

‘Stay on the farm, weave in the village, leave the home’

Livelihood diversification and rural-urban linkages in Vietnam’s Red River Delta and their policy implications

This paper summarises the key findings of a case study conducted in Ha Nam province in 2003 by Hoang Xuan Thanh (Ageless Consultants, Hanoi, thanhhx@fpt.vn) and Dang Nguyen Anh (Institute of Sociology, Hanoi, danganh@netnam.vn), funded by Danida, Sida and SDC. The main objectives of the research were to:

- document the ways in which different rural households rely in varying combinations of strategies based on rural-urban linkages, the factors affecting these strategies and their changes in the past 15-20 years; and
- suggest how policy formulation and implementation at the local and national levels can best support the role of rural-urban linkages in local economic development and poverty reduction.

The key findings of the research and their policy implications are:

- most households in the study area rely for their livelihoods on a combination of activities (typically farming, non-farm activities and migration), and this diversification of income sources has been crucial in reducing poverty. However, the categorisation of locations (as craft village or as agricultural village) and their related development priorities and available support services do not fit with the reality of resident households’ livelihoods, and this can reduce people’s options;
- the rattan and bamboo craft (RBC) sector has played a key role in providing both primary and supplementary incomes in the villages, and in reducing poverty. It is unlikely that, in the foreseeable future, the formal industrial sector will be able to provide the same number of full-time jobs or similar flexible working arrangements. However, to achieve long term sustainability, the RBC sector needs to improve its direct links to domestic and external markets, strengthen horizontal linkages such as sharing orders, technology and market information between household enterprises, and develop a recognisable identity;
- access to domestic and external markets for agricultural produce has greatly improved, but existing restrictions on land use (types of crops in relation to farm area) need to be relaxed to encourage more profitable diversified farming;
- migrant remittances are an essential component of rural livelihoods, and a cash injection into the local economy. Restrictions on movement will not reduce out-migration, but are likely to reduce its benefits.

1. Background

The nature and scope of rural-urban linkages, and the ways in which they affect local economic growth and poverty reduction, vary widely depending on local geographical, socio-economic and ecological conditions. For example, limited road and transport networks, low population densities and limited access to agricultural land may act as constraints on local economic development, and markets are often located far away. In contrast, areas with good transport links, equitable land distribution and water availability and high population densities are more likely to show well-developed rural-urban linkages.

The Red River Delta is a good example of this. With high population densities and agriculture rapidly reaching its capacity to absorb labour, the development of non-farm employment is a pressing challenge for most provinces. Recent figures show that, indeed, the dramatic reduction of poverty in the Red River Delta is mainly the result of increasing opportunities in the non-agricultural sector. Participatory poverty assessments also show that unskilled jobs, often in combination with farming, have most contributed to poverty reduction. A good road and transport network also allows people to seek employment in local urban centres or in Hanoi, without need to leave their home villages permanently.

Ha Nam province is located south of the Hanoi-Hai Phong corridor, along the recently upgraded National Highway 1A. With about 800,000 inhabitants and a total area of 840 km², it is still a predominantly rice-producing province; agriculture accounts for nearly 40% of provincial GDP, and farming is officially the primary occupation for over 80% of the rural population, although it only provides 60% of rural households' incomes. Employment requirements in the formal manufacturing and services sectors (SOEs, private SMEs, private and collective industrial sector) are modest. At the same time, household enterprises, often concentrated in craft villages, absorb 80% of the official manufacturing labour force in the province. This makes better information on the potentials and bottlenecks for the expansion of this category particularly important for future economic growth. Ha Nam also has the second highest provincial rate of outmigration in the Red River Delta, and a better understanding of migration and mobility patterns as well as their contribution to local economic growth and household wellbeing can contribute to the formulation and implementation of appropriate policies. Finally, while agriculture still plays a major role in the provincial economy and in the livelihoods of rural households, its development will increasingly depend on improving productivity and access to markets.

These three key issues – non-farm household enterprises' development, access to agricultural markets and the contribution of migration to rural areas and households – are explored in detail in two villages. Ngoc Dong, in Hoang Dong commune, is located in close proximity to National Highway 1A, about 50 km south of Hanoi and close to Dong Van town. It is a well-known centre of rattan and bamboo crafts (RBC). Nhat village, in Tien Noi commune and about 3 km from National Highway A1, is one of the most dynamic villages in the area, with a highly diversified agricultural production. Both villages have very good telecommunications, power and local road infrastructure. They were selected for the case study because of their rapid economic growth, one based on

non-farm activities and the other on increased agricultural productivity, including livestock rearing.

The methods and tools used in the case study include a household survey questionnaire conducted with a sample of 200 households (100 in each village); in-depth interviews with a sub-sample of survey respondents; semi-structured focus group discussions with separate groups of men and women; in-depth interviews with key informants (village, commune and provincial officials and leaders); and commodity chain analysis for the RBC sector.

2. Changes in household livelihoods in the two villages

Ngoc Dong village has a population of 2,506 divided into 601 households, of which only 20 are classed as poor (according to MOLISA poverty line of less than 100,000 dong/month/head). These are typically households with high dependency ratios (young couples with small children, households with only one spouse) and with limited labour capacity (old persons living alone, adult members with poor health). While in Ngoc Dong employment in the RBC sector has long been a source of income that, even if low, has helped lift people out of poverty, the decline in poverty in Nhat village is more recent. Out of its 182 households (for a total population of 817), 12 were classed as poor in 2003, against 20 in 2002. The characteristics of poor households in Nhat are similar to those in Ngoc Dong.

Nhat is a predominantly agricultural village, and local economic development in the past few years has been based mainly on agricultural production intensification (from 2 to 3 annual crops) and diversification (the introduction of new cash crops such as vegetables, livestock rearing). In addition, the expansion of the RBC industry in neighbouring Ngoc Dong has resulted in increasing opportunities for piece-work, often undertaken by women, children and old people as a supplementary activity.

Migration, both seasonal and permanent, is also important in both villages, and especially in Nhat, migrant remittances are a significant source of income for many households. Such movement has increased especially in the 1998-2003 period, and at the time of the fieldwork, about 15.5% of surveyed households in Ngoc Dong, and 37% of surveyed households in Nhat had at least one migrant member. Good roads and transport infrastructure, as well as extended social networks, have increased the employment opportunities in the surrounding villages for carpenters, masons and wood carvers and in general for construction workers.

The economic specialisation of each village is linked to institutional factors. Since Ngoc Dong is classed as a craft village, its households have been allocated less agricultural land (250-300 m²/head) than households in the agricultural village of Nhat, who have 600-700 m²/head. Nhat's cooperative specialises in agricultural support services, while the primary aim of the cooperative in Ngoc Dong is to provide input and output services to the RBC sector. However, with the decline in demand from the Eastern bloc since the late 1980s, this role of the Ngoc Dong cooperative has increasingly been taken up by private household enterprises and the cooperative now only focuses on agricultural services.

However, while the two villages are specialised in specific production sectors (Ngoc Dong in RBC and Nhat in agriculture), this does not mean that households derive their livelihoods from just one activity. In fact, the diversification of income sources based on farming, RBC and other non-farm activities is widespread, but with significant differences depending on the location and wealth status of households.

2.1. The rattan and bamboo craft (RBC) sector

Rattan and bamboo weaving is the primary activity for two-thirds of working members of the study households in Ngoc Dong, but only for one-fifth in Nhat. By contrast, in Ngoc Dong, farming is the primary activity for only one-tenth, compared to just over half in Nhat. The number of non-farm wage workers is low in both villages, although it increases if it includes seasonal migrants who move to other provinces and cities to work as carpenters or construction workers.

Craft households are typical of Ngoc Dong, where specialised diagonal weaving is traditional and highly appreciated by domestic and export buyers. Craft households work as satellites for enterprises that place orders to them. Although women are the majority of workers, usually all members, including children and the aged, can weave. Depending on the product design and on the continuity of orders, a craft household with three full-time workers can earn up to 1.5 million dong/month. Such income is relatively modest, but usually more stable and less risk-prone than that from agriculture.

A number of specialised input suppliers (raw rattan and bamboo, hand tools and chemicals for fumigation and bleaching) are available in Ngoc Dong. Unlike satellite craft households in other villages who depend on materials provided by the enterprises, craft households in Ngoc Dong have the skills to select, prepare and store raw materials. This increases their profit margins and makes them relatively more independent from enterprises. Poor households that do not have the capital to invest in raw materials tend to earn only 7-10,000 dong/day, compared to 10-15,000 dong/day for workers providing the raw rattan and bamboo, and 20-30,000 dong/day for the more skilled workers.

The RBC sector has grown significantly since the late 1990s, and as a result the proportion of households in Ngoc Dong involved in it has increased from 50 to 90%, while 15% of households now engage in services related to RBC (provision of raw materials and other inputs, transport, etc). The sector has also become more structured, with intermediary household enterprises linking it to external buyers. But while orders and services have increased, so has competition from weavers in other villages, resulting in lower wages, and the availability of raw materials is becoming problematic.

As part of these transformations, a number of craft households with the necessary skills, capital and reputation, have expanded their business and become household enterprises that manage a network of satellite craft households inside and outside the village. In Ngoc Dong there are now 6 larger household enterprises (class 1, or *cai to*) and as many as 80 smaller enterprises (class 2, or *cai nho* or *cuu*). Class 2 enterprises act as intermediaries between satellite craft households and class 1 enterprises, and although they concentrate in Ngoc Dong, they are also starting to develop in other villages. In Nhat, one class 2 enterprise, linked to two class 1 enterprises based in Ngoc Dong, manages a network of about 50 satellite households (20 within Nhat and 30 in

other villages). This reflects the increase in rattan weaving as a secondary income-generating activity among many households in 'agricultural' villages.

Class 2 enterprises receive orders from class 1 enterprises, which they then distribute to their satellite households. Before sending back the products to the class 1 enterprise, they carry on some small refining work. Class 2 enterprises working with satellite households outside Ngoc Dong and with poor households need a working capital of around 100 million dong to buy bamboo and rattan, and other inputs.

Class 1 household enterprises carry out the finishing steps, then forward 'white' products (uncoloured and unpolished) to SMEs in the nearby province of Ha Tay. Recently, a small number of them have further developed their operations and, after completing the colouring, polishing and drying steps, pack the finished products and forward them on behalf of Hanoi-based exporters such as Barotex to shipping ports (usually Hai Phong). The value of both 'white' and finished products delivered by class 1 enterprises varies from several hundred million to up to 2 billion dong/month in peak time. These enterprises often use wage workers, and space can be a problem. While most of them are home-based, the larger ones seek to expand their operations by investing in warehouses along the main road.

Class 2 enterprises and satellite craft households are totally dependent on the orders that class 1 enterprises receive from SMEs. The production cycle for one order typically takes one month, and since each actor in the chain, from the SMEs to class 1 to class 2 enterprises, normally advance around 30% of the order value, the system so far works quite smoothly. In addition, these vertical linkages are not exclusive, and each actor may work for several actors in the upper link (for example, satellite households work for 2-3 class 2 enterprises, which in turn work for 3-4 class 1 enterprises, which take orders from 5-7 SMEs). This helps to stabilise workloads and incomes.

2.2. Agricultural production and diversification

In both villages, rice land is equally allocated, and following land consolidation (*don dien doi thua*) there is also less difference in its quality. Irrigation, extension and improved varieties mean that rice yields, at around 10-12 tons/ha, have reached their full potential. Although rice is still cultivated by all households in the two villages, the availability of new seedlings, mechanised services for land preparation and rice separation and milling have decreased labour requirements, for which craft households tend to hire labourers. Income disparities between households are primarily related to their ability to diversify their income sources away from rice, either in non-farm activities or in other cash crops or livestock production, for which access to markets is of critical importance.

Households whose primary activity and source of income is agricultural can be divided in two categories: pure agricultural households and diversified agricultural households. There are very few pure agricultural households, eighteen in Nhat and none in Ngoc Dong. They are usually classed as poor, and their lack of labour and capital makes it difficult to diversify into cash crops and livestock. One or two pigs are raised as savings and to pay off cooperative services (irrigation and water pumping, seeds and fertiliser) and cover costs of health and family emergencies. Otherwise, rice and some poultry

production are mainly for subsistence, and piece-work in the RBC sector provides some cash, even if limited by lack of labour and capital to invest in raw materials.

Diversified households are widespread in the agricultural village, Nhat. While farming is still their major activity, they rely on a combination of income sources – farm, non-farm and remittances from migration – for their livelihoods. Livestock production may involve raising large stocks of pigs using industrial animal feed, or raising large flocks of poultry. The latter is however highly vulnerable to epidemics, and far too risky for lower-income households. Some households concentrate on multi-crop production, creating ponds around or next to their rice fields. Rice is used to feed pigs and ducks, and their dung is used to feed fish in the ponds. Fish is seen as the most profitable product, whereas rice and livestock provide limited net returns.

These transformations have affected crop production, and now 70 of the 182 households in Nhat grow maize as animal feed, compared to very few 5 to 10 years ago. Another new type of crop introduced in the village in 2001 is cucumber. This is produced under contract for export to Japan through a company based in Hung Yen province, 30 km away. This new cash crop is relatively profitable, producing two harvests per year at 1-1.5 million dong/sao (360 m²) each. However, it is very labour and input (fertiliser and pesticide) intensive, and of the 30 households in the village engaged in this production, none is poor.

Non-farm activities undertaken by diversified agricultural households include rattan and bamboo weaving as a supplementary activity by women in about 70% of households. Women may also specialise in small-scale trade, selling pigs, chicken, ducks or eggs purchased in the commune to traders in Hanoi. For men, the main activities are short-distance transport, construction work, carpentry or wood carving. Demand for these services is spurred by increases in incomes in the villages and better connection to markets, mainly outside the province.

Diversification has resulted in the development of a few household enterprises in Nhat. Although they are smaller than the RBC enterprises in Ngoc Dong and are unlikely to graduate into registered SMEs due to the small-scale, family nature of their operations, they are nevertheless a significant transformation in the economy of the village. Wood carving household enterprises are the largest category, with six units. Each one of them employs between 5 and 10 skilled carvers, who can earn 5-600,000 dong/month, while the owners' net income is around 2-3 million dong/month. These enterprises work on orders from furniture dealers from outside the province, who provide materials and design. However, demand is relatively limited and a constraint on business expansion.

Other households specialise in egg incubation, providing ducks to satellite households who then repay them in eggs which are incubated and then sold to wholesalers in local markets and in Hanoi. Net profits are high, but this business is highly at risk from epidemics, as the recent avian flu outbreak has shown. Perhaps the most successful households are those that rely on intensive diversification, combining multi-crop farming with services such as transport and mechanised rice separation, tilling, small-scale trade, wood carving and migration. However, these activities require high labour and capital inputs, and some of them such as mechanised agricultural services are constrained by limited demand within the village.

2.3. Access to markets

Good road and transport infrastructure and the proximity to urban centres (Dong Van, the local provincial town, Phu Ly, the provincial capital, and Hanoi) are clearly major factors ensuring market access for producers in Ngoc Dong and Nhat villages. In addition, consumer markets have greatly improved with the creation of village marketplaces since Ha Nam became an independent province in 1997. These have been further stimulated by higher purchasing power in the villages, and in Ngoc Dong there is now a daily market managed by the local cooperative.

Two other factors contribute to rural producers' access to markets: the development of contract systems and the emergence of long-distance private traders within the villages. Both systems have flexible cash transactions requirements, often including deferred payments or advances. The main formal contract system in agriculture is that related to cucumber production. Through the intermediary of the commune cooperative, farmers in Nhat village sell to the export company, which provides them with imported seeds and some fertiliser, then buys back the cucumbers at an agreed price. The produce is collected daily by the company in a special commune buying centre. An informal contracting system also prevails in the RBC sector, where craft households produce on order from enterprises, and in some duck raising households, who receive the ducks from egg incubator enterprises and repay them in eggs. Private traders who usually own motorbikes or small trucks, have greatly benefited from the improvement of the road to Hanoi. They now easily bring their produce to be sold within the day such as pigs and poultry purchased, often on the basis of deferred payment, from the farmers. Other traders specialise in bringing into the villages, especially Ngoc Dong, raw rattan and bamboo to sell to craft households.

Although households in Nhat and Ngoc Dong have access to a number of consumer markets within the villages and in urban centres, the ability to buy goods outside the villages is limited for poor households. This is because they have to rely on deferred payment, which is only provided by the local cooperative for most inputs, and by local traders. However, this does not seem to translate into higher prices, at least with regard to the cooperative which does not charge interest on 3-month credits. But, on the other hand, choice can be limited, and better-off households prefer to buy by cash on delivery from agents in the commune or in nearby Dong Van town, where they can freely select what they want.

2.4. Migration

Migration and mobility are important strategies in the livelihoods of households in both villages, but there are some significant differences as well as similarities. While the proportion of surveyed households with at least one migrant member is much higher in Nhat (37%) than in Ngoc Dong (15.5%), in general, members of poor households cannot afford to migrate over long distances. However, they may be able to commute to nearby communes and especially local towns to work as construction workers, saving on accommodation costs by returning home at night. Migration from Nhat and Ngoc Dong has increased dramatically in the past five years, and in both villages, over 70% of migrants have moved during that period. There has also been an increase in long-distance movement, to other provinces, to Hanoi and in some cases to the Southeast

provinces of the country, while in the past, movement was more likely to take place within the province or to short-distance destinations.

Most migrants are young men and, unlike the rest of Ha Nam province, there are few women moving out of the villages in search of employment. The reason is likely to be that, especially in Ngoc Dong and to a lesser extent in Nhat, women can find employment in the RBC sector. In Nhat, where agricultural production is still important but households tend to diversify their income sources, women provide labour in farming (cucumber picking, pigs and ducks rearing) while men are more likely to engage in non-farm activities locally or involving seasonal migration.

Seasonal migration is more frequent in Nhat village than in Ngoc Dong, where few households rely primarily on farming and where labour requirements are not linked to the agricultural calendar. In Nhat, during the off-crop season, young men move primarily to Hanoi to work as construction workers, where they can earn a net income of around 400,000 dong/month. Networks of relatives and neighbours facilitate this type of movement, and some construction workers have become agents and earn up to 2 million dong/month. They have contacts with several building companies and private clients throughout the Northern Region, to whom they provide construction crews and carpenters, mainly seasonal migrants from their own village. Perhaps for different reasons – in Nhat because movement is more likely to be circular, in Ngoc Dong because of the high incidence of education and business-related movement - migration to the Southeast industrial zones is fairly limited in both villages. In addition, perceived risks and limited information on labour export programmes are important reasons why these are not seen as attractive in the two villages. There are only 3 labour export migrants in Nhat and six in Ngoc Dong, mostly to Malaysia.

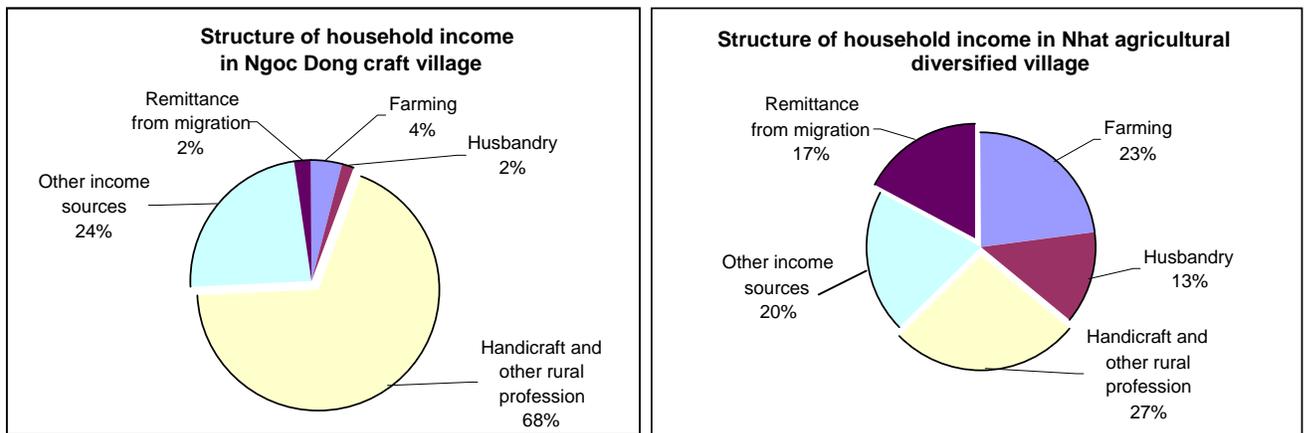
The reasons for migrating affect both the choice of destinations and whether migrants move seasonally or for long, semi-permanent periods of time. Around two-thirds of migrants from both Ngoc Dong and Nhat move to urban destinations, with only one third moving to other rural settlements. In Ngoc Dong, almost 28% of migrants in the surveyed households move to attend secondary or higher education, typically in Hanoi and other urban centres, compared to only 3% in Nhat. Students are more likely to stay away for long periods of time, and to come from better-off households. Other long-term migrants include members of better-off households moving to other provinces to work as small traders or industrial workers, or to set up small businesses.

Remittances play an important role in the livelihoods of households with migrant members, but more so in Nhat than in Ngoc Dong. On average, households in Nhat receive almost 500,000 dong/month, compared to 300,000 in Ngoc Dong. This is likely to reflect the large proportion of students among Ngoc Dong migrants. As a proportion of household income, almost two-thirds of Ngoc Dong migrants contribute less than 20%, while almost one-third of Nhat migrants contribute over 40%. Of course, this may reflect higher average incomes in Ngoc Dong, but it also highlights the important role of migration in Nhat's diversified agricultural households.

The most frequently reported uses of remittances are, in decreasing importance: contribution to daily expenses (in both villages), investment in handicrafts production (in Ngoc Dong), housing improvement and repayment of debt (especially in Nhat), education and health care (especially in Ngoc Dong), buying household assets such as motorcycles and consumer goods (in both villages), and investment in agriculture (in

Nhat). It is difficult to distinguish between consumption and investment uses: for example, assets such as motorcycles can be used for work, and better housing usually increases its residents' productivity by improving their health status, while education and freedom from debt clearly expand long-term household prospects.

The impact of migration on the wider village communities is more difficult to measure than that on household wellbeing. Remittances provide an injection of cash that increases demand for goods and services, and indirectly supports a wide range of activities and creates local employment. Housing improvement in Nhat, for example, contributes to demand for construction workers, a sector which has greatly developed in the past five years and now employs almost half of the village men and is the main source of income for many households. Some return migrants, mainly carpenters and construction workers who have been away for periods of 3-5 years, have gone back to Nhat village to marry and take care of their parents. They have set up household enterprises employing up to 8 workers.



3. Opportunities and constraints

As we have described in the previous section, local economic development and poverty reduction in Ngoc Dong and Nhat villages derive from the combination of access to local and external markets for RBC products and agricultural produce, the diversification of income sources and additional cash incomes in the form of migrants' remittances. In this section, we look at the main factors that are likely to represent either opportunities or constraints for the sustainability of the success stories of the two villages.

3.1. Land

Ha Nam is one of the first provinces in the country to have completed the consolidation of agricultural land. All households in Nhat and Ngoc Dong now have a maximum of two separate plots (compared to sometimes up to 7 in the past) of comparable quality. In Ngoc Dong, where the RBC sector is the primary source of employment and income, rice farms remain an important component of household livelihoods and are perceived as an insurance in case of an unforeseen recession in the RBC, as in the late 1980s. However, access to land for the expansion of RBC production activities is problematic.

In Nhat, land availability is higher (6-700 m²/head), and better-off households can rent additional land from the commune. However, while multi-crop farming is by far the most profitable, provincial regulations stipulate that only farms with a minimum area of 3 ha can be transformed from rice to multi-crop. No household in the area can meet this requirements, and existing multi-crop farms are informal. This constraint could be removed by modifying the regulations to recognise existing limitations in land availability, by allowing further consolidation of land or by recognising as larger plots the combination of smaller ones belonging to groups of relatives.

3.2. *Capital and labour*

Access to capital is a chronic issue in both villages. In Ngoc Dong, the ability to buy and store materials for some months increases the incomes of craft households. In Nhat, the poorer farmers need capital to diversify and intensify their production, but their limited collateral is a constraint on the size of loans available from the Agricultural and Rural Development Bank. At the same time, they are not eligible for loans from the Social Policy Bank because they are just above the official poverty line. Labour also seems to be a key factor: poor households are mainly those who lack it, and cannot take advantage of the opportunities for income diversification and agricultural intensification.

3.3. *Migration*

Rates of out-migration, especially in the form of seasonal, temporary movement, are likely to remain high in the villages, especially in Nhat. The key factors are: the high demand for cash expenditure in education, health care and community and family obligations; the relatively low incomes from family farming, linked to limited availability of agricultural land and risks such as livestock diseases, drought and pests; the farm labour surplus due to the mechanisation of many activities; and the still low local demand for full-time non-farm workers, especially in the formal industry and service sector. Well-developed social networks, telecommunications and good transport links make migration an easier option than in the past. But migrants keep a strong foothold in their home villages, and most of them prefer to request long-term leave permits rather than registering as permanent migrants at destination. This allows their families to continue to cultivate their land on their behalf. Overall, migration is widely perceived in the villages as an opportunity rather than a constraint, despite the complicated and somewhat costly procedures for temporary registration at destination.

3.4. *Issues specific to the RBC sector*

The RBC sector is a major employer, not only in Ngoc Dong but also in Nhat and in other agricultural villages. The flexible conditions of piece-work are suitable to households that want to diversify their income sources but do not want to abandon farming. Because of this, the RBC sector (and similar crafts) has contributed significantly to poverty reduction. But there are concerns about the long-term sustainability of the RBC sector, and opportunities need to be better understood.

The organisation of the RBC is essentially a vertical one. Although in the past three years some class 1 enterprises in Ngoc Dong have developed their operations so that they can now bypass intermediary SMEs in Ha Tay and ship their products directly to export markets, most enterprises cannot afford the necessary capital and risk of product rejection by foreign buyers. In this way, they cannot interact directly with export buyers and the most value-adding activities take place outside the production area.

Unlike other RBC enterprises elsewhere in Vietnam, those in Ha Nam depend on only one type of product and so far have failed to diversify their offers in response to consumers' preferences. Better access to intermediary buyers, including improved language skills to communicate directly with exporters, would undoubtedly benefit Ha Nam producers, perhaps more than conventional marketing training.

The number of satellite households in the RBC sector in the province has increased significantly in the last five years, but at the same time the weaving skills have become less specialised. Until now, this has been an advantage both for employment creation and poverty reduction, and for the development of the sector. However, horizontal linkages (such as sharing orders, labour, technology, services and market information) between class 1 enterprises and between class 2 enterprises are currently weak. Each enterprise works independently and has its own vertical linkages upward and downward, although their networks are often mixed. This results in strong competition among class 1 enterprises to offer lower prices to their clients so as to receive more orders, and this inevitably affects the incomes of the lowest level in the chain, the satellite households. There is a risk that the RBC sector in Ha Nam may become low-quality, low-cost and low-wages, which in the long term would reduce its role in local economic development.

Currently, raw materials are supplied by specialised traders in Ngoc Dong. The system is quite efficient, but it is easy to foresee major problems. The main one is that due to over-exploitation and deforestation, and areas where raw materials are grown are becoming further and further away from Ha Nam. This increases transportation costs, including high unofficial levies along the road, for reasons ranging from insufficient paper work to overloading. Such levies can increase the retail price of raw rattan by up to 20%. In addition, while the local rattan previously available was naturally white, forest rattan needs to be bleached. This expensive and highly polluting process takes place in Ha Nam, with negative environmental consequences. Over the longer term, there are also concerns that raw materials within the country will virtually disappear. For example, in Ngoc Dong, in the past 3 years there have been 6 cases of severe shortages lasting for several months.

3.5. Environment

Problems of environmental pollution are also related primarily to the RBC sector. They can be divided into three main issues. At the craft household level, those who are able to store raw materials need to fumigate them to destroy potentially damaging fungus and parasites. This is often done within the home area, creating high levels of air pollution and affecting the health of all household members. Improved fumigation systems, preferably in a centralised warehouse where all craft households can store and fumigate their materials, would help solve the problem, but financial and technical support would be necessary. The other two key problems are bleaching of forest rattan, and the final

operations of lacquering and polishing. Both are undertaken in dispersed locations, often close to or within residential areas where they create high levels of pollution of underground and surface water also used for domestic and agricultural use, with potentially severe consequences for the villagers' health. Concentrating these activities in locations where water treatment is available, such as small industrial and handicraft zones (SIHZs) is clearly desirable, but policy-makers need to think carefully about the capacity of household enterprises to pay for the services provided in these zones.

4. Conclusions and key policy implications

The changing livelihoods of households in the two villages, Ngoc Dong and Nhat, are based on various combinations on non-farm activities, farming and migration. In different ways for different households, all three are equally important. But, despite the dramatic decrease in poverty in both villages, there are now signs of increasing social polarisation. Some households have become relatively well-off, and their ability to invest in their children's education will probably further improve their long-term prospects. At the same time, a large number of households may remain vulnerable as their income sources may not be sustainable in the long term. Satellite households in the RBC sector are likely to suffer most if the industry does not develop into a high quality, well established operation that can offer its workers the opportunity to develop their skills and increase their incomes. Farming remains a risk-prone activity, and while rice production has greatly improved, diversification into livestock rearing is subject to market fluctuations and huge losses due to epidemics. Migration remains perhaps the safest source of cash for many households, and because of this it is likely to continue for some time at least.

Many of the transformations in the two villages are based on the initiative of individual households, but policies have also played an important role in increasing their options and enabling them to make choices that respond to their specific needs and priorities. In recent years, Ha Nam province has issued important guidelines for its economic development, namely Resolution 03 for agricultural development, and Resolution 08 for industrial and craft development. These resolutions have been rolled-out into more specific policies, programs and plans at provincial, district and commune levels. The analysis in this case study can provide some implications for provincial policies in order to support the positive contribution of rural-urban linkages to local economic growth and poverty reduction.

4.1. Supporting the diversification of rural households' livelihoods:

- The livelihoods of households in the villages are based on varying combinations on farming, non-farm activities and migration. Therefore, *the formulation and implementation of policies on agricultural, industrial or craft development should be integrated* to better reflect the diversity of activities and income sources of local households. At the moment, even the two resolutions 03 and 08 have been separately issued, and are implemented by different agencies; thus shortcomings are not easy to avoid.
- The credit sources in the province now are abundant. But a portion of poor (and near-poor) households still has not access to credit. Opinions of poor households

and that of local officials about this issue are different; poor households often complain that credit from the poverty reduction program is not properly allocated, while local officials claim that the poor households only want to borrow money with low interest rate. Thus, there is a need *to conduct a participatory survey on pro-poor credit in the localities, so that appropriate policy measures can be adopted.*

- The process of urbanization (high population density, high proportion of non-farm activities) in the villages is well advanced. New or improved services have become necessary, including waste collection, clean water supply for domestic use, sanitation and rain and waste water drainage, land planning and management reflecting the need for expanded residential areas and more 'urban' infrastructure (roads, waste deposit and treatment areas,,). There is clearly an urgent need to *improve the capacity of local authorities in planning, investing and operating the public facilities* to address these new issues.

4.2. Supporting agricultural intensification and diversification

- Agricultural cooperatives in the past have provided essential services, and still provide valued ones such as field guarding and deferred payment arrangements for fertilizers and seed, and as intermediary between farmers and export companies in contract farming. However, the costs and quality of their services are not entirely satisfactory. *The quality-based service arrangements between cooperative and its members should be promoted.* Also, the cooperatives should have more flexibility and, at the same time, improved management systems allowing them to react promptly to a rapidly changing context and to offer lower costs to improve efficiency.
- Rural market places, especially village-level ones, are playing important roles in promoting rural trade, generating small service employment, and contributing to local budgets. Ha Nam province already had a plan to develop rural market places. But the province is just focusing on market places at district and (inter-) commune levels. In the coming time, *Ha Nam province should expand its plan to develop village-level market places (where applicable).*
- Innovative agricultural systems such as multi-cropping have proved to increase productivity in small farms, but the criteria used in provincial regulations on crop conversion do not reflect land availability in the study villages. More flexibility is needed to support agricultural intensification. This means that *Ha Nam province should relax the requirements on minimum land area, and promote further consolidation of land so that more multi-crops models can be practiced.*
- The Government issued Decision no. 80/TTs on contract farming. The example of cucumber growing for exports in the surveyed villages shows the positive roles of this farming practice. *Incentives to manufacturing units relocating to the provincial industrial zones should be linked to local production of raw materials, for example processing of vegetables and manufacturing of inputs.* These are the activities that create higher proportions of added value, and it is important to encourage re-investment within the province by strengthening local backward (inputs) and forward (processing) linkages with farming. In order to encourage the farmers to comply with the contracts signed with the manufacturing units (e.g. to prevent the farmers from selling the products outside, to private traders who may offer higher prices), *farming contracts should be promoted for agricultural products that have specific/exclusive*

distribution channels (for exports), and the enforcement roles of cooperatives and local authorities should be enhanced by linking the execution of farming contracts with other incentives to farmers in the localities (e.g. access to credit, or buying inputs on a deferred payment basis).

4.3. Supporting the development of the (rattan & bamboo) craft sector:

The (rattan and bamboo) craft sector is an essential part of livelihoods and deserves more careful policy support. Our case study in Ha Nam shows that the (small) craft household units can be more effective for poverty reduction and local economic development than the (large) industrial enterprises.

- Provincial industrial zones are currently being developed in urban centres in Ha Nam. Incentives are often related to the employment of local workers (e.g. by existing policies the enterprise will receive a grant of 300,000 dong for 1 local worker to be employed and trained, as well as other tax incentives based on the number of local employees). *The incentives for employing more local labourers should be expanded to include direct links to household enterprises and other home-based production units, not in the form of direct, formal recruitment, but in the form of backward linkages (provision of inputs) or forward linkages (finishing, packaging, etc) to the RBC (or other local craft) sector.* Stronger linkages between the (RBC) craft sector and larger industrial units would help retain added value in the province, and increase the role of local urban centres in provincial development
- The creation of commune small industry and handicraft zones (SIHZs) can address problems of limited production space for local household units, and air and water pollution derived from RBC activities. However, *the SIHZs need to target household enterprises more explicitly, by offering appropriate land plot sizes (currently too large) with payment regulations that are affordable (currently advance payments for land rent are far too high), and offering investment incentives and tax holidays similar to those offered in provincial industrial zones.* Household enterprises should be actively involved from the beginning in the formulation and implementation of initiatives that affect their business, including the management of the SIHZs. In addition, *the formation of SIHZs should also aim at promoting the horizontal linkages among the craft enterprises who lease land there.*
- Ha Nam province has a policy to formally recognize the traditional craft villages and the skilled craftsmen (*nghe nhan*). However, in addition to formal recognition, the provincial authorities should guide local authorities to formulate concrete “craft village development plans” associated with adequate support policies. *The craft villages and their craft enterprises should be well informed and should be provided with opportunities to actively participate in the formulation and implementation of policies affecting their business, including the management of the planned SIHZs.* Experiences in many places show that the promotion of horizontal linkages will be much more feasible when the representatives of craft enterprises and its cooperative can participate in the formulation of relevant policies and plans (i.e. the roles of “representation” and “protection” for legitimate interests of the members are very important for the sustainable operation of any business associations or clubs).
- The increasing shortage of rattan and bamboo is a serious threat to the sustainability of the RBC sector throughout the country in general and in Ha Nam in particular. Longer-term solutions (appropriate planning, investment and implementation of

bamboo and rattan production in forest areas, rational exploitation, storage facilities) need to be developed at the national and provincial levels. *Ha Nam province should coordinate with other provinces to propose a serious plan to the MARD in order to solve the shortage of rattan and bamboo.* This should be done in close association with users (RBC household enterprises, local authorities in areas of craft production) so that their needs are incorporated in the plans.

- There is a risk that the RBC sector in Ha Nam may become low-quality, low-cost and low-wages, which in the long term would reduce its role in local economic development. Therefore, *Ha Nam province should promptly initiate an identity building program for its local rattan & bamboo craft products.* This program should be based on the active participation of craft villages and craftsmen, and with the support of experts in marketing and business development. Particularly, *Ha Nam should proactively participate in the activities (or at least access the relevant information) of the national craft development project that is currently implemented by MARD and JICA.*
- Ha Nam province already has policies to promote exports, for example by setting up an “export promotion fund” led by the provincial trade agency. Taking into account the market chain of RBC products in Ha Nam, *such export promotion policies should be applied more flexibly to include the craft enterprises that make products for exports but sell through the middle companies.* In the existing situation in Ha Nam, supporting the craft enterprises’ English skills (so that they can transact more easily with foreign clients) may be more practical than opening any marketing classes or setting up a website about craft sectors of the province.
- The practice of expanding the RBC throughout the province shows that *the skill training should be closely linked with the enterprises that will employ the labourers and/or will buy back the products.* Roles of the enterprises in the core craft village are decisive for the expansion of the craft to other satellite villages. Training support should directly target the craft enterprises, instead of targeting the training centres or the mass organizations, so that the trainees can approach specific enterprises for work on orders.

4.4. Supporting the contribution of migration to local economic development and poverty reduction

Migration is an essential component of rural livelihoods, and an often crucial cash injection into local economies. This role is likely to continue, at least in the foreseeable future. The case study clearly shows that migration is a response not only to supply factors in the areas of origin of migrants, but also to demand for labour, for example construction work, in urban destinations.

- The case study shows that migration is an overall positive phenomenon that can assist provinces, including Ha Nam, and communities, including Nhat village, in strengthening their development potential. Because of its important positive role for household livelihoods and local economic development in both home and destination areas, migration should be better integrated in planning at all levels, in both destination provinces and provinces of origin. More specifically, as poverty and underdevelopment constitute root causes of migration, migration

should be incorporated into poverty reduction strategies in different levels of administration and agencies.

- In home areas, commune-level authorities are keen to support migrants to obtain permits of absence, as they see migration as a positive and necessary option for rural development. In addition, Ha Nam authorities (department of labour and social affairs, department of health, department of public security) should communicate and collaborate with their counterparts in the provinces destination on the issues of migrants' accommodation, working conditions and legal support. The fact that migrants are often unaware of their rights and obligations contributes to their vulnerability.
- Procedures for temporary registration at destination are more complicated as well as costly. While they are not a serious barrier to movement, they affect the reliability of information on the numbers and characteristics of permanent and temporary residents in destination areas. This information is essential for the planning of services and infrastructure by local authorities, especially in urban centres. De-linking access to services, including payment of settlement fees, from migrant status and residential permits would decrease the potential vulnerability and marginalisation of migrants, and at the same time improve local authorities' information base.
- Out-migration from Ha Nam, in various forms of temporary, seasonal, circular or permanent movement, is likely to continue to increase in the future. As shown in the study, this has positive impacts on home areas, but there is also the risk that negative impacts such as labour shortages and 'brain drain' (with the most skilled and educated moving out of the province) might increase. These potential problems need to be addressed, and more coordination should be sought between the Ha Nam authority and the private sector in understanding the current and future demands of the local labour market and plan to meet its requirements in terms of skills. In addition, local authorities and communities should explore ways to maximize the long-term economic impact of remittances by creating a positive institutional context that encourages and supports migrants and their relatives to invest in income generating activities.