

ADB's RESPONSE TO THE GOVERNMENT'S POVERTY REDUCTION STRATEGY WITHIN THE AGRICULTURE AND RURAL DEVELOPMENT CONTEXT

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I. INTRODUCTION

1. The Government and the Asian Development Bank (ADB) signed the Poverty Reduction Partnership Agreement on 25 February 2002 in Hanoi. It sets short, medium and long-term objectives for cooperation towards poverty reduction between the Government of Viet Nam and ADB, and includes a detailed description of Government programs and ADB support. The Partnership Agreement supports the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) approved by the Prime Minister in May 2002. ADB's Country Strategy and Program (CSP) approved early this year provides the basic framework for ADB's operations in Viet Nam for the next five years. **Both the CPRGS and the CSP recognize that agriculture and the rural sector will continue to play an important role in the social and economic development of Viet Nam during the coming decade.**

2. The CSP supports the Government's vision of economic modernization and poverty reduction by addressing dimensions which will make growth and the structural transition pro-poor and sustainable. To this end, ADB will selectively focus its operations on three pillars: pro-poor sustainable economic growth, social development, and good governance. The three pillars, individually and through mutual reinforcement, will contribute to the overarching objective of poverty reduction. In addition, ADB would pursue synergy in its operations by concentrating a share of investment projects, designed with an integrated poverty reduction focus, in the relatively impoverished Central Region of Viet Nam. The CSP is summarized in the Figure (page 4).

3. In the following, the direction of ADB operations within the CSP framework in the areas of agriculture and rural development, and the associated areas of water resources development and forestry are presented.

II. DIRECTIONS OF ADB OPERATIONS IN AGRICULTURE AND RURAL DEVELOPMENT

4. During the next five years, as Viet Nam continues its transition towards a more industrialized economy, the vast majority of the poor will remain concentrated in the rural areas. The development of the rural economy through higher agricultural productivity and through creation of off-farm employment in rural areas will therefore be critical to achieving pro-poor growth. ADB operations will support pro-poor sustainable growth through a combination of policy improvements and direct investment in (i) promoting crop diversification and adoption of modern technology in the agriculture sector; (ii) the development of small and medium enterprises (SME), especially in rural areas; (iii) effective natural resources management, balancing the dependence of the poor on natural resources for their livelihoods with the need to ensure sustainable use of natural capital; (iv) provision of supporting infrastructure including availability of power and roads to markets, and (v) strengthening the rural financial system to meet the diverse needs of the poor. This support

will take place within the broader framework of ADB support for private sector development, modernization of the financial sector, social development, environment and good governance.

a. Agriculture and Rural Development

5. Most of the agricultural growth in the past decade can be explained by increasing factors of production (land, labor and capital, mostly irrigation). Future growth will need to be based on increasing total factor productivity, as a result of the application of new knowledge and technical change. Science and technology (developed through research and disseminated through extension) will be necessary to identify new production processes and innovative products that can increase productivity of the agricultural system. Agroindustry development and supporting market infrastructure and institutions will be necessary to capture higher value-added from agricultural production.

6. ADB will increasingly focus on the investment and policy conditions that will promote rural development, agricultural diversification, and off-farm employment in rural areas, with emphasis on small and medium enterprise development. Continuation of policy reforms in agriculture, including those affecting research and extension and marketing institutions, will be supported to further enhance rural standards of living and create a vibrant and competitive agricultural sector. ADB operations will continue to support the role of the private sector in marketing and trade, land tenure reforms and issuance of land titles in agriculture and forestry, commercialization and reform of SOEs, and promotion of domestic small-scale enterprises. In the area of agricultural and rural finance, ADB' focus could be extended to include rural finance for private agroindustries and microfinance for small and poor farmers, and the related legal and regulatory framework for microfinance.

7. Rural poverty reduction will be pursued through projects targeted at a small number of contiguous provinces, which face similar constraints and opportunities, located in the Central Region of Viet Nam. Similar to the current Central Region Livelihood Improvement project, other operations would be designed, with focus on coastal communes in the Central Region and separately on Central Highlands provinces. The emphasis of these projects will be on addressing the link between natural resource depletion and poverty. Coastal resources management and related livelihood activities will be the focus of operations in the coastal areas of the Central Region. Operations in the uplands (Central Highlands) will emphasize forestry and watershed management as a tool for poverty reduction, possibly including agro-forestry, planting of fruit trees, fuelwood crops; promoting off-farm income in SMEs, processing of (mainly non-timber) forest products; and food and livelihood security for forest-dependent communities. These area-based approaches will be complemented by investment in higher level infrastructure, planned and implemented in a subregional perspective in the relevant sectors (road transport, water resource management, power transmission/distribution and urban development) through projects covering several provinces.

b. Natural Resources Management

8. Despite its relative abundance, water is an increasingly vulnerable resource in Vietnam due to competition among agricultural, industrial, and household uses. Spatial and temporal variability of rainfall and runoff are high, much of the existing infrastructure in rural areas (irrigation, drainage, flood control) is in a state of deterioration, and water quality is decreasing. The Government estimates that the country's irrigation systems only realize about 60 percent of its potential. This low performance contributes to poverty in rural areas where 70 percent of the population are employed in agriculture. Water management issues are closely linked to the protection of the watersheds. Forest cover in Viet Nam had declined at an

alarming rate up until the early 1990s - due largely to population-driven demand for forest products and agricultural land. The degradation was also due partly to state forest enterprises (SFEs) that logged out large tracts of natural forest areas with little concern for sustainable management. Since 1992, the Government has made large concerted efforts to restore forest cover in depleted forest areas. In 1998 the Government launched the Five Million Ha. Reforestation Program. ADB together with other national and international stakeholders responded to this new initiative through support for the formulation of the Forestry Sector Support Program which culminated in the signing of a Partnership Agreement in November 2001.

9. ADB will focus its support for natural resources management in Viet Nam in the water and forestry sectors. In the **water sector**, ADB will continue to promote a national focus on water sector reform, complemented by integrated development and management of water resources at the river basin level, through a combination of planning, management, and investment.

- National coordination through the establishment and work of the National Water Resources Council and its Office will continue to be supported together with other aid agencies, including the development of a national water sector profile and action agenda, national water policy, and promotion of institutional reform and collaboration across all ministries concerned, conflict resolution, international relations, and review and approval of major basin plans.
- Integrated water resources management (IWRM) in key river basins, under the guidance of River Basin Organizations that represent the stakeholders, will be supported in the Red River Basin and the Dong Nai River Basin, and possibly in selected river basins in the Central Region at a later stage.
- Investment in water services will be increasingly concentrated in the selected river basins, with increasing linkage to watershed protection and management.
- Water conservation through cost recovery and increased public awareness, regional cooperation, exchange of information and experience, and improved governance in the provision of water services will be promoted under the proposed approach.

10. ADB support for the **forest sector** will rely on a combination of area-based investment and advancement of sector policies and capacity. Geographically, ADB investment will focus on the Central Region, with special attention for the Central Highland provinces, and will combine natural resources management with livelihood improvement for the population residing there. Pilot implementation of some approaches (for example macro land use planning to select priority areas for sustainable forest resource management; participatory land use planning and allocation; forest management planning and implementation including related capacity building) will also give priority to the same areas where the investment component will be located. In addition, national policy and capacity building components (for example in the areas of sector strategic planning, formulation of policy, legislation, and guidelines amendment; state forestry enterprise renovation; technology development, extension, and training) will be supported as appropriate at the national level, preferably through cofinancing arrangements with interested external aid agencies.

III. CONCLUSIONS

11. The Government's CPRGS provides a good framework for addressing poverty. ADB's strategy during the next five years is consistent with the CPRGS. ADB's operations in the agriculture and rural development sectors will support the gradual transition of Viet Nam's economy from an agricultural and rural economy to a more urban and industrialized one.