

SECTOR ASSESSMENT (SUMMARY): TRANSPORT, AGRICULTURE, NATURAL RESOURCES AND RURAL DEVELOPMENT

Sector Road Map

1. Sector Performance, Problems, and Opportunities¹

1. **Transport.** Viet Nam has an extensive road network comprising more than 291,000 kilometers (km) and a relatively high overall road density of 1.0 km per km². The road network, of which 61% is unpaved, comprises (i) 580 km of expressways (0.2%); (ii) 21,700 km of national highways (7.5%); (iii) 25,500 km of provincial roads (8.8%); (iv) 51,700 km of district roads (17.8%); (v) 175,400 km of commune level roads (60.2%); and (vi) 17,000 km of urban roads (5.8%). The road network has serious deficiencies including (i) limited institutional, financial, and operational maintenance capacity for appropriate transport performance standards; (ii) inadequate operation and maintenance of the network leading to inefficient investment patterns whereby roads are constructed, deteriorate, and are reconstructed, which has high costs to road users and the economy; and (iii) low levels of traffic safety and environmental sustainability.

2. In the four north central provinces (NCP) of Ha Tinh, Nghe An, Quang Binh and Quang Tri, only 62% of provincial and 46% of district roads are in good condition, making rural communities isolated, local enterprises uncompetitive due to high transport costs, and travel longer and dangerous.² The national north–south arterial is mostly established, but the east–west arterial and intra-provincial networks are still being developed. Transport network improvements are needed to (i) enhance economic efficiency; (ii) increase integration and competitiveness; (iii) reduce logistics costs; (iv) increase foreign investment; (v) reduce urban congestion and environmental and social degradation; and (vi) improve safety. Improving transport infrastructure connects poorer areas to economic and social opportunities and services.

3. **Agriculture, Natural Resources and Rural Development.** Only 40% of rural households in the NCPs have access to clean water, in contrast to the national average of 49%.³ In some areas, due to a high incidence of naturally occurring heavy metals contaminating the groundwater, the development of surface water is essential. Climatic change impacts and rapid demand growth due to rural to town migration, make the expansion of rural domestic water supply (RDWS) urgent. Investment is needed for reservoirs, water distribution systems, drainage, and sanitation. In rural areas, domestic clean water is a top priority leading to significant health benefits, time savings, and reduced drudgery, especially for women.

4. Since 1986, agriculture and aquaculture businesses in Viet Nam have more than tripled, enabling the country to dominate world exports in cashew and pepper (largest); coffee and cassava (second largest), and rice and fisheries (third largest). This has contributed strongly to poverty reduction and to the country achieving lower middle-income country status.⁴ agriculture and aquaculture businesses plays a vital role in the country's economic and social development,

¹ The Basic Infrastructure for Inclusive Growth in the North Central Provinces Sector Project is a multisector project covering: (i) road transport infrastructure; and (ii) agriculture, natural resources and rural development which includes infrastructure to support (a) rural domestic water supply; and (b) agribusiness and aquaculture business development.

² Viet Nam Transport and Development Strategy Institute, 2015. *Adjusting Vietnam's Transport Development Strategy to 2020 with a vision to 2030 -Synthesis Report*". Hanoi.

³ Ministry of Health, 2009. *QCVN 02:2009/BYT*. Hanoi; Ministry of Agriculture and Rural Development. 2017.

⁴ World Bank. 2015. World Bank Open Data. <http://data.worldbank.org/income-level/lower-middle-incomeLMC>.

contributing about 19.4% of gross domestic product annually from 2008 to 2013.⁵ It provides employment to almost 48% of the labor force and is the main source of livelihood for two-thirds of the population, a significant factor in addressing inclusive growth in a country where 90% of the poor are in rural areas.⁶ The seacoast along the four NCPs supports (i) an allowable catch of 242,000t/year, valued at \$0.2 billion and 85% of labor in fish processing value addition is supplied by women; (ii) aquaculture industry covering 28,000 hectares with approximately 110,000 fish farms. Additionally, the NCPs produce many high-value crops such oranges, pepper, coffee, and dragon fruit. The lack of basic infrastructure, weak production organization, high climate risk, and limited access to financing, constrains private investment, hampers value adding efforts, and results in lower profit margins. Climate change poses a major risk to gains made in agriculture and aquaculture businesses by disrupting established growing, ripening, breeding, and harvesting cycles on land and sea.

5. **Infrastructure Sustainability.** Since 1986, Viet Nam has remained on a path of market-based economic reform, which has unlocked the comparative advantages of its young labor force, abundant natural resources, and strategic geographic location.⁷ A diverse range of interventions has created an enabling policy and regulatory environment, and continues to provide the physical and social infrastructure, necessary for competitiveness in the quickly changing markets. Public sector management is becoming more complex, with industries linked to global commerce. The continued devolution of administrative and fiscal powers to provincial governments compounds these challenges. The quality of governance varies among provinces and institutions. Stronger provincial institutions have succeeded in encouraging greater private sector development and enhanced service delivery, however, the provinces often have limited administrative capacity.

6. **Climate Change.** The population, economy, agriculture and aquaculture businesses, and infrastructure of the NCPs are facing increasing climate change vulnerability and the risks need to be factored into all development investments.⁸ In comparison to 2015, the NCPs are predicted to have some of Viet Nam's highest increases in mean temperatures, estimated at 1.7% higher, and frequency of extremely hot days (above 35°C) by 2035. The annual rainfall volume is predicted to increase by 20% and have greater seasonal variation. By 2040, these effects will combine with higher sea levels—estimated at 20 centimeters—resulting in (i) areas of permanent inundation, (ii) severe storm surges increased by 0.5 meters above current levels; and (iii) costs to the Viet Nam economy of 6%–7% of annual gross domestic product.

2. Government's Sector Strategy

7. **Alignment with government development plans.** The project is aligned with: (i) Viet Nam's Socio-Economic Development Plan (SEDP), 2016–2020,⁹ which aims to expand the domestic markets, promote exports, and sustain trading surpluses. The SEDP proposes to (a) strengthen domestic markets and promote exports by more closely linking production, processing, and distribution; (b) improve the competitiveness of local products; and (c) utilize existing and potential incentives through trade agreements; (ii) Master Plan on the Socio-Economic

⁵ Ministry of Labour, Invalids and Social Affairs (MOLISA). 2014. *Decision No. 529/QĐ-LĐTBXH dated 6/5/2014 to approve the results of the investigation to review the poor, near-poor households in 2013*. Hanoi; MOLISA. 2014. *Decision No. 529/QĐ-LĐTBXH dated 6 May 2014 to approve the results of the review the poor and near-poor households in 2013*. Hanoi

⁶ General Statistics Office (GSO). 2011. *Labor and employment survey 2011 report*. Hanoi

⁷ GSO and MOLISA. 2015. Vietnam's literacy rate was 94.5%. Hanoi

⁸ Ministry of Natural Resources and Environment. 2016. *Climate Change and Sea Level Rise Scenarios for Viet Nam. Summary for policy makers*. Hanoi

⁹ Government of Viet Nam, Ministry of Planning and Investment. 2016. *The Socio-Economic Development Plan, 2016–2020*. Hanoi.

Development of the North Central and Central Coast Region to 2020 prioritizes regional connectivity and coordination to capture synergies in production, value chains, and services.¹⁰ (iii) provincial plans on socio-economic development through 2020 with a vision to 2050 target infrastructure networks that are continuously modernized through effective public asset management; and (iv) the government commitment to the Sustainable Development Goals.

8. **Transport.** Viet Nam is a founding member of the Greater Mekong Subregion (GMS) Strategic Framework, 2012–2022, which focuses on the development of economic corridors founded on cost effective transport which in turn promote further economic growth, regional development, income growth, and poverty reduction. The economic corridors provide increased incentive for regional economic cooperation emphasizing bilateral trade using strategic nodes at border crossings. The GMS strategic framework adopts a wide economic corridor strategy to enhance collaboration among areas along the corridors and between sectors.¹¹ The GMS strategic framework is transitioning mechanism from a conventional sector infrastructure program to multi-sector investments designed to foster regional economic growth.¹²

9. In 2013, adjustments to the Transport Development Strategy¹³ up to 2020 with a vision toward 2030 was approved, setting out the following major development principles: (i) the transport system should promote the country's geographical location advantages and national resources; (ii) transport infrastructure should be developed in a coordinated manner, linking different transport modes and all regions; and (iii) promotion of regional and international cooperation. From 2016 to 2020, the Ministry of Transport requires the mobilization of about \$43.4 billion (an annual capital investment of 4.7% of the country's gross domestic product) to develop the planned transport infrastructure. The proposed financial sources are the sale of government bonds, private participation, and the establishment of a credit package for infrastructure.

10. **Agriculture, Natural Resources and Rural Development.** The SEDP stresses the effective management of water resources, highlighting water as a factor limiting growth. RDWS is prioritized in government planning with the commitment to provide access to safe water to the whole population by 2030. The government recognizes that climate change, particularly drought periods, will require improved water efficiencies across all purposes.

11. The Ministry of Agriculture and Rural Development's Agricultural Restructuring Policy requires agriculture and aquaculture businesses development to be market-led and consumer-driven, with government playing more of a facilitating role to the private sector. The policy is supported through the National Targeted Program (NTP) on New Rural Development, 2016–2020.¹⁴ The core planning targets are to stimulate (i) private sector investment through reducing risk to investors, and (ii) financing of rural enterprises through public guaranteed credit systems to finance modern technology and economies of scale. As poverty is largely a rural phenomenon, its reduction remains a government priority to address inequality and improve intra-and intergenerational social equity.

¹⁰ Prime Minister. 2013. *Decision No. 1114 / QD-TTg dated 09/7/2013: To approve the master plan on the socioeconomic development of the North Central and Central Coast Region 2020*. Hanoi

¹¹ Adopted at the 4th GMS Summit in Naypyidaw, Myanmar in December 2011.

¹² Signed in 1999 among Lao Peoples Democratic Republic, Thailand and Viet Nam and subsequently expanded to include Cambodia (2001), People's Republic of China (2002), and Myanmar (2003).

¹³ Prime Minister. 2013. *Decision No.355/QD-TTg dated 25/2/2013 approving adjustments to Transport Development Strategy up to 2020 with a vision toward 2030*. Hanoi.

¹⁴ Prime Minister. 2010. *Decision No.800/QD-TTg dated 4 June 2010 for National Targeted Program of New Rural Development (2010 to 2020)*. Hanoi

12. **Infrastructure Sustainability.** The Ministry of Finance's Finance Sector Strategy (2012–2020)¹⁵ highlights government priorities including strengthening the capacity of provincial governments and creating the regulatory and legal conditions for private development, with an emphasis on small- and medium-sized enterprises. In support of these strategies, the government passed the Public Investment Law (2014) and the State Budget Law,¹⁶ which increase the fiscal autonomy of provincial governments and strengthen public asset management.

3. Asian Development Bank Sector Experience and Assistance Program

13. **Transport.** Since 1993, ADB has been financing all levels of transport and transit projects in Viet Nam. Institutional development and capacity enhancement are important to ensure that relevant government agencies can effectively benefit from ADB support. ADB's Transport Sector Assessment, Strategy, and Road Map focuses on improving planning, implementation, and operational efficiency of the sector.¹⁷ The strategy proposes key investment areas including national highways along GMS corridors and roads to link remote areas into the transport network, and prioritizes improving subregional and domestic transport efficiency, promoting traffic safety and social sustainability, and mainstreaming climate change measures.

14. **Agriculture, Natural Resources and Rural Development.** ADB's present RDWS strategy is based on the Water Operational Plan.¹⁸ The plan follows the Water Financing Partnership Facility, under which investment lending in water and sanitation in Viet Nam doubled. ADB approved a \$1 billion multitranche finance facility in 2011 for the Water Sector Investment Program. ADB supports the implementation of the plans for the improved RDWS access and distribution.

15. Since 1993, ADB financed loans to the sector in the amount of \$875 million, directed towards rural infrastructure, water resource and large-scale irrigation development, food quality and safety, environmental protection, and trade facilitation. ADB has financed a series of rural infrastructure projects that have contributed to impressive achievements in poverty reduction resulting from the improvement in access to basic needs and economic opportunities. ADB has maintained a geographic focus in areas where poverty persists, including the coastal regions.

16. **Infrastructure Sustainability.** Since 2009, ADB has supported the implementation of the state-owned enterprise reform and corporate governance facilitation program. ADB also prioritized financing through programs, projects and technical assistances a range of public capacity building and technical assistance activities, including the implementation of the Ministry of Finance's decentralized public asset management program, which is one pillar of ADB's support for the public finance management program.¹⁹ ADB aims to develop a long-term programmatic approach with deeper staff engagement on key policy issues utilizing a combination of technical assistance and policy-based lending resources.

¹⁵ Prime Minister. 2012. *Decision No.450/QD-TTg dated 18 April 2012 approving the Finance Development Strategy by the year 2020 (FDS)*. Hanoi.

¹⁶ National Assembly. 2014. *Public Investment Law (2014)*; and National Assembly.2015. *State Budget Law 2015*.

¹⁷ ADB. 2012. *Transport Sector Assessment, Strategy, and Road Map (2012-2015)*. Manila

¹⁸ ADB. 2012. *Asian Development Bank Water Operational Plan (2011–2020)*. Manila.

¹⁹ ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016–2020—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila.

Transport, and Agriculture, Natural Resources and Rural Development

