financial and other incentives that could be used to promote engagement and participation of stakeholder groups, while balancing the multiple sector objectives.

Water. Major investment in irrigation has contributed to past sector growth, for rice in particular, but this production has begun to plateau and diversification will need to contribute more to future growth, along with more effective use of the existing irrigation capacity. Also, industrial and urban growth is contributing to emerging water scarcity which will only grow, putting pressure on irrigation to achieve efficiency gains to release water. Irrigation technology and management needs modernization in a growing market context, and institutions and financing strategies will need to adapt to these new parameters.

There are four important areas for attention. The National Water Resources Council, newly established in 2001, has charged the MONRE with preparing a National Water Resources Strategy by 2006. This will provide an implementation plan for water resource management, as well as policy framework and guidelines for improved inter-ministerial coordination. Integrated river basin planning is moving forward, for which MONRE has the mandate for major rivers, and it is tasked with preparing a decree on management that articulates policy as well as clarifies institutional arrangements. The National Water Law is undergoing revision. The existing Law (1999) was followed by enhancement of State water management through separation of water resource state management and utilization functions between MONRE and MARD respectively, in 2003. Inconsistencies resulting between the institutional set-up and the enabling legal framework need to be resolved. Participatory irrigation management needs support. Despite good pilot outcomes, PIM has yet to be widely embraced by provinces and their Irrigation Management Companies. Wider application is integral to improved
performance of irrigation systems, and thereby rural livelihoods.

**Fisheries.** Growing contributions are being made by fisheries to both growth and rural household incomes. Moreover, inland fisheries and aquaculture have good potential to contribute further to poverty alleviation. A number of issues need addressing to fulfill this potential. Both inshore fisheries and inland capture fisheries suffer from overexploitation. Without a planning framework, coastal protection, conservation and allocation of areas for various uses can be significantly impaired. Fortunately, the marketing system is generally competitive and efficient, and a good basic framework of policy and legislation exists.

Fisheries management can be approved with attention to three priority areas. First, capacity for integrated coastal zone management needs to be built for coastal aquaculture and inshore fisheries to improve planning and implementation that engage the interest of all stakeholders. Second, fisheries management faces new challenges, with inshore fisheries needing to address overexploitation with greater use of resource co-management between local communities and government agencies, and inland fisheries needing to balance the socioeconomic value of the sector with environmental constraints arising from pollution and flood control projects. Third, aquaculture’s potential needs to be exploited, with enhanced technical support services, as a livelihood option in agricultural diversification and in poverty alleviation programs targeting poor inshore fishers.

Finally, with this complex of management, environmental and poverty issues in the fisheries sector, many stakeholders need to be engaged. Coordination in program design and implementation must encompass several ministries, fishers, other stakeholders including the private sector and mass organizations involved in the sector, and provincial authorities.

**Mainstreaming poverty reduction through inclusion and empowerment**

General progress through Government policies and programs in poverty alleviation leaves remaining poverty increasingly concentrated in lagging regions and particular social groups. For further progress, with the poorest in particular, challenges remain in ensuring that communities are empowered in ways that will help sustain the achievements made. These groups need to be more fully brought into Vietnam’s vibrant development process, through increasing agricultural productivity, managing new forms of vulnerability, addressing the particular needs of women in the work force, and enhancing community participation in rural infrastructure provision.

Rural livelihoods in the lagging, upland areas are likely to remain overwhelmingly agrarian into the next decade. Distinct approaches are needed to increase agricultural and forestry productivity in these more complex, diverse, risk-prone farming systems, and those practiced among poorer producers in particular. Public extension services need to transition from a narrow range of production “models” towards promotion of farmer-led adaptation and marketing of higher value products. Provision of extension needs to adapt to the increasing feminization of the agricultural labor force, and women’s time management and skill needs. Successful examples of these participatory approaches to technology development are now in hand, and need broader integration and expanded efforts through the agricultural extension activities of National Target Programs (NTPs). Greater emphasis is also warranted on small-scale agro-processing and enterprise development managed by households and producer groups, coupled with improved
access to financial services and investment capital that is integrated into community-level development programs that bring coordination of complementary support such as training.

The increased market integration that such efforts will also bring increased exposure of producers to price-related and other forms of risk. It will be vital to strengthen safety nets to help poorer producers deal with the adverse impacts of market failures (e.g. landlessness or unemployment). It is also important to strike a balance between NTPs for poverty reduction and strengthening public systems of social insurance to safeguard the rights and interests of the poorer sections of society. Cutting across the issue of market integration on associated risks for poor households is the broader need to empower ethnic minority communities in remote, upland areas. Concrete actions which can contribute to this are ensuring public access to information in appropriate languages and formats, greater public oversight of local capital investment budgets, greater transparency in public procurement, and greater inclusiveness in local planning processes.

The national target programs – of which Program 135 and HEPRE are the largest - are in the midst of re-design. Program 135 is most clearly targeted towards lagging rural areas, particularly in the uplands. This program has been particularly effective in channelling resources to the poorest communes, focused primarily on the provision of basic infrastructure. However, the overall impacts of Program 135 and other NTPs on poverty reduction are poorly understood, and there remain considerable concerns about sustainability of achievements to date because of the clustering of a large proportion of households just above the poverty line and the consequent vulnerability to various risks that result in falling back into poverty.

Significant experience has been gained in Vietnam since the late 1990s in promoting more community-driven approaches. Evidence is growing that shows improved performance of interventions that are more community driven. Intended beneficiaries perceive such project interventions to have higher impact, better construction quality and lower unit costs for civil works, with greater general levels of satisfaction of the community, even in the poorest communities. The challenge ahead is to scale-up and mainstream such participatory approaches as part of the redesign of the NTPs for poverty reduction for 2006-2010.

**Aligning Public Expenditure and Sector Institutions**

**Aligning Public Expenditure.** The agricultural sector has received 5-6% of overall public expenditure, with total real growth of 88% over 1997-2002. Capital expenditure has outpaced recurrent spending growth, exacerbating the already existing O&M spending deficiencies. An important change in fiscal management in the sector is the share managed by local governments, which rose from 43% to 79% in this period. This rapid and radical 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 its institutional adjustment is still occurring. At the sub-national level, increased authority in principle will facilitate improved and locally adapted public service delivery but in practice involves a transition during which fragmentation and inadequate local capacity strains the ability to actually deliver improved outcomes.

The structure of sub-sector expenditure has yet to change significantly as a result of this decentralization, but can be expected to occur to reflect provincial government
priorities with the additional authorities delegated in the new Budget Law. In the meantime, expenditure is still dominated by irrigation (including other water control infrastructure) which absorbs 60% of total MARD expenditure. Forestry is the next largest category, with the 5MHRP as the major component. Research and extension are the remaining two categories, though much smaller, and despite strong growth in nominal terms, are still under 5% of total expenditure.

SOEs, despite ongoing reforms, absorb a significant share of public resources. Between 1999 and 2003, the debts of agricultural sector SOEs to the budget and state-owned banks more than doubled to VND 15.7 trillion, or twice the annual agricultural sector budget. These administratively directed resources reduce the resources available to the private sector, contributing to the limited role that it plays in sector investment. Debts to the State budget also preclude public expenditure on goods and services and constrain the government's ability to increase support to productivity-focused expenditure in research and extension, and to public sector support to market development and regulation.

Is there a case for more funding for agriculture? While there is some indication that agriculture is under-funded with respect to policy goals, evidence is not strong that there would be quicker achievement of these goals by diverting funds from other sectors to agriculture. Impact evaluation of current spending needs to be improved, and annual increases in the budget are already stretching the capacity of the sector to absorb these funds productively. Strengthening the capacity of public expenditure management will have to be addressed as a matter of high priority as fiscal decentralization pushes spending management down to local levels where capacity is an even greater problem. Areas that need attention are:

- Modernize expenditure tracking systems
- Strengthen project evaluation including financial and economic analysis
- Establish outcome and impact analysis of public spending as a routine activity
- Establish stronger controls on expenditure commitments, while addressing payment arrears

Concurrent with such expenditure management strengthening, reallocation of expenditure within the agricultural sector should:

- Redress the imbalance between capital and recurrent expenditure, particularly in the irrigation sub-sector to catch up with deferred maintenance
- Continue to scale up expenditure on agricultural research and extension, which will be vital to productivity-based growth
- Reduce the burden of SOEs on public expenditure

Aligning Institutions. Sector institutions merit assessment and realignment, in addition to public expenditures, to assure that functions and capacities are addressing new challenges that emerge with accelerated transition to market orientation. The Government's ongoing Public Administration Reform addresses this in a comprehensive way; the present report concentrates on selected areas of particular importance, relating to public institutions, market structures and rural community capacity.

The public sector role in the rural economy is well into the transition from direct investment and management of production and marketing to facilitation of market development through regulation, provision of complementary public goods and
services and establishment of enabling frameworks for private sector activity. A particular challenge for sector agencies is raise public expenditure management capacity to a higher level of performance.

For MARD, the next steps for this include building its medium-term expenditure framework and management capacity. This is needed to establish stronger and more transparent links from the Government’s development strategy (as articulated in the CPRGS and forthcoming 2006-2010 SEDP), to public budget resource allocations on a rolling three-year basis, with clear monitorable performance indicators. Strengthening of monitoring and evaluation should continue to aim at enabling MARD to provide evidence of the impact of its programs on higher order outcomes (e.g. income impacts rather than production increases). Closer coordination with MPI and GSO will be important to integrate information gathering across the physical, financial and socioeconomic components needed. A particular challenge with decentralization’s shift of expenditure authority to sub-national governments will be to put in place consolidated expenditure tracking capacity at the center.

Market structures are evolving rapidly with agricultural diversification and structural shifts in production towards higher value products and exports. However, an emerging weakness is the relatively undifferentiated organizations available to small-scale producers through which they engage in these value chains. Although there is a growing array of informal groupings, the main organizational option at present with sufficient legal foundation—to engage in contract farming, for instance—is limited to cooperatives. It is acknowledged that this is a particularly sensitive policy area since the current concentration on cooperatives and mass organizations and reluctance to increase scope for alternative organizational forms is deeply rooted in Vietnam’s history and political foundations. Nonetheless, the continued transition towards market structures, and importance of value chains being able to seize opportunities for competitive innovation and efficiency gains, will undoubtedly keep the focus on small scale farmers gaining a broader array of organizational options for effective participation in these markets and negotiation of their interests with other stakeholders.

In more remote and poorer rural areas, the challenge is development of more basic community human resource and institutional capacities. Evidence from a number of programs suggest that well-thought out, practical, on-the-job training with adequate hands-on coaching, can succeed at building up these capacities while accommodating language and cultural diversity. These methods need to be built into regular government training programs, particularly provided at the Province level, as long-term commitments to build sustained managerial and technical capacities in remote communes and villages. It is particularly important to organize the delivery of such capacity building so that it is not fragmented by type of service, but rather builds capacity of the community and its leaders to identify and focus upon the most important services to them and the key synergies across services that need integration. In addition, there is a huge, unmet demand amongst poor men and women in rural areas for more and better vocational and skills training, and institutional reform is needed to deliver this in non-formal, community-based contexts. Enhancing access by women and girls to training programs and school needs continued emphasis.

**Implications for World Bank Partnership**

To be able to reposition its activities in support of the emerging rural development challenges presented in this report, the
World Bank is paying attention first to improving performance through the existing portfolio. Standing at about a quarter of overall World Bank lending to Vietnam, the rural development projects being supported are disbursing faster, with improving quality of implementation. More progress is still needed on shortening new project preparation periods, at lower cost, with greater success in completing investment activities within planned time-frames.

On this foundation, the World Bank’s rural development program is in a position to maintain a share within its overall portfolio over the period 2006-2010 of approximately 30 percent of projects and net lending commitments, with a possibility of scaling up or adding projects, contingent on IDA 14 allocation outcomes.

In developing this future program, a guiding principle will be to rebalance activities to give more emphasis to projects that come under the strategic pillar of market growth based on agricultural development. Where possible, the aim also is to be more harmonized with government procedures and seek donor partnerships. Two areas that offer good opportunities are in the forest sector and poverty targeted programs. Preparatory work will be essential to strengthen the country’s fiduciary framework and monitoring and evaluation mechanisms.

Analytical and advisory activities would be clustered in support of the three strategic pillars, to support building of the knowledge base for the lending program or to underpin the policy dialogue in the rural sector. The overall analytical and advisory program will emphasize partnerships with other stakeholders, particularly through the various technical working groups which bring donors and Government together for the development and implementation of joint work programs.

In the Market Growth pillar, the focus will be completion of an initial phase of work on food and agricultural product safety, and new work on agricultural competitiveness, rural finance, rural investment climate assessment, and possibly on rural producer organizations. Work in the Natural Resources Management pillar will focus on water resources (a broad scoping followed possibly by small-scale irrigation and Irrigation Management Company reform) and forestry (supporting implementation of State Forest Enterprise reform, particularly socio-economic and environmental aspects of land management reallocation). Finally, under the Inclusion and Empowerment pillar, the main activity anticipated is a public expenditure review focused on lagging regions.

Vietnam’s rapidly advancing development will likely be accompanied by a rebalancing of World Bank activity with a shift in emphasis from lending to non-lending, analytical and policy advisory activities. The Bank’s assistance program for rural development therefore will be a flexible process which will continue to re-examine strategic priorities to ensure consistency with the Government’s policies, identify and fill analytical gaps based on dynamic needs of Vietnam’s rural sector, explore a wide range of options of engagements beyond traditional lending and AAA work, and forge partnership with donors sharing common visions.

With these expectations, the World Bank’s rural development program will have the opportunity to broaden and deepen its capacity to program, undertake and partner in such activities, both in-country and through technical support from headquarters, while strengthening cross-sector teamwork and synergy.
ALIGNING PUBLIC EXPENDITURE AND SECTOR INSTITUTIONS TO AGRICULTURE AND RURAL DEVELOPMENT CHALLENGES

A. Public Expenditure Management
1. Context

Expenditure and Sector Performance. With slow growth from a small base for private service providers, sector performance has depended on public expenditure for essential services. Public expenditure for the sector (6% of the total) is low given its contribution to GDP (22%), exports (29% of the total export value), poverty reduction and other measures including international standards, and there is evidence that it is insufficient to support productive capacity as existing infrastructure risks not being adequately maintained.

Level and Trends. The agricultural sector has maintained a relatively constant share of overall expenditure at 5-6% over 1997-2002 (Table 1), which is low in international context. Total budget expenditure for all sectors rose by 91% during the same period, while expenditure on agriculture (including livestock), forestry, and fisheries (collectively referred to as agriculture) rose 96% in nominal terms (88% in constant 1997 terms). This maintained the sector’s ranking after education, transport and health, and above industry (which has higher FDI). Spending on fisheries grew faster than that on agriculture and forestry but comprised only 5% of total spending in the sector as a whole.

Composition. The major trend has been the faster growth in capital cost funding: 107% since 1997 compared with 66% for recurrent expenditure (Table 3). Investment expenditure has accounted for 75%-80% of the total over the review period, up marginally from earlier, and spiking in response to unexpected revenue availability in 2001 (Table 2). The recurrent budget accounts for the balance of 20%-25% which is a decline from the long-run 25% between 1992–98. Within recurrent expenditure, the wages and salaries share has risen from about 14% to 17%-20%.

Table 1. Budget Expenditure on Agriculture, Forestry and Fisheries, 1997 – 2002, nominal VND

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Budget VNDbn</th>
<th>Agriculture Budget VNDbn</th>
<th>Agriculture &amp; forestry only</th>
<th>Agriculture Budget Share of Total Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>70,749</td>
<td>3,815</td>
<td>3,712</td>
<td>5.4</td>
</tr>
<tr>
<td>1998</td>
<td>73,419</td>
<td>5,075</td>
<td>4,591</td>
<td>6.9</td>
</tr>
<tr>
<td>1999</td>
<td>84,817</td>
<td>5,326</td>
<td>5,051</td>
<td>6.3</td>
</tr>
<tr>
<td>2000</td>
<td>103,151</td>
<td>5,804</td>
<td>5,647</td>
<td>5.6</td>
</tr>
<tr>
<td>2001</td>
<td>119,403</td>
<td>7,420</td>
<td>7,044</td>
<td>6.2</td>
</tr>
<tr>
<td>2002</td>
<td>135,490</td>
<td>7,471</td>
<td>6,993</td>
<td>5.5</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td>6.0</td>
</tr>
</tbody>
</table>

Table 2. Capital and Recurrent Budget Expenditure on Agriculture, 1997–2002

<table>
<thead>
<tr>
<th></th>
<th>Capital %</th>
<th>Recurrent %</th>
<th>Wages %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>72.6</td>
<td>27.4</td>
<td>14.3</td>
</tr>
<tr>
<td>1998</td>
<td>77.8</td>
<td>22.2</td>
<td>15.4</td>
</tr>
<tr>
<td>1999</td>
<td>80.7</td>
<td>19.3</td>
<td>17.5</td>
</tr>
<tr>
<td>2000</td>
<td>78.3</td>
<td>21.7</td>
<td>20.7</td>
</tr>
<tr>
<td>2001</td>
<td>80.2</td>
<td>19.8</td>
<td>20.9</td>
</tr>
<tr>
<td>2002</td>
<td>76.8</td>
<td>23.2</td>
<td>17.8</td>
</tr>
</tbody>
</table>


Table 3. State Expenditure for Agriculture, 1997–2002, Current VND bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Capital</th>
<th>Recurrent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>3,815</td>
<td>2,679</td>
<td>1,045</td>
</tr>
<tr>
<td>1998</td>
<td>5,075</td>
<td>3,946</td>
<td>1,129</td>
</tr>
<tr>
<td>1999</td>
<td>5,326</td>
<td>4,300</td>
<td>1,027</td>
</tr>
<tr>
<td>2000</td>
<td>5,804</td>
<td>4,542</td>
<td>1,263</td>
</tr>
<tr>
<td>2001</td>
<td>7,420</td>
<td>5,953</td>
<td>1,466</td>
</tr>
<tr>
<td>2002</td>
<td>7,471</td>
<td>5,736</td>
<td>1,735</td>
</tr>
</tbody>
</table>

Change 96% 107% 66%


Capital Expenditure. The major trend in investment expenditure has been in the proportion managed by sub-national governments rising from 48% to 67% of the total between 1997 and 2002 as central agencies concentrate on major projects. Another significant trend has been the decline in the share of construction of irrigation works from 78% of the total to 60% over the same period. It is not clear whether this is the result of a policy change or of an implementation capacity constraint. The balance of sector public investment is on support to programs in cultivation, plant breeding, animal health, forestry, settlement (sedentary abodes and farming), and infrastructure programs such as rural water supply. Of these, forestry is the largest program.

Recurrent Cost Expenditure. Under-funding of recurrent expenditure, and operations and maintenance expenses in particular, was signaled as a problem in the 2000 PER and has continued to worsen. There is a persistent increase in imbalance between the sector’s spending on operation and maintenance and the rapidly accumulated stock of capital assets as a result of the emphasis on the investment side (Table 4). For five years from 1997 to 2002, the sector’s spending on O&M increased only by 31% as the larger part of the increase in its recurrent costs, 107% change, went to fixed items such as salaries and wages. Local government is playing an increasing role in management of recurrent spending. Total state recurrent expenditure in agriculture (fisheries excluded) was VND 1,641 billion in 2002, of which 38% was managed by MARD and the rest by sub-national governments. These costs are for research, extension, national and targeted programs, and its own administration. MARD-managed recurrent expenditure has doubled between 1999 (VND 310 billion) and 2003 (VND 748.3 billion).

Table 4. State Expenditure for Salaries and Wages and O&M in Agriculture, 1997–2002, Current VND bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries &amp; wages</th>
<th>Operation &amp; Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>149</td>
<td>727</td>
</tr>
<tr>
<td>1998</td>
<td>174</td>
<td>727</td>
</tr>
<tr>
<td>1999</td>
<td>180</td>
<td>610</td>
</tr>
<tr>
<td>2000</td>
<td>261</td>
<td>699</td>
</tr>
<tr>
<td>2001</td>
<td>307</td>
<td>752</td>
</tr>
<tr>
<td>2002</td>
<td>308</td>
<td>952</td>
</tr>
</tbody>
</table>

Change 107% 31%


Subsector Expenditure. Sub-sector expenditure and performance is difficult to analyze because of the problems associated with availability of data, its timeliness, and its reliability. Official public expenditure data are published by MOF and DOS on the basis of data supplied by the provinces and spending ministries and are presented
in aggregated format that is not suitable for detailed performance analysis. For example, categorization of public expenditure on agriculture is by program type and not by function. The budget category of “cultivation” includes part of research, extension, and other items as do other categories. A more useful breakdown would be as shown in Table 5, with “other” further disaggregated. The numbers in this table are not published but are obtained partly from MARD and from MOF and are often difficult to reconcile. One result of this relative inaccessibility is the paucity of published research, particularly into impact evaluation of expenditure programs in other than general terms. While there is some excellent survey work carried out, public expenditure research is limited in quantity and quality.

According to MARD data, irrigation (inclusive of drainage and flood control) remains the largest sub-sector, averaging over 60% of aggregate expenditure although a downturn occurred in 2002. The “other” category has grown rapidly and is the second largest grouping, followed by forestry, where the 5MHP is the largest program. Research and extension are the remaining two major categories, though much smaller, and despite strong growth in nominal terms, remain under 5% of total expenditure.

Impact of Fiscal Autonomy on Agricultural Expenditure. The agricultural sector has experienced a rapid and radical decentralization of authority over public expenditure. The share of the agricultural sector expenditure implemented by local levels has almost doubled, from 43% in 1997 to 79% in 2002. The implementation of the new Budget Law from 2004 further extends budget delegation and autonomy to the provincial and commune levels. These changes are implying a major change in the role of the central MARD, one to which it is only slowly beginning to adjust.

There has not yet been any change in the structure of sector expenditure accompanying this decentralization. This is partly due to difficulties arising from the aggregate nature of tracking information and partly due to the high percentage of fixed costs and the rigid and detailed earmarking for investment and targeted programs by upper administrative levels in the past. The implementation of the new State Budget Law and accompanying Decree 10 and Decision 192 is expected to increase provinces’ discretion and this may change the spending structure. At the commune level, field visits indicate that fixed costs and earmarking of expenditure for education, health, etc., leave little flexibility in spending management, and that the budget for agriculture appears to be the residual left after everything else has been allocated. Also noticeable is the apparent reluctance of both the provinces and communes to increase spending on agriculture from revenues in excess of those in the Plan. This is a major problem since

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigation</td>
<td>3,241</td>
<td>3,620</td>
<td>4,678</td>
<td>4,211</td>
<td>n.a.</td>
</tr>
<tr>
<td>Forestry</td>
<td>444</td>
<td>546</td>
<td>576</td>
<td>678</td>
<td>n.a.</td>
</tr>
<tr>
<td>Research</td>
<td>n.a.</td>
<td>150</td>
<td>162</td>
<td>168</td>
<td>197</td>
</tr>
<tr>
<td>Extension</td>
<td>85</td>
<td>108</td>
<td>155</td>
<td>196</td>
<td>185</td>
</tr>
<tr>
<td>Other</td>
<td>n.a.</td>
<td>1,380</td>
<td>1,849</td>
<td>2,218</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total</td>
<td>5,326</td>
<td>5,804</td>
<td>7,420</td>
<td>7,471</td>
<td></td>
</tr>
</tbody>
</table>

*Source: MARD (2004)*
the national agricultural budget is largely an aggregation of local plans.

Public Expenditure on State Enterprises in Agriculture. There are 319 SOEs overseen by the Center in the agriculture and related sector (2003 estimate). This number does not include the Irrigation Management Companies and State Forestry Enterprises owned by the provinces. Of this total, 28 are public utilities providing public goods and the rest offer services; of this latter group, 171 are considered profitable, 43 just manage to cover their costs, and 105 are unprofitable. The main sources of capital are loans from State-owned banks (VND 15,203 billion) and allocations from the State budget (VND 6,035 billion).

Total revenue for 2003 is estimated as VND 42,074 billion with profits of VND 1,456 billion and losses of VND 387 billion. Contributions to State revenue are estimated as VND 1,266 billion for 2003. The SOEs owe VND 515 billion to the State, VND 15,203 billion to the banks, and VND 3,700 billion to other enterprises.

Between 1999 and 2003, the debts of the SOEs to the budget and state-owned banks more than doubled from VND 7,556 billion to VND 15,718 billion or twice the agricultural budget in 2003. This administratively directed credit exposes the state-owned commercial banks to high risk and crowds out potential private sector development. State credit is also a budget imposition since it reduces the resources available for the budget. The debt figures probably underestimate the true cost of those funds because these are subsidized.

Table 6. Financial Statistics of Agriculture SOEs Owned by the Centre, VND bn

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of SOEs</td>
<td>494</td>
<td>462</td>
<td>448</td>
<td>387</td>
<td>319</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Budget</td>
<td>5,120</td>
<td>5,161</td>
<td>5,463</td>
<td>6,028</td>
<td>6,035</td>
</tr>
<tr>
<td>Self generated</td>
<td>2,211</td>
<td>2,459</td>
<td>2,575</td>
<td>2,583</td>
<td>2,590</td>
</tr>
<tr>
<td>Loans</td>
<td>6,951</td>
<td>9,515</td>
<td>11,832</td>
<td>14,714</td>
<td>15,203</td>
</tr>
<tr>
<td>Other</td>
<td>200</td>
<td>206</td>
<td>265</td>
<td>241</td>
<td>250</td>
</tr>
<tr>
<td>Profit and Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>25,377</td>
<td>25,917</td>
<td>31,869</td>
<td>34,773</td>
<td>42,074</td>
</tr>
<tr>
<td>Profit</td>
<td>360</td>
<td>617</td>
<td>609</td>
<td>831</td>
<td>1,456</td>
</tr>
<tr>
<td>Loss</td>
<td>462</td>
<td>555</td>
<td>681</td>
<td>356</td>
<td>387</td>
</tr>
<tr>
<td>Contribution to Budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Tax</td>
<td>388</td>
<td>476</td>
<td>401</td>
<td>425</td>
<td>652</td>
</tr>
<tr>
<td>Profit tax</td>
<td>100</td>
<td>172</td>
<td>170</td>
<td>232</td>
<td>407</td>
</tr>
<tr>
<td>Export/Imp. Tax</td>
<td>134</td>
<td>177</td>
<td>150</td>
<td>155</td>
<td>195</td>
</tr>
<tr>
<td>Consumption Tax</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Capital Tax</td>
<td>47</td>
<td>57</td>
<td>62</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Budget</td>
<td>605</td>
<td>760</td>
<td>1,039</td>
<td>317</td>
<td>515</td>
</tr>
<tr>
<td>To Banks</td>
<td>6,951</td>
<td>9,515</td>
<td>11,832</td>
<td>14,714</td>
<td>15,203</td>
</tr>
<tr>
<td>To Other Firms</td>
<td>3,123</td>
<td>3,023</td>
<td>2,014</td>
<td>3,523</td>
<td>3,700</td>
</tr>
</tbody>
</table>

Reducing these debts would free up government budget resources that could be used to provide increased funding for those agricultural services that cannot be provided by the private sector, such as rehabilitation of smallholder irrigation infrastructure and research.

**ODA Impact on Budget Resources.** Actual ODA disbursements between 1997 and 2001 were stable in nominal terms, at some VND3,300 billion per year, and while nearly halving as a share of total expenditure over this period, remained important at 46% of total public spending on agriculture (Table 7). Overall, since the largest ODA projects are for capital works, they may themselves explain the increasing imbalance between capital and recurrent cost funding in the budget allocations, although some caution is needed in reaching this conclusion. The two sets of numbers are not strictly comparable since the ODA disbursements partly refer to rural rather than agricultural activities (for example, poverty mapping, rural roads and micro-enterprise development are included in the ODA figures, as well as project disbursements for rural credit, which are not financed through the budget). The majority of the 564 rural projects in this ODA database maintained by the UNDP are for farming, forestry, and fisheries. Of these, 37 are classified as investment projects with the remainder being technical assistance and small-grant activities. Nevertheless, they do give an indication of the order of magnitude of rural ODA in comparison with the sector budget and it is clear that ODA plays an important but declining part in Vietnam’s public expenditure program for agriculture. The forestry sub-sector is particularly dependent on ODA finance; MARD reports (Finance Department 2004) that over 1996 – 2003, ODA accounted for 61% of the investment resources (VND 2,043 billion) that forestry received from the State budget.

### 2. Main Impacts and Scope for Improvement

**Expenditure Policy and Linkage with Performance.** The role of public expenditure in Vietnam is to: i) facilitate development of resources, ii) provide public goods, and iii) promote poverty reduction and hunger elimination. At the level of the economy, the State budget accounts for 21.6% of total investment (CIEM 2004), while in the agriculture sector it accounts for 42.7% of investment. While this includes some non-agriculture expenditure, it does give a reasonable picture of the greater dependence of the sector on public expenditure than for the economy as a whole. Vietnam’s agriculture continues to evolve but it is still state-dependent for provision of capital for investment in infrastructure, for capitalizing the VBARD and the Policy Bank for provision of smallholder credit, for subsidizing operation of the irrigation system, for subsidizing the SOEs, for research, and for

<table>
<thead>
<tr>
<th>Year</th>
<th>Total ODA Disbursements for Agriculture USD m.</th>
<th>Total ODA Disbursements for Agriculture VND bn.</th>
<th>Total Agriculture Budget VND bn.</th>
<th>ODA Share of Agriculture Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>215</td>
<td>3,345</td>
<td>3,815</td>
<td>87.7</td>
</tr>
<tr>
<td>1998</td>
<td>215</td>
<td>3,339</td>
<td>5,075</td>
<td>65.8</td>
</tr>
<tr>
<td>1999</td>
<td>192</td>
<td>2,982</td>
<td>5,326</td>
<td>56.0</td>
</tr>
<tr>
<td>2000</td>
<td>216</td>
<td>3,660</td>
<td>5,804</td>
<td>57.9</td>
</tr>
<tr>
<td>2001</td>
<td>218</td>
<td>3,397</td>
<td>7,420</td>
<td>45.8</td>
</tr>
</tbody>
</table>

*Note: Including also spending on area-based development*

provision of agricultural services to smallholders. The aggregate level and distribution of public expenditure between these competing spending units is a major determinant of production, processing, and marketing performance.

**Budget Adequacy.** Agriculture’s 6% share of the total State budget appears low relative to the sector’s 21.8% contribution to GDP, and to the policy emphasis given to its role in the CPRGS and other documents. Since 90% of the poor live in rural areas and 70% of the income of rural workers (13.9 million farm, aquaculture and forestry households) comes from agricultural sector activities, a larger share might have been anticipated for support to those activities. Moreover, agriculture’s 6% share of the total State budget is low by regional comparison with China, India and Thailand which ranges from 8% to 16% (Kherallah and Golleti 2000). It may indicate possible under-funding of sectoral services and maintenance of rural infrastructure.

A relatively low budget share for agriculture does not itself make a case for an increase. An increase would be justified if the budget level for agriculture was found to be insufficient to carry out the sector’s growth and equity obligations under the Plan, if the budget level was found to be insufficient to maintain productive infrastructure, and if the returns from extra funding for agriculture were greater that those from allocating the extra funds to other sectors, which is the case with spending on agriculture research. Further, the relatively high long-term growth rate in sector production does not suggest that there has been long-term under-investment. The sector’s contribution to GDP is also a result of investment in transport, industry, education, health and other activities not captured in the estimation of investment bias (Box 1). While the emphasis on the importance of these sectors in the CPRGS will help raise incomes from whatever source, they may not necessarily solve the basic reduced rate of productivity growth in agriculture. It is also likely that the sectoral classification of expenditures is based on ministerial responsibilities rather than the nature of the expenditure and in the budget “agriculture sector expenditure” does not capture the significant contribution to public services in agriculture made by other sectors, off-budget agencies and the private sector.

**Budget Impact on Poverty and Food Security.** Prior to the land reforms of the 1980s, Vietnam imported some 500,000 tons of rice annually and seasonal hunger was widespread.

Vietnam now exports 3–4 million tons of rice annually. While many factors contributed to this turnaround, it would not have occurred without the large investment program in irrigation. Food security at the national level is now largely secured and many households have moved out of food poverty, although food security remains an issue at the household level. The general rural development strategy focused on irrigation for rice production has now been complemented by the targeted poverty programs for those “left behind”. Similarly, the coffee development program in the Central Highlands has relieved some of the pressure on resources in the large river deltas and has lifted many out of poverty through resettlement. However, the success of the commodity programs contributed to a fall in export prices and farm incomes, with negative impacts both on the rate of agricultural growth and the rate of poverty reduction. In response, agricultural development and rural poverty alleviation strategies are shifting to place more emphasis on product diversification and better targeting of interventions.

**Budget Impact on Private Investment.** Agriculture is heavily dependent on the State budget which accounted for 57% of total investment in the sector over 1999-
2002 because of the relatively low level of private enterprise (non-household) investment (estimated at VND 6,025 billion in 2002 or 40% of total investment). Although FDI in the sector contributed the equivalent of some US$98 million (or less than 35% of the total commitment) between 1999-2002, FDI in agriculture accounted for less than 3% of investment capital in the period, much smaller than the 17.3% for the economy as a whole. Non-state local enterprises similarly have a small presence. Several possible reasons for this emerge. First is the relatively low protection level for agriculture resulting in fewer opportunities for profit. Another is the higher transaction costs and skills shortage in rural areas. Another consideration may be that a large part of foreign investment in agriculture worldwide includes investment in purchase or lease of large tracts of land for corporate farming associated with processing and export. This is not currently available in Vietnam. The presence of State-Owned Enterprises in marketing, processing, and production and their special treatment by government tends to crowd out private sector investment. SOEs occupy the space normally filled by the private sector and continued budget support for SOEs is likely to ensure that private investment will go elsewhere. Examples are the Rubber, Sugar and Coffee Companies. These deliver marketing and processing services
to growers and that could be provided by the private sector. The Government is implementing a reform program to equitize and rationalize the SOEs but in the meantime they are a heavy drain on State budget resources, directly and indirectly through funding State-owned commercial banks, such as VBARD and the Policy Bank (VBP), and by the Development Assistance Fund (DAF). Next, lack of competition in downstream activities due to SOEs’ domination in addition to low productivity, leaves rural producers with little profit margin that can be used for future investment.

Table 8. Investment Capital by Ownership 1999(%)  

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Agriculture</th>
<th>Whole Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>54.9</td>
<td>58.7</td>
</tr>
<tr>
<td>Non-State enterprises</td>
<td>1.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Households</td>
<td>43.0</td>
<td>19.7</td>
</tr>
<tr>
<td>FDI</td>
<td>1.2</td>
<td>17.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: GSO 2001

Planning and Budget Processes and Institutional Roles. MARD participates in the preparation of the 5-Year Plan by drafting the sector’s development strategies, objectives, and targets and participating in appraisal of concerned plans, including those prepared by its subordinated bodies and provinces. However, MARD does not have allocative authority. Plans from these entities are consolidated and sent to Government and the National Assembly for consideration and approval, after which the Plan with financial earmarked figures is disseminated directly to the bodies and provinces. An Annual Plan is then prepared on the basis of the 5-Year Plan and the annual budget is developed around the needs of the annual plans and the funds available. This is largely replicated at the provincial level and so on, except local authorities have to follow the guidelines from the top. Often annual plans lack the assumed connection with the 5-Year Plan due to persistent budget constraints. While the Plans do have some policy and strategy content albeit insufficiently specific they appear to be more a list of commodity production targets similar to the commodity balances of central planning. Missing from the Plans is a comprehensive analytical framework that would link production plans to market analysis and incentives, clearly defined roles of the public and private sectors, and appropriate medium-term resources allocation. Further, authorities responsible for the agricultural sector commonly lack regular access to data on the sector’s budget execution, especially by local levels. The result is certain inconsistency and mismatch in both stages of planning and execution. For example, the Plan discusses the need for market responsiveness while not discussing the significant distortions that impede markets from functioning properly. Another example is that the current 5-Year Plan, 2001–2005, emphasizes production of fruits and vegetables and the need to develop processing capacity. But there is no treatment of real constraints on that industry arising from the lack of a regulatory framework, weak standards establishment and enforcement, few if any public cold storage facilities for products in transit, scarcity of credit and technical assistance for entrepreneurs, and absence of a timely market information system. Failure to address these basic issues (while overemphasizing particular fruits to be encouraged) puts the emphasis for public policy and expenditure in the wrong place; product choices and the attendant market risks belong as calculations to be made by producers and processors rather than by public policies. A weakness with current planning is that targets are determined and resources allocated without adequate regard to other variables so important to modern agriculture, such as the
economics of production. The Plan is important because it is the basis on which the public expenditure program for the sector is prepared and its weakness in addressing key issues becomes a systemic weakness throughout the rural economy.

3. Sub-Sector Public Expenditure Issues

Irrigation. The total state expenditure on irrigation and related services is the largest claimant on the agricultural budget.

In 2002, VND 4,211 billion of the total sector allocation of VND 7,471 billion was spent on irrigation, a rise from VND 3,241 billion in 1999 (Table 9). Irrigation/drainage and dyke construction/maintenance comprise 88% and 12% of total agricultural spending, respectively. About 94% of this was for capital expenditure (investment) in 2002, the same as in 1999. The share implemented by MARD declined from almost 50% in 1999 to only 21% in 2002, and the corresponding provincial share increasing from 50% to 79%. Fiscal decentralization explains part of this, but the trend also reflects a shift in emphasis from building new structures, to upgrading and completing existing works. This lowers the size of the project to that implemented by the provinces. MARD reports that upgrading (includes completion, rehabilitation and improvement as distinct from construction of new schemes) rose from 28% of irrigation investment in 1996 to 48% in 2000, and to 64% in 2003. Priority has also shifted from the big irrigation projects in the two delta regions to small-and medium-sized irrigation systems in the Central Coastal and mountainous areas as well as early-flood-prevention dykes in the Mekong River Delta. This not only reduces the size of schemes being funded but also increases their poverty impact

Irrigation - Funding of Capital Works. The national irrigation system covers some 80% of the 7 million ha of cultivated land, mostly for rice production. However, the area actually irrigated is reported to be only 50-60% of designed capacity because schemes have not been completed or maintained (MARD 2004). In large schemes, coverage is higher but supplementary pumping is used to overcome water distribution problems with resulting increase in costs. In smaller schemes, actual utilization is as low as 25% - 30%. One reason is that virtually no irrigation systems have yet been completed. In part, this is because financing and construction of headworks

| Table 9. Vietnam – Public Expenditure on Irrigation, VND bn. |
|----------------------------------|-----|-----|-----|-----|
| Total State Budget | 1999 | 2000 | 2001 | 2002 |
|  | 3,241 | 3,620 | 4,678 | 4,211 |
| Capital Expenditure | 3,063 | 3,388 | 4,411 | 3,959 |
| Recurrent Expenditure | 178 | 232 | 267 | 252 |
| Expenditure by MARD | 1,612 | 1,364 | 1,273 | 920 |
| Capital Expenditure | 1,600 | 1,317 | 1,227 | 871 |
| Recurrent Expenditure | 12 | 47 | 46 | 49 |
| Expenditure by Province | 1,628 | 2,255 | 3,404 | 3,291 |
| Capital Expenditure | 1,463 | 2,070 | 3,184 | 3,087 |
| Recurrent Expenditure | 165 | 185 | 220 | 204 |

Source: MOF Expenditure Tables
and main canals are done through MARD while financing and construction for distribution canals are done by the provinces, with poorer provinces often lacking the funds to complete the systems begun using MARD’s budget. MARD and the provinces both maintain design and construction companies having different competencies, and implementation capacities leading to an implementation imbalance. Further, funding of the distribution system is based on norms (e.g. cost per meter of canal of standard specification) which may be insufficient to complete the works, or a mismatch between spending and design norms. Government recognizes the importance of this issue and is giving priority to system upgrading and completion.

Although state funding of capital works is claimed to be insufficient, the ineffective management of such works is a serious problem both at the central and provincial levels. Furthermore, there is evidence to suggest that public spending in agriculture may have been significantly higher than the cash expenditure figures from the Treasury might suggest. Taking into account only those works completed and transferred to users, MARD’s accumulated debt to irrigation construction companies alone increased from VND23 billion in 2000 to VND1,241 billion in June 2004 – a quarter of the annual public investment in agriculture (Table 10). This figure does not include more than VND500 billion of debts resolved in early 2004 with the issuance of special Treasury Bonds. Clearly, this adversely affects not only the construction companies and their laborers but also related sectors, e.g. banks and suppliers. As recognized by the Government, one source of the problem is the practice of making investment decisions that are not in conformity with approved master plans and actual prioritized needs, and undertaking works without completing standard investment procedures, normal documentation or securing the necessary funding. The lack of effective supervision also represents a part of the problem. Commitment controls will be greatly strengthened across Government in the coming years, as part of the implementation of the new Treasury and Budget Management Information System. In the meantime, urgent steps need to be taken to eliminate the stock of payment arrears and to eliminate future over-commitment.

Irrigation - Funding of Operation and Maintenance. While cost recovery from users is expected to fully fund O&M, this is not occurring and subsidies from Government are still a major source of funds. Although MPI assumes a 30%-35% maintenance cost as a percentage of total public investment, MARD does not make this level of provision in its budget submission. The subsidies are insufficient to cover the deficit and MARD estimates that the State budget allocation made to maintain existing irrigation infrastructure is only some 60% of the amount needed. Funding of O&M of the distribution system from the headworks to the village is a provincial responsibility under the Ordinance 32 (April 2001) and Decree 143 (November 2003) on Exploitation and Protection of Irrigation Schemes. Decree 143 obliges the provinces to set service fees at a level to cover normal operating expenses of their Irrigation Management Companies (IMCs). The Decree exempts or provides for reduction

| Table 10. MARD’s Debts to Irrigation Construction Companies, VND bn. |
|----------------|---|---|---|---|---|
|                | 2000 | 2001 | 2002 | 2003 | June 2004 |
| Debts           | 22   | 229  | 484 | 282 | 223        |
| Accumulated Debts | 23  | 252  | 736 | 1,018 | 1,241 |

NB: Includes projects and works completed and transferred to users.  
Source: MARD
of fees in localities of high poverty incidence or those affected by natural disasters. However, it defines neither the specific source of funding the deficit nor the formula for determining the subsidy. These important stipulations are still to be put in place by provincial people’s committees and the related central agencies concerned.

Two other problems are the low level of fees actually set and the low collection rates. The fees are set by the Provincial People’s Committee with the approval of the Provincial People’s Council and are usually set at a compromise level below the IMC’s actual costs. Collection rates are 80-90% in low-cost gravity schemes (Mekong Delta), and 50-70% in high-cost pump schemes (Red River Delta) and in high poverty localities. As a result, public sources can meet only about half of necessary annual maintenance (VND 500-550 billion out of VND 1,100 billion per year) and actual works focus only on repairing damage occurring, leading to rapid degradation of existing systems and their high operation costs.

Reform is conceptually simple but difficult to implement. Raising fees to a level that fully covers actual costs and ensuring collection of 100% of fees due would be impractical, at least in the short to medium term on both poverty grounds and on grounds that it would force users to pay for major system inefficiencies. Four steps towards a long-term goal of full cost recovery would be: i) correct accounting of real costs of O&M to quantify the deficit; ii) full funding of this deficit through increasing the O&M share of public expenditure in irrigation, on an agreed schedule that would phase out the subsidy as efficiency of service delivery improves; iii) make payments from Government directly to poor communes to pay irrigation fees to the IMCs rather than exempt poor communes from fees. The present system of paying the subsidy to the provinces does not ensure the subsidy is passed on to the IMC. This results in service deterioration and impacts on IMC efficiency; and, iv) introduce full cost recovery packaged with rehabilitation and improved service delivery. Pilots in

Box 2. Poverty Reduction Impact of Irrigation Expenditure

A recent beneficiary survey researched the effect on households of various irrigation policy interventions, particularly on the poor. The study assessed the impact of public investments made in rehabilitation of irrigation infrastructure either alone or with improved system management and also assessed the impact of improved management alone. The study measured the changes in water availability, rice yields, farm profits, cost of production, production uncertainties, and poverty in three different large-scale irrigation schemes, Dau Tieng in Tay Ninh Province-HCMC (Southern Region), An Tranche in Quang Nam Province (Central Region) and Song Chu in Thanh Hoa Province (Northern Region). The study found that a combination of investment in rehabilitation of infrastructure and improvement of management is more efficient in terms of additional output generated and food consumption than either one in isolation. However, rehabilitation of infrastructure was found to be more effective in terms of poverty reduction than the other two treatments, particularly where reliability of water supply to those at the tail end of the system who are generally the poorest is increased. Improved management without rehabilitation was ranked lowest in terms of impact on production and on poverty. The irrigation investment policy conclusions are: i) rehabilitation of existing systems needs to be accompanied by management improvements in order to realize their design potential, ii) rehabilitation alone should be given priority over system management alone for poverty reduction, and, iii) management improvements by themselves are unlikely to produce benefits sufficient to motivate higher irrigation service fees and collection rates.

Vietnam have shown that Participatory Irrigation Management (PIM) is resisted by farmers where the section being turned over to them is in poor condition (Tiep, Nguyen Xuan, 2002, and Svendsen, M., 2003).

Irrigation - Poverty Impact of Expenditure. Expenditure on irrigation has had the greatest impact on rural poverty by increasing incomes and reducing risk, particularly in household food supply. Until recently, Government has concentrated irrigation expenditures in the large river deltas and North-Central Vietnam where most of the poor were, and still are, concentrated. However, because of very small farm sizes there is a limit to the amount of poverty reduction that can be achieved by irrigation alone. There is also a limit to poverty reduction through producing rice, particularly where increased exports from Vietnam depress the prices received. The next phase of poverty reduction in those areas, as given in the Plan, will be through expenditure on irrigation system efficiency and on crop diversification which require modification of the system to support higher-value crops (particularly perennials), as well as in promoting off-farm work opportunities.

At present, MARD and provincial authorities often do not have a requirement or capacity for comprehensive financial and economic analysis of irrigation projects prior to and, especially, after investment to guide decision making and lesson learning. Irrigation investments are primarily designed for a single commodity-based cropping pattern, usually rice. While donor-financed projects typically conduct investment analyses, they are made on the basis of consultants’ work and remain external to the MARD investment choices and evaluation process. If Vietnam is to develop an internationally competitive agriculture, investment in irrigation infrastructure will need to be viable and capable of responding to changing cropping patterns. Scheme viability is an important determinant of net farm income and poverty reduction.

Irrigation - Scheme Size. Government is now shifting irrigation investment resources into the mountainous and highland regions where poverty incidence and household food deficits are highest. Schemes in these areas are much smaller. Scheme size is an important determinant of investment viability and poverty impact since smaller schemes are more likely to be completed by poor provinces than larger ones. However, MARD reports lower utilization of design capacity in small schemes (25% - 30%), compared with higher utilization rates in larger schemes. Very small schemes of 100 ha or less are promoted by NGOs for poverty reduction. Oxfam - Hong Kong, for instance, evaluated the impact of six of these in two communes in Ha Tinh Province of Central Vietnam from among 25 it supports in the country (Oxfam, 2002). These have significant potential but are high-cost, partly due to their pilot nature. They are also risky because of characteristics accentuated in small schemes: vulnerability to local floods, poor design, weak support from local officials, high technical assistance and supervision costs, among others. An important step forward would be to establish and maintain an integrated technical and economic data base that would allow determinants of performance to be systematically monitored and evaluated, inclusive of small schemes.

Research. Public expenditure on agricultural and related research is difficult to track because the budget classification does not show research and extension as separate items but includes them within program categories such as cultivation and breeding. Funding is also through a large number of institutes and agencies and is managed by different parts of government, such as MOST, MARD, MONRE, and the provinces, making consolidated tracking difficult. MARD data show that research funding through MARD and MOST rose
from VND 150.5 billion to VND 197.5 billion over 2000-2003 (Table 11), focusing on seed production (42 percent), husbandry/veterinary, forestry and irrigation (about 14% each). However, their share of total sector expenditure has remained fairly constant at 2.0 – 2.5%, indicating no real change in priority at the aggregate research level. This is much lower than that for Thailand (10%), and for China (6%), during the past decade (Fan and Pardey 1998). Funding through MARD accounts for a consistent share of about 85%, with MOST providing the balance for related environmental research. The provinces also receive funds for allocating to research institutions for local priorities.

Research - Adequacy and Efficiency of Expenditures. This allocation is unusually low and probably explains much of the low contribution of productivity gains in agricultural growth. Until recently, the large number of research organizations received budget support without much attention to output and impact. At present, there are 25 national research institutes and 120 research centers. Seventeen of the institutes are in the Red River Delta and close to Hanoi, while only two are in the Mekong River Delta; this geographic distribution of public research resources is poorly aligned with the potential of agriculture in both places. The research system has been assessed by joint national and international experts and GoV is assessing measures aimed at rationalizing the system to address the number, location and capability of the research entities. Further, GoV has engaged with donor (ADB) support to increase resources for agricultural research by 12% per year.

Major reforms are already being introduced in research management and expenditure with encouraging results, which provide a solid foundation for effective use of these expected increases in funding. Among these are: i) research allocations are now made according to priority programmatic areas, including several that are area-and/or poverty-focused; ii) research funding is increasingly based on a bid system whereby interested and qualified research entities submit competitive bids for parts of the research program, iii) a holdback to help sustain uncompetitive research centers (those winning few successful bids) has a declined from 30% in the first year to less than 10%; and iv) an increasing share of winning bids is coming from non-MARD research entities (e.g. universities and others) indicating a diversification of research “supply”. This approach provides a suitable framework for integrating private research suppliers into the national research system allowing wider coverage and increasing research leverage of the State budget.


<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARD</td>
<td>122.7</td>
<td>142.7</td>
<td>148.3</td>
<td>175.6</td>
</tr>
<tr>
<td>MOST</td>
<td>27.8</td>
<td>19.6</td>
<td>20.2</td>
<td>21.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>150.5</td>
<td>162.3</td>
<td>168.5</td>
<td>197.5</td>
</tr>
<tr>
<td><strong>Salaries %</strong></td>
<td>31.5</td>
<td>35.8</td>
<td>37.5</td>
<td>31.0</td>
</tr>
</tbody>
</table>

Source: MOF data (2004)

An important aspect that still needs attention, though, is the constraint on research implementation with annual budgeting and no budget rollover; much agricultural research requires a longer period to bring to fruition. MARD internal processes including reconciliation of accounts also take time and result in delayed release of approved funds, requiring research fund recipients to use their allocation in well under a year’s duration. This limited timeframe for use of budget allocations within the annual cycle makes the conduct of agricultural research very difficult and discriminates against longer term research projects which may have a higher payoff. Research funding is a clear opportunity for gains
from a Medium-Term Expenditure Framework to finance a multi-year approved program, with perhaps some devolution of spending authority to the research institutes themselves.

Extension. Most extension services are provided and funded by the provinces. MARD’s annual budget for extension is about VND 68 billion (Table 12), part of which is used to fund additional services under national programs and part to support general extension policy and training. The sixty-four provinces spend about VND 117 billion in extension service delivery, mostly accounted for by salaries and leaving little for actual professional field work. In addition, beneficiaries contribute about VND17 billion.

The National Agricultural Extension Center (NAEC) was established in 2002, as part of the reorganization of MARD under the Public Administration Reform program, to be the apex body in extension and an autonomous body reporting directly to the MARD Minister. NAEC is responsible for extension policy and support to the sub-national level which implements extension. It is a service delivery unit under Decree 10 and able to charge fees. It currently has only about 30 staff expected to support provincial extension centers in 64 provinces.

Table 12. Funding of Agricultural Extension, VND bn

<table>
<thead>
<tr>
<th>Total State Budget</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Center</td>
<td>26</td>
<td>29</td>
<td>43</td>
<td>66</td>
<td>68</td>
</tr>
<tr>
<td>Local</td>
<td>59</td>
<td>79</td>
<td>112</td>
<td>130</td>
<td>117</td>
</tr>
</tbody>
</table>

Provinces have an average of 15-20 full-time extension professionals supporting about 6-10 districts. Some 420 of the country’s 600 districts have 5–10 extension agents who are responsible for perhaps 14 communes of 2,000 farmers each. Communes typically hire part-time extension agents of often uncertain qualification. Many extension workers are generalists more involved with agricultural administration in the commune than in extension and many are not qualified as professional extension specialists. This may also partly explain the reluctance of communes to allocate more funds to extension. Extension services are also delivered by SOEs, universities, domestic and foreign processors and input suppliers, and NGOs.

Extension in Vietnam is considered a part of the general socialization and community education program at the local level. At the commune level and below, the socialization program is carried out by the mass organizations, e.g. Women’s Union, Farmers’ Association, and Youth Union. As a result, the professional extension service does not maintain an apparatus at commune level. Districts deliver extension services to the mass organizations and are supported by the Provincial Extension Centers and by MARD’s NAEC. MARD reports that there are also 46,272 voluntary agricultural extension clubs in the country. This is a low-cost approach and may explain Vietnam’s strong performance in agriculture in spite of apparently incomplete extension service. This approach was successful during the period of factor accumulation and where top-down promotion of the commodity plan was the message.

However, to raise Vietnam’s agricultural economy to the level of international competitiveness in an open market economy, a better balance of professional support to the existing service providers in the communes seems required.

The two key issues in upgrading extension will be the level of funding Vietnam can afford for public extension provision and the attitude of the provinces and the communes towards spending more. GoV
has engaged (with ADB support) to increase extension funding by 12% per year. To keep expenditure manageable, it will be important to ensure that continued use is made of the many existing extension providers and further encouragement is given to emerging new providers – particularly from the private sector and in high-return activities such as animal production where user fees are practicable. Increased funding of the operations of the existing district professionals should receive priority over increased staffing. Norms for operations, particularly travel, are too low to enable the extension effort to be satisfactory. Vietnam is fortunate in not having to maintain an overstaffed, low-productivity extension service. Provinces and communes are now able to increase their allocations to extension, but are apparently reluctant to do so. In addition, there is little flexibility in the communes’ budgets particularly in poor regions. The Participatory Poverty Assessments carried out for the 2003 Poverty Report indicated widespread dissatisfaction with extension provision. The causes should be understood and addressed as an integral part of extension reform. Particular attention should focus on crafting extension services suited to the needs of women farmers, who are increasingly the decision-makers for agricultural production and marketing.

Forestry. Spending on forestry and related services (VND 678 million, Table 13) is second to, but only 15% of, irrigation expenditure in terms of share of sector budget. The largest part of the forestry budget goes to that component of the 5 Million Hectare Reforestation Program (5MHRP) with the purpose of providing jobs and incomes while reforesting cleared lands of low agricultural potential in hilly locations throughout the country. It is categorized as a national targeted poverty reduction program in which MARD plays a major role. The program is implemented by the SFEs in partnership with other organizations such as the VBARD, the Policy Bank and smallholders. The project is very large and diversified with a notional 12 year cost through 2010 shown in the Project Document of VND 8,645 billion from the State budget and VND 28,975 billion from the State Investment Fund (among other sources, not identified) as subsidized credit. The program seeks to protect 2 million ha of existing forests, plant 2 million ha of production forest and establish 1 million ha of industrial and fruit trees.

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Budget</td>
<td>444</td>
<td>546</td>
<td>576</td>
<td>678</td>
</tr>
<tr>
<td>Central Budget</td>
<td>100</td>
<td>99</td>
<td>113</td>
<td>150</td>
</tr>
<tr>
<td>Local Budget</td>
<td>343</td>
<td>447</td>
<td>463</td>
<td>528</td>
</tr>
</tbody>
</table>


The 5MHRP has already established sugar mills, rubber and tea processing plants as well as many other non-forestry operations, including infrastructure (MARD PER 2004). While this seems an effective way to create jobs and industries in the countryside, it is not clear whether the economics of the investments are sound. The design of the project lacks sound market analysis and consultation with farmers and other local stakeholders and is not accompanied by effective land titling. No analysis of the cost and benefits of the sub-projects is required to obtain financing. Expected benefits are expressed as commodity targets. Further, the project documentation identifies State enterprises as being the main beneficiaries of the program. Given the difficulties with the SOEs and uncertainties about their future, this seems contrary to the SOE reform program. In addition, the Project is a framework program setting out flexible principles under which hundreds of institutions and locally identified sub-projects operate. This makes project management, financial control, expenditure tracking and impact evaluation especially difficult.
4. Managing Decentralization of Expenditure Responsibilities

The rapid shift from 43% to 79% of public expenditure in agriculture occurring at the sub-national levels of government has yet to be accompanied by the adequate development of decentralized expenditure management capacity. This can be seen from the budget process and expenditure issues at commune, district, province and central levels.

**Budget Issues – Commune Level.** The main problem with the budget system is that the commune budget reconciliation is now made by the Treasury Office at district level instead of by each commune accountant. With 14-18 communes per district and no increase in staff, this frequently delays fund access. There is also little flexibility at this level since most of the allocation is spent on fixed costs, irrigation, salaries, and earmarked expenditures for education, health, and other priority activities. A significant change under the PAR is that communes now have an incentive to raise service fees since they retain revenues earned beyond those expected in the budget. However, these extra revenues have to be reconciled at the district level. Budget norms in the agricultural sector appear to deviate significantly from real costs.

**Budget Issues – District Level.** Prior to the PAR, disbursements to the communes passed through the District Finance Division. Now that these go directly to communes from the Treasury, the FD has difficulty with detailed expenditure tracking to ensure conformity with the budget allocation. The MIS systems at district level are not designed to support the new budget system and are generally not computerized or networked into a database system. As an example, Long Ho District is responsible for service provision to Long An and 14 other communes. There are 30,000 farmers in the district which delivers support services with 5 extension professionals, 4 veterinarians, and 5 plant protection specialists. Long Ho’s 2004 budget for agriculture of VND 5.5 billion is provided mostly by the Vinh Long Province, VND 4.8 billion, and the rest from fees. The largest component of expenditure, VND 3.6 billion, is on the national targeted program for clean water and sanitation. This dwarfs expenditure on extension of only VND 0.09 billion.

**Budget Issues – Province Level.** The provincial investment budget proposal is negotiated directly with MPI and the recurrent budget proposal directly with MOF. After agreement with Government, provincial proposals are combined with those of the Government and are submitted to the

Table 14. Province Share of State Budget, 1997–2002

<table>
<thead>
<tr>
<th>Year</th>
<th>State budget</th>
<th>Agriculture budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Provincial Share</td>
</tr>
<tr>
<td></td>
<td>VND bn</td>
<td>%</td>
</tr>
<tr>
<td>1997</td>
<td>70749</td>
<td>39.6</td>
</tr>
<tr>
<td>1998</td>
<td>73419</td>
<td>43.3</td>
</tr>
<tr>
<td>1999</td>
<td>84817</td>
<td>46.0</td>
</tr>
<tr>
<td>2000</td>
<td>103151</td>
<td>43.7</td>
</tr>
<tr>
<td>2001</td>
<td>119403</td>
<td>46.9</td>
</tr>
<tr>
<td>2002</td>
<td>135490</td>
<td>47.7</td>
</tr>
</tbody>
</table>

National Assembly for approval. For the agricultural sector, the key benefit for the provinces of the reform is in the higher percentage of the sector budget going directly to the provinces. A large part of the allocation to the provinces is for the operations of the Irrigation Management Companies, the provincial SOEs responsible for irrigation service delivery. This follows the trend for all sectors except industry; science, technology and environment; and social insurance where central agencies maintain the key role. The main impact is on MARD.

The three key agricultural expenditure issues for the provinces are: i) the imbalance between investment and recurrent cost funding, ii) continued dependence of poor provinces on the center, and iii) staff skills. Investment by MARD, for example, creates recurrent cost funding obligations for the provinces that they often have difficulty in meeting. Richer provinces have increased flexibility through use of revenues raised beyond the level estimated for the budget plan while poorer provinces are unable to do this.

Staff skills in local spending units are generally finding difficulty in meeting the challenges of the new block budgeting system.

The provincial authorities express support for the budget changes made under the PAR. They now have increased authority to collect revenues and can plan activities better. The responsibilities of districts and communes are now clearer. The major expenditure issue for agriculture is funding of irrigation. The infrastructure is old and of low efficiency and there are insufficient funds for badly needed rehabilitation. Provinces have invested in supplementary pumping but user fees of VND600 per square meter of irrigated land do not cover the operating costs of VND700 per square meter, let alone contribute to capital costs. Not only are irrigation fees set below real cost, but only 75% - 80% of fees due are collected. Provinces receive a subsidy to support their IMCs but this is inadequate and the loss in 2003 was VND316 million and losses increase yearly (accumulated losses by the end of 2003 of 3.6 billion) with no progress on the issue.

**Budget Process – Central Level.** MARD is responsible for setting agricultural policy, implementing large investments, partnering with other ministries in carrying out national poverty targeted programs, and ensuring that the sector component of the Plan is implemented and its objectives are met. Under the PAR changes and the general move towards greater fiscal devolution, the instruments at MARD’s disposal have changed in character from direct control to facilitation. For example, MARD administers performance-based and incentive grants (“additional funds”) to provinces willing to undertake priority programs or to cost-share with the Centre. In preparing its own budget submission, the process is similar to that of the provinces. The proposals from MARD’s departments are negotiated within the Ministry and the consolidated submission is then negotiated with MPI for investment and with MOF for operations.

**MARD Expenditure.** Table 15 presents rough estimates of the MARD expenditure breakdown in 2001. Irrigation is responsible for the largest share of MARD spending, but lower than that at the sub-national level because of decentralization. At the MARD level, expenditure on extension is considerable, showing a strong top-down approach in expenditure management in the sub-sector through various extension programs such as those

---

1 Latest official data. MARD data are presented by commodity program (food crops, industrial crops etc.), not by functional classification (research, extension, etc.). Data for later years collected from spending units within MARD are unofficial and difficult to reconcile. The long delay in reconciling accounts and the commodity classification of expenditure limits the timeliness and reliability of expenditure evaluation.
on new seed and breeding varieties, food and industrial crop promotion, cattle promotion. Almost all expenditure on research is spent at the central level to research institutions. A rough proportion between recurrent and capital expenditure is still observed, but relatively more capital expenditure is spent at the center on extension and forestry.

The main issues for MARD are those of adjusting to the new context in which it carries out its mandate, namely, fiscal autonomy of the provinces and a liberalizing economy. On the budget preparation and expenditure side the issues are: i) internal processes need modernizing, ii) the relationships with the provinces are unclear, and iii) the mix of staff skills and interests does not fit well with this context. Internal processes frequently delay budget release to the spending units. For example, the research program and budget submission is approved by MARD and then by Government and finally by the National Assembly. However, MARD does not release the budget to the research institutes until it carries out another round of program and budget approvals leading to long delays in implementing the research program. On MARD’s relationship with the provinces, decentralization has weakened its available instruments to direct the provinces’ implementation of the Plan. While “additional funds” (e.g. to encourage bean production in the Central Coast) restore some of this direct influence, the key problem may be the commodity targeting approach itself. In a market economy, it is the market that determines production and the role of a sector ministry is to provide the legal and regulatory environment, to provide those support services not available from the private sector, and to monitor and evaluate sectoral conditions and effectiveness of programs. The key question is whether MARD should continue to spend resources on preparation of a detailed commodity production plan that the provinces are increasingly treating as being of marginal importance. The continued focus on commodity balances reflects the current staff skill mix and interests. Important gaps in MARD’s staffing are in economic analysis of programs and projects, expenditure tracking and analysis, impact evaluation and empirical validation of program assumptions.

5. Adjusting Allocations

Is There a Case for More Funding for Agriculture? From the above review, there seems to be sufficient evidence that agriculture in Vietnam is probably under-funded with respect to achieving its policy goals of supporting equitable growth and ending poverty. However, there is not enough evidence that the funding share for the sector should be increased. The necessary research showing that there is likely to be a greater return from diverting funds from other sectors to agriculture has not been completed. The impact evaluation of current sector spending

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Recurrent expenditure</th>
<th>Capital expenditure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigation</td>
<td>6.5</td>
<td>63.6</td>
<td>51.3</td>
</tr>
<tr>
<td>Forestry</td>
<td>5.3</td>
<td>10.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Extension</td>
<td>24.5</td>
<td>21.8</td>
<td>22.4</td>
</tr>
<tr>
<td>Research</td>
<td>24.5</td>
<td>2.2</td>
<td>7.0</td>
</tr>
<tr>
<td>National targeted programs</td>
<td>7.8</td>
<td>0.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Others</td>
<td>31.3</td>
<td>2.3</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 15. MARD Expenditure in 2001 (%)
needs to be improved. The annual increase in the budget is probably stretching the capacity of the sector to absorb these funds productively. The overall use of public expenditure in the sector is inefficient and there are considerable human resource constraints on proper management of current funding. Thus, strengthening capacity in public expenditure management will have to be addressed as a matter of high priority as fiscal decentralization pushes spending management down to local levels where capacity is an even greater problem. Several key expenditure management areas need attention:

- **modernize expenditure tracking systems.** Very large amounts of money are being spent without the necessary procedures to enable fund use to be adequately monitored. This is a particular problem in those national targeted poverty programs where there are a very large number of institutions and spending units involved;

- **require stronger project evaluation** including financial and economic analysis, as a condition for funding of major investments in the agricultural sector. This will not only improve design of programs but will also build up a basis for policy formulation and claiming a greater share of the budget. At present, evaluation documents are largely unbalanced between subjective narrative and in-depth and evidence-based analysis;

- **establish outcome and impact analysis** of public spending as a routine activity and as a necessary condition for continued program funding. Current practice measures program performance in terms funds disbursed, processing plants built, and inputs distributed. There is little disaggregated information on the impact of programs making it hard to distinguish program impact from general economic performance;

- **establish much stronger commitment controls in the agriculture sector** and conduct a rapid retroactive assessment of all major projects approved in the agricultural sector to determine that budgets exist for their implementation. It is important to devise a strategy for clearing the remaining stock of payment arrears;

- **adjust institutional roles and processes to support the PAR changes.** For the central agencies, less attention needed to be paid to the preparation of commodity targets and more to regulation, quality standardization, market information systems, monitoring and impact evaluation. For local agencies, urgent attention is needed to establish modern financial management, MIS and capacity building.

- **reallocating funding within agriculture.** There is clearly a case for reallocation among spending units provided this is accompanied by concomitant changes in processes and capacity building. Most important are:

  - **The balance between capital and recurrent cost expenditures,** particularly in irrigation, needs to be adjusted with priority given to catching up with deferred maintenance, system completion, rehabilitation, and adjusting irrigation systems to support diversified crops;

  - **research is under-resourced** to support a modern and diversified agriculture sensitive to open markets and rapid technology change. The number of research institutions should be reviewed to concentrate resources and some expenditure autonomy should be devolved to remove bias against long-term research projects and avoid interruptions to work at the end of the financial year;
extension is under-funded. Central support to provincial extension services is inadequate and needs to be increased if it is to be credible. Provincial extension funding is also insufficient but provinces need to be convinced that moving funds out of other activities will have a higher payoff in extension. Creation of an insupportably large extension service is not recommended;

forestry funding seems adequate. However, this is difficult to ascertain because of the level of effort currently devoted to the 5-Million Hectare reforestation Program;

reduce the burden of SOEs on public expenditure. State enterprises are a net recipient of public funds yet many of their activities could be provided equally well a better by the private sector. Improved SOE financial management is likely to offer the largest source of budget savings for reallocation within the sector. A reduction in state transfers to those SOEs making losses would provide more than sufficient savings for use in research, extension, and irrigation maintenance.

Specific goals emerging in public expenditure that would have particularly high impacts are:

Completing irrigation systems to improve the utilization rate of existing schemes above the current level estimated at 50-60%;

Rehabilitating and maintaining irrigation works. Due to the present system inefficiency, farmers cannot pay the high cost of irrigation services, especially in the North;

Rationalizing, modernizing and upgrading research to support productivity increases. In the context of available funds, there are too many research entities;

Providing professional extension services to the commune level. Extension services below the district level are through generalist agricultural employees of the communes and through multi-purpose mass organizations;

Providing market intelligence to increase responsiveness to market signals. Present market information systems are too aggregate and unreliable;

Upgrading product quality standards. Upgrading the legal and regulatory framework is essential to enforce compliance and to protect incentives for quality; and,

Providing budget incentives for better-than-average performance in service delivery by provinces.

B. Sector Institutions

With the dynamic changes occurring in Vietnam’s rural economy and the evolving challenges in pursuing both continued growth and poverty alleviation, assessment of sector institutions to meet new challenges can help identify areas of needed capacity building and realignment of functions and responsibilities. In broad terms, such an assessment is the purpose of the Government’s ongoing and comprehensive Public Administration Reform, in which MARD is a participating ministry. The following section concentrates on selected areas of particular sector importance among public institutions, market structures, and rural community capacity.

1. Public Institutions

Public institutions involved in Vietnam’s rural economy are in transition. The public sector role is shifting from direct investment and management of
production and marketing to facilitation of market development through regulation, provision of complementary public goods and services and establishment of enabling policy frameworks, all of which work more indirectly to achieve rural economic development. In this shift to instruments with more indirect impacts, a particular challenge for sector agencies is to put in place public expenditure programs that have the best impact, and are managed and adjusted based on evidence of how well they are reaching their objectives.

Expenditure Management Capacity. Based on its long-term development strategies, in 2002 the Government developed its Comprehensive Poverty Reduction and Growth Strategy (CPRGS) as a set of monitorable priority goals, targets, and measures to ensure more sustainable and pro-poor growth. The CPRGS is now being mainstreamed into development strategies and plans of stakeholders in all sectors and at all levels and implemented through their regular efforts. Recently, the Government has decided to further integrate CPRGS principles into the country’s five-year Socio-Economic Development Plan for 2006-2010.

Building Medium-Term Expenditure Framework Capacity in MARD. Building on its participation in the 2004 Public Expenditure Review, MARD has started preparing to pilot a medium-term expenditure framework (MTEF) in the sector with a target to put it in place by 2008 as part of broader Government plans. Given the sector’s complexity and existing capacity, the agricultural/rural MTEF would evolve from the existing planning and budgeting system while establishing stronger and more transparent links between targets expressed in the Government’s development strategies and CPRGS, monitorable performance indicators, and public budget resource allocations on a rolling three-year planning basis. This will require even closer cooperation and collaboration not only among MARD’s departments (particularly DOF, DOP and NIAPP) but also among MARD, MOF and MPI. Technical assistance has been put in place to build this capacity through 2008. An option is for MARD to maintain its PER drafting team, expanded to include representatives from other departments, and to develop an appropriate action plan for moving forward. For this purpose, the MOF/Public Expenditure Reform Project can provide MARD with necessary information and guidelines.

Strengthening Monitoring and Evaluation. The sector’s complexity and its growing decentralization is increasing the importance of a monitoring and evaluation capacity. Providing evidence for the impact of programs, when the intended outcomes are of a higher order (e.g. income impacts rather than production increases), requires additional capacities and information systems. MARD has been undertaking efforts to fully integrate the CPRGS in the sector’s five-year plan and is proactive in moving towards results-based M&E system. These are supported by the World Bank-funded project “Strengthening Capacity in Monitoring and Evaluation of CPRGS Implementation in Rural Areas” as well as other donors’ efforts. These are helping to establish a monitoring framework with a clear set of goals and outcome and intermediate-outcome indicators that will enable MARD, at the national and provincial levels, to track and report on progress and resource utilization towards meeting the core poverty reduction and growth targets.

As part of this effort MARD would need first to review the existing monitoring system (including procedures, institutional arrangements and human resources) for data collection, processing, analysis, communication and
dissemination. Options for improvement remain to be formulated, and consensus built around future directions. But one area of special focus for improvement is a gender disaggregation of data on sector economic activity, program delivery and impacts, so as to be able to better design programs to meet rural women’s needs.

On the basis of this framework, data collection, analysis and dissemination need to be streamlined and strengthened. Close coordination will be required with the related efforts undertaken by MPI and GSO for the whole country in support of the Socio-Economic Development Plan 2006-2010. Communications and training with MARD will be a critical part of building capacity to implement the new M&E strategy.

**Strengthening Central Capacity to Manage National Objectives under Decentralization of Authorities.** With the rapid devolution towards sub-national governments of authorities over budgets for agriculture and rural development, new institutional approaches and capacities are needed at the Center. Central ministries will need to seek partnerships with local governments and leverage central budget resources in collaborative arrangements. New fiscal incentives, including experimentation with use of matching grants in areas of central government priority, would better enable MARD to influence local-level budget allocations. Operating in this type of public administration framework has direct implications for institutional capacities and behaviors. MARD will need much closer collaboration with MOF and MPI to establish capacity for consolidated expenditure tracking at center so that it knows what local governments are spending on agricultural and rural development programs, as this is essential to knowing where MARDs own allocations are likely to be most effective. Clearly, budget management capacity at provincial level is also in need of strengthening, and central ministries will retain an important function of providing additional capacity building assistance to lagging provinces.

### 2. Rural Producer Organizations

Earlier sections of this report explored the importance of agricultural diversification and development of market structures for continued translation of agricultural growth into rural income growth. The foundation for this needs to involve an increase in organizational options open to rural producers, to accommodate the great diversity of local circumstances, market characteristics, and membership needs. This is a particularly sensitive policy area since the current concentration on cooperatives and mass organizations and reluctance to increase scope for alternative organizational forms is deeply rooted in Vietnam’s history and political foundations. Nonetheless, the continued transition towards evolving market structures, and increasing attention to value-chains opportunities to bring competitive innovations to different products, will undoubtedly keep attention focused on how farmers organize themselves for effective participation in these markets and negotiate their interests with other stakeholders.

Cooperatives remain the main form of farmer organization that is legally founded in Vietnam at present. Since the enactment of the Law on Cooperatives (1997), new cooperatives have been created and many old cooperative updated, while others have disbanded where they proved unable to meet the new criteria. Whether new or updated old ones, most cooperatives are still focused on input supply and other services, and much less involved in marketing outputs. Numerous formal and informal groups exist in the agricultural sector with farmer participation, including extension groups, clubs, and associations, but the form with the strongest legal foundation and ability to enter into contracts is the cooperative.
Farmers, particularly smallholders, need organizations to represent them in value chains and in contracting, whether cooperatives or other forms of organization. Balance in concentration, power and organization is needed among participants in a value chain to facilitate relationship building.

On another dimension, effective and representative farmer organizations are a lynch-pin to providing effective agricultural services such as research and extension. These are best conducted with strong participation of farmer representatives in the planning, prioritization, monitoring and assessment of activities undertaken. Cooperatives are certainly one of the organizational options farmers should have for identifying representatives for these functions, but will not be the most effective or best adapted in many circumstances.

Experience with contract farming over the last several years, which has been heavily promoted by Government relying on cooperatives on the farmer side, illustrates some of the risks of an overly narrow foundation for farmer organization. With the growing commercialization of smallholder production of contracts offer improved competitiveness in value chains through coordination of production, distribution and retailing arrangements. Contract farming is relatively new in Vietnam, and has gained new impetus with the strong endorsement of and promotion by Government including through the articulation of the need for collaboration between the four “houses” of farmers, enterprises, scientists and the State, and the mechanisms and policies regarding signed contracts in farming and marketing.2

Experience is mixed to date in Vietnam’s recent scale-up in the use of contracts for agricultural products. Among the difficulties encountered in fulfillment of contracts were farmer organizations with inadequate capacity to bring their members to a full level of understanding of the contracts. One party that entered into the contracts were often producer cooperatives, in which internal governance of decision making and the degree of member affinity was not always adequate for reputational risk to be reflected in adherence to contract terms. Contracts work best when based on trust and partnership, with participants valuing their individual reputations and that of their organizations to uphold the commitments they enter into. In the absence of such trust and reputational integrity regarding agreed contractual terms no sanctions will be credible in making contractual mechanisms effective.

Contract farming will undoubtedly expand in Vietnam. Paradoxically, progress may be stronger if initially slower, with less pressure from Government programs, so that it develops in those selected areas with strongest interests and best chances of success, while minimizing failures that negatively mark the organizations and memories of individuals involved. A key ingredient of success will be autonomy of both parties to come to a studied agreement. This will occur if the State role is to assist with capacity building, rather than over-strong intervention with incentives on parties to engage in contracts, and if farmers have an array of options for organizational action with sufficient legal formality to enter into contracts.

3. Rural Community Human Resource and Institutional Capacity

Recent reviews of experience in promoting community-driven development in Vietnam have highlighted the over-riding importance of local-level capacity building. There is, however, still a strong tendency in some quarters to assume that commune and village leaders and officials in the poor
Communes cannot take full responsibility for planning, implementing and managing small-scale infrastructure works and other development activities because they lack the capacity to do so. Yet this is a self-defeating argument. And it appears that entrenched attitudes in this regard—especially on local capacity amongst some ethnic minority groups—are becoming an impediment to future developments. The experience from a number of longer-running projects and programs working in these areas clearly suggests otherwise: that through well thought-out, practical, on-the-job training programs and with adequate hands-on coaching, these capacities can be built up. But the experience from these programs also shows that capacity building is not simply about training. It is more to do with bringing organizational development processes, policy interpretations, implementation mechanisms, and improved human resources together in effective strategies for supporting local area development.

Considerable experience has been gained under NGO- and donor-supported projects in the methods and content of training and capacity building for commune and village cadres, extension workers, farmer organizations and women’s groups. Yet most of this has taken place outside the regular government training systems. Only a few projects have systematically addressed the issue of scaling-up within the government system and integrating the methods developed under parallel projects into the curricula of the provincial training institutions. There is a tendency for projects to draw on ad-hoc contracted training services which—while filling short-term needs—does not address the fundamental long-term challenge of how to build sustained managerial and technical capacities in these remote communes and villages.

This is a critically important issue that needs to be looked at more carefully in the design of future programs. Building stronger professional skills at commune level is also a key element of the Government’s Program on Public Administration Reform. To reach these remote communes, there is really no alternative to working through the provincial training institutions and services and this is necessary for effective integration. National training institutions and consultants cannot be expected to provide the type of follow-up training and regular coaching required to build the core skills (in management, technical supervision, financial management, and local democracy) required by commune and village cadres. In future programs, consideration should be given to more direct and concentrated support for these training institutions.

A particularly important aspect of capacity building is to strengthen the mechanisms for implementing the legislation on local democracy at commune and village levels. In the remote and ethnic minority areas the conventional means such as public posting at commune offices, or use of television or loudspeaker broadcast announcements can be less effective or more difficult to organize. Experience has also shown that stand-alone training in leadership and facilitation skills and methods can be not very effective. Improving these capacities needs to be integrated with technical skills training and as applied to specific work contexts, tasks and responsibilities as well as to functional literacy training where required.

A critical issue with respect to service provision in the context of community-driven development is how different services fit together at community level to provide maximum benefits for local men and women. Although service agencies may target the same groups of people, they often do not collaborate effectively to ensure that the support has the maximum impact for the intended beneficiaries. Building stronger synergies in service
provision implies a number of things: (i) identifying the most important areas of linkage that are likely to have the greatest benefit and impact on livelihoods in any particular area or socio-economic context; (ii) looking at how the content of these services – including the delivery mechanisms and the sequence of delivery – can be made to complement each other more effectively; (iii) developing stronger collaborative relationships between different agencies, including public and private sector service providers and various intermediary organizations; and (iv) at community level, building the capacity of local organizations and individuals to integrate these services in an effective way.

The poverty assessment studies carried out under the Poverty Task Force have shown there is a huge demand amongst poor men and women in rural areas for more and better vocational and skills training opportunities. It appears there is great potential for strengthening institutional capacity to provide such training especially in upland areas. In recent years, some donors (such as ADB and SDC) have been active in supporting the vocational and enterprise training sector. However, access to formal vocational training is skill dependent on secondary school qualifications and language requirements and is hence prohibitive for a majority of poor people in the uplands, particularly women. Consideration should be given under new programs to introducing innovative and appropriate approaches to non-formal, community-based education and skills training for upland people that are not dependent on minimum qualification requirements and that are geared to small-scale income generation opportunities, and the particular needs of women.

Many of the more remote upland communes do not currently have the technical capacities within the community to construct and maintain certain forms of infrastructure. A critical question is how to train teams of local people ‘on the job’ (for instance, in road stabilization and culvert-making) so that these capacities will be developed. This is essential both to ensure sustainability in operation and maintenance of these schemes, and to maximize the benefits of program resources going to the local communities.

For instance, one way to do this would be to link commune works more closely to community-based vocational training programs and ‘youth employment’ schemes.

In the future, these teams could then be contracted for road maintenance, and if successful, could develop into small-scale enterprises or other forms of cooperative so that they can be contracted to undertake routine road maintenance.

Finally, attention should be given in future programs to finding ways to increase the capacity and involvement of local private businesses, household enterprises, cooperatives, and individual local artisans through community sub-contracting methods. This needs to be combined, however, with ensuring that procurement and contracting procedures are sufficiently simplified, and that appropriate incentives exist to encourage the local private sector. The experience from Program 135 in Tuyen Quang shows that this can be done. In the scheme selection process in this province, villages are consulted on which schemes they consider they can manage locally, and which schemes need to be sent out for company contracting.

Community sub-contracting may take a number of forms, including contracting teams of local people, cooperatives, or artisans from in the commune or neighboring communes. These types of arrangements have been used successfully, for instance, in building village schools and kindergartens and equipping them with furniture, and for small-scale irrigation works.
REFERENCES


Oxfam – Hong Kong, “Impact of Small-Scale Irrigation Systems in Two Communes in Ha Tinh Province”, 2002


Quang, Hong Doan, and Martin Rama (forthcoming).


