

# IFAD Viet Nam

## Towards sustainable poverty reduction through Market Orientation and Value Chain Development

A review of progress

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### Executive Summary

Extreme poverty in rural Vietnam remains a large scale challenge.

In its efforts to achieve large and lasting impacts on rural poverty, IFAD in Viet Nam has recently taken steps to introduce a stronger market orientation in its supported provincial programmes. This is an important and valuable evolution in IFAD's programming.

While likely to deliver good results over the medium term, the shift to stronger market-orientation creates significant new challenges in the short term, both for IFAD and its partners - in particular the Provincial authorities responsible for programme implementation.

Market-oriented thinking, and the related approach of value chain development, are new and unfamiliar ways of working for most of those involved in the projects, from the Programme Directors down to commune management teams and individual farmers.

While it is unquestionable that most projects have struggled during their early stages to integrate market orientation into their projects as envisaged, there are examples of promising practice that suggest that it is an achievable goal in time and with the right support. For example:

- In Ben Tre, the close integration of project activities with mainstream government processes is allowing the project to champion the wider use of market-oriented approaches far beyond the specific activities of the project, for example in the DARD led cocoa value chain development project.
- In Tra Vinh, with critical support from GTZ, the project is targeting major value chains of rice and beef and already achieving very practical impacts on rice farmers through a coordinate series of interventions from technical and cost benefit training to farmers, support to formation of rice CIG and facilitation of real market linkages to new buyers. Together these have allowed some farmers to increase their income from rice by 30% within a few seasons.
- In Ben Tre, the province is a role model for Good Practice in raising the provincial competitiveness and creating an enabling environment for business and investors in industries with links to rural areas.
- In Quang Binh, there has been excellent involvement and participation at the village level and seemingly considerable collaboration by the associated technical institutes, centres and associations within the province. Some smaller activities with tremendous potential have been identified and further scaled up and investigated.

- In Tra Vinh and Ben Tre, vocational training has been effectively linked to job opportunities with businesses and, in Ben Tre, integrated into the framework of investment promotion to attract new investment in the province from existing and new businesses.

In all provinces there are clear opportunities to increase the depth of the market in rural areas and improve value chains for the benefit of the poor. The challenge for the projects is how to capitalise on these opportunities within the specific constraints of the project and the limited initial experience of the project teams on these issues.

The following recommended actions may facilitate more effective implementation of market-oriented approaches and enable projects to achieve larger and lasting impacts on rural poverty:

1. Differentiated market-oriented poverty reduction strategies should be clearly articulated at each level of the projects – from commune to district to province – and show how the various project activities will be utilised to reach different groups of poor. These strategies should be informed by participatory discussions with landless poor, ethnic minorities, poor women and youths and other poor households to better understand the factors contributing to their continued poverty and their participation in project activities.
2. IFAD projects should be seen as part of the process of change to introduce more pro-poor market orientation in to provinces. Appropriate expectations and milestones need to be set and support provided on change management processes.
3. All project teams need more structured and consistent skills development, through training and on-going technical coaching related to market-oriented approaches and value chain development. Intensive technical assistance and backstopping is needed during the first 3 years of project as a minimum.
4. Each project should target a small group of value chains, with potential for large scale poverty impacts, for comprehensive value chain development but with the decisions to proceed to the next stage of implementation taken in stages not just one decision at the start. Major value chain development should be complimented by a wider set of ad-hoc market oriented interventions in localised value chains to extend the reach of the project.
5. Selection of value chains and other interventions should be explicitly based on the consideration of the potential for poverty impact in delivery of activities.
6. Market orientation should be incorporated into all major operational components of the projects, but in a phased manner to allow project teams and participants time to gain an understanding of the approaches. In particular, mechanisms for a phased introduction of market-orientation to commune planning and infrastructure investment should be used.
7. Vocational training, related to opportunities in the labour market, should be aimed most at the poorest in the community, often functionally landless and women and youth from these groups, for whom off-farm work is often one of few routes out of poverty.
8. Each project should develop a clear and practical organising logic for linking its various components. Similarly every project should actively seek to build partnerships with key local government agencies and other organisations relevant to project activities.
9. The projects should establish simple but effective monitoring systems for proxy indicators of impact, and do so early in the project to avoid missing the opportunity to get an early baseline before activities have been implemented. In addition to quantitative data, the projects will benefit from capturing good qualitative information and a small number of mini-case studies that capture the human side of the impacts needed to communicate the benefits of the project to a wider audience.
10. IFAD country programme should consider ways to provide greater continuity in technical advice and support to provincial projects and during project design and Mid Term Review. In addition, the options for improving the transfer of knowledge and ideas from the design teams to implementation teams should be consider.

# Contents

Executive Summary.....	1
1. Introduction .....	3
2. Targeting.....	4
3. Supporting a process of change .....	4
4. Building Capabilities.....	6
5. Concepts and clarity .....	7
6. Selection of value chains .....	10
7. Market-orientation in other project components .....	12
8. Component linkages and partnerships .....	16
9. Capturing results and progress.....	17
10. Learning and continuity in the country programme .....	18
11. Recommendations.....	19

## 1. Introduction

### Background

In its efforts to achieve large and lasting impacts on rural poverty, IFAD in Viet Nam has recently taken significant steps to introduce a stronger market orientation<sup>1</sup> in its supported provincial projects. This is an important and valuable evolution in IFAD's programming.

While likely to deliver good results over the medium term, the shift to stronger market-orientation creates significant new challenges in the short term both for IFAD and its partners, in particular the Provincial authorities responsible for programme implementation.

From March to July 2009, five provincial projects with significant elements of market-orientation and value chain development were reviewed as part of the annual supervision missions.

This paper provides a review of common issues related to market orientation and value chain development encountered in the five programmes. The discussion attempts to use specific examples from the current programmes to highlight current challenges and goes on to suggest practical measure that could be taken to address these challenges.

Detailed reviews of value chain development and market orientation within each of the five provincial programmes are provided in the technical reports prepared for each province.

### The local context

The five projects reviewed are at different stages of implementation and in very different local settings, both physical and socio-economically. The provinces include Cao Bang in the mountainous north east next to the Chinese border, Ha Tinh and Quang Binh in the north central coastal region and Tra Vinh and Ben Tre at the mouth of the Mekong Delta.

In addition to the very different local contexts, three different design concepts have been used to across the five provinces. Ha Tinh and Tra Vinh have a common design framework, based on commune market opportunity planning and development. Cao Bang and Ben Tre share another common design framework, based around participatory market oriented SEDP and investment, and Quang Binh was refocused towards markets and value chains at its 2008 Mid Term Review.

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<sup>1</sup> Related concepts and approaches include: value chain development, business development services, provincial competitiveness, market linkages, local economic development, markets for the poor (M4P)

## 2. Targeting

Poverty targeting needs to be given special consideration in every aspect of the projects.

Soft targeting methods are likely to prove most effective within the projects, for example by selecting activities which are inherently more attractive and accessible for poor household than for the wider community. In a market-oriented project, the appropriate choice of value chains and commodities that have potential for poverty impact is a fundamental first step. This has not been adequately addressed by most project so far and is discussed in further detailed in Section 6 below.

Although selection of activities and value chains in most projects has not yet been sufficiently explicit in targeting poverty, it is encouraging that in several provinces, such as Ben Tre, Ha Tinh, Quang Binh and Tra Vinh, the senior management of the project recognise the existence of very different groups of poor and the need for differentiated strategies to reach each of these groups (e.g functionally landless, no labour, land but no capital, sick and elderly, youth with no access to productive assets). This disaggregated view of poverty is critical to the success of the projects in tackling poverty and should be given a more central focus in the project.

Differentiated poverty reduction strategies should be clearly articulated at each level of the project – from commune to district to province – and show how the various project activities will be utilised to reach different groups of poor. These strategies should be informed by participatory discussions with landless poor and other poor households to better understand the factors contributing to their continued poverty and their participation in project activities.

An important poverty-related issue identified during the review is the way in which the project activities are delivered to make them accessible and meaningful to poor farmers and especially those from ethnic minorities. While there are some example of activities being effectively delivered to reach specific target groups, such as commune based training for women in Tra Vinh, there a many more examples where the delivery of activities are not effective in reaching the target groups or having the desired impact. In many cases these failures are due to the particular challenges of reaching more marginalised groups and the lack of capacity and resources to deliver activities in an appropriate way. The projects will need to improve the way in which activities are designed and delivered in order to reach different target groups.

## 3. Supporting a process of change

For almost all project provinces, a market-oriented approach to development is new and deeply unfamiliar, both to those responsible for project implementation as well as the people expected to participate in project activities. As well as new market-oriented approaches, the IFAD projects advocate a participatory approach to key components, notably the commune development and infrastructure planning. Such participatory processes are as new and unfamiliar as market-orientation.

These major new approaches represent a significant change from how local government has typically operated in Viet Nam. The IFAD projects have the opportunity to make the case for these approaches as a new and more effective way of working for local government in the liberalising economy.

But each project must be seen as part of a process of change that will take several years, with expectations set accordingly. Expecting these major new approaches to be fully implemented across the project from the outset is unrealistic and likely to lead to disappointment and perceived failure. In contrast, a phased introduction with achievable milestones through the course of the project that is designed to work with the natural processes of change should build momentum, create more manageable demands on the project teams and lead to more effective project implementation.

From the perspective of supporting a process of change in the province, the projects have a dual role to play:

- Firstly, they are a **showcase for market-oriented approaches** (and equally for participatory approaches). As such they need to generate tangible results that demonstrate that the approach is both feasible and effective in the local context and an improvement over traditional input and supply driven approaches.
- Secondly, they must **champion the wider use of market-oriented approaches** among other provincial stakeholders to ensure the lasting benefits and institutional sustainability of the IFAD project activities and approach.

A specific issue of note is that expectations of the projects appear to have been set very high. In particular, there seems to be a common expectation both among project staff and target communities that the projects should, somehow, help all farmers and households to find good markets for all their produce. Although more can always be done such unrealistic expectations can be damaging to the project and need to be more actively managed.

### **Showcasing market-oriented approaches**

The projects are typically the first example of a large scale market-oriented initiative in the province. They need to build understanding and confidence in the approach.

To do this, they need to show tangible results and progress from early in the project. Setting realistic interim milestones – “small steps” - related to market-oriented activities is vital in showing progress is being made. These need to reflect the skills and experience of the team, who typically enter the project with limited experience of market-oriented approaches and value chain development.

A critical challenge during the early stages of the projects, is therefore to balance the need to show progress on activities with the need to develop the capabilities of the project teams. These are often contradictory pressures, with the need to demonstrate outputs often out-weighting the need to build capabilities. A case of prioritising the urgent over the important - which will ultimately lessen the effectiveness of the project.

The setting of appropriate milestones, as outlined above, for the first 2 years can greatly help reduce this pressure, and should be a focus of early technical assistance to the project teams. Given that this is likely to happen before larger Technical Assistance is in place, it may be most appropriate for IFAD country programme to provide this as part of the launch process for the projects. Related to this, during the early stages of the project there is a need for strict prioritisation of market-oriented activities. In almost all cases the current projects are trying to take on far too many activities too quickly to the detriment of the quality and impact of the project.

The project teams are under the greatest pressure at the start of the project. Given the degree of capacity building needed and the demands on delivering activities, this pressure is likely to last for at least the first 3 years of the project. Although, at present no project has yet been implementing market-oriented approaches for long enough to give an indication of the timescale needed before the teams become comfortable with the approach.

During this critical 3 year period, the projects should therefore be designed to provide intensive and consistent technical assistance on market orientation and value chain development for the with an emphasis on building the capacity of the project team. This is discussed in more detail in Section 4 below.

Finally, the projects will also benefit from identifying some areas for “quick wins” - activities which are manageable and have the prospect of demonstrating results in reasonable time scales. These success stories can then be captured and used to further promote and show the effectiveness of the approaches. The objective here is not necessarily to have very large impacts, but to help build a sense of progress and confidence around the new approaches and the project. This is an important aspect of the change process. In later years, the number and scope of activities can be expanded once the team becomes more confident and capable in the use of market-oriented approaches.

## **Championing the wider adoption of market oriented approaches**

As well as delivering results from their own activities the projects have a wider role to play in the process of change in the province. That is: “to champion and support others in the province to adopt more market oriented approaches in to their activities and programmes”. Both the design and delivery of the IFAD projects are important in making this possible.

**In design**, for example, the strong alignment of the projects in Ben Tre and Cao Bang with mainstream government processes, in particular the Socio-Economic Development Plans (SEDP), creates the opportunity for the IFAD approaches to have a lasting influence of the mainstream approaches used by the local authorities. This is a notable improvement in the design compared to some earlier projects, for example Ha Tinh and Tra Vinh, where the project operated through largely parallel infrastructure and processes e.g. CMOP – Commune Market Opportunity Plans.

**The delivery** is equally important in achieving last changes to mainstream development processes. The project in Cao Bang and Ben Tre provide a good example of the importance of this. Both projects share the same design, focusing on participatory commune SEDP processes and a value chains approach to economic development. They have also both only just completed their first year of implementation. In Ben Tre, the project is heavily integrated into mainstream government process, advocating for market-oriented approaches and has the realistic prospect of catalysing more widespread adoption of market-oriented (and participatory) approaches in the province<sup>2</sup>. In Cao Bang, in contrast, the project remains isolated and poorly integrated and so currently has little prospect of achieving more widespread and lasting change.

The projects therefore need to be designed and managed in a way that deliberately sets-out to champion the wider adoption of market-oriented approaches in the provinces. In this respect it may be helpful to include associated performance indicators for the project that direct relate to this.

## **4. Building Capabilities**

Very few of the project staff in the 5 provinces have practical experience of market oriented approaches, value chain development or even private sector work experience. Indeed, few if any agencies in the province have a strong capacity in market orientation or value chain development. This is also true for most rural provinces in Vietnam and Lao PDR.

There is therefore a very substantial need to build the capability of the project teams in market oriented approaches and value chain development. Two aspects are critical:

### **Skills development of individuals**

The level of competency needed by the teams to lead a successful market oriented project will take several years and lots of practice to develop. It cannot be learnt in a classroom in a week or even a month of training, as the practice of using these approaches is much more complicated than the theory – relying more on judgement and experience than on formalised methodologies.

Skills development therefore needs to be designed as an ongoing process that combines intensive training with ongoing coaching and readily available technical backup while they are working on project activities. This will give key project staff the confidence to begin making good decisions about how to develop pro-poor value chains.

Practically, it is critical that project staff are actively involved in value chain assessment and intervention planning and delivery of these and other market oriented approaches. Only by being personally involved will they come to learn the techniques involved and, equally importantly, gain the deeper understanding of the issues and trade-offs in the value chain. In all projects at

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<sup>2</sup> For example in the avoidance of paying subsidies to farmers to plant cocoa under the DARD led cocoa sector development project.

present, value chain studies are being contracted out to a consultant who deliver a final report and recommendations but little understanding to the project teams. This needs to be changed. Consultant can be used to lead technical aspects of the process but project staff must be actively involved and retain intellectual ownership of the work.

A related issue is that value chain assessments and interventions need to be conducted with input from all relevant line departments and stakeholders. This will help improve the quality of the resulting strategy and action plan but more importantly build buy-in and help mobilise all players around a common goal and plan when moving to implementation.

### **Building a capable team**

For the projects to achieve their objectives - of delivering good results from their own activities and supporting the wider adoption of market oriented approaches in the province – they need a strong and capable team to provide leadership of these approaches.

The scale and scope of the market oriented activities mean that a team of, perhaps, 4-8 staff may be needed working on market oriented approaches and value chain development. In contrast, most projects are current designed with, typically, 2-3 staff working in this area.

Some of these people need to be experienced practitioners whom will require considerable remuneration. The contracting of such people can catalyse a broader team effort and build significant momentum over the first year years of a project.

It is also likely to be most appropriate to have this technical team at the provincial level but tasked with providing input and back-up as needed to the District and commune implementation teams. It is not realistic to expect that these skills could be effectively developed in all District or Commune teams.

The full team of 4-8 technical staff as well as other key project staff need to participate in the skills development processes outlined above.

## **5. Concepts and clarity**

It is not surprising that, given the lack of experience in these approaches, there is considerable confusion surrounding the core ideas of market orientation and uncertainty over how to apply put them into practice in the projects.

This uncertainty is aggravated by a blurred distinction of ideas and terminology. Greater clarity and consistency would assist people's understanding of these new ideas and enable them to implement better projects.

### **Is it Market orientation, Value chain development, Market linkages or Production improvement.....?**

Market orientation and value chain development are terms which are used widely, and often interchangeably, in the current projects. In practice, both are relevant but distinct concepts.

There is similar ambiguity about what constitutes *value chain development* versus *production improvements*. For example, in Ha Tinh, the project has focussed on numerous small scale production models and considers these to be value chain developments. In contrast in Ben Tre, the programme has identified 3 major value chains for large scale support at various points in the value chains while at the same time planning to provide production improvement training to farmers on a range of smaller more localised crops and products.

Confusion around these ideas appears to be adding to the difficulties in the implementation of activities. The following clarification is offered:

- **Market-orientation** can be considered as a mind-set or way of thinking that acknowledges the different roles of markets in socio-economic development and the opportunities created by harnessing the power of markets to achieve desired outcomes,

such as rural poverty reduction. As a way of thinking it is relevant to most aspect of project design and implementation.

- **Value chains** are a way of looking at markets and supply systems. Value chains involve the physical movement of produce from raw material to end market, often accompanied by processing, sorting, packaging and other transformations. Each step in the chain changes the product in ways that customers value and are prepared to pay for – thus creating additional value along the way – hence the idea of a chain of value addition. These steps may happen within a single company or involve many different players. Value chains may be simple and short, such as farmers selling their vegetables at the local market to their neighbours. Alternatively, they may be long and complicated, involving many people and businesses and spanning great distances, such as the conversion of bamboo grown in Viet Nam into flooring for sale in Europe.
- **Value chain development**<sup>3</sup> approach is a specific approach within the wider family of market-oriented and private sector development approaches. It is based on the concept of value chains and so takes a systematic view of the entire value chain from producer to end-market. It seeks to identify and tackle bottlenecks that restrict the flow of value from the end-markets to producers in a comprehensive series of activities. It is therefore a relatively resource intensive approach. As such, within the IFAD projects, full value chain development can only be applied to a small group of priority value chains with the potential for large scale poverty impacts.
- **Production and market linkage improvements**, in the context of the IFAD projects, can be considered as ad-hoc support to farmers and households to improve their production techniques on specific products or help them establish new market linkages to create significant value to those involved. It is distinct from *value chain development* in that it does not require a comprehensive approach to the entire value chain of each product but targets ad-hoc support at known bottleneck and market opportunities. It therefore requires fewer resources and can be applied to many more smaller and more localised value chains and livelihoods.

These three areas are discussed in more detail below.

**Market-orientation** is an important way of thinking that is relevant to many aspects of IFAD's rural programmes, for example vocational training, farmer productivity improvements or commune-level infrastructure planning. This is especially true in Vietnam where the objectives for rural development are towards cash-based agriculture and rural economies, that go beyond basic subsistence agriculture and hunger reduction.

Three markets that are arguably most relevant to rural development and economic poverty reduction in the five provinces include:

- Product markets - for farm outputs and other goods produced by rural household
- Labour markets – for paid work on- and off- farm
- Agricultural input markets – for supplies of necessary inputs for agriculture, livestock, forestry and aquaculture

In addition, rural service markets (especially finance) and land markets play an important role in enabling the poor to exploit income opportunities more effectively.

To date, IFAD programmes have tended to place most emphasis on product markets, labour markets and financial and other service markets. While this is very appropriate, agricultural input markets are notably under addressed in most of the current programmes, despite the growing

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<sup>3</sup> Extensive resources and material on the value chains approach can be found at: [www.value-chains.org](http://www.value-chains.org)

evidence<sup>4</sup> from other countries that they can be important entry points for developing more sustainable value-added services to the poor.

In terms markets for Business Development Services (BDS), the work of the Women's Union in Ha Tinh stands as the only positive example of BDS capacity in the five provinces. Indeed, progress on BDS development elsewhere has made little if any progress. This is inline with the findings of IFAD's own latest annual global impact review<sup>5</sup> that notes that "outside middle income countries the human capital needed to deliver BDS is usually scarce, especially in rural areas, and a project's ability to develop it may be rather limited." Furthermore, while there is good evidence of a correlation between business formality, investment and an improved regulatory environment, in particular in the application of tax codes, there is little firm evidence of a link between more general BDS availability and business investment. As Vietnam is beginning to approach middle income status it is possible to see a small BDS market developing in the major cities, but in rural areas this remains largely absent. Caution therefore needs to be applied in judging the relevance and likely effectiveness of efforts to strengthen BDS markets within the current provincial projects.

### **Value chain development approach**

Value chain development is an approach that looks at the entire system of steps along the value chain from producer to end-market, identifies the sector-specific bottlenecks and then intervenes in a coordinated way where needed to create additional value and ensure poor farmers benefit. It takes value chain concepts and uses them to build comprehensive analysis and intervention activities.

It is a systematic, comprehensive set of activities requiring significant investment of time and resources both in analysis and interventions. The large amount of time and resources required means that it is not possible to apply a full value chain development approach to every product, in every location covered by the provincial projects.

A critical constraint in applying full value chain development approaches is the availability and time of suitably skilled staff. In all projects visited, the project staff have initially lacked the skills to lead value chain development projects. The main activities on value chain development are therefore likely to only start after the first year with considerable skills development and technical support (see Section 4 above).

Given these resource issues, full value chain development approaches are likely to only be possible to apply to, perhaps, 2-3 value chains in a province at any point in time. Initiatives in each value chain may take 2 years or more, depending on the particular issues being tackled.

Within a 6 year project cycle, it may therefore be realistic for the project to target 3-6 value chains for this type of more systematic, comprehensive development.

### **Ad-hoc production and market linkage improvements**

While market-oriented thinking is relevant to almost all activities aimed at raising household incomes, full value chain development projects are too costly and time consuming to use in every setting.

There is therefore a need for a complimentary set-of activities that can help support the most promising products and livelihood activities from the larger group of more localised products and value chains that are important in project communes and districts.

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<sup>4</sup> DFID & SDC (2008) A synthesis of The Making Markets Work for the Poor (M4P) Approach, Springfield Centre - [http://www.value-chains.org/dyn/bds/docs/681/Synthesis\\_2008.pdf](http://www.value-chains.org/dyn/bds/docs/681/Synthesis_2008.pdf)

<sup>5</sup> IFAD (2009) The 2009 Annual Report on Results and Impact of IFAD Operations (ARRI) – Market Access.

Ad-hoc support to farmers and households to improve their production techniques on specific products or help them establish new market linkages can create significant value to those involved.

The amount of resources for each local value chain to be supported is much smaller as they will benefit relatively few people. As such, it is rarely possible to conduct comprehensive analysis of the value chain, from market demand back to production. However, important bottlenecks may already be well known to those involved in the local value chain or experienced industry professionals. Combining this local knowledge with industry experience and a market-oriented mindset can provide a short-cut to identify the type of activities that are most likely to lead to lasting impacts on poor households involved in the particular value chain.

With practice, the projects should be able to start to use some standard screening ideas and questions to help pick opportunities likely to be successful (see Box 1). However, the success rate of the small ad-hoc intervention is likely to be more variable than more comprehensive value chain developments. This approach should be considered as very similar to a private business considering an investment in a value chain and their assessment of the possible return on investment.

During the early stages of the project, the project teams need to be encouraged to try out new opportunities for providing ad-hoc production and market linkage improvements, without fear of punishment if some do not succeed. This should be done in the context of a disciplined process of screening opportunities and learning from past successes and failure. In this way, the team can both improve their own capability and also begin to achieve tangible impact on poor households.

However, to do this they are likely to need both initial training and on going mentoring and technical back-up delivered in a flexible way when needed, especially at key decision points during screening process and in implementation.

## 6. Selection of value chains

Market-oriented projects raise specific challenges for achieving large scale impacts on the poor. Making good choices about which value chains and commodities to focus on is a critical first step. These choices must balance the need for *efficiency of impact* (e.g. impact on poverty per \$ spent) and *scale of impact* (i.e. the total amount of benefit to all poor households).

To have an impact on the poor, priority should be given to value chains that are accessible, attractive and relevant to poor households and offer the prospect of significantly raising poor household incomes. The potential impact on poor households should be assessed as part of the selection and prioritisation process between different value chains and between alternative strategies and actions within each value chain.

To have large scale impacts, programme must implement two complimentary strategies:

- Firstly, targeting a small number of major value chains that affect many households and where upgrading is possible through a more comprehensive set of activities. These are typically from among the major rural value chains in each province. As well as providing focus, there are likely to be economies of scale in terms of the cost of achieving given levels of impact.
- Secondly, targeting a larger number of smaller, more localised value chains with ad-hoc support.

Both strategies are necessary if the project is to achieve large scale poverty impacts. However, the projects have finite resources, especially in terms of skilled staff, and so prioritisation of value chains is vital.

The projects have taken very different approaches to selecting priority value chains and the country programme would benefit from a more consistent approach:

- In Tra Vinh, the project team, with GTZ support, has used household survey data to identify the value chains that affect the largest number of poor households, rice and beef, and has prioritised these value chains for coordinated project support. The project has also obtained useful studies on each of these value chains that identifying opportunities for upgrading. In addition they have commissioned studies on several other potential candidate sectors.
- In Ben Tre, the project team has prioritised three value chains for initial support, coconuts, cocoa and safe fruit. While each of these is a major value chain in the Province with potential for upgrading, the relevance and potential impact on the poor was not assessed in the selection process. Value chain development strategies for each of the three priority value chains is strongly evidence based, using extensive research conducted with various partners.
- In Cao Bang, the project has inherited the Mong Cow value chain as a priority from a previous IFAD supported project. While attractive, this may be challenging to develop and with relatively modest impacts on the poor. Other candidate value chains include peanut seed, soy, bamboo and maize. However the project has not yet completed any evidence based comparison of the likely cost and benefits of supporting any of these.
- In Quang Binh, the project, through considerable consultation at a commune level, has implemented numerous production models many of which are focused on niche products. Some of which, such as honey and frogs seem to have real potential. However the final selection appears to have been ad-hoc, diffuse and largely based on production issues. No initial systematic selection process was evident but work was evolving.
- In Ha Tinh, the emphasis has been on identification of Market Opportunity Ideas (MOI) at the commune level in conjunction with the CMOP process. While the MOI approach has been developed in an effort to have a more workable approach, the selection process is heavily focussed at the commune and does not lend itself to selecting priority value chains for large scale impact at a provincial level.

It is notable that no examples were seen in which a comparative assessment of the relative costs, benefits and challenges of supporting different value chains had been completed before priorities were decided. This is likely to mean that scarce project resources are not being used where they could have greatest impact.

Good selection processes also require evidence on which to make decisions. Unfortunately this may not be readily available, and obtaining reliable information can be a timely and costly process. Therefore the amount of effort applied in the selection process needs to be consistent with the amount of resources to be used in supporting the value chain.

For selection of major value chains for relatively large scale support, a preliminary screening of possible value chains can be very valuable to produce a short list of 2-3 value chains for further in-depth review before final selection.

For more localised value chains being considered for more ad-hoc support, for example production improvement training, less rigorous evidence may be needed but the same issues should still be considered.

Suggested screening criteria for value chain selection are shown below.

### Box 1: Screening criteria for value chain selection

1. Can the local value chain be competitive in the market, now and in the future? (considering production costs, quality, availability)
2. Is there sufficient market demand to absorb any assumed growth in the local value chain?
3. How many poor and near poor households are currently involved? (Importantly, does the HH have tenure of the asset, commodity, or the land it's produced upon?)
4. How many more household could realistically become involved in the future?
5. For those household involved, what share of household income does this account for?
6. What change is realistically possible in the amount of income earned from this product (e.g. through higher prices, increased productivity, lower costs) from this product?
7. How much off-farm employment for rural workers is currently created by the value chain?
8. How much could the amount of off-farm employment realistically increase by?
9. What are the main bottlenecks in the current value chain and what changes would be necessary to tackle these so that poor households benefit?
10. Is it feasible for the project to intervene to achieve the necessary changes? If so, at what cost and what are the risks in achieving this?

## 7. Market-orientation in other project components

### Market-oriented vocational training

In both Tra Vinh and Ben Tre the programmes have made good progress in establishing skills training programmes specifically targeting job opportunities and are good examples of effective market-orientation within the programmes.

This is possible as two provinces are in the Mekong delta, located close to major growth centres, where there are genuine opportunities for rural poverty reduction through off-farm paid work. These can be especially valuable for the functionally landless, who cannot easily benefit from agriculture- based interventions.

In terms of targeting, vocational skills training has generally been well targeted towards women especially through commune-based training. However, training has less effectively targeted the functionally landless poor for whom off-farm work is one of the few routes out of poverty. This is an area that could be improved on within the current programmes and also made more explicit in future programmes designs.

One aspect which is not yet very strong is a more systematic assessment of the current and expected future market demand for labour and skills, sometimes called a Labour Needs Assessment. For example, Ha Tinh is in considerable need of such a study. Such an assessment would allow the programmes to offer well targeted training that not only targets existing identified immediate work opportunities but also likely areas of skills demand for the future.

It is notable that in some provinces, such as Cao Bang, the inaccessible geography and relative lack of development of industry and services means that off-farm labour demand can only currently be expected to play a limited role in rural development. Detailed Labour Needs Assessment may therefore not be a priority in such locations.

### **Market-orientation in farmer training**

One of the biggest shifts required is in the attitudes and thinking of farmers themselves. Most of today's farmers in rural Vietnam grew up in a system where production decisions were determined based on supply and production driven considerations together with household traditions and risk management strategies. Little consideration was conventionally given to the demands of the market or to the costs and benefits of specific production decision. This supply-driven farming mindset is still very evident in conversations with farmers from rice growers in Tra Vinh to maize growers in Cao Bang. Increasing the understanding of market demands and the opportunities this create for farmers will take time.

An important way of achieving this is the introduction of practical market-oriented ideas into farmer training linked to real market opportunities (see Box 2 below). For example this might include awareness raising on market demands in terms of quality or varieties, training on simple cost benefit calculations for improved production practices and buyer networking visits as well as more traditional technical training and support to farmer group development. The involvement of private companies, whom have demand of specific commodities, in this process can provide valuable insights and training into what is required of farmers by the market.

Even with good early success and in supportive local conditions, market-oriented production by farmers can be expected to take several years to become common-place. In remote areas with less developed markets, this transition may take many years more.

## **Box 2: New market opportunities for seed rice production in Thanh Phu Commune, Tra Vinh**

Recognising the strong demand for rice seed and the better income opportunities this created for farmers a series of coordinated interventions led to rice farmers in one project commune raising their income from rice by more than 30% in one year.

Rice farmers in Thanh Phu commune were offered practical training on improved production practice for growing seed grade rice. In total 125 farmers were trained, including a study tour to nearby Dong Thap Province, where they were introduced to seed companies and input suppliers.

As well as the study tour to understand the demands of the markets, the training involved both technical production issues for quality rice seed production and, equally importantly, training on how to calculate the expected costs and income of the new production practices compared to their traditional rice growing practices.

When interviewed later, many farmers reported that this was the first time they had made production decisions based on cost benefit calculations and market considerations rather than simply on technical experience about what would grow best where and when.

In parallel to the training, farmers were assisted to form six Common Interest Groups for rice production within their commune. Within their new groups, the farmers decided to test their new skills on a small area of land to confirm for themselves if the costs and benefits they had calculated would turn out to be true in practice. Within one season, they were able to confirm that the expected yields and costs in reality and could see for themselves the new market opportunity available to them.

Initially the six groups had a total of 122 member and 98 hectares of rice land, but within a year their numbers had swelled to 150 households. With almost 100 hectares of production capacity, good skills training and the endorsement of their local commune authorities, the new CIGs were an attractive potential supplier for the seed companies from Dong Thap as they could provide a large part of the 100-200 hectares of production each company was looking for. One company in particular recognised the opportunity and approached the CIGs with a proposal that they produce seed under contract production for them in the coming season. The company would provide the master seed and guarantee purchase of all their output. Armed with the knowledge of their costs and yields, the farmers were able to negotiate a contract they were happy with and secure the endorsement of the commune authorities.

As a result, in their first season growing rice seed on contract the rice farmers grew their rice income by 30%. They continued to attract new members and new production land, sharing the benefits further. They also began direct discussions with input supply companies to buy fertiliser direct at discounts and increase their profits further. By the start of their second season they had been approached by new buyers, giving them greater choice and more power in the market.

The support from the project had not only given the farmers the skills and understanding needed to become rice seed growers, it had also lowered the transaction costs for the seed companies to an acceptable level to begin a direct relationship with the farmers. The specific offer had come from the company but the farmers were equipped to respond and take the opportunity when it arose. For most of the farmers involved, this was not only their first experience of market-oriented production, it was also their first experience of working together for their own interests – both essential in them securing this opportunity for higher income.

## **Market-orientation and farmers' Common Interest Groups**

The example of the rice seed farmers in Tra Vinh (Box 2), is a good example of the results achievable from enhancing farm productivity and the performance of farmers' Common Interest Groups (CIGs). These are often an important and necessary element of effective value chain and pro-poor market development.

Poor farmers may only be able to access market opportunities and compete effectively if they adopt improved production practices or new varieties that respond to the market demands for quality, price and other characteristics.

Even then, individual farmers acting alone may fail to access markets or obtain good value for their products due to weak or asymmetric market linkages. For example, an individual smallholder rice farmer who had been trained to produce good quality seed grade rice is unlikely to be able to find a good market for his product on his own as the transaction costs to a buyer of finding him is too high. However, if he was a member of an effective rice seed CIG that developed contacts with several seed buyers for larger quantities aggregated from its members then each farmer is likely to get a fairer market value for their rice and so raise their income. CIG can also allow farmers to exploit other opportunities not available to individual farmers, such as collective buying of inputs at a discount, investment in common assets such as grain driers and sharing experience and workload in developing market opportunities.

Enhancing CIG and farm productivity is therefore relevant in both the development of large value chains and more localised commodities. However, it should be noted that in some value chains and commodities the potential for impact from CIGs or farm productivity improvements may be more limited. An example is coconuts in Ben Tre, where the formation of CIGs is unlikely to directly affect the income earned by farmers, as there is already strong competition among buyers and the scope for further production improvements is modest as yields are relatively high by international standards.

In general terms, the projects need to target farmer training and CIG support to specific market opportunities that have been identified by farmers or the project and where the support provided is sufficient to allow them to access the particular market opportunity.

The critical moment for market orientation is therefore in the selection of which training and CIG support to provide.

The market opportunity being targeted by the training and CIG support needs to be identified and described as part of the process of selecting what support should be provided and to whom. This should include an understanding of the market requirements in terms of price, quality or other factors as well as the required market linkages for farmer to benefit as intended.

For localised value chains, an important part of the selection process should be a discussion of the target market opportunity with farmers, trainees, extension staff and project staff. As well as helping identify what support is likely to have the biggest benefit, the discussion itself is likely to be valuable to farmers in helping develop stronger market-oriented thinking and decision making.

In the context of large value chain development, there is a strong need to align the bottom up development of CIGs and farmer training with coordinated action at high levels in the value chain, for example securing investment in high value added processing factories or in wholesale markets or warehousing. Farmers and CIGs must choose for themselves to participate in a particular value chain and how they want to participate. The projects can help improve the overall structure and performance of a value chain, creating new value and removing blockages so that farmers can benefit and earn more income. By providing technical training, support to CIGs and rural finance, the projects can also equip farmers so they have the knowledge, resources and networks to participate in and benefit from the value chain. But, ultimately, the decision to participate is the farmers alone.

## **Market orientation in commune planning and infrastructure investment**

The specific objective of using a market oriented approach during commune planning and infrastructure investment, such as in the SEDP and CIF processes, is in keeping with the overall market-orientation of the project.

However, in all of the projects visited it has been impractical to apply market-orientation in the commune planning activities during the early stages of the project. This is partly due to capacity constraints and partly due to the novelty of the participatory approach for the SEDP and CIF processes, even without the need for market orientation.

A stronger market-orientation within commune planning processes is likely to be best achieved after the project has been active in the commune for 2-3 years, working with participatory planning and also with more active CIG and farmers having had more exposure to market orientation through training and other activities. With good progress in these areas, commune households will have a stronger capacity and awareness of how to contribute real market oriented thinking into the commune planning processes and identify investments and support that can increase their incomes.

In addition it may be helpful, through farmer training and CIG support, to encourage farmers and CIG members to consider how the commune planning processes and infrastructure investments could be better utilised to benefit their particular value chains and livelihoods.

Specifically in terms of market orientation within the commune infrastructure investment, if all funds for infrastructure are committed by communes during the first 2 years of the project then there is unlikely to be a strong market orientation within the decision making process. This is because market orientation is a new and unfamiliar way of think that takes time to develop. Farmer training and CIG support can help develop this, but these activities do not happen all at the beginning of the project. In the absence of genuine market-oriented discussions in commune planning then traditional factors will tend to dominate decision making.

## **8. Component linkages and partnerships**

Each of the projects has been designed with several inter-dependent components, However, in practice, there is a strong tendency for each component to be implemented independently from the other project components in a rather mechanical fashion. Projects are tending to progress areas they are familiar with first as might be expected, such as infrastructure planning.

However there is a need for a stronger, practical organising logic for linking the components<sup>6</sup>. This is absent in all projects visited. This may be the result of the design and launch process for the projects, in which those responsible for its implementation may have had little connection to its design.

It may therefore be helpful to review the design and launch process to see if there are opportunities to provide greater transfer of the thinking and understanding inherent in the design to the implementation team, for example through engaging the mission leader from the design team to spend time working closely with the Project Director during part of the launch phase.

In the same way that components are often being implemented with few linkages, many of the projects have not established good partnerships with other relevant agencies and organisations in the province. Ben Tre and Quang Binh are notable exceptions to this general pattern and a role model for others to follow.

There is a general tendency for projects to be implemented in a degree of isolation, especially during the first years of the project. This isolation will separate the projects from with key line department and other organisations that have the needed technical expertise and mandate for

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<sup>6</sup> It should be noted that not everything has to be linked to everything else, as it would be counterproductive to create artificial linkages where little connection really exists.

specific issues that affect project activities. It will also greatly reduce the institutional sustainability of the project and the ability of the project to support the wider adoption of market oriented approaches in the province. While it is understandable that project may tend toward an internal focus while they are being established, this needs to be quickly addressed if the projects are to achieve their objectives.

Two other types of partnership appear to offer considerable potential but are, as yet, mostly under developed.

- a) The potential for private public partnerships (defined as working with companies that are seeking access to materials at a fair price and with responsible business practices), and
- b) Strategic partnerships with other major programmes in the province and/or agencies with strong technical capacity. The value of these partnerships can be seen in Ha Tinh and Tra Vinh where the partnership with GTZ has made a very significant contribution to the projects.

## 9. Capturing results and progress

It is highly commendable that in many of the projects, specific activities being implemented are having a direct and immediate impact on those benefitting from them. Examples from Tra Vinh include farmer training on improved rice cultivation techniques and cost/benefit analysis, formation of active CIGs linking with buyers and those benefitting from repair of an irrigation canal.

However, at present only output indicators are being systematically recorded and so it is not possible for the project to understand the impact different activities are having. Without information related to impacts it is not possible for the projects to appropriately prioritise activities nor convey the benefits to potential participants and other stakeholders.

The lack of ability to capture and publish information on the real benefits of the project is a particular concern given the relative novelty of the market-oriented approach.

It is recommended that the projects establish simple but effective monitoring systems for proxy indicators of impact, and do so early in the project to avoid missing the opportunity to get an early baseline before activities have been implemented. Useful proxy indicators should include product sales prices and input prices, sales volumes, input and labour usage and production yields and outputs. These should be collected regularly but at different frequencies so as not to create unnecessary work load. The existence of the commune and district project structure makes such as scheme readily feasible at little or no extra cost.

In addition to quantitative data, the projects will benefit from capturing good qualitative information and a small number of mini-case studies that capture the human side of the impacts and provide richness and context to bring this to life.

In terms of proxy quantitative indicators a number of technical aspects need to be followed when collecting such data, including:

- All data to specify where in the value chain it relates to and what product e.g. paddy at the field, seed grade paddy in the commune centre, paddy at the factory gate
- Data should be collected for all major output products (including those being targeted by the projects and those not affected – to be used as controls) and inputs (e.g. fertiliser, pesticide, seeds, labour)
- Data should be collected regularly at pre-determined intervals, at the same time within each interval and from the same source – e.g. collect paddy price in the commune centre on the 1<sup>st</sup> Monday of every month from 3 local traders.
- Data should be collected for consistent payment terms – i.e. for goods bought/sold in cash on the spot, not credit

## **10. Learning and continuity in the country programme**

The five projects visited represent three major design concepts. Each of these three designs has very different design elements and underlying concepts, even where the projects are being implemented in very similar settings – such as in the neighbouring Mekong delta provinces of Tra Vinh and Ben Tre. The benefit of such radically different designs is not clear.

As noted elsewhere, there are real examples from the projects of activities and approaches that are successful and, equally important, where things have not worked as expected. Capturing and sharing these insights is vital if the projects and country programme are to achieve continuous improvement of their performance.

A number of steps have been made to improve this situation and more opportunities exist to build on this progress. For the last two years the country programme team has conducted the annual supervision missions. This creates an important opportunity for more effective learning in the country programme and between the projects.

Also, the annual Country Programme Review Meetings are another important mechanism for this inter-project learning.

An opportunity for improvement at the country programme level is in achieving greater continuity of technical advice, both in design and ongoing support to the projects. External consultant may have very differing views on how to tackle specific development challenges. This is all the more so in areas such as market orientation or value chain development, that rely heavily on judgement and less on clearly defined methods and processes. Project teams are unlikely to benefit from different or conflicting advice offered by numerous different external consultants, many of which will not have a detailed understanding of the history or specific context of the project.

This is also true during the design of new projects or major changes at Mid Term Review. If these are done without a detailed understanding of the lessons and experiences from previous projects then opportunities are likely to be missed to build on these valuable experience and mistake more likely to be repeated.

For the country programme as a whole, greater continuity may be best achieved by developing a pool of regular advisors that can work with the country programme and provincial projects regularly over prolonged periods. This will allow both the advisors and project staff to develop a more in-depth understanding of the particular situation and challenges in each project and help the projects achieve real progress over several years.

# 11. Recommendations

The following major recommendations are made following the current review.

1. Differentiated market-oriented poverty reduction strategies should be clearly articulated at each level of the projects – from commune to district to province – and show how the various project activities will be utilised to reach different groups of poor. These strategies should be informed by participatory discussions with landless poor, ethnic minorities, poor women and youths and other poor households to better understand the factors contributing to their continued poverty and their participation in project activities.
2. IFAD projects should be seen as part of the process of change to introduce more pro-poor market orientation in to provinces. Appropriate expectations and milestones need to be set and support provided on change management processes.
3. All project teams need more structured and consistent skills development, through training and on-going technical coaching related to market-oriented approaches and value chain development. Intensive technical assistance and backstopping is needed during the first 3 years of project as a minimum.
4. Each project should target a small group of value chains, with potential for large scale poverty impacts, for comprehensive value chain development but with the decisions to proceed to the next stage of implementation taken in stages not just one decision at the start. Major value chain development should be complimented by a wider set of ad-hoc market oriented interventions in localised value chains to extend the reach of the project.
5. Selection of value chains and other interventions should be explicitly based on the consideration of the potential for poverty impact in delivery of activities.
6. Market orientation should be incorporated into all major operational components of the projects, but in a phased manner to allow project teams and participants time to gain an understanding of the approaches. In particular, mechanisms for a phased introduction of market-orientation to commune planning and infrastructure investment should be used.
7. Vocational training, related to opportunities in the labour market, should be aimed most at the poorest in the community, often functionally landless and women and youth from these groups, for whom off-farm work is often one of few routes out of poverty.
8. Each project should develop a clear and practical organising logic for linking its various components. Similarly every project should actively seek to build partnerships with key local government agencies and other organisations relevant to project activities.
9. The projects should establish simple but effective monitoring systems for proxy indicators of impact, and do so early in the project to avoid missing the opportunity to get an early baseline before activities have been implemented. In addition to quantitative data, the projects will benefit from capturing good qualitative information and a small number of mini-case studies that capture the human side of the impacts needed to communicate the benefits of the project to a wider audience.
10. IFAD country programme should consider ways to provide greater continuity in technical advice and support to provincial projects and during project design and Mid Term Review. In addition, the options for improving the transfer of knowledge and ideas from the design teams to implementation teams should be consider.

Detailed technical recommendations for each project are included in the relevant technical reports and Aide Memoires.