

FROM THE VIET NAM COUNTRY PROGRAMME EVALUATION

### IFAD support for the development of rural enterprises in Viet Nam - work in progress

**S**ince 1986, the Government of Viet Nam has launched a series of economic reforms aimed at introducing market elements into the predominantly state-run economy. An important objective of the reforms has been to transform small-scale farmers from subsistence producers to participants in the new market economy. Some success has been achieved in terms of diversifying small farmer production. However, the challenges involved in providing access to markets and credit, coupled with the lack of marketing services, meant that these farmers have not always benefited from the market opportunities brought about by economic reform and by expanding internal and international trade. In particular, there has been limited success in moving the small-scale farmers up the value chain and in promoting the establishment of small and medium-sized rural enterprises. In general, the business skills and services needed to run small on- and off-farm business enterprises in a market economy are either not available in Viet Nam or are in short supply.

When the Fund started operations in Viet Nam in 1993, its area-based rural development model, promoted in its projects and programmes in various other countries, was already well developed. IFAD wisely decided to graft that model onto its Viet Nam programme, which focused on integrating and streamlining government services for agricultural production and food security enhancement. More direct support to market access - marketing services, linkage with traders and exporters, contracting with large companies, and the development of rural enterprises – has been mainstreamed in the Viet Nam country programme since 2007, reflecting shifts in the global climate of support for rural development towards market access, rural enterprise and value chain development. Since then, IFAD-supported projects and programmes have piloted approaches to market-oriented local development planning, value chain development of selected products with significant market potential, rural microenterprise development, training and employment of skilled workers, and partnerships with the private sector for investing in rural areas.

IFAD has encountered many challenges in mapping out a practical approach to supporting rural enterprise development in Viet Nam. In its earlier interventions, the Fund's strategy was over-reliant on the Government for delivering enterprise development and there were very few private-sector partnerships in its projects and programmes. However, government agencies lack both the experience and the capacity

for providing business and marketing services for small and medium-size rural enterprise development, as exemplified by the rural enterprise component of the Rural Income Diversification Project in Tuyen Quang Province, which failed to take off because the implementing partner had neither the necessary expertise nor capacity. Enterprise development and microfinance were bundled together into one project component, which the Viet Nam Bank for Social Policy was charged with implementing. While this arrangement was appropriate for microfinance, the bank was not in a position to implement the enterprise development activities.



**Vocational training site in Phong Phu Commune, Tra Vinh Province, funded by the IFAD-supported Programme for Improving Market Participation of the Poor.**

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A more successful model of enterprise development may be found in the Decentralized Programme for Rural Poverty Reduction, with its (two) subprojects in Quang Binh and Ha Giang Provinces. In Quang Binh, the programme partnered with the Department of Industry and the Cooperative Alliance, and, in all, 76 enterprises and cooperatives were established with more than 1,500 jobs created. However, heavy emphasis was placed on traditional products with low market potential such as wood, bamboo and rattan products, conical hats, fish sauce and brick-making, and many enterprises are still operating at the household level without proper quality control, basic accounting or formal business connections. A particular challenge under the programme had to do with the development of enterprises in ethnic minority areas, because the minorities have to contend with both geographic and cultural distances from the main markets. In Ha Giang, an ethnic minority province, the programme did not succeed in establishing any enterprises during implementation and, of 196 trained individuals, only one found employment — in comparison with the more successful effort in Quang Binh, where the majority Viet Kinh population predominates.

In order to create sustainable business links between small farmers and external markets and move rural production up the value chain, more recent interventions have adopted, on a pilot basis, a value chain approach whereby a few product lines, with high potential for markets, were selected. The projects and programmes concentrated investments in marketing, infrastructure, rural credit, productivity enhancement and capacity-building with a view to addressing any problems that might be encountered in these value chains. In Ben Tre, the Developing Business with the Rural Poor Programme selected three priority value chains – coconut, cocoa and safe fruits – in support of which the programme focused on addressing issues regarding farm production, agroprocessing and marketing, and on providing technical and business training. For example, the programme helped form a coconut association consisting of farmers, traders and exporters in order to boost coconut production and sales.

The value chain approach is still relatively new in the provinces where IFAD-supported projects and programmes are operating, and the necessary infrastructure, services and demand-and-supply connections have not always been available. Within this context, support has been mainly focused on improving farm productivity, starting up agroprocessing enterprises, sponsoring trade fairs and study tours, and providing training on marketing and value chains. Along the value chains, simple local processing added only marginal value to that of the raw commodities (such as coffee, rice, fish, chicken, peanut, coconut, sugarcane). The farmers and small processors lack formal business connections in order to move up the value chain and supply the more sophisticated urban or export markets. Furthermore,

there is very limited involvement with large or medium-sized private enterprises that could provide sustainable business opportunities for farmers and processors and enforce high-standard quality control for local produce. Apart from contract farming, which engage farmers to provide raw produce to brewers or exporters, there is no concrete evidence to date of a successful movement up the value chain to bring substantial benefits to farmers, who continue to sell the basic raw produce at the lowest end of the value chain.

While IFAD's support in this area may not be as successful as it has been in a number of other countries, it does represent an important set of pilot activities that managed to link farmers to markets and enable potential entrepreneurs to become active market players. It was also premature at the time of the evaluation to fully assess the impact of IFAD's interventions in terms of market access and rural enterprise development. The Fund and the Government of Viet Nam should therefore continue undertaking innovative actions aimed at exploring a market-based approach to reducing rural poverty.

The evaluation presented a number of forward-looking insights for consideration in future strategies and project and programme interventions. First, in its support to markets and market development at the local level, IFAD will need to identify ways of supporting the market system in project and programme areas, such as building physical markets, advocating fair market policies for rural people, and enhancing the market information system for farmers and ethnic minorities. This would create an enabling market environment for rural people to interact and benefit from market opportunities, and ensure the sustainability of market participation. Second, as enterprise development is beyond the current government capacity and expertise in many provinces, and private investment has been growing in the country, IFAD will need to draw up a strategic plan for: (i) engaging with the private sector in rural areas and for leveraging the strength of private companies in setting higher standards through quality control; (ii) expanding into premium and foreign markets, and (iii) introducing formal business connections to small and micro entrepreneurs. Finally, farm production in Viet Nam remains at the lower end of the value chain, and farmers have benefited little from any value-adding processing. IFAD will need, therefore, to consider engaging with the private sector in rural investment as a strategic opportunity for introducing large and medium-scale agribusiness into project and programme areas, and extending contracts to local farmers' associations and enterprises for production and processing, thereby moving farmers and local entrepreneurs up the value chain through upgrading quality, multiplying product lines, improving packaging and investing in marketing.

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**Further information:**

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