

## TECHNICAL ASSISTANCE COMPLETION REPORT<sup>1</sup>

Division : SEFM

TA No., Country and Name			Amount Approved: \$600,000	
TA 4480-VIE: Developing Agricultural Insurance			Revised Amount: NA	
Executing Agency Ministry of Finance		Source of Funding: Poverty Reduction Cooperation Fund	Amount Undisbursed: \$14,809	Amount Utilized: \$585,191
TA Approval Date: 15 Dec 2004	TA Signing Date: 15 Jun 2005	Fielding of First Consultants: July 2005	TA Completion Date Original: 31 May 2007	Actual: 30 Apr 2008
			Account Closing Date Original: 31 May 2007	Actual: 30 Sep 2008
<p><b>Description.</b> Agriculture is an important sector in the economy of Viet Nam accounting for 25% of gross domestic product and nearly 30% of exports. Of Viet Nam's total population, approximately 80% lives in rural areas. In addition, the agriculture sector hosts about 75% of the workforce. Over the past decade, the agriculture sector has grown by 4–5% annually, and this has contributed to poverty reduction. From a food importing country in late 1980s, Viet Nam has become the world's third largest rice exporter. The agriculture sector also experienced significant production diversification. Managing risks associated with the agriculture sector, including production risk and market risk, is an important element in the Government's overall strategy to develop the sector and improve the welfare and livelihood of the rural population.</p> <p>The Government recognizes the importance of agricultural insurance and its potential impact on income stabilization and ultimately poverty reduction. However, previous attempts to introduce agricultural insurance products were not successful. The constraints and impediments to the provision of agricultural insurance need to be carefully examined. The TA aimed to provide support in these and related areas.</p> <p><b>Expected Impact, Outcome and Outputs.</b> The TA aimed to help establish the foundations for a sustainable market for agricultural insurance in Viet Nam. Towards these ends, the TA sought to achieve a number of key outputs: (i) conduct of a study of existing agricultural risk management strategies and assessment of experience with previous agricultural insurance schemes, (ii) development of models for risk mitigation including agricultural insurance products for pilot testing, and (iii) pilot testing and assessment of outcomes.</p> <p><b>Delivery of Inputs and Conduct of Activities.</b> While formulation of the TA and terms of reference were generally adequate with objectives and deliverables being relevant to addressing of identified issues, the TA underestimated the costs of carrying out its activities and lacked adequate resources to support full conduct of its pilot testing phase. Continuity of support for this stage, however, has been provided by the World Bank—reflecting, among other things, widespread recognition of the value of the work initiated under the TA.</p> <p>Performance of consultants engaged under the TA is rated as satisfactory. The consultant team leader, in particular, brought strong technical expertise as well as solid experience and project management skills. Delivery of inputs and conduct of activities was generally timely and competent. The executing agency (EA) and other stakeholders considered quality of inputs provided to be generally satisfactory.</p> <p>ADB's performance is rated as satisfactory. The TA's design was relevant to identified needs at the time of processing (even though budget estimates proved to be inadequate), and implementation was generally flexible and in accordance with recommendations made by the highly experienced consultant team leader.</p> <p>The EA's performance is rated as satisfactory. Staff from the Insurance Department of the Ministry of Finance were actively involved in implementation of the TA and proved both able and responsive in terms of counterpart support provided. Understaffing, however, is a general issue that will need to be addressed over the medium term if the department is to be able to effectively supervise the rapidly growing insurance sector in Viet Nam.</p> <p><b>Evaluation of Outputs and Achievement of Outcome</b> The TA has made an important contribution to laying the foundations for a sustainable market for agricultural insurance in Viet Nam by raising awareness of the important role that properly designed insurance products can play in mitigating weather-related risk to banks and farmers as well as helping demonstrate the commercial viability of such products to insurance companies.</p>				

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It has achieved this through a systematic approach that began with assessment of risks facing farmers as well as experience with previous agricultural insurance schemes. These assessments identified flooding as a major and recurrent risk for farmers in Viet Nam and noted the widespread perception among insurance companies that agricultural insurance schemes were commercially unviable due to the poor experience with testing of earlier products (arising from the high transaction costs involved in selling and servicing policies as well as the costs of monitoring and information gathering to reduce adverse selection and moral hazard).

Based on the findings of these assessments, the TA then focused on supporting development of an index-based flood insurance product to address flood-related risks as well as the shortcomings of earlier products.<sup>2</sup> The approach to product development was systematic and thorough and included identification of areas most prone to such risks through a hydrological mapping exercise as well as regional demand surveys for flood insurance—leading to selection of a province (Dong Thap) for pilot testing of the product. Significant stakeholder awareness and capacity building activities were also conducted, and by the time the TA had closed there was widespread support and interest in the introduction of index-based flood insurance, with commitments by a major insurance company to underwrite the pilot product and a major bank to purchase it.

Due to TA awareness and capacity building activities, local banks with large exposures to the agricultural and rural sectors (e.g. the Viet Nam Bank for Agriculture and Rural Development) are now more focused on assessing the extent of flood risk carried in their portfolios as well as receptive to the use of insurance-based products to mitigate such risks. Local insurance companies also now recognize the viability and commercial potential of such products, while collaboration conducted under the TA with academic institutions has meant that skills needed to develop a sustainable market for index-based insurance products are being incorporated into relevant curricula. All outputs envisaged under the TA were achieved with the notable exception of the full conduct of the pilot testing phase which is expected to take 3 years and was taken up by the World Bank due to funding limitations.

**Overall Assessment and Rating.** The TA is rated as successful. Its focus on development of agricultural insurance in Viet Nam was relevant to supporting financial sector as well as rural development and addressing priorities identified under the CSP. Its realized outputs effectively have helped to establish a solid foundation for development and introduction of viable agricultural insurance products. It was less efficient than anticipated in terms of use of resources and support had to be sought from other development partners to complete testing of the pilot phase. Sustainability of outcome is considered likely with the solid foundations laid by the project and continuity of support provided by the World Bank.

**Major Lessons.** While the cost and timeframe needed to fully conduct TA activities was significantly underestimated, good TA design that emphasized a systematic and thorough approach, along with effective implementation by a strong and seasoned consultant team allowed the TA to achieve meaningful results.

**Recommendations and Follow-Up Actions.** Ongoing dialogue with stakeholders and development partners active in this area to monitor progress and help assess scope and need for further support.

Prepared by: Thatha Hla

Designation: Economist (Financial Sector), SEFM

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<sup>2</sup> This product indexes the level of water registered at hydro meteorological stations and provides indemnity payments based on this objective measure addressing moral hazard issues that plagued earlier products. It is also aimed at helping agricultural banks and other rural lenders mitigate risks to their portfolio—rather than being marketed to farmers—significantly reducing the transactions costs involved in selling and servicing policies.