

## **SECTOR ASSESSMENT (SUMMARY): TRANSPORT, AGRICULTURE, NATURAL RESOURCES AND RURAL DEVELOPMENT**

### **Sector Road Map**

#### **1. Sector Performance, Problems, and Opportunities<sup>1</sup>**

1. The Greater Mekong Subregion (GMS) Strategic Framework 2012–2022<sup>2</sup> uses a corridor development approach using spatial and thematic foci for prioritizing investment. The framework moves from a sector infrastructure program to multisector investments designed to foster economic development, involving stronger cross-sector links, and increased recognition of the advantages from regional economic development. The cross-border transport agreement aims to reduce barriers for cross-border trade and movement of people.<sup>3</sup>

2. The four northeastern provinces are located adjacent to the eastern and central subcorridors that form part of the GMS North–South Economic Corridor.<sup>4</sup> The corridor road infrastructure is effectively complete, linking both Yunnan province in the People’s Republic of China’s (PRC) and northern Lao People’s Democratic Republic (Lao PDR) to important cities and sea ports in Viet Nam. Potential market coverage is extensive, given the existing road network. Economic corridor development has catalyzed the use of special economic zones, near the northeastern province borders, and requires coordination across multiple sectors. Maximizing the benefits of inclusive economic corridors will increasingly require multisector investments. Noteworthy is Viet Nam’s exposure to extreme weather events representing the most prevalent and serious natural, growing risks across all sectors.<sup>5</sup>

3. **Transport.** Central to the GMS Strategic Framework is the development of transport systems that move goods and people around the GMS cost effectively, promoting economic growth and regional development, raising incomes, and reducing poverty. The economic corridors provide increased incentive for regional economic cooperation and emphasize bilateral trade using strategic nodes at border crossings. In 2008, the GMS adopted a wider economic corridor strategy to enhance collaboration among areas along the corridors and among sectors.

4. Viet Nam has an extensive road network and a relatively high overall road density, comprising more than 291,000 kilometers (km).<sup>6</sup> However, this network is falling behind in supporting the country’s modernizing economy and the population’s increased travel and transport needs. Viet Nam’s national and subregional transport networks are incomplete, being characterized by (i) limited institutional, financial, and operational capacity; and (ii) low levels of

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<sup>1</sup> The Basic Infrastructure for Inclusive Growth in the Northeastern Provinces Sector Project is a multisector project covering: (i) road transport infrastructure; and (ii) agriculture, natural resources and rural development which includes infrastructure to support (a) rural domestic water supply; and, (b) agricultural production, rural water supply, rural market infrastructure, and (iii) infrastructure sustainability. Participating in the project are the four northeastern provinces of Bac Kan, Cao Bang, Ha Giang, and Lang Son.

<sup>2</sup> Adopted at the 4th GMS Summit in Nay Pyi Taw, Myanmar in December 2011.

<sup>3</sup> Signed in 1999 among Lao People’s Democratic Republic, Thailand, and Viet Nam, and subsequently expanded to include Cambodia (2001), the People’s Republic of China (PRC) (2002), and Myanmar (2003).

<sup>4</sup> Nanning (PRC)–Hanoi (Viet Nam) route.

<sup>5</sup> Ministry of Natural Resources and Environment. 2016. *Climate Change and Sea Level Rise Scenarios for Viet Nam. Summary for policy makers.* Hanoi.

<sup>6</sup> The road network, of which 61% is unpaved, comprises (i) 580 km of expressways (0.2%), (ii) 21,700 km of national highways (7.5%); (iii) 25,500 km of provincial roads (8.8%), (iv) 51,700 km of district roads (17.8%), (v) 175,400 km of commune roads (60.2%), and (vi) 17,000 km of urban roads (5.8%).

traffic safety and environmental sustainability. The road density in the four northeastern provinces is only 70% of the national average. The mountainous terrain isolates rural communities and leads to high input and output costs constraining local enterprise competitiveness.<sup>7</sup> The four provinces have only 32% of provincial and 26% of district roads in good condition. While the national artery (the south–north axis) of the network in the four provinces is mostly established, the east–west axis remains underdeveloped.

5. Improving the transport network in the four northeastern provinces will enhance economic efficiency, increase regional and international integration and competitiveness, reduce logistics costs, increase foreign investment, strengthen value chains, reduce urban congestion and environmental and social degradation, and make travel safer. Improving transport infrastructure will contribute to inclusive economic growth by connecting poor people and disadvantaged groups to economic and social opportunities and services.

6. **Agriculture, Natural Resources and Rural Development.** Only 16% of rural households in the northeastern provinces have access to clean water, in contrast to the national average of 45%. The mountainous terrain accelerates rain runoff and limits catchment areas, which complicates water resource management. Many existing schemes are failing because of poor designs, lack of operational and maintenance capability, inadequate sources of water because of climatic and geographic factors, and rapid demand growth with rural–town migration. Investment is needed into reservoirs, water supply, drainage, and sanitation systems. Rural domestic clean water is a top priority with significant positive health impacts, time savings, and reduced drudgery, which greatly impacts women.

7. Since 1986, agriculture productivity in Viet Nam has more than tripled, enabling the country to lead in world exports of cashews and pepper (largest), coffee and cassava (second largest), and rice and fisheries (third largest), and contributing towards its rapid rise to becoming a lower middle-income country.<sup>8</sup> Agriculture contributed about 19.4% of gross domestic product during 2008–2013. Agriculture growth has largely been attributed to gains in productivity and increased cropping intensity. Agriculture has contributed significantly towards poverty reduction,<sup>9</sup> provides employment to almost 48% of the labor force, and is the main livelihood source for two-thirds of the population, a significant factor in addressing inclusive growth in a country where 90% of the poor are in rural areas.<sup>10</sup>

8. The four northeastern provinces produce many high-value crops such as star anise, cinnamon, and oranges. However, value addition from farm to consumer mostly occurs outside of the provinces. Contributing to low value addition are lack of basic infrastructure, weak production organization, and limited access to financing. This constrains private investment, resulting in low profit margins throughout the agriculture and rural value chains in the area. The International Fund for Agriculture Development (IFAD) finances the Commercial Smallholder Support Project in Bac Kan and Cao Bang, as well as the ongoing Ha Giang Community Orientated Poverty Reduction Program. Of the four project provinces, only Lang Son has not benefited from IFAD support.

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<sup>7</sup> Viet Nam Transport and Development Strategy Institute, 2015. *Adjusting Vietnam's Transport Development Strategy to 2020 with a vision to 2030 -Synthesis Report*. Hanoi.

<sup>8</sup> <http://data.worldbank.org/income-level/LMC>, retrieved 17/9/2015

<sup>9</sup> Decision No. 529/QĐ-LĐTĐ dated 6 May 2014 to approve the results of the review the poor and near-poor households in 2013.

<sup>10</sup> General Statistics Office. 2015. *Statistical Yearbook of Vietnam*. Hanoi.

9. **Infrastructure Sustainability.** Since 1986, Viet Nam has remained on a path of market-based economic reform, which has unlocked the comparative advantages of its young labor force, abundant natural resources, and strategic geographic location (footnote 8). A diverse range of interventions by the Government of Viet Nam, including creating an enabling policy and regulatory environment and providing adequate physical and social infrastructure, are necessary to enhance Viet Nam's competitiveness in dynamic and quickly changing markets. Public sector management is becoming more complex, as the rise of new industries linked to global value chains contributes to the proliferation of regulations and policies. The continued devolution of administrative and fiscal powers to provincial governments compounds these challenges especially infrastructure operation and maintenance. The quality of governance varies considerably among provinces. Stronger provincial institutions have generally succeeded in encouraging greater private sector development and enhanced service delivery. Limited public administrative capacity, especially among mid- and lower-level civil servants, also constrains the implementation and quality of public spending in some provinces.

## 2. Government's Sector Strategy

10. The government is establishing stronger trade links with the PRC, and have reached agreement with PCR on an agreement which each country to implementing border systems and controls that are defined for international and national gateways, and auxiliary border crossings.<sup>11</sup> In 2015, the total border trade reached \$95.8 billion, an increase of 14.6% over 2014 levels. The growth in imports from the PCR was 4% while exports to the PCR grew by 49%. This expansion of trade creates additional demands for basic infrastructure and for supporting services.

11. **Transport.** In 2013 the transport strategy was updated stressing (i) the development of the nation's transport system should promote the country's geographical location advantages and national resources; (ii) transport infrastructure should be developed in a coordinated and rational manner, linking different transport modes and all regions of the country; and (iii) regional and international cooperation in transport and transport systems should be promoted.<sup>12</sup>

12. During 2016–2020, the Ministry of Transport requires the mobilization of about \$43.4 billion (an annual capital investment of 4.7% of the country's gross domestic product) to develop the planned transport infrastructure. The proposed financial sources are the sale of government bonds, private participation, and the establishment of a credit package for infrastructure.

13. **Agriculture, Natural Resources and Rural Development.** The Socio-Economic Development Plan (SEDP) stresses the effective management of water resources, which focuses on water security and country water assessment, highlighting water as a factor limiting growth.<sup>13</sup> The government has committed to realizing the Sustainable Development Goal 6 on water and sanitation.

14. The Ministry of Agriculture and Rural Development's Agricultural Restructuring Policy requires agricultural development to be market led and consumer driven, with government playing a more facilitating role to the private sector. The policy will be achieved through a national targeted program on new rural development,<sup>14</sup> one of two such programs to be implemented during 2016–

<sup>11</sup> Government of Viet Nam and Government of People's Republic of China. 2011. *The Agreement on Viet Nam–China Economic and Trade Cooperation Master Plan, 2012-2016*. Beijing

<sup>12</sup> Prime Minister. 2013. *Transport Development Strategy up to 2020 with a Vision toward 2030*. Hanoi

<sup>13</sup> Ministry of Planning and Investment. 2016. *The Socio-Economic Development Plan, 2016–2020*. Hanoi.

<sup>14</sup> Prime Minister's Decision No.800/QĐ-TTg dated 4 June 2010 on approving the National Targeted Program of New Rural Development for 2010–2020.

2020. As poverty is largely a rural phenomenon, overall poverty reduction remains a priority of government to address inequality that persists, so that intra- and intergenerational social equity for all groups is improved.

15. **Infrastructure Sustainability.** The SEDP identifies public and institutional reform as a central strategy for promoting faster development. The finance sector strategy highlights government priorities including strengthening the capacity of provincial governments, and creating the regulatory and legal conditions for private development, with an emphasis on small and medium-sized enterprises. In support of these strategies, the government passed the Public Investment Law (2014) and State Budget Law, among others.<sup>15</sup> These include increasing the fiscal autonomy of provincial governments and strengthening public asset management, especially in the area of operation and maintenance.

### 3. ADB Sector Experience and Assistance Program

16. **Transport.** The Asian Development Bank (ADB) has been financing expressways, highways, roads, a railway upgrading, and urban mass rapid transit projects. Institutional development and capacity enhancement are important to ensure that relevant government agencies understand ADB implementation requirements and become familiar with emerging needs, such as mainstreaming climate change, sustainable transport, public–private partnerships, and social issues. The sector will focus on improving planning, implementation, and operational efficiency. The transport strategy proposes key investment areas including national highways along GMS corridors, and roads to link remote areas into the transport network. The strategy prioritizes improving subregional and domestic transport efficiency, promoting traffic safety and social sustainability, and mainstreaming climate change mitigation and adaptation.<sup>16</sup>

17. **Agriculture, Natural Resources and Rural Development.** ADB's present strategy is based on the Water Operational Plan. The plan follows the Water Financing Partnership Facility, in which Viet Nam was a target country for doubling investment lending in water and sanitation. ADB approved a \$1 billion multitranche financing facility in 2011 for the Water Sector Investment Program. ADB supports the implementation of the investments for drinking water.<sup>17</sup>

18. ADB-financed loans of \$875 million to the agriculture and rural development sector and these are directed at rural infrastructure, water resource and large-scale irrigation development, food quality and safety, environmental protection, and trade facilitation. ADB has financed a series of rural infrastructure sector modality projects that have contributed to impressive poverty reduction achievements from the improvement in access. ADB has maintained a geographic focus in areas where poverty persists, including the northeastern provinces.

19. **Infrastructure Sustainability.** Since 2009, ADB has supported the implementation of the State-Owned Enterprise Reform and Corporate Governance Facilitation Program.<sup>18</sup> ADB also prioritized support for a range of public capacity building and technical assistance activities. ADB will aim to develop a long-term programmatic approach to its support by encouraging deeper staff engagement on key policy issues and utilizing a combination of technical assistance and policy-based lending resources.

<sup>15</sup> Government of Viet Nam. 2012. *Finance Sector Strategy (2012–2020)*. Hanoi.

<sup>16</sup> ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016–2020—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila.

<sup>17</sup> ADB. 2012. *Asian Development Bank Water Operational Framework*. Manila.

<sup>18</sup> ADB. 2013. *Technical Assistance for Strengthening Support for State-Owned Enterprise Reform and Corporate Governance Facilitation Program*. Manila

## Problem Tree for Transport, and Agriculture, Natural Resources and Rural Development

