

The International Fund for Agricultural Development

For Official Use Only

**VIET NAM**

**COUNTRY STRATEGIC OPPORTUNITIES PROGRAMME**

**(COSOP)**

Asia and the Pacific Division  
Programme Management Department

REPORT No. 5161-VN  
September 2019

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without the authorization of the International Fund for Agricultural Development (IFAD).



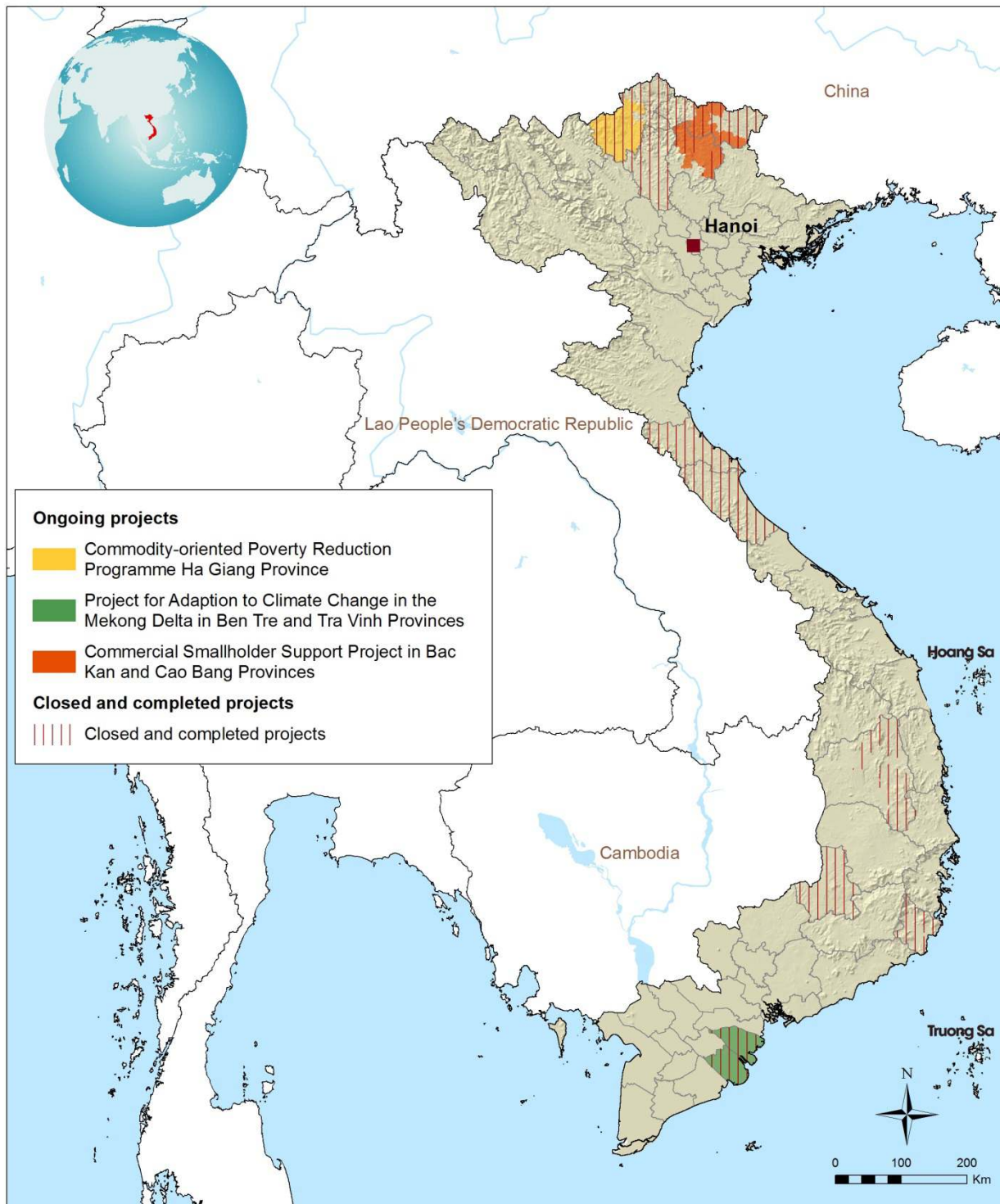
# **Contents**

<b>Abbreviations and acronyms</b>	<b>ii</b>
<b>Map of IFAD-funded operations in the country</b>	<b>iii</b>
<b>Executive summary</b>	<b>1</b>
<b>Appendices and Key files</b>	<b>17</b>

## Abbreviations and acronyms

ADB	Asian Development Bank
ARD	Agriculture and Rural Development
AWPB	Annual Work Plan and Budget
CBG	Competitive Business Grant
CC	Climate Change
CCA	Climate Change Adaptation
CDB	Commune Development Board
CDF	Community Development Fund
CG	Collaborative Group
CIG	Common Interest Group
COSOP	Country Strategic Opportunities Programme
CPE	Country Programme Evaluation (prior to COSOP development)
DARD	Department of Agriculture and Rural Development (Provincial level)
CPR	Country programme review
CBG	Competitive Business Grant
CSG	Competitive Small Grant
DoIT	Department of Industry and Trade
DoNRE	Department of Natural Resources and Environment
DPI	Department of Planning and Investment
DTI	Department of Trade and Industry
GACA	Government Aid Coordination Agencies
GoV	Government of Vietnam
IFAD	International Fund For Agricultural Development
M&E	Monitoring and evaluation
MARD	Ministry of Agriculture and Rural Development
MFI	Microfinance Institution
MoF	Ministry of Finance
MOSEDP	Market-Oriented Socioeconomic Development Planning
MPI	Ministry of Planning and Investment
NTP-NRD	National Target Program for New Rural Development
NTP-SPR	National Target Program for Sustainable Poverty Reduction
ODA	Official Development Assistance
PPC	Provincial People's Committee
PPP	Public Private Partnership
PCU	Provincial Project Coordination Unit
PSC	Provincial Project Steering Committee
SCG	Savings and Credit Group
SEDP	Socioeconomic Development Planning
TA	Technical assistance
TOT	Training of Trainers
VBARD	Vietnam Bank for Agricultural & Rural Development
VBSP	Vietnam Bank for Social Policies
VC	Value Chain
VCAP	Value Chain Action Plan
VFU	Vietnam Farmers' Union
VND	Vietnamese Dong
WB	World Bank
WU	Women's Union

# Map of IFAD-funded operations in the country



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 14-05-2019



## Executive summary

1. Vietnam has a predominantly rural population with a vibrant agricultural sector where smallholders represent a large majority, contribute to sustained growth, mitigate shocks, and provide much of rural employment and raw material for its agro-industries. Export earnings from agriculture, forestry and fisheries have also grown steadily, reaching an estimated USD28.3 billion in 2017, contributing to an agriculture trade surplus of about USD17.3 billion

2. Viet Nam ranks 6th globally, the highest of any ASEAN country, in terms of climate vulnerability. Both agricultural sector and rural poverty alleviation efforts and gains are jeopardised by extreme weather events (storms, typhoons, flooding, and drought), and slow climate change impacts deriving from, among others, sea level rise and warming temperatures.

3. The value added by IFAD programmes lie in their being people-centered and deeply rooted in smallholder agriculture. Targeting approaches, as part of project design and implementation, ensure that public and private investments include smallholder farmers and the rural poor by eliciting their participation. IFAD has an important comparative advantage as an agent of institutional and technological change in agriculture and rural finance for sustainable inclusive development.

4. Agriculture has been and will remain an enduring source of social stability and a principal path for lifting the remaining poor out of poverty. The overarching COSOP goal is “sustainably improved incomes of smallholders and rural poor through market participation and reduced climate vulnerability”. The strategic objectives are:

*SO 1: Building pro-poor and stable value chains with greater investments from the private sector;*

*SO 2: Enhance and expand financial inclusion for climate resilient livelihoods;*

*SO 3: Foster the environmental sustainability & climate resilience of smallholder economic activities.*

5. The COSOP is targeted to smallholders and Agri-SMEs in underserved areas with a concentration of ethnic minorities. The IFAD performance based allocation will be about US\$ 42 million for IFAD11 (2019-2021) and it is hoped that the allocation for IFAD 12 (2022-2025) will return to US \$ 84 million. In order to support policy development and priority areas for innovation and knowledge management requiring significant technical assistance, capacity building support, and other investments for which the Government would be unable to borrow or utilize sufficiently own resources, IFAD will seek to mobilize significant non-loan resources (GCF/GEF grants, donor partners, in-kind technical services, ASAP funds (climate), IFAD regional and country grants) as well as support from IFAD’s South-South Technical Cooperation Programme.

# **I. Country context - the rural sector agenda: key challenges and opportunities**

## **A. Economic and social transformation in Vietnam**

1. Vietnam's economy is performing well, propelled by the sustained global recovery and continued domestic reforms. Robust growth is boosting job creation and income growth, leading to broad-based welfare gains and poverty reduction. Vietnam's gross domestic product (GDP) is estimated to have increased by 7.1 percent (y/y) in the first half of 2018. GDP growth was broad-based, led by strong manufacturing growth of 13 percent, bolstered by strong external demand. Agriculture output growth also accelerated to 3.9 percent largely due to strong performance in the export-oriented fishery subsector.
2. Vietnam is experiencing rapid demographic and social change too. Vietnam's population reached about 95 million in 2017 and is expected to expand to 120 million before tailing off around 2050. Currently, 70 percent of the population is under 35 years of age and there is an emerging middle class—currently accounting for 13 percent of the population but expected to reach 26 percent by 2026. Over the last thirty years, the provision of basic services has significantly improved while gender gaps are narrowing and access to household infrastructure has improved dramatically.
3. The proportion of the population living below the national poverty line (using the General Statistics Office of Vietnam and World Bank poverty line) reached 9.8 percent in 2016—down by over 70 percent from 1993.
4. The success in reducing poverty has come largely from rapid economic growth that created more and better jobs. Government investments have significantly improved service delivery, education, and public infrastructure, which facilitated growth and enabled broad participation in the economy. The transformation from an agrarian economy to a labor-intensive manufacturing and services industries has been key, where these sectors created 15 million jobs over the past 20 years. Improved education and migration to cities presented rural households with nonfarm opportunities and have helped households diversifying their income sources from agriculture.
5. The agricultural and rural sectors have enjoyed significant growth. Between 2008 and 2017, the absolute contribution to GDP by agriculture, forestry and fisheries grew by 70%, from USD 20.2 billion to USD 34.3 billion (current dollars). The contribution of agriculture to GDP has been constantly decreasing from 25% in year 2000 to 15% in 2018, reflecting a deep transformation of Vietnam's economy.
6. Growth in the sector has been heavily subsidized by unsustainable exploitation of soil, water and forest resources and the degradation of the ecological services that they provide. Cheap labour and the overuse of agro-chemicals have underlain the "successful" expansion and intensification of agricultural production. This model has no real future : (i) land, labour, and capital are quickly shifting to other, more profitable, non-agriculture sectors; (ii) the overuse of inputs is increasing production cost and reducing farmers' profits; (iii) urban consumers concerns are growing as regards food safety and market pressure increasing on producers to change their production practices; and (iv) over allocation of surface water and mining of groundwater is leading to real water scarcity for irrigation, especially throughout central Vietnam, at the same time that government seeks to expand irrigated areas. These practices have had serious impacts in terms of biodiversity loss, natural resources degradation, and environmental pollution and contamination.
7. Viet Nam ranks 6th globally, the highest of any ASEAN country, in terms of climate vulnerability. Both agricultural sector and rural poverty alleviation efforts and gains are jeopardised by extreme weather events (storms, typhoons, flooding, and drought), and



slow climate change impacts deriving from, among others, sea level rise and warming temperatures.

8. Making its transition to a higher value economy, Viet Nam is facing the challenge of producing jobs for its young and expanding labour force and providing it with relevant skills for the growing service and manufacturing sectors. While industrialization is developing, agriculture remains nevertheless the dominant sector of employment creation in Viet Nam.

## **B. Scenarios**

9. The base case scenario, which is also the most likely one, is that Vietnam's medium-term outlook further improves. Real GDP was projected to expand by 6.8 percent in 2018 before moderating to 6.5 percent in 2020 due to the envisaged cyclical moderation of global demand. The current account balance is projected to remain in surplus, but start narrowing from 2019, reflecting widening deficits on the income and services accounts. Fiscal consolidation is expected to contain public debt over the projection period.
10. Consumer demand will continue to shape the offer of agricultural product both on the domestic and international markets. Increased pressure on the natural resource base are amplified by climate change effects while available incentives to transform smallholder agriculture systems remain inadequate to better adapt to climate change and participate in higher value commodity markets. Digital and precision technologies remain accessible largely to better off households and larger farms.
11. In a high case scenario, economic growth remains robust carried by a continuous shift of labour from agriculture to manufacturing and services. Public investments remain limited due to budget constraints, while private investments will remain dynamic. Domestic demand will be strong due to a growing middle class, increasing wages and rising urbanisation rates. Exports are expected to remain strong, due to international trade agreements such as with ASEAN, EU and South Korea.
12. Participation of smallholder households in stable, pro-poor value chains is expected to increase their income. Smallholder inclusion in sustainable value chains would involve working with lead companies with both major, strategic pro-poor value chains and smaller niche value chains which should have significant reliance on smallholder contracts to obtain their supply, and that plan for large increases in the number of new smallholder contracts.
13. The lower case scenario combines a slowdown of China's growth and frequent, extreme weather events. The regional slowdown could result in a reduced flow of Foreign Direct Investments (FDI) and would affect mainly the transport and energy sectors. Here, agriculture plays an important role for the rural economy as in mitigating the effect of regional or global downturns. In view of the above, GoV could consider investments in rural poverty reduction projects to the boost resilience of the rural sector.
14. Extreme weather events (storms, typhoons, flooding, and drought), sea level rise and warming temperatures impact agricultural productivity and poverty alleviation gains (Cf Annex IV: SECAP analysis). If adaptation measures in agriculture are not adopted at large scale, yields will likely be reduced for key export crops and food crops e.g. rice, sugarcane, coffee, and vegetables. The net impact of such scenario will depend on the ability of national policies to reduce smallholder exposure to such risks. It calls for good environmental management at several levels and scales, the protection of biological resources, diversification out of rice and investments in climate resilient infrastructures and practices. SECAP study findings. Significant risks for the COSOP are associated with agricultural intensification; agro-processing-, infrastructure development, and to adverse weather events and associated natural disaster, exacerbated by climate change. The COSOP addresses these risks systematically by mainstreaming climate change and the sustainable management of natural resources. The future projects will adopt appropriate risk mitigation measures (Annex 4).

## **II. Government programme, medium-term strategy and UNDAF**

### **A. Agricultural and rural development policies**

15. According to the Strategy for Development of Agriculture and Rural areas, the objective until 2030 is to develop agriculture into a major, strategic export sector. Key development targets are to maintain annual growth rate of 3 to 3.2% in agricultural GDP; increase value-added processing/agribusiness by 35%; and achieve a US\$ 65 billion agricultural exports turnover. This would be achieved by: Promoting specialized agriculture zones and establishing agroindustry-service clusters with modern infrastructure; Transforming agriculture and rural sector to meet market demand for high-quality products, improving food hygiene and safety; and developing the rural service industry in order to absorb rural labour.
16. The Agriculture Restructuring Program (ARP) was approved on July 2013 followed by a revised action plan (Decision 1819) issued on November 2017. Under a recent initiative, which is part of government's "Industry 4.0 vision, the Ministry of Agriculture and Rural Development (MARD) is promoting the concept of "SMART Agriculture" for inclusion in future agricultural development programs. For the 2021 to 2025 period, the government intends to continue with the ARP as a priority program and facilitate the implementation of a series of strategic policy changes, including allowing the continued reduction in paddy land and its conversion to other, more profitable, crops; simplifying administrative procedures to promote export, and provide various incentives to investors in agriculture.
17. The National Target Program on New Rural Development (NTP-NRD) was established by Decision 800/QĐ-TTg in June 2010. The goal was to develop the comprehensive development of rural communes, in economic, cultural, environmental, social and public security terms. The first phase in 2011-2015, which focused on infrastructure, had the goal that 20% of communes in the country would achieve "new rural commune" status<sup>1</sup>. Phase two from 2016 to 2020 increased the commune target to 50% and introduced changes to the implementation arrangements to be more flexible and allow the tailoring of the program to better fit local contexts, needs and priorities. The Program emphasizes alignment with the goals of the Agriculture Restructuring Program (ARD), including the facilitation of the development of cooperatives and private sector investment in agriculture; and the strengthening of existing value chains as well as the establishment of new value chains for strategic commodities.

### **B. Ethnic minority development policies and programmes**

18. Currently, government's principal program that is targeted to poverty amongst ethnic minorities is the Sustainable Poverty Reduction Program (NTP-SPR), which is administered by the Committee for Ethnic Minority Affairs (CEMA). The program supports infrastructure development, livelihoods, basic services and capacity building for the country's 94 poorest districts and 310 communes in coastal areas, through five sub-programs. The on-going phase of the NTP-SPR (2016-2020) also has four ambitious objectives for its area of operation. These are: (a) lowering the poverty rate by an average of 1.5 per cent per year; (b) improving the livelihoods and quality of life for the poor by increasing per capita income of poor households by 1.5 times from 2015 to 2020; (c) implementing poverty reduction mechanisms and policies in a consistent and effective manner to improve the living conditions and enhance access to basic social services for the poor; and, (d) investing in the infrastructure of poor districts, communes and villages with special difficulties, in alignment with NTP- NRD criteria.

### **C. Climate Change and Green Growth**

---

<sup>1</sup> To achieve this, there are 19 criteria, falling into 4 groups, that must be met. The first group of criteria deal with production, income and household poverty rate. The second group criteria are on education, health care and culture. The third group of criteria deal with environmental protection. The fourth group of criteria regards crime rates and public safety administration.

19. Key government programmes and policies include the National Target Programme for Climate Change Response and Green Growth for the 2016-2020 aims to: (i) enhance country-wide capacity to respond to climate change; (ii) implement measures to adapt to the negative impacts of climate change and reduce greenhouse gas emission; (iii) strengthen people's capacity to adapt to climate change; (iv) promote "green growth" towards a low carbon economy; and (v) enhance the sustainability of economic development through mainstreaming of "natural capital enrichment" into development efforts.
20. The National Green Growth Strategy and Action Plan (NGGS; NNGAP) promote the reduction of Green House Gas (GHG) emissions, renewable energy and green industrial and agricultural development. Amongst others, implementation also includes the design of national green investment guidelines and the establishment of a funding entity to finance green projects and access international climate finance<sup>2</sup>.
21. In September 2015 Viet Nam submitted its Intended Nationally Determined Contribution (INDC) to the UN Framework Convention on Climate Change (UNFCCC). The INDC's climate change adaptation priority actions for the period 2021-2030 aim to minimize the loss of life and property due to climate change. These priority actions include, among others (i) the development of climate change informed socio-economic development plans; (ii) early warning systems; (iii) adoption of adaptation processes in most vulnerable communities and (iv) technology and finance for climate change adaptations to increase resilience.
22. Implementation of the goals for GHG emissions to which Viet Nam committed to under its INDC (GoV, 2015) are integrated into the NGGS and NNGAP. The agricultural sector's GHG reduction targets are by far the largest and the most reliant on international support. The target financing for the agricultural sector alone represents 27 per cent of the committed (self-executing) finance, but 68 per cent of the international support being sought.

#### **D. One Strategic Plan (2017-21)**

The vision of the One Strategic Plan (2017-21) is built on the three principles of inclusion, equity, and sustainability. The approach is one of offering integrated solutions to complex multidimensional development challenges, with a particular focus on the provision of high quality policy advice. The One Strategic Plan is structured in four focus areas, shaped by the central themes of the SDGs (People, Planet, Prosperity and Peace). IFAD is actively engaged in the working group on climate change to bring in its many years experiences and results from the country and regional programmes.

### **III. Previous lessons and results and current IFAD engagement**

#### **A. Results achieved from the previous COSOP**

23. Overall performance of the COSOP 2012-2017 was assessed as satisfactory<sup>3</sup>. Households' income increased after project support by at least 25% in almost all the targeted commodities. Overall, poverty has been reduced by 38.4% over 2012-2015 period, exceeding the target of 20% reduction in income poverty in the project communes.

<sup>2</sup> The "Viet Nam Green Growth Strategy Facility" was established in 2014 within the Ministry of Planning and Investment with support from Belgium and a total of €5.5 million in financing. The facility is currently being tested through provincial-level pilot "green growth projects", examples of which include "organic mushrooms production using agricultural residues and climate-friendly techniques", "water-efficient irrigation techniques leading to a reduction of fertilizer-related greenhouse gas emissions", and "solar photovoltaic powered light emitting diode lighting". (UNFCCC, 2018)

<sup>3</sup> For more details, refer to IFAD COSOP Completion Review (Draft June 2018)

24. Public private partnerships facilitated private sector investments in agricultural value chains to the tune of US 20 Million corresponding to 109 enterprises, a 100% increase over the base line situation, much above the target of 20% set for these activities. More than 30 000 farm households (HHs), including 53% poor and near poor HHs, have benefited from better input supplies and output market, and 4755 new jobs were generated. At the commune level, market-oriented and participatory socio-economic development plan (MOP-SEDP) has been institutionalized by the target provinces as an important planning tool for integrating resources. 95% of the project commune MOP-SEDPs have surpassed performance standards for participation, practicality and relevance.
25. Access of poor rural people – particularly women – to commodity and labour markets have been improved through a number of means and interventions combining organisation, partnership facilitation, financing, extension and a substantial improvement of rural infrastructure. First, 5020 CIGs have been formed with 78,568 member HHs, 58% of them from the poor and near poor HHs. Among these groups, 1893 CIGs (38%) have established business linkages directly with input providers and product buyers, of which 747 CIGs have business connection with PPP-funded enterprises. Secondly, 2086 CIGs and cooperatives (24,241 member HHs) have received financial support from Competitive Small Grant (CSG) or Climate Smart Adaptation grant (CSA) to implement their business plans. In addition, 90,656 members (mainly poor women) accessed credit without collaterals from 10,997 Saving and Credit Groups (SCG) operating under Women Development Funds (WDF) in these provinces. With outstanding loans of VND 523 billion and savings of VND 108 million and PAR at 0-0.5%, these WDFs have achieved high operational and financial sustainability rates, and 4 of them are ready for registration as MFI soon. Thirdly, some 314,000 people have benefited from agricultural extension and skills training, among them, 52% are women, 41% are from the poor and near poor HHs and 48% from different ethnic minority groups; similarly about 25,600 people received vocational training, of whom 53% (13,660 people) have accessed new employment opportunities. About 29% of employment opportunities were generated from PPP-funded enterprises. Last but not least, the local infrastructure was improved through the implementation of a community development fund (CDF).

## **B. Lessons**

26. *Climate change adaptation*: although the project Climate Change Adaptation Fund's co-financing instrument was met with initial success in terms of productivity and profitability, a number of CCA models financed by the projects did not perform well under severe weather extremes including drought and flood. Further progress will be on contingent on: (i) systematic research into climate change and disaster risks that take into account local/regional micro climates, (ii) disaster risk and climate change adaptation scenarios that are integrated in local MOP-SEDP and VCAPs to better guide the project Climate Change Adaptation Fund investments; and (iii) agencies, institutions, private actors and provinces that engage more substantially with project teams during the identification and selection of viable CCA production models.
27. *Agricultural value chain development* is not feasible in all project target communes, especially the ones in remote and more disadvantaged areas, where local commodities have low market potential and the private sector is not interested to invest in, due to high transaction cost. Complementary to Value Chain development activities, actions specifically geared at the economic empowerment of poor rural households will therefore be needed in future for any intervention concerning geographic area with high poverty incidence.
28. In order to leverage greater investment from private sector into inclusive and sustainable value chain development in rural areas, it is important to start by including producers who are close to the final markets and progressively expand towards more remote areas. The more remote the production areas are from main urban markets, the higher value the commodity market should be (niche products).
29. Enforcing farming contracts and enhancing their stability require more attention to the governance of value chains with appropriate regulatory mechanisms. Further

improvements required include mechanisms of mitigating and sharing risks and developing sustainable and self-funded approaches for value chain development.

30. *Access to agricultural credit* by rural producers has been a priority for GoV. Operating with credit lines through government-owned commercial banks had it problems as the relative high PAR and low repayment rates suggest. Sustainability may not be assured in view of subsidised microfinance schemes. In fact, GoV mandated SBV to implement the *National Comprehensive Financial Services Strategy* to boost efficient access to rural financial services by farmers and SMEs with specific emphasis on women and youth,.
31. *Rural microfinance* through saving and credit groups (SCG) under the Women Development Fund (WDF) has been really effective in reaching out to poor women in rural areas. The WDF managed loans have proved to be effective tools in supporting the smallholder diversification towards financing climate-smart investments, especially investments in more resilient short-term crops and livestock projects with faster turnover and higher income generating capacity.
32. *Gender. The share of women, ethnic minority households and other vulnerable groups averaged about 50 per cent in IFAD funded operations. Direct and self-targeted support to poor rural women have increased access to technology, knowledge and finance. It has boosted their economic and social status and decision making roles.*

#### **IV. IFAD country strategy**

33. Rapid urbanisation and industrialization have had multiple impacts on rural transformation. Viet Nam has entered a period of 'golden population structure' with young persons aged 15-29 accounting for one-quarter of the total population and nearly half (49.5 percent) of the active population (aged between 15 and 39 years). Making its transition to a higher value economy, Viet Nam is facing the challenge of producing jobs for its young and expanding labour force and providing it with relevant skills for the growing service and manufacturing sectors
34. While poverty incidence is rapidly decreasing, its patterns are more than ever before associated with the rural populations in general, and ethnic minorities in particular. The remote northern mountainous provinces, central coastal areas and southwest provinces are home of ethnic minorities many of which are poor or near poor. In no small part, this is due to the rural poor being largely dependent upon agricultural livelihoods and thus vulnerable to natural disasters, weather and/or climate risks, crop pest and disease outbreaks.

#### **A. IFAD comparative advantage and overall goal**

35. The COSOP is intended to contribute to an effective implementation of Government's Agricultural Reconstruction Programme that is well coordinated with the most directly relevant National Target Programmes, i.e. Sustainable Poverty Reduction, New Rural Development and the Program to Respond to Climate Change.
36. Vietnam has a predominantly rural population with a vibrant agricultural sector where smallholders represent a large majority, contribute to sustained growth, mitigate shocks, and provide much of rural employment and raw material for its agro-industries. The value added by IFAD programmes lies in their being people-centered and deeply rooted in smallholder agriculture. Targeting approaches, as part of project design and implementation, ensure that public and private investments include smallholder farmers and the rural poor by eliciting their participation. In Vietnam, its efforts have most particularly benefitted ethnic minorities while creating institutional capabilities in the communes that most need it.
37. Restructuring the agricultural and rural economy is a particularly long and difficult endeavour. IFAD is known for its work in challenging environments, for its innovative approaches and tailor-made solutions for national and local development challenges. Many of IFAD-supported innovations have found their ways into being mainstreamed and

adopted at a larger scale. It is in this context that IFAD has an important comparative advantage as an agent of institutional and technological change in agriculture and rural finance for sustainable inclusive development. The COSOP will mainstream nutrition and youth across its portfolio to address inequalities especially among vulnerable and poor communities.

## **B. Strategic Objectives**

### **Theory of change.**

38. Smallholder agriculture modernisation and diversification depends on increased investments at the rural household level, which in turn requires the inclusion of low-income households into the financial market on a sustainable basis. Both the agricultural productivity and poverty alleviation gains are seriously jeopardised by risks of extreme weather events (storms, typhoons, flooding, and drought), and by slow climate change impacts from sea level rise and warming temperatures. Reducing smallholder exposure to such risks implies ensuring good environmental management at several levels and scales, protection of natural resources, diversification out of rice and climate resilient infrastructures and practices.

### **Strategic objectives (SOs)**

39. The COSOP embraces a people-centric strategy targeted to smallholders and Agri-SMEs in underserved areas with a concentration of ethnic minorities.

*SO 1: Building pro-poor and stable value chains with greater investments from the private sector;*

*SO 2: Enhance and expand financial inclusion for climate resilient livelihoods;*

*SO 3: Foster the environmental sustainability & climate resilience of ethnic minorities' smallholder economic activities.*

### **Mainstream key challenges**

40. IFAD11 priorities will be mainstreamed across all three SOs. IFAD's country programme has empowered women through access to technology and finance, so that they engage in value chains and strengthen their own institutions. Similarly, youth benefits from access to finance, technology employment opportunities within the value chain activities. Nutrition is cutting across but it is most prominent in SO-3 which target ethnic minorities where undernutrition rates are above national average. Sensitization for nutrition and diversified diets, social aspects (e.g. early pregnancy, breast feeding) and practical investments to enhance access to nutritious food. For example through the promotion of nutrition sensitive value chains. Climate changes adaptation cuts across the entire Vietnam portfolio and all three SOs. Value chains have been made climate smart through scaling out climate smart agriculture practices and working at the policy level on the climate issues that the Mekong delta is facing.

## **C. Menu of IFAD interventions**

### **Programme of loans and grants**

41. Under SO 1, the COSOP will aim at adding value in pro-poor value chains with a more equitable distribution of the value added between value chain players through skill development of farmers, higher integration of value chains with less intermediaries, contract farming and contract programmes, incentives for the establishment and modernisation of the agricultural processing plants. The primary investments would be made in (i) farmer organization to promote land consolidation and economies of scale and market leverage in production, transport, food safety standards, value-added processing, etc.; (ii) technical assistance, training and extension; (iii) agricultural inputs; (iv) capital investment in key value chain infrastructure (e.g., post-harvest, primary processing, cold storage, market access, water conserving irrigation, warehouses, workshops, processing

and packaging facilities, other productive infrastructure); (v) support to transparent and responsible value chain/commodity governance; (vi) support to developing Business Development Services (for provision of high quality/affordable services to value chain actors, facilitate connecting domestic value lead firms with international buyers, advise on import of suitable advanced technology, etc.); and (vii) high-level technical assistance and instruments such as affordable weather insurance necessary for ensuring management of weather and climate risk throughout the value chain. The above interventions would promote directly youth and their demand for decent and well paid employment opportunities.

42. With regard to SO2, IFAD will continue supporting the development sustainable rural and microfinance systems in two ways: (1) IFAD will continue to support the ongoing WDF schemes in the country programme and their graduation to registered Microfinance Institutions (MFI); (2) IFAD will mobilise its non-lending programme at regional and national levels to link with and support its partners in Vietnam. IFAD will deepen the partnership with the State Bank of Vietnam (SBV) as both agencies have common objectives in the area of microfinance and value chain finance. Both partners could pilot innovative approaches to climate smart finance for SMEs and smallholders and the use of digital technology for accessing financial services. A new loan funded project for the microfinance sector will not be pursued in view of current Government policies which do not foresee the use of ODA investments for rural finance. Should the policy changes in the future, IFAD would be prepared to provide financial and technical support.
43. Under SO3, the COSOP will target more particularly those households for which the value chain approach will not be relevant or feasible. Improvements in connecting infrastructure are needed to open up new poverty reducing and sustainable livelihood options. The latter would include tourism that promotes cultural identity and sustainable agricultural development opportunities. Local certified products under the OCOP programme alongside nutritious food (local vegetables, fruits, fish, livestock) alongside food safety standards would be promoted, with an expected result to increase reduce the incidence of chronic poverty rate and reduced undernutrition, mainly among ethnic minorities, thus contributing to a more balanced regional development. This set of activities pretty much build on the traditional package offered by IFAD-funded projects (financing, innovations, support to public development agencies, job creation) in ethnic minority and mountainous areas using renewed instruments and approaches that fit the new ODA policies.
44. It will also better take into account the major climate change constraint by reinforcing agriculture adaptation/mitigation efforts (soil and water conservation, water management, agricultural insurance), particularly in most vulnerable mountainous areas). Linking with the Vietnam Green Growth Strategy Facility is envisaged. IFAD will endeavour to mobilise additional funding from the UNFCCC Adaptation Fund, GEF and GCF.

### **Country-level policy engagement**

45. The priorities set for policy engagement follow closely the COSOP strategic objectives, i.e. leveraging private sector investment in rural areas; climate change adaptation; inclusive finance and; support to farmer organisation for value chain development. In each of these domains IFAD, will review its own experience and that of others, seeking to enter into knowledge-based partnerships both at national and international levels with a view to promote policies that foster and scale up innovation for smallholder agriculture.
46. The new partnership with SBV will be key to maintain IFAD's positioning in promoting access to rural financial services for poor smallholder farmers, poor women, youth and poor ethnic minorities and rural SMEs. GoV has tasked SBV with the formulation and implementation of the *National Comprehensive Financial Services Strategy*. IFAD, Women Union and SBV are already working closely on the implementation of the formal registration of WDFs as microfinance institutions. It is expected to open new avenues for policy development.
47. IFAD's engagement in the Mekong Delta working group has contributed shaping resolution 120 and its action plan to address climate change issues salient in the Mekong Delta. Development partners and Governments are reviewing currently the effectiveness of the

resolution 120 to enhance its effectiveness . The IFAD/EU funded regional grant builds an excellent platform for policy dialogue to boost the critical role of farmers organisation in support of inclusive value chain for smallholders. A new IFAD regional grant fosters the networking of agricultural policy think tanks for policy development (NARDT) across the Mekong region .

48. The COSOP will promote new instruments for policy engagement such as SSTC. It would allow for a benchmarking of domestic agriculture and rural development policies, upgrading of regulatory and institutional frameworks, while feeding into the innovation adaptation, knowledge management and scaling process.

### **Partnerships to support COSOP strategic objectives**

49. Leveraging the resources and the knowledge of the private sector will be a central feature of this COSOP through a renewed approach to Public Private Partnerships and Value Chain Development. The COSOP will deepen its current partnerships with MARD, to link closely with the NTP-NRD and OCOP on inclusive value chain development. Engaging with new partners that have developed innovative approaches to PPPs, such as the sustainable trade initiative (IDH), will enable IFAD to renew its approaches while building on its own experience and to further expand its policy influence on topics of relevance (e.g. agrochemical issues, sustainable training curricula).
50. The COSOP will partner with the Committee for Ethnic Minority Affairs (CEMA) for targeting ethnic minorities programmes in support of national programmes and to enhance opportunities for scaling up through policy interventions. The partnerships with Vietnam's Women Union will be deepened to consolidate the impact through the Women Development Funds in 11 provinces and to strengthen the decision making role of women in rural societies. The Farmers Union will continue has been a critical partner to extend technical support and business development services to farmer groups. The COSOP will extend support to the FU through the Medium Term Cooperation Programme with Farmers' Organisation Phase 2 and Regional Policy Dialogue in ASEAN Region (MTCP ASEAN) regional grants linking it with other partners to promote inclusive 4Ps .
51. The new partnership with SBV will provide opportunities to influence national policies on microfinance and SME finance through non lending activities especially at the regional outset. As an example, SBV visited IFAD promoted microfinance schemes in India to learn how their experience could be transferred to Vietnam. Similar exposure would be supported through APRACA and other regional networks , which IFAD is engaged with. SBV is a key partner for the conversion of IFAD supported WDFs into registered microfinance
52. The Institute of Policy and Strategy for Agriculture and Rural Development (IPSARD) has been a longstanding partner with IFAD. It has been engaged through various regional IFAD grants, including the above mentioned NARDT to strengthen selected agricultural policy think tanks in the Mekong region. As the think tank of MARD, IPSARD is in charge of scientific research, technology transfer, international cooperation, policy advice, baseline surveys, information, training and services in the field of agriculture and rural development.
53. The COSOP will deepen partnerships with international and national research centers notably the CGIAR such as CIAT, IRRI on issues such as technology transfer and climate change adaptation. IFPRI and partner such as SNV, Helvetas and the Regional Value Chain Capacity Building Network (VCB-N) remain strong partners to foster inclusive value chain development. Partnerships with UNICEF, UN women and FAO will be established to enhance awareness of nutrition issues among ethnic minorities and poor communities. These partnerships will be harnessed to mainstream nutrition in IFAD funded operations.

### **Knowledge management**

54. IFAD country office will enhance the monitoring, evaluation and learning functions. The current KM Plan will be revised to foster a more integrated approach linking project Monitoring and Evaluation, Innovation Management, Scaling-up and Policy engagement functions in a continuum that leverage the resources of a network of stakeholders and partners. Depending on clients and users needs, knowledge products would be packaged as



policy briefs, policy analytical papers, technical reports, media articles for sharing through partnership networks, face-to-face events or medias, newspapers, websites etc. IFAD will share its knowledge products with the general public. Beyond project resources, IFAD would also use its resources available from regional and country-level grant projects as well as its SSTC grants to support for implementation of the KM Plan.

### **South-South and triangular cooperation (SSTC)**

55. Given its experience in the country and the corporate reforms aimed at strengthening the mainstreaming of SSTC into its country programmes, IFAD is in a position to play a clear and explicit role in leveraging SSTC in Viet Nam with particular reference to the following areas:

- (a) Support the private sector in improving their engagement in pro-poor value chains through business to business and community to community linkages
- (b) Promote policy exchanges on agriculture and rural development
- (c) Promote the sharing and uptake of rural development solutions in climate change adaptation and resilience. .

### **Targeting to mainstream main challenges**

56. Geographic targeting of poor and remote provinces and communes has been and will remain relevant in terms of poverty reduction. It has produced demonstrated positive results, but it has also been a constraint, limiting the scope of investment to a specific, geographic unit. High potential value chain opportunities – those with good economic development/market potentials, and potential for high inclusion of smallholder households – would have their associated geographic areas as the basis for targeting.

57. Gender inequalities still represent barriers to sustainable socio-economic development in rural Vietnam. The COSOP deepens its approach to participatory planning from commune level upwards, and the deliberate inclusion of vulnerable women, ethnic minorities in decision taking functions, in line with the new IFAD targeting and Indigenous People policies.

58. By supporting the Women Development Funds and their graduation to Microfinance institutions, the COSOP 2020-2025 will make a significant contribution to overcoming some of the above challenges. Moreover, targeting of ethnic minorities and focus on resilience to climate change and inclusive value chains address issues that are often affecting women disproportionately.

59. The youth have often a propensity to innovate but typically lack the small capital and assets that would enable them to start-up their own business. With its partners such as SBV and Farmers Union, the COSOP will support access to financial services to expand the opportunities offered to the youth. Opportunities for gainful employment will be offered to the youth by the multiplier effect on the local economy of the combination of small scale infrastructure, farmers and grassroots organization development, and improved market information and access.

60. Investment projects will need to propose specific measures for the participation of women and the youth in relevant activities and engage with key stakeholders such as the Women Union and Youth Union. This means enhancing their learning opportunities in order to regain and assume new leadership and entrepreneurial roles in their communities. For ethnic minority women, it means increasing the opportunities for productive and stable on-farm and off-farm employment. Participation rates in Village Development Boards (VDBs) and collaborative groups (CGs) and for vocational training and credit access will be monitored. Women and the youth engagement in value chain development will be particularly sought, through inclusive business entrepreneurship programs.

## **V. Innovation and scaling up for sustainable results**

### **A. Innovations**

61. This COSOP will explore new solutions and ways to make of technical innovations, and digital technologies in particular, to (i) enhance the competitiveness of smallholder agriculture and (ii) address food safety concerns and (iii) enable nutrition smart value chains. This approach constitutes a game changer for Vietnamese small farmers and orient accordingly its investments in skill development, water saving, access and connection to markets and financing, rational natural resource management, clustering production for better visibility and penetration on the market. Admittedly, the "smart" agriculture/Industry 4.0 agenda is not readily accessible individual smallholder household nor necessarily relevant to their circumstances.
62. The focus will be on establishing an effective and on-going process of innovation, learning and policy engagement rather than on the specific innovative solution or outcome. As part of its country knowledge management and policy dialogue strategy, IFAD will design and implement a proper innovation management mechanism that create an appropriate learning environment for farmers and SMEs. To this effect it will use resources available from regional and country-level grant projects. Whenever possible, alternative solutions for the same challenge will be piloted in different sites and provinces or with different stakeholders. This should accelerate learning from practice and develop a range of options rather than one size fit all solutions.

### **B. Scaling-up**

63. Scaling up includes four converging efforts: project implementation; knowledge management and learning from practice; experimenting with innovations, and; engaging in policy dialogue. This COSOP will build on the results and lessons learnt in the past two recent COSOPs, as mentioned earlier such as for climate informed MOP-SEDP , climate change adaptation, microfinance, inclusive value chain development and engaging private sector. M&E and Knowledge management remain the gravity points for filtering and assessing the effectiveness of innovations. Policy dialogue and advocacy in partnerships with IFAD large in country and regional networks of partners provide the space. A good example provides the replication of the IFAD supported MOP-SEDP in more than 670 communes outside the 180 "IFAD" communes.
64. The COSOP will endeavour systematically engage its non-lending programme including SSTC to foster learning while new sources of funding would be developed for scaling out alongside resources mobilised the private sector and linkages with national programmes such as OCOP and NTP-NRD. Besides finance, partnerships with government programme, taking part in thematic venues provides the required policy space for scaling up at national and regional levels.

## **VI. Implementing the COSOP**

### **A. Expected financial envelope and co-financing targets**

65. The IFAD financing was capped to about US\$ 42 million for IFAD11 (2019-2021) and may return to previous the previous level of about \$82 million for IFAD12 (2022-2024), for a total of about US\$ 126 million. IFAD's regional target is about 110 per cent for national and international co-financing, respectively. Moreover, GoV expects 25-35 per cent grant funded contributions to match loan investments. National co-financing will be expected from private sector, national programmes such as NTP-NRD and OCOP, and beneficiaries' contributions (in kind and cash).
66. In order to support policy development and priority areas for innovation and knowledge management requiring significant technical assistance, capacity building support, and other investments for which the Government would be unable to borrow or utilize its own resources, IFAD will also seek to mobilize significant non-loan resources (GCF/GEF grants, bi-lateral development partners, ASAP funds (climate), IFAD regional and country grants) as well as support from IFAD's South-South Technical Cooperation Programme and new

partnerships. The role of the national government will be critical to identify and harness especially new potential co-financiers.

**IFAD financing and co-financing of ongoing and planned projects**

(Millions of United States dollars)

Project	IFAD financing*	Cofinancing**		Cofinancing ratio
		national	international	
SEER	42	46	46	National: 1.1
SVCP	42-84	43-93	43-93	International: 1.1
<b>Total</b>	<b>84-126</b>	<b>93-139</b>	<b>93-139</b>	

\* IFAD allocation. Note that PBA for 2022-2024 represents an estimation and requires approval by IFAD's executive board in December 2021.

\*\* Amounts do not represent any commitments by GoV or other partners. The estimates serve as targets only.

67. The GCF would be dedicated to aspects of climate change adaptation and mitigation, at all levels of the program, from national policy engagement to climate smart agriculture interventions at the farmer’s field level. GEF financing would be directed to support the conservation of agro- and forest biodiversity resources of cultural and economic importance to ethnic minorities.

68. Government of Viet Nam counterpart, recurrent and capital cost financing is broadly estimated at US\$ 43 million for IFAD11. This may need to double in IFAD12 if the allocation returns to original levels and GoV continues to borrow. From all sources, the total program (IFAD11 and 12 plus counterpart contributions) could ascend to an investment on the order of US\$ 270-404 million.

**B. Resources for non lending activities**

69. As presented above grants or development partner financing would be yet required to support policy development, priority areas for innovation and knowledge management; all of which would require significant technical assistance, capacity building support, and other investments for which GoV would be unable to borrow or utilize its own resources, This, in addition to the GCF/GEF grants, and the expected support from IFAD’s South-South Technical Cooperation Programme in some priority areas of knowledge management for policy engagement, it is conservatively estimated that an additional US\$10–15 million would be required to cover these aspects

**C. Key strategic partnerships and donor coordination**

70. The breadth, depth and intensity of the natural resources and climate change adaptation-oriented interventions would be dependent upon ability to obtain grant financing and/or leverage partnerships with other organizations (e.g., FAO, GIZ, JICA) for technical assistance, studies, knowledge management processes, technical quality control, institutional capacity building, training, and extension.

71. In this context, the partnership with the Global Environment Facility (GEF) and the Green Climate Fund (GCF) will be actively sought. Other possible partners with whom collaborative initiatives could be pursued include the European Union (EU) for technical assistance and institution building efforts, Canadian and Irish aid agencies for policy and advocacy work, and Germany for environment sustainability and climate change resilience.

**D. Partnerships with other members of the United Nations development**

72. The UN has an important role to play in supporting multi-stakeholder partnerships for human rights, inclusion and equity. The COSOP supports the One Strategic Plan (2017-

2021) of the United Nations which prioritized support in three focus areas, namely: (i) inclusive, equitable and sustainable growth, (ii) access to quality essential services and social protection; and (iii) governance and participation. IFAD will partner with UN agencies on the key IFAD11 priorities climate (FAO, UNDP), gender and ethnic minorities (UNDP, UN women) , youth (UN women, UNIDO, ILO) and nutrition (FAO, UNICEF).

## **E. Collaboration with other Rome-based agencies<sup>4</sup>**

73. FAO is already a strategic partner of IFAD in Vietnam. The close collaboration with FAO enables IFAD to leverage high level technical expertise in support of the design and implementation of its projects or for its policy engagement work. FAO co-chairs the UN results group 3 on climate change and environment, where IFAD participates, as part of the One Strategic Programme implementation arrangements. There are clear synergies and complementarities between IFAD and FAO's programmes including, in particular, food and nutrition security as well as climate resilience and disaster management, to mention but the most important areas. As a particular case in point, the country team will explore the possibility of a joint collaboration with FAO country office in the framework of the preparation of a joint GCF proposal.

## **F. Citizen engagement and transparency**

### **Beneficiary engagement**

74. Engagement with the civil society, especially the rural society, one of IFAD's trade marks and demonstrated comparative advantage. Over decades of engagement, using bottom-up participatory approaches, IFAD has built a capillary network of interrelated community-based organization and linked them up with local government agencies while bringing their voice and concerns to influence policies and programmes. The transformation from the SEDP to a MOP-SEDP presents a good example on how over time citizens have gained influence in planning and resources allocation. These quiet but constant, day to day grassroots empowerment efforts combined with a direct dialogue over concrete development interventions does amount to a considerable sum of advocacy work. It has demonstrably influenced the evolution of public policies and those of other financing agencies active in the agricultural and rural sectors.

75. It is also difficult to separate the engagement with the civil society from the engagement with professional organisations. The on-going Regional Grant MTCP Phase 2 (soon to be followed by a third phase) focuses on strengthening farmers organisations in the Asia and Pacific. The MTCP programme in Vietnam started with a review of the structure of farmer organisations, professional associations (horticulture..etc.),and community based organisations as a basis for the preparation of a partnership framework by which some of the IFAD resources channelled through investment programmes will be supporting CBOs, cooperatives in particular.

76. Looking forward, there is a need to consolidate past efforts in order to leverage more systematically the potential of civil society networks. This should in turn increase IFAD's capacity to influence sector policies while mainstreaming and scaling-up innovations.

77. There is a clear need and intention for IFAD to be more pro-active in this domain in future. In the new COSOP, a participatory monitoring framework would be developed to strengthen feedback mechanism and ownership by the communities. Supervision missions could be geared to spend one entire day of the mission to engage systematically with civil society organisations, as part of their field trips. The feasibility of new ideas such as mini test groups that are each representative of a particular segment of the target group could be probed to provide sounding boards for a range of ideas and interventions, leveraging digital technologies to engage in real time dialogue and more generally offer increased opportunities of engagement by civil society.

---

<sup>4</sup> The World Food Programme does not currently have a programme in Vietnam

## Transparency.

78. A transparency and good governance framework will be designed to further strengthen the portfolio against risks. Framework elements will include project disclosure of project documents, investment made and results achieved; access to audit and bidding reports, assessment of results by external agencies

## G. Programme management arrangement

79. Programme design, support and implementation monitoring activities will be carried out by both Government of Vietnam and IFAD Country Office with the consultancy of domestic and foreign specialists. Implementation support will be in accordance with different areas of support including market-driven productions, pro-poor value chain, ethnic minorities issues, microfinance activities. COSOP programme supervision missions by GACA/IFAD to provide assessments on physical and financial performance of each programme and to identify the bottlenecks on implementation will be held annually in Hanoi or in the IFAD provinces. IFAD will continue their support to GACA in new project design, upgrading current investment's interventions and monitoring COSOP programme.

COSOP management is the responsibility of both Government of Vietnam and IFAD. The IFAD Sub-Regional Hub office in Hanoi serves the Vietnam programme. It is composed of a full-fledged staffing inclusive of a Country Director, Programme officer, Country Programme Officer and Programme assistants for operation, M&E, KM and policy engagement related tasks. This team is supported by an financial management team to promote efficient fund flow and control of expenditures. This team forms the core of the COSOP management and it works closely with the Vietnamese government agencies and other partners.

## H. Monitoring and evaluation

80. Government Aid Coordination Agencies (GACA) and IFAD Country Office will monitor COSOP based on the indices of COSOP Programme Management Result-based Framework (CPMRF) and its correlation with Socio-economic Development Plan. COSOP Programme monitoring will result in more systematic assessments of projects' achievements and impacts in more relevant context of government's targets and objectives. Annual COSOP programme supervision missions will include of representatives of Government, provincial leaders and project directors, staff of IFAD HQ and IFAD Country Office in Hanoi. M&E activities at project levels will be cemented to the database at national programme level, creating good conditions to closely follow the project progress during implementation and report based on the indices of CPMRF. In addition, M&E for COSOP programme will be linked with the government efforts in providing assessments on the effectiveness of aiding activities. COSOP's Mid-term Review will be carried out by the end of 2025. During annual supervision missions and mid-term review, COSOP priorities will be adjusted according to its suitability with Government's policies and priorities as well as IFAD policies if applicable.

The current arrangements for COSOP monitoring will be extended to the new COSOP cycle with few changes. The main improvements include a higher integration of programme activities to ensure economies of scale and scope in COSOP Management. Furthermore, given the diversity of activities, geographic sites, topics, value chains, partners and funding instruments involved in COSOP implementation, an enhanced and quasi-permanent analytical capability should be established to ensure a near real time learning, manage a number of innovation processes, feed into policy engagement activities, in addition to the simple reporting and communication on implementation progress and results. In the new context of Aid management, particular attention will be given to tracking and assessing the economic returns on investment and spillover effects.

## VII. Managing risks to the COSOP

81. The table below summarizes the main risks identified and the mitigation measures .

### Risks to the COSOP

Risks	Risk	Mitigation
Political/governance	low	National policy

Macroeconomic	low	context highly compatible with
Sector strategies and	low	CSOP
Institutional capacity	medium	Grant mobilization to fund capacity building and technical assistance
Portfolio	low	
Fiduciary	low	
Environment and climate	Substantial	Most investments are in fact geared at climate change adaptation and building resilience
Social	low	
Grants funds cannot be obtained with the timing, quantity and kind needed		IFAD and MPI will work in a pro-active manner to attract local and international grant financing.
Overall	Medium-low	

## **Rural poverty and agricultural/rural issues**

### **National context**

Over the last 30 years, Viet Nam has enjoyed strong economic growth driven by international trade and foreign investment. Throughout this period, the Government has launched reforms in all key sectors of the economy and began privatising public companies, hence improving the business climate to promote production and exports, stimulate consumption and investment, improve the social situation and introduce effective monetary and fiscal policies. Since 1990, Viet Nam's Gross Domestic Product (GDP) per capita growth has been among the fastest in the world, averaging 6.4 percent a year in the 2000s and transforming Viet Nam from one of the world's poorest nations to a lower middle-income country. Poverty has been substantially reduced thanks to an equitable growth pathway that lifted out of poverty more than 40 million people over the last two decades<sup>5</sup> (latest available data, World Bank). In recent years, GDP growth has averaged 6.45 percent per annum (2015/2016), consolidating its economy in spite of uncertainties in the global environment. However, economic growth can be sustained if market liberalization - including reduction of trade tariffs, privatization of State Owned Enterprises, reduction of red tape and corruption - is further pursued as a major State reform.

6. Macroeconomic condition over the last years have remained relatively stable in Viet Nam. Controlled inflation - reaching 4.9 percent in 2017 - and improved access to credit sustained consumption of Vietnamese households. Over the last decade, the official exchange rate constantly depreciated against the US dollar, given the new policy to widen the exchange rate band when the currency is under pressure rather than to defend the currency. There is a general expectation of a stronger downward pressure on the exchange rate in the coming years, with the government trying to maintain export competitiveness amid steeper currency declines across the region. This and the likely interest rates rise in the US will weaken the Dong against the US dollar. Public finances remain fragile and the public deficit still high. However, it should be reduced as the privatisation programme continues. Despite a large public debt, the country's external accounts have improved as the exports have risen. Nevertheless, foreign exchange reserves remain insufficient and only cover two months of imports in 2017. Along with economic development, Viet Nam has also provided opportunities for greatly enhanced foreign direct investment and international trade especially in the electronics sector.

7. The Government of Viet Nam continues to show commitment to trade liberalization and to promoting skills development, particularly for modern industry and innovation, improving market institutions, and infrastructure development. Viet Nam's 2011 - 2020 Socio-Economic Development Strategy (SEDS) highlights the need for structural reforms, environmental sustainability, social equity and emerging issues of macroeconomic stability. Efforts to stimulate the economy through tax breaks and accommodative monetary policy have faced diminishing returns, while raising fiscal deficits and creating new contingent liabilities. Without accelerating structural reforms, especially in the banking and State-owned enterprise (SOE) sectors, Viet Nam faces the risk of a prolonged period of slow growth. Main economic indicators between 2014 and 2017 are shown in Table 1.

---

<sup>5</sup> In 2010, a new poverty line was estimated by the General Statistical Office and World Bank that better reflects living conditions of the poor. Based on the revised poverty line (equal to VND 653,000/person/month or \$2.25/person/day, 2005) and updated monitoring system, the national poverty rate in 2010 was 20.7 percent vs. an official poverty rate of 14.2 percent in 2010 using former MOLISA urban and rural poverty lines of VND 500,000/person/month and VND 400,000/person/month, respectively.

**Table 1. Major Economic Indicators for Viet Nam**

Indicator	Unit	2014	2015	2016	2017
GDP	USD bn	185.8	191.4	201.4	213.4
Real GDP growth	%	6.0	6.7	6.2	6.3
Population	(m)	92.5	93.6	94.6	95.5
GDP per capita	USD	2,047	2,087	2,173	2,306
Contribution of Agriculture to GDP	%	17.7	17	16.3	15.9
Inflation Rate	%	4.1	0.6	2.7	4.9
Trade Balance	USD m	12,126	7,396	14,013	3,671
Unemployment rate	%	2.1	2.4	2.4	2.4
FDI inflow	USD m	9,200	11,800	12,600	n/a

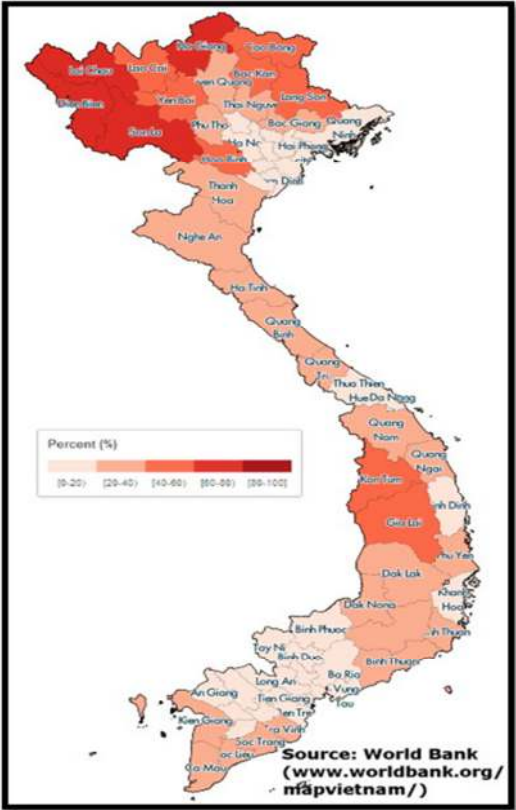
Source: IMF, International Financial Statistics & World Bank Open data.

**The National Geography of Poverty**

8. In Viet Nam, there are three main poverty lines namely: (i) the national poverty line used by MOLISA; (ii) the GSO-WB poverty line; and, (iii) the international poverty line with the variant of less than 2 USD/day. Regardless of the measure used, Viet Nam has obtained a remarkable poverty reduction over the last decades. The national poverty head count significantly reduced from 60 percent in 1993 to 13.5 percent in 2014<sup>6</sup>. More than 40 million people escaped poverty over the course of two decades. In 2015, MOLISA introduced the multi-dimensional poverty standard<sup>7</sup>, which increased the national poverty head count up to 15 Percent. As of 2016, the poverty rate had reduced to 13 Percent. There were still 2.3 million households living under the poverty line in 2016<sup>8</sup>.

9. One of the main features of poverty reduction in Viet Nam over recent times is that the speed of reduction has been different among different groups and regions, although the trend was more or less the same. Poverty has strong ethnic and geographic dimensions. Rural areas remain disproportionately affected by poverty. As about 67 percent of Viet Nam’s 2014 population lived within rural areas, poverty may be characterized as predominately a rural phenomenon. (World Bank, 2015). Poverty is also persistent among the ethnic minority groups. While only some 15 percent of the population, these groups account for

**Figure 1. Provincial poverty head count as percent of total population.**



<sup>6</sup> [www.worldbank.org/vi/country/Viet Nam/overview](http://www.worldbank.org/vi/country/VietNam/overview)

<sup>7</sup> [www.molisa.gov.vn/en/Pages/Detail-news.aspx?IDNews=2062](http://www.molisa.gov.vn/en/Pages/Detail-news.aspx?IDNews=2062)

<sup>8</sup> [www.molisa.gov.vn/vi/Pages/chitiettin.aspx?IDNews=24957](http://www.molisa.gov.vn/vi/Pages/chitiettin.aspx?IDNews=24957)



more than half the poor, and progress on ethnic minority poverty reduction has slowed (World Bank, undated). Rates of poverty have been reported as 8.9 percent for the majority Kinh/Hoa peoples and 21.2 percent among ethnic minorities (UNDP, 2015).

10. As indicated in the map above, poverty is more concentrated in some areas in Viet Nam including Mountains and Central Highlands. According to UNDP (2015), poverty in these areas slowly reduced during the last 10 years, even slightly increased during 2006-2008 in the West Northern Mountains. In the Northwest, where a high percentage of the population are ethnic minorities, the incidence of poverty is many times higher at 45.7 percent. The Northeast, Central Highlands and the North Central Coast displayed similar incidences of poverty, as did the South Central Coast and Mekong River Delta.

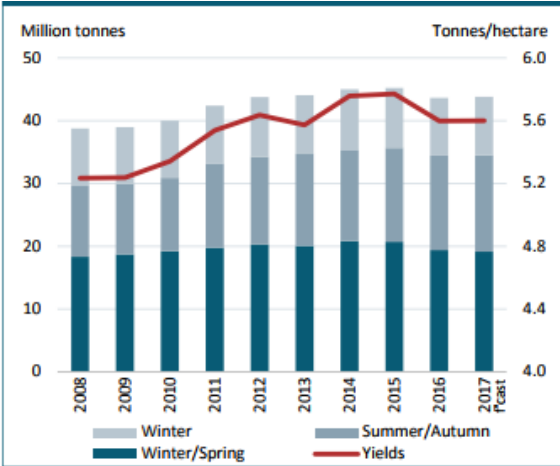
11. The Government's impressive achievements in pulling millions of people out of poverty are seriously jeopardised by the likely increase in extreme weather events such as severe rainfall and drought, and by slow climate change impacts like sea level rises and warming temperatures. Viet Nam has an admirable history of coping with natural disasters and reducing their effects, but the economic and human costs can still be huge. According to the World Bank's 2008 Global Monitoring Report, Viet Nam ranks eighth in the ten most vulnerable countries in East Asia to weather extremes. The poor are more vulnerable to these shocks for a variety of reasons. They are more likely to live in areas vulnerable to flooding and other natural disasters, and less likely to live in robust permanent homes. The impact of flooding, storms or drought is usually greater on poor people as they have fewer resources to recover. Inability to pay off debt or take out new loans, increases in local food prices, and illness due to water-borne diseases can all disproportionately affect the poor. Women and men are affected differently by climate change because of the different roles they play in the household economy. They have different resources with which to perform these roles, including different levels of education, access to power, social norms, access to credit, and ownership of land and other goods. Women are often playing the multiple roles of farming crops, as well as being primarily responsible for providing food, water and fuel for the family, and caring for the sick. All these roles are made more onerous by the impacts of climate change.

**Agriculture and Rural Development**

12. Agriculture has been an enduring source of both economic and social stability for Viet Nam, contributing well beyond GDP and employment growth. Viet Nam's agricultural value-added grew at an average rate of 3.7 percent per annum between 2000 and 2012. Agricultural growth in Viet Nam has also been less volatile than elsewhere in the region thanks to irrigation infrastructure serving more than 70 percent of cultivated areas. Its performance in reliably delivering an affordable and increasingly diverse supply of food has helped to contain inflation and thus dampen wage pressures which might have undercut the competitiveness of manufacturing. Meanwhile, Viet Nam has also emerged as one of the world's leading exporters of agro-food commodities (i.e. rice, coffee, tea, cashews, black pepper, rubber, and cassava). Nevertheless, there are growing concerns related to the quality and sustainability of Viet Nam's agricultural growth and related patterns of development.

13. Paddy remains the main staple crop in the region, with most of the cultivated area and irrigation capacity designed to support food security. Over the last two decades, paddy production increased from 19.2 to 43.8 million tons, with much of this expansion taking place in

**Figure 2: Paddy production 2008-2017**



Source: FAO Rice Market Monitor 2017

the Mekong Delta area. In 2016, paddy production contracted by 6 percent due to El Niño, induced dryness, salinity problems and excess rains. (FAO 2017, Rice Market Monitor). Despite an initial setback, expectations that more favourable weather - as experience during last winter - will permit yields to recover production. The recent increase in production reduced local market price, hence benefitting Vietnamese consumers more than other consumers in the region. Currently, Vietnamese consumers pay the lowest prices in the world for rice (at USD0.33/kg) in June 2017, compared to higher average national price in China (USD0.93/kg) and the Philippines (USD0.83/kg) and a much higher price in Japan (USD4.42/kg).

14. Despite most of the increase in production has gone for export, therefore contributing to GDP growth, the continued concentration of resources in paddy production has come at a cost. The recent sector growth has inhibited a more rapid process of structural transformation - both within the sector and beyond. The country's agricultural growth rate has been decelerating due to concentration of resources, both financial and human, into one sector. A more diversified strategy for cropping and resource-use pattern would have been more beneficial for farmers, consumers, and agricultural workers. Decree 35, issued in April 2015, represents a turning point to that end as it eased the restrictions on paddy-land use and opened the door to a broader land reform, meanwhile aiming to a more balanced, diversified and efficient use of resources.

15. Other agricultural subsectors have shown diverse growth's patterns and performances. Fisheries and aquaculture grew at around 8.8 percent per annum, mainly driven by near-shore fisheries rather than shrimp aquaculture which has instead faced losses of production due to disease. Livestock production also grew at a notable average of 4.7 percent, per annum, while being characterized by high volatility partly related to disease outbreaks and fluctuation in animal feed costs. Domestic milk production still accounts for a very small share of livestock value-added, while pork production contributes for about 70 percent of the growth in the subsector. That industry has recently experienced problems of disease, consumer concerns about feed additives and waste disposal which represents a significant human health risk. Some 80 million tons of livestock waste are discharged directly and indirectly into the environment every year<sup>9</sup>. The forestry subsector is instead still considered an underperformer within the vibrant economic development of the country. The sector recorded a growth of only 2.2 percent over the 2000 to 2013 period, although some faster growth has been recorded in the past few years.

16. Despite a generally strong performance, a number of constraints remain. The agricultural sector - which in recent years has shown declining trends - is characterized by low smallholder farmer profitability, under-employment among agricultural workers, generally low value addition and limited technological or institutional innovation. Development in the sector have often come at the expense of the environment, particularly in the forms of excessive used of chemical inputs, deforestation, biodiversity loss, land degradation, water pollution, and greenhouse gas emissions. In addition, rising labour costs are hampering Viet Nam's capacity to compete internationally. Indeed, rural markets are characterized by weak farmer access to market information, limited integration along value chains, low levels of value addition, and continued dominance by state-owned enterprises of some commodities and markets, notably export markets. This has contributed to unnecessary transaction costs, unrealized economies of scale in certain functions, and poor incentives to produce and maintain higher quality produce and raw materials. These business, market and quality constraints, combined with an

---

<sup>9</sup> Livestock Research Institute estimate (2015)

underdeveloped processing sector, represent a very significant loss of investment, revenue and employment opportunities, while seriously constraining farm profitability.

17. Viet Nam's agriculture will need to shift towards a more sustainable market-oriented economic growth characterized by reliable supply, predictable quality, assured food safety and value addition. But change is also needed in the model of state management in the sector—in the 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.

18. According to WB projection<sup>10</sup>, the agro-food sector in the coming 10-15 years will continue to play a very important role in employment and livelihoods. Primary agriculture (including fisheries and forestry) could remain the major livelihood or source of employment for between 25 and 30 percent of the population, though this is less than the current 47 percent. The share of employment in agro-industry and agro-food services will likely be just below its share of GDP. Hence, the overall agro-food complex will still account for 35 to 40 percent of employment in the early 2030s. The Bank specialists also expect that Viet Nam will follow the Asia countries' trend of raising incomes, urbanization, and changing tastes that lead to increasing amount of supermarket and other retailer operations, and consumption will shift to higher value and more processed foods. Through such agribusiness or agro-industrial transition, post-harvest agriculture sector may come to occupy a higher proportion of Viet Nam GDP than primary agriculture. This will generate new employment and agricultural supply opportunities to rural populations, with the condition that the communities have sufficient capacity to participate in the commercial value chains.

19. **The opportunities for rural development of Viet Nam:** More than 70 percent of the population in Viet Nam lives in rural areas. The past and present economic development has benefited the rural population as evidenced by Viet Nam's rapidly reducing poverty rate. During the last decade several new plans, policies and legal documents have been presented in Viet Nam and been implemented, and a number of them have had an impact on rural development. Among the most important are the Resolution 26 of the Communist Party – Tam Nong – the 2011- 2020 Socio Economic Development Plan (SEDP), the Policy Framework for the Implementation of the five-year plan 2006-2010, the Budget Law, the Public Administration Reform (PAR), Poverty resolution, GoV's Decision 800 on NTP-NRD and the Law on Government organisation. The National Target Programme-New Rural Development (NTP-NRD) is nationwide and running for the period 2010-2020. The programme is built on the three key principles: (i) Development based on new rural criteria; (ii) Promote community ownership; (iii) State plays the instructive and supportive role; and, (iv) Inherit from and integrated with other NTP programmes and projects.

20. Over the last decade, the Government of Viet Nam primarily plays facilitating roles in infrastructure development, public services, and in special programs. It also provides direct support for areas with extremely difficult conditions in remote and/or mountainous areas. Government investment and support for rural areas is prioritized towards infrastructure upgrading and development to provide better services for production, transportation (and trade), and markets. It also provides direct support for non-agricultural economic activities and development of SMEs and industrial villages in rural areas. In line with priorities of Government, the largest donor-funded activities are focused mostly on infrastructure such as transportation, irrigation, utilities and other public facilities. ODA funding plays an important role with 61 percent of funds going to

---

<sup>10</sup> Viet Nam Development Report: Transforming Vietnamese Agriculture - Gaining More from Less (WB 2016)

rural areas. The private sector created 86 percent of the total employment in Viet Nam in 2014 (GSO). Moreover, with the initiation of public-private partnerships, the private sector plays a more important role in providing education and training services to the poor. While challenges still exist, the Government has recognized the value of foreign investment and private enterprise in steering economic growth and has made doing business in Viet Nam much easier in recent years.

21. Within the policy and investment framework, there are numerous viable avenues for agricultural and rural development in Viet Nam, building on the successes of the recent past. Viet Nam possesses a well-educated rural work force, has relatively good rural infrastructure and relatively good physical environment. All of these factors enable it to be a low cost producer of agricultural commodities. Scoping these advantages and/or challenges in to the COSOP 2020-2025, the following opportunities are addressed:

- The production capacity of the farmers is still low and needs improving. The state's assistance should be strengthened based on dialogue and studies, in order to define the farmers' needs and their actual self-reliance capacity. This area is addressed but more on a top-down central planning modality than participatory, bottom-up planning with dialogue and new methods that will serve the rural population with relevant technologies, finance and off-farm income.
- Rural infrastructure is still insufficient. This issue has been addressed in various policies, including the NTP-NRD. This needs great support/assistance of the Government, international organisations and donors.
- The role of private sector should be further strengthened through engaging the sector more in local planning processes, as well as attracting investment in rural development through the linkages between enterprises, farmers and cooperatives.
- Climate change will have a big impact on agriculture and rural development. This issue should be taken into consideration in rural development through introduction of suitable practices, varieties, breeds and techniques all of which are adapted to climate change.
- The new strategic approach should improve stakeholder participation: participatory decision-making, infrastructure construction and management, O&M financing, and advance studies/investigation.

Enhancing farmers' knowledge and technology transfer by increasing the farmers' access level to international and national best practices.

## Transition Scenarios

### Economic and social transformation in Vietnam: patterns and challenges

82. Vietnam's economy is performing well, propelled by the sustained global recovery and continued domestic reforms. Robust growth is boosting job creation and income growth, leading to broad-based welfare gains and poverty reduction. Vietnam's gross domestic product (GDP) is estimated to have increased by 7.1 percent (y/y) in the first half of 2018. GDP growth was broad-based, led by strong manufacturing growth of 13 percent, bolstered by strong external demand. Agriculture output growth also accelerated to 3.9 percent largely due to strong performance in the export-oriented fishery subsector. Meanwhile, expansion of the service sector remained robust at 6.9 percent underpinned by strong underlying retail sector growth supported by buoyant private consumption and record tourist arrivals (source World Bank).
83. Between 2014 and 2016 alone, the booming export sector and rising domestic demand from the emerging consumer class helped create more than 3 million jobs. Nearly 80 percent of these were in the manufacturing, construction, retail and hospitality sectors, which absorbed a net outflow of 2 million workers out of agriculture. This marks a turning point in Vietnam's structural transformation, as employment in agriculture shrunk in absolute terms too, accompanied by rapid growth in wage employment in all sectors, including agriculture. Robust labor demand over this period boosted average monthly wages in the private sector by a cumulative 14 percent. Households in Viet Nam are therefore increasingly wage dependent. About 54 percent obtained most of their income from wages in 2016. Also, two in five people now have a paid job. The rise in wage incomes contributed to more than half of the decline in poverty during 2014-16 and 40 percent of the increase in the share of people attaining economic security (World Bank, 2018).
84. Vietnam is experiencing rapid demographic and social change too. After years of growth, Vietnam's population reached about 95 million in 2017 (up from about 60 million in 1986) and is expected to expand to 120 million before tailing off around 2050. Currently, 70 percent of the population is under 35 years of age and there is an emerging middle class—currently accounting for 13 percent of the population but expected to reach 26 percent by 2026. Over the last thirty years, the provision of basic services has significantly improved while gender gaps are narrowing and access to household infrastructure has improved dramatically
85. The success in reducing poverty has come largely from rapid economic growth that created more and better jobs. Government investments have significantly improved service delivery, education, and public infrastructure, which facilitated growth and enabled broad participation in the economy. The transformation from an agrarian economy to a labor-intensive manufacturing and services industries has been key, where these sectors created 15 million jobs over the past 20 years (ibid). Improved education has been an important pathway to obtaining better jobs. Migration to cities presented rural households with nonfarm opportunities. These factors have contributed to households diversifying their income sources from agriculture. Those earning a higher share of income from non-agriculture enterprises and non-agriculture wages are more likely to be non-poor.
86. The agricultural and rural sectors have enjoyed significant growth. In the ten-year period between 2008 and 2017, the absolute contribution to GDP by agriculture, forestry and fisheries grew by 70%, from USD 20.2 billion to USD 34.3 billion (current dollars). In contrast, the relative contribution of agriculture to GDP has been constantly decreasing from 25% in year 2000 to 15% in 2018, reflecting a deep transformation of Vietnam's economy.

87. Growth in the sector has however been heavily subsidized by unsustainable exploitation of soil, water and forest resources and the degradation and loss of the ecological services that they provide. Cheap labour and the overuse of fertilizers, pesticides and herbicides have also underlain the “successful” expansion and intensification of agricultural production. This model has no real future : (i) land, labour, and capital are quickly shifting to other, more profitable, non-agriculture sectors; (ii) the overuse of inputs is increasing production cost and reducing farmers’ profits; (iii) urban consumers concerns are growing as regards food safety and market pressure increasing on producers to change their production practices; and (iv) over allocation of surface water and mining of groundwater is leading to real water scarcity for irrigation, especially throughout central Vietnam, at the same time that government seeks to expand irrigated areas. These practices have had serious impacts in terms of biodiversity loss, natural resources degradation, and environmental pollution and contamination.
88. Making its transition to a higher value economy, Viet Nam is facing the challenge of producing jobs for its young and expanding labour force and providing it with relevant skills for the growing service and manufacturing sectors. While industrialization is developing, agriculture remains nevertheless the dominant sector of employment creation in Viet Nam.
89. Overall, Vietnam appears to be at risk to be a victim of its own success as it outgrows its current market and natural resource management institutions and governance. This appears to be the main obstacle to sustained agricultural growth socially, economically and environmentally in the next five years and beyond. The recent deceleration of the economic growth rate testifies to it. Efforts to stimulate the economy through tax breaks and accommodative monetary policy have faced diminishing returns, while raising fiscal deficits and creating new contingent liabilities. Without accelerating structural reforms, especially in the banking and State owned enterprise (SOE) sectors, Viet Nam faces the risk of a prolonged period of slow growth.

## **Scenarios**

90. The base case scenario is one where global and regional drivers of agricultural transformation continue to shape its patterns and outcomes. In this scenario, which is also the most likely one, Vietnam’s medium-term outlook further improves. According to World Bank’s sources, Real GDP is now projected to expand by 6.8 percent in 2018 before moderating to 6.6 percent in 2019 and 6.5 percent in 2020 due to the envisaged cyclical moderation of global demand. Despite reduced slack in the economy, inflation is expected to remain around the 4 percent government target, predicated on some tightening of the monetary stance to counter price pressures emanating from domestic input price pressures and rising global commodity prices. On the external front, the current account balance is projected to remain in surplus, but start narrowing from 2019, reflecting widening deficits on the income and services accounts. Fiscal consolidation is expected to contain public debt over the projection period.
91. As uncertainties generated by the threats of global trade war increase, these in turn may lead to an acceleration of regional integration and increased attention to domestic markets too. Evolving consumer demand will continue to shape the offer of agricultural product both on the domestic and international markets. Increased pressure on the natural resource base are amplified by climate change effects while incentives made available to help transform smallholder agriculture systems remain inadequate to better adapt to climate change and participate in higher value commodity markets. Digital and precision technologies remain accessible only to better off households and larger farms. The level of price volatility will depend on the combined effect of geopolitical, climate and policy factors.

92. Reflecting the overall development trends in Viet Nam, the financial sector has gone through a period of major transformation during the past 20 years. Commercial banks dominate the sector, with 96% share of total assets. However, the commercial banks still tend to prefer lending to large, urban and known borrowers at the expense of rural clients and small and medium enterprises (SMEs). Both farmers and agri-companies will continue to experience the lack of adequate and appropriate financial services as a key constraint for expansion and diversification.
93. For the 2021 to 2025 period, the government intends to continue with the ARP as a priority program and facilitate the implementation of a series of strategic policy changes, including allowing the continued reduction in paddy land and its conversion to other, more profitable, crops; simplifying administrative procedures to promote export, and provide various incentives to investors in agriculture.
94. However, challenges remain. Despite all government's determination, the average annual growth rate of the sector remains below the 3.0% target and ARP implementation was strong and synchronized in some provinces while it was slow in others. The practice of unsustainable use of natural resources to subsidize development remains. The needed breakthrough policies for mobilizing resources (land, capital, and technology) to support the ARP are still missing and institution transformation has been very slow. Structurally, the agriculture sector continues with smallholder farms as the main production unit, and micro- and small enterprises as the main players in the agricultural commodity supply chains. Nor has the rapid development of infrastructure and manufacturing appeared to be expediting the development and transformation of agriculture.
95. In a high case scenario, participation of smallholder households in stable, pro-poor value chains is expected to increase their income, while new value chains will reflect a shift from short-term, supply chain relationships to longer-term, equitable relationships between producers, lead enterprises/agencies and wholesalers/retailers. Smallholder inclusion in sustainable value chains would involve working with lead companies with both major, strategic pro-poor value chains and smaller niche value chains which have or plan to have significant reliance on smallholder contracts to obtain their supply, and that plan for large increases in the number of new smallholder contracts. In cooperation with the company or companies, farmer groups (either existing or organized into cooperatives or CIGs) that can meet minimum cultivated area requirements would be supported to enter into contracts with the companies and become a part of a stable supply chain. At all levels of key value chains, innovative and effective financial service products will be developed during the next 5 – 10 years.
96. The lower case scenario is represented by an evolution by which both the agricultural productivity and poverty alleviation gains could be seriously jeopardised by risks of extreme weather events (storms, typhoons, flooding, and drought), and by slow climate change impacts from sea level rise and warming temperatures (Cf Annex IV: SECAP analysis).
97. Overall, in the absence of adaptation measures, yields will likely be reduced for rice, maize, cassava, sugarcane, coffee, and vegetables. Impacts are predicted to be more significant under dry scenarios than wet ones. Hydrologic changes and sea level rise will affect the availability of fresh water or even physically change the agricultural landscape. Climate change may also threaten the growth and reproduction of livestock and increase the incidence and spread of diseases
98. The net impact of such scenario will depend on the ability of national policies and plans to reduce smallholder exposure to such risks implies, to ensure good environmental management at several levels and scales, to protect biological resources, to diversify out of rice and to invest in climate resilient infrastructures and practices.

## **Rationale of IFAD's engagement in inclusive and sustainable rural transformation**

99. Rapid urbanisation and industrialization have had multiple impacts on rural transformation. New challenges have emerged including meeting quality standards to access export markets, strengthening capacity to manage water pollution and waste, developing more effective plans for adaptation and mitigation of climate change, and setting aside land for production in light of population and urbanisation pressure.
100. While poverty incidence is rapidly decreasing, its patterns are more than ever before associated with the rural populations in general, and ethnic minorities in particular. The remote, mountainous areas are where the poor are concentrated, and these are heavily populated by ethnic minorities. In no small part, this is due to the rural poor being largely dependent upon agricultural livelihoods and thus vulnerable to natural disasters, weather and/or climate risks, crop pest and disease outbreaks.
101. The new IFAD's strategy of engagement will directly contribute to Vietnam's Agricultural Restructuring Plan. To this effect, it will operate several shifts in perspective to facilitate the transition and transformation of the Vietnamese economy outlined in national strategies, and specifically:
- From a push (focus on output) to a pull strategy (value added and marketing)
  - From creating direct agricultural employment to creating rural employment both on farm and off farm
  - From fragmented value chains to integrated and digitalized value chains
  - From reducing exposure to climate change and environmental risks to adapting to CC constraints (mitigation)
  - From a priority to productivity and production increase to more quality and stability of this production
102. The COSOP embraces a people-centric strategy targeted to smallholders and Agri-SMEs in underserved areas with a concentration of ethnic minorities. At the institutional level, the new programme targets Micro-Finance Institutions with reference to Women Development Funds. In order to keep the pace with the transformation of the national economy and of its rural sector, the targeting strategy innovates significantly in terms of approach and modalities while maintaining the focus on inclusiveness, facilitating the participation of the youth and women. This proposed targeting strategy will fit with the programmatic approach that will be adopted by this COSOP, in contrast with the project by project approach that characterized the previous one. The range of provinces eligible for IFAD support will be expanded, while in each participating province the support itself will become more focused.
103. Specifically, the COSOP will contribute to – and invest in - a more balanced regional development to bridge the gap between least advanced provinces and the rest of the country (financing, innovations, support to public development agencies, job creation). It will also take better into account the major climate change constraint by reinforcing agriculture adaptation/mitigation efforts (soil and water conservation, water management, agricultural insurance), particularly in most vulnerable mountainous areas). It will explore new solutions and ways to make of technical innovations, and digital technologies in particular, a game changer for Vietnamese small farmers and orient accordingly its investments in skill development, water saving, access and connection to markets and financing, rational natural resource management, clustering production for better visibility and penetration on the market.



104. Admittedly, the “smart” agriculture/Industry 4.0 agenda is not readily accessible individual smallholder household nor necessarily relevant to their circumstances. Working with individual small farmers on adopting such technology, would necessarily be limited in scale, have strong adaptive research/piloting elements, require working with farmers with stable access to markets and credit, require getting groups of farmers with contiguous land holdings together to share either a land-based system (scales of 4-5 ha) or greenhouse-based systems, and be technical assistance and training intensive. –There might be in fact more scope for engaging in this domain by working at the scale of irrigation schemes to introduce the soil moisture sensors and weather stations at a larger-scale to benefit the water users in the scheme and sharpen overall water management. Peri-urban smallholder farming engaged in high value and short supply chains could present another opportunity to investigate during this COSOP. In all cases, exploring the opportunities for smallholder farming adoption of high tech approaches will require to satisfy the needs for equipment, credit, technical assistance and training.
105. The agricultural dimension of the COSOP strategy is part and parcel of a wider vision of rural development. Far from being circumscribed to agricultural development, rural development will be aimed at supporting income generating activities and facilitating diversification out of agriculture when necessary and possible. The COSOP will also aim at adding value in pro-poor value chains with a more equitable distribution of the value added between value chain players through skill development of farmers, higher integration of value chains with less intermediaries, contract farming and contract programmes, incentives for the establishment and modernisation of the agricultural processing plants, building on:
- the incentives offered by the policy framework
  - the private sector own expansion plans
  - a higher quality facilitation of inter-professional collaboration and integration within the value chain
  - Better risk insurance coverage (both health insurance for ag. Workers and farmers, and agricultural insurance against extreme weather events and disasters)
106. Smallholder agriculture modernisation and diversification also require increased investments at the rural household level, hence the need for a deeper inclusion of low-income households into the financial market on a sustainable basis. In Viet Nam, this means :
- a financial graduation process through which the smallholders progressively move away from subsidised financing schemes to increasingly market-based and more sophisticated financing arrangements, receiving at the same time facilitation support to successfully engage themselves in more modern and diversified rural production, processing and trading activities.
  - support to market-based microfinance development which can be sustainable only if integrated to rural and agricultural finance institutions;
  - A core partnership is established to upgrade the country’s rural and agricultural finance institutional infrastructure to the standards required by agricultural transformation.