

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

Report No.: AB3298

Project Name	VN - Agriculture Competitiveness Project
Region	EAST ASIA AND PACIFIC
Sector	General agriculture, fishing and forestry sector (50%);General transportation sector (40%);General public administration sector (10%)
Project ID	P108885
Borrower(s)	VIETNAM
Implementing Agency	
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	September 5, 2007
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Estimated Date of Board Approval	April 10, 2008

1. Key development issues and rationale for Bank involvement

Over the past two decades, Vietnam's agricultural sector has achieved an impressive growth rate of 4-5 percent per year and undergone significant structural transformation. Agriculture, including crops, livestock, forestry and fisheries, currently accounts for 22% of GDP, 30% of exports and more than 60% of all employment. It is no coincidence that as the sector has grown, so the rural poverty rate has fallen. The performance of the agricultural sector is largely attributable to the enabling policy environment put in place in the early 1990s and to an expansion in the cultivated area. The focus of Government sector strategy has been to increase production and the response has been dramatic, with Vietnam now a major producer and exporter of many agricultural commodities including rice, coffee, pepper, cashew and rubber.

Government strategy has been largely successful in achieving quantitative objectives and production targets. However, the failure to invest in support services and infrastructure, the absence of quality standards or the failure to apply them where they do exist, as well as the absence of strong agri-processing sector has resulted in low productivity and a preponderance of low quality produce, resulting in low value added exports and low returns to farmers. The Government has recognized these shortcomings and is placing greater emphasis on a market driven approach for investments in the agriculture sector and the agricultural value-chain.

This approach of market-oriented agricultural development is also an important element of the government's drive to eradicate poverty. The ten-year strategy for 2001-2010 of the Ministry of Agriculture and Rural Development (MARD) emphasizes the need for pro-poor growth, with a focus on investments in upland and remote areas. It also aims to speed up agricultural modernization and enhance the potential of agricultural science and technology, including information technology and bio-technology. In line with this strategy, the Government aims to support a market-driven restructuring of agricultural production and the rural economy by strengthening linkages between

smallholder farmers involved in agricultural production, and agribusiness involved in processing and marketing of agricultural produce.

In line with this strategy MARD has prepared a Five Year Plan (2006-2010). Agricultural development in this period should achieve high value added, improved competitiveness and enhance effective production. This strategy is especially relevant because of Vietnam's accession to the WTO in early 2007, which provides opportunities for exporters of agricultural products but will also make farmers more vulnerable to external influences from both price shocks and possible exclusion from markets due to the inability to meet quality and food safety standards.

Within this new context, the central highlands, central coastal and nearby provinces pose specific challenges for agricultural development. Despite impressive growth in the past decade, agriculture in this region is characterized by a relatively high percentage of smallholder farmers with less than 3 hectares, low agricultural productivity and quality of produce, low household incomes, a relatively small agribusiness community and corresponding limited access to both domestic and export markets. The region is also home to many ethnic minority groups, which have not participated fully in the economic growth of the region and where poverty rates remain high. Compared to other regions, the agriculture production system here is relatively less diversified and has a lower level of adoption of agricultural innovations such as improved production techniques, seeds and livestock breeds. The region has received relatively low levels of investment to realize its development potential and most current investments are focused on poverty reduction, due to the high incidence of poverty in this area, with very few investments in agricultural development.

Over the past fifteen years, IDA has provided significant support to Vietnam's agricultural sector through the Agricultural Rehabilitation Project (Cr. 2562-VN) and the Agricultural Diversification Project (Cr. 3099-VN). The focus of these projects was on increasing smallholders' access to key factors of production (land, capital and technology) and they have been successful in increasing farm production. Discussions with government have identified the need for continued IDA-support to address the challenges confronting the agricultural sector as it adapts to the trade integration resulting from Vietnam's accession to the WTO and expanding domestic and international markets. The overall thrust of the proposed project would therefore seek to enable smallholder farmers to access markets and to develop production systems that are responsive to market demand. This implies a shift away from public sector support to investments identified by Government towards public sector support to investments identified, implemented and managed by smallholders and agribusinesses. This approach emphasizes market integration and facilitates the development of agricultural value chains and the participation of farmers in these chains. The proposed project is fully consistent with the new World Bank Group Country Partnership Strategy (CPS) for FY07 to FY11, which aims at improving the business environment, strengthening social inclusion, and strengthening natural resources and environment management.

A request for the proposed project was expressed by the Ministry of Agriculture and Rural Development (MARD) in its letter to the Bank on July 31, 2007. More specifically, MARD is proposing this project will address the challenges confronting the agricultural sector as it adapts to the trade integration resulting from Vietnam's accession to the WTO.

2. Proposed objective(s)

The proposed project development objective would be to improve the competitiveness of the agricultural sector of the central regions through promoting market-oriented agricultural diversification of smallholder farmers and building agricultural entrepreneurship among communities of smallholders and agribusinesses. Linking smallholder farmers to commercial markets will accelerate the growth of the rural economy, enhance the linkages between smallholders and agribusinesses, leverage investments by the private sector, reduce inefficiencies in markets, and thus will contribute to raising incomes and reducing rural poverty in the country's central region.

The expected specific outcomes of the proposed project would be that: (i) smallholder farmers adopt new crops and livestock production and post harvest techniques which are environmentally-friendly; (ii) farmers increase productive on-farm investments with secure long term land use rights and adopt sustainable land management practices; (iii) productive partnerships are established and will operate effectively to link farmers and producers' organizations with agribusinesses to facilitate marketing of agricultural produce; (iv) farmers have access to better market infrastructure; and (v) institutional capacity is strengthened for provincial level to respond effectively to market demand.

Target groups for the proposed project would be smallholder farmers and rural households, small agribusinesses and government in the central provinces, and medium and large scale agri- and food businesses both at the provincial and national levels.

The proposed project would be located in the central highlands, central coastal and nearby provinces. For effective project management and coordination, the number of project provinces will be limited to eight. Candidate project provinces include Lam Dong, Binh Dinh, Dak Lak, Ninh Thuan, Binh Thuan in the South and a possible extension later to include to Nghe An, Thanh Hoa, and another province in the North.

3. Preliminary description

The proposed project would be financed under a SIL. Total funding requirements for the proposed project are estimated at US\$60 million, consisting of approximately US\$55 million from IDA and US\$5 million equivalent from government. The proposed project would be scheduled for five to six years, beginning in the second half of 2008. It is envisaged that the proposed project would have the following components:

Component A: Crop and Livestock Systems Support (est. US\$ 15 mil.)

This component will be designed to provide technical and financial support to smallholders and farming communities to: (i) adopt new crops and livestock production and post harvest techniques which are environmentally-friendly, (ii) increase productive on-farm investments through secure long-term land use rights, (iii) adopt sustainable land management practices, and (iv) enhance awareness of market requirements and necessity of productive partnerships.

Under this component, the project would finance the following:

- i) Extension services of crop and livestock production and post-harvest technologies that have been successful in the ADP and locally verified to be demanded by local farmers, responsive to market requirements, financially viable and environmentally sustainable.

- ii) Support for agricultural innovations, applied research and technology dissemination aiming at responding to locally identified technology constraints.
- iii) Issuance of Land Use Rights Certificates (red books) and allocation of communes' unused land to smallholder farmers to increase the private sector's investment and better resource management.
- iv) Support for community-based sustainable land management practices such as financing communities' proposals to address environmental problems (i.e., reducing soil erosion, effective use of scarce water, prevention of sand flows, reducing pollution in production, etc.)
- v) Training for government staff and farmers to create greater awareness of market requirements (for instance on produce quality) and productive partnerships.

Component B: Brokering Productive Partnerships (est. US\$15 mil.)

The component will be designed to provide technical and financial support to smallholders and agribusinesses to: (i) help create partnerships along particular value-chains, (ii) assist the partnership with the identification of profitable strategies, coordination of activities and strategic investments in improvements in the value chain; and (iii) assist the partnership in operations through cost sharing arrangements. This component will help address current inefficiencies in agriculture produce markets. The concept of agricultural value-chains is key in the component approach, which allows partners in the value-chain to formulate profitable strategies and coordinate operations.

Under this component, the project would finance the following:

- i) Establishment of Productive Partnerships: This includes partnership promotion through communication and outreach campaigns, technical assistance and moderation of partnerships between farmers and agribusinesses. The processes will be carried out in a transparent, consultative and voluntary manner.
- ii) Preparation of Proposals: The project will provide technical assistance for the identification of profitable business opportunities and the preparation of business proposals for applying grant funds from the project. Criteria will be formulated targeting international and national agribusinesses operating in the regions, regional merchants, farmers associations and producer groups and farming communities.
- iii) Implementation: The project would provide technical assistance and management support to strengthen the partnerships and implement approved business proposals. Possible support could include, market studies, development of food safety and quality protocols, agricultural production protocols, training and organization of farmers, branding and marketing, certification, supply chain management and productive assets, and environmental impact monitoring and mitigation.

Component C: Market Infrastructure (est. US\$25 mil.)

This component will provide financing for public infrastructure that supports the marketing of agricultural produce, which could include farm tracks, intra-commune roads, bridges and drifts, marketplaces and others. These investments will be linked to investments made under Components A and B and are vital to support the linkage of smallholders with markets.

Under this component, the project would finance the following:

- i) Technical assistance for the identification of local infrastructure needs for marketing of agricultural produce, and preparation of technical specifications.
- ii) Design and construction or rehabilitation of infrastructure.

Component D: Institutional Strengthening (est. US\$5 mil.)

This component will provide support to develop and strengthen capacity of the implementing agencies in responding to market niches, appraising business proposals submitted by productive partnerships, and project coordination and management including safeguards monitoring.

Under this component, the project would finance the following:

- i) **Monitoring and Evaluation:** A functional M&E system is vital to determine the effectiveness of project implementation, including the monitoring of results and providing feedback for the identification of emerging priorities. Instead of establishing a stand-alone, project-specific M&E system, the project would pilot the integration of M&E within provincial authorities and further strengthen the monitoring capacity of MARD.
- ii) **Ethnic Minority Development Plan:** To ensure the targeting, active participation and monitoring of ethnic minority groups.
- iii) **Project Management:** Procurement and financial management, project coordination and management.

4. Safeguard policies that might apply

Environmental Assessment (OP/BP 4.04)

The proposed project is expected to have a positive impact on the environment through implementation of the sustainable land management and extension activities. It would help reduce soil erosion and restore soil fertility. The livestock techniques would use home-made feeds from local ingredients to reduce livestock grazing and reduce fuel-wood consumption requirements for livestock feed preparation. The land allocation would improve the stewardship of land and decreased slash-and-burn (swidden) agriculture practiced by some of the ethnic minority communities. Extension activities would be developed and well monitored to ensure minimal environmental impact caused by agricultural activities. The project would develop an environmental framework to avoid negative and enhance positive environmental impacts of agricultural activities.

The project may have some limited impact on local environment through construction of small scale rural infrastructure. An environmental framework would be developed and used for appraisal and screening of each rural infrastructure. An appropriate environmental mitigation plan (EMP) for each rural scheme would be incorporated into the bidding documents and construction contracts before the construction starts.

Involuntary Resettlement (OP/BP 4.12)

The project may acquire some private land through construction of small scale rural infrastructure. A Resettlement Framework would be prepared for the project.

Indigenous People (OP/BP 4.10)

The proposed project area includes provinces with large populations of ethnic minority groups. An appropriate Ethnic Minority Development will be prepared.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	55
Total	55

6. Contact point

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