

Vietnam 2010: Entering the 21st Century

Pillars of Development

Vietnam Development Report 2001

Joint Report of World Bank, Asian Development Bank and UNDP

**Consultative Group Meeting for Vietnam,
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Currency Equivalents

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US\$ = 14459 DONG (November 2000)

GOVERNMENT FISCAL YEAR

January 1 to December 31

Abbreviations

AFTA	ASEAN Free Trade Area
BOT	Build-Operate-Transfer
EIA	Environment Impact Assessment
EVN	Electricity of Vietnam
FDI	Foreign Direct Investment
GSO	Government Statistics Office
HDI	Human Development Index
HEPR	Hunger Eradication and Poverty Reduction
ICT	Information and Communication Technology
IDG	International Development Goals
IT	Information Technology
MARD	Ministry of Agriculture and Rural Development
MFN	Most Favored Nation
MOC	Ministry of Construction
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOLISA Affairs	Ministry of Labor, Invalids, and Social
MOT	Ministry of Transport
MOSTE	Ministry of Science, Technology and Environment
MPI	Ministry of Planning and Investment
NEA	National Environment Agency
NPL	Non-Performing Loans
ODA	Official Development Assistance
PAR	Public Administration Reform
PIP	Public Investment Program
PPI	Private Participation in Infrastructure
QR	Quantitative Restrictions
SBV	State Bank of Vietnam
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprise
VBARD	Vietnam Bank for Agriculture and Rural Development
VBP	Vietnam Bank for the Poor
VLSS	Vietnam Living Standards Survey
USBTA	United States Bilateral Trade Agreement

PREFACE

The Vietnam Development Report 2001 entitled “**Vietnam 2010: Entering the 21st Century**” is a three-volume set consisting of an Overview and two parts. Part I of the Report entitled “**Pillars of Development**” provides a commentary on the emerging draft Ten Year Socio-Economic Development Strategy for 2001-2010. This important document lays out the vision and the strategic directions for Vietnam during the first decade of this new millennium. It is currently in draft form and is undergoing an extensive process of consultation within the Government (at national and local levels) and the society at large. The draft will be presented to donors and discussed at the “Millennial Consultative Group Meeting” in December 2000. Part I of this Report aims to guide these discussions. It has been written by the World Bank in partnership with ADB and the UN System.

Part I of the Report comments on the comprehensive development agenda laid out for the next decade. It starts with a framework for rapid growth and poverty reduction and then examines the strategies required for: (i) enterprise development; (ii) rural development; (iii) human and social development; (iv) infrastructure development; (v) environmental quality; and (vi) good governance. Since the Government is formulating a long-term development agenda, it will need to take a comprehensive approach to development and tackle all these “pillars” of development. Without progress on all fronts, Vietnam will not be able to achieve the economic and social transformation that it desires. A balanced attack across all fronts does not, however, imply that everything needs to be done at once. What is needed to prioritize actions is an identification of the bottlenecks—the hard to solve problems that are impediments to success—and to begin by attacking these first. What is also needed is that the energies of all of Vietnam’s development partners are harnessed so that they are all working together in partnership to make all of Vietnam’s resources—including aid resources—more effective.

Part II of the Report entitled “**Partnerships for Development**” addresses this theme of stronger partnerships to help the Government of Vietnam to attain its vision and implement its strategy. It brings together a series of thematic notes on Vietnam’s development strategy, prepared by the development partnership groups in Vietnam. These notes seek to describe and distil Vietnam’s goals and the steps needed to get there. They also describe how the donor community can help Vietnam in attaining its vision. The work of the development partnerships, and the production of these notes, are indicative of an important new direction in international development cooperation, both in Vietnam and in many other countries. Around the world, there is a recognition that the old ways of working have not produced the results that had been expected. The current time in Vietnam offers international partners the opportunity to actively listen to the Government’s articulation of its long-term development goals and to work together to identify and address the constraints and roadblocks that would prevent the goals being reached.

Acknowledgements

The Vietnam Development Report 2001 on “**Vietnam 2010: Entering the 21st Century**” is the product of team work and partnerships in Vietnam. Part I of the Report entitled “**Pillars of Development**” has been produced by the World Bank, in partnership with the Asian Development Bank and United Nations Development Programme. Part II of the Report entitled “**Partnerships for Development**” is based on contributions from the many joint Government-donor-NGO partnership groups that exist in Vietnam, all working together to improve the developmental impact of Vietnam’s resources.

The team is grateful for guidance from: Professor Le Dang Doanh, Director of CIEM; Mr. Nguyen Quang Thai, Vice Director of DSI; Ms. Thanh Thi Tuyet, Specialist of NERC; Ms. Dinh Thi Chinh, Projection Specialist, MPI; Mr. Nguyen Van So, Projection Specialist, MPI; Ms. Pham Chi Lan, Vice President of VCCI; Mr. Nguyen Quang Huy, Deputy Director, SBV; Mr. Nguyen Toan Thang, Director of the General Economic Dept., Party’s Economic Commission; Mr. Nguyen Thang, Economist, Pricing Committee; Mr. Nguyen Van Thu, Director of Planning, MOT; Ms. Dinh Hoang Yen, Specialist, MOT. We would also like to thank Mr. Nguyen Van Phuc (MPI) for all his help.

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CHAPTER 1 ECONOMIC FRAMEWORK FOR GROWTH AND POVERTY REDUCTION

Key Messages

To achieve the draft Strategy's goals of growth, employment-creation and poverty-reduction, Vietnam will have to raise both the quantity and quality of investment.

(a) Goals ambitious but attainable

With around 30 million people (i.e. 37 percent of population) living in poverty, around 25 million (i.e. 60 percent of labor force) either underemployed or unemployed and around 1 million annual additions to the workforce, doubling GDP and creating employment for 15 million people are appropriate and ambitious goals. These are also attainable goals, given the experience of Vietnam and other high performing economies. For this purpose the draft Strategy proposes total investment rate to rise from an average of 25% in the 1990s to an average of 30% of GDP in the coming decade. Export earnings are projected to grow at 14% (with manufactured exports at 18%) and industry's share in GDP to rise from 30 to 40 percent.

(b) Raising the quantity or level of investment

Rapid growth of domestic private investment – especially by private SMEs – will be key to reaching the target rate of total investment. Government investment is unlikely to exceed 7% of GDP a year (compared to 6% in the 1990s). SOE investment is likely to average 7% of GDP, the same as in the 1990s, given the poor financial performance of SOEs in manufacturing, over the last four years and the restructuring they will undergo in the next five years. Foreign investment could be anywhere between 3 and 5 percent of GDP, depending on how favorably Vietnam's investment environment compares to ASEAN countries and to China. Thus domestic private investment will have to rise from around 7 % of GDP in the 1990s to between 11 and 13% of GDP in the coming decade.

(c) Raising the quality of investment

Raising the quality of investment (i.e. raising total factor productivity growth and employment for a given rate of investment) will be critical to attaining the draft Strategy's goals of growth, job-creation and poverty-reduction.

- *Higher productivity.* At investment rates of 30% of GDP, Vietnam's total factor productivity growth will have to be 40% higher than the average in the 1990s and any shortfall in investment will have to be compensated by even higher rates of productivity growth. Moving labor out of agriculture into the higher productivity manufacturing sector and better access to foreign technology will bring this about.
- *Creating more jobs and higher paying jobs.* Most of the jobs, as well as most of the higher paying ones, are likely to come from the manufacturing sector. Domestic private SMEs, that are generally more labor-intensive and export-oriented, are likely to undertake the investments and the labor reallocation to manufacturing and manufactured exports. Thus private SMEs' manufacturing output will have to grow by 18-25 percent a year, substantially higher than that achieved by Vietnam, but still much lower than those achieved by China in the 1990s.
- *Ensuring efficiency and equity of public expenditures, including investment.* Improved management and screening of public investment and greater pro-poor orientation of public expenditures will be needed to ensure their best impact on growth and on poverty-reduction.

(d) External Financing Requirements

Domestic savings are expected to rise to finance higher investment, at least in part. However, quick-disbursing concessional assistance may be required for the first five years to complement project aid disbursements, and that would be available if the Government adopts the needed policy and institutional reforms.

I. ECONOMIC GOALS OF THE TEN YEAR STRATEGY

1.1. The draft ten-year Socioeconomic Development Strategy (2001-2010) seeks to repeat Vietnam's superb performance of rapid growth, employment-creation and poverty reduction in the 1990s. This is the right objective, given that around 30 million people (i.e. 37 percent of the population) live in poverty, around 25 million (i.e. 60 percent of the labor force) are either underemployed or unemployed and around one million people are added to the workforce each year. This objective can be achieved only if bold changes in policies and institutions are adopted and implemented early on in the decade.

1.2. Attaining rapid growth, employment creation and poverty reduction will require significant changes in the structure of the economy. The draft Strategy recognizes this and wants Vietnam to develop from an economy where agriculture accounts for 24 percent of value added and 60 percent of labor force, to an "industrialized economy by 2020". The Strategy does not define what is meant by an "industrialized economy". But it would be appropriate to expect the manufacturing sector within industry to generate most of the jobs and more of the higher paying jobs. As the manufacturing sector grows in both rural and urban areas, it will attract people away from agriculture and the low-paying informal-sector jobs. Agriculture and service sector growth will continue to be important, but fewer people will be working in agriculture. And underemployment in agricultural occupations will decline and productivity of those continuing to work in agriculture will rise.

1.3. Although rapid growth will be central to reducing poverty in the coming decade, the *quality and pattern* of growth will also be important. This is because better quality of growth, in the sense of more evenly distributed growth across the population, will reduce poverty more even with a lower growth rate. A lower growth rate that is accompanied by sufficiently higher employment-creation with a larger share of manufacturing jobs created in rural areas, where most of the poor live, is likely to be more poverty-reducing than a higher growth rate that is less employment-creating or more urban-biased. It is therefore important for Vietnam not only to ensure a high rate of growth but also to promote a better quality and pattern of growth.

1.4. Higher job-creation can be encouraged by appropriate economy-wide policies and institutions, but more jobs in rural areas will, in addition, require a better distribution of rural-urban infrastructure and social services. Thus careful choices of location of public investment in infrastructure and provision of social services would be needed to maintain an appropriate distribution of such services. For that purpose, the public investment program (PIP) needs to be processed through professional systems of careful cost-benefit analysis (see Overview).

1.5. This chapter explores the economic framework for growth and poverty-reduction that underlies the Government's ten-year Strategy. It examines whether its investment, savings and external balance are consistent with its growth and poverty-reduction objectives and whether the projected sources of investment and savings are plausible. It also assesses whether the structural shifts are feasible and if so, under what policies they can create sufficient jobs and generate adequate total productivity growth. This chapter's assessment draws on Vietnam's past and present experience, as well as the experience of high-performing East Asian economies, during their periods of high growth and poverty-reduction.

1.6. **Economic Goals are Ambitious but Attainable.** The draft Strategy’s goals can certainly be achieved in the next decade, if the needed reforms in economy-wide policies are adopted quickly. It seeks to double real GDP over the next decade. Industrial GDP is targeted to grow at around 10 percent a year, driven in part by faster manufacturing sector growth. Export earnings are projected to grow by 14 percent per year, with manufactured export value contributing over 60 percent of the growth in total export earnings. With labor force growth of around 2.4 percent per annum over the next ten years, the projected growth and structural change has to create sufficient employment in rural and urban areas if it is to reduce poverty significantly.

1.7. These economic goals (see Table 1 in Overview), are similar to those achieved by Vietnam in the last decade. The experience of neighboring countries also suggest that Vietnam’s goal for GDP growth per capita of around 6 percent a year are similar to those achieved by South Korea, Taiwan (China), Indonesia, Malaysia, Thailand and China during their periods of rapid growth and poverty reduction (see Box 1.1).

II. RAISING THE LEVEL OF INVESTMENT

1.8. The target of rapid growth with equity will require a higher *level* of investment and an improved *quality* of investment. The draft Strategy proposes the total investment rate to be 30 percent of GDP. Vietnam achieved this rate in the mid-1990s due to high household investment in 1993-94 and to the foreign investment boom of 1995-97. Following the decline of FDI and domestic investment in 1998 and 1999, total investment has fallen too. Figure 1.1 shows that the target rate of investment is at the high end of the range of investments that was reached in other high performing countries of the region during their periods of high growth, although still below the rate of China.

Vietnam aims for high investment

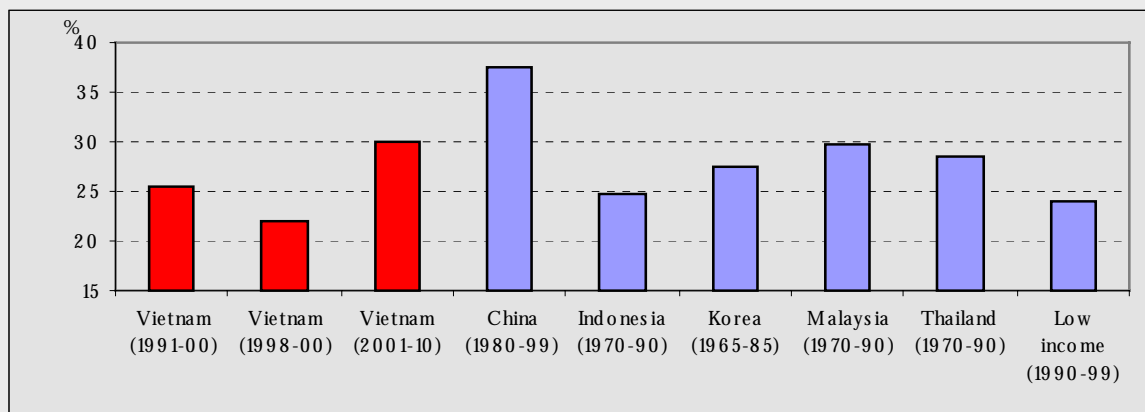


Figure 1.1: Total investment as a share of GDP in selected countries

Source: Government of Vietnam and World Bank, SIMA database.

Box 1.1: High Performing Asian Countries

The transition envisaged in Vietnam’s draft Strategy is consistent with what was achieved in other countries, provided appropriate policies are also implemented in Vietnam.

Comparative Indicators of High-Performing Asian Countries: GDP Sectoral Shares, Annual Growth Rates, and Incidence of Poverty (%)

Country/Period	Sectoral Share						Annual growth rate	Incidence of	
	Agriculture		Industry		Services		GNP per Capita	Poverty (% of national population)	
South Korea	<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>	<u>1965-85</u>		
Share in GDP	35.0	14.4	20.5	39.9	44.5	45.7	6.4	na	na
Share in Employment	61.3	37.1	10.2	26.5	28.5	36.4			
Taiwan (China)	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1965-85</u>		
Share in GDP (%)	15.5	4.2	36.8	41.2	47.7	54.6	7.3	na	na
Share in Employment	39.0	14.5	34.0	47	27.0	38.5			
Indonesia	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970-90</u>	<u>1973-90</u>	
Share in GDP (%)	44.9	19.4	18.7	39.1	36.4	41.5	4.7	58.0	15.1
Share in Employment	66.3	55.2	10.3	13.6	23.4	31.2			
Malaysia	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970-90</u>	<u>1973-87</u>	
Share in GDP (%)	28.6	18.7	25.3	40.4	46.2	40.9	4.1	37.0	14.0
Share in Employment	53.7	27.3	14.3	23.1	32.0	49.5			
Thailand	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970</u>	<u>1990</u>	<u>1970-90</u>	<u>1968-90</u>	
Share in GDP (%)	25.9	12.5	25.3	37.2	48.8	50.3	5.0	59.0	18.0
Share in Employment	79.8	64.1	6.0	14.0	14.2	22.0			
China	<u>1980</u>	<u>1990</u>	<u>1980</u>	<u>1990</u>	<u>1980</u>	<u>1990</u>	<u>1980-90</u>	<u>1975-99</u>	
Share in GDP (%)	30.1	27.1	48.5	41.6	21.4	31.3	7.7	59.5	4.6
Share in Employment	74.2	72.2	14.0	15.1	11.8	12.7			

Source: World Bank, World Development Report (various annual issues), East Asia: The Road to Recovery, SIMA database.

The types of policies that the Governments of these countries introduced included:

- (i) reigning in inflation and maintaining a competitive exchange rate through prudent macroeconomic policies; (ii) investing in human capital through basic education funded by public sources; (iii) providing incentives for high savings rates with positive real interest rates, depositor protection in financial institutions and effective banking systems; (iv) freeing up the private sector and limiting price distortions; (v) providing access to and incentives for export and foreign technology absorption; (vi) avoiding taxation and other policy biases against agriculture.

These policy reforms established a positive environment for savings, investment and productivity growth leading to two or three decades of high-quality growth and poverty reduction.

1.9. **Likely Sources of Future Investment.** The state budget including ODA has funded a steady portion of total investment through the 1990s, amounting to an annual average of 6 percent of GDP. This has been used to finance investments in transport, education and training, health and culture, science, technology and the environment. The ability of the budget to finance increased levels of public investment and associated recurrent spending to use those investment effectively is constrained by the likely low growth in government revenue. Also, it is difficult to see Government investment rising much in the first half of the coming decade given the fiscal costs of financing banking and SOE reform (see Chapter 2). Government investment may not rise beyond 7 percent a year for the decade, with the annual average for first half not going over 6.5 percent.

1.10. **State Enterprise Investment.** State enterprises have accounted for an increasing share of investment since 1990, with investment in 2000 estimated to have risen to nearly 9-10 percent of GDP. It is doubtful that SOEs, especially the manufacturing SOEs, would be able to mobilize sufficient resources to maintain these high rates of investment spending. There are two main reasons for this concern. First, for most of the 1990s, retained earnings have typically financed at least half of state enterprise investment. Financial performance of state enterprises over the last four years has been poor. Ongoing losses and low profitability have meant that state enterprises have accumulated debt and run down financial reserves. SOEs are also expected to undergo reform and restructuring in the next five years. It is therefore unlikely that state enterprise investment can rise in the first half of the decade. Second, the availability of bank credit for state enterprises is likely to be more constrained as banks switch to more commercial lending. The ability of most state enterprises in the manufacturing sector to access commercial bank credit will depend on whether reforms and restructuring makes them competitive and profitable. Without marked improvement in their efficiency, profitability, and credit worthiness, bank-financing of investment will also be limited. Total SOE investment is thus unlikely to exceed 7 percent of GDP - the annual average in the 1990s.

FDI disbursements have plummeted in the last five years

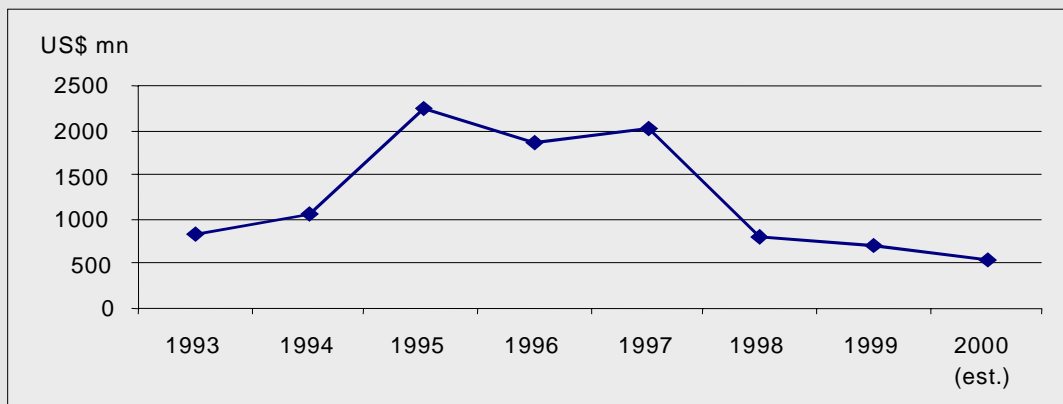


Figure 1.2: FDI Disbursements, 1993-2000

Source: MPI and World Bank estimates.

1.11. **Foreign Private Investment.** Foreign investment inflows reached their peak between 1995 and 1997 when an average of around \$2 billion a year was disbursed (see Figure 1.2

above). Inflows fell sharply following the Asian financial crisis with a large reduction from East Asia and Japan. The draft Strategy is projecting foreign inflows of around US\$2 billion in 2000 prices per year over the next decade — equivalent to around 5 percent of GDP.

Vietnam's share of FDI in GDP has been exceptionally high

Countries	Share of GDP (%)
Low & middle income countries	0.9
High income countries	3.2
Selected countries	
Chile	3.5
Malaysia	3.2
Argentina	1.6
Mexico	1.2
China	1.1
Brazil	1.0
Korea, Rep.	0.8
Vietnam (1991-00)	5.4
Vietnam target (2001-10)	3 - 5

Table 1.1: Gross Foreign Direct Investment (% of GDP, average 1991-99)

Source: Government of Vietnam and World Bank, SIMA database.

1.12. There are a number of reasons that make this a challenging target to achieve, especially over the first five years of the Strategy period. First, the target expects exceptional levels of foreign investment as a share of GDP, much higher than most countries of the world (Table 1.2 above). Second, private participation in infrastructure, including BOT, which can attract significant amounts of foreign investment, has not progressed much in Vietnam. Third, most foreign investment into exports for the US market prompted by USBTA is likely to be in light manufacturing, requiring only small amounts of capital. Foreign investment in services is likely to increase as a result of the USBTA too, i.e., telecommunications, construction, insurance, banking, health and tourism but that is not until later into the decade. Fourth, China's entry into WTO as well as recovery and reforms in East Asian countries has increased competition for Vietnam. Thus, it is not implausible that FDI of 5 percent of GDP will constitute the high end of a range of likely FDI inflows.

Domestic private investment will have to rise rapidly

(% of GDP) average	Actual 1991-00	High case 2001-10
State budget	5.9	7.0
Investment by SOEs	7.0	7.0
FDI	5.4	3 - 5
Non state investment	7.1	11 - 13
Total investment	25.4	30.0

Table 1.2: Investment by Source

Source: Vietnam Government and World Bank estimates.

1.13. **Domestic Private Investment.** In short, the domestic private sector has to double its investment as a share of GDP if the investment target is to be met. The domestic private sector invested around 7 percent of GDP in 2000 slightly lower than the average for the 1990s. Table 1.3 above estimates the domestic private investment that is required to meet the target, given likely values for investment from the budget, from state enterprises and from foreign investors. Depending on the level of foreign investment inflows, domestic private sector investment would need to account for between 11 and 13 percent of GDP. If such investment were not forthcoming, because policies (discussed in Chapter 2) were not sufficiently favorable, growth may have to be lower than what is proposed under the Strategy.

1.14. Stimulating growth in domestic private sector investment will be necessary if the Government is to meet the draft Strategy's targets for growth — particularly for industrial and manufacturing sector growth (see Box 1.2). Over the past decade, while rising in absolute terms, domestic private investment has fallen as a share of GDP. At the beginning of the 1990's, investment in agriculture, small scale services and housing accounted for a higher share of total investment than today. However, during the decade the importance of manufacturing grew. As the domestic private sector was largely excluded from this activity, the share of domestic private investment fell. Recovery in the domestic private sector's share of investment will require removal of impediments to greater participation.

Achieving strategy goals requires high growth in the private investment in manufacturing

The draft Strategy targets growth of around 10% per year for industrial GDP. This suggests that manufacturing would need to grow by around 11%, if the mining sector (dominated by oil and gas) grows in line with overall industrial growth (i.e. 10%) and construction and utilities grow at their historical rates

With SOEs in manufacturing constrained from growing too rapidly in the medium term, much of the future expansion in manufacturing GDP and output will have to come from domestic private and foreign-invested enterprises. But how fast will they have to grow in order to achieve 10% growth of industrial GDP? This will depend upon the growth of the SOE and FDI sectors. Assuming that the SOE share remains constant (i.e. utilities SOEs continue to grow faster than GDP but manufacturing SOEs grow at a much slower rate), the Table below shows the required rate of growth of domestic private investment for alternative FDI growth rates.

Table B.1: Value added growth in the domestic private manufacturing sector

	Total domestic non-state	Formal domestic private sector
Foreign invested sector grows at 15%	10%	18%
Foreign invested sector grows at 10%	16%	26%

In the past five years, value-added growth of private SMEs has averaged only 9% a year. The growth required for the Strategy involves a **doubling or trebling** of that growth rate.

Box 1.2: Required Growth of Domestic Private SMEs

Source: World Bank Staff estimates.

1.15. **Mobilizing Savings for Investment Will be a Challenge.** Currently, domestic savings in Vietnam amounts to around 18 percent of GDP — compared to a target level of more than 23 percent under the draft Strategy. For reasons outlined above, state enterprise savings are likely to be lower than in the past.¹ Household and private sector savings will need to increase, not only to fill the gap between actual and targeted, but also to offset the shortfall in state enterprise savings. Figure 1.3 shows that Vietnam's domestic savings rate is already above the average of low income countries, which suggest further increases may be difficult. However, China's success should prompt Vietnam to try and attain higher levels of savings. Policy reforms aimed at liberalizing the investment environment for private SMEs and also strengthening the banks to attract financial savings are likely to unlock potential increases in savings.

China stands out as a model for mobilizing savings

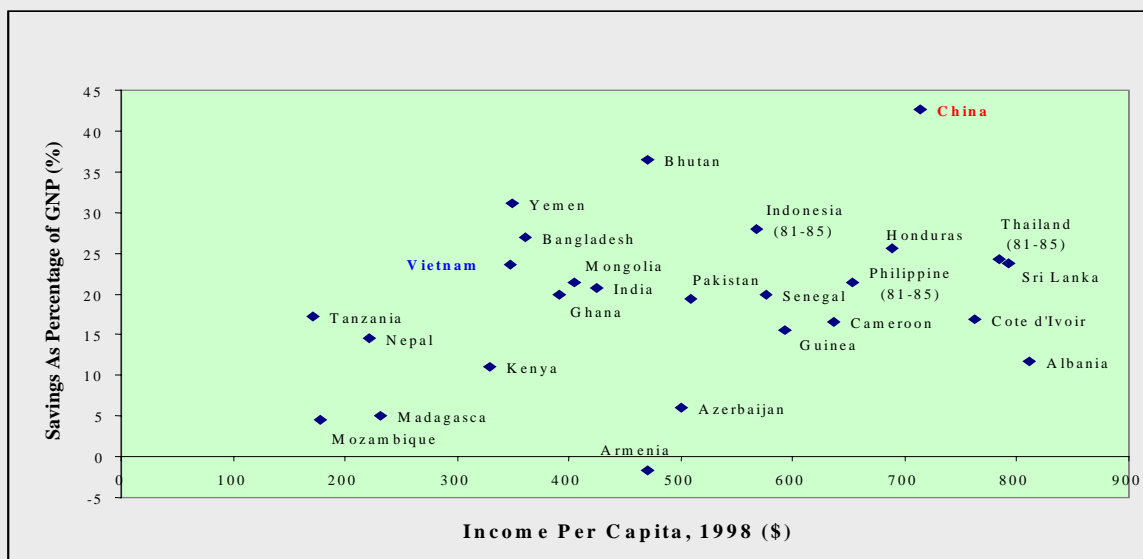


Figure 1.3: National Savings in Selected Countries, 1998

Note: Data for Indonesia, Philippines and Thailand for other years.

III. IMPROVING THE QUALITY OF INVESTMENT

1.16. The draft Strategy recognizes that Vietnam needs not only a higher level of investment, but also improved quality of investment, the latter promoting higher productivity growth and higher employment growth. In fact, the Strategy implicitly assumes a higher rate of total factor productivity growth and of employment growth for the next decade than was achieved before.

1.17. Total factor productivity growth will have to be higher than the average for 1990's to double GDP growth if the investment rate 30 percent of GDP. Any shortfall in the planned investment rate would require even higher productivity growth. In the first half of the 1990's, total factor productivity growth was high as shown in Table 1.3, but productivity growth slowed

¹ With the exception of utilities (power, water, etc) which should be able to increase self financing ratios rapidly.

down in the latter part of the 1990's, due primarily to the emergence of excess capacity in the economy in the face of slowdown, in domestic and external demand.

Productivity growth has been disappointing in recent years due to excess capacity

Period	Annual growth in total factor productivity (%)
1990 to 1995	2.0
1990 to 2000	1.1

Table 1.3: Vietnam's Productivity Performance 1990-2000

Source: Center for International Economics (1996), and World Bank estimates.

1.18. At any rate, productivity growth in the next decade would have to be at least 40 percent higher than the average for the 1990s if the draft Strategy's growth goals are to be met.² If investment falls short of the target of 30 percent then productivity growth must be even higher (Table 1.4).

Substantial increases in productivity growth are needed

Level of investment (percent of GDP)	Required annual productivity growth (percent)
30	1.6
27	1.9
24	2.3
21	2.6

Table 1.4: The Importance of Productivity Growth

Source: World Bank estimates based upon CIE (1996).

1.19. **Raising Productivity Growth.** How can Vietnam lift its productivity performance over the next 10 years? One way is to ensure that its existing resources are used as efficiently as possible i.e. ensuring that capital, labor and land are employed in their most productive or profitable uses. Removing impediments to growth in manufacturing and higher value-added service sectors that could draw on underemployed labor in agriculture is one example of how these efficiency gains can be achieved. Not only would labor be employed more productively in manufacturing/service activities, but it is also likely that productivity in the agricultural sector

² Though the rate of investment was lower and the growth rate higher between 1990-00, productivity growth will have to be higher in 2001-10 if the Strategy's growth target is to be met. This is because the capital stock was lower in the 1990s than in the 2000s and the same investment implied a higher rate of increase in the capital stock. The the marginal product of capital was also higher since the amount of available capital was quite low to start with. In future, while investment will be higher, the rate of growth in capital stock (which is what enters the production function) is lower compared with 1990-00 and thus TFP has to make a greater contribution to achieve the same growth rate.

would rise as less labor may allow more efficient combinations of land, labor and capital. The effects of this ‘reallocation’ across sectors and within sectors can be quite significant.³

1.20. Fostering greater openness and competition will be necessary if efficiency within Vietnam’s economy is to be improved (Box 1.3). Competition provides strong incentives for producers to seek out more efficient ways of producing goods and services that use fewer resources at lower production costs. Integration with the rest of the world would be expected to enhance competition as both export and import-competing industries are exposed to the discipline of world prices. This exposure to world prices will provide strong signals as to where individuals should invest their financial and human capital. The Government also needs to encourage greater competition in domestic service sectors that are less open to foreign competition.

Box 1.3: Good policy and productivity growth are strongly linked

Cross country evidence on the effect of different policies on productivity growth indicates a number of key factors.

- **Openness.** Openness provides access to better quality inputs — including new technologies embodied in capital goods — and also exposing exporters and importers to new products and processes arising from international advances in technology. By expanding the potential market size, producers may obtain bigger returns from international advances in developing or adopting new technology.
- **Competition.** Competition spurs producers to find ways of producing more efficiently so they can gain a competitive edge over rivals and increase profits. Imports increase competition in domestic markets which may be dominated by a few local producers. Open policies that allow investment in service industries can increase competition in the provision of key sectors such as utilities, finance and business services.
- **Education.** Better education raises the quality of the labor force. This in turn has beneficial effects for productivity. One way this occurs is that higher education may reduce the cost of training staff in new production techniques or in the use of new capital goods. There is also greater chance that an educated worker, who has been exposed to a broad range of ideas, might more readily find better ways of performing their job.
- **Macroeconomic stability.** A stable economy tends to increase the rates of return on investment and so encourages investment in new technology.

Education plays an especially important role. Importantly, evidence suggests that good policies with regard to education and competition reinforce each other.

Combined good policies are more important than the sum of their individual effects:

Policy combination	Average TFP growth
Low distortion and high education level	1.40
Low distortion and low education level	0.25
High distortion and high education level	0.00
High distortion and low education level	-0.40

Source: World Development Report 1991.

³ One study in China estimated that the shift of agricultural labor to other activities contributed around 1 percentage point a year to GDP between 1978 and 1995 (World Bank 1996).

1.21. Productivity improvements in Vietnam will also be generated if Vietnamese enterprises adopt newer technologies in their production processes. Domestic research and development (R&D) is one means of increasing the stock of technological know-how. A number of countries provide incentives for R&D by granting tax incentives for R&D expenditure and by ensuring that a company’s innovation is protected by intellectual property regulation. Subsidizing basic research is another common way governments promote domestic R&D.

1.22. Aside from domestic innovation, Vietnam can access existing foreign technologies. Increased openness to trade and investment enhances access through three channels: imports of new capital and differentiated intermediate goods that embody new technology, learning by exporting, and through foreign investment. Foreign investment is believed to be the major channel of technology transfer to developing countries (Djankov and Hoekman 1999). Technology is also transferred through informal means such as copying, reverse engineering, reading technical journals, attending foreign conferences and trade fairs, and hiring foreigners with technological expertise.

1.23. International advances in information technology could have significant implications for Vietnam’s productivity performance in the future. Greater decentralization of production activity is increasingly possible as communication systems improve and technical innovation allows a greater range of products to be delivered digitally. The internet has also facilitated e-commerce. Vietnamese companies therefore have greater opportunities for marketing and distributing their products to a global market and lowering production costs by taking advantage of economies of scale. Business to business e-commerce has been expanding rapidly in other countries – with many firms finding significant cost savings through better coordination of production lines and reduced inventory holding costs. However, accessing this information technology requires a competitive, efficient and low cost telecommunications sector – an area where Vietnam is clearly lagging behind international standards.

The manufacturing sector has contributed little to employment generation

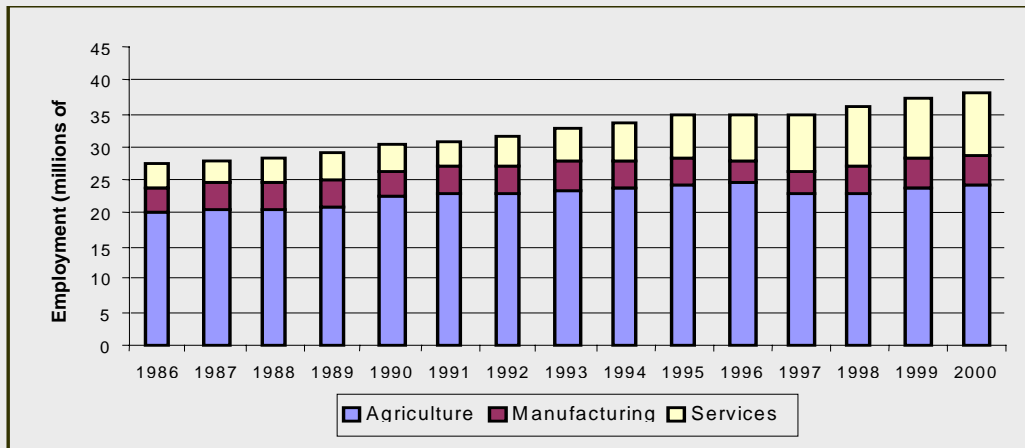


Figure 1.4: Structure of Employment in Vietnam, 1986-2000

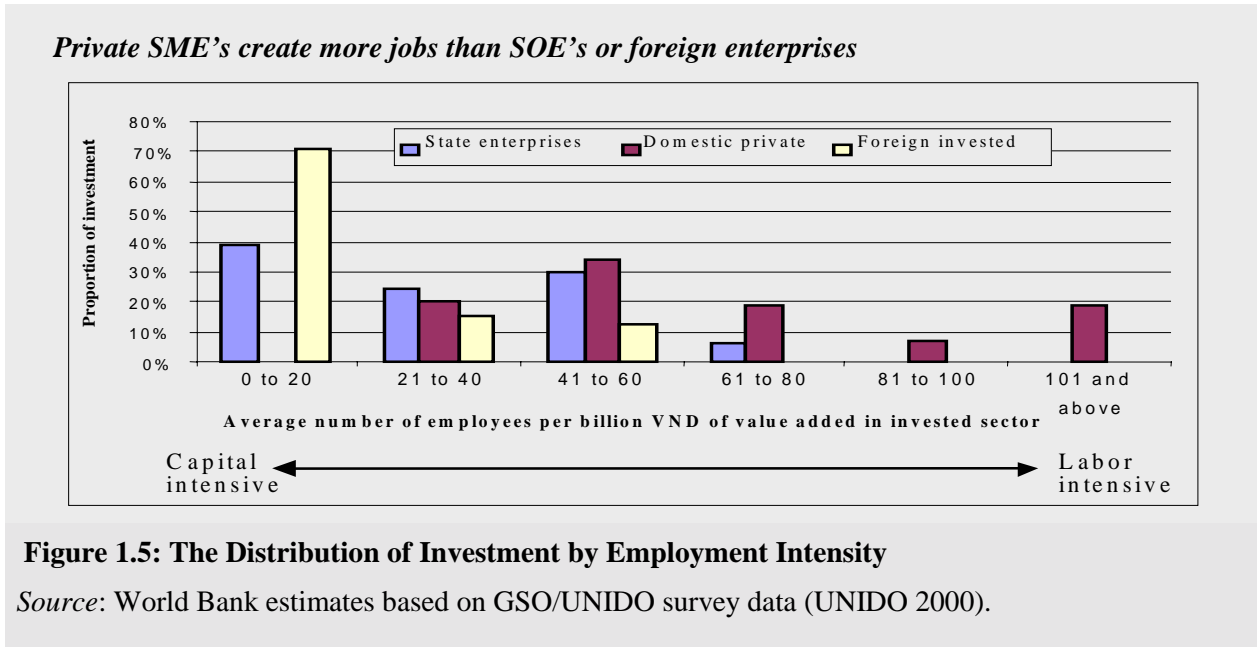
Source: MOLISA, GSO estimates.

1.24. **Higher Employment Creation in Manufacturing.** Employment creation has to come mainly from manufacturing in the next decade in contrast to the past decade, when the service sector accounted for nearly 70 percent of all job growth between 1990 and 2000 (see Figure 1.4 above). The informal service sector, in particular, expanded quite rapidly. Employment in services now accounts for around 25 percent of total employment compared with 14 percent at the start of the decade. The service sector is likely to continue absorbing labor over the next decade but most of it is likely to consist of relatively low-wage jobs or informal self-employment, as has been the case in other countries.

1.25. By contrast, employment in manufacturing grew little – even while manufacturing output grew steadily. This is because manufacturing investment and output – generally a key driver of industrial employment growth – was biased towards more capital-intensive activities promoted by a highly protective trade regime (see Chapter 2 for more details).

1.26. The draft Strategy thus calls for a shift in investment and output toward labor intensive manufacturing activities in general and manufactured exports in particular. Without such a shift, no rapid and sustained employment creation will occur. The challenge will be to get state-owned enterprises (SOEs) in manufacturing to move in that same direction. Generally SOEs have revealed a preference for focusing on the domestic market and on relatively capital-intensive products where financial support and protection from foreign competition has permitted them to grow.

1.27. As in most other countries, the formal domestic private SMEs will have to carry most of the burden of reallocating labor to manufacturing. Figure 1.5 shows that private SMEs are more likely to invest in sectors with higher employment per unit value-added, in contrast to state-owned and foreign-invested enterprises in Vietnam. Thus, more investment and output by the private SME sector is likely to generate more jobs.



IV. ENSURING EFFICIENCY AND EQUITY OF PUBLIC EXPENDITURES

1.28. To improve the *quality* of public investment and its utilization, improvements in the management and equity of public spending will be critical. The recent Public Expenditure Review (PER 2000) carried out jointly by the donors and the Government highlighted the need for improved screening of public investment projects and better balancing of operations and maintenance (O&M) spending with capital spending to ensure the best impact on growth and poverty reduction. Similarly it identified measures that could improve the existing pro-poor bias in Government expenditure.

1.29. **Managing Public Investment.** For example, the Ministry of Planning and Investment (MPI) identified the limited capacity among planners to appraise planned investments as an important constraint in designing and implementing a PIP which is fully linked to strategic targets (PER, 2000). A number of techniques – social cost benefit analysis being one of the most valuable - could help Government to prioritize its investment spending to achieve maximum social and economic benefits. Applying this kind of technique to infrastructure investment projects is likely to generate a stronger poverty-impact than will be the case if such analysis is not done carefully. International experience demonstrates that careful social-cost-benefit analysis, based on realistic forecasts of benefits, improves projects chances of success as well as effectiveness in terms of poverty-reduction.

1.30. Even when an investment project is carefully chosen and is fully linked to strategic targets, it may not be underutilized because of imbalance between current and capital spending. This happens in part because of insufficient integration of the budgeting process for capital and current expenditures. The state and the provinces formulate their capital and current budgets separately. While there is a medium-term investment expenditure program, its recurrent expenditure implications are rarely worked out in that program. As a result, Government projects are often underused because of insufficient levels of O&M funding. For example, roads and waterways are not adequately maintained and irrigation systems are not working at full capacity because recurrent budgets for transport and for agriculture sectors are insufficient (PER 2000).

1.31. **Pro-poor Orientation of Public Expenditure.** There is considerable evidence that the Government's public expenditure program plays an important re-distributive role and helps the poor. Although national safety net programs are not particularly effective, cash transfers to poorer provinces and the distribution of health and education sector spending are redistributing income. But considerable scope remains for improving the impact of public spending on the poor, particularly by better targeting social expenditures and developing alternative mechanisms for increasing income transfers to the poorest.

1.32. To enhance the pro-poor bias of public spending, four types of actions may be considered during the coming decade:

- Target social spending more effectively at the poor. In primary health care, for example, spending could be reallocated from certain types of curative care to preventive care. Reallocating expenditure to rural roads will also assist the poor.
- Improve the operation of the existing system of user fee exemption for primary schools and certain types of hospital care. The existing system does not work in a

particularly pro-poor way and forces schools and clinics to fund exemptions from their own resources. The goal would be to reduce the level of out-of-pocket payments made by poor households, which appears to be very high relative to their incomes. One option would be to provide direct funding to some institutions to cover the cost of these exemptions.

- Examine other mechanisms for increasing income transfers to the poorest. One option might be to target income transfers to poor parents of primary school children, many of whom are funding nearly half the cost of primary schooling from their own merger resources. A program (such as that successfully adopted in Indonesia) which provides scholarships to children from poor families could be an effective targeting mechanism.
- Adopt a formula-based system for determining the amount of cash transfers to poorer provinces, in order to ensure that transfers are more closely related to their needs. Further work should be undertaken to explore the implications of alternative formulas, develop consensus around a particular formula, and then adopt it in the revised budget law.

V. EXTERNAL FINANCING REQUIREMENT IN THE MEDIUM TERM

1.33. **Improving Global Environment.** Vietnam’s macroeconomic outlook and external financing requirements over the medium-term hinge in part on the global environment, including Asia. There are signs that the external situation will improve next year and beyond, especially in East Asia, though the recovery remains fragile (see Table 1.5). Recovery in the East Asian “crisis economies” (except Indonesia) is projected to continue in 2001 and beyond. South Korea has shown exceptionally strong recovery and China continues to be a stable economic anchor in the region with relatively high growth rates. The high-income economies of Singapore and Taiwan (China), are performing strongly.

The external situation will improve over the coming years

Region	1981-90	1991-98	1999	Estimate	Projections	
				2000	2001	2002-2008
World Total	3.1	2.5	2.6	2.9	2.8	3.2
- High-income countries	3.0	2.3	2.6	2.5	2.3	2.7
- Developing countries	3.3	3.2	2.7	4.2	4.5	4.9
* East Asia and Pacific	8.1	8.5	5.5	6.2	6.2	6.3

Table 1.5: World Growth, 1981-2008 (Percentage change in real GDP)

Note: East Asia and Pacific includes the Republic of Korea.

Source: World Bank 1999a, Global Economic Prospects and the Developing Countries.

1.34. Nevertheless, this improving global environment is fragile for at least three reasons. First, it is important to recognize that the strength and speed of this East Asian recovery remains uneven and its continuation depends on whether reforms in the crisis economies are sustained,

and it depends on the growth prospects of Europe, Japan and the US. Second, recent instability in the Middle East has the potential to raise oil prices further and dampen expected improvement in growth rates. Third, capital flows to developing countries have not fully recovered to earlier levels due to investors' perceptions of risk. Therefore there is a downside to these global projections too.

Box 1.4 : Recent Economic Recovery in Vietnam

GDP growth has recovered to nearly 6% in 2000. Despite floods in the Southern and Central regions and drought in the North, agriculture recorded a respectable 3.7% growth rate for the first nine months and is likely to reach 4% for the whole year. Official estimate for industrial GDP growth in 2000 is 9.9%. Industrial output growth (generally higher than GDP growth due to a rising share of lower value-added activities) increased by an estimated 15.5%. The domestic private sector's industrial output grew faster than SOEs and FIEs. Service sector is expected to grow at 4.4% for 2000. Output of key industrial sub-sectors has increased rapidly. Cement (29%), ceramic products (39%), electronics (30%) and garments, textiles and footwear (16-19%) contributed most to this growth. The construction sector recovered too.

Strong export earnings growth in 1999 and 2000 led this recovery. The rebound in exports value started in mid-1999, with total exports growing by 23% that year, and manufactured exports (especially garments and footwear) growing by more than 30%. Exports are growing at around 20% in 2000, though manufactured export growth rate has slackened. High and rising oil prices contributed a good deal to this performance in export earnings. With oil prices expected to come down sometime in 2001, sustaining export earning growth rates of around 20% a year is likely to be difficult.

However, the country's economic recovery is still fragile in two important respects. First, growth was supported by a very strong demand stimulus mainly through expansionary fiscal and monetary policy. Last year's civil service wage increase of 25% was disbursed in the first half of 2000, and the budget deficit now stands at 2.4% of GDP. Since 1999 the State Bank of Vietnam has been loosening its monetary policy too. In 1999, domestic credit expanded by 20% and in 2000 it has been growing by more than 30%. It is not clear how much of the recovery is driven by this demand-stimulus and how the economy will respond to a withdrawal of this stimulus next year. Second, total investment as a share of GDP has not risen to levels reached in 1997. While there is some recovery in domestic private investment, there is no sign of recovery in actual foreign investment inflows.

1.35. **Medium-term macroeconomic outlook.** Critical to Vietnam's medium-term outlook is whether Vietnam will adopt the policy-changes necessary to achieve the Strategy's goals in the medium and long term. If the rapid expansion of credit is reigned in, the Enterprise Law is properly implemented, USBTA is ratified and the detailed medium-term SOE and banking reform program is adopted, the ongoing recovery (see Box 1.4 above) is expected to strengthen and GDP growth is likely to rise from the current 5.8 percent to 6.5 percent in 2001. Thereafter, GDP growth will depend on vigorous and effective implementation of the multi-year reform program discussed in Chapter 2. Based on such implementation, GDP growth is projected to average around 7 percent for 2002-05 period (Table 1.6).

1.36. **External Balance.** The current account deficit has declined significantly from 4.9 percent of GDP in 1998 to one-fifth of a percent in 1999 as FDI fell, exports picked up and imports remained depressed. In 2000 FDI remained depressed, and both exports and imports picked up, and the current account gap rose to 1 percent of GDP.

With bold reforms, 7% growth targets are achievable

Item	Est. 2000	Projected (annual average)		
		2001	2001-05	2006-10
Real growth rate (%)				
GDP	6.0	7.0	7.0	7.5
Agriculture	3.5	3.5	3.5	3.5
Industry	10.0	10.2	10.0	10.0
Services	4.0	6.4	6.4	7.5

Table 1.6: Growth Projections if Proposed Policy-Reforms are Implemented

(Annual percentage change)

Source: Actual data: Vietnamese authorities, estimates and projections: World Bank.

1.37. With effective implementation of the proposed reforms and the additional quick-disbursing assistance that would accompany such reforms, imports can grow at a rate commensurate with rising investment and GDP growth. Exports are thus projected to grow at an average of 14 percent in nominal dollar terms over the next five years and imports at 16 percent.

V.1 Concessional financing requirements

1.38. **External financing needs, 2001-2005.** Vietnam's overall external financing needs are projected to rise to an average of about \$3.2 billion a year for the period 2001-05 (see Table 1.7). This reflects not only higher imports needed for higher investment and output that is expected, but also the need to meet rising debt obligations as well as a need for increased reserves.

1.39. FDI inflow is projected conservatively at an annual average of around \$1 billion in the first five years, i.e., 2001-05. This assumes that the Nam Con Son basin pipeline project will start in 2001 and a positive FDI response to the USBTA to export garments, footwear and other light manufactures to the US. However, actual FDI could be higher in the early years if the two BOT projects in the power sector, currently under consideration, are approved. In the outer years, FDI inflow is assumed to increase significantly to average \$2 billion a year. This is not unrealistic if Vietnam has had five years of relatively high growth, the trade and investment regime has become very open and private manufacturing has expanded.

1.40. With an existing undisbursed ODA pipeline of project aid standing at around \$6 billion, there is scope for increasing annual disbursements beyond the \$1.1-1.2 billion that was disbursed in 2000. If disbursements of project aid rise at an annual rate of around 10 percent, ODA disbursement from project aid could be \$1.4 billion by 2005.

External financing requirements will rise

Item	Act. 1998	Prel. Act. 1999	Est. 2000	Projected (annual average)			
				2001	2001-05	2006-10	2001-10
Financing Requirements	2.4	2.6	2.1	2.7	3.2	4.4	3.8
Current account deficit	1.2	0.1	0.3	0.6	1.1	1.7	1.4
M< amortization	1.0	1.3	1.3	1.3	1.4	1.7	1.6
O/w FDI related loans	0.4	0.6	0.7	0.8	0.7	0.7	0.7
IMF repurchases	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Others (Net)	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Reserve requirements	-0.1	1.3	0.5	0.6	0.7	1.0	0.8
Financing Resources	2.4	2.6	2.1	2.7	3.2	4.4	3.8
Official grants	0.2	0.1	0.1	0.2	0.2	0.2	0.2
M&L-T disbursements	1.1	0.9	1.2	1.3	1.6	2.0	1.8
Of which:							
ODA	0.8	0.9	1.2	1.2	1.3	1.2	1.3
Non-concessional	0.3	0.0	0.0	0.1	0.3	0.7	0.5
Foreign direct investment	0.8	0.7	0.6	0.7	0.9	2.1	1.5
Short-term capital (net)	-0.3	0.3	0.2	0.2	0.2	0.2	0.0
Arrears accumulations (net)	0.1	0.6	-8.6
Debt relief	0.4	0.0	8.6
Additional funding needs	0.0	0.0	0.0	0.3	<i>Additional funding needs, 2001-05 -- \$1.2 billion</i>		

Table 1.7: External Financing Requirements (US\$ billion)

Source: Actuals: Vietnamese authorities; estimates and projections: World Bank.

1.41. **Quick Disbursing Assistance.** However, if quick-disbursing assistance is provided – as will indeed be the case if the reform program is adopted – total ODA disbursement will be sufficiently high to meet the additional funding needed as shown in Table 1.8. This quick-disbursing assistance will finance the additional balance of payments need arising from both the opening-up of the import regime further as well as the additional import demand for inputs and capital goods. It will also finance the fiscal-cost of banking and SOE reforms (see Box 2.2 in Chapter 2). For the period of 2001-05, the need for quick disbursing resources is estimated at around \$250 million a year or a cumulative total of \$1.2 billion for 2001-05. The World Bank, the IMF, the Asian Development Bank as well as several bilateral grants are expected to finance this requirement. Japan has already taken the first step of disbursing a quick-disbursing loan of \$160 million under the Miyazawa initiative in 2000 in support of the private sector.

1.42. **Official Development Assistance.** The donor community has been playing a supportive role in Vietnam for the past decade. It is expected to continue this role in the near future, especially in the next three years, in close partnership with Vietnam. Evidence to date has shown that ODA has been largely effective in Vietnam, both in the rehabilitation of outmoded and dilapidated infrastructure yielding high returns and earlier reforms that have created an enabling

policy environment for the effective implementation of ODA, a major ingredient for aid effectiveness.

1.43. **External Debt Management.** Vietnam's debt and debt service burden is sustainable and is expected to remain so, provided Vietnam implements the policy changes discussed in Chapter 2, chooses public investment projects carefully and avoids raising the share of non-concessional borrowing excessively. The total convertible debt stock is at \$11 billion by end-1999 (or 41 percent of GDP), about 70 percent of which is public or publicly guaranteed. Slightly over half of the debt is concessional and the remaining is non-concessional and mostly related to foreign direct investment. The total debt stock is projected to rise to \$14 billion by the end of 2000, with most of the growth coming from concessional loans and \$1.7 billion increased resulting from the recent rescheduling of non-convertible debt owed to Russia. The share of concessional debt is projected to reach about two-thirds of total debt at end-2000. The debt-service burden is estimated at an average of about 6-7 percent of exports of goods and non-factor services for 2001-05. Projected debt service ratios remain manageable and sustainable under the draft strategy's goals.

VI. CONCLUSION

1.44. This chapter has laid out the broad economic challenges facing Vietnam in the coming decade and examined the Strategy's framework for generating high growth, high employment and faster poverty reduction. The Chapter argues that Vietnam's overall objective of attaining a seven percent growth rate in the coming decade and of changing the structure of the economy to becoming less dependent on agriculture and more industrialized, are ambitious but attainable. This is likely to require a more vibrant domestic private sector with the ability to generate the needed investments, exports and employment. The policy and institutional changes that are necessary to attain this are discussed in the next chapter.

CHAPTER 2 CREATING A SUPPORTIVE CLIMATE FOR ENTERPRISES

Key Messages

This chapter cites the policies that were implemented in the last decade and discusses the nature of policy and institutional changes that will be required in the early years of the coming decade to meet the draft Strategy's goals of growth, employment and poverty reduction. The set of policies include:

(a) Integrating into the world economy. Vietnam's exports are equivalent to 44% of GDP (compared to an average of 27% for developing countries) and the share of the non-state sector in exporting has risen from near zero at the beginning of the decade to 55% today. Nonetheless, Vietnam's trade regime remains distorted, with effective rates of protection of over 100% in many industries. By signing up to AFTA and USBTA, Vietnam has made commitments to gradually move to an environment of uniform and low tariff rates. This new trade regime will encourage greater efficiency in exporting and import competing sectors, increase productivity and give producers access to global markets and technology.

(b) Encouraging the private sector. To date in Vietnam the climate for the private sector has been grudging rather than supportive. Though there are indications that the climate is improving, domestic firms still number less than 30,000 and produce well under 10% of GDP. Creating a level playing field for the private sector will require a shift in the social and administrative culture from one of reluctance and control towards one of active support and encouragement. The private sector will also benefit from introduction of a transparent and predictable regulatory framework, where discretionary actions on the part of officials are minimized.

(c) Reforming state owned enterprises. Vietnam's economic goals remain seriously threatened by a large number of inefficient and loss-making SOEs that absorb more than half of bank credit, without contributing to employment growth. The Government plans to reduce losses and improve performance through divestures and equitizations. SOEs that remain under Government control will be exposed to hard budget constraints and greater competition. These reforms will be accompanied by an adequate social safety net for redundant workers.

(d) Strengthening the banking system. The weakness of Vietnam's banking system – high levels of non-performing loans and inadequate management – hinders better mobilization of savings and its allocation for efficient investment opportunities. Planned reform measures include implementation of supervision under a regulatory framework, restructuring and recapitalisation of state banks – including phasing out of policy lending, closures and rehabilitation of joint-stock banks, and leveling of the playing field for all banks.

(e) Ensuring fiscal stability. Stronger efforts will be needed on the revenue front to ensure fiscal stability in the medium- to long-term. With revenue as a share of GDP declining by 4 percentage points of GDP since 1996, that will be critical. The much-needed wage increases have to be accompanied by reductions in Government employment if a rising wage bill is not to crowd out social spending.

2.1. The preceding chapter suggested that the key ten-year macroeconomic goals are achievable provided a certain set of policies and institutional arrangements are implemented in the early years of the next decade that will promote higher *quantity* and *quality* of investment. This chapter cites the policies that were implemented in the last decade, especially those implemented over the last two years, and discusses the nature of policy and institutional changes that would have to be implemented in the next decade.

2.2. However, if these policies and institutional arrangements are not implemented effectively, or if they are slowed down and back-loaded to the second half of the decade, the Strategy's goals will not be met. Vietnam may then have to live with lower growth of GDP and exports, as well as higher unemployment and under-employment, falling further behind the other ASEAN neighbors.

2.3. The high performing economies of East Asia⁴ (i.e. South Korea, Taiwan-China, Malaysia, Thailand, Indonesia) have demonstrated convincingly the sort of policies that must be implemented to sustain annual per capita growth rates of 5-7 percent over several decades and generate large reductions in poverty (see Box 1.1). Greater openness to the world, more freedom for the private sector, an effective banking system and macroeconomic and fiscal stability – complemented by superb access to primary education and to infrastructure services – helped these economies to generate high rates of investment, savings, exports, employment and productivity growth.

2.4. Vietnam's draft Strategy proposes most of these policies, but it also expresses some ambivalence about those policies. It envisages greater integration with the rest of the world, a more level "playing-field" for the private sector, reform of state-owned-enterprises and banks as well as maintenance of macroeconomic stability. At the same time, the draft Strategy argues for a continued "leading role" of the state-sector, as well as for continued protection of and state investment in certain key industries. This ambivalence, if unresolved when the Strategy is finalized, could slow down the pace of implementation of the required policies. For example, it is not clear from the draft Strategy whether the leaders can express publicly, strong support for the private sector, something Vietnamese citizens need if private investment is to grow rapidly. Similarly, will the SOEs be subject to a hard-budget constraint and greater accountability of performance quickly, in order to change SOE manager's behavior for containing losses and making SOEs competitive? And will the state-owned-commercial banks be permitted to move fully into commercial lending? Unless answers to these and similar questions are unambiguously affirmative, the key ten-year goals may not be reached.

2.5. This chapter examines these issues under the following five sections:

- Accessing global markets and technologies to promote exports and productivity;
- Creating a level "playing field" to promote private investment;
- Reforming state-owned-enterprises to minimize waste and improve competitiveness;
- Strengthening banks to raise savings and fund efficient investments;
- Ensuring macroeconomic stability by maintaining fiscal stability.

⁴ See the "The East Asia Miracle" (World Bank, Oxford University Press, 1993) for details on policy and performance for these economies.

I. ACCESING GLOBAL MARKETS AND TECHNOLOGIES

2.6. Openness to trade, investment and ideas has been critical in all countries for encouraging domestic producers to cut costs by introducing new technologies, to develop new and better products and to export. The international flow of technology will take many forms: foreign investment, foreign education, technical assistance, licensing of patented processes, knowledge transmission through labor flows, exposure to foreign goods market and the internet, as well as technology embodied in imports of capital equipment and intermediate inputs. Similarly, the effect of import competition as well as the effect of greater competition in export markets are decisive in raising productivity and in creating employment, as is evident from the experience of many East Asian countries.

2.7. Conversely, high levels of protection for long periods have held back countries. High protection permits producers to sell products at higher prices, thereby taxing Vietnamese consumers. Thus, motorbikes that sell for \$2200 in Vietnam, sells for only \$1000 in Thailand. The same is true of bicycles and fans. Further, when items like sugar, cement, and steel are protected through quantitative restrictions, this effectively taxes other Vietnamese producers who use them as inputs. Finally, products that are not so protected (e.g. agriculture or exports), find it difficult to attract investment, because other protected sectors are made more profitable than they would otherwise be.

2.8. The draft Strategy envisages further opening-up of trade and foreign investment under the ASEAN Free Trade Area (AFTA) and the United States bilateral trade agreement (USBTA). This will enhance Vietnam's access to global markets and to technology flows. By removing quantitative restrictions and reducing tariffs, it will improve transparency and broaden access for the Vietnamese people to imported inputs and to export markets. This will permit access to better technology, encourage greater efficiency in import-competing sectors and also promote more exports of processed agriculture and labor-intensive manufactures – all critical to the success of the ten-year Strategy.

I.1 Increased Openness in the 1990s

2.9. Vietnam has already come a long way in increasing openness. Most of the changes in trade policy required removal of restrictions and easing of access. The legal framework had to be changed but little new institutional arrangements were needed. Initial steps were taken in the late 1980s.⁵ Trade reforms gained momentum in the early 1990s, slowed in the middle 1990's and picked up steam again from 1998. Between 1991 and 1995, private firms were allowed to engage in foreign trade by obtaining a license, tariff exemptions were introduced for imported inputs used in the production of exports, licensing procedures were simplified, an inter-bank foreign exchange market was introduced, and quotas on exports were removed except for rice. Vietnam also signaled its commitment to integrate with the region by joining the ASEAN in 1995.

⁵ In 1988, the crucial step of abolishing the central government's monopoly on trade and in reducing the customs tariff was taken. In 1989, quotas were removed on all but few export and several import commodities, the rates of export duties were reduced, the foreign exchange system was unified, and procedures were allowed to sell to any licensed foreign trade company.

2.10. Since 1998 the trade regime has been opened-up further. The most significant measure was the freeing-up of trading rights for firms registered in Vietnam. These firms were allowed for the first time, to export and import goods directly without a license⁶. This newly-provided right for domestic firms encouraged significant participation of private firms in foreign trade. The domestic private sectors' share in the value of non-oil export rose from 12 percent in 1997 to 22 percent in mid-2000 and in import value, from 4 percent to 16 percent (see Table 2.1).

Reforms have encouraged greater domestic private participation in international trade

	Non-oil Exports		Total Imports	
	1997	Mid-2000	1997	Mid-2000
State-owned enterprises	65	46	68	57
Foreign-invested enterprises	23	32	28	27
Domestic private SMEs	12.0	22	4.0	16
Total	100	100	100	100

Table 2.1 Shares in Non-oil Exports and total Imports

Source: Ministry of Trade.

2.11. Several other measures were taken too. Export taxes were reduced on a number of products and quota on rice exports were removed. A rising share of quotas on garment exports to Europe (required under the rules of the European Union) have been auctioned since 1999, permitting easier and more transparent access to private garment exporters. On the import side, quantitative restrictions were removed on seven commodity groups and the maximum tariff was reduced to 50 percent (with exceptions for six items).

I. 2 Trade Policy Changes in the Next Decade

2.12. Nevertheless, there remains a large unfinished agenda for trade policy changes, especially for the import regime, that would need to be addressed early in the next decade. For example, quantitative import restrictions still cover around a third of imports and the maximum import tariff of 50 percent is high. The weighted average import tariff is around 19 percent, but it masks the high degree of non-uniformity in tariffs that is implicit in the 12 tariff rates and in the cascading tariff-structure (see Figure 2.1).

2.13. Tariffs and quantitative restrictions (QRs) have raised profitability of numerous products where Vietnam is actually uncompetitive, while at the same time discouraging production (e.g. agriculture, exports and so on) where it has a strong natural competitive advantage. Estimates of effective protection, which measure the extent to which tariff-policy raises producer's profits "artificially"- through tariff on outputs that are higher than on inputs -- show why domestic prices of motorbikes, bicycles, fans, tobacco, alcohol, textiles, paper, ceramics, cement and steel

⁶ For import: registered domestic firms could only import products that were specified in their registration license and foreign-invested-firms could not do so until the recent revision to the Foreign Investment Law had eased those restrictions somewhat.

are higher in Vietnam than in other countries.⁷ Figure 2.1 shows the level and dispersion of effective protection rates across various sub-sectors based only on tariff rates.

Consumers and domestic producers pay the price for high levels of protection

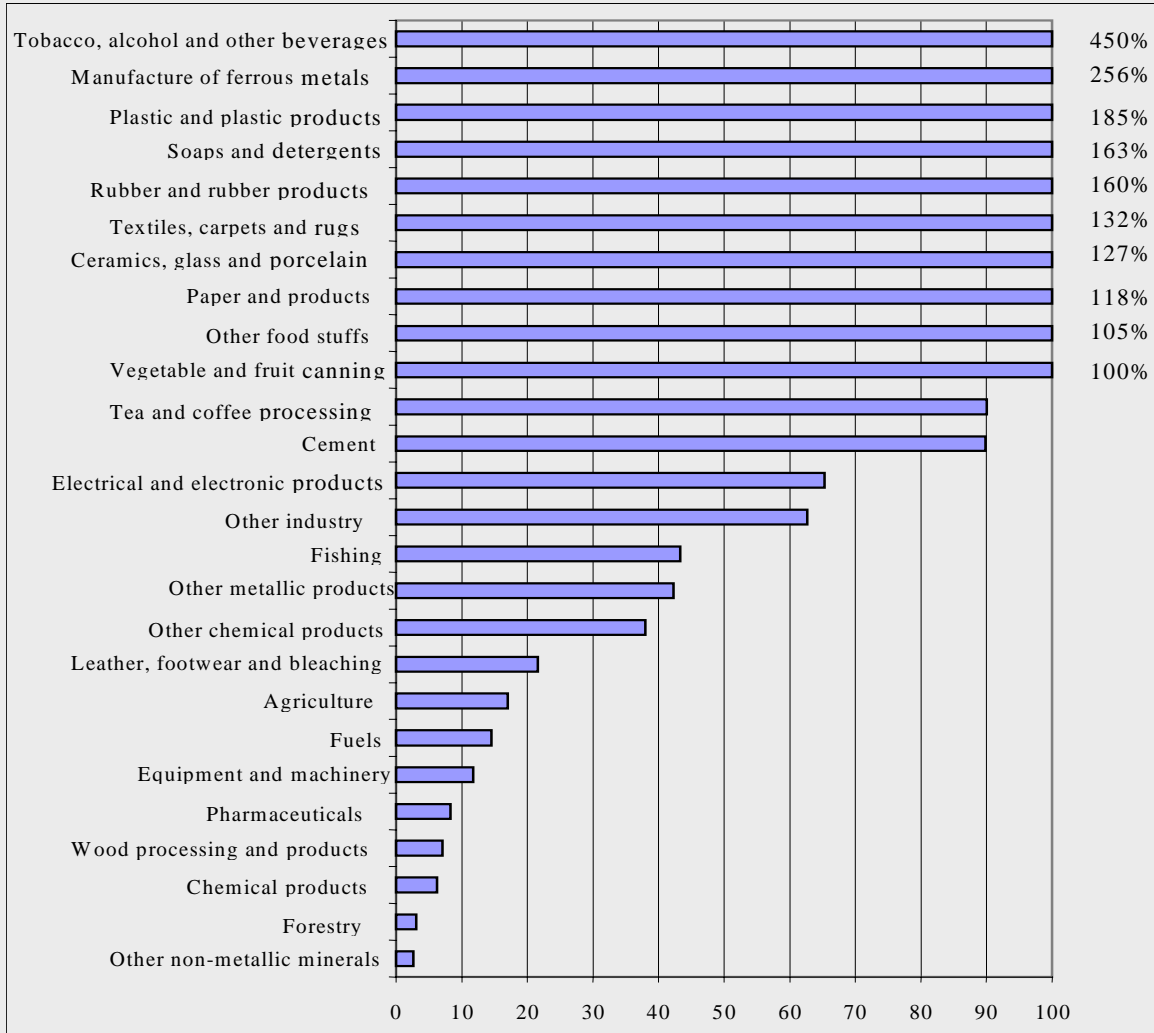


Figure 2.1: Effective Rates of Protection in 1999 (%)

Note: The above effective rates of protection exclude the effect of quantitative restrictions. If they were included in these estimates, the effective rates would have been much higher for those products.

2.14. As a result, investment has been channeled to sectors that are made highly “profitable”, even though Vietnam is not competitive. For example, evidence on cumulative foreign investment inflows show that more than half of such investment went into sectors that had effective protection rates in excess of 90 percent (CIE, 1999). Agriculture, light manufacturing and manufactured exports received in general a much lower share of foreign investment to

⁷ Cement, sugar, steel, motorbikes, bicycles are protected more by quantitative restrictions and thus do not show up to be as highly protected in Figure 2.1 because it is based only on tariff-rates.

Vietnam than was the case in several other countries, including China. More investment in these sectors—which are relatively labor-intensive—could have led to more rapid employment creation and poverty reduction.

2.15. Increased Foreign Competition for Vietnamese Producers. Under AFTA and USBTA Vietnamese producers will face increased foreign competition. By early 2003 quantitative import restrictions (QRs) on six products (i.e. cement, steel, paper, glass, vegetable oil and ceramic products) are expected to be removed and tariffs on 95 percent of tariff lines for ASEAN countries, reduced to 20 percent; tariffs on ASEAN imports will drop further to 5 percent by 2006. Under the USBTA, there will be cuts in protection on imports into Vietnam of around 30 to 50 percent on the current tariff rates on 250 different tariff lines covering both industrial and agricultural products (Martin, 2000). In addition, a wide range of service sectors, including telecommunications, banking, insurance, distribution, tourism, accounting, architecture, engineering, computing, management consulting, education, and health services will also be opened up for foreign investment.

2.16. To benefit from these policy changes Vietnam will need to develop new and more modern institutional arrangement. Promoting rapid growth of manufactured export to sophisticated markets require the development of export marketing skills and institutions to support such growth. This will be Vietnam's big challenge. Attracting foreign investment into manufactured exports, and instituting such marketing contacts will be difficult. But unless this foreign investment is partnered with domestic private SMEs, the contacts will not transfer to the Vietnamese and sustaining high growth of manufactured exports will be difficult.⁸ Also, Government must establish systems that support exporters. For example, the import-duty-exemption system has to work well, so that exporters get imported inputs at world prices with the least hassle and the customs system must be effective and well-functioning.

2.17. Future WTO Accession. When Vietnam becomes a member of the World Trade Organization (WTO), as envisaged in the ten-year Strategy, more will have to be done to open up imports, foreign investment and the domestic market. Vietnam, like China, will have to:

- Remove discrimination among suppliers (i.e. national treatment) in accordance with the Most Favored Nation (MFN) principle and increase overall transparency of the trade and investment regime;
- Abolish most non-tariff barriers and reduce average tariffs on manufactures to 10 percent or lower, and on agricultural goods to around 20 percent;
- Liberalize entry for all countries into many other service-sectors beyond the USBTA, including distribution (preventing import barriers through controls on distribution).

2.18. Given the proposed trade policy changes, there is need to plan, in at least two ways, to minimize the costs of these changes. First, greater effort must be made to ensure that further investments do not go into uncompetitive sectors between now and the planned opening of the

⁸ China's quick success with rapid manufactured export growth was made possible by easy access to Hong kong's knowledge and physical infrastructure to market manufactures anywhere in the world. Overseas Chinese also provided a lot of it through their foreign investment, which came with marketing contacts and knowledge. Hungary and Poland's pre-existing ties with Western Europe also helped them to expand manufactured exports faster than Russia and others.

sectors, otherwise newly-invested capital stock will be rendered useless soon after they are put in place. This can be done by announcing and publishing an annual road map of changes in QRs, tariffs and foreign investment, for the next five years, making it possible for producers and investors to prepare for the changes. But even more importantly, this must be factored into the Government's five-year public investment program (PIP). Second, even if the medium-to-long term effect of planned integration efforts are likely to be favorable on employment and on poverty-reduction in the medium term, there will be transitional losses in employment that Government should already prepare to address now.

II. CREATING A LEVEL PLAYING FIELD FOR PRIVATE SECTOR

2.19. To meet the draft Strategy's investment targets, total domestic private investment will need to rise to 11-13 percent of GDP. This cannot be done without significant improvement in the climate for the private sector. To date in Vietnam the climate for the private sector has been grudging rather than supportive. Here Vietnam differs markedly from China, where the private sector has been recognized openly as a key partner in the country's development.

2.20. There are indications that the climate in Vietnam is improving. The Enterprise Law, which has substantially simplified business start-up has led to the registration of more than 10,000 additional domestic firms in the first nine months of this year. However domestic private registered firms (also referred to as private small and medium sized enterprises, SMEs) still number only around 30,000 and produce under 10 percent of GDP.

II.1 Private Sector Developments in the 1990s

2.21. The de-collectivization of agriculture, together with the approval of the Domestic and Foreign Investment Laws, as also the Commercial Law in early 1990s, were extraordinarily effective in promoting growth of the private sector from a negligible base. It galvanized the energy of millions of Vietnamese individuals who diversified and expanded their agricultural production rapidly, and set up many micro-household-enterprises as well as domestic private registered SMEs. Foreign firms invested in majority-foreign-owned joint ventures or in wholly foreign-owned enterprises. Systematic data on performance of the domestic private sector is limited, but what we have suggests a significant expansion and diversification of private sector activities in the last ten years.

2.22. **Private sector in industry.** Apart from family farms, the private sector's biggest inroad has been in the industrial sector. Industrial output has grown at an annual average rate of 10 percent in the 1990s, with the private sector growing at a much faster rate. The private sector as a whole – household enterprises, domestic private SMEs and foreign-invested enterprises – increased its total share of industrial output from 37 percent in 1990 to 58 percent in 2000 (see Table 2.2). Most of this was due to very rapid growth of foreign-invested-enterprises in the oil and gas as well as in manufacturing. Household enterprise growth stagnated after the first half of the 1990s as the environment for domestic private SMEs was not sufficiently favorable to promote their rapid growth. Thus foreign-invested enterprises now have a much bigger share of total private industrial output than was the case in 1990.

An unfavorable environment for domestic SMEs has restricted their contribution to industrial growth

	1990	1995	pre. 1999	est 2000
Total Industrial Growth (%)	3.2	13.8	10.4	15.5
Percent of Industrial Output				
State-owned-Enterprises	61.7	50.3	43.5	42.2
Domestic private(non-state) sector	29.5	24.6	21.8	22.7
Foreign invested	8.8	25.1	34.7	35.2

Table 2.2. Industrial Output: Growth and share in 1990-00*Source: GSO.*

2.23. The domestic private sector, especially household-enterprises, has had an important role in manufacturing. As of 1999, there were around 600,000 micro household enterprises in manufacturing, a quarter of all micro-enterprises contributing 28 percent of manufacturing value-added and 5600 private SMEs in manufacturing accounting for 10 percent of manufacturing GDP. This situation is no doubt changing as we write, especially for private registered SMEs, as more than 10,000 new firms have registered in the last nine months.

2.24. This recent growth-spurt in private SMEs owes a lot to the measures taken since 1998. In mid 1998, the revised Law on Promotion of Domestic Investment provided new incentives for the domestic private sector. This was followed by the approval and implementation of the Enterprise Law in 1999 and 2000. Together with the elimination of more than 100 different business licenses that restricted entry in different sectors, ongoing implementation of this Law is improving the policy environment for domestic private SMEs significantly.

2.25. The revision of the Foreign Investment Law and the issuance of Decree 24 in combination with the USBTA and other measures, have improved the mood of foreign investors. By permitting foreign investors to set up export-oriented enterprises through simple registration, without waiting for discretionary approvals, the Government has addressed a major investor grievance in an important area. Also, by simplifying the process for modifying corporate structures of existing foreign-invested-enterprises (i.e. for expansion and conversion to wholly foreign owned companies), by lifting restrictions on access to foreign exchange, and by permitting mortgages of land-use rights of foreign-invested-enterprises by all banks in Vietnam, the foreign investment environment has been further liberalized.

II. 2 Policy Agenda for Private Sector into the Next Decade

2.26. Nevertheless, the private sector remains more constrained in Vietnam than in other countries in the region, including China. The private sector continues to face various unnecessary restrictions on entry arising from the remaining business license requirements, whose modification and rationalization are still needed. Access to and transactions in land-use-rights remain difficult despite recent changes in land law and security regulations. New

institutional arrangements like registries, and procedures for selling foreclosed land-use rights are not in place. Access to capital and credit is also more difficult for private SMEs in part because banks are in dire financial straits and in part because lending to SOEs is viewed more favorably than lending to the private sector. But improving the climate for day-to-day operations of private investors – making interactions with the bureaucracy easier -- will necessitate deep-seated behavioral changes in the way private activity is perceived by the civil service, the dominant state owned commercial banks, and most importantly, by the political leadership.

2.27. Thus, four aspects of the business environment are of paramount importance to promote private sector development in the next decade:

- **Social and administrative attitudes.** Negative social and administrative attitudes towards private enterprises color behavior towards those engaged in private activities. They influence individual's decisions to enter the private sector and, once entered, constrain their ability to unleash their full potential. Growing one's business and increasing its visibility through success, is seen as a risky proposition by many entrepreneurs in Vietnam, because private business has tended to be viewed negatively.
- **Rule-of-Law-based regulatory framework.** Vague and frequently changing regulations and excessive bureaucracy increase the risk and cost of doing business and tax the resources of private entrepreneurs that would otherwise be available for investment or for management of the business and create an inhospitable business environment. Evidence points out that the bureaucratic stranglehold, exercised through discretion, is a major drag on private sector dynamism. There is need for institution-building that will gradually establish the rule of law as the basis for government-business relationships (see also Chapter 7).
- **Availability of financial resources.** Vietnam's banking reforms aim to address the shortages and problems of availability of credit and capital for the economy. However, the impact of these reforms on the domestic private sector will remain limited if the institutional arrangements for private transactions in land-use- rights as collateral and/or as equity for joint ventures are not established quickly.
- **Corporate Governance.** With greater freedom for the private sector must come improved corporate governance. There are at least three problems of corporate governance that will need to be addressed if the private sector is to grow in a transparent, accountable and effective manner. First, a key characteristic of the private SMEs is that their organizations are quite opaque. Not only is the ownership-structure of most of these SMEs not known but also the way decisions are made is unclear. This is not much of a problem when firms are small, but as they become bigger and owner-managers' span of control is less adequate, absence of appropriate decision-making processes will constrain their growth. Second, most SMEs now do not maintain sufficient accounts or make any public disclosure, of their accounts. Various types of restrictions and insufficient social acceptance of business success leads SMEs to misreport financial and other flows, when reporting is required. In the coming decade, it will be necessary to put in place the framework that will ensure that the corporations act in a transparent, accountable and non-monopolistic manner.

2.28. Improving Social and Administrative Attitude to Business. Given the many years of discrimination against private enterprises and private entrepreneurs, stronger and more frequent endorsement of private business by the Vietnamese leadership is required, as was done in China. The recent award of “red stars” to talented young businessmen is a good initiative and should be continued and expanded. In addition, regular public exhortations by top leaders of Party and Government, to the bureaucracy to provide support to private enterprises under the law, would be extremely helpful. Stories in the media of domestic private business successes and visits by top leaders to successful private exporters would help to reinforce the value of private business in Vietnam’s development.

2.29. Establishing a Rules-based-environment for the Private Sector. The next decade should complete the process of establishing a transparent legal and regulatory framework for the private sector, ensuring no discrimination and separating the regulators from the regulated.

2.30. Three actions are needed in the medium-term to continue establishing a transparent legal and regulatory framework. First, Government should continue to monitor carefully and implement effectively the Enterprise Law (e.g. eliminating, modifying and rationalizing the remaining business licenses in other sectors) and the Domestic Investment law, since they are the key instruments for facilitating Vietnamese private entry further. Second, the revised Foreign Investment Law and Decision 24 needs to be implemented in the spirit in which they were developed. Foreign investors should be encouraged, not discouraged from joint-ventures with private Vietnamese firms, to facilitate transfer of technology, marketing contacts and management expertise. Third, there is need to make the regulatory framework for private participation in infrastructure more transparent and predictable over the medium-term and conclude some of the build-operate-transfer (BOT) transactions in the power sector in the short-term (see Chapter 5 for why private financing of infrastructure is critical).

2.31. Predictable implementation of the various regulatory frameworks in place will be equally important if private investment is to pick up in a big way as is required by the draft Strategy. Excessive bureaucracy and discretionary implementation of policies has increased the risk and cost of doing business, diverting resources of private entrepreneurs that would otherwise be available for investment or for management. Evidence in other countries show that bureaucratic stranglehold, exercised through countless opportunities for bureaucratic discretion has been a major drag on private sector dynamism (see Chapter 7 for more on this issue of implementation).

2.32. Availability of Financial Resources for the Private Sector. Financial policies have an important impact on capital mobilization and development of enterprises. Vietnam’s banking reforms aim to address the shortages and problems of availability of credit and capital for the economy. However, the impact of these reforms on the domestic private sector will continue to remain limited if the private sector continues to experience difficulties in securing access to land use rights, their potentially most valuable source of collateral.

2.33. If changes in policy address these four areas, the domestic private sector can grow as rapidly as projected in Chapter 1. In fact China has shown that private firms can grow from 100,000 to 1 million in just six years (see Box 2.1).

Box 2.1. Growth of Domestic Private Enterprises in China

The past decade has seen remarkable change in the scope of the private sector in China. The number of domestic private registered firms rose from around 100,000 in 1991 to over 1.3 million today, while employment has risen from 2 million to nearly 20 million. During the decade output from the private sector grew by 70% per year. Some of this growth was due to the conversion of SOEs and cooperatives to private enterprises, but the bulk was due to new private investment. Particularly important was the growth and transformation of household enterprises into small and medium enterprises (SMEs).

Vietnam may wish to draw upon some of the lessons deriving from China's experience. China followed a path in the 1980s and early 1990s somewhat similar to Vietnam's in the 1990s. During this period there was a robust growth of household and informal small enterprises, and a number of policy experiments supporting private sector development in a number of cities and localities. The legal framework for the private sector was clarified in 1988, spurring a growth in SMEs. Momentum for growth was added at the Fourteenth Party Congress in 1992, and in 1993, when the first "grand strategy" for a transition to a rules-based market economy. The Fifteenth Party Congress in 1997 recognized the private sector explicitly as an important component of the economy, and in 1999, private ownership and the rule of law were incorporated into the Chinese Constitution.

The rapid growth of private sector employment in recent years should be a source of encouragement to Vietnam, since Vietnam is now positioned well to enjoy the same growth should it so choose. If the Enterprise Law and other recent measures are fully implemented, and if the planned reforms to the banking and SOE system are seen through, Vietnam will have put together a credible basis for rapid private growth. In addition, Vietnam's stock of more than 600,000 household enterprises engaged in manufacturing can provide the start-up material for many thousands of new SMEs, should they be given the encouragement to grow.

However, a recent major analysis of China's private sector may point to another important lesson for Vietnam. It found that changing attitudes of officials towards the private sector is often as important as improvements in the regulatory and policy environment.⁹ This transition of attitudes stems most effectively from clear statements from the top leadership. Thus, for example, Deng Xiaoping's famous southern tour in September 1992, and subsequent clear statements by China's leaders appears to have played an important role in persuading both local officials and investors that China was open for business.

III. REFORMING STATE-OWNED-ENTERPRISES

2.34. Reforming SOEs to reduce losses and to improve their competitiveness is central to the Strategy. Vietnam's commitments to open up trade and foreign investment under AFTA and USBTA makes serious reform of SOEs imperative. In addition, banks cannot be strengthened to mobilize and allocate savings effectively to meet the Strategy's goals, unless serious SOE-reform is implemented.

2.35. Though there is no real conflict between the Strategy's emphasis on the state-sector being the "leading sector" and effective SOE reform, if such reform is viewed as a pre-requisite to being competitive and thus a "leader" in key sectors. But SOEs may use this emphasis on "leading", to focus an expanded investment-program without completing reform and seeking

⁹ "China's Emerging Private Enterprises", International Finance Corporation, 2000.

protection to avoid losing that investment. Unless SOEs are fully restructured and their management abilities and behavior altered to compete effectively in the market place, any expanded investment program is likely to repeat many of the experiences of the 1990s, i.e., create few jobs, generate little profit, accumulate high debt and build uncompetitive capital stock.¹⁰

III.1 Progress on SOE Reform in the 1990s

2.36. The first round of SOE reforms took place during 1989-94 and the second round began after the middle of 1998. The first round reforms were effective in reducing the number of SOEs as well as their output and employment share.¹¹ Over the last ten years, the number of SOEs have fallen from around 12,000 in 1990 to around 5,300 in 2000. Most of this reduction took place by 1994, but around 450 enterprises were equitized between 1998 and now. The share of SOEs' in total industrial output fell from 62 percent to 42 percent between 1990 and 2000, and employment fell from 2.5 million to around 1.6 million.

2.37. Since 1998, Government has carried out an assessment of all the SOEs and developed a detailed SOE reform program. As of 1999, SOEs accounted for 30 percent of GDP and nearly half the bank credit. But SOE financial conditions have been deteriorating due to inefficiencies, overstaffing, and outdated technology. Official estimates show 60 percent of SOEs were loss makers or marginally profitable as of end 1997. The Government's SOE report notes that although SOEs show only small book losses, in 1997-1999, the Government provided about 2.2 percent of GDP annually in supplementary capital, subsidies, tax exemptions, debt write-offs, and preferential credits. Total SOE debt at end-1999 was officially estimated at 126 trillion dong (equivalent to almost 9 billions US\$ or 32 percent of GDP), a large proportion of which is non-performing, thus contributing to a weakening of the state-owned commercial banks. Over the last two and half years, a number of actions have been taken to reform SOEs. Equitization has been accelerated over this period with 450 equitizations completed and half of them selling more than 65 percent of shares. In addition, decrees have been issued to permit outright sales of small SOEs as well as to establish a enterprise restructuring fund for redundancy payments to SOE workers affected by reform.

III.2 SOE Reform in the Next Decade

2.38. The SOE reform program proposed in the draft Strategy seeks to reduce losses, to stem accumulation of unsustainable debt and to improve competitiveness. Within the framework of "retaining large SOEs and letting go of small and medium ones", four broad types of measures are part of the medium-term program:

- Diversifying ownership through equitization (i.e. sale of state shares) and divestiture of SOEs (outright sale or free transfer of an entire SOE);
- Liquidating SOEs that are classified as non-viable;

¹⁰ Even in the last two years, credit and budgetary support to some General Corporations rose significantly, probably for new investment, and many of them were not competitive.

¹¹ In 1990, various pieces of legislation (e.g. Company Law, Law on Domestic Private Investments and so on) permitted household and private-sector ownership of businesses for the first time. Since then the non-state sector -- consisting of the foreign-invested-sector (i.e. wholly owned and joint-ventures), household enterprises and domestic private sector (i.e. registered enterprises) -- has grown considerably.

- Restructuring large SOEs remaining in Government hands;
- Establishing an adequate and effective social safety net for displaced SOE workers.

2.39. **Divestiture and Equitization.** Diversifying ownership of SOEs through equitization and divestiture, is a key plank of Vietnam’s SOE reform program. In the words of the draft Strategy:

“Government plans to make efforts to complete the program of rearranging, restructuring, and reforming managerial mechanisms to improve productivity in SOEs within 5 years. This includes equitizing SOEs where the state will not hold majority shares, in order to create more incentives for more efficient performance. In the equitization process, priority will be given for workers to access stocks, and at the same time to open stocks for outside domestic and foreign investors. Implementing the policy of sale, leasing or contracting of small SOEs, for which the State does not need to maintain any ownership, will be part of these efforts.”

2.40. Most of the enterprises that are targeted for equitization and divestiture are likely to have a stock of capital of less than VND 10 billion or US\$ 700,000 (only around 10 percent of targeted enterprises have capital stocks exceeding that amount). Though the pace of equitization is still too slow relative to the target, it has certainly been proceeding much faster after 1998. There have been more than 450 equitizations between 1998 and now, as compared to 17 before then.

2.41. **Liquidations.** Liquidations have made the least headway so far. This is in part due to anxiety about the social impact on workers, but in part it is also because the legal framework and procedures for liquidation remain cumbersome, making it difficult to enforce creditor rights and for the authorities to declare bankruptcies. To move faster in this area it will be necessary to streamline the legal framework for liquidations.

2.42. **Restructuring large SOEs remaining in State hands.** Restructuring enterprises that remain under state control is the most challenging part of the reform agenda for stemming losses, reducing accumulation of unserviceable debt and improving competitiveness. The Strategy asks for *“efforts to complete the program of rearranging, restructuring, and reforming managerial mechanism and improving productivity in SOEs within 5 years.”*

2.43. Getting these large SOEs to behave according to the rules of the market and restructure with a view to maximizing profits by cutting costs or raising their sales volume is not an easy task. It did not happen in the reforms of the 1990s, and the current financial condition of the SOE sector bears testimony to that. Nevertheless, for the next round of reform the Government plans to take the following measures in an effort to change behavior of SOE management:

- imposing a hard-budget-constraint by enforcing a ceiling on credit-growth for all manufacturing SOEs and a sub-ceiling on a number of highly indebted SOEs as well as by asking banks to provide credit to SOEs only on commercial-criteria;
- making SOEs relatively more autonomous and their management more accountable for performance;
- assessing operational performance through “diagnostic audits” of 100 large and troubled SOEs and taking follow-up actions to improve competitiveness and profitability;

- monitoring quarterly performance of another 200 or so large SOEs that are highly indebted or otherwise troubled to prevent further accumulation of non-repayable debts;
- developing detailed restructuring-action-plans, on a pilot basis, for 3 General corporations (SeaProdex, Vinatex , Vinacafe covering 140 individual SOEs), using international consulting firms, and then implementing them to improve competitiveness.

2.44. Hardening the budget constraint means Government must stop giving implicit and explicit subsidies to these firms, and directing credit from the banks, every time an SOE gets into trouble. The task is technically simple but politically difficult to do, as is evident from the experience of the 1990s. In the early 1990s, explicit subsidies from the budget were stopped, but were partly replaced by increased credit from the banks. Also, applying tax-rules according to the law is not easy when SOEs experience difficulties. For example, providing the various new exemptions to the Value Added Tax (VAT) when enterprises claimed problems in paying the VAT sends the wrong signal that Government's tax regulations do not have to be followed.

2.45. Restructuring enterprises is also a question of setting the right goals for managers. Enterprise management is part of Government bureaucracy, and is often required to meet non-economic objectives set by those who appoint and promote them. Profit is then only one of many objectives. Until managers of SOEs are judged on the basis of their performance on profitability and until promotions, salary and bonus increases and firings are related to that performance, genuine restructuring of SOEs will be difficult to achieve. So "diagnostic audits" may highlight the actions necessary to enhance profitability, but managers may not implement those actions as needed, if profitability is not made their primary concern by the Government.

2.46. Internationally recognized rules of transparency and public accountability should also be applicable to large SOEs remaining in state hands. Not only must Government know the actual performance of each enterprise and its financial results each year – which at present the Government does not always know due to irregular reporting of financial results – but the market should too. In other countries of this region, large SOEs keep excellent accounts, audit them annually using independent auditors and publish them to inform other participants in the marketplace. Vietnamese SOEs should be required to perform according to those standards of transparency too.

2.47. **Social Safety Nets.** Liquidation, equitization and the restructuring of SOEs will inevitably entail redundancies. The draft Strategy asks to "*expand step-by-step the social safety net and insurance system and then, apply them for all workers*". Recent Government estimates about redundancies as a result of SOE reforms suggest a total of 400,000 workers over 5 years. Acceleration of SOE reforms will have to be accompanied by a strengthening of the social safety net. To this end the Government has established an Enterprise Restructuring Assistance Fund to compensate redundant workers. It is estimated that the fund may need about US\$ 450 million over 5 years to deal with redundancies arising from restructuring, liquidations and equitizations. Several donors are willing to provide assistance to this fund, in the context of overall assistance to the reform program.

IV. STRENGTHENING THE BANKING SYSTEM

2.48. Continuing the banking reforms initiated in late 1988, especially changing management behavior and establishing supervisory institutions is an integral part of Vietnam's draft Strategy. In the medium-to-long term – which is the focus of the Strategy – it seeks to create a banking system that will promote better mobilization and improved allocation of domestic savings as well as expanded banking services to support growth and employment creation. In the words of Vietnam's draft Strategy :

“Diversifying banking services -- mobilizing capital and lending; providing convenient and in-time services to all individuals and enterprises, supplying timely credit for production, business and other activities, including those in agriculture and rural areas – is the main purpose of the banking system. For this purpose, establishing a transparent, healthy and equal environment for all banking activities will be important. Supporting domestic institutions to improve their management capacity and skill in order to be able to compete with foreign partners will be necessary. Applying information technology, quickly expanding non-cash payment and automatic banking services, building a comprehensive legal framework that contains international principles and standards of banking activities, and improving supervision and inspection of the internal quality of credit institutions are among the measures that need to be taken. Solving the problem of outstanding non-performing debts, in parallel with strengthening legal and administrative institutions on borrowers' liabilities and lender's rights will be necessary to avoid the situation of credit panic.”

IV.1 Progress with Banking Reform in the 1990s

2.49. The first round of banking reform in Vietnam started in late 1980s and achieved important changes in form and structure of the system. The mono-bank system was replaced by a two-tier system with the first tier consisting of the four state-owned commercial banks (SOCBs) and the second, comprising of the State Bank of Vietnam (SBV), as the central bank. Other parts of the banking system - joint stock banks (JSBs), joint venture banks, representative offices and branches of foreign banks -- came into existence after 1990, when the relevant laws permitting them were approved. By 1994 the banking system had changed considerably, in the sense that other banks began to take a rising portion of the banking assets. (see Table 2.3).

Many more players entered the banking sector

	1990	1994	1999
SOCBs	4	4	5
JSBs	0	36	48
Joint venture banks	0	3	4
Branches and rep. offices of foreign banks	0	41	103

Table 2.3. Composition of Vietnam's Banking System, 1990 – 2000

Sources: State Bank of Vietnam and World Bank.

2.50. Over the 1990s the pace of financial deepening was limited relative to other countries. Bank credit as a share of GDP, rose from 13 to 25 percent and bank deposits as a share of GDP from 10 percent to 20 percent between 1990 and 2000.¹² There was also a significant drop in SOEs share of that credit - from 90 percent to 48 percent. As other banks entered the system, the share of the four SOCBs in total bank credit fell to 80 percent.

2.51. However, this development took place under an inadequate regulatory and supervisory framework and a weak human resource base in commercial banks. Also, most SOCB lending was directed by the Government and a good deal of JSB lending was related-party credits or done with inadequate credit risk assessments. Thus this growth of the banking system also worsened the financial condition of most commercial banks. By end 1997, non-performing loans were a significant share of total outstanding loans, putting many of these banks in jeopardy.

2.52. Since 1998 Government has taken several actions in respect of improving the regulatory framework, leveling the playing field, and restructuring JSBs, but not much in respect of SOCB restructuring. Numerous regulations were adopted on collateral, on foreign exchange operations, on conditions for intervening in troubled banks, capital adequacy requirements and on bank inspection (including definition of the scope and responsibilities of the SBV's Supervision Department). Regulations for deposit insurance have been issued and a Deposit Insurance system has been set up, all aimed at improving confidence of depositors. Also all banks are now permitted to compete with each other on the price of their loans, since interest rates have been made flexible, though still subject to a cap. Restrictions on mobilization of dong-deposits have been removed for joint-venture banks, though they remain for foreign banks. A plan for restructuring JSBs was approved in early 1999, and to-date three JSBs have been closed and two merged. Several other JSBs are currently subject to special control or special supervision by the State Bank of Vietnam.

IV.2 Banking Reform in the Next Decade

2.53. The reform program, in the medium-term, is aimed at resolving the large stock of non-performing loans (NPLs) and at ensuring that in future, all banks (SOCBs and JSBs) operate prudently to limit such NPLs. For this purpose Government has developed a five-track reform program:

- improve legal, regulatory and supervisory framework;
- level the playing-field for all banks;
- restructure JSBs;
- restructure and commercialize SOCBs; and
- train management and staff in commercial banking and in central bank supervision.

2.54. **Improving Legal, Regulatory and Supervisory Framework.** Prudential regulations accompanied by effective supervision of compliance with those regulations are necessary to ensure that prudent banking will be conducted in the future. In particular, improving loan-classification and loan loss provisioning to meet international standards in terms of transparency

¹² For example, in China, Indonesia and the Philippines deposit/GDP ratios are 60, 50 and 43 percent respectively while credit/GDP ratios are 106, 58 and 85 percent respectively.

and accuracy of financial statements and strengthening of SBV supervision will be key to ensuring that all banks operate prudentially. Accounting standards that reflect the true financial conditions of banks is a prerequisite for effective supervision. Supervision should be risk-based and include on-site inspections as well as off-site surveillance through accounting and auditing. To ensure this Vietnamese accounting standards need to conform with international accounting standards (IAS) so as to ensure true and accurate information on the financial conditions of banks. Specifically, banks' loan classifications and loan/loss provisioning should reflect the credit risk of loans. Existing accounting rules do not do that. Further improvements in the legal framework are also planned, to facilitate resolution of troubled loans and the sale of foreclosed collateral assets.

2.55. Leveling the Playing-field for all Banks. Government's reform program wants to increase competition among banks, but it plans to do so in a gradual and managed way. Restrictions on mobilization of dong-deposits for foreign banks are expected to be gradually reduced. The process of gradual leveling of the playing field is likely to be slow because of ongoing SOCB restructuring, which makes it difficult for them to compete effectively during the next three years. This gradual leveling of the policy-environment will be important in generating competition for all banks, especially from joint-venture banks and wholly-owned foreign banks. Under the new Foreign Investment Law, all banks in Vietnam are permitted to accept mortgages of land use rights as security for loans to foreign invested enterprises.

2.56. Restructure JSBs. The Government plans to consolidate the 48 JSBs (52 in 1998) into a smaller number through closures, mergers and rehabilitation. Depositors are likely to be fully protected in the closures but shareholders are being asked to provide the additional capital for rehabilitating banks so that they are in compliance with the regulations in the next two years. The number of JSBs is expected to be reduced to around 20-25 larger and healthier JSBs.

2.57. Restructuring SOCBs. Success of the SOCB restructuring plan – which is critical to achieving the vision -- will require not only the resolution of the existing stock of NPLs, but also the adoption of reforms within each SOCB, to ensure that they operate commercially and that future NPLs are minimized. Thus reform and operational restructuring of each of the four SOCBs, to ensure that behavior of bank management shifts towards commercial-banking with no special preference for SOEs, will be key. The Government and SBV are in the process of preparing the detailed restructuring plan for each SOCB to achieve that objective and this is expected in 2000.

2.58. In order to be successful these measures will require extensive and targeted training of both SBV and commercial bank staff as well as changes in governance principles and management incentives in banks. The challenge will be to turn banks into commercially oriented entities by creating a market-oriented credit culture in management and build human capital and capacity to carry out the different reforms and implement new procedures.

V. ENSURING FISCAL STABILITY

2.59. There are already considerable pressures on the fiscal balance. Revenue as a share of GDP has declined by 4 percentage points of GDP since 1996. The revenue to GDP ratio in Vietnam is lower than the average for low income countries, so there is room for increases. The introduction of the VAT has yet failed to raise revenue as was expected. At the same time there

are new pressures on public spending. Government service wages are exceptionally low, but recent increases in wages without reducing employment has raised the wage-bill and is crowding out other spending. The fiscal costs of reform (see Box 2.2) will also add to existing spending over the medium term.

Box 2.2 Fiscal Costs of SOE and Banking Reform are Manageable

Tentative estimates of the costs of structural reform are projected to total 12-13% of GDP. These costs comprise:

- The capital costs of SOE debt resolution and bank re-capitalization totaling 8% of GDP over four years. Debt resolution alone is expected to cost about 5.5% of GDP, and the asset management company (AMC) together with the residual bank re-capitalization about 2.5% of GDP;
- The additional interest costs of newly issued government debt for bank re-capitalization totaling 2.5% of GDP over the next four years, starting at 0.2% of GDP in 2000 and rising to 1% of GDP in 2003; and
- The costs of severance pay to redundant workers totaling 2% of GDP.
- In 2000, the capital costs of SOE and banking sector reform would be about 2.5 –3% of GDP, mainly related to setting up the AMC and clearing frozen SOE loans. Total current costs (including the safety net) would amount to 0.7% of GDP.

If the reform program described in this Chapter is implemented over the next 3-5 years, and with the curtailment of new SOE losses, the public sector debt dynamics would remain manageable. Currently, the level of public sector debt of Vietnam is about 65% of GDP (Fund-Bank estimate), including bank debt of SOEs. The Government's domestic debt is very small (3% of GDP), and its external debt is all on concessional terms. Reforming the SOE sector would result in the Government taking on some SOE debt, which by itself would not increase the level of debt of the public sector as a whole. Public sector debt would peak at 73% by 2002, and begin to stabilize thereafter.

2.60. This means that there is a need to ensure improved revenue collections and more efficient management of expenditures. New revenue measures, including improvements in the VAT, as well as better tax administration and collection will be called for. On the expenditure side, there will have to be better prioritization of spending and enhanced pro-poor bias of spending.

V.1 Fiscal Reform in the 1990s

2.61. Important fiscal reforms have been implemented over the last ten years. In the first five years (1991-1995) Vietnam set up a centralized treasury system and implemented the first phase of tax reform. The Treasury gradually extended its network to all provinces and all districts, providing a strong basis for effective budget execution. The principle of only non-bank financing of budget deficit was adopted in 1993 and the fiscal deficit was brought down to a sustainable level in 1994. Vietnam's tax base was diversified during this period. Four new taxes-- turnover, profit, import-export and special consumption-- were introduced and for the first time, the non-state sector and state sector were legally subject to the same tax rates. On the expenditure side, after 1994 there were no explicit subsidies from the budget for SOEs, making it possible to spend on other priority areas.

2.62. Most of the significant fiscal reforms took place after 1997. The new Budget Law was approved in 1997 and the VAT implemented in 1999. The new Budget Law provides a legal

framework for budget formulation, approval, execution and monitoring, defining clearly revenue and expenditure assignments to different tiers of government. In addition, the new budget classification introduced with the Budget Law has enabled reporting of public accounts in a uniform way for all agencies/localities, facilitating monitoring of budget execution and accounting. The introduction of VAT reduced the number of rates and helped to eliminate the cascading effects on producers inherent in the former turnover tax.

V.2 Fiscal Agenda for the Next Decade

2.63. The policy agenda is dictated by the current fiscal situation. This year's fiscal stance is aimed at stimulating demand and supporting economic recovery. The overall deficit is expected to widen to around 3.0 percent of GDP, mostly financed from domestic non-bank and external sources. However, higher oil prices and the economic recovery are expected to yield additional revenue, effectively halting the 4 percentage points decline in revenue's share of GDP over the last four years. Government expenditure is projected to increase by about 2.5 percentage points of GDP. This constitutes a reversal on previous years that have seen expenditures decline with revenue in order to ensure near budget balance.

2.64. **Improving Revenue.** Strong efforts will be needed on the revenue front, to increase the ratio of non-oil revenue collections to GDP over the medium term. Otherwise medium term fiscal stability may be threatened. To secure sustainability of the budget, the Government plans to raise revenue collections by broadening the tax base, removing discretionary tax breaks, unifying VAT rates, and further strengthening tax administration. In relation to future revenue sources the impact of trade reform must be taken into account. While the initial impact of proposed tariffication of non-tariff barriers may be positive, future lowering of tariff rates and the overall impact on economic activity and its effect on the tax structure will have to be assessed.

VI. CONCLUSION

2.65. If the ambivalence in the draft Strategy is not resolved and as a result Vietnam opts for a slower implementation of the reform program, the key goals of the Strategy will not be met. This may mean that the AFTA and USBTA are likely to be implemented in a halting and protracted manner. Also, many of the SOEs and General Corporations operating in less competitive sectors may not be required to restructure and become competitive quickly if banks continue to lend for non-commercial reasons. And the top leaders may not send a sufficiently strong signal to all, that private SMEs should be helped as much as possible under the law. A slow reform strategy may also make it more difficult to sustain the reforms. For example, under the current pace of reform, public revenue as a share of GDP is likely to stay depressed, and possibly fall further, making it difficult for the Government to finance the costs of banking and SOE reform on its own, which will slow reform even more.

2.66. **Growth Under Slower Reform.** There is thus a serious risk that continuing a slow reform program, that is not time-bound, will lead to a more permanent lower growth path. This is because in the absence of clear and firm direction in reform of banks and SOEs, trade and private investment, Vietnam cannot benefit fully from either the strong regional recovery or the higher world growth that is forecast for the decade. Efficiency of the state-enterprise sector will not improve. Banks will remain at risk for a longer period and will fail to mobilize and allocate

savings needed to raise investment. Existing and potential exporters of manufactures and processed agriculture may not make the investments in additional capacity that is needed to meet rising regional demand and to sustain the high average annual export growth rate, even though the US market is waiting to be tapped. Potential foreign investors will not get the signal they need to come to Vietnam in preference to other countries in the region. Industry and services – state-owned, foreign-invested, and private small and medium enterprises – will stagnate. With high labor force growth, rising unemployment and under-employment will be unavoidable and the pace of poverty reduction will slow down.

CHAPTER 3 TRANSFORMING THE RURAL ECONOMY

Key Messages

Government's strategies place the agriculture and rural sector soundly at the core of their development plans. Prioritizing agriculture and rural development is crucial to poverty reduction. Agricultural incomes rose by 60 percent between 1993 and 1998, but still 85 percent of the poor are in rural areas and 79 percent of the poor work in agriculture. Accounting for one quarter of GDP and one third of export revenues, a vibrant agriculture sector can also be a driving force for economic growth over the coming decade. Four pressing imperatives can be derived from Government strategic targets in this sector.

(a) Intensifying agricultural production to increase output by 4.5 percent per annum

Only 4 percent of the recent growth in agricultural GDP can be explained by the application of new technology. To achieve the targeted growth in agricultural output will require greater investment in research and extension, which is currently low by international standards. 6 percent of public spending on agriculture in China is spent on research but less than 2 percent is spent on research in Vietnam. Measures which make agricultural input and output markets more competitive and efficient could also bring considerable benefits to farmers.

(b) Diversifying agricultural production to raise agricultural incomes and reduce vulnerability

Rice is currently grown on 60% of all agricultural land in Vietnam. Diversification out of rice and into higher value commodities is central to raising agricultural productivity and incomes and will involve allowing farmers to make production decisions which maximize income. A lack of technical and market information in rural areas is restricting the potential of both farmers and entrepreneurs.

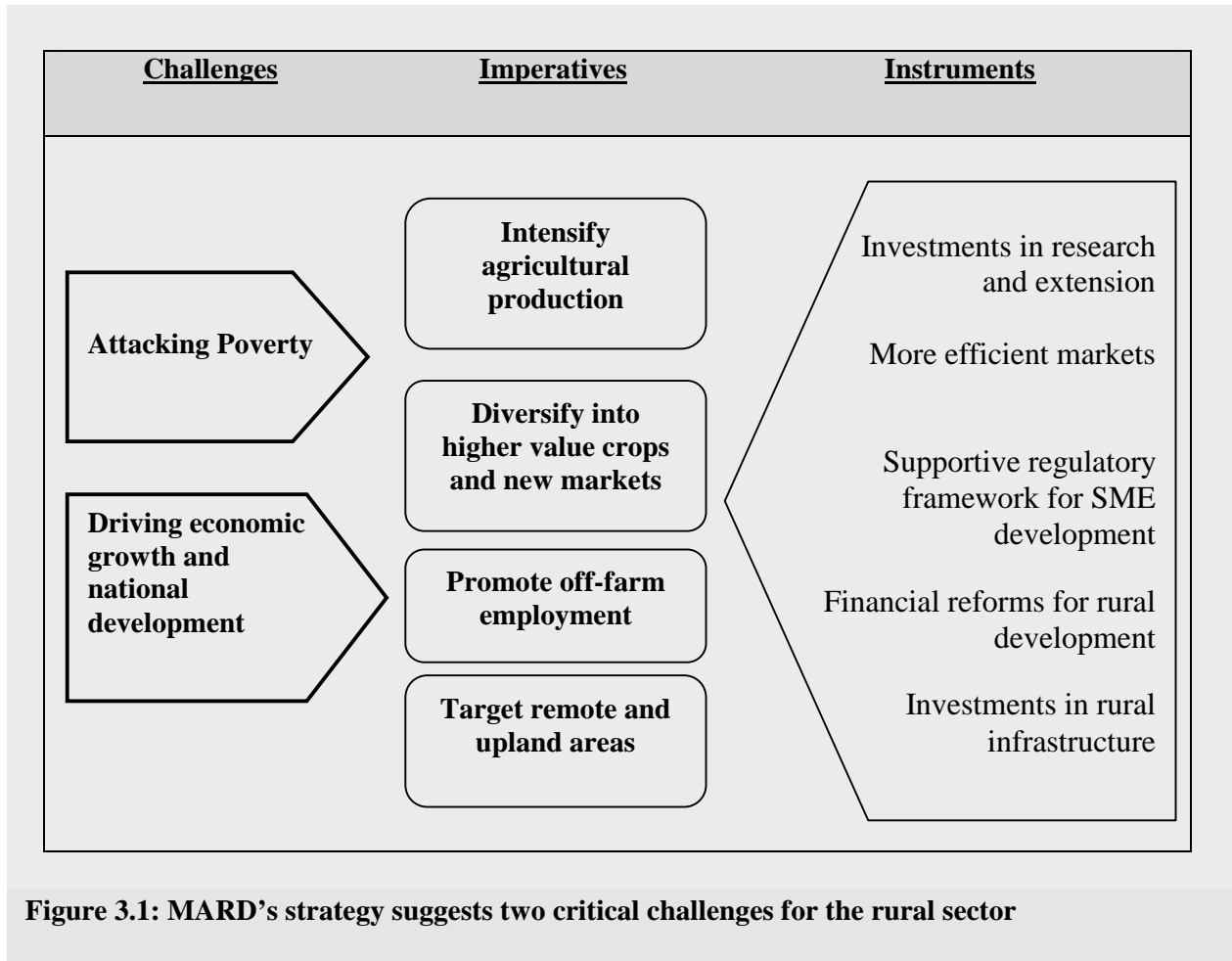
(c) Creating opportunities for off-farm employment in rural and urban areas to absorb labor moving out of agriculture

International experience shows that agricultural productivity only rises significantly when labor is drawn out of agriculture by employment creation in other sectors. Estimates suggest that 6 million people will have to shift their employment into industrial or service sectors by 2010 in order to double value-added in agriculture to US\$620 per worker. There is a very real need for a supportive environment for enterprise development which encourages the growth of labor-intensive industry in rural areas. The Enterprise Law takes this sector forward, but constraints to implementation remain at the local level. Financial sector reforms and investment in rural infrastructure are measures which will strongly support the development of a dynamic rural sector, both on and off the farm.

(d) Ensuring that all regions and ethnic groups participate in and gain from the growth in the rural sector

Ethnic minorities suffer multiple disadvantages which make their poverty particularly intractable. There is a pressing need for intensive research into agricultural options for upland farming systems, reinforced by extension services which are responsive to traditional knowledge. Ensuring that poor areas get a fair share of agricultural expenditure is important in pursuing equity goals.

3.1. The Government of Vietnam has put the rural sector at the heart of the development strategy for the coming decade. This recognizes that a vibrant rural sector is not only fundamental to achieving poverty reduction targets, but that it can also be a powerful engine for economic growth and national development. The strategy that the Government will present to the ninth Party Congress in mid-2001 outlines a vision for the rural sector in 2010 which is based on a sustainable, highly efficient, diversified and internationally competitive agricultural sector. This is complemented by rapid growth in the off-farm sector, which will create opportunities for employment and help rural households to diversify and raise incomes. This chapter discusses the rural challenge for the coming decade and identifies some of the important strategic issues which it poses (Figure 3.1).



I. THE RURAL CHALLENGE

I.1 Attacking Poverty

3.2. What does it mean to be a farmer in Vietnam in 2000? For many, it means trying to meet essential needs out of tiny, fragmented plots of agricultural land – on average less than 0.2 hectare per capita. It also means having surplus labor, working on average 21 hours per week on farming, but lacking other resources to combine with the labor to increase output. In many

instances, it means limited access to technical advice, high quality inputs such as seed, credit and markets – which in turn constrains the potential of farmers to increase production and diversify crops.

3.3. It is not surprising, then, that there is a powerful link between the agriculture sector and poverty. People living in households with heads whose primary occupation is in agriculture comprise four fifths of the poor. Even after making an allowance for underreporting of urban poverty, it is likely that in 1998 at least 8 percent of poor people lived in rural areas. In the period between 1993 and 1998, per capita expenditures in rural areas rose by nearly one third. Per capita expenditures in urban areas rose at twice this rate, however (Figure 3.2). This has led to the ratio of urban to rural expenditures increasing from 1.8 to 2.2.

Per capita expenditures in urban areas rose twice as fast as expenditure in rural areas 1993 –1998

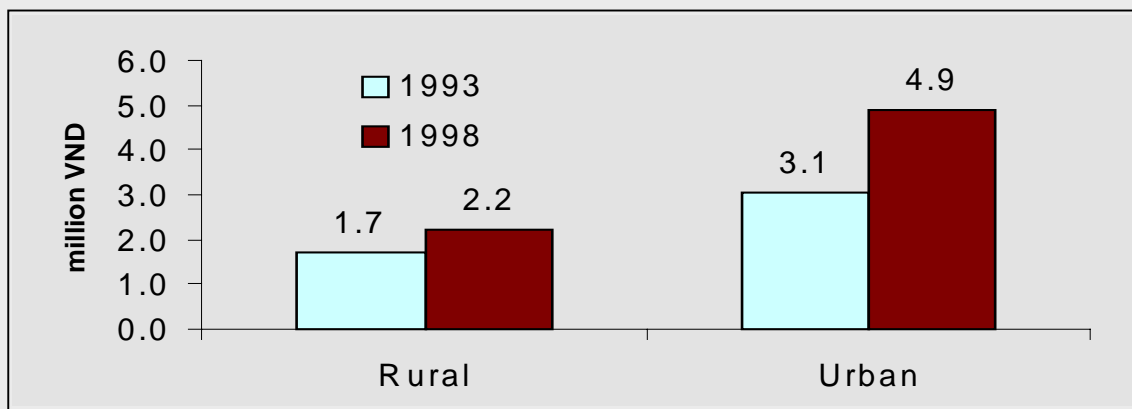


Figure 3.2: Growth in real per capita expenditure by rural-urban 1993-1998.

Source: Vietnam: Attacking Poverty, 1999.

3.4. Growth projections in the Overview to this report show that the incidence of poverty will decline less rapidly if rural expenditures grow more slowly than urban expenditures. The strong emphasis that Government places on poverty reduction in its strategies and planning documents requires rapid, inclusive growth in the agricultural sector and in rural areas. It also requires the creation of jobs in the manufacturing and services sector, which draw people out of agriculture and raises the productivity of those still engaged in agriculture. Without these elements in a growth strategy, poverty reduction targets cannot be met.

I.2 Driving Economic Growth and National Development

3.5. International experience demonstrates the importance of a vibrant agricultural sector to economic growth. Output from the agriculture sector accounts for nearly one quarter of GDP (Figure 3.3) and 66 percent of total employment. Although these shares will decline over coming years as they have done slowly over the past decade, agriculture will remain at the core of the Vietnamese economy for the next decade. The agriculture sector also generates much of Vietnam's foreign exchange earnings: nearly 30 percent of export revenues are from agriculture (including aquaculture). Even if this share declines as the Vietnamese economy

restructures over the coming decade, agriculture exports will still play an important role in generating the foreign exchange needed for national development.

The agricultural sector produces one quarter of Vietnam's output

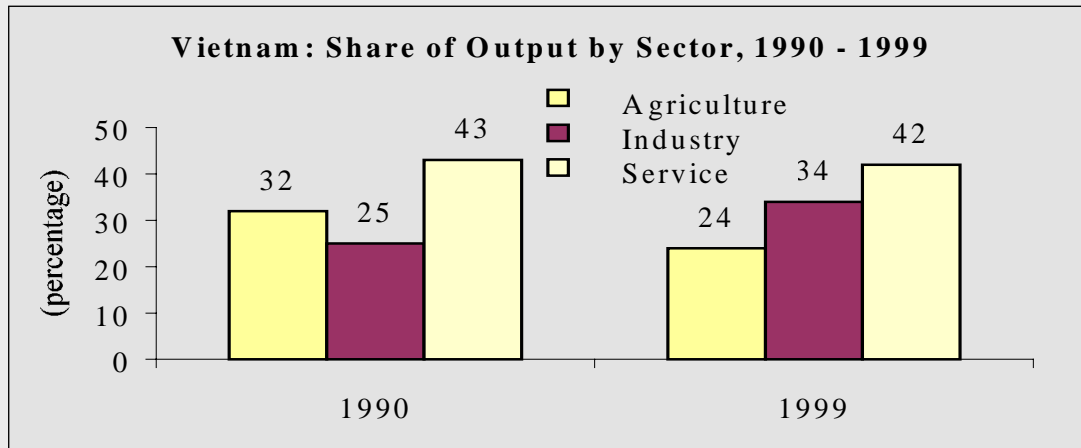


Figure 3.3: Share of GDP by sector, 1990 - 1999

Source: GSO, Socio-Economic Statistics 1975- 2000.

3.6. Investment and policy reforms in the agricultural sector which pay off in terms of increased agricultural productivity, gains in output, rising prosperity for the rural population and increased export revenues, will provide the basis and momentum for strong economic growth. Agriculture and rural development play a vital role in the Government's vision for the coming decade. But so too does a growth strategy based upon concentrating scarce resources in designated growth poles (see Overview). This chapter demonstrates the need for a balanced growth strategy that is driven by the rural sector.

II. LOOKING FORWARD: IMPERATIVES FOR 2001-2010

3.7. The Ministry of Agriculture and Rural Development (MARD) has drafted a strategy for the period 2001-2010 for presentation to the 9th Party Congress (MARD, 2000a and MARD, 2000b). The vision presented is one of a sustainable, highly efficient, diversified and internationally competitive agricultural sector, which builds on comparative advantages and makes use of new and high technologies. The strategy notes the need for a "vigorous push" to diversify agricultural production, based on the comparative advantages of different regions. There is recognition of the roles that the State, cooperative, household and private sector will play in the strategy. A key role is assigned for scientific research and the application of new technology. There is commitment to public investment in rural infrastructure, to policy reform and to human resource development and institutional strengthening.

3.8. The strategy acknowledges the need to develop a rural sector in which off-farm employment and rural industrialization play an increasingly important role. Targets set out in the strategy suggest that rural industry and services will be a driving force in the rural economy, growing at 10-12 percent per annum and increasing their share of rural GDP from 30 percent to

45-50 percent. The slower-growing (at 4.5 percent) agricultural component of GDP is forecast to reduce its share correspondingly. These figures add up to a rural GDP that is growing between 6.5 percent and 8.0 percent per annum by 2010.

3.9. Some of the key targets identified in the draft strategy are summarized in Table 3.1

Table 3.1: MARD has set ambitious targets for the coming decade

	Planned targets for 2001-2010	Current performance
Annual rate of growth of agriculture production	4 – 4.5%	4.3%
Annual rate of growth of rural industry and services	10 – 12%	9% (<i>est</i>)
Average product value of agricultural land	US\$2000 per hectare	US\$1000 per hectare
Average product value per agricultural laborer	US\$1500 per laborer	US\$310 per laborer
Share of industry, trade and services in the rural economy	45-50%	30%
Infrastructure	Road to (nearly) all commune centers, schools, health stations and electricity	97% rural population have access to health center
		77% population use electricity
Access to clean water	80% of households	29% of rural households
		75% of urban households

Source: Compiled from MARD (2000a and 2000c), ADB (2000), Vietnam: Attacking Poverty (1999).

3.10. Many of the factors which will guide outcomes lie outside the institutional territory of MARD and require sound decisions to be made by other Ministries. The strategy to develop the fisheries sector – an important part of the coastal rural economy, a key foreign exchange earner and a dynamic sector in terms of developing post-production processing – is formulated by the Ministry of Fisheries, but is not properly considered in this chapter. There are also particularly strong links with the financial sector and trade reforms presented in Chapter 2. Policies and investments to develop human capital (discussed in Chapter 4) will also have an important influence. The need for strong links and consistency between urban and rural strategies is also pressing.

3.11. Out of the Government strategy fall four important strategic imperatives:

- Intensifying agricultural production to increase output;
- Diversifying agricultural production to raise agricultural incomes and to reduce the vulnerability that comes from depending on a single crop;
- Creating opportunities for off-farm employment in rural and urban areas to absorb labor which moves out of agriculture; and,

- Ensuring that all regions and ethnic groups participate in and gain from the growth in the rural sector.

II.1 Intensifying Agricultural Production

3.12. Agricultural GDP has grown by 4.9 percent over the last decade – a direct result of reforms, which returned responsibility for agricultural production to autonomous farming households. This has led to a rapid rise in farm incomes, which grew by over 60 percent between 1993 and 1998, and which, in turn, has fuelled reductions in poverty. These increases in agricultural output over the last decade have resulted from increased inputs of labor and capital. Together these explain 87 percent of the increase in agricultural output between 1996-1998. Increases in the area cultivated account for a further 9 percent of the gains in output. Only 4 percent of the increase can be attributed to technological improvements (ADB, 2000a).

3.13. Benefits from this growth stretch beyond the realm of the farming household. The value of agricultural exports (including aquaculture) rose from US\$1.1 billion in 1990 to US\$4.3 billion in 1998. Although the share of agricultural exports in total exports has declined over the decade, agricultural and seafood exports still represent about 30 percent of exports in 1998.

3.14. Continued growth in **agricultural output of 4-4.5 percent** and doubling the **average product value of agricultural land to US\$2000 per hectare** are ambitious targets for the next decade. Few countries have sustained growth rates of 4-5 percent per annum for twenty years (Table 3.2). In Vietnam, this is unlikely to be achievable without strong efforts to raise productivity in the farming sector.

Few countries have achieved Vietnam's ambitious agricultural growth targets

	% Growth in Agriculture GDP 1980-90	% Growth in Agriculture GDP 1990-1999
China	5.4	4.9
India	3.1	3.8
Indonesia	3.4	2.6
Philippines	1.0	1.5
Thailand	3.9	2.6
Vietnam	4.3	4.9

Table 3.2: Annual rate of growth of agricultural GDP for selected countries (%)

Source: Compiled from various World Bank publications.

3.15. This involves intensifying production of existing crops which, in turn, demands the application of more capital and more technology to raise yields. The prospects for reclaiming further land for cultivation are limited, especially in the lowland areas. It is unlikely that increasing labor inputs would lead to striking increases in output unless they were combined with other factors of production. A key instrument in meeting this imperative and in improving yields will be increased public investments in research and extension. Examples from other countries demonstrate the value of research and extension activities (see Box 3.1).

Box 3.1: Agricultural research improves incomes, diets and investments in rural Guizhou

Anyone who doubts the impact of agricultural research on farm income and household food security (and thus poverty) should visit rural areas in Guizhou, the poorest province of China. In remote villages, on small farms set in the mountainous countryside, there has been an almost miraculous turnaround in the lives of poor people thanks to the introduction of quality protein maize.

Until recently annual incomes were less than US\$50 per capita and, for up to three months a year, families had virtually no food. Then hybrids were introduced in Guizhou in 1994. Quality protein maize is higher yielding than conventional varieties, but more important, it has higher levels of two essential amino acids vital for the growth of children. Today the local people are better fed, and surplus maize has been used to produce pork, increasing food security and disposable incomes. The extra income has been used for yield-enhancing investments such as irrigation.

Having transformed the lives of 25,000 families in Guizhou, cultivation of the hybrid variety of maize is being adapted to neighboring provinces.

Source: Bale 1999 in WDR 2000/2001 (World Bank, 2000b).

3.16. The Government strategy to 2010 emphasizes the need for scientific advances in the agriculture sector, but is weak on the means for passing this information on to farmers. Ultimately it is farmers who will be users of some of the products and techniques and efficient, responsive extension services can assist the adoption of this new technology. There is a need to invest more public resources in research and extension, which are likely to have a strong impact on productivity (PER, 2000a). Public spending on research is equivalent to 1.7 percent of public agricultural expenditures and is biased against training and marketing. In China, the equivalent figure is 6 percent and in Malaysia and Thailand it is around 10 percent. In Vietnam, expenditure on extension is about US\$3 per farming household. This funds 2,757 extension workers who serve a farming population of 10 million households. These expenditures are inadequate for an effective research and extension system that seeks to improve productivity. Currently, 32 research institutes with 109 different centers subsist on a meager budget of about US\$5.6 million. The result of this under-funding is few research results of practical value and an incentive for public research institutes to venture in search of revenues into areas properly left to private sector.

3.17. **Financing Enhanced Research and Extension.** How can this essential boost to research and extension services be financed? Fortunately, there is good scope to redirect funds even within the agriculture sector. In 1999, more than one quarter of all state-owned enterprises were in the agricultural sector. These enterprises receive indirect subsidies in the form of soft loans, debt forgiveness, tax exemptions and preferential access to land and infrastructure. These subsidies are substantial. For example, fertilizer-importing state-owned enterprises received an interest subsidy almost equal to the total MARD expenditure on agricultural extension in 1998. About 17 percent of these state-owned enterprises are making losses and there are indications that the large losses made by a few state-owned enterprises are more than offsetting the profits made by the profitable majority (PER, 2000a).

3.18. Making extension services truly effective in promoting the intensification and diversification of agriculture will require a reorientation towards responding to farmers' needs

rather than fulfilling production targets. Training in participatory techniques and communication skills is important.

3.19. More farmers are women than men and this has implications for the targeting of agricultural services and investments in rural areas. Although women often perform much of the agricultural work, they rarely own the land use rights. There is no provision in the Land Law or the Civil Code for including the names other than that of the household head – usually the man – on Land Use Certificates, although the new Marriage Law now requires that common property be registered jointly. There is evidence that this disadvantages women in case of divorce, separation and widowhood as well as constraining their access to formal credit – for which land is the main form of collateral. Other important considerations to promote gender equity in the agricultural sector include: involving more women in extension services and training (as extension workers and as trainees) and prioritizing interventions which make women's labor more productive. Women have heavier workloads than men, a situation which is aggravated if men migrate to find work away from the farming home.

3.20. Food crops, particularly rice, dominate agricultural output. Over 60 percent of agricultural land is planted with rice and, in 1999 rice represented 91 percent of total food production (MARD, 2000b). Rice plays a crucial role in household incomes: in 1998 44 percent of household agricultural revenue came from rice and a further 10 percent came from other food crops (Vietnam: Attacking Poverty, 1999). Rice is the mainstay of the diet, contributing 75 percent of calorific intake. Rice also represents the core of agricultural exports. MARD estimates that rice will represent 30 percent of agricultural exports (excluding aquaculture) in 2000 (VIR, 2000). Furthermore, this is not expected to drop much in the next five years. MARD forecasts suggest that rice exports will represent one quarter of agricultural exports in 2005. Although diversification into higher value crops is a key plank of Government's strategy, rice and other food crops will clearly still play an important role over the next decade. Intensifying production in rice and other foodcrops will be important in achieving productivity goals established in the strategy.

3.21. Trends in rice yields domestically and international comparisons suggest that there is still considerable scope for expanding yields. Over the 1990's rice yields have risen by 2.8 percent per annum for the country as a whole. However, they are stagnating in the Mekong Delta, the region that produces more than half the country's total rice output. Output increases in the Mekong Delta have been driven more by increasing the area under cultivation than through yield increases. With some 29 percent of annual crop land still not irrigated (GSO, 2000) and with many irrigation systems being poorly managed, there is still scope for Vietnam to increase the productivity of its paddy land (Vietnam: Attacking Poverty, 1999).

3.22. Interventions that raise productivity in rice and food crop production could be especially important to the poor. Rice farmers in the poorest 20 percent of the population produce four-fifths of the output from one hectare of land as does a household in the wealthiest 20 percent.

3.23. In addition to intensifying production, there could be considerable gains to farmers if input and output markets could be made more efficient. Freeing up rice export markets, as the Government has recently announced is its intention, will introduce more competition and will raise the farm-level price by allowing only the most efficient exporters to participate. Current

restrictions on seed imports (particularly hybrid seed) have an adverse impact on farm productivity and income by limiting the spread of new technology.

3.24. The export competitiveness of Vietnam's rice in terms of quality, reliability of delivery at contract specifications, cost of production, and financing terms has been reviewed in detail by IFPRI and others (IFPRI, 1996). Generally, it is found to be mixed. While some liberalization has been permitted, state restrictions on production, processing, and marketing lower export demand and farm incomes. Despite Vietnam being a low-wage economy, export margins per ton are meagre and exporters depend on high volumes to stay competitive. Increasing rice production without restructuring milling and marketing would not be expected to improve rural welfare.

II.2 Diversifying Agricultural Production

3.25. Diversification out of rice and into higher value commodities will also be central to achievement of MARD's strategic targets. Increasing the **value added per agricultural laborer** is partly a question of moving some of the laborers out of farming. It is partly about increasing yields from existing crops. It is also a question of allowing farmers to make production decisions that maximize income. In some places, this might mean that farmers could be growing crops other than rice, were it not for official interference.

3.26. Backed by a strong political urge to be self-sufficient in food production, rice continues to play a dominant role in the share of agricultural GDP and agricultural exports. Despite a policy that in principle allows farmers to produce the crops of their choice, in reality farmers keen to switch from paddy farming to other crops can face restrictions and resistance from local officials. This clearly constrains the potential for farming households to invest in crops that would generate higher returns. However, there are some positive indications of change and huge opportunities. Many farmers have been innovative in filling niche markets or producing minor crops for export (Box 3.2).

Box 3.2: Farmers are seizing opportunities in niche markets and minor export crops

- Farmers in Vinh Phuc provinces have discovered that mushroom growing is highly profitable. About one thousand families grew 165 tonnes of mushroom last year, mainly for the Hanoi market. The provincial authorities are now encouraging more families to participate, hoping to boost output by 5,000 tonnes, much of it for export, by 2005.
- Horticulturalists near Hanoi have tapped a lucrative market for lilies in China, and have been able to gross as much as US\$70 a day per farmer from this activity.
- In the first quarter of 2000, Vietnam exported 18,000 tonnes of pepper, up 156% from the previous year. The country is now the world's second largest exporter of pepper (after India) and some farmers are even cutting down coffee trees to plant pepper.
- Vietnam exported 16,200 tonnes of cashews in the first quarter of 2000, up 81% on the same period of 1999. This gave the country a 20% share of world exports, behind only India and Brazil.
- Dalat is again becoming the "salad bowl" of Asia, exporting about 3000 tonnes of iceberg lettuce in refrigerated containers in 1999. The good transport infrastructure, which allows the vegetables to go from being cut to reaching customers in Singapore within a week, has been important to this success.

Source: Economist Intelligence Unit, July 2000.

3.27. For the farmer, this means a spreading of risk across a number of income sources as well as increased incomes. Revenues from non-rice production are playing an increasingly significant role in the household economy. Increased revenues in rice production accounted for only one quarter of the total increase in farming household revenues during the 1993-98 period. Increases in revenues from livestock and aquaculture contributed 37 percent of the total increase in revenues over this period (Figure 3.4).

Non-rice sources of revenue are becoming increasingly important

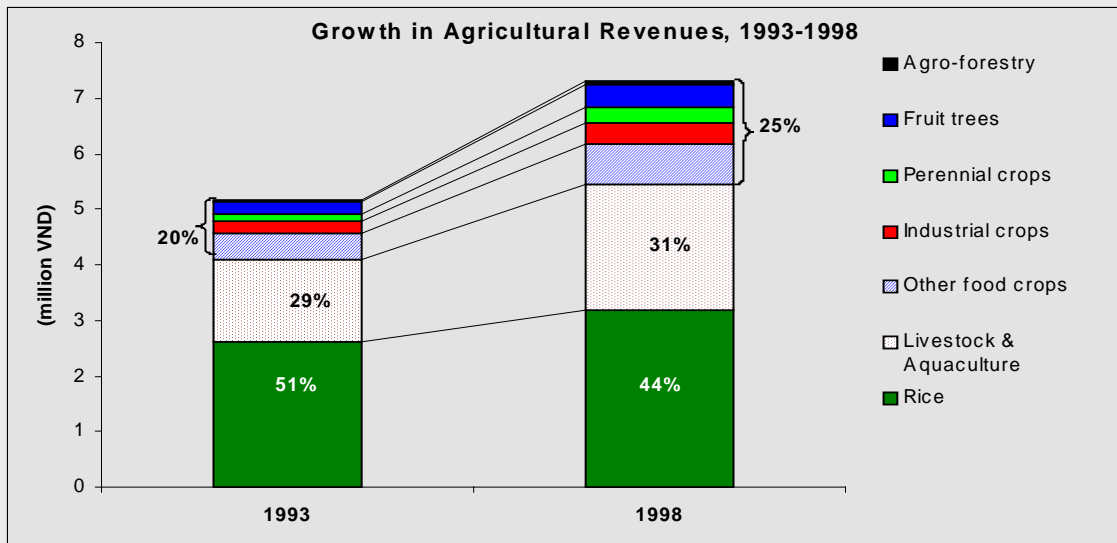


Figure 3.4: Growth in household agricultural revenues, 1993 - 1998

Source: VLSS 1993 and 1998.

3.28. The draft Government strategy emphasizes the need to increase production in a whole range of agricultural subsectors, some of which have already shown great promise. Although the strategy acknowledges the need to steer away from crops in which Vietnam has no comparative advantage, there is still an explicit commitment to support the troubled sugar industry. A key question will be: how to encourage diversification without introducing new distortions? Box 3.2 demonstrates good practice in this respect and provides a sharp contrast to the approach taken in the sugar sub-sector. The fear with the approach established in the strategy, which sets out production targets for a whole range of products, is that farmers may be encouraged to invest in growing particular crops either through incentives such as additional land or subsidized credit or through lack of alternatives and restrictions on land use. Recent experience with sugar cane production demonstrates the problems associated with pushing farmers to grow crops for which there is no sustainable, profitable market. A preferable approach would be one which:

- gives farmers as much information (technical and market) as possible in a comprehensible form;
- allows farmers access to credit at positive real interest rates;
- creates a supportive physical infrastructure;

- promotes the growth of agro-industry, particularly the private sector and facilitates access to international markets; and
- then allows farmers to make up their own minds about the most appropriate investment for their farms.

3.29. This echoes a presentation recently made by MARD which recognizes the importance of restructuring the agricultural and rural economy "not by administrative orders, but mainly by policies impacting on market mechanism with State management". (MARD, 2000b) This approach, in turn, implies a need for public action and investment in a number of areas:

- strong agricultural research and extension services;
- banking sector reform;
- public investment in appropriate physical infrastructure;
- state-owned enterprise reform, because of their dominance in agro-industry and their absorption of domestic credit sources; and,
- reforms which make markets more efficient and which allow farmers to keep more of the value they add.

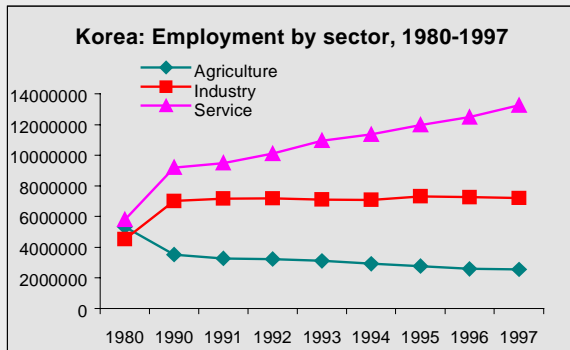
II.3 Creating Opportunities for Off-farm Employment

3.30. The SME sector – a dynamic force for labor intensive rural growth in other Asian countries – has been described as the “missing sector” in Vietnam’s development. In other countries, the SME sector has been valuable not only in creating employment, but also in bringing competition to the domestic market and in generating savings (Chapter 2).

3.31. Growth in **rural industry and services of 10-12 percent** will require a package of interventions that are discussed below. This target is fundamental to moving labor out of primary agricultural production raising the productivity of labor left within the farming sector. The MARD strategy aims to increase fivefold the **average product value per agricultural laborer to US\$1500 per laborer**. This is a very ambitious target, which implies real structural change within the rural sector.

3.32. Experience from other countries suggests that value added per agricultural worker tends not to rise until employment in agriculture falls. In Korea, for example, employment in agriculture dropped dramatically between 1980 and 1990 and was absorbed by the industry and service sectors in both rural and urban areas. This was mirrored by a leap in the value added per agricultural laborer (Figure 3.5).

As employment in agriculture drops ...



... value added per worker increases

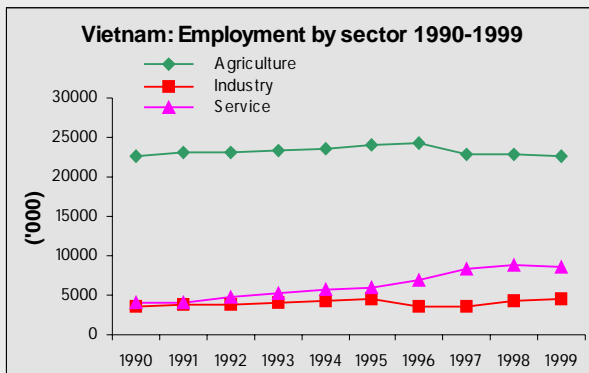


Figure 3.5: Korea: Employment and value added per worker by sector 1980 - 1997

Source: World Development Indicators (World Bank, 2000c).

3.33. In Vietnam, however, employment in agriculture has stayed constant over the last decade and this is reflected by almost no improvement in the value added per agricultural laborer (Figure 3.6). Moving workers out of agriculture into the industrial and service sectors in rural and urban areas will be an important part of raising labor productivity in agriculture.

With stable employment in agriculture



... value added per worker hardly changes

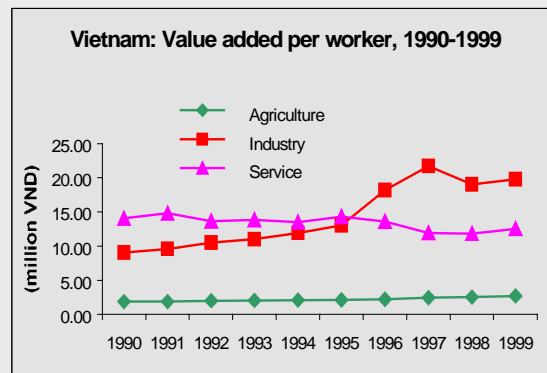


Figure 3.6: Vietnam: Employment and value added per worker by sector 1990 - 1999

Source: MOLISA and GSO statistics.

3.34. Shrinking landholdings in some parts of the country and the emergence of rural landlessness in other parts emphasize the need to create more opportunities for rural households to diversify income sources off the farm. Participatory Poverty Assessments conducted last year in four parts of Vietnam reflected farmers' concerns about small landholdings and the prospect of still smaller landholdings for their children (Vietnam: Voices of the Poor, World Bank, 1999b). Proposals included in the Hunger Eradication and Poverty Reduction (HEPR) Program for 2001-2005 to find land for households who have already lost land will not address the underlying problem: *one square kilometer of arable land in Vietnam supports more people than*

almost anywhere in the world. Only six countries have greater population pressure on arable land than Vietnam.

3.35. The Chinese experience shows how diversifying income sources to include off-farm employment in rural and urban areas can help to stabilize household incomes and minimize risks associated with farm employment. Figures from rural China show that rising welfare is associated with having at least one household member engaged primarily in off-farm employment and demonstrate that off-farm income is the main factor driving rising living standards in China. In the areas of rural China included in the survey, even households in the poorest decile had a chance of having at least one off-farm income-earner, suggesting that the benefits of off-farm employment had reached to low income groups (World Bank, 1997b).

3.36. In Vietnam, agro-processing accounts for two thirds of all rural industry enterprises (ADB, 2000a). Recent agriculture sector reviews note the important role which agro-processing and related industrial services could play in adding value to agricultural output and in expanding, upgrading and diversifying demand for that output (World Bank, 1998 and ADB, 2000a). It can be a dynamic sector, making a strong contribution to industrial and export development. This is a small, but rapidly-growing sector, which receives some attention in the MARD strategy. During the 1990s, food-processing has driven growth in the agro-processing sector. Value added in food processing is estimated to have grown by a yearly average of 14 percent during 1991-1997.

3.37. Actions which are identified in the Government strategy as priorities refer to investments to increase production and processing capacities for various products - presumably in state-owned enterprises. There is little attention paid in the strategy to overcoming current marketing weaknesses or in strengthening the linkages between suppliers and processors. These have been identified as key constraints to further development and growth by recent surveys and studies. The very limited access to information about markets severely restricts the potential of these enterprises to take advantage of growing opportunities (Box 3.3).

Box 3.3: Small scale enterprises have problems finding information about markets

Minh Duong Tea Processing Enterprise lies on a provincial road quite near the banks of the Yellow River only a few kilometers outside Yen Bai City. It is a small family-owned firm established in 1996. It has grown since its start-up and now employs about 20 people. It produces medium-grade black tea based on purchases of leaf from local tea gardens and estates. It uses small-scale but mechanized Chinese processing equipment, supplemented by manual techniques at some stages.

It is an active firm, and large trucks are frequently in and out of its yard, delivering leaf and shipping out processed black tea. The customers are Vietnamese tea-traders, who buy the lower grades for domestic markets, and the medium grades for the export market in China. The firm's owner, though, has very little direct knowledge of tea markets and conditions overseas. He regrets this. For example, he would like to know more about the prices, markets, and technology of Sri Lanka teas. But he does not know how to go about getting such information, despite having access to some trade journals and being a member of the Yen Bai Tea Processors' Association.

Source: Vietnam: Agricultural Sector Program (ADB, 2000a).

3.38. **Ensuring an Enabling Environment at the Local Level.** Many of the steps required to promote private sector development in general are covered in Chapter 2. Provincial and district authorities will be key in ensuring that the reforms undertaken at the national level translate into an enabling environment for enterprise development in rural areas. Information and resources often take time to filter down to the local level and this could mean that reforms for enterprise development happen more quickly in some areas than in others.

3.39. If local authorities remain hostile to private enterprises and to SMEs in particular, perhaps objecting to the competition they will pose to local state-owned enterprises, then progress in developing this sector will be slow. The importance of local authorities in creating a conducive environment for private enterprise development is illustrated by initiatives undertaken by some dynamic localities, which has resulted in an active private sector. One step would be to encourage rural local authorities to see the emerging private sector as a force for local development and require them to demonstrate that they have incorporated measures for promoting its development in their plans as strategies.

3.40. **The Poorer and Upland Areas may Require Special Support.** The new Enterprise Law had by May 2000 already resulted in the registration of more than 5000 new enterprises (compared to 600 in the entire period 1995-1998). 18 percent of these were in the agriculture or forestry sector. By August a further 3000 new enterprises had been registered but a breakdown by sector is not yet available. A provincial breakdown is available, though, and this shows great regional variations in enterprise registrations. More than half the new enterprises registered are in either Hanoi or Ho Chi Minh City. Thirteen out of the 61 provinces have registered fewer than 20 new enterprises. Of these, nine are in the northern uplands region and a further one is in the north central coastal region. Both these regions have high rates of poverty.

3.41. A recent survey of SME enterprises showed that the management and ownership of these enterprises are male dominated. It is possible that women face more constraints than men in raising capital because they are less likely to be named as the owner of assets used for collateral (such as land and housing). This needs to be addressed. Concerted efforts to raise educational attainment and vocational school attendance by girls in rural areas could promote management skills for women.

3.42. **Enterprise Reforms will Make Agro-processing more Competitive.** Restructuring of SOEs is discussed in detail in Chapter 2. In the rural sector, the dominance of SOEs in agro-food processing is crowding out the development of private SMEs by absorbing most of the credit available. In 1998, only 15 percent of outstanding medium and long term loans made by Vietnam Bank for Agriculture and Rural Development (VBARD) to the corporate sector was held by non-SOEs (ADB, 2000a). Measures described in Chapter 2 which would allow a more competitive, market-oriented banking system in the rural economy are needed.

II.4 Target Remote and Upland Areas

3.43. Special attention is needed for the poorest areas. Rural poverty is widespread but is much more severe in some regions than in others. High rates of poverty persist in upland, ethnic minority areas. 12 out of the 13 poorest provinces (with the poor comprising more than 60 percent of the population) are in upland areas (see the map in the Overview) and in these 12 provinces, ethnic minorities represent at least half of the population. This compares with an

ethnic minority share in the overall population of 15 percent. Although ethnic minorities have enjoyed rising expenditures and improved socioeconomic indicators, improvements in their living standards lag well behind those for the majority population. Ethnic minority areas have benefited from targeted programs, but their effectiveness has clearly not been sufficient to address their persistent poverty.

3.44. Ethnic minorities suffer from multiple disadvantages, which interlock to make their poverty particularly intractable (Vietnam: Attacking Poverty, 1999). An ethnic minority farmer is poorer, less educated and has less access to extension, health and credit services than a Kinh farmer. An ethnic minority farmer faces particular constraints in accessing information and acquiring knowledge and skills. Ethnic minority participation in policy making and planning, even at the local level, is inadequate. Not all of these problems can be addressed from within the agriculture sector and a much more coordinated approach to alleviating ethnic minority poverty is needed.

3.45. The current focus on "sedentarising" ethnic minority groups could usefully be replaced by much more intensive research into agricultural options for upland farming systems. This would need to be reinforced by extension services which are responsive to traditional knowledge and farmers' needs and which can disseminate information to non-Vietnamese speakers. Land titling measures that are more in line with ethnic community traditions, practices and systems of land use are also needed.

3.46. Ensuring that poor areas get a fair share of agricultural expenditure is also important. Currently, public expenditure in agriculture does not actively promote equity goals (PER, 2000a). While agricultural expenditures in Quang Binh were about US\$2.5 per farmer, they were more than five times this level in Ho Chi Minh City. This situation arises because richer provinces have more fiscal flexibility to supplement transfers from central Government. There could be scope to address this imbalance within the framework of increased public resources for research and extension.

III. OTHER INSTRUMENTS FOR RURAL DEVELOPMENT

3.47. Policy reforms and public investments in rural finance and rural infrastructure will reinforce other instruments - investments in research and extension; more efficient agricultural input and output markets; and a more supportive regulatory framework for SME development - which seek to create opportunities in rural areas. Overall financial sector reforms and infrastructure issues are discussed in Chapters 2 and 5, but there are some issues of particular significance to rural sector development, which are discussed below.

III.1 Financial Reforms for Rural Development

3.48. **Deregulation of interest rates and a reduction in directed lending are priorities.** Both farm households and rural industries are credit starved. Farmers need credit to buy high-quality seeds and to invest in new techniques, new activities and new crops. Recent household survey data suggest that two thirds of loans borrowed are used for production or basic construction (GSO, 2000). Entrepreneurs in rural areas need credit to establish small businesses and expand existing businesses. In 1997, only 33 percent of rural households had loans from formal financial institutions, including the Vietnam Bank for the Poor (VBP). Participatory research indicates that

women are less likely to access formal sector credit than men. Very few Vietnamese private-sector agro-processing enterprises have access to loans of any significant size from formal financial institutions (ADB, 2000a).

3.49. Expanding the outreach of financial institutions so that more rural households and more rural enterprises can access credit will require deregulation of the interest rates and a reduction in directed lending. The recent elimination of the interest rate ceiling moves the sector in the right direction. There is a growing body of evidence from microfinance schemes working within Vietnam that rural households, even poor rural households, are able and eager to take loans at unsubsidized rates of interest and repay them. Microfinance activities can be extremely important to households with limited access to formal sector financial services, including the poor and women.

III.2 Investments in Rural Infrastructure

3.50. **Public investment in infrastructure will be important in creating opportunities.** Government's 10-year strategy recognizes the importance of basic rural infrastructure as a prerequisite for rural development. The particular importance of rural transportation, electrification, irrigation and rural service centers and markets - beyond the four growth poles - are noted. The World Bank's 1998 report **Advancing Rural Development** showed how rural infrastructure is underdeveloped and in poor condition due to decades of war, natural disasters, fiscal constraints and lack of a maintenance culture. The Government's Program 135, decreed in 1998, begins to address the gaps and weaknesses in public infrastructure in many of Vietnam's poorest rural communities. This Program has several objectives, but provision of essential public infrastructure to underprivileged communes is its initial priority. Implementing Program 135 in a way that is consistent with the Government's Decree on Grassroots Democracy, where communes are empowered to plan and take ownership of small-scale projects, is well aimed.

3.51. A review of donor assisted projects indicated rates of return to rural infrastructure projects often in the 20-35 percent range, evidence of a critical bottleneck (see Chapter 5 for a fuller discussion of infrastructure issues). Based on that review, key areas for policy change and investment over the coming decade are:

- improve **basic access** for rural people to services, markets and facilities is essential based on continuing investment in rural roads, road maintenance, waterways and transport systems;
- broaden the focus of investment in **irrigation** on agricultural diversification and make **irrigation management** companies autonomous and financially self supporting;
- extend **electrification** below the district level to communes and villages, reduce distribution losses and raise reliability;
- raise the level of access to **safe drinking water** from the current low level of 32 percent and reduce the high level of infant mortality due to inadequate hygiene and to reduce the workload of women;
- address **natural disaster prevention and mitigation** to reduce loss of life and economic losses estimated at more than US\$50 million annually;

- close progressively the gaps in essential public infrastructure in communes and villages in **remote rural areas** by empowering communities through capacity building and further decentralizing responsibility for its provision and maintenance; and,
- avoid infrastructure investments in response to centrally-planned cash crop production initiatives that are **not market-determined** and where Vietnam has no comparative economic advantage.

CHAPTER 4 ENHANCING HUMAN CAPACITY

Key Messages

Over the past decade, Vietnam has made considerable progress in human development, which is reflected in increasing incomes and the impressive reduction in poverty. The goal of the Ten Year Socio-Economic Development Strategy is to build on this achievement and to reach higher and more equitable levels of human development by 2010. Social services need to be expanded and improved further to achieve this goal. A sense of urgency, political commitment, and a stronger coordination of the means and objectives of the different sectoral strategies are essential. In particular, there are five cross-cutting challenges with relation to the design and provision of social services:

(a) Improving the quality of social services

More important than a rise in the number of service providers are measures to increase the quality and motivation of service suppliers, particularly at commune and district levels. Client-oriented services are key: public health services should be more responsive to the needs of patients, and education should promote creative thinking to meet the demands of a modern economy. The need to develop a comprehensive and modernized curriculum to prepare young generations of Vietnamese for the challenges of the 21st Century must also be addressed.

(b) Ensuring equitable access by all groups of the population

Equitable access to social services and safety nets is crucial. Accessibility is particularly important for vulnerable groups. Access to health services is hampered by high user fees, while health insurance has low coverage and the exemption system does not work properly. Government's proposals to introduce prepayment mechanisms for health services marks sound progress. The collection of contributions and fees for basic education should be reviewed and accompanied by special clauses for the poor.

(c) Improving the access and the use of information and information technologies

Information is crucial for enhancing human development. Accessibility of social services will be improved by providing information on social services and on people's entitlements to use them. Information is also a service *per se*, allowing people to make well informed choices, for example in family planning and reproductive health, and policy makers to target services efficiently. Finally, the use of the Internet and modern information technologies should be promoted, and library systems and infrastructure should be strengthened, in order to facilitate the emergence of a knowledge-based economy.

(d) Raising public investment in social sectors and diversifying into new sources of funds

Increasing public spending on social services and improving the poverty focus is crucial to ensuring higher standards of quality and coverage. In the health care sector, shifts in resource allocation between provinces as well as between different health care levels need to be explored. Alternative sources of financing for social services may be found, such as health insurance, people's contributions and private sector payments, but such arrangements must be managed to avoid an overburdening of the poor.

(e) Establishing appropriate roles for the state and non-state sectors

There is a need to better define the roles and responsibilities of the state and non-state sectors. While the Government has a responsibility to ensure universal basic education, private parties may play a constructive role in the provision and financing of higher education and vocational training. An important role for the state sector remains in encouraging the market to work and in ensuring and monitoring the quality and accessibility of the services provided.

I. TARGETS FOR HUMAN DEVELOPMENT

4.1. The Government of Vietnam places human beings at the center of development, promoting human potential and the well-being of all and this is reflected in the success of the *doi moi* reforms and in the new Socio-Economic Development Strategy 2001-2010. This approach is in line with the human development perspective, which defines development as the process of expanding people’s capabilities, the set of choices people have available, and ultimately the freedoms people enjoy to determine their overall well-being. This is particularly important for the vulnerable groups of the population and the poor regions of the country (see Box 4.1). The Human Development Index (HDI) is an attempt to measure the achievements in three key components of human development: education, health and standard of living. The annual Human Development Reports rank countries based on this composite index. Over the last ten years Vietnam has made considerable progress, and currently ranks 108th out of 174 countries.¹³

Box 4.1: Income is only a part of the development story

Equity is a key concern of the Government and is at the center of the human development process. In Vietnam, there are significant territorial disparities in terms of human development. These disparities express themselves clearly when comparing the Human Development Indices (HDIs) of the 61 provinces in the country, which have been calculated on the basis of Vietnamese regional data (NCSSH/UNDP, 2000). Not surprisingly, the figures show that Ha Noi and Ho Chi Minh City rank highest. More remarkable is that they reach levels of human development comparable to those of successful transition economies like Poland, Estonia and Croatia. At the lower end, however, provinces like Ha Giang and Lai Chau fail to score much better than Laos, Bhutan and Nepal.

A more thorough look at the results reveals that the relation between GDP per capita and HDI in each province is not always strong. An Giang and Tra Vinh in the Mekong Delta, for example, have very low HDIs when compared to average incomes, while Nam Dinh and Ha Nam in the North have comparatively high HDIs relative to average incomes. While income is a key determinant of development, it is not the sole determinant of progress in human development. This suggests that a policy that centers solely on economic growth will not be sufficient to achieve higher levels of human development and to reduce disparities across the country. Growth has to be broad-based, safeguarding equal education opportunities, health care and social safety nets.

4.2. The Government’s Strategy aims to “substantially improve” Vietnam’s HDI through a wide range of measures to: (i) double GDP by 2010 and lower the population growth rate from the current 1.5 percent to 1.1-1.2 percent a year; (ii) ensure that all children at the age of primary education attend school, and universal access to secondary education in the whole country; (iii) raise longevity from 68 years to 70-71 years. Fulfilling these objectives implies, *ceteris paribus*, that Vietnam would reach a similar HDI level as Thailand today, which ranks 76th. Since a number of other countries will improve their position as well, it is obvious that policies need to be far more rigorous to achieve this position over the next ten years. Government is taking its responsibility to bring the country further on the path to development, by setting human development targets which are very much in line with the internationally agreed development

¹³ Human Development Report 2000, (UNDP, 2000a). The HDI comprises GDP per capita in PPP dollars; life expectancy at birth; the combined enrolment ratio in primary, secondary and tertiary education and adult literacy.

goals (IDGs) for 2015 (see Box 4.2). Vietnam is ahead of the schedule in meeting some of these targets, such as primary education enrolment.

Box 4.2: Vietnam’s targets in human development are in line with the International Development Goals

1. Reduce the proportion of people living in extreme poverty by half between 1990 and 2015;
2. Enrol all children in primary school by 2015;
3. Make progress towards gender equality and empowering women, by eliminating gender disparities in primary and secondary education by 2005;
4. Reduce infant and child mortality rates by two-thirds between 1990 and 2015;
5. Reduce maternal mortality ratios by three-quarters between 1990 and 2015;
6. Provide access for all who need reproductive health services by 2015; and,
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

Source: OECD/DAC 1996; IMF, OECD, UN and World Bank (2000).

4.3. The Government is currently devising a number of long-term sectoral strategies for human development: the Education, Science and Technology and IT strategies, the Population, Reproductive Health and Health Strategies, and the targeted poverty reduction (HEPR) Strategy. While each of these strategies contain a number of strong policy messages, the sectoral strategies suffer from a lack of coherence and mutual consistency in terms of their specific policies and targets. In order to address these weaknesses, the Government could adopt a number of key common policy issues in the formulation of the different strategies. Therefore, this chapter has chosen a set of four key concerns to discuss and comment on the various Government strategies: education and knowledge (section 2); health and population (section 3) and targeted anti-poverty programs and safety nets (section 4). These cross-cutting themes are:

- Quality of social services;
- Equitable access by all groups of the population;
- Financing (the need to raise Government spending on social sectors and to diversify sources of financing); and,
- Role of different actors in service provisioning.

II. EDUCATION AND KNOWLEDGE

4.4. A key component of human development is education and knowledge. These not only directly increase people’s capabilities and choices but also create human capital, which is an important engine of economic growth. In order to respond to the demands of industrialization and modernization of the country, the Government’s Development Strategy formulates a broad range of objectives for education and training. Among others, it aims to:

- consolidate the achievements of the illiteracy eradication and primary education universalization programme;
- provide universal access to lower secondary education;

- create an enabling environment for distance education and life-long learning;
- modernize teaching methods and upgrade the quality of staff and school infrastructure;
- improve the skills of the labor force, of scientific and technical workers and managerial staff as well as rural and agricultural workers.

II.1 Education Strategy

4.5. The draft Education Strategy to Year 2010 elaborates on these objectives, with special attention to disadvantaged areas and poor people. It clearly reflects Vietnam’s ratification of the Convention on the Rights of the Child, which supports the rights of all children to a basic education. Table 4.1 summarizes a number of targets set in the strategy.

The education strategy aims for high levels of educational attainment

	2000	Target 2010
Adult literacy rate	94 %	97 %
Net enrolment in kindergartens (5-6 years old)	81 %	98 %
Net primary enrolment	92 %	98 %
Primary school completion rate	66 %	85-95 %
Net lower secondary enrolment	74 %	90 %
% of lower secondary enrolment in semi-public and private schools	-	20-40 %
Net upper secondary enrolment	38 %	50 %
% of trained working labor force	19 %	42 %

Table 4.1: Selected Education Targets

Source: MOET (2000).

4.6. While goals are clearly outlined in the strategy, the concrete policies to reach these goals are still not clearly developed. Particularly lacking is a clear and categorical statement on the role and responsibilities of the state and the non-state sectors, which would facilitate the discussion on many issues in this field. It could, for example, point out that the Government has a responsibility to ensure basic universal education, whereas private parties may play a constructive role in the provision and financing of higher education and particularly vocational training. Also, while the strategy is comprehensive in the issues raised, there are concerns about the feasibility of the broad agenda and the need for selectivity is being voiced. In the following sections, a number of observations and recommendations can be made on a number of important issues.

4.7. **Equity.** Gaps exist in the Government education strategy on issues related to access, universality and quality of education. In the long run, one key goal would be to have a unified and inclusive curriculum for all children, where children would study in one school system with a full integration of disadvantaged groups. In the short run though, some groups will need special attention and issues of service quality and equitable access by different geographical, income, gender and ethnic groups should be addressed. Specific programs need to be developed to respond to the specific needs of standard-quality education and training for ethnic minorities, for example through bilingual education, and to lessen the gaps in quality of education achieved by

different regions, income, and gender groups. School feeding programs might be expedient to create incentives for poor children living in upland and remote areas to attend school. Finally, participation of local communities, parents and children in education management and planning is critical to sustained improvements in the sector.

4.8. **Quality of Education Services.** Overall education quality at all levels still needs improvement. The Government strategy does not define a clear national set of service standards for basic education that can be guaranteed to every pupil or specify a minimum performance level for each school. The regular measurement of the performance of the education system against such standards would result in an improved quality of services provided. These standards should therefore reflect outputs rather than inputs of the education system. Furthermore, the basic education curriculum could be modernized by moving away from the past approach of static learning that relies almost exclusively on the recall of memorized facts, to a modern dynamic and flexible knowledge system that encourages creative and innovative thinking and makes use of the latest information technologies. Specific efforts should be taken to ensure that the reformed curricula are indeed implemented. Finally, the strategy contains a number of measures to improve the quality of lecturing staff, but it does not identify clear standards to appraise the performance of teachers. Also the crucial issue of availability of resources to finance higher teachers' salaries and rewards for teachers in disadvantaged areas needs to receive more attention.

4.9. The **quality of training and vocational education** is somewhat hampered by the organization and structure of this sub-sector. Currently, technical and vocational education and training is mainly a state-driven system that suffers from fragmented management, has a large number of uncoordinated external supporters, and does not systematically respond to the needs of the labor market. A better approach would be to modernize general education so that it prepares school graduates who are directly employable, and to pass greater responsibility to employers to provide short and practical technical training to their employees through in-service and related technical training. Another suggestion to meet the economy's manpower needs is to attract a higher proportion of secondary school graduates to public or private technical, vocational training institutions, or alternate training/work-experience courses offered by employers. This raises again the need to define better the roles of the state and non-state sectors.

4.10. **Financing.** The Government strategy projects that State budget expenditure on education and training will rise from 15 percent in 2000 (3.5 percent of GDP), to 18 percent in 2005 and 20 percent in 2010. Given the ambitious targets set, it is doubtful whether the planned budget will be sufficient to cover the costs of the envisaged activities. Notably, the construction of at least one primary and one lower secondary school in each commune, the connection of all schools to the internet, and full day schooling for all pupils will already demand considerable funds. Aware of these budgetary constraints, the strategy recognizes the need to acquire resources from the non-state sector and households. Although the strategy proposes to increase the number of non-state schools at the post lower secondary level and to mobilize contributions for education and training from businesses, it is ambiguous on the role of private financing and provision of education and training. One step would be to strengthen and clarify the policy framework to facilitate the private sector financing of education and training.

4.11. The strategy also proposes to collect tuition fees equal to 3 - 25 percent of the education expenditure of each student, which would add to the existing costs of school attendance. However, the Government's "socialization" strategy assumes high levels of cost-recovery in

basic education without a clear mechanism to protect the poor from a disproportionate financial burden. The current policies of socialization are regressive and would need to be revised and accompanied by special clauses for the poor. Policies to ensure equitable access to higher education are also needed. With this aim, the State might consider introducing more explicit measures to ensure access to scholarships by students from poor families.

II.2 Knowledge for Development

4.12. The increasingly outward oriented doi moi reform process was primarily based on the exploitation of natural resources and low labor costs. Experience in the region shows that this is too narrow a basis to move quickly up the value chain to perpetuate the achievements of the last decade. Vietnam runs the risk of being caught in a ‘low cost labor trap’. Moreover, low labor costs are rarely a durable source of comparative advantage, as competition is fierce with the continuous emergence of new competitors (MPI/UNDP/UNIDO, 2000). The Government is aware that the key question is no longer whether to integrate into the global economy, but how best to do so. The Government’s Development Strategy 2001-2010 embraces the on-going revolution in technology and science, especially in information and communication technologies (ICTs), to facilitate the emergence of a knowledge-based economy and information society. ICT indeed holds great potential for human development, provided that public policies create an enabling environment and ensure broad access, especially for the disadvantaged and remote areas. It directly widens people’s choices to participate in social and political life, offers new jobs, and enlarges consumers’ choices. It will also fuel international competition, putting pressure on domestic sectors to be efficient and dynamic.

4.13. There is however a huge gap to bridge. The development of the ICT is severely hampered by a weak telecommunications infrastructure and low penetration rates (see Chapter 5). These, in turn, are due to limited public awareness, knowledge and political commitment, strong regulatory controls and relatively high user fees. The Development Strategy assigns a crucial role to new technologies. Priority is given to the development of domestic capacities to become self-reliant in information, biological and new material technologies. Special emphasis is given to boosting the software industry to spearhead the modernization of the economy, attracting inward investment and generating high value-added export products, in an attempt to emulate India’s phenomenal success in this area. The drafts of the Science and Technology Strategy 2001-2010, the Master Plan on Information Technology (IT) Development 2001-2005 elaborate on these issues.

II.3 Assessment of Knowledge and IT strategies

4.14. Generally, the Government documents point in the right directions of decentralization and building of a knowledge-based economy. They contain ambitious targets. A number of issues deserve special attention. First of all, completing the strategies and putting them into practice require a high sense of urgency among a wide range of Government institutions, which is not evident yet. There is still considerable ambiguity with regard to the need and desirability of moving boldly towards a knowledge-based economy. The reluctance to remove the firewalls on the internet, reduce telecommunication tariffs, and allow competition among internet service providers are cases in point. These policies hinder the overall accessibility of the internet, prevent the fast development of a modern education system using new information technologies, and risk contributing to the digital divide between rich and poor (see Box 4.3). More

specifically, it hampers the development of e-commerce, which would enable individual SME or networks of SMEs to be the driving force in technological learning. The Government Strategy focuses too narrowly on the development of the software industry and should be broadened to include e-commerce.

Box 4.3: Bridging the Digital Divide Through Education

Globalization and rapid technological change have made knowledge a critical determinant of competitiveness in the world economy. Countries able to seize the opportunities created by innovations in science, communications and computing technologies may be able to gain substantial benefits from them. However, the knowledge revolution also brings with it the threat of a widening gap between developed and developing countries—with disparities in access to knowledge and information, reinforcing existing differences in capital and other resources.

The exponential rise of communications technologies has also exacerbated the divide between low- and high-income countries and the differences in access to television sets, personal computers and Internet access are considerable. In this dynamic context, the acquisition, creation, adaptation and dissemination of knowledge need to be explicitly built into a country's overall development strategy by:

- updating the economic incentives that give countries the flexibility to compete in capital and labor markets and have access to the knowledge revolution;
- putting in place a “human infrastructure” – the knowledge and education networks and the learning communities;
- establishing a dynamic national information infrastructure, to include both “pipes” and the regulatory and competitive regime; and,
- creating national innovation systems through which locals can acquire global knowledge, create and adapt knowledge appropriate to local circumstances, and disseminate it to those who need it.

Formal education and life-long learning are at the core of this strategy. A country's capacity to take advantage of the knowledge economy depends on how quickly it can become a “learning economy.” Learning means not only using new technologies to access global knowledge. It also means using them to communicate with other people about innovation. In the “learning economy”, individuals, firms and countries will be able to create wealth in proportion to their capacity to learn and share. This requires fundamental shifts in formal education systems, where the focus needs to be on teaching people how to learn, as opposed to transmitting facts. This also requires a renewed emphasis on life-long learning to foster the virtuous circle of discovery, dissemination, and emergence of shared understandings.

Governments will need to select a combination of old and new technologies to respond to their educational needs and improve the quality and efficiency of teaching and learning at a reasonable and sustainable cost. The application of ICT offers a tremendous potential:

- an increased access to under-served areas through distance learning;
- improved quality of teaching and learning, through appropriate software aimed at providing information, tools and interactive learning;
- strengthened education management systems, through connecting educational administrations and providing real time data/indicators; and
- shared knowledge among policy makers and other stakeholders through well-organized knowledge management systems.

4.15. **State and Non-State roles.** A real market for science and technology that bridges the gap between researchers, scientists, producers and entrepreneurs is largely missing. Due to the dominance of supply-led approaches, costly mismatches between supply and demand occur frequently. To remedy this weakness, more incentives and market opportunities are needed, such as trade fairs, incubators, clustering and networking. This would not only enhance interaction between the institutions, but also promote sound competition. The experience of the Asian tigers shows that the critical mass of demand pull comes from new and often clustered SMEs (see Box 4.4). In Vietnam, however, the number and quality of SMEs is still too limited to be able to bring the country up the value chain.

Box 4.4: Learning from the Asian Tiger Experience

Although there is no simple blueprint for a technology strategy, the following key principles can be extracted from the successful experience of the Asian tigers:

- Government followed sound macro-economic policies, promoted an export-oriented industrialization and invested heavily in educational and technological infrastructure.
- High initial priority in investing in scientific capacities is not strictly needed for technological advance as science played virtually no role in the East Asian success.
- The learning experience of East Asia was based on competition to manufacture goods for established markets, imitation rather than innovation being the entry point (which can be illustrated by the remarkably low number of patents recorded).
- The low-technology side of high technology industries should not be neglected as leapfrogging from one vintage technology to the other rarely occurs.
- Privately owned SMEs, often in clusters, took the lead in technological diffusion and employment creation, substantially supported by enabling Government policies.
- The relative amount of FDI was small, but it had disproportionate multiplier effects to technological learning, and TNCs often acted as demonstrators and role-models.
- Openness to large international buyers is important as they serve as important sources of technology and market information, which producers very much need.
- Policies that build the problem-solving and innovative qualities of the nation's human resources are essential to guarantee continuous incremental innovation.

Source: MPI/UNDP/UNIDO, 2000.

4.16. **Financing.** Investments in science and technology amount to less than 1 percent of GDP, and fall short of the Government target level of 2 percent of GDP. Compared to other countries, direct Government support to R&D activities is very modest at an estimated 0.2 percent of GDP per annum. In addition, the R&D budgets are severely fragmented, resulting in too small amounts for individual research projects. The total IT budget is planned to reach 2 percent of GDP by 2005. However, it must also be underlined that the effectiveness of public spending is likely to be insignificant in the absence of strong, demand-led linkages to dynamic and competitive firms. Regulatory reforms and public spending are of equal importance.

4.17. **Human Resources.** A knowledge-based economy presupposes a knowledge-receptive population, where workers become the generators of new ideas, and take advantage of the leapfrogging nature of IT. This should ultimately constitute Vietnam's comparative advantage in this highly competitive field. However, the existing community of scientists are between 55 and

60 years of age on average, often trained under the Soviet-oriented learning system and work at modest wages. Primary and secondary curricula need improvement to ensure that the future labor force has the skills to use the tools of the new economy. The software industry particularly needs IT-specialists. Although the country boasts a growing pool of low cost mathematics and engineering talents, the Government estimates that more than ten times as many programmers are needed to achieve the targets in this field.

III. HEALTH AND POPULATION

4.18. Although Vietnam's GDP per capita places the country among the low-income countries in the world, its vital health indicators are comparable to those of middle-income countries. This was achieved thanks to an extensive health care delivery network, with a well developed primary health care system, a large supply of health workers, and well-organized national public health programs such as the Extended Program on Immunization. Nevertheless, Vietnam faces a number of serious problems:

- malnutrition, particularly among children, remains high (see Box 4.5);
- infectious, vector-borne and communicable diseases are still prominent, though non-communicable diseases have become the leading cause of morbidity and mortality;
- new or re-emerging diseases such as tuberculosis, dengue fever, Japanese encephalitis and HIV/AIDS are on the increase. The number of officially reported cases of HIV by September 2000 was 21,000, but unofficial estimates put the figure at 160,000; and,
- changes in life styles, including an increased use of motor vehicles, tobacco, alcohol and illicit drugs, lead to new health problems. Accidents are set to overtake infectious diseases as the most common cause of mortality, whereas the number of drug users is growing rapidly.

4.19. Probably even more important than these nation-wide problems is the considerable and growing *disparities in health* status between different geographical regions and between population groups. Maternal and infant mortality rates among ethnic groups are much higher than the national averages. Data on access to and utilization of health care services confirm the increased inequalities between rich and poor households. A single visit to a public hospital of national quality can cost almost a half of the annual non-food expenditures of an individual in the poorest quintile. This can be compared to a cost equivalent to only 4 percent of non-food consumption for the richest fifth of the population (PER, 2000a). Formal arrangements fail to protect the poor. The health insurance scheme hardly covers lower income groups and the exemptions system does not work properly. The latter is ineffective in reaching those groups that are meant to benefit from it, and it is weakly targeted as higher income groups obtain a level of exemption only marginally lower than the poor. The exemptions from payment for drugs, either from a public facility or private pharmacy, are almost non-existent. The user fees in health facilities and the emergence of private practitioners and drug sellers have, given the weak exemptions system, led to a very high private spending on health (80 percent of total health spending), mainly concentrated on pharmaceuticals. Consequently, almost three-quarters of the poor rely on self-diagnosis and self-medication. Reports show an irrational use of drugs and an increase of anti-microbial resistance.

Box 4.5: Building people’s knowledge to solve the malnutrition puzzle in Vietnam

Over the last decade malnutrition among children has decreased only marginally, from 42% to 37 % (NIN, 1999). The persistence of child malnutrition is a serious concern of the Government, which is drafting a specific strategy for nutrition over 2001-2010. It is in fact a perplexing phenomenon: while the country has grown to become the second largest rice exporter in the world, many families, particularly those in remote and mountainous areas, still suffer from regular shortages of food. Malnutrition does not only result from a lack of food. It is mainly due to the low quality of primary child health and nutrition services provided by health facilities and schools, and most importantly to people’s low capacity and knowledge on how best to provide maternal and childcare.

Many initiatives have been undertaken at the local level to increase parents’ understanding and awareness about child malnutrition. **UNICEF** has been supporting a community-based program in pilot communes to increase nutrition knowledge for mothers, to tackle Protein-Energy Malnutrition (PEM). Selected by the communes and trained in maternal, child and nutritional care, volunteers work as ‘village nutrition collaborators’. They encourage antenatal and post-natal care, growth monitoring of children, provide nutrition education, and give food demonstrations to help pass on knowledge of better feeding practices to mothers. Mothers learn how to ‘*color the bowl*’ by introducing vegetables into the diet of young children. A menu is developed by the group of mothers who are asked to bring a small amount of food in order to participate in the preparation of nutritious meals for their children. This pilot programme has been regarded as successful in transferring knowledge to mothers on how to improve child nutrition.

Similar programs have been developed by other organizations, notably by the NGO--**Save the Children, US** (SC/US). Its research has shown that even among the most disadvantaged families, some manage to keep their children well-nourished and healthy. In the context of programs on nutrition education and rehabilitation, best practices in nutrition and health care of such families are identified, through a process called Positive Deviance Inquiry (PDI), and recorded, in order to replicate them with other households. The programs also take a preventive approach that focuses on pregnant women’s health and education: *healthy mother, healthy baby*. SC/US maternal health and child nutrition programs are implemented by district and commune workers, who have been trained in ‘training of trainers’ courses at one of the SC Living University sites. These trainers return to their districts and communes to train others, while SC/US continues to provide assistance by monitoring training and programme activities.

4.20. The Health Care Strategy 2001-2010 explicitly recognizes the need to invest in health for an accelerated socio-economic development and for improving the quality of life of every individual. Its goal is to improve the overall level of health among all groups of the population, with special attention to ethnic minority groups, women, children, poor and the elderly. In line with the Government’s Development Strategy, life expectancy is projected to increase to 71-72 years. The main targets of the health strategy are presented in Table 4.2, together with a number of targets from the related population strategy (see paragraphs 29-34). The new health strategy is based on four principles:

- equity and efficiency of the health sector;
- fight against the broad social determinants of bad health;
- integration of traditional and modern medicine;
- appropriate public-private mix of service provision, with the Government in a position to protect the public interest.

The health and population strategies have ambitious targets for quality of life

	1999	2010
Total population size (in millions)	76.3	88-89
Total fertility rate	2.3	2.0
Use of modern contraceptive among married couples (%)	56	70
Infant mortality rate (per 1,000)	37	25
Maternal mortality rate (per 100,000 live births)	100	70
Abortions (per 100 live births)	52	25
Life expectancy (at birth)	68	72

Table 4.2 Targets in health and population

Source: Data from governmental sources.

III.1 Health Strategy

4.21. As it stands today, the strategy provides a broad basis for further planning and can be seen as an orientation document for improving the health sector, while protecting the legacy of the past. On many accounts, the strategy is basically sound and reflects many of the discussions that took place over the last few years within the Government and between the Government and the donor community. At the same time, it should also be noted that the strategy is very ambitious, especially in light of the existing institutional arrangements. At present MOH is in charge of setting health priorities and goals, but it has little control over the extent to which public spending is oriented towards these priorities. Thus, there is clearly a need to strengthen the role of MOH to oversee and guide the further development and effective implementation of the strategy.

4.22. **Prioritization and Region Specific Targets.** A number of substantive issues should receive further attention in the annual and five year health plans. The first is prioritization. The strategy does not provide sufficient information on the main health priorities the Government intends to address in the next decade. Precise information on the health status of the population and particularly on regional and socio-economic disparities in health should be the basis for setting health priorities. This would also enable the Government to formulate region specific targets, which would allow for more realistic and tailored programs for disadvantaged regions, especially in the light of the significant territorial disparities in health. Furthermore, health targets related to those problems which lead to premature and avoidable mortality, such as childhood illnesses, abortion, malaria, traffic accidents, etc. would help focus on the appropriate interventions. In view of the severity of the problem, HIV/AIDS needs special attention and should be addressed according to international technical and ethical standards. As it is today, the strategy will probably be very effective in deploying modern public health measures like DOTS (Directly Observed Treatments) for tuberculosis, and immunization. However, it may be less effective in undertaking health interventions of a behavioral nature, such as proper weaning and child feeding habits, reduction of smoking, prevention of non-communicable diseases, etc.

4.23. **Quality of Health Services.** The Government strategy seems to underestimate the acute need to raise the quality of services, particularly at commune and district levels. Efforts need to be undertaken to improve the technical quality of services (through in-service training, supervision, quality assurance mechanisms, etc.). This must be accompanied by measures which make public health services more client-friendly, and this requires a wide range of activities promoting professional ethics and a culture of service. More important than a rise in the number of health workers are efforts to increase the quality and motivation of health workers, together with appropriate salaries and measures to eliminate unofficial fees.

4.24. **Reorganization of Health Services.** Service delivery posts and provision of outreach activities need to be developed in areas where they are limited and where many of the poor live. The low utilization of commune health centers in densely populated areas should also be addressed more rigorously. This implies a review of the role and organization of commune health centers and district hospitals. These facilities should provide the bulk of the preventive and curative services, including the coverage of new public health problems and of the aging population. Complementarities between the public sector and a well-organized and regulated private sector are worth exploring.

4.25. **Regulation of Pharmaceutical Sector.** A priority that is largely missing in the strategy concerns the regulation of the pharmaceutical sector and the implementation of the national essential drugs policy. As noted before, scarce resources, especially of poor people, are often wasted on unnecessary or even useless drugs. There is a need to provide patients with comprehensible and reliable information on drugs and correct doses. The enforcement of the national drugs policy will further lead to a more selective, and hence more cost-effective and healthier use of drugs.

4.26. **Financing.** At US\$27.4 per capita or 8 percent of GDP, Vietnam has one of the highest levels of total health expenditure in Asia. However per capita public health spending, including health insurance and user fees, is modest: US\$5.80 in 1998, which is much below international standards. The objective to raise Government health expenditures from the current 3.5 percent to 5 percent of the State budget by 2010 could be more ambitious. All reports agree that there is a need for more resources to improve provision and access of health services to the poor, which should mostly come from the national budget. Shifts in resource allocation between provinces (by transferring centrally allocated funds from richer to poorer provinces) need to be explored. The allocation of expenditures between different health care levels also need to be reviewed. An example might be to shift public expenditure from high-cost hospital-based services to district hospital and primary health care services, which may enhance the cost-effectiveness of public spending as well as the accessibility of health care services for poor households.

4.27. A closely related matter concerns the increase in user fees for hospital services, which has been a contentious issue in the on-going discussion on health care issues. The Government strategy now clearly chooses in favor of a gradual implementation of pre-payment mechanisms, which should replace user fees in the medium to long term. This is in line with international best practices (WHO, 2000).¹⁴ Such a system would allow hospitals to treat people according to their

¹⁴ WHO's World Health Report 2000 considers prepayment the best form of revenue collection, particularly since out-of-the-pocket payments tend to be regressive and often impede access to care. Prepayment schemes may imply both (mandatory) insurance and public financing (especially needed to protect the poor), and do not exclude forms

needs, without burdening the poor. However, the gradual implementation of such a system still needs to be accompanied by special measures in favor of the poor and vulnerable groups.

III.2 Population and Reproductive Health

4.28. Throughout the last decade the interrelationship between the growth, structure and distribution of the population and sustainable human development has been a major concern of the Government. By the end of 2000 a next major step will be made through the approval of the Vietnam National Population Strategy 2001-2010. It replaces the first population strategy of 1993, which primarily focused on fertility control and family planning. Its implementation bears particular relevance to the fight against poverty, since a lower number of children and longer spacing between births increase the ability of households, including the poor, to invest more on their children. Lower morbidity and mortality associated with numerous pregnancies and childbirths further help to protect the productive capacity of mothers, especially important in poor households. Finally, better and increased use of contraceptives reduces the number of unwanted pregnancies, thereby avoiding costs of abortion as well as related health risks.

4.29. The new strategy contains three overall objectives (see targets in Table 4.3):

- move towards small and healthy families by maintaining the current fertility reduction trends as documented by the 1999 Population and Housing Census;
- improve the quality of life of the population, as quantified by a substantial increase in the Human Development Index (HDI); and
- establish a uniform and coordinated population management system, including a civil registration system. This will improve the data availability and assist the Government in managing urbanization, migration and labor force movements.

III.3 Assessment of Population Strategy

4.30. The new population strategy is a big step forward as it goes beyond the scope of the 1993 strategy, to include new paradigms of the 1994 International Conference on Population and Development (ICPD) and of the ICPD+5. The strategy includes best policies and practices of other countries, approaches population issues from a holistic perspective, incorporates reproductive health and equality issues, and is linked to broader socio-economic strategies and related strategies, such as the reproductive health strategy (see Box 4.6). It underscores the need to strengthen institutional capacity, increase resources at all levels and promote people's participation in population issues. It also recognizes the need to include a large number of partners in its implementation, from civil society, to private sector and the international community. Finally, the strategy recognizes that past fertility declines under conditions of limited method choices, poor reproductive health services and over-reliance on coercive mechanisms will not be sustainable. Instead, smaller families and slower population growth ultimately depend on free, well-informed choices through access to high quality reproductive health care services and appropriate information.

of co-payment in cases where there is clear evidence of unjustified over-utilization. The Report also notes that prepaid arrangements are institutionally more demanding than out-of-pocket payments.

Box 4.6: Reproductive health

The population strategy already touches upon reproductive health issues. In addition, the Government is currently formulating the National Strategy on Reproductive Health Care 2001-2010. This strategy also follows the recommendations of the 1994 ICPD and the ICPD+5. Its overall objective is to ensure access to high quality reproductive health services and information for all men, women and adolescents no later than 2010. It explicitly aims to bridge the existing gaps between regions and population groups regarding access and quality of services and information, by giving special attention to disadvantaged groups and areas. Furthermore, women's and infant's health is given high priority, together with appropriate care for adolescent reproductive and sexual health. To this aim, it is planned to raise per capita expenditure for reproductive health by US\$0.5 over the next decade.

4.31. While the strategy is comprehensive, the incorporation of additional components also creates new challenges for its implementation. Considerable financial commitments, planning and administration efforts, and strong political will are required for successful implementation, including a further harmonization and co-ordination with other strategies. Besides, there are some issues that deserve special attention. The first concerns gender, which is prominently dealt with in the strategy. It emphasizes the need to build and improve the legal framework to ensure gender equality and equal opportunities for education and employment. Also, it rightly stresses that male participation in reproductive health, family planning, and childcare needs to be strengthened to ensure gender equality within the family.

4.32. **Quality of Services.** Priority will be given to raise the quality of reproductive health care and family planning services to better meet clients' demands. This should sustain the fertility reduction trend, reduce the abortion rate as well as the number of persons infected with sexually transmitted diseases (STDs), particularly HIV/AIDS. Key measures are better preventive measures, such as counseling and information, education and communication practices, which need to become available in three-quarters of service delivery points, and the improvement of staff ability to provide quality services. Also special attention will be given to sexual education at schools to improve adolescent reproductive and sexual health (see Box 4.7).

Box 4.7: Putting reproductive health in the spotlight

Adolescent reproductive health is a difficult issue for policy makers to handle. By many, sexuality is viewed as a sensitive topic. Too sensitive, some think, to be introduced to young people. However, in September 2000 an "Advocacy Night" was arranged at the Hanoi Opera House as part of the EC/UNFPA Reproductive Health Initiative. During that night, the young Vietnamese not only showed that they were aware of many reproductive health and sexuality issues, but also expressed the belief that keeping relevant information away from them endangered their lives. The event highlighted artwork on reproductive health done by young people, and featured performances that were adapted from essays by The Youth Theatre. The artwork and essays were the products of a contest entitled "The Future of Adolescent Reproductive Health". It was open to young people coming from northern Vietnam and received over 1,090 entries. The purpose of the advocacy evening was to show to Vietnamese policy makers that adolescents had opinions about their health and to advocate for their inclusion when reproductive health policies are formulated. More than 180 policy makers and development workers attended the successful event.

4.33. **Financing.** The per capita expenditures for population issues from the state budget is planned to be maintained at the present level of US\$0.6. The expectation is that the state's contribution to the total budget will decrease from its current level of 80 percent. The Government Strategy therefore intends to collect fees for reproductive health and family planning services from individuals who are able to pay, and to charge organizations, social groups and individuals receiving information on reproductive health and family planning. The fees collected will be reinvested in the sector programs and services to improve their sustainability and to enhance social equity.

IV. TARGETED ANTI-POVERTY PROGRAMS AND SOCIAL SAFETY NETS

4.34. Raising the standard of living for all is the third key dimension of human development. For Vietnam, poverty reduction is clearly one of the main challenges over the coming decade. The Government has set the targets to eliminate chronic hunger by 2005 and to reduce the proportion of poor households from an estimated 17 percent in 2000 to 5 percent in 2010, using the new MOLISA poverty line. While these targets seem ambitious, World Bank estimates indicate that their realization is potentially feasible, provided adequate policies are put in place. Growth is a key ingredient, hence the target of doubling GDP by 2010, but it needs to be labor-intensive and equitably distributed among the population and between urban and rural areas. In addition, targeted interventions must be put in place to respond to the specific needs of the poor and prevent a further widening in poverty gaps. To reduce poverty and improve people's livelihoods, the Government has recently been devising new policies and programs. They are contained in three key documents, prepared by MOLISA and MPI:

- The Ten Year Hunger Eradication and Poverty Reduction Strategy 2001-2010 (HEPR Strategy), which is the Government's targeted poverty reduction strategy;
- The Five Year HEPR Plan, which is an action plan based on the 10 Year HEPR Strategy and contains a set of fifteen targeted policies and projects aimed at reducing poverty over the next five years; and
- The Interim Poverty Reduction Strategy Paper (I-PRSP) which adopts a comprehensive approach to poverty alleviation, and attempts to link poverty reduction to growth and macro, structural, sectoral, and social policies and programs.

IV.1 HEPR Strategy

4.35. This section will address a few key issues related to the HEPR Strategy. The general goals of the strategy are to increase poor households' income by improved access to productive assets, public services and social safety nets. To realize these goals and to reduce poverty as planned, the strategy proposes a relatively narrow set of instruments in the form of fifteen anti-poverty targeted interventions.¹⁵ While these projects are essential components of a poverty strategy, they represent only *one* specific component of a comprehensive poverty strategy, which should address key policies to create an environment conducive to poverty reduction. The HEPR Strategy must therefore be seen as a rather specific and targeted poverty reduction strategy,

¹⁵ The 15 interventions of the HEPR Strategy are the same as the targeted projects of the HEPR Plan. Many of these interventions have already been running over the past years.

which should be complemented by a more comprehensive strategy addressing issues of growth, employment creation and macro policies for poverty reduction (as is being done in the I-PRSP).

4.36. The HEPR strategy suffers from a number of important weaknesses, notably: unclear institutional arrangements and division of responsibilities between Ministries; inappropriate targeting of assistance and insufficient monitoring and evaluation; and limited participation and decentralization. It might also be argued that the set of targeted interventions in the strategy are not the most effective and suitable to reduce poverty.

4.37. **Institutional Arrangements:** MOLISA is the focal point for the strategy, and the day-to-day administration of the strategy is in the hands of the national HEPR office under MOLISA. However, the principle responsibility for the formulation of concrete policies and projects as well as the provision of funding lies with each line ministry, and the responsibility for implementation of HEPR policies and programs lies with provincial authorities. This fragmentation of the program's administration clearly undermines its efficiency. Three options can be suggested to improve the HEPR institutional structure:

- *Strengthen* the position of the HEPR office by moving it to the Government Office and assign to it supervision of HEPR projects, policy development, monitoring, and training.
- Keep HEPR central office in MOLISA but *restrict* its role to conducting targeted projects with regard to social safety nets, disaster management, monitoring as well as providing implementation guidelines, and training to HEPR staff.
- *Decentralize* coordination and management of HEPR activities to provinces and assign the role of policy design and monitoring and evaluation to MPI, and training to MOLISA.

4.38. **Targeting.** The set of HEPR projects contained in the strategy are not clearly targeted to the poor. Subsidized credit programs (through VBP), which is a major component of the HEPR program¹⁶, for example, have not always resulted in improving access for the poorest sections of society. More precisely, the strategy should include much clearer definitions of target groups and should distinguish between the particularities of different groups of poor to better respond to their needs: women, households in crisis, children in hunger, ethnic minorities (see Box 4.8). The geographic targeting of HEPR assistance also needs clarification. Over the past two years almost all (90 percent) of the assistance has been provided to the 1,000 poorest communes, that are almost exclusively located in remote, upland or border areas (UNDP, 1999). Utilizing resources in this way excludes a number of poor, lowland communes. Also, while the targeting of funds to poor communes is efficient and realistic for certain activities, such as infrastructure, a broader coverage might be desirable for other components, such as credit, education or health.

¹⁶ While the strategy contains 15 different targeted projects, 52 percent of the resources are devoted to credit, part of which is used for the subsidization of interest rates.

Box 4.8: Better poverty measurement for a better targeting of poor households

One of the main limitations of the HEPR Plan is the weak identification of HEPR beneficiaries and the inappropriate measurement of poverty at the national and local levels. One way to address these issues might be to devise a "two-level" poverty line. An external institution, like the General Statistical Office (GSO), would be responsible for assessing poverty and monitoring trends at the national and provincial level, using a poverty line close to international standards. At the local level, HEPR staff would be responsible for identifying eligible households for direct assistance, through a different method. Instead of identifying the poor through locally managed surveys of households' income, an approach which integrates *qualitative* evaluation of living standards could be adopted, using an easy-to-fill-in checklist of key socio-economic indicators that measure overall welfare.

While GSO would be responsible for national poverty monitoring, the monitoring of the various HEPR interventions could be assigned to MOLISA, using the information gathered at the local level by the HEPR staff. For this, a set of program performance indicators and reporting systems is crucial. In parallel to the collection of data, poverty assessments and analysis of data need to be conducted regularly by line agencies and independent institutions. Finally, the HEPR Plan should provide mechanisms to allow for independent evaluations of its implementation.

4.39. **Participation.** The HEPR Strategy reserves a rather narrow space for the participation of people and communities and does not define clear roles for all potential actors. Planning and decision making functions are only assigned to central authorities, and people's initiatives at the grassroots level, such as savings groups, receive little attention. Specific tasks, such as information collection, awareness raising, monitoring of results, maintenance of infrastructure, delivery of certain services (such as credit), could be assigned to mass organizations, as they have a strong network at the local level. Essential to greater participation are: the need to improve two-way information sharing between Government and communities; capacity building of communities and local governments in participatory planning; and improvements in public administration and local democracy, through the implementation of the Grassroots Democracy Decree (see Chapter 7).

4.40. **HEPR Targeted Interventions.** While the HEPR strategy clearly identifies a number of problems and weaknesses of the existing targeted poverty interventions and highlights a number of challenges in the fight against poverty, the set of fifteen targeted anti-poverty projects in the strategy do not reflect the lessons learned from the past and from international experience. In addition to the fact that many of these interventions are not clearly targeted to the poor, the logic, coherence and comprehensiveness of the set of anti-poverty activities in the strategy are not obvious: activities range from policies concerning credit, legal assistance and safety nets, to projects related to infrastructure and staff training. More importantly, the set of interventions neglects a number of key policy areas, notably:

- promotion of off-farm employment creation for higher productivity and incomes;
- people's participation and two-way information;
- gender equality (raising gender awareness and women's involvement in community-based planning); and,
- the increasing problem of urban poverty (as a separate component or a cross-cutting issue).

4.41. Finally, the HEPR strategy does not sufficiently take into account experiences and lessons learned both nationally and internationally, which would make its implementation more effective. The note from the Poverty Working Group in Part II of the Report outlines a selection of key recommendations for each targeted intervention of the strategy, most of which have been brought forward by the international community in its discussions with the Government.

IV.2 Social Safety Nets

4.42. While the share of the Government’s budget spent on social safety nets (SSN) is relatively high for a low income country, the main weakness of the system is that the majority of the beneficiaries are not the poor. The reason is that the largest share of spending on SSN is directed towards Social Security and Special Transfers, which benefit the former State sector employees and the war veterans. The only formal protection available for the poor consists of the Fund for Pre-Harvest Starvation and Disaster and to a smaller extent the Fund for Regular Relief, which receive relatively low funding from the central Government. In addition to the weak targeting and low coverage of the poor, the amount of the grants provided under the two Funds reaching the poor is modest, as it depends on limited local budgets. Also, none of the existing safety net mechanisms addresses in an appropriate way social costs of reforms and community risks.¹⁷ Weaknesses of the social safety net could be addressed in a number of ways (Table 4.3).

Table 4.3: Strengthening the safety nets in the interest of the poor

<i>Financing & coverage</i>	<ul style="list-style-type: none"> • Gradually <i>shift central Government expenditure</i> from high spending in Special Transfers towards social assistance benefiting the majority of the poor and poor provinces; • <i>Implement fiscal reforms</i> to mobilize and transfer resources from richer to poorer provinces; • Encourage <i>private, community and family-based welfare provisioning</i> in parallel to formal SSN; • To allow an adequate replenishing of the <i>Disaster Relief Fund</i>, separate it from the Pre-Harvest Starvation Fund and use it only in times of disasters.
<i>Targeting</i>	<ul style="list-style-type: none"> • Increase means to <i>monitor eligibility and receipt of entitlements</i> and improve information systems; • <i>Boost administrative capacity</i> at central and local levels to improve targeting and coverage of SSN, and to better interact with civil society.
<i>Community shocks</i>	<ul style="list-style-type: none"> • Establish an <i>independent Contingency Fund</i> for community-wide problems, largely funded by central transfers in poor provinces and cost-shared in less poor provinces, with decentralized decision making for fund use; • Increase effectiveness of <i>disaster management</i> through capacity building in management and monitoring and evaluation, and through improved coordination with international agencies.
<i>Household level shocks</i>	<ul style="list-style-type: none"> • Increase the use of <i>self-targeting employment schemes</i> linked to the construction of public infrastructure; • Emphasize <i>savings mobilization</i> rather than only credit provision, through provision of facilities to enable accumulation of savings by the poor.
<i>Social costs of reforms</i>	<ul style="list-style-type: none"> • In the context of SOE reform, improve <i>redundancy packages</i>, to facilitate voluntary separation from SOEs with redundant labor (see also Chapter 2).

Source: MPI/UNDP (2000); Preston (1999).

4.43. A typical example of community risks is natural disasters, which constitute a major cause of poverty and vulnerability in Vietnam. While the warning system for natural disasters is quite strong, and the delivery of emergency relief assistance to mitigate the impacts of disasters on people is relatively efficient, these could be improved (see Chapter 5). One of the most pressing need is to have an adequate disaster *rehabilitation* system that could restore people’s livelihoods, and rehabilitate social services and infrastructure. Currently, disaster rehabilitation is managed in a rather uncoordinated way by different line ministries. After being hit by disasters, provinces receive financial assistance on an ad hoc basis. To improve the provisioning of rehabilitation assistance, a permanent **Disaster Rehabilitation Fund** needs to be set up, which could be supported by donors. Such a fund should be easily accessible by provinces hit by disasters, and would enable the population to better manage risks related to external and community shocks.

CHAPTER 5 PROVIDING EFFICIENT INFRASTRUCTURE SERVICES

Key Messages

There have been dramatic increases in infrastructure services over the 1990's, which have contributed to Vietnam's rapid growth, international trade, and poverty reduction during this period. But Vietnam still lags behind low-income country averages in energy, transport, telecommunications and information infrastructure. If the Government is to attain its vision for the infrastructure sector in the coming decade, it will need to adopt a four-pronged strategy.

(a) Prioritize the ambitious infrastructure investment plans for the coming decade

Achieving the targets set out in sectoral strategies for transport and energy implies investment of US\$3.4-3.9 billion per annum for these two sectors alone – equivalent to the size of the entire Public Investment Program (PIP) historically. This is clearly unaffordable. A core, high priority program should be identified and funded.

(b) Improve access to basic infrastructure services in rural and remote areas

More than half of the PIP (1996-2000) was directed to the Red River Delta and the South East. The Central Highlands and Northern Uplands – two of the poorest regions - together received about 12 percent of the PIP. This allocation does not support a balanced growth strategy. A projected urban population of 30 million people by 2010 indicates a pressing need for improved infrastructure if cities are to be “livable”. But rural-urban imbalances in access to transport and energy need to be addressed. The urban 20 percent of the population consumes 86 percent of its electricity. Rural transport was allocated only 1.5% of the last transport PIP, one eighth of amount required to meet rural needs.

(c) Diversify the sources of financing for investments

Historically, international donors have financed a large share of infrastructure investments, but this is likely to decline. This will pose a funding constraint. Expanded private participation could be a source of financing and provide incentives for greater efficiency or quality of services. But a number of short-, medium-, and longer-term actions will be required to attract private participation in infrastructure in Vietnam. Appropriate pricing policies will generate more self-financing investment by SOEs and encourage private investment.

(d) Improve the management and sustainability of investments

Investment in infrastructure generates high returns in Vietnam. But the scope for efficiency gains from reducing waste and improving performance is considerable. 20 percent of produced electricity and 30 percent of piped water is lost before reaching consumers. Improving sector and corporate governance and a stronger commitment to maintenance are urgently needed.

5.1. Growth in infrastructure services is essential for sustainable and equitable growth of the economy. Vietnam started from a low level of these services. Though much has been achieved in the past decade, the next decade presents challenges of a different magnitude and complexity. Increasing access to, and reliable supply of, infrastructure services will be absolutely essential for enhancing household welfare, supporting economic growth and increasing income in Vietnam. Without efficient and adequate infrastructure for households and commercial activity, it will be impossible to reduce poverty in Vietnam or achieve the target rates of growth. The financing pattern of the past, where international donors and government budget provided these financial resources, will no longer be sustainable. This will require increasing investments from private sources of finance. Mobilization of private resources - domestic and foreign - will require significant structural changes in the sector as well as major policy reforms.

5.2. **The Government is currently preparing detailed strategies and plans for infrastructure.**¹⁸ These strategies and plans will be extremely important in contributing to Vietnam's overarching objective of rapid growth and poverty reduction. Inadequate service levels and quality remain serious constraints to development and competitiveness. And unequal access prevents the poor and those living in remote areas from benefiting fully from the fruits of development.

I. PAST SUCCESS AND FUTURE NEEDS

5.3. **Investment in infrastructure has high returns in Vietnam**, as does improving the efficiency and access of infrastructure services. Despite being rich in primary energy resources, more than half the rural population in Vietnam has no access to electricity. Per capita consumption of commercial energy remains one of the lowest in the world. The transport system—notwithstanding substantial improvements in the past decade—is over-stretched, adding to costs and preventing many upland and rural areas from sharing in the benefits of Vietnam's growth. Water supply and sanitation facilities will require investments and efficiency improvements to keep up with accelerating urban population growth and industrial demands. Currently, limited competition from private providers generates few economy-wide pressures for enhancing infrastructure performance.

5.4. **There have been dramatic increases in infrastructure services during the 1990s** which have contributed to Vietnam's rapid growth, international trade, and poverty reduction during this period. In transport, freight carried on roads and railways more than doubled; on inland waterways grew by 70 percent; and coastal shipping grew six-fold, overtaking railways in terms of freight carried (Figure 5.1). In energy, electricity generation almost tripled and crude oil production multiplied five and a half fold. Access to electricity rose from 47 percent to 75 percent of the population, while crude oil became a major export commodity, accounting for

¹⁸ The different institutions in charge of the different sub-sectors of infrastructure—such as energy, transport, water, etc—are preparing separate strategies for each of these sub-sectors. Thus, the Ministry of Transport (MOT) is preparing the National Transport Strategy up to 2020, the Ministry of Planning and Investment (MPI) is coordinating the energy strategy, and the Ministry of Construction (MOC) is preparing a strategy for urban development and the provision of adequate infrastructure to urban dwellers. These sub-sector strategies, however, have the common long-term goal of improving the quantity, quality, and access in the supply of infrastructure services for the Vietnamese population.

one-fifth of the country’s foreign exchange receipts. Increased public spending and institutional reforms contributed to this dramatic increase in infrastructure services.

Vietnam’s infrastructure has improved dramatically during the last decade

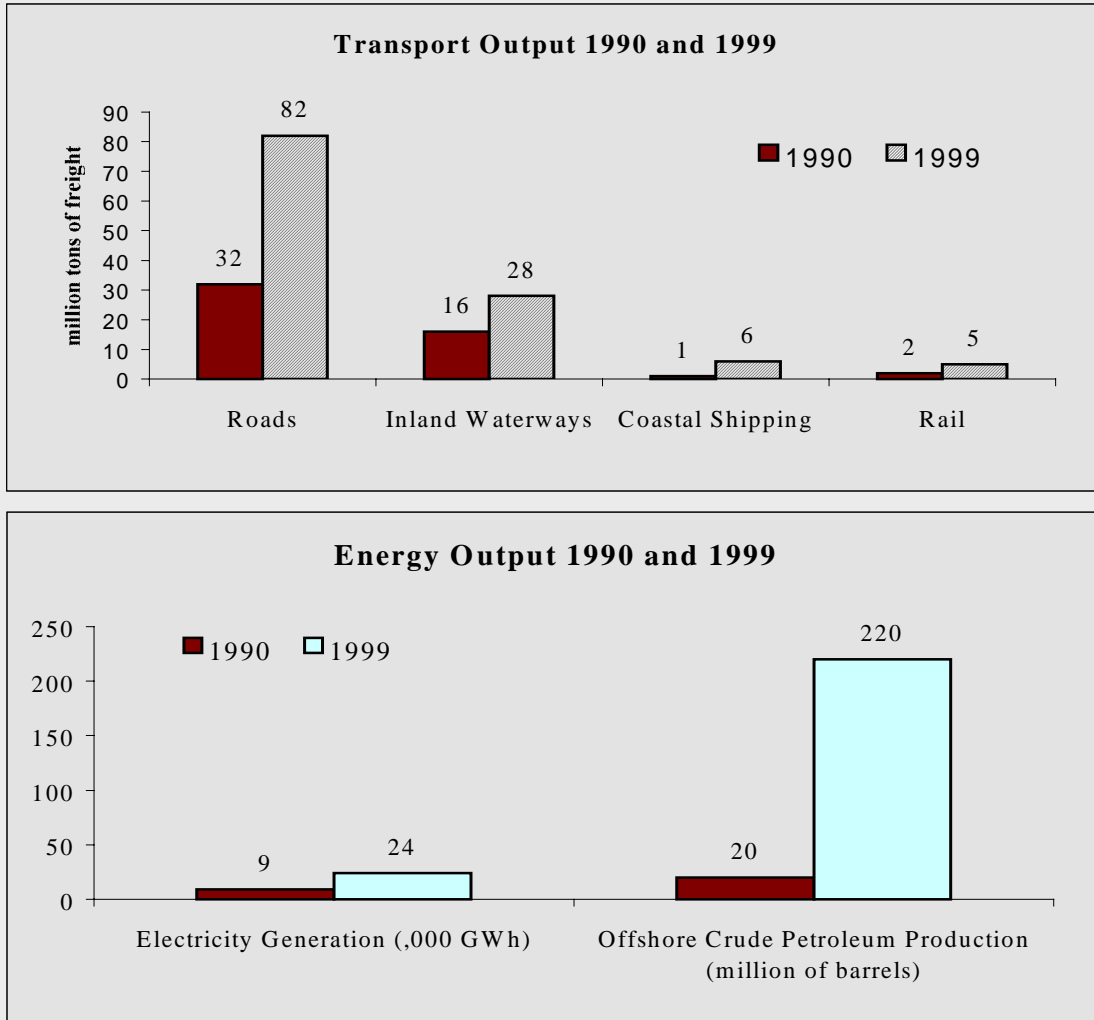


Figure 5.1: Increase in Infrastructure Capacity 1990 - 1999

Source: Statistical Year Book (GSO, various years).

5.5. Despite these increases in stock and services, however, Vietnam’s infrastructure needs remain considerable. Its existing infrastructure stock lags behind the average for many low-income countries and is more inefficient than other countries (Table 5.1).

Vietnam’s infrastructure lags behind the average for low-income countries and its needs remain high

Infrastructure	Vietnam	Low Income country average
ENERGY		
Electricity consumption per capita kwh	203	448
Transmission & distribution losses % of output	18	12
TRANSPORT		
Paved roads (%)	25.1	18.3
Railways-Passenger km per PPP \$ million of GDP	21,841	33,653* (for Thailand)
Railways-Good transported ton-km per PPP \$ million of GDP	11,367	8,835* (for Thailand)
TELECOMMUNICATIONS		
Telephone mainlines per 1,000 people	26	37
Telephone mainlines per employee	20	121
INFORMATION		
Daily newspapers	4	13**
Radios per 1000 people	107	206
Television sets per 1000 people (a)	47	138
Mobile phones per 1000 people (a)	2	8
Fax machines per 1000 people (a)	0.3	0.9
Personal computers per 1000 people (a)	6.4	6.2
Internet hosts per 10,000 people (b)	0.00	0.31

Table 5.1: Vietnam and Low-Income Country Infrastructure Indicators

* Average for low-income countries not available. **Excluding India and China.

Source: World Development Indicators (World Bank, 2000b) except for (a) which are from the World Telecommunication Development Report (International Telecommunication Union, 1999), and (b) which are from the Internet Software Consortium.

5.6. In the energy sector, not only is energy consumption per capita (203 kwh) half the average for low income countries (448 kwh), but the transmission and distribution losses (at 18 percent of output) are 50 percent more than the average (12 percent). In the transport sector, while the proportion of paved roads in Vietnam (25 percent) is better than the low-income country average (18 percent), the proportion of paved roads in “less than good condition” (91 percent) is more than four times the developing country average (20 percent). Compared with Thailand, for example, the railways in Vietnam carry only two-thirds of passengers (but 30 percent more freight) per dollar of GDP. And the telecommunication system is extremely inefficient: Vietnam delivers only 70 percent of the average number of phone lines to its population (26 lines per 1000 people) as other low-income countries do (37 lines per 1000 people), but with six times as many employees per line.

5.7. The information infrastructure, which is essential for Vietnam if it to harness global knowledge for its own development, is also limited. The number of newspapers, radios,

televisions, mobile phones and fax machines are all below developing country averages. In the new Information Technology (IT) sector, however, it is interesting to note that it is not so much in the area of “hardware”, such as personal computers, that Vietnam lags behind, but that it is the area of “software”, such as access to the internet, that is the main problem. Hence, a policy environment that supports the free flow of information will be more important in this area than infrastructure investments alone. The importance of information and knowledge for Vietnam’s development has already been dealt with in the Overview and Chapter 4 and the remainder of this chapter will focus on the more traditional infrastructure sectors.

5.8. Long-term Strategy for the Infrastructure Sector. If the Government is to attain its vision for the infrastructure sector in the coming decade, it will need to adopt a four-pronged strategy:

1. Prioritize the ambitious infrastructure investment plans for the coming decade;
2. Improve access to basic infrastructure services in rural and remote areas;
3. Diversify the sources of financing of investments;
4. Improve the management and sustainability of investments.

II. PRIORITIZE INFRASTRUCTURE INVESTMENT PLANS

5.9. In the Ten Year Socio-Economic Strategy, the Government has laid out an ambitious agenda for the infrastructure sector. During the coming decade, Vietnam aims to invest heavily in infrastructure and to close some of the gap with other developing countries. In the power sector, it aims to utilize further its potential in hydropower, gas and coal to generate balanced power supply. The 10 Year strategy states that Vietnam aims to complete Phu My as soon as possible and build a gas-electricity-fertilizer complex. It also aims to stem the losses from electricity transmission and distribution by modernizing the national electricity distribution system. These improvements in delivery also aim to reduce the high costs of electricity and make energy more affordable in Vietnam.

5.10. The Government has ambitious plans to upgrade and improve the transport sector, including roads, railways, ports, water transport systems, and airports. In the transport sector, the Government aims to complete the upgrading of Highway 1 and the construction of the Ho Chi Minh Highway. It also aims to improve the connections to neighboring countries by strengthening the roads connections, including border roads, and building river bridges. The Government aims to upgrade the railways system and open new lines that connect with economic centers. It would also like to improve the seaport system and add to the local port network. The strategy also calls for developing water transport systems and improving seaport capacity. And in the aviation sector, the Government would like to modernize international airports and upgrade domestic ones.

5.11. The Government’s strategy also aims at taking measures to make roads safer and reduce traffic accidents, by enforcing the use of safety helmets. As pointed out in Chapter 4, accidents are set to overtake infectious diseases as the most common cause of mortality in Vietnam. The Government also aims at improving the quality of the environment by phasing out the use of unleaded gasoline from July 2001 (see Chapter 6).

5.12. Finally, in the area of water supply and sanitation, the Urban Strategy calls for reaching international average standards by supplying enough clean drinking water for all urban and industrial areas for over 80-85 percent of the population (up from 65-70 percent currently) by the end of the decade. It also calls for solving the problem of sewage and waste treatment for most of the population of cities in the coming decade. These goals will be ambitious—and costly—given the expected rapid pace of urbanization in the coming decade (Table 5.2). Added to these, of course, are the needs for water and sanitation and other infrastructure in rural areas, as discussed in Chapter 3 earlier and Section III below).

Vietnam aims to improve the provision of urban infrastructure services to its rapidly urbanizing population

Indicator	2000	2010
Urbanization (proportion of population)	24%	33%
Urbanization rate (% increase)	5% pa (1995-2000)	5.5% pa (2001-2010)
Urban population	19 million	30 million
Drinking Water	65-70%	80-85%
Sewerage		80-85%
Solid waste		100%

Table 5.2: Targets for the Provision of Urban Infrastructure, 2001-2010

Source: Ministry of Construction (2000).

5.13. **But these long term plans require major investments.** It is estimated that to achieve the targets projected in the long-term vision of the Government will require total investments in the energy sector of approximately US\$2-2.5 billion per annum. Of this, power sector estimates average annual investments of US\$1.5-2 billion, with 52-58 percent for generation and 42-28 percent for transmission and distribution. Because the sector remains relatively backward, Vietnam will have to invest 5.3-5.5 percent of GDP in energy infrastructure—more than twice what its East Asian neighbors spend. These needs will place pressure on other capital expenditures. Thus, as discussed below, financing strategies will have to mobilize a range of domestic and external resources.

5.14. The transport sectors needs are also enormous. For the next decade, the Vietnam National Transport Strategy Study (VITRANSS) identifies a funding requirement of US\$11.6 billion, which is equivalent to about 2.5 percent of cumulative GDP (Table 5.3). This figure includes some maintenance expenditure, but not all. If we add the additional maintenance to be spent by the state the total will go up to US\$14.2 billion. This is equivalent to 2.8 percent of cumulative GDP for the ten year period 2001-2010. Historically, Vietnam has spent about 1.8 percent of its GDP on public expenditures in the transport sector.

Infrastructure investment needs in the transport sector are rather daunting and need to be prioritized carefully

Sub-sector	Capital US\$ billion	Maintenance US\$ billion	Total US\$ billion
Urban	2.5	0.2	2.7
Rural	1.0	0.7	1.7
Inter-urban (2)	8.1 (3)	1.7	9.8
Total	11.6	2.6	14.2 (4)

Table 5.3: Indicative Estimates of Capital and Maintenance Funding Requirements in the Transport Sector, 2001-2010, US\$ billion (1)

- (1) Public sector investment only. Additional private sector and SOE investment requirements of equipment, vehicles, and some fixed infrastructure estimated at US\$39 billion for the period.
 (2) Road, inland water ways, rail, ports, airports.
 (3) Disbursements to 2010; total project costs estimated at US\$ 10.3 billion (including “C” projects).
 (4) Equivalent to 2.8 percent of cumulative GDP (US\$ 505 billion).

Sources: VITRANSS Masterplan Study 2001-2020, Hanoi July 2000 (Capital expenditure). Vietnam: Moving Forward, World Bank, 1999c (Maintenance expenditure).

5.15. As discussed above, it is estimated that to achieve the targets projected in the long term vision of the Government for the energy sector will require total investments of the order of US\$2.0-2.5 billion per annum. The transport sector is estimated to require an additional US\$1.4 billion per annum, so that the needs of just these two sectors alone amounts of US\$3.4-3.9 billion per annum. During the forthcoming decade, this would amount to an estimated 6-7 percent of GDP, which would be equal to the size of the entire public investment program historically. This is clearly unaffordable, because in infrastructure alone, there will be financing needs for other infrastructure—such as telecommunications and water and sanitation—not to mention the investment needs of all the other priority sectors, such as agriculture, health and education. If infrastructure needs are not carefully prioritized so that they fit into available financing, the danger is that some low priority investments might get financed at the expense of higher priority ones. There is also a danger that infrastructure investments will continue to rely on mobilizing “voluntary” labor contributions from the poor through the Government’s socialization policy, which is a regressive way of financing infrastructure investments.

II. IMPROVE ACCESS AND REDUCE VULNERABILITY IN RURAL AREAS

II.1 Improve Access in Rural and Remote Areas

5.16. **Access to services of all kinds is generally worse for Vietnam’s rural population, especially in poor and remote areas.** 54 percent of public investment in the current plan period of 1996-2000 has been directed to the Red River Delta and the southeast Region—the location of Vietnam’s largest industrial zones and the two richest regions of Vietnam (Table 5.4). Vietnam’s two poorest regions, the Northern Mountains Region and the Central Highlands, on the other hand, received a total of only 12 percent, less than a quarter of that received by the two

richest regions. The allocation of public investment in the last PIP was skewed towards the richer regions.

The allocation of public investment in the last PIP was skewed towards the richer regions

Region	Public Investment Share (%)	Contribution to Total Poverty (%)	Share of Population (%)
Northern Mountains Region	7.6	28	18
Red River Delta	26.0	15	20
North Central	9.0	18	14
Central Coast	11.7	10	11
Central Highland	4.7	5	4
South East Region	27.6	3	13
Mekong Delta	15.6	21	21
Total	100.0	100.0	100.0

Table 5.4: Actual Allocation of Public Investment by Region, 1996-2000

Source: Public Expenditure Review (World Bank, 2000a) and “Vietnam: Attacking Poverty” (1999).

5.17. **In the transport sector, access to infrastructure is unequal.** 70 percent of the rural population does not have year round access to all weather roads and markets. Poor linkages between rural and urban areas and inadequate intra-rural connections discourage industrialization of the countryside. Linking towns to their hinterlands will produce two-way markets for agricultural and manufactured products and will promote the spread of industrialization and employment creation to rural areas (Box 5.1).

Box 5.1: Improving rural transport is crucial to promoting broad-based growth

With the renewed national emphasis on rural development and poverty reduction, the Ministry of Transport (MOT) is beginning to give high priority to the rural transport sub-sector. In early 1999, it formed a Committee headed by a Vice-Minister to guide its rural transport development strategy (DFID/MOT, 2000). Key elements of this strategy are:

- The first priority is to provide all-weather road access from commune centers to District Headquarters (defined as Basic Access Roads or BAR) to improve access to and delivery of economic, social and administrative services;
- Central resources for rural roads will be targeted at poor communes to stimulate economic activities and employment opportunities;
- “The population does the majority, the Government supports.” This emphasizes that the development and maintenance of the rural transport system will continue to be financed largely through people’s contributions, both financial and their labor, complemented by funds that are managed within the Provinces, including locally collected and retained revenues;
- Concern about the problems of maintaining rural roads.

Source: Rural Transport Strategy Study (DFID and Ministry of Transport, 2000).

5.18. As yet, however, there are no clear estimates of the financing needs of the rural sector and no plan for how these needs will be met. Estimates of financing needs range from US\$90 million per year in the VITRANSS report (JICA, MOT, and TDSI, 2000) to US\$144 million per year for the next 10 years (DFID/MOT, 2000). In addition, about US\$70 million per year (not included in the road fund proposed for the designated network) would be required for the maintenance of the rural roads. For these needs to be met, there will need to be a substantially larger allocation for rural transport in the coming decade from the public investment program (PIP), than there has been in the last PIP. In Table 5.3 (which is based on the lower estimate of rural transport needs) it is estimated that the rural sector will require 12 percent of the total funding requirements of the transport sector. In comparison, in the last PIP, rural transport was allocated only 1.5 percent of the transport PIP, and the remaining had to be financed directly by local governments and communities. Given the high priority that the Government is now placing on providing basic access roads to all, the burden sharing between central government, local governments and local communities needs to be examined.

5.19. **The provision of infrastructure services—not only infrastructure—to those in remote and rural areas is of even greater importance.** The Report “Vietnam: Attacking Poverty” found that although villages seem generally well-served by the road and waterway network, access to transport services was more problematic. Over 12 percent of Vietnam’s population live in villages which have no access to motorized transport (either public transport or privately hired vehicles). There is a strong inverse relationship between living standards and access to transport services: individuals without access to transport services are nearly five times more likely to be found in the poorest quintile than in the richest quintile. The people who live in villages without access to motorized transport are more than one and a half times more likely to be poor than those living in villages with such access. A strong policy implication of these findings is that it may be more important to concentrate on providing—and creating an enabling environment for the private sector to provide—*transport services* rather than *transport infrastructure* alone to poor areas.

5.20. In the energy sector as well, access is unequally distributed—50 percent of rural residents have no access to electricity whereas only 3 percent of urban dwellers suffer this fate. In 1997, about 30 million Vietnamese had no access to electricity. Rural consumers use one-fifth as much electricity as urban consumers and pay almost twice as much per unit. The urban 20 percent of Vietnam’s population consumes 86 percent of its electricity. The Government recognizes that without an aggressive expansion in rural electrification, these rural-urban disparities will likely exacerbate social tensions and drag down economic growth.

5.21. The Government has drawn up an ambitious rural electrification program that envisages providing electricity to all communes in the plains and reaching 60 percent of rural households by 2010. But the costs of such investments will be high, and several pricing and management issues must be resolved before this program can be implemented (“Fueling Vietnam’s Development, World Bank, 1999d).

II.1 Reduce Vulnerability to Natural Disasters

5.22. Vietnam’s traditional vulnerability to natural disasters (mostly typhoons and floods) appears to be worsening. A hundred-year flood has occurred in each of the past four years. The flood affected two main areas: (i) the Mekong Delta; and (ii) Central Vietnam. The Red River

Delta has also been flooded in the past. The floods and typhoons have taken many lives every year and destroyed infrastructure such as roads, power and communication lines and government buildings and private houses. The floods also damaged hundred of thousands of hectares of crops and killed thousands of livestock. In monetary terms, the damage could be in the range of hundreds of millions of dollars each year.

5.23. The increase of frequency and intensity of the natural disasters could be attributed to: (i) global warming which is affecting weather patterns around the globe; (ii) change in land use patterns in the main watershed; and (iii) man-made structures (especially in transport and irrigation/drainage/flood protection sectors) which changed the natural flow of flood water.

5.24. The Government—in partnership with donors-- is preparing a comprehensive program to prevent, respond to and mitigate effects of natural disasters in Central Vietnam. This program aims to:

- (i) reduce vulnerability to natural disasters;
- (ii) improve Government capacity for early warning and response to natural disasters;
- (iii) respond quickly in case of a major natural disasters.

5.25. To attain these objectives, interventions will be needed in three main areas:

- (i) **Non-structural Measures.** These measures include disaster preparedness and response systems; integrated catchment planning and development; review of building codes to make structures sounder and to provide safe havens; provision of insurance against natural disasters, including crop insurance; and, improved agricultural research and extension. The Government will need to improve its capability in early warning, monitoring, and forecasting of typhoons, tropical storms and landslide hazards as well as overall database management and information dissemination. Meteorological data must be linked to hydrological models to assist decision makers at local and national levels and flood maps must become tools for integrated local land use decision making. Vietnam's already good emergency response capacity could be strengthened further.
- (ii) **Structural Measures.** These measures include watershed protection and management through reforestation; watershed structures and their management, including reservoirs; floodplain structures, including dykes, irrigation and drainage structures; dredging and river control measures; salinity dams and dykes; sandy area development; and, provision of safe harbors.
- (iii) **A Disaster Rehabilitation Fund.** This fund could be available on an as-needed basis, to be mobilized quickly at the time of a natural disaster emergency. It could be used to finance essential reconstruction of public infrastructure such as bridges, roads, schools, health centers, and power and telephone lines. It could also be used to provide income support and employment to families that have lost lives or livelihoods, or whose vulnerability has been heightened, because of natural disasters (see Chapter 4 also).

5.26. **Institutional Arrangements.** The implementation of a multi-sectoral effort such as the one described above would require a coordinated effort from several ministries at the national

level and close involvement of local authorities. Several ministries would need to be involved in this effort, including: the Ministry of Agriculture and Rural Development (MARD), the Ministry of Science, Technology and Environment (MOSTE), the Ministry of Construction (MOC), the Ministry of Transport (MOT), and the Ministry of Planning and Investment (MPI).

5.27. Several donors have already expressed interest in supporting the design and implementation of such a comprehensive program to prevent disasters and to deal with their effects. This effort needs to build on the findings of the recent multi-donor mission on natural disasters prevention and mitigation in Central Vietnam.

III. DIVERSIFY THE SOURCES OF FINANCING INVESTMENTS

5.28. **Availability of adequate financing will provide the major constraint to infrastructure development in the next decade.** The annual resources available for total public investment over the next decade are estimated at roughly 6-7 percent of annual GDP. In terms of sectoral allocations, the Government of Vietnam has stated that in the future, it will promote agricultural and rural development and the social sectors. In addition, it will need to give priority to public administration reform (including civil service reform) (Chapter 7) and the financial costs of structural reforms, including banking reforms and social safety nets (Chapter 2). Given these competing needs, it appears unlikely that, compared with past budgets, transport will receive a greater allocation than its historical share of about one-quarter of public investment, or about 1.8 percent of GDP per annum. Hence, if Vietnam continues to invest according to historical proportions, the spending on transport would equal US\$9.1 billion for the ten year period and there would be a gap between what is considered essential investment and available resources of 1 percentage point of cumulative GDP, equivalent *to a shortfall of US\$5.1 billion for the 10-year period.*

5.29. There is a clear need, both to prioritize the infrastructure investment program, as well as to look for new and diversified sources of funding to fund the high priority, core program. Given the existing needs for infrastructure services, and the high rates of return on these investments, continued investment in infrastructure is of course warranted. But the greatest constraint is financing. There are four possible sources of funding infrastructure investments: (i) the government budget; (ii) ODA; (iii) self-financing from infrastructure SOEs; and (iv) private participation in infrastructure (PPI), largely FDI. In the coming decade, much greater reliance will need to be placed on self-financing and PPI rather than on budgetary resources and ODA. We discussed above how budgetary resources are limited and must satisfy many competing demands. It is unlikely, therefore, that a larger share of the budget will be devoted to infrastructure needs than has been the case historically. It is also unlikely that more resources will be available from ODA than has been the case historically.

III.1 Limited and Declining ODA Financing

5.30. Historically, international donors have financed a large share of infrastructure investments, but this is likely to decline in the future. In the energy sector, for example, in the past five years, international donors have provided about US\$2.9 billion (JBIC US\$1.9 billion, the World Bank US\$694 million, ADB US\$180 million, SIDA and other bilaterals about US\$150 million) for the development of the energy sector. But their strategies are changing.

5.31. In the medium term, JBIC plans to focus on, besides the ongoing projects including O-Mon thermal power project and Dai Ninh hydro, on multipurpose hydro, transmission and distribution, rural electrification and coal based power. The World Bank is focussing its strategy on improving access (Rural Energy 1 and 2), improving system efficiency (System efficiency improvement and equitization project), and catalyzing private investments (through partial risk guarantees). ADB will focus its efforts on improving efficiency, both technical and institutional, in the generation and transmission subsectors. ADB will also continue to support the Government's efforts to: (i) improve the legal and regulatory framework of the sector; (ii) attract the much needed private capital necessary to finance future sector expansion; and (iii) the expansion of the sub-regional networks. The priorities for SIDA credits will shift to investments in distribution, transmission and generation based on renewable energy with a focus on improved energy supply to the disadvantaged areas. ADF has provided a credit for about US\$20 million for rural electrification. In addition to loans and credits, international donors plan to remain active in providing grant funds for technical assistance for improving legal/regulatory and institutional environment, energy efficiency, capacity building, sustainable energy development, training and strategic studies for structural reforms.

5.32. It is clear from the medium term strategies of the donor community that there is:

- a shift to a greater focus on poverty alleviation and increasing access to the remote areas;
- declining interest in the direct financing of thermal power generation projects and other infrastructure projects that the private sector is willing to finance;
- increased willingness to help catalyze private investments through guarantees and other credit enhancements;
- a gap emerging between the investment needs of the country and support from the international donor community for direct investments in the next decade.

5.33. In the energy sector, for example, unlike the past five years when an average of US\$500 million per year was provided by the international community for energy investments, it is estimated that in the medium term only about 15 percent of the total investment needs of US\$2 billion/year will come through concessional credits from the donors. This will require a serious rethinking on the part of the Government in developing its financing strategies for the energy sector and for the infrastructure sector more generally in the coming decade. In the absence of adequate donor funding, Government will need to seek diversified sources of finances starting with a move to rational tariffs so that SOE's can provide a greater share of their needs from retained earnings.

III.2 Getting the Prices Right

5.34. Appropriate pricing policies will generate more self-financing investment by infrastructure SOEs as well as encourage private investment in infrastructure (see section III.3 below). It will increase the efficiency of service delivery, and make up for funding shortfalls in government agencies' delivery of services. In Vietnam, getting prices to cover costs will lead to higher tariffs for transport, energy, and water. This will come, however, with vastly improved quality and availability of service. Maintaining prices at below cost-recovery levels has resulted in poor quality service and lower access for the poor.

5.35. In no infrastructure service in Vietnam do tariffs meet the long-run marginal cost (LRMC) of supply. In many cases, regulated tariffs cannot cover even routine operation and maintenance costs. Thus, dependency on the state budget or on credit allocations is high. Mechanisms now in place for cost recovery range from *direct user charges* in the case of electricity, telecommunications and water supply, and annual *fees* for irrigation water supply and for vehicle registration; to *indirect methods*, such as fuel tax surcharges for highways.

5.36. Price ceilings imposed by the State Price Committee do not allow water companies to cover routine operations and maintenance costs. In water supply, tariffs in Vietnam are low by regional standards. Domestic and SOE rates in Hanoi, for example, although increased by 4,900 percent since 1988, are only US\$0.05 and US\$0.11 per cubic meter of water compared to the estimated LRMC of US\$0.26 per cubic meter. Currently, many of the poor who lack clean running water are compelled to pay nearly twenty times as much for bottled water. An average tariff level of US\$0.43 per cubic meter would allow Hanoi to finance 20 percent of its future investment costs in 2002, as well as cover its operations and maintenance costs.

5.37. In the energy sector, electricity prices are below the long-run marginal cost of producing power. Average tariffs for electricity, for example, are only 5.2 cents per kilowatt hour (kwhr) yet the long-run marginal cost (LRMC) of power provision is estimated at about 7.5-8.0 cents per kwhr. It will also help to put the Electricity of Vietnam (EVN) on sounder financial footing. Prices hikes may be particularly desirable in urban areas where consumers pay one-half to one-third what rural users pay and consume 10-20 times as much energy. Cheap electricity means less conservation and more waste. With increased tariffs to equal the LRMC in the next few years, EVN is expected to finance 30 percent of its investment needs.

5.38. User charges play a limited role in the roads sector. Revenues for a road maintenance fund can be raised from several places. The report “Vietnam: Moving Forward” (World Bank, 1999) proposes two user charges: a fuel tax and a license fee on heavy vehicles. These charges would be supplemented by fines collected for overloading. Depending on how much of the designated network is to be covered by the user charge system, this would require an increase of the fuel tax for road users of between 3 and 7 US cents per liter. Non-road users would be exempt from the tax. The financial and economic benefits road users would enjoy from well maintained roads are estimated at US\$160 million per year.

5.39. Other public transport infrastructure (e.g. railway tracks and inland waterways) lacks funding for regular maintenance as well. However, a rough estimate of the amount of funding required is about US 70 million per year (i.e. US\$0.7 billion for the entire period). In addition, urban and rural roads are estimated to require another US\$90 million per year (i.e. US\$0.9 billion for the entire period). Thus, the entire public expenditure requirement for maintenance for the ten year period has been estimated at US\$2.6 billion. Actual expenditure is estimated to cover between 50-60 percent of requirements. Maintenance of such commercial public transport entities as railway equipment and ports is also under funded. However, since these entities by law are required to be financially self supporting for some of their assets, it is their responsibility to raise the necessary funds.

5.40. All tariff increases must be implemented with attention to issues of equity and fairness. This means that those who use infrastructure most heavily must be made to bear the majority of the burden for financing its maintenance and operation. Trucks and other heavy

vehicles should pay for the damage they cause to roads. Urban residents and industrial users should bear the burden of higher use of electricity and water. Finally, tariff setting should be done according to predictable criteria in consultation with local providers and users.

III.3 Increase Private Participation in Infrastructure

5.41. Expanded private participation is essential to meet Vietnam’s need for infrastructure services for two reasons. First, as discussed above, other sources of financing—such as budgetary resources, ODA, and self-financing--will not be able to meet all the demands for infrastructure services in rural and urban areas. Energy, urban water and telecommunications have excellent prospects for funding from private/foreign sources and these sources need to be explored more urgently and aggressively. Second, and this is discussed below, there is little competition in infrastructure sectors, which has weakened incentives for greater efficiency or quality of services.

5.42. There is no reason why commercial infrastructure, such as airports, ports, railways, should rely exclusively on public funding, but should primarily operate as commercial enterprises, charging users at levels that allow cost recovery. With respect to private finance, the Ministry of Transport hopes to attract up to US\$5 billion to modernize airports, construct bridges and seaports, and expand the railway and urban infrastructure (Moving Forward, World Bank, 1999c). But this goal may be unrealistic, given the private sector’s perception of the country’s riskiness and the lack of stable institutional, legal and regulatory frameworks. Unless the general climate for private finance and provision of infrastructure is urgently improved, infrastructure needs might become a bottleneck for Vietnam’s goals of doubling its GDP in the next decade and eradicating hard-core poverty.

Vietnam needs to urgently unlock private investments that are already waiting in the wings

Sector	Project Details	Total Private Sector Investment (US\$ million) (Rough Estimates)
Gas Sector		
Nam Con Son Gas field development	3 billion cubic meters per year	1, 800
--of which Offshore gas pipeline	400 km	(490)
Power Sector		
Phu-My 2.2 BOT (CCGT)	700 MW	400
Phu My 3 (Power)	600 MW	400
Wartsila	150 MW	120
Total		2,720

Table 5.5: Private Energy Investments in Pipeline

Source: World Bank staff estimates.

5.43. Vietnam needs to urgently unlock private investments that are already waiting in the wings. As a starting point, the Government needs to make a serious attempt to unlock private investments which are already waiting in the wings (Table 5.5 above). This means that quick

decisions have to be made on the terms and conditions of projects that are in advanced stage of negotiation and waiting to go. Second, all efforts should be made to improve the regulatory framework and reform infrastructure prices and tariffs. This will not only create a more favorable climate for greater private participation in infrastructure but also permit higher self-financing ratios for utility SOEs. Decentralizing of taxing and spending authority to local areas according to the 1996 Budget Law will also help to reduce localities' dependence on the central budget, increase accountability, mobilize more resources for local development program, and raise the efficiency of how these resources are spent.

5.44. A number of short-, medium-, and longer-term actions will be required to attract private participation in infrastructure in Vietnam. A recent review, done jointly with the Government of Vietnam, examined the environment for private participation in infrastructure (PPI) and made recommendations for improving this environment (World Bank, 1999e). The major recommendations of the PPI Review are summarized in Table 5.6.

5.45. Clear regulatory frameworks are an essential prerequisite. Different categories of infrastructure require different regulatory frameworks for private participation. The first category contains firms that lend themselves naturally to competitive market structures without price regulation. All that is required for these markets to function competitively is the clear allocation of property rights (for example, rights of cellular operators to scarce radio spectrums), and sanctions on collusive behavior by firms. The second category contains firms which are competitive but require more Government regulation. Some form of interim price regulation may be needed in this case. Even with multiple providers, effective competition has to rely on a degree of Government regulation. In the third category, industry characteristics such as economies of scale or “contiguity” of network economies make it inefficient to have multiple firms operating in the same market. This is true for urban piped water systems, waste collection, power transmission, and basic port and rail services. The best practice in these sectors is to create concession areas, identify service responsibilities, and then auction off the rights to a concession for a fixed period of years. Across all sectors, it is important that the Government establishes objective and autonomous regulatory agencies to protect the public interest, monitor infrastructure provision, set tariffs on a stable, legal basis, and ensure a fair market environment for infrastructure provision. This means that within Government, regulatory, ownership, and service provision functions need to be allocated to independent bureaucratic entities to avoid conflicts of interest. In the energy sector, policy and regulatory matters should be separate from commercial petroleum operations, and separate bodies should be established for the regulation of upstream and downstream gas operations (the latter perhaps to be combined with downstream electricity regulation). Deregulation, on the other hand, could produce dynamic results in the urban transport sector where Provincial People's Committees tightly control routes and fares. Deregulation of long distance telephone services will help to reduce high rates for international calls.

A number of short-, medium-, and longer-term actions will be required to attract private participation in infrastructure in Vietnam

	Short-Term Actions	Medium-Term Actions	Longer-Term Actions
Cross-Sectoral Issues	<ul style="list-style-type: none"> Amend laws impacting PPI projects Upgrade BOT Group to PPI Center 	<ul style="list-style-type: none"> Rationalize Government bodies responsible for PPI Develop system for monitoring off-balance sheet risks of PPI projects Sector regulatory frameworks in place 	<ul style="list-style-type: none"> Enact laws for PPI and to establish independent regulators in each infrastructure sector
Power	<ul style="list-style-type: none"> Undertake study of optimal market structure and strategy for future reform Conclude pending transactions Implement tariff increases Pass Electricity Law and establish independent regulation 	<ul style="list-style-type: none"> Restructure sector by separating generation and distribution from transmission Begin divesting distribution companies starting with a pilot transaction. Rationalize regional cross-subsidies 	<ul style="list-style-type: none"> Move towards competitive markets Equitize a number of generating and distribution facilities
Water and Sanitation	<ul style="list-style-type: none"> Develop clear policies aimed at market reforms Develop plan for phasing tariffs to cost recovery levels Conclude Bihn Water BOT 	<ul style="list-style-type: none"> Develop and implement policy of tariff reforms 	<ul style="list-style-type: none"> Conclude pilot lease or concession projects
Telecommunications	<ul style="list-style-type: none"> Change BCCs into joint ventures, concessions or licensed operations 	<ul style="list-style-type: none"> Liberalize entry into all sub-sectors Separate posts from telecoms 	<ul style="list-style-type: none"> Equitize some or all of VNPT's core businesses
Airports	<ul style="list-style-type: none"> Develop strategy for decentralizing control to encourage regional development and PPI 	<ul style="list-style-type: none"> Consider concessioning terminal operations or airside services 	<ul style="list-style-type: none"> Conclude several transactions of key airports
Railways	<ul style="list-style-type: none"> Further commercialize separate operating units Develop action plan for rail sector private sector participation strategy and 	<ul style="list-style-type: none"> Separate non-integral services from core operations 	<ul style="list-style-type: none"> Initiate concessions for rolling stock operations and infrastructure services
Ports	<ul style="list-style-type: none"> Decentralize and deregulate tariffs to encourage competition and eliminate cross-subsidization 	<ul style="list-style-type: none"> Pursue concessioning of terminal operations or equitization of existing facilities 	<ul style="list-style-type: none"> Invite private sector to develop new facilities only after full capacity of existing facilities has been revealed through private operations and investment

Table 5.6: Summary of Key Actions to Promote PPI

Source: Private Solutions for Infrastructure (World Bank, 1999e).

IV. IMPROVE THE SUSTAINABILITY AND MANAGEMENT OF INVESTMENTS

5.46. **The scope for efficiency gains from reducing waste and improving performance is considerable.** Twenty percent of produced electricity is lost before it can reach consumers, twice as much as in some countries. In the water sector, decayed distribution networks allow pollutants to seep into the water supply and 30 percent of piped water is lost before it ever reaches customers. Water businesses lose almost 40 percent of their revenues because customers are not billed for the water they use, or because companies fail to collect. Irrigation systems deliver water unreliably due to poor operations, which causes users to incur higher pumping costs or suffer lower yields.

5.47. Maintenance expenditures on roads are still inadequate to keep them in good repair. Vehicle operating costs are nearly twice as high in Vietnam as in countries with well-maintained roads. Each US\$1 deferred on road maintenance increases vehicle operating costs by US\$2-3. In rural areas, only a trickle of central funding is available at the local level. Poor maintenance and navigation aids for inland waterways reduce the productivity of boats by 40 percent or more. Recurrent expenditures on waterways are only half of what is estimated to be needed. Finally, ports ship around 15 million tons of freight per year but could carry three times that amount if ship-handling and access to land transport were improved.

5.48. Inadequate competition between private and public providers of infrastructure services, and insufficient financial and managerial autonomy for public providers, gives little incentives to remove these inefficiencies. Public companies are often asked to deliver below cost, prohibited from adjusting prices, and sometimes required to be employers of last resort. Also, users of infrastructure—actual and potential—are not well positioned to make their demands known. Inadequate local participation, and prices which do not reflect costs, make it difficult to assess demand. Most detrimental of all to efficiency, however, are price controls and the absence of competition from the private sector in all infrastructure services.

5.49. **Improving Sector and Corporate Governance.** Privatization or equitization of existing assets provides scope for introduction of more efficient management and operations and introduction of new technologies, in addition to providing an avenue for raising additional funds. The process has started with the introduction of Independent Power Producers (IPP's) and Build, Operate, Transfer (BOT) projects in power and transport- for new investments and in equitization in the power distribution sector. In the World-Bank supported Systems Efficiency Improvement and Equitization Project, EVN has included the equitization of three districts. These need to be accelerated over the next decade.

5.50. In a strategy of mixed, public-private provision of infrastructure such as the one Vietnam is following, the Government needs to improve the effectiveness of public providers as well. This will not only generate resources for self-financing of investment, but also improve the efficiency of service delivery. Vietnam must open up more sectors for private investment and develop regulatory frameworks. Currently, public infrastructure services are provided by two types of public organizations:

- *Government service agencies* organized nationally like the Vietnam Roads Administration and the Vietnam Inland Waterways Administration (VIWA), or locally, like Irrigation Management Companies, or Provincial and District Transport Departments, which receive their funding from the state budget; or by

- *public utility-type organizations* – state-owned enterprises -- which are either nationally organized and administered, such as the Electricity Authority of Vietnam (EVN), General Department of Posts and Telecommunications (GDPT) and the Vietnam National Maritime Bureau (Vinamarine); or local government-owned, like urban water supply and sanitation companies, which are revenue-earning and exercise some autonomy over their management and operations.

5.51. Public providers of infrastructure services need a greater degree of independence and associated accountability than they have currently. While the Government should set clear policies and goals for infrastructure provision and provide regulatory supervision, it should leave detailed planning and implementation of delivery of services to providers. State companies should be run along commercial principles, not become holding bins for underemployed labor, as so many infrastructure SOEs now are. Firms’ access to credit must be on commercial terms. This is a complex agenda, but attaining the vision laid out in the Government’s infrastructure strategies will require the right mix of policies, prices, and institutional reforms, as described in Box 5.2 for the energy sector.

Box 5.2: Attaining the long-term goals will require fundamental policy and institutional reforms in the energy sector

Policy and Sector Structure

- Defining the future competitive industry and market structure of power and gas sub-sectors;
- Clarifying the role of private capital and private ownership in the energy sector;
- Financing Strategy – clarifying the relative proportions of government budgetary support, private sector and ODA financing to meet growth and investment targets;
- Promulgation of national criteria to guide government approval of large-scale energy infrastructure investments – intended to avoid uneconomic decisions (e.g. oil refineries, gas for fertilizer, etc);
- Issuance of a comprehensive energy sector policy paper to serve as the “road-map” for legal and regulatory reforms and changes in the sector and market structure during the transition.

Tariff Policy

- Agreement on power tariff principles, such as: (a) an adequate tariff level that provides efficient long-run marginal cost signals and covers reasonable financial costs; (b) regional variation in tariffs to provide appropriate operating and investment efficiency incentives; (c) national life-line rates set at appropriate consumption threshold;
- Establishing a natural gas price that balances supply cost and market value;
- Subsidy policy: Determination of method to provide targeted subsidies for rural electrification and other social investments.

Institutional Reform

- Creation of a regulatory agency: Decisions on functions, institutional structure and composition of regulatory agency. A combined gas and power regulatory agency should be evaluated;
- Legislative framework: Finalization of Electricity and downstream gas Law that will establish the regulatory agency for gas and power;
- Policy Coordination Agency: Decision to create a national energy policy council/ commission to ensure that developments and policies are coordinated across the different sub-sectors to avoid the unsustainably high economic costs that result from poor coordination.

CHAPTER 6 IMPROVING ENVIRONMENTAL QUALITY

Key Messages

Serious natural resource management problems like degradation of forests, wetlands and coral reefs, and trade in endangered species threaten Vietnam's unique biodiversity. Natural forest cover has shrunk to 29% of the land area and the number of threatened species has risen. Over-fishing and mangrove destruction have reduced fishing yields. Rapid urban population growth is putting municipal infrastructure and services under stress and has resulted in many environmental problems. The Government's vision for 2010 is to prevent and control pollution, to protect, conserve and sustainably use natural and biodiversity resources, and to improve environmental quality in urban, rural and industrial areas. This raises four important challenges:

(a) Creating incentives for changing behavior

Community empowerment, enforcement of laws and decrees, access to knowledge, and the provision of information and trade opportunities, act as incentives to induce behavioral changes necessary for environmental protection and sustainable resource use.

(b) Involving communities and citizens more fully

Government plans give high priority to encouraging public participation. This high level attention should start a process to ensure means for greater local accountability and increased community participation. A number of good pilot projects in community-based management – in both the green and brown sectors - provide promising approaches to improve environmental conditions.

(c) Improving institutional effectiveness

Government agencies with responsibility for environmental protection are relatively young and operate in a weak public administration context. A number of problems – of which a lack of influence over other agencies is the most critical – severely constrain implementation of sound policies on the ground. While donors and government are actively seeking to strengthen environmental agencies, it is also important to mainstream environment into other sectoral ministries and agencies.

(d) Diversifying sources of financing for implementing priority programs

Government plans are ambitious and the strategy is unaffordable if public funds are the only source of funding. A core workplan should be identified from the many desirable activities proposed in the Strategy. Even then, expenditure requirements will demand that sources of financing for environmental protection will have to be diversified by implementing user charges, making environmental funds effective and improving SOE environmental practice.

I. LONG-TERM VISION

6.1. The Government of Vietnam’s 10 year National Environmental Protection Strategy (NSEP) recognizes that there is a rapid deterioration in environmental quality and natural resources. In the last five decades, natural forest cover has shrunk from 43 percent to 29 percent of land area, and the country is facing an acute shortage of arable land. Habitat loss has led to a rise in the number of threatened species.¹⁹ High rates of rural under-employment, also linked to land shortages, and an emphasis on industrialization, have contributed to migration to cities. Cities are growing at the rate of 4.5 percent per year, more than triple the rural population growth rate. Burgeoning urban populations are overwhelming municipal infrastructure and services and causing environmental problems such as unmanaged landfills, transport-related air pollution, untreated hospital and hazardous waste, and raw sewage flowing in open channels. Sedimentation, and point and non-point sources of pollution are threatening the health of rivers. Over-fishing and destruction of coral reefs and mangroves have reduced the fishing yield.

6.2. In response to evidence of serious environmental degradation, the Government of Vietnam embarked on a process of integrated environment and development planning (see Box 6.1). Various international institutions and official development assistance (ODA) projects have supported these strategic planning initiatives, which have laid the groundwork for the recent National Strategy for Environmental Protection (NSEP) for 2001-2010, and an Action Plan for the first five years.

Box 6.1: Evolution of Environmental Actions

- 1985: draft *National Conservation Strategy (NCS)*
- 1991: *National Plan for Environment and Sustainable Development (NPESD)* for 1991-2000
- 1994: Law on Environmental Protection which led to the creation of institutions such as the Ministry of Science, Technology and the Environment (MoSTE), and the National Environment Agency (NEA) since the early 1990s.
- 1995: *Biodiversity Action Plan (BAP)*.

6.3. The 10 year NSEP and Action Plan, henceforth referred to as “the Government Strategy” and “Action Plan”, aim to chart a path of economic growth that is compatible with environmental protection and improvement. Environmental degradation puts the poor at much greater risk than their better-off counterparts, in urban and rural environments, in forests and coastal areas, highlands and lowlands. The Government’s overall commitment to sustainable development places the poor at the center of its Strategy, and the main challenge of the next decade will be to improve livelihoods while simultaneously protecting the environment. Opportunities to improve the living environment of the poor go hand-in-hand with broadening livelihood options, providing safety nets and most fundamentally, improving health and safety.

¹⁹ Red Book 2000 data show that Vietnam ranks 18th among the top 20 countries with largest number of threatened mammal species and bird species respectively, and 6th among the top 20 countries in terms of threatened reptile species (IUCN Red List of Threatened Species, 2000). This ranking is high given that the other top 20 countries listed are many times larger (in terms of surface area) or are island nations.

Table 6.1: Current Trends in relation to Government priorities and targets to be achieved by 2010

2000 Trends	2010 Targets
Government Priorities: Brown Sector	
<u>Industrial Trends</u> <ul style="list-style-type: none"> 82% of worst polluters are located in residential areas (1) 90% of the factories established before 1995 have no waste treatment facilities (2) 	<u>Industrial Pollution Prevention and Control Targets</u> <ul style="list-style-type: none"> Cleaner production applied to reduce raw materials, water and energy consumption by 10-25% 80-100% industrial hazardous waste collected and treated Pollution load from industry reduced by 10% from current levels 80-100% factories relocated to industrial parks
<u>Urban Trends</u> <ul style="list-style-type: none"> 65-70% population have access to clean water (3) 20-60% population served by sewerage systems in Hanoi, Haiphong and HCMC (3) 49% of the solid waste generated is from the four major cities. (4) Collection efficiency for Hanoi and HCMC are 50% and 80% respectively (3) Air pollution level exceeds standards by 2-5 times (2) Dust, lead, noise pollution from transportation sources are most serious and continue to increase (5) 	<u>Urban Environmental Trends</u> <ul style="list-style-type: none"> 80-85% population with access to clean water 80-85% access to sewerage systems 80-90% municipal waste collected in urban areas 80-100% class I and II cities have landfills Within national standards Use of unleaded gasoline from July 2001
Government Priorities: Green Sector	
<u>Forest Cover Trends</u> <ul style="list-style-type: none"> Forest coverage 29% in 1999 (2) compared to 26% in 1990 (6) (note 33% in 1976 and 43% in 1945) (6) Annual loss declined (ha/year): 350,000 (during 1970-1995) (5) to 120-150,000 (1998) (2) Forest plantation increased (ha/year): 100,000 (1990) to 200,000 (1998) (2) 	<u>Forest Targets</u> <ul style="list-style-type: none"> Forest coverage is at least 40% 5 million ha planted by 2010
<u>Land Use Trends</u> <ul style="list-style-type: none"> Barren land 13.4 million ha or 40% (1990) reduced to 10.6 million ha or 32% (1998) (5) “Problem soils” are 19 million ha (or 50% of plain areas) Potential soil erosion 50-4500 ton/ha/year (5) 	<u>Reforestation and Rehabilitation Targets</u> <ul style="list-style-type: none"> 50% reduction in barren and degraded land 90-100% regeneration of depleted upland forest
<u>Protected areas and Wildlife Trends</u> <ul style="list-style-type: none"> 2.2 million hectares of protected area account for 7% of land area (1998) (5) 28% mammals, 10% birds, 21% amphibians and reptiles are at risk in 1995 (2) Illegal trade in wildlife and poaching on the rise (no figures available) (2) 	<u>Protected Areas and Wildlife Conservation Targets</u> <ul style="list-style-type: none"> 10% of total land area protected BAP implemented fully and updated Regional BAPs prepared and implemented
Government Priorities: Blue Sector	
<u>Inland Surface Waters Trends</u> <ul style="list-style-type: none"> Organic pollution rising in large rivers and are at risk of eutrophication – Nitrogen and Phosphates concentrations 4-200 times higher than standards (2) Increased pollution in coastal areas and estuaries – No. of parameter exceeding standards has increased from 6 (1997) to 12 (1998) (5) 	<u>Inland Surface Waters Protection Targets</u> <ul style="list-style-type: none"> Water quality in major freshwater sources within national standards National standards approved by 2002 for sustainable use of water resources and river basin protection
<u>Coastal and Marine Resources Trends</u> <ul style="list-style-type: none"> 10837 species of marine plants and animals are at risk Coastal wetlands decreased at 6% annually (average over the past five years) (7) In-shore catch per fishing unit reduced, because of over-fishing and destructive methods, ton/boat 16.7 in 1996; 15.3 in 1997 and 13.8 in 1998 (7) 	<u>Coastal and Marine Resources Protection Targets</u> <ul style="list-style-type: none"> National system of 15 marine protected areas established 64 wetland areas protected Rate of mangrove and wetland loss reduced by 10% and 90% respectively Off-shore fishing program implemented Integrated Coastal Zone Management implemented

(1), (2), (3), (4), (5), (6) and (7): see Endnote of the Chapter for reference

6.4. The three main objectives of the Government Strategy are to prevent and control pollution, to protect, conserve and sustainably use natural and biodiversity resources, and to improve environmental quality in urban, rural and industrial areas. The Strategy was developed through a three-year process that involved a wide range of ministries, provincial authorities, research institutes, NGOs, bilateral and multilateral organizations, and other stakeholders. The process also included specific discussions about priorities, and potential components of the Action Plan. The Strategy identifies 13 critical program areas and eight cross-cutting themes. From among them, seven priorities have emerged. Four priorities relate to improving environmental quality in the industrial, urban, water resources and forestry sectors, and the other three are cross-cutting themes that relate to institutional capacity and human resources development, education and awareness, and community participation. Priorities and targets of NSEP are compared with current trends and summarized in Table 6.1 above.

II.1 Challenges to Attaining the Vision

6.5. By identifying its long-term vision and defining a Strategy and Action Plan, Government has taken an important step in setting a credible policy framework for environmental investment by national and international organizations and the private sector. In doing so, it is building on the assessment of the plan for the last decade (see Box 6.2). The vision of economic growth and environmental improvement requires that critical issues be addressed. This section focuses on four key challenges that could influence results on the ground in the near term, and impact changes in the longer term:

- Creating incentives for changing behavior;
- Involving communities and citizens more fully;
- Improving institutional effectiveness; and
- Diversifying financing sources for implementing priority programs.

Box 6.2: Assessment of the 1991-2000 Plan

A recent intersectoral review of the National Plan for Environment and Sustainable Development (1991-2000) facilitated by the NEA showed that unsatisfactory progress has been made in the following areas:

- Integrated environmental planning for resource development;
- Sustainable development strategies at the sectoral level;
- Environmental monitoring and analysis;
- Education, training and environmental awareness;
- Urban development planning and population control;
- Integrated watershed management;
- Integrated coastal zone management and planning;
- Preservation of biodiversity.

II. CREATING INCENTIVES FOR CHANGING BEHAVIOR

6.6. Community empowerment, enforcement of laws and decrees, access to knowledge, and the provision of information and trade opportunities, act as incentives to induce behavioral changes necessary for environmental protection and sustainable resource use. Without such changes in behavior, the downward spiral in environmental trends in Vietnam cannot be reversed.

II.1. “Green” Issues

6.7. **Improving Community Participation in Natural Resource Management.** Integrated watershed management and community forest management approaches are increasingly used for biodiversity conservation and natural resource management. The former approach has the additional benefit of providing a holistic approach to the multi-purpose use of highland areas through improved agriculture, sustainable forestry and water resource management. DANIDA, ADB and GTZ have been actively working with local communities on integrated watershed management; and a growing number of national and international organizations are working on projects related to community forest management. Both approaches focus on improving livelihoods and seeing natural resource management in the context of social and economic development.

6.8. Although, lessons from the field indicate that community forest management can be an effective way of meeting conservation objectives, formal support for this method has been incomplete. The Strategy repeatedly stresses the need to promote collaborative/community management of forests and protected areas, and the Action Plan has set a target for development of required legal guidelines for community involvement by 2001. It is hoped that forthcoming management regulations for Special-use Forests will make legal provisions for community involvement in protected areas management.

6.9. **Improving Forest Management.** The Government is seeking ways to halt deforestation and ensure successful rehabilitation efforts. Underlying causes of deforestation and degradation in Vietnam include rural poverty (see Chapter 3), insufficient arable land, limited and inappropriate institutional capacity²⁰ to protect forests, and land tenure policies.²¹ Immediate causes of forest loss include: population expansion in forest areas, fuelwood collection, logging²² and harvesting of wood and non-wood forest products, fires and development activities such as the construction of roads, dams or high voltage power, and for the provision of new lands for agriculture and human settlement in the heavily populated deltas. A further complication is that employees of State Forestry Enterprises (SFE) are often allowed to farm areas of productive land

²⁰ The capacity of MARD and provincial and district forest services to manage and protect public forest is limited. Legal, policy and regulatory frameworks are complex, low numbers of trained field personnel and scarce funds are serious constraints.

²¹ Land tenure – The absence of an appropriate system of land use planning and land allocation in forest areas has constrained the ability of local populations to exercise authority and responsibility for managing forest land. In many cases, forests are treated as open access resources (particularly by immigrant groups), and consequently they suffer degradation. There is also a lack of dialogue between government officials and ethnic minorities about “local” perceptions of land tenure.

²² Logging by SFEs (averages 300,000-450,000 cubic meters/year in natural production forests) and illegal cutting by various groups (estimated to be between 500,000 and 1 million cubic meters/year), have resulted in the loss of large areas of forest.

in the forest in order to supplement their livelihood. This practice encourages steady encroachment and conversion of forest to agriculture.

6.10. To fight encroachment problems, incentives have been granted in the form of long-term land use rights over forest areas at the household and community level. This process, encompassed in the Five Million Hectare Reforestation Program, is described briefly in Box 6.3 and the partnership process is highlighted in Part II. Further incentives to turn damaging logging practices into sound forest management will be created with the implementation of the Forest Certification Program and the SFE reform process.

Box 6.3: The Five Million Hectare Reforestation Program

The Five Million Hectare Reforestation Program is a major management initiative, approved in July 1998 and directed at meeting forest product needs in a sustainable manner, protecting the environment and increasing social and economic benefits.

- **Key objectives** of the program include protecting and efficiently using existing forests.
- **Forest cover will be increased** by natural forest regeneration and extensive planting efforts, including planting industrial crops and fruit trees.
- **Guiding principles** of the program include: decentralization, local participation, coordination and integration of reforestation activities and more efficient use of scarce government resources.
- The program will take an **operational program approach** to improve policy and the institutional environment in the forestry sector.

6.11. **Improving the Management of Protected Areas.** Apart from the 11 national parks, there is no central government funding available for biodiversity conservation activities at the remaining 79 Special-use Forests that have been decreed by the Government of Vietnam. The only funding available is for reforestation activities under Decision 661. Further, there are a number of institutional and management issues surrounding the current protected areas network that need attention. First, biodiversity and different forest land types are unequally represented and there are vast areas of degraded, non-forest land within the current protected areas network. Second, accurate information concerning protected areas — precise reserve boundaries, names, and legal status — is not available. Third, the integrity of protected areas is suffering due to the fact that certain areas have been encroached upon and therefore are no longer effective as protection areas. Fourth, the legal framework is now outdated in relation to protected area management, and management approaches for most protected areas need updating.

6.12. The Government recognizes that a coherent approach is needed for the management of protected areas. The Ministry of Agriculture and Rural Development (MARD) proposes an increase in the area of Special-use Forests from 1.3 million to 2 million hectares, which would significantly expand the coverage of protected areas. The UN System, DANIDA, GTZ, WWF, IUCN, and Birdlife-International are supporting the Forest Protection Department and Forest Inventory and Planning Institute with capacity building, knowledge management and dissemination initiatives through Creating Protected Areas for Resource Conservation (PARC), Expanding the Protected Areas Network in Vietnam for the 21st Century, and Strengthening Protected Area Management (SPAM).

6.13. **Stemming Wildlife and Rare Plant Trade.** Since most protected areas are under-staffed and under-funded, poaching for the lucrative trade in wildlife species is widespread. Habitat loss and hunting have resulted in 16 different primate species, 4 very large mammals²³ and 25 bird species becoming threatened. In addition, at least 2,300 plant species are harvested for food, medicine, construction, textile production and water-proofing. An increasing volume of these plant and animal species are bartered and traded to neighboring countries, especially China and Thailand. Being a signatory of CITES, the Government must work more closely with its neighbors to stem trade in rare plants and wildlife. Awareness raising is being used to combat the wildlife trade. TRAFFIC²⁴ is assisting MARD to strengthen Vietnam’s commitment as a signatory to the Convention on International Trade in Endangered Species (CITES) by supporting several capacity building efforts.

II.2. “Blue” Issues

6.14. **Water Resources Management.** One of the keys to sustaining growth is the better management of the country’s water resources. Despite its relative abundance, water is an increasingly vulnerable resource in Vietnam where population and economic growth compete for water to meet food requirements and other uses. Rapidly rising demands for water from rural and urban sectors for agricultural, industrial and household uses, pose a formidable challenge. Much of the existing infrastructure in rural areas (irrigation, drainage, flood control) has deteriorated and water quality is decreasing. In urban areas, the demand for water is expected to double over the next 20 years. To address these challenges, government will need to accelerate reforms, and bring about closer cooperation among sector ministries and donors.

6.15. The Government recognizes the challenge of the water sector and its response has been to pay closer attention to water management. A new Law on Water Resources (LWR), which provides for significant water resource management reforms, was passed by the National Assembly in May 1998. The LWR took more than 10 years to develop. Many of the reforms set out in the LWR are now being implemented and many donor agencies are supporting the process of change.

6.16. To improve delivery of water services, the government has adopted a decentralized and participatory approach. Provincial irrigation and drainage management companies have been established which are encouraged to become autonomous and self-financing. The participation of water users is being promoted through water user groups and cooperatives. The recovery of operation and maintenance costs is recognized, although subsidies are still large and service standards and performance indicators have yet to be established. Further progress will be needed in these areas, including a process of sustained capacity building.

6.17. The successful implementation of the LWR and initiatives for participatory management of water services will require a number of important changes. Current institutional arrangements for water resource management reflect a vertically oriented and fragmented subsectoral approach, which does not facilitate coordination or collaboration among agencies and stakeholders. Horizontal collaboration will be introduced over time, among ministries at the

²³ Large mammals include gaur, banteng, tiger and Asian elephant.

²⁴ TRAFFIC, a joint program of IUCN and WWF, aims to help ensure that trade in wild plants and animals is not a threat to the conservation of nature. The TRAFFIC network works in cooperation with the Secretariat of CITES.

national level and among provinces at the river basin level. The establishment of the National Water Resources Council and River Basin Organizations should facilitate this process.

6.18. **Inadequate Definition of Marine and Coastal Protected Areas.** Vietnam has a 3,200 km long coastline that supports growing urban populations together with many agricultural and fishing communities that rely on valuable coastal wetlands and coral reefs. Industrial and urban development, fisheries, agriculture, forestry, mineral exploitation, shipping and tourism are some of the key activities that use and affect coastal and marine environment services and resources.

6.19. Fisheries are increasingly important to the economy, and much of the growth in this sector has been in unregulated activities. Over-fishing and destructive fishing practices are common, and are contributing to reduced productivity. A fisheries master plan was completed in 1990 with assistance from DANIDA. In addition there has been a Prime Ministerial Decree for the Protection of Fisheries and a decision banning damaging fishing methods. In 1997, preferential taxation was granted for off-shore exploitation of marine products to reduce pressure on marine resources in near-shore areas. Such incentives should be reviewed regularly to assess their positive and negative impacts. DANIDA and NORAD are currently working with the Ministry of Fisheries to develop a national Fisheries law.

6.20. With assistance from the ADB, the Government is developing a national strategy for coastal and marine environmental management, which is expected to establish a system of marine protected areas (MPAs). A greater role is envisaged for community-based resource management activities. A pilot project with international assistance is being planned in Hon Mun (Khan Hoa Province) to test alternative management approaches and to provide training of key stakeholders.

6.21. However, a good deal of work still needs to be done. Coastal zone management requires integrated planning and management -- both relatively new approaches in Vietnam. According to the UNDP/MPI *Study on the Effectiveness of Aid to the Environment Sector*, national laws and regulations on marine conservation are rarely understood or applied at the provincial level. In the case of offshore polluters, fines are not assessed based on the actual damage caused. The conflict between production targets, especially in the case of shrimp farming and other aquaculture activities, and conservation goals is a stark one.

6.22. **Wetland Habitats.** Vietnam has 40 types of wetland habitats,²⁵ with considerable economic and ecological value. The Mekong Delta, covering 3.9 million hectares, fulfils an important role in regional and global biodiversity.²⁶ Unfortunately, this extraordinary diversity is at risk -- five large waterbird species²⁷ have been extinct as breeding birds in the Mekong Delta in the last 30 years, largely as a result of habitat loss. The coastal zone of the Red River Delta supports a large inshore fishery, which is dependant on the maintenance of the ecological integrity of mangrove forests, inter-tidal areas and other associated habitats. The inter-tidal areas have been identified to be of international importance as feeding and roosting areas for several

²⁵ Including Melaleuca forests, seasonally inundated grasslands and swamps, lakes, mangroves, paddyfields, estuarine habitats, mudflats and aquacultural ponds, with a huge network of interconnecting river channels and canals.

²⁶ Over 200 bird species and 260 species of fish are known from the Mekong delta, together with numerous species of shellfish, amphibians and reptiles. It is an important breeding area and migration route for waterbirds.

²⁷ The five species include: Black-necked Stork, Spot-billed Pelican, Milky Stork, Greater Adjutant, and Giant Ibis.

globally threatened bird species. Covering an area of 866,000 hectares, the Red River Delta is one of the most densely populated areas in the world. The delta is intensively exploited, and the livelihoods of many people are highly dependent on ecological features of wetlands.²⁸

6.23. Based on the level of threat, the conservation importance of wetlands, and the under-representation of wetlands in the protected areas system of Vietnam, there is an urgent need for the identification of key wetland sites, in order to ensure their conservation and sustainable use.

6.24. **Defining and Managing Wetland Protected Areas.** A lack of information, and overlapping and unclear responsibilities, are the two main reasons for poor management of wetlands and rapidly declining wetland habitats (which are being lost at higher rates than other natural systems). The existing information on wetlands is dated because a national level inventory has not been undertaken since the late 1980s. NEA is mandated to produce a candidate list of Ramsar sites, while the management responsibility for wetlands rests with MARD.

6.25. Out of a total wetland area of some 3.9 million ha, protected areas cover only 62,083 ha or 1.6 %.²⁹ There is no comprehensive national system of wetland protected areas, and significant areas of seasonally inundated grasslands and freshwater sites are poorly represented. To enhance Vietnam's commitments under the Convention of Biological Diversity and the Ramsar Convention, the Government has begun compiling a list of proposed freshwater protected areas and drafting a wetlands management strategy.

II.3. “Brown” Issues

6.26. Recognizing a shift in the country's industrial structure, the NSEP has identified *greening of the industrial sector* as a priority. The attainment of this objective depends on credible enforcement and compliance mechanisms that regulate pollution and provide incentives to prevent pollution from occurring. Environmental management of small and medium enterprises is particularly troublesome, given their size and numbers and the relative inability of the enforcement mechanism to trace them.

6.27. **Improving the Effectiveness of Existing Instruments.** Although Vietnam has sound environmental laws and procedures to curb pollution, they are poorly enforced. While laws empower MoSTE with enforcement authority and its staff can inspect firms for compliance with standards and decrees, typically, MoSTE and its provincial offices (DoSTE) lack the necessary resources, manpower, and equipment to perform their duties systematically. Reliable plant-specific emissions and discharges data are virtually non-existent and the general level of compliance with standards is not well known.³⁰

²⁸ It is clear that the species within these ecosystems are poorly known and many species remained un-named. However, a recent effort to address this issue was abandoned because of the Government's decision not to allow the temporary export and identification of systematic collections[0].

²⁹ Of these areas, 43% is coastal mangrove and mudflat and 56% is Melaleuca forest, seasonally inundated grassland and swamp.

³⁰ A recent analysis by the Hanoi Environment Committee indicates that 124 out of 300 medium and large sized factories had emissions that exceeded standards.

6.28. Under the present command and control approach, industries must comply with specific regulatory environmental standards prescribed by MoSTE.³¹ Despite the fact that Vietnamese Standards allow for the adaptation of standards according to the specific industrial sectors, their use is uniform, and the same standards are applied irrespective of activity. Given that there are wide variations in industrial production processes, levels of abatement effort and costs vary widely across sectors, compliance with a uniform standard may be out of reach for one industrial sector (even upon exercising reasonable pollution control effort), while simultaneously being attainable by another sector. Simply establishing standards does not ensure that polluters will initiate efforts to control pollution; there must be strong incentives to make the investments necessary for cleaner production. Global experience suggests that Vietnam should shift its standard setting approach to target priority pollutants that are most harmful to the environment and human health, and whose removal has significant and immediate benefits.

6.29. **Adding Incentives: Expanding the Choice of Instruments.** All around the world, efforts are underway to complement the command and control approach with economic instruments such as pollution fees (see Section V), and the use of public disclosure. Plant managers respond to economic incentives, and will reduce discharges only if they expect the additional cost of doing so to be less than the penalties imposed on them. Such penalties may include fines, closure, or pollution charges, but also social pressure from communities that are affected by the pollution. In many developing countries environmental protection legislation often requires amendment to enable the use of economic instruments. However, this does not appear to be the case in Vietnam as both the Law and the Decree (175/CP) on Environmental Protection allow the use of economic instruments. MoSTE should take advantage of this and formulate the necessary policy and institutional framework for the immediate application of such instruments.

6.30. Public disclosure of environmental information, including the pollution control performance of selected industries, can be a powerful environmental management tool. It empowers communities and local government with knowledge, and encourages public participation in the environmental protection process. There are many examples (see Box 6.4) wherein public disclosure has resulted in improved reduction of pollution of target industries.

Box 6.4: Using Public Disclosure in the Philippines— The EcoWatch Program

Following the PROPER example set in Indonesia, the Department of Environment and Natural Resources in the Philippines created EcoWatch. In April 1997, EcoWatch published its initial accounting of 52 factories in the Manila area. The graphic summary showed that 48 plants ranked *red* or *black*, indicating a 92 percent rate of non-compliance. The *compliant* or *blue* firms were congratulated in a public ceremony. The non-compliant firms were notified and given a substantial period to reduce pollution. Although no firms reached the *very good* or *world class* rating, following full public disclosure in November 1998, blue ratings jumped from 8% in April 1997 to 58% in November 1998, and red ratings declined sharply. Other countries like Mexico and Colombia are designing similar public disclosure systems.

³¹ Industrial air emission standards are defined in Vietnamese Standards 5939-1995. Ambient air quality standards are defined in Vietnamese Standards 5937-1995 and 5938-1995. Surface, coastal, and ground water quality standards are defined in Vietnamese Standards 5942-1995, 5943-1995, and 5944-1995 respectively.

6.31. Providing support for conversion to cleaner production technologies is another way of greening the industrial sector. In selected cases, this can be a cheaper alternative to the formal regulation methods which require monitoring, data analysis, and sometimes the use of court action – all of which are time consuming and expensive ways of ensuring compliance.

III. INVOLVING COMMUNITIES AND CITIZENS MORE FULLY

6.32. Government plans give high priority to “encouraging public participation.” This high-level attention should initiate a process of greater local government accountability and increased community participation. The Strategy could do more to recognize that investments in environmental management can actually support income generation. The real and perceived opportunity costs of promoting industrial growth or agricultural intensification must be evaluated more thoroughly. In the interim, however, programs that promote income generation, invest in health and social protection while simultaneously protecting natural resources or reverse environmental degradation should be nurtured. Programs such as FINNIDA’s revolving funds for sanitation, the World Bank’s *phuong* level environmental pilots in urban Haiphong or GTZ’s Social Forestry Development Project in Song Da, and the Vietnam-Sweden Mountain Rural Development Project (MRDP) should be examined for valuable lessons. In the past, little attention has been paid to incentives and capacity building for environmental management at the community level. The main reasons for this are the following:

- limited environmental awareness;
- few environmental non-governmental organizations; and
- highly centralized environmental planning and management.

6.33. In addition, a highly centralized structure that pre-empts local agenda-setting, and an incentive structure that discourages both enforcement and compliance, are also to blame. These two reasons are elaborated elsewhere in this chapter.

6.34. **Building Environmental Awareness.** The Strategy assigns high priority to environmental education at the primary, secondary, and tertiary levels. Teacher training is also a part of the plan. The draft Strategy proposes that four percent of total environmental expenditures be invested in environmental education and community-driven programs. New environmental education curricula are being developed. The expenditures, however, will have positive impacts only if there is a greater role for community organizations in determining priorities in the environmental management process. To accomplish this goal, the Action Plan should focus on ways to build local government-community partnerships in which the people would determine their own priorities and assume some responsibility in the implementation of local-level plans and programs for environmental improvement.

6.35. **Facilitating Environmental NGOs.** The Strategy mentions harnessing existing mass organizations in the implementation of the Action Plan, but could do more to acknowledge the potential contributions of community organizations and the private sector, that are outside the influence of the government structure. Non-governmental organizations that specialize in environmental monitoring, education and advocacy would need independence in order to be effective in furthering the environmental agenda. Further, environmental monitoring and reporting by credible organizations outside the state structure would also put pressure on the

SMEs and the nascent private sector to pay greater attention to environmental impacts. Pilot level activities, facilitated by NGOs, can introduce new ideas and approaches in communities where the local government organizations have failed to bring about the desired changes.

6.36. **Engaging Local Communities.** There is growing recognition of the idea that “local people know best what is happening in their environment.” In the past three years, community-based land use planning and forest management has developed significantly, through the intervention of donor-assisted projects. The Action Plan has established that a Decree providing guidelines for the formation and operations of community environmental groups will be issued in 2001. Under the current land law, there is no provision for forest land to be allocated to communities, so all of the community forestry work is done as pilots.

6.37. The Strategy recognizes a limited role for communities in environmental monitoring. And it has been pre-determined that selected communities will be trained to monitor water quality. These communities will need to learn how to report the results of the water quality monitoring to enable local agencies to take remedial actions. In essence, local communities must be able to apply adequate pressure for cleanup of their resources and use the local DoSTE as a partner in this process. This is especially true if the community is downstream from a pollution source.

IV. IMPROVING INSTITUTIONAL EFFECTIVENESS

6.38. The previous 10 year plan did not adequately address institutional capacity, but the new Strategy, correctly accords high priority to institutional development. The roles of the key agencies are summarized in Box 6.5.

6.39. **Effectiveness of Existing Institutional Arrangements.** MoSTE and NEA are young agencies, working in a weak public administration context that is neither performance-based nor outcome-oriented (see Chapter 7 for more on public administration reform). Their effectiveness is severely limited by small budget allocations, inadequate skills, a lack of mandates at district level, and perhaps, most importantly, a lack of influence with other Ministries and agencies in Vietnam. Existing technical assistance programs,³² have made efforts to build capacity within MoSTE and NEA, and have established the foundation for the proposed upgrading and re-organizing of NEA to a General Department of Environment.

6.40. To worsen the problem of weak national institutions, the legal framework is inconsistent in assigning environmental management responsibility. At least 14 ministries and 10 state committees/general departments have responsibility for environmental and natural resource management functions. Ministries and agencies are highly segmented, with limited cooperation among them. There are significant functional overlaps, making coordination time consuming and resource intensive, and accountability difficult. In addition to capacity-building, GoV needs to give priority to streamlining and re-organizing environmental and natural resources functions and agencies as part of its broader efforts to reform the public sector.

³² SIDA-supported Strengthening Environmental Management Authority (SEMA) Technical Assistance and the Canadian supported Vietnam Canada Environment Program (VCEP). The SEMA project has made efforts to strengthen capacity in 6 DoSTEs in addition to the NEA and MoSTE, while the Vietnam-Canada Environmental Project, funded by CIDA, is working with 7 DoSTEs.

Box 6.5: Existing Institutional Arrangements

- Ministry of Science, Technology and Environment (MoSTE) is the principal government agency responsible for environmental protection.
- National Environmental Agency (NEA) was established in 1993 as an executive department for environment within MoSTE. NEA is headed by a Director General assisted by two deputies and has nine divisions: Education, Training and Information, Database Management, EIA, Inspection, International Relations, Monitoring, Pollution Control, Policy and Legislation and Nature Conservation.
- Department of Science, Technology and Environment (DoSTE) At the provincial level, DoSTEs have been established in all 61 provinces, and as of 1995, environmental management divisions are part of DoSTE offices.
- Environment Units. In the line ministries, these units are responsible for environmental matters within the sector.
- Department of Science, Education and Environment (DSEE) within MPI, oversees environment sector issues, and is the MPI counterpart to MoSTE and NEA. MPI's Development Strategic Institute takes primary responsibility for the preparation of regional plans.
- Ministry of Agriculture and Rural Development (MARD). Different departments have natural resource management responsibilities in agriculture, forestry and water resources.
- Ministry of Construction (MoC) is responsible for spatial planning and building water supply and sanitation facilities.
- Ministry of Fisheries (MoFI) is responsible for marine resources management and conservation.
- General Department of Land Administration (GDLA) oversees land-use planning and management.
- Hydrometeorological Services (HMS) is a ministerial level agency responsible for water quality, precipitation, climate change and ozone protection activities.
- National Center for Natural Sciences and Technology and a network of research institutes in the line ministries serve as a technical advisor on environmental issues.

6.41. **Mainstreaming Environment in Sectoral Ministries and Agencies.** Since 1991, much work has gone into integrated environment and development planning. However, this planning has not translated into the desired results because environment continues to be accorded low priority by different ministries, and the planning process remains very sector-specific. To further enhance integration and avoid this problem, the Government Strategy has recommended that each ministry should strengthen/establish ministry-level environment management units that are responsible for ensuring that Strategic priorities are incorporated in sector-specific plans, work programs and budgets. Industrial development, transport, mining, hydropower and agricultural production have emerged as priority sectors. A SDC-UNDP supported project assists MPI in incorporating environmental aspects into the planning and investment process. This project has three pilot programs in three provinces and will produce tools to help planners to screen environmental aspects of investment projects.

6.42. Presently, some ministries have a Department of Science and Technology that is responsible for environmental matters, while some have attached environmental protection

responsibilities to functional units. These institutional arrangements should be reviewed to ensure that mainstreaming does occur effectively. The Action Plan target is to have all units established by 2002. In addition, a formal accountability mechanism (in the form of environmental score cards) could be put in place to ensure that effective reporting on and integration of environment into the particular sector occurs.

6.43. Decentralizing Decision-making. The Strategy expresses a clear commitment to upgrade and strengthen the institutional arrangements and human capacity for environmental management at the provincial level. It is expected that the provincial DoSTEs will be reorganized. The provincial environment authority should have clearly established lines of accountability for environmental protection, and sufficient budgets to carry out monitoring and enforcement.

6.44. Provincial and district-level environmental departments have little power to influence planning and investment at the local level, or to influence action by solid waste and sanitation companies. Similar to mainstreaming environment into development policy at the national level, institutions need to see that provincial sector development plans integrate environmental concerns. The newly created post of District Environment Officers can be critical in mainstreaming environmental concerns into investment plans, and ensuring that DoSTE evaluations, objections, and licensing processes are upheld. It is critical that these officers be well trained, technically proficient, and respected by colleagues in other departments.

6.45. At the district level, efforts should be made to strengthen the local government capacity, changing from a sole provider to an enabler and facilitator of environmental services. Some service provision should be contracted out and local governments should take on the responsibility of performance and service quality monitoring. Lang Son and Danang are using private contractors for waste collection and septage removal from households, who also collect the relevant service charge.

6.46. Making Environmental Impact Assessment a more Effective Tool. Recent analyses reveal significant shortcoming in the environmental impact assessment (EIA) process in Vietnam. The scope and application of EIA process should be expanded to integrate environmental and social dimensions of policies, programs, and projects. EIAs should be used as a tool for analyzing investment alternatives, rather than as a step to receive an investment license. They can also become a mechanism for encouraging wider public participation in investment planning and decision making. NEA/MoSTE should be encouraged to promote public participation, consultation and disclosure of all EIAs as part of their review process.

6.47. Currently, MoSTE's environmental review process focuses on the private sector and large ODA, FDI and joint venture projects.³³ MoSTE has little to no influence over other Ministries, yet these Ministries are involved in projects that often have significant environmental impacts. Further, DoSTEs are often responsible for the oversight of environmental management plans and the monitoring and mitigation functions outlined in these, and despite capacity building efforts, local expertise for the preparation and review, and implementation of EIA

³³ There are four levels of EIA approval in Vietnam: Large projects that are of national importance are approved by the National Assembly; the next level of approval is granted by MoSTE; projects with limited regional impact and more limited budgets and social/environmental impacts are approved by the Provincial Peoples Committees, while still others are approved by line ministries.

documents remains weak. This is especially true in data collection and analysis both at the preparation stage and also for monitoring environmental impacts. All possible efforts should be made to encourage a greater role for entities outside the government to be involved in the preparation of EIA reports, and in supervision of their implementation. This will help build capacity in universities, environmental non-governmental organizations, consultants and within the private sector.

V. PRIORITIZING PROGRAMS AND DIVERSIFYING SOURCES OF FINANCING

6.48. The Government Strategy proposes that one percent of GDP should be spent on environmental protection during the period 2001-2005. A first step in bringing realism to the environmental targets outlined in the Government's Strategy is to look at environmental expenditures and achievements in the most recent period (such as the current five year plan). A rudimentary analysis of current environmental expenditures indicates that the Government will need to allocate several times more than what it currently spends in order to meet the Strategy targets, and this is unlikely given the competing priorities and tight budgetary situation. Therefore, it is better to target affordable and prioritized outcomes, and then see that financing is made available to meet these targets. For example, provision of water supply, sewerage, drainage and solid waste management in urban areas over the next 10 years is estimated to cost US\$ 5 billion, and it is not clear how these needs will be financed, or whether they are fully captured within the Strategy targets. The Action Plan is making a first attempt at setting financing needs, and has identified 20 priority projects that need to be implemented

6.49. The Government of Vietnam should consider a mix of financing instruments to support the implementation of Strategy priorities, aside from traditional ODA. These would include: increased allocation from budgets in sectoral ministries, widening the use of cost recovery measures, environmental user fees and pollution charges, using specialized environmental funds, accessing GEF resources and also tapping into emerging instruments such as carbon trading.

6.50. **ODA-- the Backbone of Environmental Investments To-date.** Official Development Assistance (ODA) in the form of grants, credits and loans accounted for much of the investment in environmental improvement in Vietnam. Between 1996 and 2000, over US\$ 560 million of ODA³⁴ was committed by several donors to support natural resources management (75 percent of total), urban environmental improvement, industrial pollution management, and capacity building activities. ODA effectiveness is summarized in Box 6.6.

³⁴ A Study of Aid to the Environment Sector in Vietnam, MPI and UNDP, November 1999 (Chapter 5; Trends in ODA).

Box 6.6: Effectiveness of Environmental ODA: 1985-2000

A study on aid to the environment sector in Vietnam (October, 1999) -- MPI, UNDP and IUCN came to the following conclusions:

- ODA's impact has been most visible in institutional and policy development, but many fundamental challenges remain unresolved;
- Benefits on-the-ground are not fully evident because of the long-term nature of environmental recovery;
- Too much emphasis was put on production and not enough on sustainable natural resources management, thus squandering opportunities to build environmental safeguards in natural resources management;
- Little attention has been paid to urban environmental management and industrial pollution prevention;
- Lower priority was assigned to regions containing high levels of Vietnam's remaining biodiversity stock;
- Local ownership should be harnessed and deepened if ODA assistance is to be sustained;
- Diversify recipients to include more national agencies and decentralized units so as to internalize capacity building efforts.

V.1. Supplementing ODA Support with Other Financing Options

6.51. In estimating a budget for improving environmental management, it is essential to identify the sources and means of revenue generation and financing beyond ODA support. Financing options suitable for Vietnam are summarized in Table 6.2. The Action Plan indicates that guidelines will be issued in 2003 for a polluter pay system and greater cost recovery for environmental utilities, however, these financing tools are a precondition to achieving most of the environmental targets. As Vietnam's private sector continues to grow, it must play a key role in financing environmental investments, while budgetary and ODA support will be needed for regulatory activities, public awareness, and environmental resource protection. The role of state owned enterprises (SOE) (industrial and natural resource extraction) will be a critical issue during the transition to a more market-oriented economy.

6.52. **Making Polluters Pay.** As mentioned in the earlier section, the Law on Environmental Protection provides opportunities for the implementation of Polluter Pays Principle (PPP) in Vietnam. If applied, firms would be required to prevent or control pollution or face penalties based on their pollution discharges and waste management practices. Profitable firms could afford this, but not those highly-polluting firms that are unprofitable, like many SOEs. Therefore, the implementation of PPP should first be piloted in a sector where enterprises are profitable and at the same time experiencing environmental problems, or in a geographical region where environmental problems are acute.

Table 6.2: Financing Options for Investing in Environmental Improvement

Domain	Activity	Types of Investment	Sources of Financing
Public/State	<ul style="list-style-type: none"> • Policy making • Regulatory capacity • Education and awareness • Public goods • Protected area management • Reforestation • Services for poor 	<ul style="list-style-type: none"> • Recurrent costs • Capital investments in buildings and services • Supporting environmental externalities 	<ul style="list-style-type: none"> • Government budget • ODA financing • Private Foundations
Utilities (Services/ Infrastructure)	<ul style="list-style-type: none"> • Water supply and waste management facilities in municipalities 	<ul style="list-style-type: none"> • Capital investments • Operation and maintenance 	<ul style="list-style-type: none"> • ODA, government budget, private sector participation • Cost-recovery through user charges • performance grants
Manufacturing Private	<ul style="list-style-type: none"> • Cleaner production • End of pipe treatment 	<ul style="list-style-type: none"> • Capital investment • Operation and maintenance 	<ul style="list-style-type: none"> • Private capital and borrowings • Environmental Fund • Earnings • Pollution charges • Performance grants
Manufacturing SOEs	<ul style="list-style-type: none"> • Cleaner production • End of pipe treatment 	<ul style="list-style-type: none"> • Capital investment • Operation and maintenance 	<ul style="list-style-type: none"> • Environmental improvements financed as part of SOE restructuring • Pollution charges
Household	<ul style="list-style-type: none"> • Services at individual and community level 	<ul style="list-style-type: none"> • Capital investment • Operation and maintenance 	<ul style="list-style-type: none"> • User fees • Community funds • Government budget • ODA financing
Global	<ul style="list-style-type: none"> • Supporting global objectives 	<ul style="list-style-type: none"> • Capital investment • Operation and Maintenance 	<ul style="list-style-type: none"> • GEF • ODA • Government budget

6.53. **Pollution Levies** are needed in Vietnam to provide an incentive for enterprises to reduce their pollution, and to raise revenue for investments in industrial pollution control. These levies should be high enough so that it pays to invest in cleaner production rather than continue paying the fines themselves. (See Box 6.7 for an example of user fees in the Philippines)

Box 6.7: Environmental User Fee Reduces Pollution in Laguna Lake, Philippines

To complement the existing regulatory system, a pollution charge system -- Environmental User Fee (EUF) -- was established in the Philippines in 1997. EUF serves as an economic incentive to protect water quality in the lake.

The fee, set at a level higher than the cost of abatement, has two components: a fixed fee to cover the administrative cost of permitting, and a variable fee based on pollution load. The basic fee is set at P5/kg BOD if the concentration level is within the standard. However, this increased six-fold (to P30/kg BOD) when standards are exceeded. This is in addition to pertinent fines and penalties imposed by law.

The first phase of implementation has shown that economic incentives do encourage firms to go beyond compliance, to generate less and recycle their wastewater, and to employ more cost-effective reduction measures.

	1997	1998	1999
Firms Covered	109	293	520
Fees Collected	P 6.2 M	P16 M	P11.8 M
BOD Reduction	5.4M kg	4.7M kg	TBD

Source: Philippines Environment Monitor 2000, (World Bank 2000d).

6.54. User Charges. Raising funds from the general municipal budget is a typical way of financing sewerage and drainage investments in developing countries. However, experience shows that in order for such investments to be fully utilized, operation and maintenance (O&M) expenditures need to be covered by a regular source of funding.³⁵ User charges were first introduced in Vietnam in the mid-90s, when Danang city levied a surcharge on water supply to cover O&M costs. This system was followed by Haiphong, in the context of the World Bank financed project, which is levying a surcharge of 200 Dong/m³ to the existing water supply tariff of 2000 Dong/m³ to cover sanitation and sewerage services provided by the city's Urban Environment Company. Ho Chi Minh will be the next city to introduce user charges in Vietnam. All major cities have instituted garbage collection fee to partly cover costs of solid waste collection. The implementation of user charges is also enabling the outsourcing of environmental services to private contractors. Lang Son is the first town to pioneer private sector participation, where the private company collects garbage and also 25 percent of the O&M costs, while the balance 75 percent is covered by the local budget. The use of user charges should be further expanded to ensure the long-term sustainability of drainage and sanitation investments in Vietnam, initially to cover operation and maintenance expenditures, and eventually future capital investments.

6.55. Environment Funds. Where a functioning credit market is absent or immature as the case is in Vietnam, a case can be made for the establishment of an environmental fund to finance pollution prevention or pollution control investments (as the NSEP has done). In Vietnam, three

³⁵ In the late 1980s and early 1990s, large Chinese cities such as Shanghai, Beijing, and Tianjin began investing urban sanitation projects. To help ensure efficient operation and improved cost recovery, municipal governments in these cities created autonomous wastewater companies and established tariffs to finance O&M of sewerage and sanitation facilities. Led by these cities, the central government in China established nationwide tariffs for wastewater collection and treatment.

pilot scale funds³⁶ have been established to support industrial pollution control activities. The question of a single fund versus multiple funds should be carefully examined, as mushrooming of funds could be counter-productive in the longer-term by promoting inconsistent eligibility criteria and lending conditions. It is important that environmental fund and environmental levies are integrated to the national fiscal framework to avoid policy distortions. The Fund should be professionally managed, preferably by a financial intermediary, and should not be viewed as an extension to the budgetary process or managed by the bureaucracy.³⁷ A key criteria for funding should be the financial viability of the enterprise. With experience, the activities of such a fund should be expanded to finance investments in municipal wastewater and solid waste management and also extend assistance for selected conservation activities.

6.56. Financing environmental clean-up of SOEs: In Vietnam, SOEs are poorly regulated and pose significant environmental hazards. Of the SOEs, 40 percent are not profitable, and another 20 percent have unstable financial performance (see Chapter 2 for more details). Most of the SOEs use old or obsolete technology, that is partly or largely responsible for the heavy pollution loads. They have no savings to finance environmental investments and they are unlikely to attract credit from lending institutions. Providing financial support for environmental pollution investment to an unprofitable SOE may reduce pollution in the short term, but may result in more pollution in the long term by keeping the enterprise open longer than otherwise had it not been subsidized nor provided with environmental credits. SOEs are under excessive bureaucratic control, and there are few incentives for managers of even the profitable enterprises to invest in environmental clean-up. Improving the environmental management of SOEs should be an integral part of their restructuring.

6.57. For the near-term it is anticipated that ODA will support capital investments and capacity building efforts in the public and state domain, while private capital and user charges can be mobilized for utility operations. One of the important recommendations of the donor effectiveness study was to ensure improved coordination not only among Government agencies but also between different donor activities. In support of this, Government and donors have proposed to set-up an Environment Support Group to better coordinate and facilitate environmental assistance and have identified five pilot partnerships that respond to the NSEP priorities, which are elaborated in the next section.

V.2. Opportunities for Partnership and Collaboration

6.58. The Government Strategy provides a framework for collaboration on programs in environmental protection, conservation, and sustainable use of natural resources. MoSTE and the donor community have proposed an Environment Support Group (ESG - see Box 6.8), as a partnership vehicle, to help foster the implementation of the NSEP and Action Plan. Emerging, from the Action Plan and the dialogue between government and the donors, are the following five priority program areas.

³⁶ Ho Chi Minh City Fund, Hanoi Environment Fund and VINACOAL Fund were established in the past two years and offer preferential loans to enterprises (large and SMEs) to reduce pollution.

³⁷ Thailand Environment Fund and Polish Environment Fund offer contrasting examples. The former is ineffective because of its bureaucratic style of management, laden with cumbersome procedures making it difficult for a beneficiary to receive assistance. The latter has embraced private management culture which is responsible for its very impressive results with loan recoveries accounting for nearly half its revenue stream, and has a diverse portfolio of beneficiaries.

- Environmental Policy and Institutional Development;
- Coastal and Marine Environment Management;
- Cleaner Production;
- Unleaded Gasoline; and
- GEF Strategy Implementation.

Box 6.8: Forging Partnerships

Over the past three years a number of support groups and around 20 partnerships have been instituted between the government and donors for variety of activities. The most noteworthy are the International Support Group (ISG) for MARD and the Partnership Support for the 5 Million Hectare Reforestation Program. The main objective of the ISG for Environment, which builds on similar experiences, is to enhance the effectiveness and efficiency of development aid to the environment, in line with government policy and priorities, and through a partnership approach. Unlike other ISGs, the ESG will be both cross-sectoral and multi-agency. Specific ESG objectives include the following:

- Integrate national and international investment in the environment under a single policy framework;
- Integrate the National Environment Protection Strategy into the plans and programs of all levels of government;
- Channel scarce resources to the highest priorities, while minimizing overlap and wastage;
- Further define and clarify priorities and programs on the environment; and
- Strengthen the management capacity of MoSTE/NEA to promote working linkages on the environment across sectors and between different levels of government.

6.59. All of the above are on-going activities or identified as critical gaps in the implementation of the previous 10 year plan. More importantly this approach would promote much-needed coherence among different donor activities in each of the program areas and also enable the re-direction of resources where there is overlap. The priority pilots also give an opportunity to attempt resolution to the key challenges detailed in the earlier section. It is anticipated that each pilot will address all or some of the challenges and provide feedback to the partners, especially the Government, on emerging lessons and future directions. These pilot programs supported by multiple stakeholders are a promising way forward.

6.60. **Monitoring Indicators.** Four types of monitoring indicators are needed to fulfill this vision. First, the government should begin to identify indicators that are outcome and performance based, rather than the current input-based (or target style) of indicators. The second set of indicators would come from the set of specific sector ministry scorecards on environmental integration referred to in the earlier section on mainstreaming environment into influential government institutions. Another set of indicators would be to monitor the effectiveness of ODA assistance to the environmental sector, perhaps through strengthening the National Environmental Information System. A final set of indicators could be developed by taking the indicators developed in the NSEP³⁸ and Action Plan and measuring progress towards

³⁸ NSEP produced an exhaustive list of indicators which could be used as an operational monitoring tool.

achievement of these indicators in the annual State of the Environment report produced by MoSTE.

End note:

- (1) JICA (2000), Draft Final Report, Master Plan Study for Industrial Pollution Prevention in Vietnam, p S-2-15.
- (2) MoSTE/NEA (2000), National Strategy for Environmental Protection, Draft.
- (3) World Bank 91999f) A Tale of Two Cities in Vietnam.
- (4) Dang Ngoc Tung (1999) Paper presented at the National Workshop on Sustainable Industrial Development, Hanoi, June 10-11.
- (5) NORAD/UNEP/NEA (2000), State of the Environment, Vietnam, Draft.
- (6) World Bank (1995) Vietnam Environment Program and Policy Priorities for a Socialist Economy in Transition, p
- (7) ADB (2000b) Coastal and Marine Environmental Management in the East Asia Sea, Phase Two, Project 5712-REG.

CHAPTER 7 BUILDING MODERN GOVERNANCE

Key Messages

In order to ensure that government works more effectively, particularly for the poor, the Government of Vietnam recognizes that it needs to focus on reform of the institutional structures and systems which facilitate this. Good progress has been made, but Government and donors together need to do further work to prioritize areas of future focus, specify the results that an improved system is trying to deliver, and analyze the constraints which currently prevent this from happening. The five key outcomes to which the Government might aspire are:

a) A stronger, more efficient Public Service which is capable of implementing policy and delivering better services to the people at all levels

In order to deliver the vision for 2010, Vietnam's Civil Service must become dynamic, responsive and efficient. It needs to promote a culture of excellence and an ability to set and keep to standards. The Government needs to draw up an effective change management strategy to drive through the Public Administration Reform needed to deliver better government for all.

b) Better and more transparent public financial management

Implementation of the Public Expenditure Review is an important step towards being able to raise, allocate and account for resources better. The public sector needs to change the way it takes and communicates decisions, with a clear move to information sharing and openness, moving to international standards of transparency.

c) Wider access to justice and a level playing field

The government needs to sustain the momentum that has built up in developing a legal system. To have the rule of law at the foundation of society and to make justice available to all citizens, Government and its partners need to work on a comprehensive strategy which makes justice, safety and security available to all, and places the rule of law at the foundation of society. Legal certainty and due process will provide a more attractive environment for small and large business.

d) More participative and responsive government, particularly at local levels

The Government aims to fully implement President Ho Chi Minh's principle that 'people know, people discuss, people execute and people supervise'. Much progress has been made, including the promulgation of the Grassroots Democracy Decree and the Law on Science and Technology. The challenge now is to deepen and strengthen this progress. Local governments need to make clear how they intend to operationalise these policies, and Government as a whole needs a plan to ensure that local government has the capacity to handle this greater participation and potential demand for more responsive services.

e) A government which fights corruption and waste at all levels

Fighting corruption is an important priority. Vietnam's leaders need to set an excellent example and must continue to show their determination to fight corruption at all levels. While there are individual steps which can help with this, such as minimizing red-tape and reforming procurement, it is important that the reasons behind corrupt behavior are understood and measures taken to address these at the same time. There is much international experience that can assist Vietnam in this task.

7.1. The vision of the Government of Vietnam is for a country that is governed by the rule of law, has efficient governance institutions at all levels and ensures a fair, equitable society for all Vietnamese citizens, while ensuring national security and being compatible with the needs of a more market-oriented economy.

7.2. Vietnam is at the beginning of a long process to achieve this goal. Better governance is not just an end in itself, but also the means to better results for the country as a whole and for its people. Although the broad policies have been articulated, more work is needed by both government and donors to define operational strategies which will deliver them. In particular, there is a need to make explicit the links between reform activities (such as training and capacity building) and the improved services to the people which these reform activities are intended to support. The strategies need to define the constraints to improved services, define solutions in operational terms and clarify responsibilities for action. The vision that has been laid out is an ambitious one. In order to achieve the vision, Vietnam seeks to carry out broad ranging reform of the public administration and related areas. This chapter examines some of the policy options, instruments and implications of carrying out such reform. However, this is only a beginning: further work will be needed to make this effective in operational terms.

I. PUBLIC ADMINISTRATION REFORM

7.3. Public Administrative Reform refers to the process of reform of government. Making it work is a long and difficult task, but it critical that during this time we keep in mind the aims of this reform. Public Administrative Reform not only aspires to deliver a better and more efficient public service, but one which is capable of implementing policy and delivering better services to the people.

7.4. Vietnam has already started to reform the public administration into a service which can efficiently meets the demands placed on it in the 21st century. Recent achievements include simplification of administrative procedures in ministries and agencies at both central and local levels; restructuring of ministries through mergers; a clearer definition of roles and functions; and the introduction of more transparent personnel procedures. Legislation on civil servants and public servants was promulgated in 1998. A computerized, personnel system includes information on central government staff, and is being expanded to include provincial staff.

7.5. The Public Administration Reform (PAR) Review recently completed by the government proposes future reforms, many of which are broader in scope than pure PAR. The PAR Review is built on four pillars, namely institutional reforms; organizational reforms; human resource reforms; and, public finance reforms, The PAR review recommends, *inter alia*:

- new provisions requiring public comments on draft laws and regulations before promulgation;
- new provisions that laws and other official instruments will only take effect after being published in the Official Gazette;
- replacing discretionary licensing with registration and making information on registrations public (following the pattern of the recent decree on registration of secured transactions);
- improving legislative drafting;

- providing for codification and indexing of all laws and other official instruments;
- requiring compulsory publication of court judgements;
- streamlining aspects of the corporate regulatory framework;
- forming a clear distinction between roles, responsibilities and finances of agencies under the Prime Minister; other ministries; agencies under sector ministries; People's Councils; People's Committees; and non-state organisations;
- professionalizing the civil service, including rationalising salaries, training, with recruitment and promotion grounded on merit; and,
- wide-ranging financial management reforms at both national and sub-national levels of government.

7.6. Principles are emerging from global experience that can help Vietnam as it tackles the challenge of implementing such broad ranging reform (Box 7.1). The progress that has already been made can be built on, so that the structure and form of the public service is dictated by the needs of the strategy and vision.

Box 7.1: International Experience Points to Four pillars of Good Governance

Governance can be defined as the manner in which power is exercised in the management of a country's social and economic resources for development. Good governance thus involves all the three sectors – the state, private sector and civil society. The interplay between these three groups of stakeholders is critical for achieving balanced socio-economic development and nation building. It is premised on the universally applicable four pillars of good governance, namely:

Transparency - entails the free flow of low cost information that is understandable, reliable and timely;

Accountability- the obligation to give answers and explanations concerning one's actions and performances, to those with a right to require such answers and explanations;

Predictability - refers to the rule of law and results primarily from laws and regulations that are clear, known in advance and uniformly and effectively enforced;

Participation - where every citizen has a voice in the decision making process, including the poor and the vulnerable.

Source: ADB (1999).

7.7. **Reforming the Civil Service.** In undertaking PAR, substantive and enduring change cannot be realized without radical changes in human resources and in organizational practice and policy. Vietnam not only needs a strong, well organized public administration, but also an adequately remunerated service with a personnel policy and grading system capable of effectively implementing these changes. An essential component of PAR is to focus on the critical training needs of civil servants, moving towards a performance oriented system driven with energy and determination. The Government has prioritized a reduction in the size of the civil service. Achieving this will be facilitated by the new computerized personnel system that is

now coming on-stream. This entails greatly increasing the capacity of the National Institute of Public Administration to address the required skills and administrative competencies sufficiently.

7.8. Equally important is that the public service be compact and coherent, with a clear mission and defined goals. Practices, methods, systems and procedures need to be revised to foster and enhance a new working culture of excellence. There is the potential for inter- and intra- agency synergy to become a distinct feature of a restructured administrative management system. Ensuring that local administration is fully empowered and strengthened to serve the needs of society at local levels requires greater decentralization, leading to a more rational allocation of both functional and financial authority between central and local levels.

7.9. **Ensuring Excellence and Setting Standards.** The emphasis on reforms by Government so far has been on formal administrative systems and institutional reforms, with little in the way of service delivery initiatives. Focusing on the needs of people who are the beneficiaries of the public service and ensuring that service delivery is efficient and timely, would help address this. Many countries have introduced service standards. These should be stipulated in line with public expectations of efficient and friendly service that is reliable, credible, accessible and timely. An important initiative, therefore, is to set and publicize service standards for those important services provided by agencies both at central and local levels, not only to improve quality of services, but to increase accountability and transparency in the civil service.

7.10. These service standards would provide full and accurate information about where and how services could be obtained, service delivery time, forms/particulars required for a service, cost/charges if any and other useful information. This information should be displayed prominently at the agencies and disseminated through simple brochures and pamphlets. It would be highly beneficial to implement these changes initially in some selected, high profile public services such as for immigration, customs, driving licences, citizen registration, postal services, public utilities and some specific municipal services. These changes should be implemented intensively to create an impact and begin changing attitudes in service delivery. By doing so, it not only improves the quality of services provided by the Government agencies but, equally important, it enhances the elements of transparency and accountability in these agencies.

7.11. International experience has shown how a ‘scorecard’ approach, where citizens formally rate the quality of service provided by Government bodies, can help improve public sector performance in many countries (Box 7.2).

7.12. **Clearly Forming and Implementing Policies.** Policy co-ordination and policy implementation present critical challenges. At the central policy-making level, policy measures must be both consistent and coherent. Having formulated such policies, they need to be implemented effectively, in line with underlying decisions. The role of central agencies and, in particular, the Office of the Government is pivotal to policy measures, as well as to ensuring that there is a proper mechanism for strengthened policy co-ordination, timely decision-taking and effective implementation of all government decisions.

7.13. **How to Carry out Reform - The Change Management Strategy.** Managing the change of PAR is as important as the reform itself in order to ensure its smooth implementation and fully reap the benefits of reform. To achieve this, it is essential to develop a clear, widely owned vision and strategy for the Public Service - only then can the necessary synergies, impetus and momentum for the implementation of PAR be generated. This strategy is now being developed

by the Government. Continuing political will and commitment is required, based on the broad consensus that change is both desirable and achievable. Fundamental changes to the public administration in Vietnam are a major long-term undertaking, as administrative reform is a continuous journey. Unlike most programs and projects with a sectoral focus, major changes in public administration are by their nature cross-sectoral and multi-disciplinary in nature. Hence, the ultimate authority for such major changes and reform in public administration lies at the highest levels of Government.

Box 7.2: Public sector performance can be improved by encouraging citizen feedback

Client and citizen surveys that incorporate feedback from citizens have helped to improve public sector performance in many countries. The scorecard method pioneered by Sam Paul in Bangalore, India, embodies this approach. It entails periodic citizen evaluations of local municipalities and their accounts of public services, bribery and extortion. Evidence exists that public agencies in Bangalore have taken concrete steps to improve service delivery.

In Mendoza, Argentina, citizens have participated in crafting transparent rules related to public procurement. A number of localities throughout the world have embraced similar participatory processes. As part of its pioneering system of participatory budgeting, Porto Alegre, Brazil, holds citywide assemblies where expenditure priorities for education, health, transport development, taxation, city organization, and urban development are discussed. The assemblies then elect members to a citywide participatory budgeting council, which decides the city's investment plan. Preliminary evidence shows that more roads have been paved and the number of students enrolled in primary and secondary school has doubled.

Increasingly, voice- and transparency- enhancing reforms are being furthered via the Internet revolution. In Chile, just during the past year, the share of the tax paying population filing tax returns over the Internet increased from 5 to 30%. Furthermore, the combination of the latest statistical, computing and Internet technology is also promoting greater accountability in political elections, as witnessed recently in the extremely efficient, accurate and speedy counts in Argentina, Chile and Mexico, in sharp contrast with elections in a number of other countries.

Source: The Quality of Growth. (World Bank, 2000e).

7.14. International experience shows that institutional reform is rarely internally driven; requiring implementing ministries and agencies to initiate their own reform often proves not only to be a slow process but a self defeating task. Reform initiatives need to be planned and driven by suitably resourced task forces. The Enterprise Law Task Force has shown how such an approach can be successful in Vietnam (Box 7.3). This has been successful in removing unnecessary impediments and in creating a more conducive climate for business registration. The involvement of a broad cross-section of stakeholders minimizes the risk of changes being directed to meet the needs of narrow vested interests. If these reforms were left to the respective agencies, such changes may have never taken place.

7.15. In Vietnam, PAR is mainly being implemented through the issue of regulations and decrees, which are used to convey Government directives on the implementation of the new administrative improvement programmes to all public sector agencies and civil servants. However, for greater clarity and for more effective implementation, the decrees should be accompanied by clear implementation guidelines, and be reinforced by training as an integral part of the process of change.

Box 7.3: The new Enterprise Law demonstrates good practice in Vietnam

Over a period of 24 months, the Enterprise Law Task Force undertook diagnostic work and designed the proposed new law, while steering the process forward and building consensus. Its success was due in part to:

- Extensive consultations during formulation, facilitated by earlier support that provided experience, developed relationships, and allowed in-depth assessment of needs and what external agencies and experts could deliver;
- Strong commitment to the project. Benefits from earlier assistance were recognised and a clear vision developed as to how the project could assist ongoing work. Motivated staff were a key factor;
- The project was driven by needs, and designed to support capacity to undertake the day-to-day activities. Thus, counterpart support was always available, and the project added minimal additional administrative burdens. Flexibility in design, and good working relations with the funding agency and experts, maximised opportunities to adjust inputs in line with changing priorities and opportunities;
- An innovative mix of domestic and international experts provided cost efficient results;
- Wide-ranging consultations –especially with the business community -- and applied studies on constraints and impacts of proposals, were critical in building support for reform. Consultations are also expected to facilitate implementation; and,
- The task-force was pro-active in seeking cooperation from the media to raise public awareness of key issues and constraints, and to build support for reform.

Source: CIEM/UNDP (2000).

7.16. The challenging question of the resources required for effective PAR also needs to be addressed. Most developing countries that have embarked on public administration reform have, in the early planning and design stages, set up high level Steering Committees supported by dedicated and fully resourced units of full-time, qualified staff. Vietnam has a complex reform agenda, yet the resources allocated are inadequate to undertake such an enormous task. Thus, as the PAR review recognised, there is a real need to strengthen the capacity of the PAR Government Steering Committee (GSC) with full time specialists to enable it to carry out its next phase of reform more effectively.

7.17. Sustainable reform programs require clear targets and continuous effort to provide credibility to the change process. Incremental and continuous improvements, coupled with strong political will, will be factors determining the success of these reforms.

II. BETTER AND MORE TRANSPARENT PUBLIC FINANCIAL MANAGEMENT

7.18. Transparency is rooted at the heart of the Vietnamese constitution, in the fundamental principle of *‘people know, people discuss, people execute and people supervise’* being reaffirmed in the vision and strategy for the period 2001-2010. Against this backdrop, achieving the vision will require changes in the way decisions in the public sector are taken and

communicated, with a gradual shift in behaviour towards information sharing and openness. Real progress has been made in the recent past, including:

- publication of the state budget in June 1999;
- publication of Government Financial Statistics (GFS) data in the IMF Government Finance Statistics yearbook;
- the development of new manuals on audit standards and procedures;
- improvements in external debt management, and fiscal information provided to international organisations and donors;
- improvements in reporting by agencies of self raised revenues, external grants and their associated expenditures; and,
- the drafting of new accounting standards (95 percent in compliance with the International Accounting Standards), targeted for approval and implementation in 2002.

7.19. This progress provides a basis on which to build. In the area of public financial management, the recommendations of the Public Expenditure Review (World Bank, 2000a) present an important opportunity. As the budgetary system allocates financial resources according to the goals of society, the need to improve the budgetary data and information flows is imperative. Some of these measures could be undertaken immediately, such as the publication of more detailed information in the budget and public accounts. For example, as a start, the Ministry of Finance (MOF) could publish separately the budget and final accounts figures for sectoral ministries, and each province could publish budget and final accounts information covering its departments and other units. International experience suggests a broad range of transparency reforms could improve financial management and other areas of governance (Box 7.4).

Box 7.4: Internationally Effective Transparency Reforms

Transparency is a very important issue for better governance in a number of areas, but particularly in the area of public financial management. Broad international experience suggests a range of transparency reforms which apply to this and other areas:

- Ensuring public access to government information (freedom of information);
- Requiring certain types of government meetings to be open to public observation;
- Conducting public hearings and referenda on drafts, decrees, regulations and laws;
- Publishing judicial and legislative decisions and keeping a registry;
- Ensuring freedom of the press by prohibiting censorship, discouraging use by public officials of libel and defamation laws as a means for intimidating journalists, and encouraging diversity of media ownership;
- Involving civil society to monitor its performance in areas such as anticorruption and large scale public procurements bidding; and,
- Utilising the new web-based tools on the internet for transparency, disclosure, public participation and dissemination.

Source: The Quality of Growth (World Bank, 2000e).

7.20. Production of a fiscal and economic outlook publication would strengthen the nation's macro economic planning and management mechanism, though this would require strengthening capacity in the Ministry of Planning and Investment (MPI) and MOF. There has been considerable improvement of the institutional framework for audit centered on the State Auditor General's Office (SAGO) with a new audit ordinance currently under consideration by the Standing Committee of the National Assembly. Like all state audit organisations, SAGO's independence and ultimate answerability to the National Assembly is important to safeguard the prudent management of the public purse.

7.21. The existing duplication in the monitoring of budget expenditures by the State Treasury, State Budget Department and the Public Expenditure Management Department of the Ministry of Finance will need to be addressed, with responsibilities being clarified to avoid excessive checking of budget compliance. Accounting requirements and reporting systems need to be simplified, focusing more on the analysis of spending trends and exceptions. Reorganizing the Vietnamese Accounting Association would present an opportunity to form a professional body consistent with good international practice. Similarly, a Public Sector Accounting Standards Board should be set up to establish and implement public sector accounting standards. At the same time, there is a need for training of accountants, auditors, and accounting professors to be greatly expanded.

III. WIDER ACCESS TO JUSTICE AND A LEVEL PLAYING FIELD

III.1 Ensuring Wider Access to Justice

7.22. 'The justice system' is a broad concept which incorporates formal and informal legal systems as well as the role of the police and the penal system. Lack of access to this system is a common concern of poor people in many parts of the world. The section below focuses largely on the narrower issues of reform of the legal system. However, experience shows that attempts to tackle the individual elements of a justice system frequently creates new bottlenecks elsewhere. It is important, therefore, that Government and donors consider legal reform in the broader context of access to justice.

7.23. For a little more than a decade, Vietnam has been engaged in the endeavour of building a state ruled by law, as mandated by the 1992 Constitution. A great deal has been achieved since 1992 in the development of a legal system: many laws have been passed, courts and legal aid centers established, court houses built, standards set for judges, lawyers educated, prosecutors and law enforcement officials trained, legal information systems developed, programs to disseminate legal information to the public instituted, and legal education and professional training institutions created and/or greatly expanded and improved. Complementing Vietnam's own heavy investments in developing its legal system, the international donor community has also provided substantial assistance to all of the main components of the legal and judicial system. Although much has been achieved, officials and donors agree that in virtually every major sector of the legal system, much remains to be done yet.

7.24. Currently, there is no comprehensive overall strategy for development of Vietnam's justice system in its totality. Rather, legal development strategy has been *ad hoc* and piecemeal. Donor efforts also are uncoordinated and fragmented. Given the early stage of Vietnam's legal

system development, this is understandable, especially since different components of the legal system are managed by different agencies both vertically and horizontally. In addition, although a number of the key players in the legal system at the central level are Government agencies--such as, the Ministry of Justice, the Ministry of Public Security, the legal departments of various other ministries, the Office of the Government, and, of course, the Government itself--others are not agencies of the Government--such as the Supreme People's Court, the Supreme People's Procuracy, the Office of the National Assembly, the Standing Committee of the National Assembly, and the National Assembly itself.

7.25. Legal development in most countries has taken place in a piecemeal manner rather than pursuant to a comprehensive, well-coordinated plan. Most mature legal systems, however, have developed over centuries, but Vietnam is keen to integrate quickly into the world and regional economic systems and to become a modern, industrialized nation by the year 2010. Therefore, a comprehensive, long-term, legal system development strategy would help to ensure that a complete, coherent, and well-functioning legal system is put into place in a relatively short time. There are **six major needs and directions** that need to be focussed on in developing a good legal system. The addressing of these six legal areas would make a major contribution to the development of a good legal framework for Vietnam.

7.26. Firstly, the **legal framework** for the development of civil society and the economy, including international economic integration, needs to be improved. Good progress has been made though challenges remain. Priority objectives include drafting/amending laws to facilitate Vietnam's integration into the international economy and to improve the competitive position of Vietnamese enterprises; tax reform; and, unifying business registration rules.

7.27. Secondly, **legal information systems need to be strengthened** to increase transparency by making all laws, treaties and regulations easily accessible to the public. The principle that communicating laws is as important as passing them needs to be established, together with the predictability of legal consequences, which is essential for the efficient functioning of society and the economy. A single means of finding and communicating all relevant laws and rules is also required. Some countries, (such as Singapore and Malaysia), require all rules to be published in the Official Gazette before they can be legally enforced, regardless of what form the rules are issued in.

7.28. Thirdly, **legal institutions need to be provided or improved** to implement and enforce the law. Much has been achieved although great challenges remain in the area of implementation. Specific measures required include: ensuring the absolute independence of courts and practicing lawyers; the enhancement of the power and prestige of courts and lawyers; improving arbitration and court procedures; providing training to lawyers, judges and law enforcement officers; establishment of centralised computerised registers; and, reviewing the powers of state agencies.

7.29. Fourthly, law-making processes and institutions need to be streamlined and improved. Further improvements in this area would promote economic development and help realise the vision. Priorities for action include: institutionalizing consultation mechanisms and periods; improving law drafting, review and passing procedures; codifying changes in a manual; requiring all new legal documents to cross reference to existing documents; and providing

training for National Assembly staff and lawmakers on WTO, the US-VN BTA and other international instruments.

7.30. Fifthly, **legal professional education, training and re-training is required.** Of paramount importance is the need for a pool of well-trained lawyers, judges, prosecutors, judgement enforcement officers, police officers, and other law enforcement officials and regulators. Actions needed include: the revision of the basic law curriculum and methods to make it more relevant to the challenges of the 21st Century; training and retraining at all levels; and, the development of appropriate training facilities and methodologies for all staff engaged with the law.

7.31. Finally, the issue of **legal aid and access to justice for the poor** needs to be addressed. The rule of law requires that there be equal access to the legal system for all. Legal aid centers have been established in 57 out of the 61 provinces and cities, and this is a great step forward, although many poor people still have problems accessing criminal law. One important step would be to set up a state public defender's office to defend poor people in criminal cases. Lawyers in such an office would need equal status with the procuracy and prosecutors. Such an approach has been undertaken in Cambodia.

III.2 Creating a Level Playing Field

7.32. Vietnam has taken important steps to shift from a centrally planned economy to a socialist oriented market economy in which the private sector will play an increasing role. In line with this policy, Vietnam's 1992 Constitution recognises the freedom of business and equality before the law for all sectors of economy, and states:

“The aim of the State’s economic policy is to make the people rich and the country strong by releasing all the productive potential and developing all the latent possibilities of all components of the economy – the State sector, the collective sector, the private individual sector, the private capitalist sector and the State capitalist sector in various forms.”

7.33. **The Evolving Roles of The State and Private Sector.** Despite this intention, there remains a lack of clarity in the respective roles of the state, the private sector, and the non-state sectors. The Government's intervention into the market is extensive. Complicated administrative procedures and excessive regulations create opportunities for power abuse and corruption. A large number of governmental regulations of all levels have been issued to guide the implementation of laws and ordinances. These regulations, however, are often inconsistent with the laws and their interpretation and application vary throughout the country. Also regulations are frequently changed while accessibility of legal documents and dissemination about the changes is weak. This situation risks eroding the confidence of both domestic and foreign investors in the State and creates a risky environment for long term productive investments.

7.34. A related issue, which is hampering the growth of the private sector in Vietnam, is the different treatment that private businesses receive as compared to their competitors in the other sectors- the collective and state sectors. The reality is that there is a gap between the policy of equality of all businesses before the law and the existing practice. The legal framework also treats domestic and foreign businesses differently. Rather than a unified enterprise law, there are five different laws regulating business activities of different sectors of the economy: the SOE Law; the Enterprise Law, to be applied to private businesses and households; the Law on Co-

operatives, to be applied to collective businesses; the FDI Law, to be applied to foreign invested enterprises; and the Law on the Promotion of Domestic Investment, to be applied to domestic investors.

7.35. Clear and timely policy measures are needed to rectify the above issues. There is a greater need now for a fundamental shift in the public service from a traditional bureaucratic one to a proactive, modern management mode of operations, where the role of Government in the economy progressively changes from one of active intervention to that of active support. Thus, the private sector should be envisaged to become the engine of economic growth, while the public sector plays the supportive role of planner, pacesetter and facilitator of national development. The need for this shift in roles and attitudes is reflected in the attitudes of international business. The Global Competitiveness Year 2000 Report released recently by the World Economic Forum ranks Vietnam at 53rd position out of a list of 59 countries. Vietnam's lack of competitiveness is closely related to the civil service's inability to provide a supportive rather than controlling climate for private enterprise.

7.36. Coupled with greater freedom for the private sector must come improved corporate governance responsibility. In the coming years, it will be essential to put in place the framework that will ensure that the corporations act in a transparent, accountable and non-monopolistic manner. Improved dialogue between the Government and private sector can help.

Box 7.5: Corporate Governance initiatives in Malaysia encourage efficiency and growth

Objective: The policy stresses the importance of cooperation between the public and private sectors in order to ensure economic growth and national development in tandem in pursuit of shared national goals.

Policy Implementation: At the highest level the Prime Minister chairs the Malaysia Business Council once a year, with key representation from private sector industry groups.

Consultative Panels: are also established at key Ministries and Agencies at Federal and State levels which meet at least twice a year.

Membership - The Consultative Panel is chaired by the head of the Ministry with the deputy chairman elected amongst the private sector members. Members of the Panel comprise of specified officers from the Ministry and representatives chosen from the chambers of commerce and industry, business councils, industries, and social, professional and other related councils.

Terms of reference:

- ▶ Improvement of rules, regulations and administrative procedure governing the activities of the private sector;
- ▶ The determination of criteria for transparent decision making and the reduction of discretionary powers; and,
- ▶ The efficient, effective and timely delivery of services to the private sector.

Annual Dialogue: Each ministry must hold an annual dialogue session chaired by the Minister to enable an open discussion with the private sector on specific government policies, programmes and activities affecting the private sector and the feedback obtained must be used to improve the performance of each ministry.

Results: Increased efficiency and greater economic growth.

Source: MAMPU (1994).

7.37. There is a need for frequent policy dialogue between the government agencies and the business community to address issues and problems to improve further the investment and business climate in Vietnam. Such initiatives are important as demonstrated by many of the South East and East Asian countries, where this synergy has enabled them to forge a common understanding in line with the interest of the developmental needs of the country. One such initiative, which has been successful in spearheading economic growth is the Malaysian Incorporated policy (Box 7.5 above). Vietnam’s Private Sector Forum is another good example of such dialogue in action.

IV. MORE PARTICIPATIVE AND RESPONSIVE GOVERNMENTS

7.38. As outlined in preliminary drafts of the Government’s Ten Year Strategy, Government aims at bringing into full play President Ho Chi Minh’s principle that “people know, people discuss, people execute and people supervise”. Government planning documents state that the people’s voice will thereby be strengthened, their access to information increased, and citizens’ awareness of legal rights and obligations improved and overall governance strengthened. Full implementation of this principle is an admirable ambition, but there are some constraints which may make this more difficult to implement. The Government needs to design a strategy to address the resource and capacity constraints which are in danger of preventing local governments and local people from taking on such an important role.

7.39. Qualitative research undertaken in 1999 found that Vietnam’s poor people are hungry for two-way flows of information: information from government to them about the nature and timing of policies and programs that affect their lives, and from them to government with a view to influencing some of these policies and programs (Vietnam: Attacking Poverty, 1999). Access to such information channels was felt to be limited to a few “well-connected” participants. More equitable access would lead to a more equitable and inclusive pattern of development.

7.40. The Government is taking measures to address these shortcomings by:

- **Institutionalising grassroots participation:** The Government’s introduction of Decree 29/CP on the Regulation of the Exercise of Democracy in Communes (the “Grassroots Democracy decree”) in 1998 offers a crucial and encouraging legal framework for increasing community participation at the local level. It is important that its implementation be co-ordinated with local government reforms also planned or undertaken by Government, especially the role and functioning of district and commune People’s Councils and Committees.
- **Stepping up legal dissemination and legal aid:** The Government is stepping up its programs for legal dissemination and legal aid to citizens. The recently established Department for Legal Aid to the Poor in the Ministry of Justice, mass organizations, networks of volunteer members of the Bar Association, and NGOs have started to set up legal aid clinics and consultation centers, run legal dissemination workshops at the commune level and disseminate leaflets and legal manuals to local people and leaders.

- **Integrating community participation approaches into poverty programs:** Government is aiming to integrate community participation approaches in its targeted poverty and infrastructure programs (such as Programs 133 on Hunger Eradication and Poverty Reduction, and Program 135 on Support to Especially Poor Communes), although this has met with some initial constraints (Box 7.6).
- **Creating an enabling environment for civil society:** In pursuing its goals of enhanced governance, decentralisation and participation, as well as poverty reduction, Government aims to strengthen partnerships with other organizations working for the benefits and needs of the people, by continuing to encourage and support the work of mass organizations. It recognises the need to also put in place a legal and policy framework for associations and domestic NGOs other than the mass organizations, since they can be important additional partners.

Box 7.6: Local authorities struggle to achieve greater community participation

The Hunger Eradication and Poverty Reduction (HEPR) Program (Program 133 in short) and Program 135 for Socio-Economic Development in Communes with Extreme Difficulties (the “1715 poor communes Program”), aim to work in a decentralized way while promoting community participation. However, reviews indicate that most communities are not yet empowered to participate in decision making, management and evaluation. Their role in the identification of the programs’ target beneficiaries, planning for implementation and monitoring of results and expenditures is not yet realized, because decision making mainly takes place at provincial levels and the programs lack the flexibility to accommodate local people’s inputs. Local people have little information on what they can expect in terms of program activities and benefits; how they can monitor the program’s activities and raise complaints; women and other disadvantaged groups are often in effect excluded from community consultation meetings; and reliance on mass organizations as channels for information sharing and consultation is problematic, since these tend to be weak in the poorest and ethnic minority areas.

Source: UNDP (1999) and UNDP (2000b).

7.41. **Achieving Community Participation.** While the above developments are very encouraging, challenging steps remain. To realize full community participation, Government leaders need to understand that community participation involves more than contribution of local resources, i.e. that it includes actual involvement in decision making. The perception among many local authorities that poor people may be incapable of giving meaningful inputs into decision making is largely unfounded, as many governments elsewhere are learning that the poor themselves often have good ideas and solutions. In seeking to implement the Grassroots Democracy decree more fully, the Government will need to pay attention to:

- The crucial importance of **information**. This means promoting greater awareness of the decree among local officials and citizens alike -- through media and information campaigns; informing people about their rights and program opportunities; making special efforts to ensure that information reaches women, minority and vulnerable groups; and ensuring officials know what information provision is expected of them and that they will be held accountable for this. The contribution of mass organizations, NGOs and grassroots associations and Community-Based Organizations (CBOs) (such as savings and credit groups, water user associations,

parent-teacher associations, farmers' interest groups) in better information provision and consultation needs to be greatly encouraged.

- **Consultation methods** need to ensure that communication is truly two-way, with careful feedback of views and priorities expressed to higher administrative levels.
- The **inclusion of women and ethnic minority people** in Steering Committees needs to be increased in order to reflect the diversity of interests involved. In addition, the Grassroots Democracy decree specifies that “household heads” will participate in commune decision-making. Since this tends to automatically exclude women in most cases, the decree needs to be amended to allow for “household representatives”.
- Up-front **capacity building** of local (especially commune) officials on the meaning and mechanisms of the Grassroots Democracy decree will need to underpin all of the above.

7.42. In order to benefit fully from the energy of citizens’ groups in Vietnam’s development, associations and NGOs not involved in charity or research - which are not covered by the emerging legal framework as described in Box 7.7 - need a comprehensive and clear Law on Associations, which offers a supportive environment balanced with appropriate State oversight functions and accountability mechanisms. Simultaneously, sensitization and capacity building of government officials interacting with associations and NGOs, as well as of civil associations themselves, needs to be stepped up significantly if these organizations are to fulfil their potential as partners to Government.

Box 7.7: The new Law on Science and Technology provides a clearer legal framework for the operation of research-oriented associations and NGOs

The recently introduced law on Science and Technology (No.21/2000/QH10 of June 9, 2000) clearly defines the roles and expectations of organizations and individuals in relation to activities concerning science and technology. For the first time, independent organizations have been granted legal status in a range of new areas, making them subject to the right and provisions of the Law. Organizations are now accorded autonomy and self-determination in the development of ideas, planning, organizing, managing, and implementing research and development activities. Furthermore, organizations can freely undertake cooperative partnerships or joint ventures with other bodies, and may receive or contribute financial and other assistance as deemed relevant and allowable by law.

The Law outlines a proactive approach to increasing contact and cooperation between overseas Vietnamese and international organizations and/or individuals. Two key points of relevance to NGOs is the intention of the State to "adopt policies to attract Vietnamese intellectuals residing overseas and the world's brilliant experts to take part in scientific and technological development in Vietnam", and the openness to overseas investment in supporting development ventures in Vietnam. Overall, the new Law is a positive and progressive step which will provide much needed support to NGOs currently in operation, and may also lead to a substantial increase in the emergence of independent development organizations in the coming years.

Source: Documented discussions with local NGOs.

7.43. To ensure that women have an equal voice in Vietnam’s development, Vietnam has to take a gender-sensitive approach to participation. While Vietnam has enshrined gender equality

admirably in its Constitution and laws, the poor social and (sometimes) economic status of women relative to men, and women's high workload relative to men, limit women's ability to influence decisions in their communities, at local government level and at the national level. While women are relatively well represented in the National Assembly (26 percent), their representation is much lower (ranging from 5-20 percent) at all lower levels of government and in the Party structures. A more equal participation in public life by women and men is not only right from an equity point of view: global research finds it is associated with cleaner business and government (less corruption) and better governance (Engendering Development, World Bank, 2000f). This can be achieved through measures that ensure equal access to education (especially secondary and higher), and equal access to information (including legal literacy).

V. A GOVERNMENT WHICH FIGHTS CORRUPTION AND WASTE

7.44. The Government and Party are rightly focused on the need to fight corruption and waste, which forms a key part of the ten-year vision. It was widely reported that nearly one third of Vietnam's public investment expenditure in 1998 – equivalent to 5 percent of GDP – was squandered without result and the Government is committed to tackling the problem.

7.45. The fight against corruption was a major theme of the Sixth Party Plenum in October 1998. A number of ordinances and decrees have been passed addressing corruption, such as the Ordinance against Corruption (March 1998) and related implementing regulations. In 1998, the Prime Minister established a "hot-line" to receive business complaints and several ministries now have units for tackling grievances and corruption (in addition to the General State Inspectorate). Two legislators in the National Assembly recently dismissed for "wrongdoing" were the latest casualties in a campaign to root out corruption and mismanagement in the Vietnam Communist Party (VCP). The Party launched an anti-corruption campaign in May 2000 but implementation results have been limited. In August 2000, the VCP chief directed new members to declare how they obtained property before taking up high-ranking party posts in an attempt to ensure a corruption free leadership.

7.46. Promulgation of the Civil Code in 1998 provided the public with avenues to redress complaints and for mediation in disputes with government administrators. Decree 225 on Democracy at the Grassroots Level has encouraged a sense of citizen involvement in the reform process. The decree has been supplemented by three regulations: (no. 29 on Commune level in spring 1998; no. 71 of Sept 1998 on democracy in State organizations; no. 07 of 13 Feb 1999 on Democracy in SOEs). Further measures are needed to consolidate work so far (Box 7.8).

Box 7.8: An Agenda for Action on Corruption in Vietnam

International experience suggests that implementation of the following policies may be appropriate in Vietnam:

Broad based measures that reduce waste and corruption:

- Minimizing red-tape and arbitrary discretion, through greatly reducing activities for which government permission is required, and the steps required to get permits;
- Increasing disclosure, by greatly increasing the information that is in the public domain;
- Engaging the people in the anti-corruption strategy by harnessing citizen's groups to fight corruption;
- Reforming procurement, through publishing information about winning tenders and strengthening procurement laws, possibly through the UNCITRAL model;
- Strengthening human resource management and public administration reform; and,
- Developing the legal framework.

Specific anti-corruption measures:

- Demonstrating top leadership: international experience shows that the example and determination of top leadership can make or break anti-corruption programs;
- Diagnosing corruption: the problems need to be pinpointed in order to be acted upon. A ratings survey of government bodies could identify problem areas;
- Strengthening institutions and instruments to tackle corruption: a body with clear responsibility for the fight against corruption should be established - examples of good practice include the Hong Kong anti-corruption agency, and Ombudsmen's offices in several countries. The effectiveness of existing measures (such as hotlines) needs to be assessed; and,
- Targeting case studies - in other countries, highlighting success in fighting corruption has helped develop momentum for new practices.

Source: Vietnam: Combating Corruption (World Bank, 2000g).

STATISTICAL APPENDIX

Population and Employment

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Table 1.1: POPULATION

Year	Population (mid-year) (000 persons)	Growth Rate (%)	By Sex		By Area	
			Male	Female	Urban (000 persons)	Rural
1975	48,030	-	-	-	-	-
1976	49,160	2.35	23,597	25,563	10,127	39,033
1977	50,237	2.19	24,197	26,039	10,116	40,114
1978	51,337	2.19	24,813	26,524	10,105	41,226
1979	52,462	2.19	25,444	27,018	10,094	42,368
1980	53,630	2.23	26,047	27,583	10,295	43,335
1981	54,824	2.23	26,665	28,159	10,499	44,324
1982	56,045	2.23	27,297	28,747	10,708	45,336
1983	57,292	2.23	27,944	29,348	10,921	46,371
1984	58,568	2.23	28,607	29,961	11,138	47,429
1985	59,872	2.23	29,285	30,587	11,360	48,512
1986	61,109	2.07	29,912	31,197	11,817	49,292
1987	62,452	2.20	30,611	31,841	12,271	50,181
1988	63,727	2.04	31,450	32,277	12,662	51,065
1989	64,774	1.64	31,589	33,185	12,919	50,801
1990 rev. est.	<i>65,846</i>	<i>1.65</i>	<i>32,138</i>	<i>33,708</i>	<i>13,203</i>	<i>51,604</i>
1991 rev. est.	<i>66,935</i>	<i>1.65</i>	<i>32,586</i>	<i>34,349</i>	<i>13,450</i>	<i>52,545</i>
1992 rev. est.	<i>68,042</i>	<i>1.65</i>	<i>33,150</i>	<i>34,892</i>	<i>13,024</i>	<i>53,994</i>
1993 rev. est.	<i>69,168</i>	<i>1.65</i>	<i>33,764</i>	<i>35,404</i>	<i>13,306</i>	<i>54,845</i>
1994 rev. est.	<i>70,313</i>	<i>1.65</i>	<i>34,314</i>	<i>36,502</i>	<i>13,711</i>	<i>56,366</i>
1995 rev. est.	<i>71,476</i>	<i>1.65</i>	<i>34,882</i>	<i>36,594</i>	<i>14,085</i>	<i>56,381</i>
1996 rev. est.	<i>72,658</i>	<i>1.65</i>	<i>35,601</i>	<i>37,057</i>	<i>14,546</i>	<i>57,105</i>
1997 rev. est.	<i>73,860</i>	<i>1.65</i>	<i>36,332</i>	<i>37,523</i>	<i>15,140</i>	<i>57,709</i>
1998 rev. est.	<i>75,082</i>	<i>1.65</i>	<i>36,951</i>	<i>38,162</i>	<i>15,398</i>	<i>58,692</i>
1999 census	76,325	1.65	37,519	38,806	17,917	58,048

Note:

Population by sex and by area may not add to the grand total due to the possible exclusion of the armed force and migrant workers.

For 1989-1998, population by area is based on legal residency, and may not include the armed forces.

The 1999 population census provides revisions in the total population for this year, and the 1999 census required further revisions for the previous years which are not yet available from the GSO. In the interim, the figures for 1990-98 are re-estimated by extrapolation by Bank staff and are included here in italic.

Source: Census, April 1999. General Statistical Office, Statistical Yearbooks 1994-1998

Table 1.2: POPULATION BY SEX, BY SECTOR, AND BY PROVINCE

Region/Province	1999 Population (000 Persons)				
	Total	Male	Female	Urban	Rural
<u>Ha Noi - Hai Phong:</u>					
Ha Noi	2,672	1,337	1,335	1,539	1,133
Hai Phong	1,673	825	848	568	1,105
Sub-Total	4,345	2,162	2,183	2,107	2,238
<u>Northern Mountains:</u>					
Ha Giang	603	298	304	509	552
Tuyen Quang	675	334	341	75	601
Cao Bang	491	240	251	54	437
Lang Son	705	350	355	132	573
Lai Chau	589	297	291	72	517
Lao Cai	595	297	298	102	493
Yen Bai	680	339	341	133	546
Bac Can	275	138	138	40	235
Thai nguyen	1,046	521	525	219	827
Son La	881	442	439	113	769
Hoa Binh	758	376	382	105	653
Vinh Phuc	1,092	532	560	111	981
Phu Tho	1,262	619	642	179	1,083
Bac ninh	941	457	484	88	853
Bac Giang	1,492	738	755	1,109	1,381
Quang Ninh	1,004	513	492	443	561
Sub-Total	13,089	6,491	6,598	3,484	11,062
<u>Red River Delta:</u>					
Ha Tay	2,387	1,163	1,224	191	2,196
Hai Duong	1,650	797	853	228	1,422
Hung Yen	1,069	516	553	93	976
Thai Binh	1,786	853	933	103	1,682
Nam Dinh	1,888	919	969	234	1,654
Ha Nam	792	384	407	48	743
Ninh Binh	884	433	451	113	771
Sub-Total	10,456	5,065	5,390	1,010	9,444
<u>North Central Coast:</u>					
Thanh Hoa	3,468	1,694	1,773	318	3,149
Nghe An	2,858	1,407	1,451	292	2,567
Ha Tinh	1,269	623	646	113	1,156
Quang Binh	794	392	401	86	708
Quang Tri	573	282	291	135	439
Sub-Total	8,962	4,398	4,562	944	8,019

Table 1.2: POPULATION BY SEX, BY SECTOR, AND BY PROVINCE (cont'd)

Region/Province	1999 Population (000 Persons)				
	Total	Male	Female	Urban	Rural
<u>South Central Coast:</u>					
Thua Thien - Hue	1,045	515	530	288	757
Quang Nam	1,372	664	709	1,959	1,177
Da Nang	684	336	348	538	146
Quang Ngai	1,190	580	610	131	1,059
Binh Dinh	1,461	709	752	351	1,110
Phu Yen	787	390	397	149	638
Khanh Hoa	1,031	510	521	375	656
Ninh Thuan	503	248	255	119	384
Binh Thuan	1,047	522	525	246	802
Sub-Total	9,120	4,474	4,647	4,156	6,729
<u>Central Highlands:</u>					
Gia Lai	972	491	481	242	730
Kon Tum	314	158	156	101	213
Dac Lac	1,776	903	874	355	1,421
Lam Dong	996	503	492	385	611
Sub-Total	4,058	2,055	2,003	1,083	2,975
<u>Ho Chi Minh City and Environs</u>					
Ho Chi Minh City	5,037.0	2,424	2,613	4,205	832
Binh Duong	716.0	346	370	233	483
Tay Ninh	965.0	470	491	125	841
Binh Phuoc	654.0	333	321	99	555
Dong Nai	1,990.0	993	997	607	1,383
Baria - Vung Tau	801.0	400	401	333	468
Sub-Total	10,163	4,966	5,193	5,602	4,562
<u>Mekong Delta:</u>					
Long An	1,306	604	666	215	1,091
Dong Thap	1,565	768	797	227	1,338
An Giang	2,049	1,009	1,040	403	1,646
Tien Giang	1,605	777	828	213	1,391
Ben Tre	1,297	627	669	110	1,187
Vinh Long	1,010	490	520	145	865
Tra Vinh	966	481	484	125	841
Can Tho	1,811	889	922	385	1,426
Soc Trang	1,174	572	602	210	964
Kien Giang	1,494	737	758	330	1,164
Bac Lieu	736	361	376	181	556
Ca Mau	1,118	552	566	208	910
Sub-Total	16,131	7,867	8,228	2,752	13,379
Grand Total	76,324	37,519	38,805	17,917	58,408

Note: Population by sex and by area may not add to the grand total due to the possible exclusion of the armed force and migrant workers.

For 1989-1998, population by area is based on legal residency, and may not include the armed forces.

Source: Census, April 1999. General Statistical Office

Table 1.3: TOTAL EMPLOYMENT BY SECTOR

(in thousand of persons)					Rev	Prel.
	1994	1995	1996	1997	1998	1999
Total Employed Labor Force	33,664	34,590	35,792	36,994	37,877	38,546
State	2,928	3,053	3,138	3,267	3,383	3,370
Non-state	30,736	31,537	32,654	33,727	34,494	35,176
State Sector Employment	2,928	3,053	3,138	3,267	3,383	3,370
Central	1,232	1,281	1,300	1,359	1,376	1,376
Local	1,696	1,772	1,838	1,908	1,979	1,994
Employment by Sector						
Industry	3,366	3,435	3,501	3,503	3,656	3,674
Construction	960	996	975	977	980	982
Agriculture, forestry & fisheries	23,565	24,122	24,775	25,443	26,070	26,591
Transportation	556	781	856	856		
Hotels & Tourism	458	507	518	519		
Trade and Supply	2,137	2,040	2,311	2,825		
Science, Education & Training	984	1,011	1,034	1,040		
Culture, Arts, and Sports	91	94	96	96		
Health & social welfare	271	279	293	296		
Finance, Insurance, Banking	122	126	125	126		
State Management	297	393	409	411		
Others	857	807	899	904		

Note: Figures are rounded.

Source: General Statistical Office, Statistical Yearbooks 1996-1999

**Table 2.1: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR
IN CURRENT PRICES (Billions of Dong)**

	1994	1995	1996	1997	Rev 1998	Rev 1999
Total	170,258	228,892	272,036	313,623	361,016	399,942
State	70,267	91,977	108,634	126,970	144,406	157,994
Non-State	99,991	136,915	163,402	186,653	216,610	241,948
Agriculture, Forestry	48,865	62,219	75,514	80,826	93,072	101,723
-- State	2,210	2,664	3,424	3,582	3,961	4,698
-- Non-State	46,655	59,555	72,090	77,244	89,111	97,025
Industry -- Total	40,481	65,820	80,877	100,595	117,299	137,959
-- State	33,558	33,097	39,228	48,282	55,508	63,996
-- Non-State	16,923	32,723	41,649	52,313	61,791	73,963
Industry	37,535	50,028	63,111	80,072	96,441	116,193
Construction	12,946	15,792	17,766	20,523	20,858	21,764
Services -- Total	70,912	100,853	115,645	132,202	150,645	160,260
-- State	34,499	56,216	65,982	75,060	84,937	90,053
-- Non-State	36,413	44,637	49,663	57,142	65,708	70,207
Transport & Communications	6,924	9,177	10,390	12,418	14,076	15,305
Trade	23,072	37,491	43,125	48,914	55,783	59,322
Banking & Insurance	3,450	4,604	5,148	5,444	6,274	6,768
Public Adm., Medical, Education	18,270	20,218	22,833	26,115	30,033	32,219
Rent, NGO, Tourism & Others	19,196	29,363	34,149	39,311	44,479	46,646

Source: General Statistical Office, Statistical Yearbooks 1975-2000

**Table 2.2: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR
IN CONSTANT PRICES (Billions of Dong)**

	1994	1995	1996	1997	Rev 1998	Rev 1999
Total	170,258	195,567	213,833	231,264	244,596	256,269
State	70,267	78,267	87,208	95,638	100,879	105,286
Non-State	99,991	117,300	126,625	135,626	143,717	150,983
Agriculture, Forestry	48,865	51,319	53,578	55,895	57,866	60,892
Industry -- Total	50,481	58,550	67,016	75,474	81,764	88,047
Industry	37,535	43,960	50,078	56,619	63,003	68,836
Construction	12,946	14,590	16,938	18,855	18,761	19,211
Services -- Total	70,912	85,698	93,239	99,895	104,966	107,330
Transport & Communications	6,924	7,851	8,429	9,178	9,536	9,976
Trade	23,072	33,595	36,866	39,422	41,170	41,953
Banking & Insurance	3,450	3,940	4,388	4,578	4,843	5,006
Public Adm., Medical, Education	18,270	17,040	18,304	19,270	20,354	20,927
Rent, NGO, Tourism	19,196	23,272	25,252	27,447	29,063	29,468

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 2.2B: GDP BY INDUSTRIAL ORIGIN -- GROWTH RATE
(Billions of Dong in Constant 1994 Prices)

	1994	1995	1996	1997	Rev 1998	Rev 1999
Total	8.8%	9.5%	9.3%	8.2%	5.8%	4.8%
State	13.5%	9.4%	11.4%	9.7%	5.5%	4.4%
Non-State	6.2%	17.3%	7.9%	7.1%	6.0%	5.1%
Agriculture, Forestry	3.9%	4.4%	4.4%	4.7%	3.4%	3.4%
Industry -- Total	14.0%	13.6%	14.5%	12.6%	8.3%	7.7%
Industry	12.9%	13.2%	14.2%	13.8%	12.1%	12.1%
Construction	19.4%	12.7%	16.1%	11.3%	-0.5%	2.4%
Services -- Total	10.2%	10.2%	8.8%	7.1%	5.1%	2.3%
Transport & Communications	7.0%	9.7%	7.4%	8.9%	3.9%	4.6%
Trade	9.0%	11.8%	9.7%	6.9%	4.4%	1.9%
Banking & Insurance	22.8%	14.2%	11.4%	4.3%	5.8%	3.4%
Public Adm., Medical, Education	13.2%	9.3%	7.4%	5.3%	5.6%	2.8%
Rent, NGO, Tourism	8.3%	8.4%	8.5%	8.7%	5.9%	1.4%

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 2.3A: GDP DEFLATOR
(1994=100)

	1994	1995	1996	1997	Rev 1998	Rev 1999
Total	100.0	117.0	127.2	135.6	147.6	156.1
State	100.0	117.5	124.6	132.8	143.1	150.1
Non-State	100.0	116.7	129.0	137.6	150.7	160.2
<i>Agriculture, Forestry</i>	100.0	121.2	140.9	144.6	160.8	167.1
Industry -- Total	100.0	112.4	120.7	133.3	143.5	156.7
Industry	100.0	113.8	126.0	141.4	153.1	168.8
Construction	100.0	108.2	104.9	108.8	111.2	113.3
Services -- Total	100.0	117.7	124.0	132.3	143.5	149.3
Transport & Communications	100.0	116.9	123.3	135.3	147.6	153.4
Trade	100.0	111.6	117.0	124.1	135.5	141.4
Banking & Insurance	100.0	116.9	117.3	118.9	129.5	135.2
Public Adm., Medical, Education	100.0	118.7	124.7	135.5	147.6	154.0
Rent, NGO, Tourism	100.0	126.2	135.2	143.2	153.0	158.3

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 2.3B: CHANGE IN GDP DEFLATOR
(in percent)

	1994	1995	1996	1997	Rev 1998	Rev 1999
Total	14.5%	17.0%	8.7%	6.6%	8.8%	5.7%
Agriculture, Forestry	15.3%	21.2%	16.3%	2.6%	11.2%	3.9%
Industry -- Total	12.2%	12.4%	7.4%	10.4%	7.6%	9.2%
Industry	13.2%	13.8%	10.7%	12.2%	8.2%	10.3%
Construction	7.4%	8.2%	-3.1%	3.8%	2.1%	1.9%
Services -- Total	14.3%	17.7%	5.4%	6.7%	8.4%	4.0%
Transport & Communications	7.2%	16.9%	5.5%	9.8%	9.1%	3.9%
Trade	20.6%	11.6%	4.8%	6.1%	9.2%	4.4%
Banking & Insurance	21.2%	16.9%	0.4%	1.4%	8.9%	4.4%
Public Adm., Medical, Education	12.1%	18.7%	5.1%	8.6%	8.9%	4.3%
Rent, NGO, Tourism	10.8%	26.2%	7.2%	5.9%	6.9%	3.4%

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 2.4: NATIONAL ACCOUNTS: SOURCES AND USES (at 1994 price)

	1995	1996	1997	Rev 1998	Rev 1999
Sources	213,444	234,016	249,016	265,126	265,494
- GDP	195,567	213,833	231,264	244,676	256,269
- Trade Balance	17,877	20,183	17,752	20,530	9,225
Uses	213,444	234,016	249,016	265,126	265,494
- Total Consumption	158,893	173,072	182,975	190,923	194,350
- Gross Capital Formation	53,249	60,826	66,529	74,931	72,678
- Statistical Discrepancy	1,302	118	-488	-728	-1,534

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 3.1: BALANCE OF PAYMENTS
(US\$ million)

	1994	Rev. 1995	Rev. 1996	Rev. 1997	Prel. 1998	Prel. 1999
Exports, Total	4,054	5,198	7,330	9,145	9,365	11,520
Imports, Total (f.o.b)	-5,250	-7,543	-10,483	-10,460	-10,453	-10,780
Trade Balance	-1,196	-2,345	-3,153	-1,358	-1,088	740
Services and Transfers	11	417	704	-327	-114	-678
Interest Payments	-221	-360	-500	-478	-556	629
Private Remittances	170	474	1,046	712	951	1,008
Official Transfers	135	150	150	175	198	125
Others	95	680	1,400	82	480	1,084
Current Account Balance	-1,185	-1,928	-2,449	-1,642	-1,202	62
Capital Account Balance	897	1,762	2,105	1,688	680	582
Disbursements	272	443	772	1,022	1,120	944
Scheduled Amortizations	-547	-733	-729	-804	-1,050	1,317
Short Term Loans (Net)	124	-184	224	-534	-190	255
Direct Foreign Investment	1,048	2,236	1,838	2,003	800	700
Errors and Omissions	-121	-32	65	-50	-2	70
Overall Balance	-409	-199	-278	-4	-525	768
Financing:	409	199	278	4	525	-768
Change in NFA (excl. IMF)	-292	-439	-441	-265	63	-1,284
IMF Credit (Net)	175	92	178	-54	-78	-32
Debt Rescheduling	0	0	0	0	413	0
Change in Arrears	526	546	541	323	127	548
Memorandum Item:						
Dong per US\$	10,978	11,100	11,500	12,938	13,980	14,008

Note: Figures are rounded.

Source: Data provided by the Vietnamese authorities and Bank staff estimates.

Table 3.2: MERCHANDISE EXPORTS BY COMMODITY
(US\$ million)

	1994	1995	1996	1997	1998
Total Exports	4,054	5,198	7,330	9,145	9,365
Rice	429	549	855	870	1,024
Quantity (000 tons)	1,950	2,052	3,003	3,553	3,749
Unit Value (US\$/ton)	220	268	285	245	273
Petroleum	866	1,024	1,346	1,413	1,232
Quantity (000 tons)	6,942	7,652	8,705	9,574	12,145
Unit Value (US\$/ton)	125	134	155	148	101
Coal	75	81	115	111	102
Quantity (000 tons)	2,319	2,800	3,647	3,449	3,161
Unit Value (US\$/ton)	32	29	32	32	32
Rubber	133	181	163	191	127
Quantity (000 tons)	129	130	122	195	191
Unit Value (US\$/ton)	1,031	1,392	1,336	981	665
Tea	16	33	29	48	51
Quantity (000 tons)	17	25	21	32	33
Unit Value (US\$/ton)	905	1,300	1,397	1,506	1,545
Coffee	328	495	337	491	594
Quantity (000 tons)	177	200	239	389	382
Unit Value (US\$/ton)	1,853	2,475	1,410	1,261	1,555
Cashew Nut	59	130	130	133	117
Quantity (000 tons)	57	130	130	33	16
Unit Value (US\$/ton)	1,030	1,000	1,000	4,100	7,313
Black Pepper	17			63	64
Quantity (000 tons)	20	18	25	23	15
Unit Value (US\$/ton)	850	-	-	2,727	4,267
Marine Products	551	620	651	781	858
Vegetable & Fruits				68	53
Textiles and Garments	550	800	1,150	1,349	1,450
Footwear			530	965	1,032
Handicraft & fine arts				121	111

Source: General Statistical Office, Statistical Yearbooks 1975-2000, General Department of Customs

Table 3.3: MAJOR IMPORTS BY COMMODITY
(US\$ millions)

	1994	1995	1996	1997	1998	Rev 1999
Total Imports (c.i.f.)	5,245	7,543	10,483	10,460	10,350	11,622
Petroleum	696	856	1079	1,094	827	1,054
Quantity (000 tons)	4,550	4,969	5803	5,947	6,830	7,403
Unit Value (US\$/ton)	153	172	186	184	121	142
Fertilizers	247	339	643	425	477	464
Quantity (000 tons)	1,495	1,471	2919	2,458	3,554	3,782
Unit Value (US\$/ton)	165	230	220	173	134	123
Steel	211	-	651	529	524	587
Quantity (000 tons)	725	-	1548	1,401	1,735	2,264
Unit Value (US\$/ton)	291	-	421	377	302	259
Machines and Spare Parts	1,815	2,761	-	1,777	2,052	2,052
Others						
* Cotton Textiles	55	96	-	159	175	175
Quantity (Mil. meters)	34	49	-	77	130	130
* Raw Cotton	43	77	-	110	92	91
Quantity (000 tons)	24	35	-	74	68	77
* Wheat	52	60	-	48	67	29
Quantity (000 tons)	300	226	-	166	271	143
* Cars and Trucks	103	134	221.6	136	130	89
Quantity (number)	14,350	19,549	25866	13,975	17,202	17,202
* Sugar	39	61	-	-	32	7
Quantity (000 tons)	124	147	-	-	123	43
* MSG	44	32	-	27	15	7
Quantity (000 tons)	42	23	-	20	12	9
* Motorbikes	347	460	434	242	351	399
Quantity (number)	284	404	472	220	368	509
* Pharmaceuticals	140	114		66	52	57
Quantity						

Source: General Statistical Office, Statistical Yearbooks 1975-2000, General Department of Customs

Table 4.1: MONETARY SURVEY

ACCOUNT (VND million)	1996	1997	1998	1999											
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net Foreign Assets	14,249	20,997	31,403	33,494	37,173	36,641	38,818	41,828	42,673	44,267	46,775	49,771	53,273	54,927	61,613
Foreign assets	31,227	37,916	47,857	49,322	52,082	51,330	52,929	55,103	55,811	57,491	59,613	62,692	66,457	68,207	74,658
Foreign liabilities	16,977	16,919	16,453	15,828	14,908	14,690	14,111	13,275	13,138	13,224	12,838	12,921	13,184	13,281	13,045
Net Domestic Assets	50,429	60,563	69,172	68,251	68,980	82,726	89,571	89,068	82,542	83,191	83,327	83,252	82,790	83,708	89,559
Net claims on government	4,428	4,400	6,677	6,480	6,612	6,829	6,009	6,001	4,597	4,875	4,588	4,078	2,160	1,491	2,933
<i>Claims to the economy*</i>						75,897	83,562	83,067	77,945	78,317	78,739	79,174	80,631	82,217	86,626
Claims on state enterprises	26,809	30,980	37,705	37,297	37,961										
Claims on other sectors	24,085	31,429	34,944	34,969	35,335										
Other items net	(4,894)	(6,245)	(9,615)	(10,494)	(10,928)	(11,745)	(12,770)	(12,592)	(12,267)	(12,447)	(12,438)	(12,042)	(11,626)	(10,026)	(8,526)
Total Liquidity	64,678	81,560	101,116	101,746	106,154	107,621	109,609	112,303	112,947	115,009	117,662	120,981	124,455	128,608	142,646
Dong liquidity	51,519	62,869	76,188	76,184	78,838	80,388	82,054	83,438	83,097	84,846	87,173	88,719	90,970	94,426	105,447
Currency outside banks	22,639	25,101	26,965	26,963	28,401	26,503	27,526	27,099	25,734	26,509	27,162	27,000	28,523	32,616	41,547
Demand deposits	10,800	14,871	18,241	16,685	16,342	19,133	18,995	19,695	20,100	20,703	21,618	22,825	22,993	23,512	25,600
Time/saving deposits	12,445	15,194	20,091	21,209	22,500	23,886	25,241	25,980.6	26,683	27,068	28,159	28,636	29,427	29,026	29,076
Deposit substitute	5,635	7,703	10,890	11,327	11,595	10,867	10,292	10,664	10,581	10,566	10,234	10,259	10,027	9,272	9,224
Foreign currency deposits	13,159	18,691	24,928	25,562	27,316	27,233	27,555	28,865	29,850	30,164	30,489	32,262	33,485	34,182	37,198

Percentage Change from Previous Month

ACCOUNT (percent)	1996	1997	1998	1999											
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net Foreign Assets	-	47.4	49.6	6.7	11.0	(1.4)	5.9	7.8	2.0	3.7	5.7	6.4	7.0	3.1	12.2
Foreign assets	-	21.4	26.2	3.1	5.6	(1.4)	3.1	4.1	1.3	3.0	3.7	5.2	6.0	2.6	9.5
Foreign liabilities	-	(0.3)	(2.8)	(3.8)	(5.8)	(1.5)	(3.9)	(5.9)	(1.0)	0.7	(2.9)	0.6	2.0	0.7	(1.8)
Net Domestic Assets	-	20.1	14.2	(1.3)	1.1	19.9	8.3	(0.6)	(7.3)	0.8	0.2	(0.1)	(0.6)	1.1	7.0
Net claims on government	-	(0.6)	51.8	(3.0)	2.0	3.3	(12.0)	(0.1)	(23.4)	6.0	(5.9)	(11.1)	(47.0)	(30.9)	96.7
<i>Claims to the economy*</i>							10.1	(0.6)	(6.2)	0.5	0.5	0.6	1.8	2.0	5.4
Claims on state enterprises	-	15.6	21.7	(1.1)	1.8										
Claims on other sectors	-	30.5	11.2	0.1	1.0										
Other items net	-	27.6	54.0	9.1	4.1	7.5	8.7	(1.4)	(2.6)	1.5	(0.1)	(3.2)	(3.5)	(13.8)	(15.0)
Total Liquidity	-	26.1	24.0	0.6	4.3	1.4	1.8	2.5	0.6	1.8	2.3	2.8	2.9	3.3	10.9
Dong liquidity	-	22.0	21.2	(0.0)	3.5	2.0	2.1	1.7	(0.4)	2.1	2.7	1.8	2.5	3.8	11.7
Currency outside banks	-	10.9	7.4	(0.0)	5.3	(6.7)	3.9	(1.6)	(5.0)	3.0	2.5	(0.6)	5.6	14.4	27.4
Demand deposits	-	37.7	22.7	(8.5)	(2.1)	17.1	(0.7)	3.7	2.1	3.0	4.4	5.6	0.7	2.3	8.9
Time/saving deposits	-	22.1	32.2	5.6	6.1	6.2	5.7	2.9	2.7	1.4	4.0	1.7	2.8	(1.4)	0.2
Deposit substitute	-	36.7	41.4	4.0	2.4	(6.3)	(5.3)	3.6	(0.8)	(0.1)	(3.1)	0.2	(2.3)	(7.5)	(0.5)
Foreign currency deposits	-	42.0	33.4	2.5	6.9	(0.3)	1.2	4.8	3.4	1.1	1.1	5.8	3.8	2.1	8.8

Source: State Bank of Vietnam. The data includes 4 SOCB and 24 JSCB

Note: * since Mar 1999, a new account called "Claims to the economy" is recorded instead of "claims on state enterprises" and "claims on other sectors"; ** the figures are rounded

Table 5.1: SUMMARY OF BUDGETARY OPERATIONS

	1995	1996	1997	1998 Prel.	1999 Est.
	53,370	62,387	66,252	68,600	69,500
Revenue and Grants					
Tax Revenue (non-SOEs)	23,375	28,101	28,074	32,069	33,925
Tax and Transfers from SOEs	21,938	25,887	27,549	27,267	27,285
Other Non-Tax Revenue	6,437	6,856	8,043	7,314	6,390
Grants	1,620	1,543	2,586	1,950	1,900
Current Expenditure (exc. Interest)	39,615	44,559	49,351	49,563	48,498
Wages and Salaries	14,450	16,798	21,580	23,580	23,874
Subsidies	265	306	369	270	270
Other	24,900	27,455	27,455	25,736	23,346
of which: Operation and Maintenance	1,450	1,710	1,980	2,200	2,500
Capital Expenditure	12,079	15,630	19,482	19,760	23,000
Contingency	-	-	0	1,176	500
Overall Balance (before Interest)	1,676	2,198	-2,581	-1,899	-2,498
Interest (Scheduled)	4,177	4,107	2,166		
Interest (Paid)	2,895	2,700	1,916	2,004	2,483
Overall Balance (Accrual Basis)	-2,501	-1,909	-4,747	-1,899	-2,498
Overall Balance (Cash Basis)	-1,219	-502	-4,497	-3,903	-4,981
	1,219	502	4,497	3,903	4,981
Financing					
Foreign Loans (Net)	-1,490	-50	2,108	3,268	2,000
Utilization	1,470	2,400	0	5,941	5,033
- Short-Term	-	-	-		
- Medium- and Long-Term	-	-	0		
Amortization	2,960	2,450	0	2,673	3,033
Domestic Loans (Net)	2,709	552	2,389	635	2,981
State Bank (Net)	-	-	0		
Government Securities (Net)	2,709	552	2,389	635	2,981
- Gross Issue	-	-			
- Amortization	-	-			
Arrears	-	-			
Revenue and Grants	23.9	22.9	21.1	19.0	17.4
Tax Revenue	10.5	10.3	9.0	8.9	8.5
Transfers from State Enterprises a/	9.8	9.5	8.8	7.5	6.8
Other Non-Tax Revenue	2.9	2.5	2.6	2.0	1.6
Grants	0.7	0.6	0.8	0.5	0.5
Current Expenditure (exc. Interest)	17.8	16.4	15.7	13.7	12.1
Wages and Salaries	6.5	6.2	6.9	6.5	6.0
Subsidies	0.1	0.1	0.1	0.1	0.1

Other	11.2	10.1	8.8	7.1	5.8
of which: Operation and Maintenance	0.7	0.6	0.6	0.6	0.6
Capital Expenditure	5.4	5.7	6.2	5.5	5.8
Overall Primary Balance	0.8	0.0	0.0	0.3	0.1
Interest (Scheduled)	1.9	1.5	0.7	0.0	0.0
Interest (Paid)	1.3	1.0	0.6	0.6	0.6
Contingency	0.0	0.0	0.0	0.3	0.1
Overall Balance (Accrual Basis)	-1.1	-0.7	-1.5	-0.5	-0.6
Overall Balance (Cash Basis)	-0.5	-0.2	-1.4	-1.1	-1.2
Financing	0.5	0.2	1.4	1.1	1.2
Foreign Grants and Loans (Net)	-0.7	0.0	0.7	0.9	0.5
Domestic Loans (Net)	1.2	0.2	0.8	0.2	0.7
State Bank (Net)	0.0	0.0	0.0	0.0	0.0
Government Securities (Net)	1.2	0.2	0.8	0.2	0.7
Arrears	-	-	-	-	-
Memo Item: GDP	228,892	272,036	313,623	361,468	399,942

Note: a/ Transfers include all taxes, operating surplus, depreciation allowances, and capital user fees.

b/ For 1986-88, figures include amortization.

c/ For 1986-88, gross amortization.

Source: Ministry of Finance and General Statistical Office, and Bank staff estimate

Table 5.2A: GOVERNMENT REVENUE

	1995	1996	1997	Est. 1998	Plan. 1999
I. State Enterprises:	21,938	25,887	27,549	27,267	27,285
A. Taxes:	20,311	25,080	27,549	27,267	27,285
a. Profit Tax	5,997	7,761	9,218	8,464	9328
b. Turnover Tax a/	5,832	7,450	7,457	8,199	6267
c. Special Consumption Tax (Excises)	2,520	3,200	3,220	3,402	3205
d. Natural Resources Tax	2,369	3,081	3,375	3,216	4057
e. Licence Tax	9	10	17	17	17
f. Capital User Charge	1,322	1,505	1,450	1,387	1303
g. Other Taxes	2,262	2,073	2,812	2,582	3108
B. Transfers	1,627	807			
a. Operating Surplus	-	-	-	-	-
b. Depreciation Allowance	1,627	807	-	-	-
II. Non-State Sector:	7,971	10,005	10,729	11,086	10,725
A. Agricultural Tax	1,552	1,902	1,697	1,952	1825
B. Non-Agricultural Tax:	6,419	8,103	9,032	9,134	8,900
a. Turnover Tax a/	2,017	2,612	3,054	2,955	2800
b. Profits Tax	1,443	1,850	2,136	2,216	2508
c. Personal Income Tax	520	1,354	1,482	1,779	1510
d. License Tax	198	258	340	341	348
e. Commodities Tax	7	0	0		
f. Wholesale Tax	-	-	-		
g. Slaughter Tax	92	110	114	123	-
h. Land Tax	313	380	333	303	295
i. Other	1,829	1,539	1,573	1,417	1439
III. External Trade:	13,273	15,105	13,546	16,535	19600
A. Import and Export Duties	13,273	15,105	13,546	14,835	14500
B. VAT of Import					4000
C. Surtaxes on Import				1,700	1100
IV. Joint Ventures	2,131	2,992	3,799	4,448	3600
V. Other Revenue	6,437	6,856	8,043	7,314	6390
VI. Grants	1,620	1,543	2,586	1,950	1900
Total Revenue (inc. Grants)	53,370	62,387	66,252	68,600	69,500

Source: Ministry of Finance.

Note: a/ from 1999 VAT

Table 5.2B: GOVERNMENT REVENUE: PERCENTAGE SHARE

	1995	1996	1997	Est. 1998	Est. 1999
I. State Enterprises	9.8	9.5	8.8	7.5	6.8
- Taxes:	9.1	9.2	8.8	7.5	6.8
-- Profit Tax	2.7	2.9	2.9	2.3	2.3
-- Turnover Tax	2.6	2.7	2.4	2.3	1.6
-- Special Consumption Tax (Excises)	1.1	1.2	1.0	0.9	0.8
-- Natural Resources Tax	1.1	1.1	1.1	0.9	1.0
-- Licence Tax	0.0	0.0	0.0	0.0	0.0
-- Capital User Charge	0.6	0.6	0.5	0.4	0.3
-- Other Taxes	1.0	0.8	0.9	0.7	0.8
- Transfers:	0.7	0.3	0.0	0.0	0.0
-- Operating Surplus	- -	-	-	-	-
-- Depreciation Allowance	0.7	0.3	-	-	-
II. Non-State Sector:	3.6	3.7	3.4	3.5	2.7
- Agricultural Tax	0.7	0.7	0.5	0.5	0.5
- Non-Agricultural Tax	2.9	3.0	2.9	2.5	2.2
III. External Trade:	6.0	5.6	4.3	4.6	4.9
- Import and Export Duties	6.0	5.6	4.3	4.1	3.6
- VAT of imports					
- Surtax of Import	0.0	0.0	0.0	0.5	0.3
IV. Joint Ventures	1.0	1.1	1.2	1.2	0.9
V. Other Revenue	2.9	2.5	2.6	2.0	1.6
VI. Grants	0.7	0.6	0.8	0.5	0.5
Total Revenue (inc. Grants)	23.9	22.9	21.1	19.0	17.4
Memo Item: GDP (Billions of Dong) b/	228,892	272,036	313,623	361,468	399,942
I. State Enterprises	41.1	41.5	40.2	39.7	39.3
- Taxes	38.1	40.2	41.6	39.7	39.3
-- Profit Tax	11.2	12.4	13.9	12.3	13.4
-- Turnover Tax	10.9	11.9	11.3	12.0	9.0
-- Special Consumption Tax (Excises)	4.7	5.1	4.9	5.0	4.6
-- Natural Resources Tax	4.4	4.9	5.1	4.7	5.8
-- Licence Tax	0.0	0.0	0.0	0.0	0.0
-- Other Taxes	4.2	3.3	4.2	3.8	4.5
- Transfers	3.0	1.3	0.0	0.0	0.0
-- Operating Surplus	0.0	-	-	-	-
-- Depreciation Allowance	3.0	1.3	-	-	-
-- Capital User Fee	0.0	0.0	0.0	0.0	0.0
II. Non-State Sector:	14.9	16.0	16.2	16.2	15.4
- Agricultural Tax	2.9	3.0	2.6	2.8	2.6
- Non-Agricultural Tax	12.0	13.0	13.6	13.3	12.8
III. External Trade:	24.9	24.2	20.4	24.1	28.2
- Import and Export Duties	24.9	24.2	20.4	21.6	20.9
- VAT of imports					5.8
- Surtax on Imports	0.0	0.0	0.0	2.5	1.6
IV. Joint Ventures	4.0	4.8	5.7	6.5	5.2
V. Other Revenue	12.1	11.0	12.1	10.7	9.2
VI. Grants	3.0	2.5	3.9	2.8	2.7

Source: Ministry of Finance and General Statistical Office.

Table 5.3: FUNCTIONAL CLASSIFICATION OF CURRENT EXPENDITURE

	1995	1996	1997	1998 Prel.	1999 Est.
General Administrative Service	5,683	6,354	7,138	5,350	4,830
Economic Services	4,004	4,192	4,473	5,620	4,770
Social Service	18,249	20,317	23,708	24,849	24,710
- Education	4,722	5,500	7,150	7,750	7,900
- Health	2,387	2,761	3,033	2,843	2,910
- Pensions, Social Relief	7,382	8,191	9,179	9,290	8,920
- Other	3,758	3,865	4,346	4,966	4,980
Interest due	4,177	-	-		
Interest Paid	2,895	2,700	1,916	2,004	2,483
Others (inc. Subsidies and excl. Contingency)	11,679	13,696	14,032	13,744	13,180
Total Current Expenditure:					
- Cash Basis, incl. Interest	42,510	47,259	51,267	51,567	49,973
- Cash Basis, excl. Interest	39,615	44,559	49,351	49,563	47,490
General Administrative Service	2.5	2.3	2.3	1.5	1.2
Economic Services	1.7	1.5	1.4	1.6	1.2
Social Service	8.0	7.5	7.6	6.9	6.2
- Education	2.1	2.0	2.3	2.1	2.0
- Health	1.0	1.0	1.0	0.8	0.7
Interest due	1.8				
Interest Paid	1.3	1.0	0.6	0.6	0.6
Other (inc. Subsidies)	5.1	5.0	4.5	3.8	3.3
Total Current Expenditure					
incl. Interest	18.6	17.4	16.3	14.3	12.5
exc. Interest	17.3	16.4	15.7	13.7	11.9
Memo Item: GDP a/ (Billions Dong)	228,892	272,036	313,623	361,468	399,942

Source: Ministry of Finance and General Statistical Office and Bank staff estimate

Table 5.4: ECONOMIC CLASSIFICATION OF CURRENT EXPENDITURE

	1995	1996	1997	Prel. 1998	Est. 1999
Wage and Salaries	14,450	16,798	21,580	23580	23874
Subsidies	265	306	369	270	270
Food Procurement	-	-	-		
Production	-	-	-		
Exports	-	-	-		
Interest due	4,177	4,107			
Interest paid	2,895	2,700	1,916	2004	2483
Other	24,900	27,455	26,947	25736	23346
Working Capital for SOEs	302				
Administrative Expenses	3,555	5,572	4,555	3756	3746
Medical and Social Benefits	3,195	3,876	3,117	2870	2552
Education and Scholarship	2,420	3,086	3,763	3867	3931
Operation and Maintenance	1,450	1,710	1,980	2200	2500
Residual b/	13,978	13,211	14,287	13043	10617
<i>Total Current Expenditure</i>					
(Cash basis; exc. Contingency; (Inc. Interest)	<u>42,510</u>	<u>47,259</u>	<u>51,267</u>	<u>51567</u>	<u>49973</u>
Wage and Salaries	6.3	6.2	6.9	6.5	6.0
Subsidies	0.1	0.1	0.1	0.1	0.1
Food Procurement					
Interest due	-	-	-	-	-
Interest paid	1.3	1.0	0.6	0.6	0.6
Other:	10.9	10.1	8.6	7.1	5.8
of which:					
Working Capital for SOEs	0.1	0.0	0.0	0.0	0.0
Administrative Expenses	1.6	2.0	1.5	1.0	0.9
Medical and Social Benefits	1.4	1.4	1.0	0.8	0.6
Education and Scholarship	1.1	1.1	1.2	1.1	1.0
Operation and Maintenance	0.6	0.6	0.6	0.6	0.6
<i>Total Current Expenditure</i>	<u>18.6</u>	<u>17.4</u>	<u>16.3</u>	<u>14.3</u>	<u>12.5</u>
(Cash basis; exc. Cont.; Inc. Interest)					
Current Expenditures (exc. Interest)	<u>17.3</u>	<u>16.4</u>	<u>15.7</u>	<u>13.7</u>	<u>11.9</u>
Memo Item: GDP c/ (Billions Dong)	228,892	272,036	313,623	361,468	399,942

Note: a/ Figures for 1992 are estimated using the 1993 appropriate shares.

b/ Including spending on security and national defense and others not elsewhere classified.

Source: Ministry of Finance and General Statistical Office, and Bank staff estimate

Table 5.5: GOVERNMENT BUDGET: CAPITAL EXPENDITURE

	1995	1996	Prel 1997	Prel. 1998	Est. 1999
Industry and Construction	1,408	825	1651	2169	1800
Agriculture and Forestry	830	1100	1968	1811	4180
Irrigation	1,516	1355	1557	1392	2489
Transportation & Communications	3,631	3711	4943	5666	5784
Commerce and Services	152	120	247	678	838
Non-Productive Sector a/	3,228	3820	4150	4556	3968
Contingency Fund b/	0	-	-		
Other	1,314	4699	3524	3488	3896
Unallocated	0	-	-		
Total Capital Expenditure	12,079	15,630	19,482	19,760	23,000
Industry and Construction	0.6	0.3	0.5	0.6	0.5
Agriculture and Forestry	0.4	0.4	0.6	0.5	1.0
Irrigation	0.7	0.5	0.5	0.4	0.6
Transportation & Communications	1.6	1.4	1.6	1.6	1.4
Commerce and Services	0.1	0.0	0.1	0.2	0.2
Non-Productive Sector a/	1.4	1.4	1.3	1.3	1.0
Contingency Fund b/	0.0				
Other	0.6	1.7	1.1	1.0	1.0
Unallocated	-				
Total Capital Expenditure	5.4	5.7	6.2	5.5	5.8
Memo Item: GDP c/	222,840	272,036	313,623	361,468	399,942

Note:

a/ Includes education, health, culture, finance and government.

b/ Stockpiling of key commodities and materials.

Source: Ministry of Finance and General Statistical Office, and Bank staff estimate

Table 5.6. DEBT STOCK AND DEBT SERVICES

Item	<u>Act</u> 1998 b/	<u>Prel.</u> 1999 b/	<u>Est.</u> 2000 c/	<u>Proj.</u> 2005
Total debt outstanding and disbursed (TDO)				
(US\$ billion) a/	10.8	11.0	14.0	19.4
Public	7.3	7.8	10.8	17.2
Multilateral	2.0	2.3	2.6	4.5
Bilateral	5.3	5.5	8.2	12.7
Concessional c/	3.7	4.0	6.7	11.2
Non-concessional d/	1.7	1.5	1.5	1.5
Debt from foreign direct investment	3.5	3.2	3.2	2.2
Debt and debt service indicators (%)				
Debt Service/XGS	15.3%	14.4%	12.1%	6.8%
Debt Service/GDP	7.1%	7.0%	6.6%	4.6%

Note: a. Includes future disbursements.

b. Convertible debt only.

c. For 2000 onwards, includes the rescheduled non-convertible Russian debt.

d. Suppliers' credits, financial institutions, exports credits, and other private creditors.

Source: World Bank estimates, based on information provided by the government.

Table 6.1A: GROWTH RATE OF RETAIL PRICES, BY MONTH

Month/Year	1994	1995	1996	1997	1998	1999
January	1.8%	3.8%	0.9%	0.8%	1.6%	1.7%
February	3.7%	3.4%	2.5%	1.8%	2.2%	1.9%
March	-0.4%	0.2%	0.8%	-0.5%	-0.8%	-0.7%
April	0.3%	1.0%	0.1%	-0.6%	1.6%	-0.6%
May	0.6%	1.8%	-0.5%	-0.5%	1.5%	-0.4%
June	0.9%	0.8%	-0.5%	0.1%	0.0%	-0.3%
July	0.2%	0.0%	-0.7%	0.2%	-0.5%	-0.4%
August	0.9%	0.3%	-0.4%	0.1%	1.1%	-0.4%
September	1.6%	0.5%	0.3%	0.6%	1.0%	-0.6%
October	1.3%	0.1%	0.1%	0.3%	0.3%	-1.0%
November	1.7%	0.1%	0.9%	0.3%	0.1%	0.4%
December	1.1%	0.3%	1.0%	1.0%	0.8%	0.5%

Source: General Statistical Office, Statistical Yearbooks 1996-1999

Table 6.1B: RETAIL PRICE INDEX, BY MONTH (Jan 1994=100)

Month/Year	1994	1995	1996	1997	1998	1999
January	100.0	112.2	120.8	124.4	128.4	137.6
February	99.6	112.4	121.8	123.7	127.3	136.6
March	99.9	113.5	121.9	123.0	129.4	135.8
April	100.5	115.5	121.3	122.4	131.3	135.3
May	101.4	116.4	120.7	122.5	131.3	134.8
June	101.6	116.4	119.9	122.7	130.7	134.3
July	102.6	116.8	119.4	122.9	132.1	133.8
August	104.2	117.3	119.8	123.6	133.4	133.0
September	105.5	117.5	119.9	124.0	133.8	131.6
October	107.3	117.6	121.0	124.4	133.9	132.2
November	108.5	117.9	122.2	125.6	135.0	132.8
December	108.5	117.9	122.2	125.6	135.0	132.8
Annual Index: (Jan 1994=100)	103.3	115.9	120.9	123.7	131.8	134.2
Annual Growth Rate	---	12.2%	4.3%	2.3%	6.5%	1.8%
Dec/Dec Growth Rate	---	8.6%	3.6%	2.8%	7.5%	-1.6%

Source: General Statistical Office, Statistical Yearbooks 1975-2000 and Bank staff estimate

TABLE 6.2A: PRICE INDEX BY COMMODITY GROUPS: Monthly growth Rates

GOODS and SERVICES	Dec-97	Dec-98	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99	Jul-99	Aug-99	Sep-99	Oct-99	Nov-99	Dec-99
General Index	100	0.8	1.7	1.9	-0.7	-0.6	-0.4	-0.3	-0.4	-0.4	-0.6	-1.0	0.4	0.5
I Food & foodstuff	100	1.3	1.9	2.3	-0.9	-1.1	-0.5	-0.7	-0.6	-0.7	-1.0	-1.7	0.7	0.4
<i>I.1 of which: Food</i>	<i>100</i>	<i>1.7</i>	<i>2.4</i>	<i>1.5</i>	<i>-1.7</i>	<i>-2.3</i>	<i>-1.8</i>	<i>-2.9</i>	<i>-1.4</i>	<i>-1.3</i>	<i>-1.2</i>	<i>-2.2</i>	<i>1.7</i>	<i>1.3</i>
<i>I.2 Foodstuff</i>	<i>100</i>	<i>1.4</i>	<i>1.7</i>	<i>3.2</i>	<i>-0.8</i>	<i>-0.6</i>	<i>0.3</i>	<i>0.5</i>	<i>-0.4</i>	<i>-0.7</i>	<i>-1.1</i>	<i>-1.8</i>	<i>0.2</i>	<i>0.1</i>
II Beverage & Tobacco	100	0.3	1.4	1.2	-0.7	-0.2	0.3	-0.3	-0.1	0.3	0.2	0.0	0.3	0.2
III Garment, hats, footwear	100	0.3	0.9	1.5	-0.2	0.0	-0.7	0.3	0.0	0.1	-0.2	-0.2	-0.2	0.6
IV Accommodation & construction materials	100	-0.5	0.2	-0.2	-0.2	-0.1	0.3	0.6	0.4	0.2	0.4	0.4	0.0	0.5
V Household Utensils	100	-0.3	2.0	1.0	-0.4	0.0	-0.2	0.4	0.1	-0.2	0.0	0.1	0.3	0.4
VI Healthcare, pharmaceutical items	100	0.0	1.6	0.9	0.0	0.2	-0.4	0.2	1.1	0.8	-0.2	-0.5	-0.5	0.9
VII Means of Transport, Telecommunication	100	0.3	1.2	1.6	-0.5	-0.2	-0.4	-0.2	-0.1	0.1	0.1	-0.3	-0.2	0.5
VIII Educational Items	100	0.0	0.3	1.4	0.0	0.5	-0.6	1.0	0.5	0.0	0.3	0.1	-0.2	0.5
IX Cultural and Recreation Items	100	0.6	1.0	1.0	-0.1	0.0	-0.7	0.8	-0.4	0.0	-0.5	0.6	0.1	-0.1
X Goods and other services	100	1.2	0.6	1.3	-0.4	0.2	0.8	-0.2	-0.2	-0.2	0.4	-0.1	0.0	0.9
Gold	100	0.0	0.7	0.3	0.2	-0.9	-0.6	-2.4	-3.4	-2.2	-0.3	5.2	2.6	1.0
US Dollar	100	-0.4	-0.2	-0.2	0.2	0.1	0.1	0.0	0.2	0.2	0.1	0.5	0.0	0.1

TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS: (December 1997=100)

GOODS and SERVICES	Dec-97	Dec-98	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99	Jul-99	Aug-99	Sep-99	Oct-99	Sep-99	Oct-99
General Index	100	100.8	102.5	104.5	103.7	103.1	102.7	102.4	102.0	101.6	101.0	100.0	100.4	100.9
I Food & foodstuff	100	101.3	103.2	105.6	104.6	103.5	103.0	102.3	101.6	100.9	99.9	98.2	98.9	99.3
<i>I.1 of which: Food</i>	<i>100</i>	<i>101.7</i>	<i>104.1</i>	<i>105.7</i>	<i>103.9</i>	<i>101.5</i>	<i>99.7</i>	<i>96.8</i>	<i>95.4</i>	<i>94.2</i>	<i>93.1</i>	<i>91.0</i>	<i>92.6</i>	<i>93.8</i>
<i>I.2 Foodstuff</i>	<i>100</i>	<i>101.4</i>	<i>103.1</i>	<i>106.4</i>	<i>105.6</i>	<i>104.9</i>	<i>105.3</i>	<i>105.8</i>	<i>105.4</i>	<i>104.6</i>	<i>103.5</i>	<i>101.6</i>	<i>101.8</i>	<i>101.9</i>
II Beverage & Tobacco	100	100.3	101.7	102.9	102.2	102.0	102.3	102.0	101.9	102.2	102.4	102.4	102.7	102.9
III Garment, hats, footwear	100	100.3	101.2	102.7	102.5	102.5	101.8	102.1	102.1	102.2	102.0	101.8	101.6	102.2
IV Accommodation & construction materials	100	99.5	99.7	99.5	99.3	99.2	99.5	100.1	100.5	100.7	101.1	101.5	101.5	102.0
V Household Utensils	100	99.7	101.7	102.7	102.3	102.3	102.1	102.5	102.6	102.4	102.4	102.5	102.8	103.2
VI Healthcare, pharmaceutical items	100	100.0	101.6	102.5	102.5	102.7	102.3	102.5	103.6	104.5	104.3	103.7	103.2	104.1
VII Means of Transport, Telecommunication	100	100.3	101.5	103.1	102.6	102.4	102.0	101.8	101.7	101.8	101.9	101.6	101.4	101.9
VIII Educational Items	100	100.0	100.3	101.7	101.7	102.2	101.6	102.6	103.1	103.1	103.4	103.5	103.3	103.9
IX Cultural and Recreation Items	100	100.6	101.6	102.6	102.5	102.5	101.8	102.6	102.2	102.2	101.7	102.3	102.4	102.3
X Goods and other services	100	101.2	101.8	103.1	102.7	102.9	103.7	103.5	103.3	103.1	103.5	103.4	103.4	104.4
Gold	100	100.0	100.7	101.0	101.2	100.3	99.7	97.3	94.0	91.9	91.6	96.4	98.9	99.9
US Dollar	100	99.6	99.4	99.2	99.4	99.5	99.6	99.6	99.8	100.0	100.1	100.6	100.6	100.7

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 7.1: AGRICULTURAL PRODUCTION

(constant 1994 prices)	1994	1995	1996	1997	Rev 1998	Prel 1999
Gross Output	76,998	82,370	86,489	92,530	96,103	102,933
Crop Cultivation	61,660	66,183	69,620	74,493	77,298	82,946
Food Crops	40,653	42,110	44,654	46,953	49,050	52,738
Industrial Crops	10,299	12,149	12,806	14,550	15,042	14,762
Livestock	12,999	13,629	14,347	15,465	16,204	17,337
Services	2,339	2,558	2,522	2,572	2,601	2,650
Food grains a/	26,199	27,571	29,218	30,618	31,854	34,254
Paddy	23,528	24,964	26,397	27,646	29,146	31,394
Other	2,670	2,607	2,821	2,916	2,708	2,860
Memorandum Items:						
Rice Cultivated Area (000 ha) b/	7,809	7,972	8,218	8,330	8,587	8,868
Food grain Output per Capita (kg)	369	382	399	412	422	447

Note: a/ Paddy equivalent.

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 7.2: INDUSTRIAL CROP PRODUCTION AND YIELDS

	1994	1995	1996	1997	Rev. 1998	Prel.1999
Production (000 metric tons)						
Cotton	8.7	12.8	11.2	14	22	21.4
Jute	12.8	14.8	15.0	22.3	14.6	9.1
Rush	69.1	75.1	55.0	80.9	69.9	58.8
Sugarcane	7,750.1	10,711	11,372	11,428	13,844	17,840
Peanuts	294.4	334.4	357.7	352.9	386	319
Soybeans	124.5	125.5	113.8	113	146.7	144.7
Tobacco	21.7	25.8	23.5	27.2	33.3	35.3
Tea	42.0	40.2	46.8	52.2	56.6	64.7
Coffee	180.0	218.0	320.1	420.5	109.3	486.8
Rubber	128.8	122.7	142.5	186.5	193.5	214.8
Coconut	1,178	1,165	1,131	1,318	1,106	1,134
Area Cultivated (000 ha)						
Cotton	13.2	17.5	15.0	15.2	23.8	22.4
Jute	6.6	7.4	8.0	12.4	6.7	4.1
Rush	10.9	10.4	9.1	11.1	9.8	9.3
Sugarcane	166.6	224.8	237.0	257	283	351
Peanuts	248.2	260.0	262.7	254	269	248
Soybeans	132.0	121.1	110.3	106.4	129.4	129.2
Tobacco	24.5	27.7	23.9	26.3	32.4	32.5
Tea	67.3	66.7	74.8	78.6	77.4	84.6
Coffee	123.0	186.4	254.2	340.3	370.6	397.4
Rubber	258.4	278.4	254.2	347.5	382	394.3
Coconut	182.5	172.9	181.1	169.9	163.4	167.8
Average Yield (metric ton/ha)						
Cotton	0.7	0.7	0.7	0.9	0.9	1.0
Jute	1.9	2.0	1.9	1.8	2.2	2.2
Rush	6.3	7.2	6.0	7.3	7.1	6.3
Sugarcane	46.5	47.6	48.0	44.5	48.9	50.8
Peanuts	1.2	1.3	1.4	1.4	1.4	1.3
Soybeans	0.9	1.0	1.0	1.1	1.1	1.1
Tobacco	0.9	0.9	1.0	1.0	1.0	1.1
Tea	0.6	0.6	0.6	0.7	0.7	0.8
Coffee	1.5	1.2	1.3	1.2	0.3	1.2
Rubber	0.5	0.4	0.6	0.5	0.5	0.5
Coconut	6.5	6.7	6.2	7.8	6.8	6.8

Source: General Statistical Office, Statistical Yearbooks 1996-19975-2000

**Table 8.1: INDUSTRIAL PRODUCTION
AND NUMBER OF INDUSTRIAL ENTERPRISES**

Item	1995	1996	1997	1998	Rev. 999
Gross Industrial Production	103,375	118,097	134,420	151,223	166,965
State sector	51,991	58,166	64,474	69,463	72,604
Central	33,920	38,411	42,216	45,677	47,986
Local	18,071	19,755	22,258	23,785	24,618
Non-state sector	25,451	28,369	31,068	33,402	36,242
Collectives	650	684	751	859	
Private, Households and Mixed	24,801	27,685	30,317	32,544	
Foreign-Invested sector	25,933	31,562	38,878	48,359	58,119
Key Industries					
Coal	1,677	1,930	2,229	2,138	1,670
Oil and Gas	10,845	12,467	14,329	16,869	20,066
Metal ores	236	283	172	200	197
Stones and other mining	1,162	1,288	1,674	1,911	2,141
Food and beverage	27,008	30,887	34,015	36,496	39,392
Cigarettes and tobacco	3,997	4,196	4,400	4,895	4,960
Textile products	6,176	6,374	7,261	8,366	9,289
Garment	2,950	3,400	4,325	1,667	5,031
Lether tanning and processing	3,570	4,469	6,614	7,083	7,999
Wood and wood products	3,306	3,199	3,146	2,956	2,824
Paper and paper products	1,947	2,294	2,644	3,178	3,526
Printing and publishing	1,510	1,515	1,621	1,868	2,061
Chemicals	5,086	6,283	7,223	8,144	8,979
Rubber products and plastic	2,272	2,760	3,528	4,418	5,310
Non-Metallic products	9,220	10,121	12,223	13,745	15,279
Metalic production	3,428	4,086	4,000	4,080	4,378
Metallic products	2,332	2,941	3,559	4,210	4,783
Machinery and equipment	1,345	1,560	1,674	2,050	2,429
Computer and office equipment	28	40	38	228	301
Electric and electronic equipments	1,088	1,342	1,650	2,308	2,860
Radio, TV and telecom	2,065	2,079	3,278	3,478	3,571
Production & repairing motor vehicles	1,460	1,375	1,629	1,668	1,843
Production & repairing other transport means	1,893	1,982	1,815	3,379	3,870
Furnitures	1,970	2,265	2,564	2,815	3,102
Recycles products	89	123	133	161	173
Electricity and gas	5443.8	6537.8	7596.5	8519.7	9346.1
Water	750.7	803.6	847.2	920.3	993.9
Number of Industrial Enterprises					
Total	615374	626,129	617,805	592,948	
State owned	1958	1,879	1,843	1,821	
Domestic non-state	612,977	623,710	615,296	590,246	
Foreign invested	439	540	666	881	

Source: General Statistical Office, Statistical Yearbooks 1975-2000

Table 8.2: MAJOR INDUSTRIAL PRODUCTS

Product	Unit	1994	1995	1996	1997	1998	Rev. 1999
Energy							
Electricity	Mil. kWh.	12,473	14,665	16,962	19,253	21,694	23,806
- State		12,473	14,665	16,949	19,182	21,681	23,781
- Non-State		-	-	13	5	13	25
Coal	Mil. Tons	6	8	10	11	12	9
- State		6	8	10	11	12	9
- Non-State		-	0	0	0	0	0
Crude Oil	Mil. Tons	7	8	9	10	12.5	15
- State		7	8	9	10	13	15
- Non-State		-	-	-	-	0	0
Raw Material							
Steel	000 Tons	280	470	868	978	1,077	1,224
- State		280	398	505	486	504	566
- Non-State		-	72	365	492	573	658
Chromium	000 Tons	6	25	37	51	59	55
- State		6	21	31	21	23	23
- Non-State		-	4	6	30	36	32
Tin (sticks)	Tons	0	1,862	2,805	2,376	2,320	2,336
- State		0	1,862	2,805	2,800	2,260	2,275
- Non-State		-	-	-	-	60	61
Manufacturing Goods							
Metalworking Machine Tools	Pieces	1,358	1,358	1,099	1,196	565	544
- State		1,358	1,358	1,099	1,196	565	544
- Non-State		-	-	-	-	0	0
Diesel Motor	Pieces	3,371	4,217	7,838	6,761	6,883	8,090
- State		3,371	4,217	7,838	6,771	6,371	7,553
- Non-State		-	-	-	-	512	537
Electric Rotating Engines	Pieces	28,789	29,390	35,575	38,116	41,172	38,794
- State		28,109	28,181	34,148	37,000	40,000	37,769
- Non-State		680	1,209	1,427	1,116	1,172	1,025
Transformers	Pieces	5,881	6,186	6,910	6,549	7,817	10,276
- State		28,109	28,181			4,368	7,453
- Non-State		680	1,209			3,449	2,823
Water Pumps for Agri	Pieces	632	547	435	563	3,082	3,210
- State		632	547	435	563	2,403	2,510
- Non-State		-	-	-	-	679	700
Rice Mill Equipment	Pieces	2,067	2,043	2,167	12,413	13,909	14,121
- State		191	105	141	12,394	13,909	14,121
- Non-State		1,876	1,938	2,026	19	0	0
Chemical Fertilizers	000 Tons	841	931	965	982	978	1,120
- State		841	931	962	981	972	972
- Non-State		-	-	3	1	6	148
Insecticides	000 Tons	14	16	20.0	19.5	20.2	18.8
Bicycle Tires	000 Pieces	9,821	6,703	8,656	10,245	16,945	17,961
- State		7,470	8,295	6,823	8,464	11,761	12,541
- Non-State		2,351	1,408	1,833	1,781	5,184	5,420
Bicycle Tubes	000 Pieces	10,800	11,917	12,588	14,044	22,167	23,670
- State		10,740	11,781	12,488	14,001	17,405	18,520
- Non-State		60	136	100	43	4,762	5,150

Table 8.2: MAJOR INDUSTRIAL PRODUCTS (Continued)

Product	Unit	1994	1995	1996	1997	1998	Rev. 1999
Cement	000 Tons	6,371	5,828	6,585	8,019	9,738	10,381
- State		5,371	5,828	6,529	7,139	7,735	8,092
- Non-State		-	-	56	44	2,003	2,289
Bricks	Mil. Pieces	5,413	6,892	7,119	7,262	7,697	8,030
- State		604	1,121	1,522	1,746	1,936	2,895
- Non-State		4,809	5,771	5,597	5,506	5,761	5,135
Consumer Goods							
Glass and Glass Products	000 Tons	38	77	93	66	105	109
- State		21	24	20	16	9	9
- Non-State		16	53	73	50	96	100
Porcelain	Mil. Pieces	152	187	232	172	182	188
- State		19	18	17	17	16	17
- Non-State		173	169	215	154	166	171
Sawn Wood	000 m3	1,573	1,606	1,398	1,184	2,705	2,558
- State		526	500	341	242	1,012	932
- Non-State		1,047	1,106	1,014	942	1,693	1,626
Paper and Paper Products	000 Tons	154	216	220	263	311	338
- State		130	178	176	193	222	251
- Non-State		24	38	44	70	89	87
Salt	000 Tons	470	689	709	743	867	918
- State		93	174	137	148	200	222
- Non-State		377	515	572	595	667	696
Sugar	000 Tons	364	517	636	649	736	932
- State		99	117	178	221	257	503
- Non-State		265	400	458	428	479	429
Beer	Mil. Liters	366	465	533	581	670	648
- State		356	314	581	392	448	464
- Non-State		10	151	168	189	222	184
Cigarettes	Mil. Packets	1,948	2,147	2,165	2,123	2,195	2,129
- State		1,645	2,116	2,147	2,102	2,178	2,122
- Non-State		3	31	13	21	17	7
Tea	000 Tons	31	24	33	45	53	53
- State		23	13	18	24	26	26
- Non-State		10	11	15	21	27	27
Fish Sauce	Mil. Liters	141	149	167	170	164	170
- State		48	56	55	41	34	38
- Non-State		93	93	112	129	130	132
Textile Fibers	000 Tons	50	59	65	68	69	74
- State		50	51	53	62	64	68
- Non-State		0	8	4	6	5	6
Cotton Fabrics	Mil. Meters	251	263	285	298	315	317
- State		161	150	152	153	148	187
- Non-State		0	113	133	145	167	130
Soap	000 Tons	97	129	167	213	229	231
- State		90	93	98	119	26	25
- Non-State		7	36	69	94	203	206

Source: General Statistical Office, Statistical Yearbooks 1975-2000

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