From Rice Bowl to Rural Development:

Challenges and Opportunities Facing Vietnam's Mekong Delta Region

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Summary of Main Findings

- Vietnam’s and MKD’s Rice “Success Story”
  - From hunger to large surplus and major exporter
  - Role in poverty reduction and social stability
  - MKD: 2/3 of growth; nearly all exports
- Full Rice Bowl: Half-Full Development Glass
  - Inefficiencies and adverse environmental impacts
  - No longer advancing farmer welfare or consumer welfare
  - Changing face of food (insecurity): malnutrition amongst plenty
- Strategic Re-directions for an Emerging MIC
  - Beyond rice: a multi-sectoral approach to food security
  - Beyond quantitative rice targets: “More from less”
  - Differentiated RD strategies between ‘core’ and ‘non-core’ rice areas
  - Re-focus attention of gov’t on public goods

Research Consortium

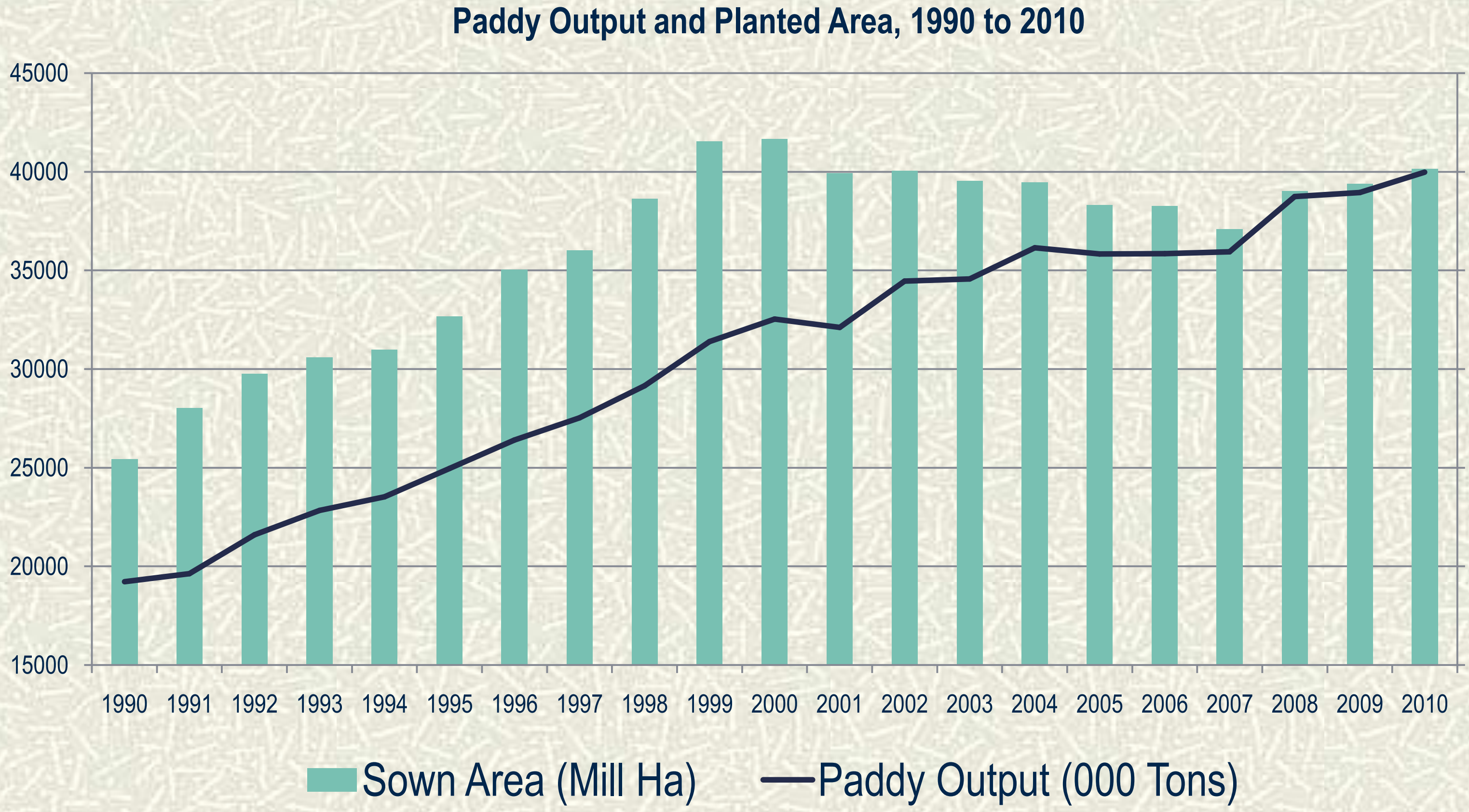
- Who?
  - Collaboration of 5 VN policy/technical institutes, 2 universities, WB, CIDA
- What?
  - Major trends, evolving structural patterns and economic conditions in production and VC; and future scenarios
- How?
  - Farmer and enterprise surveys; statistical analysis, VC case studies; economic modeling of prospective reforms
- Why?
  - Assist the GoV to refine its rice-related strategies/policies—based on evidence—to meet core objectives in a more efficient, equitable and sustainable manner.
  - Identify investment opportunities and capacity building needs

Policy and Program Tools Used by Government

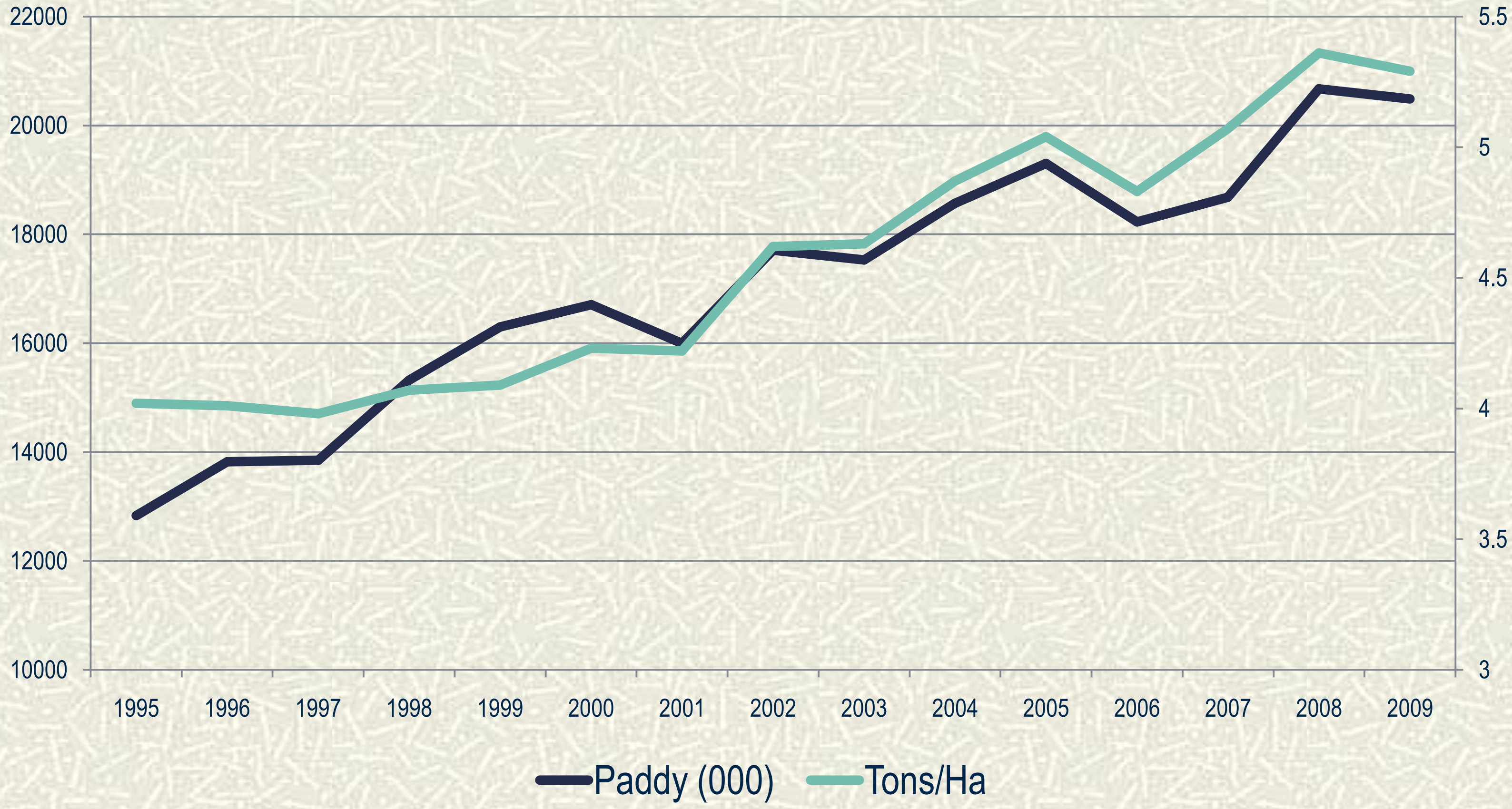
- Resources and Technology
  - Rice land and production targets
  - Restrictions on land uses and conversions
  - Public irrigation water management to protect rice production ($)
  - Varietal research and foundation seed production ($)
  - Mechanization subsidies ($)
- Rice Market and Trade Management
  - Targets/managed limits on annual rice exports
  - SOE rice export trade and G2G transactions ($)
  - Minimum export prices
  - Periodic paddy 'floor price' interventions ($)
  - Strategic reserves/other SOE rice warehousing ($)
  - Periodic schemes to curtail food inflation ($)

Vietnam’s and MKD’s Rice Success

National Picture:
Stable Expansion of Paddy Production



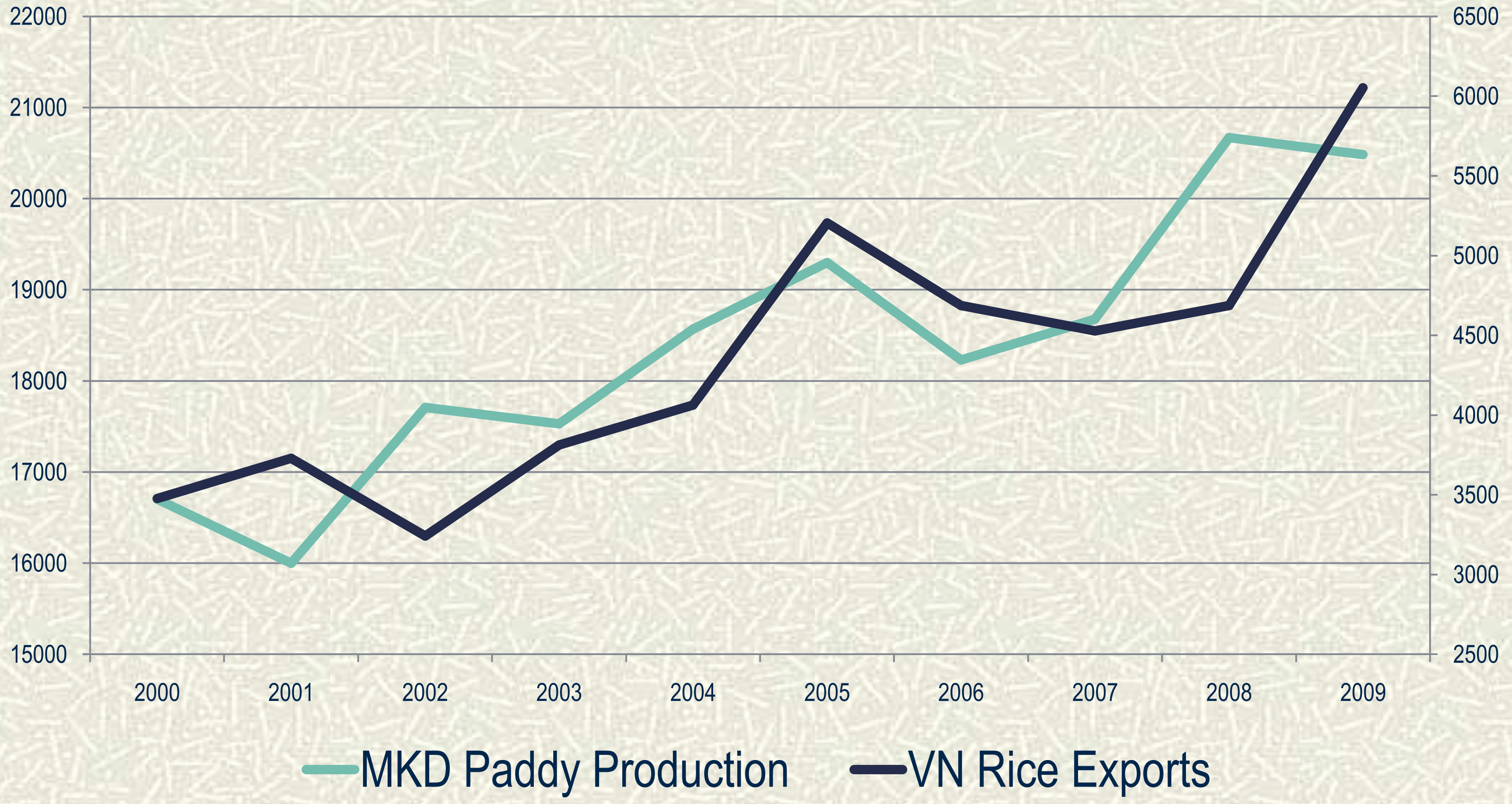
Mekong Delta Rice Production and Productivity



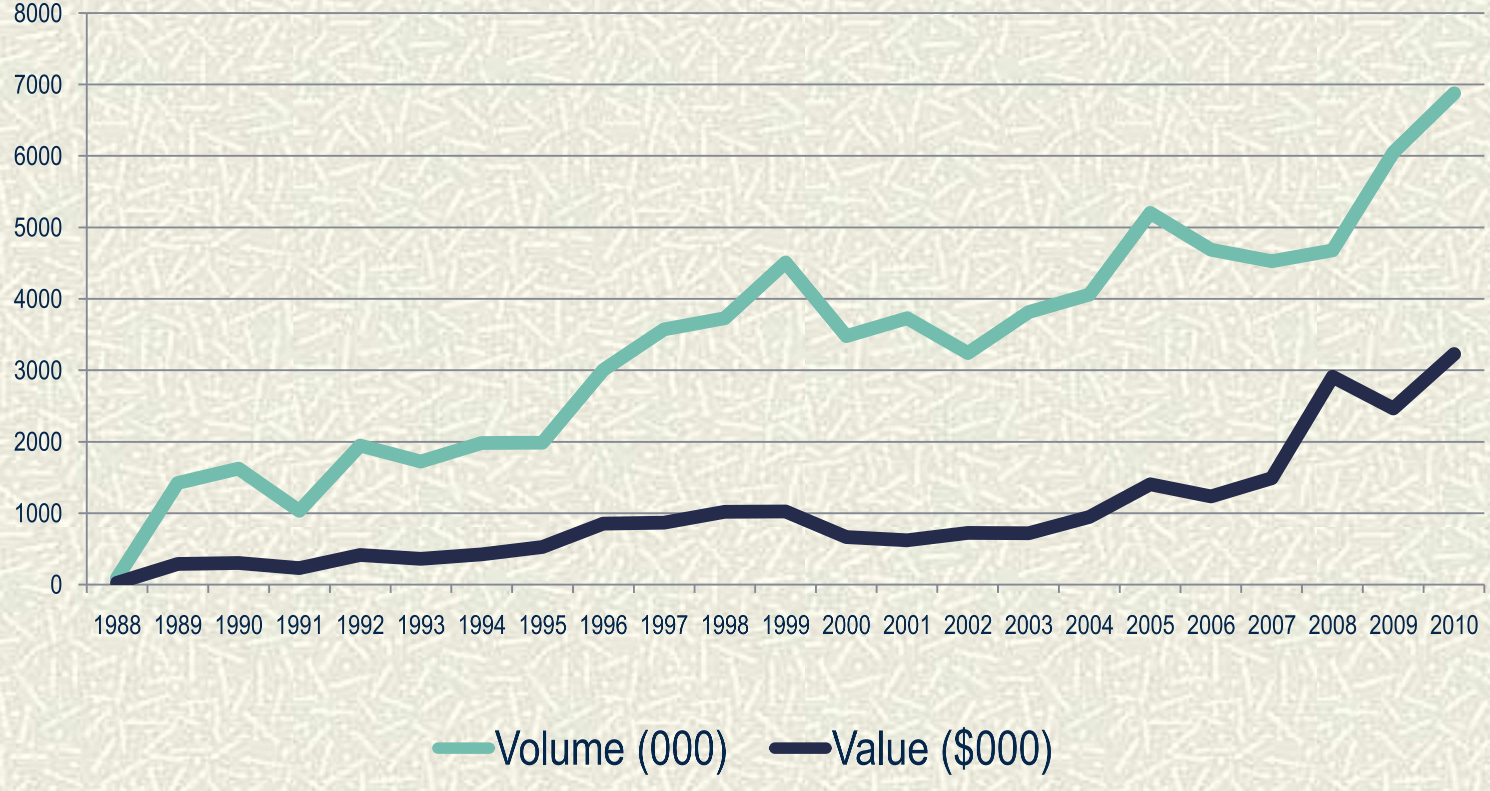
Rice Balance by Region, 2009

	Paddy Production (Mill Tons)	Rice Available (Mill Tons)	Rice Requirement (Mill Tons)	Rice Balance (Mill Tons)	Index of Sufficiency
Whole Country	39.08	21.13	13.54	**7.59**	1.56
Mek Delta	20.52	11.07	3.33	**7.74**	3.33
RRD	6.94	3.75	2.99	**0.76**	1.25
N/S Central	6.25	3.38	2.86	**0.52**	1.18
NE/NW	3.05	1.65	1.64	**0.01**	1.01
CH	0.99	0.54	0.74	**-0.20**	0.72
SE	1.33	0.72	1.97	**-1.25**	0.37

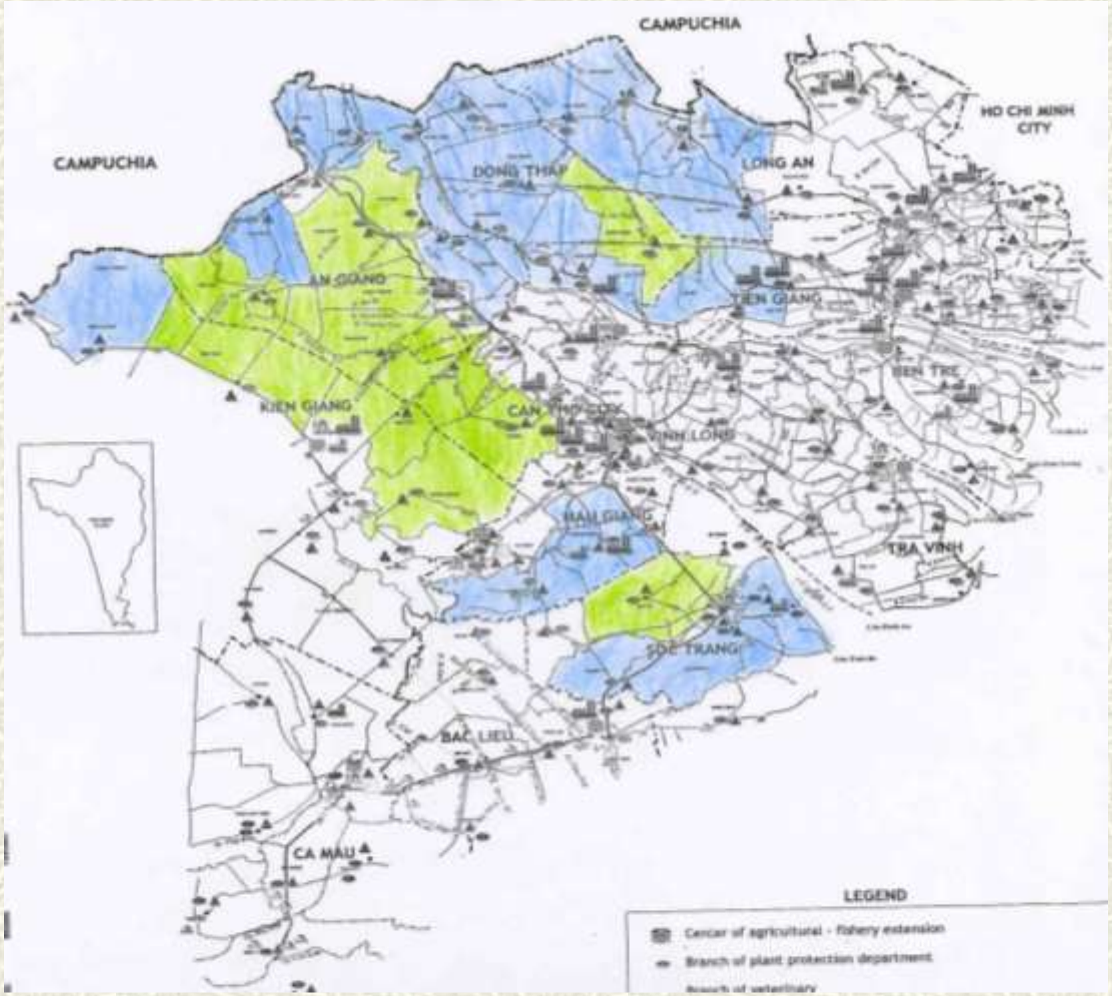
MKD Increased Surplus = Increased Exports



Vietnam Feeds the World: Expanding Rice Exports



'Core Rice Belt' in the Mekong Delta:
400-750,000 Ton; 250 – 400,000 Ton



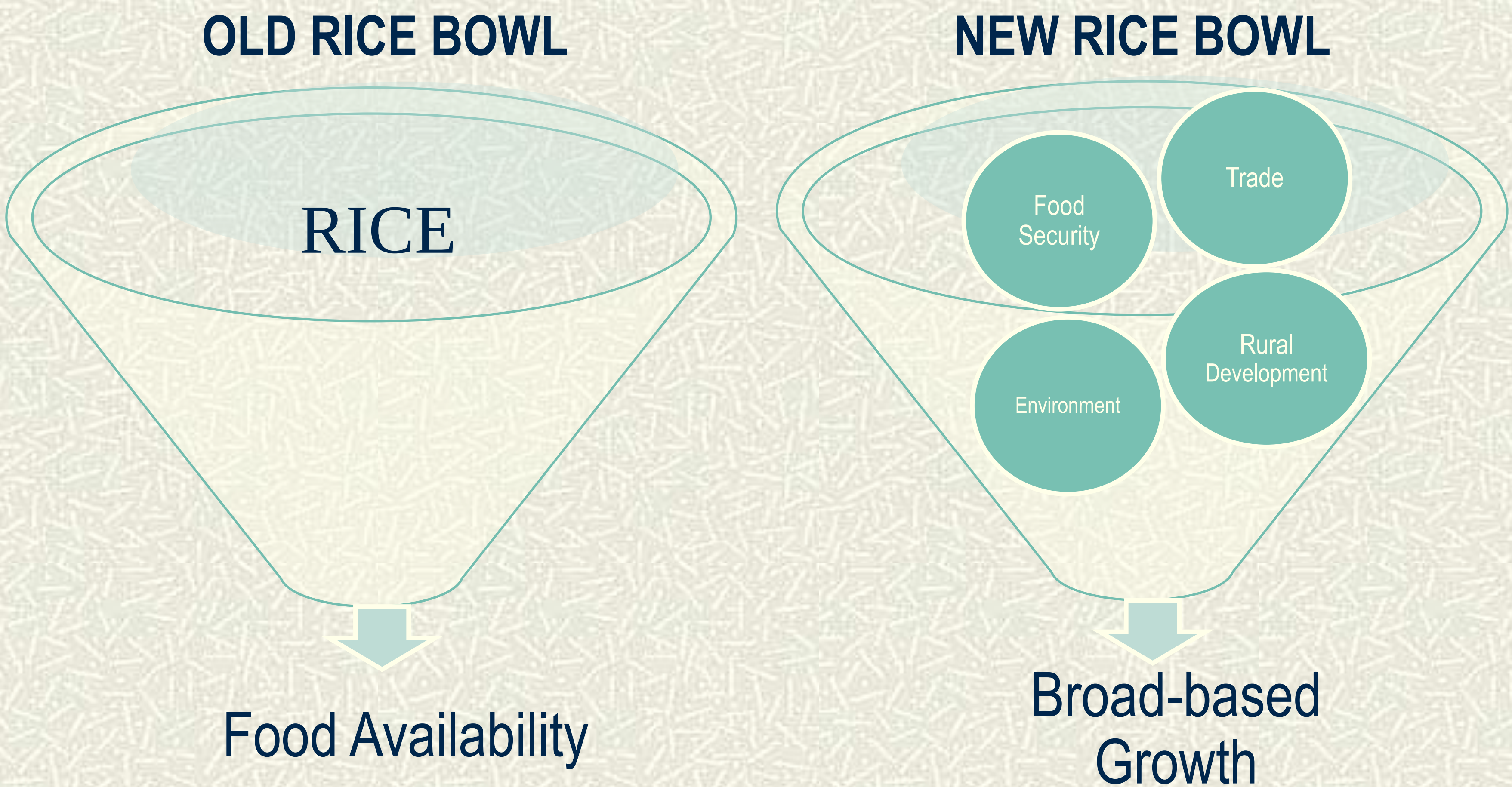
Surplus Supply is Increasingly Concentrated

- Approximately 1.4 million rice growing households in Mekong Delta
- Most sell paddy and buy rice. Most producers are net buyers of rice (i.e. rice expenditures > paddy sales); A small proportion accounts for commercial sales

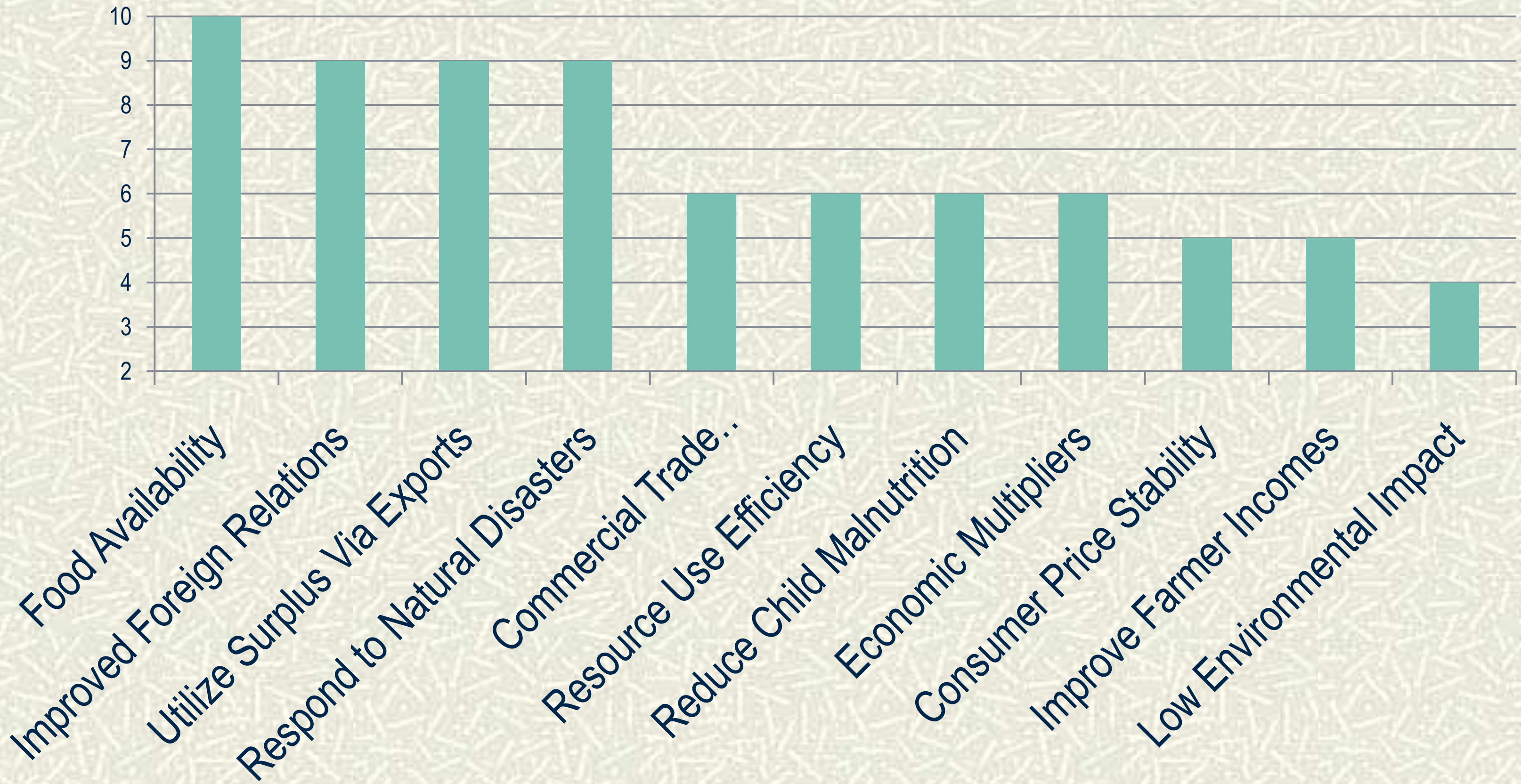
	MKD 2008	
Quintile	Average Agricultural Land (Ha)	Share of Net Rice Supply (%)
1	0.18	1.7
2	0.48	5.4
3	0.81	9.0
4	1.28	**20.1**
5	2.74	**63.8**
All	1.10	100.0

The Rice Bowl is Full; the Development Glass is Half-Full

Changing Priorities in Relation to Rice in a Maturing Economy



Mixed Rate of Achievement of Policy Objectives Related to Rice



Malnutrition Amongst Plenty

- National rate (under 5) underweight: 18.9%; stunting 31.8%
- Slower pace of progress in past five years
- Linked to poverty or income shocks but dietary deficiencies also common among middle income households
- Not primarily a calorie shortage
  - relates as much to diet composition, protein/nutrient deficiencies, maternal health, disease incidence, breastfeeding practices, and clean water supply
- ***More rice is not generally the solution***
  - ***MKD: no relationship between rice growth and malnutrition progress. MKD ranked 7th of 8 regions in reducing child malnutrition during the export boom of the past decade***

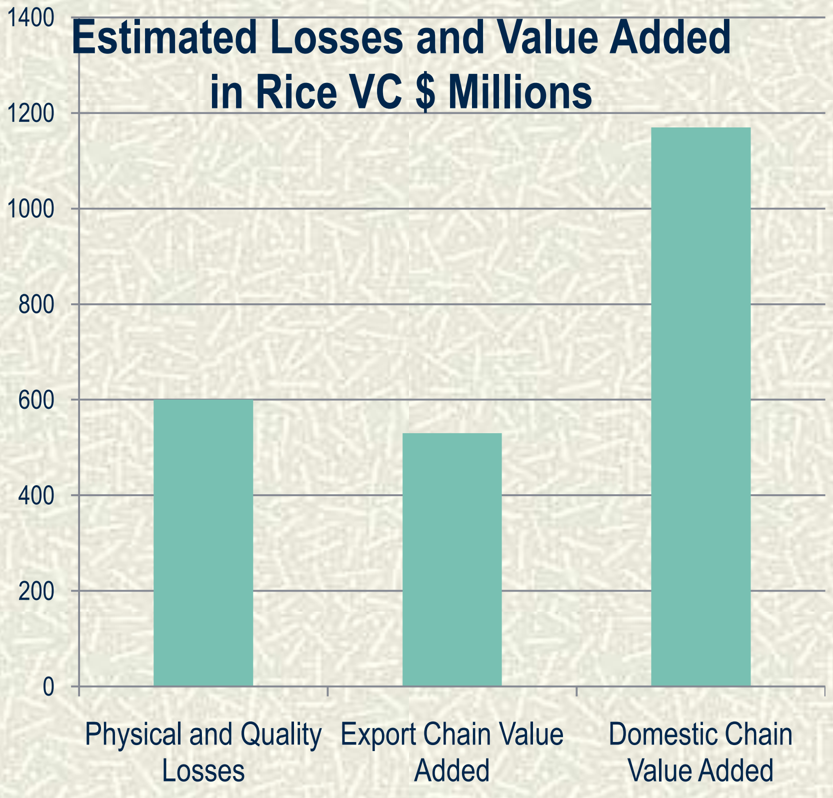
Declining Numbers of MKD Farmers Can Earn a Livelihood Primarily From Rice

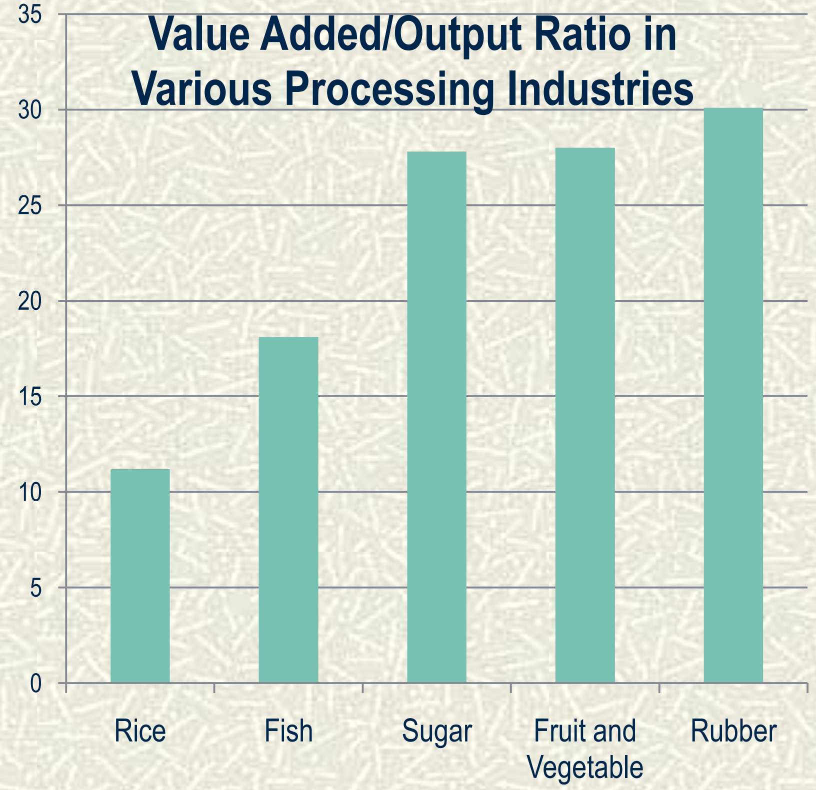
Farmer Incomes from Different Sources MDI 2009 Survey Results Based on Sample of 117 Farmers VND/Month/Person (000)						
Farm Size		Total Income Per Capita	**Rice Income Per Capita**	Other Crop Income Per Capita	Animal and Aquatic Income Per Capita	Off/Non-farm Income Per Capita
<1 ha	Mean %	849 100	**151** **18**	84 10	82 10	533 63
1 – 2 ha	Mean %	1165 100	**284** **24**	72 6	359 31	449 39
2.01 – 3 ha	Mean %	1901 100	**658** **35**	26 1	728 38	490 26
>3 ha	Mean %	1933 100	**1296** **67**	10 0	88 5	540 28
Total	Mean %	1312 100	**535** **41**	56 4	209 16	512 39

Why does output and export growth not translate into livelihood success for most MKD rice growers?

- Farm/Local Factors
  - For most farmers, inability to realize on-farm/post-harvest economies of scale
  - Inefficient and excessive input use
  - Rising input costs; increasing labor constraints
  - Lack of capacity to manage weather, market, and other risks
- Supply Chain Factors
  - Multi-stage, generally uncoordinated supply chain
  - High levels of physical losses
  - Lack of incentives/supports for enhancing product quality
  - Imbalanced distribution of benefits (and risks)
  - Limited competition among buyers/exporters
  - Vietnam's position at the "bottom of the rice market", mostly supplying public programs and competing on the basis of low cost

Rice Value Chain Adds Little Value





Major Features of Vietnam’s Rice Trade

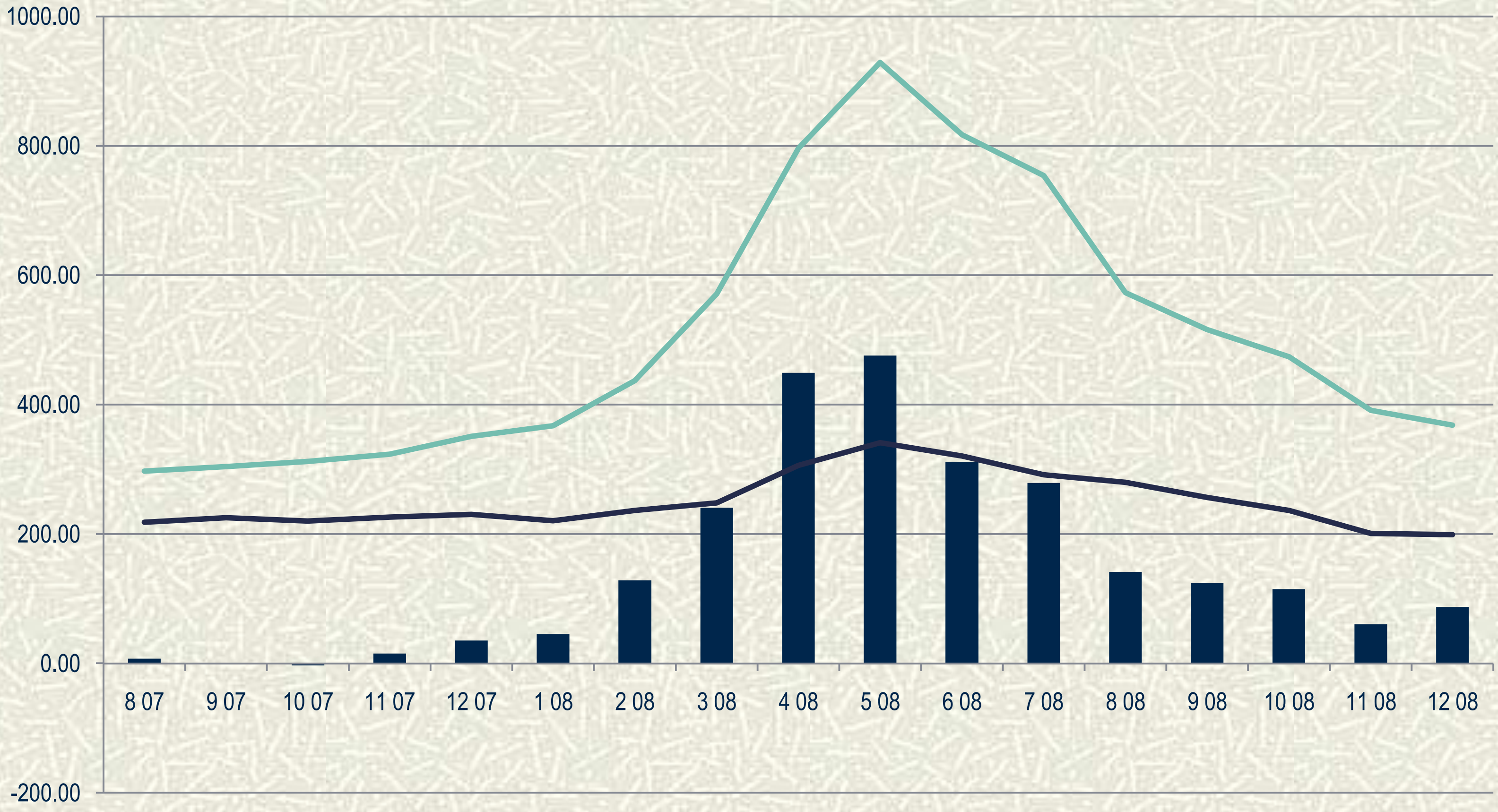
- “Vietnam’s World Food Program”
  - Most trade with countries whose imports have (until recently) been dominated by government agencies to replace public stocks at lowest possible cost
  - 40 to 60% through G2G transactions
  - Unpredictable ‘demand’ --related to natural disasters and political decisions
- Commercial Trade
  - Mostly directed to West Africa; ‘low cost’ factor
  - Little or no trade with the high income countries which make up the majority of leading importers in value terms
- Other Features
  - Structure: many exporters, but top 10 = 70%; top 2 =53%; SOEs: 75% of trade
  - Heavily ‘administered’; commercial and social objectives co-mingled
  - Price discounted in every grade category

What is the Real Cost of VN's "Low Cost" Rice Exports?

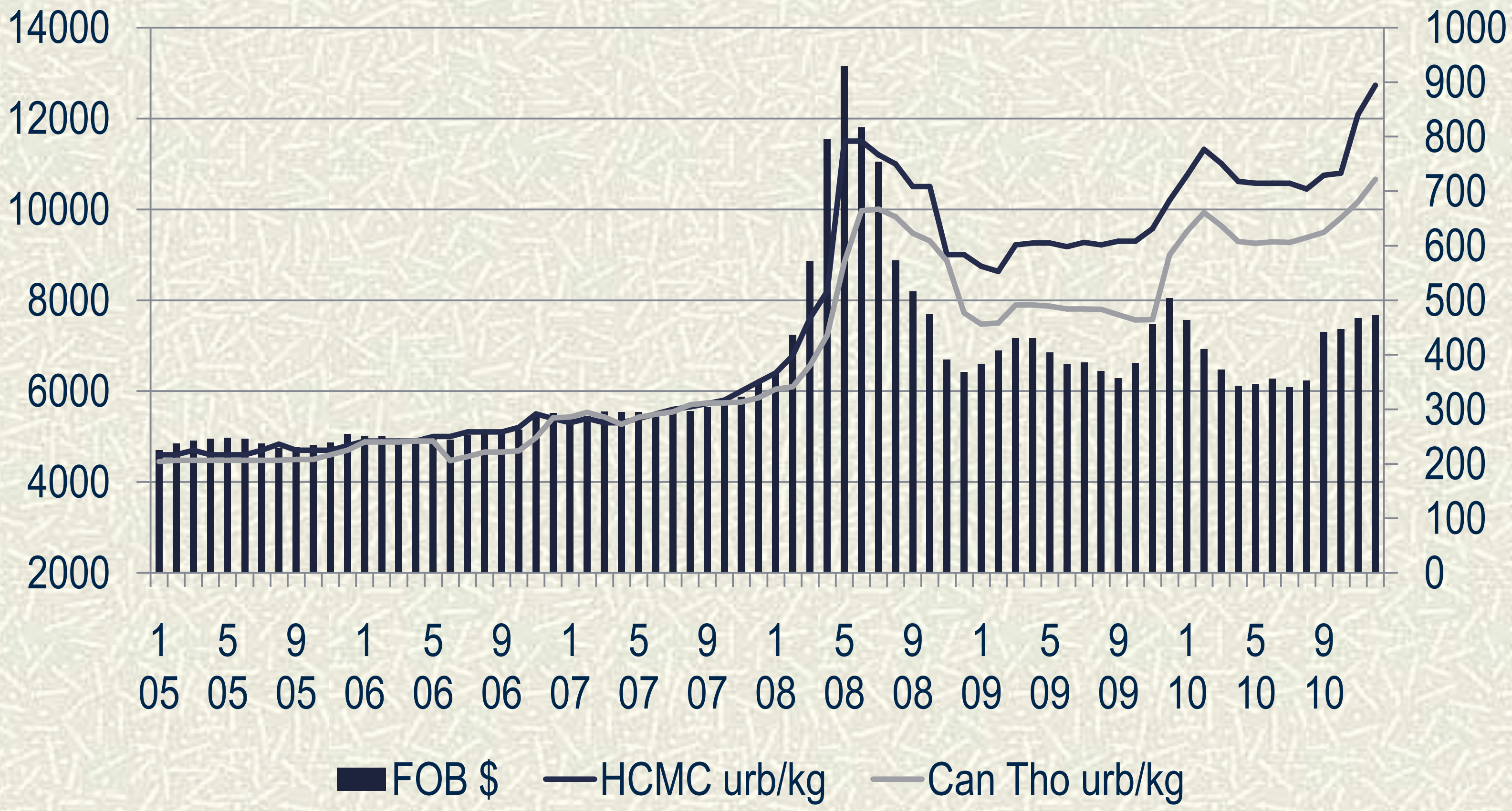
- Calculated Costs
  - Seed + fertilizer + pesticide + labor costs
  - Post-harvest losses and logistical costs
  - Processing and packaging costs
  - Handling, shipping, and insurance costs
  - Forex costs—40-50% of costs

- Non-Calculated Costs
  - Costs of water resources infrastructure management
  - Losses to aquaculture from water diversion measures
  - Adverse environmental impact of fertilizer/pesticide run-off
  - Greenhouse gas emissions
  - Financial cost to government of no interest loans to rice companies
  - Opportunity cost of alternative land (water, labor) uses

Farmers Benefitted Little from Recent Price Spikes: 2008 Example



Domestic Price (In-)Stability

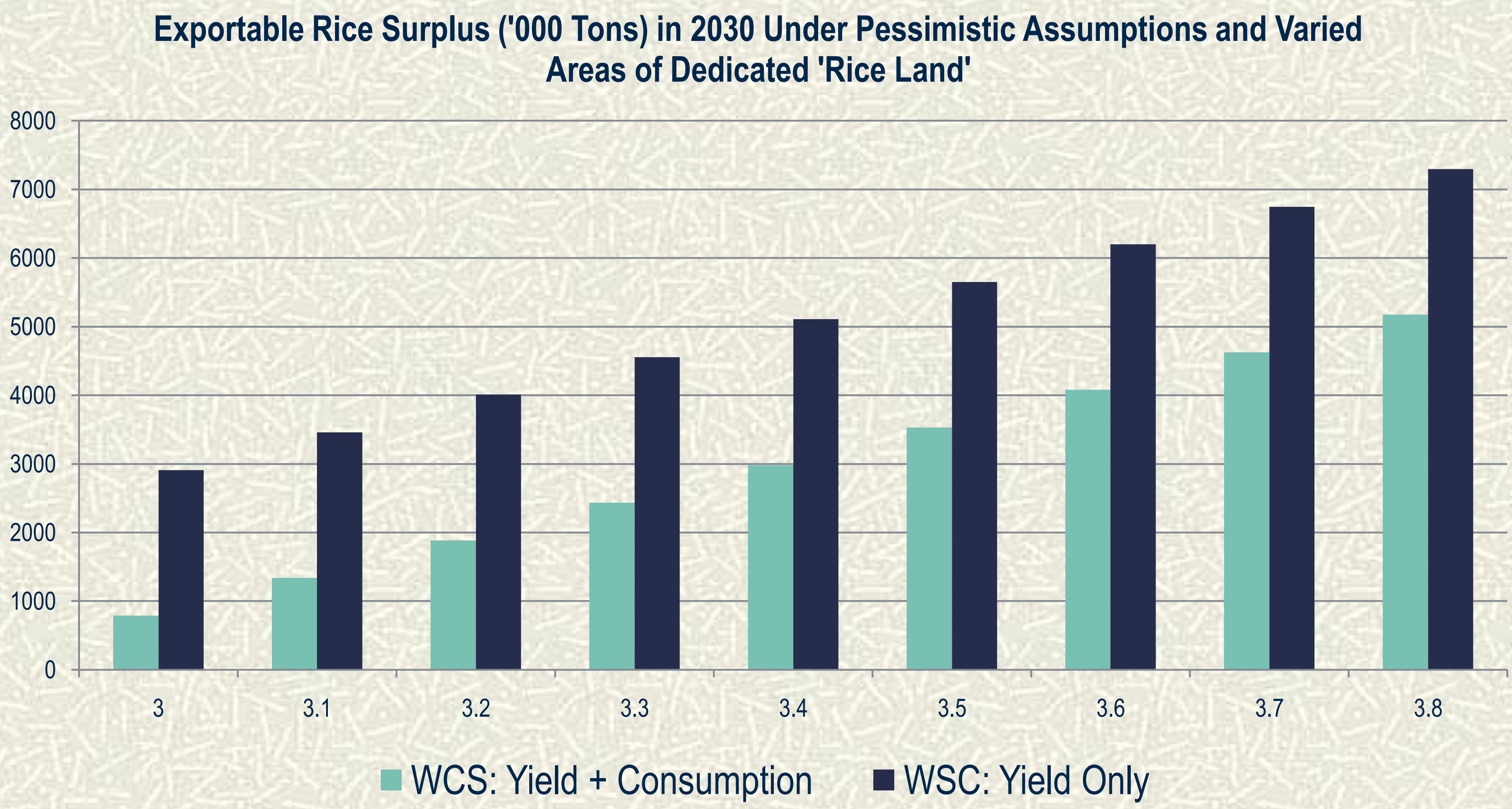


Strategic Redirections

VN Per Capita &Total Rice Consumption Has Begun to Decline; This Will Likely Accelerate

P.C. Rice Consumption In Asia (Kg/Yr)	
Myanmar	160
Vietnam	135
Philippines	128
Indonesia	104
China	95
South Korea	88
Malaysia	80
India	77
Japan	45

Future Rice Balance: Not in Danger



Implications for Future Directions

- **Toward more Flexible Agriculture**: Scope for more flexible land use planning, more diversified agri land uses, and differentiated strategies for supporting agric and non-farm rural economies. Adjust downward ‘protected rice land’ area. Incentives rather than restrictions.
- **“More from Less”**: Shift from output targets to greater emphasis on economics and sustainability. Hence, “more” farmer and consumer welfare; “less” land, water, pesticides, adverse environmental impact, and financial risk from rice.
- **Modernization of the rice value chain rather than ad hoc market interventions**: facilitate private investment, farmer organizations, and company-farmer linkages; reduce physical losses; raise quality/branding; market/consumer orientation
- **Redirect the Foci of Government Attention**: Concentrate on addressing social and environmental objectives and risk management; delink social and commercial functions
- **Beyond Rice**: Multi-sectoral approach now needed to address (mal-) nutrition and food insecurity problems. More rice is not the answer! Material health; clean water supply, nutritional supplements, social safety nets, secondary food crops.

Adjusting the Vision for the Rice Sector

Thank You