

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2889

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)	
Implementing Agency	Ministry of Agriculture and Rural Development
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	06-Nov-2014
Date PID Approved/ Disclosed	26-Nov-2014
Estimated Date of Appraisal Completion	24-Nov-2014
Estimated Date of Board Approval	18-Mar-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Vietnam has made remarkable progress in economic growth and poverty in recent years, and has recently graduated to middle income country status. Per capita economic growth averaged over 6% between 1993 and 2008. Consistent with structural transformation, an increasing share of value addition is derived from industry and the services sector, with the share of the once dominant agricultural sector now at 17% compared with 31% two decades ago. Vietnam has been affected by the recent global economic crisis, and GDP growth in 2012 was only 5% - its lowest rate since 1999. International macroeconomic challenges are being compounded by domestic imbalances, including in the financial sector. Credit growth increased only 3% in the first half of 2013, against a target rate of 12%, reflecting a contraction in the banking sector and the tightening of credit.

Estimates vary, but the proportion of non-performing loans of Vietnam's banks has increased steadily in recent years, driven by over-exposure to poorly performing SOEs and the bursting of a real estate bubble. While the Government is seeking to reform key areas to navigate a way forward, there remain considerable risks to medium-term economic stability.

Vietnam's early stage land and market reforms and its extended period of economic growth has translated into very significant progress in poverty reduction. The national poverty headcount rate currently stands at 20.7%, down from 58% twenty years ago. Yet Vietnam's poverty reduction efforts are not yet complete. As reported in the recent (2013) Poverty Assessment, poverty rates continue to be stubbornly high in certain locations, specifically the more remote, mountainous areas. Moreover, poverty is now disproportionately concentrated among Vietnam's ethnic minorities, many of whom have been unable to take advantage of the opportunities available in the growing economy. While the poverty rate for the majority Kinh/Hoa population is now 12.9% the aggregate poverty rate among Vietnam's fifty-three ethnic minority groups is 66%. While constituting only 15% of Vietnam's, ethnic minority groups account for 47% of the total poor and 68% of the extreme poor. The vast majority (i.e. ___%) of the poor Kinh/Hoa households reside in rural areas.

Other measures of human development have also demonstrated significant improvements, although there here to there have been significant differences among ethnic groups and regions in the country. Vietnam's human development index was 0.728 in 2008, compared to 0.651 in 1999. While nearly half of this increase can be attributed to income gains, increases in life expectancy (around one-third) and changes in education status (the remainder) have also played important roles. Yet a number of broader wellbeing indicators are lagging behind, more so among those groups where poverty reduction has been slowest. For example, while the national under-5 malnutrition rate is 17%, the incidence of stunting is more than 40% among ethnic minorities. This despite improvements to potable water availability and the fact that Vietnam has emerged as a major exporter of food, including its leading staple food—rice.

A large proportion of Vietnam's population lives just above the poverty line, and are vulnerable to falling back into poverty in the face of economic or weather shocks and patterns of environmental and natural resource degradation. According to panel data reported in the Poverty Assessment, while only 7% of households were poor in all of the years 2004, 2006 and 2008, fully 26% of households were poor in one of these years. Extreme weather events (i.e. typhoons, cold spells) and associated developments (i.e. floods) pose major risks for Vietnam's population in coastal and highland areas. Poorer households are invariably more vulnerable to shocks, given their dependency on marginal lands and agricultural employment, and their more limited range of coping mechanisms. Resource degradation has also threatened livelihoods. One example has been the impact of near-shore overfishing on the livelihoods of hundreds of thousands of households. 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 a large proportion of its population.

Sectoral and Institutional Context

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% of the its poor. Agriculture, agro-industry, and other agribusiness activity account for a combined 33% of GDP and approximately 30% of Vietnam's merchandise exports. In recent years, agriculture and rural areas have provided a social stabilizing role in the face of volatile macroeconomic conditions. Agriculture has provided

the country with a generally secure, affordable, and more diversified source of food, fueling Vietnam's growing and industrializing labor force.

Over recent decades, 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 some patterns of development. These concerns stem from evidence of low smallholder farmer profitability, low product quality and value addition, high post-harvest physical losses, and widespread incidence of natural resource degradation or other adverse environmental impacts. These concerns, together with an understanding of future growth opportunities, have triggered a range of strategic, policy, and financial support measures by the Government of Vietnam, spurred actions within the private sector, and led to the creation of several public-private partnership initiatives.

While the thrust of Vietnam's economic planning contains a vision of a 'modern industrial society', a core challenge facing the country during the coming decade is achieving a transformation of its agricultural sector and rural economy. Building a more 'modern agriculture'—involving the generation of more farmer, consumer and trade value, from less natural and human resources— will serve as an important leg in Vietnam's broader economic transformation, taking into account the country's history, demographics, resource endowment and current comparative advantage.

In June 2013, the Prime Minister approved the Ministry of Agriculture and Rural Development's (MARD) Agricultural Restructuring Plan. The Plan calls for a shift in sectoral goals beyond physical (output or trade) targets to include a broader set of indicators related to the 'triple bottom line' of sustainable development. Particular reference is given to adverse environmental impacts of certain agricultural expansion processes and the need to mainstream effective environmental management practices. The Plan advocates for the sector to become increasingly 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 others.

The 'restructuring' agenda will need to be applied at central, provincial, and localized levels and in the context of the country's major agricultural value chains. Amongst crops, the most significant adjustments are, ironically, needed in two of the country's most successful sub-sectors. These relate to rice and coffee, which together account for __% of agricultural GDP and some 12% of total national GDP.

Vietnam is widely considered as a rice success story. Over the 1990-2010 period, national paddy production doubled and the country evolved from being a food importer to being a leading rice exporter, accounting for more than twenty percent of global rice trade in recent years. Substantial gains have been made in productivity and in shifting from single to double or triple cropping in a year. Over the past decade, output and exports have steadily increased despite a decline in the land use for rice. The advances have been especially prominent in Vietnam's Mekong Delta which now accounts for some 55% of production and 90% of exports. Against these physical gains are other less favorable trends or circumstances. Even in the most productive areas, fewer and fewer households can now base a livelihood primarily upon paddy production and sales. This is due to a combination of small farm sizes, adverse terms of trade, a lack of incentives to produce for quality, weak collective action, and the costs associated with a fragmented rice value chain. Vietnam's rice exports have largely targeted the bottom of the global market, including a prominent role of

government-to-government contracts to supply supplemental feeding programs in importing countries. As increased competition is emerging in the lower quality/ lower price market segment a shift has begun in Vietnam's trade toward a broader mix combining both high and lower quality products as well as specialty rice varieties. Associated with this is the need to restructure value chains to involve more direct linkages between (organized) farmers and the milling/trading companies to achieve the desired quality and traceability. This will also require increased private sector investment in the value chain. Another big challenge relates to reducing the environmental footprint of paddy production, both in terms of localized pollution and emissions of greenhouse gases. Some initiatives have begun to demonstrate and promote more sustainable production and post-harvest practices and to introduce rotation crops into rice-based systems. These shifts—in the product mix, in farmer land use, organization and market linkages, and in production practices—are still in a nascent stage and need to be supported in a more integrated synergistic manner. The livelihoods of millions of people are tied to the success of these efforts.

Vietnam is also considered as a coffee success story, benefiting some 500,000 growers and more than a million seasonal workers. As with rice, a huge expansion in production occurred over the 1990 to 2010 period through a combination of area expansion and yield increases. Vietnam is now the world's second largest producer and export of robusta coffee in volume terms, although here again the country dominates the lower quality/lower price segment of the market—mostly providing the bulk material for instant coffee. Coffee plot sizes are 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 state-owned enterprises 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. This has several elements. One relates to the ageing tree stock and the need to replant or replace more than one-third of the growing area over the coming decade. This involves both technical and financial challenges and risks. A second dimension relates to excessive water and fertilizer use, contributing to threats to available groundwater resources and to localized pollution. Moreover, large areas currently under cultivation are ill-suited to coffee, and farmers need to transition into alternative land uses. 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.

Relationship to CAS

The project is consistent with the CAS. It contributes directly to the 'competitiveness' and 'sustainability' pillars through increasing capacity for innovation and value addition in (agricultural) value chains (outcome 1.3), improved natural resource management, including water resource management (outcome 2.1) and strengthened environmental protection and management (outcome 2.2). It would also advance cross-cutting CPS themes including governance (i.e. supply chain governance; landscape approaches to NRM) and resilience (i.e. the application of 'climate smart' agricultural practices).

The project incorporates elements that relate directly to the five pillars of the Agriculture Action Plan (AAP; FY13 - FY15) including measures to raise agricultural productivity, better linking farmers to markets, facilitate non-farm rural incomes, reduce risk and vulnerability and enhancing

environmental services and accountability.

Finally, the proposed project is fully consistent with the Bank's new strategy of the 'twin goals', of eliminating extreme poverty and supporting shared prosperity through economic growth among the bottom two quintiles. The proposed project is expected to contribute most significantly to the shared prosperity agenda, as the majority of the targeted farmers lie in close vicinity (above or below) Vietnam's poverty line, yet are not among the extreme poor. Nevertheless, the latter will still be beneficiaries as they form part of the seasonal labor pool serving the coffee sub-sector and they are likely to benefit from longer term measures to improve the quality and equity of natural resource management efforts in coffee dominated landscapes. These efforts will complement the interventions of the recently approved Central Highlands Poverty Reduction Project [P128072] which directly targets that region's poorest communities and districts, strengthening social capital, infrastructure and livelihood opportunities there.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective is to strengthen the implementation of the agricultural restructuring strategy and to accelerate pace of sustainable transformation in selected sub-sectors and regions.

Key Results (From PCN)

At the strategic level, the ARP proposes a shift from traditional indicators to indicators that reflect more appropriately sustainable practices. This implies a shift from measuring yields per hectare to production per unit of scarce inputs (e.g. output per unit of water); from export volumes to measures of value added; from rice production volumes to measures of malnutrition or dietary diversity; from irrigated area to the area under sustainable practices.

At the project level, outcome indicators of the proposed project will include the following:

- Sub-sector and departmental restructuring plans and strategies adopted by MARD departments;
- Number of mutually beneficial out-grower (or similar) schemes established between rice agribusinesses and (groups of) small-holder rice farmers in the project areas;
- Number of participating small-holders in rice-based out-grower schemes (or similar) schemes in the project areas;
- Reductions in estimated GHG emissions among targeted farmers;
- Number of small-holder coffee farmers implementing improved sustainable agricultural practices in the project areas;
- Number of hectares replanted with improved planting material in the project areas;

III. Preliminary Description

Concept Description

The strategic orientation of the Vietnam Sustainable Agricultural Transformation Project (vnSAT) is to support the implementation of the Government's ARP. It will do so with a combination of assistance to policy and institutional reform that supports the reorientation of the central line ministry (MARD) and associated public agencies as well as key private sector stakeholders, and targeted support to two critical sectors where conditions are most suited to the rapid implementation of the new approach embodied in the ARP. A combination of policy and institutional reform and results in two key sectors will deliver real results for beneficiary farmers, and will demonstrate the

merits of this new orientation thereby building support for the continued implementation of the strategy.

Component A: Institutional Strengthening to Support Agricultural Transformation

This component would strengthen the capacities of various public institutions to design, implement, and monitor agricultural restructuring and sustainability initiatives. It would likely include:

- a) Technical assistance/ training to MARD's Planning Department and agricultural restructuring steering committee and to DARDs in relation to public expenditure management and M&E systems for sector-wide sustainable development;
- b) Technical support and training for selected MARD departments to identify and implement strategies for organizational change and improved functionality;
- c) Support for policy and institutional studies related to various types of public-private sector partnerships/ collaborations and potential restructuring of state-owned enterprises (SOEs) in the sector;
- d) Technical assistance to banks to increase their capability to lend to the agricultural sector.

Component B: Supporting Sustainable Rice-Based Systems

The objectives of this component are to increase rice farmer's incomes, reduce the negative environmental impacts of rice-based production systems, and enhance the competitiveness of the commercial rice sub-sector. This component would support sustainable rice-based systems in the MKD through:

- e) Implementing a large-scale extension program on improved agronomic practices and management. Anticipated activities would include farmer training, establishment of demonstration sites, support for establishment of farmer organizations, provision of small matching grants to encourage farmers to adopt good farming practices, crop rotations, improved postharvest equipment and facilities, and better management/use of agricultural wastes and byproducts. The activities aim at reducing the volume of seed, fertilizer, water and pesticide use, and postharvest losses, while improving productivity, quality, and profitability;
- f) Supporting and leveraging private sector investments in upgrading rice processing technology and facilities (i.e. storages, dryer machines, processing equipment, etc.) for higher quality and specialty rice. The participating private sector agribusinesses are required to work/ collaborate with farmers who are supported by the project to market their produce (i.e. contract farming); and
- g) Improving public services delivery to support farmer adoption of improved agronomic practices and management. Anticipated activities would include necessary support for strengthening the capacity of technical departments and concerned agencies of MARD and DARDs in the project provinces (i.e. Departments of Crops, Plant Protection, Cooperatives and Rural Development, Agricultural Planning, Extension Centers, Seed Centers, etc.) to improve their extension skills, capacity and quality, and enhance capacity for foundation seed production and the certification of

seed produced by farmer groups or private companies. At the central level, the project would also support a continued technical collaboration program between MARD and the International Rice Research Institute (IRRI) to provide overall technical support to MARD and the project provinces. The project would also support the on-going program to measure and monitor GHG emissions from rice in the different agro-ecological areas of the MKD.

While this component would be geographically targeted (in around 30 key rice districts in 8 provinces of the MKD, namely Kien Giang, An Giang, Hau Giang, Dong Thap, Can Tho, Soc Trang, Tien Giang, and Long An), it is expected that it will result in a transformational impact on the rice sector as the selected districts account for more than half of the MKD paddy production and more than three-fourths of its rice exports.

Component C: Supporting Sustainable Coffee Production and Rejuvenation

The objectives of this component are to increase coffee farmer's incomes and reduce negative environmental impacts of coffee production in the Central Highlands Region. This component would support:

- a) Implementing a large-scale extension program to promote farmers' adoption of sustainable agronomic and management practices. Anticipated activities would include farmer training, establishment of demonstration sites, establishment of farmer groups, provision of small matching grants to encourage farmers to adopt good farming practices (i.e. water saving technologies, improved fertilizer management, etc.), supporting sustainable coffee rejuvenation where suitable (i.e. providing medium term credits via commercial banks), provision of small-scale public infrastructure (i.e. rehabilitating water intake canals, feeder road), and better management/use of agricultural wastes and by-products (i.e. using coffee husk for composting). The activities aim at reducing the use of fertilizers, pesticides, and water while improving productivity, quality, and profitability.
- b) Supporting upgrades of private sector nurseries (i.e. provision of technical training, quality control, certification processes, etc.).
- c) Enhancing quality and delivery of public service delivery. Anticipated activities would include necessary support for strengthening the capacity of technical departments and concerned agencies of MARD and DARDs in the project provinces (i.e. Departments of Crops, Plant Protection, Cooperatives and Rural Development, Agricultural Planning, Extension Centers, Seed Centers, WASI, etc.) to improve their extension skills, capacity and quality, and enhance capacity for seed production and certification. In addition, the project would also support MARD and provinces in improving their master plans for sustainable coffee production and rejuvenation to 2020 and toward 2030 and piloting landscape planning approach in selected districts in each participating province.

This component would be implemented in three key coffee provinces in the Central Highlands Region, i.e. Dak Lak, Dak Nong, and Lam Dong, and possibly expand to cover Kon Tum and Gia Lai provinces. Success and lessons learned from the project are expected to be scaled up through the government programs, especially the linkages between coffee replanting financing and adoption of sustainable production practices and the landscape approach to natural resources management in a

mixed economy.

Component D: Project Management

This component would provide equipment and incremental operating costs for project monitoring, financial management, and procurement activities, support short and long-term technical assistance to the project management team in selected areas, and support analysis and dissemination of findings related to the effectiveness and challenges associated with the different institutional and technical models being applied or piloted under the project.

The project would establish and support linkages with ongoing and future interventions by the IFC. For instance, vnSAT partner agribusinesses would be well positioned to ‘graduate’ to more tailored advisory services (provided with a cost-sharing element reflecting the greater private-good element). Similarly, coordination between vnSAT and the IFC would facilitate linkages between sustainable small-holder coffee producers and commercial trading companies.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

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

VI. Contact point

World Bank

Contact: Christopher Paul Jackson

Title: Lead Rural Development Specialist
Tel: 5777+7302 /
Email: cjackson1@worldbank.org

Borrower/Client/Recipient

Name:
Contact:
Title:
Tel:
Email:

Implementing Agencies

Name: Ministry of Agriculture and Rural Development
Contact: Mme. Nguyen Thi Hong
Title: Director General, Planning Department
Tel:
Email: hongvkh@gmail.com

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>