

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA15586

Project Name	Sustainable Agriculture Transformation Project (P145055)
Region	EAST ASIA AND PACIFIC
Country	Vietnam
Sector(s)	General agriculture, fishing and forestry sector (40%), SME Finance (30%), Agro-industry, marketing, and trade (20%), Public administration- Financial Sector (10%)
Theme(s)	Rural markets (50%), Rural non-farm income generation (20%), Other Private Sector Development (20%), Export development and competitiveness (10%)
Lending Instrument	Investment Project Financing
Project ID	P145055
Borrower(s)	State Bank of Vietnam
Implementing Agency	Ministry of Agriculture and Rural Development, Ministry of Agriculture and Rural Development, Agriculture Project Management Board
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	17-Dec-2014
Date PID Approved/Disclosed	17-Dec-2014
Estimated Date of Appraisal Completion	24-Nov-2014
Estimated Date of Board Approval	18-Mar-2015
Decision	

I. Project Context

Country Context

Vietnam has achieved remarkable progress in economic growth and poverty reduction over the past two decades. Between 1993 and 2013, economic growth averaged 7-8 percent per annum (p.a.) and the national poverty headcount rate fell from 58 percent to 21 percent. During this period, a variety of transformative changes occurred in the Vietnamese economy: the share of the population with access to electricity increased from 40 percent to a remarkable 97 percent; an increasingly sophisticated export-oriented manufacturing sector emerged; Vietnam's urban centres grew significantly; and the country transitioned from being a net importer of food to being one of the developing world's largest and most diversified exporters of food and other agricultural products. It is the world's second largest exporter of rice and coffee, for instance. Vietnam is quickly transitioning from a substantially agrarian society to a country whose near term aspiration is to become a 'modern industry economy'. In 2011, Vietnam attained middle income country status.

More recently, growth has slowed with international macroeconomic shocks being compounded by domestic imbalances. Vietnam's banking sector has experienced stress with an unsustainable proportion of non-performing loans stemming from over-exposure to poorly performing state-owned enterprises (SOEs), the bursting of a real estate bubble, and other factors. While the Government of Vietnam (GoVN) has been implementing reforms in key areas, considerable risks to medium-term economic stability remain. Vulnerability is also widespread at the very micro level. A large proportion of Vietnam's population just above the poverty line and hence are vulnerable to falling back into poverty in the face of economic or weather-related shocks and longer term consequences of environmental and natural resource degradation. Vietnam is experiencing the effects of climate change and these are expected to magnify in the coming years and decades, influencing the opportunities and vulnerabilities of many people.

Despite rapid structural change, rural areas still provide the home and major sources of livelihood for some two-thirds of Vietnam's population and more than 90 percent of its poor. While the share of primary agricultural activity in GDP has fallen to 17 percent, compared with 31 percent two decades ago, the 'agricultural complex' including agro-industry and food-related business services accounts for one-third of Vietnam's GDP and a similar share of merchandise exports. Agriculture provides a socially stabilizing role in the face of volatile macroeconomic conditions and has provided the country with a secure, affordable, and increasingly diversified source of food, fuelling Vietnam's growing and industrializing labour force. The productivity gains and increased market connectivity of many of the country's nine million smallholder farming households has been an important driver of inclusive economic growth.

Sectoral and institutional Context

Vietnam's agricultural sector has made enormous progress, realizing major gains in productivity and output and contributing to national goals related to food security, poverty reduction, social stability, and trade. Nevertheless, there are concerns related to the quality and sustainability of Vietnam's agricultural growth and related patterns of development. Low quality of growth is manifested by low smallholder farmer profitability, mixed or uncertain product quality and food safety, low value addition, significant post-harvest losses and limited technological or institutional innovation. Some agricultural growth has come at the expense of the environment in the forms of deforestation, biodiversity loss, land degradation, water pollution, and increased greenhouse gas emissions. Market failures or institutional shortcomings have contributed to the efficiency losses noted here while the sector's environmental costs have not been internalized by producers or reflected in the 'low cost' of Vietnam's commodity exports.

The past sources of agricultural growth are unlikely to be replicated in the future. The agricultural sector now faces growing domestic competition – from cities, industry, and services – for labour, land and water. There is no unutilized land frontier. Rising labour costs inhibit the sector's ability to compete internationally as a low cost producer of bulk undifferentiated commodities. The consequences of over-intensive input and natural resource use – both for the environment and for farmer profitability – are being increasingly recognized. Vietnam's agriculture will need to generate more economic value, and farmer and consumer welfare, using less natural, human, and other resources. And it will need to increasingly compete on the bases of reliable supply, predictable quality, assured food safety and value addition.

Sustained agricultural growth will requires structural changes in the pattern of production and

supply chain organization. These are currently highly fragmented, with limited collective action at farmer level and weak vertical coordination. Transaction costs are high, incentives to produce and maintain higher quality produce and raw materials remain weak and potential economies of scale are missed. Realizing efficiencies from integrated supply chains will require closer collaboration between agribusinesses and producers.

Change is also needed in the model of state management in the sector. A stronger and more sophisticated market orientation requires a step-change in the quality of technical and regulatory services provided by the state, in public investments and expenditures in the sector, and in the policies applied to foster farmer and agribusiness investment. A demand-driven agriculture needs flexibility – it cannot be centrally planned. These changes are being spurred by changing market demand and opportunities, as well as fiscal considerations, the distinctive needs of a more market-oriented agriculture, and by lessons from past experiences.

The Government has recognized the need to fundamentally realign the functions of the state. In June 2013, the Prime Minister approved the Ministry of Agriculture and Rural Development's (MARD) Agricultural Restructuring Plan (ARP).¹ The Plan – which recasts sector objectives and embodies a set of core principles regarding roles and functions – calls for a shift in goals beyond physical (output or trade) targets to include a broader set of indicators related to the 'triple bottom line' of sustainable development, more market-led and consumer-driven, with the government's role progressively shifting from being the primary investor/ service provider to being the facilitator of investments and services provided by the private sector, community organizations, research institutions, commercial banks and others.

Translating this vision into widespread application is one of the sector's major challenges in the upcoming years. It is one of two priorities for MARD (the other being the implementation of the National Targeted Program on New Rural Development [NTP-NRD]). Vietnam does not lack plans; but policy and program-making tends to be reactive, addressing historical rather than the future challenges. The plans remain fragmented both sectorally and administratively – and typically lack a clear path of how to get from here to there. And their use in resource allocation is weak. A legacy of central planning perpetuates a somewhat paternalistic approach to other value chain actors, with their roles either prescribed or discounted. The ARP is a high level strategy document. Implementation will play out at the levels of particular MARD departments, provinces/districts, and value chains – through a combination of organizational and behavioural changes, and associated efforts to strengthen relevant knowledge, skills, and other capacities. As with most change management processes, progress is likely to be uneven over time and space and among different institutions. And, the pace and directions of change will also be influenced by the broader enabling environment for agricultural investment and broader changes in public administration and accountability.

These patterns of unsustainable growth trajectories and the need for a reorientation in the role of the state moving forward are apparent in two of the largest sub-sectors, namely rice and coffee. Over the 1990 – 2010 period national paddy production doubled and the country emerged as one of the world's leading rice exporters (with annual sales exceeding \$3 billion). Much of the growth and dynamism has occurred in Vietnam's Mekong Delta (MKD) which now accounts for 55 percent of national production and 90 percent of exports. Yet, productivity and export gains are no longer translating into improved living standards for most of the MKD's 1.4 million rice-growing households, due to small farm sizes, excessive input use, a fragmented value chain, and adverse

terms of trade. Current practices are yielding substantial environmental costs, through localized pollution and emissions of GHGs. Some initiatives have demonstrated the benefits of alternative agronomic practices, cropping patterns and forms of farmer collaboration, yet these shifts are still in an early stage, are only weakly market driven and need to be supported and brought to scale in a more integrated manner. Vietnam's rice exports have largely targeted the lower quality (lower price) market segment, yet market opportunities and pressures are leading more agribusiness companies to focus on higher quality and speciality rice products. Achieving higher quality requires more direct linkages between organized farmers and these milling/ trading companies. Public-private partnership arrangements can address the coordination failures and perceived risks among the supply chain actors

A similar pattern is evident in Vietnam's coffee sector, now worth around \$3.5 billion annually and benefitting some 500,000 growers and more than a million seasonal workers. Vietnam is now the world's second largest producer and exporter of Robusta coffee, although here again the country dominates the lower quality (lower price) segment of the market. Coffee plot sizes are generally small and farmer profitability waivers from year to year depending upon world prices. Low margins to traders and certain regulatory provisions have discouraged upstream investments in infrastructure and direct relationships with farmers. Structural changes are occurring as the role of SOEs in processing and trade declines and as many local companies have been unable to manage price volatility. However, the leading challenges facing the coffee sub-sector (and the landscapes in the Central Highlands in which coffee is produced) relate to sustainability. The ageing tree stock and the need to replant more than one-third of the growing area over the coming decade involves both technical and financial challenges and risks. Second, excessive water and fertilizer use is threatening available groundwater resources and leading to localized pollution. Third, large areas currently under cultivation are ill-suited to coffee, and farmers there will need to transition into alternative land uses and livelihoods. Even if the aim is to maintain the current volume of coffee exports, this will have to be done with less land, water, material inputs and pressures on surrounding forest areas. While several initiatives have emerged to address one or another of these challenges these are not yet linked together or on a scale to bring about transformative change. Driven by multinational companies and involving one of the four global certification regimes – 4C, Rainforest Alliance and Utz – evaluations of their efficacy casts doubt on their impacts on farmer welfare and on Vietnam's specific sustainability challenges.

II. Proposed Development Objectives

The project development objective is to improve farming practices and value chains in the targeted project areas, and promote institutional strengthening of relevant public agencies in effective support to implementation of the Agricultural Restructuring Plan.

III. Project Description

Component Name

Component A: Institutional Strengthening to Support Agricultural Transformation

Comments (optional)

Component Name

Component B: Supporting Sustainable Rice-Based Systems

Comments (optional)

Component Name

Component C: Supporting Sustainable Coffee Production and Rejuvenation

Comments (optional)**Component Name**

Component D: Project Management

Comments (optional)**IV. Financing (in USD Million)**

Total Project Cost:	351.00	Total Bank Financing:	275.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			12.00
International Development Association (IDA)			275.00
Local Sources of Borrowing Country			64.00
Total			351.00

V. Implementation

The project will be implemented in thirteen provinces: Kien Giang, An Giang, Tien Giang, Hau Giang, Dong Thap, Can Tho, Soc Trang, and Long An (Mekong Delta Region), and Lam Dong, Dak Lak, Dak Nong, Gia Lai, and Kon Tum (Central Highlands Region). The project implementing agencies will be MARD and the Provincial People's Committees (PPCs) of the thirteen project provinces

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

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